

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

ACCOUNTING AND AUDITING
June 25, 2007

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EXECUTIVE SUMMARY

This report reviews accounting, financial reporting, and auditing practices in Zambia's corporate sector, with reference to the application of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), and drawing on international experience and good practices in those fields. This review is positioned within the broader context of Zambia's institutional framework and capacity to ensure the quality of corporate financial reporting. The main objective of this ROSC is to assist the authorities in strengthening accounting and auditing practices and enhancing financial transparency in the corporate sector.

The accountancy profession in Zambia is regulated by the Accountants Act 1982 (Chapter 390 of the Laws of Zambia), which also established the Zambia Institute of Chartered Accountants (ZICA). ZICA is a self-regulated membership organization. It needs strengthened technical capacity to effectively regulate its members and to anchor a profession that should deliver high-quality financial reporting. In 2005, ZICA adopted IFRS and ISA as standards to be used in Zambia. Compliance gaps in both accounting and auditing standards primarily stem from the complicated international standards for small and medium enterprises; lack of clear understanding of the international standards by some preparers and auditors of financial statements; and absence of implementation guidance and support for practitioners.

Over the last decade, Zambia's accountancy profession has grown significantly. However, there is need to strengthen the institutional framework to support adequate availability of professionals with practical knowledge and appropriate skills in implementing internationally recognized accounting and auditing standards and codes. Notwithstanding the adoption of IFRS, Zambia's drive to increase private sector-led growth poses several challenges to the profession. One challenge is building the technical capacity to cope with

Note: [Zambian authorities provided updates and comments to the original ROSC A&A prepared in 2007. This addendum, dated June 25, 2009, is attached to this ROSC](#)

IFRS and the demand for higher-quality corporate financial information, which in turn will enable banks and other institutions to monitor risks more effectively and create conditions favorable to attracting foreign investment. Another challenge is strengthening the performance of audit service providers through audit practice reviews, enforcement of applicable accounting and auditing requirements, implementation of improved practical training for trainee accountants, and enforcement of an internationally comparable continuing professional development

The policy recommendations presented in this report are intended to provide inputs to the preparation and implementation of a country action plan for further developing the accountancy profession in Zambia. The main recommendations include reviewing relevant statutes; strengthening ZICA's capacity to function as a strong professional accountancy body; establishing an independent oversight institution for ensuring compliance with the accounting and auditing standards; upgrading the accountancy curriculum and teaching in institutions of higher education; putting in place a new legal and institutional framework for issuing, monitoring, and enforcing financial reporting standards; mandating and enforcing the use of IFRS for financial reporting by the public-interest entities; providing simplified financial reporting requirements for small and medium enterprises; and establishing a legally backed institutional arrangement for issuing, monitoring, and enforcing IFAC-issued auditing standards and code of ethics for professional accountants.

ACRONYMS AND ABBREVIATIONS

ACCA	Association of Certified Chartered Accountants (U.K.)
A&A	Accounting and Auditing (ROSC Module)
BAcc	Bachelor of Accountancy
CIMA	Chartered Institute of Management Accountants (U.K.)
CPD	Continuous professional development
ECSAFA	Eastern, Central, and South African Federation of Accountants
GAAP	Generally accepted accounting principle
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
ISA	International Standard on Auditing
NGO	Nongovernmental organization
ROSC	Reports on the Observance of Standards and Codes
ZICA	Zambia Institute of Chartered Accountants

PREFACE

Reports on the Observance of Standards and Codes (ROSC) is a joint World Bank and IMF initiative that helps member countries strengthen their financial systems by improving compliance with internationally recognized standards and codes. The ROSC was developed in the wake of the financial crises of the late 1990s as part of a series of measures to strengthen the international financial architecture. The global financial community considered that the implementation of internationally recognized standards and codes would provide a framework to strengthen domestic institutions, identify potential vulnerabilities, and improve transparency. Ultimately the ROSC aims to enhance countries' resilience to shocks and to better support their risk assessment and investment decisions. The ROSC involves preparation of reports in 12 key areas.¹

A ROSC Accounting and Auditing (A&A) review evaluates a country's accounting and auditing standards and practices, using as benchmarks the International Financial Reporting Standards (inclusive of International Accounting Standards) and International Standards on Auditing. It also compares the country's institutional framework that underpins the accounting and auditing practices with internationally accepted good practices. The review uses a diagnostic template developed by the World Bank to facilitate collection of data, complemented by the findings of an in-country due diligence exercise conducted by the World Bank ROSC team. Following the completion of a ROSC A&A review, the country stakeholders, assisted by World Bank staff, develop a country action plan that forms the basis for accountancy reform and development in the country.

This ROSC A&A was carried out from March to May 2007 by World Bank staff with direct input from key stakeholders, including the Ministry of Finance, Bank of Zambia, Securities Exchange Commission of Zambia, Lusaka Stock Exchange, Registrar of Companies, Zambia Institute of Chartered Accountants, audit firms of different sizes, banks, insurance companies, corporate accountants, and academics.

The Zambia ROSC A&A World Bank team comprised Fenwick Chitalu, Financial Management Specialist (AFTFM); M. Zubaidur Rahman, Program Manager (OPCFM); Ndungú Gathinji (international consultant); and Mary Ncube (local consultant).

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

I. INTRODUCTION

1. This review of accounting and auditing practices in Zambia is part of a joint initiative of the World Bank and the IMF to prepare Reports on the Observance of Standards and Codes (ROSC). The review assesses Zambia's accounting and auditing practices using International Financial Reporting Standards (IFRS)¹ and International Standards on Auditing (ISA). It highlights the strengths and weaknesses of the accounting and auditing environment, which influence the quality of corporate financial reporting and recommends actions to address weaknesses. This review was conducted at the invitation of the Government of the Republic of Zambia, which intends to share the gathered knowledge with relevant Government departments, Zambia's development partners, the accountancy profession, national and international market participants and other relevant key stakeholders.

2. In 2005, Zambia had a population of 11.7 million and an annual projected growth rate of 1.6 percent. Zambia's gross domestic product (GDP) in 2005 was US\$7.3 billion, with contributions from agriculture at 18.5 percent of GDP; industry, 25.1 percent; and services, 56.3 percent.² The state of Zambia's economy is summarized in the 2005-2006 Zambia Country Brief:³

Zambia has established a solid track record of performance: after five years of economic reforms, improved economic performance and substantive capital growth, it reached the HIPC [Heavily Indebted Poor Country] completion point in April 2005. Today there is a window of opportunity to achieve private sector growth that is widely shared across the economy.

However, fighting poverty remains a challenge in Zambia: an estimated 73 percent of the population lives below the poverty level. Accountancy development is one way to facilitate economic opportunities in Zambia, with benefits extending to maintain the financial stability of the economy. The availability of credible corporate financial information is directly linked to the efficiency and effectiveness of the economic decisions that market participants take in a modern economy.

3. There is increased activity on the Lusaka Stock Exchange. Market capitalization on the Stock Exchange was US\$2.456 million at year-end 2005 and US\$3.188 million at year-end 2006, representing a market capitalization to GDP ratio of 28.65 percent and 40.04 percent, respectively. As of December 2006, 15 companies were listed and 11 quoted on Lusaka Stock Exchange (compared with 13 companies listed and 12 companies quoted in December 2005). Turnover on Lusaka Stock Exchange was US\$15.5 million in 2005 and US\$24.97 million in 2006.⁴ Other financial institutions in Zambia include 13 commercial banks with assets of US\$3,135 million,⁵ 9 leasing companies, 3 building societies, a large number of micro finance institutions of which 7 are regulated by the

¹ IFRS refers to all standards and related interpretations issued by the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards committee (IASC). IASC-issued standards are known as International Accounting Standards (IAS). Within this report, references to IFRS also include IAS.

