

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) Kingdom of Morocco (Morocco)

ACCOUNTING AND AUDITING

July 25, 2002

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Executive Summary

This report provides an assessment of Moroccan accounting and auditing standards and practices, and the institutional capacity necessary to ensure high-quality financial reporting. The law gives accounting standard-setting responsibility to the National Accounting Council (*Conseil National de la Comptabilité*). Since the Council was established in 1989, Moroccan accounting standards have improved greatly. However, further progress is impeded by weaknesses in the accounting standard-setting process and, more so, by implementation issues.

The Bank Al-Maghrib, Insurance and Social Welfare Directorate (*Direction des Assurances et de la Prévoyance Sociales*), and Securities Commission (*Conseil Déontologique des Valeurs Mobilières*) are responsible for monitoring the quality of financial information and the enforcement of accounting standards for credit institutions, insurance companies, and listed companies, respectively. While the Bank Al-Maghrib has established an institutional framework for bank monitoring that is more advanced than that of other sectors, the overall design and implementation of the three supervisory frameworks need improvement.

The legislative framework for the Moroccan accounting profession is adequate. However, significant implementation issues exist, such as the absence of a quality assurance system and the lack of continuing professional education.

Moroccan auditing standards are largely inspired by the International Standards on Auditing (IAS). However, the omission of certain standards weakens the Moroccan auditing framework. The large number of chartered accountants that do not even observe Moroccan auditing standards exacerbates this issue.

While financial statements in Morocco generally include most of the information necessary to analyze the financial status of a company, certain lesser disclosure standards as compared to the IAS reduce the usefulness and transparency of Moroccan financial reports. Moreover, financial information is not readily available, as the mechanisms to publish statements are inefficient.

The policy recommendations in this report focus on strengthening the enforcement of established accounting and auditing requirements, as well as supporting the initiatives that Morocco has been implementing over the last ten years.

This report was prepared by a team from the World Bank on the basis of the findings from a diagnostic review carried out in Morocco in May 2002. The staff team comprised M. Zubaidur Rahman and Frédéric Gielen (OPCFM), and Meryem Benchemsi (MNACS). The review was conducted through a participatory process involving various stakeholders and led by the country authorities.

I. INTRODUCTION

1. This report is prepared on the basis of a review of accounting and auditing standards and practices in Morocco. This is a part of the World Bank and the International Monetary Fund (IMF) joint initiative on Reports on the Observance of Standards and Codes (ROSC). The review process involved an assessment of accounting and auditing standards as designed and as practiced, and analysis of effectiveness of the mechanism for ensuring compliance with formal standards. The review used a diagnostic template developed by the World Bank to facilitate data gathering by national specialists. This was complemented by a due diligence exercise conducted by World Bank staff.

2. **Economy under control.** Morocco has a population of 28.7 million and covers an area of approximately 172,430 square miles (approximately 446,600 square kilometers). Per capita gross domestic product (GDP) is on the order of US\$1,180. The country's economic performance, as measured by growth in GDP, fluctuates widely from year to year and remains strongly correlated with rainfall, given that the major contributor to GDP is agriculture. Inflation appears to be under control.

3. **Economic structural character.** The Moroccan economic structure is characterized by the role of state-owned enterprises, which remains significant despite the privatizations in progress, and by a substantial fabric of family-based small and medium enterprises.

4. **Casablanca stock exchange.** In addition to the state-owned and the small and medium enterprises, Morocco has a number of large family-based private groups and fewer than 60 public enterprises. Capitalization of the Casablanca market, the sole stock exchange in Morocco, comes to approximately MAD 105 billion¹ (equivalent to approximately US\$9.5 billion), i.e. some 28 percent of GDP. The volume of transactions in 2001 totaled MAD 26.7 billion (approximately US\$2.4 billion), or approximately 25 percent of market capitalization at year-end. These indicators demonstrate the marginal economic role played by the stock exchange.

5. **Moroccan financial sector.** The Moroccan financial sector includes 21 commercial banks and 50 finance companies, the assets of which totaled MAD 409 billion (equivalent to US\$37 billion) as of December 31, 2001. While this indicator reflects the small size of the banking system in relation to the regional or international scale, the banking sector is playing an increasingly important role. In addition to credit institutions, Morocco has 160 organizations for collective investment in securities, managing MAD 55 billion (equivalent to US\$5 billion) in assets, and 20 insurance companies. Based on its size, the insurance sector does not create a systemic risk for the financial sector, as compared with the banking sector.

¹ Moroccan dirham (MAD)

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

6. **The legal and regulatory framework is analyzed from two perspectives: the quality of its design (consistency of laws and regulations) and actual implementation (compliance with legislative framework).** The Moroccan institutional framework is comprised of laws² and regulations, as well as five major organizations: the National Accounting Council (*Conseil National de la Comptabilité*), the Bank Al-Maghrib, the Securities Commission (*Conseil Déontologique des Valeurs Mobilières*), the Insurance and Social Welfare Directorate (*Direction des Assurances et de la Prévoyance Sociales*), and the Institute of Chartered Accountants (*Ordre des Experts-Comptables*).

7. **The legal and regulatory framework underlying accounting standard setting has changed dramatically over the last decade and has enabled Morocco to join the international current of standardization.** The accounting standard-setting process relies on the National Accounting Council, established by decree in 1989 and made operational in 1991.³ The National Accounting Council is a unique institution attached to a government agency. The Council's attachment to the public sphere is a result of the nature of its mandate, which in the Moroccan context of a legal tradition of codified law, is akin to the mandate of general government. The National Accounting Council's mandate specifically encompasses the following tasks:

- Design, develop, and propose accounting and sector standards;
- Recommend any and all measures likely to improve accounting information; and
- Represent the government in international accounting standard-setting organizations.

