

Republic of Trinidad and Tobago Report on the Observance of Standard and Codes (ROSC) - Accounting and Auditing

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1 US\$ = TTD 6.42 (as of January 2013)

Main Abbreviations and Acronyms

ACCA	Association of Chartered Certified Accountants (United Kingdom)
CIMA	Chartered Institute of Management Accountants (United Kingdom)
CPD	Continuing Professional Development
GDP	Gross domestic product
GATE	Government Assistance for Tuition Expenses
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAC	Institute of Chartered Accountants of the Caribbean
ICAEW	Institute of Chartered Accountants of England and Wales
ICATT	Institute of Chartered Accountants of Trinidad & Tobago
IEPS	International Education Practice Statement
IES	International Education Standards
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
IPSAS	International Public Sector Accounting Standards
ISQC	International Standards on Quality Control
ROSC	Report on Observance of Standards and Codes
SAICA	South African Institute of Chartered Accountants
SEC	Securities Exchange Commission (of Trinidad & Tobago)
SME	Small and medium-size enterprise
SMO	Statement of Membership Obligation
SOE	State-owned enterprise
SMP	Small and medium-size practice
TTSE	Trinidad & Tobago Stock Exchange

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Preface

The international community considers that the adoption and implementation of internationally recognized standards and codes provides a framework to strengthen domestic institutions, address potential vulnerabilities, and improve transparency in regard to the economic health of a country. The Report on Observance of Standards and Codes – Accounting & Auditing (ROSC A&A) is a joint initiative of the World Bank and the International Monetary Fund on standards and codes. It constitutes one of the thirteen modules developed jointly by the World Bank and IMF to strengthen the international financial architecture.¹ ROSCs aim to enhance countries' resilience to economic shocks and to better support their risk assessment and investment decisions.

The ROSC A&A focuses on the institutional framework underpinning national accounting and auditing practices, and their conformity with international standards and good practices. It evaluates the (a) adequacy of reporting requirements, (b) capacity to implement applicable standards and codes, and (c) the effectiveness of enforcement mechanisms for ensuring compliance with applicable standards and codes. An overview of the ROSC A&A program, including detailed methodology, is available at http://www.worldbank.org/ifa/rosc_aa.html.

This ROSC A&A, the first to be conducted in Trinidad & Tobago, derives from a request of the Government of Trinidad & Tobago and the Institute of Chartered Accountants of Trinidad & Tobago. The review identifies the strengths and weaknesses in accounting and auditing practices that influence the quality of the country's financial reporting. It uses International Financial Reporting Standards (IFRS)² and International Standards on Auditing (ISA)³ as benchmarks, and draws on international experience and good practices.

The study was conducted by a World Bank team comprising M. Mozammel Hoque (Task Team Leader, Senior Financial Management Specialist, LCSFM), M. Zubaidur Rahman (ROSC Program Manager, OPCFM), Sonny Mabheju (consultant), and Carmen Gomez-Trigg (Operations Officer, IFC). The report significantly benefitted from comments of peer reviewers Caroline Cerruti (Senior Financial Sector Specialist, LCSPF), P. K. Subramanian (Lead Financial Management Specialist, AFTFM), Hisham Waly (Senior Financial Management Specialist, OPCFM), Shamsuddin Ahmad (Senior Financial Sector Specialist, SASFP), and Joseph Bryson and Thomas Zimmerman (Technical Managers, International Federation of Accountants). In addition, T.K.Balakrishnan (Manager, Financial Management, LCSFM),

¹ The 13 ROSC modules are monetary and financial policy transparency, fiscal policy transparency, data dissemination, banking supervision, securities regulation, insurance supervision, crisis resolution and deposit insurance, insolvency, corporate governance, accounting and auditing, payment, clearing and settlement, and market integrity.

² IFRS are issued by the International Accounting Standards Board (IASB), an independent accounting standard-setter based in London. The IASB adopted all previously issued International Accounting Standards (IAS) issued by the International Accounting Standards Committee. IFRS thus comprise IFRS, IAS, and interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee.

³ International Standards on Auditing (ISA) are issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Giorgio Valentini (Country Representative), and Vishnu Dhanpaul (former Alternate Executive Director) provided critical guidance.

The review, conducted from November 2011 to June 2012, entailed a participatory process involving in-country stakeholders from the Government, Central Bank and other regulatory bodies, accounting and auditing firms, banks, insurance companies, state-owned enterprises, and academia. A diagnostic template developed by the World Bank to facilitate collection of information was used in this review; it was complemented by meetings with key stakeholders.

The ROSC team appreciates the excellent cooperation and support provided by the Ministry of Finance, Central Bank of Trinidad & Tobago, and the Institute of Chartered Accountants of Trinidad and Tobago (ICATT). We would like to put on record the special contributions made by Hayden Manzano, Senior Economist, Ministry of Finance, and his staff, and by Subert Gilbert, General Manager, ICATT, and his staff to collect the data for the review and arrange and lead the discussions in the meeting with the relevant stakeholders.

Executive Summary

1. **This report provides an assessment of corporate sector accounting, financial reporting, and auditing practices in Trinidad & Tobago.** It aims to assist the Government of Trinidad & Tobago's efforts to strengthen accounting and auditing practices and enhance financial transparency in the corporate sector, so as to support the Government's objective of private sector-led growth and deepened integration with the international economy.

2. **Trinidad & Tobago is a relatively small, open economy with a high per capita income and abundant natural resources.** It is one of the most prosperous countries in the Caribbean, with an average per capita income of approximately \$22,000¹ thanks to its oil and gas sector (including petrochemicals). It has an open investment climate; almost all investment barriers have been eliminated. Robust foreign investment since 1990 has made Trinidad & Tobago the Western Hemisphere's largest supplier of liquefied natural gas, one of the region's largest and most industrialized economies, and an important financial center. Its economy has doubled since 2002. The impact of the recent global crisis has been severe and recovery has been slow. However, long-term growth prospects remain positive, as the country seeks to further develop its oil and gas resources and capitalize on the growth potential of services and industry.

3. **For Trinidad & Tobago to develop a competitive and efficient financial sector and facilitate growth of a vibrant private sector, its financial reporting system must be robust so as to earn investors' confidence.** A strong financial reporting regime for corporate entities will benefit the economy in several ways, including the following.

- Contributing to financial sector development through strengthening the country's financial architecture, and helping reduce the risk of financial crises and corporate failures and their associated adverse economic impacts.
- Improving access to financing for small and medium-size enterprises (SMEs) by providing banks and venture capitalists with standardized, useful, and reliable information.
- Increasing foreign direct investment through greater confidence in, and improved comparability of, financial information.
- Facilitating economic integration on regional and international levels, through further improvement in Trinidad & Tobago's compliance with international standards and codes and those of its main trading partners.

4. **Trinidad & Tobago has a number of elements in place that provide the foundation for a good-quality financial reporting environment.** These include the following:

- A sound institutional framework is in place with clearly stipulated financial reporting requirements and clearly defined supervisory agencies for the various sectors.
- International standards including the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) have been adopted.

¹ Unless otherwise specified the unit of currency used in this review is the U.S. dollar.

- There is reasonable disclosure of corporate financial statements. Financial statements are generally readily available to the public on demand for listed companies, banks, insurance companies, and other financial institutions.
- The Government has been notably proactive in improving the regulatory environment for corporate entities in recent years.

5. **There appear to be major issues relating to compliance with and enforcement of established standards.** These have had costly consequences to the public exchequer, the economy, and the region. This has been most notably felt in the recent fall of some financial institutions. Several factors contributed to these failures, including inadequate regulation by the concerned regulators (including the Securities Exchange Commission, the Institute of Chartered Accountants of Trinidad & Tobago, and other responsible agencies), inadequate enforcement and sanctions, poor performance by management and Boards of the institutions involved, lack of compliance with accounting requirements, and inadequately considered professional audit opinions. Aspects such as the volume and amounts of related party transactions, inadequate disclosure of such transactions, returns offered to depositors and investors being significantly higher than market rates, and the speed of growth in assets relative to the rest of the economy and region, should normally have raised professional skepticism on the part of the various parties concerned.

6. **These failures demonstrate the need to encourage a culture of compliance by all those involved in the financial statements supply chain (preparers, those charged with governance, auditors, regulators, and users).** The recent failures have highlighted the need to examine carefully the entirety of the compliance and regulatory environment in the country. Strong signaling from high-level authorities, including enforcement and sanctions in some high-profile cases of non-compliance, would help. It is important to note, however, that the identified shortcomings cannot be generalized for all corporate entities operating in the country. There are many well performing organizations in Trinidad & Tobago, with responsible management following good corporate governance policies and using IFRS for accounting and reporting. The challenge is to replicate these examples for emerging enterprises, and to enable them, as appropriate, to transition along the small to medium to large enterprise spectrum.

7. **Other major areas that need strengthening** include the following.

- The statutory framework with respect to corporate financial reporting needs to be improved, particularly by more clearly defining public interest entities (PIEs) and their financial reporting and audit requirements.
- The capacity of key regulatory institutions (notably the Central Bank, Securities Exchange Commission, and Trinidad & Tobago Stock Exchange) to adequately monitor compliance and enforce regulations with respect to financial reporting (going beyond compliance with filing requirements) needs to be strengthened.
- Although the professional accountancy organization (the Institute of Chartered Accountants of Trinidad & Tobago) is well organized, it faces substantial capacity challenges that need to be addressed.
- There is a need to better implement audit quality control standards, improve audit quality reviews, and impose sanctions on auditors who fail to meet applicable standards. Auditors face capacity challenges and are sometimes placed in an invidious

ethical position because, in practice, they may prepare the financial statements they subsequently audit.

- The country has some 2,000 qualified accountants who are all members of foreign accountancy bodies; however, only 45 percent of these individuals are members of the Institute of Chartered Accountants of Trinidad & Tobago (ICATT). This poses quality problems arising from diverse training backgrounds and uneven regulation from different professional bodies.
- The education and training requirements for the professional accountancy qualification and/or practicing auditors need to be enhanced. Education and testing in local tax and corporate laws are an important aspect to be addressed. Requirements for monitored practical training during the professional qualification process before admission to ICATT membership need to be better aligned with International Education Standards. Ongoing professional development training is needed to keep relevant skills up to date. The quality of accountancy education in the country in general needs improvement to enhance the standard of graduates entering the job market.

8. **Recommendations.** Key areas for strengthening Trinidad & Tobago’s corporate financial reporting practices are: (a) establishing a culture of compliance; (b) improving monitoring and enforcement capabilities of various regulators; (c) establishing institutional mechanisms for regulating the accounting profession, including independent oversight; (d) enhancing technical capacities of ICATT; (e) improving professional accountancy education and training; and (f) improving the statutory framework for corporate financial reporting. The recommendations proposed in this report are presented for the consideration of authorities in Trinidad & Tobago as suggested inputs for the development of a Country Action Plan, geared toward strengthening the corporate financial reporting regime. The recommendations include the following.

- ***Strengthen the statutory framework for corporate financial reporting.*** Key aspects include: (a) clearly defining public interest entities (PIEs), small and medium-size enterprises (SMEs), and micro-entities, and aligning statutory financial reporting requirements to the level of public interest responsibilities of these entities; and (b) amending the *Companies Act* option that now permits private limited companies to decide not to appoint auditors.
- ***Strengthen the monitoring and enforcement capacity of the Central Bank of Trinidad & Tobago, the Securities and Exchange Commission, Trinidad and Tobago Stock Exchange, and the Ministry of Finance’s unit dealing with state-owned enterprises (SOEs).*** It is essential that staff of these entities have the ability to conduct independent and reliable reviews of financial statements and to understand the relationship between prudential and general purpose corporate financial statements. The regulators should also impose sanctions relating to violations of any law or filing requirements. This will foster the development of a “compliance culture” in the corporate sector in the country.
- ***Develop an independent audit quality review mechanism.*** An implementable arrangement for independent audit quality assurance review of auditors of PIEs, non-

listed large companies, and medium-size enterprises in Trinidad & Tobago should be developed. This arrangement could be accomplished through collaboration among the financial sector regulators, tax authorities, the professional accountancy organization, and other relevant institutions, with appropriate legal backing.

