FINAL REPORT

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

ACCOUNTING AND AUDITING

DEMOCRATIC REPUBLIC OF CONGO

April 2010

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Democratic Republic of Congo

ACCOUNTING AND AUDITING

June 2009

Table of Contents

Summary of Conclusions

The aim of this report is to assess accounting and financial auditing standards and practices applied in the Democratic Republic of Congo (DRC) in the private and parapublic sectors, using the International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA) as references and bearing best international practices in both fields in mind.

The main aim of this assessment is to make recommendations to the government to enhance accounting and financial auditing practices as well as financial transparency in the private sector and in parapublic enterprises in the DRC. The development aims of these recommendations are to: (a) stimulate private investment and improve the competitiveness of enterprises; (b) enhance governance in the private and parapublic commercial sector; and (c) further integrate the Congolese economy at the global level. The main findings of the Accounting and Auditing ROSC in the DRC are summarized below.

The legal and regulatory framework governing accounting in the DRC has changed very little over the past three decades. The accounting standards laid out in the Congolese General Chart of Accounts (Plan Comptable Général Congolais – PCGC) were developed in 1976 and have not been amended to align with changes at the international level. Steps are currently being taken in the DRC to change the national accounting standards to bring them more into line with the IFRS. For example, an *Accounting Manual for Credit Institutions* (*Guide Comptable des Etablissements de Crédit*), drafted in 2007, is currently being ratified by the authorities. It should also be noted that the DRC has begun the process of accession to the Organization for the Harmonization of Business Law in Africa (OHADA).

Under the Commercial Code, which dates back to 1887 and is still applicable today, a statutory audit (*commissariat aux comptes*) of the financial statements of commercial private companies (SPRLs and SARLs) and parapublic enterprises (SEMs) by a board of statutory auditors (*commissaires aux comptes*) is mandatory if the number of partners or shareholders in a company exceeds five. In practice, most private enterprises do not respect the provision calling for the appointment of statutory auditors. Under the new Law No. 08/009 of July 7, 2008 setting out general provisions applicable to public entities, public enterprises are required to have their accounts audited annually by two

This report has been prepared by a World Bank team based on work done in the Democratic Republic of Congo between June 2008 and March 2009. The project team was led by Nestor Coffi (AFTFM) and included Ludovic Kabran (CSRRM), Jean Charles KRA (AFTFM), Thierno Mbacké and Théophile NDANGI (consultants) with technical support from Zubaidur Rahman (OPCFM). The authors would like to express their appreciation to the Congolese authorities, the Permanent Council on Accounting of the Congo (CPCC), the Central Bank of the Congo and the representatives of the Congolese accounting profession and private sector for their active participation and support throughout this study. Publication of this report was authorized by the Ministry of Finance in its letter of December 7, 2009, approving the conclusions and recommendations of the ROSC.

statutory auditors appointed by prime ministerial decree without specification as to their required professional accreditation.

The financial statements of credit institutions must be audited by two statutory auditors (if individuals) or one statutory auditor (if a legal entity). The statutory auditors must be accredited by the Central Bank of the Congo and belong to a recognized professional organization.

No legal or regulatory text defines the practice of accounting or the professional standards applicable in the DRC. This has led accounting professionals to join together in private associations, the largest of which is the Institute of Auditors (Institut des Réviseurs comptables—IRC), which includes both corporate statutory auditors and independent auditors. The IRC has 32 individual members and nine member firms, some of which are part of large international networks. There are also organizations of accountants accredited by the courts, in Kinshasa (Organisation des Experts Comptables indépendants du Congo – OECIC, which is currently being set up), in the Bas-Congo (Conseil Régional des Experts Comptables et Comptables Agréés du Bas-Congo – COREXCO), and in Katanga (Ordre National des Experts Comptables et Conseillers Fiscaux – ONEC). The members of the latter two organizations essentially provide accounting and tax services.

A review of academic training, specifically the curriculum for the *Licence* in Commerce and Finance, which is a five-year undergraduate university degree that provides accounting/management training, shows that very few accounting and auditing courses are offered. There are serious weaknesses in the accounting training provided in the DRC owing to the lack of a local academic program for accounting. This finding is broadly shared by the private sector representatives and accounting professionals encountered as part of this study.

Based on these findings, the ROSC team made recommendations for the improvement of the legal and institutional framework: (i) adoption of a law establishing a professional institute of accountants consistent with the size of the country and the existence of provinces; (ii) convergence of the Congolese General Chart of Accounts with the IFRS or DRC accession to OHADA, which leads to adoption of SYSCOHADA and the Uniform Act on Commercial Companies; (iii) adoption of professional standards and introduction of quality controls in the profession; (iv) enhancement of professional capacities in the application of IFRS and ISA; (v) establishment of an academic program for accounting.

The priority recommendations of the Accounting and Auditing ROSC in the DRC are summarized in the following table and are intended to establish a legal and institutional framework that will promote practice of the accounting and auditing professions in the DRC.

SUMMARY OF PRIORITY RECOMMENDATIONS

Actions	§ No.	Responsibility	Links with WB projects	Implementation Timetable		
				Short term (1-2 years)	**Medium term** (3-4 years)	**Long term** (5-7 years)
1. ACCOUNTING STANDARDS						
(i) Initiate the process of adoption of a new accounting framework: • By gradually, but within a reasonable time frame, transitioning from the Congolese General Chart of Accounts (PCGC) toward international standards (IFRS); or • Through accession to OHADA, which results de facto in the application of SYSCOHADA in the country. This option would be less costly and could be achieved in the short term.	54	Government of the Congo	PSDCP	X		
(ii) Ratify the *Accounting Manual for Credit Institutions* and the similar manual for microfinance institutions.	55	Government of the Congo	None	X		
(iii) Make the Accounting Advisory Committee operational and more effective.	56	CPCC	None	X		
(iv) Simplify the taxation of small and medium-sized enterprises (SMEs) and implement the Charter providing very small enterprises (VSEs) with technical assistance in tax, accounting and management issues.	57	Government of the Congo	None		X	

Summary of Priority Recommendations						
Actions	§ No.	Responsibility	Links with WB projects	Implementation Timetable		
				Short term (1-2 years)	Medium term (3-4 years)	Long term (5-7 years)
II. Auditing standards – Professional Standards						
(v) Establish by law an institute bringing together all professional accountants in the DRC to unify the profession and eliminate inconsistencies in professional practices.	58	Government of the Congo	PSDCP	X		
(vi) Bring DRC audit practices into line with IFAC international standards: • Adoption of the French version of the ISA as national standards, bearing in mind the additional procedures required by Congolese corporate law. • Drafting of an audit manual describing the approach, methodology and record-keeping that complies with IFAC requirements. • Adoption of an ethical code.	59	Professional Institute and Government of the Congo	None		X	
(vii) Introduce a quality assurance system to ensure the quality of accounting and audit practices and respect of ethical rules in the profession: • Establish an internal quality assurance system in each audit firm. • Establish a quality assurance commission in the profession.	60	Professional Institute	None			X

SUMMARY OF PRIORITY RECOMMENDATIONS						
Actions	**§ No.**	**Responsibility**	**Links with WB projects**	**Implementation Timetable**		
				Short term (1-2 years)	**Medium term** (3-4 years)	**Long term** (5-7 years)
(viii) Adopt new legal guidelines for statutory auditors in private enterprises and define the professional accreditation of statutory auditors for public entities.	61	Government	PSDCP	X		

Summary of Priority Recommendations						
Actions	**§ No.**	**Responsibility**	**Links with WB projects**	**Implementation Timetable**		
				Short term (1-2 years)	**Medium term** (3-4 years)	**Long term** (5-7 years)
III. Training						
(ix) Review the curriculum used in management and accounting schools with a view to increasing the number of qualified accountants in the medium term, diversifying management qualifications, and introducing an accounting diploma.	62	Government	None		X	
(x) Introduce a professional training and continuing education plan for members of the profession.	63	Professional Institute	WB Grant	X		
IV. Accessibility of Financial Reports						
(xi) Enhance quality assurance mechanisms in the financial reporting of enterprises by requiring an audit certificate from a member of the accounting profession to accompany the financial statements submitted to the tax administration.	64	Government	None		X	
(xii) Provide the necessary human and material resources needed by the Court Registry Office to allow for the collection and consultation of financial statements and introduce a system of electronic filing.	65	Government	PSDCP		X	
(xiii) Increase the human and material resources of the CPCC to enable it to update its registry of corporate financial statements and collect financial statements in the provinces. Pending the availability of financial information in the Court Registry Offices, ease the confidentiality restrictions on financial statements held by the CPCC.	66	Government	None		X	

CURRENCY: Congolese Franc (CDF)

Exchange Rate: 1 USD = 657 Congolese Francs as of December 31, 2008

ACRONYMS AND ABBREVIATIONS

ANAPI	National Agency for Investment Promotion (Agence Nationale pour la Promotion de l'Investissement)
BCC	Central Bank of the Congo
CAC	Statutory Auditor (*commissaire aux comptes*)
CCBC	Belgo-Congolese Chamber of Commerce (Chambre de Commerce Belgo-Congolaise)
CGA	Accredited Management Center (Centre de Gestion Agréé)
COPIREP	Steering Committee for Public Enterprise Reform (Comité de Pilotage de la Réforme des Entreprises Publiques)
COPEMECO	Confederation of Small and Medium-Sized Enterprises of the Congo (Confédération des Petites et Moyennes Entreprises du Congo)
CPCC	Permanent Council on Accounting of the Congo (Conseil Permanent de la Comptabilité au Congo)
CSP	High Council for the Portfolio (Conseil Supérieur du Portefeuille)
DGI	Tax Department (Direction Générale des Impôts)
DRC	Democratic Republic of Congo
FEC	Congolese Business Federation (Fédération des Entreprises du Congo)
FIDEF	International Federation of Francophone Accountants (Fédération Internationale des Experts Comptables Francophones)
GDP	Gross National Product
IAS	International Accounting Standards
IASB/IASC	International Accounting Standards Board/Committee
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IGF	Office of the Inspector General of Finance, Ministry of Finance
IRC	Institute of Auditors (Institut des Réviseurs Comptables)
ISC	Higher Institute for Commerce (Institut Supérieur de Commerce)
ISA	International Standards on Auditing
NPA	Nonprofit association
OHADA	Organization for the Harmonization of Business Law in Africa
OPEC	Office of Small and Medium-Sized Congolese Enterprises (Office des Petites et Moyennes Entreprises Congolaises)
ONEC	National Institute of Professional Accountants and Tax Consultants (Ordre National des Experts Comptables et Conseillers Fiscaux)
PCGC	Congolese General Chart of Accounts (Plan Comptable Général Congolais)
PSDCP	Private Sector Development and Competitiveness Project
SADC	Southern African Development Community
SARL	Joint stock company (Société par Actions à Responsabilité Limitée)
SME	Small and medium-sized enterprises
SMO	IFAC Statements of Membership Obligations
SONAS	National Insurance Company (Société Nationale des Assurances)

SPRL	Limited liability company (Société Privée à Responsabilité Limitée)
UNIKIN	University of Kinshasa
UPC	Protestant University of the Congo
VSE	Very small enterprise

I. ECONOMIC CONTEXT

1. This assessment of accounting and auditing standards and practices in the Democratic Republic of Congo forms part of the program of Reports on the Observance of Standards and Codes (ROSC[1]), a joint initiative of the World Bank and the International Monetary Fund (IMF). It emphasizes the strengths and weaknesses of the accounting and audit environment that affect the quality of published financial reports. It involves a review not only of legal obligations but also of practices followed in the country and uses the International Financial Reporting Standards (IFRS[2]) and the International Standards on Auditing (ISA[3]) as a reference, along with best practices currently observed at the international level in the area of accounting and auditing regulations.

