

# REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) Sierra Leone

## ACCOUNTING AND AUDITING

May 20, 2006

### Contents

Executive Summary

Preface

- I. Introduction and Background
- II. Institutional Framework
- III. Accounting Standards as Designed and as Practiced
- IV. Auditing Standards as Designed and as Practiced
- V. Perception of the Quality of Financial Reporting
- VI. Policy Recommendations

### EXECUTIVE SUMMARY

This report provides an assessment of accounting and auditing practices in Sierra Leone with reference to the IFRS requirements issued by the International Accounting Standards Board, and ISA issued by the International Federation of Accountants. This assessment is positioned within the broader context of the country's institutional framework and capacity needed to ensure the quality of corporate financial reporting. Efforts are necessary for strengthening the capacity of the regulators and ensuring compliance with applicable standards and codes.

The accounting and auditing practices in Sierra Leone need to develop in line with a growing economy, as well as with international best practice. With the exception of banks and similar financial institutions, there is no legal mandate for other corporate entities to follow International Financial Reporting Standards (IFRS) in preparation of financial statements and International Standards on Auditing (ISA) in conducting audits. There are varying compliance gaps in both accounting and auditing practices. These gaps are likely to stem from lack of clearer understanding of professional accountants, inadequate technical capacities of the regulators, absence of implementation guidance, lack of independent oversight of the auditing profession, and shortcomings in professional education and training. Sierra Leone's accounting profession is dominated by members of the Association of Chartered Certified Accountants of the United Kingdom.

The principle-based policy recommendations outlined in this report are aimed for the consideration of appropriate authorities in Sierra Leone. These recommendations will be used as inputs in developing a Country Action Plan, geared toward strengthening the corporate financial reporting regime in Sierra Leone through building capacities of relevant players. The recommendations include improving the capacity of regulators and professional bodies, upgrading accountancy education and training with focus on practical application of IFRS and ISA, issuing and disseminating implementation guidance on applicable standards, instituting a system for independent oversight of auditing profession, developing simplified reporting requirements for small and medium enterprises, upgrading the licensing procedure of professional accountants and auditors, collaborating with regional and international professional bodies, and enhancing the delivery of continuing professional education. These recommendations are expected to pave the way in achieving significant improvements in the country's corporate financial reporting practices. This will also create a more successful working environment for professional accountants and auditors in Sierra Leone.

## **ABBREVIATIONS AND ACRONYMS**

ABWA	Association of Accounting Bodies in West Africa
ACCA	Association of Chartered Certified Accountants (UK)
BOSL	Bank of Sierra Leone
CPD	Continuing professional development
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants of England and Wales
ICAN	Institute of Chartered Accountants of Nigeria
ICASL	Institute of Chartered Accountants of Sierra Leone
IEG	International Education Guideline
IFAC	International Federation of Accountants
IFRC	International Financial Reporting Committee
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
ISA	International Standard on Auditing
ROSC	Reports on the Observance of Standards and Codes
SOE	State-owned enterprises

## PREFACE

In the wake of the financial crises of the 1990s, the international community embarked on a range of initiatives to strengthen the international financial architecture. The objective of these initiatives is crisis prevention, mitigation, and resolution. In this regard, the international community asked the International Monetary Fund (IMF) and the World Bank (Bank) to assist countries in implementing international standards and codes in twelve areas. Two of these standards are: International Financial Reporting Standards (IFRS)<sup>1</sup> and International Standards on Auditing (ISA). As a first step of assisting countries in implementing international standards, Reports on the Observance of Standards and Codes (ROSC) are prepared in a modular form. The ROSC Accounting and Auditing (ROSC A&A) exercise helps in developing and implementing a comprehensive action plan for strengthening institutional capacity to support high quality financial reporting.

The Bank's primary mission of fighting poverty does imply a vested interest in the financial transparency and accountability practices of Sierra Leone. The Bank's role in promoting economic development in this country is certainly enhanced by the concurrent development in the use and application of high quality accounting and auditing standards. The lack of transparency and accountability in both private and public sectors have the potential of severely affecting Sierra Leone's financial system with attendant effect on governance at both micro and macro levels of the economy. It is expected that high quality accounting and auditing practices, through making significant contributions to the financial transparency and accountability systems, will not only improve governance, but also bolster the investment climate and strengthen the underpinnings of a market economy. As an advocate, as well as a beneficiary of a sound economic governance system in member countries, the Bank intends to play a developmental role for enhancing financial transparency and accountability in Sierra Leone and other member countries.

One of the priorities of the Sierra Leone Government is to improve the country's investment climate, so as to foster private sector growth. In order to reach that goal, Sierra Leone will need to strengthen its accounting and auditing practices as both local and foreign investors require credible financial information for investment decision making purposes.

The ROSC A&A is a designated economic and sector work (ESW) of the Bank. Accordingly, the diagnostic and recommendations of the ROSC-A&A in a given country is expected to be linked to the Country Assistance Strategy (CAS) and other bank projects. The ROSC A&A exercise was carried out in Sierra Leone with the main purpose of providing inputs to the preparation of a comprehensive developmental plan aimed at improving the corporate sector accounting, auditing and financial reporting practices. Two objectives of this exercise are:

- Analyze accounting and auditing standards and practices in Sierra Leone with reference to the international standards, determine the degree compliance with applicable accounting and auditing requirements, and assess strengths and weaknesses of the institutional framework in supporting high quality financial reporting; and
- Assist Sierra Leone in developing and implementing a *country action plan* based on the policy recommendations of ROSC-A&A review exercise, for improving institutional capacity with a view to strengthening the country's infrastructure of accounting and auditing practices..

The ROSC Accounting & Auditing review exercise was carried out in Sierra Leone during the period February to March 2006 through a participatory process involving various stakeholders. The stakeholders include the Bank of Sierra Leone, Institute of Chartered Accountants of Sierra Leone, banks, insurance companies, state-owned enterprises, audit firms, finance companies, corporate accountants, and academics.

The Sierra Leone ROSC Accounting and Auditing was prepared by a World Bank team comprising Edward Olowo-Okere, Manager, Financial Management and Task Leader (AFTFM); M. Zubaidur Rahman, Program Manager (OPCFM); and Humayun Murshed (consultant).

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<sup>1</sup> International Financial Reporting Standards (IFRS) refer to all standards and related interpretations issued by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and related interpretations issued its predecessor, the International Accounting Standards Committee.

## I. INTRODUCTION AND BACKGROUND

1. The assessment of accounting and auditing practices in Sierra Leone is a part of the joint initiative of the World Bank and the International Monetary Fund (IMF) to prepare Reports on the Observance of Standards and Codes (ROSC). It complements the Financial Sector Assessment Program (FSAP) in Sierra Leone for which the Government has reached agreement with the World Bank and the IMF. The ROSC assessment focuses on the strengths and weaknesses of corporate accounting and auditing environment that influences the quality of corporate financial reporting and involves a review of both mandatory requirements and actual practices. It uses International Financial Reporting Standards (IFRS)<sup>2</sup> and International Standards on Auditing (ISA)<sup>3</sup> as benchmarks and draws on recent global experiences and best practices in the field of corporate financial reporting and auditing. This assessment used a diagnostic template developed by the World Bank to facilitate collection of information, which was complemented by the findings of a due diligence exercise, based on a series of meetings with key stakeholders conducted by World Bank staff.

