

Jamaica: Report on Observance of Standards and Codes-Accounting and Auditing

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LCSFM

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MAIN ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants (United Kingdom)
BOJ	Bank of Jamaica
CPD	Continuing Professional Development
CPS	Country Partnership Strategy
GDP	Gross Domestic Product
FSC	Financial Services Commission
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
ICAJ	Institute of Chartered Accountants of Jamaica
ICAEW	Institute of Chartered Accountants of England and Wales
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
JSE	Jamaica Stock Exchange
MOFP	Ministry of Finance and Planning
PAA	Public Accountancy Act
PAB	Public Accountancy Board
PIE	Public Interest Entity
ROSC	Report on Observance of Standards and Codes
SF	Self-Financed
SME	Small and Medium-size Enterprise
SMO	Statement of Membership Obligation
SOE	State-Owned Enterprise
SMP	Small and Medium-Size Practice
UWI	University of West Indies

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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 with respect 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 13 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 second to be conducted in Jamaica (the first being in June 2003) derives from a request of the Government of Jamaica and the Institute of Chartered Accountants of Jamaica. 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 Md Mozammel Hoque (Task Team Leader, Senior Financial Management Specialist, LCSFM); Rajeev Gopal (Country Representative, IFC); Kerry Crawford, Financial Management Specialist, LCSFM; and Elizabeth Hartley and Cyril Soeri (consultants). The report significantly benefitted from comments of peer reviewers (including Technical Managers from the International Federation of Accountants). In addition, Daniel Boyce (Manager, Financial Management, LCSFM), Giorgio Valentini (Country Representative), and Joseph Kizito (Lead Financial Management Specialist, LCSFM) provided guidance.

¹The 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 comprises 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).

The review, conducted from May 2013 through June 2014 entailed a participatory process involving in-country stakeholders from the Government, central bank (Bank of Jamaica) 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, Bank of Jamaica, the Public Accountancy Board (PAB) and the Institute of Chartered Accountants of Jamaica (ICAJ).

EXECUTIVE SUMMARY

1. **This Report on Observance and Codes–Accounting and Auditing (ROSC–A&A) assesses the corporate sector accounting, financial reporting, and auditing practices in Jamaica.** It builds on its predecessor, a 2003 ROSC–A&A,¹ and its aims to assist the Government of Jamaica’s efforts to strengthen accounting and auditing practices and to enhance financial transparency in the corporate sector, so as to support the Government’s economic reform program and provide greater confidence to current and potential investors with respect to the financial reporting environment.²

2. **Jamaica is the largest English-speaking Caribbean country, and has a population of 2.7 million.** It gained independence from the United Kingdom in 1962 and for some years enjoyed a flourishing economy founded on bauxite, tourism, and bananas. Jamaica is a relatively small, open economy with a per capita GDP (2013) of about \$5,500.³ Over the last three decades, the Jamaican economy has experienced some challenges in economic growth and reduced international competitiveness.

3. **As outlined in its National Development Plan “Vision 2030”, the Government of Jamaica (GOJ) aims to achieve developed country status by 2030,** in part by emphasizing the principles of good governance, transparency, and accountability. The World Bank Group’s Country Partnership Strategy (CPS) 2014-17 will provide support to the Government, including in public sector modernization and developing an enabling environment for private sector growth. The Jamaica ROSC–Accounting and Auditing report is fully aligned with “Vision 2030” and the Bank Group’s CPS. By supporting the development of corporate financial reporting standards and the accountancy profession in Jamaica, the Report also aims to help improve corporate governance and facilitate private sector-led economic growth. In addition, high-quality corporate reporting will foster investment by local and international investors, which is critical for economic growth and achieving the objectives set out in “Vision 2030” and the Bank Group’s CPS.

4. **Jamaica has embarked on an economic reform program whose main objectives are to contain the country’s growing economic and external vulnerabilities and address economic imbalances, while putting the country on a path to sustainable growth.** Important reforms include (a) strengthening public finances, including through comprehensive tax reform, expenditure rationalization, and improved public debt management and public financial management; (b) enhancing the resilience of the financial sector through strengthened supervisory, regulatory, and crisis-management frameworks; and (c) improving growth-generating efficiency through enhancements to the business environment and strengthened institutional capacity and governance. This report examines Jamaica’s auditing and accounting

¹ Annex 1 of this report discusses the 2003 ROSC–A&A and reviews the implementation status of its recommendations.

² See *Vision 2030, Jamaica National Development Plan*, and in particular its discussion of Financial System Stability (pages 132-133, and 137); Micro, Small, and Medium-sized Enterprises (page 147); and Ensure a Facilitating Policy, Regulatory and Institutional Framework for Business Development (page 149).

³ Unless otherwise specified, the unit of currency throughout this report is the U.S. dollar.

environment in the context of the country's efforts to formulate and implement an action plan to address (b) and (c) above, and suggests reform priorities for the accountancy profession as outlined below in an indicative action plan that draws on the recommendations of this report.

Accounting and Auditing Environment

5. **The accounting profession in Jamaica is well organized and progressive in its approach.** In 2002 Jamaica became one of the first countries to adopt the International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA). Before independence, and briefly afterwards, the accountancy profession relied on an environment created mainly by the professional accountancy bodies in the United Kingdom. In 1968 Jamaica's Parliament passed the Public Accountancy Act (PAA); this established the Public Accountancy Board (PAB) as a licensing and regulatory authority within the Ministry of Finance and Planning. PAB licenses those accountants who are qualified to attest as Registered Public Accountants and perform the *audit* function. PAB exercises its responsibility as regulator by presiding over a practice monitoring program (see following Good Practice Box).

Box 1. Public Accountancy Board – A Good Practice

Jamaica's Public Accountancy Act was enacted in 1968; it established the Public Accountancy Board (PAB) to license the accountancy/auditing practice and regulate the profession in Jamaica. This was a highly visionary action taken by the Government of Jamaica with the support of the early members of the Institute of Chartered Accountants of Jamaica. Such an arrangement has not yet been implemented in many countries of the world and is not in place in any other Caribbean country. Indeed, the US and Canada had no independent regulator of the accountancy profession prior to the issues leading to the collapse of Enron and Arthur Andersen.

Although PAB was set-up in 1968, actual audit practice monitoring only began in 2012, as part of a regional initiative by the Institute of Chartered Accountants of the Caribbean (ICAC). In Jamaica, PAB contracted out the actual review to ACCA; its reviews render judgments on the adequacy of the working files, the standard of the audit plan, and other aspects of audit practice. To date, through ACCA, PAB has conducted 82 practice monitoring reviews involving 129 Registered Public Accountants: of these reviews, only 7 were rated satisfactory. PAB had anticipated that many practitioners would have an unsatisfactory first review (this outcome parallels the results that have emerged from the ICAC Practice Monitoring Program conducted in other Caribbean countries through their national accountancy bodies and also parallels the experience in the UK of ACCA when it introduced Practice Monitoring for its members in the UK and other non-Caribbean countries). Thus, the result of the first-time review is being used as a learning experience and to identify gaps where the Registrant needs to make improvement to ensure the quality of audit. PAB will be working with the Institute of Chartered Accountants of Jamaica (ICAJ) to conduct seminars/workshops to help Registrants improve their practices.

6. **Monitoring of listed companies by the Jamaica Financial Services Commission (FSC), Jamaica Stock Exchange (JSE), and Bank of Jamaica is limited to ensuring that these companies file within the prescribed time and that the financial statements are complete.** Listed companies issue unaudited quarterly financial reports. As the public often decides whether to invest in the stock market based on these reports, it would be useful if *all* interim financial statements produced for all listed companies and financial institutions were reviewed by the company auditors before they are published in electronic and print media. This would enhance public confidence in the results achieved by these companies and may help stimulate the capital market.

7. **The auditing of public companies and financial institutions is largely performed by international firms.** The limited sample of audited financial statements reviewed as part of the ROSC exercise revealed that all the listed companies in the sample meet the IFRS requirements. However, by a wide margin most companies registered in Jamaica are small and medium-size enterprises (SMEs) audited by small and medium-size practices (SMPs); these struggle to fully comply with IFRS. To enhance the quality of all audits and provide a higher level of confidence in their perceived reliability it is necessary that greater emphasis be placed on ensuring that qualified staff are employed by entities, in particular state-owned enterprises (SOEs) and financial institutions, so as to enable the production of appropriate financial information and ensure auditor independence.

8. **Government of Jamaica acknowledged the need for a comprehensive, differential, and proportionate financial reporting frameworks in Jamaica to eliminate unnecessary financial reporting burdens on enterprises, depending on their asset size or turn-over.** The Government is also considering defining public interest entity (PIE) or small or medium-size enterprise (SME) to support IFRS and IFRS for SMEs reporting frameworks. In addition, micro entities need to be defined and their financial reporting framework established applicable to their size and profiles, with appropriate legal backing. While addressing these matters will be important in terms of adding coherency and efficiency to the regulatory framework, the issue with PIEs extends far beyond this concern, particularly when the PIE is a financial institution that holds assets in a fiduciary capacity for a large number of stakeholders. Such PIEs, if inadequately monitored and regulated, have the potential to adversely impact a country's financial health or that of a large segment of the populace.⁴

9. **Section 16 of the PAA also established in law that the Institute of Chartered Accountants of Jamaica (ICAJ), a professional membership organization, had the authority to approve accounting and auditing standards in Jamaica.** Over the years, ICAJ has developed its operations and enhanced its member services, including introducing mandatory continuing professional development (CPD) and becoming a member of the International Federation of Accountants (IFAC). It was instrumental in forming the Institute of Chartered Accountants of the Caribbean (ICAC) in October 1988.

10. **ICAJ has some 1,244 members** and 3,958 students registered under a joint scheme with the UK's Association of Chartered Certified Accountants (ACCA).⁵ It is estimated that there are about 3,000 accountants in Jamaica (most of which are certified by ACCA), of which about 275 are licensed by PAB to attest as "Registered Public Accountants" (for which ICAJ membership or equivalent qualifications are a prerequisite) and perform the audit function. The remainder of the certified accountants do *not* conduct audits (as they are not licensed by PAB to do so); they

⁴ However, PAB has recently undertaken a review of proposed legislation relating to the practice of public accountancy in Jamaica. The review has resulted in a number of recommendations to amend the PAA; among other matters, this would include the definition of a public interest entity.

⁵ 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. Most of the qualified accountants in Jamaica (as elsewhere in the Caribbean) are accredited by ACCA, and are not Chartered Accountants. A professional accountant in Jamaica could only use the designation as "Chartered Accountant" when s/he becomes member of ICAJ.

operate either in the public sector (e.g., in line ministries) or in private sector entities. As the professional members' organization for accountants in Jamaica, ICAJ would benefit from strengthening its marketing operations and its technical capacity (particularly with respect its ability to assist SMPs fulfill IFAC Statements of Membership Obligations, and play an instrumental role in enhancing the image of the profession, both locally and overseas).