1. **With a population of more than 60 million inhabitants, the Democratic Republic of Congo has enjoyed sustained economic growth since 2002.** After a long period of poor governance and civil war that plunged the country into a serious economic crisis, the DRC established new political institutions in 2002 and began a period of economic reform. With the support of international institutions, the measures taken by the Government restored macroeconomic stability. During the period 2002-06, the DRC enjoyed an average economic growth rate of 5.8 percent led by the strong performance of the mining and forestry sectors, as well as infrastructure and commerce. The secondary sector[4] remains the focal point of the Congolese economy (accounting for more than 50 percent of GDP in 2008), despite the decline in 2006 and 2007 owing to unfavorable mining prices on the international markets. Based on official data, inflation declined from 135 percent in 2001 to 8 percent in 2006. Despite these appreciable results, weaknesses persist in the Congolese economy as a result of the volatility of economic growth and its vulnerability to exogenous shocks. Official data for 2008 indicate a growth rate of 8 percent, despite the decline in mining prices, particularly cobalt and copper, and unfavorable global economic trends, as oil prices soared and food costs rose. The low per capita GDP, which stands at around US$94, is a reflection of the difficulties of the Congolese economy.

2. One of the unique characteristics of the Democratic Republic of Congo, which measures 2,345,000 km², is the existence of provinces, which are political and administrative units endowed with independent legal status. The Constitution of February 18, 2006 and Law No. 08/012 of July 31, 2008 establish the principles of the free administration of the provinces and autonomous management of their economic, human, financial, and technical resources, as well as broad decentralization of territorial entities within the provinces. Through their political institutions, the provinces exercise powers devolved on them by the Constitution.[5] The provincial institutions consist of the General Assembly and the provincial government. Members of the General Assembly are

[1] Reports on the Observance of Standards and Codes (www.worldbank.org/ifa).

[2] International Financial Reporting Standards. The term IFRS covers both the International Accounting Standards, or IAS, previously issued by the International Accounting Standards Committee, or IASC (which was renamed the International Accounting Standards Board or IASB in 2001), and the standards issued since 2001 by the IASB. Many countries have adopted the IFRS as mandatory accounting standards for annual legal financial reporting by companies. Since January 1, 2005, the European Union (EU) has required all listed companies that have their head office in the EU to align their financial reporting with the IFRS.

[3] International Standards on Auditing issued by an autonomous agency within the International Federation of Accountants or IFAC. The official English version of the ISA standards may be consulted free of charge on IFAC's website (www.ifac.org).

[4] Including the mining and construction industries.

[5] Article 3 of the Constitution specifies that the country consists of the city of Kinshasa and 25 provinces.

provincial delegates who deliberate on matters under the jurisdiction of the province and control the provincial government as well as provincial and local public services. The provincial government is the executive branch of the province. It consists of a Governor, a Deputy Governor, and ministers.[6] The ministers, who may not exceed 10 in number, are appointed by the Governor. For this study, the ROSC team visited the provinces of Katanga and Bas-Congo to assess the accounting and auditing standards and practices in these provinces.

3. **The economies of the provinces of Katanga and Bas-Congo are the most dynamic in the country.** The Constitution calls for the transfer of taxes collected by the provinces to the central Government, which in turn returns a 40 percent share to them. The taxes that go to the provinces are essentially real estate taxes and consumption taxes. The economy of Katanga is based largely on mining and, to a lesser extent, on commerce, fishing, livestock and tourism. The province has substantial mineral resources: cobalt, copper, iron, radium, uranium, diamonds, manganese, gold, etc. Some 131 mining operators were listed in 2008 with the province's Mining Division, including 112 legal entities and 19 individuals. The crisis that is currently affecting the mining sector (significant decline in prices on the international market) has closed down the main private companies that were located in the province. The province's public mining companies, the most important of which is Gécamines, are also facing enormous difficulties. Bas-Congo, with the port of Matadi, is the main port of entry for imports into the country. As a result, owing to customs revenues, the province contributes about 40 percent of the national budget. Oil exploration companies and two cement plants are also located in the province. The provincial branch of the Congolese Business Federation (Fédération des Entreprises du Congo – FEC) in Bas-Congo has about 60 members, mainly SMEs.

4. **One of economic policy thrusts of the current Congolese Government is the revitalization of the private sector to make it the main engine of growth.** The Government's measures are aimed at improving the legal and regulatory environment for business (accession to OHADA, drafting of a labor code, new tax legislation and a new mining code, operational commercial courts, etc.) and making the country more attractive to private investment. For example, Law No. 004/2002 of February 21, 2002 establishing the Investment Code set up the National Agency for Investment Promotion (Agence Nationale de Promotion de l'Investissement – ANAPI) to improve the business environment and make the economy more attractive at the national level. The World Bank supports the Government's efforts in this area, particularly through the Private Sector Development and Competitiveness Project (PSDCP), which aims to improve the investment climate, reform public enterprises in the mining, telecommunications, finance, transport and energy sectors, and stimulate economic diversification and development in Katanga led by local communities. The World Bank's most recent evaluations indicate, however, that the labor code (prepared in 2007) and tax code both require strengthening. Furthermore, there is much room for improvement in ANAPI's work on enhancing the country's attractiveness.

5. **The private commercial sector is made up largely of small and medium-sized enterprises (SMEs).** The Congolese Business Federation, which is the largest employer organization, has about 3,000 members consisting essentially of SMEs. The Confederation of Small and Medium-Sized Enterprises of the Congo (Confédération des Petites et Moyennes Entreprises du Congo – COPEMECO) and the National Federation of Small and

[6] For example, each province has a Ministry of Finance in its government.

Medium-Sized Enterprises of the Congo (Fédération Nationale des Petites et Moyennes Entreprises du Congo – FENAPEC) are also professional organizations consisting exclusively of SMEs. Given the importance of the SME sector in the Congolese economy, in March 2006 the Government drafted a new charter for small and medium-sized enterprises and cottage industries (SME/CIs).[7] Nevertheless, for reasons related essentially to the tax regime (the profit tax rate stands at about 40 percent, to which are added numerous parafiscal and fiscal levies), the informal sector still represents a significant share of the country's economic activities, especially in commerce. As a result, measures for the introduction of a consolidated tax and enhancement of the technical and organizational capacities of SMEs are planned by the Government in this charter with a view to promoting the migration of small and medium-size enterprises to the formal sector. However, although these measures constitute significant progress toward improving the attractiveness of the country, it must be acknowledged that there are still significant bottlenecks in the legal,[8] judicial, administrative and regulatory framework (outdated and frequently anachronistic corporate law, insufficient protections for private property, commercial and labor courts that are not yet operational except in Kinshasa and Lubumbashi, burdensome and costly administrative procedures, etc.). The DRC is still ranked near the bottom of countries deemed to present investment risks by the International Country Risk Guide.

6. **Another major economic policy thrust of the current Government is the restructuring of public and parapublic enterprises.** The Government portfolio currently includes 34 enterprises in such sectors as: (i) mining, (ii) energy, (iii) transportation, (iv) agroindustry, (v) services, and (vi) commerce. Many of these public enterprises are today experiencing economic and financial difficulties, and the Government has for this reason, with the support of the World Bank in the context of the PSDCP, begun to introduce reforms to restructure these public and parapublic enterprises. Four laws reforming public enterprises were enacted in 2008. Their objective is to introduce a new institutional framework to transform these public enterprises into commercial companies or public agencies or services. Decree No. 09/15 of 04/24/2009 created a public agency called the Steering Committee for Reform of Enterprises in the Government's Portfolio (COPIREP), which replaces the Steering Committee for Public Enterprise Reform and is tasked with managing the process of the Government's withdrawal from enterprises in its portfolio. Decrees Nos. 09/12 and 09/13 establish the list of 20 public enterprises converted into commercial companies and the list of six public enterprises to be liquidated, respectively. The Government today participates in the management of these entities through the High Council for the Portfolio (Conseil Supérieur du Portefeuille – CSP), which is tasked with assisting the Government in monitoring and auditing public enterprises and managing the Government's investments in parapublic enterprises. As part of the institutional reform, Decree No. 09/15 calls for COPIREP to propose the necessary restructuring measures to the CSP.

7. **The banking sector, which is limited in geographic reach and not very diversified, is nonetheless the main source of financing for the economy.** In early 2009, the Congolese banking system consisted of 18 banks, only two of which have their head

[7] Definition of SME in the charter: fewer than 200 employees, sales under US$400,000 and investment under US$350,000. The aim of the charter is to provide support to the SME/CI in terms of financing, training, infrastructure for setting up a business, and tax incentives.

[8] The creation of a joint stock company (SARL) in the DRC requires the authorization of the President of the Republic.

office in the interior of the country.[9] Katanga and Bas-Congo provinces have seven and five banks, respectively. Many of these banks belong to foreign banking groups and the total balance sheet as of December 31, 2008 stood at US$1,691 million. There is no stock exchange in the DRC. The insurance sector consists of a government monopoly in the form of the National Insurance Company (Société Nationale des Assurances – SONAS), which has been in existence since 1967. With a total balance sheet of US$13.6 million and annual premiums of US$18 million in 2007, the insurance market has the potential to develop considerably. Discussions are currently under way on the strategy to liberalize the insurance sector and to pursue the DRC's accession to the CIMA (Inter-African Conference on Insurance Markets) Treaty. In fact, SONAS is one of the enterprises that will be converted into a commercial company as part of the public enterprise reform. Microfinance does not yet play an important role in financing the economy, particularly in rural areas. In 2008, there were 90 licensed microfinance institutions in the DRC, with a volume of deposits valued at about US$10 million.

8. **Bordering on nine countries,[10] the DRC has a significant interest in regional integration.** The main organization of which the DRC is a member is the Southern African Development Community (SADC), which brings together 15 countries.[11] The objectives of the SADC are to enhance cooperation and the socioeconomic, political and security integration of its member countries. Financial integration is also one of the objectives of the SADC, since its adopted agenda calls for a monetary union by 2016 and a single currency by 2018. A free trade area was launched in August 2008. Finally, the SADC covers 230 million inhabitants with a per capita income of US$8,152, compared with a zone such as the Economic Community of West African States (ECOWAS), where per capita income stands at US$1,361. The DRC has also initiated the process of accession to the Organization for the Harmonization of Business Law in Africa (OHADA), which has developed uniform business laws. OHADA, which brings together 16 countries, aims to strengthen legal and judicial security to promote the development of Africa and contribute to the consolidation of African unity. To this end, it has established a common legal space—unified regulations—and a common judicial space—a supranational jurisdiction acting as a Supreme Court. The laws in effect in the OHADA space are very similar to Congolese laws, but are much more complete and more modern.