In addition, National Accounting Council's mandate encompasses theoretical research in accounting, as well as accounting training and education.

8. **Implementation of the legal and regulatory framework is hindered by inadequate allocation of human and financial resources to the National Accounting Council.** While the quality of the accounting standardization work performed by the National Accounting Council since its creation is high, the Council is fundamentally a voluntary system without its own budget allocation. It operates under a de facto attachment to Public Institutions and Stockholding Directorate—*Direction des Établissements Publics et des Participations*. The Directorate's mandate does not include accounting standards and the officials from the Public Institutions and Stockholding Directorate, with one exception, are not chartered accountants and devote only a small portion of their time to the National Accounting Council. This dilemma leaves the

² Including law on corporations 17-95.

³ This analysis is based in part on the Phase 1 draft report, “*Renforcement des capacités institutionnelles du Conseil National de la Comptabilité du Royaume du Maroc*,” prepared by a French consortium comprised of Conseil National de la Comptabilité, Compagnie Nationale des Commissaires aux Comptes et Conseil Supérieur de l'Ordre des Experts-Comptables, November 2001, cofinanced by the World Bank.

National Accounting Council unable to meet the requirements of economic operators in the area of accounting standards.

9. **While the current framework has permitted major progress in the area of accounting standards, it presents some structural problems.** In particular, modifications to the institutional framework should address the two following problems:

- The standardization process is cumbersome, specifically as a result of the legal tradition of codified law. The draft law relating to consolidated financial statements was completed in November 1998 and sent to the Government Secretariat—*Secrétariat Général du Gouvernement*—on September 17, 1999, but the government has not yet approved it. Such delays are inconsistent with the requirements of a modern economy and the importance of consolidated financial statements within the Moroccan context.
- The National Accounting Council's resources are scattered among a number of tasks that are not strictly related to accounting standard setting.

10. **In comparison to the previous decade, the legal and regulatory framework has permitted more significant progress with respect to accounting and oversight of banks than with finance companies (leasing and consumer credit companies).** With respect to banks, the regulatory framework has introduced new accounting and audit requirements, as well as requirements to provide financial information. These new requirements represent considerable progress since the early 1990s.

11. **With respect to credit institutions receiving funds from the public, the audit requirements introduced by the 1993 law on credit institutions⁴ are partly inconsistent with the statutory auditors' role, as redefined by the 1999 law on corporations.⁵** These inconsistencies are due to the lack of an adequate framework regulating statutory audits when the law on credit institutions was enacted. The law on credit institutions introduced at least three bank oversight mechanisms: (a) certification of annual and semiannual financial statements by two statutory auditors—*commissaires aux comptes*—(Article 35); (b) the requirement for an audit by external auditors—*auditeur externe*—(Article 38); and (c) “on site” and “off site” supervision by Bank Al-Maghrib. The law on corporations (Articles 159ff.) introduced the requirement that credit institutions' financial statements be audited by two statutory auditors and specified statutory auditors' civil and criminal liability. To avoid inconsistencies between these statutes, the following actions are necessary:

⁴ Law on credit institutions—the Dahir that established Law 1-93-147 of 15 Moharrem 1414 (July 6, 1993) concerning the operations of credit institutions and their oversight.

⁵ In Morocco the independent auditor (*commissaire aux comptes*), as defined within the law on corporations, is responsible for the legal audit of a company's financial statements and responsible for presenting a true and fair view of the financial position and results of operations of the company.. The independent auditor is appointed by the shareholders' meeting (in a *société anonyme*). The external auditor (*auditeur externe*), as defined, for example, within Article 38 of the law on credit institutions, typically designates an auditor responsible for a contractual audit.

- Revise the law on credit institutions and the other regulatory statutes to ensure consistency with the regulations on corporations and the Securities Commission.⁶
- Ensure that revision of the law on credit institutions takes into account the credit institutions that do not fall within the scope of the law on corporations. As an example, the banking law could be patterned on the system of referral to articles of the law on corporations concerning audits by statutory auditors, as specified in Articles 201 and 202 on mutual insurance companies (Bill 17-99 establishing the land insurance code).

12. **In addition, some elements of the regulatory framework are not enforced in practice.** The 1993 law on credit institutions (Article 35) made it mandatory to prepare consolidated financial statements. However, only after the chart of accounts for credit institutions was adopted in 2000 did banks actually proceed to prepare consolidated financial statements. This example illustrates that economic operators have difficulty keeping pace with regulatory reforms. The accreditation of external auditors by Bank Al-Maghrib that is stipulated in the 1993 law on credit institutions (Article 40) has never been implemented. It should be noted that, due to the inconsistencies between the law on credit institutions and the law on corporations analyzed, this procedure applies only to external auditors and not to statutory auditors.

13. **The Securities Commission ensures that financial information from public companies is prepared and disseminated in accordance with legal and regulatory framework in effect.** According to the law, the term “public companies” apply to any listed company, any company that engages in advertising to sell its stock, and any company with more than 100 shareholders. This framework is specifically based on:

- Law on the securities commission, which not only lists the general principles governing the accounting framework but also encompasses practical matters (for example, details of the semiannual publication requirement);
- Law on organizations for collective investment in securities;
- Law on stock exchanges—the Dahir establishing Law 1-93-211 of 4 rebia II 1414 (September 21, 1993); and
- Some 40 circulars issued by the Securities Commission.

