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FINAL REPORT

June 29, 2010

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Sudan

ACCOUNTING AND AUDITING

June 29, 2010

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EXECUTIVE SUMMARY

This report provides an assessment of accounting, financial reporting, and auditing requirements and practices within enterprises and financial sectors in Sudan. This assessment is positioned within the broader context of Sudan's institutional framework and capacity needed to ensure the quality of corporate financial reporting. The report uses International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) as benchmarks and draws on international experience and good practice. The report includes assessments of Sudan's professional accountancy body as compared with the membership eligibility criteria of the International Federation of Accountants (IFAC). It also provides a comparative evaluation of professional education and training in Sudan with the benchmark of IFAC-issued International Education Standards.

The institutional framework underpinning the corporate accounting and auditing practices in Sudan is largely characterized by its inadequate legal framework, inconsistent legal provisions, weak institutional arrangement, ineffective professional body, and poor compliance culture. The accountancy profession in Sudan, as it stands, does not project an image of good standing to various stakeholders. Its technical capacity and governance mechanism need to be strengthened in order to function as a modern, professional accountancy body. In essence, the accounting and auditing practices in Sudan need to develop in line with a growing economy, as well as with international good practice. With the exception of banks and insurance companies, which are required to follow Islamic accounting standards, there is no legal mandate for other corporate entities to follow IFRS or any kind of standards in preparation of financial statements. There is no legal requirement in Sudan to follow ISA or any other auditing guidelines in conducting audits. When benchmarked against international standards, there are varying compliance gaps in both accounting and auditing practices. These gaps likely stem from lack of clear understanding of the applicable requirements by the corporate accountants and auditors, inadequate technical capacities among the regulators, lack of independent regulation of the auditing profession, and shortcomings in professional education and training. Contributing to these challenges, the accountancy education and training in Sudan does not meet the requirements of IFAC-issued International Education Standards.

Substantial efforts are necessary for strengthening the capacity of the Sudanese regulators and professional body, together with ensuring compliance with applicable standards and codes. The principle-based policy recommendations outlined in this report are aimed for the consideration of pertinent authorities in Sudan. These recommendations could be used as inputs in developing a country action plan, geared toward strengthening the corporate financial reporting regime in Sudan. The recommendations include improving the capacity of regulators and professional accountancy body, modernizing the legal framework, upgrading accountancy education and training in line with international good practice, establishing a securities market regulator, instituting an arrangement for independent audit review in the longer term, applying IFRS and ISA only for public interest entities and adopting simplified reporting requirements for small and medium-size enterprises, initiating awareness programs, ensuring cooperation among various regulators, upgrading licensing procedures for professional accountants and auditors, developing the professional accountancy body to meet IFAC membership requirements, and making continuing professional development mandatory for professional accountants. These recommendations, if implemented, could pave the way in achieving significant improvements in the country's corporate financial reporting practices. This would also create a more successful working environment for professional accountants and auditors in Sudan.

ABBREVIATIONS AND ACRONYMS

A&A	Accounting and auditing
ACCA	Association of Chartered Certified Accountants
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AAPOC	Accounting and Auditing Profession Organization Council
ACCA	Association of Chartered Certified Accountants
GPUAA	General Professional Union for Accountants and Auditors
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IEG	International Education Guideline
IES	International Education Standard
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard on Auditing
ISQC	International Standard on Quality Control
ROSC	Reports on the Observance of Standards and Codes
SAAPOC	Sudan Accounting and Auditing Profession Organization Council
SMO	Statement of Membership Obligation (IFAC)

PREFACE

The global financial community broadly agrees that observance of international standards and codes are pivotal in strengthening national and international financial architecture. In a world of integrated capital markets, financial crises in individual countries can imperil global financial stability. There is a basic public goods rationale for at least minimum international standards to benefit all levels of economies. At the global level, international standards enhance transparency as well as multilateral surveillance. They help to better identify weaknesses that may contribute to economic and financial vulnerability, foster market efficiency and discipline, and ultimately contribute to a global economy that is more robust and less prone to crisis. At the national level, international standards provide a benchmark that can help identify vulnerabilities as well as guide policy reform. To best serve these objectives, however, the scope and application of such standards need to be assessed in the context of a country's overall development strategy and tailored to individual country circumstances.

The World Bank and the IMF instituted *Reports on the Observance of Standards and Codes (ROSC)* to assess the following key areas in a country's economic well-being: accounting and auditing (A&A), anti-money laundering and combating the financing of terrorism, banking supervision, corporate governance, data dissemination, fiscal transparency, insolvency and creditor rights, insurance supervision, monetary and fiscal policy transparency, payments system, and securities regulation.

The ROSC A&A review focuses on the institutional framework that regulates accounting and auditing practices and compares national standards and practices with international standards and good practice; International Financial Reporting Standards and International Standards on Auditing are used as benchmarks. The review also evaluates the effectiveness of enforcement mechanisms for ensuring compliance with applicable standards and codes, the qualifications for professional membership, and the quality of professional education and training.

The main field work for this Sudan ROSC A&A exercise was carried from March to October 2009 through a participatory process involving various stakeholders. The findings of the report and its policy recommendations were discussed with the stakeholders in a workshop held in March 2010. The stakeholders include the Ministry of Finance and National Economy, Sudan Accounting and Auditing Profession Organization Council, General Professional Union for Accountants and Auditors, Central Bank of Sudan, Insurance Supervisory Authority, Khartoum Stock Exchange, banks, insurance companies, listed and large private enterprises, trade associations, state-owned enterprises, audit firms, corporate accountants, and academia. The World Bank team comprising Mohamed Yehia Abdelkarim (Financial Management Specialist and Team Leader); M. Zubaidur Rahman (Program Manager and Study Advisor, OPCFM); Humayun Murshed (international consultant); and Ahmed Eldow (local consultant) prepared this Sudan ROSC A&A.

I. INTRODUCTION

1. The assessment of accounting and auditing (A&A) practices in Sudan is part of the joint initiative of the World Bank and the International Monetary Fund (IMF) to prepare *Reports on the Observance of Standards and Codes* (ROSC). The ROSC A&A assessment focuses on strengths and weaknesses of the corporate accounting and auditing environment that influence the quality of corporate financial reporting and involves a review of both mandatory requirements and actual practices. It uses International Financial Reporting Standards (IFRS)¹ and International Standards on Auditing (ISA)² as benchmarks and draws on recent global experiences and good practice in the field of corporate financial reporting and auditing.

2. This assessment used a diagnostic template developed by the World Bank to facilitate collection of information, which was complemented by findings of a due diligence exercise based on meetings with key stakeholders conducted by World Bank staff. The assessment was carried out ensuring participation from the in-country major stakeholders such as regulators of corporate entities, banks and similar financial institutions, professional accountants, bankers and investment analysts, preparers of financial statements, auditors, academics, and representatives from the leading trade bodies. The main purpose of this ROSC A&A assessment is to assist the Government of Sudan in strengthening the private sector's accounting and auditing practices, along with enhancing financial transparency in the corporate sector.

3. Sudan is the largest country in Africa by land area, with rich natural resources and an estimated population of 39.2 million (2008 figure). Sudan's 2005 *Comprehensive Peace Agreement* opened an unprecedented window of opportunity to turn the devastation of years of war, displacement, and underdevelopment into a new era of peace and prosperity. The Sudanese economy grew over 10 percent in recent years, bolstered by higher oil production, good harvests, and a continuing boom in construction and services. Sudan's per capita income rose from US\$506 in 2003 to US\$1,139 in 2007. Double-digit growth was expected to continue until the oil price tumbled; IMF lowered the growth estimates for 2009 to 6 percent. Sudan is also one of 26 low-income countries considered highly vulnerable to the adverse effects associated with the global recession, mainly through its impact on trade. The fiscal impact of the crisis has been felt nationally, but most strongly in the South, where oil constitutes 97 percent of revenue.

4. Sudan's financial market is largely characterized by rudimentary structures. The financial institutions operating in Khartoum follow *Shari'a*-based Islamic principles, while those of South Sudan follow traditional banking principles. The country's financial sector suffers from both systemic and institutional inefficiencies, contributing to the high cost of financial intermediation. Furthermore, structural inadequacies such as the high volume of nonperforming loans, inadequate credit risk evaluation mechanism for bank clients, and generally limited outreach facilities also handicap the financial sector. The institutional

¹ IFRS are issued by the International Accounting Standards Board (IASB), an independent accounting standardsetter based in London, UK. The IASB announced that it would adopt all previously issued International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC). For simplicity, the term IFRS will mean both IFRS and IAS in this report.

² ISA are issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

structure of a capital market in Sudan is constrained in terms of types of institutions, financial instruments, and services. The Sudan's securities market is in an embryonic stage and plays a marginal role in providing long-term corporate capital.