9. **Enhancement of the quality, reliability, and accessibility of financial and accounting data in the private sector is consistent with the DRC's economic development strategy in several ways:**

- ***Improvement of the investment climate, to stimulate investment and enhance the competitiveness of Congolese enterprises***. Reliable accounting data that is accessible to investors, bankers and other economic agents in general would strengthen the confidence of investors and facilitate banking intermediation and the mobilization of public savings, providing enterprises with easier access to capital, including bank loans.

---

9 Goma and Lubumbashi.

10 Angola, Burundi, Central African Republic, Republic of Congo, Rwanda, Sudan, Tanzania, Uganda and Zambia.

11 The member countries of the SADC are: Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. On August 17, 1998 the SADC replaced the Southern African Development Coordination Conference, which was created on April 1, 1980. Its headquarters is in Gaborone, Botswana.

- ***Better governance in the private and parapublic sector.*** Improved accounting and auditing practices would lead to greater financial transparency in the enterprise sector, make it more difficult to conceal illicit operations, and provide better protection for shareholders, creditors and employees. Greater transparency would also ensure fair competition among private-law companies (including parapublic companies).
- ***Enhanced economic cooperation and integration at the subregional and international levels.*** The adoption and implementation of common accounting and auditing rules and practices will help to facilitate economic and financial dealings between the Congo and its partners, including partners in the SADC or OHADA areas.

II. LEGAL AND INSTITUTIONAL FRAMEWORK

A. ACCOUNTING AND AUDITING LAWS AND REGULATIONS

10. **The requirements in terms of accounting, presentation of the accounts and legal auditing (external auditing) of the accounts of enterprises are contained in Law No. 76-020 July 16, 1976 Regulating Accounting in the Congo and the Commercial Code of 1887.**[12] Article 2 of the 1976 law requires all economic agents operating in the Congolese territory, whatever their nature or legal form, to maintain sufficiently detailed accounts to record all operations and to establish summary reports thereof under satisfactory conditions. The annual financial statements must be prepared within six months of the closing of the fiscal year. The corporate documents (inventory, financial statements, annual report, and, if available, statutory auditor's report) must be made available to shareholders 20 days before the annual meeting of shareholders. Article 82 of the Commercial Code indicates that the annual shareholders' meeting must take place at least once each year, with the timing of the meeting established in the articles of incorporation of each company.

11. **The Congolese General Chart of Accounts (PCGC)**[13] **sets out the requirements for the preparation of the financial statements.** The PCGC was created by Article 7 of the aforementioned Law No. 76-020 regulating accounting in the DRC. Ordinance No. 6-150 of July 16, 1976 establishes the content of the PCGC and its implementing measures and Ordinance No. 77-332 of November 30, 1977 determines its scope. Under Article 1 of the latter ordinance, the PCGC applies to all enterprises in the Congolese territory with the exception of banks and financial institutions. It should be noted, however, that in the province of Katanga, owing to the recent presence of mining companies listed on foreign stock exchanges, many companies maintain two sets of books: one set complying with the PCGC to meet legal requirements and another based on international standards (IAS/IFRS) for reporting purposes. We even found that Gécamines, a public enterprise, maintains accounts based on the U.S. Generally Accepted Accounting Principles (GAAP) for historical reasons related to the widespread use of the dollar in the DRC. Article 248 of the Mining Code allows mining companies to maintain their accounts in foreign currencies based on a rate determined by the Central Bank of the Congo. The

[12] Decree of February 27, 1887 on commercial companies amended by the decrees of March 23, 1921, August 26, 1938, October 8, 1942 and June 23, 1960 and the Decree-Law of September 19, 1965.
[13] The PCGC was adopted by Ordinance No. 76-150 of July 16, 1976. Ordinance No. 77-332 of November 30, 1977 establishes the mandatory implementing regulations for the PCGC.

PCGC covers the general accounting provisions (bookkeeping instructions) and technical accounting provisions (general principles and rules for measurement and recording) contained in the law regulating accounting, supplemented by eight annexes including a chart of accounts and summary financial reporting tables. The law provides sectoral implementation manuals intended to adapt the PCGC to specific sectors or professions with unique characteristics (banks, insurance, transportation, mining, agriculture, etc.).

The PCGC deals exclusively with individual accounts and makes no reference to consolidated accounts. However, it sets three levels of requirements depending on the classification of the enterprise:

- Category 1 economic agents, who must maintain and present their financial statements based on the highest level of requirements. The main characteristics of the system for this category are presented in the paragraphs on the accounting standards. Essentially, the system is based on the Belgian Blairon Chart, the OCAM Chart, and the 1957 French Chart, with significant differences from the IAS/IFRS.

- Category 2 economic agents: simplified accounting provisions are provided for SMEs recognized as eligible by the Accreditation Committee established by Article 7 of Ordinance No. 81-094, which regulates the form, dissemination, and use of the summary tables of the PCGC. This committee has 12 members, including two representatives of each of the following: CPCC, OPEC, employers, DGI, accounting professionals, and the Central Bank of the Congo. This system covers the simplified presentation of the summary tables, particularly the economic, tax, and financial table.

- Category 3 economic agents: must also be recognized as such by the aforementioned Accreditation Committee. They use cash accounting procedures adapted to VSEs.

As a public agency, OPEC[14] is responsible for supervising and categorizing SMEs; however, authorization for use of the simplified provisions (Category 2 economic agent) or reduced provisions (Category 3 economic agent) is the exclusive responsibility of the Accreditation Committee. In fact, OPEC has not classified enterprises into the Categories 2 or 3 since 1980. The Accreditation Committee uses the criteria established by the Tax Administration for the definition of SMEs.

12. Tax obligations have a significant influence on corporate accounting and financial reporting. Law No. 06/003 of February 27, 2006—amending and supplementing certain provisions of Law No. 004/2003 of March 13, 2003 reforming tax procedures—requires enterprises subject to the tax on profits to file a tax return accompanied by the balance sheet, statement of formation of income, economic, tax and financial table, revaluation table, and any supporting documentation that the taxpayer deems necessary. Enterprises must also provide a copy of the notarized minutes of the annual meeting of shareholders and special meetings of shareholders approving the financial statements submitted with their tax return or leading to an amendment of the

[14] OPEC is the Office of Small and Medium-Sized Congolese Enterprises, which is responsible for tracking the obligations of SME/CIs included in the 2006 charter.

articles of incorporation. Penalties are provided for failure to file a return. The tax law also includes special provisions for SMEs. Under Ministerial Order No. 015/2008 of August 21, 2008 establishing implementation measures for Law No. 06/004 of February 27, 2006 on the tax treatment applicable to SMEs, SMEs are understood to mean all enterprises, whatever their legal form, that employ fewer than 200 persons and have a balance sheet and sales of less than US$1.5 million and US$400,000, respectively. These SMEs are divided into two categories:

- Category 1 consists of enterprises with sales of between US$50,001 and US$400,000, the liberal professions, and individuals or entities established by official appointment (*charges et offices*), which are subject to the normal provisions of the PCGC.

- Category 2 consists of enterprises with sales of between US$10,001 and US$50,000 subject to the reduced provisions of the PCGC; these enterprises essentially use cash accounting with income and expenditure tables and an abbreviated balance sheet that is reduced to the strict minimum.

13. The auditing requirements for the annual accounts of private enterprises are contained in the decree of February 27, 1887[15] on commercial companies. Article 94 of this law calls for the appointment of a board of statutory auditors for commercial companies (SPRLs and SARLs) and parapublic enterprises if the number of partners or shareholders exceeds five. However, the law does not specify the abilities and qualifications of such statutory auditors. As a result, any person, who may or may not be associated with the company, may be appointed statutory auditor. In practice, most private enterprises in the Congo do not respect this provision of the law. Only large private enterprises, subsidiaries of foreign groups or enterprises listed abroad (mining companies, oil companies, construction companies, banks, etc.) respect the requirement to appoint a statutory auditor, who is often a member of an international firm. The DRC's accession to OHADA would make it mandatory for statutory auditors to be individuals or firms that are members of an institute of professional accountants in the DRC. Apart from auditing the financial statements, the statutory auditor's terms of engagement (as established by OHADA in Title I of the general provisions on commercial companies) also includes the warning procedure. This enables statutory auditors to ask the directors of the company for explanations and requires the directors to respond "on any issue likely to jeopardize the continued operation of the business" of which an auditor becomes aware during the performance of the engagement.

14. The external audit obligations for public agencies are contained in the new Law No. 08/009 of July 7, 2008 setting out general provisions applicable to public agencies. It supersedes Law No. 78-002 of January 6, 1978, which called for the duties of statutory auditor to be performed by officials of the CPPC and the Office of the Inspector General of Finance (IGF) and for the annual accounts of public enterprises to be audited by the CPPC. Article 15 of Law No. 008/009 of July 7, 2008 stipulates that the statutory auditors of public agencies must be two individuals from different professional entities with proven technical and professional knowledge. They are appointed for a five-year renewable term by prime ministerial decree discussed in the Council of Ministers on the advice of the

[15] Decree of February 27, 1887 on commercial companies amended by the decrees of March 23, 1921, August 26, 1938, October 8, 1942, and June 23, 1960, and the decree-law of September 19, 1965.

minister responsible for the sector concerned. The provisions of this law do not specify that statutory auditors must be members of an institute of professional accountants. In addition to these audits by the statutory auditors, other audits of public entities may be conducted by the Public Audit Office (*Cour des Comptes*) and the Office for the Inspector General of Finance. The High Council for the Portfolio (CSP), which today has some 100 auditors and financial officials, may also conduct audits of public enterprises, which must submit their financial statements by April 30 of each year. As indicated in paragraph 6, these CSP missions will be reviewed in the context of the Government's divestiture efforts.

15. **The financial statements must be submitted to the Business Registry (Registre du commerce) in the locality where the company's head office is located within 30 days of their approval and to the CPCC within six months of the closing of the fiscal year.** Articles 12ff. of Ordinance-Law No. 81/17 of 04/30/1981, which supplements Law No. 76/020 of July 16, 1976 regulating accounting, sets out the penalties and sanctions applicable to companies contravening the provisions of the accounting law and establishes the procedures for the submission of financial statements to the registry office of the commercial court or the higher court of justice acting as commercial court in the place where the economic agent is located. In practice this provision is not respected and the commercial courts and higher courts of justice do not have sufficient human and physical resources to receive, transcribe, and file the financial statements. The financial statements must also be submitted to the CPCC six months after the closing of the fiscal year for processing by the registry of corporate financial statements (centrale des bilans). Penalties for those who fail to abide by these measures are set out in Ministerial Order No. 008/2005 of April 27, 2005.

