

# **REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) GHANA**

## **ACCOUNTING AND AUDITING**

**June 19, 2004**

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### **EXECUTIVE SUMMARY**

This report provides an assessment of accounting and auditing practices within the context of the Ghana institutional framework to ensure the quality of corporate financial reporting.

The accounting and auditing practices in Ghana suffer from institutional weaknesses in regulation, compliance, and enforcement of standards and rules. Various weaknesses were identified in the laws and regulations governing financial reporting. Although Ghana Accounting and Auditing Standards have been based on International Accounting Standards and International Standards on Auditing, respectively, they are outdated and gaps exist in comparison with the international equivalents. Furthermore, national ethical requirements for auditors are not in line with international requirements. Full compliance with Ghana National Accounting Standards is not readily achieved; some listed companies inappropriately claim compliance with International Accounting Standards. There is inadequate adherence to auditing standards and professional ethics. Apart from the banking sector practice, monitoring and enforcement mechanisms are ineffective. These factors, as well as poor quality accounting education and training, have contributed to weaknesses of the financial reporting and auditing regime.

The policy recommendations provided in this report focus on improving statutory framework, strengthening enforcement mechanisms, upgrading professional education and training, and enhancing capacity of regulatory and professional bodies. A major recommendation is that an independent oversight body—Financial Reporting Council—should be established. This is in line with the global trend towards accountancy bodies being more open in their governance and regulatory processes and for more independent oversight or regulation in areas of public interest. The Financial Reporting Council will be responsible for adoption, monitoring, and enforcement of IAS-based and ISA-based financial reporting by public interest entities. In addition, a simplified financial reporting framework for small- and medium-size enterprises need to be developed.

Country stakeholders and World Bank staff look forward in working together with the Government Of Ghana to develop a country action plan to strengthening Ghana's corporate financial reporting regime.

## PREFACE

This assessment of accounting and auditing practices in Ghana is part of a joint initiative of the World Bank and the International Monetary Fund (IMF) to prepare Reports on the Observance of Standards and Codes (ROSCs).. An overview of the ROSC-Accounting and Auditing program, and a detailed presentation of the methodology are available at [http://www.worldbank.org/ifa/rosc\\_aa.html](http://www.worldbank.org/ifa/rosc_aa.html)

The World Bank has developed a diagnostic tool to support the gathering of relevant information for preparing the Accounting and Auditing ROSC. The review entails an evaluation exercise that (a) assesses the strengths and weaknesses of existing institutional frameworks that underpin financial accounting and auditing practices; (b) determines the comparability of national accounting and auditing standards with internationally recognized standards (International Accounting Standards (IAS)<sup>1</sup> and International Standards on Auditing (ISA)); (c) examines the degree of compliance with national accounting and auditing standards and (d) evaluates the effectiveness of enforcement mechanisms for ensuring compliance with existing national standards, rules, and regulations. A lack of effective and efficient mechanisms to ensure compliance with established accounting and auditing standards contributes to a weak financial reporting environment.

The information gathered with the diagnostic tool is supplemented with a due diligence exercise. All collected information is compiled in a report of factual findings and policy recommendations that can guide the development of a country action plan. The final draft report is submitted to the country authorities for comment, approval and permission to publish. Once agreed, these reports are published on the web site of the World Bank.

This report was prepared by a team from the World Bank during February–April 2004. The team comprised M. Zubaidur Rahman (OPCFM), Gert van der Linde (AFTFM) and Frederick Yankey (AFTFM). The review was conducted through a participatory process involving various stakeholders, including the Securities and Exchange Commission, Ghana Stock Exchange, Registrar of Banks, National Insurance Commission, Databank, Institute of Chartered Accountants of Ghana, as well as a number of partners of auditing firms.<sup>2</sup>

Country stakeholders and World Bank staff look forward in working together with the Government Of Ghana to develop a country action plan to strengthening Ghana's corporate financial reporting regime.

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

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<sup>1</sup> Within this questionnaire, International Accounting Standards refer to both International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the Standards issued by the Board of the International Accounting Standards Committee.

<sup>2</sup> Auditing firms included PriceWaterhouseCoopers, Deloittes, Adom Boafo & Associates.

## I. INTRODUCTION

1. Ghana, a medium-sized country on the west coast of Africa, has a population of 20.64 million and land area of 238,533 square kilometers. The gross domestic product (GDP) per capita is low (US\$345),<sup>3</sup> the average life expectancy is 60 years and the literacy rate is 74 percent. Inflation is high at 29.9 percent at the end of February 2004 (compared to 23.6 percent at the end of 2003).

2. The Ghanaian economy has traditionally depended on primary production and exports. Gold, cocoa, and timber still account for the bulk of total merchandise exports. The agricultural sector remains the dominant sector, employing some two-thirds of the labor force and accounting for nearly half of the total GDP. There are 26 companies listed on the Ghana Stock Exchange with a market capitalization of US\$1.951 billion,<sup>4</sup> There are 19 major banks and 117 rural banks operating in the banking system, with banking assets totaling US\$2.679 billion.<sup>5</sup> There are 20 insurance and re-insurance companies and total earned insurance premiums of US\$65.9 million.<sup>6</sup>

## II. INSTITUTIONAL FRAMEWORK

### A. Statutory Framework

3. **The Companies Code provides basic requirements for accounting and reporting applicable to all private and public companies in Ghana.** The Companies Code provides the requirements for preparation and publication of financial statements, disclosures, and auditing, among other provisions. The Companies Code, Act 179 (1963), has not been significantly amended since its promulgation over 41 years ago. The formats for presentation of financial statements and requirements on disclosures prescribed in the Act need updating or removing.<sup>7</sup> The Code does not deal with preparing financial statements in accordance with prescribed standards (such as IAS or Ghana National Accounting Standards). Moreover, some accounting requirements prescribed by the Code are incompatible with International Accounting Standards.<sup>8</sup> As the Code is currently under review, an opportunity exists to review financial reporting and auditing requirements.

4. **The Securities and Exchange Commission Ghana (SECG) and the Ghana Stock Exchange (GSE) regulate financial reporting practices of listed companies.** The SECG regulates entities whose shares or debt are publicly traded under the Securities and Exchange Commission Regulations (2003) and the Securities Industry Law (1993). The GSE regulates listed entities under the Stock Exchange Act (1971) and the Listing Regulations (1990). Listed companies are required to comply with SECG financial

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<sup>3</sup> US\$ values based on rate applicable at December 31, 2003 [Ghanaian Cedis (¢) 9.200 = US\$1].

<sup>4</sup> ¢ value based on market cap at March 2004.

<sup>5</sup> ¢ value as of December 2002.

<sup>6</sup> ¢ value as of November 2003.

<sup>7</sup> For example, the Code does not mention preparation of a cash flow statement or statement of changes in equity as part of the financial statements; reference is made to a profit and loss account instead of an income statement.

