

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) THE GAMBIA

ACCOUNTING AND AUDITING

April 27, 2010

Contents

Executive Summary

Preface

Abbreviations and Acronyms

I. Introduction

II. Institutional Framework and Accountancy Profession

III. Accounting Standards as Designed and Practiced

IV. Auditing Standards as Designed and Practiced

V. Perception of the Quality of Financial Reporting

VI. Policy Recommendations

Appendix-1: Country Action Plan

Executive Summary

This report provides an assessment of the strengths and weaknesses of the existing financial reporting infrastructure that underpins financial accounting and auditing practices in The Gambia. The assessment focuses on six pillars of financial reporting infrastructure: (i) statutory framework, (ii) professional education and training, (iii) accountancy profession, and (iv) monitoring and enforcement of the applicable standards, which are covered in Chapter II under Institutional Framework and Accountancy Profession; (v) accounting standards and (vi) auditing standards, which are covered respectively in Chapters III and IV. Chapter V summarizes the financial statements users' perception on the quality of financial reporting. The main purpose of this assessment is to make some recommendations to facilitate the process of developing and implementing a country action plan to strengthen institutional capacity to improve corporate financial reporting in The Gambia, and this is covered in Chapter VI.

The findings revealed that statutory framework in The Gambia does not provide clear direction on applicable standards for financial reporting and auditing, and the situation is exacerbated by a shortage of qualified accountants and trained accounting technicians. Only the relatively large-size companies can afford to hire qualified professional accountants, and many companies often lack the capacity to prepare their own financial statements. The inadequate and outdated legal and regulatory framework further stymies financial reporting practices. There is no national accountancy qualification; all current members of The Gambia Association of Accountants (GAA) have foreign professional qualification and GAA lacks the resources necessary to fully support the accountancy profession but is committed to improving capacity of its members. With steady growth in the economy, particularly the financial services sector, stakeholders throughout the country are taking steps to implement measures that will strengthen the business environment, including accountancy practices in The Gambia.

Based on significant inputs from in-country stakeholders, this ROSC recommends actions for modernizing the statutory framework, building a strong professional accountancy body, legally backing the adoption of International Financial Reporting Standards (IFRS) for public interest entities and simplified standards for small and medium-size enterprises, implementing a sustainable arrangement for monitoring and enforcing application of IFRS and International Standards on Auditing (ISA), strengthening capacity of small and medium-size audit practices, providing training on practical application of IFRS and ISA, and improving accountancy education in the country. The recommendations offer the basis for preparing and implementing a country action plan aimed at building institutional capacity to promote high-quality accounting and auditing practices in The Gambia.

PREFACE

Reports on Observance of Standards and Codes (ROSC) is a joint World Bank and IMF initiative that helps member countries strengthen their financial systems by adopting internationally recognized standards and codes. The overall goals of the ROSC program are promoting greater financial stability in national financial systems and thereby reducing the potential for disruptions in national, regional, and international financial markets; facilitating private sector led growth and thereby laying essential foundations for sustained and higher rates of economic growth and the reduction of poverty and income inequality.

The ROSC involves preparation of reports in 12 key areas.¹ The ROSC Accounting and Auditing (ROSC A&A) review evaluates a country's accounting and auditing standards and practices using as benchmarks the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). It also uses international good practice as the reference point for assessing strengths and weaknesses of institutional underpinnings of the accounting and auditing regime of a country. The ROSC A&A focuses on the corporate financial reporting infrastructure that supports high-quality accounting and auditing practices in a country. Important pillars of the corporate financial reporting infrastructure are statutory framework, accounting profession, accounting education and training, accounting standards, auditing standards, and monitoring and enforcement of applicable accounting and auditing requirements.

The ROSC A&A was carried out in The Gambia in February 2010 through a participatory process involving various stakeholders. As the focal nominated person designated by the Government for the exercise, the Governor of the Central Bank chaired the national steering committee with support from The Gambia Association of Accountants (GAA). The stakeholders include the Central Bank of The Gambia, Ministry of Finance, GAA, Gambia Revenue Authority, University of The Gambia, accounting training providers, audit firms, banks, insurance companies, state-owned enterprises, accountants, lawyers, and academics.

This report was prepared by a team from the World Bank comprising M. Zubaidur Rahman, Program Manager (OPCFM); Winston Cole, Senior Financial Management Specialist, Task Leader (AFTFM); Olawale Wale-Awe, International Consultant (AFTFM); Rebecca Chesney, Junior Professional Associate (OPCFM); and Aleksandar Kocevski, Junior Professional Associate (AFTFM). In-country support was provided by Badara Joof (AFMGM) and Yassin Saine Njie (AFMGM) provided administrative assistance. The Regional Manager, Financial Management, Edward Olowo-Okere has overall responsibility for the quality of this diagnostic.

The assistance rendered by The Gambian authorities and country stakeholders during the review is sincerely appreciated.

¹The 12 ROSC areas are data transparency, fiscal transparency, monetary and financial policy transparency, banking supervision, securities, insurance, payment systems, anti-money laundering and combating financial terrorism, corporate governance, accounting, auditing, and insolvency and creditor rights.

ABBREVIATIONS AND ACRONYMS

| | |
|--------|---|
| A&A | Accounting & auditing |
| ABWA | Association of Accountancy Bodies in West Africa |
| ACCA | Association of Chartered Certified Accountants |
| ATSWA | Accounting Technician Scheme West Africa |
| CBG | Central Bank of The Gambia |
| CIMA | Chartered Institute of Management Accountants |
| ECOWAS | Economic Community of West African States |
| FSAP | Financial Sector Assessment Program |
| GAA | Gambia Association of Accountants |
| GAOB | Gambia Auditing Oversight Board |
| GDP | Gross domestic product |
| GICA | Gambia Institute of Chartered Accountants |
| IAESB | International Accounting Education Standards Board |
| IAS | International Accounting Standard |
| IASB | International Accounting Standards Board |
| IASC | International Accounting Standards Committee |
| IASCF | International Accounting Standards Committee Foundation |
| IAES | International Accounting Education Standards |
| IFAC | International Federation of Accountants |
| IFRS | International Financial Reporting Standards |
| IMF | International Monetary Fund |
| IPSAS | International Public Sector Accounting Standards |
| ISA | International Standards on Auditing |
| ISQC | International Standards on Quality Control |
| ROSC | Reports on the Observance of Standards and Codes |
| SMO | Statement of Membership Obligations |
| SOE | State-owned enterprise |
| UTG | University of The Gambia |

I. INTRODUCTION AND BACKGROUND

1. The assessment of accounting and auditing practices in The Gambia is part of the joint initiative of the World Bank and IMF to prepare Reports on the Observance of Standards and Codes (ROSC). The ROSC assessment focuses on the strengths and weaknesses of corporate accounting and auditing environment that influences the quality of corporate financial reporting and involves a review of both mandatory requirements and actual practices. It uses International Financial Reporting Standards (IFRS)² and International Standards on Auditing (ISA)³ as benchmarks and draws on recent global experiences and best practice in the fields of corporate financial reporting and auditing. This assessment used a diagnostic template developed by the World Bank to facilitate collection of information, which was complemented by findings of a due diligence exercise, based on a series of meetings with key stakeholders conducted by World Bank staff.

2. The Gambia is a small country situated off the West African coast. The country has an estimated population of 1.6 million and average per capita GDP of US\$320. Liberal trade policies and an efficient port infrastructure have allowed the country to act as a regional re-export hub, while tourism remains a high, albeit seasonal, economic driver. Agriculture makes up roughly one-third of GDP, over 75 percent of employment, and a large portion of exports.

3. The country has enjoyed steady growth and a stable macroeconomic environment in recent years. Real GDP growth is estimated to have been in the range of 4.5 – 5.0 percent in 2009. Disciplined economic policy and political stability continue to attract foreign direct investment and encourage economic growth. Commercial banks, telecommunications companies, and hotel groups make up the largest corporate sector entities operating in the country, followed by small trade companies. Impediments to enhanced growth include the complexity of the tax system,⁴ a difficult land acquisition process, limited access to finance, and an outdated legal and regulatory framework for business operations in the country. Also, development of the West African Monetary Zone has been slow, hindering regional and sub-regional economic integration.

4. The Gambia's financial market is largely dominated by the banking sector. The number of commercial banks has increased from 5 to 14 in just 5 years, indicating a certain degree of confidence in the economy's stability and growth potential. However, the sudden influx of banks is straining the already limited resources and capacity of the Central Bank of The Gambia (CBG) to conduct examinations and track banking activities. Such a concentration of commercial banks within a small country led to underpriced products and borrowers' use of the same collateral to obtain loans from multiple banks. To address the additional complexities in the banking sector, a new Banking Act was passed and the Gambia Bankers Association formalized in 2009. A credit reference bureau was set up to enable banks to share credit information on customers.