5. The major limitation of the Sudanese financial sector is its thinness relative to the rising demand for its services nationwide, along with the adoption of "wait-and-see" approach to service delivery by the financial institutions. In order for Sudan to develop a competitive and efficient financial sector for the growth of a vibrant private sector, its system must be reasonably robust to earn investors' confidence. Among other necessary attributes, a mechanism that ensures a high-quality financial reporting is crucial in this respect. A strong financial reporting regime for corporate entities in both private and public sectors will benefit the Sudan economy in various ways, which include the following:

- *Contributing to financial sector development* through strengthening the country's financial architecture and helping reduce the risk of financial crises and corporate failures, together with their associated negative economic impacts that have been witnessed in many industrialized and developing countries.
- *Increasing corporate entities' access to long-term financing by building high-level investor confidence*, especially with respect to the quality and reliability of financial statements, the essential tools for monitoring investments. High-quality corporate financial reporting ensures proper valuation of publicly traded companies, giving the investors accurate signals with regard to their investments.
- *Fostering good governance and improved accountability in the corporate sector* through strengthening institutional capacities to support the high-quality corporate financial reporting. Improving private sector's financial reporting standards and practices represents a parallel effort to the public sector's move toward greater transparency and accountability.
- *Empowering local communities to take ownership and manage their development process*, by broadening the financial system through strengthening community banks, which can provide the institutional anchor to the microfinance program.
- *Increasing foreign direct investment*, which can be achieved by establishing greater confidence in, and improved comparability of, financial information.
- *Facilitating economic integration on an international level*, through further alignment of Sudan's national standards and codes with those of its main trading partners.
- *Improving access to financing for the small and medium-size enterprise sector* by providing banks and venture capitalists with standardized, useful, and reliable information.

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

6. **The Companies Act, promulgated in 1925, sets primary requirements for financial reporting of all companies incorporated in Sudan without indicating any specific standards to follow.** The Sudan Companies Act, modeled on the UK Companies Act of 1908, has not been amended since its adoption. The Companies Act requires the preparation, presentation, and publication of financial statements, including auditing and disclosures of all companies incorporated in Sudan. Section 123 of the Act requires that each

company shall keep proper books of account. It has not indicated the use of any specific standards in preparing financial statements. Although the Sudan Accounting and Auditing Profession Organization Council (SAAPOC) has adopted a resolution outlining the adoption of IFRS in Sudan, no legal pronouncement gives legal backing to this resolution. The Act requires public companies to file annual audited financial statements with the Registrar General. However, this requirement is not strictly enforced as discussed later in this section. The Government of Sudan is in the process of promulgating a new Companies Act.

7. **The suggested format of financial statements and requirements for disclosure prescribed in the Companies Act does not give up-to-date guidance on presentation.** The format for presentation of financial statements, as outlined in the Third Schedule of the Companies Act, needs updating. For instance, the Companies Act does not require disclosing accounting policies and attaching notes to the financial statements. With emerging developments in the area of accounting and auditing, increased emphasis on more disclosure has resulted in standardized presentations on the main body of financial statements and with the remaining information being provided in the form of explanatory notes. Moreover, the Act does not require corporate entities to prepare and present a cash flow statement and statement of changes in equity.

8. **The Companies Act outlines management's obligation for the probity of legal entity financial statements with a scarce penalty for noncompliance.** Company management is responsible for ensuring timely preparation of annual financial statements reflecting true and fair view of the enterprise. Management is also responsible for submitting legal entity's audited financial statements for approval to the general shareholders' meeting within three months from the financial year-end. The right of the shareholders to approve the legal entity's financial statements is important as it allows the owners of the company to check on management performance and its stewardship of the entity's resources. Noncompliance with these obligations in preparing financial statements and making the statements available to shareholders could lead to a maximum fine of US\$44, which is insufficient to discourage noncompliance.³

9. **Noncompliance is widespread with the Companies Act requirement for public companies to file annual financial statements.** Section 127 of the Companies Act requires every public company to file annual financial statements at the Registrar's Office. However, availability of financial statements is hampered by capacity constraints at the Registrar's Office. Primarily due to the manual filing systems, the Registrar is not able to monitor and enforce filing requirements. In reality, many companies do not file their financial statements at all and largely remain unconcerned about it.

10. **Market discipline is constrained in the absence of any statutory requirement for private companies to make their financial statements publicly available.** Evidence suggests that unavailability of financial information might have the following consequences:

- ③ Stakeholders other than shareholders (e.g., trade creditors, lenders, etc.) might not have access to audited financial statements, which could hinder resource allocation, cross-boarder trade, and creditors' protection.
- ③ Market incentives for greater compliance with accounting and audit requirements are inhibited. In the absence of market demand for financial information, preparers and

³ Section 124 (4) outlines a fine of not exceeding SGP 100. Using a conversion of 1SGP equaling US\$0.44, the penalty amount comes to US\$44.

auditors have less incentive to apply the measures that are required to prepare quality financial statements and carry out a proper audit.

Therefore, of relevance to Sudan, public availability of financial statements is essential for a healthy corporate sector and has benefits in terms of (a) transparency of the corporate sector, (b) market discipline, and (c) making informed and rational investment decisions.

11. The absence of legal mandate to prepare consolidated financial statements by group companies represents a serious shortcoming in the regulatory framework. Even though international good practice requires consolidation for companies with subsidiaries, there is no legal requirement in Sudan for group companies to prepare consolidated financial statements. This practice is inconsistent with IFRS. Such inconsistency leads to an incomplete view of a company's financial performance and position. Whenever applicable, the presentation of both consolidated and nonconsolidated statements should be mandated by law.

12. There are legal inconsistencies in determining who can undertake an audit practice. Section 137 of the Companies Act specifies the requirements regarding the qualification and appointment of auditors. As per this provision, in order to become a statutory auditor, a person must hold a certificate issued by the Ministry of Finance and National Economy. On the other hand, the Accounting and Auditing Profession Regulation Council Law 2004 empowers the SAAPOC to "grant certificates of registration and licenses for public practice of accounting and auditing". Section 138 of the Companies Act specifies the powers and duties of auditors. However, there is no legal pronouncement that sets forth the termination procedure for auditors.

13. The formal power is vested on shareholders to designate external auditors. The general assembly of shareholders appoints the statutory auditors for a period of one financial year, renewable each year. However, the Central Bank of Sudan and the Insurance Supervisory Authority require banks and insurance companies' auditors, respectively, to be changed at least once every 3 years. In practice, the decision to terminate auditors is mostly exercised by the board of directors. The statutory regulators, including the Central Bank and the Insurance Supervisory Authority, require that they are notified of any decision to terminate an auditor together with justifications.

14. The appointment of bank and insurance companies' statutory auditors is subject to the approval of the Central Bank of Sudan and the Insurance Supervisory Authority, respectively. Although there are no formally defined criteria, the financial market regulators generally consider the following criteria:

- Holding of audit license, granted by the Ministry of Finance and National Economy;
- Number of years of experience;
- Overall market reputation; and
- Size of the audit firm.

The approval of the auditor appointment is given for a one-year term; and, in general, an auditor is not allowed to audit more than two financial institutions in a given year. However, it is necessary for a separate approval to be granted to a firm for the audit of each financial institution for a particular financial year.

15. **The legislative enactments in Sudan do not provide for establishment of audit committees within the company to explicitly monitor the independent audit process on behalf of shareholders.** Good corporate governance practice requires that audit committees oversee the appointment of auditors and their discharge of professional responsibilities, including establishing adequate financial control within the entity. The Companies Act and other regulations in Sudan do not require corporate entities to establish audit committees in order to oversee whether or not the management and the statutory auditors discharge their mandated responsibilities.

16. **The Companies Act does not define auditors' liabilities, which has created an environment of unconcern toward risks of malpractice suits.** As per the current legal requirements in Sudan, auditors are not subject to civil or criminal liability. Auditors are not liable to compensate for losses to their clients due to negligence in undertaking audit work and other related services. It is not mandatory for auditors to have professional indemnity insurance. Moreover, professional indemnity insurance is not a well-known concept in Sudan.

17. **The Accounting and Auditing Profession Organization Council (AAPOC) Law 2004 does not provide sufficient clarity on the boundaries of the Sudan Accounting and Auditing Profession Organization Council's (SAAPOC) role.** The Law requires SAAPOC to undertake a range of responsibilities including setting curriculums and examinations, establishing technical support committees, setting professional conduct and ethical standards, and promoting the profession in general. The Law vests with SAAPOC responsibilities such as setting accounting and auditing standards, granting and withdrawing licenses to practice, and monitoring and disciplining of auditors. The AAPOC Law also empowers SAAPOC to certify professional unions and associations in the field of accounting and auditing. The current mandate of SAAPOC incorporates responsibilities of both a professional body and an oversight body. Therefore a revision of SAAPOC's mandate is essential to clarify the boundaries of its role. The setup of a professional accountancy body is recommended to follow the guidance provided by IFAC.⁴ The strengthening of SAAPOC's capacity is also crucial to successfully discharge its major responsibilities.

18. **The financial market regulators require banks and insurance companies to follow the Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the updated version of which is not readily available in Sudan.** The Bahrain-based AAOIFI was established in 1990 in order to prepare and promote the use of accounting, auditing, governance, and ethics standards based on Islamic principles for Islamic financial institutions. The AAOIFI has 200 institutional members from 45 countries. Up to the present, it has issued 26 accounting standards. The financial market regulators – Central Bank of Sudan and Insurance Supervisory Authority – require banks, non-bank financial institutions, and insurance companies to prepare their financial statements in conformity with AAOIFI standards. These regulators require the financial institutions to follow the prescribed formats for financial statements, including disclosure requirements set by the AAOIFI. Banks and insurance companies must submit audited annual financial statements to the respective regulators within three months after each calendar year-end. The audited financial statements of banks must be published in at least one newspaper in Sudan, designated by the Central Bank of Sudan. The Central Bank holds meetings with the statutory auditors in order to resolve any issue arising from the audit

⁴ *Establishing and Developing a Professional Accountancy Body* (IFAC, November 2007).

exercise. The banking law requires the banks and other financial institutions to publish their interim financial statements in accordance with the Central Bank-prescribed format.