2. Sierra Leone is a small country in the west of Africa with a total land area of about 27,699 square miles and an estimated population of 5.08 million. It has an annual average growth rate of 2.6 percent. The country has successfully passed through its post-conflict period with a robust economic performance along with the recovery in agriculture and mining inputs. The Country Assistance Strategy<sup>4</sup> stated that the recovery was spurred by agriculture and mining, revived communities, growth of donor-financed imports, large-scale resettlement and reconstruction activities, increases in land under cultivation, and growing remittances and investments by the Sierra Leone expatriate communities and other investors. The country is endowed with significant amounts of resources, and the improved use of these endowments will yield positive impact on the economy and the level of per capita income. The macroeconomic situation in Sierra Leone started improving since 2002. In 2004, the gross national income (GNI) (current US\$) stood at 1 billion.<sup>5</sup>

3. An UNCTAD study reveals that the flow of foreign direct investment (FDI) remains low compared to other African countries with an average stock of FDI/GDP between 2-3 percent over the period of 1999-2003, most of which was in the mining sector.<sup>6</sup> The nascent privatization program has attracted the interest of institutional investors, primarily in the area of mining. A National Commission for Privatisation was established to implement the divestiture program. The investment climate has been deregulated to boost investment and private sector development while an Investment Code was been legislated.<sup>7</sup> However, the country's ability to attract foreign direct investment has still been negatively affected by a range of attributes, including small domestic market, perception of corruption, and complicated bureaucratic processes.

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<sup>2</sup> IFRS refers to all standards and related interpretations issued by the International Accounting Standards Board and its predecessor the International Accounting Standards Committee, which issued International Accounting Standards (IAS). In this report, IFRS also refers to IAS.

<sup>3</sup> ISA are issued by the International Federation of Accountants.

<sup>4</sup> International Development Association, *Country Assistance Strategy for the Republic of Sierra Leone for the Period FY 2006-2009*, Report No. 31793-SL, Africa Region, World Bank, Washington, D.C., 2005.

<sup>5</sup> GNI per capita, Atlas method (current) was US\$210. Source: World Development Indicators

<sup>6</sup> UNCTAD, *World Investment Report 2003: FDI Policies for Development*, Geneva, Switzerland: United Nations Conference on Trade and Development, 2003.

<sup>7</sup> International Monetary Fund, *Sierra Leone Poverty Reduction Strategy Paper*, June 2005.

4. Sierra Leone's financial market is largely characterized by rudimentary structures. The country's financial sector is dominated by the banking sector, which comprises the Central Bank, the Bank of Sierra Leone (BOSL); seven commercial banks; and four community banks. Other financial institutions in Sierra Leone include the National Development Bank, National Cooperative Development Bank, Post Office Savings Bank, Housing Corporation, Home Finance Company, Finance and Trust Corporation, Discount House, exchange bureaus, and seven insurance companies. With the exception of the discount house, insurance companies, and foreign exchange bureaus, most of these financial institutions are for the most part dysfunctional in terms of providing meaningful intermediation services.<sup>8</sup> The community banks are geared toward providing more concessional financial services to local communities compared to the commercial banks. The country's financial sector suffers from both systemic and institutional inefficiencies, contributing to the high cost of financial intermediation. Furthermore, structural inadequacies, such as the high volume of nonperforming loans, inadequate credit risk evaluation mechanism for bank clients, and generally limited outreach facilities also handicap the financial sector.

5. The institutional structure of a capital market in Sierra Leone is constrained in terms of types of institutions, financial instruments, and services. In view of the fact that conventional commercial banks dominate the financial scene, their services are limited to traditional loans and deposits, and foreign exchange transactions and transfers. The country does not have any stock exchange. However, the Bank of Sierra Leone is currently working to develop an arrangement for establishing a stock exchange in the country.

6. In order for Sierra Leone to develop a competitive and efficient financial sector for the growth of a vibrant private sector, its system must be reasonably robust to earn investors' confidence. Among other necessary attributes, a mechanism that ensures a high-quality financial reporting is crucial in this respect. A strong financial reporting regime for corporate entities in both private and public sectors will benefit the Sierra Leone economy in various ways, including:

- *contributing to financial sector development* through strengthening the country's financial architecture and helping reduce the risk of financial crises and corporate failures, together with their associated negative economic impacts that have been witnessed in many developed and developing countries;
- *empowering local communities to own and manage their development process* by broadening the financial system through strengthening community banks, which can provide the institutional anchor to the Government's microfinancing program;
- *increasing foreign direct investment*, which can be achieved through greater confidence in, and improved comparability of, financial information;
- *facilitating economic integration on an international level*, through further alignment of Sierra Leone's national standards and codes with those of its main trading partners; and
- *improving access to financing for the small and medium enterprise sector* by providing banks and venture capitalists with standardized, useful, and reliable information.

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<sup>8</sup> International Monetary Fund, *Sierra Leone Poverty Reduction Strategy Paper*, Washington, D.C., June 2005.

## II. INSTITUTIONAL FRAMEWORK

### A. Statutory Framework

7. **The Companies Act (Cap 249) sets primary requirements for financial reporting of all companies incorporated in Sierra Leone without indicating any specific standards to follow.** Cap 249 requires the preparation, presentation, and publication of financial statements, including auditing and disclosures of all companies incorporated in Sierra Leone. It has not been amended since its promulgation over more than 100 years ago. The format for presentation of financial statements and disclosures prescribed in Cap 249 needs updating.<sup>9</sup> The Companies Act does not deal with preparing financial statements in accordance with any identified standards. The Act requires companies to file annual returns with the Registrar General. However, the lack of technical capacity in the Registrar's Office seriously constrains the monitoring and enforcement of Companies Act's requirements on accounting and auditing. A revised Companies Act, which is likely to be considered for enactment by the Parliament in-2007, is expected to include updated provisions on financial reporting and auditing requirements.

8. **The Cap 249 outlines obligations of company directors with regard to the preparation of annual financial statements but it does not include provisions on auditors, duties, and responsibilities.** The company directors are responsible for ensuring timely preparation of annual financial statements. Directors are also responsible for making these financial statements available to all shareholders at the annual general meeting. Noncompliance with legal responsibilities may lead to a director receiving a fine. In reality, any effective punitive action is rarely taken to enforce compliance with these requirements. Cap 249 does not have any specific provision referring to auditors' duties, obligations, and responsibilities. However, it outlines the procedures for appointment, termination and reappointment of auditors.