² Zambia Data Profile, <http://devdata.worldbank.org>.

³ Zambia Country Brief 2005-06, www.worldbank.org.

⁴ Lusaka Stock Exchange, 2006, Market Performance Review Report.

⁵ Consolidated assets for the banking industry are equivalent to Kwacha (K)10,450,595 million for March 2007. www.boz.zm.

Bank of Zambia, 1 development bank, and 14 insurance companies with 2005 gross premiums of US\$113 million.⁶

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

4. **The Companies Act of 1994 (Cap 388) does not require compliance with IFRS.** The Act requires that financial statements give a true and fair view but does not require compliance with IFRS or any accounting standards. Detailed guidance on contents of all statements making annual accounts is given in the Second Schedule of the Act. Companies are required to add such information and explanations in their statements on annual accounts; if otherwise, the financial statements would not give a true and fair view. The annual accounts required by the Companies Act are profit and loss account, balance sheet, group accounts (for companies with subsidiaries), and statement of source and application of funds,⁷ together with explanatory notes. Differing from these requirements, IFRS now require an income statement instead of a profit and loss account, and a cash flow statement instead of a statement of source and application of funds; IFRS also require a statement of changes in equity, which is not required in the Act.

5. **The Companies Act was revised in 1994 and is out of date with regard to financial reporting.** Financial reporting is continuing to develop rapidly, and it may be impractical to continually update the Act to reflect every new development. Bringing the Companies Act up to date to reflect current financial reporting would require stipulated provisions that are limited to compliance with accounting standards as set by a standards-setting institution in Zambia. The designated institution would ensure that the applicable standards are continually up to date.

6. **Other provisions of the Companies Act regarding corporate financial reporting are:**

- (a) *The Act requires every company to keep accounting records to enable preparation of true and fair accounts and also to enable the accounts to be conveniently and properly audited in accordance with the Act.* The Act makes failure to keep accounting records an offense by both the company and the defaulting officer. This provision is essential as it provides a legal basis for companies to make available records on which financial statements can be prepared and audited.
- (b) *The Act outlines obligations for directors to prepare annual accounts, distribute the annual accounts, and file an annual return with the registrar of companies.* The Act requires that the accounts be prepared within 3 months after the end of the financial year and, within the same time frame, be sent to every shareholder and debenture holder of the company together with auditors' report and directors' report. Every company is required to file an annual return with the Registrar of Companies within 21 days after holding an annual general meeting at the end of the financial year. In any other case the filing must be

⁶ Gross premiums for 2005 are equivalent to K376,853 million. www.pia.org.zm.

⁷ Although the statement of source and application of funds is not mentioned in S164 of the Act, where the other statements are mentioned, it is mentioned in the Second Schedule of the Act. The annual accounts must comply with requirements of the Second Schedule.

within 3 months after the end of the financial year. Subject to compliance, these provisions ensure timely availability of financial statements to the shareholders and debenture holders.

- (c) ***The Act requires every public company to submit, along with its annual report to the Registrar of Companies, a certified copy of every balance sheet, profit and loss account, group accounts, directors' report, and auditors' report sent to members and debenture holders of the company.*** Certification is made by both director and secretary of the company. Subject to compliance, this provision ensures that financial statements of public companies are available to the general public at the Registrar of Companies within 3 months of the end of the company's financial year.

7. **The Companies Act requires every company to appoint auditors within 3 months after incorporation and yearly at their annual general meeting.** It allows the Registrar of Companies to appoint an auditor when a company is without an auditor for a period of 3 months. The Act entitles the auditor to receive any communications relating to general meetings, and to be allowed to speak on any issue of a general meeting that concerns him or her as auditor. When a company appoints an auditor, removes an auditor, fails to appoint an auditor at a general meeting, and for any reason ceases to have an auditor, the Act requires the company to notify the Registrar within 14 days of the event. These provisions ensure that every company has an auditor to provide assurance to stakeholders on the company's financial reporting. Even very small companies are not exempted from these statutory audit requirements.

8. **The Accountants Act 1982 (Cap 390) regulates the profession.** It also established the Zambia Institute of Certified Accountants, now referred to as the Zambia Institute of Chartered Accountants (ZICA). The Accountant Act is currently being reviewed through a proposed bill drafted in 2004. The time lag in moving this bill forward in Parliament is due in part to other studies being undertaken as part of the Financial Sector Development Program led by the Bank of Zambia.

9. **The Companies Act appears to allow persons without a practicing license to audit private companies.** The particular sections in the Act dealing with audit of companies read as follows:

- ***S 172 (1).*** "A private company may appoint an individual or a firm as auditor for the company."
- ***S 172 (2).*** "A public company may appoint a registered accountant having a practice certificate issued by the ZICA under the Accountants Act or a firm of such registered accountants."

Although in practice the list of registered public accountants issued by ZICA is used as an indicator of qualified auditors, the Registrar of Companies is unable to enforce appointment of only registered accountants in private companies because of the provision in the Companies Act.

10. **The Accountants Act of 1982 (Cap 390) provides that only persons holding a practicing certificate from ZICA can be auditors.** The Accountants Act states no person shall set up in practice as an accountant or auditor, or be a partner in such a practice, unless he/she is a registered accountant and holds a practicing certificate issued by ZICA

within the provisions of its constitution. However, because the Companies Act allows a private company to hire any individual or firm—even without a license—as an auditor, it contradicts the requirements in the Accountants Act for the providers of audit services. ZICA has made recommendations to harmonize the Companies Act with the Accountants Act.

11. **The Banking and Financial Services Act (Cap 387) does not specifically require banks to apply IFRS in preparation of their financial statements; however, Bank of Zambia Circular 02/2006 provided guidelines on application of IAS 39 to facilitate implementation of IFRS in the banking sector.** The Banking and Financial Services Act requires directors of banks to provide shareholders with annual financial statements prepared consistently in accordance with generally accepted accounting principles. However, generally accepted accounting principles are not defined in the Act. Banks are public interest institutions for which the highest level of accountability should be demanded and properly legally defined. A directive by the Bank of Zambia (dated January 10, 2006) on the application of IFRS also fails to provide any legal basis for requiring banks to comply with IFRS since it assumes that the ZICA directive requiring all corporate entities to apply IFRS is legally binding on the banks.

12. **Annual financial statements of banks are available to the public.** The Banking and Financial Services Act requires the Bank of Zambia to have published in a newspaper of general circulation throughout Zambia a copy of each annual statement provided to it by each bank. An annual statement is defined in the Banking and Financial Services Act as 2 immediately preceding years' comparative statements of balance sheet and statement of income and expenses; a statement of change in financial position (for the preceding year only); and a statement of change in shareholders' equity (for the preceding year only).

13. **The Insurance Act (Cap 392) does not require insurance companies to apply IFRS.** There is no requirement in the Insurance Act for directors of insurance companies to prepare IFRS-compliant financial statements; there is no requirement to apply any generally accepted accounting principles (GAAP). The only clause in the Insurance Act mentioning financial statements is the audit clause, S 13 (2), which states, "The accounts of a local insurer shall be audited annually by an independent auditor, approved by the Registrar, and the auditor shall certify that (among other things) the balance sheet and the profit and loss account of the insurer give a true and fair view of the insurer's financial position and his profit and loss respectively." This clause provides no legal requirement for preparers of financial statements to adhere to high-quality financial reporting. Like banks, insurance companies are public interest institutions for which the requirement for high-quality financial reporting needs proper grounding.