11. **Although ICAJ sets standards for the performance of the accountancy profession in Jamaica and regulates and monitors its members, it effectively has no control over the majority of Jamaica's qualified professional accountants who are not ICAJ members.** Members of ICAJ, ACCA, the American Institute of Chartered Public Accountants (AICPA) or who have qualified as a Certified General Accountant (CGA) or Certified Management Accountant (CMA) from Canada, qualifications which have now merged as Chartered Professional Accountant (CPA), Institute of Chartered Accountants of England and Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS), and Institute of Chartered Accountants of Ireland (CAI) are subject to oversight and/or regulation by their *respective* professional bodies. This limits ICAJ's professional reach and results in differential regulation and the potential for regulatory arbitrage.

12. **All members of ICAJ who wish to retain their practicing certificate must satisfy the CPD requirements on an annual basis.** For the most part, CPD credits are obtained through attending qualified seminars (which as a member of IFAC must satisfy SMO 2: "*International Education Standards for Professional Accountants and Other EDCOM Guidance*"). ICAJ recently reached an agreement with the University of the West Indies (UWI) to develop an appropriate testing mechanism to assess whether the more than 3,600 accounting students associated with ICAJ are conversant with local taxation and business law. However, more still remains to be done to better prepare incoming practitioners for the increasing rigor and complexity of international standards and financial instruments.

13. **ICAJ passed a by-law mandating that all its practicing members obtain professional indemnity insurance (PII) on a three-year phased basis.** This is a step in the right direction. Although some SMPs express concern with respect to the attendant financial costs, ICAJ does not foresee these costs to be a significant burden to SMPs as it is anticipated that the premiums would be proportionate to the size and complexity of the practices concerned (and would certainly be far below the cost of defending a claim of negligence, especially if that claim were upheld). Moreover, the greater the number of practices that are required to obtain PII the higher the likelihood that more competitive premiums could be negotiated on the basis of a "group."

14. **The capacity of the regulators of the financial sector and Jamaica Stock Exchange (JSE) should be continually strengthened.** The Bank of Jamaica (BOJ), Financial Services Commission (FSC), and JSE have, for most part, the capacity to conduct their oversight function to a high standard. However, as the world is dealing with a more complex financial sector and instruments, organizational cultures, and practices in a globalized world, and audit failures are not uncommon, the regulators should continue to strengthen their general purpose financial management supervision of the entities they regulate. In addition, with the extension of the oversight functions and constant evolution of IFRS and associated standards, there is a need for these institutions to put even greater emphasis on ensuring that their staff are kept up-to-date in all areas, particularly the requirements of IFRS.

15. **The state-owned enterprise (SOE) sector is an important area of opportunity to improve financial accountability in Jamaica.** The sector is quite large: it provides significant employment opportunities and is a major service provider in the formal economy. There are 194 SOEs, of which 58 (30 percent) are fully financed from the Consolidated Fund, 47 (24 percent) are partly financed, and the remainder (89) are self-financed. The Ministry of Finance and Planning (MOFP) issued a Corporate Governance framework in October 2012 (revised). The ministry should place greater emphasis on implementing this framework. The audited financial statements for SOEs are not all completed and submitted within the legal timeframe; as of November 30, 2013, 20 of the 89 self-financed SOEs were delinquent. MOFP has recently increased its level of oversight with regard to completing the audit of all SOEs in a timely manner.

16. **It is recommended that a Country Action Plan be prepared by the Government drawing on the recommendations of this report.** The main text of the report proposes a number of reforms. The Indicative Action Plan immediately below prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession.

Indicative Action Plan: Key Recommendations

A. Short-Term Reforms (1 to 2 years)	
1. Define public interest entities (PIEs) and small and medium-size enterprises (SMEs).	Clearly define PIEs and SMEs and establish an appropriate differential financial reporting framework in line with size, stakeholders' interest, and (especially) potential for adverse systemic impact or wide-ranging adverse impact on the populace, etc. PAB is quite proactive and already working on draft Public Accountancy Amendment Act.
2. Strengthen ICAJ Capacity.	Strengthen the capacity of ICAJ in the area of technical support for international financial reporting and auditing standards to assist its members.
3. Develop the capacity of the PAB Secretariat and institutionalize practice monitoring.	The capacity of the PAB secretariat should be strengthened to enable PAB to institutionalize and undertake regular practice monitoring in conjunction with ICAJ and ICAC. This will place PAB in a leadership position to provide this service to Jamaica and also other Caribbean countries.
4. Strengthen monitoring of SOEs.	The Ministry of Finance and Planning should continue to closely monitor SOEs, and sanctions should be applied for delinquent reporting. Many SOEs, although having the same reporting requirements as private entities, are delinquent, particularly with respect to the timing of the audit. Recently steps have been taken to amend legislation and to report delinquent SOEs to the Attorney General.
5. Strengthen regularity capacity.	Strengthen the capacity of all regulators including JSE with respect to accounting and auditing. These institutions should enhance their capacity to monitor and enforce compliance with the financial reporting requirements of the entities for which they are responsible

B. Medium- and Long-Term Reforms (3 to 6 years)	
6. Increase ICAJ membership base and image, and fully comply with IFAC SMOs.	The Institute should (a) reach an understanding with MOFP to foster membership for all public sector accountants so that they could update their knowledge by participating in CPD courses organized by the Institute. ICAJ should also embark on an outreach program (including to students with high academic performance) to build awareness of the profession and its role/importance; and more fully collaborate with IFAC to fulfill SMOs, including by strengthening the training and education in International Public Sector Accounting Standards.
7. Establish legal requirements for audit report for tax compliance.	The Tax Authority of Jamaica may wish to consider accepting audited financial statements of listed and private companies with defined thresholds to support Income Tax Returns, thus promoting financial discipline and audit compliance.
8. Establish a central repository of audit reports.	PAB may wish to consider establishing a repository of all audited financial statements for private unregulated companies and the requirement for submitting such accounts should be included in the forthcoming draft Public Accountancy Amendment Act. PAB oversight might encourage timely audit of these companies, which in turn might strengthen financial discipline in Jamaica's corporate sector.
9. Review/audit interim financial reports of listed companies.	Consider the value of reviewing/auditing the interim financial reports of all listed companies by their auditors before these are made available to the print and electronic media. It is recommended that the JSE regulations be amended to mandate such review.

JAMAICA: REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)–ACCOUNTING AND AUDITING

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 Jamaica.** 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. **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) redesigning and strengthening the legal and regulatory framework governing the accounting and audit profession;¹ (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 support the corporate governance agenda and regulatory environment in Jamaica.

3. **The experience acquired from conducting ROSC A&A activities in different Caribbean countries will provide a basis for inter-country dialogue for improving corporate financial transparency.** This in turn might facilitate a region-wide collaboration aimed at developing a common model of regulation for corporate sector accounting and auditing and for monitoring the quality of accounting and auditing, with the support of the Institute of Chartered Accountants of the Caribbean (ICAC).

Country Context

4. **Situated in the central area of the Caribbean Sea and comprising an area of 10,990 sq. km., Jamaica is the largest English-speaking Caribbean country,** with a population of 2.7 million.² It gained independence from the United Kingdom in 1962 and for some years enjoyed a flourishing economy founded on bauxite, tourism, and bananas. It is a unitary state, with a parliamentary style of government modeled on the United Kingdom (UK). The head of state is the Governor General and the head of the government is the Prime Minister; the legal system is based on English common law.

¹ Among other actions, this Report reviewed and analyzed the current regulatory mechanisms of the Bank of Jamaica (BOJ), Public Accountancy Board (PAB), Financial Services Commission (FSC), Institute of Chartered Accountants of Jamaica (ICAJ), and the stock exchanges.

² *World Development Indicators*, 2012, World Bank.

5. **Jamaica is a relatively small, open economy with a per capita GDP (2013) of about \$5,500.**³ Over the last three decades, the Jamaican economy has experienced low economic growth, declining productivity, and reduced international competitiveness, in large measure because of Jamaica's unsustainable debt burden, which has undermined confidence and elevated risks to economic stability. High debt service has limited the Government's ability to provide the services needed to achieve sustained rates of growth and increased welfare for its citizens.

6. **The main objectives of Jamaica's economic reform program are to contain the country's rising economic and external vulnerabilities and address economic imbalances, while putting Jamaica on a path to sustainable growth.** The program aims to promote macroeconomic and financial stability, including by achieving and sustaining higher primary fiscal surpluses that can help underpin debt sustainability, pave the way for private sector-led growth through the implementation of a comprehensive set of structural reforms, and promote social stability through enhanced social protection for the most vulnerable.

7. **Jamaica has identified a set of structural reforms in partnership with the IMF and other major donors, including the World Bank, to address a short-term crisis and long-term development issues.** The main reforms include (a) strengthening public finances, including through comprehensive tax reform, expenditure rationalization, and improved public debt management and public financial management; (b) enhancing the resilience of the financial sector through strengthened supervisory, regulatory, and crisis-management frameworks; and (c) improving growth-generating efficiency through enhancements to the business environment and strengthened institutional capacity and governance.

World Bank Group Partnership with Jamaica

8. **Currently, the Bank is implementing seven active projects with a portfolio value of \$329 million, while IFC has an additional portfolio of about \$283 million.**⁴ The WBG 2014-2017 Country Partnership Strategy (CPS) seeks to provide support in three main thematic areas: (a) public sector modernization (fiscal consolidation, debt management, and public administration performance); (b) the enabling environment for private sector growth; and (c) social development and climate resilience. IFC is working with the private sector and

³ Unless otherwise specified, the unit of currency throughout this report is the U.S. dollar. (The CIA World Fact Book cites this figure as \$9,100 using the purchasing power parity methodology; see <https://www.cia.gov/library/publications/the-world-factbook/fields/2004.html>).

⁴ Bank Group efforts for FY10-13 were based on Government priorities set out in its Medium-Term Framework (fiscal consolidation, debt reduction, and improved infrastructure for future growth). The Bank considers it important to continue this focus, while also more directly supporting the growth agenda through efforts to improve competitiveness and skills development. During FY10-13, the IFC portfolio increased from \$150 million to nearly \$280 million, providing significant additionally to the IBRD program. IFC committed a total of \$200 million, including \$58 million from syndicating banks. As of June 2013, the IFC disbursed and committed portfolio totaled \$196 million and \$198 million, respectively. Syndicated loans outstanding (B loans), for which IFC is a lender, amounted to \$82 million. IFC's investment portfolio consists of eight active operations, and five advisory service projects supporting micro, small, and medium-size enterprises, credit bureaus, the investment climate, and public-private partnerships, for a total of \$3.9 million. Jamaica is currently the IFC's largest outstanding exposure in the Caribbean.

collaborating with the Bank in supporting the country's management of regulatory and public-private partnership (PPP) issues. (The Government is interested in both subjects as means to promote growth.) In light of the magnitude of the country's financing needs and the Bank Group's commitment to support the Government's fiscal adjustment and reform efforts, IBRD will provide up to \$510 million over the four-year period of the CPS, in conjunction with the IMF and IDB program of support.