Two observations emerge from analysis of this framework. First, there is currently no effective mechanism to enable the Securities Commission to identify (and thus supervise) enterprises with more than 100 shareholders. Moreover, this threshold is likely to be too low considering the substantial fabric of family-based corporations in Morocco. And second, the circulars issued by the Securities Commission do not have force of law. Accordingly, some of the requirements set by the law on the securities commission (for example, the semiannual information requirements specified in Article 17) cannot be modified by circulars. Any modification of such practical matters (published documents,

⁶ There are also differences between the contents of financial statements required by the Securities Commission for listed banks and those required by Bank Al-Maghrib.

content, deadline) therefore requires an amendment to the law, a cumbersome process that may take three to four years to complete.⁷

14. The regulatory and legal framework does not grant the Securities Commission the necessary authority to successfully carry out oversight of financial information. Certain aspects of the sanctions—which the Securities Commission may apply for noncompliance with the financial information publication requirements—are not effective in forcing issuers to follow the legal provisions.⁸ In fact, although the law provides for two adequate mechanisms on which the Securities Commission can take action—

- requiring, if necessary, that issuers in violation of the rules publish corrected information (Article 20 of the law on the securities commission); and
- suspending a listed company or delisting a company for failure to comply with disclosure requirements;

—it establishes an ineffective system of fines. An issuer that does not comply with financial information publication requirements (Article 31 of the law on the Securities Commission) is subject to a fine of MAD 20,000 to 500,000 (US\$1,800 to \$45,500). The effectiveness of this fine is significantly undermined by the fact that the law requires the intervention of the competent Royal Prosecutor (*procureur du Roi*) to impose such fines. While, in general, mechanisms designed to ensure a separation of powers among the judicial, legislative, and executive branches are laudable, intervention by the judicial branch to impose a minimal fine of MAD 20,000 results in administrative red tape.

15. In addition to the shortcomings of the regulatory framework, problems impede the Securities Commission oversight of annual and semiannual financial information. The Information and Operations Department of the Securities Commission spends considerable time trying to gather financial statements and coding them for analysis. This information gathering system is inadequate and consumes valuable resources that could be used for financial information oversight. In addition, the human resources of the Securities Commission are inadequate to permit appropriate oversight of financial information published by issuers.

16. The legal and regulatory framework governing insurance and reinsurance companies has undergone significant change since 1984. However, in 1995, five insurance companies encountered solvency problems and had to be liquidated or merged. With respect to financial information and institutional mechanisms to ensure the quality of such information, analysis of the legal and regulatory framework leads to the following observations:

⁷ A draft bill to amend the law on the Securities Commission was submitted to the Government Secretariat in March 2001.

⁸ The Securities Commission has detected numerous violations to financial reporting requirements (such as discrepancies between financial statements published in the press and those submitted to the Securities Commission, and failure to submit the statutory auditors' report to the Securities Commission). These violations do not warrant suspension or delisting. In the absence of other available penalties, they go unpunished.

- The framework establishes the Ministry of Economy, Finance, Privatization, and Tourism, which is charged with “regulating and overseeing the activity of insurance, reinsurance, and capitalization organizations.”⁹ Within the Ministry, the Insurance, and Social Welfare Directorate—*Direction des Assurances et de la Prévoyance Sociale*—is responsible for the regulation and oversight of insurance companies. Similar to the law on credit institutions, in this case the law provides for off-site supervision by the Insurance and Social Welfare Directorate and authorizes the Directorate to perform on-site supervision of insurance companies.
- The framework presents certain overlapping provisions with respect to the audit of financial statements. Indeed, Article 1 of Instruction 18 of March 29, 1996, concerning solvency indicators and operational rules pertaining to insurance companies (as amended on December 17, 1997), requires that insurance companies “have their annual financial statements audited by an external auditor (*auditeur externe*) who shall not act as statutory auditor for the same company (*commissaires aux comptes*)”. Article 1 adds “the objective of this external audit is to give an opinion about whether the financial statements present a true and fair view [of the financial position and results of operations of the company]¹⁰ and are consistent with published information.” This instruction (predating the law on corporations) overlaps with the duties of the statutory auditor set out in the law on corporations and is silent about the civil and criminal liability of the external auditor.
- The law contains no requirement for actuarial certification of technical provisions. Bill 17-99 does not resolve this issue.

17. Implementation of the legal and regulatory framework is hindered by problems that could jeopardize the quality of insurance companies’ financial information and thus their prudential supervision. Although the Insurance and Social Welfare Directorate does organize a training program for staff that covers accounting and actuarial topics, the department currently has no chartered accountant. The Directorate should consider recruiting chartered accountants with experience in the insurance industry.

18. The legal and regulatory framework governing the audit of corporations has improved considerably as a result of the introduction of the law on corporations. With respect to financial information and institutional mechanisms to ensure the quality of such information, analysis of the legal and regulatory framework leads to the following observations:

- *The framework requires that a statutory auditor be appointed to audit statutory financial statements.* Public companies, as well as banking, credit, investment, and insurance companies, must appoint at least two statutory auditors. While the appointment of two statutory auditors rather than one is

⁹ “Insurance, reinsurance and capitalization organizations” are referred to as “insurance companies” in the remainder of this report.

