

ZAMBIA

Report on the Observance of Standards and Codes - Accounting & Auditing

October 2017

Government of the
Republic of Zambia
Ministry of Finance



WORLD BANK GROUP



KFW

CONTENTS

03 Currency Equivalent
Abbreviations and Acronyms

04 Preface
Acknowledgement

05 **Executive Summary**

10 **Introduction**

10 *Objective*

10 *Approach*

11 *Country and Economic Context*

12 *Link between the Assessment and Zambia Development
Agenda*

13 **Assessment**

13 *Accounting, Auditing, and Ethics Standards*

14 *Institutional Framework for the Accountancy Profession*

25 *Observed Reporting Practices and Perceptions*

26 **Status of implementation of policy recommendations in
the 2007 ROSC A&A**

28 **Policy Recommendations**

34 Appendix A:
Status of implementation of policy recommendations in the
2007 ROSC A&A

37 Appendix B:
Summary of Financial Reporting, Publication, and Filing
Requirements for Different Categories of Companies

CURRENCY EQUIVALENT

(Exchange Rate Effective June 30, 2017)

Currency Unit = Zambia Kwacha (K)

US\$1 = K 9.14

ABBREVIATIONS AND ACRONYMS

A&A	Accounting and Auditing	ISQC 1	International Standard on Quality Control 1
ACCA	Association of Chartered Certified Accountants	ISSAIs	International Standards of Supreme Audit Institutions
AG	Auditor General	JSE	Johannesburg Stock Exchange
AGM	Annual General Meeting	KfW	Kreditanstalt für Wiederaufbau
BADEX	Bond and Derivative Exchange	LuSE	Lusaka Stock Exchange
CA	Chartered Accountant	MCTI	Ministry of Commerce, Trade, and Industry
CAW	Chartered Accountants Worldwide	MoU	Memorandum of Understanding
CEO	Chief Executive Officer	MPSA	Ministry, Province, and Spending Agency
CIMA	Chartered Institute of Management Accountants	NAPSA	National Pension Scheme Authority
CPD	Continuous Professional Development	NBFI	Non-bank Financial Institution
DC	Disciplinary Committee	NGO	Non-governmental Organization
DFID	U.K. Department for International Development	NQF	National Qualification Framework
FDI	Foreign Direct Investment	PACRA	Patents and Companies Registration Agency
FSAP	Financial Sector Assessment Program	PAFA	Pan African Federation of Accountants
GDP	Gross Domestic Product	PAO	Professional Accountancy Organization
IAS	International Accounting Standards	PIE	Public Interest Entity
ICAEW	Institute of Chartered Accountants in England and Wales	PRC	Practice Review Committee
IDC	Industrial Development Corporation	ROSC	Report on the Observance of Standards and Codes
IES	IFAC Education Standard	SEC	Securities and Exchange Commission
IESBA	International Ethics Standards Board for Accountants	SMEs	Small and Medium Enterprises
IFAC	International Federation of Accountants	SMO	Statement of Membership Obligation
IFIAR	International Forum of Independent Audit Regulators	SMP	Small and Medium-Size Practitioner
IFRS	International Financial Reporting Standards	SOE	State-Owned Enterprise
IMF	International Monetary Fund	XBRL	extensible Business Reporting Language
IPSAS	International Public Sector Accounting Standards	ZICA	Zambia Institute of Chartered Accountants
ISA	International Standards on Auditing	ZRA	Zambia Revenue Authority

PREFACE

The Report on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A) focuses on 2 of the 12 standards and codes of the joint initiative of the World Bank and the International Monetary Fund (IMF). The initiative was developed after the Asian financial crisis in 1997 to review and assist countries in implementing internationally recognized standards in twelve areas¹ with the overall aim of strengthening the national and international financial architecture, and promoting financial and economic stability.

This second Zambia ROSC A&A review was conducted in response to a request from the Government of Zambia. This report, which updates an earlier review finalized in 2007, presents the status of implementation of the action plan designed after the first review, the review findings of the current institutional framework pillars supporting the accountancy profession, and policy recommendations that will contribute in developing a second-generation comprehensive accountancy profession reform plan. Implementation of the reforms will strengthen the accountancy and auditing practices in the country and ultimately contribute in achievement of the country's 7th National Development Plan, especially enhancing conduciveness of governance and business environment (by improving quality of financial information) and developing human capital. Where applicable, the report also shares good A&A practices adopted in Zambia since the last review.

The assessment was conducted using the revised ROSC A&A 2 diagnostic methodology that benchmarks against international good practice governing financial reporting and auditing, specifically, International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) and requirements by the International Federation of Accountants. The other institutional framework pillars that were evaluated included the statutory framework supporting the accountancy profession; education and training of accountants; professional accountancy organizations, and monitoring, enforcement, and oversight of the profession and financial reporting practices.

ACKNOWLEDGEMENT

The second ROSC A&A review was carried out in Zambia from February to September 2017 through a consultative participatory process involving in-country stakeholders from the Ministry of Finance, Auditor General, Bank of Zambia, Securities and Exchange Commission, Lusaka Securities Exchange, Registrar of Pension and Insurance Authority, Bankers Association of Zambia, Zambia Revenue Authority, Financial Intelligence Centre, Zambia Association of Chambers of Commerce and Industry, Chamber of Mines, Chartered Institute of Management Accountants (CIMA), Association of Chartered Certified Accountants (ACCA), accounting and auditing firms, Commercial Banks, insurance companies, state-owned enterprises, other members of the business community and academia. The ROSC team acknowledges the contributions made by all the stakeholders who participated in the review. The team particularly commends and acknowledges with gratitude the support of the members of the Steering Committee under the chairmanship of Fredson Yamba, Secretary to the Treasury and the Deputy Chairman Mr Mumba Chanda, Deputy Accountant General Local Government, and staff at the Zambia Institute of Chartered Accountant, which served as the review secretariat, with special mention of Hapenga M Kabeta, Chief Executive Officer, and Chansa Chiteba, Director of Standards and Regulation.

This report was prepared by a team led by Srinivas Gurazada (Senior Financial Management Specialist, Co-Task Team Leader [TTL]); Patrick Kabuya (Senior Financial Management Specialist, Co-TTL); and consultants, Francis Zulu, Baison Banda, Rakesh Beekum, and Marthie Claassens. The report benefited immensely from comments of peer reviewers: Fabienne Mroczka (Senior Financial Management Specialist); Christina I. Donna (Senior Financial Management Specialist, GGO20); Zivanemoyo Chinzara (Economist, GMF13); and Sarah Gagnon (Technical Manager, Quality and Development, International Federation of Accountants [IFAC]).

The team also gratefully acknowledges Ina-Marlene E. Ruthenberg, Country Manager for Zambia; and Hisham Waly, Practice Manager for Africa Region Governance Global Practice, for their guidance and support.

The review was conducted as part of the Public Financial Management Reform Program Phase I of the government, financed by a Multi-Donor Trust Fund of the United Kingdom (U.K. Department for International Development [DFID]), Germany (*Kreditanstalt für Wiederaufbau* [KfW]), and Finland.

¹ The 12 ROSC standards are data transparency, fiscal transparency, monetary and financial policy transparency, banking supervision, securities, insurance, payments systems, anti-money laundering, corporate governance, accounting, auditing, and insolvency and creditor rights.



EXECUTIVE SUMMARY

1. The Government of Zambia is implementing the 7th National Development Plan (NDP) focused on building a diversified and resilient economy for sustained growth and social economic development (2017 – 2021). The plan has five developmental pillars aimed at actualizing among other goals the economic diversification and job creation, reducing poverty and vulnerability, and creating a conducive governance environment for a diversified economy. The accountancy profession has a crucial role in contributing towards improvement of the goals especially improving business and investment climate, and developing human capital (investing in people) which is a critical factor in driving achievement of inclusive economic growth.

“When you invest in human beings, you’re putting in place the capital you need to grow your economies.”
President Jim Yong Kim, World Bank Group

2. This second Zambia Report on the Observance of Standards and Codes – Accounting and Auditing (ROSC A&A)² is aimed at determining reforms that will further strengthen the accountancy profession to accelerate its contribution towards economic and social development. The review, requested by the Ministry of Finance, was conducted using the revised World Bank ROSC A&A 2 methodology in a consultative approach with many stakeholders in the country. It focused on (a) assessing the status of implementation of the policy recommendations and action plan

developed after the first review in 2007 and their impact on the accountancy profession, (b) assessing and identifying any emerging issues that relate to A&A practices that require strengthening, and (c) proposing policy recommendations to strengthen the profession. The successful implementation of the recommendations will enhance the professions contribution in improving the Zambian business and investment climate, and advance governance and financial accountability in both the private and public sector.



² ROSC A&A forms part of the ROSC initiative launched jointly by the World Bank and the International Monetary Fund in 1999 as part of the international community’s efforts to strengthen the international financial architecture. The Initiative, started after the Asian crisis in 1997, was to focus on assessing and recommending reforms for each country to apply internationally recognized financial standards and codes in twelve policy areas.

Development of the Accountancy Profession since the Last Report

3. The government and accountancy profession has fully or partly implemented eight out of nine recommendations in the first Zambia ROSC A&A, which was conducted in 2007, indicating commitment to strengthen the profession. The implemented recommendations include: enacting the Accountants Act of 2008 that strengthened the role and functions of the Zambia Institute of Chartered Accountants (ZICA); adopting a three-tier financial reporting framework for preparation and audit of financial statements for different categories of companies by ZICA (2010); strengthening ZICA's capacity to function as a strong professional accountancy body – by establishing a Practice Review Department (2009) and a Technical and Standards Department (2012); establishing a Standards and Regulatory Board (SRB) to oversee compliance with applicable standards and regulations governing the profession; and strengthening other regulators' monitoring capacity. Refer to section II. Implementation of the recommendation has enhanced the relevance and strength of the accountancy profession.

4. The number of ZICA members required to serve the economy has doubled since the 2007 report, but more (accountants) need to be developed. The number of members increased from 2,922 to 5,898 with a commendable increase in female members (from 21% to 45% of the members). A basic estimation using conservative assumptions of the average number of expected professionals and technicians in different types of companies indicates that there is a demand of about 7,000 and 21,600 professional and technician accountants respectively. This indicates that there is likely existence of a supply gap. Similarly, the number of students registering for different levels of ZICA qualifications has been declining since 2010 (from 10,728 in 2010 to 8,995 in 2016) and the overall pass rate of ZICA professional level examinations has been less than 40% in the past three years. The perception is that the decline is attributed to low appreciation of the value of accountancy services and the low brand value of the profession.

5. ZICA has restructured and rebranded its qualification to the Chartered Accountant (CA (Zambia): launched in August 2017. The restructuring will contribute to developing competent and suitably qualified accountants to serve Zambia, and other countries. ZICA is designing and implementing appropriate infrastructure to roll out the qualification: accrediting training providers, and accrediting practical training officers and officers. The roll out of the qualification will contribute to investing in people and address the accountants supply gap.

6. The number of auditors and auditing firms has increased but majority face challenges in applying financial reporting standards. Small and Medium Sized Practitioners (SMPs) – auditing firms with less than four partners that constitute 95% of the 124 audit firms in the country – face challenges in applying the complex, onerous accounting and auditing standards despite regular support from ZICA.

7. An independent Standards and Regulatory Board (SRB) was established supported by a Practice Review Department to conduct audit practice reviews. The department has been conducting reviews since 2009 – initially supported by ACCA (2009 – 2014) – with audit firms being reviewed once every six years and every four years for all auditing firms with PIE clients. Opportunities were identified to strengthen the capacity and capability of the practice review department, and improve robustness and rigor of the practice review methodology. In addition, there is a perception that the SRB is not independent in fact and appearance as its activities (including staff) are funded by ZICA members and reports its performance to ZICA members at the Annual General Meeting (AGM).

Key Policy and Institutional Recommendations

Strengthen the Professional Accountancy Organization

8. The professional accountancy organizations (PAOs) should proactively and innovatively engage in thought leadership initiatives to contribute to the achievement of the NDP. The profession should play an instrumental role in proposing solutions to address the country's economic and social issues. Such initiatives would contribute in improving the brand value of the profession, especially among the government, policy makers, employers, and prospective accountants. The initiatives could include (a) supporting prospective accountants (especially youth) from disadvantaged communities; (b) conducting a benchmark study on demand for accounting and finance officials in the country, to establish shortage of accountants and design initiatives to address the gap; (c) developing services that can improve the performance and quality of reporting by small and medium enterprises (SMEs) and state-owned enterprises (SoEs) (design activities that can become the catalyst for growth of SMEs and SoEs); (d) actively contributing to the government's ongoing reforms, especially those relating to enhancing domestic revenue mobilization, improving efficiency in infrastructure investments, and efficiency in delivery of public services (health, education) to citizens, by sharing evidence-based innovative solutions, knowledge and experiences, (e) investing in and harnessing use of technology, and so on.

"I am convinced that through our joint efforts during the next 5 years, we will be able to achieve the objectives of the 7th NDP. I have confidence in Zambia's ability to implement this plan efficiently and effectively."
President Edgar Lungu, Republic of Zambia

9. The PAOs should accelerate marketing campaign to further raise public awareness of the importance of the accountancy profession in Zambia: increase demand for accountancy services and the brand value. Such a campaign should be targeted at different audiences across the country (e.g. youth campaigns) and should be done using different channels including TV, radio, print media and social media. The messages in

the campaign should underscore the importance of the profession and its overall contribution to economic development and poverty alleviation. The initiative would uplift the accountancy profession brand, enhance demand for accountancy services and its attractiveness especially to the youth and women, and promote its relevance especially to policy makers and ultimately contribute to improving quality of reporting in the country.

10. The Accountants Act (i.e. statutory instrument) should prescribe the type of services that should be offered by each membership category. While the 1994 statutory instrument defines the 5 membership categories and their qualifications, it is silent on the type of services each category can offer. Prescribing the services e.g. tax practitioners, reviewers of financial statements, and conducting audits, will ensure that respective services are rendered by suitably qualified individuals or firms.

11. ZICA should continue to enhance its human, financial, and system (technology) resources to effectively achieve its legislative-stipulated mandate especially that of serving its members. This would involve reviewing the secretariat organization structure to identify areas that require further capacity and capabilities; explore other revenue sources and continue to upgrade and enhance the use of technology in developing capable and competent accountancy professionals and serving the members. ZICA should upgrade and use other functionalities of Integrated Management Information System (iMIS) especially relating to collecting more granular data on members – sectors that they work in, age group; automating audit practice reviews; recording continuous professional development (CPD) attendance; live streaming of events; and so on. Similarly, technology expertise and capability should continue to be developed at the Secretariat.

Strengthen Accountancy Education and Training

12. ZICA should fast track the process of putting in place appropriate infrastructure to implement the CA Zambia qualification launched in August 2017. This will result to developing more accountants who are innovative, socially responsible and skilled to stay relevant in the 4th industrial revolution period. The infrastructure should include (a) engaging in a marketing campaign to create more awareness about the qualification – to become a first choice qualification option by prospective students; (b) accrediting and supporting more tuition providers of all the qualifications across the country; (c) accrediting, supporting and monitoring practical training institutions (offices) and officers in both public and private sector all over the country; and (d) regularly monitoring and providing necessary support to the trainee accountants to ensure uniformity of training.

13. Tertiary institutions offering accountancy related degrees should enhance their curriculum and delivery infrastructure in partnership with PAOs. This would particularly include incorporating public sector subjects and practical aspects especially internship opportunities, and enhancing delivery approaches with increased use of technology. The tertiary

institutions should closely partner with the PAOs to enhance the curriculum and delivery thereof.