² IFRS refers to all standards and related interpretations issued by the International Accounting Standards Board (IASB) and its predecessor the International Accounting Standards Committee, which issued International Accounting Standards (IAS). In this report, IFRS also refers to IAS.

³ ISA are issued by the International Federation of Accountants.

⁴ The Gambia ranks 176 out of 183 countries for ease of paying taxes in the 2010 Doing Business Report. See www.doingbusiness.org.

5. Non-banking financial institutions in The Gambia consist of 11 insurance companies, including one life insurance company and one Islamic insurance company; small rural microfinance institutions; 4 savings and credit companies; and the National Association of Credit Unions, made up of 75 credit unions (4 of which control 75 percent of the credit union portfolio). In addition, the Social Security and Housing Corporation invests available funds to meet future pension and provident fund obligations.

6. The Gambia does not have a capital market. However, the Central Bank recently appointed an officer to develop the framework for the establishment of a capital market that will be in line with the planned creation in 2015 of the West African Monetary Zone comprising The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone.

7. The Gambia Chamber of Commerce and Industries is a private, voluntary institution that represents the business community. This community has noticed a shift from relationship-based to information-based transactions as The Gambia economy has grown, heightening the need to increase governance, transparency, and capacity for financial reporting. The Gambia Chamber of Commerce and Industries is working with the United Nations to establish incubation centers to help companies begin operations, including training on maintaining proper accounting records and preparation of financial statements. The shortage of qualified accountants is a hurdle for companies in this changing environment.

8. A key priority of the Government is to address infrastructure bottlenecks and ensure regional integration. Its strategy includes a public/private partnership that requires improvement in the country's investment climate through strengthening of its accounting and auditing practices to provide credible financial information for investment decision making purposes by both local and foreign investors. This economic sector work will inform the World Bank and African Development Bank Joint Assistance Strategy (2008-2011), which provides funding for the preparation of the master plan as a way to re-engage in the sector.

9. Among other necessary attributes, a mechanism that ensures high-quality financial reporting is crucial in this respect. A strong financial reporting regime for corporate entities in both private and public sectors will benefit The Gambia economy in various ways, including:

- *Contributing to financial sector development* through strengthening the country's financial architecture and helping reduce the risk of financial crises and corporate failures, together with their associated negative economic impacts that have been witnessed in many developed and developing countries;
- *Increasing foreign direct investment*, this can be achieved through greater confidence in, and improved comparability of, financial information;
- *Facilitating economic integration on the regional and sub-regional levels,*⁵ through further alignment of The Gambia's accountancy practices with those of its partners in the regional economic integration process; and

⁵ The Gambia is one of the original 15 countries that formed the Economic Community of West African States (ECOWAS) in 1975; there are now 14 countries in ECOWAS. The Accra Declaration (April 20, 2000) signed by 6 countries, including The Gambia, seeks to create a West African Monetary Zone.

- *Improving access to financing for the small and medium-size enterprise sector by providing banks and venture capitalists with standardized, useful, and reliable information.*
- *Empowering local communities to own and manage their development process, by broadening the financial system through strengthening various non bank financial institutions, which can provide the institutional anchor to the Government's microfinance program.*

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

10. **The Companies Act of 1955 sets primary requirements for financial reporting of all entities incorporated in The Gambia.** The Companies Act of 1955 requires companies to keep proper books of account with respect to all sums of money received and expended, all sales and purchases of goods, and the assets and liabilities of the company. The financial statements are required to give a true and fair view of the state of the company's affairs and explain its transactions. Specific requirements for form and content of the balance sheet and profit-and-loss account are contained in the Eighth Schedule of the Act. However, the Companies Act 1955 does not specify the accounting standards that are to be applied for financial reporting purposes.

11. **The Companies Act 1955 articulates the company directors' responsibility to prepare financial statements and present them at the annual meeting of company shareholders.** Two directors must sign the balance sheet on behalf of the board. Failure to comply with the requirements of timely preparation of financial statements may lead to a fine, imprisonment, or both. Directors are also required to submit an auditor's report with the annual financial statements. Specific auditor qualifications or auditing standards to be applied are not mentioned in the law.

12. **Modeled after the United Kingdom Companies Act 1948, the Companies Act 1955 is outdated and does not reflect current financial reporting good practice.** The Ministry of Finance has sponsored the Companies Bill to replace the Companies Act 1955. The Companies Bill does not specify the applicable financial reporting standards but rather contains detailed accounting and financial reporting policies and methods that would be mandated. Such requirements would render the legislation inflexible and quickly outdated since any change in accounting and financial reporting policies would require parliamentary approval. It is worth noting that accounting and financial reporting policies and practices change with the emergence of innovative business transactions. At the international level, efforts are underway to continuously update the accounting and auditing standards in order to respond to changing business circumstances. From this perspective, the Companies Act, instead of prescribing accounting policies/standards, needs to recognize the accounting and auditing standards issued by a certain recognized standards setter.

13. **The Companies Registrar lacks technical resources.** According to the Companies Act, companies must file annual returns and audited financial statements with the Registrar within 42 days after the annual general meeting. Few companies satisfy this requirement, and the Registrar

does not have adequate resources to keep proper records and enforce compliance. The Registrar filing system is not computerized, preventing the periodic review of overdue filings and delaying the business registration process. Additionally, the procedures for public access to the financial statements of registered companies are not clear.

14. **The Accountants Act of 1991 does not specify the applicable accounting and auditing standards.** The Act establishes the ‘Council’ as the governing body of the Gambia Association of Accountants (GAA⁶). The Act also stipulates the minimum registration requirements to practice accountancy in The Gambia. The Act is weak and outdated in several respects. The Act does not stipulate which accounting and auditing standards should be applied by the preparers and auditors of financial statements. A revised Accountants Act, drafted in 2004, provides for the establishment of a stronger professional accountancy body, but it still does not stipulate the required standards or provide for a modern regulatory framework of accounting and auditing, such as an independent oversight body to provide additional assurance on the quality of audit services.

15. **The revised draft Accountants Act (2004) needs to be updated taking into account recent international developments with regard to the regulation of accounting profession.** The revised draft Act (2004) proposes to create The Gambia Institute of Chartered Accountants (GICA) to be governed by the Gambia Accountants Board. According to the draft law, GICA as professional accountancy body, will have the following objectives: (a) represent the accountancy profession in The Gambia; (b) act as a qualifying and membership body for accountants in The Gambia; (c) provide a forum for the development of the accountancy profession in The Gambia; and (d) identify and promote adherence (by members) to the technical standards to be followed by accountants and auditors in The Gambia.

16. **The Central Bank of The Gambia licenses, regulates, and supervises financial institutions under the Central Bank Act of 2005.** The Financial Supervision Department prepares and implements regulatory guidelines, conduct on-site and off-site supervision of banks to determine soundness, prescribe measures to stave off bank failure, and promote safety and soundness of the banking system as a whole. The Central Bank also performs a similar role for non-bank financial institutions. For all financial institutions, the Central Bank approves external auditors.

17. **Increased banking activity led to additional reporting requirements for banks under the Banking Act of 2009.** The Banking Act of 2009 recently replaced the Financial Institutions Act of 2003. Under the new law, banks must submit monthly and quarterly statements of assets and liabilities to the Central Bank of The Gambia. A professionally qualified auditor must audit the annual financial statements within three months of the financial year-end. Banks must publish updated balance sheets in at least one newspaper, as well as post a copy in a public spot of each branch. The new Banking Act also requires that the statutory auditors of banks maintain contact with the Central Bank at the beginning and end of the audit.

18. **The legal framework for regulation of accounting and auditing in village savings and credit associations, savings and credit companies, and credit unions is incomplete.** The

⁶ GAA - gamaaccounts@qanet.gm

new Banking Act 2009 does not cover regulations and guidelines specific to the accounting and auditing of these non-bank financial institutions. Legislation that would remedy this gap has not yet been enacted, leaving the Central Bank of The Gambia Act of 2005 and the regulations and guidelines originally developed under the repealed Financial Institutions Act 2003 as the legal basis for regulation of these non-bank financial institutions. A draft law has been prepared which includes four major volumes; volume one provides general guidance and the other three cover supervision requirements to strengthen the regulations and guidelines for village-based financial institutions, savings and credit companies, and credit unions. It requires these institutions to maintain books of account and proper records and set up an accounting system that is consistent with normal standards, and it empowers the Central Bank of The Gambia to conduct regular examinations. The Central Bank uses the draft legislation as a working document to guide internal processes. It is worth noting that accounting, auditing and financial reporting aspects are not adequately covered by the draft legislation.