Financial Sector

9. **The financial sector is relatively well developed in Jamaica.** Jamaican banks offer an extensive array of banking services, with the main institutions being commercial banks, credit unions, and building societies (in addition, there are a few insurance companies and non-banking financial institutions). Despite its rich natural assets and a period of robust development stimulated by manufacturing, construction, and tourism, the economy has been in a prolonged period of sluggish growth, with a poverty rate of 17.6 percent and an unemployment rate of 13 percent in 2012. The Jamaican economy has diversified from the sugar industry and has become heavily dependent on services, which now account for nearly 65 percent of GDP. Despite significant progress made over the last two years, especially in terms of transparency and reporting, the regulatory, supervisory, and institutional frameworks in Jamaica need further improvement and alignment with international standards. The 2012 Annual Report of the country's central bank (Bank of Jamaica) highlighted a number of pending legislative amendments which, if passed, would strengthen the supervision of financial institutions. In particular, the Bank of Jamaica (BOJ) has been working on an Omnibus Bill that would consolidate the different set of relevant laws (*Banking Act*, *Financial Institutions Act*, and *Building Societies Act*) and remove inconsistencies and distortions.⁵

10. **The ROSC A&A review has extensively assessed the legal, accounting, financial reporting, and audit requirements of selected financial institutions.** The review has also assessed the application of IFRS in the prepared accounts of corporate entities and the use of ISA by companies' auditors. In addition, the review discussed the general purpose supervision by regulatory organizations such as BOJ and the Financial Services Commission (FSC), the relevant authorities.

State-Owned Enterprises

11. **The state-owned enterprise (SOE) sector is quite large: it provides significant employment opportunities and is a significant service provider in the formal economy.** In September 2011 the Government approved a Corporate Governance Framework, the implementation of which is monitored by the Ministry of Finance and Planning.⁶ There are 194 SOEs, of which 58 (30 percent) are fully financed from the Consolidated Fund, 47 (24 percent)

⁵ However, there would remain the issue of BOJ's lack of independence from the Government, which may potentially impose serious risks to the stability of the system.

⁶ The Framework (which was revised in October 2012) "provides for the establishment of an effective monitoring arrangement for the operations of Public Bodies by their parent Ministries. The proposed arrangement will facilitate the transparent, efficient and effective use of resources, and make critical linkages to the existing monitoring system in the Ministry of Finance & Planning (MOFP)."

are partly financed, and the remainder (89) are self-financed (SF). Most of the self-financed entities generate revenues for the Government. The legal framework varies as either they are formed by an Act of Parliament (38 of the SF) or as a limited liability company under the Companies Act (51 of the SF; 74 of the total). All except one of the SF SOEs apply full IFRS, are on an accrual basis, and are audited by private sector auditors. The exception is the Capital Development Fund, which is prepared on an accrual basis subject to full IFRS but is audited by the Auditor General.

12. **Of the partially funded SOEs (17 being limited companies and 30 being statutory bodies), the majority are audited by the Auditor General and the remainder by auditors in the private sector.** The financial statements for SOEs are a mixture of accruals (where full IFRS is applied) and cash basis (guided by the accounting rules under the Financial Administration and Audit Act), with all internationally funded projects being on a cash basis.

13. **There are several auditing and accounting issues which arise when dealing with the SOEs:**

- As the entities are owned by the Government, the procurement process for the contracting of auditors for those SOEs that are not audited by the Auditor General is subject to review and clearance by the National Contracts Commission and is monitored by the Office of the Contractor General. The process is lengthy and often does not necessarily lead to the selection of the most qualified auditor as it invariably comes down to the least cost, provided the technical criteria are satisfied.
- The audited financial statements for SOEs are not all completed and submitted within the legal timeframe; as of November 30, 2013, 20 of the 89 self-financed SOEs were delinquent. Under the IMF agreement all self-financed entity audits must be up to date by 2015. While in theory the Permanent Secretary of the appropriate ministry is held accountable for the submission, often a change of minister or Government disrupts the process and blurs the lines of accountability. Over the last five years, in particular, the Government has placed emphasis on improving the corporate governance of SOEs and updating all audits, and applying sanctions to those that are delinquent.

Private Sector

14. **The Companies Office of Jamaica (formerly named the Registrar of Companies) lists almost 67,000 companies, of which 1,984 are public companies.**⁷ The country's Stock Exchanges comprise 57 companies, of which 19 are listed with the Junior Exchange. Most of these companies are small and medium-size enterprises (SMEs). There are also many trade associations in Jamaica, headed by the Jamaica Chamber of Commerce (JCC), operating since 1779, from which various associations have been formed, including the Jamaica Manufacturers Association (JMA), Jamaica Exporters Association (JEA), and Jamaica Hotel and Tourism Association (JHTA). In addition, there is a Private Sector Organization of Jamaica (PSOJ) and

⁷ Total number of Private Companies: 60,829, Public Companies: 1,984, Non-Profit Companies: 3,973, Sole Proprietors: 87,696, Partnerships: 20,295, Registered Business Names: 107,999.

related industry-specific associations, including a Bankers Association (with nine corporate members) and an Insurance Association (most insurance companies are members). These associations do not have any regulatory powers or duties but are very active in the consultative processes set up between the Government and the private sector. If, as in most cases, the association is registered under the Companies Act as a not-for-profit company limited by guarantee, it will be required to submit annual reports but not audited financial statements to the Companies Office of Jamaica.

15. The regulatory processes were revamped following the financial crisis in the 1990s. The removal of exchange controls in late 1991 led to a swift increase in the exchange rate, soaring inflation (over 100 percent in 1992), and the release of cash into the economy. To absorb the money supply and stabilize the economy, interest rates on government paper and commercial paper were offered in excess of 40 percent. This, in turn, resulted in many businesses suffering a severe cash flow problem and defaulting on loans with institutions. The Financial Adjustment Company (FINSAC) was created to transfer the non-performing loans from the banks together with the attached security, with the intention that FINSAC would pay interest to the banks, allowing them to continue operating, and realize the security at a future date to satisfy the principal. The non-performing loans and the nature of the security of those loans, together with the often tight relationships among group companies, led to the collapse of the financial sector: from more than 10 commercial banks and more than 20 merchant banks and many building societies and investment companies, the survivors were 5 commercial banks (4 of them foreign), 2 merchant banks, and 4 building societies.

16. All the survivors of the collapse, except for National Commercial Bank (NCB), were closely monitored by their overseas head offices; the local entities without external oversight took excessive risks without immediate consequences. The results were that many long-established family businesses in manufacturing and production were closed or sold, leading to the rapid decline of the productive sector. The direct results of the collapse were:

- The BOJ licensing regime was tightened and the monitoring of deposit taking institutions and the legal framework were strengthened.
- The Financial Services Commission (FSC) was created, modeled on the Financial Services Authority in the UK, to regulate all non-banking financial institutions operating in insurance, securities, and private pensions. Prior to this, private pension funds were not regulated in any way.
- The Jamaica Deposit Insurance Commission (JDIC) was set up to protect depositors who place funds in licensed institutions.

17. The economy as a whole (particularly the private sector) is very domestically focused and largely cash-based. At independence, the country placed reliance on agricultural products; in the 1970s the focus was solely on the domestic economy. The opening up of the economy in the 1980s led to the return of many citizens and the entry of many international companies. As a result of the financial collapse in the 1990s and early 2000s, many manufacturing entities transferred their operations to other Caribbean countries; as a result, approximately \$5 billion worth of manufactured goods are now being imported from these countries to meet most of Jamaica's basic product needs. Jamaica's economy would benefit by a re-balancing that reduced its domestic orientation and introduced a more global focus. In

addition, there is a need for more robust regulation of the cash-based economy and its better reflection within the tax regime.

II. INSTITUTIONAL FRAMEWORK

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

A. Statutory Framework

18. **The Public Accountancy Act (PAA) 1968 regulates the practice of Accountancy in Jamaica,** and the use of Accountancy designations. The Act also provides for the establishment of a regulatory body called the Public Accountancy Board (PAB), which requires all persons wishing to practice as Accountants to be registered with the Board; hence the designated title Registered Public Accountant. The Institute of Chartered Accountants of Jamaica (ICAJ) was incorporated under Section 16 of the Act. The Minister of Finance has authority under the Act to issue regulations, in consultation with PAB, with regard to various matters, including the making of complaints against registered public accountants; the procedure to be followed for disciplinary investigations undertaken by PAB; and the procedure for approving an applicant's qualification for registration as a Public Accountant when the person does not hold membership in ICAJ.

19. **Recently PAB, as a regulator, has undertaken on behalf of the Government a review of legislation relating to the practice of public accountancy in Jamaica.** The review has resulted in a number of recommendations which entail proposed amendments to the PAA focusing, among other matters, on the definition of a public interest entity (PIE),⁸ the establishment of audit committees for PIEs, and the further requirements for indication of an auditor's independence and monitoring of performance. The details of the changes are enshrined in a Draft "Act to Amend the Public Accountancy Act," which is being considered by the Government.

⁸ "In the literature, public interest entities are typically "described" as including banks, insurance companies, investment funds, pension funds, listed companies, and large enterprises that meet two of the following three thresholds: (a) total number of employees exceeding certain number; (b) total revenue/assets on the balance sheet exceeding defined amount and (c) total turnover exceeding a defined amount. Note that the absence of definition does *not* mean that the concept of "public interest" is excluded from operational applications of International Federation of Accountants-mandated audit standards or otherwise lawfully mandated standards (e.g., Japan's CPA law imposes different independence requirements on audits of certain types of entities that are typically included under the rubric of PIEs; in France rotation requirements extend beyond listed companies to include entities that are often considered as of public interest—this is in line with the EU, which does define PIEs, and whose EC 8th Directive specifically requires that the partner rotation requirements be applied to PIE audits). For a further discussion, see the International Ethics Standards Board for Accountants Agenda Paper 3-C, February 2006; the Accounting Professional and Ethical Standards Board (APESB) Technical Staff Paper on Consultation Paper: Proposed Definition of Public Interest Entity for the Code—Summary and Analysis of Key Issues, Channa Wijesinghe and Si-Jia Li, August 11, 2011; and APESB Technical Update 2011/5, "APESB issues amendment to the Definition of Public Interest Entity in APES 110 *Code of Ethics for Professional Accountants* (issued December 2010)," issued December 7, 2011.

