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

ACCOUNTING AND AUDITING

June 15, 2003

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EXECUTIVE SUMMARY

Jamaica is transitioning from the use of national accounting standards to full observance of International Accounting Standards (IAS). While national accounting standards have been based on IAS, there was a significant “standards gap” and some evidence of a “compliance gap” among listed companies. Jamaica is also transitioning from the use of national auditing standards to full observance of International Standards of Auditing (ISA), a transition that is likely to be less difficult than that to IAS, given the similarity between national standards and ISA.

The transition to IAS will require considerable effort, including further education and training, the development of interpretations and implementation guidance, and the establishment of compliance monitoring mechanisms. These efforts should make full use of available resources, and consideration should be given to collaboration between national and regional institutions.

The need to change the arrangements for regulating the accountancy profession and the operations of the Public Accountancy Board and the Institute of Chartered Accountants of Jamaica has been identified in Jamaica. The changes include the adoption of uniform arrangements for the regulation of registered public accountants, practice monitoring, and the involvement of representatives of the public interest in appropriate boards and committees. The implementation of these changes may place heavy demands on limited resources and may require support.

The Ministry of Finance and Planning, the Bank of Jamaica, and the Financial Services Commission appear committed to improving the quality of financial reporting in Jamaica. This report provides policy recommendations that will form the basis for preparing and implementing a Country Action Plan for strengthening institutional capacity to support implementation of IAS and ISA.

This report was prepared by M. Zubaidur Rahman (OPCFM) and Rajeev K. Swami (LCOAA) of the World Bank on the basis of the findings from a diagnostic review carried out in Jamaica in December 2002 and June 2003 in collaboration with the Inter-American Development Bank. This report contains self-assessments prepared by the Institute of Chartered Accountants of Jamaica with the assistance of an international consultant.
I. INTRODUCTION

1. This report assesses both the mandatory requirements and the actual practices of the accounting and auditing professions in Jamaica, using the International Accounting Standards (IAS)\(^1\) and the International Standards of Auditing (ISA)\(^2\) as benchmarks.

2. The assessment was conducted using a diagnostic tool developed by the World Bank under a joint initiative of World Bank and International Monetary Fund on the Reports on the Observance of Standards and Codes (ROSC). The Institute of Chartered Accountants of Jamaica (ICAJ) initially carried out a self-assessment with the assistance of an international consultant, to prepare the ground for obtaining financial assistance under the Multilateral Investment Fund program of the Inter-American Development Bank. The self-assessment results, complemented by the findings of a due diligence exercise conducted by World Bank staff, were used in preparing this report, through an arrangement between the World Bank and Inter-American Development Bank.

3. There are 42 companies listed on the Jamaica Stock Exchange. At the beginning of June 2003, total market capitalization of the listed companies was equivalent to about US$6.6 billion. There are approximately 40,000 active private companies, the majority of which are small or medium-sized enterprises (SMEs), although some are large and compete with listed companies. There are also many unincorporated businesses, most of which are SMEs.

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

4. The Companies Act 1965 requires all limited companies to present financial statements including, when appropriate, consolidated financial statements. The ICAJ issues accounting standards for use in these financial statements, and it requires members to follow them to fulfill their membership obligation. Although the Companies Act does not mandate the use of these standards, observance of ICAJ-issued accounting standards is required under the legal and regulatory framework for entities directly supervised by the following organizations:

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1. IAS refer to the International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB), and related interpretations issued by the IASB’s International Financial Reporting Interpretations Committee. This Committee provides guidance on the application and interpretation of IAS/International Financial Reporting Standards. The predecessor organization to IASB was the International Accounting Standards Committee, which was responsible for issuing IAS and interpretations of the standards.

2. ISA and International Audit Practice Statements (IAPS) are promulgated by the International Auditing and Assurance Standards Board (IAASB), a standing committee of the International Federation of Accountants (IFAC) and has complete autonomy in issuing ISA and IAPS. The IFAC is a group of national professional accountancy organizations that seeks to develop the profession and harmonize its standards worldwide. The IFAC supports the work of the IASB. The Institute of Chartered Accountants of Jamaica is a member of IFAC. The predecessor to IAASB was the International Auditing Practices Committee, which was also a standing committee of IFAC.
• Bank of Jamaica—commercial banks (licensed under the Banking Act), near-bank deposit-taking intermediaries (such as merchant banks), trust companies and finance houses (licensed under the Financial Institutions Act), and building societies (licensed under the Building Societies Act);
• Financial Services Commission—securities dealers, trust companies, and insurance companies; and
• Jamaica Stock Exchange—listed companies.