- ***Strengthen ICATT's technical and physical capacities.*** ICATT will require support from the Government to accomplish its objectives of being an effective national accountancy body whose activities contribute to the national agenda of economic growth by facilitating the adoption and implementation of international accounting and auditing standards both in the private and the public sectors. A requirement that all auditors be members of ICATT is an important consideration. The effectiveness of ICATT's contribution will also depend on the ongoing adoption of the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA), the proper implementation of an audit quality assurance review system, the functioning of its investigation and disciplinary mechanisms, as well as the quality of accounting education and training in the country. This will require the development of an ICATT Center to help in the development of accounting education and training, including post-qualification Continuing Professional Development programs.
- ***Improve professional accountancy education and training.*** Immediate priorities include: (a) establishing and implementing uniform requirements for monitored practical training when registering and licensing auditors; and (b) including education and examinations in local tax and corporate laws in the professional accountancy qualification. ICATT should aim to establish a local professional accountancy qualification in collaboration with tertiary institutions. ICATT could also work with other countries in the region and the Institute of Chartered Accountants of the Caribbean to develop a common professional accountancy qualification at the sub-regional level, conforming to the International Federation of Accountants' educational standards.
- ***Foster curriculum development.*** In collaboration with the Government, ICATT could further the development of accounting education in universities and tertiary educational institutions with a view to upgrading the curriculum in graduate programs, which should include IFRS, ISA, International Public Sector Accounting Standards (IPSAS), and the IESBA Code of Ethics.

9. **Country Action Plan.** It is recommended that a Country Action Plan be prepared by the Government drawing on the recommendations of this report. A consultation workshop was organized in June 2012 bringing together various stakeholders to discuss the findings and recommendations of this study. Participants in the workshop developed the following action plan, which could become the basis of the Country Action Plan:

Reform Priorities

ACTION	TIMING OF IMPLEMENTATION		
	Short term (1 year)	Medium term (2-3 yrs.)	Long term (3-5 years)
A. Prepare a national strategy for the development of a satisfactory and well-functioning Corporate Financial Reporting Regime, including the cost of its implementation.	xxx	xxx	
B. Strengthen the capacity of national regulatory bodies and the professional accountancy organization to ensure compliance with financial reporting standards.			
1. Strengthen the Capacity of the SEC and TTSE. Rationalize and strengthen the focus of the Securities and Exchange Commission (SEC) and Trinidad & Tobago Stock Exchange (TTSE) for effective review and monitoring of financial reports, and provision of feedback to listed companies. In doing so, seek to avoid duplication of efforts between the two regulators.	xxx	xxx	
Financial Reporting Oversight Board. Establish a Financial Reporting Oversight Board headed by the SEC Chair and drawing members from the Central Bank, Ministry of Finance, Chamber of Commerce, and ICATT. The Ministry of Finance would also need to provide adequate resources to enable the Board to be effective and implement its mandate.	xxx	xxx	
2. Strengthen, broaden, and deepen monitoring capacity of the Central Bank. Further strengthen the capacity of the Central Bank for effective review and monitoring of the financial reports and provision of feedback to financial institutions. The Central Bank should identify qualified accountants from its current staff and develop the key technical skills for conducting effective and independent review of the financial statements of financial institutions.	xxx	xxx	
3. ICATT Technical Capacity. Strengthen the technical capacity of the Institute of Chartered Accountants of Trinidad & Tobago. Recruit a technical resource, establish additional important committees, and become fully compliant with IFAC Statement of Membership Obligations.	xxx	xxx	
4. ICATT Physical Capacity. Establish an ICATT Center and develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.		xxx	xxx
5. Outreach to Educational Institutions. Develop accountancy education in universities and tertiary educational institutions with a view to upgrade the curriculum in graduate programs, which should include IFRS, ISA, IESBA Code of Ethics, and IPSAS.		xxx	xxx
6. Capacity of the Ministry of Finance. Strengthen the capacity of the SOE unit in the Ministry of Finance to monitor and enforce financial reporting requirements in SOEs.	xxx	xxx	
7. Credit Unions. Improve the corporate governance of these entities.		xxx	xxx
C. Amend the law and regulations to further improve financial reporting requirements.			
1. Define PIEs, SMEs, and micro-entities, along with related accounting and auditing thresholds. Private limited companies should not have the option of not appointing auditors. Develop a financial reporting framework for micro-entities. Auditors of any entity in Trinidad & Tobago should hold ICATT membership.	xxx	xxx	
2. Financial Reporting Act. Enact a Financial Reporting Act.		xxx	

I. INTRODUCTION AND COUNTRY CONTEXT

1. **This Report on the Observance of Standards and Codes -- Accounting and Auditing (ROSC A&A) focuses on the corporate accounting and auditing environment that influences the quality of corporate financial reporting in Trinidad & Tobago.** It includes a review of both mandatory requirements and actual practices. It uses International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) as benchmarks, and draws on recent global experiences and good practice in the field of corporate financial reporting and auditing.

2. **Trinidad & Tobago is situated off the northeast coast of South America and forms part of the Caribbean Islands.** It comprises two islands with an area of 5,128 sq. km., and has a population of about 1.3 million. It is a unitary state, with a parliamentary style of government similar to that of the United Kingdom, from whom it gained independence in 1962.

3. **Trinidad & Tobago has a relatively small, open economy with a high per capita income and abundant natural resources.** It is one of the most prosperous countries in the Caribbean, with an average per capita income of approximately \$22,000¹ thanks to its oil and gas sector (including petrochemicals), which accounts for about 40 percent of GDP, 85 percent of exports, and 55 percent of central government revenues. It has an open investment climate. Robust foreign investment since 1990 has made Trinidad & Tobago the Western Hemisphere's largest supplier of liquefied natural gas, one of the region's largest and most industrialized economies, and an important financial center.

4. **The country has had more than a decade of steady economic growth, followed by a downturn in recent years.** The country experienced 16 consecutive years of real GDP growth, until 2008. Its economy has doubled since 2002. Economic conditions deteriorated in recent years on account of spillover effects from the global economic crisis. Unemployment has increased from 4.6 percent in 2008 to 6.3 percent in 2011.² The labor force is highly unionized across most sectors. In 2011, the economy contracted by 1.4 percent, mainly because of flat growth in the petroleum sector coupled with low levels of economic activity in the non-petroleum sector. Long-term growth prospects remain positive, as the country seeks to further develop its oil and gas resources and capitalize on the growth potential of other sectors. The country has eliminated almost all investment barriers to further improve the ease of doing business. It has the potential to emerge as a regional financial center, with the recent failure in a major financial services group presenting learning opportunities for corrective action.

5. **The 2012 national budget sets a growth agenda that focuses on job creation, investment, and security.** A positive growth of 1.7 percent is expected in 2012 on the basis of a growth-focused 2012 national budget. A budget deficit of \$7.6 billion (4.89 percent of GDP) and an annual average inflation of 6 percent³ are expected in 2012.

¹ Unless otherwise specified the unit of currency used in this review is the U.S. dollar.

² Trinidad & Tobago Government Economic Review 2011.

³ Trinidad & Tobago 2012 national budget.

6. **One of the Government's priorities is to improve the country's investment climate in order to foster private sector growth.** To attract the investment needed to achieve its strategic economic objectives, Trinidad & Tobago needs high-quality financial reporting in all sectors. High-quality financial reporting, supported by a strong, internationally recognized accounting and auditing profession, could:

- Contribute to financial sector development through strengthening the country's financial architecture and helping reduce the risk of financial crises and corporate failures and their associated adverse economic impacts.
- Increase small and medium-size enterprises' (SMEs) access to finance by providing banks and other lending institutions with high-quality financial information on which to make lending decisions.
- Increase foreign direct investment through greater confidence in, and improved comparability of, financial information, and strengthen the country's competitiveness as an investment destination.
- Facilitate economic integration on regional and international levels, through further alignment of Trinidad & Tobago's accounting and auditing practices with international standards and codes and those of its main trading partners.

The Government appreciates the need for implementation of improved accounting and auditing standards in both the public and private sectors. The Government is committed to the capacity development of the national accountancy body, the Institute of Chartered Accounts of Trinidad & Tobago (ICATT), and to the implementation of International Public Sector Accounting Standards (IPSAS).

Private Sector

7. **Trinidad & Tobago has more than 140,000 private sector enterprises.**⁴ Most of the enterprises are small and medium-size enterprises (SMEs) and micro-entities. The Government is aware that SMEs are a major driver of economic growth. Consequently, there are plans to establish an SME Stock Market to reduce this sector's over-reliance on bank financing. The Government is also planning that listed SMEs pay a reduced corporation tax at a rate of 10 percent. The Government is also committed, via the stock exchange, to reducing its investment in three large corporations, which could facilitate growth of the private sector. Total market capitalization of the Trinidad & Tobago Stock Exchange (TTSE) is about TTD\$94 billion.

Financial Sector

8. **The banking and non-banking financial institutions sector is relatively well developed and has become a catalyst for economic growth.**

- There are eight commercial banks (of which one is wholly owned by the Government) with total banking assets of \$10.5 billion.⁵ Most of the banks have operations across the

⁴ There are 21 public companies; 51,168 Private Limited Companies; 58 Unlimited Companies; 3,641 Not-for-Profit Companies; 16,764 Partnerships; and 70,396 Sole Proprietorships according to the Records of the Registrar of Companies. However, it is believed that many of these companies/enterprises are not in operation.

⁵ As of December 31, 2010.

Caribbean region. There is also a significant presence of banks incorporated in other Caribbean islands: of the five listed banks, three are incorporated in other Caribbean islands.

- There are 18 non-banking financial institutions licensed to conduct business of a financial nature; these include leasing companies, asset management companies, investment banks, and finance and merchant banks.
- The financial sector accounts for 9 percent of total employment, about 12 percent of GDP, and about 70 percent of stock market capitalization.
- A wide variety of financing instruments are available. Extension of credit is growing rapidly as the financial system evolves and becomes more complex with the introduction of new products and services.
- There are plans to establish a National Infrastructure Bank. This will stimulate capital expenditure necessary to support the Government's growth initiatives in health, housing, transport, the environment, the knowledge economy, and SMEs.⁶

9. **The insurance sector is dominated by a few large companies.** There are 6 Life insurance companies and 25 Non-Life insurance companies as of end-December 2010. Two of the insurance companies are under the control of the Central Bank and Government as a result of bailouts during the global economic crisis. The insurance sector is generally locally and privately owned. Insurance premiums declined, particularly in the past two years, because of a major debacle in the industry in the recent past (see Box 1).

Box 1. The Collapse of the CL Financial Group

The January 2009 collapse of the Trinidad & Tobago-based CL Financial Group represented a major financial shock to the Caribbean region, which was already reeling from the global crisis. CL Financial's subsidiaries were active in a wide range of sectors, including banking, insurance, energy, beverages, and real estate. The group's assets stood at \$16 billion at end-2007, about 30 percent of the Caribbean region's GDP. It had majority ownership in the largest commercial bank and owned the largest insurance company, CLICO (Trinidad), in Trinidad & Tobago, with assets of \$2.9 billion at end-2008 (11 percent of Trinidad & Tobago's GDP). The collapse of the group and especially the insurance arm, had spillover effects in all 15 CARICOM states (except for Jamaica and Haiti), with exposures as high as 17 percent of GDP (in the Eastern Caribbean Currency Union), leading to costly government interventions.

The group's assets had expanded rapidly in recent years through costly sources of financing. Assets grew by 32 percent from 2005 to 2007, mainly financed by deposit-like annuity products through the group's insurance subsidiaries—CLICO and British American Insurance Company (BAICO). The returns offered on these were substantially higher than bank interest rates, while not being subject to stricter banking regulation and supervision. These resources were then channeled to finance real estate and other investments. With the deterioration of global economic conditions in 2008, many of CL Financial's subsidiaries faced liquidity and solvency pressures. Methanol Holdings, one of the largest methanol producers in the world and a significant contributor of dividends to CL Financial, suffered losses following a collapse in methanol prices, and the group's real estate investments in Florida turned sour. As news of difficulties spread, investors rushed to withdraw funds, triggering the collapse of its three financial subsidiaries in Trinidad & Tobago.