19. General purpose financial statements are often influenced by tax rules and regulations. The tax rules and regulations provide accounting requirements that the companies must follow in determining taxable income. In order to satisfy the requirements of taxation authorities regarding the recognition of taxable revenues and deductible expenses, the preparers of general purpose financial statements often tend to deviate from applicable financial reporting standards, preferring instead to follow the taxation laws and regulations. Consequently, treatment of certain items might be different from the treatment that should apply under the applicable standards for the general purpose financial statements.

20. The Constitution of the Republic of Sudan empowers the Auditor General to undertake audits of state-owned enterprises. The Office of the Auditor General is responsible for undertaking audit functions of state-owned enterprises. The Constitution provides for the appointment of an Auditor General by the President of the Republic, subject to approval by the Parliament. The audit primarily focuses on compliance of rules in governing financial management of state-owned enterprises. The Government auditors responsible for providing guidance on conducting auditing of state-owned enterprises largely lack exposure to relevant public sector accounting and auditing pronouncements from IFAC. However, the Office of the Auditor General is strongly encouraging the state-owned enterprises to follow IFRS, as well as having audits conducted in accordance with ISA.

21. Khartoum Stock Exchange does not have any mechanism in place to monitor compliance with the applicable listing requirements. Listing rules of Khartoum Stock Exchange require presentation of interim financial statements by the listed companies. The listing rules require all listed companies to publish unaudited quarterly financial results, according to a prescribed format. These quarterly financial statements do not require auditing, but the annual financial statements are to be audited by the statutory auditors.

B. The Profession

22. The Sudan Accounting & Auditing Profession Organization Council (SAAPOC) organizes the accountancy profession in Sudan. The AAPOC Law of 2004 established SAAPOC. This Law replaced the Professional Accountants' Council Law of 1988. Under the AAPOC Law, SAAPOC is to issue three types of registers for professional accountants: (a) *Apprenticeship* for a minimum of five years under supervision of a certified auditor; (b) *Certified Auditors* meeting the apprenticeship requirement and passing the SAAPOC-specified examination; and (c) *Statutory Auditors* practicing for three consecutive years after enrollment in the Certified Auditors register and having passed the final level of the SAAPOC examination or its equivalent. The Law grants a waiver from the final level of the professional accountancy examination for those who hold a postgraduate qualification in accounting or auditing accepted by SAAPOC, provided the candidate meets the other requirements for enrollment in the Statutory Auditor register. Such an arrangement for the higher academic degree holders is contrary to international good practice and would need to be progressively addressed through continuing professional development and revised registration/licensing rules. The SAAPOC seems to be the most empowered player positioned to lead the profession especially with the extensive mandate vested in it by law. However, two hurdles are setting back this potential progress: the absence of a unanimous acceptability of SAAPOC by all professionals and its delay in operationalizing its legal power to affect the

situation on the ground. For example, only in early 2010 SAAPOC has initiated the issuance of the three practitioners' registers. The registers continued to be maintained by the Tax Chamber until the end of 2009 despite the AAPOC Law of 2004. The SAAPOC is not a member of IFAC.

23. The General Professional Union for Accountants and Auditors (GPUAA), established in 2004, complements SAAPOC's role in many aspects and overlaps with SAAPOC in others. The main objectives of GPUAA include raising public awareness of the accounting profession, supporting the adoption of a code of ethics, providing social services for active and retired accountants, contributing to setting accounting and auditing standards, and contributing to planning training programs for accountants and auditors. All accounting graduates are eligible to obtain the GPUAA membership.

24. The Government controls the accountancy profession in Sudan. All members of the SAAPOC Governing Council are appointed by the Council of Ministers, with the recommendation from the Minister of Finance. The SAAPOC Governing Council is directly accountable to the Minister of Finance. The major statutory functions of SAAPOC include designing and implementing policies with regard to student enrollment, including administering education, training, and examination, and programs for professional development of the practicing accountants and auditors.

25. The actual market for auditing services in Sudan is relatively small, due to a low demand. The larger firms audit most financial entities, as well as large corporate entities, in Sudan. As for small and medium-size enterprises, many stakeholders indicated that few of these entities have their financial statements audited. For those small and medium-size enterprises where audits are carried out, many observers question the reliability of such audits. A solution to ensure audit quality would therefore be to enforce professional auditing standards and effective sanctions against practitioners who do not abide by the appropriate standards.

26. The small and medium-size audit practice suffers from serious capacity constraints. Professionals working in small and medium-size accountancy firms find it difficult to stay updated on current developments in accounting and auditing. These practitioners are constantly struggling to keep their client base and earn enough to stay afloat. In most cases, they do not have the money and time for training programs. Many practitioners in small and medium-size firms in Sudan are handicapped by their lack of access to current literature on applicable accounting and auditing standards.

27. Except for large entities, the corporate sector in general does not have access to professionally qualified accountants. Corporate entities find it challenging to recruit accountants with the required skills to prepare financial statements in accordance with applicable accounting and reporting requirements. Consequently, compliance with applicable requirements in many cases is limited. The limitations in legal and regulatory environment provide little incentive for company directors to ensure that financial statements are prepared according to established standards.

28. There is no mechanism for ensuring that accountants and auditors in public practice follow a code of ethics. The SAAPOC does not have any prescribed code of ethics for its members. Stringent disciplinary actions and effective periodic reviews of the practitioners in Sudan are lacking, but necessary to monitor ethical misconduct or violations.

Professional accountants and auditors often claim that they follow auditing standards and code of ethics; nevertheless, in the absence of any monitoring and enforcement mechanisms, it is difficult to agree that in practice this is the case.

29. **There appears that independence of auditors is not effectively practiced.** The current practice in Sudan is not in line with the independence requirements of the IFAC Code of Ethics for Professional Accountants. While there are factors outside the profession that directly affect auditors' ability to act independently (e.g., the limited capacities in many companies to prepare proper financial statements), the possible breaches of independence requirements adversely affect the perceived value of an audit. Sudan's relevant laws do not provide for penalties against negligent auditors. The country has not yet experienced any litigation against auditors.

30. **The accountancy profession as it stands is largely fragmented among internationally qualified accountants, academics, and locally qualified accountants.** Most of the Sudanese nationals who become professionally qualified accountants migrate abroad. Primarily for better remunerations, many professionally qualified Sudanese accountants mostly migrate to Gulf countries. After their retirement, many return to Sudan for starting their public practice.

31. **The SAAPOC does not meet the obligations specified in the IFAC Statements of Membership Obligations (SMO).** Despite the mandate vested with SAAPOC per its establishing law incorporating responsibilities of an accountancy professional body, it does not seem to have the features of a professional body with the capacity to comply with IFAC's Statements of Membership Obligations (SMOs). Furthermore, SAAPOC has not developed a clear plan that could demonstrate its commitment to adequately meet the IFAC requirements:

- *SMO 1, Quality Assurance.* The SAAPOC does not have any quality assurance program for auditors enrolled in its registers. Furthermore, it does not have any arrangement in place to ensure the compliance with International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.
- *SMO 2, International Education Standards for Professional Accountants and Other IAESB Guidance.* Although the professional curriculum in Sudan largely conforms to the ACCA curriculum, there appears to be serious limitations in terms of delivery and testing of knowledge for aspiring accountants in Sudan. For example, practical application of accounting and auditing standards is not adequately reflected in the professional examination. Although in appearance it may look to be in compliance with the content requirement of International Education Standards, but in reality professional accountants are deprived of adequate levels of skills and training. The section on 'Professional Education and Training' will complement this observation.
- *SMO 3, International Standards, Related Practice Statements and Other Papers Issued by IAASB.* This SMO is focused on the development of quality control, auditing, review, other assurance, and related service standards for the members of a professional body. To date, SAAPOC has not incorporated IAASB pronouncements into the national standards of Sudan. It does not have a plan to initiate a process that provides for timely, accurate, and complete dissemination of international standards. Furthermore, SAAPOC does not have sufficient capacity to facilitate the

implementation of the IAASB pronouncements, including ISQC and ISA.

- *SMO 4, IFAC Code of Ethics for Professional Accountants.* The SAAPOC does not have any code of ethics in force and has not made it mandatory to follow the IFAC Code of Ethics for Professional Accountants. It does not have any arrangement to make counseling and provide advice to professional accountants to help resolve ethical conflicts. There is no communication program in place to make professional accountants aware of full ethical requirements, and consequences of noncompliance with the professional ethics requirements.
- *SMO 5, International Public Sector Accounting Standards and Other IPSASB Guidance.* There are no arrangements in place by SAAPOC to disseminate the standards and guidance issued by the International Public Sector Accounting Standards Board (IPSASB) of IFAC and to incorporate International Public Sector Accounting Standards into Sudan's national public sector accounting requirements.
- *SMO 6, Investigation and Discipline.* A professional body's constitution and rules should provide for the investigation and discipline of misconduct, and the professional body should operate a "just and effective investigative and disciplinary regime" for providing incentives to follow the ethical standards by its members. Judging by these criteria, SAAPOC does not fully meet these requirements. Although its establishing law vests with it the mandate of setting rules to maintain the profession's standards and codes and grants it the authority to delist violators, its organizational structure and procedures do not support initiating any disciplinary action against violators of applicable standards and professional codes.
- *SMO 7, International Financial Reporting Standards.* Although the SAAPOC has adopted a resolution making it mandatory to follow IFRS, it does not monitor whether in practice accountants and auditors comply with this requirement. Furthermore, SAAPOC has not properly communicated this decision to practicing accountants and auditors. It does not provide guidance or support in terms of practical application of IFRS.