¹⁰ The words between brackets were added for translation purposes.

likely to entail additional cost, this requirement appears to ensure high quality audits and reduce the audited company's influence over its statutory auditors.

- *The framework establishes an auditing monopoly for members of the Institute of Chartered Accountants.* This monopoly provides a guarantee of greater quality with respect to the auditing of financial statements.
- *The framework stipulates rules of independence and causes of incompatibility.* Nevertheless, these rules remain vague and subject to interpretation. For example, the law does not prohibit the statutory auditor from being a shareholder of the audited company.
- *The framework calls for the shareholders' meeting to appoint the statutory auditor(s) for a period of three years.* In addition, it stipulates a number of mechanisms whereby the statutory auditor(s) must provide information to the shareholders' meeting. While the principle of a three-year appointment is laudable, it is unfortunate that no accreditation procedure is stipulated for credit institutions, insurance companies, and public companies.
- *The framework spells out the statutory auditor's responsibility.* The responsibility toward the company and also third parties covers any damaging consequences due to mistakes or negligence on the part of the statutory auditor in the performance of his or her duties.
- *The framework stipulates the criminal liability of any statutory auditor.* Penalties range from one month to two years of prison and/or fines of MAD 8,000 to 100,000 (US\$730 to 9,090).

The legal and regulatory framework has appropriately been expanded to apply to general partnerships (*Sociétés en nom collectif*) and limited liability companies (*Sociétés à responsabilité limitée*) with annual sales exceeding MAD 50 million (US\$4.5 million), as well as to joint-stock companies (*Sociétés en commandite par actions*).¹¹ However, in the absence of any definition of “group” in legal and accounting terms (Moroccan law imposes no consolidation requirement, except in the case of banks), these rules are ineffective insofar as a number of enterprises have split into two or more parts to avoid exceeding the sales threshold.

B. The Profession

19. **The legal and regulatory framework organizes the profession of chartered accountant through the Institute of Chartered Accountants.** The law on chartered accountants¹² and the law on corporations have enabled the profession to make considerable progress, in particular, by strictly regulating access to the profession and organizing a monopoly for its members. Furthermore, the law on chartered accountants grants public authority to the Institute, as well as the means to exercise control over the profession through a system of disciplinary sanctions that may go as far as termination of membership. The new law on corporations has also contributed to improving the role of

¹¹ Covered in Articles 12, 13, 34, 80 and 83 of Law 5-96 on general partnerships, joint-stock companies, and limited liability companies.

¹² Law on chartered accountants—Dahir 1-92-139 of 14 Rejab 1413 (January 8, 1993) promulgating Law 15-89, which regulates the profession of chartered accountant and institutes

statutory auditors by regulating their activities and specifying the scope of a statutory audit.

20. **Despite its undeniable contribution to organizing the profession, the legal and regulatory framework has not enabled the Institute of Chartered Accountants to fulfill its role.** In particular, the current framework does not provide for any (existing or future) regulatory body to ensure quality assurance within the profession.

21. **Although implementation of the legal and regulatory framework has translated into many concrete actions, other difficulties and delays have been encountered and can be characterized as follows:**

- The absence of an appropriate fee scale results in fee dumping, particularly for listed companies and state-owned enterprises. This phenomenon has generated fee levels that raise questions about the quality of service provided by statutory auditors.
- Professional auditing standards do exist but, in the absence of a quality assurance mechanism, the Institute is not in a position to ensure that its members comply with these standards.
- An analysis of the appointment of statutory auditors reflects the risk of a profession operating at two levels: a preponderance of statutory auditor missions are entrusted to large firms due to the preference for international signatures, while small firms have no statutory auditor mandate. Within this context, certain large firms are not always able to follow the methodology imposed by their respective international network because of fee constraints and work volume. For their part, sole practitioners have not reached the critical size needed to assume the role of statutory auditors.
- The financial resources of the Institute appear to be limited. This lack of resources contributes to the Institute's operational difficulties and the slowness of its actions.

C. Professional Education and Training

22. **The quality of the Moroccan certificate for chartered accountant reflects Morocco's intention to create a profession of international quality.**¹³ The Advanced Institute of Commerce and Business Administration (*Institut Supérieur de Commerce et d'Administration des Entreprises*), a public institution attached to the Ministry of Commerce and Industry, prepares candidates for certification. The training consists of (a) a three-year curriculum, each year being capped by an examination session, followed by the awarding of a diploma by the Ministry of Commerce and Industry; (b) a three-year professional internship during the three-year curriculum; and (c) preparation and defense of a dissertation after successfully completing the three-year curriculum. The professional intern receives coaching by an accredited chartered accountant of his or her own choice and supervision by a chartered accountant designated by the Institute.

¹³ The national certificate was instituted by Decree 2-89-519 of July 16, 1990 (23 Hija 1410).

23. **Access to the entrance examination for the three-year curriculum is limited to candidates who have earned diplomas specified in Decree 2-89-519.** The list of qualifying diplomas appears to be too restrictive. For example, a candidate who has a degree from a private institution or a law school is not eligible to take the entrance examination.

24. **The three-year curriculum needs updating to conform to the educational guidelines of the International Federation of Accountants (IFAC).** For example, the curriculum related to professional ethics and computer technology does not reflect the updates made in 1996 and 1999 to IFAC International Educational Guideline (IEG) 9, *Prequalification Education, Tests of Professional Competence and Practical Experience of Professional Accountants*, and IEG 11, *The Accounting Curriculum and IT*.