9. **The Bank of Sierra Leone regulates financial reporting by banks and non-bank financial institutions and mandates the application of IFRS.** The Bank of Sierra Leone is empowered to regulate banks under the Banking Act 2000 and financial reporting by non-bank financial institutions under the Other Financial Services Act 2001. The accounting and auditing requirements, as outlined in these two acts, are in addition to those set by the Cap 249. The Bank of Sierra Leone requires these institutions to prepare their financial statements in conformity with IFRS. It also prescribes formats for financial statements, including disclosure requirements that each bank and similar financial institutions must follow, which are not fully in line with the IFRS. For instance, the allowance for loan losses is established in accordance with regulatory requirements rather than with IAS 39, *Financial Instruments: Recognition and Measurement*; thus interest revenue recognition on bad loans differs from IAS 39 requirements. The financial statements of these institutions need to be audited by a member of the Institute of Chartered Accountants of Sierra Leone (ICASL) and the appointment of such auditor requires approval by the Bank of Sierra Leone. Banks must submit audited annual financial statements to the Central Bank within three months after the end of each calendar year; while non-bank financial

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<sup>9</sup> For example, Cap 249 does not mention the preparation of a cash flow statement or statement of changes in the equity as part of the financial statements; reference is made to profit and loss account instead of an income statement.

institutions are required to comply with the same requirement within four months after the end of each calendar year. The audited financial statements must be published in at least one newspaper in Sierra Leone. The Bank of Sierra Leone holds meetings with the statutory auditors in order to resolve any issue arising from the audit exercise. However, enhancing BOSL technical capabilities will help to ensure better monitoring and enforcement of applicable standards in reporting and auditing of financial institutions. Indeed, a well-regulated financial sector is highly crucial for Sierra Leone's efforts to achieve sustained economic development.

**10. Banks, insurance companies, and other financial institutions are required to publish interim financial statements.** Cap 249 requires the banks and other financial institutions to publish financial statements twice a year in accordance with the format prescribed in the Companies Act. In addition, banks are required to submit quarterly financial statements to the Bank of Sierra Leone.

**11. The insurance regulatory framework has made progress, but drawbacks remain due to lack of technical expertise.** The Sierra Leone Insurance Commission was established under the Insurance Act 2000. Some stakeholders take the view that with the establishment of the Commission, there appears to be some discipline in place with regard to financial reporting and auditing. The Insurance Commission works under the supervision of the Ministry of Finance. The Commission issues instructions that regulate financial reporting in the insurance sector. However, it does not specifically provide any directive that mandates the application of IFRS in preparing these financial statements. The Commission requires insurance companies to submit audited annual financial statements, including consolidated accounts at the end of each financial year. The ROSC team observed that the insurance companies had not been submitting their financial statements regularly until recently. The financial statements are required to be audited by a qualified auditor, whose appointment needs to be approved by the Insurance Commission. The Commission seriously lacks technically qualified people to review these financial statements for ensuring compliance with the IFRS requirements.

**12. Cap 249 permits external auditors to attend general meeting and be available for shareholders' questions.** Although auditors are eligible to attend the annual general meeting, in practice auditors most often do not attend. Consequently, shareholders may not have the opportunity to seek and obtain clarifications from auditor on issues of concern to them.

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

**14. The Companies Law does not explicitly require groups of companies to prepare consolidated financial statements.** Even though IFRS requires consolidation for companies with subsidiaries, Cap 249 does not require consolidation but does require that a set of financial statements for each subsidiary be annexed to the holding company's balance sheet. This practice

is inconsistent with generally accepted accounting principles regarding preparation of consolidated financial statements and with IFRS. Such inconsistency represents a serious shortcoming in the regulatory framework as non-consolidated financial statements provide an incomplete view of a company's financial performance and position. Whenever applicable, the presentation of both consolidated and non-consolidated statements should be mandated by law.

**15. The Constitution of the Republic of Sierra Leone empowers the Auditor General to undertake audits of state-owned enterprises (SOE).** The Office of the Auditor General is responsible for undertaking audit functions of state-owned enterprises. Section 119 of the 1991 Constitution provides for the appointment of an Auditor General by the President of the Republic subject to the approval of the Parliament. Furthermore, the Audit Services Act provides for establishment of a Board to appoint members of the audit service and to advise the Auditor General in administering audit services. Audits of state-owned enterprises are undertaken directly or through private auditors who are appointed by the OAG. In appointing auditors, the Office of the Auditor General ranks the auditors into three categories based in part on their international affiliation, years of experience, and number of staff.

**16. The Auditor General requires the audit of state-owned enterprises in accordance with ISA.** Included in the terms of reference for auditors of state-owned enterprises is the requirement that audits must be carried out in accordance with ISA. However, due to the lack of capacities of the staff of the Auditor General, the audit primarily focuses on compliance of rules in governing SOE financial management. The Government personnel responsible for providing guidance on conducting auditing of state-owned enterprises largely lack exposure to relevant public sector accounting and auditing IFAC pronouncements. In case of private auditors, evidence suggests that this requirement is not properly followed by many audit firms.

## **B. The Profession**

**17. The self-regulated Institute of Chartered Accountants of Sierra Leone oversees the accountancy profession in Sierra Leone.** The ICASL was established by the Institute of Chartered Accountants of Sierra Leone Act 1988. As per the Act, the ICASL is primarily responsible for determining and maintaining adequate professional standards for its members. The ICASL Act needs updating in order to keep pace with emerging international developments. Such updating should include vesting more power to the ICASL for taking disciplinary actions against its members for violating code of ethics and professional norms. The ICASL is a member of the International Federation of Accountants (IFAC) and the Association of Accountancy Bodies in West Africa (ABWA).<sup>10</sup> Current ICASL membership is 91, of which about 20 percent are engaged in the public practice.<sup>11</sup>

**18. The ICASL Council, assisted by various committees of volunteer members, governs the organization.** As the supreme body through which the ICASL functions, the Council

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<sup>10</sup> ABWA was founded in 1982 and recognized by the International Federation of Accountants (IFAC) with membership opened to accountancy bodies which are recognized by individual national laws in the seventeen countries in West Africa and are of good standing within the accountancy profession. Its current membership is made up of the main accounting bodies in Gambia, Ghana, Liberia, Nigeria, Senegal and Sierra Leone.

<sup>11</sup> ICASL membership figure as of March 2007 (the membership figure was 76 at the time of carrying out the review exercise in February 2006)



comprises 8 elected members and 3 persons nominated by the Government of Sierra Leone. The major statutory functions of the Council include designing and implementing policies regarding student enrollment, including administering education, training, and examination; programs for members' professional development; ensuring adherence to professional ethics and standards; and disciplinary action against erring members. The Council elects the ICASL president for a two-year term. The ICASL president is also the chief executive officer.

19. **The actual market for auditing services in Sierra Leone is relatively small, due to a relatively low demand, and is dominated by large audit firms.** Most financial entities as well as large corporate entities are audited by audit firms affiliated with international networks. As for small and medium enterprises, many stakeholders indicated that few of these entities have their financial statements audited. For those small and medium enterprises, where audits are carried out, many observers question the reliability of the process of carrying out such audit. A solution to ensure quality in audits would therefore be to enforce professional standards on auditors and effective sanctions against practitioners who do not abide by the appropriate standards.

20. **The ICASL has not set a minimum fee for conducting audits.** Like many other countries, the audit fee is a sensitive issue. Auditors often complain about the low audit fee in Sierra Leone. The ICASL has not prescribed a minimum fee schedule that members are required to follow in rendering audit services.