20. **The Companies Act 2004 requires all limited companies to present financial statements, including, when appropriate, consolidated financial statements.** ICAJ is responsible for adopting/issuing accounting standards for use in these financial statements, and it requires members to follow them. (The 7th Schedule of the Companies Act requires adherence to ICAJ/GAPP, which is IFRS.) The observance of ICAJ-issued accounting standards is required under the legal and regulatory framework for entities directly supervised by the following organizations:

- Bank of Jamaica—commercial banks (licensed under the *Banking Act*), near-bank deposit-taking intermediaries (such as merchant banks), trust companies, and finance houses (licensed under the *Financial Institutions Act*), and building societies (licensed under the *Building Societies Act*).
- Financial Services Commission—securities dealers, private pension funds, , insurance companies and intermediaries.
- Jamaica Stock Exchange—listed companies.

21. **The Companies Act 2004 requires that the financial statements of all limited companies be audited unless exempt.** An auditor must be a Registered Public Accountant licensed by PAB. The Act exempts very small companies from the compulsory audit requirement. Standards required for the audit of financial statements are set out in the Companies Act.

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

- BOJ may summon any current or former auditor of a licensee for the purpose of conducting inquiries about its operations and financial conditions.
- If an external auditor resigns or expresses unwillingness to be reappointed, that auditor is required to advise BOJ in writing of the reason(s) behind such action.
- External auditors are required to report in writing to the chief executive and every director of a commercial bank or similar financial institution, as well as to the Bank of Jamaica, any material transactions or conditions coming to the auditor's attention that may adversely affect the audited entity's financial viability.
- BOJ has authority to require the external auditor of a commercial bank or similar financial institution to enlarge the scope of audit or perform such other audit procedures as it may specify in any particular case.
- BOJ has authority to appoint an auditor, other than the external auditor of a commercial bank or similar financial institution, to conduct a special audit of that entity.

23. The Financial Services Commission (FSC) came into existence on August 2, 2001 by virtue of the Financial Services Commission Act. It has replaced the Office of the Superintendent of Insurance (OSI) and Unit Trusts and the Securities Commission. The FSC supervises and regulates the securities industry, the insurance industry and the private pensions industry and all non-bank financial institutions. As such it may be properly described as an integrated financial

services regulator. The FSC has prudently structured the organization with specialist divisions designed to fulfill its mandate. Annual financial statements and statements presented in prospectus and offering documents are required to be audited by registered public accountants. These are reviewed by the FSC ensure general compliance with accounting and auditing standards. Monitoring of the capital market is focused on identification of market anomalies and maintaining appropriate market conduct. The FSC monitors compliance with accounting standards, and requires all audited financial statements to be prepared in compliance with IFRS and ISA. The FSC has the power to appoint an auditor other than the auditor of a licensee to conduct a special audit. The FSC reviews financial statements of its regulated entities. The financial statements are reviewed for compliance with accounting standards and to identify any potential financial risks within the entities.

24. Various Acts or supervisory regulations require varied filing and public reporting of their relevant business entities' financial statements. All financial institutions are required to follow IFRS. In addition, banks are required to provide Large Exposures Reporting, Capital Adequacy Reporting on a sole and consolidated basis, Connected Party Exposures, Monthly Balance Sheet and Profit and Loss Reports, Asset Quality Reports for loans, Investment Reports and Market Risk Reports, and Quarterly Shareholding Reports. Banks are required to submit monthly, quarterly, and annual financial reports to BOJ. Consolidated audited financial statements are to be published.

25. The accounting and financial reporting requirements are governed by various corporate laws and by ICAJ regulations. The various requirements are not detailed but refer to accounting and financial reporting requirements as stipulated by ICAJ, which has statutory authority to approve accounting and auditing standards in Jamaica.⁹

State-Owned Enterprises

26. Seventy-five of a total of 194 SOEs are registered under the Companies Act 2004 and are treated similarly to any other limited company for accounting and financial reporting and audit purposes; the remaining entities are Statutory Bodies. This is a significant strength in the statutory financial reporting requirements for SOEs in Jamaica. SOEs which follow the accrual basis of accounting are required to comply with IFRS whether they are a statutory body or are reporting under the Companies Act. SOEs which account for operations on a cash basis are subjected to the guidelines under the Financial Administration and Audit Act.¹⁰ Audits are either carried out by the private sector, as is the case for all but one of the self-financed SOEs, or by the Auditor General. The financial statements of a number of SOEs are not up to date and some audits are outstanding. Changes to Board members, with the incoming Board hesitant to endorse the financial statements prepared under the outgoing Board, is one of

⁹ For further discussion on this matter see Section B of this Chapter: Accountancy Profession (Auditors).

¹⁰ The differing basis of accounting and the differing standards are not legally mandated; rather, they reflect either the type of SOE (e.g., for-profit or budget transfer) or individual SOE preference (e.g., as IFRS for SMEs were adopted some years after IFRS, some SOEs preferred to maintain the “known universe” of full IFRS, particularly if they foresaw expansion).

the causes of delayed financial statements. It would be useful to strengthen the capacity of the Board, particularly the technical capacity of the Audit Committees in all SOEs.

Public Interest Entities and Small or Medium-Size Enterprises

27. **The Government of Jamaica acknowledges the need for a comprehensive, differential, and proportionate financial reporting frameworks in Jamaica for eliminating unnecessary financial reporting burdens on enterprises, depending on their asset size or turn-over.** The Government is also considering defining the public interest entity (PIE) or small or medium-size enterprise (SME) to support IFRS and IFRS for SMEs reporting frameworks. In addition, micro entities need to be defined and their financial reporting framework established applicable to their size and profiles, with appropriate legal backing. While addressing these matters will be important in terms of adding coherency and efficiency to the regulatory framework, the issue with PIEs extends far beyond this concern, particularly when the PIE is a financial institution that holds assets in a fiduciary capacity for a large number of stakeholders. Such PIEs, if inadequately monitored and regulated, have the potential to adversely impact a country's financial health or that of a large segment of the populace. An illustrative example (see Box 1) would be a credit union: Although these institutions are the main vehicle of financial inclusion, most local jurisdictions provide little or no regulation, prudential oversight, or customer protection mechanisms. Thus, the savings of economically vulnerable populations are potentially at risk. (Many credit unions do not have external investors who bring financial and/or governance discipline to operations.).

Box 1. PIEs: Good Practice in OECS Countries

Credit unions are key players in the financial sector of the small countries that are members of the Organisation of Eastern Caribbean States (OECS), holding deposits for more than half of the working population, and primarily targeting low- and middle-income groups. Recognizing the complex technical nature of this sub-sector, and its systemic importance to their societies, the OECS reached out to the Caribbean donor community seeking to leverage its international experience and expertise.

In 2008, the World Bank conducted a comprehensive Report on Standards and Codes assessment of accounting and auditing practices in OECS countries, paying particular attention to the state of the non-banking financial sector. At the country-level, joint on-site inspections were conducted in four OECS countries, targeting larger, potentially riskier, credit unions holding significant shares of population deposits. These interventions provided key insights into sub-sectoral practices, while enabling supervisors from different countries to collaborate and share knowledge as a result of the process' cross-jurisdictional nature. It also helped OECS authorities assess the systemic risk and tailor mitigating measures (including adjustment of accounting and financial policies, staff training, and a stronger regulatory framework), thus providing much-needed protection and assurance to the OECS population.

Other Aspects

28. **Financial statements for regulated entities are generally readily available to the public on demand.** This is true for listed companies, banks, insurance companies, and other financial institutions, which are required to post them on their websites. Financial statements are less available for entities such as Co-operative Societies and Benevolent Societies and other unregulated entities. Private companies are often tardy in their production of audited financial statements as they are not required to file financial statements and thus no authority is

regulating them in this area of compliance. In addition, the users of financial statements, in particular the tax authorities, are prepared to accept unaudited balance sheets and profit and loss statements to substantiate tax returns attested by both licensed accountants and unlicensed accountants.

29. 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"> • FSC • Companies Office of Jamaica • Stock Exchange 	IFRS	<ul style="list-style-type: none"> • By approved PAB Registrant 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 40 days of period end) • To the Companies Office of Jamaica (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"> • Companies Office of Jamaica 	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"> • Audited financial statements are not required to be filed. • For private companies that claim exemption from audit – financial statements must be produced.
SOEs	<ul style="list-style-type: none"> • Companies Act • Statute 	<ul style="list-style-type: none"> • Companies Office of Jamaica 	IFRS FAA guidelines	<ul style="list-style-type: none"> • By approved PAB Registrants • ISA 	<ul style="list-style-type: none"> • Monitored by the Ministry of Finance and Planning
Banking Institutions	<ul style="list-style-type: none"> • Companies Act • Financial Institutions Act 	<ul style="list-style-type: none"> • Bank of Jamaica 	IFRS	<ul style="list-style-type: none"> • By approved PAB Registrants • 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"> • FSC 	IFRS	<ul style="list-style-type: none"> • By approved PAB Registrants • 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"> • FSC 	IFRS	<ul style="list-style-type: none"> • By approved PAB Registrants • 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"> • FSC 	IFRS indirectly legislated through the ICAJ Act	<ul style="list-style-type: none"> • By approved PAB Registrants • ISA 	<ul style="list-style-type: none"> • Audited financial statements within 90 days of year end

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

30. **The Companies Office of Jamaica is responsible to check for compliance with the Companies Act filing requirements by registered companies.** Private companies are not required to file audited accounts when they file the Annual Return. The Registrar does not appear to follow up unless they do not receive the Annual Return. It would be difficult for the Registrar to ascertain full compliance with the Companies Act; typically the Registrar relies on the company's external auditors to check compliance with accounting, auditing, and financial reporting requirements.

Listed Companies

31. **Currently, monitoring of listed companies by the Jamaica Financial Services Commission (FSC), Jamaica Stock Exchange (JSE), and Bank of Jamaica monitor listed companies and financial institutions to ensure that these companies file within the prescribed time and that the financial statements are complete.**

- a. FSC 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 FSC.
- b. JSE 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 ICAJ. FSC 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.
- c. The regulators have adequate staff *numbers* to enable them to perform this function. However, based on discussions with these organizations, it seems these institutions need to strengthen their technical capacity to ensure that listed companies comply with IFRS.

Financial Institutions

32. **The Bank of Jamaica (BOJ) is the regulatory authority for banks and similar financial institutions.** This oversight is limited to prudential regulatory supervision.¹¹ The Bank of Jamaica plays no significant role in enforcement of financial reporting requirements. It also does not check compliance with mandatory accounting, auditing, and 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. Qualified audit opinions, which are rare, trigger a review and assessment of the situation by BOJ to establish the impact on the safety and soundness of the institution. BOJ has power to require the production of any document from the audited institution or statutory auditor.