The collapse highlighted weakness in the region's regulation and supervision of the insurance industry. The insurance law in Trinidad & Tobago dates from 1966. Although the law required that insurance companies pledge assets to the Statutory Fund to cover their liabilities, the requirement only needed to be met at the end of the year, and the annual statement only needed to be filed by mid-year in the following year. A new insurance

⁶ Per Trinidad & Tobago 2012 Budget.

act was being developed at the time that CL Financial collapsed.

The Trinidad & Tobago authorities intervened in January 2009 to limit contagion to the rest of the financial system. In return for a capital injection of TT\$5 billion to CLICO, the Government received preferred shares as well as 49 percent of equity of CLICO, and appointed four of the seven members of CLF's Board of Directors, including the Chair. Moreover, the Government provided TT\$2.2 billion to facilitate the transfer of CLICO Investment Bank's third-party deposit liabilities to the state-owned First Citizens Bank and its purchase of Caribbean Money Market Brokers Limited. Despite Government support, CLICO continued having difficulties with the sale of new insurance and with rolling over existing investments.

The Government announced a restructuring plan in the 2010-11 budget aimed at protecting small depositors while containing the fiscal cost. The announced plan would pay the claims of investors (including investors in CLICO mutual funds) up to TT\$75,000 as they mature, and the remainder would be paid over 20 years with no interest. After review, the Government is proceeding with the plan with some modification, including a TT\$830 million liquidity window for credit/trade unions and educational institutions. Since the TT\$75,000 cap applies to each policy contract, the vast majority of investments by credit/trade unions and educational institutions have been rescheduled and credit/trade unions are not covered by the deposit insurance scheme. The Government also opened a compassionate window for particularly vulnerable individuals. The authorities are now seeking a new agreement with CL Financial to provide for more scope to dispose of its assets to recover some of the Government's costs.

Source: IMF Country Report, 2011 for Trinidad & Tobago.

10. **Undertakings for Collective Investment (UCIs)—for example, Private Pension Funds, Trust Funds, and Corporate Form Funds—are regulated by the Central Bank.** As of October 2011 they numbered 202 entities.

11. **The Government has been notably proactive in improving the regulatory environment.** The Central Bank is reviewing the regulatory framework for financial institutions (the *Financial Institutions Act 2008*, *Financial Institutions Regulations 1994*, the *Financial Institutions Order*, *Financial Intelligence Unit Act, 2009*). A Policy Proposal Document (PPD) for the revision of the *Financial Institutions (Prudential Criteria) Regulations, 1994* has been circulated internally for review and comment. The PPD is expected to be issued to the industry for comment by March 2013. Under the *Financial Institutions Act*, the Central Bank has the ability to levy administrative fines, and has successfully done so on a number of occasions. The Central Bank conducted the first consolidated supervision on-site examination of a large financial conglomerate during the second quarter of 2012. Another on-site examination of a different conglomerate is scheduled for the second quarter of 2013. The Central Bank has drafted the *Insurance Caribbean Policy Premium Methodology Regulations*, which is being tabled in the parliament alongside the proposed Insurance Act. The Central Bank is also preparing a Guideline for valuation of insurance liabilities. In addition, the Central Bank is strengthening its capacity, particularly in the area of insurance. The Central Bank has conducted four quantitative impact studies to determine the impact of this Guideline on the sector. Notwithstanding the fact that the Central Bank is in a position to issue the Guideline, implementation cannot precede the enactment of the IA Bill, which is likely to be debated in Parliament in 2013. Separately, a draft *Credit Union Bill* strengthening the regulatory and supervisory framework is also in the consultation stage. The Credit Union Bill is currently being discussed with the Legislative Review Committee, with further amendments and recommendations being included as appropriate. The Bill is expected to be laid in the Parliament after the passage of the *Insurance Bill*.

State-Owned Enterprises

12. **The state-owned enterprises (SOEs) sector is quite large; it provides significant employment opportunities and is a significant service provider in the formal economy.** The Government owns about 75 public enterprises, with total investments of about \$8 billion. The entities fall under the *Companies Act* and are subject to its provisions. Unless they belong to a regulated industry, they are not subject to any special regulation. The Ministry of Finance (MOF) has a separate unit with comprehensive guidelines to monitor SOEs. Although the MOF is making progress in improving the accounting and auditing standards and the control environment, much remains to be done. This is particularly true with respect to timely audit of the public enterprises, which has been an enduring problem for more than a decade. Going forward, the MOF will require adequate capacity development, particularly with respect to the International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA), to ensure that SOEs are following international standards and that audits are of acceptable quality.

13. **This ROSC A&A aims to support the Government's objectives of improving the investment climate and fostering private sector growth.** Substantial improvements in the financial reporting process and quality of financial information could be achieved by (a) designing a solid legal and regulatory framework governing the accounting and audit profession, (b) improving the technical skills of accounting and audit practitioners, (c) enhancing the institutional capacity of the country's accounting professional body and educational institutions, and (d) supporting the effective adoption and implementation of international accounting, auditing, and ethics standards. The realization of these elements would further contribute to the following:

- ***Making Trinidad & Tobago's business environment more conducive to private investment.*** Complete, timely, and reliable corporate financial reporting is necessary to allow companies' access to credit from banks and other pools of savings. Moreover, it can help improve the flow of foreign direct investment (FDI) into Trinidad & Tobago by fostering investors' confidence in the ability of local companies to allocate resources effectively and manage their enterprises efficiently. Enhanced access to credit and higher flows of FDI will in turn support the country's objective of increasing the level of private investment, especially in industries with higher added-value.
- ***Supporting the governance agenda in Trinidad & Tobago.*** This review aims to contribute to the governance agenda by highlighting ways to strengthen capacity in the public and private sectors, and by providing recommendations aimed at (a) enhancing the institutional, financial, and technical capacity of the accountancy body, (b) improving the quality of accounting education, (c) further developing the quality assurance review system and the investigation and disciplinary mechanisms, (d) enhancing the adoption and implementation of international accounting and auditing standards, and (e) strengthening the regulatory framework governing accounting and audit practices.
- ***Regional integration.*** By providing inputs for improving financial transparency in the domestic corporate sector and strengthening accounting and auditing practices, the ROSC A&A contributes to the country's economic integration agenda. In addition, the

experience acquired from conducting ROSC A&A activities in other Caribbean countries provides a basis for inter-country dialogue for improving corporate financial transparency, so that these countries can collaborate in developing a common model of regulation for corporate sector accounting and auditing and in enhancing the quality of accounting and auditing on a regional basis with the support of the Institute of Chartered Accountants of the Caribbean (ICAC).⁷ ICATT is already a member in the ICAC Governing Council and plays a leadership role for regional integration of the accountancy profession.

⁷ ICAC is a regional accountancy regulatory body with members in Barbados, Guyana, Jamaica, and Trinidad & Tobago. It wishes to implement a program of audit monitoring in each of its member bodies.

II. INSTITUTIONAL FRAMEWORK

This section evaluates the institutional framework in Trinidad & Tobago with respect to compliance requirements, the accountancy profession, companies' ability to comply, and regulators' ability to monitor and enforce. A strong institutional framework sets the stage for a robust accounting, auditing, and financial reporting regime necessary to support the growth agenda of Trinidad & Tobago.

A. Statutory Framework

A set of clear, consistent, proportionate, comprehensive, and up-to-date laws and supporting regulations are necessary for a robust financial reporting system.

14. The accounting, auditing, and financial reporting requirements are governed by various corporate laws and the Institute of Chartered Accountants of Trinidad and Tobago.

The Acts governing the key requirements are:

- the *Companies Act 1995*, and the *Companies Regulations 1997*
- the *Insurance Act* (Chapter 84:01)
- the *Co-Operative Societies Act* (Chapter 81:03)
- the *Financial Institutions Act, 2008*
- the *Financial Intelligence Unit Act, 2009*
- the *Securities Industry Act* (Chapter 83:02).

15. The Acts do not contain detailed accounting, auditing, and financial reporting requirements, but rather refer to standards adopted by ICATT. ICATT has adopted IFRS (including IFRS for SMEs) and ISA.

All Limited Liability Companies

16. The *Companies Act 1995* requires that all limited companies present audited financial statements to their shareholders.

- The *Companies Regulations 1997* require that the financial statements should comply with accounting standards adopted by ICATT. ICATT requires that the audited financial statements of all limited companies comply with IFRS.
- A person is eligible for appointment as an auditor of a company if he or she is a practicing member of ICATT or any other body designated by the president of ICATT and is eligible for appointment under that body.
- It is not a requirement of the existing *Companies Act* for separate financial statements⁸ to accompany consolidated financial statements. In terms of IAS 27 "*Consolidated and Separate Financial Statements*," separate financial statements need not be appended to or

⁸ Separate financial statements are those presented by a parent, an investor in an associate, or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investee.

accompany consolidated financial statements. Most group companies in Trinidad & Tobago only produce consolidated financial statements.

17. **According to the *Companies Act*, all public companies shall, and any other company may, have an Audit Committee.** The Audit Committee shall be composed of not less than three directors of the company, a majority of whom are not officers or employees of the company or its affiliates. A public company may apply to the Securities and Exchange Commission (SEC) to dispense with an Audit Committee.

18. **The *Companies Act* provides that the shareholders of a private limited company may resolve not to appoint an auditor for the legal entity.** This is regardless of size and other public interest circumstances. Many private limited companies take advantage of the concession not to appoint an auditor, often on the advice of their professional accountants. With this option, private limited companies that would meet a reasonable definition of a public interest entity (PIE) may escape being audited.⁹

19. **The *Companies Act* should require that the financial statements be audited in accordance with the ISAs as adopted by ICATT.** In addition, the *Companies Act* did not define a PIE, and thus an updated legal framework should do so, to avoid confusion. The Government may also consider requiring certain private limited companies to have their accounts audited (based on a threshold such as turnover or assets), rather than leaving this as optional. A revised legislative framework would need to include accounting and auditing requirements and reference to both IFRS and ISA.

Listed Companies

20. **TTSE Rules and the SEC require listed companies to produce, publish, and file quarterly and annual financial statements.**

- *TTSE Rule 600, "Quarterly Financial Statements,"* requires quarterly financial statements prepared in accordance with IFRS, approved by directors, and signed by at least two directors to be filed within 45 days of period end. These should be published in at least one daily newspaper and state whether they are audited or not. In terms of *By-Law 55 of the Securities Industry By-laws, 1977*, interim statements must be published within 60 days of period end.
- *TTSE Rule 601, "Audited Annual Financial Statements,"* requires audited annual financial statements to be published and filed within three months of year end. The annual financial statements must comply with IFRS, be audited in accordance with ISA, be approved by directors, and signed by at least two directors. They must be published in at least one daily newspaper.
- The *Securities Industries Act, 1995* requires listed companies to produce an annual report within four months of the company's year end.

⁹ Some of the factors to be considered in defining a PIE include whether an entity receives funds in a fiduciary capacity, issues publicly traded securities, provides essential public services, is state-owned, carries significant amounts of debt, is economically significant, controls a significant share of the market (oligopoly or monopoly), and so forth.

- Companies can be fined for failing to meet the filing requirements. Continued delays in submission of financial statements can lead to suspension from listing.

Banking Sector

21. **The Central Bank of Trinidad & Tobago is the regulatory authority for the banking industry and operates through the *Financial Institutions Act*, which requires the annual financial statements of banks to comply with IFRS and be audited.** There is subsidiary legislation for specific financial institutions.

- Banks are required to produce, publish, and file audited financial statements which comply with IFRS¹⁰ within three months of year end.
- There is no statutory requirement for interim or quarterly audits or reviews by auditors.
- The Act requires an auditor of a financial institution to be (a) a practicing member in good standing of ICATT or a holder of a valid practicing certificate of any association of professional accountants as the Central Bank may approve, and (b) experienced in and have knowledge of audits of banks and other financial institutions to the satisfaction of the ICATT and the Central Bank. Audit partner rotation is required after five consecutive years. Banks must notify the Inspector of Banks of a proposal to change auditors. Auditors must notify the Inspector of Banks of any proposed resignation. Bank auditors are not allowed to provide other professional services, such as internal audit, financial advisory, actuarial services, and so forth.