<sup>8</sup> For example, contrary to IAS, the Companies Code requires disclosure of certain transactions in a capital surplus account and income surplus account; and concerning consolidated financial statements, the Code allows consolidation adjustments, as the directors consider appropriate.

reporting requirements, despite inconsistencies with the requirements of the Companies Code and the Listing Regulations. The Listings Regulations give no requirements on which standards to follow in the preparation and audit of annual financial statements, which the Listings Regulations require to be published within six months of year-end. The SECG requires companies to submit audited financial statements in accordance with the Ghana National Accounting Standards within 3 months of the year-end.<sup>9</sup>

5. **The Bank of Ghana regulates financial reporting by banks under the Banking Law (1989).** The accounting and auditing requirements set by the Banking Law are additional to the requirements set by Companies Code (1963) and SECG and Listings Regulations. Banks must submit audited financial statements to the Bank of Ghana within three months of year-end and publish results in newspapers. In addition to other legal requirements, banks are required to comply with the Manual of Accounting for Banks, and bank auditors are required to comply with the Manual on Auditing of Banks for External Auditors. Both manuals, issued by the Bank of Ghana in 1989, are outdated but under current revision.

6. **The Bank of Ghana regulates financial reporting by non-banking financial institutions under the Financial Institutions (Non-Banking) Law (1993).** This Law requires quarterly and annual financial reporting to the Bank of Ghana; a copy of the audited annual financial statements must be filed with the Bank of Ghana. There is no reference to the standards to be applied in preparation of these financial statements.

7. **The National Insurance Commission regulates the financial reporting practices of insurance companies under the Insurance Law (1989).** Financial statements of insurers must comply with requirements of the Insurance Law, which is outdated.<sup>10</sup> While the applicable accounting standards are not specified, financial statements are to be submitted to the National Insurance Commission within 6 months from year-end. Now being drafted, new legislation is expected to improve financial reporting and auditing requirements, as well as defining sanctions for noncompliance.

8. **The Unit Trust and Mutual Funds Regulations (2001) regulate financial reporting of unit trusts and mutual funds.** Under the Unit Trust and Mutual Funds Regulations, the format for financial statements is prescribed, and compliance with generally accepted accounting practice and generally accepted auditing standards are required. In the absence of an authoritative clarification of what is meant by “generally accepted,” different preparers and auditors of financial statements use their own judgment in deciding the applicable standards.

9. **State-owned enterprises lack a single statutory accountability regime that covers accounting, auditing, preparing financial statements, and other basic reporting requirements.**<sup>11</sup> There are four broad types of public sector enterprises: (a) government is sole owner (100 percent), (b) government maintains controlling interest

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<sup>9</sup> The Listings Regulations are due for a major revision later in 2004 to align inter alia with SECG requirements.

<sup>10</sup> Disclosure rules prescribed by the Act are not consistent with IAS (e.g. no statement of changes in equity). Furthermore, the Act specifies that insurance companies should submit to the National Insurance Commission certain statements (e.g. no requirement to submit cash flow statement), and the auditor is required to report on certain statements, as opposed to a complete set of financial statements. The practical understanding is however that a complete set of audited financial statements must be submitted and that is how it is done in practice.

<sup>11</sup> Also refer to “Republic of Ghana, Country Financial Accountability Assessment (CFAA), March 2004, Draft 2.2.”

(between 50 and 100 percent), (c) government enters joint venture (shared control), and (d) government is minority shareholder. The State Enterprises Commission monitors those solely owned, except for financial institutions (banks, insurance companies, etc.) with their own regulators mentioned above. To perform audits of state-owned enterprises, the Auditor General assigns external auditors from either private independent firms or the State Audit Corporation, which often perform audits jointly with private sector firms.

**10. The provisions of the Companies Code on appointment and termination of auditors appear adequate; however, they do not always effectively protect the shareholders.** In practice, directors are in control of the appointment and termination of auditors. This practice has an inherent conflict of interest since the auditor's true client is the shareholder with whom the auditor normally has no direct contact. Some auditors have complained that they find it difficult to comply with professional standards due to pressure exerted by directors who hire and fire at their discretion. In addition, unregistered auditors are performing some company audits creating an environment conducive to noncompliance with audit standards. The appropriateness of legal provisions should be reviewed, and further legal requirements should be introduced for appointing an auditor annually at the annual general meeting. The Registrar-General of Companies should be vigilant in monitoring that audits are conducted by licensed auditors, and that sanctions are enforced and effectively deterrent. An updated list of licensed auditors should be readily available electronically on a website for easy verification.<sup>12</sup>

**11. Not all regulators have a statutorily mandated role in the appointment and termination of auditors in regulated industries.**<sup>13</sup> In terms of the Banking Law and the Financial Institutions (Non-Banking) Law, the Bank of Ghana is empowered to approve the termination of auditors of banks and non-banking financial institutions. It has no legal mandate in the appointment of an auditor, but it has the right to revoke his or her appointment. The Securities and Exchange Commission has no specific requirement for involvement in appointing or terminating auditors. Under the Securities Industry Law (1993), the Securities Regulatory Commission is notified of the appointment of an auditor of securities dealers and gives consent to the termination of auditors. No legal provisions exist for regulator's involvement in appointment and termination of auditors of unit trusts and mutual funds. The National Insurance Commission maintains a list—in need of update—of approved auditors from which this sector's auditors must be appointed. However, the National Insurance Commission has no statutory mandate in terminating the appointment of external auditors of regulated entities. There are no provisions in the Companies Code and other laws and regulations on joint audits or rotation of auditors, apart from the Manual of Auditing for External Auditors issued by the Banking Supervision Department of the Bank of Ghana, where a case was made *against* joint audits based on the difficulty to vest responsibility and duplication of work.

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<sup>12</sup> Currently the ICAG makes available a hard copy of members registered as practicing auditors to Inland Revenue Services and others.

<sup>13</sup> Approval of the appointment and termination of auditors by regulators in regulated industries may be valuable in providing assurance regarding the capacity and independence of the auditor, and in the case of termination, to ensure that they are not removed for frivolous reasons.

## B. The Profession

12. **The Institute of Chartered Accountants of Ghana (ICAG) is the sole regulator of the accountancy profession.** Established by the Chartered Accountants Act (1963), the Institute of Chartered Accountants of Ghana is a self-regulatory body governed by a Council of 11 chartered accountants, of which 4 are appointed by the Minister of Education,<sup>12</sup> whilst the members of ICAG elect the remainder. A president is elected by Council members to a 2-year term. The ICAG acts as both an examining body for awarding chartered accountant certification and the licensing authority for members engaged in public auditing practice. Its members are recognized under the Companies Code as sole auditors of company accounts. The ICAG is a member of the International Federation of Accountants (IFAC) and the Association of Accountancy Bodies in West Africa (ABWA).<sup>13</sup>

13. **The capacity of ICAG needs strengthening to adequately function as an effective professional accountancy body.** The financial resources of the ICAG secretariat appear to be limited, contributing to operational difficulties, such as establishing a reliable electronic database. Its Disciplinary Committee is not proactive with respect to disciplining errant public practitioners. Moreover, ICAG has inadequate capacity to ensure that its members comply with existing standards or be kept abreast of international developments in the profession.

