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REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) Cape Verde

ACCOUNTING AND AUDITING

March 2012

CONTENTS

Executive Summary

This ROSC provides an assessment of the strengths and weaknesses of the existing financial reporting infrastructure that underpins financial accounting and auditing practices in Cape Verde. The assessment focuses on six pillars of financial reporting infrastructure: statutory framework, professional education and training, accountancy profession, accounting standards, auditing standards, and monitoring and enforcement of the applicable standards. The main purpose of this assessment is to assist the development and implementation of a country action plan for strengthening institutional capacity with attendant effects on enhancing corporate financial reporting in Cape Verde.

The findings reveal that Cape Verde has recognized the importance of a strong corporate financial reporting architecture. The country has taken two measures to consolidate the legal framework. The first is the establishment of a National Commission of Accounting Regulation (CNNC) created in 2008 to oversee the accounting standards and deal with any issues related to the application of the new accounting rules. The second is the adoption of National Accounting Standards and Financial Reporting (SNCRF) in 2008 with a view to harmonization of the accounts of firms settled in Cape Verde and bringing them closer to International Financial Reporting Standards (IFRS).

The Commercial Code, introduced in 1999, states that companies are obliged to maintain organized accounting records under the terms of the Commercial Code and the Corporate Tax Law. Tax reporting heavily influences financial reporting: if the tax authority is satisfied with the annual financial statements, nobody questions whether the enterprise had complied with high-quality accounting standards. Many companies of various sizes are not subject to the audit of financial statements.

Corporate entities in Cape Verde, including investments with foreign participation, are content with the number of accounting technicians in the country. It is estimated that more than 400 registered accounting technicians work throughout Cape Verde. Accounting technicians provide bookkeeping services and sign off on the accuracy of information in financial accounting reports, primarily to provide assurance to the taxation authorities. But in the Professional Institute of Certified Auditors and Accountants (OPACC), there are only four firms and about 30 individuals registered as auditors. Representatives of the four international networks primarily carry out most of the financial statement audits in the country but two of them do not have effective presence in Cape Verde and are not full members of OPACC. This situation is a concern since a section in the Commercial Code stipulates that partners should be residents and registered as members of the accountancy body.

Furthermore, the program of Continuous Professional Development (CPD) is not yet active at the professional accountancy body, OPACC. Cape Verde has a scarcity of professionally qualified accountants (i.e., certified public accountants or chartered accountants) and limited number of professional CPAs. There is no guarantee that even those *qualified* accountants in the marketplace are keeping up with new developments in internationally accepted accounting and auditing standards as well as codes of ethics for professional accountants.

In terms of accounting and auditing standards, Cape Verde adapted IFRS for the private companies and fully adopted IFRS for banking and insurance institutions sector. However, there is no tradition of financial analysis in the country (except within the financial institutions when issuing credit) and no credit-rating agencies. The banks do not rely on corporate financial statements; generally, the lenders manage credit risks using collaterals. The Bank of Cape Verde mandated IFRS for banks and insurance companies in 2008. Other entities, including those listed on the Stock Exchange, comply with an adapted version, which contains significant gaps in content. Compliance with International Standards on Auditing (ISA) is not mandated in Cape Verde. International accounting firm networks and some local accounting firms claim to apply ISA in their audit of financial statements in Cape Verde, but this is not enforced.

Based on significant inputs from in-country stakeholders, this ROSC makes recommendations for improving the statutory framework. These include taking legally backed steps for mandating and disseminating IFRS for all public interest entities and ISA; putting in place a sustainable arrangement for monitoring and enforcing application of IFRS and ISA; providing assistance to the small and medium-size practices to strengthen capacity to operate as modern audit firms; and facilitating broader training programs on practical application of IFRS and ISA. In addition to all listed entities and legally defined Public Interest Entities, which should be required to follow IFRS for the preparation of their financial statements, and Small and Medium sized Entities, which would need to follow IFRS for SME, micro-entities may need to be required to follow customized standards for the preparation of their financial statements in accordance with specific accounting thresholds.

In addition, the capacity of regulators would be built to cope with the demands of IFRS-compliant financial reporting. The central bank would include in its scope the regulation of micro-finance institutions, which are currently unregulated. The Court of Accounts' Office needs capacity to cope with the audit of all state-owned enterprises and public entities. The Stock Exchange would acquire capacity to review the financial statements of all listed companies; and be independent of the central bank. The Pension Institution would report to the central bank or the Ministry of Finance.

In order to improve the legal framework of corporate financial reporting, there is need to enact a Financial Reporting Act with focus on all regulatory aspects of accounting and auditing. The CNNC would be reconstituted into the Financial Reporting Council and empowered to monitor and enforce compliance with IFRS and ISA. The Financial Reporting Council would function as an independent oversight board for the auditing profession in Cape Verde.

Furthermore, a reputed international training institution would collaborate with universities offering accounting and auditing courses to improve the quality of accountancy curricula and teaching in higher educational institutions in Cape Verde. To strengthen OPACC, the assistance of a reputed member of the International Federation of Accountants (IFAC) is required. We recommend a twinning arrangement involving a holistic realignment of the training, monitoring, and enforcement programs of OPACC so that it meets up with IFAC membership requirements. The OPACC would benefit greatly from joining regional professional associations like ABWA and PAFA to access facilities from member institutions and learn from their experiences including the ABWA Accounting Technicians Scheme in West Africa (ATSWA).

Finally, all registered companies would be mandated to render annual returns to the Registrar of Companies. The Registrar should build capacity to review the returns and establish a database that other stakeholders can access for information for regulatory and investment decisions.

These recommendations offer the groundwork for preparing a country action plan aimed at building institutional capacity to promote high-quality accounting and auditing practices in Cape Verde. The establishment of a multidisciplinary steering committee to coordinate the accountancy reform and development activities would facilitate the implementation of the ROSC recommendations. The key recommendations resulting from the ROSC A&A of Cape Verde including a proposed timeframe for their implementation are summarized in the table below.

Summary of Key Policy Recommendations					
Actions	**§ nº**	**Responsibility**	Implementation schedule		
			Short term (less than 1 year)	**Medium term** (1-2 years)	**Long term** (3-5 years)
A. Modernize the Statutory framework on accounting and auditing					
(i) Take the following steps to modernize the legal framework on accounting and auditing : • Extend mandatory IFRS application in totality to all public interest entities in Cape Verde • Consider using IFRSs for SMEs for the preparation of financial statements of non-public interest entities and examine whether specific standards could be used for the preparation of financial statements of micro-entities. Provide regulators with adequate authority to sanction appropriately against violations of applicable accounting and auditing standards and rules for ensuring effective monitoring and enforcing actions • Harmonize legislation on general purpose financial reporting by corporate entities with the tax framework and provide guidance on how to reconcile the accounting profit/loss with taxable profit/loss	61 68	Government	X	X	
(ii) Provide legal backing to establish an arrangement for independent oversight of the auditing profession including audit practice review Transformation of the National Commission of Accounting Regulation (CNNC) into a Financial Reporting Council to monitor and enforce compliance with IFRS and ISA	62 63	Government CNNC OPACC	X	X	
(iii) Approve a new legal framework for a functional supreme audit institutions aligned with international standards and develop its technical skills to enable an audit of State-Owned Enterprises.	64			X	

SUMMARY OF KEY POLICY RECOMMENDATIONS (CONTINUED)					
Actions	**§ nº**	**Responsibility**	**Implementation schedule**		
			Short term (less than 1 year)	**Medium term** (1-2 years)	**Long term** (3-5 years)
B- STRENGTHENING INSTITUTIONAL CAPACITY AND ACADEMIC CURRICULUM OF THE ACCOUNTANCY PROFESSION					
(iv) Prepare and implement a strategic plan to transform the Professional Institute of Certified Auditors and Accountants into a modern professional accountancy organization and to enable it to meet IFAC membership	65	OPACC	X		
(v) Review and update the teaching curriculum of management and accounting schools in order to incorporate IFRS and ethics in the curriculum.	66	Ministry of education Association of management schools OPACC	X		
(vi) Implement a training-of trainers program to develop capacity to prepare and audit IFRS financial statements • Design and implement a program to prepare a core group of IFRS experts to facilitate a sustainable arrangement for continuing professional development programs; • Elaborate and disseminate guidance notes on proper implementation of IFRS under local context	67			X	