25. **Since the curriculum was created twelve years ago, the Advanced Institute of Commerce and Business Administration has graduated only 32 certified accountants, i.e. an average of less than three per year.** The number of certified accountants trained by the Advanced Institute is insufficient to develop the profession or even to replenish the ranks of chartered accountants.

26. **Despite the restrictive prerequisites for the entrance examination, which block access to the profession for many candidates, more than 700 candidates take the Advanced Institute entrance examination each year.** The examination consists of written and oral tests, after which only 40 candidates are admitted to the chartered accountant three-year curriculum. At the end of December 2001, 154 students had completed the three-year program; 122 of these were at the dissertation stage. When asked why they do not defend their dissertations, many students cite professional constraints (their work at an audit firm), family obligations, the lack of a specific deadline for defending dissertations, and the weak support for students working on dissertations.

27. **Professional Standard 110, *Competence*, promulgated by the Institute of Chartered Accountants in 1998 stipulates the objective for statutory auditors to spend at least 40 hours a year on continuing professional education.** While the principle behind this standard and the number of hours are both laudable, the standard lacks specificity. It only partially covers the IFAC IEG 2, *Continuing Professional Education*. Furthermore, most statutory auditors do not meet this standard because of the lack of supervision and oversight by the Institute and the unavailability of continuing education programs specific to statutory auditors.

D. Setting Accounting and Auditing Standards

28. **Accounting standard setting, initiated in 1986 by the Ministry of Finance in collaboration with relevant departments and professional organizations, was consolidated by the actions of the National Accounting Council in the early 1990s.** While the Moroccan accounting standard-setting process does not provide for a due process, involving a procedure for soliciting public comment, the involvement of a wide range of professionals in the technical committees and the permanent committee allows various stakeholders to contribute to the accounting standard-setting process.

29. **With respect to auditing, a manual of professional standards was developed by the National Council of the Institute of Chartered Accountants in 1997 and is patterned, with a few exceptions, on IFAC standards.** The Moroccan standards, which serve as a reference for the various types of auditing engagements,¹⁴ are accompanied by comments designed to facilitate implementation of the standards.

E. Ensuring Compliance with Accounting and Auditing Standards

30. **The framework provides for a system of civil and criminal liability, as well as controls by supervisory authorities (Bank Al-Maghrib, the Securities Commission, and the Insurance and Social Welfare Directorate) that should guarantee compliance with accounting standards and publication requirements.** For example, the law on corporations calls for criminal fines as high as MAD 400,000 (equivalent to US\$36,400) for members of management bodies for violations of accounting rules, publication requirements, or filing rules at the clerk's office of the commercial court. Statutory auditors are also subject to heavy fines. In practice, there are many cases of noncompliance with the existing accounting standards and publication requirements, due to factors such as: (a) the legal and regulatory framework is relatively young and economic operators are still learning proper compliance; (b) there are inconsistencies within the body of the law that causes confusion; and (c) the supervisory authorities have no effective oversight mechanism.

31. **With respect to auditing standards, Morocco has adopted a strict legal and regulatory framework to ensure compliance, but the Institute of Chartered Accountants still needs to set in place an appropriate quality assurance system.** The principle of the civil and criminal liability of statutory auditors, introduced by the law on corporations, represents a clear qualitative advance over the old system. But not all statutory auditors have been made aware of the importance of complying with professional auditing standards. The situation has been compounded by the absence of quality control by the Institute, oversight by the supervisory authorities, and criminal or civil proceedings, since the law was introduced.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

32. **Since the early 1990s, Morocco has undertaken a substantial accounting standard-setting effort.** The legal mechanisms reinforce the importance of accounting standards. Thus, serious irregularities in maintaining accounting records are considered by the tax authorities to be grounds for rejecting the records. Commercial law, for its part, gives accounting records force of proof if they comply with the regulations in effect.

33. **Based largely on the fourth European Directive (and its transcription in French law), the Moroccan framework for preparing and presenting financial statements is fundamentally different from the framework approved by the**

¹⁴ Such engagements include legal or contractual auditing; independent auditing; related auditing missions; limited reviews; agreed-upon procedures; and compilations.

International Accounting Standards Committee (IASC) in 1989. Moroccan statutory accounting standards do not purport to give a realistic picture of the economic position of enterprises. While these standards may meet most of the short-term needs of statutory accounting, they would not be adequate for consolidated financial statements and are not adequate to meet the needs of users of public companies' financial statements. The conceptual differences are particularly significant in the following respects:

- In Morocco, where small and medium enterprises play a significant economic role, accounting is perceived as a tool for business management, tax collection,¹⁵ and financial information. Accordingly, providing financial statements to investors is not the first objective of Moroccan accounting standards.
- Moroccan accounting law does not adhere to the principle of “substance over form”.
- Moroccan accounting law is heavily influenced by the principle of “prudence”.