14. **There is a shortage of qualified accounting professionals in Ghana, but fierce competition between audit firms exist.** As at April 2004, ICAG membership stood at 1,089, with less than 4 percent female members, and only 109 members in public practice. Based on December 2002 statistics, professionals with foreign accountancy qualifications held 48 percent of the total membership. As of December 2003, there were over 124,000 registered companies in Ghana.<sup>15</sup> There are no current formal statistics on the demand for qualified chartered accountants, but ICAG estimates about 6,000 qualified chartered accountants are needed for Ghana's economy.<sup>14</sup> As a result of the shortage, many companies employ nonqualified persons in accounting positions, which affects the quality of financial reporting. In spite of the shortage of qualified auditors, fierce competition exists in the audit market. Due to cut-throat price competition among the audit firms, the audit service providers tend to cut corners resulting in deteriorating quality of audit.

15. **The larger firms audit most of the listed companies in Ghana.** Of the 25 companies listed on the Ghana Stock Exchange, the Big 4 international accounting firm networks audit 72 percent.

16. **The Ghanaian professional accountants' Code of Professional Conduct needs updating.** All ICAG members are expected to follow the ICAG's Code of Professional Conduct though no obvious legal requirement or guidance exists for its mandatory

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<sup>12</sup> Appointments are made on recommendation of ICAG, such members must also be chartered accountants.

<sup>13</sup> The ABWA is a sub regional grouping of accountancy bodies made up of professional accountants from Benin, Cameroon, Ghana, La Cote d'Ivoire, Nigeria, Niger Republic, Sierra Leone, Senegal, The Gambia, and Togo.

<sup>15</sup> Company types include 109,300 limited, 12,692 guarantee, 1,297 subsidiary, and 899 foreign.

<sup>14</sup> The estimate was based on the number of companies registered in Ghana, however statistics on the number of inactive companies were not considered. A more formal study, also taking into account the accounting needs of the smaller companies, may be helpful.

application in Ghana. Issued in 1993, the ICAG's Code was based on an abridged version of the IFAC Code of Ethics for Professional Accountants. The IFAC Code has been revised several times since 1993. To bring it in line with IFAC, the ICAG Code needs updating in areas like auditor's independence.<sup>15</sup> Other areas needing review are application of principles to specific situations, professional competence and responsibilities regarding the use of non-accountants, and activities incompatible with the practice of public accountancy.

17. **Ghana has not yet experienced significant litigation against auditors.** There are no reported cases of litigation against auditors and audit firms. Professional indemnity insurance is not compulsory, however ICAG recommends that audit practitioners take out such insurance. Partners in firms are jointly and severally liable under common law principles.

### C. Professional Education and Training

18. **A registered auditor must have acquired appropriate higher education, obtained practical experience, and passed the ICAG examination (with rare exceptions of certain foreign members) to obtain a license to practice.** There are differing practical experience requirements—to register as a chartered accountant, two years as an accountant; and to obtain certificate of practicing auditor, four years in an audit environment. Practicing certificates have to be renewed annually and are dependant on payment of membership fees. Regarding foreign members, the 11 ABWA members recognize each other country's accountancy qualifications, and members of other organizations—ACCA, AICPA, ICAEW, ICAS, and CIMA—are eligible for ICAG membership with 2 years (1 year pre- and 1 year post-qualification) experience. These organizations have been approved as being of equivalent status, and require no further examination<sup>16</sup>, apart from CIMA members which has an additional requirement to pass examinations in Auditing and Taxation.

19. **Professional education and training is not adequate.** Although ICAG's main entry requirement to the profession is in line with IFAC requirements, in practice lower entry requirements are accepted. The ICAG-prescribed curriculum for educating and training of professional accountants is over a decade old. A proposed revised curriculum would become effective May 2005, however, it will still not fully meet the IFAC International Education Standards.<sup>17</sup> Pre-qualification accounting courses do not include practical application of national or international accounting and auditing standards. Many accounting educators lack the experience and adequate knowledge to teach either the theoretical or practical aspects of IAS and ISA. The IAS and ISA learning materials are

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<sup>15</sup> The existing independence rules are clearly breached. The same auditor is allowed to prepare and audit the financial statements since most company directors lack accounting and auditing knowledge, skills, and experience. The Ghana Code does not adopt a conceptual approach to independence; threats to independence (in terms of self interest, self review, advocacy, familiarity, and intimidation) are missing. And safeguards capable of eliminating these threats or reducing them to an acceptable level are not stated as under the IFAC Code.

<sup>16</sup> In effect this is a contravention of section 4 (b) of the Chartered Accountants Act, which requires the passing of the qualifying examinations to be eligible for membership.

<sup>17</sup> IFAC's International Education Standard (IES) 2 requires the following components to be taught separately: corporate governance, organizational and business knowledge, and quantitative methods, which is not the case in the revised ICAG curriculum. It is unclear how professional skills required by IFAC's IES 3 would be acquired (intellectual, personal, interpersonal and communication, organizational and business management skills).

very expensive and not easily available. The outdated curriculum and lack of appropriate learning materials leaves students without a background in applicable modern accounting and auditing standards. The capacity and resource constraints at higher educational institutions (including lack of skilled instruction and availability of materials) contribute to very low passing rates within the current inadequate educational arrangements. The ICAG is proposing to establish a chartered accountancy college to improve the weak state of accountancy education in Ghana. Experience in other countries shows that improving accountancy education in colleges and universities would be more beneficial than creation of a separate chartered accountancy college.

20. **Educational institutions in Ghana do not teach professional values and ethics as separate subjects in pre-qualification educational programs.** This is a specific requirement of IFAC IES 4, but is largely ignored in Ghana (although the code of conduct is included in the examinations). Professional accountants lack awareness of the ethical dimensions and conflicts in their work, and there is a perception in Ghana that professional accountants do not comply with the Ghana professional Code of Conduct.

21. **Monitoring and control of the practical experience requirement is inadequate in Ghana.** Practical experience leading to qualification as a professional accountant should be conducted under an approved practical training provider. The ICAG should ensure the acceptability of practical experience undertaken by candidates. In practice, the ICAG does not have the resources to monitor the quality of practical training provided by practical training providers. Although the ICAG Admissions Committee assesses the suitability of the practical experience by prospective licensed auditors, in practice the assessment is one-time screening process based on reporting by two referees selected by the applicant.