22. **The *Financial Institutions Act* gives the external auditor of a bank further reporting responsibilities.** The external auditor has to report annually directly to the Inspector of Financial Institutions on the adequacy of controls, systems, and so forth. The Act protects the auditor from liability for providing such additional information. The Act also requires all entities licensed under it to appoint an Audit Committee.¹¹

23. **The *Financial Institutions Act* requires audits to be conducted in accordance with Generally Accepted Auditing Standards.** It does not refer to auditing standards adopted by ICATT. This however is taken care of by the *Companies Act*.

Insurance Companies

24. **The main legislation for the insurance industry is the *Insurance Act, 1980*; the Central Bank provides regulatory oversight.**

- Insurance companies are required to produce and file annual audited financial statements that comply with IFRS¹² within six months of year end.

¹⁰ Various prudential reports are required to be produced by banks to fulfill applicable regulations. These are additional to and complement the IFRS requirements. There is no conflict between IFRS and prudential requirements.

¹¹ Chairperson and majority of committee members are to be independent non-executive directors.

¹² Prudential regulatory information required to be produced by insurance companies is over and above the general purpose financial statements produced in terms of IFRS. There is no conflict between IFRS and prudential requirements for insurance companies.

- Publication of financial statements is not required under the *Insurance Act*. However, listed insurance companies and insurance companies owned by listed companies are required to publish their financial statements in accordance with the Stock Exchange rules within three months of year end.
- In terms of the *Insurance Act*, the auditor of an insurance company must be a member of ICATT or any other prescribed professional accountancy association and must be approved by the Central Bank. The Act does not require audit partner rotation but the proposed new legislation will require audit partner rotation after five years. Currently there is no legal requirement for reporting the termination or resignation of the auditor. Intention of termination or resignation will need to be reported in the proposed new legislation.

Non-Banking Financial Institutions

25. Non-Banking Financial Institutions (NBFIs) are legislated under the *Financial Institutions Act, 2008*.

- The *Financial Institutions Act* requires financial statements to be prepared in accordance with International Accounting Standards. The *Companies Act* however requires financial statements of companies to be prepared in accordance with standards approved by ICATT, which at the moment are IFRS.
- NBFIs are required to submit monthly, quarterly, and annual financial statements to the Central Bank. Legal entity and consolidated audited financial statements are to be submitted to the Central Bank and published within three months of year end.
- Only annual statutory audits are mandatory. The auditors are required to report annually on internal controls of the NBFI and to audit the annual returns filed by the NBFI. The auditors are required to report any irregular transactions or conditions that they come across during the course of the normal audit. The auditors can also be requested to investigate any irregular transactions or conditions. Contravention of requirements of the Act may result in fines on the entity.
- The auditor has to be a member of ICATT or hold a practicing certificate from an accountancy body approved by the Central Bank. The auditor has to give notice to the Inspector of Financial Institutions of intention to resign or not seek reappointment.

Undertakings for Collective Instruments

26. Undertakings for Collective Investments (UCIs) are regulated by the Central Bank and fall under the *Insurance Act*.

- The legislated requirement is that the financial statements be prepared in accordance with the *Insurance Act*. As noted earlier, the *Insurance Act* stipulates audited financial statements must comply with IFRS.
- For private pension funds, unaudited half yearly financial statements are to be submitted to the regulator within 40 days of the reporting period. Audited annual financial statements are to be submitted within six months of the year end. There is no requirement that they be published but they must be filed with the Commissioner of Insurance.

- Mutual funds constituted in Trust Form do not have similar legal reporting requirements but are generally asked to comply with the same requirements as a condition for registration with the SEC.
- Auditors must be members of ICATT. There are no legal mechanisms set for auditor appointment and termination¹³ and no legal requirement for auditor rotation.
- Regulators monitor prudential compliance and not compliance with accounting, auditing, and financial reporting requirements. Currently there are no mechanisms for ongoing collaboration between auditors and regulators.
- Administrative penalties are imposed on mutual funds constituted in Corporate Form for failing to comply with statutory requirements. The law is silent on non-compliance by mutual funds constituted in Trust Form.

Credit Unions

27. Credit Unions are owned by their members.

- They are required to have a Board of 12 members and a Supervisory Committee. Legislation being developed requires the Board members to be “fit and proper” persons and rotated after every two years.
- The legislation would also put Credit Unions under the regulation and supervision of the Central Bank.
- Currently they have no filing and publication requirements. They are only required to report to members at the annual general meeting within 90 days of year end. Their governance structures and practices require significant improvement.

State-Owned Enterprises

28. All the SOEs are registered under the *Companies Act 1995* and are treated like any other limited company for accounting and financial reporting and audit purposes. This is a significant strength in the statutory financial reporting requirements for SOEs in Trinidad & Tobago. SOEs are therefore required to comply with IFRS by virtue of reporting under the *Companies Act*. However, financial statements of a number of SOEs are not up to date and some audits are outstanding, a situation that needs to be addressed. Frequent changes to Board members, with the incoming Board not keen to endorse the financial statements prepared under the outgoing Board, is one of the causes of delayed financial statements. Additionally, some of the Boards require enhanced technical capacity.

Public Interest Entities

29. There is no definition of a PIE or SME to support the *IFRS* and *IFRS for SMEs* reporting frameworks. Further improvements in financial reporting can be achieved if clear definitions of different reporting entities (PIEs and SMEs) and related accounting and auditing

¹³ However the termination of an auditor’s appointment for a Corporate Form Fund may be viewed as a “Material Change” and therefore require notification filed with the Commission and press publication in terms of the *Securities Industry Act, 1995*.

thresholds are developed, adopted by ICATT, and given legal backing. With respect to accounting standards, these should be linked to the IFRS and IFRS for SMEs financial reporting frameworks. Micro-entities also need to be defined and their financial reporting framework implemented with appropriate legal backing. This would result in comprehensive, differential, and proportionate financial reporting frameworks that would eliminate unnecessary financial reporting burdens. The entities would be required to report in terms of financial reporting frameworks appropriate to their size and profiles. A culture of both compliance and formal operations would be promoted in the process, leading to high-quality financial reporting useful to users across all reporting entities.

Other Aspects

30. **Financial statements are generally readily available to the public on demand.** This is true for listed companies, banks, insurance companies, and other financial institutions. They are less available for Co-operative Societies and private companies.

Summary

31. Table 1 provides a summary of current major financial reporting, publication, and filing requirements.

Table 1. Summary of Current Major Financial Reporting, Publication, and Filing Requirements

	Law/ Regulation	Regulator(s)	Accounting Standards	Audit Requirements and Standards	Publication/Filing
Listed Companies	<ul style="list-style-type: none"> • Securities Industry Act • Companies Act 	<ul style="list-style-type: none"> • Registrar of Companies • SEC • Stock Exchange 	IFRS	<ul style="list-style-type: none"> • By approved ICATT member • ISA 	<ul style="list-style-type: none"> • To Stock Exchange (audited annual financial statements within 90 days of year end and quarterly financial statements within 45 days of period end) • To the Registrar of Companies (audited financial statements within 90 days of year end)
Private Companies & SMEs	<ul style="list-style-type: none"> • Companies Act 	<ul style="list-style-type: none"> • Registrar of Companies 	IFRS or IFRS for SMEs	<ul style="list-style-type: none"> • ISA • Shareholders of private companies may elect not to have auditors 	<ul style="list-style-type: none"> • To the Registrar of Companies (audited financial statements within 90 days of year end.) • For private companies that choose not to be audited financial statements will not be audited
SOEs	<ul style="list-style-type: none"> • Companies Act 	<ul style="list-style-type: none"> • Registrar of Companies 	IFRS	<ul style="list-style-type: none"> • By approved ICATT member • ISA 	<ul style="list-style-type: none"> • To the Registrar of Companies (audited financial statements within 90 days of year end.)

					•
Banking Institutions	<ul style="list-style-type: none"> • Companies Act • Financial Institutions Act 	<ul style="list-style-type: none"> • Central Bank 	IFRS	<ul style="list-style-type: none"> • By approved ICATT member • Audit partner rotation after five years • ISA 	<ul style="list-style-type: none"> • Audited financial statements within 90 days of year end and other information as required by the Financial Institutions Act
Non-Banking Financial Institutions	<ul style="list-style-type: none"> • Companies Act • Financial Institutions Act 	<ul style="list-style-type: none"> • Central Bank 	IFRS	<ul style="list-style-type: none"> • By approved ICATT member • ISA 	<ul style="list-style-type: none"> • Audited financial statements within 90 days of year end
Insurance Companies	<ul style="list-style-type: none"> • Companies Act • Insurance Act 	<ul style="list-style-type: none"> • Central Bank 	IFRS	<ul style="list-style-type: none"> • By approved ICATT member • ISA 	<ul style="list-style-type: none"> • Audited financial statements within 90 days of year end and other information as required by the Insurance Act
Undertakings for Collective Investments	<ul style="list-style-type: none"> • Insurance Act • Securities Industry Act 	<ul style="list-style-type: none"> • Central Bank 	IFRS Indirectly legislated through the ICATT Act	<ul style="list-style-type: none"> • By approved ICATT member • ISA 	<ul style="list-style-type: none"> • Audited financial statements within 90 days of year end
Cooperative Societies	<ul style="list-style-type: none"> • Cooperative Societies Act 	<ul style="list-style-type: none"> • Commissioner of Cooperative Societies 	Not specified	<ul style="list-style-type: none"> • Auditor appointed by Society; approved by Commissioner of Insurance 	<ul style="list-style-type: none"> • Audited financial statements filed within 90 days of year end; publication not mandatory
Micro-Entities (if not covered by Companies Act)	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • N/A 	N/A	<ul style="list-style-type: none"> • Not required 	<ul style="list-style-type: none"> • Not required

B. Ensuring Compliance with Accounting and Auditing Requirements

Robust regulation, monitoring, and enforcement help ensure compliance with accounting and auditing standards and codes, contributing to high-quality financial reporting that is useful to users.

Registered Companies

32. **The Registrar of Companies checks for compliance with the *Companies Act* filing requirements by registered companies.** The Registrar relies on the company's external auditors (ICATT members) to check compliance with accounting, auditing, and financial reporting requirements.

Listed Companies

33. **Currently both TTSE and SEC monitoring is limited to ensuring that listed companies file within the prescribed time and that the financial statements are complete.**

- SEC imposes monetary fines or can suspend companies from trading as sanctions on listed companies for failure to file or for tardy filing of financial statements. Recent examples of its sanctions include two companies that were fined by SEC.
- TTSE and SEC require listed companies to prepare financial statements conforming to IFRS, and for these statements to be audited in accordance with ISA. They do not check compliance with these accounting, auditing, and financial reporting requirements applicable to general purpose financial statements of listed companies. On these issues, they rely on the work of external auditors or they refer them to ICATT, which itself does not have technical capacity to check for that compliance. SEC is in the process of establishing processes and procedures to conduct more detailed reviews of financial statements. It currently has power to appoint an investigator to examine the records and financial affairs of a listed company.
- The regulators have adequate staff *numbers* to enable them to perform this function. However, based on discussions with these organizations, it seems that they do not have adequate staff *capacity* to ensure that listed companies comply with the IFRS adopted by ICATT. These regulators need to ensure that their current staff acquire appropriate technical capacity to conduct reviews of financial statements for compliance with IFRS and other appropriate skills.

Financial Institutions

34. **The Central Bank is the regulatory authority for banks and similar financial institutions.** This oversight oversight is limited to prudential regulatory supervision.¹⁴ The Central Bank plays no significant role in enforcement of financial reporting requirements. It also does not check compliance with mandatory accounting, auditing, and financial reporting

¹⁴ Legal requirements for monitoring accounting and auditing compliance are in the *Companies Act*, *Financial Institutions Act*, and ICATT rules. There are no significant differences in the accounting requirements for regulatory reporting and for general purpose financial reporting.

requirements applicable to general purpose financial statements. For this they rely on external auditors. Non-compliance with mandatory requirements (e.g., timeline for submission of audit reports) attracts substantial fines or other sanctions on the institutions. Officers and directors may be held personally liable. A qualified audit opinion triggers a review and assessment of the situation by the Central Bank to establish the impact on the safety and soundness of the institution. The Central Bank has power to require the production of any document from the audited institution or statutory auditor.