34. Although conceptually different from IAS, Moroccan accounting standards and chart of accounts have contributed significantly to tax collection and, to a lesser extent, the quality of financial information in Morocco. Nevertheless, in the case of public companies or pre-privatized enterprises, enterprises that employ a large workforce, and enterprises applying for bank loans, financial statements prepared in accordance with Moroccan accounting standards may not totally satisfy the needs of investors, representatives of the workforce, or lenders. For commercial enterprises, Moroccan regulations do not establish a requirement to prepare consolidated financial statements. Within the Moroccan economic context where pyramidal structures and cross holdings are frequent, this deficiency has significant implications for the transparency of financial information. Although the law on corporations requires that the statutory auditor prepare a report on “regulated agreements,”¹⁶ Moroccan regulations do not require disclosure of the existence of and transactions with related parties. Insofar as (a) the auditor’s report on regulated agreements does not form part of the financial statements and is not published and (b) the definition of regulated agreement is much more restrictive than the notion of “related party” set out in IAS, Moroccan financial statements do not permit their users to understand the effects of the relationships with related parties on the financial position of an enterprise.

35. Certain Moroccan enterprises face compliance issues. Accounting and financial reporting errors are frequent as evidenced by the fact that 25 percent to 50 percent of statutory auditors’ reports are qualified, by findings from the Securities Commission (in the case of listed enterprises). Some enterprises—that must meet user needs not satisfied by Moroccan accounting standards—prepare consolidated financial statements on a voluntarily basis. Within this context, they use fragments of French, IAS, or other accounting standards to compensate for the deficiencies of Moroccan accounting standards and then describe the accounting principles in the notes to the consolidated

¹⁵ Accounting principles are indeed heavily influenced by tax considerations.

¹⁶ Any agreement between a corporation and one of its board members or managing directors, whether he or she is directly or indirectly involved.

financial statements. Accounting principles used in the preparation of the consolidated financial statements are rarely formally and precisely described, and often the standards used have significant shortcomings (for example, crossholdings are not eliminated). In addition, these consolidated financial statements are audited by international firms that issue a “clean” audit opinion to the effect that consolidated financial statements give a true and fair view of the consolidated financial position (...) in accordance with the accounting principles described in the notes. Presentation of such financial statements prepared on the basis of an incoherent financial reporting framework and accompanied by an international audit signature creates confusion.

36. While the legal and regulatory framework governing accounting standards for credit institutions in Morocco provides for consolidation based on accounting principles fundamentally different from the principles governing statutory accounting, they present a number of major differences as compared to IAS. They are influenced by prudential rules (for example, loan loss provisions), which may lead to under- or over-provisioning¹⁷ in relation to fair value accounting. Thus, financial statements from Moroccan credit institutions do not necessarily give a faithful view of their actual financial position. The problem is exacerbated by non-publication, by several banks, of Part A of the notes to the financial statements (*État des Informations Complémentaires*), which is intended to present the main valuation methods used in preparing the financial statements, the changes in accounting methods, etc. Lastly, it should again be underscored that Moroccan related party disclosures are less detailed than those required under IAS.

37. The legal and regulatory framework governing accounting standards for insurance companies in Morocco presents a number of deficiencies that raise questions about the reliability of financial information:

- The going concern principle is absolute.¹⁸
- The lack of Moroccan mortality tables and the use of French tables make it difficult to assess the reliability of the technical provisions, although it is likely that these provisions are undervalued in view of the increase in life expectancy, which rose from 52 years in 1970 to 67 years in 1999.¹⁹
- The valuation principles for investments (that is, assets held by the insurance companies to cover their technical provisions) are influenced by prudential regulations, which differ from IAS valuation rules.
- Lastly, insurance companies are not required to present consolidated financial statements. Within the context of the Moroccan insurance sector, this situation

¹⁷ Loan loss provisioning methods allow banks to deduct a portion of the collateral value. This may lead to undervaluation of loan loss provisions since credit institutions have great difficulty in realizing such collaterals. Conversely, Bank Al-Maghrib rules of provisioning may lead to over-provisioning as a result of the mechanical approach that they prescribe.

¹⁸ According to Article 5 of Law 43-94 on the accounting obligations of insurance companies, “notwithstanding the provisions of Article 20 of Law 9-88, in the event of total or partial cessation of activity, insurance companies may not prepare their financial statements in accordance with methods other than those prescribed by Law 9-88.” This issue will be resolved upon adoption of Bill 17-99.

¹⁹ A working group has been established in order to establish Moroccan mortality tables.

may give a misleading image of the group's capital base (due to crossholdings) and thus its solvency.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

38. **In 1998, the Institute of Chartered Accountants promulgated professional auditing standards to serve as a system of reference for statutory and contractual audit engagements, additional engagements performed by statutory auditors, limited reviews, agreed-upon procedures, and compilations.** The general approach was largely consistent with IFAC International Standards on Auditing (ISA) and represented substantial progress from the past. However, Moroccan auditing standards have not been updated (such as ISA 240, *Auditor's responsibility to consider fraud and error in an audit of financial statements*), have neglected to incorporate essential ISAs (such as ISA 550, *Related parties*), and are sometimes less explicit and detailed than ISAs (such as ISA 401, *Auditing in a computer information systems environment*, which is only partly incorporated into the Moroccan standards despite the importance of the computer environment in Moroccan enterprises).

39. **The Moroccan standards could contribute more significantly to the development of a high-quality profession of statutory auditors if members of the Institute of Chartered Accountants scrupulously observed them.** The absence of quality assurance mechanisms, the lack of systematic training in professional standards, and the lack of guidelines to facilitate their implementation are some of the causes of noncompliance with the normative framework.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

40. **Morocco has made substantial progress over the last decade, primarily as a result of the efforts of Bank Al-Maghrib, the Securities Commission, the National Accounting Council, and the enactment of the law on corporations.** Nevertheless, investors (with respect to listed companies) retain a rather negative opinion of the quality of financial information published in the financial statements. Generally, the publication requirements are insufficient to meet investors' needs, but in particular, the information is published too late.