22. **The ICAG requires, but does not enforce effectively, that members obtain 35 hours of credits per annum for continued professional education.** No guidance is provided on the scope of structured and unstructured learning activities. Continued professional education (CPE) programs are available but do not keep members updated with developments in accounting and auditing. Limited financial resources restrict participation of small firms in CPE programs. The ICAG monitors compliance with CPE requirement at the time of license renewal by the statutory auditor; but no effective sanctions are enforced if there is noncompliance with CPE requirements.

23. **Students are attracted to the accountancy profession, but very few enter the public practice of auditing.** Students are attracted to the accountancy profession mainly because of employment opportunities, despite the profession's poor image from inadequate quality of professional training and the uncompetitive reward and remuneration structure.

#### **D. Setting Accounting and Auditing Standards**

24. **The ICAG issues Ghana National Accounting Standards (GAS).** Despite no clear legal mandate to set national accounting standards, the ICAG issued Ghana National Accounting Standards in the late 1990s, some of which became effective in 1997 and others in 1999. These national standards were based on International Accounting Standards effective in mid- 1990s.

25. **The ICAG issues Ghana National Standards on Auditing (NSA).** The Chartered Accountants Act (1963), Act 170, mandated that ICAG set auditing standards. The ICAG issued the Ghana National Standards on Auditing, which became effective in 2001. The national standards were based on International Standards on Auditing.

26. **Both Ghana National Accounting Standards and the Ghana National Standards on Auditing are outdated.** It was expected that compliance with national auditing and accounting standards would ensure compliance in all material respects with IAS and ISA, respectively. However, there are several gaps between the national standards and the international standards. The ICAG has not made any efforts to review and update the national standards. The ICAG also lacks technical skills for the task.

#### **E. Ensuring Compliance with Accounting and Auditing Standards**

27. **No effective mechanism exists to enforce requirements for accounting and financial reporting provided in the Companies Code.** The Registrar-General has legal authority to enforce provisions of the Companies Code. Legal sanctions are available. The Registrar-General also has legal authority to provide exemptions from compliance with the Companies Code. The Registrar-General has no technical and logistical capacity to review financial statements with which to identify accounting and auditing violations. There is no rigorous enforcement of timely filing of returns and annual financial statements, and the financial statements of non-listed public and private companies are not readily available.

28. **To a limited extent the Securities and Exchange Commission monitors compliance with financial reporting requirements but is not yet effective in enforcing actions against violators.** The Securities and Exchange Commission is responsible for monitoring and enforcing financial reporting requirements of companies whose equity or debt securities are publicly traded. The Market Surveillance Department monitors and reports violations to the Legal and Enforcement Department. The monitoring capacity of the Market Surveillance Department with regard to accounting and financial reporting appears to be inadequate. The Legal and Enforcement Department has not yet applied effective administrative sanctions and made arrangements for civil penalties against errant preparers and auditors of financial statements.<sup>18</sup>

29. **The Ghana Stock Exchange monitors timely submission of financial statements and compliance with disclosure requirements; however, enforcement is weak.** The Ghana Stock Exchange (GSE) has authority to monitor and enforce disclosure requirements by listed companies; GSE's Listing Department is responsible but lacks capacity to effectively monitor. Available sanctions for noncompliance include written warning letters and suspension of a listing; no monetary penalties have been legislated. No company has yet been suspended for a violation.

30. **The Bank of Ghana monitors compliance and enforces sanctions with respect to financial reporting requirements related to banks, and to some extent non-banking financial institutions.** The Bank of Ghana (Banking Supervision Department and Non-Bank Financial Institution Office) is responsible for monitoring the prudential

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<sup>18</sup> The enabling regulations for imposing sanctions became effective in June 2003

regulation of the banks and non-banking financial institutions, as well ensuring that the general-purpose financial statements are prepared in accordance with applicable rules, regulations, and standards. The Banking Supervision Department has adequate capacity, but the Non-Bank Financial Institution Office lacks capacity to fulfill this responsibility for their respective areas.<sup>19</sup> The Banking Supervision Department monitors banks through regular on-site inspection and off-site supervision. The Department generally has a good relationship with external auditors. All external auditors are required to annually provide a long form audit report to the Registrar-General, which has extensive sanctions available to impose on banks—fines, revocation of license (in extreme cases), variations in the terms and conditions of licensing, as well as civil and criminal penalties. There are inadequate legislative sanctions available with respect to non-banking financial institutions (e.g., no penalties for late submission).

**31. The National Insurance Commission monitors compliance with financial reporting requirements of insurance companies to some extent, but it lacks effective sanctions to enforce compliance.** Capacity at the National Insurance Commission to monitor financial reporting by insurers seems moderate, though an in-house actuary and additional part-time accountants and lawyers are needed. The Inspectorate Department at the National Insurance Commission performs off-site supervision of annual returns and financial statements of insurers, however there are no effective legislative sanctions available for noncompliance. In the late 1990s, five insurance companies had licenses withheld (due to inadequate financial reporting) and were subsequently closed down. New legislation being drafted proposes improved timely sanctions for noncompliance, and defined procedures for whistle blowing by external auditors.

**32. No effective and efficient institutional arrangement exists to ensure compliance with auditing standards and the professional code of ethics.** Although the ICAG has been discussing for some time the possibility of introducing quality assurance mechanisms to review the auditing practices, plans to establish a Peer Review Unit by July 2003 did not happen. In the past 10 years, ICAG has suspended only one member on disciplinary grounds, and the member was subsequently reinstated upon appeal to a High Court.

### **III. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED**

**33. The legal requirements on accounting and reporting by companies, banks, and insurance companies are not consistent with International Accounting Standards.** As mentioned earlier, the accounting requirements set by Companies Code, banking and insurance regulators, and the securities market regulator are not fully in conformity with the IAS requirements. However in practice the Securities and Exchange Commission allows preparation of financial statements in accordance with International Accounting Standards. Banks are required to comply with the Manual of Accounting for Banks<sup>20</sup> and circulars. Banks were instructed by Circular in 2002 (and again in 2003) to comply with International Accounting Standards in addition to compliance with the

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<sup>19</sup> In Ghana there are 19 major banks and 117 rural banks.

<sup>20</sup> The Accounting Manual is outdated and does not contain accurate references to IAS. For example, reference is made to a profit and loss account instead of an income statement, no reference is made to cash flow statement or statement of changes in equity. The manual is in the process of being revised.

Manual of Accounting. Accounting and disclosure requirements set by Insurance Law contradict in many respects with IAS requirements.

34. **The Ghana National Accounting Standards (GAS) are outdated and differ significantly with International Accounting Standards.** The ICAG has not updated any national standards since originally adapted from international standards. There are 28 GAS. The international equivalent of certain GAS statements have been withdrawn,<sup>21</sup> and 10 active international standards have not been reflected in Ghana National Accounting Standards.<sup>21</sup> The absence of a national standard based on IAS 41, *Agriculture*, is significant in agriculture-dominant Ghana. Furthermore, over the past years, extensive revisions have been made to the International Accounting Standards that are not reflected in GAS. Furthermore, the accounting standard setters in Ghana have not issued any equivalent Standard Interpretations Committee (SIC) interpretations issued by the IASB.