The government is considering a draft companies bill that would compel compliance with accounting standards issued/approved by ICAJ. The draft bill also proposes reducing the accounting and reporting requirements for smaller-sized companies.

5. **The Public Accountancy Act 1968 established a regulatory framework for the accounting profession.** The Act created a statutory body, the Public Accountancy Board (PAB) that is responsible for issuing licenses to registered public accountants and for promoting acceptable standards of professional conduct among registered public accountants. All decisions of the Board are subject to approval by the Minister of Finance. The Minister has authority under the Act to issue regulations, in consultation with PAB, with regard to various matters, including the making of complaints against registered public accountants; the procedure to be followed in respect of disciplinary investigations undertaken by PAB; and the procedure for approving an applicant’s qualification for his/her registration as a public accountant when he/she does not hold membership in ICAJ. The Public Accountancy Act also includes provisions regarding the creation and operation of ICAJ.

6. **The Companies Act 1965 requires that the financial statements of all limited companies be audited.** An auditor must be a registered public accountant licensed by PAB. The objective of the audit is to express an independent opinion on whether the company and, when appropriate, consolidated financial statements give a true and fair view of the financial position, result, cash flows, and changes in equity in accordance with applicable accounting standards. The government is considering a draft companies bill that would exempt small companies from the compulsory audit requirement. The ICAJ issues auditing standards for use in the audit of financial statements, and its members are required to follow these standards to fulfill their membership obligation. Auditors, who are not members of ICAJ, do not have any obligation, legal or otherwise, to comply with any particular auditing standards.

7. **There are additional legal requirements concerning audit of banks and other financial institutions.** In relation to the external auditors of the licensees of Bank of Jamaica, the following apply:

- Bank of Jamaica may summons any current or former auditor of a licensee for the purpose of conducting inquiries about its operations and financial conditions.
- If an external auditor resigns or expresses unwillingness to be reappointed, that auditor is required to advise Bank of Jamaica in writing of the reason(s) behind such action.
• External auditors are required to report in writing to the chief executive and every director of a commercial bank or similar financial institution, as well as to Bank of Jamaica, any material transactions or conditions coming to the auditor’s attention that may adversely affect the audited entity’s financial viability.

• Bank of Jamaica has authority to require the external auditor of a commercial bank or similar financial institution to enlarge the scope of audit or perform such other audit procedures as it may specify in any particular case.

• Bank of Jamaica has authority to appoint an auditor, other than the external auditor of a commercial bank or similar financial institution, to conduct special audit of that entity.

8. **The Companies Act 1965 requires that all limited companies file a copy of their audited company and, when appropriate, consolidated financial statements with the Registrar of Companies.** Publication of these financial statements is not mandated by the Companies Act. The Banking Act requires filing of the following documents with the Bank of Jamaica within 90 days from the end of each financial year; and publication of a copy of the same documents in a daily newspaper within 14 days from the date of their filing with the Bank of Jamaica: (a) in the case of a local bank, audited balance sheet and income statement, and auditor’s report; and (b) in the case of a foreign bank, the latest audited balance sheet and income statement of the bank, and audited balance sheet and income statement in respect of the foreign bank’s Jamaican operations up to the last working day of the bank’s financial year. The Insurance Act requires insurance companies to file with the Financial Services Commission within 90 days from the end of financial year, a full set of financial statements—balance sheet, income statement, cash flow statement, statement of changes in equity, and explanatory notes—and publish a copy of the same set of financial statements in a daily newspaper within 14 days from the date of their filing with the Financial Services Commission. The listing rules of publicly traded companies require submission of a full set of financial statements to the Jamaica Stock Exchange within 90 days from financial year-end, and publication of the balance sheet and income statement in a daily newspaper. The Bank of Jamaica and Jamaica Stock Exchange require filing of unaudited quarterly financial statements prepared in accordance with IAS.

B. **The Profession**

9. **The accountancy profession includes members of ICAJ and foreign professional bodies.** It consists of registered public accountants, who practice as public accountants and who must, therefore, be licensed by PAB; and other accountants who are employed by public accountants, other business entities, government, academe, and so forth, who do not require licenses from PAB. Only registered public accountants can sign audit reports. All members of ICAJ have not applied to PAB for registration. At present, there are about 480 registered public accountants, of which about 360 are ICAJ members. Every year, about 20 ICAJ members register with PAB. Members of the following foreign professional accounting bodies qualify for membership of ICAJ as well as registration with PAB: the Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants of Scotland, Institute of Chartered Accountants of
Ireland, Canadian Institute of Chartered Accountants, and American Institute of Certified Public Accountants.