14. ZICA should incrementally provide access opportunities to students and members in the rural areas. ZICA training providers are mainly in the urban cities in the four Provinces. This disadvantages members and students in other parts of the country especially in rural areas and hinders the ability of the profession to contribute in reducing poverty in the country. ZICA should explore providing innovative access opportunities to support members and students in rural areas all over the country. With reference to practices in other countries, it could include establishing and operating branches and using technology-based platforms (website, webinars and mobile applications) to provide access and facilitate growth of the profession in all the provinces.



15. ZICA should implement a comprehensive program to monitor CPD and sanction non-compliance members. Functionality in iMIS to record CPD by the members should be launched and mechanism for effective monitoring of compliance and sanctioning those who do not comply should be strengthened. This will ensure that members remain professionally competent and achieve full compliance with the International Federation of Accountants (IFAC) Statement of Membership Obligation (SMO) 2.

Strengthen Audit and Accounting Regulation

16. The country should establish a legally backed independent accountancy profession regulator in the medium to long term. While commendable progress has been made by establishing the SRB, the role fulfilled by the SRB is not perceived to be independent in fact and appearance as stipulated by International Forum of Independent Audit Regulators (IFIAR) principles. The SRB is funded, housed and supported by staff within ZICA, and reports to ZICA members: facts that increase the perception that the SRB is not independent. The improved economic growth, increased number of public interest entities (PIEs), and the government's goal to attract investors continue to call for the need to have an independent regulator. As recommended in the 2007 report, the independent regulators' role should include: setting financial reporting standards; registering and monitoring auditors of PIEs; monitor compliance with financial reporting requirements by PIEs, and sanctioning non-compliant companies and individuals.

17. The SRB should, in the short term, continue to enhance its independence by strengthening its processes, capacity, and funding. There exist several immediate measures that the SRB can implement to enhance its independence. (a) Improving the independence of the Practice Review Committee by granting it power to make final decisions on practice reviews; (b) enhancing the capacity and capability of the practice reviewers e.g. by inviting officials from another audit regulator institution to observe and mentor the reviewers; engage retired audit partners (who are abreast with the professional standards) to mentor the reviewers; and (c) exploring alternative sources of funding by referring to practices in other countries. Some funding practices in other countries include: (a) full funding from the Government (for example. Botswana Accounting Oversight Authority); (b) a combination of funding from the government, regulated member's subscription and fines; (c) government funding and charges to firms being reviewed, (d) audit firms paying a certain percentage (or fraction thereof) of their annual audit fees over to the regulatory function that is then ring-fenced for practice reviews; and (e) charging institutions that benefit from the regulation e.g. public interest entities.

18. The Companies Act should be amended to align with stipulations in the Accountants Act relating to which companies should be audited and only require registered auditors to conduct audit. Small and micro enterprises (SMEs) should be exempted from audit in line with the principles in the ZICA directive on tiered reporting (table 1). As noted, several countries including South Africa, Singapore, the United Kingdom, and other countries in the European Union, has already exempted SMEs from the audit requirement, thus relieving them of undue compliance burdens and cost. Where audit is required, it should be conducted by persons who are appropriately qualified and skilled to achieve the desired quality necessary to protect public interest. The Companies Act allows persons without a practicing certificate to audit private companies.



19. The audit quality review approach and methodology should be strengthened to ensure the process is robust and adds value to the firms being reviewed. This should be done to comply with quality review requirements of International Standards on Quality Control 1 (ISQC 1). Specifically, engagement reviews should be conducted on each practicing engagement audit

partner, which is a shift from the current practice where reviews are done on one or two engagements only and these findings are applied to all the partners within the firm. In-depth review tools and checklists that incorporate all aspects of International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), and code of ethics should be revised and applied.

Improve Compliance with A&A Standards

20. The PAOs and other regulators should regularly offer opportunities to create awareness, enhance knowledge and offer implementation support of financial reporting. The topics to be addressed in those awareness and knowledge sharing sessions should extend beyond financial reporting and auditing standards to include subjects relating to requirements by regulators in the country e.g. Banking and Financial Services Act, Securities Act, listing requirements, Basel III and so on. Ideally, the sessions should be practical and case study based and capitalize on use of technology. The implementation support would address challenges identified during practice review cycles and expressed by preparers, regulators, auditors, and users of financial statements. This could include developing more guidance on the standards and tools and establishing help desks at the PAO level.

Strengthen the SMPs

21. ZICA should initiate and facilitate a voluntary merger program for sole practitioners and empower them to offer alternative services. To facilitate growth of SMPs, increase their market share, and comply with the reporting accounting and auditing standards, ZICA should facilitate a voluntary program to enable the SMPs to merge or join international accounting networks. In addition, ZICA should empower SMPs with the ability to secure and deliver alternative service offering that may include internal audit, corporate finance, company restructuring, and preparation of companies' financial records. Reference should be made to the tools and resources of the IFAC SMP Committee, available on the IFAC website.

Strengthen Monitoring and Enforcement

22. The government should establish institutions to monitor governance arrangements, performance and compliance with financial reporting requirements by SOEs and mining companies. These institutions are key contributors to the economy. However, currently there is no institution (regulator) responsible for overseeing their compliance with governance and financial reporting requirements, and providing appropriate support to strengthen these pillars.

23. The regulators in the country should enhance their monitoring capacity, methodologies, and information-sharing processes. The Bank of Zambia, Lusaka Securities Exchange³, Securities Exchange Commission, and Pension and Insurance Authority, should further strengthen their monitoring capacity and

³LuSE is licensed and regulated by the SEC

revise their review methodologies to better align with global regulatory developments. All the regulators should enter into an operational Memorandum of Understanding (MoU) to jointly conduct reviews, especially on financial reporting standards (where feasible), and share findings with each other where applicable, considering confidentiality requirements. The MoU should also include requirement to share experiences and ideas especially when formulating regulatory requirements by any of the regulators. Ideally, IFRS specialists should be stationed in ZICA and be responsible for conducting reviews of financial statements and share the findings with other regulators. The regulators should consider establishing a Regulatory Forum which should be instrumental in formulating and implementing the MoU.

Other Recommendations

24. The Auditor General (AG) and ZICA should enter into a voluntary partnership (through an MoU) to conduct audit quality reviews. The voluntary arrangement could involve ZICA's Practice Review Department conducting quality reviews of audit firms contracted by the AG to conduct audits and reperforming a number of quality reviews done by the AG's Quality Reviewer Department. Their findings should be reported to the AG's committee that makes the final decisions on the reviews. The

arrangements would contribute to providing credibility to AG audit quality reviews, strengthen human capacity and expertise on audit quality in both institutions, strengthen AG audit quality review approach, and enhance knowledge transfer between the two institutions.

25. The profession should initiate reforms to start adopting integrated reporting. As the level of financial reporting has matured, especially for PIEs, the country should consider incrementally introducing the latest reporting reform, integrated reporting, which encompasses reporting on how the company creates value in the short, medium, and long term using all the six capitals (financial, manufacturing, human, intellectual, social and relationships, and natural).

26. A national code of corporate governance for application by all companies should be developed. The code should set out governance principles and practices that all companies should apply to providing appropriate leadership to achieve success and sustainability. The code should replace the separate codes developed by different institutions. Reference should be made to other global codes, for example, King IV in South Africa (published in November 2016), 2016 U.K. Code of Corporate Governance, and Malaysian Code of Corporate Governance.



INTRODUCTION

Objective

27. The objective of the second Zambia Report on the Observance of Standards and Codes - Accounting and Auditing (ROSC A&A)⁴ is to determine reforms that will further strengthen the accountancy profession. Successful implementation of the reforms will enhance the profession's contribution in improving the Zambian business and investment climate, advance governance and financial accountability in both the private and public sector, and ultimately contribute to achievement of the government's 7th National Development Plan (NDP).

28. The review, conducted in response to a request from the Government of Zambia, focused on (a) assessing the status of implementation of the policy recommendations and action plan developed after the first review in 2007 and their impact on the accountancy profession, (b) assessing and identifying any emerging issues that relate to A&A practices that require strengthening, and (c) proposing policy recommendations to strengthen the profession. It involved reviewing the accountancy profession's institutional framework pillars, namely, the regulatory framework governing financial reporting practices; education and training of accountants, qualifications, institutions, and so on; the professional accountancy organizations (PAOs) in Zambia; the applicable accounting, auditing, and ethics standards and the extent of their implementation; and the regulatory institutions and their mechanism for monitoring and enforcing compliance with the standards.

⁴ The ROSC A&A forms part of the ROSC initiative launched jointly by the World Bank and the International Monetary Fund (IMF) in 1999 as part of the international community's efforts to strengthen the international financial architecture. The

29. The report is set out as follows. Section I describes the objective, approach, country and economic context, and link between corporate and financial reporting and the 7th NDP, World Bank country partnership strategy, and different sectors; section II provides an assessment of the framework supporting the accountancy profession; section III discusses the status of implementation of 2007 policy recommendation; and section IV lists policy recommendations.

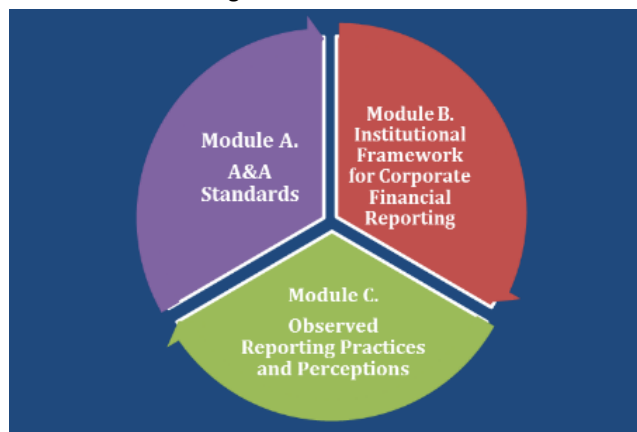
Approach

30. The review was conducted from February to September 2017 following the revised ROSC A&A 2 methodology. All findings reflect this period of the review. The data and information used for the review were gathered from the revised methodology diagnostic questionnaires completed by stakeholders, by reviewing accountancy profession-related documents; and through interviews with many diverse stakeholders. The participatory approach involved engagement with stakeholders from the Ministry of Finance, Auditor General (AG), Bank of Zambia, Securities and Exchange Commission (SEC), Lusaka Stock Exchange (LuSE), Registrar of the Pensions and Insurance Authority (PIA), Bankers Association of Zambia, Zambia Revenue Authority (ZRA), Financial Intelligence Centre, Chamber of Commerce, Chamber of Mines, CIMA, ACCA, A&A firms, banks, insurance companies, state-owned enterprises (SOEs), business communities, and academia. The review focused on assessing the institutional framework

initiative, started after the Asian crisis in 1997, was to focus on assessing and recommending reforms for each country to apply internationally recognized financial standards and codes in 12 policy areas.

underpinning A&A practices in the regulated entities, private sectors including small and medium enterprises (SMEs), and SOEs of the country in comparison with international standards and good practice, as outlined in figure 1. The scope of the review was extended to also focus on financial reporting requirements in the mining and tourism sectors. The outcomes of the assessment are aimed at directly contributing in developing a reform plan to strengthen the accountancy profession.

Figure 1. ROSC A&A 2



Country and Economic Context

31. Zambia is a large, landlocked, and politically stable country. It is geographically large but relatively sparsely populated with a rapidly growing population (approximately 15.7 million people). Zambia is landlocked but has an open economy, sharing a border with eight countries that serve as an expanded market for its traded goods and as routes for international and regional trade. Zambia is also a democracy and one of the most politically stable countries in Africa (secure societies are more prosperous; World Development Report 2017). After years of one-party state democracy, the country peacefully transitioned to a multiparty democracy in 1991 and has remained so since.

32. The Zambian economy has continued its recovery in 2017 following subdued economic activity from when the growth fell to 2.9 percent in 2015. The slow growth (from mid-2015) had been attributed to slow regional and global growth (crucially in China that purchases about 40 percent of global copper production), the decline in global copper prices—falling 20 percent in 2015, and significant U.S. dollar appreciation against the Zambia kwacha causing a substantial rise in prices of imported goods, electricity crisis, and low agricultural output due to poor harvests. The economy remains largely dependent on copper mining (accounts for over 70 percent of exports). However, recovery resulted in a growth of 3.6 % in 2016 and is expected to increase further to 4.1% and 4.5% in 2017 and 2018, respectively. The higher growth was mainly due to improved performance in agriculture and an upsurge in the mining, tourism, and transport sectors. The forecast assumes that the government will continue to implement the economic recovery plan, improved electricity production because of the favorable weather, and increased copper production because of the new and recently refurbished mines.

33. Zambia's financial system is relatively underdeveloped and bank dominated. Banks (17 in total) account for about 81 percent of total financial sector assets, with 10 foreign-owned banks accounting for 77 percent of total bank assets. Four banks are listed on LuSE. The nonbank financial institution (NBFI) sector is dominated by pension funds (44 percent of NBFI assets) and insurance companies (14 percent). Other NBFIs include building societies, leasing companies, microfinance institutions, development finance institutions, and foreign exchange bureaus. There are 38 insurance companies—50 % foreign owned, 48% domestic owned and 2% government owned.

34. Zambia's capital market is relatively underdeveloped. LuSE had 23 listed companies with market capitalization of US\$6,512 million (K 60,009 million) as of June 30, 2017. The debt market consisting of government securities and corporate bonds is underdeveloped. In addition to LuSE, a Bond and Derivative Exchange (BADEX) and Zambia Agricultural Commodity Exchange (ZAMACE) also exist but offer limited products and trading activity. In fact, ZAMACE operates as an exchange market for physical trading commodities is currently not under SEC regulation. There are a total of 25 issued corporate bonds. The main institutional investors are pension funds and banks such as the National Pension Scheme Authority (NAPSA) and Standard Chartered Bank. The securities market is regulated by the SEC. The SEC is responsible for the supervision and development of the Zambian capital markets, including licensing, registration, and authorization for financial intermediaries, issuers of debt and equity instruments, and collective investment schemes.

35. Zambia has a number of parastatal bodies (SOEs) involved in different sectors established under either the Companies Act or an enabling legislation. It was difficult to establish the number of existing SOEs in the country and their actual contribution to the economy. The Government of the Republic of Zambia incorporated the Industrial Development Corporation (IDC) in 2014 to serve as an investment company to hold shares of SOEs on behalf of the government and invest in new companies as the need arises. The IDC not only facilitates the provision and raising of long-term finance for projects but also serves as an investment holding company for SOEs. As of March 31, 2017, the government had transferred shares of 34 SOEs to the IDC—most of which were formed under the Companies Act. The AG is responsible for the audit of all these institutions including reviewing their operations.