SUMMARY OF KEY POLICY RECOMMENDATIONS (CONCLUDED)					
Actions	**§ nº**	**Responsibility**	**Implementation schedule**		
			Short term (less than 1 year)	**Medium term** (1-2 years)	**Long term** (3-5 years)
C- IMPROVE THE QUALITY OF FINANCIAL REPORTING AND ESTABLISHING OVERSIGHT ARRANGEMENTS					
(vii) Build capacity and expertise at the Bank of Cape Verde to enhance the banking regulation and ensure coordination of all regulators Implement prudential regulations in financial institutions closely interacts with IFRS issues	69	Bank of Cape Verde Stock Exchange All regulators		X	
(viii) Empower the Registrar of companies to require all registered companies to render annual returns	71	Government Registrar of Companies	X		
(ix) Mandate the Financial Reporting Council to establish systematic, institutionalized, monitoring and enforcement mechanisms to ensure compliance with accounting and auditing requirements	63			X	
(x) Develop capacity of the Stock Exchange to review IFRS-based financial statements	70			X	
(xi) Develop technical skills of the Supreme Audit Institution to enable it to express professional opinions on the State-Owned Enterprises	74	Government Supreme Audit Institution		X	

PREFACE

There is broad agreement among the international financial community that the observance of international standards and codes are pivotal in strengthening national and international financial architecture. The Reports on Observance of Standards and Codes, Accounting & Auditing (ROSC A&A) Review is 1 of 12 modules jointly developed by the World Bank and IMF shortly after the Asian financial crisis in 1997. These modules were developed in order to assess a country's strengths and weaknesses of actual practices regarding the various components of financial architecture.[1]

The ROSC A&A focuses on the institutional framework regulating the accounting and auditing practices, and the comparability of national accounting and auditing practices with international standards and best practice, using International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) as benchmarks. It evaluates the effectiveness of enforcement mechanisms for ensuring compliance with applicable standards and codes. The final draft report is submitted to the country authorities for comment, approval, and permission to publish. Once agreed, the report is published on the World Bank's website. An overview of the ROSC A&A program, including rationale and detailed methodology are available at http://www.worldbank.org/ifa/rosc_aa.html.

This ROSC focuses on the systemic issues pertaining to overall institutional framework, underpinning the accounting and auditing practices in Cape Verde. Upon reviewing the actual accounting and auditing practices, the report presents policy recommendations for further improving corporate financial reporting regime in Cape Verde. This ROSC was carried out in Cape Verde from November 2011 to March 2012 through a participatory process involving in-country stakeholders from the Government, regulatory bodies, accounting and auditing firms, banks, insurance companies, state-owned enterprises, and academia.

The review was conducted by a World Bank team comprising Maimouna Fam, Senior Financial Management Specialist and Task Leader, (AFTFM); Osval Romao Financial Management Specialist, (AFTFM); Olawale Wale-Awe international consultant (AFTFM); Angelo Macuacua international consultant, (AFTFM); and Amilcar Melo, local consultant (AFTFM). Renaud Seligmann, Regional Manager, Financial Management, has overall responsibility for the quality of this diagnostic.

The assistance rendered by the Cape Verdean authorities and country stakeholders and, in particular, Mr Gustavo Moreira, the Government-nominated focal person for the ROSC, is sincerely appreciated.

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

ABBREVIATIONS AND ACRONYMS

A&A	Accounting and Auditing
ABWA	Association of Accountancy Bodies in West Africa
CNNC	National Commission of Accounting Regulation
FDI	Foreign Direct Investment
GDP	Gross domestic product
GPRSP	Growth and Poverty Reduction Strategy
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IES	International Education Standard
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISCEE	*Instituto Superior de Ciências Económicas e Empresariais*
ISQC	International Standard on Quality Control
OPACC	Professional Institute of Certified Auditors and Accountants
PAFA	Pan-African Federation of Accountants
REPE	Special Regime for Small Entities
ROSC	Reports on the Observance of Standards and Codes
SME	Small and medium-size enterprise
SMO	Statement of Membership Obligations
SNCRF	National Accounting Standards and Financial Reporting

I. INTRODUCTION AND BACKGROUND

1. **This Report on Observance of Standards and Codes Accounting and Auditing (ROSC A&A) is a review of accounting and auditing practices and institutions underpinning the accounting and auditing environment in the Cape Verde corporate sector.** The review draws on international good practices and makes policy recommendations aimed at improving the quality of financial reporting in the country. An overview of the ROSC A&A and the detailed presentation of methodologies are available on the World Bank Group website.[2]

2. **Cape Verde recognizes the importance of a strong accounting and corporate financial reporting architecture.** The country has taken two decisive measures to consolidate the legal framework. The first is the establishment of a National Commission of Accounting Regulation (CNNC) created in 2008 to oversee the accounting standards and deal with any issues related to the application of the new accounting rules. The second is the adoption in 2008 of National Accounting Standards and Financial Reporting (SNCRF) with a view to harmonization of the accounts of firms settled in Cape Verde and bringing them closer to international standards. The SNCRF also reinforces the need to disclose accounting and financial information in the notes to the financial statements, thus emphasizing its relevance for a thorough understanding of the financial statements as a whole.

3. **The ROSC A&A complements existing efforts by producing a holistic evaluation of all necessary pillars required for a strong financial reporting infrastructure.** The ROSC A&A makes the necessary recommendations for ensuring a well-coordinated approach going forward. Cape Verde needs to develop institutional capacity for supporting high-quality accounting and auditing practices in both private and public sectors as well as an effective arrangement for accountancy education and training.

4. **The ROSC A&A assessment focuses on the strengths and weaknesses of the prevailing accounting and auditing practices that influence the quality of corporate financial reporting.** The assessment uses International Financial Reporting Standards (IFRS)[3] and International Standards on Auditing (ISA)[4] as benchmarks and draws on international experience and good practice in the field of accounting and auditing regulation. This ROSC used a diagnostic template developed by the World Bank to facilitate data collection. The data was complemented by the findings of a due diligence exercise based on a series of meetings with key stakeholders conducted by World Bank staff. The intended audience includes national and international market participants who have an interest in the corporate financial reporting regime of Cape Verde.

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2 www.worldbank.org/ifa/rocs_aa.html

3 IFRS are issued by the IASB, an independent accounting standard-setter based in London, United Kingdom. In April 2001, the IASB announced that it would adopt all of the International Accounting Standards (IAS) issued by the IASC. In this report, the term IFRS also refers to IAS.

4 ISA are issued by the IAASB of the IFAC.

5. **Located in the Atlantic Ocean about 500 kilometers off the coast of Senegal, Cape Verde has a population of about 500,000.** In 2010 its GDP was US$1.65 billion. Good governance, political stability, sound economic management — including strong fiscal discipline and credible monetary and exchange-rate policies — trade openness and increasing integration into the global economy, responsible use of donor support, and adoption of effective social sector strategies have produced impressive results throughout the Cape Verdean archipelago. The country boasted a remarkable average annual GDP growth rate of 6.0 percent from 2000 through 2010, with inflation averaging 2 percent and indebtedness declining until 2009. During this period per capita GDP grew from US$1,215 to US$3,323.

6. **Services are the dominant economic sector, representing a full 75 percent of GDP**. Tourism is the most dynamic industry in the Cape Verdean economy, and Cape Verde's rapid economic growth over the past decade has been driven by tourism services which correspond to more than 30 percent of the country GDP, including tourism-related air transportation, and by the real estate and construction industries, which are also closely linked to the tourism sector. Over the past decade, tourism receipts grew by 28 percent; and together with passenger transportation, tourism represents more than 80 percent of the country's exports. Tourism and related real estate and construction are the major attractors of foreign direct investment (FDI), together accounting for more than 80 percent of FDI inflows.

7. **The Cape Verdean economic growth is highly dependent on the global economy.** Therefore, it is highly vulnerable to external shocks. This is due to its high degree of openness (trade, remittances, and financing), its large dependence in external concessional financing, and the small size of its domestic market. In this regard, the importance of responsible macroeconomic management has been critical in enabling the country to build resilience against adverse external effects.

8. **Cape Verde's Growth and Poverty Reduction Strategy Paper** (**GPRSP) makes private sector growth the cornerstone of its accelerated growth strategy.** The increased emphasis on infrastructures, productive sectors, and public service delivery helps the country to attain its objectives of rapid growth and stronger public sector performance to better support productive sectors. The second Growth and Poverty Reduction Strategy Paper (GPRSP II) provides the foundation for the Government's development and poverty reduction strategy for the period 2008-2011. The overarching objectives of GPRSP II are to reduce unemployment, maintain an accelerated real growth rate above 10 percent, and cut poverty by half. Institutional reforms and investment initiatives in infrastructure to develop an efficient private sector that generates employment and enhanced productivity are being undertaken. The Government has established a high-level reform unit to monitor Cape Verde's performance vis-à-vis the *Doing Business* indicators. The creation of "Firm in One Day" and the preparation of medium- and long-term policy reforms related to the judiciary, fiscal administration, and education are examples of reforms taken to improve the business environment.

9. **The State of Cape Verde is also a strategic actor, which actively participates in the creation and management of enterprises.** The state-owned enterprise sector is made up of 29 enterprises (14 public enterprises and 15 para-public companies). The state-owned enterprises are mainly dominated by the infrastructures and transport, telecommunication, and energy

sectors. For instance, despite many attempts to privatize the company, TACV, which runs domestic and international air transportation, remains a state-owned firm. The public water and electricity company, *Electra*, dominates the energy sector. The Government has also created some sectoral regulatory agencies to oversee state-owned enterprises, which are following the same accounting and auditing rules as the private companies.