10. **Audit firms include local member firms of all four major international networks.** Three of the four firms are the auditors of virtually all listed companies, with one firm being the auditor of approximately 60 percent of listed companies. The fourth firm is very small. Audit firms also include local member firms of other international networks and local firms.

11. **All accountants who wish to practice as public accountants must register with, and hold a practicing certificate issued by, PAB.** Practicing certificates may be issued by PAB (subject to certain other conditions) to:
   - members of ICAJ who hold practicing certificates issued by ICAJ;
   - Jamaican citizens who are entitled to practice in another country by virtue of another professional qualification that is approved by the Ministry of Finance; and
   - a few people who are qualified by experience and who practiced as public accountants before 1968.

12. **PAB has ten members, all of whom are appointed by the Minister of Finance.** While not less than six members should be nominated by ICAJ, all the current members, including those nominated by ICAJ and by other parties, are members of ICAJ. The PAB has recognized the need to involve suitably qualified and experienced non-accountants in its membership and is considering possible candidates.

13. **The ICAJ was established in 1965 as the organization for Jamaican chartered accountants, but there is no requirement for all registered public accountants, or accountants in general, to join.** The ICAJ has approximately 750 members, of whom approximately 200 are practicing members authorized by ICAJ to carry out audits. Members of ICAJ are entitled to a practicing certificate from PAB. However, subject to the authorization of the Minister of Finance, PAB may issue a practicing certificate to a suitably qualified accountant who is not a member of ICAJ. There is no requirement for such a person to become a member of ICAJ, and thus subject to the same professional standards as ICAJ members.

14. **The Ministry of Finance, Public Accounting Board, and the Institute of Chartered Accountants of Jamaica are seeking to ensure that in the future there will be unified standards for the control, monitoring, and disciplining of all registered public accountants in Jamaica, and to improve the effectiveness of PAB.** The PAB and ICAJ intend to share these responsibilities within a system of government regulation of registered public accountants. The Ministry of Finance and PAB have agreed that ICAJ should be designated as the sole agent of PAB for the purpose of processing applications for licenses to act as registered public accountants (including for non-ICAJ members). They have also agreed that all public accountants (including non-ICAJ members) should comply with the ethical and professional standards issued by ICAJ.
C. Professional Education and Training

15. There are two distinct routes to satisfying the professional education requirements for becoming a chartered accountant in Jamaica. A student can either complete the program of the UK-based Association of Chartered Certified Accountants (ACCA) or the M.Sc. (accounting) at the University of the West Indies (UWI) in Jamaica. An applicant for ICAJ membership must have completed the above-mentioned accounting education, and obtained practical experience of at least 30 months either in the office of a practicing ICAJ member or in a responsible position in commerce, industry, or government service, or any combination thereof. Most ICAJ members have followed the ACCA route. Of the total 480 registered public accountants in Jamaica, more than 70 percent have ACCA qualification.

16. The ICAJ and ACCA have developed an arrangement under which Jamaican students register in the joint ICAJ/ACCA program and take the UK-based ACCA examination in Jamaica. The ICAJ maintains a register of students, processes examination fees, and arranges facilities for the biannual local sittings of the examination. There are over 4,000 registered students in the ICAJ/ACCA program, of which approximately 100 annually complete the final examination. Successful students qualify for membership in both ICAJ and ACCA. Neither a Bachelor’s degree nor “A-levels” are required to register for the joint ICAJ/ACCA program; students who complete the UK-based Certificate of Accounting Technician program may enter the ACCA program. In the mid-1970s, ICAJ and UWI collaborated to develop the M.Sc. (accounting) program at UWI, with a curriculum focused on both theory and practice. The objective was to provide newly qualified professionals with a strong academic foundation and basic exposure to the practical dimensions of accounting and auditing. Students were expected to gain further practical knowledge of accounting and auditing through work experience before obtaining membership in ICAJ.

17. A quality academic education in accounting is available in Jamaica. Jamaica’s three universities—UWI, University of Technology (UTECH), and Northern Caribbean University—offer a Bachelor’s degree program in accounting. The Bachelor’s and Master’s degree programs in accounting at UWI appear to be internationally comparable. UTECH, which is a relatively new university, is strengthening its accounting curriculum and teaching. The Jamaican universities have started reforming their curricula to better equip future accountants and auditors to implement accounting and auditing standards issued by the International Accounting Standards Board (IASB) and International Federation of Accountants (IFAC), respectively. There is an urgent need to strengthen the capacity of the teaching staff to teach the practical application of these international standards.