35. In 2004, regulation of the insurance sector was moved from the Ministry of Finance to the Central Bank. Market perception is that oversight has improved since then.

- Legislation requires two sets of financial statements to be produced: (a) *Shareholder accounts* (IFRS)/general purpose, and (b) *Insurance Act accounts* (regulatory). The law requires all financial statements submitted to the Central Bank to be compliant at three levels: “complete,” “accurate,” and “timely.”
- Non-compliance at each level attracts a degree of enforcement from the Central Bank, which has developed a detailed system to monitor the completeness and accuracy of financial statements submitted by insurance companies. It has the power to initiate enforcement action for non-compliance with applicable legislation.
- A qualified audit opinion leads the Central Bank to examine the audited institution more closely. The Central Bank is empowered by the *Insurance Act* to request any documents from the audited entity.
- The Central Bank can also impose fines on insurance companies for non-compliance.
- The regulator does not check compliance with accounting, auditing, and financial reporting requirements – for this, they rely on the auditors. Review of financial information is limited to prudential compliance.

36. NBFIs are regulated by the Central Bank. The regulators do not monitor general purpose financial statements for compliance with accounting and auditing standards. However general monitoring of records and assessment of internal controls takes place during on-site visits. Inspectors of financial institutions collaborate with the auditors.

37. The Central Bank’s regulatory capacity should be strengthened, broadened, and deepened with respect to monitoring and enforcing compliance with accounting and auditing requirements. Tasked with regulatory responsibilities over all banks and similar financial institutions, insurance companies, and credit unions, the Central Bank is recommended to significantly increase its regulatory capacity with regard to accounting and auditing for all the financial institutions it regulates. It also needs regulatory staff with adequate knowledge of IFRS. Banks with whom the World Bank team met indicated that they submit all the information required to the Central Bank. However some of them indicated they rarely get feedback with knowledge-based questions to indicate that the returns have been attended to at levels beyond administrative compliance.

38. The Banking sector in the Caribbean region is undergoing increased regional integration and cross-border activities. This calls for regionally coordinated initiatives in banking regulation, anti-money laundering, governance, and an overall regional commitment to

policies that do not encourage shadow banking.¹⁵ This will ensure regional banking integrity and transparency, and encourage investment inflows to the region.

State-Owned Enterprises

39. **SOEs fall under the purview of the *Companies Act*; some of their Boards need strengthening.**

- Boards of SOEs must be independent and made more accountable for running the affairs of the entities with whose governance they are entrusted. This includes ensuring financial reporting is timely and the information is accurate. Board members of these entities must also be required to meet certain minimum educational qualifications.
- The Ministry of Finance has a dedicated unit that monitors the achievement of the strategic objectives, audit, and publication of the accounts and the submission of the same to the State-Owned Enterprises Committee of Parliament. The MOF also monitors the cash flow from operations, debt ratio, and the holding of Board meetings and annual meetings.
- According to MOF records, many SOEs are falling behind in having audits conducted. The audit compliance rate is 70 percent. Some 108 audits are outstanding; some are four-five years tardy. However, the SOE unit of the Ministry of Finance is making an all-out effort to bring the audits up to date. This situation must improve to ensure accountability for use of public resources.

Small and Medium-Size Enterprises

40. **Most SMEs outsource accounting services.** Financial information in this sector is usually produced late and there is considerable participation by non-ICATT registered (and hence non-regulated) accountants. For SME accounts that are audited, the auditors often undertake much of the accounting work they audit. A combination of these and other factors mean that SMEs find it difficult to access finance from banks.

Accountancy Profession (Auditors)

41. **The accountancy profession (auditors) is regulated by ICATT as the self-regulatory professional accountancy body in the country, and by ICAC as an independent regional regulator.** There is no in-country independent regulatory oversight body for the accountancy profession. A quality assurance review system has been established for ICATT audit firms and auditors under a contract with the United Kingdom's Association of Chartered Certified Accounts (ACCA)¹⁶ and ICAC. ACCA is active in the country as a professional accountancy organization.

¹⁵ Shadow banking occurs when non-bank financial intermediaries provide services similar to traditional commercial banks, but without adequate regulation, or when regulated entities engage in non-regulated financial activities. One practice of shadow banks may be to engage in risky activities such as borrowing money in the short term and taking that money to invest in long-term assets.

¹⁶ ACCA is a professional accountancy body that offers worldwide professional accountancy programs and qualifications to its members and registered students, and support to other accountancy bodies worldwide. There are some 1,800 qualified ACCA members in Trinidad & Tobago. The ACCA head office for the Caribbean is in Trinidad.

Non-ICATT members and firms are not covered by the quality assurance review system, leading to uneven regulation in the profession. This may lead to regulatory arbitrage (practitioners moving to loosely or unregulated professional bodies). The results of the ACCA-monitored reviews are communicated to the Licensing Committee of ICATT,¹⁷ which has power to refer matters to ICATT’s Investigations or Disciplinary Committee as may be appropriate. The review results may lead to the revocation of a member’s license, though to date emphasis has been placed more on education and improving audit quality than on sanction. The oversight reports are currently not available to the public.

42. **All other sector regulators place heavy reliance on the work of auditors.** This necessitates high-quality accounting and auditing practices and a strong accountancy profession that is adequately regulated, to improve compliance with standards. To achieve this, institutional capacity strengthening at ICATT is required in the short term. In the long term, the independent regulation of the accountancy profession will have to be addressed by establishing an in-country independent accountancy oversight body that would collaborate with ICAC at the regional level.

43. **Although a quality assurance system over statutory auditors is not required by law in Trinidad & Tobago, ICATT has made it mandatory on its members as part of self-regulation** (see Box 2). This is a positive development toward participation in regional accountancy oversight activities. However, the lack of legal backing is a significant setback. There is a need to develop a strong, local accountancy oversight body, independent of practicing accountants under an Act of Parliament to give it legal backing. This body should also be responsible for standard setting, financial statements monitoring, and conducting enforcement and disciplinary measures. It should collaborate with or be a member of ICAC and work toward International Forum of Independent Audit Regulators (IFIAR) membership.

Box 2. Audit Quality Assurance (QA) Arrangements by ICATT
ICATT has established a mandatory Quality Assurance for all Practicing Members covering both public and non-public company audits. The Practice Monitoring reviews were outsourced to ACCA under a contract which covers other institutes in the Caribbean. The contract with ACCA was signed in April 2008 with an effective date of October 2008 and will continue for a four-year period (or six years if the contract is renewed). The quality assurance reviews conducted by ACCA are in line with UK practice and are partially compliant with IFAC’s Statement of Membership Obligation (SMO) 1.
ICATT communicates individually to Practicing Members, requesting that they complete a pre-visit questionnaire. The requirement to comply with this request is stated in this correspondence. To date, ICATT members have complied with 100 percent with these requests. Most of the Members in Practice in Trinidad & Tobago are also members of ACCA. ICATT’s revised website, which is currently under development, will include information on the requirements of participation in this quality assurance system and the publication of results. ICATT will seek legal and ACCA’s guidance on the form and content of publication of these results.
Actual practice reviews commenced in January 2009. As of August 8, 2011, 43 firms had been reviewed. It is expected that during the period to June 2013 the remainder will be completed. Those firms who obtained unsatisfactory reviews during the first round of reviews are being revisited during FY2012-13. The practice reviewers were conducting reviews for a number of countries in the region; consequently there was a

¹⁷ Composed of a chair and vice-chair, both being ICATT Council members, and two other members from ICATT’s general membership.

resource constraint, resulting delays in Trinidad & Tobago vis- à-vis the original plan.

Currently the practice reviewers have commenced the second round of reviews on behalf of ICATT and are concurrently reviewing those that were missed during the first round and those that had unsatisfactory results to determine whether they have taken recommended remedial actions and corrected the identified deficiencies. Prior to the implementation of practice monitoring, a training session was conducted in September 2008 to assist in preparing small and medium practices (SMPs) for the practice reviews; further training on ISQC1 and ISA were conducted in June 2009; ICATT will continue to provide such training opportunities to SMPs.

Source: ICATT Agreed Action Plan with IFAC.

44. **Capacity to enable compliance, enforcement, and sanction are viewed as generally weak in the country.** The standard of compliance in financial reporting needs to be improved. The fact that there are few accounting professionals outside professional practice adequately knowledgeable in accounting standards compounds the problem. Some audit practitioners admit that a qualified audit opinion in the private sector would almost certainly lead to a change of auditors. This contributes to the low levels of compliance. Major legislation and regulations dealing with financial reporting and compliance (i.e., the *Companies Act, Financial Institutions Act, Insurance Act, SEC Act, ICATT Act*, and TTSE Limited and ICATT rules and regulations) are viewed by many stakeholders as providing weak enforcement mechanisms and weak deterrent sanctions for non-compliance.

C. The Accountancy and Audit Profession

A strong national profession, internationally recognized, independently regulated, and overseen by a professional body that meets IFAC member body obligations plays an important role in the functioning of a modern economy through sound accounting, auditing, and financial reporting practices.

45. **The accountancy profession in Trinidad & Tobago is rather small.** In other small countries where the private sector is more developed, the ratio of accountants to population is significantly higher than in Trinidad & Tobago. The ratio of professional accountants per thousand population is 1.40 in Trinidad & Tobago compared to 2.54 in Barbados, 2.74 in Singapore, and 3.68 in Malta¹⁸ (see Table 2).

Countries	Population in 000	No. of Professional Accountants	Population to Accountants Ratio	GDP (PPP) Billion USD	Per Capita GDP (PPP) USD
Barbados	287	728	2.54	6.3	21,800
Singapore	4,741	13,000	2.74	291.0	62,100
Malta	408	1,500	3.68	10.4	25,000
Mauritius	1,304	1,200	0.92	18.1	14,000
Trinidad & Tobago	1,228	1,800	1.40	26.1	21,200

Source: CIA Fact Book 2010, and websites of various accountancy bodies.

¹⁸ The qualified accountants in Malta comprise the foreign qualified accountants serving in that country.

The Institute of Chartered Accountants of Trinidad and Tobago

46. **ICATT and ACCA are the main active professional accountancy bodies in Trinidad & Tobago.**¹⁹ ICATT currently has some 986 members,²⁰ of whom 178 are in public practice, 707 are non-public accountants, 45 are resident overseas, and 58 are retired. In addition to ICATT members, there about 1,000 qualified professional accountants, mostly ACCA-qualified, who are not ICATT members.

47. **ICATT is responsible for regulating the accountancy profession in Trinidad & Tobago.** ICATT was established by an Act of Parliament (Act 33 of 1970) as a self-regulatory body for the accountancy profession.²¹ The Act also gives ICATT the authority to approve auditing and accounting standards in Trinidad & Tobago. ICATT is the sole organization in Trinidad & Tobago with the right to award the Chartered Accountant (CA) designation. ICATT is a member of the Institute of Chartered Accountants of the Caribbean (ICAC) and of the International Federation of Accountants (IFAC).

48. **Trinidad & Tobago was one of the first countries to fully adopt International Financial Reporting Standards,** in 1999. More recently, the country adopted IFRS for SMEs in 2010. ICATT, as the approved standard setter, has adopted IFRS, IFRS for SMEs, and ISAs, as its approved accounting and auditing framework for Trinidad & Tobago.

49. **ICATT is managed by the elected representatives of its members, which is the standard practice in many countries.** Based on the rules of ICATT a Council of 12 to 15 members is elected by its members, headed by an Executive Committee consisting of a President and Vice President (as elected by Council), Immediate Past President, General Manager, and Corporate Secretary. Several committees are established, each headed by a Council Member and consisting of persons from ICATT's membership; however, the Disciplinary and Appeals Committees include non-ICATT members. All the committees are active and meet periodically and report to the Council.