10. **The financial sector, dominated by the banks, is highly concentrated, with considerable exposure to the slowing real estate sector, tourist arrivals, and decrease of transfers from expatriate Cape Verdeans.** The financial sector is made up of 7 domestic (onshore) banks, 12 offshore banks, 3 asset management companies, 2 investment companies, 2 insurance companies, and 15 micro-finance institutions. The banking sector is majority foreign owned: 2 institutions, representing two-thirds of total assets are effectively majority owned and controlled by the Portuguese state-owned bank *Caixa Geral de Depositos*. In addition, Cape Verde has an important offshore sector, which has grown rapidly and consists of 14 licensed international financial institutions. The international financial institutions benefit from a separate legal framework that offers tax advantages and a lighter regulatory regime than on-shore institutions. Offshore institutions mostly place their deposits in foreign institutions and are essentially unregulated and therefore present considerable risks.

11. **The Stock Exchange has been effective since December 2005, but only 4 companies are listed:** 2 banks (*Banco Comercial do Atlantico* and *Caixa Economica de Cabo-Verde*), a tobacco company (*Sociedade Cabo-verdiana of Tabacos*), and an oil company (*Enacol*). Some bonds have been issued by the Government, state-owned enterprises, and private companies, namely *Electra*, *Tecnicil Imobiliaria*, Asa, Cabo-verde *Fast Ferry*, *Sogei*, *IFH Imobiliaria*, *Banco Interatlantico*. The market capitalization was 226 million Euros in December 2010, and the Stock Exchange is regulated by the Auditor General of securities under the oversight of the Bank of Cape Verde.

12. **Cape Verde needs to improve its financial reporting regime.** Improving the investment climate, and economic and private sector development requires a high level of financial transparency on the part of private and state-owned enterprises, and the observance of sound practices of accountability and governance by these corporate entities. These requirements imply a financial reporting regime backed by institutions that provide investors, creditors, and other relevant parties with timely and accurate information.

II. INSTITUTIONAL FRAMEWORK

13. The ROSC outlines legal principles applicable with regard to accounting, auditing, and financial reporting. Primarily an introduction to the issues, the ROSC is meant neither to be an exhaustive rendition of the law nor to give legal advice.

A. Statutory Framework

14. **Cape Verde introduced a Commercial Code in 1999 replacing business legislation dating from 1888.** According to the new Commercial Code, an incorporated company may take

the form of a partnership (*Sociedades em nome colectivo*), or a private limited liability company (*Sociedades por quotas*), or a public limited liability company (*Sociedades Anónimas*), and cooperative society (*Sociedade Cooperativas*). The vast majority of incorporated business enterprises in Cape Verde are limited liability companies. Although the new Commercial Code introduces some corporate governance rules, it does not include provisions in line with international good practice regarding accounting, auditing, and financial reporting by the corporate entities.

15. **The provisions of the Commercial Code regarding accounting and auditing lag behind international good practices.** The Commercial Code refers to the books of accounts that a company must keep, but the concepts of preparing and auditing financial statements are absent, and no particular auditing standard is mandated. The Code requires that companies keep books that record daily commercial transaction, but there is no reference to accounting standards. Furthermore, the Code does not state the qualification of statutory auditors.

16. **Tax reporting requirements heavily influence corporate financial reporting.** The Commercial Code states that companies are obliged to maintain organized accounting records under the terms of the Commercial Code and the Corporate Tax Law and requires that the records be organized in accordance with the National Plan of Accounting (*Plano Nacional de Contabilidade*). However, the Code does not prescribe any penalties for noncompliance with the National Plan of Accounting. The Commercial Code states that companies must produce annual returns providing annual accounting information and that this return must be submitted to the Companies Registrar (*Conservatória do Registo Commercial*). The business accounting system in Cape Verde is regulated by Decree-law Nº 5/2008 of February 4, 2008. Cape Verde established the New National Accounting Standards and Financial Reporting (SNCRF), which replaced the National Plan of Accounting of 1984. The Tax Law states that the accounting records must be retained for 10 years and defines the dates and timing for the filing of annual accounting reports and tax returns with the tax authority. For tax purposes, depreciation is governed by a legislative requirement set in 1984 outlining the various depreciation rates to be adopted by companies. In spite of the fact that these depreciation rates are not based on the useful lives of assets, the companies are required to follow these rates for both tax reporting and general purpose financial reporting purposes.

17. **Bank of Cape Verde mandated IFRS for the financial institutions sector**. The Bank of Cape Verde, the central bank, has a supervisory role over all financial institutions, including the Stock Exchange. The financial institutions are required to present their financial statements (separated and consolidated) in compliance with IFRS. However, the Bank of Cape Verde does not regulate the micro-finance institutions; and the micro-finance institutions are not required to prepare and present annual audited financial statements in compliance with IFRS or any other standards. The Bank of Cape Verde is building capacity to regulate micro-finance institutions soon. The Stock Exchange will become independent in the future. The Social Security Institution (INPS) is not under the supervisory arm of the central bank, neither is it supervised by any other body.

18. **Law 47/2009 was introduced to better regulate the state public enterprises and state-owned companies.** The new law establishes that companies are subject to financial control,

which includes sustainability analysis, legality assessment and management efficiency, efficacy, and economy by General Inspectorate of Finance (in Ministry of Finance); and are subject to regular reporting to Ministry of Finance and Sector Ministry. In addition to the law for public enterprises, Government has also approved the Public Manager Statute and the Principles of Corporate Governance of Public Enterprises. Treasury Directorate has a mandate to monitor public enterprises; a dedicated department for monitoring the performance has been established since 2010. In addition, the revised law pending Parliamentary approval will update the organic statute and professional mandate of the Court, expand its scope by including other areas of economic governance of the state — such as public–private partnerships, concessions, public enterprises, autonomous institutions, and others — does not just focus exclusively on central administration.

B. The Profession

19. **Accounting technicians dominate the accounting profession in Cape Verde.** It is estimated that more than 400 registered accounting technicians work throughout Cape Verde. Accounting technicians provide bookkeeping services and signoff on the accuracy of information in financial accounting reports, primarily to provide assurance to the taxation authorities. Most accounting technicians received their formal training during the period before accounting was taught in Cape Verde's higher-education academic programs. Therefore, the level of knowledge and skills among the accounting technicians varies widely. Before establishment of the Professional Institute of Certified Auditors and Accountants (OPACC) in 2000, the Ministry of Finance maintained the list of approved accounting technicians. After the creation of OPACC, all approved and registered accounting technician became full members.

20. **In OPACC there are only 4 firms and about 30 individuals registered as auditors.** Since the professional practice of external audit was not clearly defined prior to the establishment of OPACC in 2000, local firms of accounting technicians also claim to be auditors. The big-4 international networks do not have effective presence in Cape Verde. Normally they audit financial institutions and donor-funded programs from their offices abroad (mainly Portugal). Even the international networks represented in Cape Verde are not full members of OPACC, and/or their partners are not residents. Generally, the small and medium-size enterprises in all parts of the country often rely on professional accounting and auditing services provided by the firms that have considerable capacity problems. The OPACC is self-regulated, and its certification program is not properly formulated and implemented. A panel evaluates the entrant's college transcript to determine the number of courses that they must write in order to qualify as an accountant or auditor.

21. **Cape Verde does not have a quality assurance program for auditors.** A quality assurance program reviews the auditors' work at both partner and firm levels and provides assurance that auditors perform their duties with integrity and in compliance with the applicable auditing standards, quality control standards and other requirements. The program also identifies weak areas in the auditing process that could require new training programs to improve the quality of audit. Establishing a country-level quality assurance program is an international good practice. International Standard on Quality Control (ISQC) 1, issued by the International Auditing and Assurance Standards Board (IAASB), requires audit firms to establish quality

control policies and procedures necessary for reasonable assurance of conforming to professional standards in performing auditing services. This standard should be adopted as part of adoption of the full set of ISA. The national professional body should also sponsor training and related programs aimed at enhancing the quality of auditing services provided by audit practitioners in the country.

22. **No legal requirement exists for auditors to have professional indemnity insurance.** Professional indemnity insurance assures auditors will meet liabilities in the event of valid claims against their professional conduct. Usually, the regulation will make it a condition for granting a license and for license renewal every year. At present, there is no requirement for auditors to have the insurance in order to get a practicing license. The importance of professional indemnity insurance would increase with the high professional risk exposures of the practicing auditors.

23. **The OPACC does not fully meet the criteria for IFAC membership.** The IFAC Board has authority and responsibility for determining the criteria for and procedures by which organizations will be admitted as members of IFAC. Well-set membership criteria have been established by IFAC. For the purpose of the ROSC, the OPACC is assessed against the following IFAC criteria, with the key shortcomings expanded:

- *Criterion 1, Recognition of organization.* The OPACC draws its legal mandate from a 2000 Act of Parliament. Created on February 28, 2000 by decree law n°12/2000, OPACC is still in its early stages.