18. On a self-financing basis, ICAJ provides continuing professional education to members and nonmembers; and it requires members to take 35 hours of continuing professional education annually over three years. During 2002, the program included approximately ten days of training on IAS and ISA, to assist with the implementation of those standards in 2002/03.
D. Setting Accounting and Auditing Standards

19. The ICAJ sets accounting and auditing standards, but these do not automatically apply to registered public accountants who are not ICAJ members. The ICAJ requires that its members comply with the IFAC code of ethics, continuing professional education requirements, and other professional regulations. It also requires its members to comply with IAS and ISA in the preparation and audit of financial statements. Registered public accountants who are members of ICAJ are encouraged to hold professional indemnity insurance that provides full cover for all civil liability arising from the member’s business.

20. There is no public interest involvement in ICAJ’s processes for establishing professional standards or disciplining members. Professional standards are determined by the committees and Council of ICAJ, and disciplinary matters are dealt with by the investigation and disciplinary committees of ICAJ. The membership of each of these entities is comprised entirely of ICAJ members. The ICAJ recognizes the need to improve these arrangements; at its invitation, the Jamaican Bar Association has nominated one of its Council members to the ICAJ investigations committee. The ICAJ is also considering ways of including suitably qualified and experienced nonaccountants on its investigation, disciplinary, and technical committees.

E. Ensuring Compliance with Accounting and Auditing Standards

21. The regulatory bodies rely heavily on external auditors to ensure compliance with accounting and financial reporting requirements. The Bank of Jamaica, Financial Services Commission, and Jamaica Stock Exchange have not put in place any systematic procedures and mechanisms to monitor and enforce compliance with accounting standards and financial reporting requirements. In the course of conducting onsite and offsite supervision of regulated entities for monitoring compliance with prudential regulations, the Bank of Jamaica ensures that financial statements are prepared and presented on a timely basis, assets and liabilities are classified consistently and in accordance with applicable rules, and loan loss provisions are calculated and booked in accordance with the Bank’s established formula. The newly established Financial Services Commission has been contemplating the establishment of a system to review the financial statements of its regulated entities with a view to enforcing applicable accounting standards. At present, the Bank of Jamaica, Financial Services Commission, and Jamaica Stock Exchange rely heavily on their regulated entities’ external auditors to uncover possible infractions in the financial statements. If the external auditors do not detect infractions, and these are not reported in the audit report, infractions may never come to light.

22. The PAB does not specify standards for registered public accountants nor does it monitor the work of registered public accountants. Registered public accountants who are ICAJ members are governed by its by-laws and other requirements. Registered public accountants, who are members of foreign professional bodies, may be regulated by those bodies, but such regulation may not be effective or may not conform to that applied to domestic members of those bodies or ICAJ members. Some registered
public accountants may not be regulated by any professional body. The PAB does have limited power to strike off or suspend a registered public accountant, but it acts only on complaints. The PAB is exploring the possibility of a national system of practice monitoring, with the reviews/inspections carried out by senior accountants who have retired from public practice (this system would complement the proposed regional system).

23. The ICAJ does not monitor the quality of the audit or other work undertaken by its members, but acts only on the receipt of complaints. The ICAJ has the power to suspend a member for a breach of its requirements, an action that would preclude that member from acting as an auditor of a limited company. However, it currently does not monitor the work undertaken by its members. The ICAJ recognizes the need to improve these arrangements, and it supports the establishment of the Institute of Chartered Accountants of the Caribbean (ICAC) regional practice monitoring unit.

24. The ICAC plans to establish a regional monitoring unit responsible for the evaluation and assessment of the quality of audit and other public practice work in Bahamas, Barbados, Belize, Guyana, Jamaica, St Kitts & Nevis, St Lucia, and Trinidad & Tobago. The purpose of the proposed regional unit is to ensure the transparency of the quality of audit and other public practice work. The establishment of a joint unit will both facilitate independent practice monitoring and reduce the costs of monitoring to each participating institute and its members. The monitoring unit is anticipated to start work in 2003. Full-time staff employed by ICAC will eventually carry out the monitoring, but the initial monitoring is likely to carried out on behalf of ICAC by the ACCA monitoring unit. The Institutes in all eight countries have not yet committed to participating in the scheme, but ICAJ proposes to proceed with the scheme even if some other institutes do not participate in the initial stages. The implementation of the scheme may require changes in the laws of some countries or of ICAC by-laws. It will also require communication to, and training of, ICAC members.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

25. Until 2002, ICAJ required that the financial statements of all companies comply with Jamaican Statements of Standards Accounting Practice (JSSAP), which were based on, but in many instances significantly different from, current IAS. The JSSAP were promulgated by ICAJ and were based on IAS. However, JSSAP do not reflect many of the revisions to IAS made during the 1990s. The major differences between JSSAP and IAS are broadly of three kinds:

- JSSAP that have not been revised to reflect the changes adopted by the International Accounting Standards Committee in 1993 or later (for example, JSSAP on inventories, research and development costs, construction contracts, revenue, retirement benefit costs, foreign currencies, business combinations, and borrowing costs);

- Other longstanding and relevant IAS that were not incorporated in JSSAP, either in their original or revised form (for example, IAS on deferred taxes and segment reporting); and
Recent IAS that have not been incorporated in JSSAP (for example, IAS on discontinuing operations, impairment of assets, provisions, intangible assets, recognition and measurement of financial instruments, and investment property).