36. Mining remains a critical sector in Zambia, accounting for more than 70 percent of exports, about 30 percent of government revenue, and 12 percent of gross domestic product (GDP) (World Bank, 2015b). Since the privatization of underperforming state-owned mining companies in 2002, private investment in the mines (all foreign owned) has exceeded US\$12 billion, leading copper production (copper and cobalt are the main minerals) to increase from less than 250,000 tons per year to more than 770,000 tons in 2016 (2016 annual economic report), making Zambia the world's ninth largest copper producer. Some 80 percent of Zambia's foreign direct investment (FDI) in recent years has been in mining (World Bank 2015a). Despite this success, however, Zambia's mining industry is not contributing as much as it could to Zambia's growth and development. It remains an enclave, employing only some 90,000 workers directly—about 8

percent of total formal employment in Zambia. Its contribution to government revenue, though increasing, remains less than that of other mineral-exporting countries, such as Chile. Of the approximately US\$2 billion worth of goods and services procured for the industry annually, less than 10 percent are locally produced. Underlying much of the political concern that the mining industry is not paying its fair share of government revenue is the suspicion that the ZRA and ZCCM-IH, which also oversees the operations of the mining companies through its residual shareholding, are not equal to the task of ensuring that tax is assessed and paid. The concern is not limited to just tax avoidance (through transfer pricing) but also concerns of poor information on production, smelting, refining, and sales, for which data appear to be inconsistent. However, significant support to the ZRA and other government agencies from cooperating partners through the monitoring value chain project is helping address these weaknesses. A strong accountancy profession would contribute to improving the quality of financial reports required for tax and royalty assessments and developing adequate and suitably qualified finance expertise to serve in mining companies and other institutions—including the ZRA—involved in various stages of mining value chain monitoring

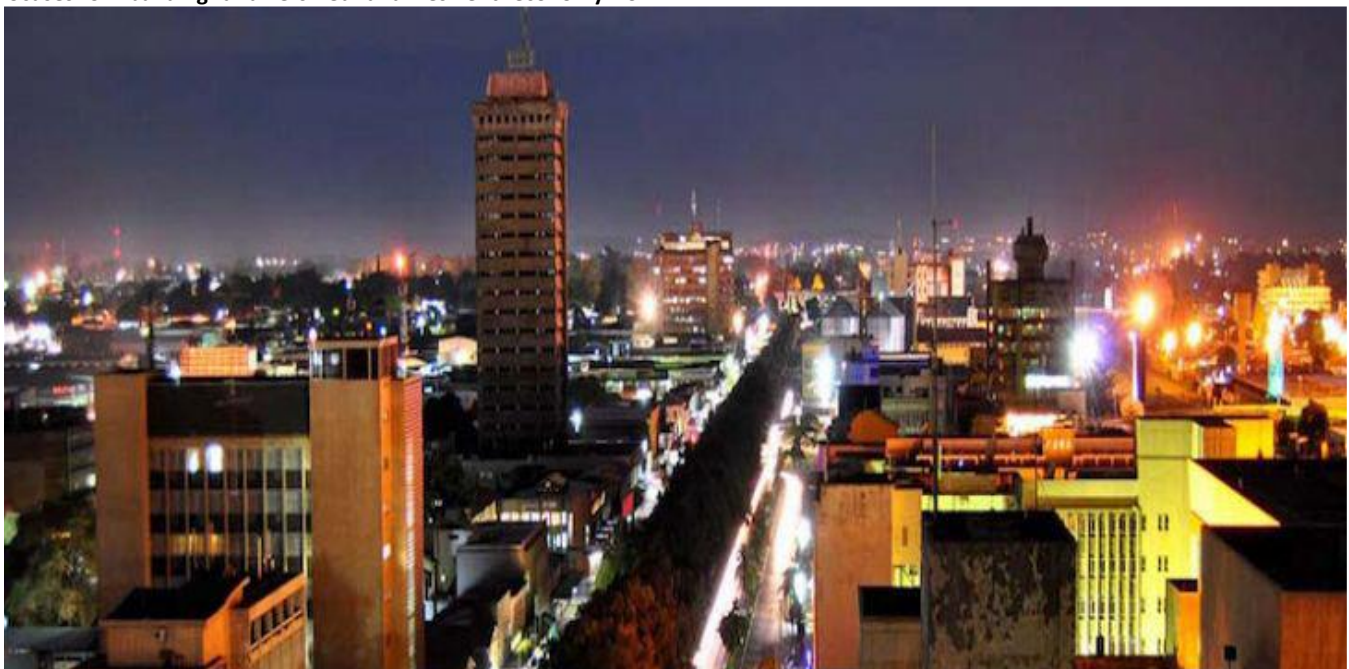
37. Zambia’s tourism sector is currently one of the country’s growth potential areas. It has been given the nontraditional export status and is receiving a lot of support from the government by way of infrastructure development, promotion of increased private sector participation, and attractive tax incentives for all investments in the sector.

Link between the Assessment and the Zambia Development Agenda

38. The government’s 7th NDP—covering 2017–2021—focuses on building a diversified and resilient economy for

sustained growth and social economic development. The NDP focuses on building energy, education, health, and environmental protection capabilities to improve the livelihood of the Zambian people. The plan has five developmental pillars under the theme “accelerating development efforts towards vision 2030 without leaving anyone behind,” aimed at actualizing, among other goals, the economic diversification and job creation, reducing poverty and vulnerability, and creating a conducive governance environment for a diversified economy. The accountancy profession has a crucial role in contributing towards achievement of these goals by developing suitably qualified human capital, improving the business and investment climate; and advancing governance and financial accountability in both private and public sector especially by strengthening accounting and audit practices.

39. Link with the Country Partnership Strategy. Zambia’s Country Partnership Strategy 2013–2016 focus on three themes: (1) reducing poverty and the vulnerability of the poor, (2) improving competitiveness and infrastructure for growth and employment, and 3) improving governance and strengthening economic management. Themes 2 and 3 emphasize the World Bank’s role of providing support for enhancing the enabling environment for private sector development and strengthening institutions and capacity. The ROSC A&A will further contribute in identifying reforms necessary to continue to enhance the business environment and develop capacity required to serve in both private and public sectors. The timing of the ROSC A&A effort also complements (a) the work under the Public Finance Management Reform Program aimed at improving the Chartered Accountant (CA) qualification that will result in developing suitably qualified accounting technicians and professionals to serve the economy and (b) the work of World Bank Group colleagues from the Finance and Markets Global Practice who have been conducting a Financial Sector Assessment Program (FSAP) review.





ASSESSMENT

40. This section evaluates the pillars that underpin the accountancy profession in Zambia in different sectors.

Accounting, Auditing, and Ethics Standards

41. ZICA, as mandated by the Accountants Act of 2008, adopted a three-tier financial reporting framework for preparation and audit of financial statements for different categories of companies in December 2010 (table 1). Previously, ZICA had adopted International Financial Reporting Standards (IFRS) as applicable standards to prepare financial statements for all commercial entities in Zambia effective March 2005, but the directive lacked legal backing. The approach specifies the applicable accounting standards to prepare financial statements and audit requirements. A similar approach is being adopted in many countries to address the cost of doing business and reduce administrative and compliance burden, especially for SMEs. In fact, legislation in many countries, including South Africa, Singapore, the United Kingdom, and some countries in the European Union, have already exempted SMEs from the statutory audit requirement. Some of the countries require the companies to conduct an independent review instead of an audit. In this regard, there is an opportunity for ZICA to reevaluate the terminology ‘not full audit’ as an audit is an audit.

42. ZICA requires all licensed auditors to comply with the International Standards on Auditing (ISA). Section 29 of the Accountancy Act 2008 requires auditors to perform an audit in accordance with standards determined by ZICA.

43. There are no financial reporting requirements for nongovernmental organizations (NGOs).⁵The stakeholders indicated that some NGOs meet the requirements to be classified as PIEs and should therefore be legally required to prepare and publish audited financial statements to protect public interest.

44. ZICA adopted the Code of Ethics for Professional Accountants as issued by the International Ethics Standards Board for Accountants (IESBA) in entirety without modification effective January 1, 2009. All ZICA members are required to uphold high ethical principles as set out in the code. ZICA uses the code to inform the processes and procedures to monitor and discipline members. ZICA monitors any IESBA updates and adopts the revisions to the code on an ongoing basis.

Table 1. Three-Tier Financial Reporting Requirements per ZICA 2010 Directive

Type of Company	Applicable Accounting Framework	Audit Assurance Requirements
Listed companies and public interest entities (PIEs)	Full International Financial Reporting Standards (IFRS)	Full audit assurance engagement

⁵ The Non-Governmental Organizations Act 2009.

Type of Company	Applicable Accounting Framework	Audit Assurance Requirements
Economically significant companies—companies that are not PIEs or quoted on the stock exchange but with turnover of K 20 million and above	IFRS for Small and Medium Entities SMEs or full IFRS if the company opts to use it (effective December 31, 2011)	Full audit assurance engagement
Micro and Small Entities—entities with turnover of less than K 20 million	Zambian Financial Reporting Standard for Micro and Small Enterprises (MSEs) (effective January 1, 2012)	No full audit required. If needed, full audit can be done; otherwise accountants report will suffice subject to Companies Act amendment.

As per ZICA, PIEs include (a) all listed entities, (b) any entity that holds assets in a fiduciary capacity, and (c) any entity (i) defined by regulation or legislation as a PIE or (ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including ZICA, as Zambia's audit regulator. *Source:* ZICA directive.

Institutional Framework for the Accountancy Profession

A. Financial Reporting Requirements

Commercial Enterprises

45. The Companies Act of 1994 prescribes the financial reporting requirements for private and public limited companies (the two categories of companies).⁶ All companies—as presented in Table 2—are required to prepare annual financial statements in compliance with the standards prescribed by ZICA, as indicated in paragraph 41. Similarly, the Companies Act requires all companies to be audited. This contradicts the above mentioned ZICA directive that exempts micro and small companies from a full statutory audit. ZICA has recommended a revision of the Companies Act to harmonize with the requirement supported by the Accountants Act.

46. The Companies Act of 1994 allows people without audit practice license to serve as auditors for private companies. Companies Act Section 172⁷ states that a public limited company can only appoint a registered accountant with an audit practice certificate issued by ZICA to serve as an auditor whereas a private company can appoint an individual or firm as auditor of the company. Therefore, audits of private companies may be conducted by people who are not qualified (nor regulated) to serve as auditors. This would negatively affect the audit quality and ultimately increase the likelihood of reputational damage to the profession. The requirements contradict the Accountants Act 2008, where only a person holding a practicing audit license or a

registered audit firm can conduct an audit. ZICA has proposed a revision to the Companies Act to harmonize the requirement.

Table 2. Types and Number of Companies Registered under the Companies Act as April 11, 2017

Type of Company	Registered	Active	Dormant
Public limited	77	64	13
Private limited companies			
Limited by shares	130,234	65,883	64,351
Limited by guarantee	7,221	4,641	2,580
Unlimited	6	2	4
Total	137,538	70,590	66,948

Source: Patents and Companies Registration Agency (PACRA).

47. The Companies Act of 1994 is silent on monitoring financial statements. While the act stipulates that companies should prepare financial statements that should be audited, there lacks legal mandate to monitor compliance with the standards, which is likely to negatively affect the quality of the financial reports.

48. PACRA⁸ is mandated to monitor how companies comply with the Companies Act requirements but has limited capacity. Its core mandate is to operate a registry of business entities (that is, companies and business names) and intellectual property; store corporate and intellectual property information (such information includes financial statements);⁹ and regulate companies to ensure they comply with the Companies Act. PACRA is mandated to sanction noncompliant companies by penalizing them for late filing of returns and prosecuting and deregistering them. PACRA is not required to monitor compliance with stipulated financial reporting standards; they only monitor filing of annual returns that is accompanied by annual financial statements. PACRA has an online system to file annual returns, but it is only used by 3 percent of the registered companies. In

⁶ Section 13 of the Companies Act 1994: A company incorporated under this act shall be a (a) public company or (b) private company, being (i) limited by shares, (ii) limited by guarantee, or (iii) unlimited.

⁷ Section 172 of the act reads as follows: "(a) A private company may appoint an individual or firm as auditor of the company; and (b) A public company may appoint - A registered accountant having a practice certificate issued by the Zambia Institute of Certified Accountants under the Accountants Act..."

⁸ PACRA is an executive agency of the Ministry of Commerce, Trade, and Industry (MCTI), established under the Patents and Companies Registration Act, No. 15 of 2010.

⁹ Companies Act Section 186: A public company shall lodge with its annual return a certified copy, certified by both a director and the secretary of the company, of every balance sheet, profit and loss account, group accounts, directors' report and auditors' report sent to members and debenture holders of the company in accordance with section one hundred and eighty-two since the last annual return was made.

addition, the fact that there are no defined requirements of who can serve as a company secretary contributes to poor record keeping—many changes taking place in companies, for example, ownership and directors, are not updated at PACRA. The agency has 8 staff members responsible of monitoring the submission of annual returns. They don't have experience and skills on monitoring compliance with financial reporting requirements.

Listed Companies

49. Financial reporting requirements for listed companies are in line with international standards. The listed companies are required to prepare annual financial statements in terms of IFRS (as stipulated in ZICA's directive) and subject them to statutory audit, which should be conducted in terms of ISA (the Securities Act 2016 and listing requirements of 2016).

50. Dealers and Investment Advisers are required to issue two audit reports, which is considered to be administratively expensive and time consuming by some of the companies. Statutory Instrument No. 163 rule 18 requires these types of companies to issue two audit reports, one on fair presentation of financial statements and the other addressed to the SEC expressing an opinion on a number of issues including whether customer money has been properly segregated and adequate financial systems have been maintained throughout the financial year. Some of the companies required to comply with the rule indicated that the requirements are causing confusion and are administratively expensive as the companies are required to hire the auditor to conduct and issue two distinctive reports.

51. LuSE has listing requirements that stipulate and enforce financial reporting requirements, which became effective in 2012. According to the requirements, which are harmonized with SADC Stock Exchange requirements, listed companies can only be audited by an auditor approved by ZICA and the SEC. In addition, the Securities Act 2016 requires the auditor of licensees to be a member in good standing with ZICA and this auditor shall not provide auditing services to the company unless s/he meets the minimum criteria specified by the commission. The SEC and ZICA has formed a joint working group to develop the criteria. Currently, the SEC only relies on whether the auditor is registered with ZICA and has an audit license. In line with practices in other countries, the Johannesburg Stock Exchange (JSE) example in box 1, the SEC should determine high-level criteria for designating such audit firms as listed entities are required to issue quality financial reporting to enhance public protection of such high-public-interest companies. The auditors are appointed by the shareholders by way of votes at the AGM. The audit market share of the 23 listed companies for the financial year-end December 31, 2016, is concentrated on 5 firms as follows: KPMG - 35 %, PWC - 22%, Deloitte - 17%, E&Y - 17% and Grant Thornton 9%.

Box 1.

JSE Criteria for an Accredited Auditor

The requirement for a JSE-approved, accredited auditor was added to the JSE listing requirements in 2008. To qualify as an

accredited auditor, the audit firm must be registered with the Independent Regulatory Board for Auditors (IRBA) (the institution that issues audit practice licenses), have demonstrated experience in auditing listed companies, and have a minimum of three partners that have complied with the IRBA inspections requirements. One partner must have demonstrated knowledge of the JSE, and one must be a specialist in IFRS. Audit partners are required to undergo mandatory training in the JSE listing requirements.

52. A compliance team at the stock exchange monitors compliance with stipulated reporting standards. The stock exchange monitors compliance by reviewing submitted audited financial statements, attending all relevant meetings such as the AGM, and reviewing correspondence submitted to the exchange by sponsoring brokers. The review team is required to ensure that financial reports are prepared in accordance with the International Accounting Standards (IAS) and IFRS. However, due to inadequate capacity, there is limited review on compliance with stipulated financial reporting requirements.

53. The SEC regulates the capital markets and sanctions companies that do not comply with the requirements of the Securities Act and the regulations issued thereunder. The SEC inspectorate team has a team of four experts (two managers who are accountants by profession and two analysts—an accountant and an economist) who monitor compliance with the SEC requirements. The SEC indicated that there is a need to increase the number of reviewing experts and strengthen the monitoring methodology to enhance its regulatory role. The current methodology is compliance focused with minimal review of compliance with stipulated financial reporting requirements. The thematic findings of SEC reviews indicated lack of full compliance with required financial reporting standards and lack of deep understanding of workings of capital market and SEC requirements by auditors. In terms of the Securities Act, a listed company or a company whose securities are registered with the SEC, a shareholder, or an auditor who contrives this part (auditing and corporate responsibility of listed company) shall be liable on conviction, to a penalty not exceeding one hundred thousand penalty unit¹⁰ (equivalent to US\$ 3,282), and to a further penalty of ten thousand penalty unit (equivalent to US\$ 32) for each day the offence continues. To this end, no major cases that warrant sanction have arisen in the past five years.