32. The SAAPOC does not actively promote the importance of IFAC and IASB programs, activities, and pronouncements. The SAAPOC does not disseminate any IFAC or IASB pronouncement to the professional accountants. There is no mechanism in place to educate professional accountants about the emerging international developments in accounting and auditing. This lack of updated knowledge seriously limits professional accountants' exposure to international good practice.

33. The SAAPOC does not have an internal operating structure that provides for the adequate support and regulation of accountants and auditors enrolled in its registers. The SAAPOC suffers from inadequate technical resources to provide guidance and support to the accountants and auditors for professional development. Within the organizational framework, it does not have fully functional committees for ensuring quality control, providing guidance, and facilitating professional development of accountants and auditors. However a quality assurance committee was recently established. SAAPOC is yet to demonstrate its effectiveness to assure the broader audience of accountancy profession that it can adequately support the safeguarding of public interests. The SAAPOC is not equipped with an adequately qualified technical secretariat to ensure that professional accountants in

the country receive up-to-date guidance on the emerging developments in accounting and auditing.

34. On overall assessment, the current state of SAAPOC is seriously constrained to meet the membership requirements of IFAC. These constraints include:

- Inadequate level of acceptability as a professional body of good standing;
- Insufficient capacity to meet the obligations specified in the IFAC Statements of Membership Obligations;
- Lack of capacity to promote, promulgate and communicate IFAC and IASB standards and pronouncements.
- Lack of a governance and internal operating structure that provides for the support and regulation of accountant and auditors enrolled in its registers.

C. Professional Education and Training

35. The SAAPOC has developed its own professional curriculum. The SAAPOC has developed a professional curriculum, mostly in line with that of the ACCA. However, in terms of actual mode of delivery, the SAAPOC curriculum is not geared to the practical implementation aspects of standards. There also exist serious concerns about the capabilities of teaching the practical implementation aspects of applicable accounting standards.

36. The professional accounting curriculum covers important content requirements in International Education Standards (IES), however the delivery of the content remains a serious concern. The SAAPOC curriculum broadly covers financial accounting, management accounting, taxation, business law, audit, and assurance. However, the examination does not require candidates to apply knowledge to practical situations. It does not adequately address professional and legal knowledge, professional values, ethics and attitudes, intellectual ability, and inter-personal communication and managerial skills. Taken together, the professional accounting education in Sudan largely addresses the requirements of IES 1, *Entry Requirements to a Program of Professional Accounting Education*; and IES 2, *Content of Professional Accounting Education Programs*.

37. The accountancy education does not meet the requirements of IES 3 and IES 4. The IES 3, *Professional Skills and General Education*, focuses on ensuring “that candidates for membership in an IFAC member body are equipped with the appropriate mix of skills (intellectual, technical, personal, interpersonal and organizational) to function as professional accountants”. This is expected to help professional accountants to function in an increasingly complex and demanding environment. Primarily due to poor teaching and delivery of the professional accountancy curriculum in Sudan, the aspiring accountants are not getting adequate exposure to these skills. The ROSC team discussion with various stakeholders clearly revealed that the candidates passing the accountancy professional examination in Sudan do not often demonstrate these skills, and the graduate accountants lack communication skills and the ability of critical thinking. The IES 4, *Professional Values, Ethics and Attitudes*, focuses on ensuring that the candidates for membership in an IFAC member body are equipped with the appropriate professional values, ethics, and attitudes to function as professional accountants. Professional values and ethics should be taught through citing practical illustrations focusing on local cases, which ideally can provide professional accountants with the insights to public interest and sensitivity to social responsibilities. In

Sudan, the aspiring accountants are not exposed to on-the-ground realities of professional values and ethical standards and, in particular, most problems that they might encounter. Despite the fact that the curriculum does cover professional values and ethics, the professional Sudanese accountants do not seem to have adequate knowledge or preparation with which to apply these concepts into practical application in the prevailing accounting and auditing environment.

38. Practical training arrangements for entry into the profession fall short of international standards. The SAAPOC does not have a mechanism to screen practical training providers on their suitability for the job. Thus there is inadequate assurance that the candidates' experience is consistent with the requisite skills of an auditor. In this respect, the SAAPOC is not compliant with IES 5, *Practical Experience Requirements*. This education standard requires that practical experience be gained in a suitable professional environment, monitored and supervised, and that the professional body or regulatory authority must take responsibility for monitoring the system of practical experience. It states, "Practical experience, gained by performing the work of professional accountants, in addition to the acquisition of knowledge through professional accounting education programs, is considered necessary before candidates can present themselves to the public as professional accountants".

39. The SAAPOC-conducted examination does not fully satisfy international requirements. The SAAPOC examination system largely appears not to test underpinning theoretical knowledge and its practical application, including the judgments to be exercised by accountants in real life circumstances as per IES 6, *Assessment of Professional Capabilities and Competence*. The ROSC team reviewed the examination question papers of SAAPOC and inferred that the examination primarily focuses on technicalities of accounting and auditing. The examination does not test professional knowledge of aspiring accountants with regard to professional skills, values, and ethics and does not focus on practical implementation issues of applicable standards. For example, the examination papers do not include questions on AAOIFI Standards, which are mandatory for most financial institutions operating in Sudan. According to the IES 6, the assessment of professional capabilities and competence should cover a sufficient amount of the whole range of professional knowledge; professional skills; and professional values, ethics, and attitudes for the assessment to be reliable and valid.

40. Continuing professional development in Sudan is not mandatory and thus noncompliant with international education requirements. The IES 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*, prescribes continuing professional development as an integral component of a professional accountant's continued membership. Such a requirement is a crucial contribution to the profession's objective of providing high-quality services for addressing public needs and seeing that qualified professional accountants gain up-to-date knowledge on recent developments in financial reporting, auditing, and other related topics. The accountants and auditors enrolled in registers maintained by SAAPOC are not required at present to follow any program of continuing professional development. Some members with ACCA qualification comply with continuing professional development mostly in line with the ACCA requirements. The SAAPOC does not provide guidance on the scope of structured and unstructured learning activities. Furthermore, it does not have any mechanism to enforce continuing professional development as a requirement of professional membership.

41. **The licensing rules in effect do not provide for additional requirements for the qualification of a practicing auditor.** The licensing rules are not compliant with IES 8, *Competence Requirements for Audit Professionals*. This standard specifically states that an audit professional needs an “advanced professional education” and a minimum level of professional skills, knowledge of professional ethics, practical experience, and continuing professional development to meet the competence requirements. The licensing body will assess such requirements. The requirements above are not adequately covered in the applicable licensing approach in Sudan.

42. **Professionals working in small accountancy firms lack access to information and training to stay updated on recent developments in accounting and auditing.** These practitioners are constantly struggling to keep their client base and earn enough to stay afloat. In most cases, they do not have the money and time for training programs. Many practitioners in small and medium-size firms in Sudan are also handicapped by their lack of access to current literature on the applicable accounting and auditing standards. Such a situation puts limitations on the quality of auditing.

43. **The accounting curricula in Sudan do not adequately prepare students in international good practice.** Sudanese universities have not made effort to harmonize accounting curricula and establish common minimum requirements for type and content of courses on accounting and auditing. The curricula do not focus on applicable accounting and auditing standards or practical implementation issues but are restricted to accounting technicalities and basic procedural aspects of auditing. Moreover, most accounting textbooks lack adequate focus on the practical application of international accounting and auditing standards. The capabilities of teaching practical implications of these standards are also a concern. From interviews with university staff, the ROSC team found little academic involvement with international professional accounting organizations. Universities do not subscribe to IASB or AAOIFI publications and have not made attempts to implement IFAC recommendations for accounting and auditing education. In universities’ curricula, IFRS and ISA are not taught. The curricula do not incorporate AAOIFI standards despite their relevance to the financial sector in Sudan.

44. **The academic education in accounting lacks adequate coverage on professional values and ethics.** Formal education can significantly sharpen aspiring accountants’ awareness of ethical problems and can influence their reasoning and judgment with respect to ethical dilemmas. For this reason, the IFAC recommends teaching professional ethics separately in the pre-qualifying education of professional accountants.⁵ However, in Sudan, the academic institutions do not provide adequate coverage of ethical dimensions in accounting curricula. Moreover, lack of English-language material in accounting education is restricting the ability of professional accountants to search and use English-based materials.

45. **The academic textbooks are not updated with emerging developments in accounting and auditing.** Sudanese accounting textbooks focus on rule-based accounting technicalities and do not usually reflect emerging issues related to modern accounting and auditing practices. Students in Sudan do not have access to standard textbooks with updated IFRS and ISA and therefore are unlikely to develop acceptable skills for a high-quality professional practice.

⁵ IES 4, *Professional Values, Ethics, and Attitudes*; and IFAC Educational Guideline No. 10, *Professional Ethics for Accountants: The Educational Challenge and Practical Application*.

D. Setting Accounting and Auditing Standards

46. **The SAAPOC prescribes IFRS, but there is no clear legal mandate with regard to application of these standards.** The SAAPOC Council decided in 2004 upon wholesale adoption of IFRS, but this was not communicated to practicing accountants and auditors. Apart from legislative requirement of applying Islamic Accounting Standards, prescribed by AAOIFI to banks and similar financial institutions, no legislation specifies which entities must comply with IFRS or standards prescribed by SAAPOC.