35. **Selected differences between national and international standards follow:**

- **Framework for the preparation of financial statements.** Several sections of the IASB framework are omitted in Ghana's national accounting framework.
- **Statement of changes in equity.** This is not required under the Ghana standard, rather the Companies Code requires disclosure of the capital surplus account and income surplus account, which would contain some of items to be included in the statement of changes in equity.
- **Changes in accounting policies.** GAS requires that the effect of certain changes in accounting policies should be included in the extraordinary items in the current period. The IAS requires these adjustments in opening balance of retained earnings (benchmark treatment).
- **Minority interest.** The Ghana standard omits the IAS disclosure of minority interest on face of income statement.
- **Deferred income tax.** The international standard requires recognition of deferred tax assets and liabilities for all temporary differences. In contrast, the Ghana standard requires deferred tax assets and liabilities to be created only for timing differences relating to depreciation.
- **Segment reporting.** There is no requirement in GAS, as in IAS, to identify reportable segments (business segments and geographical segments) or to disclose detailed information about the reportable segment revenue, expense, results, assets, liabilities, etc.
- **Borrowing costs.** Disclosures are omitted from the Ghana standard regarding the accounting policy adopted for borrowing costs and the capitalization rate.

36. **There is no published implementation guidance.** No organization in Ghana, including ICAG, issues implementation guidelines on either the Ghana National

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<sup>21</sup> The international equivalent of GAS 13, *Accounting for Research And Development Activities*, and GAS 16, *Accounting For Retirement Benefit Costs*, have been withdrawn.

<sup>21</sup> There are no equivalent Ghana National Accounting Standards for these international standards: IAS 19, *Employee Benefits*; IAS 32, *Financial Instruments: Disclosure And Presentation*; IAS 33, *Earnings Per Share*; IAS 34, *Interim Financial Reporting*; IAS 35, *Discontinuing Operations*; IAS 36, *Impairment of Assets*; IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*; IAS 38, *Intangible Assets*; IAS 39, *Financial Instruments: Recognition And Measurement*; and IAS 41, *Agriculture*.

Accounting Standards or the International Accounting Standards. Without guidelines, these standards are applied inconsistently. The lack of detailed knowledge about international standards and the absence of implementation guidelines often give rise to misunderstandings in implementing national standards.

37. **There are significant compliance gaps.** “Compliance gaps” refer to the differences between applicable accounting standard and actual practice. The review of published financial statements, conducted by the ROSC team for this assessment, revealed serious compliance gaps. The review involved an examination of 27 sets of financial statements (25 listed companies and 2 unlisted companies, including 6 banks and 1 insurance company), as well as interviews with experienced corporate accountants, practicing auditors, members of professional bodies, and regulators. The financial statements of some sampled companies do not indicate which accounting standards were used. In general, actual accounting and disclosure practices in Ghana do not meet many of the applicable requirements. Selected compliance gaps are presented below.

38. **Compliance gap with respect to Ghana National Accounting Standards.**

- ***Outdated terminology and practices.*** The financial statements of nearly all listed companies use outdated terminology. Many companies did not appropriately separate items between current and non-current in balance sheet presentation. In four cases the format of cash flow statements did not comply with format prescribed by Ghana National Accounting Standards.
- ***Accounting policies.*** Accounting policy disclosures were missing or exceedingly inadequate. These include effects of changes in foreign exchange rates and translation of financial statements of foreign subsidiaries, related parties, and consolidation.
- ***Consolidated financial statements.*** In three sample companies, subsidiaries were not consolidated for reasons not permitted under national accounting standards. In most cases, some required disclosures in consolidated financial statements were not provided.<sup>22</sup>
- ***Related party disclosures.*** Although required, many companies do not disclose information on related party relationships, and some companies that reported related party transactions failed to provide required detailed information (pricing policies, volume of transactions, nature of relationship, and outstanding items).
- ***Taxation.*** Seven sampled companies did not include deferred tax at all in their financial statements, and only a few companies provided information relating to deferred tax assets.
- ***Segment reporting.*** Only two companies complied with the segment reporting requirements of Ghana accounting standards, but even then no reconciliation to main statements were provided.
- ***Cash flow statement.*** It was not possible to determine the reasonableness for inclusion of some short-term investments in cash equivalents. Two sampled banks did not disclose cash flows arising from taxes paid separately.

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<sup>22</sup> Such as a listing of significant subsidiaries including the name, country of incorporation or residence, proportion of ownership interest, and if different, proportion of voting power.

- **Property, plant and equipment.** Although there were indications that a large number of sampled companies had mid-term and long-term borrowings from banks, nearly all the companies did not provide information on restricted assets that were pledged as security for borrowing.
- **Set off.** Some companies showed net interest on the face of the income statement, instead of separately disclosing interest paid and earned as required by Ghana accounting standards. Another company only showed net foreign exchange losses.
- **Prior year adjustments.** In three instances, material prior year adjustments were disclosed without providing any further detail.
- **Unusual items.** The Ghana accounting standard allows unusual items to be separately disclosed on the face of the income statement. Many companies included the mandatory National Reconstruction levy in this category, while others showed it as a tax.

**Additional disclosure by banks.** Contrary to the requirement of Ghana National Accounting Standards, most banks did not disclose (a) movements of the provisions for losses on loans and advances during the period, (b) the aggregate amounts of the provision for losses on loans and advances at the balance sheet date, (c) the aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued, (d) information on the amounts set aside for general banking risks, (e) the aggregate amount of secured liabilities, and (f) the nature and carrying amount of the assets pledged as security. In addition, the bank that claimed IAS compliance did not disclose the following which were also GAS requirements: an analysis of assets and liabilities into relevant maturity groupings, significant concentration in the distribution of assets, liabilities, and off-balance sheet items, and amount of significant net foreign currency exposure. In general, banks (including the bank that claimed IAS compliance) did not disclose the fair values of each class of financial assets and liabilities, or the extent of significant trust activities, as these IAS requirements are omitted from the GAS equivalent.

39. **Compliance gap with respect to International Accounting Standards.** Four sampled companies claimed compliance with International Accounting Standards. Such a claim, according to IAS No. 1, denotes full compliance with all requirements of IAS/IFRS and related interpretations. Many cases of noncompliance were identified in these financial statements. Selected examples of noncompliance are presented below.