54. The listed companies are required to comply or explain how they have applied the code of corporate governance. There are no consequences for noncompliance with the code of corporate governance issued by LuSE in 2005. However, a report is prepared by the LuSE annually noting companies that are compliant with the code. To enhance application of corporate governance principles that result in improved stakeholders' confidence, LuSE host the Corporate Governance Awards on an annual basis. Globally, corporate governance principles have been evolving and new codes have been issued; for example, South Africa issued the King IV Report on Corporate Governance (November 2016) that contains principles and practices to be implemented by the governing body in all categories of

¹⁰ The periodic unit issued by Ministry of Finance is quoted at K 0.30 per unit. Thus, a penalty of 100,000 multiplied by K 0.30 gives K30, 000 and as at June 30, 2017 when the dollar was at K9.14, it would amount to \$ 3, 282.28

companies to attain governance outcomes of an ethical culture, good performance, and effective control within the organization and legitimacy with stakeholders. Therefore, there is an opportunity for Zambia to develop the latest corporate governance code for adoption in the country.

Banking

55. Banks apply latest financial reporting practices. According to the Banking and Financial Services Act 2017 Section 88(2), banks are required to prepare annual financial statements in accordance with IFRS as stipulated by ZICA and rules issued by the banks in accordance with this act. The financial statements should be subjected to audit using ISA. In addition, banks are required to prepare prudential reports in a standardized format that is slightly different from IFRS requirements, especially with regard to disclosures, that is, additional disclosures required as part of market discipline under Basel II, and valuation practices. There are inconsistencies between banking regulations covering financial reporting requirements and the provisions of other laws and regulations in the country. The Bank of Zambia prescribes bad debt provisions (prudential) that are different from the requirements in IFRS 9.

56. The bank auditors are appointed by the Board of the Bank under a recommendation of the Audit Committee and ratified by the shareholders at the AGM. There is no preapproved list of bank auditors. The expectation is that the auditor must be of good repute and in good standing with ZICA. The Bank of Zambia must approve the auditor. Auditors do not face any restrictions on providing non-audit services to banks they audit. The board is required to provide an explanation in the annual report of the nature of non-audit work undertaken and a demonstration of why such work did not compromise the independence of the auditor. The Bank of Zambia places a cap of 10 years' continuous engagement of an audit firm and three years for the engagement partner. There is a cooling-off period of at least two years for firms to be eligible for reengagement.¹¹ In addition, the Corporate Governance Directives, issued by the Bank of Zambia in 2016, require the engagement partner to rotate after three consecutive years.

57. Banks are required to publish their audited annual financial statements and quarterly unaudited financial reports. The audited financial statements are required to be made publicly available on the bank website and at PACRA, and the abbreviated annual financial statements and quarterly unaudited financial reports should be published in the newspapers of general circulation in the country and at the bank branches.

58. The banking supervisor reviews financial statements of banks through a dedicated unit—Examinations and Surveillance—to check compliance with the statutory and Bank of Zambia requirements. The Supervision Department has 30 staff, including accountants, with diverse expertise and experience. From a prudential point of view, the monitoring is

done using an internal framework. A reconciliation is usually required from the banks between prudential and IFRS-based financial reports. The bank supervision mainly focuses on prudential reviews. During on-site visits, they review the adequacy and capacity of finance function. The notable area of noncompliance with financial reporting standards is on bad debt provisioning. The Bank of Zambia has power to impose fines, remove from office any officer involved in misreporting, and institute court proceedings for conviction and possible imprisonment depending on the extent of offence. Over the past five years, there have not been significant breaches. In addition, there exists a protocol for the banking supervisor to engage with the auditors of banks, either directly or indirectly. The Bank of Zambia has a range of supervisory actions that can be taken if there is a qualified audit opinion, disclaimer, adverse opinion, and matter of emphasis. The reasons for the qualified audit report are paramount in deciding on the right set of actions. However, in most cases, the Bank of Zambia, through its early warning mechanism, is made aware of the problems that would lead to a qualified audit report in a bank.

59. All banks should apply and disclose in their annual reports whether they have complied with the Bank of Zambia Corporate Governance Directive 21.5 of 2016. The directive does not require additional financial reporting practices except for certain attestations that the board must apply with respect to reporting and disclosure. The directive requires establishment of an audit committee which should have oversight on the financial reporting system and ensure that internal controls are adequate and effective. The corporate governance directives require board members to have technical skills and expert knowledge. As noted earlier, the stakeholders called for development of one national code of corporate governance that should be applied by all entities. Such a move would benefit listed banks that are currently required to comply with two codes: the Bank of Zambia and LuSE.

Insurance Companies

60. Insurance companies are required to prepare annual financial statements using IFRS and subject them to audit applying ISA as stipulated in the ZICA directive. However, as previously reported, the Insurance Act does not specify the applicable standards to prepare financial statements or the institution that should stipulate the standards. The act requires the audited financial statements to be submitted to the regulator (Pensions and Insurance Authority) within three months after year-end. Insurance companies are required to prepare and submit unaudited quarterly returns with financial information to the authority, 30 days after the end of the quarter. The Insurance Act requires the authority to maintain a list of accredited auditors who can conduct audits of insurance companies. However, the authority has not established such a list nor determined accreditation criteria. Generally, the Insurance Companies' Board, under the recommendation of the audit committee, appoints auditors with a practicing audit license issued by ZICA. There are no requirements for insurance companies to publish their audited

¹¹ The issue of the 10-year rule external audit firm rotation is in the Corporate Governance Directives of 2016 (Directive 21.6). However, the Banking and Financial Services Act, which is a superior law, does not place any restriction. For the

engagement partner, this is covered under Directive 20.8, which restricts the tenure to not more than three consecutive years. Both directives require a cooling-off period of at least two years.

financial statement nor comply with any code of corporate governance.

61. The Pensions and Insurance Authority has two supervision departments, namely, pensions and insurance, whose roles include monitoring and enforcing compliance with reporting requirements specified in different regulatory instruments. Each supervision department currently has 10 technical staff, with minimum qualification being a degree and/ or professional qualification in accounting or business related discipline. The Authority is funded by an Insurance levy [0.5 % (long term insurers) and 0.8% (general insurers) of gross premiums of each insurance company] and a Pensions levy [0.3% of net assets of each pension scheme]. The Authority has sanction powers for non-compliance with stipulated insurance compliance requirements. Specifically suspend the license, revokes the license, and restricts business and liquidation. The authority can also request removal of the director, chief executive officer (CEO), or senior officials. The incidences that the Authority has recorded in relation to non-compliance relate mainly to late submission of statutory returns. The Pension Scheme Regulation Act No. 28 of 2006 (as amended in 2005) prescribes administrative penalties for the late submission of statutory returns [section 26(1)] and audited financial statements [section 23(6)].

SOEs

62. Most of the SOEs are established under the Companies Act and are therefore required to comply with the financial reporting requirements applicable to public limited companies. Specifically, they are required to prepare annual financial statements in terms of IFRS, subject them to an audit, and file an annual return with the registrar of companies. The Public Finance Act 2004 mandates the AG to undertake the audit of SOEs in line with the International Standards of Supreme Audit Institutions (ISSAIs). The AG can secure services of private auditors to carry out such audits on his/her behalf.

63. There is no designated institution or agency responsible for monitoring governance arrangements, performance and compliance with financial reporting requirements of SOEs. The IDC, an investment company wholly owned by the Zambia Government, has taken on monitoring of parastatals. However, there is no structured system in place to monitor the submission of audited financial statements apart from the annual audit requirement. The 2015 AG report on parastatals and statutory bodies reported several financial reporting weaknesses. They included lack of preparation of annual financial statements by several institutions, delayed preparation of financial statements, poor financial performance and financial positions of most of the institutions, poor accounting systems, and poor corporate governance practices. The weaknesses negatively affect the ability of the institutions to effectively fulfil their stakeholder mandates.

Mining Companies

64. There is no institution responsible for monitoring governance arrangements, performance and quality of financial statements issued by mining companies. The companies are

established under the Companies Act and are therefore required to comply with financial reporting thereon. Those listed are also required to comply with the requirements of the Securities Act and LuSE listing requirements as well. The Mines and Minerals Development Act is silent on the requirement for preparation and audit of financial statements. There is no institution responsible for monitoring how mining companies are complying with financial requirements. As noted in paragraph 36, there are concerns that the mining industry is not paying its fair share of government revenue due to poor quality of financial records that they maintain (date of production, smelting, refining, and sales appears to be inconsistent) and that the ZRA is not well capacitated to the task of ensuring that the correct tax is assessed and paid. In fact, as noted in paragraph 68, ZRA does not require companies to support their tax submission with audited financial statements.

Tourism Sector

65. The companies in the tourism sector are required to comply with financial reporting requirements stated in the Companies Act. Some of the travel agents, hotels and lodges, and tour operators are registered as sole traders or partnerships under the Registration of Business Name Act, while others are companies registered under the Companies Act. Similarly, there is no designated institution to monitor financial reporting by tourism companies.



Public Sector: Financial Reporting Requirements

66. The financial reporting requirements for the public sector are stipulated in the Constitution of Zambia (Article 1181) and the Public Finance Act (2004). The constitution requires preparation and presentation of annual financial statements for both revenues and expenditures for the year. Section 5(1) of the Public Finance Act states, "The Treasury shall promote and enforce transparency and effective management in respect of revenue, expenditure, assets, and liabilities on ministries, Government departments and statutory corporations." Section 5(2)(b) states, "The Treasury, for the purpose of performing its functions in subsection (1) shall enforce the provisions of this Act and any prescribed standards of generally recognized accounting practices and uniform classification systems, in ministries, departments and statutory corporations." As noted in 2007 ROSC A&A, the act does not provide any clarification on what the

prescribed principles are. As mandated by the Accountants Act 2008, to develop, promote, and enforce standards including public sector accounting standards, ZICA recommended that the government adopts the International Public Sector Accounting Standards (IPSAS) cash standard as the accounting standard to be used in the preparation of its financial statements from 2009. Therefore, the financial statements continue to be prepared in terms of this standard. The government plans to transition to full accrual from 2020. A number of ministries, provinces, and spending agencies (MPSAs) continue to receive qualified audit opinions. The Financial Report for 2014 showed that 26 of the 52 MPSA financial statements received qualified audit opinions and 19 of the 26 had been qualified for three consecutive years. There is an opportunity for the accountancy profession to actively partner with the government to strengthen public financial management systems especially internal controls, accounting and auditing practices which would strengthen effective allocation and efficient use of the resources for benefit of all Zambians.

67. The AG is responsible of auditing all public-sector entities as empowered by the Public Audit Act. The constitution grants the AG with independence on financial autonomy and in employing staff in partnership with the Public Service Commission. This has enabled the AG to hire professionals. As a result, the number of professionally qualified accountants has increased to 187 (2017) from 136 in 2013. However, it was noted that there is a challenge to retain professionals, especially due to competitive packages in the private sector. The AG conducts audits using ISSAIs and collaborates with other professions to conduct performance audits, for example, engineers. Similar to practices in other countries, the AG contracts out some of the audit to private audit firms, especially the audits of parastatals and statutory bodies due to limited staff capacity. The AG is developing capacity to conduct audit quality review of its work and the work done by private audit firms (currently not being done). There exist opportunities to conduct joint audit quality reviews by the AG and ZICA teams to strengthen capacity and quality of audits. The results of such reviews, especially private audit firms, should form part of what should be considered during the tender process of contracting private audit firms.

68. The ZRA does not require companies to have audited financial statements for tax purposes. The ZRA only requires an ITFA form—tax return—which can be signed off by anyone. However, it is widely acknowledged that enhanced quality of financial reporting would improve efficiency in tax assessment and ultimately domestic revenue mobilization.

B. Accountancy Profession

69. The accountancy profession in Zambia has grown significantly over the last decade. A new Accountants Act No. 13 of 2008¹² was enacted, which has strengthened the role of ZICA.

¹² This act has replaced the Accountants Act of 1982 (Cap 390) and gives legal oversight and monitoring powers to ZICA. The Accountants Act in section 31 (1) states, "The Institute, or any person authorized by it, shall within such period as the Institute may determine, review the practice of a chartered accountant and may inspect and make copies of any book, document or record in the possession and under the control of the chartered accountant."

Besides ZICA, there are two other PAOs in the country: U.K.-based branches of ACCA and CIMA.

70. ZICA is a self-regulated membership organization, whose primary mandate is to promote the accountancy profession, through the regulation and education of accountancy practice in Zambia. The role of ZICA, established in 1982, includes education and training of accountants and auditors; setting of standards (ethical, auditing, and accounting); issuance of practice licenses; and regulation of the accountancy profession—monitoring, investigation, and sanctions. Only ZICA's registered members can serve and provide accountancy services in the country. ZICA is governed by a council of 11 members: the Accountant General serves as an ex-officio member and 10 are registered accountants elected by members at the Annual General Meeting. The Council has approved a strategic plan 2014–2018 that informs the direction of ZICA. The PAO is run day to day by full-time staff members (39 as of June 2017) under the leadership of a full-time CEO. ZICA is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA) and an associate of Chartered Accountants Worldwide (CAW).¹³ The institute actively participates in both regional and global initiatives relating to accountancy profession, for example, representation in the PAO Development Committee of IFAC, international standard setting boards/committees, and the PAFA Board and PAFA Standards Setters Forum, to mention a few. ZICA has invested in iMIS, which enables members and students to effectively interact with the institute. Two functionalities of the system became effective in 2016: the payments system that enables members and students to make payments online and register for various events and workshops online and the 'time and attendance' system for registration to attend workshops and events online.

Capacity of the Professional Accountancy Body

71. ZICA's secretariat has enhanced its technical human capacity but is insufficient to effectively fulfill all designated mandates. ZICA's technical capacity to effectively discharge its responsibilities and fulfil its IFAC membership obligations has improved since the 2007 ROSC. ZICA established a Practice Review Department in 2009 to carry out quality reviews of practicing auditors and a Technical and Standards Department (2012) to support members, influence standard setting, and monitor financial statements of PIEs on an ad hoc basis as there is no legal backing to conduct such reviews. Currently, there are three staff members in the Technical Department: one technical manager and two technical officers. The team is supported by a technical committee composed of ZICA members. With reference to the mandate of ZICA, and the number of ZICA members who require to be regulated and supported, the review team consider the current staffing to be insufficient.

¹³ CAW brings together 11 chartered accountancy bodies connecting and representing the interests of over 1.6 million members and students globally. The membership of CAW will lead to multilateral cooperation, with ZICA members being able to globally carry a respected brand of high quality.

72. The institute is mainly funded by membership fees, though opportunities exist to diversify its revenue sources to strengthen its financial sustainability. The major sources of funding of the institute are examination fees, membership fees, continuous professional development (CPD), and practicing certificate renewals. Comparison with other PAOs in Africa, table 3, indicates that existence of opportunity to increase its revenue, especially from CPD events.

Table 3. Comparative Revenue Sources of PAOs (%)

Revenue Source	ZICA	ICPAK	ICAG
Membership	35	30	38
Examination fees	30	N1	44
CPD - member events	21	62	4
Practicing license fees	4	—	—
Rental income	1	7	—
Other income	9	1	14
Total	100	100	100

Source: PAOs' annual reports 2016. **ICPAK**: Institute of Certified Public Accountants of Kenya; **ICAG**: Institute of Chartered Accountants of Ghana. Note: N1 = Examinations facilitated by Kenya Accountants and Secretaries National Examinations Board.