26. In 2000, ICAJ resolved that the financial statements of all companies should comply fully with IAS, with effect from accounting periods beginning on or after July 1, 2002. If implemented, this resolution would resolve the significant accounting “standards gap.” The ICAJ has undertaken an extensive communication exercise to advise its members, other accountants, companies, regulatory authorities, and the government of the benefits of the change. As the draft companies bill proposes to reduce the accounting and auditing burdens on small companies, ICAJ is expected to exempt small companies (as defined in the draft bill) from compliance with IAS.

27. ICAJ has identified potential implementation problems that may require further guidance to ensure full IAS compliance. Companies and audit firms have raised with ICAJ concerns about the application of:

- IAS 12, Income Taxes;
- IAS 19, Employee Benefits;
- IAS 39, Financial Instruments: Recognition and Measurement;
- IAS 40, Investment Property; and
- IAS 41, Agriculture.

These concerns could reduce the level of compliance with IAS in financial statements. The ICAJ is considering the need for further targeted education and training, national interpretations of IAS, and other forms of implementation guidance. Similar concerns exist in other Caribbean states. Therefore, there is a case for a regional, rather than a national, response (for example, in education and training, interpretations, and guidance).

28. The adoption of IAS in place of JSSAP has created potential conflicts with regulatory and tax requirements. For instance, the treatment by IAS 39 and IAS 40 of unrealized gains on financial assets and investment property may conflict with Financial Services Commission requirements for insurance companies. The Financial Services Commission has proposed that insurance companies comply fully with IAS 39 and then transfer retained earnings equivalent to any unrealized profits to an appropriate reserve. Also, IAS 39 requirements for the measurement of impairment losses may conflict with the Bank of Jamaica’s requirements for the determination of bank loan losses. In particular, the loan loss provisions required by the Bank’s matrix approach may exceed the amounts required by, and therefore not comply with, IAS 39. And finally, the Revenue Service may seek to base taxable profits on IAS accounting profit, which may increase the tax burden of companies reporting under IAS.

29. Although there is general consensus on the need to require the use of IAS in Jamaica, there are calls for a delay in implementation. Senior IAS-specialist members of one of the four major international networks of audit firms told a recent seminar for Jamaican clients that this was the “worst possible time” to adopt IAS. As a result, the Private Sector Organization of Jamaica proposed a one-year delay in the implementation of IAS to permit IASB to complete its proposals on first-time application and
improvements to IAS. There have also been suggestions that Jamaica should not adopt IAS before their adoption by EU-listed companies in 2005. The ICAJ has considered these concerns but has decided against deferring the implementation date (although it has made some concessions with respect to interim reports). The ICAJ believes that Jamaican companies will be able to apply the IASB proposals on first-time application in their financial statements for accounting periods beginning on or after July 1, 2002. It believes that the concerns about IASB’s proposed improvements have been overstated and that few of the proposed improvements will have a material or detrimental effect on Jamaican companies. The ICAJ also recognizes that many of its competitor countries in the Caribbean and Central America currently require full IAS compliance, and that many EU companies have already adopted IAS or follow national standards that are much closer to IAS than are JSSAP. As a result, ICAJ does not support a delay in implementation.

30. **The ICAJ intends that small companies continue to comply with JSSAP until it adopts an IASB-approved SME version of IAS.** The ICAJ recognizes that full IAS compliance is inappropriate and burdensome for small companies. It supports the development by IASB of an SME version of IAS, and it is likely to replace its requirement that small companies comply with JSSAP with a requirement to comply with an SME version of IAS.

31. **The ICAJ seeks to monitor compliance with JSSAP by reviewing the published financial statements of all listed companies, and it intends to monitor compliance with IAS/International Financial Reporting Standards in the same way.** Volunteer members of the Accounting Standards Committee carry out the reviews and report the findings to the auditor (orally or in writing, as appropriate) and to the ICAJ Council in summary form. The Accounting Standards Committee also reports any findings that are indicative of significant compliance issues to the Auditing Practice Committee of ICAJ and, if appropriate, the ICAJ Disciplinary Committee.