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

22. **Except for large entities, the corporate sector in general does not have access to professionally qualified accountants.** The accountants for many corporate entities lack the required skills to prepare financial statements in accordance with applicable accounting and reporting requirements. Consequently, compliance by preparers of financial statements with applicable requirements in many cases is limited. The limitations in legal and regulatory environment provide little incentive for company directors to ensure that financial statements are prepared as per established standards.

23. **There is no mechanism for ensuring that the accountants and auditors in public practice follow the Code of Ethics.** The ICASL Code of Ethics for Chartered Accountants is largely in line with the IFAC Code of Ethics for Professional Accountants. The ICASL must implement an effective mechanism to enforce its Code. More stringent disciplinary actions and effective periodic audit of members are necessary to monitor ethical misconduct or violations. Professional accountants and auditors often claim that they follow auditing standards and code of ethics; nevertheless, in the absence of any monitoring and enforcement mechanisms, it is difficult to agree that in practice this is the case.

24. **The ICASL lacks adequate technical resources.** The ICASL is dependent on volunteer members and should reduce this need by employing adequate full-time qualified personnel. Increasing the technical resources will help the ICASL in better discharging its IFAC membership obligations, including supervision of members and implementing ethical standards and disciplinary procedures.

25. **Professional indemnity insurance is not required by law.** Some practicing auditors who work for affiliates of international accounting firm networks in Sierra Leone are covered by professional indemnity insurance. While auditors are subject to civil liability, they are not required by law to take professional indemnity insurance. This has created an environment of unconcern toward risks of malpractice suits by auditors in many cases. Professional indemnity insurance is not a well-known concept in Sierra Leone. However, it is possible to obtain professional indemnity insurance coverage but at an exorbitant price which seems to be beyond the capacity of most of the audit practitioners in Sierra Leone.

26. **Many stakeholders perceive that auditors' involvement in both audit and tax advocacy may threaten auditor independence.** In Sierra Leone statutory auditors are not specifically prohibited from providing some nonaudit services, including tax advocacy and representation before tax authorities. There is a strong perception among the various stakeholders that such involvement may pose a threat to auditors' independence.

27. **All ICASL members hold foreign accountancy qualifications.** At present all ICASL members hold recognized foreign accountancy qualifications, of which almost 90 percent are qualified under the United Kingdom Association of Chartered Certified Accountants (ACCA). The rest of the membership is drawn from Institute of Chartered Accountants of England and Wales (ICAEW) and Institute of Chartered Accountants of Nigeria (ICAN). The ICASL is planning to launch its own curriculum for professional training. Reciprocity arrangements with regional and international accountancy associations would enhance the recognition of planned ICASL qualifications.

28. **The Association of Chartered Certified Accounts has a discernible presence in Sierra Leone.** The ACCA qualifications are becoming increasingly popular in Sierra Leone, primarily due to its international marketability. A qualified ACCA member is entitled to obtain ICASL membership and become eligible for public practice upon obtaining practicing license. There is an increasing tendency among the aspiring accountants in Sierra Leone to obtain ACCA professional qualifications.

### **C. Professional Education and Training**

29. **The ICASL does not have its own separate curriculum for professional certification.** In partnership with ACCA, the ICASL has maintained a student register under a joint examination scheme since 1996. As of February 2006, there were more than 2,000 students registered, most of them studying to qualify under the ACCA. Training is provided by tuition providers, of which only one is so far accredited by ACCA. The ICASL has a small reference library for members but no training facilities.

30. **Practical training arrangements for entry into the profession need to be strengthened.** Prior to obtaining full ICASL membership, a candidate is required to have three years of practical training and recommendations from two ICASL members. There is no formal requirement to obtain practical auditing experience before being licensed to practice as an auditor. The ICASL does not have a mechanism to screen practical training providers on their suitability to provide appropriate experience and does not monitor the quality of practical training.

31. **Continuing professional development (CPD) in Sierra Leone is mandatory but not yet monitored.** Currently ICASL members are required to follow continuing professional development mostly in line with the ACCA requirements. The practical delivery of continuing professional development is not in conformity with the latest IFAC requirements. The ICASL does not provide guidance on the scope of structured and unstructured learning activities as required by IFAC's IES 7.<sup>12</sup> The ICASL should ensure that this standard is considered in planning its role in continuing professional development. For example IES 7 provides for measurement of completion of continuing professional development to be achieved by three different approaches. The CPD seminars focus more on general issues rather than specific practical application of IFRS and ISA. Furthermore, the ICASL does not have any mechanism with regard to the enforcement of continuing professional development as a requirement of professional membership in order that qualified professional accountants gain up-to-date knowledge on recent developments in financial reporting, auditing, and other related topics.

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

33. **University courses in accountancy do not focus on teaching IFRS or ISA.** The institutions of higher learning in Sierra Leone do not focus on IFRS and ISA in their bachelor's and graduate degree programs in accountancy. The curricula are mainly restricted to teaching accounting technicalities and basic procedural aspects of auditing. Thus the students do not obtain required exposure of international best practices with regard to accounting and auditing. Moreover, most accounting textbooks, used for teaching lack adequate focus on the international dimension of accounting and auditing.

34. **The academic education in accounting lacks adequate coverage on professional values and ethics.** Formal education can significantly sharpen aspiring accountants' awareness of ethical problems and can influence their reasoning and judgment with respect to ethical dilemmas. For this reason, the IFAC recommends teaching professional ethics separately in the

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<sup>12</sup> IFAC IES 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*, was issued in May 2004.

pre-qualifying education of professional accountants.<sup>13</sup> However, in Sierra Leone, the academic institutions do not provide adequate coverage on ethical dimensions in their curricula.

#### **D. Setting Accounting and Auditing Standards**

35. **The ICASL prescribes IFRS, however, there is no clear legal mandate with regard to application of these standards except for banks and non bank financial institutions.** The ICASL has a legal mandate to set standards for ensuring high quality corporate financial reporting. The ICASL Council decided in 2004 upon wholesale adoption of IFRS, but this was not communicated to the members. Apart from legislation applicable to banks and similar financial institutions, no legislation specifies which entities must comply with IFRS or standards prescribed by ICASL. Furthermore, ICASL in practice also has not clearly directed which entities should comply with the standards prescribed by them.

36. **There exists no direction as to which auditing standards are to be followed in Sierra Leone.** The ICASL—or any other entity—does not provide any direction on what audit standards to be followed. This has resulted in situations where auditors may interpret differently the applicability of auditing standards in Sierra Leone. The ROSC team observed in the due diligence mission that some auditors believe that international standards in auditing mean those auditing standards that are followed in other countries, like the United Kingdom. This misconception coupled with the lack of understanding about applicable auditing standards often creates confusion. In one of the audit reports of a community bank, the auditor wrote, “*We conducted our audit in accordance with Auditing Standards issued by the Auditing Practice Board*”. In a case related to insurance companies, one auditor who worked in several entities wrote in the audit report, “*We have audited financial statements in accordance with Auditing Standards*”; while another auditor wrote, “*We have audited the annexed Financial Statements in accordance with approved auditing standards*”. None of the auditors in these instances made reference to who issued those standards.