41. **Private corporations must make the financial statements prepared by management or the board of directors available to shareholders at corporate headquarters along with the report of the statutory auditor(s) at least 15 days before the annual shareholders' meeting.** One of the main responsibilities of the board of directors is to ensure that these requirements are satisfied. Board members are subject to fines as high as MAD 1,000,000 (equivalent to US\$89,300) or may be sentenced to prison for a period of one to six months if they knowingly publish false and unfair financial statements.

42. **Public corporations have the same obligation as private corporations, with additional publication requirements.** However, there appears to be inconsistent publication requirements between the law on corporations and the law on the Securities

Commission. As a result, a lot of public corporations only publish abridged financial statements, i.e. with only extracts of the notes, which may be counterproductive and misleading for investors.

43. **Publicly traded companies must publish certain documents in an authorized newspaper not more than three months after each six-month period of the fiscal year.** These documents include indicators of the company's sales as compared to sales for the preceding six-month period and for the corresponding period of the previous fiscal year; and the provisional balance sheet. These documents must be accompanied by an attestation by the statutory auditor(s) certifying their truthfulness. Thus, this publication requirement focuses solely on the balance sheet and sales and is insufficient to permit investors to form an opinion about the issuer's activities.

44. **Credit institutions must prepare financial statements and publish them annually, in individual and consolidated form, including most of the notes.** The annual and biannual financial statements must be certified by two statutory auditors. In the event of noncompliance with these publication requirements, the Governor of Bank Al-Maghrib may send a warning to the bank's director and may propose to the Minister of Finance that the bank's approval be rescinded.

45. **Companies must submit this financial information to the clerk's office of the commercial court within one month following the annual shareholders' meeting.** Members of the board of directors must pay a fine of MAD 4,000 to 400,000 (US\$357 to 35,700) if they do not prepare correct financial statements and board reports or if they do not submit them with the auditors' report to the clerk's office of the commercial court within the allotted timeframe.

46. **The financial reports of Moroccan enterprises (including the entire notes to the financial statement) and the auditors' reports are available at the clerk's office.** The availability of financial information at the clerk's office is very definitely a positive development in relation to the past. However, there are a number of practical problems:

- The mechanism for obtaining documents is cumbersome because it is necessary to visit the clerk's office and obtain copies of the documents. The process may take one to two days and is expensive.
- Financial statements are generally available at the earliest nine months after the end of the fiscal year. The financial information is by then obsolete.
- For many listed companies, the audited financial statements of December 31, 2000, were still unavailable in June 2002.

VI. POLICY RECOMMENDATIONS

47. The recommendations are based on the assessment of accounting and auditing standards and practices applicable to enterprises in Morocco. These recommendations reflect the comments of individuals who were interviewed by the World Bank team to help complement the self-assessment performed by Moroccan organizations and experts. The objective of these recommendations is to establish an environment conducive to

sound accounting, financial reporting, and audit requirements and practices. The recommendations could, in certain areas, serve as a starting point for developing and implementing specific action plans for accounting and auditing reform in Morocco.

48. **With respect to greater flexibility in accounting standard setting, it would be appropriate to set by law only the general principles governing the accounting framework and to rely instead on regulations to handle practical matters where rapid change is possible.**

49. **The National Accounting Council should be provided with its own financial and human resources.** The work carried out under the project cofinanced by the World Bank on building the Council's institutional capacities should permit rapid implementation of this recommendation.²⁰

50. **With respect to the institutional framework for credit institutions, it would be appropriate to make a number of changes in the current legal and regulatory framework and to continue the efforts already undertaken by Bank Al-Maghrib to ensure better implementation of this framework.** The legal and regulatory framework for finance companies should be brought in line with the framework for banks (for example, with respect to loan loss provisioning requirements, sector-specific financial statement forms should be developed) and the law on credit institutions should be harmonized with more recent legislation (for example, the law on corporations). In addition, the relationship between Bank Al-Maghrib and statutory (external) auditors should be formalized. The existence of a draft circular on this matter is thus laudable. The circular should incorporate the recommendations issued by the Basel Committee on Banking Supervision in "The relationship between banking supervisors and banks' external auditors" (Bank for International Resettlement, January 2002).

51. **With respect to implementation of the theoretical framework, Bank Al-Maghrib has undertaken a number of efforts to set in place the current legal and regulatory framework.** These efforts should be accompanied by increased oversight of the work of statutory auditors and a process of "sanctions" based on the accreditation of statutory auditors by Bank Al-Maghrib.

52. **With respect to the institutional framework for public companies, the law on the Securities Commission should be amended.** Similar to what is proposed for the National Accounting Council, the idea is to set by law only the general principles and to rely instead on the Securities Commission circulars to handle practical matters where rapid change is likely to be required. The law should grant greater authority to the Securities Commission for collecting fines.

²⁰ Phase 1 draft report, cofinance by the World Bank, "*Renforcement des capacités institutionnelles du Conseil National de la Comptabilité du Royaume du Maroc*," prepared by a French consortium comprised of Conseil National de la Comptabilité, Compagnie Nationale des Commissaires aux Comptes et Conseil Supérieur de l'Ordre des Experts-Comptables, November 2001.