47. **There exist significant differences between the IFRS and AAOIFI Standards.** For example, the revenue recognition in conventional accounting is fundamentally based on accrual while the Islamic accounting recognizes revenue only on cash basis. Furthermore, the functions and the contracts used by the Islamic financial institutions are different from conventional banks. Modern banking focuses on mobilization of deposits and advancement of lending on interest. However, in Islamic perspective, interest is forbidden, and different contracts are used in Islamic financial institutions to earn profits. Fundamental operational differences exist between IFRS and AAOIFI Standards, such as the following:

- Islamic leasing contracts do not recognize finance lease. Thus the leased assets are recognized in the bank's books and not capitalized in the customers' books. This may contradict with IAS 17, *Leases*.
- Certain Islamic contracts and requirements require inventory to be valued at cash equivalent values, not lower of historical cost or net realizable value. Hence, IAS 2, *Inventories*, cannot be followed in these circumstances.
- Islamic insurance companies cannot follow IFRS 4, *Insurance Contracts*, according to the Islamic principle; premium contributions by policyholders belong to them and not to the insurance company. Hence, it is an off-balance sheet item for the insurance company.
- There are no equivalent AAOIFI Standards on important areas, such as business combination (IFRS 3); cash flow statements (IAS 7); property, plant and equipment (IAS 16); employee benefits (IAS 19); related party disclosures (IAS 24); interim financial reporting (IAS 34); and impairment of assets (IAS 36).

48. **There exist no directions on which auditing standards to follow in Sudan.** The SAAPOC – or any other entity – does not provide any directions on what auditing standards to be followed. This has resulted in situations where auditors may interpret differently the applicability of auditing standards in Sudan. Auditors have different levels of understandings about the use of ISA and Islamic auditing standards set by the AAOIFI. The ROSC team were able to confirm in the due diligence mission that some auditors do not have a clear idea about which standards to follow.

E. Ensuring Compliance with Accounting and Auditing Standards

49. **No effective mechanism exists to enforce requirements for accounting and financial reporting in the Companies Act.** In cases of violating the applicable requirements of corporate financial reporting, the Companies Act prescribes weak and outdated legal

sanctions. The Registrar of Companies has no technical and logistical capacity for reviewing financial statements in order to identify accounting and auditing violations. There is no reliable database in place for facilitating enforcement of timely filing of returns and annual financial statements.

50. Financial statements prepared by insurance companies need effective monitoring and enforcing actions. The Insurance Supervisory Authority lacks capacity to monitor compliance with financial reporting requirements of insurance companies. The inspectors perform offsite supervision of annual returns and financial statements of insurers; however, the focus is not on monitoring compliance with AAOIFI Standards and ISA. There are no effective legislative sanctions available for noncompliance, apart from suspending or revoking an insurer's license.

51. The Central Bank of Sudan enforcement actions are mostly limited to the compliance with prudential regulations. The Central Bank primarily relies on examination of prudential reports and its own investigations. Since the prudential norms set by the Central Bank generally address risk issues and prudential capital adequacy, both off-site and on-site supervisors give priority to checking the compliance with these requirements. These prudential regulations have impact on preparation of general purpose financial statements. In terms of practical application, the prudential requirements, issued by the Central Bank would prevail over the AAOIFI Standards if contradictions arise in preparation of financial statements. Accounting differences may arise for instance in loan-loss provisioning of banks. Such differences could lead to inconsistencies in application of accounting standards across banks, limiting transparency and comparability. Thus there is clear need to ensure monitoring of the practical application of accounting and auditing standards in the preparation of general purpose financial statements. In this regard, enhancing the technical capabilities of the Central Bank and Insurance Supervisory Authority would help to ensure better monitoring and enforcement of applicable standards in reporting and auditing of financial institutions. A well-regulated financial sector is highly crucial for Sudan's efforts to achieve sustained economic development.

52. Auditors are not subject to external quality assurance review, and there is no mechanism for taking disciplinary action in cases of violation of applicable standards. The SAAPOC does not have the arrangements or the required capacity to administer the quality assurance review, monitoring, and enforcement activities for audit firms. There is a need for SAAPOC to put in place institutional arrangements so that it can ensure compliance with the applicable standards and codes.

53. The slow legal process often discourages regulators from taking legal recourse in enforcing compliance with financial reporting requirements. Generally, the process of adjudicating cases in Sudan is slow. Regulators are often discouraged from taking legal action when enforcing sanctions against violators. The penalties specified in the Companies Act for some noncompliance are in many cases not commensurate with the nature and magnitude of the offenses. Moreover, there is no provision for effective administrative sanctions, which could be enforced against the violators of accounting and auditing requirements.

54. In many cases, company managers are not fully aware of their responsibilities for ensuring that financial statements present true and fair view. There are cases when auditors assist management in preparing financial statements. This may be due to lack of

qualified professionals available for preparing financial statements and corporate management's misperception about the role of auditors. The latter point arises from company managers' lack of knowledge of auditing procedures, thus impairing significantly their fiduciary responsibility. In order to be compliant with the independence rules, auditors should not audit the financial statements that they prepare. Some stakeholders have cited a few instances where company management has either partly or fully shifted the responsibility for preparation of financial statements to the auditors.

55. Lack of implementation guidance is constraining to full compliance of accounting and auditing standards. In Sudan, neither the SAAPOC nor other organizations issue guidance on implementation of IFRS and ISA. This has contributed, in some cases, to the knowledge gap among preparers and auditors of financial statements. Consequently, it raises a possibility of applying the standards inconsistently and resulting in compliance gaps between IFRS and ISA requirements and actual practice. Lacking access to modern audit practice manuals, many audit practitioners are unable to deal with important concepts, such as audit risk, audit planning, internal control, materiality, documentation, going concern, and quality control. With SAAPOC-implemented guidance, the auditors can audit with applicable rules and standards. This guidance should incorporate cases and illustrations relevant to Sudan and be focused on industry-specific experiences. The Central Bank of Sudan does organize some training programs on AAOIFI Standards primarily focusing on practical application of these standards in banks and similar financial institutions.

III. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED

56. With the prescription of IFRS by SAAPOC, some progress has been demonstrated in attempting to reduce the gap between local and international standards. However, the inadequate legal backing affects uniformity in application and still risks an imbalance between IFRS and actual practice.

57. Banks and insurance companies in Sudan are required to follow the AAOIFI Standards. It is mandatory for banks and insurance companies in Sudan to follow the Islamic standards set by the AAOIFI. However, the preparers of financial statements in the financial sector often lack up-to-date information on AAOIFI Standards since their latest versions are not widely available in Sudan. In addition, preparers of banks' and insurance companies' financial statements do not have sufficient training on the application of AAOIFI Standards.

58. The implementation of applicable accounting standards is sometimes influenced by taxation consideration. The ROSC team found instances where preparers of general purpose financial statements departed from the applicable accounting standards and followed tax rules as the method of accounting treatment. The companies sometimes manage their profits in order to minimize taxation liabilities, an approach that is noncompliant with the applicable accounting standards. However, the auditors of these companies did not qualify their audit opinion for departures from the mandatory requirements.

59. Information on compliance gaps reveals weaknesses of corporate financial reporting. A ROSC-conducted review of a sample of financial statements and discussions with practitioners in Sudan revealed the existence of compliance gaps (the deviation of actual practice from the applicable accounting standard). The review involved examination of

financial statements for 7 banks, 3 insurance companies, 7 corporate entities, and 5 state-owned enterprises. The ROSC team also conducted interviews with experienced corporate accountants, practicing auditors, academics, and members of professional bodies and regulators. From the review and interviews, the ROSC team learned of circumstances when there may be material noncompliance with the applicable accounting standards and when questions may be raised about the reliability of the related audit opinions, raising the following issues:

- ***Impairment losses.*** Potential failures to recognize impairment losses on property, plant, and equipment could result in overstated assets. Most of the financial statements did not indicate whether the long-term assets were impaired. In case of banks, the impairment losses were recognized in loans. It is not clear from the financial statements whether the impairment tests required by IAS 36, *Impairment of Assets*, were carried out adequately. Failure to comply with this standard could create a misconception that the carrying amounts of property, plant, and equipments in audited financial statements are overstated.
- ***Related party transactions.*** Inadequate disclosure of related party relationships and transactions may facilitate the diversion of corporate resources for private benefits. The ROSC review noted insufficient related party disclosures in the financial statements of most of the sampled entities. Although balances due to and from related parties were generally shown, the disclosures were mostly inadequate due to not fully complying with other requirements on related party disclosures.
- ***Consolidated financial statements.*** Except for banks and insurance companies, the companies in Sudan do not prepare consolidated financial statements, and thus it is not possible to obtain overall performance from the ROSC sample of corporate entities. In the absence of consolidation, the financial statements fail to provide an idea about their significant subsidiaries, proportion of ownership interest, proportion of voting power held, and nature of investments in subsidiaries. Not preparing consolidated financial statements by the corporate entities departs from compliance with IAS 27, *Consolidated and Separate Financial Statements*.
- ***Segment reporting.*** For the great majority of banks and corporate entities, segment reporting in the sampled financial statements was inadequate. However, the notes to the financial statements indicated that the preparers (and auditors) of the financial statements were aware of IAS requirements and corresponding AAOIFI Standard 24. In many cases, the financial statements did not disclose information focusing on both business segments and geographical segments; and in some cases, there were no disclosures of segment information.
- ***Presentation of financial statements.*** The ROSC review noted instances of noncompliance with IAS 1, *Presentation of Financial Statements*. Some cases are such that they could seriously impair the ability to use the financial statements. Some companies did not provide any prior period information (either in financial statements or in the accompanying notes) not allowing understanding of the performance of the reporting entities and evolution of their financial position. Additionally, certain elements of the financial statements, including financial instruments, accounts receivables or payables, and intangible assets, were not shown on the face of the balance sheet. Also, few companies presented their statement of changes in shareholders' equity. Some banks did not fully comply with the AAOIFI-prescribed presentation formats.