14. **The Securities Act and Lusaka Stock Exchange listing requirements oblige auditors of listed companies to be practicing members of ZICA and to apply standards adopted by ZICA.** A new securities bill, intended to replace the Securities Act, would require auditors of listed companies to have been ZICA members for 5 years and engagement partners to have 10 years of post-qualification experience. The new bill would also require firm rotation after 5 years. Change in the statutory auditor has to be reported to the Securities Exchange Commission.

15. **There is no clear requirement in the Securities Act and the Lusaka Stock Exchange Listing Rules for application of IFRS by the publicly traded companies.**

According to the Listing Rules, “the annual financial statements must have been prepared in accordance with the issuer’s national law and, in all significant respects, with GAAP.” However, the Securities Exchange Commission and Lusaka Stock Exchange state that listed companies should comply with IFRS. Listed companies are public interest entities for which the highest quality of financial reporting is demanded and in which the general public has interest. Both institutions also require listed companies to publish interim and financial year-end results in two daily newspapers.

16. **There is no clear requirement in the Public Finance Act (2004) for application of IFRS, International Public Sector Accounting Standards, or any standards by state-owned enterprises.** Section 5 (1) f of the Public Finance Act states, “The Treasury shall promote and enforce transparency and effective management in respect of revenue, expenditure, assets, and liabilities on ministries, Government departments and statutory corporations.” Section 5 (2) b states, “The Treasury, for the purpose of performing its functions in subsection (1) shall enforce the provisions of this Act and any prescribed standards of generally recognized accounting practices and uniform classification systems, in ministries, departments and statutory corporations.” However, the Act does not provide any clarification on what the prescribed principles are.

17. **The Public Finance Act (2004) gives the Auditor General the responsibility of auditing state-owned enterprises.** Section 44 (1) states, “It shall be the duty of the Auditor General to audit, in accordance with the provisions of the Public Audit Act the accounts of any statutory corporation.” The Auditor General follows the standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

18. **The Zambia Revenue Authority does not require companies to have audited accounts for tax purposes.** However, it is widely acknowledged that an environment of high-quality financial reporting would also improve efficiency in tax assessment.

B. The Profession

19. **The accounting profession in Zambia has grown significantly in numbers over the last decade.** A 1992 ZICA report shows 420 professional accountants were required, but only 150 were available; 1,680 sub-professionals were required, but only 500 were available; and 6,000 technicians were required, but only 2,000 were available. A donor-funded program, which was introduced by ZICA, may have helped the institution to achieve its objective of attaining the required number of accountants. As of December 2006, professional membership of ZICA stood at 466 fellows, 479 associates, and 632 licentiates. Not all eligible accountants, particularly those in industry, are members of ZICA; therefore, the number of available accountants is higher than that of ZICA members. From 1996 to 2006, ZICA advanced 4,368 technician graduates. Although there is no current authoritative analysis regarding the actual demand for and supply of qualified professional accountants in the country, it appears that the corporate sector’s demand for competent individuals with capability to properly implement IFRS and ISA has created a need to increase the supply of highly skilled and professionally qualified accountants and auditors.

20. **ZICA is a self-regulated membership organization.** ZICA is governed by a Council of 12 members: 2 are registered accountants appointed by the Minister of Finance, and 10 are registered accountants elected by members at an annual general meeting. All

ZICA Council members are voluntary part-time officers with full-time occupations elsewhere. The technical department has only 1 officer. ZICA is a member of the International Federation of Accountants (IFAC) and the Eastern, Central and South African Federation of Accountants (ECSAFA).⁸

21. **ZICA lacks the technical capacity to effectively discharge its responsibilities and fulfill its IFAC membership obligations.** The IFAC is committed to a high standard of financial reporting that sufficiently protects the interest of the public, and it expects this same commitment from its member organizations through its 7 statements of membership obligation.⁹ Discussions and interviews with key stakeholders reveal that ZICA lacks technical capacity to discharge its responsibilities and fulfill its IFAC membership obligations: ZICA's ability to enforce the code of ethics on professional accountants is weak, it does not carry out quality reviews for practicing auditors, and it does not have an arrangement for regularly providing guidance to its members on technical matters and professional development.

22. **The audit firms belonging to international networks have their own internal arrangements for quality reviews, but local firms do not.** There are 98 audit firms registered with ZICA, 70 of which are sole practitioners. International good practices require that, to uphold the standards expected by stakeholders (shareholders, regulators, and the public) who depend on the opinions of the practicing auditors, it is important to carry out audit-quality reviews. Ideally a strong independent oversight institution would have the responsibility for regulating — including providing quality reviews of — auditors. ZICA has engaged ACCA to undertake the quality reviews for members in public practice.

23. **In June 2006, ZICA adopted the IFAC Code of Ethics; however, there is no evidence of an effective enforcement mechanism.** Before June 2006, ZICA had its own code of ethics, which was adapted from the IFAC professional code. However, ZICA does not operate an effective monitoring and enforcement system. In addition, the public is not fully aware of the standards of conduct expected from auditors; if it were aware, there would be increased demand for high-quality conduct from auditors.

C. Professional Education and Training

24. **The National Accounting Technician (NATech) is a local qualification and has a good reputation on the market.** NATech is offered by ZICA. The qualification first produced graduates in 1996 and has successfully competed with the Association of Certified Chartered Accountants' (ACCA) Chartered Accounting Technician (CAT), and the other UK-based technician qualification schemes by the Association of Accounting Technicians. Stakeholders are said to prefer NATech holders to the other technician qualifications: the NATech graduates are examined on more subjects and have more

⁸ IFAC is a global organization for the accountancy profession. It works with its 155 members and associates in 118 countries to protect the public interest by encouraging high-quality practices by the world's accountants. ECSAFA members include the professional accountancy bodies of Botswana, Democratic Republic of Congo, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

⁹ IFAC requires member organizations to meet obligations in quality assurance, international education standards, international standards related to audit assurance, code of ethics, public sector accounting standards, investigation and discipline, and International Financial Reporting Standards.

practical exposure. The difference between the NATech qualification and the ACCA scheme is in enrollment requirements and subjects offered. NATech enrolls students who have a full school certificate with credits in English and mathematics; the ACCA Chartered Accounting Technician scheme enrolls students who have attained age 16. NATech has in its curriculum business mathematics and statistics, economics, and business law; the ACCA technician scheme does not. In addition, the NATech qualification is cheaper than the foreign qualification.

25. **The Bachelor of Accountancy (BAcc), which is well regarded by employers and trainers in Zambia, is available from the Copperbelt University.** Enrollment in the BAcc program requires a full school certificate with credits in English and mathematics, and the minimum qualification for lecturers in Copperbelt's accountancy department is a Master's degree. The BAcc program is designed to equip students with a wider knowledge base and analytic skills, and to prepare more versatile professional accountants. The market responds favorably to BAcc holders. To limit the brain drain, some employers enhance the salaries of lecturers at Copperbelt's business school. Copperbelt University produces about 40 graduates each year, which means that a very low proportion of accounting professionals have a base qualification of a university degree.¹⁰ As a comparison, ZICA produces over 400 accounting technician graduates per year. To expand capacity, Copperbelt requires resource support for providing materials, information technology including accounting software packages, staff exchanges, and salary supplementation.

26. **Currently all professional members of ZICA hold foreign qualifications; however, a local professional qualification has been introduced.** Professional members of ZICA hold foreign qualifications mainly from ACCA and the Chartered Institute of Management Accountants (CIMA). A local professional qualification launched by ZICA in January 2007 has 3 levels: technician, licentiate, and professional. ZICA is currently pursuing reciprocal arrangements with other international qualifications such as ACCA, CIMA, and the South African Institute of Chartered Accountants (SAICA).