50. **ICATT is the sole regulatory authority for accountants and auditors in Trinidad & Tobago.**

- Although it statutorily controls audit practice of its members, and sets standards for the performance of the accountancy profession, it effectively has no control over accountants and auditors who are not ICATT members. Moreover, because ICAAT

¹⁹ The following professional bodies also have members in the country but are not institutionally active: the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants in Scotland (ICAS), the Institute of Chartered Accountants in Ireland (ICAI), the Canadian Institute of Chartered Accountants (CICA), the Society of Management Accountants of Canada (CMA), the Association of International Accountants (AIA), the Certified General Accountants of Canada (CGA), and the American Institute of Certified Public Accountants (AICPA).

²⁰ As at December 31, 2010 as given by ICATT in our diagnostic Tool Part 1 Questionnaire.

²¹ This was after the Trinidad & Tobago Association of Chartered and Certified Accountants had lobbied Government for the establishment of a local accountancy body that would be able to set its own examinations and regulations. Initial membership was attained through a due process that ensured only members of certain professional bodies then operating in Trinidad & Tobago who met specific qualifications and experience were grandfathered into ICATT.

membership may be obtained through various qualification routes, the skills level of its members is uneven.

- Professional accountants in business (outside professional audit practice) are not mandated to be ICATT members.
- ICATT requires that its members comply with the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA), Continuing Professional Development (CPD) requirements, and other professional regulations.
- It is not a requirement that its practicing members hold professional indemnity insurance.

51. **Some accounting and audit reports are prepared by persons who are not practicing members of ICATT.** These are accepted by banks, the Registrar of Companies, the tax authorities, and other users of financial statements. The law does not always require audits to be conducted in accordance with ISA (except in those cases where audits are required to be conducted by practicing members of ICATT, which requires its members to use ISA).

52. **Members of ICATT, ACCA, AICPA, CGA, and CMA are subject to oversight and/or regulation by their respective professional bodies.** The members from the respective bodies can be subject to investigation and discipline by ICATT (if they are a member of such) and/or ACCA (if they are a member) or their professional body, as appropriate. This limits ICATT's professional reach.

53. **ICATT is a leading member of the Institute of Chartered Accountants of Caribbean.** ICATT was involved in the formation of ICAC. The President of ICATT represents the Institute on the ICAC Board of Directors. ICATT takes an active interest in the development of the accounting and auditing profession in the Caribbean region. Recently, ICATT reached an agreement with Suriname Association of Accountants (SUVA) to support the development of the accountancy profession in Suriname.

54. **ICATT is a full member of IFAC.** Its status with regards to IFAC Statement of Membership Obligations (SMOs) still needs improvement, as noted below.

- **SMO 1 - "Quality Assurance."** As an IFAC member body, ICATT has an obligation to encourage and support its members, by disseminating quality control guidelines requiring firms to implement a system of quality control in accordance with International Standards on Quality Control (ISQC) 1: "*Quality Controls for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*" and ISA 220: "*Quality Control for an Audit of Financial Statements.*" This task is currently not being implemented because of capacity constraints. The audit quality reviews contracted to ACCA still need further improvement.
- **SMO 2 - "International Education Standards for Professional Accountants and Other EDCOM Guidance."** ICATT does not conduct its own examinations and is not collaborating with tertiary institutions to ensure that accountancy education at these institutions produces graduates that meet the minimum standards of International

Education Standards (IES) 2: “*Entry Requirements to a Program of Professional Accounting Education.*” Monitored practical training requirements as part of training for membership of ICATT are not being reviewed by ICATT to ensure they are aligned with IES issued by IFAC or with its own requirements. ICATT should ensure that Continuing Professional Development (CPD) topics cover new standards and changes to existing standards and that in all cases they meet the minimum requirements of IES 7: “*Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence.*” In the medium to long term, ICATT should consider establishing its own high-quality education and examination system that has international recognition. ICATT, with its current weak financial, physical and technical capacity and the absence of a local or regional qualification, is not in a position to comply with the requirements of SMO2. However, professional examinations have been outsourced to international accountancy bodies such as ACCA.

- **SMO 3** - “*International Standards, Related Practice Statements and Other Papers Issued by the IAASB.*” Although International Standards on Auditing are adopted, ICATT has no process that provides for timely, accurate, and complete dissemination of these standards and related pronouncements to members. This would be particularly useful to small and medium practices (SMPs). ICATT occasionally brings in a consultant from the United Kingdom to assist practicing members by conducting sessions on compliance with new standards. ICATT should assist its members with the implementation of the ISAs. This is also relevant for implementing the IESBA Code of Ethics and IFRS. These activities could include updating pre- and post-qualification to ensure that courses on the latest international standards have been incorporated, offering other trainings, organizing seminars, and so forth.
- **SMO 4** - “*IFAC Code of Ethics for Professional Accountants.*” ICATT is required to enforce the IESBA Code, which it adopted. However, ICATT issues no compliance guidelines for members, which would be especially useful for SMPs.
- **SMO 5** - “*International Public Sector Accounting Standards and Other PSC Guidance.*” ICATT has no capacity or mechanism to disseminate the International Public Sector Accounting Standards (IPSAS) and related guidance. To be relevant to the public sector, and thus fulfill its national obligations, ICATT needs to play a leading role to foster public sector accounting capacity and assist government institutions in its implementation. Although the MOF is serious about implementing IPSAS, currently there are no legal requirements for their application.
- **SMO 6** - “*Investigation and Discipline.*” The integrity of the accounting and auditing profession is built upon the collective reputation of its practitioners. This makes the quality of membership important, and preserving that quality is a major challenge facing the profession faces. A professional body should have mechanisms to investigate and discipline its members. ICATT’s capacities to monitor, investigate, and discipline members needs improvement, as does the collaboration between committees in charge of these activities and the Licensing Committee.

- **SMO 7** - *“International Financial Reporting Standards.”* Although IFRS have been adopted, there are no processes that provide for disseminating implementation guidelines to members to ensure correct application in practice.

55. **ICATT has submitted its Compliance Program Action Plan to IFAC, highlighting its planned activities for the coming years.** Significant priorities in the Action Plan include (a) enhancing ICATT’s relevance to the Government by implementing recommendations (with external technical assistance) for Government to adopt IPSAS, and (b) making appropriate arrangements for the recruitment of a Technical Manager to enhance ICATT’s technical capacity. ICATT had 12 employees at the time of the ROSC review and none of them was a professional technical person in accounting. There is only one technical committee, the accounting and auditing committee. ICATT should establish other technical committees to oversee areas such as ethics, education and training, and public sector accounting, supported by a strong technical resource in the ICATT administration.

56. **ICATT needs to strengthen its institutional capacity in a number of areas to enable it to fulfill its IFAC membership obligations.** Attaining and maintaining adequate institutional capacity will also enable ICATT to require and enforce a system of compliance with international good practices, improve user confidence in financial statements, generate public interest, enhance the professional reputation of the Institute and its members, and thus enhance ICATT’s regional contribution agenda.

D. Professional Accountancy Education and Training

A sound education and training system (from pre-qualification to post-qualification) producing well-trained accountants and auditors is one of the major factors that support reliable accounting, auditing, and financial reporting practices.

57. **Membership of ICATT is acquired through a combination of examinations and two years’ work experience.**²²

- The primary route for ICATT membership is through a joint ICATT and ACCA scheme that gives successful candidates the right to membership of both organizations. There is a joint student arrangement between ACCA and ICATT, mainly benefiting from the Government Assistance for Tuition Expenses (GATE)²³ program to boost numbers.

²² No persons (except as otherwise provided by the ICATT rules) shall be eligible for admission as a Member unless (i) they passed such examination or examinations as may from time to time be prescribed by the Council and can show to the satisfaction of the Council that they have had not less than two years approved accountancy experience; or (ii) they are a member of a Registered Society, as defined in the ICATT rules or of any other Society with objects similar to the Institute’s and approved by the Council, and have satisfied the Council of their fulfillment of the conditions set out in Regulations made by Council from time to time. All members have to be fit and proper to the satisfaction of Council.

²³ Under the Government Assistance for Tuition Expenses (GATE) program, tuition is free for all citizens pursuing undergraduate programs at any campus of the University of the West Indies.

- Other routes to membership include a joint Association of Accounting Technicians (AAT, UK)/ICATT scheme and the acquisition of an approved university degree.
- Membership of ICATT can also be obtained by members of other approved professional bodies, in particular members of some accountancy bodies in Canada, the United Kingdom, and the USA.

Since ICATT membership can be attained through various qualification routes, the education and practical training of the members can be uneven.

58. **Each professional body operating in Trinidad & Tobago has its own (and varied) qualification requirements.** Foreign accountancy bodies operating in Trinidad & Tobago have contributed to increasing the number of qualified accountants in the country. However, there is a widespread sentiment among the profession's end users that these bodies should make supervised practical training and passing examinations joint and equally important requirements for qualification.

59. **There is no collaboration between ICATT and the tertiary training providers in determining curriculum for accountancy programs.** ICATT therefore does not determine or influence the subject content of professional education or the professional examination structure for its qualification; nor is it in a position to ensure that there is adequate monitoring by the professional bodies on the quality and completeness of training provided to students by member firms. (Because all the professional accountancy bodies offering training are offshore, monitoring by the parent regulatory body may not be effective.) Instead, academic courses leading to entrance to foreign²⁴ professional accountancy qualification in the country are delivered by a wide range of tuition providers with which foreign professional organizations work. These include universities, colleges, and private institutions. Most students write ACCA examinations and have to meet ACCA program entry requirements, which are two UK "A" levels and 3 GCSEs or the equivalent. Degree holders are granted appropriate exemptions. IFRS and ISA training is included in some of the academic courses leading to the ACCA qualification. Ethics training is core to ACCA training and is covered in 11 of the 16 examination papers.

60. **None of the professional accountancy bodies, including ACCA, that provide training leading to ICATT membership offers professional training and examination in Trinidad & Tobago taxation, corporate, and business laws.** ICATT members are therefore licensed to practice without being tested and passing these important local variant papers.

61. **The ICATT Membership Committee screens and recommends applications for practicing certificates to the Council.** However, before issuing the practicing certificates, there are requirements that the practical training for the qualification must:

- be obtained by full-time continuous employment in the office of an approved "practical training provider"²⁵

²⁴ There are over 6,000 ACCA students resident in Trinidad & Tobago and 11,000 in the Caribbean region.

²⁵ Member firms that are ACCA-approved are given training guidelines and recommendations on training programs by ACCA. They are required to meet these standards to maintain accreditation and are subject to periodic review by ACCA.

- exclude part-time experience except where arrangements for such experience are approved by the Council in advance of the experience being gained
- include a substantial amount of auditing experience (not less than 50 percent should be audit work)
- include at least two years of full-time local experience in public practice gained within two years prior to the date of application, such experience to also include auditing (the requirement for local experience may be modified if the applicant can demonstrate competence to the satisfaction of the Council)
- exclude periods of employment shorter than six months
- exclude experience that was gained more than two years prior to the application, unless the applicant demonstrates to the satisfaction of the Council compliance with existing Continuing Professional Development requirements.

62. **ICATT members require only 24 months post-qualification experience with an approved supervisor to be granted audit practice rights.** This does not meet the minimum requirements of IES 5: *“Practical Experience Requirements”* and the guidance provided by International Education Practice Statement (IEPS) 3: *“Initial Professional Development for Professional Accountants”*; nor does it meet the rigorous training required for an auditor. Requirements for auditor licensing should increase emphasis on practical training monitored by a qualified principal during the qualification process.

63. **ICATT requires all its members to meet Continuing Professional Development requirements.** These are supposed to fulfill the requirements of IFAC IES 7: *“Continuing Professional Development: a Program of Lifelong Learning and Continuing Development of Professional Competence.”* ICATT has increased its involvement in hosting CPD sessions rather than depending on the foreign accountancy organizations operating in the country. This is a welcome development, applauded by ICATT members. ICATT also has a responsibility to monitor the CPD compliance. The Disciplinary Committee and/or Membership Committee can apply sanctions for noncompliance.

III. ACCOUNTING AND AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

Rigorous standards and codes in accounting and auditing (accepted internationally) constitute one of the factors that underpin a system of financial reporting practices on which users of financial statements can rely.