- *Criterion 2, Professional standard*-setting. The OPACC has not set any national standards nor has it officially pronounced the adoption of ISA.

- *Criterion 3, Membership admission criteria and enforcement.* Before establishment of OPACC, the Ministry of Finance maintained the list of approved accounting technicians. After creation of OPACC, all approved and registered accounting technicians became full members. The OPACC is self-regulated, and its certification program is not properly formulated and implemented. In addition, OPACC does not have a mechanism for determining its members' compliance with professional standards and ethics.

- *Criterion 4, Commitment to IFAC/IASB* standards. No guidance exists regarding which auditing standards are to be followed in Cape Verde. Members are left to decide whether or not to comply with IFAC/IASB standards. The audit firms that operate in Cape Verde claim that they comply with the ISA. The OPACC Council has not yet decided on adoption of international standards.

- *Criteria 5, Financial and operating viability*. The financial statements of OPACC have been audited since 2010, the first year of activity after the set-up of the governing body. Administrative expenses are entirely financed with subscriptions from members and training fees paid by members or their employers. The OPACC received grants from the Government for the first time in 2011.

- *Criterion 6, Operating structure.* Three people, headed by the Executive Secretary, staff OPACC Secretariat. Its governing bodies are the General Assembly with a president and 2 secretaries, and the Directive Council comprising 9 members, the OPACC executive officials, and 3 members from North Region committee and 3 from South Region Committee. The Directive Council is also in charge of mobilizing resources to fund OPACC-approved programs and activities and advancement of its aims and objectives. The OPACC Act provides for the following standing committees and councils:

    - *Membership Committees for North and South Region and Disciplinary Council* to consider applications for membership from prospective members and maintain professional discipline and compliance with laws, rules, and regulations.
    - *Technical and Supervisory Councils* to make recommendations to the governing bodies on technical matters relating to accountancy and related subjects. The Technical Council proposes to the Directive Council the establishment of sub-committees for examinations, follow-up of practical training, and final technical interviews (which are included in the admission process); and, as necessary, other permanent or ad hoc sub-committees (e.g., for establishment of technical standards, revision of the OPACC Act, etc.).

24. **The OPACC does not meet IFAC-issued Statements of Membership Obligations (SMO).** All IFAC member bodies are required to meet these specified obligations and to actively promote international accountancy programs and standards established by IFAC and the IASB. With its current structure, OPACC does not demonstrate its ability to meet the SMOs and needs support and technical assistance through a twinning arrangement with a reputable member of IFAC that could provide assistance with advising on carrying out the preparatory work for empowering the institution. OPACC falls short in the following areas:

- *SMO 1, Quality Assurance***.** OPACC does not have a quality assurance program that complies with the SMO 1 requirements and has not adopted the ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* as quality control standards. To ensure that audit firms have effective quality control arrangements, a mechanism of independent review needs to be in place. Such reviews may be more effective for monitoring and enforcement of applicable auditing and financial reporting requirements if an independent oversight body conducts the review. Such a review mechanism does not exist in Cape Verde at the present time.

- *SMO 2, International Education Standards for Professional Accountants and Other IAESB Guidance.* Several technical training courses are being organized for the certified accountants and auditors. However OPACC has not yet adopted a continuing professional education regulation. In addition, there is no monitoring mechanism to ensure compliance with the IFAC-mandated requirements on continuing professional development.

- *SMO 3, International Standards, Related Practice Statements and Other Papers Issued by IAASB.* The OPACC has not adopted standards issued by the IAASB. But the

OPACC website (www.opacc.cv) is regularly updated and linked to IFRS Foundation and IASB websites.

- *SMO 4, IESBA Code of Ethics for Professional Accountants.* Without a prescribed code of ethics for its members and an arrangement to monitor compliance, OPACC has no mechanism for ensuring that accountants and auditors in public practice follow a certain code of ethics.

- *SMO 5, International Public Sector Accounting Standards and Other IPSAS Board Guidance.* There are no arrangements in place by OPACC to adopt and disseminate the standards and guidance issued by the IPSAS Board. However, a new chart of accounts and the adaptation to national context of IPSAS have been done by law but with limited implementation to date.

- *SMO 6, Investigation and Discipline*. A professional body's constitution and rules should provide for the investigation and discipline of member misconduct, and the professional body should operate a "just and effective investigative and disciplinary regime" for providing incentives for members to follow the ethical standards. There is however no evidence that OPACC has been handling any complaints of misconduct by its members. Even the international networks represented in Cape Verde are not full members of OPACC and/or their partners are not residents, which are contrary to the provisions of the Commercial Code.

- *SMO 7, International Financial Reporting Standards*. Cape Verde adapted IFRS for the business sector. The new SNCRF was established in 2008 with the stated objective to align the accounting standards of the country with IFRS. Cape Verde fully adopted IFRS for banking and insurance sectors in 2007 and 2010, respectively. There are however gaps: reviews and updates on IFRS are not captured, SNCRF does not meet specific transaction requirements, and entities are not required to present notes to financial statements.

C. Professional Education and Training

25. **Since the program of professional accountancy development is not yet active at OPACC, Cape Verde suffers from the scarcity of professionally qualified accountants** (i.e., certified public accountants or chartered accountants) with the same level that can be found in the countries where the profession is well developed. The local professional accountancy body does not have structure and capacity to locally design and control practical training for accountants. The training that is available for accountants and auditors is not formalized, and it does not follow any organized sequence and structure. In addition, the available practical training is not monitored.

26. **Prior to obtaining full OPACC membership, an auditor is required to have a Master degree in Accounting, Finance, Audit or Economy and three years of practical training yet the accountant with a Bachelor degree in Accounting or Finance may be exempted from the two-year training period.** The qualifications requirements to be accepted as professional

accountants are: Bachelor in Accounting, Finances or Economy. And for auditors, they must have a Master degree in Finances, Accounting, Economy and Audit. The training requirements for the certified accountant and certified auditor programs are shown in Box 1.

Box 1. **Syllabus for Exams and its duration for Certified accountants**

Grupo I: Accounting & Finance	**Duration of the Exam**
1. Genneral & Financial Accounting	2H00
2. Advanced Financial Accounting	2H00
3. Management Control	2H00
4. Financial Annalyis and Management	2H00
Grupo II: Law and Taxation	**Duration of the Exam**
1. Civil Law	1H30
2. Labor Law	1H30
3. Commercial and Business Law	1H30
4. Cape Verde Taxation	2H00
Grupo III: General Topics	**Duration of the Exam**
1. General Economics	1H30
2. Business Economics	2H00
3. Statistics and Financial Mathematics	2H00
4. Computer / Information System	1H30
Grupo IV: Control and Etical Syllabus	**Duration of the Exam**
1. Internal Control and Audit	1H30
2. Business and Professional Ethics	1H00

Syllabus for Exams and its duration for Certified auditors

Groups:	**Percent**	**Duration of the Exam:**
Group I - General	15%	3H00
1. Genneral Economics and Business Economics	30%	
2. Statistics and Financial Maths	50%	
3. Informatcs / Information System	20%	
Group II- Fiscal	25%	3H00
4. Civil and Labor Law	20%	
5. Commercial and Business Law	30%	
6. Cape Verde Fiscal Law	50%	
Group III - Accounting and Finance	30%	4H00
7. Advanced Financial Accounting	50%	
8. Management Control	30%	
9. Financial analysis and Management	20%	
Group IV- Audit & Behaviour	30%	4H00
10. Financial Audit	50%	
11. Management and Operational Audit	30%	
12. Behavioural Theories and Ethics	20%	

Source: OPACC

27. **There is no monitoring mechanism to ensure compliance with the IAESB-mandated requirements on continuing professional development.** There is no guarantee that even those qualified accountants in the marketplace are keeping up with new developments in internationally accepted accounting and auditing standards as well as the Code of Ethics for Professional Accountants. According to IAESB-issued International Education Standard (IES) 7,

member bodies should require all professional accountants to develop and maintain competence relevant and appropriate to their work and professional responsibilities. The responsibility for developing and maintaining competence rests primarily with each professional accountant. When an input-based approach is used, a professional accountant should complete at least 120 hours or equivalent learning units of relevant professional development activity in each rolling three-year period, of which 60 hours or equivalent should be verifiable. Continuing professional education should not be less than 20 hours during a year.

28. **The Ministry of Higher Education, Science, and Innovation, which accredits higher educational institutions, does not have guidelines for curriculum assessment.** There is no internal capacity to evaluate academic programs, before or after approval. External consultants, without any approved evaluation framework, handle the assessment for approval.