19. **The insurance regulatory framework has made progress, but drawbacks remain due to limited technical expertise.** Section 20 of the Insurance Act of 2003 requires insurance companies to submit quarterly and annual financial statements to the CBG Insurance Department. Compliance with the financial reporting requirements was initially low, but improvement has been achieved as implementation of the insurance legislation progressed. The insurance regulator has no qualified accountants, making it difficult to distinguish clearly between accounting standards applied for prudential financial reports and general purpose financial statements. An understanding of insurance company accounting is particularly needed given the prevalence of noncompliance with various requirements including contingency reserves. The insurance regulator recognizes the need for capacity development and will address this deficiency in the upcoming Central Bank strategy review.

20. **Tax laws require submission of audited financial statements.** The Income and Sales Tax Law of 2004 requires companies to use accrual accounting for the preparation of financial statements that “conforms to generally accepted accounting principles”, and requires the submission of audited financial statements with annual tax filings. In the absence of mandated accounting standards for general purpose financial statements, there is no standardized starting point for determining business income and expenditures for tax purposes, and companies could apply the accounting standard that results in the most desired tax outcome. The introduction of a legally mandated set of accounting standards would ensure a consistent basis for preparing the audited financial statements and for reviewing tax filings.

21. **The Gambia Revenue Authority does not have capacity to determine the adequacy of general purposes financial statements and therefore relies heavily on audited financial statements.** As an incentive for submitting audited financial statements, companies that comply receive a lower tax rate. The tax savings is often not enough to justify the audit cost for small companies, many of which lack the capacity to prepare accounts to be audited. Auditors of many companies often prepare the financial statements and then do the audit, violating international good practice of auditor’s independence. Small companies below certain threshold should be allowed to submit an Accountant’s Report containing a simplified set of financial statements, instead of a complete set of audited financial statements, to enhance equality of the tax savings scheme and maintain the integrity of audit reports. The Gambia Revenue Authority should work

with the Gambia Association of Accountants (GAA) to monitor the capacity and performance of the accountancy professionals who would prepare these accountant's reports.

22. Section 175 of The Constitution of The Gambia empowers the Auditor General to audit state-owned enterprises. The National Audit Office is responsible for auditing state-owned enterprises (SOEs), including companies with minority ownership by the Government. State-owned enterprises are required to submit annual financial statements to the Auditor General within three months of the financial year-end. The audited financial statements and the accompanying audit report must be included in the Auditor General's annual report to the National Assembly. The National Audit Office outsources most audits of state-owned enterprises to private audit firms. In this way, it aims to develop both public and private sides of the accountancy profession. These outsourced audits allow for exchange of knowledge between public and private sector accountants and auditors.

B. The Profession

23. Founded in 1979, The Gambia Association of Accountants received its statutory backing in 1991 through the Accountants Act of 1991. The GAA is well recognized by The Gambia business community, and it has about 130 full members and 500 student members. The GAA functions cover a broad spectrum including education, training, and examination; professional standards, ethics, and discipline; publication and support services; and liaison with other international accountancy bodies. However, GAA has not fully developed its capacity to carry out the statutory mandates due to lack of technical and financial resources. The GAA has not issued professional standards for its members, and has yet to officially pronounce adoption of internationally recognized accounting and auditing standards.

24. The GAA is laying the groundwork to transition from an association to a full fledged professional accountancy body with the ultimate goal of becoming a member body of IFAC. To start the process, the GAA assigned full-time officers to build awareness among members and other stakeholders. The officers are reviewing international good practices and the activities of regional and sub-regional professional bodies to develop a strategic plan to transform to a new professional body in The Gambia.

25. The GAA members hold foreign accountancy qualifications. The GAA membership is obtained by being a member of a recognized professional accountancy body. All GAA members hold foreign accountancy qualifications. In the absence of GAA guidance on professional conduct and practice, its members adhere to foreign professional standards and ethics. Practicing license to operate in The Gambia is approved by the GAA Council based on license from the foreign accountancy body.

26. The market for auditing services in The Gambia is relatively small, and is dominated by two large audit firms. Firms affiliated with international networks audit most Gambian financial entities as well as large companies. Small and medium-size enterprises generally engage small and medium-size accountancy practices in the country. Although no statute or regulation mandated a particular set of auditing standards, auditors claim to apply International Standards on Auditing. The large audit firms are better equipped to apply International Standards on Auditing compared to the small and medium size firms.

27. **Management in many cases shifts the responsibility for preparing financial statements to auditors.** This is contrary to the provisions of the Companies Act of 1995 and international good practice: preparation of financial statements is a responsibility of company management. However, this may be due to the lack of qualified professionals to prepare financial statements, and management's misunderstanding of the role of auditors. To comply with independence rules⁷, auditors should not audit financial statements that they prepare.

28. **Except for large entities, the corporate sector generally does not have access to professionally qualified accountants.** Many small and medium-size entities do not have accountants with the skills required to prepare financial statements in accordance with internationally accepted accounting and reporting requirements. The managers and accountants of these entities frequently rely on auditors' help in producing a complete set of financial statements based on incomplete accounting records.

29. **The GAA does not fully meet the criteria for IFAC membership.** The IFAC Board has the authority and responsibility for determining the criteria for and procedures by which organizations will be admitted as members of IFAC. Well-set membership criteria have been established by IFAC and GAA is assessed below against these criteria, with the key shortcomings flagged.

- *Criterion 1, Recognition of organization.* The GAA draws its legal mandate from a 1991 Act of Parliament. The draft Accountants Act (2004), which is yet to be placed before the Parliament, proposes to create The Gambia Institute of Chartered Accountants to be governed by the Gambia Accountants Board. The GAA has not held an annual general meeting for more than a decade.
- *Criterion 2, Professional standard-setting.* GAA has not set any national standards nor has it officially pronounced the adoption of international accounting and auditing standards.
- *Criterion 3, Membership admission criteria and enforcement.* Most GAA members hold the ACCA-UK qualification. In the absence of GAA guidance on professional conduct and practice, its members are supposedly observing the ACCA professional standards and ethics.⁸ However, the GAA does not have a mechanism for determining its members' compliance with professional standards and ethics.
- *Criterion 4, Commitment to IFAC/IASB standards.* In the absence of national standards, or official adoption of the international standards, GAA members are left to decide whether or not to comply with IFAC/IASB standards. The GAA Council has not decided on adoption of international standards. Through participation in the Association of

⁷ ISA 200 Ethical Requirements Relating to an Audit of Financial Statements "The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements". It is in the public interest and therefore in the IFAC Code, that auditors be independent of the entity subject to the audit to maintain objectivity.

⁸ http://www.accaglobal.com/members/professional_standards/

Accountancy Bodies in West Africa (ABWA), GAA is committed, as part of regional harmonization initiatives to adopt international standards on accounting and auditing.⁹ The GAA has not yet implemented this commitment.

- *Criteria 5, Financial and operating viability.* The financial statements of the GAA have not been audited for 6 years. Administrative expenses account for over 75 percent of income, which is made up of subscriptions from members.
- *Criterion 6, Operating structure.* Four people headed by the Executive Secretary staff the GAA Secretariat. Its governing body, the GAA Council, comprises the GAA executive officials and 3 ex officio members: the Solicitor General and Legal Secretary; Permanent Secretary, Ministry of Finance and Economic Affairs; and Permanent Secretary, Personnel Management Office. The GAA Act provides for the following standing committees:
 - *Membership & Disciplinary Committee* to consider applications for membership from prospective members and maintaining professional discipline and compliance with laws, rules and regulations.
 - *Technical Committee* to make recommendations to Council on technical matters relating to accountancy and related subjects.
 - *Education and Training Committee* to handle registration of student members, designing training programs for both technicians and fully qualified accountants, conducting examinations, and designing and assessing approved accounting experience and continuing professional development.
 - *Finance and Fund-raising Committee* to mobilize resources to fund the GAA-approved programs and activities and advancement of its aims and objectives.