Membership

73. The number of ZICA members required to serve the economy has doubled since the last report and more women are joining the profession. The number of ZICA members (the 5 categories¹⁴) increased from 2,922 in 2007 to 5,898 in 2017 and the number of students decreased from 9,881 in 2007 to 9,362 in 2017 as noted in table 4. There is commendable increase in female members (21% to 45%) and students (25% to 32%) over the same period though the male members continue to dominate the profession. The membership categories comprise people who are holders of (a) accountancy qualification offered by the institute, (b) a qualification recognized by the institute, and (c) foreign accountancy qualifications who have successfully passed ZICA-offered Company Law and Taxation Conversion Examinations. Globally, the trend is changing; holders of foreign accountancy qualifications are not required to sit for any conversion exams, as it is deemed that the professionals already have appropriate competencies. This is the case with the 10 PAOs that form Global Accounting Alliance¹⁵ and the PAOs in the five East African countries (Burundi, Kenya, Rwanda, Tanzania, and Uganda) have entered into a mutual recognition agreement in 2011. There is also opportunity for ZICA to maintain granular data, especially on the sectors where the members are serving and their age groups, as such information would assist ZICA and the profession in making evidence-based decisions, for example, on types of support to provide. In addition, the stakeholders indicated that there is potential to attract and develop more suitably qualified accountants, especially by enhancing the demand for accountancy services and increasing the brand value of accountancy profession.

Table 4. Members and Students Statistics including Gender, 2007 and 2017

Member Category	Gender	2007	%	2017	%
Fellow	Male	949	79	939	76
	Female	245	21	297	24
Total		1,194		1,236	
Associate	Male	177	68	493	65
	Female	83	32	266	35
Total		260		759	
Graduate	Male	41	63	287	59
	Female	24	37	200	41
Total		65		487	
Licentiate	Male	533	84	1,060	72
	Female	105	16	418	28
Total		638		1,478	
Technician	Male	599	78	1,298	67
	Female	166	22	640	33
Total		765		1,938	
Overall total		2,922		5,898	
	Male	2,299	79	4,077	69
	Female	623	21	1,821	45
Total students		9,881		9,362	
	Male	7,392	75%	6,386	68
	Female	2,489	25%	2,976	32

Source: ZICA. August 2017

74. While the statutory instrument prescribes the five national membership categories, it does not indicate the type of services to be rendered by the members in each category. Thus, there is likelihood of members in a certain category providing accounting services that they are not qualified to offer. This calls for the need for the law to prescribe the following aspects for each membership category: the qualification and type of services that members in the category can render.

75. CIMA and ACCA, global PAOs, have established branches in Zambia and their members and students have increased since the last report. In fact, as per table 5, 75% and 61% of ZICA fellows and associate members have ACCA qualification (because ACCA was the main qualification offered in the country until 2007 when ZICA qualification was launched). Both institutions offer their qualifications in the country through accredited tuition providers. However, several students qualify through self-study. The two institutions contribute to the development of accountancy profession in Zambia.

Estimate Demand of Accountants in the Country

76. There exists an opportunity to develop more professional and technician accountants to serve the country. A basic estimation using conservative assumptions of the average number of expected professionals and technicians in different

¹⁴ Categories prescribed in Statutory Instrument, 2008 "The Accountants (Qualifications for Registration) Regulations, 2008. They include: Fellows, Associates, Graduates, Licentiates and Technicians

¹⁵ The Global Accounting Alliance is made up of 10 of the world's leading accounting institutes, brought together to promote quality services, share information, and collaborate on important international issues.

types of companies indicates that there is a demand of about 7,000 and 21,600 professional and technician accountants, respectively (table 6), to serve the country. The computation provides indication of an existing gap that requires to be confirmed by conducting a detailed research on demand of accountants. The government and accountancy profession should put in place smart and innovative measures to develop more accountants to fill the gap.

Table 5. Membership of CIMA and ACCA—Also Registered as ZICA Members

PAO	Associates		Fellows	
	2017	2007	2017	2007
CIMA	85	45	117	147
Proportion to ZICA members	11%		9%	
Male	47	26	84	119
Female	38	19	33	28
ACCA	463	185	932	965
Proportion to ZICA members	61%		75%	
Male	269	122	667	759
Female	194	63	265	206

Source: ZICA.

Table 6. Estimation of the Number of Professionals and Technicians (October 2017)

Type of Company	No. of Companies	Estimated Professionals	Estimated Technicians	Assumptions – Average Number per Company
Bank of Zambia	1	3	9	3 professionals and 9 technicians ^a
Banks	17	51	153	3 professionals and 9 technicians
Insurance companies	38	114	342	3 professionals and 9 technicians
Auditing firms with >5 partners	6	60	300	Average of 10 professionals and 50 technicians (1 professional: 5 technicians)
Auditing firms—2 to 4 partners	22	110	660	Average of 5 professionals and 30 technicians (1 professional: 5 technicians)
Public limited companies	64	128	384	2 professional and 6 technicians
Private limited companies—shares	65,883	6,600	19,800	1 professional and 3 technicians for each 10 companies
Total estimated demand		7,066	21,648	
Current members of ZICA		3,960	1,938	
Demand supply gap		3,106	19,710	

Source: World Bank estimation based on data from PACRA and ZICA. Note: a. Professionals (CEO, internal auditor, head of risk/supervision), each supported by three technicians per professional.

77. There has been an increase in the number of auditors and auditing firms with the majority being single practitioners. An auditing practicing certificate is granted once a person has complied with the stipulated criteria.¹⁶ Audit firms are required to be registered and issued with a practicing certificate. The non-audit practicing certificate is granted to individuals and firms that want to undertake general practicing work except audit. There are 124 auditing practicing firms (93 in 2007) that employ 600 auditing related staff (table 7). As many as 96 of the 124 firms (77 percent) are single practitioners (an increase from 74 in 2007) with minimal audit market share; majority focus on tax advisory services. The small and medium-size practitioners (SMPs)—single practitioners and firms with less than four partners comprise 95 percent of the audit firms—face challenges in understanding and applying the complex, onerous, and evolving technical A&A requirements. The ability of such firms to comply with the requirements of International Standards on Quality Control 1 (ISQC 1) are onerous and unachievable (the firms do not have peer review mechanisms). This potentially has an impact on the quality of services that they render and on their business continuity—potential risk to protecting public interest and reputation of the profession.

Table 7. Number of Registered Auditor

Number of Partners	Audit Firms		Accounting Practitioners	
	2007	2017	2007	2017
5–9	6	6	0	0
2–4	13	22	0	5
1	74	96	7	22
Total	93	124	7	27

Source: ZICA April 2017

78. The auditing practicing certificates are renewed annually. To renew the practicing certificates, the practitioners must submit an annual firm declaration with information on work done during the year, type of clients, and evidence of CPD. The renewal application is accompanied by confirmation of professional indemnity insurance, renewal fees, and a continuity agreement for sole practitioners (box 2)—a practice not in existence in many countries.

Box 2.

Continuity Agreement

"A continuity agreement: A holder of any practicing certificate who is carrying on public practice must enter into and keep in force for all the period during which a practicing certificate is held a written agreement with another accountant or firm of accountants (or a plurality of them) - the 'nominee'. For partners/directors, this agreement may be made with another equivalent level practicing certificate holder within the practice. This provides for the nominee to be responsible for the individual's practice in the event of death or incapacity."

Source: ZICA, 2017.

79. Auditors out of practice for a period longer than 24 months are required to write a reentry exam before they are issued a new audit practicing certificate. This ensures that the

members are professionally competent to provide quality audit services. Members holding non-audit certificates are only required to pay outstanding subscriptions plus applicable penalties to regularize their membership. The practice exists in other countries, though some apply readmission approaches that do not require reseating exams. Refer to the South Africa example in box 3.

Box 3.

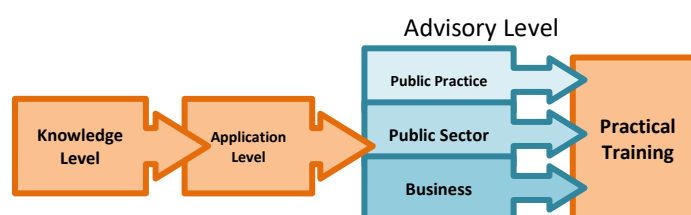
Readmission Policy—the Independent Regulatory Board for Auditors (South Africa)

If an auditor who has been out of practice for more than five years wants to return to practice, s/he should provide evidence of CPD and be interviewed by a panel to assess his/her audit knowledge. This assures the IRBA that the returning auditor has the required competences, knowledge, and skills to discharge his/her public interest responsibility.

C. Accountancy Education and Training

80. ZICA restructured its professional qualification and rebranded it to the Chartered Accountant Zambia from the ZICA professional qualification—launched in August 2017. The revisions and the restructuring of the qualification offered since 2007, were done to meet recent global developments and to develop suitably qualified accountants to serve Zambia and other countries (contribute to increasing intraregional trade in accountancy services). The qualification framework, designed based on the International Education Standards, sets out several competencies that an aspiring professional accountant should acquire by successfully completing the specified technical and professional skills training and practical training including passing the assessments. The entry requirements of the qualification have been improved to attract the best and outstanding talent—holders of the grade 12 school certificate or its equivalent with merit grades or better in five subjects including mathematics and English. It incorporates more public sector subjects. In addition, the framework has been designed in a way that it now offers optional learning streams at the advisory (final) level not included in the previous qualification: public practice, public sector, and business.

Figure 2. Revised Professional Qualification Framework



¹⁶ Criteria: Individual has (a) been certified by a professional body as having complied with the education and training requirements, (b) passed the competence practice examination set by the institute, and (c) more than seven years'

experience (all in audit) between the date of complying with the education and training requirements and the date of the application.

81. To develop accounting and finance staff to serve in the entire financial reporting value chain, ZICA has designed three additional diploma qualifications—Diploma in Accountancy, which will be the technician qualification; Diploma in Taxation; and Diploma in Public Sector Financial Management for the people who want to specialize in the public sector. ZICA is engaging in a campaign to create more awareness of all the qualifications to the prospective candidates and employers.

82. ZICA has adopted a revised practical training framework (August 2017) and will need to design appropriate infrastructure to effectively implement it. The framework, developed based on the requirements of the International Education Standards, sets out the requirements for the trainee (including the competencies s/he must acquire over a three-year period), approved (accredited) employer, accredited mentor, and ZICA to monitor the process. The infrastructure should address challenges faced when implementing the previous framework. Specifically, the fact that there were only a few accredited mentors and employers mainly audit firms in the urban areas as only a limited number of companies had accepted to offer the opportunity. Only government institutions were accredited employers in rural areas and their offering were limited. The competencies that the trainees needed to acquire were not clearly defined and not easily acquired in the accredited employers as monitoring of the trainees and accredited employers was a challenge. Mentors signed for trainees without evidence of work done. There were no opportunities for those in rural areas and there was a lot of job hopping by the trainees, especially those who had already been granted their qualification certificates (the graduates). The practice affected the capabilities of the new graduates. The employers interviewed during the review indicated that the work performance by newly recruited graduates was of low quality and inconsistent and depended on where the graduate attended practical training—evidence that the practical training required to be strengthened.

83. ZICA has accredited tuition providers for the CA qualification, but they are few and mainly located in four provinces¹⁷ while a number of students' study on their own. Currently, only 5 tuition providers have been accredited to offer training for the advisory level of the CA qualification and further 17 for the other levels. These 22 institutions were also accredited to deliver previous qualification. The low number of training providers' limits access, especially for prospective accountants in rural areas. In addition, thematic findings of monitoring the training providers by ZICA and feedback from stakeholders interviewed during the review indicated that the providers did not have adequate number of suitably qualified lecturers and lacked required teaching material and equipment, which affected the performance of the students. It was indicated that the teaching method focused on teaching students how to pass and did not empower them with practical skills. The tuition cost was also considered to be high, which negatively affected access. As a result, a number of students' study on their own. ZICA has developed CA Zambia-recommended training material for use by the students, especially those on self-study.

84. A number of universities offer accounting degrees though their programs are focused on the private sector and do

not include practical training. The curriculum in the institutions does not include the public sector. Training is theoretical. However, a few universities—for example, University of Lusaka, has introduced practical training—computerized accounting in years 3 and 4. It was indicated that the universities are also negatively affected by lack of adequate suitably qualified lecturers and training material. ZICA has minimal influence on universities' curriculum (Education and Training Committee). ZICA has entered into a Memorandum of Understanding (MoU) with the Higher Education Authority—responsible for registering universities and accrediting their learning programs. The MoU, which is already effective, requires ZICA to contribute in determining the criteria for accrediting accountancy-related degrees.

85. The Ministry of Higher Education recently established the Zambia Qualification Authority that has developed a National Qualification Framework (NQF) in 2016. A process has been started to first register professional bodies and their qualification. ZICA plans to register and map the new qualifications in the NQF to receive the necessary country recognition.

86. There is a declining number of students registering for different levels of ZICA qualifications since 2010 (table 8). There are perceptions that the decline is attributed to low appreciation of value of accountancy services (including financial reporting), low brand value of the profession, and low salaries. The stakeholders called for the need to conduct a detailed analysis to determine the causes and develop evidence-based responses to attract more students to the profession.

Table 8. Students' Registrations at All Levels of ZICA Qualifications

Year	2010	2012	2014	2016
Total	10,728	10,217	9,614	8,995

Source: ZICA April 2017.

87. The pass rate for ZICA examinations has been low over the past three years. As noted in table 9, the number of candidates who enrolled and passed the professional exams (per subject and overall) in the last three years was very low. However, the overall pass rate has been increasing from 19% in 2014 to 40% in 2016. The pass rate on financial and accounting subjects was generally low. This is mainly attributed to self-study, training by inexperienced lecturers (who do not have practical experience and training techniques), and poor results in mathematics' at Grade 12 by students joining to study the qualification.

¹⁷ Lusaka, Southern Province, Central Province, and Copperbelt.

Table 9. Professional-Level Pass Rate per Subject and Overall (%)

Professional-Level Papers	JUNE 2014	DEC 2014	JUNE 2015	DEC 2015	JUNE 2016	DEC 2016
	%	%	%	%	%	%
P1 - Advanced Financial Reporting	11	11	29	36	35	39
P2 - Advanced Management Accounting	6	27	7	35	39	35
P3 - Strategic Financial Management	20	17	20	34	24	47
P4 - Audit Assurance and Services	34	28	28	37	10	31
P5 - Strategic Management	40	62	87	55	63	65
Overall pass rate at the professional level	19	26	29	40	34	40

Source: ZICA April 2017

88. ZICA members are required to comply with CPD requirements by completing 40 hours of learning activity each year, of which 21 hours are verifiable but recording, monitoring, and sanctioning processes are weak. For auditors, the CPD must be audit specific. ZICA directly designs and offers a number of CPD events using different formats: technical update workshops, the accountant's forum, the annual business conference, and pre-AGM workshops, and so on. The events focus on tax updates, IFRS, auditing standards, IPSAS, and soft skills. In 2016, 18 CPD events were hosted. ACCA and CIMA also provide CPD opportunities. ZICA members are required to manually prepare and submit an annual self-declaration of CPD attended at the time of renewing their membership. The mechanisms to monitor and sanction noncompliance required by the IFAC Education Standard (IES) 7, 'Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence', are weak. ZICA selects a sample of 10% of submitted declarations to check accuracy. For auditors, 100% verification is carried out as it is a precondition for renewal of the practicing certificate. Opportunity exist to use the iMIS for members to submit the annual CPD declarations and for ZICA to verify the declaration against event and workshops registration and attendance records maintained in iMIS.