29. **There are four higher educational institutions in Cape Verde offering accounting and related degrees.** Only one academic program at ISCEE can be considered **a** full accounting program. The other programs are economics and management programs with specialization in accounting and auditing. These other programs are lacking in the key content of accounting and auditing. All higher educational institutions suffer from scarcity of resources. They face a shortage of well-trained academic staff to teach accounting and auditing courses. To compensate for this, some accounting practitioners, employed in commerce and industry, work as part-time lecturers in evening classes. The scarcity of textbooks in Portuguese constrains effective teaching and learning in all the institutions. The academic curriculum of ISCEE is presented in Annex 1.

D. Setting Accounting and Auditing Standards

30. **Cape Verde adapted IFRS for the business sector in 2008.** By Decree-law Nº 5/2008 of February 4, Cape Verde established SNCRF, replacing the National Plan of Accounting that was used for more than 20 years, with the stated objective to align the accounting standards of the country with IFRS. There are however gaps: reviews and updates on IFRS are not captured; SNCRF does not meet specific transaction requirements; and entities are not required to present notes to financial statements.

31. **The Special Regime for Small Entities or *Regime Especial para Pequenas Empresas* (REPE) differs widely from IFRS for SMEs.** The REPE exempts small entities from presentation of the statement of cash flows and the statements of changes in equity for the period, which are components of financial statements in the IFRS for SMEs. Cape Verde needs to build capacity of SMEs to improve their financial reporting and mandate IFRS for SMEs as applicable accounting standards.

32. **Cape Verde fully adopted IFRS for banking and insurance sectors in 2007 and 2010, respectively.** By Notice 2/2007 of November 19, the central bank mandated IFRS for the banks; and by Notice 3/2010 of June 28 it mandated IFRS for insurance companies. The summary of accounting standards adaptation and IFRS adoption in Cape Verde are presented in Table 1:

Table 1. Accounting Standards Adaptation and IFRS Adoption in Cape Verde

Economic sector	*Standards adopted*	*Publication of the standards*	*Transition date*	*Reporting date*
Corporation	IFRS adapted (SNCRF)	Dec 29, 2008	Jan 1, 2008	Dec 1, 2009
Banking	Full IFRS	Nov 19, 2007	Jan 1, 2007	Dec 1, 2008
Insurance	Full IFRS	June 28, 2010	Jan 1, 2010	Dec 31, 2011
Public entities	National Plan of Public Accounting	Jan 30, 2006	NA	Jan 31, 2007

33. **The new chart of accounts adopted by the Government based on an accrual approach is not yet implemented.** By decree Law Nº10/2006 of January 30, the Government adopted the National Plan of Public Accounting (*Plano Nacional de Contabilidade Pública*) for state, municipalities, funds, and public institutes. A new chart of accounts and the adaptation to national context of IPSAS have been done by law but with limited implementation to date.[5] It was expected by 2008 to implement an accrual accounting system for expenditures rather than the cash system currently in force. But the accrual system is not yet implemented. As a result, it is not possible to use in a safe and coherent manner the accounting system to identify the expenditure liquidated (ordered for payment) and not yet paid. More precisely, the accounting system in place is based simply on expenditures paid and receipts collected. It is not a double-entry system. Its consistency is therefore largely limited.

34. **The Commercial Code contains many provisions that confuse the role and responsibilities of an accountant and of an auditor.** In matter of accounts certification, the Code says that the company may engage an accountant or an auditor, whichever is most convenient. This formulation is used in the following respects: (a) expression of an opinion in a project of merger between companies (article 197, nº1); (b) inclusion of an accounting professional in the fiscal council of limited companies and corporations (article 330 and article 347, respectively); and (c) the presence in the annual general meeting (article 410, nº4). Furthermore, it is not clear if a limited company or corporation having fiscal council, of which one of the members is either an accountant or certified auditors, must have external auditors.

35. **Auditing standards are not defined in any Cape Verdean laws, rules, or standards.** No guidance exists regarding which auditing standards are to be followed in Cape Verde. Without such an institutional arrangement in the country for providing direction, auditors may have different interpretations with regard to the applicability of a particular ISA. The audit firms that operate in Cape Verde claim that they adhere to the standards contained in the respective international network's audit practice manual. These audit practice manuals are said to comply with the ISA.

[5] Decree Law 5/2008 establishes the system for accounting normalization and financial reporting. Decree Law 43/2008 establishes the National Committee for Accounting Normalization. Circular 49/2008 details the codes of accounts of the system for accounting normalization and financial reporting. Normative Dispatch 1/2008 to 26/2008 detail adopted IAS and IFRS.

36. **The Bank of Cape Verde mandated the audit of the financial statements of institutions under its prudential supervision.** The regulation requires that an independent auditor, previously accepted by the bank, must perform the audit. The institutions under its supervision must inform the Bank of Cape Verde of any audit contract signed, with indication of the fees, terms, and scope of audit.

37. **The Stock Exchange mandated external auditing for the listed companies.** The new Code of Securities Exchange, adopted by Decree-Law Nº 1/2012, of January 27, established (a) the obligation of presentation of audited financial statements; (b) the obligation of external auditors to provide information to General Auditor of Stock Exchange; (c) the responsibility of the external auditors, and (d) the mandatory registration of the independent auditors with the OPACC.

E. Enforcing Accounting and Auditing Standards

38. **No institutional arrangement exists to enforce SNCRF requirements for accounting and financial reporting.** No statutory body in Cape Verde is tasked with enforcing compliance with the SNCRF. The accounting technicians who prepare the financial statements have primary responsibility to ensure compliance with SNCRF.

39. **The shareholders rely on the opinion of the fiscal council.** The fiscal council (like the Audit Committee) is viewed as an important vehicle for protecting the interests of the shareholders. However, its effectiveness largely depends on its members' knowledge of accounting and financial management. The fiscal council is required to ensure that the company's books of accounts are in order, verifying the accuracy of the annual accounts, and confirming the valuation criteria adopted in accounting and financial reporting. The fiscal council also has the responsibility of recommending to the shareholders the approval of the annual financial statements.

40. **External auditors provide the last line of defense against noncompliance with accounting and financial reporting requirements.** When annual financial statements are audited, the audit report refers to accounting principles generally accepted in Cape Verde (i.e., SNCRF). In the case of commercial banks, reporting under IFRS, the audit report usually says that the financial statements have been prepared in conformity with IFRS. There is no other independent authority monitoring and enforcing compliance with the IFRS requirements in the financial statements.

41. **The tax authority enforces compliance with tax rules rather than with accounting and financial reporting requirements.** It is within the scope of the tax authority to monitor and enforce financial reporting requirements. However, there is hardly any emphasis on compliance with the general purpose financial reporting requirements.

42. **In Cape Verde there is no institutional mechanism ensuring that the registered companies comply with accounting and auditing statutory requirements prescribed in the Commercial Code.** The Commercial Code requires that the annual reports be filed with the Companies Registrar (*Conservatória do Registo Comercial*). After the approval, the management

report and the financial statements must be filled in the Companies Registrar. All accountants, auditors, and financial managers interviewed by the ROSC team affirmed that it is not current practice to lodge annual returns with the Companies Registrar. The General Registrar Directorate confirmed this assertion.

43. **There is no mechanism with necessary capacity to provide assurance on the quality of work performed by auditors.** The auditors belonging to an international network are subject to internal quality assurance reviews and are required by their global headquarters to apply international standards. Audit opinions on all annual accounts produced under IFRS or SNCRF normally state that the audit has been conducted in accordance with standards and guidelines of Portuguese Order of Accounts Reviewers (*Ordem dos Revisores Oficiais de Contas*) or ISA, but this voluntary step is not monitored or enforced.

44. **The current mandate of the Court of Accounts is not in line with international standards and does not guarantee an adequate quality of the external control of state-owned enterprises.** The scope of the Court of Accounts is just limited to the "traditional" public sector, significant areas of governance of the state such as public enterprises, public–private partnerships, and concessions are not subject to external control. The level of reporting from public sector in general is very low; around 50 percent of institutions under the current mandate of the Court of Accounts do not submit their accounts voluntarily for review and judgment. The format and quality of the financial information is very poor.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

45. **Business entities are obliged to have a commercial bookkeeping that easily, clearly, and precisely record the commercial operation and patrimonial situation of the entity (Commercial Code, Article 92).** The Act states the compulsory books to maintain (journal, ledger, inventories and balance sheet) and specifies the function of each. However, there is no indication of the kind of standards that must be used or the entity that is responsible for issuing the accounting standards or the mechanism for enforcing adherence to the accounting system prescribed. The SNCRF is mandatory to all business entities, with exclusion of financial institutions, which are required to comply with the IFRS. Management is responsible for presenting financial reports to the general meeting.

46. **The strategic choice of adaptation rather than adoption of the IFRS poses many challenges to all stakeholders.** There is no body with the responsibility to set-up new standards and review the existing ones. There is no mechanism of government for endorsing new and adapted standards and its publication. There is a capacity-building gap for the training of accountants and auditors on the national and international standards. In addition, the capability to prepare, analyze, review, and audit financial statements prepared in different sets of standards is a big challenge for the OPACC members.