30. **The GAA does not meet IFAC-issued Statements of Membership Obligations (SMO).** All IFAC member bodies are required to meet these specified obligations and to actively promote international accountancy programs and standards established by IFAC and the IASB. The ACCA made specific proposals in 2003 to strengthen GAA, which also included adoption of international standards issued by the IFAC. The GAA has not implemented these standards because the enabling Act is still in draft, and GAA feels it has no legal mandate to implement the standards. The GAA will be expected, through the Member Body Compliance Program, to periodically demonstrate its ability to meet the SMOs. The GAA falls short in the following areas:

- *SMO 1, Quality Assurance.* The GAA does not have a quality assurance program that complies with the International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. In addition to internal quality control by

⁹ ABWA was founded in 1982 and is recognized by IFAC. Membership is open to accountancy bodies that are recognized by their national laws and in good standing in the accountancy profession. Of the seventeen 17 West African countries, the main accounting bodies in that comprise ABWA membership are The Gambia, Ghana, Liberia, Nigeria, Senegal, and Sierra Leone make up current ABWA membership.

firms, an external quality assurance program is required for public interest entities to assure that GAA members comply with the applicable standards. With support from ACCA-UK, ABWA has prepared a manual on Peer Practice Review and Quality Assurance Arrangements for its members, which GAA could adopt.

- *SMO 2, International Education Standards for Professional Accountants and Other IAESB Guidance.* The GAA does not conduct its own examination. There are plans for a Joint Examination Scheme Agreement with ACCA UK that will allow students to prepare for local tax and audit examination. Plans are ongoing to start participating in the Accounting Technician Scheme of West Africa examination administered by ABWA.
- *SMO 3, International Standards, Related Practice Statements and Other Papers Issued by IAASB.* The GAA does not have a process that provides for timely, accurate, and complete dissemination of international standards. It has not adopted standards issued by the IAASB. The GAA's website is not regularly updated (with latest information from 2004).¹⁰ The website also indicates that GAA makes contributions to IFAC as a member when in fact it does not even have affiliate status.
- *SMO 4, IFAC Code of Ethics for Professional Accountants.* Without a prescribed code of ethics for its members and an arrangement to monitor compliance, GAA has no mechanism for ensuring that accountants and auditors in public practice follow a certain code of ethics. The ABWA has adopted the IFAC Code of Ethics for Professional Accountants and after considering local dictates of its members has prepared a harmonized ethical code enforcement mechanism for implementation by its members.
- *SMO 5, International Public Sector Accounting Standards and Other IPSASB Guidance.* There are no arrangements in place by GAA to adopt and disseminate the standards and guidance issued by the International Public Sector Accounting Standards Board (IPSASB). However, the Annual Financial Statement of the Government follows IPSAS cash basis suggested formats.
- *SMO 6, Investigation and Discipline.* As per SMO 6, a professional body should provide in its constitution and rules for the investigation and discipline of members for misconduct, and the professional body should operate a "just and effective investigative and disciplinary regime" for providing incentives to follow the ethical standards by the members. There is, however, no evidence that GAA has been handling any complaints of misconduct by its members. There is also no public notice on how to lodge complaints. The GAA Membership & Disciplinary Committee does not have a mechanism to carry out this function.
- *SMO 7, International Financial Reporting Standards.* The Gambia is yet to formally adopt IFRSs. . Some accountants, notably the international accounting firms operating in the country, comply with standards issued by IASB and IFAC. The Central Bank intends to prepare its 2009 financial statements using IFRS, and some of the commercial banks in The Gambia are also planning to use of IFRS. As an ABWA member, GAA has

¹⁰ <http://www.gaa.gm/>

committed to adopt IFRS through its participation in an initiative of the ABWA.

C. Professional Education and Training

31. **The Gambia does not have a local qualification program.** All qualified accountants in The Gambia hold foreign-based qualifications. Many accountancy program graduates studied abroad, and were sponsored by employers or government via scholarships. Very few citizens of The Gambia can personally afford foreign study and examination fees. The largest audit firms in the country have set up and paid for programs to allow employees to progress through the foreign qualification process, providing an entry point for young students in The Gambia. However, small and medium-size practices cannot afford such a large expenditure for training programs. All firms cite difficulties in retaining employees once they have been trained, especially as growth in the financial services sector provides higher-paying positions for experienced accountants.

32. **Technician-level programs are popular in The Gambia.** Both the Management Development Institute and Gambia Technical Training Institute provide accounting technician courses,¹¹ which must follow the National Training Authority's standards and criteria.¹² The courses generally require at least a high school diploma and typically take three academic years to complete. A little more than half of the students in the Training Institute complete the accounting technician examination, while the others accept jobs after completing one or two years. It appears that the technician level training is adequate for the needs of small-scale enterprises in The Gambia.

33. **The Department of National Treasury (DNT) is committed to allocating resources for producing qualified accounting staff.** Twenty nine DNT staff are currently enrolled in the accountancy program at the University of The Gambia (UTG¹³), while others are pursuing a foreign accountancy qualification. The Department of National Treasury supports the development of a national qualification scheme to allow for local training and certification, as it would benefit accountants in both the private and public sectors. Efforts are being made to adopt and implement IPSAS (cash basis), but further training and capacity development is needed to successfully complete the process. The GAA needs to enhance its technical and professional capacity to be able to serve both public and private sector accountants.

34. **Prior to obtaining full GAA membership, a candidate is required to have three years of practical training and recommendations from two GAA members.** However, there is no formal requirement to obtain practical auditing experience before being licensed to practice as an auditor. The GAA does not have a mechanism to screen practical training providers and does not monitor the quality of practical training.

¹¹ Association of Accounting Technicians (UK) and Certified Accounting Technicians (UK) examined by U.K. based organizations.

¹² The National Training Authority is responsible for accrediting training institutions and trainers.

¹³ Of the 29 DNT staff undertaking the accountancy degree program at University of The Gambia, 13 are in year 2 and 16 in year 1. Also, 8 National Audit Office staff (5 in year 2 and 3 in year 1) are enrolled in the program.

35. **An academic program in accounting has recently been implemented but requires further development.** Begun in 1995 as an extension campus of St. Mary's University, Canada, University of The Gambia (UTG) is the country's only academic institution and became a self-standing institution in 1999. Accounting is one of five units in the Department of Economics and Management Sciences which run programs that lead to a Bachelor of Science degree. The Islamic Development Bank funded development of the accounting curriculum based on IFRS and ISA as a means to develop accountants who will be able to complete a professional accounting certification upon graduation. The program is offered on both a full-time and part-time basis and includes seven semesters of academic study and one semester of practical experience. However, the practical experience assessment criteria are not yet developed. The inaugural class of seventeen students is now in the fifth semester. Only two full-time lecturers teach accountancy courses, supplemented by part-time lecturers from the private sector. Recruiting of staff has proven difficult, particularly because full-time lecturers must have a Masters Degree and be a member of a professional accountancy body. Remuneration is too low to attract part-time lecturers. The few textbooks available, covering a variety of international and national accounting and auditing standards and tax practices, are typically received as donation for use in the Library.

36. **There are gaps in the UTG Bachelor of Accountancy (Honors) program when compared against the International Accounting Education Standards (IAES).** The IFAC IESs prescribe the learning and development requirements of professional accountants. With the UTG Bachelor of Accountancy (Honors), a graduate with three-years working experience (after graduation) in related areas can apply to become a full member of GAA and be eligible to apply for license to practice. The academic program developed by UTG does not fully take into account many of the important elements of IAES, including a separate subject focusing on professional values, ethics, and attitudes. Moreover, the absence of stringent practical experience requirements, and arrangements to ascertain professional capabilities and competencies would constrain UTG graduates in obtaining GAA membership as GAA transforms itself to a professional accountancy body.

37. **The education system is fragmented and considerably strained by unsatisfactory resources.** The Gambia is undergoing a process to integrate UTG and training institutions, including the Management Development Institute and Gambia Technical Training Institute. What currently exists is a fragmented system that requires significant planning and coordination with GAA, National Training Authority (NTA) and other stakeholders. More resources will need to be devoted to the country's education program. In the last application cycle, UTG was only able to accept less than half the potential candidates due to classroom and lecturer constraints. With the growth of the economy, accounting education will need to be strengthened to meet market demand, especially as stakeholders recognize the need to develop local professional qualification and technician schemes.

D. Setting Accounting and Auditing Standards

38. **There are no standard-setting arrangements in The Gambia.** The quality of decisions in a market economic system depends largely on access to high-quality and reliable financial information. The lack of an effective and efficient mechanism to ensure compliance with certain accounting and auditing standards contributes to weakness in a financial reporting environment.

As a national accountancy organization, GAA does not have any arrangements in place for adoption and dissemination of IFRS, ISA, or other standards. The GAA or any other authorities have not indicated which accounting and auditing standards should be followed. In the absence of locally mandated accounting standards, members of the profession claim to prepare financial statements based on different sets of accounting standards (primarily those of the United States, United Kingdom, and Nigeria). However, experience shows that often there is no consistent application of these standards..