- ***Insufficient disclosure of accounting policies.*** The notes to the financial statements did not always include the required disclosures, especially regarding (a) revenue recognition; (b) useful lives of property, plant, and equipment; (c) leases; and (d) employee benefits.
- ***Inventory.*** The review revealed failure to follow all requirements related to measuring and disclosing inventories at the lower of either cost or market value thus in noncompliance with IAS 2, *Inventories*.
- ***Property, plant, and equipment.*** In cases where fixed assets were revalued, detailed IAS-required disclosures—such as measurement bases used for determining the gross carrying amount and reconciliation of the carrying amount at the beginning and at the end of the period—were not available and thus noncompliant with IAS 16, *Property, Plant, and Equipment*.
- ***Employee benefits.*** Inadequate disclosure as to whether actuarial or any other forms of valuation had been made to quantify outstanding liabilities for post-employment benefits does not adhere to the requirements of IAS 19, *Employee Benefits*.
- ***Contingent liabilities.*** Some companies did not adequately disclose contingent liabilities, making their financial statements noncompliant with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets*.

There were specific noncompliance issues with the AAOIFI Standards:

- Many banks did not use percentage of completion method in recognizing revenues and expenses in case of the construction contract where banks invested funds. This is in contravention of the requirement of AAOIFI Standard 12.
- No banks, whose financial statements were reviewed, have disclosed any information with regard to segmental reporting, being fully noncompliant with AAOIFI Standard 24.
- Some banks did not record foreign currency transactions into the reporting currency using the spot rate, violating the requirement of AAOIFI Standard 18. Also some financial institutions did not disclose exchange gains or losses as separate component of equity, being noncompliant with AAOIFI Standard 18.
- In preparing consolidated financial statements, there is no adequate amount of disclosures such as the nature of control, ownership structure, etc. Many financial institutions did not eliminate the intra-group balances and transactions; and most of the ROSC reviewed financial statements did not present minority interests in the consolidated balance sheet. These are the examples of major noncompliance with regard to AAOIFI Standard 25.
- Some financial institutions did not classify their issued financial instruments as financial assets, financial liability, or equity instruments in accordance with the substance of the contractual arrangements, violating the requirement of AAOIFI Standard 16.
- Many financial statements did not disclose adequate information as per AAOIFI Standard 17.

IV. AUDITING STANDARDS AS DESIGNED AND PRACTICED

60. **A large majority of Sudanese audit firms have no access to high-quality audit practice manuals.** Lacking practice-oriented methodological guidelines, auditors generally find it difficult to handle important concepts such as audit risks, audit planning, internal control, documentation, and going concern. It is difficult to apply normal audit procedures regarding related party transactions due to the lack of legal requirements concerning group accounting and consolidation.

61. **Lack of understanding by directors and members of management about the purpose of audits sometimes makes it difficult for Sudanese auditors to obtain appropriate audit evidence.** Many Sudanese auditors claim that some directors and members of top management often fail to appreciate adequately the purpose and value of auditing. Such a situation limits access to evidence in forming professional judgments. Despite the efforts by some auditors to carry out audits in accordance with international good practice, they view this issue as a major constraint in discharging their professional responsibilities.

62. **There is a concern about the close relationship between auditors and clients.** Many stakeholders expressed concern about close relationships between auditors and their clients. This could cause undue influence on auditors, resulting in noncompliance with appropriate audit procedures. It was observed that in some cases, auditors have a tendency to bring material deficiencies to the attention of management through a management letter rather than giving qualified audit opinion.

63. **In general, audit practices diverge from International Standards on Auditing.** To better understand the actual auditing practices, the ROSC team interviewed practicing auditors and experienced accountancy professionals and facilitated discussions with the partners representing large and medium-size audit firms, from which the following points were made on auditing practices in Sudan:

- Lack of knowledge of theoretical and practical application of standards, coupled with no independent practice review mechanism and disciplinary procedures, adversely affects audit quality.
- Documentation practices fail to provide audit evidence to support the audit opinion, mostly in the audit of small and medium-size enterprises.
- Meaningful analytical procedures are difficult due to the absence of industry information.
- Most firms do not comply fully with the ISA on quality control due to lack of capacity. Second partner peer reviews are generally not conducted.
- Professional clearance (communication with the predecessor auditor) is not always fulfilled since most retiring auditors do not respond to such requests.
- Shortage of expertise in information technology erodes audit quality. Reliance is placed on work of experts, without assessing the adequacy of such work, and the expert's competence and objectivity.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

64. **The quality of audited financial statements is a concern to investors and other users of financial statements.** There was a widespread view that the low-level skills among accounting professionals and the lack of enforcement mechanisms contribute to noncompliance with established accounting requirements and auditing standards. Most interviewees shared the opinion that improving the quality of financial reporting requires a robust regulatory regime, effective enforcement mechanisms for ensuring compliance with accounting and auditing standards, and an auditors' professional code of ethics.

65. **Many stakeholders perceive auditors' involvement in both audit and tax advocacy as a conflict of interest and therefore a concern to the auditors' independence.** In Sudan, statutory auditors are not prohibited from providing some non-audit services, including tax advocacy and representation before tax authorities. There is a strong perception among the stakeholders that such involvement might pose a threat to auditors' independence.

66. **The financial statements of corporate entities are not readily available due to the perception that they are confidential.** With the exception of banks and insurance companies, corporate entities were reluctant to share copies of financial statements with the ROSC team. There is a general perception among the owners and top management of corporate entities that the information in financial statements is confidential and should not be shared with anyone outside the company. This reflects a secretive corporate structure. Also, it indicates attaching relatively low importance to the use of financial information in the decisionmaking process. From the discussions during due diligence mission, the ROSC team inferred that many stakeholders view the preparation of financial statements as merely ritual and mainly necessary either for taxation purpose or apparent compliance with regulatory requirements.

67. **Stakeholders expressed concerns with regards to the educational quality of many entrants to the profession.** In opinions expressed to the ROSC team, many stakeholders felt that entrants to the accounting and audit profession lack exposure to practical application of accounting standards and codes, and do not possess adequate communication skills and aptitude in forming judgments. In their view, the university graduates do not have adequate level of practical knowledge and are not prepared to deal with the challenges of discharging their professional responsibilities. Moreover, without adequate English language skills, most aspiring accountants and auditors are unable to seek information and knowledge in English-based textbooks and other relevant publications.

VI. POLICY RECOMMENDATIONS

68. The policy recommendations presented in this section emerge from the ROSC review of accounting and auditing practices in Sudan, as well as the valuable inputs received from the various stakeholders. These primarily principle-based recommendations are expected to provide inputs in preparing a detailed country action plan geared toward the sustainable high-quality corporate financial regime in Sudan. The country action plan should identify specific activities to be undertaken for the implementation of the recommendations, under the supervision of the appropriate agency of the Government of Sudan and possibly with the assistance of the World Bank and other development partners. The recommendations are positioned in the context of Sudan's strategic objectives: (a) enhancing the investment climate, (b) ensuring stability of the financial sector, (c) supporting development of the small and medium-size enterprise sector, and (d) furthering the country's economic integration

internationally. The recommendations are aimed at the country's implementation authorities. The following have been taken into account while formulating the policy recommendations:

- Emphasizing the case for strengthening capacity of national institutions;
- Achieving greater financial transparency in the corporate sector and improving the accounting and auditing regime in Sudan; and
- Promoting a gradual process of improvement, whereby the public interest entities will lead the reform process.⁶

A. Institutional Capacity Strengthening

69. Develop a strategic plan for making SAAPOC a modern regulator of accountancy profession. The law should clearly spell out the mandate and functions of SAAPOC. As an independent oversight body, SAAPOC should have majority non-practicing accountants in its governing body. The government should assure adequate funding for the oversight body. Separate units within the oversight body could be responsible for the following activities:

- ④ ***Setting accounting and auditing standards.*** The SAAPOC should adopt, without modification, all IFRS, ISA, and IFAC-issued Code of Ethics for Professional Accountants. It should also prescribe accounting and auditing requirements for SMEs, taking into account IFRS for SMEs.
- ④ ***Registering auditors in public practice.*** The SAAPOC should maintain a register of auditors and audit firms approved for public practice. Policies and procedures for accreditation of auditors in line with internationally accepted practices should be developed by SAAPOC.
- ④ ***Conducting quality assurance reviews for auditors of public interest entities, investigating complaints, and assessing stakeholders' and public's interest.*** The quality assurance review should evaluate an audit firm's system of quality assurance, its audit approach, and its working papers. Valid complaints against auditors and audit firms should also be investigated. In the case of material infractions, the oversight body should recommend appropriate actions to the enforcement authority for implementation.
- ④ ***Monitoring compliance with accounting standards.*** Monitoring actions should ensure compliance with the legal requirement to employ qualified professional accountants in entities meeting certain thresholds. General purpose financial statements of public interest entities should be reviewed for compliance with accounting standards. Findings on non-compliance should be forwarded to the enforcement authority along with recommendations on the sanctions for infractions.