16. **Credit institutions (banks and financial institutions) will be subject to the PCGC Sectoral Accounting Manual once it is ratified by the authorities.** This accounting manual, which is provided by Article 1 of Ordinance No. 77-32, was drafted in 2007 by an ad hoc committee of the BCC, CPCC, Congolese Banking Association, and the Institute of Auditors, representing the accounting profession. It was approved by the Congolese Government in the Council of Ministers in 2007, but its ratification by decree of the Prime Minister has been delayed. The regulations applicable to banks are contained in Law No. 003/2002 of February 2, 2002 on the activity and auditing of credit institutions and in the prudential mechanism established by the BCC. Banks and financial institutions must close their accounts as of December 31 of each year and submit them to the BCC by March 31 of the following year at the latest, along with the minutes of the shareholders' meetings and the report of the statutory auditor. The annual accounts for each bank and financial institution are published in an official gazette at the expense of the bank or institution concerned. In practice, banks publish their financial statements widely along with opinions from the reports of the statutory auditors. Periodic accounting statements (weekly, monthly, quarterly) must also be submitted to the central bank. Banks established in the provinces also submit monthly statements to the local branch of the BCC. Other important measures relating to the regulations governing eligibility for refinancing by the BCC are in place to analyze bank risk. The legal and regulatory framework covering accounting and auditing in the banking sector, which is inspired by the framework existing in the CAEMC countries, is currently evolving and requires strengthening and harmonization with the IFRS. This sectoral accounting manual includes the provisions of the IFRS in effect as of December 31, 2006 and should be updated to take account of changes that have taken place since that time. As well, the legal and regulatory framework

governing microcredit institutions is incomplete.[16] The Chart of Accounts of Savings and Loan Cooperatives and Microfinance Institutions was also prepared by experts of the BCC and the CPCC, accounting professionals, members of the IRC, and experts from microfinance institutions. It was submitted to the CPCC in 2008 for approval and transmitted to the Government for ratification.

17. In accordance with Instruction No. 19 of the BCC, the financial statements of banks and financial institutions must be audited by two individual statutory auditors or one statutory auditing firm. The statutory auditors present a report on the annual accounts to the annual meeting of shareholders and also submit it to the BCC. The proposal to appoint or reappoint one or more statutory auditors by the shareholders' meeting must be notified to the BCC's Directorate for the Oversight of Financial Intermediaries. The statutory auditors must also be members of a recognized professional organization.[17] The BCC publishes a list of accredited statutory auditors. It has one month to oppose a proposed appointment. In the event it does so, the bank or financial institution, which is required to comply, proposes a new candidate. The statutory auditor serves a three-year renewable term. Each year, before June 15, it reports to the shareholders' meeting on whether the accounts provide a true and fair view of the institution. In this report, the statutory auditor expresses his or her opinion on the methods used to prepare the financial statements and must report any particular issues of which he or she is aware. The statutory auditor must also assess the adequacy of the arrangements in place to prevent fraud and illicit financial operations. He or she must submit to the BCC all documents and information that it deems useful and cannot invoke professional secrecy in this regard. Except in cases of resignation, the term of a statutory auditor may be ended only on the order or with the authorization of the BCC for reasons of incompetence or immorality.

18. The insurance sector, in which SONAS today has the monopoly, is moving toward liberalization. SONAS's financial statements are prepared in accordance with the chart of accounts for insurance companies established by the CPCC in 2001. SONAS will be converted into a commercial company as part of the reform of enterprises in the Government's portfolio.

19. Although the SME/CI Charter calls for the establishment of a mechanism to assist SMEs with their bookkeeping, there is no appropriate framework[18] to facilitate migration to the formal sector using tax incentives.

B. The Accounting Profession in the DRC

20. The provision of accounting and external audit services is not regulated in the Democratic Republic of the Congo. The practice of the profession of accountant or auditor is not conferred by law on a professional institute and, as a result, any individual may call himself an accountant and prepare books of account or be appointed statutory auditor of a company. Thus, professional accountants in the DRC do not benefit from a statutory monopoly. In light of this situation, the CPCC plans to take steps to census all professional accountants operating in the country and to convene a participatory forum of the profession in 2009. This forum should result in the establishment of a professional institute for which draft legislation was prepared in July 2008. For the moment, a unique

[16] Law No. 002/2002 of February 2, 2002 governing savings and loan cooperatives.
[17] The BCC accredited all members of the Institute of Auditors (IRC) in 2008.
[18] To provide support to SMEs with organizational, accounting, tax, etc., issues.

feature of the accounting profession in the DRC is that there are several organizations established as private associations that group providers of accounting and auditing services.

21. The oldest and most representative of the professional organizations is the Institute of Auditors (IRC), created in June 1992. The IRC is a nonprofit association (NPA) with independent legal status established by Ministerial Order No. 073/CAB/MIN/J&GS/2002 of April 13, 2002. In 2006, the IRC obtained protection for the title of "*réviseur comptable*" (auditor) by Certificate No. 665/2006 of the Ministry of Industry. The Institute today includes 32 auditors and nine audit firms, including representatives of large international firms. Most of the auditors are established in Kinshasa.[19] Initially, the IRC was created by members of the Permanent Council on Accounting of the Congo (Conseil Permanent de la Comptabilité au Congo – CPCC), who were trained in Belgium for three years as part of a cooperation arrangement with the Institute of Corporate Auditors of that country. Today it is the only professional organization recognized by the Central Bank of the Congo.

22. Apart from these auditors who are members of the IRC, there are numerous accountants accredited by the Higher Courts of Justice of Kinshasa or the provinces. Compliance with the accreditation criteria for these accountants is subject to assessment by the Court. It is estimated that there are 420 such accountants in Kinshasa. The Tax Department (Direction Générale des Impôts – DGI) has established a list of 84 accountants[20] acting as statutory auditors for companies or providing accounting services in Kinshasa. Some of the accountants accredited by the Court of Kinshasa have decided to create the Organization of Independent Professional Accountants of the Congo (Organisations des Experts Comptables Indépendants du Congo – OECIC), which has not yet been officially established.

23. Professional institutes have also been created in the provinces of Katanga and Bas-Congo. A nonprofit association (NPA) called the National Institute of Professional Accountants and Tax Consultants (Ordre National des Experts-Comptables et Conseillers Fiscaux – ONEC) was created in Lubumbashi in the Province of Katanga in June 2008 with 12 members, although Article 5 of its Articles of Association states that it operates throughout the DRC. In its articles and by-laws, this association aims to bring together professional accountants, accredited accountants, and tax consultants. ONEC's official bodies are the General Assembly, Higher Council, Provincial Councils, and Board of Statutory Auditors. According to the documentation provided to us by ONEC, as of December 31, 2008 its membership included 44 professional accountants (29 in Lubumbashi, 11 in Bukavu and 4 in Kinshasa), 15 accredited accountants (12 in Lubumbashi and 3 in Kinshasa) and 35 accounting firms (22 in the Lubumbashi, 10 in Bukavu, and 3 in Kinshasa). Although the statutory bodies and technical committees of this association are provided in its articles and by-laws, they have not yet all been established and those that have are not yet operational. In the Bas-Congo, accountants accredited by the courts of the province (Matadi, Boma, Bas-Fleuve, Mbanza-Ngungu and Lukaya) created an NPA in 1993 called the Regional Council of the Institute of Professional Accountants and Accredited Accountants of Bas-Congo (Conseil Régional de l'Ordre des Experts Comptables et Comptables Agréés du Bas-Congo—COREXCO). It currently has 11 members and received accreditation by order of the governor of the province in 1994. The official bodies of COREXCO—the Council and the Assembly—

[19] Only two auditors who are members of the IRC are based in Lubumbashi in the Province of Katanga.
[20] Of which six are full members of the IRC and five are trainee members.

have not functioned for a number of years. It is clear that the membership requirements for ONEC and COREXCO do not meet IFAC requirements.

24. **This situation among the providers of accounting and auditing services in the DRC is not favorable to the development of a strong and credible accounting profession.** The external auditing market consists essentially of development projects, international NGOs, and statutory audit engagements with banks, parapublic companies, and subsidiaries of foreign companies. Statistics on the number of audit engagements and fees paid are not available, but it seems that the networks of international firms have a majority share of the market for banks and subsidiaries of foreign groups. The lack of a legal framework is a significant weakness for the development of the accounting profession in the Congo. The current configuration makes it impossible to guarantee the quality of accounting services, ensure public recognition of professional competencies or guarantee ethics through the application of ethical standards.

25. **The primary aim of the IRC, an NPA recognized by ministerial order, is to bring together persons who are qualified to exercise the profession of auditor in the DRC and to organize the profession, provide training, defend the honor and independence of the profession, and discipline its members.** The IRC has established articles of association and by-laws. One characteristic that is noteworthy is that Article 5 of the Articles of Association of the Institute establishes the category of "recognized auditor," defined as those who, without being practicing accountants, meet the competency requirements for the profession. These are members who are generally employees of enterprises or officials of the CPCC (2). Since 2007, the Institute has also used the title "professional accountant" for trainees who have passed their second year examinations. The IRC has three decision-making bodies: the Annual Meeting, the Council and the Board of Statutory Auditors. The Annual Meeting brings together all registered members. It elects a council consisting of the President and eight members (vice-president, secretary, treasurer and five other members). The Annual Meeting also elects two members to the disciplinary and appeals committee and five members to the work experience committee. Although these bodies exist, they unfortunately show little initiative.

26. **Membership criteria are defined by Article 12 of the Institute's Articles of Association and by the By-Laws.** To become a member of the IRC, in addition to the usual nationality, age, and morality criteria, the following is required:

- ✓ Hold a five-year degree in applied economics or commerce from a university or institute of higher learning accredited by the Congolese Government or an equivalent degree as assessed by the Institute.
- ✓ Hold a completion-of-internship certificate issued by the Institute at the end of a professional internship in compliance with the prevailing internship regulations.

Although monitoring of internships has been stepped up in recent years, particularly in terms of the assessment of the trainees' competencies and qualifications, it should be noted that the academic requirements for entry into the profession are not in line with IFAC recommendations (see para. 30ff.).

27. **The IRC does not yet have a Code of Professional Responsibilities as called for in its Articles.** Professionals met were in agreement on the need for a code of ethics harmonized with the IFAC Code. It was felt that such a code was needed to reaffirm the

public interest mission of the auditor and to establish professional ethical standards governing IRC members.

28. IRC's Articles require its members to purchase professional liability insurance. Such insurance would cover the civil liability of auditors against the users of financial statements in line with general international practices. This provision of the Articles is seldom followed by the members of the Institute.

29. In recent years, the IRC has begun an international outreach campaign. The Institute is a member of such international accounting organizations as the Fédération Internationale des Experts Comptables Francophones (FIDEF), the Eastern, Central and Southern African Federation of Accountants (ECSAFA), and the Fédération Régionale des Réviseurs et Experts Comptables de l'Afrique Centrale (FRECAC). FIDEF is a forum for exchange and cooperation between organizations representing the accounting profession in the Francophone world. Membership in FIDEF essentially involves participation in the annual meetings and regular exchanges. ECSAFA is also an organization for cooperation between entities representing the accounting profession in the countries of East Africa, Central Africa, and Southern Africa. It essentially includes the member countries of the Southern African Development Community (SADC), which are mostly English-speaking. FRECAC's objective is to promote the development and coordination of the accounting profession in the Central African subregion. It was created in November 2008 by the professional institutes of Cameroon, the Central African Republic, Congo, Gabon, and the Democratic Republic of Congo, represented by the IRC. Its head office is located in Kinshasa. Cooperation with Belgium's IRE has also been revitalized since 2005 with the signing of a protocol between IRE, the CPCC and the IRC. Three trainees, two from the IRC and one from the CPCC, are currently in Belgium for two-year internships. Five trainees, including three proposed by the IRC and two by the CPCC, will be selected in 2009 to take part in a two-year internship at the IRE.