Setting Accounting and Auditing Standards

64. **ICATT has the responsibility for setting financial reporting standards in Trinidad & Tobago.** The Act establishing ICATT gives it the authority to approve auditing and accounting standards in the country.

65. **ICATT has adopted IFRS for limited companies, IFRS for SMEs, IASB pronouncements, ISA, and the IESBA Code of Ethics for Professional Accountants (the Code), without modification.**²⁶ All regulated and public interest entities are required to prepare financial statements in accordance with IFRS. The *Companies Act*, *Securities Industry Act*, and *Financial Institutions Act* provide legal backing to this. All members of ICATT are required to use IFRS in the preparation of financial statements of qualifying entities. ICATT requires its members to conduct audits in accordance with ISA and to comply with the Code.

66. **Development of effective standard-setting processes for the ongoing adoption of standards is a major challenge the standard setter (currently ICATT) faces.** Adoption of international standards is a process aimed at enhancing the quality of financial reporting, which in turn creates a conducive investment environment. Promoting investment is on the growth agenda of Trinidad & Tobago. The adoption of international standards requires significant financial and technical resources, adequate institutional capacity, and the support of an efficient and timely endorsement mechanism. This helps ensure national requirements do not fall behind international standards and good practice. The adoption process involves various activities, which include monitoring new and revised international standards, providing comments to exposure drafts, updating regulators, raising awareness about standards, and publishing the standards. It also requires the development of activities to assist with implementation. These include updating the program of pre-qualification and CPD courses (to further assist professional accountants in understanding and applying standards), and developing relevant implementation guidance.

Compliance with Accounting Standards

67. **A review of published corporate financial statements revealed differences between current practices in Trinidad & Tobago and IFRS.** This review of compliance with accounting standards is based on the results of the work done by the ICATT/ACCA audit practice reviewer and the review of financial statements by the World Bank ROSC team. The latter review covered 50 financial statements, including listed companies (12), banks (5) and other financial institutions (8), insurance companies (10), SOEs (12), and credit unions (3). The

²⁶ However the Rules and Regulations of ICATT empower the Board of ICATT not to adopt, or to amend as it sees fit, some of the international financial reporting standards and auditing standards.

reviews, being off-site, have an inherent limitation in that they are concentrated on form issues (presentation and disclosure). Assessment of substantive issues (recognition and measurement) would require access to the auditor's working papers and the financial records of the audited company. The review of this sample of published financial statements revealed a number of areas where corporate financial reporting may be strengthened consistent with IFRS, including the following.

- Because of the absence of clear definitions of PIEs and SMEs, there was no consistency in the application of the IFRS for SMEs by reporting entities. After taking into account qualitative criteria, some entities with very small dollar amounts reported in terms of IFRS while entities with substantially larger dollar amounts reported based on IFRS for SMEs.
- IFRS 8 "*Operating Segments*." A number of financial statements disclosed information in terms of IAS 14 "*Segment Reporting*" for financial years ending in 2011. This standard was withdrawn and replaced by IFRS 8, which became effective for periods beginning on or after January 2009 and clearly defines an operating segment in Appendix A. It also clearly defines the information to be disclosed for each operating segment.
- A number of sets of financial statements reviewed did not have a note on revenue recognition.
- In a number of cases information disclosed in the notes to the financial statements fell far short of the requirements of IAS 19 "*Employee Benefits*." In five financial statements reviewed, Employee Benefits disclosures were completely left out of the financial statements but the audit opinion in all the five cases stated that the financial statements complied with IFRS. In another set of financial statements, the amount of fair value of pension plan assets set off against the present value of pension obligation (*to arrive at the asset recognized in the statement of financial position*) does not agree with the closing fair value of pension plan assets per the reconciliation of fair value of pension plan assets. This was not identified in the audit opinion.
- The audited financial statements of a small/medium-size company had an audit report indicating that the financial statements comply with IFRS. An examination of the financial statements shows that it is far from complying with IFRS. Given the size and nature of the organization, the entity should have adopted the IFRS for SMEs framework.
- One of the financial statements reviewed had a note indicating "ongoing concern" uncertainty arising from recurring deficits and cash flow constraints. The financial statements were prepared on an "ongoing concern" basis on management assumptions and projections. This was not picked up in the audit opinion as an "emphasis of matter."
- A number of financial statements reviewed had elaborate notes on financial instruments that the entities do not have in their businesses.
- Most of the financial statements reviewed did not disclose the presentation currency for the financial statements as is required by IAS 1 "*Presentation of Financial Statements*."
- In a number of cases where assets are carried at valuation, there was inadequate disclosure of information required by IAS 16 "*Property, Plant and Equipment*," such

as (a) whether an independent professional valuation expert was used, (b) methods and significant assumptions used in the valuation, (c) extent of use of fair values, and (d) amounts that would have been recognized had assets been carried at historical cost.

68. **The review indicated that cases of non-compliance cross all sectors and were present in entities audited by both large audit firms and small and medium practices (SMPs).** However, noncompliance is more common for SOEs and Credit Unions audited by SMPs.

Compliance with Auditing Standards

69. **An assessment of compliance²⁷ with auditing standards reveals that the main areas of non-compliance are as follows:**

- *Quality Control issues* - the requirements of ISQC 1 and ISA 220 are generally not complied with.
- In a number of cases there was no evidence that the Board of Directors approved the financial statements.
- Various confirmations are not always on file.
- Signed engagement letter was not always on file.
- ISA 315 - evidence of risk assessment was either not on file or inadequate.
- Inadequate evidence of appropriate audit planning.
- Inadequate documentation on file.
- Inadequate and/or inappropriate audit evidence to support opinion on file.

70. **The Bank team reviewed a sample of audit reports and found the following.²⁸**

- One audit report referred to a note that did not exist in the financial statements.
- Some of the group audit reports did not state whether all the consolidated subsidiaries were audited.
- None of the audit reports identified by page reference, the financial statements being reported on.

²⁷ The assessment is based on the results of audit practice reviews undertaken by the ICATT/ACCA reviewer, a World Bank team review of audit reports (including ICATT responses to our Diagnostic Tool Part 1 Questionnaire), and comments made by some practicing auditors during the mission. Most of the work undertaken by this resource was on audit quality reviews in terms of ISQC1 and ISA 220.

²⁸ The sample was the same as that of the financial statements reviewed under compliance with accounting standards noted earlier.

IV. PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING

71. **Various users place reliance on audited financial statements, which indicates they perceive value in them.** Bankers request them as part of the overall information needed when making credit decisions. Investors also use them as part of due diligence in making investment decisions. There is also demand from analysts. Various sector regulators rely on audited financial statements for ensuring compliance with applicable accounting, auditing, and financial reporting practices by entities they regulate.

72. **Large international audit firms dominate the audit market.** They audit the majority of listed companies, large SOEs, banks, insurance companies, and other financial institutions. The market generally perceives audits undertaken by these firms as of high quality, although there is increasing skepticism on this. The recent crisis in a major financial services group (CL Financial) has led the market to start raising questions regarding audit quality and the credibility of audited financial statements, notwithstanding who the auditors may be. There are market perceptions that this company had glaring problems that should have raised skepticism. This case has led to increased diligence by all involved in CL Financial's regulation and financial reporting chain. Most large audit firms do not take credit unions as clients because of perceived high audit risk.

73. **Small and medium practices have a significant share of SME audits.** Some face challenges in keeping up to date with all the changes to accounting and auditing standards. Although the standards, pronouncements, and related implementation guidelines are readily available, most SMPs do not have in-house capacity to keep pace with the frequency and, in some cases, the complexity of changes. The market generally perceives the audits carried out by these entities as less robust than those executed by large firms. There may be a need for ICATT to further assist SMPs with the implementation of international standards.

74. **Some audit partners indicated that a qualified audit opinion in the private sector will certainly lead to change of auditors.** This was echoed by a number of preparers of financial statements. This may put auditors under pressure with regard to their responsibilities in accordance with ISA. It also reduces the credibility of audited financial statements in the market by increasing the risk of inappropriate audit opinions being issued for the sake of retaining a client.

75. **There is a perception that the quality of financial reporting is in some cases affected by auditors assisting audit clients with accounting work.** This is particularly so for audits of some SOE and SME clients, who may have challenges in employing full-time accounting staff with appropriate skills.

76. **Some partners in audit firms expressed concern on the perceived (low) level of audit fees proposed by some firms on audits put out to tender.** The concern was whether a proper audit would be conducted for the fees quoted. Undercutting competitors in audit fees is seen as a means to win an audit contract without due regard to the possible impact on audit quality.

77. **Additional comments made by some practicing auditors and other stakeholders include the following.**

- Independence is compromised in some audits because of an expectation gap. Some clients, particularly SOEs, expect auditors to assist with accounting work during the audit and auditors provide such assistance disregarding the Code of Ethics on Independence. This creates a self-review risk on which appropriate safeguards need to be applied. This practice should be strictly forbidden by law to further ensure the quality of the audit.
- Difficulty in retaining qualified audit seniors in the audit firms adversely impacts on in-house staff training to juniors, and possibly on audit quality where partners do not make an effort to fill up the gap.

V. POLICY RECOMMENDATIONS

78. **The main objective of this ROSC A&A review is to assist the Government of Trinidad & Tobago to improve its investment climate by further strengthening corporate sector financial reporting practices.** This is in line with the country's economic growth agenda. Principle-based policy recommendations have been developed as a result of the review. They will be discussed with country stakeholders and it is intended this will lead to the development of a Country Action Plan. The Country Action Plan will identify specific activities to be undertaken to implement the ROSC A&A's policy recommendations under the supervision of the Government.

79. **The implementation of the Country Action Plan will require continued commitment from the Government and other stakeholders.** They can work with development partners to secure the technical and financial resources required to further strengthen the accountancy profession. This would foster further improvements in financial reporting practices and the investment climate in the country.

Statutory Framework

80. **Clearly define PIEs, SMEs, and micro-entities, and align statutory financial reporting requirements to the level of the public interest responsibilities of the respective entities.** The definitions of the related accounting thresholds, while taking into account the specific situation of Trinidad & Tobago, should be broad to avoid frequent changes. The definitions must include both qualitative and quantitative parameters to the extent possible. These developments will result in a differential financial reporting framework that provides for reporting requirements commensurate with an entity's size, public responsibilities, and other circumstances.

81. **Amend the *Companies Act* option of private limited companies choosing not to appoint auditors.** Currently shareholders of a private limited company, regardless of its public interest status, can choose not to appoint an auditor. Private limited companies should be required to appoint an auditor.

82. **Revise the financial reporting framework to reflect proposals in the two paragraphs above.** A three-tier reporting framework for private sector entities and a two-tier framework for SOEs should be adopted as indicated in Table 3.

Table 3. Proposed Reporting Frameworks

Type	Financial Reporting	Audit
Public interest entities (PIEs): listed companies, financial institutions, revenue-earning SOEs, parastatals, foundations, Cooperative Societies, and non-listed large companies	IFRS	Audit would be <i>mandated</i> using ISA
Other SOEs, non-listed companies, and medium-size enterprises	IFRS for SMEs	Audit would be <i>mandated</i> using ISA
Small and micro-enterprises	No IFRS Simplified reporting framework	Audit would not be <i>mandated</i> . The company accountant would issue a Compilation Report (in terms of International Standard on Related Services 4410 (Revised) <i>Compilation Engagements</i>)

83. **In the medium to long term, enact a new law on accounting, auditing, and corporate financial reporting for PIEs.** The proposed law is hereafter referred to as the “*Financial Reporting Act*.” The accounting, auditing, and corporate financial reporting provisions for PIEs in all the other laws should be amended to include reference to the relevant provisions of the *Financial Reporting Act*. Currently the various Acts refer to accounting requirements as stipulated by ICATT. The current ICATT requirements do not cover all the issues, circumstances, and features that would be covered in the *Financial Reporting Act* (including making IFRS mandatory for all PIEs and having all PIEs audited in accordance with ISA). The Act should also cover the reporting requirements of large private companies that fall under the definition of PIEs.

84. **Amend TTSE regulations to make it compulsory for interim financial statements of financial institutions to be reviewed by auditors.** Currently there is no requirement for quarterly and interim financial statements of financial institutions to be audited. Given the risk to the public inherent in financial institutions, the TTSE’s regulations should be amended to require interim financial statements of these institutions to be reviewed by auditors.