E. Ensuring Compliance with Accounting and Auditing Standards

39. **The mechanism for enforcing compliance with accounting and financial reporting requirements as mandated in the Companies Act 1955 is weak and outdated.** Apart from the CBG review of financial institutions' audited financial statements from the perspective of monitoring compliance with prudential regulations, no organization in the country has any mechanism in place to ensure compliance with accounting and auditing standards. There is no reliable system for enforcing timely filing of returns and annual financial statements, and rigorous sanctions are not prescribed for companies that miss filing deadlines. In addition, due to limited number of audit firms companies are often granted extensions to the designated deadline in order to allow more time to submit audited financial statements.

40. **The CBG Financial Supervision Department lacks technical capacity to monitor and enforce accounting and financial reporting requirements of commercial banks.** Bank examiners conduct both offsite and onsite supervision in the 14 commercial banks, primarily to ensure compliance with prudential regulations. The Financial Supervision Department reviews audited general purpose financial statements, assesses auditors' technical and resource capacity, and approves the appointment of auditors (but does not maintain a database of approved auditors). With only one professional accountant, the Department does not have adequate capacity to monitor the complex bank accounting and financial reporting practices across so many commercial banks. Resources will be further strained once the newest banks begin filing under the regulatory requirements. To better address the various levels of supervision, the Central Bank plans to restructure the Financial Supervision Department into 3 groups — on-site examinations, off-site examinations, and policy development.

41. **Financial statements prepared by insurance companies need effective monitoring and enforcement of actions.** Given the limited number of inspectors relative to the eleven insurance companies, the Central Bank Insurance Department lacks adequate capacity to perform onsite supervision and monitors compliance with financial reporting requirements of insurance companies on a more regular basis. The inspectors also perform offsite supervision of periodic returns and annual financial statements to ensure compliance with Section 20 of the 2003 Insurance Act, which prescribes the format of the financial statements, but not the applicable standards. With the introduction of the 2003 Insurance Act, only about one-third of the insurance companies complied with the format regulation up to 2007. In 2008, the proportion increased to one-half.

42. **Accounting and auditing practices in village savings and credit associations, savings and credit companies, and credit unions need stronger monitoring and enforcement.** These financial institutions need to prepare and present reliable financial statements. The

auditors and regulators need to take improved steps for making sure that the financial reporting of these institutions meet international good practices.

43. **No mechanism exists for monitoring and enforcing auditing standards and related requirements.** The Companies Act of 1955 or any other law did not prescribe auditing standards and therefore there is no basis for enforcing compliance with a certain set of auditing standards. The GAA has not yet exercised its mandate to conduct quality control reviews of audit firms because it lacks the capacity and resources to do so. An independent review mechanism can ensure that audit firms have quality control arrangements that comply with IFAC requirements. Additionally, there is no mechanism for disciplinary action for auditors' violations of professional code of conduct.

44. **Lack of implementation guidance is constraining compliance with accounting and auditing standards.** The GAA, training institutions, and other stakeholders do not issue implementation guidance for IFRS, ISA, or other accounting and auditing standards. Guidance that incorporates relevant concepts with cases and illustrations relevant to The Gambia should be provided to the preparers and auditors of financial statements.

III. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED

45. **The Gambia has no locally mandated accounting standards, and has not prescribed the adoption of IFRS.** Company directors and audit firms generally prepare and examine financial statements using what they perceive as best practice in other countries. In light of this practice, the ROSC team used IFRS as benchmarks in assessing financial reporting practices in The Gambia. Some company directors claim to follow United Kingdom standards, and others follow IFRS. However, the review of selected financial statements showed that financial statements are not consistent across years, and auditors do not state where companies are complying with IFRS. When interviewed by the ROSC team, company directors and auditors stated that they follow no particular standards. There is no legislative requirement to comply with any standards, and the GAA has not prescribed any standard for its members.

46. **The ROSC team's review of a sample of published financial statements and its discussions with practitioners in the country revealed compliance gaps, indicating weaknesses in corporate financial reporting.** The review involved examination of financial statements of ten banks, eight insurance companies, and six state-owned enterprises. The ROSC team also conducted interviews with experienced corporate accountants, practicing auditors, academics, members of the professional association and regulators. From the review and interviews, the ROSC team learned of the following areas of material noncompliance with International Financial Reporting Standards:

- **Impairment losses.** Potential failures to recognize impairment losses on property, plant, and equipment could result in overstated assets. Most of the financial statements do not indicate whether the long-term assets were impaired. Banks recognize impairment losses in loans but disclosures on classification of non-performing loans and movement between years were not made. Many of the reports did not include general provisions on performing loans. It is not clear from the financial statements whether the impairment

tests required by IAS 36, *Impairment of Assets*, were carried out adequately. Failure to comply with this standard could create a misconception that the carrying amounts of property, plant, and equipment in audited financial statements are not overstated.

- **Related party transactions.** The ROSC review noted insufficient related party disclosures in the financial statements of most of the sampled entities. Although balances due to and from related parties are generally shown, the disclosures are inadequate due to incomplete application of other requirements for related party disclosures. Inadequate disclosure of related party relationships and transactions may facilitate the diversion of corporate resources for private benefits. Specific inadequacies include wrong statement of holdings, presentation of subsidiary as parent company and non-disclosure of parent company name. The financial statements of a particular investment holding company that owns a bank and an insurance company could not be obtained in spite of the efforts made by the ROSC team to reach the holding company; as it was stated that the holding company operates from another country
- **Consolidated financial statements.** Some companies that are in substance parent companies do not prepare consolidated financial statements, each entity prepares its financial statements without regard to existing inter-relationships and thus it is not possible to appraise overall performance of the entity. Some entities are in complex ownership structures. In the absence of consolidation, financial statements fail to depict significant subsidiaries, proportion of ownership interest, proportion of voting power held, and nature of investments in subsidiaries. Not preparing consolidated financial statements constitutes a departure from the requirements of IAS 27, *Consolidated and Separate Financial Statements*.
- **Additional disclosure by banks.** Banks do not comply with IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. Most banks do not disclose fair values of each class of financial assets and liabilities, information relating to loans and advances on which interest is not being accrued, and contingencies and commitments arising from off-balance sheet items. The financial statements lack the rigor expected of the industry considering its susceptibility to sudden shocks; especially in a country where most of the banks have foreign roots.
- **Tax practice.** Tax practice does not give room for the recognition of deferred tax assets. Tax paid is 2 percent of turnover or 35 percent of profits whichever is higher. Thus, no tax assets arise when loss is reported, leading to possible conflicts with IAS 12, *Income Taxes*.
- **Revenue.** Most of the financial statements reviewed did not disclose policy on revenue recognition. Auditors tend to work as compilers rather than examiners of financial statements. The non disclosure of applicable revenue recognition accounting policy prevents users of financial information from knowing how reported revenue is computed, resulting in noncompliance with IAS 18, *Revenue*.
- **Employee benefits.** Inadequate disclosure as to whether actuarial or any other forms of valuation had been made to quantify outstanding liabilities for post-employment benefits shows non-adherence to the requirements of IAS 19, *Employee Benefits*. All public interest entities remit contributions to the Social Security and Housing Finance

Corporation, a national pensions and provident fund company, yet individual entities need to show readers of the financial statements that they adhere to the IFRS requirements.

- **Contingent liabilities.** Many companies do not disclose contingent liabilities. Only few entities disclosed the bulk amounts, without breaking down the components and movements between years. These financial statements do not comply with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- **Revaluation of assets.** It is common not to disclose the revaluation policy for assets that have been revalued. It is also not clear how often such companies revalue assets neither are there policy statements on restrictions or the regularity of such practices.
- **Noncompliance with IAS 32 and IAS 39.** The degree of noncompliance with IAS 32, *Financial Instruments: Disclosure and Presentation*, and IAS 39, *Financial Instruments: Recognition and Measurement*, indicates the need for capacity building in measurement and disclosure of financial assets. The ROSC team discussed these issues with management, auditors, and regulators, who acknowledged the need for targeted capacity building, especially and considering the growth in the country's financial sector. This is important to ensure a strong corporate financial reporting regime.

47. **Lack of adequate capacities has contributed to the inability to prepare IFRS-based financial statements.** The ROSC team's discussions with company management and audit firms indicate that companies may not have adequate resources or ability to prepare IFRS financial statements.

48. **The 2009 Banking Act's requirement to display the approved balance sheet on business premises is inadequate for customers to make decisions on the health of financial institutions.** A financial institution is required to "exhibit, throughout the year, in the public part of each of its places of business in The Gambia, a copy of its latest balance sheet". Without an accompanying statement of performance, the balance sheet becomes inadequate as a statement of financial position that might be used to evaluate the health of financial institutions. Also, the balance sheet posted does not carry the auditor's stamp or signature, potentially raising questions of credibility. It would be good practice to post the statement of performance for the period with the balance sheet, both certified by the auditor.