32. **The JSSAP financial statements of 15 listed companies were presented for review; although they were generally of a good standard, some issues of noncompliance were revealed.** The reviews revealed the following instances of apparent noncompliance with JSSAP, for which qualified audit opinions were not issued:

- Recognition of retirement benefit costs as an expense on a cash, rather than an actuarially determined accruals, basis [conflict with Jamaican Accounting Standard];
- Use of regulatory, rather than requirements under the Jamaican Accounting Standards in the financial statements of a regulated entity.

The reviews identified several accounting treatments and disclosures that do not comply with IAS and which, therefore, will require reconsideration when the use of IAS becomes mandatory. Incidences of noncompliance included the treatments and disclosures related to extraordinary items, segment reporting, revaluations of property, bank loan loss provisions, and financial instruments. The current instances of undisclosed noncompliance with JSSAP suggests that there is an accounting standards compliance gap in Jamaica. This may cause problems on the implementation of IAS in 2002/03.
IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

33. In 2001, ICAJ decided to carry out audits in accordance with ISA, effective July 1, 2002. For earlier periods, ICAJ required compliance with Jamaican Standards on Auditing (JSA), which were almost identical to the equivalent ISA. Given the similarity between JSA and ISA, the effect of this change is unlikely to be significant, and thus there is little likelihood of an auditing standards gap.

34. Local member firms of the major international networks are required to carry out audits in accordance with their network’s standard requirements and are subject to regular inspections by their international networks. Discussions with representatives of these firms suggested that they typically comply fully with the international standards of their networks, which exceed those required by JSA and may exceed those required by ISA. This implies that these firms will have no difficulty complying fully with ISA with effect from 2002. It is worth noting that in mid-1990s a number of major banks and insurance companies—including the financial conglomerates to which they belonged—went bankrupt. Most of these failed financial institutions were clients of large audit firms. These financial institutions always received clean audit opinions, and no signs of financial problems were indicated by auditors for several years prior to the failure.

35. Local audit firms do not report significant difficulties in complying with JSA/ISA. Discussions with representatives of these firms suggested a high level of compliance with JSA, and that most firms will not have problems in complying fully with ISA. However, the representatives of some firms admitted that they did not always comply with all JSA requirements, for example they did not always obtain engagement letters or letters of management representations. These firms may need to improve their procedures to comply fully with ISA.

36. Example of bad audit practice. In July 1995, a major commercial bank in Jamaica failed four months after its audited financial statements—with a clean audit opinion—was published in a major national newspaper. The auditor had failed to point out that most of what appeared on the financial statements as cash was, in fact, hypothecated by another bank to cover loans. The signing partner of the audit firm was investigated for disciplinary action by the ICAJ. The disciplinary action was taken four years later in 1999; the signing partner was suspended from practice for two years, which on appeal was reduced to six months. As a part of the disciplinary sanction, he was asked to take a refresher course in verification of assets, among other topics.

V. PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING

37. Although the quality in the review of the JSSAP-based financial statements of listed companies appears to be good, compliance problems may undermine the credibility of these financial statements and thus may hamper successful adoption of IAS. The examples of noncompliance with JSSAP indicate a reluctance on the part of some companies to comply with all JSSAP requirements and, hence, to publish fully transparent and comparable financial statements. Such reluctance may hamper the
adoption of IAS and may explain the requests for a delay in their implementation. It indicates the need for further education on the benefits of high-quality financial statements to individual companies and to the economy as a whole. The reviews also indicate the need for proper and rigorous enforcement of IAS compliance by the Financial Services Commission, ICAJ, and other authorities. They may also indicate the need to improve the governance of listed and other public-interest business entities.

38. Since IAS has been made mandatory, some stakeholders have expressed concerns about whether preparers, auditors, and regulators are adequately prepared to implement them properly and without adversely affecting the quality of financial statements. The questions raised include the following:

- Are the regulators adequately trained to provide effective oversight, particularly where IAS are subject to multiple interpretations?
- Do those responsible for oversight have effective mechanisms for identifying and addressing interpretative questions expeditiously?
- Do the regulators have adequate resources for regular, timely, and continuous review of financial statements prepared in accordance with IAS?
- When the tax and other regulatory requirements conflict with the requirements of IAS, what will be the position of preparers and auditors of general-purpose financial statements?
- Currently, regulators do not usually enforce effective sanctions, including exemplary fines and penalties for noncompliance with applicable accounting and auditing requirements. Will it be possible to change the attitude of regulators with regard to sanctions on enterprise management and auditors?
- Do all the audit firms have sufficient competence to identify noncompliance with IAS, particularly firms that do not benefit from international affiliation? Will there be a body to assess audit firms’ work continuously and proactively?
- Will there be incentives for auditors and other parties to play the role of “whistle-blower”? Will the unethical and corrupt practices in the corporate sector go unchallenged, as they have in the past? Will this current practice continue where some professional accountants may not willingly divest themselves of or report clients who are in breach of accounting standards and other requirements because of the fear that a competitor might acquire that client?