27. **Practical training requirements for professional accountants need to be properly monitored and effectively enforced.** There are no approved practical training providers, and there is no strict monitoring of attainment of practical training. Stakeholders raise the issue of incompetence because some professional accountants have less than ideal practical training. Controlling and monitoring the practical training attainment of professional accountants would contribute significantly to competence.

28. **Compliance with continuous professional development (CPD) requirements is low.** In 2006, only 16 percent of registered fellows and 15 percent of registered associates completed CPD requirements; the rate of completion for licentiates and technicians was even lower.¹¹ ZICA members indicated that one factor contributing to low CPD is the cost of its CPD programs: a CPD program could cost K3 million (US\$900). The CPD programs are often held in a resort location like Livingstone,¹² and participants must cover the program fee and travel costs. Thus the costs of attendance are prohibitive in many cases. Notwithstanding the low compliance rate, ZICA organizes seminars where participants can attain their CPD requirements, most of them in conjunction with ACCA

¹⁰ Copperbelt University reports 280 BAcc graduates between 2000 and 2006, with 39 graduates in 2006.

¹¹ AGM Report, April 28, 2007.

¹² Livingstone is a resort destination 500 kilometers from Lusaka.

and CIMA. To enhance its CPD capacity, in March 2007 ZICA signed a memorandum of understanding with ACCA, establishing a CPD cooperative arrangement between the two institutions. Aside from the question of costs, there appears to be poor awareness among Zambia's professional accountants of the vital requirement of CPD for continued competence and membership in the profession, and there is a need to increase their awareness of CPD requirements. The IFAC provides CPD guidance to member bodies.¹³ ZICA should educate its members about CPD needs and start enforcing sanctions on noncompliance, since compliance is an obligation for IFAC membership.

D. Setting Accounting and Auditing Standards

29. **ZICA sets accounting and auditing standards in Zambia.** The general statutory function of ZICA is "to do all such acts and things as are necessary to foster the advancement of the profession of accountancy." Setting standards is too important to be left to the interpretation of such a general statement. There is a need to stipulate clearly the institution with responsibility for setting accounting and auditing standards. According to emerging international good practices, setting accounting and auditing standards is a statutory function clearly conferred on an oversight institution that is independent from the profession.

30. **Effective March 2005, ZICA adopted IFRS as applicable to all commercial entities in Zambia.** However, this directive lacks clear legal backing. The Companies Act, the Banking and Financial Services Act, the Insurance Act, and the Public Finance Act do not require compliance with IFRS or any properly defined accounting standards. The ZICA-issued directive therefore has no connection to the legal requirements on financial reporting for institutions and therefore has no legal backing.

31. **ZICA directed that all auditors in Zambia should comply with International Standards on Auditing.** ZICA issues audit practice licenses. All licensed auditors are members of ZICA and are therefore subject to its regulation. ZICA therefore has the legal powers to enforce ISA compliance on ZICA-licensed auditors.

32. **ZICA does not have necessary technical capacity to carry out research and related activities to support standardsetting.** Before fully adopting IFRS in 2005, ZICA had issued accounting standards that were wholly adopted from IFRS, except for two standards. The ZICA technical committee, whose members are all volunteers, does not provide an adequate structure to undertake the onerous process of setting standards. This situation is similar to many accountancy bodies in the region, and yet the countries require simplified standards that are relevant to local realities. The way forward might be to partner with regional efforts to deal with this issue.

33. **The head offices determine accounting standards applied by foreign-controlled companies.** Representatives of foreign companies interviewed by the ROSC team indicated that financial reporting requirements for their firms are based on internal manuals, which they assume follow IFRS. The foreign head office provides the necessary technical support for implementation of the required IFRS. However, the ROSC team

¹³ IFAC IES 7, *Continuous Professional Development*, A Program of Lifelong Learning and Continuous Development of Professional Competence.

noted several instances in which IFRS were not followed, and the companies concerned merely explained that they were following company policy.

E. Ensuring Compliance with Accounting and Auditing Standards

34. **There is no institution that monitors and ensures compliance with the ZICA directive requiring all commercial entities to apply IFRS.** All regulators interviewed by the ROSC team equated compliance with ZICA membership and assumed that ZICA had a way of ensuring compliance by its members. However, ZICA does not check compliance. In the current structure, ZICA alone regulates the accounting profession in Zambia; there is no independent regulator responsible for monitoring and enforcing standards. Emerging international good practices recognize that external monitoring and enforcement are necessary to achieve compliance.

35. **Compliance is hampered by the absence of implementation guidance.** ZICA does not provide guidance on implementing standards. Adopting IFRS was ZICA's response to Europe's adoption of IFRS in 2005 and also to a 2000 directive that many other ECSAFA members had already adopted. ZICA was therefore following international and regional trends. However, ZICA did not follow the directive with a comprehensive implementation guidance program. Only two seminars tackling IFRS requirements have been conducted since the compliance directive was issued. Various stakeholders commented that the 2005 adoption of IFRS was a low-key affair passed at an annual general meeting. International firms were more proactive about sensitizing their clients to the new international standards.

36. **IFRS compliance is hampered by complex requirements.** Practitioners indicated that many companies are not able to apply IFRS because of their complexity—for example, determination of fair value in some cases requires the costly services of experts. In hindsight, the wholesale adoption of IFRS in 2005 did not take into consideration the relevance of IFRS to the local environment. Stakeholders appear to agree that the requirements of IFRS are too onerous for most of the local companies, which are mainly small and medium enterprises with limited resources.

37. **Regulators of banks, insurance companies, pension funds, and listed companies ensure that auditors of these entities are registered and have practicing licenses.** The Bank of Zambia, which regulates banks and approves the appointment of auditors for banks, approves only those who are registered, possess practicing licenses, and have the capacity to audit the particular bank; however, it has not specifically spelled out what that capacity is. The Pensions and Insurance Authority has directed insurance companies and pension funds that only auditors registered and holding a practicing license from ZICA can audit these entities; and the Authority requires that appointment, termination, and resignation of auditors be reported to it. Lusaka Stock Exchange rules state that only auditors registered and holding a practicing license from ZICA can audit listed companies. These requirements ensure that only auditors who are subject to compliance with ISA audit these public interest entities.

38. **Auditors and audit firms are not subject to quality reviews.** In Zambia there is no mechanism for quality review of auditors or for ensuring that auditors comply with ISA. However, the ZICA Council is considering the ACCA/ECSAFA audit quality review

program, and it expects to put in place monitoring and quality reviews for auditors before the end of 2007.¹⁴

39. **Under provisions of the Companies Act and Accountants Act, the levels of penalties for noncompliance are too low to be an effective deterrent.** Under the Companies Act, offenses such as failure to keep accounting records, failure to circulate accounts, and failure to file a return with the Registrar of Companies result in a fine of 1,000 monetary units (K1 million, or about US\$300). The penalty for consenting to be an auditor or acting as an auditor when disqualified under the Companies Act is 500 monetary units (K500,000, or about US\$150). Under the Accountants Act, the penalty for setting up a practice without a practicing certificate is 5,000 penalty units, imprisonment for a period not exceeding two years, or both. *Penalty units* are not defined in the Accountants Act, but if weighted using the monetary units in the Companies Act, the fine is K5 million (US\$1,500).