#### **E. Ensuring Compliance with Accounting and Auditing Standards**

37. **No effective mechanism exists to enforce requirements for accounting and financial reporting in the Companies Act (Cap 249).** In cases of violating the applicable requirements with regard to the corporate financial reporting, weak and outdated legal sanctions are prescribed in the Companies Act. The Registrar General of Companies has no technical and logistical capacity for reviewing financial statements in order to identify accounting and auditing violations. There is no reliable database system in place for facilitating enforcement of timely filing of returns and annual financial statements.

38. **Financial statements prepared by insurance companies need effective monitoring and enforcing actions.** The Sierra Leone Insurance Commission lacks capacity to monitor compliance with financial reporting requirements of insurance companies. The inspectors perform offsite supervision of annual returns and financial statements of insurers, however the

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<sup>13</sup> IFAC IES 4, *Professional Values, Ethics, and Attitudes*; and IFAC Educational Guideline No. 10, *Professional Ethics for Accountants: The Educational Challenge and Practical Application*.

focus is not on monitoring compliance with IFRS and ISA. There are no effective legislative sanctions available for noncompliance, apart from suspending or revoking an insurer's license.

39. **The BOSL Department of Banking Supervision needs to enhance its technical capacity in monitoring and enforcing accounting and financial reporting requirements.** Primarily to ensure compliance with prudential regulations, BOSL officials conduct both offsite and onsite supervision of banks and nonbank financial institutions. With respect to the general purpose financial reporting by these institutions, BOSL examines financial statements, approves the appointment of statutory auditors, reviews any communication from the statutory auditors, and holds meetings between banking supervision staff and a bank's statutory auditors. There is still a need for enhancing BOSL technical capabilities, particularly in terms of practical application of accounting and auditing standards with regard to monitoring and enforcement of financial reporting requirements.

40. **As a self-regulator, ICASL does not have any arrangement for quality control review of audit firms.** An independent review mechanism can ensure that audit firms have adequate quality control arrangements that comply with IFAC requirements of quality assurance of audit firms. The ICASL does not have the capacity to carry out necessary quality control review monitoring and enforcement activities. Auditors are not subject to practice review, and there is no effective mechanism for disciplinary action in cases of violation of applicable standards.

41. **The slow legal process often discourages regulators from taking legal recourse in enforcing compliance with financial reporting requirements.** Generally, the process of adjudicating cases in Sierra Leone is slow. Regulators are often discouraged from taking legal action when enforcing sanctions against violators. The penalties specified in the Cap 249 for some noncompliance are in many cases not commensurate with the nature and magnitude of the offenses. Moreover, there is no provision for effective administrative sanctions, which could be enforced against the violators of accounting and auditing requirements.

42. **Lack of implementation guidance is constraining full compliance of accounting and auditing standards.** In Sierra Leone, neither the ICASL nor other organizations issues guidance on implementation of IFRS and ISA. This has contributed, in some cases, to the knowledge gap among preparers and auditors of financial statements. Consequently, it raises a possibility of applying the standards inconsistently and resulting in the compliance gaps between IFRS and ISA requirements and actual practices. Lacking access to modern audit practice manuals, many audit practitioners are unable to deal with important concepts, such as audit risk, audit planning, internal control, materiality, documentation, going concern and quality control. With ICASL-implemented guidance, the auditors can audit with applicable rules and standards. This guidance should incorporate cases and illustrations relevant to Sierra Leone and focused on industry-specific experiences.

### **III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED**

43. **With the prescription of IFRS by ICASL and legal mandate by the BOSL, Sierra Leone has made progress in attempting to reduce the gap between local and international standards.** The decision by ICASL to adopt IFRS and the legal mandate for application of IFRS by banks and similar financial institutions have tended to reduce the gap between local and international standards. However, lack of uniformity in application still risks a gap between IFRS and actual practice.

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

45. **Information on “compliance gaps” demonstrates weaknesses of corporate financial reporting.**<sup>14</sup> A review of a sample of published financial statements and discussions with practitioners in the country, conducted by the ROSC team, revealed compliance gaps. The review involved examination of financial statements for all banks and insurance companies, seven corporate entities, and five state-owned enterprises. The ROSC team also conducted interviews with experienced corporate accountants, practicing auditors, academics, and members of professional bodies, and regulators. From the review and interviews, the ROSC team learned of circumstances when there may be material noncompliance with the applicable accounting standards and when questions may be raised about the reliability of the related audit opinions, raising the following issues:

- **Noncompliance with IAS 32 and IAS 39.** Some degree of noncompliance with IAS 32, *Financial Instruments: Disclosure and Presentation*; and IAS 39, *Financial Instruments: Recognition and Measurement*—requirements relating to the measurement and disclosure of financial assets—indicates the need for capacity building in this area. The ROSC team undertook a series of discussions with regard to these issues with management, auditors, and regulators, who acknowledged the need for targeted capacity building. Many stakeholders emphasized that this action is crucial at this time when the country is making efforts to develop the financial sector, which will support the growth of the nascent private sector. Despite the fact that after reviewing the financial statements of banks, the ROSC team could not identify any major noncompliance issues of material nature in appearance that could mislead the users of financial information, the capacity building in this area is nevertheless important for ensuring sustainability of strong corporate financial regime.
- **Impairment losses.** Potential failures to recognize impairment losses on property, plant and equipment could result in overstated assets. Most of the financial statements did not indicate whether the long-term assets were impaired. In case of banks, the impairment losses were recognized in loans. It is not clear from the financial statements whether the impairment tests required by IAS 36, *Impairment of Assets*, were carried out adequately. Failure to comply with this standard could create

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<sup>14</sup> Compliance gaps refer to the deviation of actual practice from the applicable accounting standards.

a misconception that the carrying amounts of property, plant, and equipments in audited financial statements are overstated.

- **Related party transactions.** Inadequate disclosure of related party relationships and transactions may facilitate the diversion of corporate resources for private benefits. The ROSC review noted insufficient related party disclosures in the financial statements of most of the sampled entities. Although balances due to and from related parties were generally shown, the disclosures were mostly inadequate due to not fully complying with other requirements on related party disclosures.
- **Consolidated financial statements.** The companies in Sierra Leone do not prepare consolidated financial statements, and thus it is not possible to obtain overall performance of the sample of entities. Furthermore, in the absence of consolidation, the financial statements fail to provide an idea about their significant subsidiaries, proportion of ownership interest, proportion of voting power held, and nature of investments in subsidiaries. Not preparing consolidated financial statements departs from compliance with *IAS 27, Consolidated and Separate Financial Statements*.
- **Segment reporting.** For the great majority of banks and corporate entities, segment reporting in the sampled financial statements was inadequate. However, the notes to the financial statements indicated that the preparer (and auditors) of the financial statements were aware of the IAS requirements. In many cases, the financial statements did not disclose information focusing on both business segments and geographical segments.
- **Additional disclosure by banks.** Despite the fact that there is a higher degree of compliance with IFRS and IAS by banks than by other entities, there exist noncompliance with requirements of *IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. Most banks did not disclose (a) expenses related to fee and commission income; (b) fair values of each class of financial assets and liabilities; (c) information relating to loans and advances on which interest is not being accrued; (d) amount of significant net foreign currency exposures; (e) contingencies and commitments arising from off balance sheet items.
- **Other issues:**
  - (a) Inconsistencies over the recognition of deferred tax assets arising from tax loss carried forward leading to possible conflicts with *IAS 12, Income Taxes*.
  - (b) For nonadherence of applicable accounting policy on revenue recognition, for instance, in cases of installment sales, revenue was recognized on a cash basis rather than accrual basis, resulting in noncompliance with *IAS 18, Revenue*.
  - (c) Inadequate disclosure as to whether actuarial or any other forms of valuation had been made to quantify outstanding liabilities for post-employment benefits not adhering to the requirements of *IAS 19, Employee Benefits*.