33. **Non-banking financial institutions (NBFIs) are regulated by FSC.** 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 occasionally collaborate with the auditors.

34. **The Bank of Jamaica'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 last not yet mandatory), the Bank of Jamaica is recommended to significantly increase its regulatory capacity with respect to accounting and auditing for all the financial institutions it regulates. Banks with whom the World Bank team met indicated that they submit all the information required to the Bank of Jamaica. However, some of them indicated that they rarely receive pertinent feedback that reflects that the returns have been addressed at levels beyond mere administrative compliance.

State-Owned Enterprises

35. **SOEs, both those registered under the Act fall under the purview of the Public Bodies Management and Accountability Act.** The Ministry of Finance and Planning (MOFP) 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 relevant committee of the Parliament. MOFP also monitors the cash flow from operations, debt ratio, and the holding of Board meetings and annual meetings. In December 2012, the Government issued a Corporate Governance Framework for all SOEs for strengthening the accountability, probity and transparency of SOEs.

¹¹ Legal requirements for monitoring accounting and auditing compliance are in the *Companies Act*, *Financial Institutions Act*, and ICAJ rules. There are no significant differences in the accounting requirements for regulatory reporting and for general purpose financial reporting.

36. **Some SOEs are lagging in production of required audits**, with a compliance rate of only 70 percent. About Audit of self-financed SOEs are outstanding. The Public Enterprises Division of the Ministry of Finance and Planning is making an all-out effort to bring the audits up to date. The Ministry started the process for taking enforcement action against 15 enterprises. For all fully funded and partially funded entities, almost all of which are audited by the Auditor General (AG), the picture is bleaker as the AG's office is short of resources or the resources have to be diverted to special and forensic audits. This situation must improve to ensure accountability for use of public resources.

Small and Medium-Size Enterprises

37. **Many SMEs outsource accounting services.** Financial information in this sector is usually produced late and there is considerable participation by non-ICAJ registered (and hence non-regulated) accountants. For SME accounts that are audited, the auditors often undertake much of the accounting work they audit. Entities that are not required to produce audited financial statements under the strict regulation of financial institutions or listed companies, or as a means to justify a loan from a regulated institution, will often resort to paying the lowest audit fee and disregarding the quality of the audit.

Accountancy Profession (Auditors)

38. **The accountancy profession (auditors) is regulated by the Public Accountancy Board (PAB), which issues licenses for suitably qualified accountants to practice in Jamaica as a "Registered Public Accountant" and perform the audit function.**¹² Since 2004, persons who are entitled to apply for a license to practice include those who are members of the Institute of Chartered Accountants of Jamaica, which has the statutory authority (under section 16 of the Public Accountancy Act 1968) to approve auditing and accounting standards in the country.¹³ The applicant must also be ordinarily resident in Jamaica. At present there are some 275 licensed auditors, 70 of whom are partners in international or internationally connected firms; the remaining Registered Public Accountants practice in small local firms. Of the approximately 275 PAB-licensed Registered Public Accountants who are in "public practice" (i.e., are authorized to perform the audit function), 183 are ICAJ members.¹⁴

39. **PAB, with the support of ICAJ, has embraced its responsibility as a regulator by establishing a practice monitoring system for all persons licensed to practice as Registered Public Accountants** (see Box 2). PAB pursues this in fulfillment of its statutory responsibility (under Section 4 of the Public Accountancy Act) to "implement, regulate and monitor a system of quality control reviews" over the work of registered public accountants in Jamaica. The practice monitoring system has recently been established under a contract with the United

¹² The Public Accountancy Board requires all its Registrants to comply with ISA.

¹³ There is a rarely applied ministerial exception that recognizes persons who are entitled to practice accountancy in a country other than Jamaica by virtue of a qualification that is, after consultation with the PAB Board, approved by the Minister of Finance and Planning.

¹⁴ The non-ICAJ Registered Public Accountants have either been assessed by ICAJ as having equivalent qualifications or were "grandfathered in" at the time (1965) ICAJ was established in law as the entity responsible for regulating the accountancy profession. Obviously this last group is declining over time.

Kingdom's Association of Chartered Certified Accounts (ACCA)¹⁵ and the Institute of Chartered Accountants of the Caribbean (ICAC). The reviews render judgments on the adequacy of the working files, the standard of the audit plan, and other aspects of audit practice. The results of the monitored assessments are reviewed by a committee comprising representatives from PAB, ICAJ, and ICAC and the reports are submitted to the Board of PAB, which has the power to refer matters to the Investigations or Disciplinary Committee of the Board as may be appropriate. The review results may lead to the revocation of the registrant's license to practice, although, for the first two years, emphasis has been placed more on education and improving audit quality rather than on sanctions. To date, PAB has conducted 82 practice monitoring reviews involving 129 Registered Public Accountants: of these reviews, only 7 were rated satisfactory.¹⁶ The oversight reports are not currently available to the public.

Box 2. Audit Quality Assurance Arrangements by PAB

PAB has established a mandatory Quality Assurance for all Practising 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 2011, and will continue for a four-year period (or six years if the contract is renewed). The assurance reviews conducted by ACCA are in line with UK practice and are partially compliant with IFAC's Statement of Membership Obligation (SMO) 1.

PAB communicates individually to Practising Members, requesting that they complete a pre-visit questionnaire. The requirement to comply with this request is stated in this correspondence. To date, PAB members have complied with 100 percent of these requests. Most of the Members in Practice in Jamaica are members of ICAJ as they require a practicing certificate from ICAJ if they wish to sign as a "Chartered Accountant." PAB normally seeks legal and ACCA's guidance on the form and content of publication of the results from the practice monitoring.

The practice reviewers will begin the second round of reviews on behalf of PAB in 2014; for those that had unsatisfactory results previously, PAB will determine whether they have taken recommended remedial actions and corrected the identified deficiencies.

40. **All sector regulators place heavy reliance on the work of auditors.** This necessitates an adequately regulated profession, to improve compliance with standards, and a strengthened legal and regulatory framework. To achieve a strong accountancy profession and high-quality accounting and auditing practices, institutional capacity strengthening at ICAJ and PAB is required. A goal for a strengthened PAB would be membership in the International Forum of Independent Audit Regulators. Moreover, major legislation and regulations dealing with financial reporting and compliance (e.g., the *Companies Act*, *Financial Institutions Act*, *Insurance Act*, *Financial Services Commission Act*, *Public Accountancy Act*, and JSE and ICAJ

¹⁵ 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. ACCA is active in Jamaica (with some 1,800 members) as a professional accountancy organization and as such its reviews may not be viewed in the same manner as those conducted by an independent regulator of the accountancy profession.

¹⁶ The results of this first-time review are not atypical in the Caribbean, and the exercise was in some measure seen as a learning experience to better identify gaps where Registrants need to make improvements so as to ensure audit quality. PAB will be working with ICAJ to conduct seminars/workshops to help Registrants improve their practice.

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.

41. **The Institute of Chartered Accountants of Jamaica was established in January 1965 and formally incorporated under the Public Accountancy Act (1968)—the Act which regulates the practice of accountancy in Jamaica.**¹⁷ The Act gives ICAJ the authority to approve accounting and auditing standards in Jamaica, and establishes it as the sole organization in Jamaica with the right to award the Chartered Accountant (CA) designation. ICAJ is a member of the Institute of Chartered Accountants of the Caribbean (ICAC) and a full member of the International Federation of Accountants (IFAC). In 2002, through ICAJ, Jamaica became one of the first countries to adopt the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and International Standards on Auditing (ISA) as its national accounting and auditing standards; IFRS for SMEs was adopted by ICAJ some three years later. These moves brought Jamaica in line with European standards.¹⁸ ICAJ has adopted IFRS for all regulated entities (limited companies and publicly listed companies), simplified IFRS for SMEs, and International Accounting Standards Board (IASB) pronouncements without modification. ICAJ 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.

42. **Membership in ICAJ is acquired through a combination of examinations and three years of work experience at a senior level.**¹⁹

- The primary route for ICAJ membership is through a joint ICAJ and ACCA scheme that gives successful candidates the right to membership of both organizations.²⁰

¹⁷ This was after the Jamaica 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 Jamaica who met specific qualifications and experience were grandfathered into ICAJ.

¹⁸ However, there remained a discrepancy, and attendant reconciliation burden, with respect to the U.S. Securities and Exchange Commission (SEC), which applied Generally Accepted Accounting Practices (GAAP). In June 2007, the U.S. SEC allowed use of IFRS, removing the burden of reconciliation.

¹⁹ No persons (except as otherwise provided by the ICAJ 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 three years approved accountancy experience; or (ii) they are a member of a Registered Society, as defined in the ICAJ 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 the Council.

Other routes to membership include persons who have obtained membership of the American Institute of Chartered Public Accountants (AICPA) or who have qualified as a Certified General Accountant (CGA) or Certified Management Accountant (CMA) from Canada, qualifications which have now merged as Chartered Professional Accountant (CPA),²¹ and persons who have completed an MSc Accounting at the Mona Campus at the University of West Indies (UWI). To complete the process to attain membership of ICAJ all such qualified persons must acquire approved accountancy training by completing at least three years continuous service or equivalent.

- Membership of ICAJ can be obtained by members of other approved professional bodies, in particular members of provincial accountancy bodies in Canada and the institutes in the United Kingdom and the Caribbean by application to the Council.

43. **ICAJ is managed by the elected representatives of its members, which is the standard practice in many countries.** Based on the rules of ICAJ, a Council (minimum of 8 and maximum of 12 members) is elected by its members, headed by an Executive group of Principal Officers consisting of the President and Vice President (as elected by Council), Secretary, and Treasurer. Several committees are established, mostly headed by a Council Member and consisting of persons from ICAJ's membership; however, the Disciplinary and Appeals Committees include non-ICAJ members. All the committees are active and meet periodically and report to the Council, except for the Practice Development Committee, which at the present time reports into the Audit Standards Committee, and the Disciplinary and Investigations committees, which report to the President. There is a perception among some members of ICAJ that insufficient support is being given to small practitioners, who account for approximately 70 percent of the persons licensed to practice by PAB.²² Recently, as a result of the practice monitoring outcomes, ICAJ has started to address this issue.

44. **It is estimated that there are about 3,000 certified accountants in Jamaica, of which only 1,244 are members of ICAJ.**²³ Thus, although ICAJ sets standards for the performance of the accountancy profession in Jamaica and regulates and monitors its members, it effectively has no control over the majority of Jamaica's certified professional accountants who are not ICAJ

²⁰ The operation of the joint scheme means that 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 the appropriate academic courses leading to the ACCA qualification. Ethics training is core to ACCA training and is covered in 11 of the 16 examination papers.