40. **The regulatory agencies/bodies do not have any mechanism in place for monitoring and enforcing compliance with the applicable financial reporting requirements.**

- a. *Registrar of Companies* does not strictly enforce filing requirements as provided in the Companies Act. It appears that both a lack of capacity and a general practice of not viewing themselves as depositories of public information contribute to this situation.
- b. *Lusaka Stock Exchange* and *Securities Exchange Commission* do not have programs for checking the IFRS compliance of financial statements of listed companies. Both scrutinize financial statements of listed companies, but the scrutiny is more about disclosures of specific information rather than IFRS compliance.
- c. *Bank of Zambia* focuses inspections on prudential matters only. Even when there are regulations that deal with accounting, it is only when this treatment affects prudential matters that the Bank of Zambia responds.
- d. *Auditor General* has delegated most audits of state-owned enterprises to private firms. The head of the function dealing with audit of state-owned enterprises in the Auditor General's office is not a qualified accountant although he is expected to perform financial statements audits. However, as there has been no adoption of International Public Sector Accounting Standards, the culture of conformity with international standards has not been institutionalized in the public sector.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

41. **ZICA adopted IFRS as accounting standards for all commercial entities in Zambia.** Inadequate technical capacity to deal with the complex requirements of IFRS, lack of implementation guidance for practitioners, and lack of a monitoring and enforcement mechanism are the main issues currently constraining proper application of corporate financial reporting requirements.

¹⁴ ZICA AGM Report, April 28, 2007.

42. **Actual accounting standards practiced in many cases are not in compliance with the published standards.** The ROSC team found several cases in which the directors, together with their auditors, had found reasons not to apply various provisions such as fair value or segmentation; but the audit report still talked about compliance with IFRS. In other cases the carrying value of assets was assumed to equal fair value without testing.

43. **The ZICA Council has adopted ECSAFA Guidelines on Financial Reporting for Small and Medium Enterprises.**¹⁵ This adoption apparently has to go to the annual general meeting for approval before implementation; however, although there was an opportunity at the last annual general meeting, this was not done. Opposition to this adoption sees a reduction of reporting requirements as having a negative effect on some businesses.

44. **Reliance is placed on auditors, but that does not necessarily result in compliance.** Only auditors from the international networks appear to be comfortable with IFRS, as they are able to seek assistance from their networks. Neither the small audit firms (which are the majority) nor the other accountants in business are adequately skilled in IFRS matters. Therefore, most of the financial statements produced are based on auditors' understanding of IFRS-compliant treatments of particular transactions/events.

45. **Many stakeholders complained that some standards are too difficult to implement in Zambia.** In particular, those complaints deal with impairment, fair value, financial instruments, and segment reporting. The ROSC team was told in some instances that it was not company policy to comply with some of these standards, so the auditor issued a clean opinion on IFRS compliance. It is worth noting that a set of financial statements can be treated as IFRS-compliant only if it complies with all IFRS requirements.

46. **Actual financial reporting practices differ in many cases from the requirements set by IFRS.** Interviews with a cross-section of practicing auditors, corporate accountants, academics, investment analysts, and regulators yielded information on a number of cases of noncompliance. On the basis of this information and of a review of the financial statements of 12 out of 15 listed companies, and 3 non-listed companies, some conclusions on noncompliance were reached:

- **Fair values.** Determining fair value is difficult in an economy where professional valuers are not easily available. In many cases the company management constitutes internal committees to determine fair value on judgment of the committee members—who are not independent valuers. The auditors generally agree with the valuation given by management, without applying procedures to confirm these values. If the management decides not to apply fair value, the auditor appears to support that decision.
- **Compliance with IFRS.** In some cases the audit opinion does not mention whether the financial statements have complied with IFRS or any accounting standards; but even so, the financial statements receive a clean audit opinion.
- **Inventories.** Although there is no disclosure of the amount of inventories recognized as an expense during the period, as required by IAS 2, *Inventories*,

¹⁵ ZICA AGM Report, April 28, 2007.

some financial statements receive a clean audit opinion. In other cases, the cost of inventories is determined by standard cost; however, IAS 2 requires the cost of inventories to be determined by either first-in first-out or weighted average.

- **Cash flow statement.** In some financial statements, the cash flows are classified differently from the way prescribed in IAS 7, *Cash Flow Statements*. Some sets of financial statements also do not show changes in cash and cash equivalents as required by IAS 7.
- **Impairment losses.** Potential failures to recognize impairment losses on property, plant, and equipment could result in overstated assets. Many of the financial statements do not indicate whether the long-term assets were impaired, and therefore they do not comply with IAS 36, *Impairment of Assets*. Also, in many cases the methodology of impairment testing is not properly applied. Failure to comply with this standard could result in an overstatement of the carrying amounts of property, plant, and equipment in audited financial statements.
- **Related-party transactions.** Many entities do not make such important disclosures as the relationship, volumes, and amounts of related-party transactions. Adequate disclosure of material related-party relationships and transactions is essential to users' understanding of a company's financial position and results, and to minority investors' confidence that they will receive fair treatment. Inadequate disclosure in this regard leads to noncompliance with IAS 24, *Related Party Disclosures*.
- **Employee benefits.** In most cases, inadequate disclosures as to whether actuarial or any other forms of valuation had been made to quantify outstanding liabilities for post-employment benefits meant that the statements did not comply with the requirements of IAS 19, *Employee Benefits*.
- **Insufficient disclosure of accounting policies.** The notes to the financial statements do not always include such required disclosures as (a) revenue recognition; (b) useful lives of property, plant, and equipment; (c) leases; (d) employee benefits; and (e) determination of the fair value of financial instruments. Lack of clarity and precision in disclosure of accounting policies leads to noncompliance with IAS 1.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

47. **ZICA requires all auditors to comply with International Standards on Auditing.** However, in ROSC interviews with practicing accountants, it was very clear that some practicing accountants were unaware of all the applicable auditing standards. One practicing accountant actually confessed that he does not know any ISA requirements. Another indicated that he had never attended any CPD seminar at which he may have had an opportunity to learn about the auditing standards. It is also worth noting that holders of the CIMA (UK) qualification can and do practice as auditors in Zambia, but they have no rights to practice as auditors in the United Kingdom.

48. **Preparers rely on auditors' assistance with the application of IFRS compromises auditors' independence.** Both enterprise accountants and practicing auditors indicated that preparers rely on auditors to help them comply with IFRS. This

practice compromises the independence of auditors, even if some of the larger firms attempt to erect information barriers to deal with the problem.

49. **Audit firms are not subjected to any external quality review.** Both large and small audit firms need to be subject to external quality review. The absence of quality review increases the likelihood of noncompliance with auditing standards. Also, without a quality review mechanism, the audit firms cannot meet the requirements of ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements*.

50. **Without quality reviews of auditors, it is hardly possible to produce documented evidence of the degree of compliance with auditing requirements.** However, from the feedback of stakeholders and the ROSC review of sample financial statements, it is clear that there are areas in which the audit practices do not comply with ISA requirements:

- ***Auditing fair value measurements and disclosures.*** Financial statements for an entity whose reporting framework required the determination of fair values but had not done so received a clean audit report. This is not in compliance with ISA 545, *Auditing Fair Value Measurements and Disclosures*, which among other requirements requires the auditor to determine whether the client's reporting framework requires the determination of fair values
- ***Lack of planning.*** Stakeholders spoke of poor communication, inefficiency, and ineffectiveness in execution of audits, which may be indicative of lack of planning. ISA 300 requires planning of an audit of financial statements
- ***Lack of understanding of client business.*** Some stakeholders felt their auditors did not understand the business operations and risks. ISA 315 requires understanding of the entity and its environment and assessing the risks of material misstatement.
- ***Lack of documentation.*** Stakeholders spoke of lack of documentation, which makes it impossible to benefit from the knowledge of an outgoing auditor. ISA 230 requires auditors to document matters that are important in providing audit evidence to support the audit opinion and evidence that the audit was carried out in accordance with International Standards on Auditing.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

51. **There have been a few cases of banks collapsing in the last 10 years, and the last corporate collapse in Zambia happened in 2004.** However, no action was ever taken against the auditors. Comments from stakeholders indicate that the disciplinary process in ZICA is at best selective, and at worst nonexistent. The Disciplinary Committee mainly comprises practicing accountants; its chairperson is also a practicing accountant. The ZICA Council is dominated by the large firms, which have impact on ZICA's ability to take actions for infractions in audits conducted by members of those leading firms.