IV. AUDITING STANDARDS AS DESIGNED AND PRACTICED

49. **The Gambia has no locally mandated auditing standards, and has not prescribed the adoption of ISA.** There is no legislative requirement to comply with any standards, and the GAA has not prescribed any standard for its members. Company directors and audit firms generally prepare and examine financial statements using what they perceive as best practice in other countries. In light of this practice, the ROSC team used ISA as benchmarks in assessing auditing practices in The Gambia.

50. **The absence of guidance hinders proper application of auditing standards.** With the exception of audit firms associated with international networks, most audit firms have no access to high-quality audit practice manuals and are out of touch with international good practices. For example, one audit firm included the clause “subject to the foregoing” in the opinion paragraph without indicating in the preceding paragraphs reasons for qualification, and without the intention to issue a qualified opinion. Three audit reports from this particular firm in the ROSC sample included this clause.

51. **Poor record-keeping practices, especially in small and medium-size companies, prevent auditors’ from obtaining appropriate audit evidence.** Auditors claim that companies keep incomplete records or hide records for fear of paying higher taxes. These circumstances limit access to evidence that is needed to form professional judgments. Many auditors prepare financial statements of these entities before commencing the audit. Despite arduous effort to comply with international best practice, some auditors view this as a major constraint in discharging professional responsibilities.

52. **In general, audit practices diverge from ISA.** To better understand actual auditing practices, the ROSC team interviewed practicing auditors, experienced accountancy professionals, and partners representing medium-size and large audit firms. Notable issues for auditing in The Gambia include the following:

- Most audit firms are small and the GAA is currently incapacitated to handle CPD and discipline of auditors. Most auditors rely on what they learnt in professional training to practice in The Gambia. Lack of knowledge of theoretical and practical application of standards, coupled with no independent practice review mechanism and disciplinary procedures, adversely affects audit quality. In two of the public entities reviewed, the financial statements bear the auditors’ name and logo on every page: this demonstrates weak quality control.
- Documentation practices fail to provide audit evidence to support the audit opinion, mostly in the audit of small and medium-size enterprises.
- Meaningful analytical procedures are difficult due to the absence of industry information.
- Apart from international affiliates, most firms do not comply fully with ISA on quality control due to lack of capacity. Second partner peer reviews are generally not done. Information contained in the notes to the financial statements is sometimes confusing, and complimentary information does not always align. This further highlights the need for peer review, which is largely non-existent in The Gambia. Most firms in The Gambia have only one partner.
- The shortage of audit staff impacts adversely on audit quality, and the few accounting professionals available often leave audit practices soon after obtaining their professional qualification.
- Poorly prepared financial statements with no comparatives for some notes and figures disclosed in both millions and thousands suggests some compromise in audit quality.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

53. **The quality of audited financial statements is a concern to investors and other users of financial statements.** Interviews and discussions with various stakeholders, including bankers and regulators, reveal concerns about the quality of financial reporting. There is a widespread view that the absence of mandated accounting and auditing standards, low-level skills among accounting professionals and clients, and ineffective enforcement mechanisms contribute to poor-quality financial statements. Most interviewees share the opinion that to improve the quality of financial reporting, significant improvements in the education and training of professionals, as well as a more robust regulatory regime would be necessary.

54. **Financial statements of companies are not always readily available.** Business in The Gambia is largely driven by traditional practices. Transactions are traditionally carried out based on one's familiarity with the other. In a growing economy, there is greater need to provide financial information to obtain investments. Many companies are not comfortable opening their books to outsiders. Additionally, the common practice of auditors preparing financial statements before commencing carrying out the audit tends to delay the completion of audit reports.

VI. POLICY RECOMMENDATIONS

55. The main objective of this ROSC review is to assist the Government of The Gambia and other stakeholders to strengthen corporate sector accounting, financial reporting, and auditing practices, as a means to facilitating economic development. Implementation of the recommendations contained in this report will help in the following ways:

- Providing clarity on accounting and auditing standards to be applied, allowing for consistency of financial information;
- Building confidence in financial information to enhance the investment climate and bolster domestic and foreign direct investment in the private sector;
- Facilitating access to credit from the formal financial sector by shifting gradually from relationships and collateral-based lending decisions to those based on financial performance;
- Supporting the development of the financial sector and mitigating the risk of crises due to inadequate regulatory capacity;
- Achieving greater financial transparency in the corporate sector, both public and private owned, thus allowing shareholders and other interested parties to assess corporate performance whereby the public interest entities will lead the reform process;
- Strengthening regional and sub-regional integration such as West African Monetary Zone while building local capacity through collaboration with and learning from other accountancy institutions, and by considering the capacity constraints in The Gambia and rationalizing the cost of implementing some of the policy recommendations; and
- Limiting tax evasion through ensuring proper calculation of corporate profits.

56. Without attempting to provide a detailed tactical design for reforms, this report provides principle-based policy recommendations to support the stakeholders to develop a Country Action Plan that can be implemented to enhance corporate financial reporting quality. The Country Action Plan will identify specific activities to be undertaken to implement the ROSC recommendations under supervision of the Ministry of Finance and Economic Affairs.

57. The policy recommendations in this section (summarized in Table 1 below) are mutually supportive, requiring holistic, multi-disciplinary approaches. The recommendations also follow up on issues that were raised in the 2003 CFAA report. Implementation of these recommendations will require the cooperation of the Government, regulators, academics, accountancy profession and other stakeholders. Successful implementation of the Country Action Plan will require strong commitment from the government and other stakeholders who would work with development partners to secure the resources required to strengthen the accountancy profession and build a strong financial reporting infrastructure in The Gambia.

Table 1: Summary of policy recommendations

| Main Findings | Policy recommendations |
|---|---|
| Statutory Framework | |
| <p>The statutory framework in The Gambia does not provide clear direction on applicable standards for financial reporting and auditing</p> | <ul style="list-style-type: none"> ▪ Revise and enact the draft Accountants Act. ▪ Revise the draft Companies Bill and ensure that it is passed into law as soon as possible. ▪ Regulate accounting, auditing and financial reporting in village savings and credit associations, savings and credit companies, and credit unions. ▪ The Gambia Revenue Authority to consider acceptance of Accountants Reports for small companies. ▪ Regulate non-bank financial institutions with equal vigor as for the banks to avoid exposing the financial sector to risks. |
| The Profession | |
| <p>The GAA does not fully meet the criteria for IFAC membership</p> <ul style="list-style-type: none"> ▪ no standards and guidance on professional conduct and practice to individuals ▪ not financially and operationally viable ▪ weak operating structure to adequately provide for the support and regulation of its members | <p>Prepare a Development Action Plan to transform GAA into a modern professional accountancy body (proposed name: the Gambia Institute of Chartered Accountants) and to enable it meet IFAC membership criteria.</p> <p>Establish and strengthen the Gambia Institute of Chartered Accountants (GICA), under legal backing of the new Accountants Act.</p> |

| | |
|---|--|
| The GAA does not meet IFAC-issued Statements of Membership Obligations (SMO) | Use Best Endeavors - Introduce awareness programs for improving the degree of compliance with accounting and auditing requirements. |
| Professional Education and Training | |
| <p>The Gambia does not have a local qualification program. There are gaps in the UTG Bachelor of Accountancy (Honors) program when compared against the International Accounting Education Standards (IAES)</p> <ul style="list-style-type: none"> ▪ lacks separate subject focusing on professional values, ethics, and attitudes. ▪ absence of stringent practical experience requirements. | <p>The GICA should be empowered to adopt an examination that is more accessible for the citizens of The Gambia and also meets international standards and good practice.</p> <p>Gambians to start the Accounting Technician Scheme West Africa (ATSWA) which the ABWA aims to further develop into a full professional examination with a public sector variant.</p> <p>Closely monitor the quality of training providers. Upgrade the licensing procedures for accountants and auditors in public practice. Direct more resources to the UTG accountancy program.</p> |
| Setting Accounting and Auditing Standards | |
| There are no standard-setting arrangements in The Gambia. | <p>The law should include provisions on formation and mandates for an “Accounting Standards Committee” and “Auditing Standards Committee” within the organizational framework of the professional accountancy body. Legal backing for standard setting will empower these committees to issue legally enforceable accounting and auditing standards.</p> <p>SMEs’ regulators and other stakeholders should hold a forum to determine whether IFRS for SMEs are suitable for The Gambian SMEs.</p> <p>Law to provide for an arrangement to implement <i>simplified financial reporting framework for relatively small-size enterprises</i> and to free them from the burden of statutory audit requirements.</p> |
| Accounting Standards as designed and practiced | |
| The Gambia has no locally mandated accounting standards, and has not prescribed the adoption of IFRS. | “ <i>Accounting Standards Committee</i> ” to put in place arrangements for adoption of IFRS. |