⁶ Public interest entities are defined by the nature of their business, size, and number of employees; or by their corporate status by virtue of their range of stakeholders. Examples include listed companies, banks and similar financial institutions, insurance companies, and large enterprises. To be considered a public interest entity, the large enterprise is defined as individual enterprises and groups of enterprise that meet any two of the following three thresholds: (a) total number of employees exceeding [a number to be decided in consultation with the country stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with stakeholders].

- ④ ***Enforcing sanctions for violations.*** The SAAPOC, as part of its enforcement activities, should determine appropriate actions against violators of standards and codes. In addition to resorting to the national legal system, the SAAPOC should impose administrative sanctions against management of entities, auditors, and audit firms.

70. A new professional accountancy body, in line with international good practices, should focus on various activities concerning development of the profession, including the following:

- ③ Organize professional qualification examination and related activities in full compliance with the requirements of International Education Standards issued by IFAC's International Accounting Education Standards Board ;
- ③ Maintain a register of members in accordance with membership criteria;
- ③ Develop a mechanism for renewing the membership;
- ③ Develop the accountancy profession and promote the interest of its members;
- ③ Enhance the competencies, skills, and knowledge of its members;
- ③ Put in place arrangements for monitoring compliance with the continuing Professional Development (CPD) requirements;
- ③ Establish an investigation and discipline mechanisms for its members;
- ③ Contribute to IFAC and IASB standardsetting processes by commenting on Exposure Drafts;
- ③ Establish a due process through which IFRS and ISA can be implemented locally;
- ③ Promulgate, disseminate, and translate (as necessary) applicable standards and related implementation guidance to the members of the profession and other stakeholders in order to ensure that implications of these standards are understood properly.

In this regard, the following should be considered:

- ③ The new professional accountancy body should seek assistance in organizing an internationally comparable professional accountancy body. The professional body's governance structure should be established in line with international good practice (the IFAC-issued "Establishing and Developing a Professional Accountancy Body" provides relevant guidance) and its capacity should be built to comply with the 7 IFAC Statements of Membership Obligations.
- ③ The new professional accountancy body should establish contact with IFAC as soon as possible to develop an understanding of IFAC membership criteria and application processes. To accomplish this urgent need, it should establish a mentoring/twinning program with a strong IFAC member body.
- ③ The new professional accountancy body should develop a core group of national experts and a sustainable arrangement for development, translation, and dissemination of implementation guidance on IFRS and ISA. Maximum use should be made of existing implementation guidance available from IFAC and the IASB.

71. Improve the capacity of the financial market regulators. The Central Bank of Sudan and the Insurance Supervisory Authority should further strengthen their capacities to

conduct in-depth review of financial statements of banks and insurance companies for determining the degree of compliance with the applicable standards, not only in appearance but also in substance. Capacity improvement of these regulators should focus on:

- ③ Recruiting technically qualified personnel,
- ③ Practical training on implementation of IFRS and ISA, and
- ③ Providing administrative support and logistical arrangements.

In order to supplement capacities of the Central Bank and Insurance Supervisory Authority, particularly in detecting infractions, auditors should be prepared to play a whistle-blowing role in order to provide early signals for initiating necessary corrective measures by the regulators. Since the financial sector's vulnerabilities can have quick multiplier effects, appropriate whistle-blowing by auditors would help to make the financial sector regulation more efficient and effective. Added to this benefit, there could be a synergy between the requirements of prudential regulations and those for the general purpose financial reporting.

72. Strengthen the capacity of the Registrar General of Companies to effectively monitor and enforce the applicable reporting and auditing and filing requirements especially for public interest entities. In order for the Registrar General to carry out its role, it should have the capacity and resources required to (a) maintain an information system and database that can track the completeness of the required filing; and (b) impose legal and administrative sanctions for noncompliance. To ensure the transparency of the process and deter enterprises from not complying, the Registrar General should report each calendar year on enforcement actions conducted as well as any sanctions imposed.

73. Strengthen the technical capacity of the Office of the Auditor General. It is important to establish a high-quality corporate financial reporting practice in state-owned enterprises. Immediate steps should be taken to recruit experienced professionally qualified accountants who will be responsible for overseeing the audit of state-owned enterprises carried out by the statutory auditors. The staff of the Office of the Auditor General should be given adequate training on practical implementation of IFRS and ISA and IFAC pronouncements on public sector accounting.

In essence, the capacity-building exercise should focus on the following measures:

- ③ Recruiting technically qualified people in the Office of the Registrar General, Central Bank of Sudan, Insurance Supervisory Authority, and Office of the Auditor General;
- ③ Providing IFRS theoretical and practical training to the staff of the regulatory bodies so that they can enforce applicable accounting standards; and
- ③ Imparting training to corporate accountants in public interest entities, highlighting the practical applications of IFRS and AAOIFI Standards in banks and insurance companies, in order to build their technical capacities to prepare IFRS-compliant financial statements.

74. Build technical capacity of audit firms. There should be an initiative by the SAAPOC for assisting small and medium-size audit firms to develop capacity for providing high-quality audit and assurance services. Following a review of audit quality and detailed discussions with the partners of individual audit firms, specific recommendations should emerge and steps taken to ensure compliance with IFAC requirements on audit quality control. Assisting individual audit firms in building capacity regarding quality assurance

arrangements can be achieved through the adoption of quality control standards implementation guidance and training. Facilitating information access of smaller audit firms on recent developments in auditing practices, in particular the practical ISA application, is vital in this respect.

B. Modernization of Statutory Framework

75. Update the statutory framework of accounting and auditing to ensure that the legal and regulatory requirements on accounting, auditing, and financial reporting are intended to protect the public interest. This might necessitate the enactment of a new act, which should focus on making legal arrangements for the following:

- Clearly define the role of SAAPOC and outline a governance structure in line with international good practice;
- Provide legal backing for functioning of a professional accountancy body in line with international good practices;
- Fully adopt IFRS and ISA without modifications and ensure mandatory observance of these standards in the case of public interest entities, including banks and insurance companies. The financial institutions that are required to follow AAOIFI Standards can apply these standards to meet the prudential requirements set by their regulators. However their general purpose financial statements should be IFRS compliant to ensure understandability, relevance, and comparability across the widest range of users;
- Clearly outline the eligibility criteria for auditors to audit banks and other financial institutions;
- Removing inconsistencies between laws as to who can work as practicing auditors;
- Mandate the IFAC Code of Ethics for Professional Accountants for all practicing accountants and auditors; and
- Empowering the independent regulatory body to ensure that practicing auditors provide high-quality professional services and protect public interests.

76. Modernize the financial reporting requirements under the new Companies Act being drafted. Immediate steps should be taken to replace the outmoded articles in the Companies Act pertaining to accounting and auditing requirements. This should include the following:

- ③ Empowering the Registrar General to enforce applicable rules and requirements, including those relating to accounting and auditing;
- ③ Making mandatory the submission of audited financial statements of all public interest entities;
- ③ Defining public interest entities to include listed companies, banking institutions, insurance undertakings, economically significant non-listed companies, and state-owned entities, while also considering on-the-ground realities of Sudan's economy;
- ③ Determining and establishing thresholds for audit requirements which are fit-for-purpose for the Sudanese environment;

- ③ Incorporating sufficient level of legal and administrative sanctions, including hefty fines and penalties, for providing an adequate deterrent to poor-quality financial reporting;
- ③ Creating audit committees responsible for appointment and oversight of independent external auditors;
- ③ Defining auditors' duties and responsibilities in line with modern business environment and challenges; and
- ③ Outlining the auditors' liabilities and termination procedures.

77. Revise the Accountancy and Audit Profession Organization Council Law 2004.

The revision should appropriately redefine the roles of a professional accountancy body versus those of an oversight body. The law should focus more clearly on the following:

- ③ Role of the professional body in the adoption of the IFAC Code of Ethics for its members;
- ③ Role of the professional body in conducting quality assurance reviews of its members and granting and withdrawing licenses to practice, and role of oversight body in supervising these tasks;
- ③ Role of the professional body in drafting and disseminating accounting and auditing standards, and role of oversight body in approving these standards;
- ③ Defining the professional body's governance and internal operating structure that provides for the support and regulation of its members;
- ③ Making continuing professional development mandatory for all professional accountants;
- ③ Making distinction between associate and full members in the professional body's membership levels dependent on meeting education and membership requirements and developing the licensing requirements accordingly; and
- ③ Releasing SAAPOC from mandates that are beyond those of a regulator.

C. Preparing and Filing of Financial Statements

78. Require full IFRS compliance by all public interest entities. The legislative provisions in Sudan should require that public interest entities prepare IFRS-compliant financial statements that are made available to the public. To enable such adoption, a first step would be to adopt an Arabic translation of the current IFRS, possibly through proper arrangement with the IASB. This would need to be complemented by the establishment of an ongoing process for adoption of the international standards in the longer term. Considering that the capital market is still at an early stage of development in Sudan, financial transparency in the corporate sector would receive a significant boost if the financial statements of large but not listed companies were available to investors, banks, and the public in general.

78. Adopt the IASB simplified financial reporting requirements for small and medium-size enterprises. It is commonly acknowledged that financial reporting requirements for small and medium-size enterprises, which make up the vast majority of companies in Sudan, should be commensurate with their smaller size, simpler transactions,

and narrower range of stakeholders. In this context, the SAAPOC should adopt the IASB simplified financial reporting framework and adjust it to the Sudan environment (i.e., one that would require lesser-level disclosure and eliminate some of the most complex options provided in IFRS).