52. **Lack of quality review of auditors compromises the quality of financial reporting.** Because there are no quality reviews of auditors, most stakeholders appear to have no confidence in the work of their auditors, regardless of the firm. The general

feeling was that nobody cares about quality, so why bother; this provoked a representative of an institution audited by one of the international firms to say, “We are paying international fees for local quality.”

53. **There is no standard approach to financial reporting issues.** Stakeholders indicated that with the absence of implementation guidance, there is no standard approach to dealing with complex requirements of IFRS like fair values, leaving each company to do whatever its auditors allow. Without a standard approach, financial statements between firms are not really comparable—and yet this is one of the objectives that application of international accounting standards aims to achieve.

54. **Audit service users are not fully aware of how auditors should conduct their work.** Stakeholders indicate that if service users were aware of how practicing accountants are expected to conduct their work, there would be increased demand for high levels of performance and the quality of audit services would improve. In the same vein, stakeholders’ awareness of the expected quality of financial reporting would raise demand for and eventually improve quality.

55. **Except in securities, lending is based on a culture of lack of trust.** Interviews with lending institutions reveal that, while financial statements are used in lending, not much trust is placed in them; the collateral security for the lending is the relevant instrument. Improving the quality of financial reporting would allow lenders to place greater reliance on financial statements.

56. **There are no financial reporting requirements for nongovernmental organizations (NGOs).** Stakeholders indicate that NGOs make up a significant portion of the economic activities in Zambia. Some NGOs are large enough to justify public interest in their financial reporting, but these NGOs have no legally set financial reporting requirements. Even with public interest, financial reports of NGOs are not available to the public. The stakeholders felt that the large NGOs qualify to be defined as public interest entities.

VI. POLICY RECOMMENDATIONS

57. The recommendations of this ROSC are interrelated and mutually supportive and are designed to collectively improve the financial reporting environment in Zambia. The policy recommendations emerge from the ROSC review and from the valuable inputs received from the various stakeholders. These primarily principle-based recommendations take a holistic approach and are expected to provide input in preparing a country action plan geared toward developing a sustainable high-quality corporate financial regime in Zambia. The country action plan should identify specific activities to be undertaken by the key stakeholders, including the relevant Government departments/agencies, and possibly with the assistance from various development partners.

Statutory Framework

58. It is necessary to review the provisions of existing laws regarding requirements on accounting and auditing. The statutory review should accomplish the following:

- Stipulate the legal obligation of preparers of financial statements to comply with properly defined accounting standards;
- Separate the obligations of preparers from those of auditors of financial statements;
- Stipulate the profile of persons allowed to issue an audit opinion on corporate financial statements, and the requirement to comply with properly defined auditing standards in performance of audits;
- Require regulators to take steps for ensuring compliance with the applicable accounting and auditing requirements in the context of general purpose financial reporting by the regulated entities;
- Set sanctions for noncompliance at levels high enough to serve as deterrents in the current economic environment; and
- Ensure that developments in standards for financial reporting are easily incorporated in the law.

Specifically the statutory review should address the following:

(a) ***Companies Act***

- Require preparers of financial statements to comply with properly defined accounting standards. Ideally the definition of accounting standards in the Companies Act should directly refer to standards set by the responsible standardsetting institution. This correlation will help avoid the need to continually update the Act with every new development in accounting standards.
- Amend the provision dealing with the appointment of auditors for private companies to require that only qualified individuals and firms registered by the regulatory authority may serve as statutory auditors.
- Review the level of statutory penalties for failure to comply with requirements for preparation of financial statements and audit.
- Require the Registrar of Companies to enforce the requirements on filing company financial statements.

(b) ***Banking and Financial Services Act and Insurance Act***

- Require banks and insurance companies to prepare financial statements complying with properly defined accounting standards. The definition of accounting standards should be dealt with as recommended in the Companies Act.
- Require auditors of banks and insurance companies to comply with International Standards on Auditing.
- Require the regulators of banks, insurance companies, and all other financial institutions to take steps for ensuring that the regulated entities comply with the applicable accounting standards in their general purpose financial statements.

- (c) **Public Finance Act.** Define the term *prescribed generally acceptable accounting principles* by defining the prescribing body.
- (d) **Financial Reporting Act and Financial Reporting Council.** The ROSC team recommends enacting a Financial Reporting Act and setting up a Financial Reporting Council. This will ensure a wholesome approach to putting in place the appropriate institutional framework for financial reporting. The composition, functions, and powers of the proposed Financial Reporting Council need to be configured in line with the emerging international trends to ensure independence and effectiveness in regulating general purpose financial reporting.¹⁶ This Council should be empowered with oversight to assess whether the preparers and auditors of financial statements are complying with the applicable standards, and whether the auditing profession is appropriately serving the interests of users of audited financial statements and of the wider public. It should adjust the scope of its work in coordination with the monitoring and enforcement activities of other regulators, including professional self-regulatory organizations. Practicing accountants and auditors would not be normally eligible for inclusion in the governing board of the Financial Reporting Council.

Monitoring and Enforcement

59. A strong monitoring and enforcement mechanism is vital to an environment of high-quality financial reporting. Regulators, both self-regulatory organizations and statutory regulators, must have the capacity to implement arrangements for efficient monitoring of compliance and consistently take appropriate action against violators. Areas of public interest must have even stronger independent regulation. Also, the efforts of the regulators must be coordinated. This section recommends specific actions in this area.

60. **Entrust upon the proposed Financial Reporting Council an adequate capacity to function as an effective oversight institution.** The Financial Reporting Council should have necessary resources to be independent of the professional accountancy body, and it should by law be financially and operationally independent. This Council should be responsible for regulating the entire profession—regulating auditors and checking compliance of public interest entities with the applicable accounting standards. Legislation should give this oversight body adequate power to require submission of audited financial statements by public interest entities and all other companies that are subject to annual statutory audit. In order for the Financial Reporting Council to carry out its supervisory and enforcement functions, a financial reporting review panel should be set up and charged with the following: (a) reviewing financial statements filed with the Financial Reporting Council; (b) requesting any additional information from companies and their auditors; (c) conducting on-site inspections at companies, as needed; and (d) imposing legal and administrative sanctions for noncompliance. The review panel might include accounting experts drawn on a part-time basis from various sectors of the economy. To ensure the transparency of the Financial Reporting Council's activities, it should report

¹⁶ In preparing the law on the Financial Reporting Council, lessons/principles may be drawn from other countries' evolving regulatory structures, such as United Kingdom's Financial Reporting Council, Australia's Financial Reporting Council, United States' Public Company Accounting Oversight Board, Nigeria's Financial Reporting Council, South Africa's Independent Regulatory Board for Auditors.

each calendar year on enforcement actions conducted, issues addressed, and sanctions imposed. The governance of the Financial Reporting Council should be structured to avoid conflict of interest issues; international good practices should be followed in this regard.

61. **Ensure strong regulation of auditors.** Ideally the independent oversight institution (proposed Financial Reporting Council) should regulate auditors as an area of public interest since auditors have a distinct quality assurance role in financial reporting. The oversight body should develop and implement efficient and effective procedures for conducting quality reviews of auditors. The quality review should encompass the following:

Develop mechanisms to evaluate audit firms' quality assurance arrangements, their approach, and their working papers with regard to selected audit engagements. Investigate valid complaints against auditors and audit firms. In the case of material infractions, the oversight body should recommend appropriate courses of actions to the enforcement authority for implementation.