47. **The National Commission of Accounting Regulation (CNNC) was established to issue accounting standards and harmonize them with the IFRS, but it is not active.**

Members have not been meeting; there are budget and facilities constraints; and, consequently, the SNCRF has not enjoyed subsequent amendments and improvements since 2008. It has thus lagged behind IFRS. IAS 27, *Consolidate and Separate Financial Statements*; IAS 28, *Investments in Associates*; and IAS 31, *Interest in Joint Ventures*, were superseded, respectively, by IFRS 10, *Consolidated Financial Statement*; IFRS 11, Joint arrangements; and IFRS 12, *Disclosure of Interests in Other Entities*: all became effective from January 1, 2013. This will make NCRF 23 and NCRF 25 lag behind IFRS since they are not subject to reviews even as the corresponding IFRS are being reviewed. Thus, financial reports issued in Cape Verde are inadvertently based on standards that have been superseded. The local (adapted) standards also do not benefit from new IFRS like IFRS 9, *Financial Instruments*, and IFRS 13, *Fair Value Measurement*, which would improve on the quality of financial reporting: operators have to wait for such new standards to be adapted before they can comply. Thus significant gaps exist as the response time (for adaptation of new standards) lengthens. A list of these IFRS without corresponding SNCRF is shown in Table 2.

Table 2. IFRS of IASB without corresponding SNCRF in Cape Verde

International Financial Reporting Standard	***Date of Issuance***	***Effective Date***
IFRS 9, *Financial Instruments*	Dec 16, 2011	Jan 1, 2015
IFRS 10, *Consolidated Financial Statement*	May 12, 2011	Jan 1, 2013
IFRS 11, *Joint Arrangements*	May 12, 2011	Jan 1, 2013
IFRS 12, *Disclosure of Interest in Other Entities*	May 12, 2011	Jan 1, 2013
IFRS 13, *Fair Value Measurement*	May 12, 2011	Jan 1, 2013

Moreover, there is no evidence IAS 33, *Earning Per Share*; IFRS 8, *Operating Segments*; IAS 34, *Interim Financial Reporting*; IFRS 6, *Exploration for and Evaluation of Mineral Resources*; IFRS 2, *Share-based Payment*; and IAS 29, *Financial Reporting in Hyperinflationary Economies*, are adapted into the Cape Verdean standards. With the exclusion of IFRS 6 and IAS 29, there are no clear reasons for non-adaptation of these IFRS into SNCRF.

48. **Thus, the mandated financial reporting standards in Cape Verde do not reflect the exact current content of the corresponding IFRS** since SNCRF are not responsive to the regular amendment and annual improvements made by IASB, as can be seen in Table 3.

Table 3: Sample of Cape Verde Accounting Standards and Subsequent IFRS Changes

2008 SNCRF of Cape Verde		***IAS/IFRS subsequent amendment and annual improvments***		
NCRF in the SNCRF of Cape Verde	***2007 version of IFRS that was adapted***	***Subsequent amendment or annual improvement***	***Date of Issuance***	***Effective Date***
NCRF 1	IAS 1	Amended to add new disclosure requirements for puttable instruments and obligation liquidation	February 14, 2008	January 1, 2009
		Annual improvement to IFRS 2009 about classification of liabilities as current.	April 16, 2009	January 1, 2010
NCRF 2	IAS 7	IAS 7 amended by annual improvements to IFRS 2009 with respect to expenditures that do not result in recognized asset.	April 16, 2009	January 1, 2010
NCRF 22	IAS 12	IAS 12 amended in differed tax:	December 20, 2010	January 1, 2012

		recovery of underlying assets.		
NCRF7	IAS 16	IAS 16 amended for annual improvement to IFRS 2007 about routine sales of assets held for rental	May 22, 2008	January 1, 2009
NCRF 9	IAS 17	Amended for annual improvements to IFRS 2009 about classification of land leases		January 1, 2010
NCRF 11	IAS 23	IAS 23 amended to require capitalization of borrowing costs.	March 29. 2007	January 1, 2009
		IAS 23 amended for annual improvements to IFRS 2007 for components of borrowing costs	May 22, 2008	January 1, 2009
NCRF 17	IAS 36	IAS 36 amended for annual improvements to IFRS 2007 about disclosures of estimates used to determine a recoverable amount	May 22, 2008	January 1, 2009
		IAS 36 amended for annual improvements to IFRS 2009 about units of accounting for goodwill impairment testing using segments under IFRS 8 before aggregation	April 16, 2009	January 1, 2010
NCRF 6	IAS 38	IAS 38 amended for annual improvements to IFRS 2007 about advertising and promotional activities and about the units of production method of amortization	May 22, 2008	January 1, 2009
		IAS 38 amended for annual improvement to IFRS 2009 about measurement of intangible assets in business combination	April 16, 2009	July 1, 2009
NCRF 10	IAS 40	IAS 40 amended for annual improvements to IFRS 2007 to being property under construction or development for future usage as an investment property within its scope	May 22, 2008	January1, 2009
NCRF 12	IAS 41	IAS 41 amended for annual improvements to IFRS 2007 regarding the discount rate	May 22, 2008	January 1, 2009

49. **The preparation time for implementation of new SNCRF was not enough.** The approval of SNCRF on February 2008 for it to be effective from January 2009, gives an impression that there was about one-year preparatory period for entities to become familiar with the new system. Nevertheless, the essential tools of the new system (the chart of accounts and the local accounting norms) were approved on December 16, 2008, giving less than 15 days for implementation. Furthermore, two essential legislations were released after January 2009. Also the fiscal regime to be adopted in the transition from the National Plan of Accounting to SNCRF was released on April 26, 2009, and the Decree-Law Nº 17/2010 defining the small entities for the purpose of application of SNCRF was released on May 24, 2010.

50. **During the implementation of SNCRF and the full IFRS, Cape Verde faced many challenges.** The shift from the old rules-based system to the new principles-based system created many challenges for Cape Verde. These are (a) understanding the difference between financial statements for fiscal purpose and financial statements for general purposes; (b) training of staff in the field of accounting and auditing; (c) up-grade of the accounting information systems; (d) exercise of professional judgment in implementation of the new standards; (e) preparation of the new set of financial statements, particularly the notes; and (f) effectiveness of the National Commission of Accounting Regulation (CNNC) in guiding the implementation process.

51. **In Cape Verde, many companies are not fully complying with IFRS or SNCRF.** The analysis of financial statements reveals that there are deficiencies in the implementation of basic and key aspects of financial reporting such as (a) publication of notes to financial statements as required by IFRS or SNCRF, (b) depreciation of fixed assets on the basis of its useful life, (c) impairments tests, (d) accounting for differed taxes, and (e) measurements and disclosure of investment in properties.

52. **Even the Bank of Cape Verde does not fully comply with IFRS.** The notes to the 2010 financial statements reveal that the Bank of Cape Verde has challenges in complying with fundamental financial reporting standards, namely: IAS 1, *Presentation of Financial Statements*; IAS 16, *Properties, Plant and Equipments*; IAS 36, I*mpairments*, and IAS 19, *Employment Benefits*. Although the notes to financial statements include many references to IAS/IFRS, there is no clear indication that the financial statements were prepared in accordance with the IFRS.

IV. Auditing Standards As Designed And As Practiced

53. **The auditors belonging to international networks are subject to internal quality assurance reviews and are required by their global headquarters to apply international standards.** Audit opinions on all annual accounts produced under IFRS or SNCRF normally state that the audit has been conducted in accordance with standards and guidelines of Portuguese Order of Accounts Reviewers (*Ordem dos Revisores Oficiais de Contas*) or ISA.

54. **Without local auditing standards, ISA is considered the de facto auditing requirement for Cape Verde.** In practice, ISA application differs among the various audit firms and audit engagements. To assess actual auditing practices, the ROSC team interviewed practicing auditors and senior leaders of the auditing profession. It appears that auditors associated with international accounting firm networks generally tend to follow internationally recognized auditing standards. Nevertheless, there were instances where some of these firms apparently had difficulties in complying with some auditing standards "in substance". Due to scarcity of well-trained senior audit practitioners, the trainees in many cases do not receive adequate level of supervision. The local audit firms, which do not have any relationship with an international accounting firm network, carry out auditing activities in accordance with self-developed procedures that do not seem to be comparable with any internationally recognized auditing standards.

55. **The lack of practical training adversely affects quality of audit**. In conventional audit practices, the audit team is made up of a hierarchy of complimentary professional accountants.