79. **Issue practical application guidance on IFRS and ISA.** The professional body to be established should issue implementation guidance on IFRS and ISA illustrating local cases, preferably in Arabic. Interpretations on IFRS and ISA should be issued in consultation with the International Financial Reporting Committee of IASB and the International Auditing and Assurance Standards Board of IFAC, respectively. The professional body should ensure all interpretations and other guidance will be promptly available to its members. Discharging this responsibility requires significant capacity building of the professional body.

D. Monitoring and Enforcement of Accounting and Auditing Standards

80. **Establish securities market regulator to enhance monitoring and enforcement arrangements for publicly traded companies.** A securities market regulator has a critical role in ensuring that publicly traded companies comply with financial reporting requirements. There is clearly a major interest in ensuring accurate and consistent application of relevant accounting standards in the securities market. The ROSC team strongly supports the establishment of a structured securities market regulator in Sudan, and IFRS compliance by publicly traded companies should be formally integrated in its monitoring and enforcement activities. After reviewing financial statements of publicly traded companies, the securities market regulator would take appropriate enforcement actions against noncompliance by the issuers. The securities market regulator should develop capacity to conduct in-depth review of corporate financial statements in order to determine the degree of compliance with the applicable standards and regulations—not only in appearance but also in substance.

81. **Establish a quality assurance arrangement within SAAPOC.** Before implementing quality assurance review program, efforts should be undertaken to build the capacity of SAAPOC and practicing auditors in Sudan. The SAAPOC should be given the opportunity and support to create a functioning system of quality assurance over the profession. The proposed quality assurance arrangement in SAAPOC should undertake the following functions:

- ③ **Quality assurance review.** Specialists of this unit will be responsible for conducting practice reviews of the practicing auditors, ensuring each firm is reviewed at reasonable and regular intervals. After completion of the initial review, recommendations should be provided to the audit firms for overcoming detected shortcomings concerning quality assurance arrangements. The practice review should evaluate an audit firm's quality assurance arrangements, its audit approach, and the working papers with regard to selected audit engagements.
- ③ **Complaint handling.** Valid complaints against auditors and audit firms, and any irregularities identified from the reviews of financial statements and audit practices, should be investigated.
- ③ **Disciplinary power.** Following reviews, steps should be taken for appropriate sanctions on the preparers (enterprise management) and auditors of financial statements. Appropriate legal arrangements should be made for this purpose.

An independent disciplinary chamber could be hosted within the SAAPOC. The chamber should have the power for the investigation and disciplinary decisions, together with clearly defined appeal procedures.

82. Design awareness-raising programs, which highlight the significance of compliance with accounting and auditing standards, in a joint working relationship between SAAPOC and other professional organizations. Shareholders, directors, and top officials from the corporate sector should be briefed adequately on their responsibilities to ensure compliance with standards and enforcement process, including legal implications. Also, benefits of compliance with standards and best practice should be highlighted in such programs. These programs should include cases focusing on emerging international developments and the role of transparent financial reporting in attracting both strategic and portfolio investors.

83. Provide guidance on proper implementation of IFAC Code of Ethics for Professional Accountants. For purposes of ensuring ethical standards and independence of practicing auditors in line with international good practice, the professional body should issue detailed guidance using local examples focusing on various issues covered by the IFAC Code. Guidance notes, using real case studies, should address issues covering threats to auditor's independence in the Sudan environment.

E. Improving Professional Education and Training

84. Take steps for improving academic and professional curricula and education. Immediate steps should be taken in consideration of the following recommendations:

- Review and update the accounting curricula to incorporate IFRS, AAOIFI Standards, and ISA at institutions of higher learning. Teaching should focus on the practical implementation aspects of these standards using illustrations and actual case studies. The ethical issues embedded in business management, auditing, and corporate finance should be incorporated in the curricula. Furthermore, emphasis should be placed in teaching communication skills and developing critical-thinking ability of students.
- Arrange retraining of university and college teachers for improving their knowledge base for teaching IFRS, AAOIFI Standards, and ISA.
- Review the curricula for adequate coverage of professional ethics. Business ethics should be taught as a separate subject in the accounting degrees.
- Provide training on IFRS and AAOIFI Standards to officials of relevant regulatory bodies in order to improve their capacities to effectively monitor and enforce applicable accounting and auditing requirements.

85. Initiate industry-specific training programs. Due to the unique nature of the insurance business, there is a serious shortage of qualified people in Sudan with adequate knowledge of industry-focused accounting and auditing standards. Training programs should be developed and offered to the accountants and auditors involved in the insurance industry with focus on specific issues relating to the application of AAOIFI Standards in the insurance industry.

86. Make continuing professional development mandatory. The professional body to be established should make continuing professional development mandatory for all its members and organize high-quality training programs and workshops to enable the accountants and practicing auditors to gain exposure to the practical application of IFRS, AAOIFI Standards, ISA, and IFAC Code of Ethics for Professional Accountants. To meet requirements of continuing professional education, practitioners should be encouraged to attend applicable training programs across the country. The professional body should ensure that IES 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*, is considered when planning its role in continuing professional development.

87. Take steps to train more accounting technicians. Arrangement should be made to train more accounting technicians. This is expected to help in growing the Sudanese economy in terms of addressing the need for more technically qualified accountants. This will also broaden the horizon of accountancy profession in Sudan.

88. Upgrade the procedure for obtaining license by the accountants and auditors engaged in public practice. The professional body should streamline its licensing procedure by aligning its professional examination and training arrangements with IFAC-issued education guidelines, such as International Education Guideline (IEG) 9, *Prequalification, Education, Assessment of Professional Competence, and Exposure Requirements of Professional Accountants*; and IEG 10, *Professional Ethics for Accountants*. The professional body should also effectively monitor that registered accounting tutors and practical training providers deliver sufficient exposure to the practical aspects of all applicable standards and codes. Furthermore, the professional body should develop a sound mechanism for renewing the practice license of auditors in public practice on the basis of their periodic performance evaluation.

F. Other

89. Initiate cooperation among development partners in implementing ROSC recommendations. Steps should be taken to develop cooperative arrangements among the major development partners – African Development Bank, IMF, and World Bank – in order to identify where these institutions can individually or jointly support the country in implementing the ROSC recommendations. Enhancing capacity of statutory regulators and SAAPOC and establishing the independent review arrangement for auditors should be priority actions.

90. Conduct ROSC Corporate Governance assessment. The ROSC A&A review has identified a number of shortcomings that have implications for the corporate governance regime in Sudan. It is recommended that the country authorities request the World Bank to conduct a ROSC Corporate Governance assessment and implement relevant follow-up actions. The ROSC Corporate Governance should focus, among others, on improved disclosure of financial information, instituting audit committees in public interest entities, and overall improvement of governance in corporate entities.

Appendix

Overview of Accounting and Auditing in Southern Sudan

The accounting and auditing infrastructure in Southern Sudan is still at a nascent stage as the Government of Southern Sudan was just established in 2005. Most of the building blocks of the infrastructure are either nonexistent or recently established. The only business sector that is subject to regulators' oversight in Southern Sudan is the banking sector where the Bank of Southern Sudan regulates the banks. The Bank of Southern Sudan was established as a branch of the Central Bank of Sudan to regulate and supervise the conventional banking system in Southern Sudan. The Central Bank of Sudan, on the other hand, is charged with the overall supervision of the dual banking system (Islamic banking in the north and conventional banking in the south).

The Companies Act of 2003 prescribes the accounts and audits requirements for companies incorporated under such law. The law requires each company incorporated under its provisions to prepare a profit and loss account and a balance sheet for every calendar year. These financial documents together with an audit report are presented to the company general meeting within 9 months from the end of each calendar year. A draft bill for a new Companies Act is in progress including amendments to the current provisions to align with international standards and practices. However the new bill is not yet presented to the Parliament for discussion and approval.

The Interim Constitution of Southern Sudan (2005) establishes an independent and administratively separate Auditor-General for Southern Sudan who heads the Southern Sudan Audit Chamber. Subsequent primary legislation, the Southern Sudan Audit Chamber Bill, has been drafted but not yet presented to the legislature. The Audit Chamber has responsibility to the legislature for external audit of all institutions and agencies receiving public funds and for ensuring accountability and transparency in use of these funds. However, the post of Auditor-General has been vacant for some time (the original incumbent was removed in February 2007), and there have been no audit reports with respect to government accounts tabled at the legislature. The multi-donor trust fund in the South administered by the World Bank has recruited an External Audit Agent to support the institutional development and capacity building of the Southern Sudan Audit Chamber, which is the current auditor of government accounts.

No Sudanese private external auditors are practicing in Southern Sudan. There is no professional body for accountants and auditors in the South. Few foreign audit firms have started practicing after registration with the Companies Registrar at the Ministry of Justice and Legal Affairs. Some audit firms, which are already registered and practicing in Northern Sudan, are considering registration in Southern Sudan to start providing services there. Accounting graduates are usually attracted by nongovernmental organizations and other international institutions involved in the development business. The expansion and growth of the audit practice in Southern Sudan is constrained by the limited size of the corporate sector and in turn the low demand for audit services. The situation is further aggravated by the lack of legislative environment that mandates the preparation, audit, and filing of annual financial statements.