²¹ In June 2006, ICAJ signed an agreement with Certified General Accountants of Canada (CGA) to recognize the CGA designation as an entry qualification for accounting students. This was in line with ICAJ's goal for accountants to be mobile within the region and for Jamaica to stay competitive within the Caribbean Single Market.

²² As noted, the ICAJ committee responsible for practice development is a subcommittee of the Council and reports to the Audit Standards Committee. This issue is being reviewed and it may prove useful if the reporting structure changed so that the subcommittee reports to the President, who would be responsible for bringing issues to Council. If this were to be implemented, it would likely satisfy small practitioners, who have long felt that they are not given sufficient consideration as, among other issues, there is scant appropriate training or technical assistance given to them.

²³ In addition, there are almost 4,000 students associated with ICAJ, who are registered under a joint scheme with ACCA.

members. Members of ICAJ, ACCA, AICPA, CGA, and CMA (now combined to form CPA), Institute of Chartered Accountants of England and Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS), and Institute of Chartered Accountants of Ireland (CAI) 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 ICAJ (if they are a member of such) and/or ACCA (if they are a member) or their professional body, as appropriate. This limits ICAJ's professional reach. Moreover, since ICAJ membership can be attained through various qualification routes, the education and practical training of the members can be uneven, leading to differential regulation. This can lead to an overall lowering of the quality of accountants and professional services if the differential regulation results in regulatory arbitrage in the country.

45. **Of ICAJ's 1,244 members, 183 are in "public practice" and are PAB-licensed to conduct the audit function.** The remainder (1061), along with non-ICAJ certified accountants, operate either in the public sector (e.g., in line ministries) or in private sector entities and undertake various accounting tasks, such as preparing or analyzing profit and loss statements, and so forth.

46. **ICAJ 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 ICAJ's relevance to the Government (with external technical assistance); and (b) making appropriate arrangements for the recruitment of a Technical Director to enhance ICAJ's technical capacity. ICAJ's status with respect to IFAC Statement of Membership Obligations (SMOs) faces challenges, as noted below.

- a. **SMO 1- "Quality Assurance."** As an IFAC member body, ICAJ 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."* The recent audit quality practice monitoring reviews contracted to ACCA found widespread shortcomings; going forward, such reviews may need to be institutionalized in Jamaica through PAB/ICAJ and follow-up efforts initiated to strengthen practices (as PAB and ICAJ intend).
- b. **SMO 2- "International Education Standards for Professional Accountants and Other EDCOM Guidance."** Given its current financial and technical capacity and the absence of a local or regional qualification, ICAJ is not in a position to comply fully with the requirements of SMO 2. ICAJ does not conduct its own professional examinations (these have been outsourced to international accountancy bodies, such as ACCA, that are active in the Caribbean and also to the University of West Indies); however, ICAJ has committed to developing a framework to implement a five-year program to expand professional accountancy education requirements.
- c. **SMO 2- Entry Requirements to a Program of Professional Accounting Education."** Monitored practical training requirements as part of training for ICAJ membership

are not being reviewed by ICAJ to ensure they are aligned with the International Education Standards (IES) issued by IFAC or with its own requirements. However, ICAJ has an active Continuing Professional Development (CPD) committee that ensures that CPD courses 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.”*

- d. **SMO 3-** *“International Standards, Related Practice Statements and Other Papers Issued by the IAASB.”* Although International Standards on Auditing are adopted, ICAJ lacks a process to provide timely, accurate, and complete dissemination of these standards and related pronouncements to members. This would be particularly useful to small and medium practices (SMPs). ICAJ occasionally brings in resource persons from outside Jamaica, particularly from the United Kingdom, to organize CPD courses on highly technical subjects, such as IFRS. The CPD courses are also complemented by local resource persons having expertise in IFRS and ISA.
- e. **SMO 4-** *“IFAC Code of Ethics for Professional Accountants.”* ICAJ is required to enforce the IESBA Code, which it has adopted. ICAJ has in the past conducted some investigations based on complaints lodged by the public. However, ICAJ does not proactively conduct any investigation, and IFAC’s SMO Action Plan Progress File Note as of April 2013 states that “ICAJ reportedly has processes to ensure the Code is updated ... however, no results of the processes are communicated to IFAC and it is unclear if most recent modifications have been addressed.”
- f. **SMO 5-** *“International Public Sector Accounting Standards and Other PSC Guidance.”* The Government has deferred the launch of IPSAS until implementation of its Central Treasury Management System. IFAC’s SMO Action Plan Progress File Note as of April 2013 states that “ICAJ has a defined plan to promote the adoption of IPSAS in Jamaica and provide support to the government.” To be relevant to the public sector, and thus fulfill its national obligations, ICAJ needs to play a leading role in fostering public sector accounting capacity and assisting government institutions in IPSAS implementation. The World Bank recently organized two seminars in Jamaica on the Rationale for Implementing IPSAS.
- g. **SMO 6-** *“Investigation and Discipline.”* The integrity of the accounting and auditing profession is built on the collective reputation of its practitioners. This makes the quality of membership important, and preserving that quality is a major challenge facing the profession. PAB has ultimate authority for Investigation and Discipline of its registrants. IFAC’s SMO Action Plan Progress File Note as of April 2013 states that, “ICAJ reports to have adopted SMO 6 requirements for I&D for its members.” ICAJ has the capacity to monitor, investigate, and discipline its members.
- h. **SMO 7-** *“International Financial Reporting Standards.”* IFRS were adopted by ICAJ in 2002 in full and without modification, and are mandated in Jamaica for the profession.

47. **ICAJ should further strengthen its institutional capacity in a number of areas to enable it to fulfill its IFAC membership obligations.** At present ICAJ assists its members with ISA implementation, which is relevant for implementing the IESBA Code of Ethics. Activities include updating pre- and post-qualification accountants on the latest international standards, offering training in other related areas, and organizing seminars on relevant topics. Attaining and maintaining adequate institutional capacity will also enable ICAJ to require and enforce a system of compliance with international good practices, improve user confidence in financial statements, generate public interest, and enhance the professional reputation of the Institute and its members.

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.

48. **The ICAJ Membership Committee screens and recommends applications for practicing certificates to PAB.** However, before issuing the practicing certificates, there are requirements that the practical training for the qualification must comply with the following:

- a. The training must be obtained by full-time continuous employment in the office of an approved “practical training provider”²⁴ (part-time experience is not accepted by PAB).
- b. PAB requires the applicant to have 60 months of audit and accounting experience; 24 months of these must be acquired after passing the qualifying examination for those who have been supervised by two Registrants during the period or 36 months where the applicant has only worked under one Registrant during the period.
- c. The training must include at least three years of full-time local experience in public practice completed within two years prior to the date of application (unless the applicant demonstrates to the satisfaction of the Council compliance with existing CPD requirements), 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).
- d. The requirements exclude periods of employment shorter than six months.

The ICAJ Council may issue a certificate to practice as a Chartered Accountant to those who have a PAB license, have at least 36 months of continuous experience of acceptable performance under the supervision of an ICAJ member, and have been recommended by two ICAJ members.

49. **ICAJ requires all its members to meet Continuing Professional Development requirements.** These are intended to fulfill the requirements of IFAC IES 7: “*Continuing*

²⁴ 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.

Professional Development: a Program of Lifelong Learning and Continuing Development of Professional Competence.” From some years now, ICAJ has increased its involvement in hosting CPD sessions (rather than depending on the foreign accountancy organizations operating in the country) to provide a source of revenue to sustain ICAJ. ICAJ also has a responsibility to monitor CPD compliance. The Disciplinary Committee and/or Membership Committee can apply sanctions for non-compliance. Since PAB introduced practice monitoring as part of its regulatory responsibilities, most practicing members have been proactive in attending CPD courses, which is an encouraging development.

50. **ICAJ also has a responsibility to more than 3,600 accountancy students associated with the Institute, most notably through the joint program with ACCA.** In this respect there are two steps that would strengthen entrants to the profession, and thus the profession itself. First, considerably more mentoring could be provided to accountancy students. ICAJ should require that before an individual can practice as a Chartered Accountant in Jamaica, he or she must be fully conversant with local taxation and business law; to this end, ICAJ should itself develop an appropriate testing mechanism, one that is rooted less in theoretical aspects than in the day-to-day responsibilities of a profession adapting to greater complexity in financial instruments and in international standards.²⁵ Given existing capacity challenges, ICAJ recently reached an agreement with the University of the West Indies (UWI) to provide such a service.²⁶ Second, given the largely unregulated market of private sector training entities for students of accounting, ICAJ should in time develop the capacity to provide students meaningful and objective assessments of the quality (or lack thereof) of the various entities in the market.

²⁵ ICAJ’s Compliance Action Plan submitted to IFAC set a target date of end-2013 to “[f]orm a task force to review and prepare a framework for developing the educational requirements that incorporate Jamaican Law, Business Environment and Jamaican Taxation examination papers.”

²⁶ The Institute of Chartered Accountants of England and Wales conducts similar testing; ICAJ and UWI may wish to consider reviewing training materials and questions used for such examinations in the light of this experience, particularly as limited capacity strongly argues for leveraging external competence and avoiding, insofar as possible, unnecessary duplication.

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

51. **ICAJ has the responsibility for setting financial reporting standards in Jamaica, per the Act that established the Institute.** ICAJ 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.²⁷ All companies are required to prepare financial statements in accordance with IFRS unless they qualify and elect to use IFRS for SMEs. The *Companies Act*, *Securities Industry Act*, and *Financial Institutions Act* provide legal backing to this. All members of ICAJ are required to use IFRS in the preparation of financial statements of qualifying entities. ICAJ requires its members to conduct audits in accordance with ISA and to comply with the Code.

52. **Development of effective standard-setting processes for the ongoing adoption of standards is a major challenge facing ICAJ.** 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 Jamaica. 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

53. **The Accounting Standards Committee of ICAJ monitors and reviews financial statements on an ongoing basis.** The statements subject to the reviews are mainly for public companies as private company statements are only reviewed if brought to ICAJ's attention.