VI. Policy Recommendations

39. The following policy recommendations address the shortcomings revealed by the Accounting and Auditing ROSC review in Jamaica. It is expected that in-country stakeholders would develop a detailed Country Action Plan on the basis of these recommendations, and that the plan would be implemented under the coordination of the Ministry of Finance and Planning, with assistance from international development partners.
40. Amend the Public Accountancy Act and other related Acts, when finalizing changes in the legal framework of accounting and auditing, to take into account the following:

- **Financial reporting by public-interest entities.** Accounting standards and related interpretations issued by IASB should be mandatory for the financial statements of all public-interest entities. The ISA and related pronouncements issued by IFAC should be mandatory for audits of public-interest entities.

- **Financial reporting by SMEs.** Legislation should provide SMEs with a simplified financial reporting framework adapted to their size. The ICAJ may be authorized to set simplified financial reporting standards for SMEs in line with IAS; however, if the standard-setting body at ICAJ deems it necessary to deviate from IAS, it should be able do so provided it clearly explains and justifies the reasons for deviation. In addition, the legal requirements for SMEs could modify the threshold for mandatory auditing and filing of financial statements. Only public-interest entities should be subject to annual statutory audit and filing of financial statements.

- **Practicing accountants should not dominate the oversight of the profession.** In the public interest, the Ministry of Finance, PAB, and ICAJ should ensure that all relevant interested parties, including accountants and non-accountants, participate in the determination of accounting and auditing regulations and requirements and the oversight of the accountancy profession.

- **All practicing accountants should be subject to the same requirements.** All those offering public accounting and auditing services in Jamaica should be subject to the same regulatory oversight and the same code of ethics, discipline, continuing professional education, and other professional requirements. Legal arrangements should mandate the IFAC-issued Code of Ethics for Professional Accountants for all accounting practitioners in Jamaica.

- **Modify ICAJ’s governance structure.** The legal framework should modify ICAJ’s governance structure so that its Council is not solely dominated by firms of audit service providers. The ICAJ needs to ensure that the public interest is represented, as appropriate, in such areas as standard setting, quality assurance, and discipline. It should also ensure that its decisionmaking process in areas that affect the public interest (for example, accounting and auditing standards, ethics, and professional discipline) is transparent and involves all

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3 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 include banks, insurance companies, investment funds, pension funds, listed companies, and large enterprises. For example, enterprises and groups of enterprises that meet two of three following thresholds should be considered 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].
interested parties. The ICAJ should ensure that all its decisions and related material are available promptly to members and, when appropriate, the public through both its website and its publications.

- **Set up an appropriate regulatory body for the accountancy profession.** A regulatory body for the accountancy profession should be established, and PAB should be revamped to ensure that all preparers and auditors of public-interest entities are subjected to supervision of this body, which should also be responsible for licensing practicing accountants and enforcing their continuing professional education requirements.

41. **Establish an appropriate structure for the new regulatory body to help enforce accounting and auditing standards and codes.** The governance of the regulatory body should not be dominated by practicing accountants. This body should have sufficient full-time staff to conduct enforcement-related activities. For efficiency, units of the regulatory body may be strengthened with resources borrowed from, or through outsourcing arrangements with, the ICAJ and the Institute of Chartered Accountants of the Caribbean. The following three units are envisioned for inclusion in the organizational structure of the regulatory body:

- **Licensing.** The PAB should continue to issue and renew licenses to professional accountants. A prerequisite for obtaining a practicing license should be at least three years of practical experience working for an audit firm that is registered as a provider of practical training. From time to time, the regulatory body should assess firms that wish to be registered as practical training providers. The assessment should focus on the firm’s number of partners, nature of clients, and other facilities for providing high-quality practical training. The continuing professional education requirements for practicing accountants should be specified and enforced by the regulatory body, in line with guidance provided by IFAC. At regular intervals, the regulatory body should determine the suitability of renewing an accountant’s practicing license on the basis of his or her compliance with continuing professional education requirements, auditing standards, and the profession’s code of ethics.