- **General.** None of the four companies addressed the IAS requirements on impairment of assets, financial instruments, or employee benefits; nor did they address segment reporting, related parties, and earnings per share. In addition, all four companies used outdated terminology, two companies did not account for deferred tax at all and incorrectly presented unusual items.
- **Components of financial statements.** Three of the companies' financial statements did not include a statement of changes in equity.
- **Cash flow statement.** One company's cash flow statement was not at all in accordance with IAS format.
- **Discontinuing operation.** One company inappropriately defined a discontinuing operation as an extraordinary item in the accounting policy, and

the profit of the dissolution of a subsidiary was not recognized in the income statement. Both the accounting policy and the accounting treatment conflict with expressed prohibition in International Accounting Standards.

- **Prior year adjustments.** Two companies had inadequate and inappropriate disclosures with regard to prior year adjustments.
- **Accounting policies.** In some instances, accounting policy disclosures were missing. These include consolidated financial statements; property, plant and equipment; employee benefits costs; intangible assets; and impairment of assets.
- **Effects of changes in foreign exchange rates.** Three companies did not disclose separately the exchange differences recognized as income or as expense.
- **Property, Plant, and Equipment:** Companies that revalued property, plant, and equipment, failed to follow all the requirements of IAS.

40. **Restatement of financial statements at measuring unit current at reporting date.** If the rising inflation trend continues in Ghana, there will be an urgent need to consider the application of GAS 26 (equivalent of IAS 29, *Financial Reporting in Hyperinflationary Economies*), which will have a major effect on Ghanaian financial statements.

41. **The role of financial statements in tax collection is minimal.** Different sets of financial statements are submitted to Inland Revenue and credit institutions, if submitted at all.<sup>23</sup> An estimated 80 percent of companies are small, family-owned or owner-managed companies, where the income taxes are generally not based on financial statements.<sup>24</sup>

#### IV. AUDITING STANDARDS AS DESIGNED AND PRACTICED

42. **The Ghana National Standards on Auditing are based on International Standards on Auditing, but many gaps exist.** The ICAG has issued several Ghana National Standards on Auditing that need updating to be in line with International Standards on Auditing.<sup>25</sup> Moreover, many international standards do not exist in Ghana.<sup>26</sup> In addition, none of the 15 International Auditing Practice Statements issued by IFAC has been adopted in Ghana. The majority of auditors of listed companies claimed

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<sup>23</sup> Also refer to Ghana CFAA 2004, Draft 2.2 where it is noted that “Factors which makes it difficult for IRS to collect revenues efficiently are the difficulty of identifying taxpayers and linking them to their sources of income; the low quality of taxpayers’ accounting information and records; the fact that sometimes during periods of high inflation which have been typical in recent years it is cheaper to defer tax payments and pay penalties which are set at less than the inflation rate, lack of the resources needed to track taxpayers and their sources of income.” *Ghana 2004 Country Financial Accountability Assessment*, draft 2.2.

<sup>24</sup> Payment of provisional tax assessments will possibly negate the need to submit financial statements, resulting in a standard tax amount being levied.

<sup>25</sup> For example ISA 240, *Auditor’s responsibility to consider fraud and error in an audit of financial statements*; and ISA 700, *Auditor’s report on financial statements*.

<sup>26</sup> The ISAs that do not have an equivalent in Ghana include: ISA 100, *Assurance Engagements*; ISA 120, *Framework for International Standards on Auditing*; ISA 260, *Communications of Audit Matters with Those Charged with Governance*; ISA 402, *Audit Considerations Relating to Entities using Service Organizations*; ISA 505, *External Confirmations*; ISA 710, *Comparatives*; and ISA 910, *Engagements to Review Financial Statements*.

that they follow International Standards on Auditing rather than Ghana National Standards on Auditing.

43. **The Auditing Manual issued by the Bank of Ghana is outdated.** The Auditing Manual contains no references to International Standards on Auditing. However, most auditors of the sampled banks claimed ISA compliance.

44. **The lack of implementation guidelines hinders application of auditing standards.** Some practicing firms and practitioners do not understand and so largely ignore Ghana National Standards on Auditing. Unless associated with the international network of accounting firms, most audit firms have no access to quality practice manuals. Lacking practice-oriented methodological guidelines, auditors generally find it difficult to handle important concepts, such as audit risks, audit planning, internal control, materiality, documentation, analytical procedures, and audit sampling.

45. **In general, actual practices diverge from auditing standards.** The ROSC team interviewed practicing auditors and senior leaders of the auditing profession and heard these observations:

- Lack of knowledge of practical application of standards and ethics code, coupled with no independent practice review mechanism, adversely affects audit quality.
- Clients' unwillingness to pay adequate fees and fierce competition between audit firms lower quality of work, which often leads to breach of the code of conduct.
- Audit reports do not indicate clearly which standards were followed.
- Audit opinions may not be suitably qualified due to pressure on fee income.
- Auditors seldom note any fraud, errors, or material irregularities in their reports. If financial statements require qualification(s), the auditors may alert management through the management letter rather than comply with the required standards.
- Engagement letters are not issued due to familiarity or close association with the client.
- Most audit firms do not comply fully with International Standards on Auditing on quality control, mostly from lack of skilled human resources. Furthermore, small- and medium-sized firms cannot afford implementing proper quality control arrangements.
- Auditors sometimes find it difficult to obtain audit evidence and so rely on management representations, particularly for fair values, impairment of assets, related party transactions, segment information, contingent liabilities, and going concern.
- Documentation practices fail to provide audit evidence to support audit opinion.
- Shortage of expertise in information technology (especially in medium and small firms) erodes audit quality.
- Pressure on audit fees prohibits use of experts, such as actuaries, who could give more reliable estimates of liabilities (e.g., of insurance companies).

## V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

46. **Traditionally, the investor community in Ghana does not appreciate the need for high-quality financial information, thus leaving the investment community and financial reporting weak.** Customarily investments were made in treasury bills rather than in equity shares, although this trend has changed drastically in recent times.<sup>27</sup> Interviews and discussions with various stakeholders, including investment bankers, financial analysts, and regulators revealed serious concerns about the quality of financial reporting as well as the competence of many professional auditors. Leading auditors and users of financial statements in the country told the ROSC team that corporate management in most cases demand that the external auditor should compile financial statements before performing audit procedures—many auditors meet these demands. . Assisting an audit client in matters such as preparing accounting records or financial statements may create a self-review threat<sup>28</sup> when the firm subsequently audits the financial statements.<sup>29</sup> For medium-sized and listed companies, the perception of quality of financial statements is influenced by the company’s auditor, with more reliance being placed on the affiliates of large international firm networks. There is a perception that multinational companies prepare relatively better quality financial statements. In general it is not always evident which standards were used in accounting; and published accounting policies are not always applied in preparing financial statements.

47. **Need strong enforcement mechanism.** The interviewees in general viewed that the precondition for improvements in the quality of corporate financial reporting in Ghana is the establishment of a strong regulatory regime with effective enforcement mechanisms for ensuring compliance with accounting and auditing standards and the requirements on auditor’s professional ethics.