54. **The ROSC review of financial statements included publicly listed companies, government-owned organizations, utility companies, extractive industries, telecom companies, large trade and manufacturing companies, and service companies.** Fifty-nine companies were invited to participate in this review, from which 37 financial statements were subject to further review (a response rate of 63 percent). The review noted that the listed

²⁷ However the Rules and Regulations of ICAJ empower the Board of ICAJ not to adopt, or to amend as it sees fit, some of the international financial reporting standards and auditing standards.

companies are audited by the “Big 4” firms (since September 1 only three are operating in Jamaica). No reportable findings were noted regarding the presentation, disclosure, and accounting aspects of IFRS. The review noted room for improvement in the disclosure of information-elements with respect to the following IFRS standards:

- a. Accounting for government grants and disclosure of government assistance (IAS 20). In the applicable financial statements on disclosure of government grant and government assistance, the review noted that disclosure could be extended on the following (IAS 20.39):
 - Accounting policy adopted, including method of presentation
 - Nature and extent of government grants recognized and other forms of assistance received
 - Unfulfilled conditions and other contingencies attached to recognized government assistance.
- b. Related Parties disclosures (IAS 24): In less than 40 percent of the financial statements, disclosure has been noted on compensation paid by, or on behalf of, the entity to key management personnel in total and for each of short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits, and share-based payment (IAS 24.16).
- c. Financial instruments (IAS 32, IAS 39, IFRS 7): The listed companies, especially with respect to the financial instructions, fully comply with IFRS requirements. The disclosure of financial statements by non-listed companies is limited; this is especially true for government-owned companies.

55. **In the absence of clear definitions of PIEs²⁸ and SMEs, there was no consistency in the application of 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. However, this approach may change once the PIEs and SMEs are defined by law.

56. **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.

57. **Among the issues that emerged from the Bank team’s review of the sample of financial statements were the following:**

²⁸ The forthcoming draft Public Accountancy Amendment Act is expected to address the definition of PIEs.

- ***Several sets of financial statements reviewed did not have a note on revenue recognition.*** Information disclosed in the notes to the financial statements often 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*) did 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 an SME 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 considered adopting 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.”
- ***Several of the financial statements reviewed had elaborate notes on financial instruments that the entities did 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.

58. The aforementioned PAB practicing review assessment of compliance with auditing standards reveals that the main areas of quality control non-compliance are as follows:

- The requirements of 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*”) 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.

59. **The Bank team reviewed a limited sample of audit reports²⁹ and found the following:** (a) while those of listed companies appeared to comply fully with IFRS, for non-listed companies the quality was often poor both in presentation and in the application of IFRS or IFRS for SMEs; (b) many audited statements, unless required by a third party (e.g., a financial lending institution), are not completed within a year and often are more than two years tardy; and (c) where an SME applied full IFRS, the application is often deficient. Among the specific shortcoming noted were the following.

- 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.

60. Although ICAJ sets the standards for public and listed companies and exercises a level of quality control over the published audited financial statements by affecting a desk review of a sample, there is no process in place to examine the quality of the audited financial statements of unregulated entities (the vast majority of which are private companies). There is no central repository of audited financial statements, as the law does not require that they be filed with the Annual Returns at the Office of Companies; nor do the Tax authorities insist on audited financial statements.

61. **As of April 1, 2014 all practicing accountants will be required to comply with the Proceeds of Crimes Act and the Anti-Money Laundering Legislation, as revised in October 2013.** This will place additional burden on accountancy profession regulators. The PAB is quite proactive to raise awareness to meet the requirements of the above Act and legislation by organizing seminars, updating its website, etc. The PAB is also in the process of finalizing its Rules and recommendations and already prepared a Guidance Note, which are being considered by the Government for approval. PAB is also instituting a regular monitoring mechanism for compliance of the Act and Regulations by a Senior Practice Reviewer.³⁰

²⁹ The sample was the same as that of the financial statements reviewed under compliance with accounting standards noted earlier. The sample of audit reports was notably limited (particularly with respect to non-listed companies) and was undertaken without access to the relevant working files. In addition, the Bank team reviewed with PAB the outcome of PAB's practice monitoring reviews, and discussed with ICAJ its responses to our Diagnostic Tool Part 1 Questionnaire).

³⁰ For further details, please refer to the PAB's note dated June 2, 2014.

IV. PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING

62. **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.

63. **Large international audit firms dominate Jamaica's audit market.** They audit the majority of listed companies, large SOEs, banks, insurance companies, and other financial institutions. Typically, these firms are alert to their "brand" value and attendant reputational risk, and subject themselves to quality assessments of their audits by an external party; such quality assessments apply internal standards that are typically more comprehensive than those of SMPs. The market generally perceives audits undertaken by the international firms to be of high quality.

64. **Small and medium-size practices (SMPs) have a significant share of SMEs audits.** Some SMPs face challenges in keeping up to date with all the changes to accounting and auditing standards—though this applies in some measure to all persons in the profession. 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 to be less robust than those executed by large firms. The first round of performance monitoring undertaken by ACCA on behalf of PAB (previously discussed in Box 1 and the immediately preceding paragraph) underscored the need for ICAJ to further assist Registered Public Accountants in SMPs with the implementation of international standards, as the reviews revealed a low level of satisfactory performance.

65. **Some audit practitioners indicated that a change of auditors by a company is a function of the company's perception of poor service received or of the perceived high level of fees.** SMEs, in particular, tend to change auditors when they believe the auditor is tardy on delivery or is "overcharging" (this, in turn, it is alleged, is a function of the SME's perception that a given audit activity adds little value). This sentiment is echoed by a number of preparers of financial statements. This situation may put auditors under pressure with regard to the full range of their responsibilities in accordance with ISA, or lead them to reduce fees (with an attendant risk of reduced attention/time to detail); this perception alone reduces the credibility of audited financial statements in the market by increasing the perceived risk of inappropriate audit opinions being issued without sufficient time being spent on the auditing. PAB, however, is of the view that these concerns are overstated because a failure to comply with ISA as revealed in a Practicing Monitoring Review could lead to disciplinary action, including the possibility of the Registrant losing his license. PAB's view is itself open to question because (as previously noted) to date the emphasis of the monitoring reviews has been placed more on education and improving audit quality rather than on sanctions.

66. **There is also a perception that the quality of financial reporting is in some cases adversely affected by auditors assisting audit clients with accounting work.** This is

particularly so for audits of some SME clients, who may have challenges in employing full-time accounting staff with appropriate skills and who may place pressure on auditors' fees for services.³¹

67. **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.** This is as a result of the fact that most tenders are evaluated for technical competence in the first instance and then, for all those who pass the criteria, the lowest bid is chosen. The concern is whether a proper audit could be conducted for the fees quoted.³² 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.

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

- Difficulty in retaining qualified audit seniors in the audit firms adversely impacts in-house staff training of juniors, and possibly audit quality where partners do not make an effort to fill the gap.
- The majority of accountants in the public sector are not members of ICAJ, mainly because of the costs involved. In addition, many of the public sector accountants, together with the small practitioners, do not attend the regular seminars, including updates on standards, because of the cost and the relevance (or lack thereof) to their particular situation.
- The small firms are now seeing a practice monitoring regime for which they pay a large annual fee. Notwithstanding this burden, most of the registrants who were interviewed by PAB indicated that the practice monitoring was beneficial and had helped them improve their practices.

³¹ Many companies in Jamaica do not have suitably qualified persons heading up their accounting departments. As a direct result, there is generally inadequate competency to produce a full set of financial statements that are IFRS-compliant for audit. This results in auditors having a much greater input than they should in the preparation of financial statements, thus putting at risk the integrity of the statements.

³² For a contrarian view, consider the widely attributed observation of one of the U.S. Mercury astronauts, who remarked about sitting atop a missile that might catastrophically explode with tens of thousands of pounds of kinetic energy: "How do you think you'd feel if you knew you were on top of two million parts built by the lowest [acceptable] bidder in a government contract?"

V. POLICY RECOMMENDATIONS

69. **The main objective of this ROSC A&A review is to assist the Government of Jamaica's efforts to strengthen accounting and auditing practices and enhance financial transparency in the corporate sector,** so as to support the Government's economic reform program and provide greater confidence to current and potential investors with respect to the financial reporting environment. 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 (CAP). The CAP will identify specific activities to be undertaken to implement the policy recommendations of the ROSC A&A under the supervision of the Government. CAP implementation will require continued commitment from the Government and other stakeholders, who can work with development partners to procure the technical and financial resources required to further strengthen the accountancy profession. The policy recommendations are as follows:

Statutory Framework

70. ***It is recommended that in an amended Public Accountancy Act, PIEs, SMEs, and micro-entities be clearly defined, and their statutory financial reporting requirements be aligned with the level of the public interest responsibilities of the respective entities.*** Currently, PIEs, SMEs, and micro-entities are not defined in law. The definitions of the related accounting thresholds, while taking into account the specific situation of Jamaica, should be broad to avoid frequent changes. The definitions must include both qualitative and quantitative parameters. Quantitative amounts should not be included in the Act; rather they should be reviewed from time to time and stipulated through regulation to avoid changing the law each time parameters are changed. The definition of a PIE should include large and economically significant private companies that may not be regulated. 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.

71. ***It is recommended that the financial reporting framework be revised to reflect the proposals in the paragraph above.*** A three-tier reporting framework for private sector entities and a two-tier framework for SOEs should be adopted as indicated in Table 2 below. Compliance with IFRS and ISA should be given statutory backing in the Companies Act in addition to the current mandate through regulators.

72. ***It is recommended that the JSE regulations be amended to mandate such review.*** Currently there is no requirement that interim financial statements of financial institutions be reviewed and/or audited by auditors, notwithstanding the systemic risk to the public inherent in such institutions.

Table 2. 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 (in line with the framework currently being developed by IASB)	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>)

Ensuring Compliance with Accounting and Auditing Standards

73. ***It is recommended that ICAJ 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.*** 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 Jamaica. 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.

74. ***It is recommended that users of such statements, in particular the tax authorities, insist on audited financial statements as substantiation for tax returns,*** this would provide a repository of such statements, allowing for monitoring and review by the appropriate authority. The PAA is being amended to permit the further strengthening of sanctions for non-compliance. One of the major areas of non-compliance is unregulated private companies registered under the Companies Act; although in nearly all cases they are required to produce audited financial statements there is no requirement for them to be filed with the Companies Office of Jamaica. Accordingly, reliance is placed on the profession to encourage their clients to comply.

75. ***It is recommended that BOJ, FSC, and JSE improve their regulatory capacities with respect to accounting and auditing.*** Each entity should encourage their staff to acquire skills and qualifications that will enable them to monitor and enforce compliance with filing, prudential, and financial reporting requirements—and going forward these skills (or the demonstrated ability to acquire them with proper training) should be a factor in new hiring for skilled regulatory staff.

76. ***It is recommended that oversight of financial institutions be strengthened.*** 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 prudential norms. Large institutions with operations across countries may require coordinated oversight of regulators of different jurisdictions in the region.

77. ***It is recommended that more stringent sanctions be applied to SOEs that fail to meet their financial reporting requirements, and that the Ministry of Finance and Planning enhance 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 should be imposed on the entities for non-compliance, and these should be extended to directors and senior management.