C. EDUCATION AND PROFESSIONAL TRAINING

30. Higher education in the Congo has also suffered considerably as a result of the political and economic crises. Rising enrollment and insufficient infrastructure have had a negative impact on the quality of education. This led the authorities to initiate a process of reform in 1999 with the establishment of a standing committee on education. This committee completed its work in 2003, and by Ministerial Order No. 067/2004 of July 6, 2004, the Minister of Higher and University Education established new curricula and lengths of studies for academic degrees. Higher and university education is under the jurisdiction of the central Government, which determines the content and curricula. The curricula apply to both public and private higher education, for which it establishes the minimum subjects to be covered. The university system is largely based on the system in Belgium with the existence of the *graduat* (high school + 3 years) and *licence* (high school + 5 years) degrees. The DRC's main universities are public. In Kinshasa, the University of Kinshasa (UNIKIN), the Protestant University of the Congo, and the Higher Institute for Commerce are the most important. In Katanga, the Higher Institute for Commerce (ISC), which is part of the Public University of Lubumbashi, is the main university structure offering a three-year degree in management. In Bas-Congo, UniKongo and the Higher Institute for Commerce are the main institutions. All of these universities provide three-year and five-year undergraduate degrees in commerce and finance. In addition, the National School of Finance provides education in general accounting, public accounting and analytical (management) accounting to train managers for the Government and technicians for the revenue collection offices, i.e., DGRAD, DGI and OFIDA.

Summary of the Training Program for the Three-Year and Five-Year Undergraduate Degrees in Economics and Management

- 1. *Graduat* (accounting major): three years of study totaling 2,320 hours (theory and practice), including general accounting (120 hours), business accounting (90 hours), commercial law (45 hours), mathematical statistics (60 hours), IT (90 hours), analytical and budget accounting (120 hours), quantitative economics (45 hours), financial management and analysis (90 hours) and English (45 hours).
- 2. *Licence* (economics major): two years of study after the *graduat* totaling 2,870 hours (theory and practice); includes no accounting or financial management courses.
- 3. *Licence* (management major - focusing on financial management): two years of study after the *graduat* totaling 2,060 hours (theory and practice), including comparative accounting systems (45 hours), international financial management (45 hours), professional ethics (15 hours), management control and auditing (60 hours), tax and corporate management (45 hours), and a two-month internship (320 hours).

The analysis of the training program leading to the three- or five-year undergraduate degrees in management shows that few intensive accounting and finance courses are taken in the three-year program (420 hours out of 2,320, or 18 percent) or in the five-year program with the financial management major (195 hours out of 2,060, or 9 percent). Most professionals met in the context of this assessment were concerned about candidates' weaknesses in the areas of accounting and finance. At the National School of Finance, accounting courses in first year represent 90 hours out of 705, or 12 percent, and analytical accounting represents 60 hours out of 450 in the final year of all public accounting and budgeting, customs, and tax administration majors, or 18 percent. The certificate[21] awarded by the CPCC for the three-month accounting internship is very popular with management students and strengthens their abilities. Meetings that we held with senior officials of these universities do show their willingness to work with the accounting profession on a course that responds to IFAC recommendations.[22] Some accounting professionals who are members of the IRC as well as CPCC officials already give courses in some universities and higher institutes such as the ISC.

31. **The DRC does not have a university program or specific diploma leading to the profession of accountant or auditor.** As indicated above, students wishing to become auditors and members of the IRC must hold a five-year applied commerce degree from a university. For accountants accredited by the courts, a five-year degree is not mandatory. For example, some members of COREXCO in Bas-Congo hold only a three-year degree. Article 4 of ONEC's by-laws indicates that members must hold an accounting diploma[23] or its equivalent granted by an institution accredited by the Institute. The establishment of a diploma aimed at testing future professionals' technical competencies, critical thinking skills, and ability to analyze and synthesize could be considered by the universities in coordination with the accounting profession and the CPCC. INTEC signed an agreement

[21] At a cost of US$30.

[22] Since 2003, IFAC has issued eight International Education Standards for Professional Accountants or IES, which set out the principles governing acceptance to training programs, the content of those programs (divided into three major categories, i.e., accounting-finance, management, and IT), the work experience requirements, and the nature of the examination to validate the professional competence leading to a diploma or certificate entitling the holder to enter the accounting profession. These standards also cover the competencies required for the auditing profession.

[23] Without specifying the nature of this accounting diploma.

with the CPCC in 2005 to organize examinations at the Institute in Kinshasa.[24] Although the success rate for INTEC examinations is very low (between 5 and 10 percent), this cooperation has led to three students completing their dissertations and currently preparing for the French accounting diploma.

32. **To be accepted for an IRC internship, students must pass the technical tests organized by the IRC and be sponsored by an auditor.** These tests have not been organized by the Institute on a regular basis in the past for reasons likely related to the institutional environment currently existing at the IRC. However, they did take place in 2006-2007, and out of 27 candidates, 10 were accepted. The successful candidates were mainly professionals already working in accounting firms. The tests covered statistics, general accounting, analytical accounting, commercial law, corporate law, tax law, accounting law, and a dissertation on a topical issue in economics and financial analysis.

33. **The IRC professional internship:** Students who pass the admission tests enter an internship for a fixed duration of at least three years and a maximum of five years under the guidance of a placement supervisor. In practice, an annual evaluation of the trainee's file based on 1,000 hours of technical work is conducted by the work experience committee before the student can enter the second or third year. Trainees are also required to attend professional seminars organized by the Institute. For logistical and resource reasons, the seminars have not been held regularly in recent years.[25] The IRC currently has about 100 trainees, 40 of which are reaching the end of their internships.

34. **IRC final examination:** After validation of their work experience, candidates must pass a final examination to be accepted as members of the Institute. The examination includes a written test covering the various audit topics and an oral examination before a five-member jury. The passing grade is 60 percent for the two examinations combined. Of the four candidates who took the final examination in 2006 only one passed. In 2007, five candidates were accredited.

35. **Article 13 of the by-laws of the Institute calls for 120 hours of mandatory continuing education each year for members without defining the specifics, but many of the members do not comply with this provision.** The IFAC standards for education and training require professional organizations to provide a mechanism to monitor the continuing education of their members. Continuing education is considered a means for maintaining the competence and qualifications of professionals to enable them to offer high-quality services.

D. Accounting and Auditing Standards

36. **The standards consist of principles, rules, and methods contained in an accounting framework.** To be applicable, this framework must itself frequently be aligned with accounting law. The aims of the accounting standards are:

- Improvement of bookkeeping methods so as to enhance the true and fair view provided by the financial statements

[24] Cost of €260 per unit.

[25] In 2006, a 36-hour seminar was organized for 1st and 2nd year trainees and a 20-hour seminar was held for 3rd year trainees.

- Better understanding of the books of accounts and their controls
- Better comparison of accounting data over time and between different localities
- Greater consolidation of the accounts
- Compilation of statistics

37. The Permanent Council on Accounting of the Congo (CPCC) is the technical advisory body for the Congolese Government in the area of accounting standards. The CPCC was created by Ordinance No. 75-024 of February 3, 1975 and reports to the Ministry of Finance. Its purpose is to design and manage the Congolese accounting system, organize and operate the National Registry of Corporate Financial Statements, and exclusively issue the forms relating to the Congolese General Chart of Accounts. The CPCC consists of:

- The Accounting Advisory Committee (Comité Consultatif de la Comptabilité—CCC): Ordinance No. 98-164 of April 21, 1978 on the organization and operation of the CPCC establishes the make-up of the CCC. The CCC has 30 members, including the Secretary-General of the CPCC and representatives of departments and agencies or services interested in the activities of the Council. It has an equal number of permanent members and alternate members appointed by the President of the Republic on the advice of the Minister of Finance. The members of the Advisory Committee serve a two-year renewable term. The CCC provides its opinions on the plans, draft laws and regulations, and suggestions submitted to it by the Secretary-General before their submission to the Minister of Finance. The Advisory Committee meets at least four times a year when convened by the Secretary-General or at the request of at least one quarter of the permanent members.

- The General Secretariat for Accounting (Secrétariat Général de la Comptabilité – SGC), which is administered by a Secretary-General appointed by the President of the Republic on the advice of the Minister of Finance, manages the Accounting Secretariat under the supervision of the Ministry of Finance and acts as general rapporteur for the Advisory Committee.

38. Accounting standards have changed little in the DRC over the past 30 years. The 1976 PCGC has not been amended to align it with international accounting standards. The Accounting Advisory Committee has not met in a very long time. For this reason, the CPCC has undertaken to revitalize the committee, and a draft ordinance for the appointment of new members will be transmitted to the Government shortly for review before signing by the President of the Republic. Similarly, an IFRS committee has been established within the CPCC to ensure convergence and adaptation of the PCGC to the IAS/IFRS. An international seminar on the IAS/IFRS was organized in July 2008 by the CPCC for this purpose and was attended by FIDEF accountants and some 100 individuals from enterprises and the accounting profession. A steering committee for the establishment of IAS/IFRS standards in the Congo has also been created within the BCC. A timetable for convergence of the Congolese accounting system with the IFRS by 2011 has been prepared within the CPCC and includes the following:

- introduction and application of the IAS/IFRS in credit institutions, general-interest companies, and large strategic enterprises in the DRC by 2011
- starting in 2012, division of the remaining enterprises into three categories:

- SMEs exceeding a certain size will apply the IFRS for SMEs currently being prepared by the IASB
- other SMEs will apply the PCGC, which will be adapted to align it with the IFRS, taking into account the economic context of the country
- VSEs will apply the minimal cash accounting system provided in the SYSCOHADA

E. Ensuring Compliance with Accounting and Auditing Standards

39. The BCC conducts regular inspections of banks, which focus in particular on the application of the accounting regulations and prudential framework. The central bank, as the supervisory and oversight agency, regularly conducts off-site examinations and on-site inspections covering organization, shareholdership and governance, financial statements, and risk management. The accounting reviews cover various aspects, including internal controls, off-balance sheet liabilities, and compliance with instructions, particularly Instruction No. 16 on provisioning, applicable since January 1, 2004. The central bank can decide that the level of provisions is insufficient and subject the bank to a fine of 1 percent of the difference between the required level and the level observed at the end of each month. It also reviews the audit report and observations on internal controls of the statutory auditor. Its sanctioning powers are broad since its decisions are fully enforceable throughout the Congolese territory.

40. In addition to the audits conducted by the statutory auditors, public enterprises are audited by governmental and nongovernmental audit structures. The CSP, IGF and Public Audit Office conduct audits of enterprises receiving public monies in accordance with their own work programs and the modalities and procedures provided in the laws governing them. The CSP, which manages the Government's portfolio, must receive the financial statements of public enterprises by April 30 of each year. The CPCC is mandated to receive the financial statements of public enterprises and to monitor their compliance with the accounting standards set out in the PCGC before the statements are submitted to the Registry of Corporate Financial Statements. As part of the Government's divestiture program, CSP missions will be redefined to enable it to effectively represent the Government in public companies.

41. There is no monitoring of professional performance in the accounting profession. The IRC’s Disciplinary Committee can discipline auditors, covering anything from a simple warning to suspension for a year or more, or even to being struck off permanently. This committee acts on automatic referrals to it, on complaints from an interested party, or on written orders from the Attorney General, and decides by a majority of votes after hearing the party concerned. Discipline by the Institute is exercised first by the Board of the IRC. In case of appeal of decisions by the Board, the Disciplinary Committee is convened for a second time and is expanded to include a judge and a lawyer from the Court of Appeal to make a final decision. The decisions of the Disciplinary and Appeals Committee are forwarded to the President of the Institute for execution. To date no sanctions have ever been applied by this Committee.