53. **The Securities Commission should review semiannual and annual financial statements.** While the number of persons assigned to perform oversight appears adequate, a number of steps are needed: (a) refocus their roles on information oversight rather than data collection; (b) assess the qualifications of existing staff (the Securities Commission has only one chartered accountant); and (c) examine the possibility of recruiting contractors to strengthen the Securities Commission staffing. An assessment of the Securities Commission's resources by comparison to other similar institutions in foreign jurisdictions could provide interesting benchmarks toward that end.

54. **With respect to the institutional framework for insurance companies, Bill 17-99 establishing the land insurance code, now being debated in Parliament, should be quickly adopted.** However, changes to Bill 17-99 should be made so it encompasses the following:

- Establish certain requirements for actuarial attestation of liabilities; and
- Establish greater oversight of the work of statutory auditors in the form of a mechanism for accreditation of statutory auditors by the Insurance and Social Welfare Directorate, similar to what is proposed for Bank Al-Maghrib.

55. **The Insurance and Social Welfare Directorate should be supplied with the resources needed to perform its mission.** Similar to what is proposed for the Securities Commission, there should be some flexibility in the recruitment of experienced chartered accountants in order to upgrade the Insurance and Social Welfare Directorate's capacity to perform accounting oversight.

56. **With respect to the legal and regulatory framework governing the statutory audits, it is proposed that a number of amendments be made to the law on corporations and other statutes and regulations in order to improve the current framework.**

- Strict rules on incompatible activities should be implemented to guarantee auditors' independence of mind and independence in appearance. Given the major similarities between the Moroccan regulatory framework and the way the profession is organized in Morocco, on the one hand, and the French system, on the other, the law and the Institute of Chartered Accountants could draw upon the work done in this area by the National Association of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) in France.
- Consolidated threshold should be set (consolidated sales, balance sheet, and / or workforce) as the criteria that determine the consolidated financial statement audit requirements.

57. **With respect to the institutional framework governing the profession, urgent measures should be taken to enable the Institute of Chartered Accountants to acquire additional resources in order to play its role fully and, more generally, to enable the profession, which is young and vulnerable, to consolidate its position.** It would be appropriate to establish a quality assurance system to ensure that chartered accountants comply with applicable auditing and ethical standards, and independence

requirements. Although the specificities of the quality assurance system warrant additional study, a system based on the French model could be contemplated. The Institute of Chartered Accountants would be responsible for oversight. The system would include quality reviews of audit firms, and specific audit engagements, based on an established schedule, so that (a) every audit firm or sole practitioner and (b) the audit working papers for every public company, credit institution, insurance company or organization for collective investment in securities would be subject to regular oversight (for example, every three years). To accomplish this oversight mission, the Institute of Chartered Accountants could call upon chartered accountants from other audit firms, who would be paid through a funding mechanism whereby the audit firm or sole practitioner being controlled pays for the oversight mission performed by the Institute of Chartered Accountants. The relevant supervisory and oversight organizations (the Securities Commission, Bank Al-Maghrib and the Insurance and Social Welfare Directorate) could participate in this mechanism and, on a systematic basis, receive a report detailing the conclusions of quality review assessments relating to the audits of the enterprises they supervise.

58. All actions toward changing the framework would be in vain without first building up the profession. For that to occur, a solution to the problem of access to the profession needs to be found through dialogue with government officials. The bill amending the law on chartered accountants could weaken the current system by opening access to the profession to “interested parties with civil service status” upon authorization by the Prime Minister and by amending the transitional provisions for membership in the Institute.

59. Training for the chartered accountant certificate should be opened to institutions other than Advanced Institute of Commerce and Business Administration, with a national examination system to be administered by the Institute of Chartered Accountants and a ministry. In addition, the conditions determining eligibility for the examination should be reconsidered, and the curriculum should be brought in line with IFAC guidelines. The current continuing professional education requirements should be reviewed in accordance with IFAC guidelines. Implementation of continuing education requirements should be accompanied by supervision and oversight, to be provided by the Institute of Chartered Accountants, as well as a partnership with training institutes and foreign professional organizations in order to expand the availability of ongoing training opportunities.

60. The obligation to prepare consolidated financial statements should be established for all credit institutions, insurance companies, public companies and all other groups that exceed certain thresholds (for example, thresholds based on annual sales, annual profit and/or workforce). Straightforward adoption of the International Accounting Standards for consolidated financial statements would provide the double advantage of being rooted in a recognized system of reference (specifically recognized by International Organization of Securities Commissions and the European Union) and of focusing Morocco’s human and financial resources on implementation of these standards rather than the development of a new accounting framework.

61. **With respect to statutory financial statements, certain accounting rules and financial reporting requirements should be enhanced.** Specifically, it would be appropriate to require that information on related parties be provided in the notes to the financial statements, and to adapt the financial statements of insurance companies.

62. **With respect to accounting standards applicable to Moroccan enterprises, credit institutions, and insurance companies, the oversight mechanisms and sanctions already stipulated by law should be implemented.**

63. **With respect to the inadequacies of the auditing standards currently in effect, the Institute of Chartered Accountants should adopt the International Standards on Auditing, complemented by standards specific to Morocco.** For example, Standard 411 of the Institute of Chartered Accountants, “elimination of preferred stock rights,” should be maintained because it specifies the statutory auditor’s framework of intervention within the context of Article 192 of the law on corporations.

64. **With respect to financial reporting, the legal and regulatory framework should be reviewed to ensure that investors have easy and timely access to adequate financial information.** Due consideration should be given to web-based technologies to make audited financial statements readily available.