D. Audit Regulation

89. Since the previous ROSC in 2007, an independent Standards and Regulatory Board (SRB), housed within ZICA, was established to promote and maintain the integrity of the accountancy profession by overseeing compliance with relevant

standards and regulations governing the profession. The SRB reviews and takes action on the decisions of the Practice Review Committee (PRC), considers the results of Competence Practice Examinations for individuals wishing to become practitioners, and receives reports from the public sector and technical committees. The SRB considers the decisions and recommendations of the PRC and makes a final determination by mainly adopting the recommendations that do not require action and making a final decision on recommendations that require further action. In cases where the PRC decision is to discipline a member, the SRB may refer the matter to the Disciplinary Committee (DC) for action. All findings by the SRB are reported annually in a common finding report that is published on the ZICA website. The SRB consists of eight independent members from the following representative bodies: the Competition Consumer Protection Commission, Pensions and Insurance Authority, Bank of Zambia, SEC, AG's office, Chairperson of PRC (ex officio), Chairperson of Technical Committee (ex officio), and Chairperson of Public Sector Committee (ex officio). The membership composition gives comfort that there is a strong element of independence.

90. The regulatory function conducted by the SRB is funded from membership fees. The funding of SRB activities is included in the ZICA budget which is approved by the council. Similarly, at the end of the year, SRB performance and financial reports are reported to ZICA members at the AGM. This raises concerns about the perceived independence of the regulatory process. Ideally, the regulatory role should have a stable and sustainable source of funding that is free from influence by the people being regulated, the auditors¹⁸ as it also increases public trust.

91. ZICA has enhanced its capacity to conduct audit practice reviews by establishing a Practice Review Department (2009) that has conducted many reviews. When the Practice Review Department was established in 2009, ZICA contracted ACCA for six years to help build internal capacity in practice review and conduct audit practice reviews of all firms from 2009 to 2014. The department that currently comprises two full-time practice reviewers—reporting to the Director of Standards and Regulation—started reviewing SMPs from 2012 and subsequently transitioned to reviewing all firms from 2015. The department benefited from capacity strengthening from the Institute of Chartered Accountants of England and Wales (ICAEW) in 2015–2016; the ICAEW accompanied the ZICA reviewers on a mentorship program during reviews of the 'Big Firms' and assisted in improving the review methodology. The department's policy is to review practitioners once every six years (review cycle) or four years for practitioners with PIE clients. Table 10 provides the number of reviews performed in the past five years. Interviews with practitioners highlighted concerns on the capabilities, capacity and confidence of the reviewers to successfully conduct audit reviews and engage especially with the seasoned and senior partners who have vast wealth of experience.

¹⁸ IFIAR Core Principles for Independent Regulators, Principle 2.

Table 10. Number of Audit Firm Reviews

Firm Size	Audit Firms				
	2012	2013	2014	2015	2016
Large, with >5 partners	2	4	4	2	3
Medium and small	20	21	16	15	21
Total	22	25	20	17	24

Source: ZICA April 2017

92. The Practice Review Department applies a risk-based approach, though it is not rigorous enough. The department focuses on files with public interest and thematic high risk areas. However, when a firm with more than two partners is visited, not all practitioners in a firm are reviewed. Reviews are done on one or two engagements only and these findings are applied to all the partners within the firm. This is not in line with standards¹⁹ and best international practice. History has shown that, even in firms with very mature quality control systems, quality of work performed by one partner can differ significantly from another.

93. The audit review methodology focused on use of checklists and tools that are elementary and negatively affect the quality of the findings and issued reports. There is minimal assessment of compliance with IFRS (where applicable); the applied ISA checklist does not include reference to all compulsory audit requirements. Similarly, it was evident that the two reviewers required more support to enhance their knowledge, skills, and experience on IFRS and ISA-related matters. As a result, the review reports do not contain comprehensive evidence-based findings. There was also lack of a central database where comprehensive evidence of the reviews was kept for easy access. These findings call for the need to reevaluate the adequacy of the methodology and current human and technology capacity.

94. The Practice Review Department submits its preliminary decision and recommendations to the PRC, which makes the final decision/recommendation. The practice reviewers prepare their reports and indicate whether a review is found satisfactorily or unsatisfactorily and proposes actions for those found unsatisfactory. The PRC considers the reports and either accepts the recommendation or proposes changes to the reviewer's decisions and recommendations before submitting their decision to the SRB. As noted earlier, the SRB makes the final decision. The PRC includes members from the profession but is not completely made up of practicing auditors. The majority of the members of the PRC are non-practicing auditors. The membership includes representatives from the ZRA, LuSE, Bank of Zambia, and Energy Regulation Board and one representative each from users of financial statements, the big audit firms, and small to medium audit firms. If the true independence of the PRC and its perceived independence are to be improved, the PRC should have the power to make final decisions on practice reviews.

95. The DC responds to complaints from the public or referrals from the SRB and has only sanctioned a few cases over

the past four years. The DC comprises a chairperson and vice chairpersons, who are both lawyers. The other members include three representatives from accountants in business/commerce and one representative from accountants in practice. The DC should meet quarterly. Complaints from the public are reported to the institute either anonymously or openly. These are protected by the whistle blower policy that is in place. The said complaints are later investigated by the officers in the Standards and Regulation Directorate or by an independent investigator appointed by the directorate, who submits a report to the SRB either for its information or action, as the case may be. The SRB, after satisfying itself that there is a prima facie case, refers the case to the DC. The DC summons the accused, witnesses (if any), and investigation officer to appear before it for questioning. The alleged accused person is entitled to having legal representation. The Accountants Act, under Section 77 (5) (a) to (g), spells out the various penalties that can be imposed by the DC: censure, fine, and exclusion from professional body. Only a few cases have been subjected to disciplinary hearing and sanction since 2013 (table 11). If not satisfied with the ruling of the DC, an accused person can appeal to the High Court of Zambia under the Chief Justice rules. The decisions—stating the names of the individual and firm—are published in the print media and the Institute's Annual Report and are also read out to the members at the Annual General Meeting.

Table 11. Number of Cases and Sanctions

Year	Number of Cases and Outcomes
2013	5 cases were deliberated on and 1 member had his certificates suspended.
2014	1 case was finalized and the member was fined in monetary terms.
2015	No cases were finalized.
2016	8 cases were deliberated: 1 has been suspended to pave way for further investigations, 3 were disposed of, and the other 4 are all pending judgment. The SRB also considered matters relating to accountants cited in the AG's report. This matter is still under investigation.

Source: ZICA April 2017

96. The monetary penalty is considered lenient. With reference to the Accountants Act of 2008, the DC can impose a maximum penalty of K 27,000 (US\$3,000) to ZICA members found guilty. The amount is considered not to be deterrent. The fact that only members registered with ZICA are monitored makes it worse as there are isolated incidences of other non-ZICA registered persons offering accountancy-related services, an aspect that increases likelihood of reputational damage.

97. The SRB issues an annual report with the review results on the completed reviews and investigations for the year. However, the report only discloses a single percentage without providing details differentiation between the reviews performed on the firms' compliance with ISQC 1 and ISA220 and the results of the engagement reviews performed on individual partners. A

¹⁹ ISA 220 paragraph 15: "[Each] engagement partner shall take responsibility for (a) the direction and performance of the audit compliance with professional standards and applicable legal and regulatory requirements; and (b) the auditor's report being appropriate in the circumstances."

ISQC1 Glossary of Terms: The engagement partner is "the partner or other person who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional and legal or regulatory body."

'Common Findings' report is also issued and published on ZICA's website, where most of the findings relate to poor documentation on audit files, especially regarding sufficient and appropriate audit evidence in a re-performable format. This provides evidence to findings noted earlier that the review approach and methodology are not robust enough to identify the key underlying issues and complex accounting matters.

Observed Reporting Practices and Perceptions

Financial Statements Review

98. The review of financial statements shows an improvement in complying with IFRS though there are still areas that require improvement. The team reviewed 14 financial statements relating to 2015 and 2016 year-ends: 8 listed companies, 3 unlisted companies, and 3 from statutory organizations. Generally, there was a high level of compliance with IFRS compared to findings in the 2007 review. The key thematic areas on noncompliance with IFRS were as follows:

- **Deferred tax.** Noncompliance to IAS 12: Income Taxes was observed in that in one set of financial statements, deferred tax was not calculated and tax reconciliation between tax expense and the product of accounting profit multiplied by the applicable rate was not provided.
- **Inventories.** While most financial statements reviewed were compliant with IAS 2: Inventories, one or two did not comply in that they failed to mention the method of valuation of inventories and did not state any policy with regard to inventories.
- **Fair values.** It was noted that in some cases where fair values were used, the notes to accounts did not specify whether such valuation was undertaken by a qualified valuation expert as per disclosure requirements of IFRS 13.
- **Related party transactions.** In most cases, there were inadequate disclosures of related party transactions, leading to noncompliance with IAS 24: Related Party Disclosures. Although the values of related party transactions were provided, important disclosures such as relationship, pricing policies, nature, and volumes of related party transactions were omitted.

Perceptions of A&A Practices

99. A number of preparers rely on auditors to prepare their financial statements in compliance with IFRS, which compromises auditors' independence. Although not as prevalent as during the 2007 ROSC, especially in the SMPs, practicing

auditors indicated that preparers relied on their support to prepare financial statements with reference to applicable standards. There is minimal appreciation of importance of financial reporting and the role of the accountancy profession.

100. Audit practitioners indicated that many companies are not able to apply IFRS because of the complexity of the standards and the lack of adequate expertise. The practitioners indicated that IFRS compliance is hampered by complex requirements—for example, determination of fair value in some cases requires the costly services of experts. Banks also face challenges in determining bad debt provisions.

101. The auditors do not fully understand the requirements of the regulators, which negatively affects the audit quality. The regulators engaged during the review indicated that there is a low to medium level of understanding of their requirements by the auditors, for example, Banking Act requirements, Basel III, SEC requirements, and listing requirements. This is evidenced by the types of issues raised by the regulators once they review reports issued by the auditors.

102. While lending institutions require submission of financial statements to and from borrowers, they do not place much reliance on them to make the lending decision. The quality of financial statements prepared by borrowers is of poor quality. They place more relevance on the collateral provided to secure the lending. Improving the quality of financial reporting would allow lenders to place greater reliance on financial statements.

Compliance with Auditing Standards

103. The Practice Review Department findings indicate existence of challenges in fully complying with the requirements of ISA. This is evidenced by the following thematic reported findings:

- Poor documentation of the nature, timing, and extent of audit work performed in a manner that is understandable
- Not evaluating uncorrected misstatements for materiality purposes
- Weak audit testing in areas that involve a lot of management judgments and estimates
- Relying on controls without testing them on file
- Not addressing all the assertions in material account balances or classes of transactions
- Not tailoring and implementing ISQC 1 policies and procedures for, especially, the SMPs.

104. The SMPs face challenges in understanding and keeping up-to-date with developments of both IFRS and ISA, which affects the quality of their services. As noted earlier, majority of the audit firms are single practitioners (77%). They face challenges in understanding and applying the complex and ever-changing standards. It is also difficult for single practitioners to comply with all the requirements of ISQC 1.



Status of implementation of policy recommendations in the 2007 ROSC A&A

105. Majority of the main recommendations (8 of 9) in the 2007 report have been fully or partly implemented, which reflects the government's and ZICA's commitment to strengthening the accountancy profession. This report has highlighted progress made in each area and noted where further improvement is required. The implementation has contributed to enhancing the relevance and strength of the profession as reported in the assessment section.

Table 12. Summary of progress in the implementation of key policy recommendations in the 2007 ROSC A&A

Recommendation	Action Taken	Status
Statutory framework		
The Companies Act requires amendment to the effect that requires (a) only individuals and firms with auditing practicing license can conduct audit for private companies, where required; (b). review of the level of statutory penalties for failure to comply with requirements for preparation of financial statements and audit; and (c) the registrar of companies to enforce the requirements on filing company financial statements.	<p>The Companies Act is undergoing revision and ZICA has recommended that it be aligned with the Accountants Act 2008 to make it mandatory for entities to appoint an Auditor who is registered and holds a practicing license from ZICA.</p> <p>Under the Accountants Act, the levels of penalties for non-compliance have been enhanced: a penalty of 500, 000 penalty units (K 130,000 or US\$ 14,223) or five years in prison or both.</p> <p>Noncompliance with the filing requirements also attracts penalties that are enforced by PACRA.</p>	Partly done Revisions of the Companies Act are in progress
The Banking and Financial Services Act and Insurance Act require banks and insurance companies to prepare financial statements complying with properly defined accounting standards and require auditors of banks and insurance companies to comply with ISA.	The Banking and Financial Services Act and Insurance Act refer to ZICA as the institution responsible for prescribing the accounting standards.	Done

Recommendation	Action Taken	Status
The Public Finance Act 2004 should define the term “prescribed generally acceptable accounting principles.”	The Public Finance Act is undergoing review with stakeholder consultation under way. ZICA recommended that the act refers to the Accountants Act on matters relating to financial reporting.	Not done
Establish an independent A&A regulator (Financial Reporting Council) by enacting a Financial Reporting Act and Financial Reporting Council.	ZICA has amended its structure to provide for the establishment of the Standards and Regulatory Board which focuses on reviewing international standards. However, the board is not seen as fully independent in appearance and fact.	Partly done
Monitoring and evaluation		
Strengthen the capacities of the SEC, LuSE, Bank of Zambia, and Registrar of Insurance with regard to IFRS so that these regulatory bodies can effectively deal with matters relating to accounting and financial reporting practices of the regulated entities.	While the regulators have improved their capacities, more expertise is required to monitor accounting and financial reporting requirements.	Partly done
Standard setting		
Set applicable standards, other than IFRS for SMEs. IFRS should not be mandated for SMEs.	ZICA, as mandated by the Accountants Act 2008, adopted a three-tier financial reporting framework. MSEs are required to apply Zambian Financial Reporting Standard.	Done
Professional capacity		
Strengthen ZICA to build its capacity by addressing the quality issues and meet its IFAC membership obligations.	ZICA has established a full-fledged Technical Department and a Practice Review Department to provide technical support and monitor auditors. However, ZICA requires strengthening its capacity and capabilities to achieve its mandate and IFAC SMOs.	Done
Join regional efforts to address capacity needs in some technical matters.	Member of PAFA and CAW. ZICA officers sit on the PAFA Standard Setting Committee.	Done
Education and training		
Ensure quality in professional education and training programs.	Launched a new ZICA CA qualification but more is required to accredit more tuition providers and implement an improved practical training program.	Partly done



POLICY RECOMMENDATIONS

106. The principle-based policy recommendations intended to further improve the accountancy profession infrastructure have been formulated based on the findings of the review, international experiences, good practice, and country context. The government and country stakeholders should develop a country action plan that incorporates specific objectives to be undertaken noting the timing, (short, medium, or long term) and the institution responsible for implementing each action. The development of the country driven action plan should consider country priorities, country context and available resources (human and financial). Commitment from the government, the ROSC A&A Steering Committee, and other stakeholders is critical to successfully implement and achieve the desired outcomes. Development partners should be engaged to support implementation of the action plan with financial and technical assistance. The key policy recommendations focus on establishing an independent accountancy profession regulator; strengthening PAOs to serve a thought leadership role and meet their mandate; implementing an improved practical training program, with accredited tuition providers and officers who are monitored; accrediting and strengthening tuition providers; revising the Companies Act to define who can conduct audit; strengthening SMPs; and strengthening capacity and methodology of regulators.

Statutory Framework

107. The Companies Act of 1994 should be amended to align with stipulations in the Accountants Act relating to which companies should be audited and only require registered auditors to conduct audit. SMEs should be exempted from audit in line with the principles in ZICA's directive on tiered reporting

(Table 1). As noted earlier, several countries, including South Africa, Singapore, the United Kingdom, and other countries in the European Union, have already exempted SMEs from the audit requirement, thus relieving them from undue compliance burdens and cost. Where audit is required, it should be conducted by persons appropriately qualified and skilled to achieve desired quality necessary to protect public interest. Currently, the Companies Act allows persons without a practicing certificate to audit private companies.