Strengthening the Accountancy Profession

78. ***It is recommended that the technical capacity of the ICAJ Secretariat be strengthened.*** This will help ICAJ to be more widely 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:

- a. ICAJ should expand its CPD seminars and workshops and put in place a system to disseminate technical guidelines on the application of IFRS, IFRS for SMEs, IPSAS, ISA, and the IFAC Code of Ethics for Professional Accountants as issued by the various standard-setters of these standards and codes.
- b. ICAJ may wish to consider developing and/or improving awareness of implementation guidelines for new standards and changes to existing standards. This will assist members, particularly small and medium-size practices and members in business, to better comply with standards and improve the quality of financial reporting.

79. ***It is recommended that all professional accountants providing services to the public as “Chartered Accountants” should be required to be members of ICAJ.*** ICAJ may wish to consider amending its Rules and Regulations to harmonize its interaction with PAB. Currently non-ICAJ members are allowed to audit and sign as a “Registered Public Accountant” if they are licensed by PAB.

80. ***It is recommended that PII should, in the first instance, only be mandated for persons conducting audits, including all auditors registered by PAB.*** Currently, there is discussion about professional indemnity insurance (PII), as the by-laws of ICAJ were recently amended to require PII for members in public practice. At present, not all persons licensed under PAB as

Registered Public Accountants are required to have PII—only those who are practicing ICAJ members.

81. ***It is recommended that monitored practical training requirements be established and implemented when registering and licensing auditors.*** This is important because audit practitioners in Jamaica qualify through different training routes. The level of practical training varies depending on the professional body and can include practical training from overseas. One important requirement is for the monitored practical training to be part of the professional qualification process. (As previously noted, PAB requires 36 months of supervised training by a local Registrant.) The practical training experience gap among audit practitioners should be kept as narrow as possible.

82. ***It is recommended that ICAJ require all future members pass examinations in local tax and business law before gaining a practicing certificate.*** Possibly, exemptions could be extended to persons who have graduated from a local university with a degree in accounting, or to current ICAJ members with, say, at least three years of experience since being certified. These local exams could be further developed to certify tax practitioners.

83. ***It is recommended that ICAJ 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.

84. ***It is recommended that ICAJ collaborate with other stakeholders in the country to fulfill IFAC Statements of Membership Obligations.*** Implementing the various recommendations discussed above would help ICAJ more fully comply with IFAC SMOs.

85. ***It is recommended that a Country Action Plan be prepared by the Government drawing on the recommendations of this report.*** The Indicative Action Plan below prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession.

Indicative Action Plan: Key Recommendations

A. Short-Term Reforms (1 to 2 years)
1. Define public interest entities (PIEs) and small and medium-size enterprises (SMEs). Clearly define PIEs and SMEs and establish an appropriate differential financial reporting framework in line with size, stakeholders' interest, and (especially) potential for adverse systemic impact or wide-ranging adverse impact on the populace, etc. PAB is quite proactive and already working on draft Public Accountancy Amendment Act.
2. Strengthen ICAJ Capacity. Strengthen the capacity of ICAJ in the area of technical support for international financial reporting and auditing standards to assist its members..
3. Develop the capacity of the PAB Secretariat and institutionalize practice monitoring. The capacity of the PAB secretariat should be strengthened to enable PAB to institutionalize and undertake regular practice monitoring in conjunction with ICAJ and ICAC. This will place PAB in a leadership position to provide this service to Jamaica and also other Caribbean countries.
4. Strengthen monitoring of SOEs. The Ministry of Finance and Planning should continue to closely monitor SOEs, and sanctions should be applied for delinquent reporting. Many SOEs, although having the same reporting requirements as private entities, are delinquent, particularly with respect to the timing of the audit. Recently steps have been taken to amend legislation and to report delinquent SOEs to the Attorney General.
5. Strengthen regularity capacity. Strengthen the capacity of all regulators including JSE with respect to accounting and auditing. These institutions should enhance their capacity to monitor and enforce compliance with the financial reporting requirements of the entities for which they are responsible
B. Medium- and Long-Term Reforms (3 to 6 years)
6. Increase ICAJ membership base and image, and fully comply with IFAC SMOs. The Institute should (a) reach an understanding with MOFP to foster membership for all public sector accountants so that they could update their knowledge by participating in CPD courses organized by the Institute. ICAJ should also embark on an outreach program (including to students with high academic performance) to build awareness of the profession and its role/importance; and more fully collaborate with IFAC to fulfill SMOs, including by strengthening the training and education in International Public Sector Accounting Standards.
7. Establish legal requirements for audit report for tax compliance. The Tax Authority of Jamaica may wish to consider accepting audited financial statements of listed and private companies with defined thresholds to support Income Tax Returns, thus promoting financial discipline and audit compliance.
8. Establish a central repository of audit reports. PAB may wish to consider establishing a repository of all audited financial statements for private unregulated companies and the requirement for submitting such accounts should be included in the forthcoming draft Public Accountancy Amendment Act. PAB oversight might encourage timely audit of these companies, which in turn might strengthen financial discipline in Jamaica's corporate sector.
9. Review/audit interim financial reports of listed companies. Consider the value of reviewing/auditing the interim financial reports of all listed companies by their auditors before these are made available to the print and electronic media. It is recommended that the JSE regulations be amended to mandate such review.

ANNEX 1.

IMPLEMENTATION STATUS OF 2003 ROSC – A&A RECOMMENDATIONS

1. In 2003, as Jamaica was transitioning to full observance of International Accounting Standards (IAS) and International Standards of Auditing (ISA), the World Bank undertook a Report on Observance of Standards and Codes – Accounting and Auditing (ROSC–A&A). The 2003 report identified the need to change the arrangements for regulating the accountancy profession and the operations of the Public Accountancy Board (PAB) and the Institute of Chartered Accountants of Jamaica (ICAJ). The findings of a 2014 ROSC suggest that implementation of the 2003 recommendations has lagged, and that the descriptive component of the 2014 ROSC resembles that of 2003—testimony to enduring capacity challenges. However, progress has been achieved in some areas, as noted below; *the post-2003 status is italicized*.

2. The Bank of Jamaica (BOJ), Financial Services Commission (FSC), and Jamaica Stock Exchange (JSE) had not put in place any systematic procedures and mechanisms to monitor and enforce compliance with accounting standards and financial reporting requirements. FSC was contemplating the establishment of a system to review the financial statements of its regulated entities with a view to enforcing applicable accounting standards. BOJ, FSC, and JSE relied heavily on their regulated entities' external auditors to uncover possible infractions in the financial statements. If external auditors did not detect issues, and these were not noted in the audit report, infractions were unlikely to come to light. The 2003 ROSC recommended that an appropriate structure for a regulatory body to help enforce accounting and auditing standards and codes be put in place, with sufficient full-time staff to conduct enforcement-related activities. *This situation has not significantly changed. Neither BOJ, nor PAB, nor ICAJ, nor FSC has sufficient qualified staff to undertake such activities across the range of public accounting in Jamaica. Monitoring of listed companies by FSC, JSE, and BOJ is largely limited to ensuring that companies file within the prescribed time and that the financial statements are complete.*

3. In 2003, PAB did not specify standards for registered public accountants nor did it monitor the work of registered public accountants. These tasks fell to ICAJ. Registered public accountants who are ICAJ members are governed by its by-laws and other requirements. The 2003 report noted that registered public accountants who are members of foreign professional bodies may be regulated by those bodies, but such regulation may not be effective or may not conform to that applied to ICAJ members. Some registered public accountants may not be regulated by any professional body. PAB did have limited power to strike off or suspend a registered public accountant, but it acted only on complaints. PAB was exploring the possibility of a national system of practice monitoring, with the reviews/inspections carried out by senior accountants who had retired from public practice. *Capacity constraints have precluded a national system; however, since 2012 PAB has authorized practice monitoring reviews contracted out to the UK's Association of Chartered Accountants (ACCA).*

4. The 2003 ROSC recommended that the Public Accountancy Act be amended to take into account, among other matters, the following:

- ***Financial reporting by public interest entities.*** Accounting standards and related interpretations issued by International Accounting Standards Board should be

mandatory for the financial statements of all public interest entities (PIEs), and ISA and related pronouncements issued by the International Federation of Accountants should be mandatory for audits of public interest entities. *PAB is reviewing draft legislation that would, among other things, define PIEs and their financial reporting requirements.*

- ***Financial reporting by small and medium-size enterprises (SMEs).*** Legislation should provide SMEs with a simplified financial reporting framework adapted to their size. *In 2005, Jamaica adopted the International Financial Reporting Standards (IFRS) for SMEs. Draft legislation now under review includes differential and proportionate financial reporting frameworks to reduce unnecessary financial reporting burdens.*
- ***Professional internal oversight.*** All accountants offering public accounting and auditing services in Jamaica should be subject to the same regulatory oversight and the same code of ethics, discipline, and continuing professional education. *This remains to be done; although ICAJ sets the financial reporting standards and requirements for Jamaica, it has no authority over the majority of accountants who are not members.*

5. The following units were envisioned for inclusion in the organizational structure of the regulatory body proposed in the 2003 recommendations:

- ***Licensing.*** PAB should continue to issue and renew licenses to professional accountants. A prerequisite for obtaining a practicing license would be at least three years of practical experience working for an audit firm that is registered as a provider of practical training. *This is the case today, with ICAJ assuming this responsibility, but only for its members.* The regulatory body should determine the suitability of renewing an accountant's license on the basis of his or her compliance with continuing professional education requirements, auditing standards, and the profession's code of ethics. *This is not the default mode; rather, failures in these practices, if brought to the attention of ICAJ, are subject to sanction.*
- ***Financial reporting monitoring.*** The Financial Reporting Monitoring unit should develop the capacity to conduct in-depth reviews of corporate financial statements to determine the extent of compliance with the standards and regulations—not only in appearance, but also in substance. *No such unit exists; nor does the parent body as envisioned.*
- ***Auditors' practice monitoring review.*** The practice review system should include the review of quality assurance arrangements in an audit firm and the examination of working papers with respect to selected audit engagements of the same audit firm. *PAB only began such reviews in 2012, with the support of ICAJ. As noted above, given capacity constraints the practice monitoring system was outsourced under a contract with ACCA.*

6. The 2003 ROSC recommended that legal arrangements should be put in place so that the published financial statements of listed companies, banks, insurance companies, and other financial institutions should be readily available. *Financial statements for regulated entities are generally readily available to the public on demand. Financial statements are less available for unregulated entities, such as private companies, Co-operative Societies, etc.*

7. The 2003 ROSC recommended that ICAJ should ensure that all entrants to the profession should be tested for their competence in Jamaican taxation and legal systems. *Given existing capacity challenges, ICAJ recently reached an agreement with the University of the West Indies to provide such a service.*