## VI. POLICY RECOMMENDATIONS

48. While IAS and ISA are internationally the two benchmarks that the World Bank uses to assess accounting and auditing standards and practices, international regulatory standards for accounting and auditing are still evolving. Global practice in the regulation

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<sup>27</sup> The turnover in volume in March 2004 was 3.90 million shares with a value of ₵ 20,505.04 million =US\$ 2.2million. In the first four months of 2004, the all share index rose by 59 percent and market capitalization increased by 42 percent, a buoyant growth emphasizing the necessity for transparent financial reporting by listed companies.

<sup>28</sup> A “Self-Review Threat” occurs when any product or judgment of a previous assurance engagement or non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement. (IFAC Code of Ethics par. 8.30)

<sup>29</sup> If the self-review threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. In the case of listed entities, no safeguard other than the prohibition of such services, except in emergency situations and when the services fall within the statutory audit mandate, could reduce the threat created to an acceptable level.

of auditors and accountants varies from country to country.<sup>30</sup> However, the worldwide trend is towards accountancy bodies being more open in their governance and regulatory processes and for more independent oversight or regulation in areas of greater public interest.<sup>31</sup> Self-regulation cannot be seen to function in an open, responsive and accountable way unless it is subject to oversight in the public interest. In the absence of international regulatory standards for accounting and auditing, World Bank staffs draw on their own experience and international best practices in formulating policy recommendations. The policy recommendations also benefited from valuable inputs from the country stakeholders. These recommendations may serve as useful inputs for preparing and implementing a country action plan for accounting and auditing reforms in Ghana.

49. **Raise awareness of investors, directors, managers and auditors to improve the degree of compliance with financial reporting requirements by publicly traded companies.** Regulators should raise awareness among investors, directors, managers, and auditors on the importance of financial statements, importance of compliance with accounting and auditing requirements, the meaning and impact of qualifications in the audit report, as well as the responsibilities of these stakeholders. Efforts should also be made to present international developments on improving transparency of corporate financial reporting, new dimensions of regulatory regimes affecting accounting and auditing, and the role of transparent financial reporting in attracting both strategic and portfolio foreign investments. Consider introducing and publicizing prestigious annual awards in various categories for the most excellent financial statements.

50. **Improve the statutory framework of accounting and auditing.** Steps should be taken to ensure that legal and regulatory requirements on accounting, auditing, and financial reporting fully protect the public interest. This recommendation might necessitate enactment of a new Financial Reporting Act and repeal of provisions on accounting, auditing, and financial reporting for general-purpose financial statements<sup>32</sup> in the Companies Code (1963), Banking Law (1989), Insurance Law (1989), Financial Institutions (Non-Banking) Law (1993), Securities Industry Law (1993), Unit Trust and Mutual Funds Regulations (2001), and other related regulations. The new Financial Reporting Act should focus on the following legal arrangements:

- ***Fully adopt IAS/International Financial Reporting Standards (IFRS) and ISA without modifications and ensure mandatory observance of these standards.*** Develop arrangements for full adoption of IAS/IFRS and related interpretations issued by the IASB as legally enforceable standards applicable to the preparation of the legal entity and consolidated financial statements of

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<sup>30</sup> The regulatory regimes lie at different points between complete self-regulation (by the professional bodies themselves) at the one extreme to comprehensive independent regulation (in its strictest form, direct government regulation) on the other.

<sup>31</sup> Many countries already moved much of the way towards changing the balance away from self-regulation of the auditing profession. Post-Enron developments have been dramatic, governments including governments of the United States of America, the United Kingdom and the member states of the European Union, have responded to the many issues arising, including the regulation of auditors.

<sup>32</sup> General-purpose financial statements are intended to meet needs of users who cannot have reports tailored to specific information needs. These users include creditors, suppliers, the media, employees and Inland Revenue Service. Regulators such as those in the banking, insurance, and securities and exchange markets would specify additional regulatory reporting requirements.

all public interest entities,<sup>33</sup> including Government Business Enterprises.<sup>34</sup> Consider a reasonable phase-in period to allow for capacity building among preparers, auditors, regulators and users. The audit of financial statements prepared by public interest entities should be carried out in accordance with ISA and other related pronouncements issued by IFAC. Also mandate the IFAC Code of Ethics for Professional Accountants for all practicing auditors.

- ***Agree to a simplified financial reporting framework for small and medium enterprises.*** All but the smallest enterprises may be subjected to a simplified financial reporting framework.<sup>35</sup> Until finalization of the IASB project, Accounting by Small and Medium Entities and in Emerging Economies, the national accounting standard setters should agree on standards for small- and medium-size enterprises. Once the international standard is available, national standards should conform to the international standards. Reasons for any necessary derogation would need justification.

51. **Establish an independent oversight body to monitor and enforce accounting and auditing standards and codes.** The proposed Financial Reporting Act should establish a new independent oversight body, the Financial Reporting Council, accountable to a minister and the legislature. Empower the Council to monitor and enforce accounting and auditing requirements with respect to general-purpose financial statements. In order to ensure proper factual and perceived independence on the Council, there should be a mixture of professional accountants and non-accountants in the governing body of the Council. Practicing auditors should not dominate the Council. Members of the governing body may be drawn from the appropriate government ministries, SECG, Ghana Stock Exchange, Bank of Ghana, ICAG, the legal profession, and academia. All stakeholders, in particular government, should assure adequate funding for the Council. The Financial Reporting Council should focus on the following activities:

- ***Setting accounting and auditing standards.*** The Council will adopt, without modification, all IASs, ISAs, and IFAC-issued Code of Ethics for Professional Accountants. In addition, it will develop implementation guidelines on practical application of IAS/IFRS and ISA in Ghana. The Council should also be entrusted with the responsibility of prescribing accounting and auditing

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<sup>33</sup> Public interest entities may be defined by the nature of their business, their size, and their number of employees; or by their corporate status by virtue of their range of stakeholders. Examples of public interest entities might include banks, insurance companies, investment funds, pension funds, medical schemes, listed companies, and large enterprises. The large enterprises may be defined as follows: individual enterprises and groups of enterprises that meet two of the three following thresholds should be considered as public interest entities—(a) total number of employees exceeding [a number to be decided in consultation with various stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with various stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with various stakeholders].

<sup>34</sup> In accordance with International Public Sector Accounting Standards (IPSAS) issued by IFAC Public Sector Committee, Government Business Enterprises should comply with IASs. A Government Business Enterprise is defined in IPSAS to mean an entity that has all the following characteristics: (a) is an entity with the power to contract in its own name; (b) has been assigned the financial and operational authority to carry on a business; (c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery; (d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) is controlled by a public sector entity.

<sup>35</sup> The definition of micro-enterprise in the context of financial reporting will need to be developed.

requirements for small- and medium-size enterprises. A unit of the Council may be entrusted with the task of preparing and disseminating standards and related implementation guidelines.