108. The regulators and ZICA should engage in a process to update financial reporting requirements in different regulations to address the inconsistencies and conflicting financial reporting requirements. As noted earlier, there are several conflicting financial reporting requirements in the Companies Act, Securities Act (require two different reports to be issued by auditors), Banking and Financial Services and Finance Act, and Insurance Act. The conflicts result in administrative burden to companies as well as companies being governed by many regulators. Ideally, a Regulators Forum, comprising ZICA and all regulators in the country, should be established to undertake the harmonization process; it would involve updating the financial reporting requirements in the different regulations. In future, where any regulator is involved in updating or preparing a regulation, the institution should consider engaging and involving the Forum to ensure consistency.

109. The Accountants Act (that is, statutory instrument) should prescribe the type of services that should be offered by each membership category. While the statutory instrument defines the five membership categories and their qualifications, it is silent on the type of services each category can offer. Prescribing the services, for example, tax practitioners, reviewers

of financial statements, and auditors, will ensure that respective services are rendered by suitably qualified individuals or firms.

110. The Non-Governmental Organizations Act should be amended to require large NGOs to prepare, audit, and publish audited financial statements. This will ensure that the NGOs are transparent and accountable.

Strengthen the PAO

111. The profession should engage in thought leadership initiatives that have an impact on economic and social development of the country to contribute to achievement of the NDP. The profession should proactively play an instrumental role in proposing solutions to address country economic and social issues. Such initiatives would contribute in improving the brand of the profession, especially among the government and policy makers. Considering experiences from other PAOs, such thought leadership initiatives could include (a) supporting prospective accountants from disadvantaged communities to undertake accountancy training through partnerships with the private sector and government; (b) conducting a benchmark study on demand of accounting and finance officials in the country, to establish the shortage of accountants to inform initiatives to address the gap; (c) conducting research on key reforms that would enable the government to make informed policy decisions to achieve the NDP, for example, infrastructure development bottlenecks or service delivery bottlenecks in health or education, among others; (d) partner with Government to strengthen public finance management systems which would improve effective allocation and efficient use of the resources for the benefit of all Zambians, and (e) developing services that can improve performance and financial reporting of SMEs and SOEs.

112. ZICA should continue to enhance its human, financial, and system (technology) resources to effectively achieve its legislative-stipulated mandate. This would involve reviewing the secretariat organization structure to identify areas that require further strengthening of capacity and capabilities and design a process to recruit suitably qualified staff (to address the identified gaps) over time. Similarly, ZICA should continue to explore other revenue sources to diversify its revenue base and remain financially sustainable. Reference should be made to the different revenue sources, as highlighted in the comparative PAOs in Table 3 and the PAFA revenue policy toolkit on the PAFA website (www.pafo.org.za) that sets out a number of alternative revenue sources for PAOs, for example, advertisements and sponsorships. The institute should continue to upgrade and leverage using improved technology that is necessary to enhance efficiencies and fulfil its mandate of serving the members. Some additional functionalities of using iMIS should include collecting more granular data on members, sectors that they work in, and age group; automating audit practice reviews; recording CPD attendance; live streaming of events; and so on. Similarly, technology enhancements (for example, use of artificial intelligence), expertise, and capability should continue to be developed at the secretariat.

²⁰ The practical training institutions to be accredited and monitored should extend beyond audit firms to include entities in commerce and industry and the public

113. The PAOs should accelerate marketing campaigns to further raise public awareness on the contribution and importance of the accountancy profession in Zambia economy.

This campaign should be targeted at different audiences across the country (for example, youth campaigns) and should be done using different channels including TV, radio, print media, and social media. The messages in the campaign should underscore the importance of the profession and its overall contribution to economic development and poverty alleviation. The initiative would uplift the accountancy profession brand; enhance demand for accountancy services; promote its relevance, especially to policy makers; and promote it as a career of choice, especially to youth. The profession should adopt smart and innovative ideas to attract the youth and women. The campaign should consider the international best practice as provided in three guidance documents issued by IFAC: Establishing Governance: A Guide for Professional Accountancy Organizations, Establishing and Developing a Professional Accountancy Body, and Statement of Membership Obligations (SMO) 1–7 (Revised).

Strengthen Education and Training of Accountants

114. ZICA should fast-track the process of designing appropriate infrastructure to implement the practical training framework launched in August 2017. The infrastructure should include (a) engaging in a marketing campaign targeted at possible practical training offices and officers (in both urban and rural areas) to inform them about the new qualification and the benefits of servicing as practical training offices; (b) accrediting practical training offices and officers in both public and private sectors²⁰ all over the country and where necessary and providing the necessary support for the prospective companies to achieve the required accreditation criteria; and (c) regularly monitoring and providing necessary support to the trainee, the training officer, and the training office to ensure uniformity of training. The trainee policy should impose penalty for trainees who change jobs during the practical training period, for example, extend their practical training period. ZICA should also consider engaging with the practical training providers to agree on a trainee salary scale: to be applied on a voluntary basis by the registered practical training providers. Where appropriate, ZICA should adopt innovative technology-based real-life simulations for students in areas where there are no accredited practical training providers.

ZICA should be creative in offering practical training for prospective accountants in rural areas:

- Accredite practical training offices (private and public sectors) that have offices across the country.
- Design and offer electronically simulated case studies that cover all the competencies that the prospective accountant is required to acquire during practical training. The simulation, which should include different modules to be undertaken in several stages over time, should incorporate assessments to test the student's competence. It should

sector such as banks and NBFIs, public enterprises, the AG's office, ZRA, ministries, and departments.

designate regional centers in rural areas for access by the students to undertake the simulations.

- Enlist a number of volunteer members to serve as mentors of students in rural areas.

115. ZICA should support and accredit more tuition providers of all the qualifications across the country. This should include ZICA identifying potential tuition providers and engaging them in long-term support initiatives to develop appropriate infrastructure to deliver quality learning: competent lecturers, equipment, course administrators, and so on. Such initiatives would include twinning an already accredited provider with an unaccredited provider to provide necessary support. Once ready, ZICA should accredit them, continue to provide the institution with necessary support, and conduct regular monitoring (on-site and off-site). The sample for monitoring should include those partners against whom complaints have been received, where there is a high failure rate, and other warning signs noted by the ZICA Education and Training Department in addition to a randomly selected sample. Complaints made regarding training partners must be investigated and appropriate action taken to ensure compliance or, in extreme cases where issues cannot be resolved, recognition should be withdrawn. The approach enables students to differentiate between non-accredited and accredited providers, which will ultimately serve as an incentive to tuition providers to improve the quality of their courses. Over time, ZICA should transition to a position where majority of the students would be required to attend training in the accredited tuition providers—eliminating self-study.

116. ZICA should consider not requiring holders of foreign qualification to sit for the Company Law and Taxation Conversion Examinations. This is in line with the global trend where such qualified professionals are only required to submit a letter of good standing from their parent PAO and portfolio of work done, if considered necessary, in order to be admitted as members of the national PAO. It is deemed that the professional already have appropriate competencies.

117. ZICA should promote and encourage students to study Diploma in Accountancy- to qualify as accounting technicians. Globally, it is being acknowledged that a country should have more technicians than professional accountants to serve in both public and private sector. As noted in table 6, more than 19,700 technicians require to be developed to meet the conservatively computed demand. Therefore, there is an opportunity for ZICA to increase the number of technicians by actively creating more awareness and promoting the technician qualification as a career of choice to both prospective candidates and employers in all sectors.

118. Tertiary institutions offering accountancy-related degrees should enhance their curriculum and delivery infrastructure. This would include revising the curriculum to ensure it includes both theoretical and practical aspects, especially internship opportunities. In addition, it should incorporate public sector-related subjects. The delivery approaches should also be enhanced to ensure the focus is beyond just passing exams and include use of technology. ZICA should explore opportunities to closely partner with the universities to enhance the curriculum and delivery thereof.

119. Research should be conducted to determine the attributing factors for the declining number of people entering the profession to inform design of appropriate measures. As noted in paragraph 86, there has been a decline in the entrance to the profession. The research, to be conducted by ZICA, the government, employers, tertiary institutions, and prospective accountants, would assist in identifying the causes of declining entry and proposing practical and impactful solutions. Implementation of the responses would contribute in meeting the supply gap.

120. ZICA should provide access opportunities for students and members in the rural areas. As noted earlier, ZICA training providers are mainly in the urban cities in the four provinces. This disadvantages members and students in other parts of the country, especially in rural areas, and hinders the ability of the profession to contribute in reducing poverty in the country. ZICA should explore providing innovative access opportunities to support members and students in rural areas. With reference to practices in other countries, it could include establishing and operating branches and using technology-based platforms (website, webinars, and mobile applications) to provide access and facilitate growth of the profession in all the provinces.

121. To improve the low pass rates, ZICA should partner with other institutions to support students. This would include engaging in activities to improve mathematics and English performance in secondary school, for example, English and mathematics camps for secondary school students. As noted in paragraph 87, low pass rates was mainly in finance and accounting subjects which require competency in mathematics. Also, it should continue to enhance the training material required by students.

122. ZICA should implement a comprehensive program to monitor CPD and sanction noncompliance in accordance with the IFAC SMO 2 and IES 7. Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence'. The IFAC SMO 2 requires all member organizations to monitor compliance with CPD requirements of its members by verifying a sample. Although ZICA has made CPD mandatory and require members to manually submit annual CPD returns, a process for effective monitoring of compliance and sanctioning those who do not comply should be strengthened. Use of iMIS to record CPD by members should be considered. Noncompliant members should be sanctioned.

Strengthen A&A Regulation

123. The country should establish a legally backed independent accountancy profession regulator in the medium to long term. While commendable progress has been made by establishing the SRB, the role fulfilled by the SRB is not perceived to be independent in fact and appearance with reference to IFIAR principles. The SRB is funded, housed, and supported by staff within ZICA: facts that increase the perception that the SRB is not independent. The improved economic growth, increased number of PIEs, the government's goal to attract investors, and increasing number of audit failures globally continue to call for the need to

have an independent regulator, to provide independent assurance on quality of reporting, especially by PIEs. As recommended in the 2007 report, the establishment should be anchored in a law. The role of the independent regulator should include setting financial reporting standards, registering and monitoring auditors of PIEs, monitoring compliance with financial reporting requirements by PIEs, and sanctioning non-compliant companies and individuals.

124. The SRB should, in the short term, continue to enhance its independence by strengthening its processes, capacity, and funding. There exist several immediate measures that the SRB can implement to enhance its independence.

- (a) Improve the independence of the PRC by granting it power to make final decisions on practice reviews.
- (b) The IFIAR core principles state that “for the audit regulators to be effective, it is a prerequisite that there is sufficient staff of appropriate competence.” In this regard, the SRB and Practice Review Department should, on a cyclical basis, subject their work to an independent assessment by another regulator. This can take the form of accompanying reviewers on ‘live reviews’ and observing how they execute their task or performing a ‘second review’ off-site on the same work that the reviewers inspected while visiting the practitioner.
- (c) Recruit retired audit partners preferably on a part-time basis. The experience of such resources will be very useful, especially in mentoring practice reviewers.
- (d) Consider other initiatives to enhance the capacity and capability of the practice reviewers.
- (e) Raise more awareness on the benefits of regulation and how the SRB operates with focus on independence.
- (f) Explore alternative sources of funding by referring to practices in other countries. IFIAR’s core principles provide that “The audit regulator should have a stable source of funding, which is secure and free from influence by auditors and audit firms and sufficient to execute its powers and responsibilities.”²¹ Therefore, the SRB should explore a combination of funding options that will result in transitioning from relying on membership fees to sources from those not regulated. Although various funding structures exist in the world, not all of them are free from criticism. Some approaches include (i) full funding from the government (for example, Botswana Accounting Oversight Authority); (ii) a combination of funding from the government, members subscription, and fines; (iii) government funding and charges to firms being reviewed; (iv) audit firms paying a certain percentage (or fraction thereof) of their annual audit fees over to the regulatory function that is then ring-fenced for practice reviews; and (v) charging of institutions that benefit from the regulation, for example, PIEs.

125. The audit quality review approach and methodology should be strengthened. This will ensure that the process is robust and adds value to the firms being reviewed. This should be done to comply with quality review requirements of ISQC 1. Specifically:

- (a) Conduct engagement reviews on each practicing engagement audit partner, and that person should remain

responsible for the quality of the audit opinion signed off. This will shift from the current practice where reviews are done on one or two engagements only and these findings are applied to all the partners within the firm as this is not in line with best international practice.

- (b) Review compliance with all the applicable elements of ISA. In this regard, the ISA checklist needs to be enhanced to include reference to each point indicated as compulsory in all the standards. The revision will lead to more comprehensive review reports, which will also benefit the quality of the audits and provide the practitioners with a valuable development opportunity.
- (c) Develop and apply in-depth review tools and checklists for IFRS and the other financial reporting frameworks approved for use in Zambia. Current review is very elementary and does not comprehensively provide credible evidence that the financial statements are prepared in terms of applicable standards in Zambia.
- (d) Conduct a robust review of the firm’s compliance with all the requirements as stipulated in the code of ethics. A comprehensive review checklist should be developed to monitor compliance with the IESBA Code of Ethics. The review process, at this stage, is elementary, high level, and reactive.
- (e) Develop and apply a comprehensive ISQC 1 checklist covering all the specific requirements within the eight sections of ISQC 1.
- (f) Automate audit practice review.

Improve Compliance with A&A Standards

126. ZICA and other regulators should regularly offer opportunities to create awareness and enhance knowledge on financial reporting. Such sessions should adopt different delivery formats including capitalizing on use of technology. The topics to be addressed in those sessions should extend beyond financial reporting and auditing standards to include subjects relating to requirements by regulators in the country, for example, Banking Act, SEC, listing requirements, Basel III, and so on. Ideally, the sessions should be practical and case study based. Conduct awareness campaigns on issues of financial reporting, addressing target groups separately. In addition, target participants should extend beyond professional accountants to include company directors and top management of companies, regulators, and the public.

127. ZICA, ACCA, and CIMA should increase their support on implementation of accounting standards to preparers of financial statements. Such support would address challenges identified during practice review cycles and expressed by preparers, regulators, auditors, and users of financial statements. This could include developing more guidance on the standards, tools, and establishing help desks at the PAO level. The developed guidance and respective training material should be downloaded in the PAOs’ website for access by interested parties. Where applicable, the PAOs should regularly design and offer in-house training to institutions like the ZRA, Regulator of SOEs, and Chamber of Commerce, to mention a few.

²¹ IFIAR Core Principles for Independent Regulators, Principle 2.

Strengthen the SMPs

128. ZICA should initiate and facilitate a voluntary merger program for sole practitioners and empower them to offer alternative services. To facilitate growth of SMPs, increase their market share, and comply with the reporting A&A standards, ZICA should facilitate a voluntary program to enable the SMPs to merge or join international accounting networks. In addition, ZICA should empower SMPs with the ability to secure and deliver alternative service offering that may include internal audit, corporate finance, company restructuring, and preparation of companies' financial records. Reference should be made to the tools and resources of the IFAC SMP Committee, available on the IFAC website. In addition, ZICA should provide assistance for practicing auditors to establish mechanisms for meeting the requirements of ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements, all three financial reporting frameworks approved for use by ZICA (IFRS, IFRS for SMEs, and Zambian Financial Reporting Standard for SMEs), and the details required of the IESBA Code of Ethics.

Box 4.

"For many small and medium-sized practices today, the secret to success could lie in the three Ts: technology, talent and transition to advisory."

Sylvia Tsen, IFAC Executive Director (October 2017)

Strengthen Monitoring and Enforcement

129. The government should establish institutions to monitor governance arrangements, performance and compliance with financial reporting requirements by parastatals and mining companies. These institutions are key contributors to the economy. However, currently, as noted earlier, there is no institution (regulator) responsible for monitoring them.