| | |
|--|--|
| The ROSC team's review of a sample of published financial statements and its discussions with practitioners in the country revealed compliance gaps, indicating weaknesses in corporate financial reporting. | State which standards are to be used for corporate accounting and auditing, and define a threshold for which entities would fall within the purview of the requirements. |
| Auditing Standards as designed and practiced | |
| The Gambia has no locally mandated auditing standards, and has not prescribed the adoption of ISA and absence of guidance hinders proper application of auditing standards. Management frequently shifts the responsibility for preparing financial statements to auditors. | <i>ISA 200 Ethical Requirements Relating to an Audit of Financial Statements:</i> The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. It is in the public interest and therefore in the IFAC Code, that auditors be independent of the entity subject to the audit to maintain objectivity. |
| Poor record-keeping practices, especially in small and medium-size companies, prevent auditors' from obtaining appropriate audit evidence. Shortage of audit staff/Independent practice review mechanism and disciplinary procedures adversely on audit quality. | The Accountants Act to provide for establishing a functioning independent oversight body to carry out audit quality assurance reviews. Establish a functioning disciplinary mechanism at the GICA for investigating and disciplining its members for misconduct and breach of professional and ethics standards. |
| Perception of the quality of financial reporting | |
| The quality of audited financial statements is a concern to investors and other users of financial statements. | Introduce awareness programs for improving the degree of compliance with accounting and auditing requirements by public interest entities. The GAA should collaborate with leading audit firms in The Gambia to build awareness among shareholders and management of public interest entities of the importance of complying with accounting and auditing requirements. |
| Financial statements of companies are not always readily available. | Enhance <i>public access</i> to public interest entities' full sets of audited financial statements |
| Ensuring Compliance with Accounting and Auditing Standards | |
| The mechanism for enforcing compliance with accounting and financial reporting requirements as mandated in the Companies Act 1955 is weak and outdated. | As an additional assurance to protect the public interest, establish an independent oversight arrangement (Gambia Auditing Oversight Board (GAOB)) in collaboration with GAA, chamber of commerce, and central bank. These |

| | |
|--|--|
| | <p>three organizations amongst others would be represented on the governing board of the GAOB.</p> <p>The oversight body may be established in the mid to long term. In the short term, the Government may consider delegating the audit quality assurance review task to a regional/international organization capable of conducting this task.</p> |
|--|--|

A. Updating the Statutory Framework

58. **Revise and enact the draft Accountants Act.** To ensure that the legal and regulatory requirements give financial statement preparers, auditors, and regulators the mandate and capacity to protect the public interest, the Accountants Act could be further strengthened in the following areas:

- Framework of regulating the accountancy profession, including licensing of practicing auditors.
- Establishment/continuation of a professional accountancy body, its governance, and functioning arrangements.
- Requirements for obtaining and maintaining membership of the professional accountancy body.
- Guiding principles for awarding professional accountancy qualification and professional training, including practical training of aspiring members of the professional accountancy body.
- Framework and institutional arrangements for ethics standard-setting and dissemination;
- Framework and institutional arrangements for accounting and auditing standard setting and dissemination.
- Stating which standards to be used for corporate accounting and auditing, and defining a threshold for which entities would fall within the purview of this requirement. In this regard, the law should include provisions on formation and mandates for an “**Accounting Standards Committee**” and “**Auditing Standards Committee**” within the organizational framework of the professional accountancy body. Legal backing for standard setting will empower these committees to issue legally enforceable accounting and auditing standards. These committees should put in place arrangements for adoption of IFRS and ISA, and ensuring mandatory observance of these standards in the case of public interest entities¹⁴ would enhance regional and sub-regional economic integration, as most countries are now converging with international accounting and auditing standards.

¹⁴ Public interest entities are defined by the nature of their business, size, and number of employees; or by their corporate status by virtue of their range of stakeholders. Examples include listed companies, banks and similar financial institutions, insurance companies, and large enterprises. To be considered a public interest entity, the large enterprise is defined as individual enterprises and groups of enterprise that meet any two of the following three thresholds: (a) total number of employees exceeding [a number to be decided in consultation with the country

- The International Accounting Standards Board has issued IFRS for SMEs¹⁵ as a standalone product that sits alongside the full set of IFRS. The professional accountancy body and other stakeholders should hold a forum to determine whether IFRS for SMEs are suitable for The Gambian SMEs. With a focus on lowering SMEs' cost of doing business, the Law should provide for an arrangement to implement simplified financial reporting framework for relatively small-size enterprises and to free them from the burden of statutory audit requirements.
- Establishment and functioning of an oversight body to carry out audit quality assurance reviews; and
- Establishment and functioning of disciplinary mechanisms at the professional accountancy body (GICA) for investigating and disciplining its members for misconduct and breach of professional and ethics standards.

59. **Revise the draft Companies Bill and ensure that it is passed into law as soon as possible.** The draft Companies Bill includes an entire section on accounting standards and practices that would be mandatory if passed. For ease of implementation, it is advisable not to include detailed accounting and reporting requirements in the Companies Act and to only make specific provisions that mandate adherence to accounting and auditing standards as promulgated by a legally constituted accounting standards committee. Also, the Companies Bill should clarify the duties and responsibilities of company auditors.

60. **Take appropriate steps for regulation of accounting and auditing in village savings and credit associations, savings and credit companies, and credit unions.** To mitigate risk in the financial sector, the guidelines would need to be finalized made available to preparers and auditors of financial statements of these institutions.

61. **Introduce legal provisions to enhance public access to public interest entities' full sets of audited financial statements (including the disclosure notes and the audit report).** This may be easily implemented through a legally-backed arrangement e.g. the Registrar of Companies. Companies could also post their financial statements on their websites. Any interested party (authorities, creditors, suppliers, banks, and any third party) could then access the financial statements in the Registry or entity's website, or request a hard copy, which would be made available for a limited fee.

62. **The Gambia Revenue Authority should consider acceptance of Accountants Reports prepared by Registered Accountants of GAA for small companies.** The lower cost of preparing Accountants Report, which certifies that financial statements are in agreement with the underlying records, would provide more reliable information for tax assessment. The authorities would need to determine the threshold for small companies that would be allowed to prepare Accountants Report.

stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with stakeholders].

¹⁵ SMEs are entities that may not have public accountability: (i) their debt or equity instruments are not traded in a public market; (ii) they are not in the process of issuing such instruments for trading in a public market; and (iii) they do not hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.

B. Strengthening Institutional Capacity of the Accountancy Profession

63. **Prepare a Development Action Plan to transform GAA into a modern professional accountancy body and to enable it meet IFAC membership criteria.** The plan should be developed and discussed in a consultative and participatory manner and approved at an Annual General Meeting of the members of accountancy profession in The Gambia. In this regard, it would be helpful to consider IFAC’s publication, “Establishing and Developing a Professional Accountancy Body,” as a reference point.

64. **Establish and strengthen the Gambia Institute of Chartered Accountants, under legal backing of the new Accountants Act.** The proposed GICA will need to be supported by full-time professionally qualified technical staff. The governance structure will also need to be improved to enable GICA to fully comply with IFAC-Statements of Membership Obligation. The GICA may consider establishing twinning arrangement with a strong professional accountancy body, preferably belonging to ABWA, to learn from experiences in achieving and maintaining IFAC membership. The GICA should participate in ABWA initiatives to benefit from the experiences of other countries and leverage the resources for capacity building within The Gambia.

65. **Make organized efforts for supporting professional development of the auditors in public practice.** In order to contribute to the enhancement of audit quality in The Gambia, the GICA should put in place arrangements for professional development of the audit firms, specifically the small and medium-sized audit practices (SMPs). The professional development activities should address all the key drivers which affect audit quality. These are leadership, audit methodologies, competences and skills, quality control and external review. Arrangements should be made to give increased emphasis on the development and dissemination of ISA-based local audit practice manual; and effective training activities focusing on implementation of International Standard on Quality Control (ISQC), ISAs and other pronouncements of the International Auditing and Assurance Standards Board (IAASB) of IFAC.