- ***Monitoring compliance with accounting standards.*** A monitoring unit of the Council should be responsible for identifying and forwarding findings on noncompliance to the enforcement unit along with recommendations on the sanctions for infractions. Adequate legal backing will be necessary for effective monitoring activities. The monitoring unit should have experienced staff (full-time or part-time) with capacity to conduct in-depth reviews of financial statements. The policies and procedures for carrying out monitoring activities will be developed by the unit and approved by the Council's governing body.
- ***Licensing of auditors.*** The Council will maintain a register of auditors and audit firms approved to audit public interest entities. A designated unit of the Council will develop the policies and procedures for accreditation of auditors to comply with the International Educational Standards issued by IFAC and to be approved by the Council's governing body.
- ***Practice review for auditors of public interest entities, investigating complaints and assessing stakeholders' and public's interest.*** A designated monitoring and investigative unit will be responsible for carrying out practice reviews for auditors and audit firms that service public interest entities. The practice review will evaluate an audit firm's quality assurance arrangements, its audit approach, and the working papers with regard to selected audit engagements. Valid complaints against auditors and audit firms will also be investigated. In the case of material infractions, this monitoring and investigative unit will recommend appropriate actions to the enforcement unit for implementation. In addition, this unit will oversee activities undertaken by ICAG and other professional bodies to assess whether the interests of stakeholders, including the public, are being served.
- ***Enforcing sanctions for violations.*** The Council's enforcement unit will determine appropriate actions against violators of standards and codes. In addition to resorting to the national legal system, the unit should be empowered to impose administrative sanctions against management of entities, auditors, and audit firms. The enhanced administrative sanctions would facilitate enforcement without depending fully on the lengthy legal process. The administrative sanctions recommended by the enforcement unit will be discussed and approved by the Council's governing body.

52. **Enhance professional education and training.** In adopting IAS and ISA for public interest entities, copies of both sets of standards should be easily accessible. Ghana will set challenging and demanding objectives for itself, and its plans should focus on all players:

- ***Preparers.*** Corporate accountants in public interest entities should get the training to help them in the preparation of IAS-based financial statements.

- **Regulators.** Staffs of the SECG, Ghana Stock Exchange, Bank of Ghana, National Insurance Commission, and other regulators could better enforce accounting standards by receiving IAS theoretical and practical training.
- **Auditors.** Auditors of public interest entities should get the training to help them to audit the IAS-based financial statements, and to comply with International Standards on Auditing.
- **Institute of Chartered Accounts of Ghana.** Global developments in accounting and auditing must be reflected in the education and training arrangements by ICAG on a timely basis. The proposed curriculum for May 2005 and system of qualification examinations should be improved to conform to IFAC International Education Standards. Tertiary institutions should be supported to improve accountancy education, and appropriate accreditation of external education and training providers should be instituted. The ICAG needs more rigorous arrangements to regularly monitor quality of practical training provided by authorized training providers.
- **Students.** Implement centrally co-coordinated initiatives for curriculum development and better teaching practices to ensure quality standards in accounting and auditing courses in all Ghana universities and colleges. The reform of accounting curriculum and teaching methodology should increase critical thinking ability of students. An updated curriculum should include international accounting and auditing standards, extensive teaching of business ethics as a separate subject, and practical-oriented teaching at the undergraduate level. Supported by case studies, the ethical dimensions of business management, corporate finance, accounting, and auditing should be taught in undergraduate business/commerce programs. Efforts should be made to make IAS and ISA learning materials easily accessible and inexpensive to students.
- **Training providers and teachers.** To qualify as an authorized training provider, an individual should have sufficient knowledge and experience with practical aspects of all the applicable standards and codes. Upgrade skills of existing educators with train-the-trainers programs, and hire educators who can provide quality teaching of relevant subjects with international components.

53. **Continued professional education should be regularly monitored.** The ICAG requirements on continuing professional education are in line with the IFAC. However, ICAG should develop an efficient mechanism for monitoring and enforcement of such requirements. Relevant programs to update members on local and international developments should be made readily available.

54. **Improve arrangements for improving ICAG's capacity to assist practice development and quality enhancement of its members.** The ICAG should update the Ghana Code of Ethics in line with the IFAC Code. The ICAG should require firms to implement a quality control system in accordance with the IFAC's International Standard on Quality Control. And the ICAG should develop its own quality assurance system to ensure that auditors comply with applicable auditing and ethical standards and

independence requirements. The system should include performance evaluation of ICAG members with regard to compliance with applicable auditing standards and code of professional ethics.<sup>36</sup> The relationship between Financial Reporting Council as the new statutory regulator and the Institute as the self-regulatory body needs to be determined, including matters such as (a) Council accreditation of professional education and training of ICAG for the licensing of auditors; (b) alignment of the Code of Ethics applicable to auditors (based on the IFAC Code as the benchmark); (c) reliance by ICAG on the quality assurance system (peer review of auditors) conducted by the Council, (d) sequence and processes involved in taking disciplinary action.

55. **Upgrade the procedure of licensing practicing auditors.** The ICAG should ensure that professional qualifications are obtained and auditors are licensed based on the minimum requirements of IFAC International Education Standards.<sup>37</sup>

56. **Strengthen capacity of the regulatory bodies.** Take necessary steps to strengthen capacity of the regulators (including SECG, National Insurance Commission, Non-Bank Financial Institution Office, and the body for Unit Trust and Mutual Funds) for enabling them to effectively deal with accounting and financial reporting practices of the regulated entities. Also strengthen capacity of the Registrar-General to enforce timely filing of financial statements.

57. **Strengthen ICAG's capacity by establishing twinning arrangements with a developed professional accountancy body.** Through a long-term twinning arrangement, best practices of the twinning partner could be transferred to the ICAG. Possibilities of a regional joint effort through the Association of Accountancy Bodies in West Africa (ABWA)<sup>13</sup> could also be explored to increase capacity of professional bodies. In view of recent world developments in regulation and reform of the accountancy profession, ICAG governance requires restructuring and strengthening. For example, the ICAG Council should include non-members.

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<sup>36</sup> This recommendation may serve as an interim improvement until effective implementation of the recommendations regarding the Financial Reporting Act and the Financial Reporting Council, but will still be relevant thereafter. ICAG may then consider the appropriateness of relying on the work of the oversight body to fulfil its IFAC membership obligations.

<sup>37</sup> This recommendation may serve as an interim improvement until effective implementation of the recommendations regarding the Financial Reporting Act and the Financial Reporting Council.

<sup>13</sup> The ABWA is a sub regional grouping of accountancy bodies made up of professional accountants from Benin, Cameroon, Ghana, La Cote d'Ivoire, Nigeria, Niger Republic, Sierra Leone, Senegal, The Gambia, and Togo.