Audit trainees who are usually under a training contract occupy the lowest level. The trainees usually have a basic accounting qualification and undergo several years of on-the-job training as well as professional development and examination leading to certification. In Cape Verde, however, professional firms are under no obligation to employ audit trainees. While most staff of these audit firms do not undergo systematic training, coaching, and mentoring once hired, training provided to accounting/audit staff relates primarily to the firms' audit methodology and practices and availability of other generalized training. Training is dependent upon availability of learning materials translated into Portuguese to benefit the majority who are non-English speaking staff. The quality of audit work, just from the structure of the audit practice, is unlikely to match that of accounting practices made up of the full complement of trainee, partly qualified, and fully qualified accountants for each assignment. This is more visible in the context of the implementation of SNCRF and IFRS, as the proportion of persons with the right training remains low.

V. PERCEPTIONS ON THE QUALITY OF FINANCIAL REPORTING

56. **There is a general perception that financial statements are prepared in Cape Verde primarily for tax purposes.** Demand for high-quality financial reporting is low. If the tax authority is satisfied with the annual financial statements, nobody questions whether the enterprise had complied with high-quality accounting standards. Many companies of various sizes are not subject to the audit of financial statements. There is no tradition of financial analysis in the country (except within the financial institutions when issuing credit), and no credit-rating agencies. The banks do not place any reliance on corporate financial statements; generally, the lenders manage credit risks using collaterals. With exception of a few large entities with foreign participation, companies in Cape Verde are still largely family owned, and the business community generally sees limited interest in external financial reporting. In fact, some businesses issue two distinct financial statements: one for tax purposes and the other to raise loans from the banks. Issues of specific concern to interviewed stakeholders with respect to corporate financial reporting include (a) the dichotomy between auditors and accountants, (b) the difficulty in identifying registered auditors from quacks, (c) the existence of the old generation book-keepers who had been operating as auditors, and (d) the fact that only financial institutions are required to prepare IFRS-based financial statements. To place reliance on financial statements, financial institutions make recourse to its acceptance by the tax authorities.

57. **There is a general perception that financial statements audited by large firms belonging to the international network of accounting firms have high-quality financial information.** Interviews and discussions with various stakeholders, including relevant regulators, revealed that they place a high reliance on the financial statements audited by the members of international accounting firm networks. Contrary to that position, some stakeholders thought in most cases that an audit does not add value but is only a requirement for the company to satisfy the tax authorities.

VI. POLICY RECOMMENDATIONS

58. The main objective of this ROSC review is to assist the Government and other stakeholders in strengthening the corporate sector's accounting, financial reporting, and auditing practices as a means to facilitate the Government's goal of expediting economic development. Implementation of these recommendations will help in the following ways:

- Enhancing the investment climate and bolstering domestic and foreign direct investment in the private sector;
- Stimulating growth of the small and medium-size enterprises by facilitating their access to credit from the formal financial sector by shifting gradually from collateral-based lending decisions to lending decisions based on the financial performance of the prospective borrower;
- Supporting the development of the banking sector and mitigating the risk of crises due to loan collection problems and helping mobilize domestic savings; and
- Achieving greater financial transparency in the corporate sector, both state and private owned, thus allowing shareholders and other interested parties to assess corporate performance.

Without attempting to provide a detailed tactical design for reforms, this report provides principles-based policy recommendations to support the implementation of accounting reform and contribute to the enhancement of the quality of corporate financial reporting.

59. The policy recommendations in this section are mutually supportive requiring holistic, multi-disciplinary approaches for implementation. Implementation will require the cooperation of Government, regulators, academics, accounting and auditing profession, and other stakeholders. The Government, policymakers, and development partners should work together to secure the resources in order to achieve a strong financial reporting infrastructure in Cape Verde. Due to the lack of local capacity among professional accountants and auditors currently in Cape Verde, support from the development partners will be required to implement the following policy recommendations.

60. **Establish a multidisciplinary steering committee to coordinate the accountancy reform and development activities.** The steering committee should advise policymakers and regulators regarding implementation of the ROSC recommendations. Based on the successful experience of capacity-building activities in other countries, the ROSC team recommends that the steering committee develop a detailed country action plan that sets clearly sequenced key actions and allocates responsibilities for implementing the necessary reforms. The country action plan should form the basis for capacity-building activities for strengthening the underpinnings of accounting and auditing practices in Cape Verde.

A. Modernize the Statutory Framework on Accounting and Auditing

61. **Modernize the legal framework on accounting and auditing by taking the following steps**:

- Extend mandatory IFRS application in totality to all public interest entities in Cape Verde.[6] The public interest entities should be defined in law through an analysis of the business structure in country. Where the tax authorities and the financial institutions regulators need additional information for tax and prudential supervision purposes, this should come up by topping up IFRS.
- The capital market authority should build capacity to analyze and review IFRS-based published financial statements.
- Mandate obligatory preparation of consolidated financial statements for group companies fulfilling the criteria of public interest entities.
- Provide regulators with adequate authority to sanction appropriately against violations of applicable accounting and auditing standards and rules for ensuring effective monitoring and enforcing actions.
- Mandate appropriate requirements for filing of financial statements for all entities that are subject to annual statutory audit. Also, develop an arrangement for easy public access to the public interest entities' financial statements.
- Harmonize legislation on general purpose financial reporting by corporate entities with the tax framework. Also, give guidance on how to reconcile the accounting profit/loss with the taxable profit/loss. In absence of guidance, entities often mingle tax reporting requirements and general purpose financial reporting requirements when preparing financial statements.
- Mandate auditing requirements in accordance with specific threshold and require the use of ISAs in the audit of financial statements.

62. **Provide legal backing to establish an arrangement for independent oversight of the auditing profession including audit practice review.** In order to improve the legal framework of corporate financial reporting, enact a Financial Reporting Act with focus on all regulatory aspects of accounting and auditing. The National Commission of Accounting Regulation (CNNC) should transform into the Financial Reporting Council and empowered to monitor and enforce compliance with IFRS and ISA, in addition to its current role of preparing SNCRF. The SNCRF are local standards adapted from IFRS and prepared for use by all entities exempted from full IFRS. Align the provisions of the Code of Commercial Enterprises with the requirements of the new Financial Reporting Act. Thereafter, it will be easy to update accounting, auditing, and financial reporting requirements from time to time by simply amending the single Financial Reporting Act.

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[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 may include listed companies, banks and similar financial institutions, insurance companies, and large enterprises. To be considered a public interest entity, the large enterprises may be defined as individual enterprises and groups of enterprise that meet any two of the following three thresholds: (a) total number of employees exceeding [a number to be decided in consultation with the country stakeholders]; (b) total assets on the Statement of Financial Position exceeding [amount to be decided in consultation with stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with stakeholders].

63. **Mandate the Financial Reporting Council to establish systematic, institutionalized, monitoring and enforcement mechanisms to ensure compliance with accounting and auditing requirements.** The quality of corporate financial statements cannot be ensured by only formally mandating the application of IFRS and ISA since many compliance gaps may nevertheless exist in practice. Invariably, quality depends on designing and implementing a proper monitoring and enforcement system. There are three parties directly involved in the process of ensuring compliance with the applicable standards, and each must be strengthened:

- *Company directors* with legal obligations to prepare the financial statements must employ capable accountants and ensure that they comply with applicable standards.
- *Audit service providers* must possess adequate technical knowledge, put in place appropriate quality control arrangements, and discharge their professional responsibilities independently in order to provide assurance that financial statements comply with all applicable standards and portray "true and fair" view of enterprises' positions and performances.
- *The OPACC and the statutory regulators* must ensure compliance with the standards and consistently take actions against violators. To ensure effective monitoring and enforcement, the regulators need adequate capacity, authority, and independence. In addition, OPACC will need to develop specific activities to further assist its members with the implementation of the standards. These activities may include updating pre- and post-qualification program in accordance with new and revised standards, and developing implementation guidance to ensure its members have a good understanding of the standards they are required to follow.

The oversight will include monitoring and enforcement of auditing requirements, through audit practice review, investigation, and disciplinary actions. The audit oversight unit should develop a partnership arrangement with the OPACC in order to carry out monitoring and enforcement activities with efficiency and effectiveness. Moreover this unit could take steps to draw expertise from bilateral partners while gradually building Cape Verde's capacity for undertaking independent oversight of auditors. The OPACC can learn from other professional bodies within the Association of Accountancy Bodies in West Africa (ABWA) and the Pan-African Federation of Accountants (PAFA).

64. **Approve a new legal framework for a functional supreme audit institution aligned with international standards.** It is urgent to put in place an effective, fully functional, supreme audit institution that will scrutinize the use of public funds managed by any public institution in the country, including decentralized levels of government, autonomous institutions, public enterprises, and public–private partnerships, and will have clear jurisdiction over all government entities. The supreme audit institution should be granted access to SIGOF, the IT integrated management system, for posting and receiving all documentation necessary to carry out its review. No restrictions should be imposed on the publication of the court findings. The "accounting officer" should be formally and publicly responsible (and held accountable) for implementing all recommendations emanating out of external audits.