II. ACCOUNTING STANDARDS

A. THE CONGOLESE GENERAL CHART OF ACCOUNTS – KEY DIFFERENCES WITH THE IFRS

42. **The PCGC, which was prepared in 1976, is very different in its design from the IFRS.** The Congolese General Chart of Accounts was designed primarily to meet the Government's needs in the area of national statistics. The needs of investors and the preparation of relevant, intelligible financial data are not a priority for the PCGC. It was intended to enable the Government to standardize accounting systems so as to facilitate its own national accounting. Moreover, unlike the IFRS, the PCGC sets out an accounting structure and bookkeeping rules and procedures, and defines the format that these documents must follow. In so doing, it follows the tradition of charts of accounts used in French-speaking countries. Thus, the nomenclature of the accounts and their operation, as well as the bookkeeping techniques, are an essential part of the Congolese accounting regulations. In general, the conceptual framework of the IFRS and its basic text (IAS 1 on the presentation of the financial statements) is very different from the technical provisions contained in the PCGC. While the IFRS were designed primarily for the financial reporting of large enterprises with an approach based on economic reality (some standards are applicable only by listed companies),[26] the PCGC emphasizes the legal and tax environment and applies to all economic agents operating within the DRC, whatever their nature or legal format, with levels of simplification to take the size of the company into account. The IFRS follow a modular format around a conceptual framework and a basic text in the form of a series of standards (IAS 1, IAS 2, etc.). These are regularly amended and updated and are supplemented by interpretations issued by a standing committee of the IASB (International Financial Reporting Interpretation Committee).

The significant differences between the Congolese General Chart of Accounts of 1976 and the IFRS relate primarily to the following:

- **Lack of a conceptual framework for the PCGC:** In the Congolese Chart of Accounts there is no conceptual framework such as that used by the international standards. The principles set out in the chart are not sufficient to constitute a conceptual framework, which must lay out general principles, define measurement rules, and establish definitions so as to constitute a guide in the absence of specific standards. The very objective of the accounting system—which, in the Congo, emphasizes the notion of assets and the needs of the national Government, while the international standards focus more on the notion of economic monitoring and the information needs of investors—may lie at the heart of some of the differences between the standards established in the PCGC and the international standards.

- **Presentation of the financial statements:** The Congolese General Chart of Accounts calls for four summary tables: the balance sheet, the statement of formation of income, the financing table, and the economic, tax and financial table. The last table includes detailed analyses of the operating and balance sheet accounts, as well as statistical data.

[26] A new IFRS for SMEs was recently circulated by the IASB. It was designed to enable SMEs to apply the IFRS with greater flexibility while maintaining the general principles.

According to the provisions of IAS 1, the financial statements consist of: the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows, and the notes to the financial statements, comprising a summary of accounting policies and other explanatory notes.

The differences at this level between the international standards and the Congolese General Chart of Accounts are not just differences of terminology, but also substantive differences. A substantial portion of the financial and statistical data mentioned in the summary statements required by the Congolese General Chart of Accounts is relevant only for the national statistics or national accounting aggregates.

The Congolese Chart of Accounts does not provide the option, generally followed in countries that have adopted a system based on that used in the English-speaking countries, of presenting information on income and expenses by function; only a presentation of income and expenses by nature is allowed.

Moreover, relatively important principles that make it possible to determine which financial information must be included in the summary statements in compliance with international standards are not applicable to the summary statements provided by the Congolese Chart of Accounts, which requires the use of standard tables.

- **The financing table** is one of the mandatory tables under the PCGC**,** along with the balance sheet, the statement of formation of income (TFR), and the economic, tax and financial table (TEFF). There are significant differences between the financing table and the statement of cash flows required by IAS 7. The most important relates to the fact that the financing table is a tool that makes it possible to determine the changes that have affected the economic agent's assets and liabilities. Thus, the breakdown of the main types of flows (related to operating activities, investment, or financing) are not as clear to the reader of the Congolese financial statements as they are in the statement of cash flows recommended by IAS 7.

- **The statement of changes in equity, which does not exist in the PCGC,** is one of the financial statements required by IAS 1.

- **Date of fiscal year closing:** This is determined freely by enterprises under the international standards, while under the Congolese General Chart of Accounts it must, without exception, be the end of the calendar year.

- **The notes to the financial statements in the international standards correspond to the economic, tax and financial table (TEFF) in the PCGC.** The TEFF is intended to supplement the information provided by enterprises in the other summary statements. The TEFF essentially provides information on the production, intermediate consumption, investment, and means of financing of enterprises. In contrast, the notes to the financial statements required by the IFRS provide additional information intended to allow the user of financial statements to adequately understand them and thus make better use of them. Specifically, they discuss the accounting policies and principles, provide a description of the assumptions used for significant accounting estimates, and break down various items in the financial statements with supporting explanations (on their nature, the reason for significant changes, etc.).

- **The PCGC makes a distinction between "operating items" and "non-operating items"** in the preparation of the income statement, while IAS 8 prohibits such a distinction.

In recording (or recognizing) and measuring assets, liabilities, income, and expenditure, the differences with the IFRS relate in particular to the following:

- **The PCGC uses the historical cost principle** to record the assets of Congolese economic agents, and it provides for the possibility of a legal revaluation of capital assets by the authorities. The IFRS, in contrast, allows—or even, in several instances, requires—the use of fair value in preparing the balance sheet. This is the case for real estate, investments, claims and debts denominated in foreign currencies (unrealized exchange gains not being taken into account as income at each closing), and biological assets. Similarly, the discounting of claims and debts based on their maturity is required by the IFRS but not by the PCGC.

- **Principles for the capitalization of certain expenses.** The PCGC allows the capitalization of some research and study costs. However, the criteria for the capitalization of development costs are stricter under IAS 38. Moreover, the PCGC permits the capitalization of certain types of expenditures (under the heading "expenses pending allocation") while IAS 38 recommends recognizing them as expenses for the period.

- **Contingency and loss provisions, the recognition of which does not require the existence of a legal or implicit liability,** contrary to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets." Clearly, the PCGC gives greater flexibility to enterprises to recognize provisions in their accounts for operations that depend on future events.

- **Some of the IFRS relating to the presentation of the financial statements and to the supplementary information are not covered at all by the PCGC.** For the presentation of the financial statements, these are IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and IAS 10 "Events After the Reporting." For the supplementary information to be provided to users of financial statements, IAS 14 "Segment Reporting" is only very partially covered by the TEFF and IAS 24 "Related Party Disclosures" is not covered at all.

- **The PCGC rules do not cover consolidation,** unlike the IFRS, in which it is an important topic since it concerns most large international enterprises. It is true that this topic is not a priority for the DRC, which has no stock exchange and little consolidation of enterprises.

- **As for sectoral standards, the specific characteristics of certain sectors are covered by the IFRS** in IAS 41 "Agriculture," IFRS 4 "Insurance Contracts" and IFRS 6 "Mineral Assets," while the CPCC sectoral accounting manuals that were to be prepared are not yet all available. Moreover, the PCGC does not cover retirement benefit plans, which are covered in IAS 26.

- **Finally, many other points in the international standards are not covered by the PCGC. Some that are likely to be applicable in the Congo are:** IAS 7 "Leases"; IAS 23 "Borrowing Costs"; IAS 11 "Construction Contracts"; and IAS 20 "Accounting of Government Grants and Disclosure of Government Assistance."

These very significant differences mean that the financial statements prepared on the basis of the PCGC provide the users with information of significantly poorer quality than that provided by the IFRS.

43. The accounting principles that will be applicable to banks after the adoption of the *Accounting Manual for Credit Institutions* (*Guide Comptable des établissements de crédit – GCEC*) are closer to the IFRS than the PCGC in a number of areas.[27] However, differences still remain. For example, the *Accounting Manual* covers the organization of the accounts of banks and financial institutions in the Congo by establishing a general regulatory framework. In terms of presentation of the full financial statements, the GCEC covers the "off-balance sheet" component in a separate financial statement, which is explained by the sensitivity and volume of transactions involving off-balance sheet liabilities in the banking sector (guarantees, warranties, sureties, etc.). In terms of rules for the measurement of assets and liabilities, the main differences between the accounting regulations applicable to banks and the IFRS are as follows:

- ***Provisioning of the loan portfolio:*** The rules for loan loss provisions are contained in Instruction No. 16 of the BCC on "prudential regulations governing the classification and provisioning of loans," which sets the "minimum rules" for provisioning. These rules call for provisions to be determined using percentages of standard losses, which vary depending on the various loan categories established by the regulator. These percentages are determined relatively arbitrarily and in such a way as to ensure that estimates are prudent, from the point of view of the regulator. IAS 39 ("Financial Instruments: Recognition and Measurement") takes a different approach, consisting in measuring the portfolio losses based on the expected recovery for each asset or group of assets with similar characteristics, which often results in measurements different from the ones resulting from the use of the standard percentages. Another difference is the treatment of interest on impaired assets, which the Instruction recommends be provisioned up to the amount of the interest credited to the income statement, while IAS 39 calls for interest to be treated in the same way as the principal of the instrument to which it applies.

- ***Measurement of capital assets*:** The GCEC recommends measurement at historical cost, which is different from the IFRS (in particular IAS 39 for the securities portfolio and IAS 40 for investment property), which require recognition at fair value, meaning that unrealized gains are included.

- **Contingency and loss provisions, the recognition of which does not require the existence of a legal or implicit liability**, contrary to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets." The GCEC clearly gives enterprises

[27] The basic accounting principles of the GCEC are based on the conceptual framework of the IFRS and the financial statements in the *Accounting Guide* now include the balance sheet, off-balance-sheet items, the income statement, the statement of cash flows, the statement of changes in equity, and the notes to the financial statements.

more latitude to recognize provisions in their accounts for risks, expenses and miscellaneous operating losses that depend on future events.

- **Recording of loan origination fees:** In the GCEC, these fees are recorded as income when the loan is granted, while for the IFRS they constitute part of the return on the loan and must be allocated so that the income statement reflects a constant interest rate (including fees) over the term of the loan.

B. Application of Accounting Standards: Current Situation and Findings

44. The review of the financial statements of a sample of enterprises reveals that the accounting standards are not correctly applied, owing to insufficient information provided. Difficulties in accessing the financial statements of enterprises in Kinshasa and in the provinces have limited the scope of the review by the ROSC team to some 30 companies in different sectors, both public and private: breweries, hotels, banks, public works, oil and mining, transportation, telecommunications, agroindustry, distribution, etc. This review made it possible to identify the difficulties in the practical application of the PCGC and, in several cases, the failure to respect the provisions of the Chart of Accounts. The 15,700[28] observation notes issued by the CPCC to enterprises for incorrect completion of the summary tables reflect the inadequate application of the accounting standards. The main observations resulting from the review are summarized as follows:

- ***Some provisions of the PCGC are seldom or never applied.*** In particular, the revaluation of capital assets is not always recorded in compliance with the rules and policies recommended by the PCGC and Law No. 089/017 of February 18, 1989 on the revaluation of capital assets. The lack of training of accountants in enterprises is often cited as the reason for this.