62. **Improve the capacity of the current regulators.** Strengthen the capacities of the Securities and Exchange Commission, Lusaka Stock Exchange, Bank of Zambia, and Registrar of Insurance with regard to IFRS so that these regulatory bodies can effectively deal with matters relating to accounting and financial reporting practices of the regulated entities. The individuals who deal with financial reporting matters of the regulated entities in these organizations should be knowledgeable about the practical application of IFRS. Also, these regulators should establish a collaboration arrangement with the proposed Financial Reporting Council to facilitate joint efforts on monitoring and enforcement for improving the quality of financial reporting by the regulated entities. Since resources are scarce, it will not be possible to recruit highly skilled specialists on IFRS application in all regulatory bodies; however, it will be possible to build a team of highly skilled specialists in the Financial Reporting Council, and all other regulators will be able to rely on the findings of monitoring activities carried out by the Council.

Setting Standards

63. **Stipulate a clear statutory mandate to the proposed Financial Reporting Council for setting accounting and auditing standards.** The responsibility for officially mandating the accounting and auditing standards should be shifted from a self-regulating organization to the statutory body. As the statutory body, the proposed Financial Reporting Council should use the technical resources available in ZICA but should be the final authority on standards to be applied to the various types of businesses operating in Zambia.

64. **Set applicable standards, other than IFRS, for small and medium enterprises.** IFRS should not be mandated for small and medium enterprises. Set financial reporting requirements that are relevant to the realities in the Zambia environment. Relevance applies to which institutions should apply IFRS, which institutions should apply less onerous accounting standards, and which institutions should be exempt from statutory audits. IFRS should be applicable only to public interest entities, which should be defined according to the environment in Zambia.¹⁷ For other small and medium enterprises, less

¹⁷ Public interest entities are defined by the nature of their business, size, and number of employees; or by their corporate status by virtue of their range of stakeholders. Examples may include listed companies, banks and similar financial institutions, insurance companies, and large enterprises. A public interest

onerous standards should be set. The requirement for audit, or exemption from audit, should also be set in accordance with the local environment.

Professional Capacity

65. **Strengthen ZICA to build the capacity it needs to address quality issues and meet its IFAC membership obligations.** Specific issues to be addressed by ZICA with the improved capacity are as follows:

- ***Provide implementation guidance to practitioners.*** Research should be undertaken initially to identify areas of difficulties where practitioners require implementation guidance, and these areas should then be addresses. There is an immediate need for ZICA to issue a standard on mining, which is the country's biggest industrial activity. Beyond that, new requirements in standards should always be supported with comprehensive implementation guidance.
- ***Monitor and enforce ethical requirements.*** ZICA should promptly investigate all valid reports of ethical misconduct and enforce appropriate sanctions for confirmed cases of ethical misconduct.
- ***Support small practitioners in their practice and in developing their firms.*** Assist practicing auditors to establish mechanisms for meeting the requirements of ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements*.

66. **Join regional efforts to address capacity needs in some technical matters.** Some capacity needs (for example, standard setting, provision of practical implementation guidance, and quality review of auditors) can be met by joining regional efforts, particularly with ECSAFA. Efforts should be made to find out what regional initiatives are available and how Zambia could benefit from participating in them. Alternatively, Zambia could initiate programs that might interest regional bodies and attract other member countries to join the program.

Education and Training

67. **Ensure quality in professional education and training programs.** Quality enhancement efforts should take the following recommendations under consideration:

- ***Ensure that the syllabus for the ZICA program of national qualifications is in line with international developments.*** Course content should cover all the topics required in IFAC International Educational Standards: professional values and ethics, corporate governance, business ethics, financial markets, quantitative methods, organizational behavior, marketing, international business, and globalization.

entity may, for example, be defined as individual enterprises and groups of enterprise that meet any two of the following three thresholds: (a) total number of employees exceeding [a number to be decided in consultation with the country stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with stakeholders].

- ***Support Copperbelt University in developing capacity to increase the number of BAcc graduates while sustaining the quality of the degree.*** The support should provide teaching and study materials, IT requirements, and resources to develop the faculty. The University should be able to afford remuneration for retaining skilled lecturers and to provide facilities for further studies and development of research capacity.
- ***Monitor practical training requirements for professional accountants.*** Designate approved practical training providers. Set practical training requirements that are properly itemized for necessary accomplishments and exposure to meet required competence. Strictly monitor attainment of the set requirements before admission to ZICA membership.
- ***Make continuing professional development affordable and accessible.*** Establish reasonable attendance fees for CPD programs. Locate CPD seminars in easily accessible and affordable locations.
- ***Enforce requirements of continuing professional development.*** Set and enforce penalties for failure to achieve CPD requirements. Ensure CPD measurement is in line with IFAC IES 7, which provides for measurements of CPD completion to be achieved by 3 different approaches. Sensitize members to the requirement and importance of continuing professional development.

Awareness Raising

68. **Raise awareness of issues in financial reporting.** Conduct awareness campaigns on issues of financial reporting, addressing target groups separately. Issues should include developments in financial reporting, local focus on financial reporting, improvements at the local level, responsibilities of specific groups, legal penalties for noncompliance, and the benefits of high-quality corporate financial reporting for economic development and poverty alleviation. Target groups should include company directors and top management of companies, auditors, all professional accountants, regulators, and the public.

**Addendum:
Updated Input from Country Authorities
June 25, 2009**

Note: The following input, provided by the Ministry of Finance and National Planning of the Republic of Zambia, was prepared by the Zambia Institute of Chartered Accountants (ZICA).

1. Since the ROSC final draft report was written in June 2007, there have been changes in the regulatory and legal framework affecting the accounting, financial reporting, and auditing practices in Zambia's corporate sector with the application of the International Financial Reporting Standards (IFRS) and International Standards on Auditing (IAS). In particular, the Accountants Act 2008 has been enacted and addresses some of the issues raised in the ROSC report. This Addendum addresses changes that have occurred since the initial preparation of the ROSC in June 2007.

The Statutory Framework

2. The Company's Act is undergoing revisions. The Zambia Institute of Chartered Accountants (ZICA) has recommended that the Company's Act be aligned with the Accountants Act 2008 to make it mandatory for private companies to appoint an auditor who is registered and holds a ZICA-issued practicing license.

3. At present, using IFRS is not a legal requirement under the Insurance Act and the Banking and Financial Services Act. However, instructions have since been made to make IFRS a mandatory requirement for financial institutions regulated under these Acts.

4. The Securities Act and Lusaka Stock Exchange require auditors to be registered and to hold ZICA-issued practicing certificates, but they do not require compliance with IFRS. However all auditors are ZICA members and all ZICA members are duty bound to comply with ZICA's position on the application of IFRS.

5. Zambia Revenue Authority (ZRA) now requires audited financial statements for tax return purposes, which is a positive idea; but ZICA is modifying the reporting requirements for the small and medium enterprise sector in their compliance with ZRA.

The Accountant Act 2008

6. The Accountants Act 1982 was repealed and replaced by the Accountants Act 2008, which provides for the continuation of the ZICA.

7. The ZICA Council is established under Part III of the Act. Section 9 constitutes the ZICA Council comprising 11 members. Council members include the President, Vice President, and 4 chartered accountants from public practice and 4 chartered accountants from commerce and industry. The Accountant General is the 11th and ex officio member.