- **Financial Reporting Monitoring.** The Financial Reporting Monitoring unit will analyze and identify noncompliance with the applicable accounting and financial reporting requirements. For this purpose, financial statements of the public-interest entities will be reviewed by experts. For in-depth review, it may be necessary to receive cooperation from external auditors and corporate management and accountants. In some cases it may be necessary to access audit working papers. In the case of material noncompliance with applicable accounting and financial reporting standards, the regulatory body should be able to impose effective sanctions on the management and auditor of the concerned entity. In addition, through an arrangement with this accounting/financial reporting regulatory body, the Bank of Jamaica and the Financial Services Commission would be able to receive information on
infractions in financial statements and use that information to take additional enforcement actions on the management of regulated entities. This unit should develop the capacity to conduct in-depth reviews of corporate financial statements to determine the extent of compliance with the standards and regulations—not only in appearance, but also in substance. The analyst group that will be responsible for conducting the review may consist of a mixture of full-time and part-time experts.

- **Auditors’ Practice Review.** The auditors and audit firms that audit public-interest entities will be subject to a review of their practices by onsite inspectors. The objective will be to analyze and identify noncompliance with the applicable auditing standards and code of professional ethics. There should be an efficient and effective mechanism for taking disciplinary actions on a transparent basis against those who are not in compliance with the auditing standards and code of professional ethics. The practice review system should include the review of quality assurance arrangements in an audit firm and the examination of working papers with respect to selected audit engagements of the same audit firm. Investigations should be conducted whenever credible complaints are received against any auditor or audit firm with regard to the observance of the auditing standards and code of professional ethics. The practice review group should have competent reviewers and follow a transparently established review methodology. This group is not expected to have a large full-time staff. Depending on the need for additional human resources, the group should borrow competent individuals from outside sources, including audit firms other than those subject to review in a particular year, universities, and national and regional bodies.

42. **Arrangements for issuing practical application guidelines on IAS and ISA.** The ICAJ should establish mechanisms, possibly in conjunction with other parties in Jamaica and other accounting bodies in the region, to provide implementation guidance on IAS and ISA appropriate to the local/Caribbean environment. Interpretations on IAS and ISA should be issued in consultation with the International Financial Reporting Committee of IASB and the International Auditing and Assurance Standards Board of IFAC, respectively. The ICAJ should ensure that all interpretations and other guidance are available promptly to its members and, when appropriate, through both its website and its publications.

43. **Publication of legal entity and consolidated financial statements.** Legal arrangements should be put in place so that the published financial statements of the following entities are readily available, including in electronic format (published on website): listed companies, banks, insurance companies, and other financial institutions. Publication of abridged financial statements in newspapers or on websites should be avoided or authorized only if (a) abridged financial statements are appropriately titled to identify the audited financial statements from which they have been derived, for example, “Summarized Financial Information Prepared from the Audited Financial Statements for the Year Ended December 31, 2002”; (b) the auditor’s report accompanying the abridged financial statements is in accordance with ISA 800, The Auditor’s Report on Special
Purpose Audit Engagements, which among other things includes the statement, “For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon”; and (c) the audited financial statements are readily available to all interested parties, and the publication states where the full set of audited financial statements can be obtained.

44. **Improve training facilities to enable accountants, auditors, and regulators to acquire detailed knowledge on the practical application of IAS and ISA.**

- ICAJ should continue to expand its program of IAS/ISA workshops, with special emphasis on IAS issues that are likely to cause practical and compliance difficulties in Jamaica. These programs should be carried out in conjunction with other accountancy bodies in the region and should make maximum use of existing education and training materials and publications.

- ICAJ should encourage (and consider requiring) all its members and other accountants in Jamaica, who have not studied IAS/ISA as part of their prequalification training, to study for and acquire the ACCA International Diploma in International Financial Reporting (or an equivalent high-quality qualification), which focuses on the application of IAS/ISA.

- ICAJ should provide in-depth IAS theoretical and practical training to the staff of the Bank of Jamaica, Financial Services Commission, Jamaica Stock Exchange, and other regulatory bodies.

- ICAJ should arrange training-the-trainers programs for university instructors to enable them to gain detailed knowledge on the practical application of IAS and ISA. Review and update the accounting curricula to incorporate IAS and ISA and practical-oriented teaching at the undergraduate level.

45. **Ensure that entrants into the profession through the ACCA route or through membership of a foreign professional body are tested for their competence in Jamaican taxation and legal systems.** The ICAJ should assume this responsibility and work closely with the University of West Indies to ensure that M.Sc. (Accounting) degree holders acquire adequate professional knowledge. Although ICAJ assumes that M.Sc. (Accounting) degree holders of UWI have completed their professional qualification examination, some major accounting firms have been requiring these degree holders to complete the ACCA program as a condition of employment. Efforts should be made to develop a regional professional qualification examination system through the Institute of Chartered Accountants of the Caribbean. Such an examination system should be based on relevant pronouncements of IFAC.