66. **The GICA should be empowered to adopt an examination that is more accessible for the citizens of The Gambia and also meets international standards and good practice.** In this regard, efforts are being made for Gambians to start the Accounting Technician Scheme West Africa (ATSWA), which the ABWA aims to further develop into a full professional examination with a public sector variant. The ATSWA examination is currently administered in Nigeria, Ghana, and Liberia with over 2,800 students having qualified since September 2007. The Institute of Chartered Accountants of Nigeria exempts ATSWA graduates from its foundation level and requires them to take one paper (Business Communication and Research Methodology) at the intermediate level before proceeding to the professional level. With similar recognition by other international professional accountancy bodies the ATSWA scheme should become more attractive. ABWA is considering upgrading the technician scheme to a full professional qualification that will adequately serve the public and private sector.

67. **Closely monitor the quality of training providers.** There are more than 70 institutions at different levels of development in The Gambia that provide accountancy training and certification programs. The GICA should establish an accreditation mechanism for training

providers and regularly monitor the quality of practical training provided by authorized providers and ensure that they are in line with International Education Standards.

68. **Direct more resources to the UTG accountancy program.** Immediate steps should be taken to provide technical and financial support to the recently established UTG accountancy program. Strong incentive mechanisms should be introduced to attract and retain experienced academic instructors. Training should be organized to better equip UTG professors and lecturers to adopt appropriate methods and techniques to teach IFRS and ISA. In addition, UTG should encourage lecturers to closely cooperate with corporate accounting departments, audit firms, and Government bodies to refresh and enhance their knowledge of the practice of accounting and auditing. This will help ensure that students receive an education that is closely aligned with market needs.

69. **Upgrade the licensing procedures for accountants and auditors in public practice.** The GICA should streamline its licensing procedure to conform to the education guidelines, such as International Education Guideline (IEG) 9, *Prequalification, Education, Assessment of Professional Competence, and Exposure Requirements of Professional Accountants*; and IEG 10, *Professional Ethics for Accountants issued by IFAC*, by developing a sound mechanism for issuing and renewing practice licenses of the auditors in public practice on the basis of performance. This will require GICA to assist its members with the implementation of new and amended standards by frequently updating the pre-qualification and CPD programs, developing additional training and issuing implementation guidance. This would ensure that the standards are properly understood, implemented, and applied.

70. **Introduce awareness programs for improving the degree of compliance with accounting and auditing requirements by public interest entities.** The GAA should collaborate with leading audit firms in The Gambia to build awareness among shareholders and management of public interest entities of the importance of complying with accounting and auditing requirements. These programs should include dissemination of case studies, emerging international best practices, and the role of transparent financial reporting in attracting foreign investments. Given the prevalence of non-compliance with international standards, stakeholders should also be sensitized to the difference between current practice and the new applicable standards.

C. Establishing an independent oversight arrangement

71. **Design, develop and put in place an independent oversight arrangement for audit quality assurance review of auditors.** The oversight arrangement--may be called the Gambia Auditing Oversight Board (GAOB). The GAOB may be established as an independent body in the mid to long term. At the initial stage, the independent arrangement for audit quality assurance review may be delegated by the Government to a regional/international organization who have the capability of carrying out this task with efficiency and effectiveness. The independent -oversight arrangement, when established in the Gambia, should be based on a collaborative approach involving the professional accountancy body, chamber of commerce, and financial sector regulators (for the time being, the central bank). These organizations would be represented on the governing board of the GAOB. The independent oversight arrangement will follow the emerging international good practice principles and the requirements of ISQC on the conduct of

audit quality assurance reviews in order to enhance the quality of audit and assurance services provided by practicing auditors. The internationally recognized principles of regulation would need to be tailored to the country circumstances of The Gambia. Arrangements should be made to develop and operationalize a mechanism at the GAOB, under which the specialists of GAOB would work in partnership with the technical staff of the professional accountancy body, to conduct necessary reviews in order to ensure that auditors comply with the applicable auditing standards and quality control requirements particularly for public interest entities.

72. **The main goal of the review is to contribute to improving the quality of auditing services provided by auditors in The Gambia.** It is expected that the audit firms that do not belong to any international network, would benefit significantly from the activities conducted under this arrangement. In order to contribute to the enhancement of audit quality in The Gambia, the audit quality reviewers should address all the key drivers of audit quality. These are leadership, audit methodologies, competences and skills, and quality control.

The Gambia
REPORT ON THE OBSERVANCE OF STANDARDS AND
CODES (ROSC): ACCOUNTING AND AUDITING

Stakeholders Workshop

Banjul

May 6, 2010

Country Action Plan

Outline

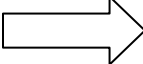
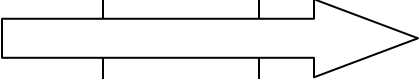
GENERAL

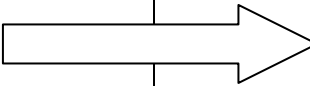
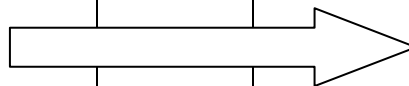
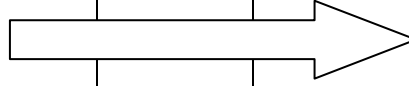
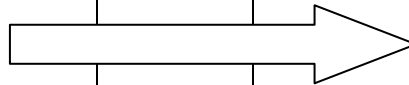
- Based on the policy recommendations made as part of the ROSC A&A review exercise
- Commitment of all stakeholders necessary to implement the policy reforms
- Time frame for full implementation of all recommendations – 5 years

KEY RECOMMENDATIONS

- Updating the legal framework of accounting and auditing
- Strengthening the professional accountancy body through twinning arrangement with a strong national professional accountancy body
- Establishing a coherent system for audit quality assurance review
- Updating and improving accountancy education and training with a greater focus on IFRS and ISA
- Monitoring and enforcing compliance with IFRS in key sectors like banks and similar financial institutions, and other public-interest entities
- Issuing and disseminating implementation guidance on applicable standards
- Adopting the simplified reporting requirements for small and medium-sized enterprises
- Collaborating with regional and international professional bodies
- Enhancing the access, affordability and delivery of continuing professional education
- Reforming curriculum and teaching of accounting and auditing in higher educational institutions

Country Action Plan

| Activities/Milestones | Agency (ies) Responsible | Next 12 months | Next 13-36 months | Next 37 -60 months |
|---|--|---|---|--------------------|
| <p>1. Draft amendments to the Accountants Act to achieve the following objectives:</p> <ul style="list-style-type: none"> • To develop a strong professional accountancy body in The Gambia in line with best practice recommended by IFAC • To develop an independent audit quality assurance review arrangement • To put in place arrangements for issuance and implementation of internationally comparable accounting and auditing standards | <p>Ministry of Finance</p> <p>National Steering Committee</p> <p>GAA</p> |  | | |
| <p>2. Develop GICA (current GAA) to operate as a strong professional accountancy body</p> <ul style="list-style-type: none"> - Establish twinning arrangement with a strong professional accountancy body and use their assistance for efficient and effective functioning of GICA - Launch an internationally comparable professional accountancy qualification and accounting technician program in The Gambia - Put in place arrangements to issue applicable accounting standards and implementation guidance to ensure compliance with IFRS for public interest entities and simplified financial reporting requirements for SMEs. - Put in place arrangements to issue applicable auditing standards and implementation guidance to ensure compliance with ISA - Develop capacity GICA to apply for membership of IFAC and to comply with the IFAC’s Statements of Membership Obligations (SMOs) - Take necessary steps with the help of twinning partner to obtain membership of IFAC - Provide technical assistance to the small and medium-sized audit practices to | <p>GAA</p> | |  | |

| | | | | |
|---|---------------------|--|--|---|
| <p>improve the quality of audit</p> <ul style="list-style-type: none"> - Implement CPD programs and improve practical training arrangement - Put in place arrangements for quality assurance and disciplinary activities at GICA - Put in place a mechanism for mutual recognition arrangement with other professional bodies | | | | |
| <p>3. Take steps for setting up an independent audit oversight board and start independent audit quality assurance review activities</p> | Ministry of Finance | | |  |
| <p>4. Strengthen capacities of higher educational institutions to improve the quality of accountancy education in the country</p> <ul style="list-style-type: none"> - Curriculum should be relevant to country circumstances, and should incorporate international components | GAA | | |  |
| <p>5. Training</p> <ul style="list-style-type: none"> - Design and develop training programs focusing on practical application of IFRS and IFRS for SMEs, ISA and make arrangements for multiple deliveries of these programs to develop a critical mass of trained specialists in the country | GAA | | |  |
| <p>6. Strengthen capacities of the following regulators to enable them to handle with efficiency and effectiveness the issues relating to accounting and auditing:</p> <ul style="list-style-type: none"> - Bank supervision - Supervision of NBFIs - Insurance regulator - Revenue Authority - Registrar of Companies | CBG | | |  |