8. Section 5 provides for ZICA authority to regulate the accountancy profession. Section 8 provides for ZICA to be self-regulated. Section 10 provides for the functions of the Council, under which Part IV provides for the classes of membership, registration of accountants, and issuance of practicing certificates to chartered accountants. Section 19 of the Act provides the measure that to practice a chartered accountant shall apply for a practicing certificate or a non-audit practicing

certificate. Section 20 further prohibits establishment of a practice without a practicing certificate or non-audit practicing certificate.

9. Section 24 states that a person who registers a firm of accountants under the *Registration of Business Names Act* shall also register the firm with the ZICA.

10. Section 29 states that a chartered accountant shall perform an audit in accordance with the auditing standards determined by the ZICA and such agreed procedures as the client contract may specify.

11. Section 31 provides for practice review to be undertaken by the ZICA. Under this provision, the ZICA or a person authorized by the ZICA shall review the practice of a chartered accountant and the firm of chartered accountants and may inspect and make copies of any book, document, or record in the possession or under the control of the chartered accountant. The ZICA has engaged the ACCA to undertake practice reviews of public firms.

12. Part V, Section 37 on protected disclosure, states that the Accountants Act prevails in cases of any inconsistency over the provisions of any investigation act. The Accountants Act makes reference to disclosures to certain persons or bodies and protects whistle-blowers from reprisals.

Accountancy Profession and Independent Disciplinary Committee

13. Part VII of the Accountants Act provides for the establishment of an Independent Disciplinary Committee, which deals with members who violate provisions of the Act and are charged with professional misconduct and/or violation of the code of ethics.

14. The chair and vice-chair of the Disciplinary Committee must be legal practitioners qualified to hold or have held high judicial office. The introduction of an independent Disciplinary Committee is aimed at protecting public interest.

15. ZICA has established a Practice Review Department to carry out quality reviews for practicing auditors and monitor financial statements of public interest entities. ZICA has signed an agreement with ACCA and ECSAFA to undertake monitoring and practice review of members in practice.

16. ZICA is strengthening its Technical Committee to include the Big Four auditing firms in the analysis of various exposure drafts from the IFAC Board.

Professional Education and Training

17. The proposed support to Copperbelt University for materials, accounting software packages and other information technology, staff exchange, and salary supplement is welcome, and ZICA supports it.

18. Under one practical-based course of the ZICA Professional Accountancy Program, students are coupled with mentors and coaches at accredited institutions for a 6-month period after which they write a thesis report that is assessed for certification by a panel of experts.

19. In accordance with the Accountants Act 2008, to be given a practicing and non-audit practicing certificate, a chartered accountant must take a competence examination. Compliance to requirements of continuing professional development is still low. The ZICA Council has now approved sanctions for noncompliance with CPD requirements since this is an obligation for IFAC membership.

Setting Accounting and Auditing Standards

20. ZICA sets accounting and auditing standards and adopts international standards for application in Zambia. The Accountants Act of 2008 is very specific on the mandate of ZICA as follows:

- Regulation of education and training of accountants;
- Provisions for the setting of ethical, auditing, and accounting standards;
- Making and investigation of disclosures in public interest;
- Defining professional misconduct and providing for disciplinary procedures for the accountancy profession.

21. The ZICA Council is mandated by the Act to participate in the development of international practice standards and has the power to develop, promote, and enforce internally comparable standards in Zambia.

22. Membership to the Technical Committee is voluntary, and ZICA has no adequate structure to undertake the onerous process of setting standards like others in the ESCAFA region. The ZICA has reviewed the Committee membership to include the Big 4 auditing firms.

Ensuring Compliance with Accounting and Auditing Standards

23. ZICA has reviewed its structure in order to provide for the establishment of the Standards and Regulation Board that focuses on reviewing international standards and ensures compliance under the Practice Review Committee recommendation. Noncompliance with standards is a disciplinary matter reportable to the independent Disciplinary Committee headed by a legal practitioner. Appeals on decisions of the Disciplinary Committee go to the High Court of Zambia.

24. Under an April 2008 agreement with ACCA and ECSAFA, the ZICA Council accepted to subject auditors and auditing firms to quality reviews. In addition, ZICA has established a Practice Review Department with the support of the European Union to internalize the process after the determination of the ACCA/ECSAFA agreement.

25. Implementation of IFRS is reinforced by quarterly seminars to sensitize members on IFRS requirements at affordable rates in conjunction with ACCA. To ensure enforcement of IFRS and IAS across all sectors, all regulators of banks, insurance companies, pension funds, listed firms, and Law Association of Zambia have been made members of the Practice Review Committee.

26. Under the Accountants Act 2008, penalties for noncompliance have been recalculated to make them more effective deterrents. An act of noncompliance can derive sanctions of 500,000 penalty units (equivalent to ZMK90 million or US\$16,071.43) or 5 years in prison or both [Note: US\$1 = ZMK5,600].

27. Adoption of International Public Sector Accounting Standards has not yet been done but this is a matter on the agenda for the second half of 2009.

Accounting and Auditing Standards Designed and as Practiced

28. To assure compliance with international accounting and auditing standards, the ZICA Council has established a Standards and Regulation Board to oversee practice reviews and implementation of IFRS and IAS by chartered accountants in business (report writers) and public practice.

Perception of the Quality of Financial Reporting

29. Quality reviews of auditors and monitoring accounting work in commercial entities is now provided for in the Accountants Act 2008.
30. The Accountants Act provides for the establishment of an Independent Disciplinary Committee to address cases of perceived unfairness in the enforcement of discipline.
31. There are no financial reporting requirements for nongovernmental organizations.

Policy Recommendations

Statutory Framework

32. The proposed statutory review in general terms may have been overtaken by events following the enactment of the Accountants Act 2008. All statutory provisions of various sector regulators now include IFRS compliance by companies and appointment of ZICA-registered auditors (and some have been instructions).

Monitoring and Enforcement

33. Financing arrangements of statutory bodies in Zambia have caused some difficulties in implementing their mandates, which includes monitoring and enforcement. The Standards and Regulation Board established with delegated powers and responsibilities and financed under ZICA structure assures its sustainability and autonomy from political influence.

34. Under a revised structure, enforcement officer has been established, and will be filled by a legal practitioner who will investigate any complaints against chartered accountants and bring to the Independent Disciplinary Committee for action.

Setting Standards

35. The Standards and Regulations Board should be the final authority on standards to be applied to the various types of businesses operating in Zambia. IFRS will not be mandatory for small and medium enterprises. ZICA is participating in a regional effort to develop SME GAAP for the ECSAFA region and further localizing the reporting requirements to complement the local environment.

Professional Capacity

36. Strengthening ZICA to address various quality issues and meet IFAC membership obligations is important, hence the need for continuous improvement. ZICA is working very closely with other regional member bodies to address the capacity needs in technical matters.

Education and Training

37. Ensuring quality in professional education and training programs is important for continued relevance to commerce and industry. In 2009 ZICA will carry out a comprehensive review of the training materials for the accountancy program; and in 2010 ZICA will undertake a comprehensive review of the syllabus for the ZICA accountancy program.

Awareness Raising

38. To encourage awareness raising and its importance to the profession and the public, in the first half of 2009, ZICA held 5 workshops to sensitize members and the general public on the role of the professional accountancy body and the need for compliance with the Accountants Act and the use of IFRS and IAS.

Conclusion and Way Forward

39. ZICA requires implementing the Accountants Act through effective monitoring. ZICA needs resources to implement the various provision of the Act. The agreement with the European Union aimed at strengthening the monitoring work of ZICA ends on July 31, 2009. The Practice Review Department has just been established and requires continued strengthening with possible support of the World Bank.

40. The World Bank may consider supporting the ZICA in the review and updating of the syllabus of the ZICA professional accountancy program due to the continuous changes in the business environment. Further, public sector accounting is an area of interest and requires strengthening at the central as well as local government levels.