- ***The law gives the CPCC the exclusive right to distribute the forms for the summary tables.*** Given the fact that these forms are often completed by hand and that the there are an excessive number of tables, calculation and consistency errors are frequent. The CPCC often rejects an enterprise's summary tables, deeming them inadequate for processing by the Registry of Corporate Financial Statements owing to the numerous inconsistencies or information deemed incomplete.

- ***The CPCC does not have local offices in the provinces.*** The forms for the financial statements are purchased by commercial banks (Banque Commerciale du Congo – BCDC and Banque Internationale de Crédit – BIC for Katanga Province and Banque Internationale de Crédit – BIC in the case of Bas-Congo) to be sold to economic agents in the two provinces. The CPCC has no local structure to collect these financial statements for the Registry of Corporate Financial Statements. However, enterprises may submit the statements to the Provincial Finance Division for their inclusion in the Registry or deposit their financial statements at the CPCC in Kinshasa. This situation does not facilitate the proper management of financial statements in the Registry of Corporate Financial Statements of the CPCC in Kinshasa.

[28] Taken from the CPCC's website.

- ***The level of detail of financial reporting and corresponding explanations is well below international standards.*** As indicated above, the PCGC uses the TEFF in place of the notes to the financial statements recommended by the international standards. The financial statements presented generally contain many tables but no explanations as to the accounting principles and policies followed and no comments on the make-up and evolution of the various items on the balance sheet and income statement, which would help readers of the financial statements obtain an adequate understanding of the financial position and performance of the enterprise.

- ***The presentation of the financial statements is somewhat cumbersome,*** with 33 tables, some of which contain detailed information of doubtful utility. Furthermore, the preparation of some of the TEFF tables causes difficulties. In most cases, the usefulness of the Financing Table is not clear and there is often a lack of consistency between the information included in the Financing Table, the TEFF, and the comparative data for two fiscal years.

- ***In the case of credit institutions, the review shows financial data that are far from meeting international standards:*** in particular as regards the notes to the financial statements. The presentation of the summary statements is not the same for all banks (income statement, profit and loss account, etc.). This results in part from the fact that the *Accounting Manual* has not yet been ratified.

- ***In most of the cases reviewed, the statutory auditors of enterprises issued qualified reports or included observations*** relating primarily to deficiencies in the measurement of certain asset accounts, tax risks, going concern questions, and weaknesses in the internal control system. Among the public enterprises audited by the CPCC in 2007, 12 out of 29 audit reports were qualified reports, 12 reports contained a disclaimer of opinion, and in five cases the accounts were rejected owing to deficiencies. No unqualified report was issued, and five public enterprises could not produce financial statements.

Apart from the fact that qualifications in the audit reports and inadequate data in the financial statements undermine the confidence of external users of these statements, the problems identified by the ROSC team demonstrate the limited usefulness of the financial statements as decision-making tools for these users—whether they be shareholders, potential investors, or lenders. If private investment in the DRC is to develop, the quality of the financial statements of enterprises must improve.

IV. AUDITING STANDARDS

45. The auditing standards applicable in the DRC are not defined in a law or regulation or by the profession. Audits are conducted in a context of some confusion and with no definition of the minimal due care required. Given that, as indicated above, the practice of the profession of accountant is not regulated in the DRC, a legal vacuum exists in the area of auditing standards. The articles of association of the IRC, ONEC and COREXCO call for the application of standards by their members without such standards being defined and adopted.

The review of a few external audit and/or statutory audit reports in the context of a recent World Bank review of audit firms that are members of the IRC shows that:

- For many firms, auditing does not seem to include a number of the concepts introduced by the ISA, such as quality control for audit work (ISA 220), audit documentation (ISA 230), identifying and assessing the risks of material misstatement through understanding the entity and its environment (ISA 315), the auditor's response to assessed risks (ISA 330), acceptance or continuation of audit engagements, etc.

- For some of the most important aspects of the auditing standards, there is a lack of harmonization of practices in the DRC. This is the case, for example, of the audit report. ISA 700 "The Auditor's Report on Financial Statements" provides illustrations of auditors' reports and codifies the modifications to the opinion that the auditor may be led to make as well as the disclaimer of opinion. The illustrations proposed by IFAC are not used by all auditors in the DRC.

46. Several aspects of the regulatory framework and the environment in which financial statement audit engagements take place in the DRC do not favor the proper application of professional standards. A few of these factors are:

- ***Lack of professional auditing standards.*** As indicated above, the DRC does not have published auditing standards for the accounting profession.
- ***Lack of continuing education in the profession.*** The IRC's articles of association do require a minimum of 120 hours of continuing education each year but the content is not specified and there is no accountability. This training effort is particularly necessary in that there are no published auditing standards for the profession, which makes accountants unsure regarding the application of auditing standards in particular circumstances. This situation could create a two-tier accounting profession in the DRC: on the one hand, firms that are members of large groups that have the means to provide ongoing training and often require it, and, on the other, local firms[29] with few financial resources in which training often becomes a secondary concern. One 40-hour training seminar on the international accounting and auditing standards was organized in 2007 by the IRC as part of the capacity-building project for the profession financed by the World Bank. ONEC held a 16-hour seminar in 2008 on the convergence of the PCGC with international standards, while COREXCO has organized no seminars recently.
- ***Lack of control over professional practices.*** As indicated above, the activities of audit firms and statutory auditors in the DRC are not subject to any controls by the Institute or by any other authority. This means that professionals who do not respect the applicable rules and standards are unlikely to be sanctioned. A system for monitoring the application of the standards and for checking the quality of the work of accounting professionals would play a dissuasive role and would enable the profession to better understand the specific difficulties accountants face and provide solutions. However, the lack of resources (human and financial) also contributes to

[29] Local firms do not currently perform statutory audit engagements in public enterprises or subsidiaries of foreign companies (requirement to belong to a network).

the operational problems in the accounting profession and its slowness to take action.

- ***Corporate governance.*** With only a few exceptions, Congolese enterprises do not have audit committees,[30] the role of which is specifically to ensure that the external auditors fully perform their role within the enterprise and that follow-up is given to any qualified opinions expressed and recommendations made. The audit committee is the body—independent of management—to which the external auditor can present the conclusions of his or her work.
- ***Still weak local demand for accounting and financial data.*** Owing in particular to the lack of a stock exchange and the inadequacy of the legal and regulatory framework (with the result that annual corporate accounts are not available), the demand for accounting and financial data is still relatively weak in the Congolese private sector. Greater demand from economic agents would probably encourage enterprises to provide higher-quality data and auditors to review the data more closely.
- ***A still incomplete and fragile institutional framework.*** The lack of a legal framework governing the accounting profession in the DRC means that professionals are not assured of sufficient revenues to enable them to fully perform their functions. In meetings, members of the profession mentioned the low fees earned.

V. PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING

47. As indicated above, the demand for financial and accounting data appears still to be quite limited in the DRC. This is explained in particular by the fact that the private sector and capital market consist of just a few enterprises and that economic activity, while growing, is still very limited as well. Banks appear to have a great deal of difficulty in obtaining audited financial statements from enterprises seeking credit. The presentation of balance sheets that have been adjusted depending on the recipient (bank or tax administration) and the needs of the enterprise (bank credit) is a matter of considerable concern for the banks, which have difficulty obtaining reliable information.

48. The fact that tax rules take precedence over accounting principles appears to be a major obstacle to financial transparency and compliance with accounting principles. Many enterprises are led to apply the tax regulations at the cost of the accounting standards so as to avoid any risk of assessment of additional tax in case of a tax audit. Other enterprises have no incentive to enter the formal sector, preferring to stay in the so-called informal sector, where they are subject to a flat rate tax that is not based on accounting and financial data—and they therefore produce no accounting data. The lack of connection between the taxation of small enterprises and the production of financial statements based on regular accounts tends to encourage enterprises to remain in the informal sector and leads to unfair competition with the formal sector.

[30] In the sense of the specialized committees of the Board of Directors envisaged by the *Principles of Corporate Governance* published by the Organisation for Economic Co-operation and Development (consultable at http://www.oecd.org/dataoecd/32/18/31557724.pdf).

49. Many professionals and observers mention the need to update the PCGC. The new accounting reference framework should present financial data that is more relevant and that does not just respond to the Government's statistical needs, as is currently the case for the PCGC.

50. Most of the persons interviewed for the Accounting and Audit ROSC insist on the need to enhance the credibility of the accounting profession in the DRC, particularly its contribution to the reliability of financial reporting. Users of financial statements criticize their relatively poor quality and the existence of multiple versions of the balance sheet responding to different needs. Heads of enterprises and professionals agree that the accounting profession must play a major role in seeking higher-quality financial reporting. Issues considered to be of high priority for the profession include the establishment by law of a professional institute and strengthening of the technical expertise of professional accountants in keeping with their important responsibilities in the search for enhanced financial transparency.

VI. RECOMMENDATIONS

51. The primary objective of this ROSC assessment in the DRC is to support the efforts of the Congolese authorities to improve accounting practices, enhance the role of auditors, and increase financial transparency in the private and parapublic sectors. The development objectives associated with the recommendations presented in this report are to: (a) stimulate private investment and enhance the competitiveness of enterprises; (b) instill better governance in the public and parapublic commercial sector; and (c) further integrate the Congolese economy at the international level, particularly in Africa. On the basis of the recommendations made below and discussions that will take place during the reporting seminar bringing together all parties concerned in Kinshasa, an action plan will be drafted to implement the improvements under the aegis of the Congolese authorities and with the assistance of the World Bank and other donors who may wish to be involved.

52. The recommendations made below respond to a twofold concern: to better apply the existing rules and, in the medium and long term, to strengthen the legal and regulatory framework and align it with international best practices. Improving accounting practices and the quality of financial reporting in the private and parapublic sector requires actions by both the accounting profession and the Congolese Government. The recommendations made in this ROSC thus first address government agencies and then professional institutions. Their implementation will involve a subsequent dialogue between the Congolese authorities and the World Bank. A number of the recommendations made below reflect actions already taken by some countries whose economies and development objectives are similar to those of the DRC.

53. The recommendations of the Accounting and Auditing ROSC are intended to lead to significant advances in a number of sectors of Congolese society, specifically:

- ***Enterprises in the formal sector*** – Improving the quality, reliability, and accessibility of accounting and financial data should lead to a better assessment of risk and therefore access to new and/or external resources.

- ***The banking sector*** – With access to higher quality, more reliable accounting and financial data covering more enterprises (in particular SMEs), banks will be in a position to better manage their credit risk and to diversify their operations, thus enabling them to reduce their risk concentration and expand their operations.

- ***The accounting profession*** – The image of the profession with enterprises and investors is essential, as is its credibility. The application of international standards to professional accounting and auditing practices is the critical path to be followed by the DRC. The establishment by law of a professional institute and the introduction of oversight mechanisms in the profession, development of the academic path for accounting at the post-secondary level, and the improvement of continuing education would help to improve this image and credibility.

- ***The private sector*** – Strengthening accounting and auditing practices in the formal private sector will help to improve the effectiveness and equity of the corporate tax system.

- ***Employees*** – The ability of employees to access the financial statements of their employers will allow them to be fully informed about the operation of the enterprises employing them.