- (d) Many companies did not disclose contingent liabilities, making their financial statements noncompliant with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- (e) It is a common practice not to disclose assets in the financial statements that have been pledged for securing loans.

46. **Evidence suggests the lack of adequate capacities to prepare IFRS-based financial statements.** In a number of sample financial statements, it was unclear who had prepared the IFRS-based financial statements. The ROSC team's discussion with company management during its due diligence mission led to believe that the companies many not have adequate resources or ability to prepare IFRS-based financial statements. It is possible therefore that the auditors either prepared or provided assistance with the preparation of such financial statements. This raises a significant independence issue that was subsequently confirmed on a few occasions as to whether the actual accounting policies followed by the companies comply with the "boilerplate" disclosures in IFRS-based financial statements.

47. **There exist differences between disclosed accounting policies and actual practices in the financial sector.** A number of banks indicated that they calculate impairment in the unsecured portion of loans and receivables on the basis of provisioning matrix, prescribed by Bank of Sierra Leone. *The BOSL specifications call for a range of fixed provisioning rates for the number of days a loan has been classified as nonperforming. This methodology may not comply with IAS 39, which requires impairment or loan losses to be calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), and discounted at the financial asset's original effective interest rate.* The ROSC team is concerned that the disclosed accounting policy claims to be based on compliance with IAS 39 when the banks are in effect applying a different policy.

#### IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

48. **Absence of methodological guidance hinders application of auditing standards.** With the exception of audit firms associated with the international network of accounting firms, most audit firms have no access to high-quality audit practice manuals. Lacking practice oriented methodological guidelines, auditors generally find it difficult to handle important concepts such as audit risks, audit planning, internal control, documentation, and going concern. It is difficult to apply normal audit procedures regarding related party transactions due to the lack of legal requirements concerning group accounting and consolidation.

49. **Lack of understanding by directors and members of management about the purpose of audits sometimes makes it difficult for auditors to obtain appropriate audit evidence.** Many auditors claimed that some directors and members of the top management often fail to appreciate adequately the purpose and value of auditing. However, such a situation limits access to evidence to form professional judgments. Despite the arduous efforts by some auditors to



carry out audits in accordance with international best practice, they view this task as a major constraint in discharging their professional responsibilities.

50. **In general, audit practices diverge from ISA.** To better understand the actual auditing practices, the ROSC team interviewed practicing auditors and experienced accountancy professionals and had facilitated discussions with the partners representing large- and medium-sized audit firms, from which the following points were made on auditing practices in Sierra Leone:

- Lack of knowledge of theoretical and practical application of standards, coupled with no independent practice review mechanism and disciplinary procedures, adversely affects audit quality.
- Documentation practices fail to provide audit evidence to support the audit opinion, mostly in the audit of small and medium enterprises.
- Meaningful analytical procedures are difficult due to the absence of industry information.
- Apart from the firms with international affiliations, most firms do not comply fully with the ISA on quality control due to lack of capacity. Second partner peer reviews are generally not done.
- Professional clearance (communication with retiring auditor) is not always done, as most retiring auditors do not respond to such requests.
- Independence may be sacrificed by accepting a relative as an audit client.
- Shortage of expertise in information technology (especially in medium and small firms) erodes audit quality. Reliance is placed on work of experts, without assessing the adequacy of such work, and the expert's competence and objectivity.

## **V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING**

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

52. **The quality of financial statements is influenced by the company auditors.** Interviews and discussions with various stakeholders, including bankers, revealed that, in the case of large and medium-sized companies, more reliance is placed on financial statements audited by the members of international firm networks. However, the small investor community in Sierra Leone supplements reliance on audited financial statements by on-site inspection to assess the quality of the management. The public perception is that the audit profession in most cases does not add value, but that it is a requirement for the company to win a contract or to obtain a bank loan.

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

## VI. POLICY RECOMMENDATIONS

54. The policy recommendations outlined in this section emerge from the review of accounting and auditing practices in Sierra Leone, as well as the valuable inputs received from the various stakeholders. These primarily principle-based recommendations will provide inputs in preparing and implementing a comprehensive Country Action Plan<sup>15</sup> geared toward the sustainable high-quality corporate financial regime in Sierra Leone. The following have been taken into account while designing the policy recommendations:

- Building capacities for professional accountants and auditors and regulators;
- Emphasizing the case for strengthening capacity of national institutions with support from sub-regional/regional institutions (e.g. ABWA), considering the limited capacity of Sierra Leone and to rationalize the cost of implementing some of the policy recommendations.
- Achieving greater financial transparency in the corporate sector and limiting tax evasion through ensuring proper calculation of corporate profits;

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<sup>15</sup> A dissemination workshop was organized in Freetown, on March 14, 2007, to present the findings and recommendations to a wide constituency of in-country stakeholders, and to agree a Country Action Plan for implementation of the ROSC-A&A's recommendations. A Country Action Plan was unanimously agreed and discussions were held about next steps for its implementation. The Country Action Plan is attached at the end of this report.

- Promoting a gradual process of improvement, whereby the public interest entities will lead the reform process;<sup>16</sup>
- Strengthening the country's financial architecture aimed at reducing the risks of financial market crises and their allied negative impacts.

**56. Strengthen sub-regional integration. ICASL should propose to ABWA the need to embark on** sub-regional initiatives to increase the capacity of accountancy profession, professional training, and oversight of the auditing profession in Sierra Leone and similar countries in the sub-region. Specifically, an initiative should be launched to establish uniform professional qualification examination for all members of ABWA—this will enable ICASL to have its own professional qualification examination. Steps should also be taken to plan and establish a central organization of audit oversight bodies within West Africa. With the help of this central organization, the audit oversight body of Sierra Leone will be able to borrow experts from other countries for carrying out effective monitoring and enforcement activities. Moreover, arrangements should be made so that ICASL is able to draw on resources from other partner organizations in ABWA, for carrying out training and development activities aimed at improving the capacity of accountants and auditors in Sierra Leone.