Ensuring Compliance with Accounting and Auditing Standards

85. **Compliance, enforcement, and sanctions for non-compliance should be strengthened across the board.** Weak compliance, enforcement, and sanction characterize the financial reporting and regulatory environment in Trinidad & Tobago. ICATT should collaborate with appropriate institutions to enhance the capacity of preparers, users, regulators, and auditors so as to raise the level of compliance, enforcement, and sanction throughout the financial reporting supply chain. This will require considerable training as well as review of enforcement and sanction rules across all the institutions involved. Support from high-level Government officials will also be critical to change the culture of non-compliance and bring the country into a new era of improved financial reporting and effective regulation.

86. **The Central Bank, SEC, and TTSE must improve their regulatory capacities with respect to accounting and auditing.** They should encourage their current staff to acquire skills

and qualifications that will enable them to monitor and enforce compliance with filing, prudential, and financial reporting requirements.

87. **Strengthen oversight of financial institutions.** While all PIEs have a responsibility to the public, financial institutions must be subjected to more stringent oversight because of the inherent systemic risk. Banks, insurance companies, credit unions, and other financial institutions have fiduciary responsibilities. Additionally, instability in the financial sector has a damaging ripple effect on the whole economy. These factors require the financial sector to be subjected to more stringent oversight to ensure compliance with applicable accounting, auditing, and financial reporting requirements. The sector should also be required to conform to stricter and enhanced prudential norms. Large institutions with operations across countries may require coordinated oversight of regulators of different jurisdictions in the region.

88. **SOEs must be given more stringent sanctions for failing to meet financial reporting requirements, and the Ministry of Finance must step up its monitoring of these entities.** Although SOEs have the same financial reporting requirements as companies, which is a sound statutory requirement, a number of them have financial statements and audits that are well behind schedule. Heavier sanctions must be imposed on the entities for non-compliance, and be extended to directors and senior management.

Independent Financial Reporting Oversight Board

89. **Establish an independent Financial Reporting Oversight Board headed by the Chair of the SEC.** The proposed body would have responsibility for monitoring and enforcing accounting, auditing, financial reporting standards, codes and quality control standards. This is necessary for consistent, coherent, and effective efforts in the regulation of the accountancy profession in Trinidad & Tobago.

- The body should have legal backing under the proposed *Financial Reporting Act*.
- The body would be responsible for audit practice reviews, standard-setting, financial reporting monitoring, enforcement, and sanctions for non-compliance. It would collaborate with ICAC, the regional accountancy body, on the establishment of an audit Quality Assurance review system. It would keep a register of individual auditors and firms licensed to audit.
- The regulatory body should have a Board headed by the Chair of the SEC. It should not be dominated by accountants in public practice. The Board may include representatives of top management of the Central Bank and the stock market, Ministry of Finance, academics, the general public/investors, the Chamber of Commerce, and ICATT.
- Once fully operational, its reports would be available to the public.
- It should work toward being a member of International Forum of Independent Audit Regulators (IFIAR) within a short period after formation. This will give it easy access to international good practice in audit practice reviews.

90. **The Financial Reporting Oversight Board to be established should have formal relationships with other regulators.** Currently, all financial sector regulators in Trinidad & Tobago rely on ICATT in terms of checking for compliance with accounting, auditing, and

financial reporting requirements by the entities they regulate. This responsibility will be formally moved to the proposed new regulatory body. The new regulatory body would need to have formal collaboration or a formal Memorandum of Understanding (MOU) with the various sector regulators that rely on its work. The relationships should be formalized with legal backing or enforceable regulatory mechanisms for increased effectiveness. Details of the cooperation processes would be contained in the MOU. These arrangements would reduce the number of regulators checking entities for compliance with the same requirement. The level of oversight should be differential, taking into account the level of public interest in each category of regulated entities.

91. **The relationship between the Financial Reporting Oversight Board to be established and ICATT needs to be determined.** There is need to have mutual recognition of functions that are of interest to both institutions (the new regulatory body as an independent regulator and ICATT as a self-regulatory body). This will encourage consistency in regulatory requirements and eliminate duplication of roles and functions. Such areas include standards setting, audit practice reviews, financial reporting monitoring, and so forth. Broadly, the proposed regulatory body must remain at the macro level, regulating the accountancy professional bodies to protect the public interest. This will ensure that it does not lose sight of the bigger picture by getting involved in micro issues and, in the process, risk duplication of functions with self-regulating professional bodies.

92. **The new regulatory body must have a sustainable income base that is independent of the accountancy profession.** This will ensure the body's viability without compromising its independence. In the early years of its establishment, the bulk of its income may have to be from Government. The income sources should be diversified to market beneficiaries over time as the body gains market support and endorsement.

Strengthening the Accountancy Profession

93. **Strengthen the technical capacity within the ICATT Secretariat in the short term.** This will enable it to establish more and technically strong committees that could serve members effectively and adequately meet the IFAC SMOs. This will ensure sustained availability of high-quality accountants in the country. Such institutional strengthening will also assist ICATT in being better recognized as a significant regional player. It will also enable the Institute to better fulfill its role for self-regulation of the profession. Some specific aspects are noted below:

- ICATT should use the IFRS Interpretations issued by the IFRS Foundation.
- ICATT should conduct seminars and workshops and otherwise disseminate technical guidelines on the application of IFRS, IFRS for SMEs, IPSAS, ISA, IFAC Education Standards, and the IFAC Code of Ethics for Professional Accountants as issued by the various standard setters of these standards and codes.
- ICATT should develop and/or improve awareness of implementation guidelines for new standards and changes to existing standards. This will assist members, particularly small and medium practices and members in business, to better comply with standards and improve the quality of financial reporting.

94. **Amend the ICATT Rules and Regulations to provide that only ICATT members are allowed to audit.** Currently non-ICATT members are allowed to audit if they belong to a professional body designated by the president of ICATT as a “recognized supervisory body” or in the case of financial institutions, if approved by the Central Bank.

- The ICATT Rules and Regulations must require all audits to be conducted by ICATT members only. This will ensure that audit practitioners have attained a certain minimum level of professional education and practical training and are subjected to even regulation. Uneven regulation rigor arising from the existence of several bodies being allowed to audit may lead to regulatory arbitrage, with the profession moving more toward the less or unregulated bodies, ultimately adversely affecting quality.
- This would also imply that all partners in an audit practice should be registered and regulated members of ICATT. Currently a firm need not have all its partners as members of ICATT for it to be registered and to carry out audit practice.
- Similarly, all professional accountants providing services to the public should be required to be members of ICATT.
- Professional indemnity insurance should also be made compulsory for all audit practitioners.

95. **Establish and implement requirements for monitored practical training when registering and licensing auditors.** This is important because audit practitioners in Trinidad & Tobago qualify through different training routes. The level of practical training varies depending on the professional body. One important requirement is for the monitored practical training to be part of the professional qualification process. The practical training experience gap among audit practitioners should be kept as narrow as possible.

96. **Introduce education and administer examinations in local tax, business laws, corporate laws, and company laws.** ICATT should require all future members of foreign professional accountancy bodies to write and pass examinations in Trinidad & Tobago tax and company law before they are registered to practice audit. Current members can be exempted from the requirement.

97. **Establish an internationally recognized, local professional accountancy qualification, in collaboration with tertiary institutions.** This is in line with the objectives set out at when ICATT was formed.²⁹ ICATT should establish a strong education and examination system leading to the attainment of a professional accountancy qualification. ICATT should aim to forge alliances with tertiary institutions and influence accountancy curricula at the university level. In developing the local professional accountancy qualification, ICATT could also consider a twinning arrangement with a strong professional accountancy body whose qualification is internationally recognized. The arrangement should have an underlying objective of strengthening ICATT to be internationally recognized and form the basis for mutual recognition arrangements with major accountancy bodies globally. ICATT could also work with other countries in the region and ICAC to develop a common professional accountancy qualification at the sub-regional level, conforming to IFAC educational standards.

²⁹ ICATT was formed in 1970 as a result of lobbying Government for the establishment of a local accountancy body that would be able to set its own examinations and regulate the profession.

98. **The ICATT needs to work in collaboration with the Government to further develop accounting education in the universities and tertiary educational institutions with a view to upgrading the curriculum in graduate programs,** which should include IFRS, ISA, IPSAS, and the IESBA Code of Ethics.

99. **Participate more in the global accounting and auditing standard-setting process.** ICATT should provide the country’s opinion on any exposure drafts of standards that deal with issues that are of specific importance to the country. This participation in the standard-setting process could influence the final standards issued. This would also reduce requests for post-issue interpretations and implementation guidelines. ICATT could also work with professional accountancy bodies of countries with similar circumstances and with ICAC, which would make such efforts even more effective.

100. **ICATT should collaborate with other stakeholders in the country to fulfill IFAC Statements of Membership Obligations (SMOs).** Implementing the various recommendations discussed above would help ICATT to more fully comply with IFAC SMOs.

101. **Country Action Plan.** It is recommended that a Country Action Plan be prepared by the Government drawing on the recommendations of this report. A consultation workshop was organized in June 2012 bringing together various stakeholders to discuss the findings and recommendations of this study. Participants in the workshop developed the following action plan, which could become the basis of the Country Action Plan.

Reform Priorities

ACTION	TIMING OF IMPLEMENTATION		
	Short term (1 year)	Medium term (2-3 yrs.)	Long term (3-5 years)
A. Prepare a national strategy for the development of a satisfactory and well-functioning Corporate Financial Reporting Regime, including the cost of its implementation.	xxx	xxx	
B. Strengthen the capacity of national regulatory bodies and the professional accountancy organization to ensure compliance with financial reporting standards.			
1. Strengthen the Capacity of the SEC and TTSE. Rationalize and strengthen the focus of the Securities and Exchange Commission (SEC) and Trinidad & Tobago Stock Exchange (TTSE) for effective review and monitoring of financial reports, and provision of feedback to listed companies. In doing so, seek to avoid duplication of efforts between the two regulators.	xxx	xxx	
2. Financial Reporting Oversight Board. Establish a Financial Reporting Oversight Board headed by the SEC Chair and drawing members from the Central Bank, Ministry of Finance, Chamber of Commerce, and ICATT. The Ministry of Finance would also need to provide adequate resources to enable the Board to be effective and implement its mandate.	xxx	xxx	

ACTION	TIMING OF IMPLEMENTATION		
	Short term (1 year)	Medium term (2-3 yrs.)	Long term (3-5 years)
3. Strengthen, broaden, and deepen monitoring capacity of the Central Bank. Further strengthen the capacity of the Central Bank for effective review and monitoring of the financial reports and provision of feedback to financial institutions. The Central Bank should identify qualified accountants from its current staff and develop the key technical skills for conducting effective and independent review of the financial statements of financial institutions.	xxx	xxx	
4. ICATT Technical Capacity. Strengthen the technical capacity of the Institute of Chartered Accountants of Trinidad & Tobago. Recruit a technical resource, establish additional important committees, and become fully compliant with IFAC Statement of Membership Obligations.	xxx	xxx	
5. ICATT Physical Capacity. Establish an ICATT Center and develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.		xxx	xxx
6. Outreach to Educational Institutions. Develop accountancy education in universities and tertiary institutions with a view to upgrade the curriculum in graduate programs, which should include IFRS, ISA, IESBA Code of Ethics, and IPSAS.		xxx	xxx
7. Capacity of the Ministry of Finance. Strengthen the capacity of the SOE unit in the Ministry of Finance to monitor and enforce financial reporting requirements in SOEs.	xxx	xxx	
8. Credit Unions. Improve the corporate governance of these entities.		xxx	xxx
C. Amend the law and regulations to further improve financial reporting requirements.			
1. Define PIEs, SMEs, and micro-entities, along with related accounting and auditing thresholds. Private limited companies should not have the option of not appointing auditors. Develop a financial reporting framework for micro-entities. Auditors of any entity in Trinidad & Tobago should hold ICATT membership.	xxx	xxx	
2. Financial Reporting Act. Enact a Financial Reporting Act.		xxx	