ACCOUNTING STANDARDS

54. Begin the process of adoption of a new accounting framework that is consistent with international standards (IFRS) [responsibility: Government of Congo]. The Congolese General Chart of Accounts (PCGC) applicable today in the DRC dates back to 1976. The differences between it and the IAS/IFRS, which have evolved considerably in recent years, are significant. However, there are too few entities in the DRC to justify full application of the IFRS, the exception being subsidiaries of foreign groups, which already partially use the IFRS. The review of the financial statements and interviews that the ROSC team held with some individuals revealed a number of deficiencies in the application of the PCGC standards. These deficiencies could increase should there be a sudden transition to standards that are more complicated to implement. The ROSC team believes that the best strategy would be to move gradually from the PCGC to the IFRS over a reasonable period of time, and, in particular, to stratify the enterprises that will be subject to the IFRS, as is the case in France and other reference countries. The *Accounting Manual* applicable to banks is in fact part of this process. Public awareness campaigns should be conducted with large public and private enterprises, banks, and insurance companies on the advantages of the IFRS, which, if used, could enhance the credibility of accounting and financial data for foreign users and investors, who are far from the data sources and places where the data are compiled.

Moreover, discussions that we held with some economic agents and authorities in the DRC mentioned the possibility of Congo's accession to the OHADA treaty.[31] This could help

[31] Accession was decided by the Council of Ministers on February 10, 2006. The stages that have not yet been completed are: the letter of accession from the President of the Republic to the State that is the Depositary Government of the Treaty (Senegal) with copy to the OHADA Permanent Secretariat, approval of the accession process by Parliament, and deposit of the accession instrument with the Depositary Government of the Treaty.

advance the legal and regulatory framework, particularly the accounting standards and the provisions relating to the accounting profession. It would also help to improve the business environment and legal security through the various OHADA uniform acts on collateral, the Common Court of Justice and Arbitration, bankruptcy, etc. It would also result in de facto adoption of SYSCOHADA as the new accounting framework for the country. In fact, the OHADA Uniform Act on accounting prescribes SYSCOHADA as the accounting standards applicable to enterprises. If this option is selected by the authorities, it will simplify the tasks to be accomplished and will have the advantage of being much less costly than updating the 1976 PCGC. The introduction of SYSCOHADA could also be completed in the short term and without great difficulty for enterprises. Although it may be true that SYSCOHADA requires improvements to bring it in line with the IFRS and that the mechanism for adapting the OHADA standards does not currently function very well, it would nonetheless be a significant advance in that SYSCOHADA is closer to the IFRS than the PCGC.[32] It also has the merit of being applied in the countries that are closest, economically speaking, to the DRC. Moreover, it seems that actions are being taken in OHADA to transition SYSCOHADA toward greater convergence with international standards.

55. Ratify the *Accounting Manual for Credit Institutions* (GCEC) applicable to banks and the *Manual for Microfinance Institutions* [*Responsibility: CPCC, BCC, and Congolese Government*]: to improve the quality of the financial statements of banks and microfinance institutions, while respecting the constraints involved in providing financial data that is in compliance with the prudential regulations to regulators.

56. Make the Accounting Advisory Committee operational and more effective in performing its missions *[Responsibility: CPCC and the Government of the Congo]*. The accounting standards must be adapted, not only to improve their effectiveness based on experience gained, but also to deal with situations that were not initially anticipated. The role of the Accounting Advisory Committee as an advisory body on standardization could be maintained but its makeup should be reviewed by the authorities. Standardization in the area of accounting would remain under the jurisdiction of the national political authority. However, the process of appointing members, which involves the President of the Republic, and that of ratifying standards could be simplified.

57. Encourage enterprises in the informal sector to transition toward the formal sector by implementing the Charter for SMEs and establishing a mechanism to simplify taxation *[Responsibility: Government of the Congo]*. Given the growing number of micro and small enterprises in the Congo, it is important to make them aware of and train them in cash accounting methods so as to improve the quality of their accounting and financial data and make them more professional in their business practices. The means should therefore be sought to make the Charter for SME/CIs operational and to provide VSEs with technical assistance on taxation, management, and bookkeeping. The implicit objective is to transition SMEs and VSEs from the informal sector by simplifying various procedures, including tax procedures. There is a Bookkeeping Center in the CPCC that is intended to assist SMEs and could be involved in managing this form of assistance from the Government.

[32] SYSCOHADA is more recent than the PCGC since it was implemented in 2000 and its conceptual framework, which takes the international standards prevailing in 1995 into account, is closer to the IFRS. It also includes many accounting standards not included in the PCGC (consolidation, combined financial statements, leasing, construction contracts, employee benefits, etc).

58. Establish by law an Institute of Professional Accountants in the Congo *[Responsibility: CPCC and the Government of the Congo]:* Official recognition of the accounting profession is a recognized international practice, particularly in the French-speaking countries, and will even be mandatory for closer relations with IFAC. In the current context in the DRC, a census of all professional accountants operating in the country, identifying their qualifications and competencies, would appear to be necessary. A technical committee could be established for this purpose by the Ministry of Finance. The creation of different categories of accounting professionals in the Institute (auditors, professional accountants, etc.) must be considered. However, it will be necessary to define categorization criteria and the engagements that each category will be authorized to perform, particularly in the areas of auditing, accounting, and consultancy. Only independent accountants or auditors could be registered members of the Institute, but the Institute could also include employees of enterprises (although not as registered members), as is the case in some French-speaking countries. Each province should have a provincial institute, and a Higher Council should be established at the national level. The aims of the Institute will be to: bring together the members and promote and maintain high-quality professional practices and standards, define standards for entry into the profession, promote the interests of the members, encourage cordial relations between the Institute and foreign professionals, and keep the members informed of international developments. The Institute should also work to combat illegal practice of the profession with the help of the public authorities, and ensure in return that its members do not practice in areas that are incompatible with the profession.

59. Adopt IFAC professional standards, particularly auditing standards compatible with the ISA, and an ethical code compatible with the IFAC professional ethical code *[Responsibility: Professional Institute and Government of the Congo]:* The French version of the IFAC code of ethics could be adopted or adapted. If the legal and regulatory environment has no special characteristics,[33] the ISA standards can be adopted.

60. Introduce a quality assurance system for the profession to ensure the quality of accounting and auditing practices and respect of the ethical rules applicable in the profession *[Responsibility: Professional Institute, oversight agencies for the financial system, and the Government of the Congo]:* Statutory and other auditors perform a mission that is in the public interest and must be subject to professional quality assurances to ensure that they are performing their professional obligations correctly. Quality controls to ensure that firms and members of the profession are applying the professional standards and respecting the code of ethics could be performed across the member countries of the FRECAC or ECSAFA. Compliance with the requirement to purchase professional insurance should also be verified. The Government could also establish an oversight authority for the profession.

61. Adopt new legal guidelines for statutory audits of enterprises in the Congo *[Responsibility: Government of the Congo]*: Corporate law in the Congo, which dates back to 1887, is too antiquated and requires updating, particularly regarding the statutory audits

[33] Some francophone countries opt to adapt the international standards to take account of laws and regulations prevailing in their country (for example, many OHADA member countries and France).

of enterprises. Accession of the DRC to OHADA would result de facto in the introduction of the Uniform Act on Commercial Companies and Economic Interest Groups. This option, should it be chosen by the authorities, would considerably simplify the work to be done and would have the advantage of being much less costly than preparing new Congolese laws. Moreover, the Uniform Act could be introduced in the short term, without great difficulty for the authorities and enterprises. Failing accession to OHADA, the work of the Committee on the Amendment of Congolese Law should be completed and adopted by the Government to allow for the establishment of a new legal framework for corporate law. In fact, Law No. 08/009 of July 7, 2008 on the statutory auditing of public agencies superseded the law of 1978, which required all statutory auditors to belong to the CPCC or IGF. An implementing decree for this law should specify the professional structures for statutory auditors and their area of intervention, which should be broader, in that the statutory auditor works to protect the savings invested in the enterprises, whether they are public or private, commercial or nonprofit. The CPCC would then be responsible for the standardization process, accounting training, accounting assistance for enterprises and other entities, assistance for SMEs, and management of the Registry of Corporate Financial Statements.

TRAINING

62. Review the accounting curricula for both the three-year (*graduat*) and five-year (*licence*) undergraduate business degrees and introduce a professional diploma to give access to the accounting profession *[Responsibility: Universities, Training Institutes, Professional Institute, and the Government of the Congo]:* In order to align professional accounting training with the IFAC recommendations on education, an accounting diploma would need to be created to give accreditation for practice of the profession in the DRC. This diploma could be based on the Accounting and Financial Diploma (*Diplôme d'Expertise Comptable et Financier – DECOFI*) offered in the member countries of the West African Economic and Monetary Union (WAEMU), which is recognized as complying with IFAC requirements. The Continuing Education Center (Centre de Formation Continue – FORCO) that the CPCC has established is part of the framework for the needed upgrading of accounting training in the DRC. The curricula used by management and accounting schools for the three-year and five-year degrees should also be reviewed, with a view to increasing the number of qualified accountants, diversifying business qualifications, and improving the quality of education over the medium term.

63. Implement a training and upgrading plan for members of the profession and trainees *[Responsibility: Institute]:* A review of competencies and training needs in the auditing and accounting fields shows that the knowledge of every professional accountant requires upgrading. These upgrading sessions should also be attended by trainees as part of professional support seminars. Continuing education modules should be proposed to fulfill mandatory annual training requirements. Cooperation with the IRE and FIDEF could be considered in this area.

ACCESSIBILITY OF ENTERPRISE FINANCIAL REPORTS

64. Require an audit certificate issued by a member of the accounting profession on the financial statements to accompany the statements submitted to the tax

administration. To improve the quality of accounting and financial data in the private sector, it is important that the annual financial statements be reviewed and validated by a member of the accounting profession duly registered in a professional institute before their submission to the tax department. Heads of companies (CEOs of SARLs and managing directors of SPRLs, etc.) should be made aware of their responsibility in this area since they are responsible for closing the accounts and for the good governance of their enterprises.

65. Enhance the organizational and technical capacities of the Commercial Courts to make the financial and accounting data of enterprises available and accessible *[Responsibility: Government of the Congo*]: primarily the Commercial Court of Kinshasa so as to: (i) ensure better management of individuals and legal entities registered with the Court Registry Office by monitoring and automating the Commercial and Chattel Loan Registry; (ii) facilitate the receipt, consultation, and filing of financial statements submitted by enterprises.

66. Increase the material and financial resources of the CPCC to enable it to update the Registry of Corporate Financial Statements *[Responsibility: Government of the Congo]:* The Registry of Corporate Financial Statements is not currently up to date (2007 and 2008 accounts not yet entered). Moreover, pending the operation of the Court Registry Office, consideration should be given to removing the confidentiality requirements for accounting and financial information managed by the CPCC and making this information accessible to the public via a paid access system.

67. Formalize the creation of the steering committee to develop a detailed action plan for the reforms resulting from the ROSC recommendations and ensure coordination of actions as well as tracking of their implementation. This committee will have 9 to 12 members and be headed by a senior official from the Ministry of Finance. The members of the committee should be experienced and committed individuals. The responsibilities of the committee would be to: (i) develop a detailed plan of action clearly presenting and sequencing the key actions to be taken, responsibility for those actions, the timetable, and the resources required; (ii) coordinate the reforms planned and track the implementation of actions.