**57. Strengthen the monitoring and enforcement mechanism.** High-quality financial reporting cannot be ensured by the lone act of adopting international standards. To a large extent, the quality depends on the designing and implementation of a proper monitoring and enforcement system. There are three crucial links in the enforcement process, and each must be strengthened. First, company directors with legal obligations to prepare the financial statements must ensure that accounting staff apply standards properly. Second, statutory auditors must discharge their professional responsibilities independently in order to provide assurance that financial statements comply with all applicable standards and portray “true and fair” view of enterprises’ conditions and results of the operations. Third, both self-regulatory organizations and statutory regulators must ensure proper compliance with the standards and consistently take actions against violators. To ensure effective enforcement, the regulators in particular need adequate capacity, authority, and independence. Since they cover a wide range of sophisticated and complicated activities, their actions should not be constrained by lack of appropriate human and financial resources. Strengthening the enforcement mechanism through increasing capacity of the regulators and granting them more authority in dealing with infractions of accounting and auditing standards is particularly important for Sierra Leone to supplement Government’s efforts to promote investment and to consolidate a sound financial sector. Any capacity building effort should focus on:

- Recruiting technically qualified people in the respective regulatory bodies, such as, Bank of Sierra Leone, Sierra Leone Insurance Commission, and Office of the

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<sup>16</sup> Public interest entities may be defined by the nature of their business, size, and number of employees; or by their corporate status by virtue of their range of stakeholders. Examples may include listed companies, banks and similar financial institutions, insurance companies, and large enterprises. To be considered a public interest entity, the large enterprise is defined as individual enterprises and groups of enterprise that meet any two of the following three thresholds: (a) total number of employees exceeding [a number to be decided in consultation with the country stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with stakeholders].

Auditor General.

- Providing meaningful IFRS theoretical and practical training to the staff of the regulatory bodies so that they can enforce applicable accounting standards.
- Providing training to corporate accountants in the public interest entities highlighting the practical applications of IFRS in order to build their technical capacities to prepare IFRS compliant financial statements.
- Facilitating access of smaller audit firms to the materials on recent developments in auditing practices, in particular, the practical application of ISAs.

Additionally, steps should be taken to empower the regulators with necessary legal backing to sanction the preparers of financial statements and auditors for violation of financial reporting and auditing requirements. The regulators may *inter alia* have the powers to issue warnings, impose fines and penalties, and restrict particular auditor(s) from carrying out statutory audit of public interest entities.

**58. Modernize the statutory framework of accounting and auditing.** Take steps to ensure that the legal and regulatory requirements on accounting, auditing, and financial reporting are intended to protect the public interest. This would necessitate the amendment of the Institute of Chartered Accountants of Sierra Leone Act 1988, and other relevant laws and regulations, and inclusion of new provisions concerning regulation of accounting and auditing. The new legal provisions will give legal backing to an arrangement for issuance of IFRS and ISAs as mandatory standards for public interest entities and simplified reporting requirements for SMEs. The new legal provisions should also provide legal backing for the establishment of a monitoring and enforcement mechanism to ensure compliance with the applicable accounting and auditing requirements. These provisions should focus on making arrangements for the following:

- ***Fully adopt IFRS and ISA*** without modifications, and ensure mandatory observance of these standards in the case of public interest entities. Adopt IFRS and related interpretations issued by the International Accounting Standards Board (IASB) as legally enforceable standards applicable to the preparation of the legal entity and consolidated financial statements of all public interest entities. The audit of financial statements prepared by public interest entities should be carried out in accordance with ISA and other related pronouncements issued by IFAC. Also mandate the IFAC Code of Ethics for Professional Accountants for all practicing accountants and auditors.
- ***Develop a simplified financial reporting framework for small and medium enterprises.*** All but the smallest enterprises may be subjected to the simplified financial reporting framework.<sup>17</sup> As long as the IASB does not issue accounting standard on SMEs, the national accounting standard setter should set the financial reporting requirements for SMEs. However, if the national accounting authority deems it necessary to derogate from IAS, it should have the authority to do so provided it clearly explains and justifies the reasons for the derogation.

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<sup>17</sup> The definition of micro-enterprise in the context of financial reporting will need to be developed.

- ***Establish an independent oversight arrangement to monitor and enforce accounting and auditing standards and codes.*** The proposed new legal provisions should establish a new independent oversight arrangement to monitor and enforce accounting and auditing requirements with respect to general-purpose financial statements.

**59. Establish the independent oversight arrangement in collaboration with the Institute of Chartered Accountants of Sierra Leone.** Given the dearth of adequate number of experienced and professional accountants in Sierra Leone, it is important to operationalize an oversight arrangement with the involvement of specialists drawn from international, regional and/or sub-regional institutions. Efforts should be made to learn from supranational experiences and to use capacities from the region in order to make this oversight unit effectively operational. Moreover, expertise from regional and sub-regional organizations can be used while gradually building Sierra Leone's capacity for undertaking audit practice review, and monitoring and enforcement of accounting and auditing requirements. The oversight arrangement could be developed as an independent unit by combining forces of the relevant regulatory bodies including the ICASL. Main activities of the oversight unit would include the following:

- ***Accounting and auditing standards.*** The Unit will adopt, without modification, all IFRS, ISA, and IFAC-issued Code of Ethics for Professional Accountants, for observance with respect to financial reporting by the public interest entities. The Unit should also be entrusted with the responsibility of issuing simplified financial reporting requirements for small and medium sized enterprises (SMEs). For SMEs, the IASB is currently developing a simplified version of IFRS which is expected to be finalized in 2007; Sierra Leone should adopt these SME-IFRS once they become available. In adopting standards, the Unit will follow a due process through a wider consultation with various stakeholders.
- ***Audit practice review.*** Specialists of the oversight unit will be responsible for conducting practice reviews of the auditors of public interest entities, ensuring each firm is reviewed at a reasonable, regular interval. After completion of the initial review, recommendations should be provided to the audit firms for overcoming detected shortcomings concerning quality assurance arrangements. The practice review should evaluate an audit firm's quality assurance arrangements, its audit approach, and the working papers with regard to selected audit engagements. The policies and procedures for carrying out audit practice review activities will be developed by the Unit with support from regional and international sources.
- ***Review of financial statements.*** The Unit should undertake review of financial statements for identifying noncompliance and ensuring enforcement with regard to applicable accounting standards. The policies and procedures for carrying out monitoring activities will be developed by the Unit with support from regional and international sources.
- ***Investigation.*** Valid complaints against auditors and audit firms, and any irregularities identified from the reviews of financial statements and audit practices, should be investigated.

- **Disciplinary power.** Following reviews, steps should be taken for appropriate sanctions on the preparers (enterprise management) and auditors of financial statements. Appropriate legal arrangements should be made for this purpose.

**60. Take steps for improving the capacity of regulators of banks and insurance companies.** Generally ineffective regulatory regimes provide a false sense of security to stakeholders; therefore, it is important to strengthen the capacity of the regulators. The BOSL and Sierra Leone Insurance Commission should further strengthen their capacities to conduct in-depth review of financial statements of banks and insurance companies for determining the degree of compliance with the applicable standards, not only in appearance but also in substance. Capacity improvement of these regulators should focus on recruiting technically qualified personnel, practical training on implementation of IFRS and ISA, and providing administrative support and logistical arrangements. Furthermore, these regulators should be independent and should have enough authority to impose administrative sanctions for infractions.

**61. Ensure coordination between the oversight unit and ICASL.** There should be an arrangement for coordination between the oversight unit and ICASL in order to function cohesively and together ensure sustainable, high-quality corporate financial reporting. The oversight unit should focus on compliance while ICASL complement the efforts by enforcing required professional standards.