B. Strengthening Institutional Capacity and Academic Curriculum of the Accountancy Profession

65. **Strengthen capacity of OPACC through a twinning arrangement for a period of five years.** The twinning arrangement should be developed with a reputable member of the IFAC that could provide assistance with advice on carrying out the preparatory work for empowering the institution; preparation of by-laws, policies, procedures, and other documentation; improvement of governance and development of strategic plan; guidance on operational activities; and other necessary assistance to put in place arrangements for sustainable growth. The twinning partner could also help the OPACC to set its membership requirements and education standards in line with the International Education Standards (IES) and start its own professional accountancy qualification examination, professional learning and practical training arrangements, professional accreditation, audit practice certification, Continuous Professional Development, and related activities in line with international good practice. This will help the OPACC to start functioning as a modern professional accountancy body with the capability to play an efficient and effective role in financial management education and training. Some specific areas of assistance by the twinning partner include:

- Prepare and implement a strategic plan for development of the accountancy profession in line with recent international developments;
- Design and implement strong governance and functioning arrangements for enhancing organizational effectiveness of the professional body;
- Strengthen professional practice standards by assisting to implement internationally comparable professional education, qualifying examination, and practical training arrangements;
- Put in place arrangements for enhancing continuing professional development of the practicing accountants and auditors;
- Develop the technical department capable of providing support for proper implementation of IFRS in public interest entities and consider using IFRSs for SMEs for the preparation of financial statements of non-public interest entities and to consider whether specific standards could be used for the preparation of financial statements of micro-entities. and ;
- Assist audit firms to build capacity for implementing ISA and improving the quality of audit;
- Take appropriate steps for adopting the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA);
- Establish mechanisms for investigating and disciplining its members for misconduct and breach of the rules;
- Take appropriate steps to join and participate in the ABWA Accounting Technicians Scheme West Africa (ATSWA) in order to benefit from existing capacity within the region;
- Assist small audit firms to develop capacity for providing quality audit and assurance services, and also to take necessary steps to develop viable audit practices through merger; and

- Take necessary steps for full compliance with the IFAC Statements of Membership Obligations (SMOs) in facilitating full IFAC membership of the OPACC.
- Make the professional indemnity a condition for granting a license and for license renewal every year to auditors.

The professional body could have a public sector section with a separate membership stream and additional qualification requirements. An arrangement should enable the existing government accountants and auditors to complete a learning program — both theoretical and practical — for obtaining professional (public sector section) membership.

66. **Enhance academic curriculum and training.** The accounting curriculum should include practical application of IFRS to best prepare accountants (rather than bookkeepers) for careers in Cape Verde. A panel of experts should review and update the accounting curriculum in order to incorporate IFRS and IESBA Code of Ethics in the curriculum. The ethical dimensions of business management, corporate finance, and accounting and auditing should be taught with case studies in undergraduate programs. Adequate learning materials in Portuguese should be provided in a functioning library, and these should include electronic learning tools. To improve the quality of training, the universities offering accounting and auditing courses in Cape Verde should collaborate with a reputable international training institution.

67. **Implement a training-of-trainers program to develop capacity to prepare and audit IFRS financial statements.** Design and implement a program to prepare a core group of IFRS experts who would facilitate the development of a sustainable arrangement for continuing implementation of IFRS in Cape Verde. The group of experts should make the commitment to (a) take active part in lecturing at the higher educational institutions and in continuing professional development programs under the auspices of the OPACC and (b) write and disseminate guidance notes on proper implementation of IFRS under local context. Under the training-of-trainers program, international consultants should develop a collaboration arrangement with a leading university and the OPACC. The master trainers should be capable of developing a sustainable arrangement for development of IFRS learning materials in Portuguese to impart knowledge to the practicing and non-practicing accountants and auditors, university students, trainee accountants, and other interested parties.

C. Improve the quality of financial reporting and establishing oversight arrangements

68. **Mandate IFRS for all public interest entities in Cape Verde.** For small businesses, which constitute 95 percent of the entities, consider using IFRSs for SMEs for the preparation of financial statements of non-public interest entities and to consider whether specific standards could be used for the preparation of financial statements of micro-entities.. Cape Verde needs to build capacity of public interest entities and SMEs to improve their financial reporting.

69. **Enhance capacity of the banking regulator and ensure coordination of all regulators.** The Bank of Cape Verde needs to build its capacity and expertise to handle IFRS issues relating to financial institutions. Implementation of prudential regulations in financial institutions closely interacts with IFRS issues. Unless there is adequate understanding of IFRS issues by both the

regulator and the banks and other financial institutions, difficulties will arise in reconciling IFRS and regulatory requirements.

70. **Develop capacity of the Stock Exchange to review IFRS-based financial statements.** The Stock Exchange itself should be IFRS compliant. There is need to recruit professional accountants with relevant training and experience in IFRS; and there is need to acquire an appropriate IFRS-compliant accounting package for the Exchange and for the review of the accounts of the listed companies.

71. **Empower the Office of the Registrar of Companies to require all registered companies to render annual returns.** It is imperative that all records are digitalized and the Office of the Registrar must build its capacity to review the financial statements submitted. Other stakeholders should be able to make searches on all registered companies by making enquiries, upon payment of a specified amount, to the Office of the Registrar.

72. **Upgrade government accounting system from budgetary to patrimonial system.** The Office of the Accountant General should be able to capture all incomes and expenditures of Government and adequately prepare financial statements that will show the true position of government finances and to consider the adoption of IPSAS.

73. **Implement the new state accounting system, including the rules of accrual accounting for receipts and expenditure.** When the accrual system is implemented, periodical (at least monthly) control by comparing the data of the budget system (budget execution) and those of the accounting system should be put in place. The revenue expected from the management of the property of the state should be accounted for on an accrual basis (i.e., as soon as the receivable is identified, it needs to be recorded in order to better manage the collection of revenue).

74. **Build capacity of the Office of the Auditor General so that it can audit all government ministries and review the accounts of all state-owned enterprises.** It is also critical to increase the number of staff of the Court of Accounts and to develop their technical skills to enable them to express professional opinion(s) on the state accounts and the state-owned enterprises.

ANNEX. PLAN OF STUDY FOR DEGREE IN ACCOUNTING AND MANAGEMENT

Instituto Superior de Ciências Económicas e Empresariais (ISCEE)

Semester I	**CH**	***Semester II***	**CH**
Year I		***Year I***	
Mathematics I	**4.5**	Mathematics II	**4.5**
Introduction to Law	**3**	Companies Law	**3**
Microeconomics I	**3**	Microeconomics II	**3**
Information System I	**3**	Information System II	**3**
Introduction to Social Sciences I	**3**	Introduction to Social Sciences II	**3**
Financial Accounting I	**4.5**	Financial Accounting II	**4.5**
English I	**1.5**	English II	**1.5**
	22.5		**22.5**
Year II		***Year II***	
Financial Mathematics I	**3**	Financial Mathematics	**3**
Statistics	**3**	Statistics	**3**
Commercial Law	**3**	Fiscal Law	**3**
Macroeconomics I	**3**	Macroeconomics II	**3**
Marketing and Logistic	**3**	Strategic Management	**3**
Financial Accounting III	**4.5**	Financial Accounting IV	**4.5**
Cost and Managerial Accounting I	**3**	Cost and Managerial Accounting II	**3**
	22.5		**22.5**
Year III		***Year III***	
Operation Research I	**3**	Operacional Research II	**3**
Applied Fiscal Law	**3**	Applied Fiscal Law	**3**
Financial Management II	**3**	Financial Management II	**3**
Ethics and Organizational Behaviour	**1.5**	Human Resource Management	**1.5**
Advanced Financial Accounting	**3**	Advanced Financial Accounting II	**3**
Cost and Managerial Accounting III	**3**	Advanced Managerial Accounting I	**3**
Audit I	**3**	Audit II	**3**
Techinical English I	**3**	Technical English II	**3**
	22.5		**22.5**
Year IV		***Year IV***	
Field: *Specialization in Administration and Financial Control*			
Quantitative Methods I	**3**	Quantitative Methods II	**3**
Financial Administration	**4.5**	International Economics	**3**
Financial Control I	**3**	Financial Administration II	**4.5**
Advanced Managerial Accounting III	**3**	Financial Control II	**3**
Advanced Financial Accounting III	**3**	Advanced Managerial Accounting III	**3**
PSE - Corporate Simulation Project	**9**	PSE - Corporate Simulation Project	**9**
	25.5		**25.5**
Field : *Specialization in Audit*			
Applied Statistics	**3**	Research Methods	**3**
International Economics	**3**	Informatic Audit	**3**
Advanced Managerial Accounting II	**3**	Advanced Managerial Accounting III	**3**
Advanced Financial Accounting III	**3**	Managerial and Previsional Audit	**3**
Financial Auditing I	**3**	Financial Audit II	**3**
Internal and Operational Audit I	**3**	Interanl and Operational Audit	**3**
PSE - Corporate Simulation Project	**9**	PSE - Corporate Simulation Project	**9**
	27		**27**