**62. Strengthen capacity of ICASL.** The ICASL governance structure needs to be strengthened in line with recent international developments for regulating the accountancy profession and role of professional bodies. In this regard, necessary steps should be taken to fully comply with the seven IFAC Statements of Membership Obligation. In view of the recent worldwide developments in regulation of accountancy profession and reform of the role of professional bodies, ICASL governance requires restructuring and strengthening. ICASL should seek cooperation with other professional bodies in the ABWA region in order to enhance its capacity. Arrangements should be made to learn from the best practices of a developed accountancy professional body in the region.

**63. Issue practical application guidance on IFRS and ISA.** The ICASL should issue implementation guidance on IFRS and ISA illustrating local cases. Interpretations on IFRS and ISA should be issued in consultation with the International Financial Reporting Committee (IFRC) of IASB and the International Auditing and Assurance Standards Board (IAASB) of IFAC, respectively. The ICASL should ensure all interpretations and other guidance should be promptly available to its members.

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

mechanism for renewing practice license of the auditors in public practice on the basis of their periodic performance evaluation.

**65. Improve the delivery of the continuing professional education.** The ICASL should organize high-quality training programs/workshops to enable the accountants and practicing auditors to gain exposure to the practical application of IFRS, ISA, and IFAC-issued Code of Ethics for Professional Accountants. To meet requirements of continuing professional education, practitioners should be encouraged to attend such training programs across the country.

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

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

**67. Rationalize the Companies Act for improving the compliance culture.** Take steps to rationalize provisions of the Companies Act with regard to mandatory IFRS application only to public interest entities, clarifying the duties and obligations of auditors, providing for putting in place an arrangement for independent oversight for the auditing profession, and granting more authority to the regulators for imposing appropriate administrative sanctions.

**68. Introduce awareness programs for improving the degree of compliance with IFRS requirements.** The ICASL and other regulators should work jointly to design awareness programs highlighting the significance of compliance with accounting and auditing standards. Shareholders, directors, and top officials from the corporate sector should be briefed adequately on their responsibilities to ensure compliance with standards and enforcement process, including legal implications. Also, benefits of compliance with standards and best practices should be highlighted in such programs. In addition, these programs should include cases focusing on emerging international developments and the role of transparent financial reporting in attracting both strategic and portfolio investors.

**69. Provide guidance on proper implementation of IFAC Code of Ethics for professional accountants.** For purposes of ensuring ethical standard and independence of practicing auditors

in line with international good practices, the ICASL should issue detailed guidance using local examples focusing on various issues covered by the IFAC's code. Guidance notes, using live cases, should address issues covering threat to auditor's independence in Sierra Leone environment.



**Sierra Leone**  
**ROSC Accounting and Auditing Dissemination Workshop**  
**AGREED OUTLINE OF THE COUNTRY ACTION PLAN**  
 March 14, 2007

Measures	Responsible Agency and Planned Actions	Time
<b><u>Action # 1</u></b> <b>Modernize the statutory framework of accounting and auditing</b>	<b><u>Ministry of Finance</u></b>  Take steps to ensure that the legal and regulatory requirements on accounting, auditing, and financial reporting are intended to protect the public interest. Revise the Institute of Chartered Accountants of Sierra Leone Act 1988, and update provisions of other relevant laws in line with the newly developed regulatory regime of accounting and auditing. The new provisions of Act will give legal backing to an arrangement for issuance of IFRS and ISAs as mandatory standards for public interest entities and simplified reporting requirements for SMEs. The new legal provisions should also provide legal backing for the establishment of an independent monitoring and enforcement mechanism in partnership with ICASL.	1 – 2 years
<b><u>Action # 2</u></b> <b>Establish the independent oversight arrangement</b>	<b><u>Ministry of Finance</u></b>  Put in place arrangements for establishment of the oversight unit, and functioning of the monitoring and enforcement activities. For carrying out the monitoring activities, expertise from regional and sub-regional organizations can be used while gradually building Sierra Leone's own capacity in this regard.	2 – 3 years
<b><u>Action # 3</u></b> Establish a twinning arrangement for five years between a developed professional accountancy body and the ICASL	<b><u>Institute of Chartered Accountants of Sierra Leone</u></b>  ICASL's capacity should be strengthened in line with recent international developments, and to enable it to fully comply with the membership obligations of IFAC. In this regard, necessary steps should be taken to fully comply with the seven IFAC Statements of Membership Obligation. In addition, the twinning partner will assist ICASL to put in place arrangements for: <ul style="list-style-type: none"> <li><input type="checkbox"/> Issuance of practical application guidance on IFRS, ISA and Code of Ethics for Professional Accountants.</li> <li><input type="checkbox"/> Issuance of practical application guidance on IPSAS.</li> <li><input type="checkbox"/> Bringing public sector accountants and auditors within the main stream accountancy profession.</li> <li><input type="checkbox"/> Upgrading the procedure for obtaining license by the accountants and auditors engaged in public practice.</li> <li><input type="checkbox"/> Improving the delivery of the continuing professional education.</li> <li><input type="checkbox"/> Starting Sierra Leone's own professional accountancy qualification linking it with sub-regional and regional initiatives.</li> </ul>	1 – 5 years

<p><b><u>Action # 4</u></b>  <b>Take steps for improving academic and professional curriculum and education</b></p>	<p><b><u>Institute of Chartered Accountants of Sierra Leone</u></b></p> <p>Immediate steps should be taken in consideration of the following recommendations:</p> <ul style="list-style-type: none"> <li>■ Review and update the accounting curricula to incorporate IFRS and ISA at institutions of higher learning. Teaching should focus on the practical implementation aspects of these standards using illustrations and cases. The ethical issues embedded in business management, auditing, corporate finance should be incorporated in the curricula. Furthermore, emphasis should be placed in teaching communication skills and developing critical-thinking ability of students.</li> <li>■ Arrange retraining of university and college teachers for improving their knowledge base for teaching modern accounting subjects including practical aspects of IFRS and ISA.</li> <li>■ Review the curriculum for adequate coverage of professional ethics. Business ethics should be taught as a separate subject for the professional accountants.</li> <li>■ Provide IFRS training to the officials of relevant regulatory bodies in order to improve their capacities to effectively monitor and enforce applicable accounting and auditing requirements.</li> </ul>	<p><b>1 – 5 years</b></p>
<p><b><u>Action # 5</u></b>  <b>Design, develop and deliver training programs on IAS/IFRS and IPSAS</b></p>	<p><b><u>Institute of Chartered Accountants of Sierra Leone</u></b></p> <ul style="list-style-type: none"> <li>• Design, develop and deliver a training. of trainers program involving international experts, for 50 master trainers (specialists who will act in future as trainers on IAS/IFRS) representing academia, profession and regulators, on “Practical Application of IAS/IFRS” and IPSAS; the training program should be organized in Sierra Leone.</li> <li>• Make arrangements for design, development and delivery of training programs by master trainers, which will be offered several times throughout the country, on practical application of IAS/IFRS, and IPSAS</li> </ul>	<p><b>2 – 5 years</b></p>