130. The regulators in the country should enhance their capacity, methodologies, and information-sharing processes. The Bank of Zambia, LuSE, Securities Exchange Commission, and the Pension and Insurance Authority should further strengthen their capacity and revise their review methodologies to better align with global regulatory developments. It is also recommended that all regulators enter into an operational MoU to jointly conduct reviews, especially on financial reporting standards (where feasible), and share findings with each other, where applicable, taking into account confidentiality requirements. Ideally, IFRS specialists would be stationed in ZICA, conduct the reviews of financial statements, and share the findings with other regulators. Hence, the above proposed Regulatory Forum (paragraph 108) should be instrumental in formulating and implementing the MoU.

Other Recommendations

131. The AG and ZICA should enter into a voluntary partnership (through an MoU) to conduct audit quality reviews. The voluntary arrangement could involve the ZICA Practice Review Department in conducting quality reviews of audit firms contracted by the AG to conduct audits and reperforming a number of quality reviews done by the AG's Quality Reviewer Department. Their findings should be reported to the AG's committee that makes the final decisions on the review. The audit quality review findings should form part of criteria that the AG should consider at the time of contracting private audit firms. The arrangements would contribute to providing credibility to AG audit quality reviews, strengthen human capacity and expertise in audit quality in both institutions, strengthen AG audit quality review approach, and enhance knowledge transfer between the two institutions.

Box 5.

Partnership between the AG South Africa and IRBA

"Although having no legal oversight role over the Auditor General, IRBA entered into an agreement with the Auditor General in 2000 to review and provide credibility to internal quality control monitoring process by the AGSA. The objectivity of the process assures the Auditor General that his/her office consistently delivers audit reports of high standards. The review involves IRBA re-performing, on a sample basis, certain quality reviews performed by the AGSA's quality reviewers and reporting to the Quality Assurance Committee that makes the final decision of the review. From 2012/13, IRBA will start carrying out a firm-level quality control review in terms of ISQC 1. The arrangement contributes to knowledge transfer in the two Institutions."

Source: Extract from South Africa ROSC A&A 2013, paragraph 3.66.

132. A national code of corporate governance for application by all companies should be developed. The code should set out governance principles and practices that all companies should apply to provide appropriate leadership to achieve success and sustainability. The code should replace the separate codes developed by different institutions. Reference should be made to other global codes, for example, King IV in South Africa (published in November 2016), 2016 U.K. Code of Corporate Governance, and Malaysian Code of Corporate Governance.

133. The profession should initiate reforms to start adopting integrated reporting and explore use of eXtensible Business Reporting Language (XBRL) in reporting financial information. As the level of financial reporting has matured, especially for PIEs, the country should consider incrementally introducing the latest reporting reform, integrated reporting, which encompasses reporting on how the company creates value in the short, medium, and long term using all its six capitals,²² a shift from the current reporting regime where focus is only on one capital, financials. Similarly, globally, a number of countries are introducing the use of XBRL to record and electronically

²² Capitals: financial, manufactured, intellectual, human, social and relationship, and natural.

communicate business and financial data—reporting financial information. XBRL results in maintaining one set of data that is accessed by all interested parties. It reduces the administrative requirements, cost, and efficiency and enhances data integrity and credibility. Zambia should explore introduction of XBRL in the medium to long term.

134. The Government in partnership with the accountancy profession should design reforms to strengthen quality of financial information by mining companies. As noted in

paragraph 36 above, poor quality information on production, smelting, refining, and sales by mining companies negatively impacts on tax revenue generated from the sector. The accountancy profession should partner with the Government and the mining sector to strengthen finance and accounting capacity required to prepare quality financial information in compliance with the stipulated financial reporting standards, and effectively serve in various stages of mining value chain monitoring especially in ZRA and other monitoring institution as noted in paragraph 129.



APPENDIX A:

Status of Implementation of Policy Recommendations in 2007 ROSC A&A

	Policy Recommendation	Responsible Agency/Timing	Implementation Progress	Status
1.	Statutory framework			
	(a) Companies Act <ul style="list-style-type: none"> Require preparers of financial statements to comply with properly defined accounting standards. Ideally, the definition of accounting standards in the Companies Act should directly refer to standards set by the responsible standard-setting institution. This correlation will help avoid the need to continually update the act with every new development in accounting standards. Amend the provision dealing with the appointment of auditors for private companies to require that only qualified individuals and firms registered by the regulatory authority may serve as statutory auditors. Review the level of statutory penalties for failure to comply with requirements for preparation of financial statements and audit. Require the registrar of companies to enforce the requirements on filing company financial statements. 	PACRA	<p>The Company Act is undergoing revision and ZICA has recommended that it be aligned with the Accountants Act 2008 to make it mandatory for entities to appoint an auditor who is registered and holds a practicing license from ZICA. Further, the Accountants Act mandates ZICA to “set ethical, auditing and accounting standards.”</p> <p>Under the Accountants Act, the levels of penalties for noncompliance have been enhanced to make them effective deterrents. Noncompliance attracts a penalty of 500,000 penalty units or 5 years in prison or both.</p> <p>Noncompliance with the filing requirements also attracts penalties, which are enforced by PACRA</p>	Partly done: revision of the Companies Act is in progress.
	(b) Banking and Financial Services Act and Insurance Act <ul style="list-style-type: none"> Require banks and insurance companies to prepare financial statements complying with properly defined accounting standards. The definition of accounting standards should be dealt with as recommended in the Companies Act. 	Bank of Zambia/Pension and Insurance Authority	The Insurance Act and the Banking and Financial Services Act require financial institutions regulated under these bodies to comply with accounting standards as prescribed by ZICA, thus IFRS. In addition, the Bank of Zambia has issued specific guidelines on compliance with IFRS and Basel II and III requirements.	Done

	<ul style="list-style-type: none"> Require auditors of banks and insurance companies to comply with ISA. Require the regulators of banks, insurance companies, and all other financial institutions to take steps to ensure that the regulated entities comply with the applicable accounting standards in their general purpose financial statements. 			
	(c) Public Finance Act Define the term “prescribed generally acceptable accounting principles” by defining the prescribing body.	Secretary to the Treasury	The Public Finance Act is undergoing review with stakeholder consultation under way. ZICA recommended that the act makes reference to the Accountants Act on matters relating to financial reporting.	Not done
	(d) Financial Reporting Act and Financial Reporting Council <ul style="list-style-type: none"> The composition, functions, and powers of the proposed Financial Reporting Council need to be configured in line with the emerging international trends to ensure independence and effectiveness in regulating general purpose financial reporting. This council should be empowered with oversight to assess whether the preparers and auditors of financial statements are complying with the applicable standards and whether the auditing profession is appropriately serving the interests of users of audited financial statements and of the wider public. It should adjust the scope of its work in coordination with the monitoring and enforcement activities of other regulators, including professional self-regulatory organizations. Practicing accountants and auditors would not be normally eligible for inclusion in the governing board of the Financial Reporting Council. 	Standards and Regulatory Board	<p>ZICA has amended its structure to provide for the establishment of the SRB that focuses on reviewing international standards and ensures compliance under the PRC recommendations. Noncompliance with standards is a disciplinary matter reportable to the independent DC headed by a legal practitioner as indicated earlier. Appeals on the decisions of the DC go to the High Court of Zambia.</p> <p>The membership of the SRB comprises representatives of sector regulators and users of financial statements to enhance its independence.</p>	Partly done
2.	Monitoring and evaluation			
	A strong monitoring and enforcement mechanism is vital to an environment of high-quality financial reporting; therefore, both self-regulatory organizations and statutory regulators must have the capacity to implement arrangements for efficient monitoring of compliance and consistently take appropriate action against violators. In addition, areas of public interest must have even stronger independent regulation.	ZICA	The establishment of the SRB with delegated powers and responsibilities and financed under the ZICA structure ensures its sustainability and autonomy from political influence. This is because financing arrangements of statutory bodies in Zambia have had some difficulties in the past in terms of sustainability.	Partly done. Relate to establishing an independent regulator
	The Financial Reporting Council should have necessary resources to be independent of the professional accountancy body, and it should by law be financially and operationally independent. This Council should be responsible for regulating the entire profession—regulating auditors and checking compliance of PIEs with the applicable accounting standards. Legislation should give this oversight body adequate power to require submission of audited financial statements by PIEs and all other companies that are subject to annual statutory audit. The review panel might include accounting experts drawn on a part time basis from various sectors of the economy. To ensure the transparency of the Financial Reporting Council’s activities, it should report each calendar year on enforcement actions conducted, issues addressed, and sanctions imposed.		Further, under the revised structure, a position of an enforcement officer has been established, which will be occupied by a legal practitioner, who will investigate any complaints against CAs and subject them to the DC.	Partly done. Relate to establishing an independent regulator

	To improve regulation of auditors, the Financial Reporting Council should regulate auditors as an area of public interest since auditors have a distinct quality assurance role in financial reporting. The oversight body should develop and implement efficient and effective procedures for conducting quality reviews of auditors.		The SRB is the final authority on regulatory matters, enforcement, and standard setting. The board oversees the activities of the PRC, which oversees the audit monitoring function. The SEC and Bank of Zambia have permanent seats on the SRB.	
	Strengthen the capacities of the SEC, LuSE, Bank of Zambia, and Registrar of Insurance with regard to IFRS so that these regulatory bodies can effectively deal with matters relating to accounting and financial reporting practices of the regulated entities.		The regulators are strengthening their capacity to monitor compliance with financial reporting requirement. However, more expertise is required to monitor accounting and financial reporting requirements.	Partly done
3.	Standard setting			
	Stipulate a clear statutory mandate to the proposed Financial Reporting Council for setting A&A standards. The responsibility for officially mandating the A&A standards should be shifted from a self-regulating organization to the statutory body.	ZICA	The SRB is the final authority on standard setting and application of standards by various types of businesses operating in Zambia.	Done
	Set applicable standards, other than IFRS, for SMEs. IFRS should not be mandated for SMEs.		IFRS is not mandatory for SMEs. ZICA adopted a three-tier reporting framework. MSEs are required to apply Zambian Financial Reporting Standards	Done
4.	Professional capacity			
	Strengthen ZICA to build its capacity by addressing the quality issues and meet its IFAC membership obligations by addressing the following: <ul style="list-style-type: none"> Providing implementation guidance to practitioners Monitoring and enforcing ethical requirements Supporting small practitioners in their practice and in developing their firms 	ZICA	ZICA has enhanced its capacity since the enactment of the Accountants Act in 2008. It has a full-fledged technical department to deal with technical matters and a practice review department to deal with audit monitoring and technical support to SMPs. ZICA also investigates complaints from the public against its members for possible disciplinary action by the independent DC. However, ZICA requires to strengthen its capacity and capabilities to achieve its mandate and IFAC SMOs.	Done
	Join regional efforts to address capacity needs in some technical matters.		ZICA is an active member of PAFA and most recently CAW. In addition, two senior ZICA officers serve on PAFA's standard setting committees, namely audit and assurance and financial reporting committees.	Done
5.	Education and training			
	Ensure quality in professional education and training programs by complying with the following: <ul style="list-style-type: none"> Ensure that the syllabus for the ZICA program of national qualifications is in line with international developments. Support Copperbelt University in developing capacity to increase the number of BAcc. graduates while sustaining the quality of the degree. Monitor practical training requirements for professional accountants. Make CPD affordable and accessible. Enforce requirements of CPD. <p>Raise awareness of issues in financial reporting by ensuring that such issues include developments in financial reporting, local focus on financial reporting, improvements at the local level, responsibilities of specific groups, legal penalties for noncompliance, and the benefits of high-quality corporate financial reporting for economic development and poverty alleviation.</p>	ZICA	Under the ZICA Professional Accountancy Program, practical training for three years is a requirement. <p>ZICA launched a Chartered Accountant Zambia.</p> <p>In accordance with the Accountants Act 2008, for one to be given a practicing and non-audit practicing certificate, a CA needs to write a competence examination.</p> <p>CPD is offered to members at an affordable rate and is strictly enforced by taking a sample of 10% of the general membership and 100% for auditors for verification. Appropriate sanctions are enforced for noncompliance.</p> <p>The annual CPD program includes updates on auditing, ethical, and accounting standards. Technical updates are also posted in the quarterly membership and students' publications and the ZICA website. A tailor-made workshop for chief financial officers has recently been introduced to enhance corporate financial reporting.</p>	Partly done



APPENDIX B:

Summary of Financial Reporting, Publication, and Filing Requirements for Different Categories of Companies

Type of Company	Law/Regulation	Regulator(s)	Applicable Financial Reporting Framework	Audit Requirements	Publication/Filing
Public companies	<ul style="list-style-type: none"> Companies Act 1994 (as amended) Accountants Act 2008 	<ul style="list-style-type: none"> PACRA 	<ul style="list-style-type: none"> The PIEs, full IFRS. Significant large companies with turnover of over K 20 million are required to apply either full IFRS or IFRS for SMEs. 	<ul style="list-style-type: none"> Full audit assurance engagement Audit to be performed in accordance with ISA Performed by ZICA-registered practitioners 	<ul style="list-style-type: none"> File certified accounting records, financial statements, or other returns on a periodic or annual basis with the commission File financial statements with PACRA as part of annual return
Private companies	<ul style="list-style-type: none"> Companies Act 1994 (as amended) Accountants Act 2008 	<ul style="list-style-type: none"> PACRA 	<ul style="list-style-type: none"> Companies under K 20 million may apply Zambian Financial Reporting Standards for MSEs (developed by ZICA in 2010). 	<ul style="list-style-type: none"> No full audit for companies with less than K 20 million Audit to be performed in accordance with ISA Performed by ZICA-registered practitioners 	<ul style="list-style-type: none"> File financial statements with PACRA as part of annual return

Listed company	<ul style="list-style-type: none"> Companies Act 1994 (as amended) Accountants Act 2008 SEC Act LuSE listing requirements 	<ul style="list-style-type: none"> PACRA SEC 	<ul style="list-style-type: none"> Full IFRS 	<ul style="list-style-type: none"> Full audit assurance engagement Audit to be performed in accordance with ISA Performed by ZICA-registered practitioners 	<ul style="list-style-type: none"> File financial statements with PACRA as part of annual return Submit to the SEC Submit as per LuSE listing rules to the stock exchange Publish in newspaper and prospectus
SOEs	<ul style="list-style-type: none"> Companies Act 1994 (as amended) Accountants Act 2008 Public Finance Act Statutory Legislation establishing the SOE 	<ul style="list-style-type: none"> PACRA IDC 	<ul style="list-style-type: none"> Full IFRS or IFRS for SMEs 	<ul style="list-style-type: none"> Full audit assurance engagement Audit to be performed in accordance with ISA Performed by ZICA-registered practitioners 	<ul style="list-style-type: none"> File financial statements with PACRA as part of annual return Submit to PS responsible for SOEs at the Ministry of Finance Submit to the Parliamentary Accounts Committee
Banking institutions	<ul style="list-style-type: none"> Companies Act 1994 (as amended) Accountants Act 2008 Banking and Finance Act 2017 	<ul style="list-style-type: none"> PACRA Bank of Zambia 	<ul style="list-style-type: none"> Full IFRS 	<ul style="list-style-type: none"> Full audit assurance engagement Audit to be performed in accordance with ISA Performed by ZICA-registered practitioners 	<ul style="list-style-type: none"> File financial statements with PACRA as part of annual return Submit to the Bank of Zambia Publish in newspapers, website, and branch banking halls
NBFIs	<ul style="list-style-type: none"> Companies Act 1994 (as amended) Accountants Act 2008 Banking and Finance Act 2017 	<ul style="list-style-type: none"> PACRA Bank of Zambia 	<ul style="list-style-type: none"> Full IFRS 	<ul style="list-style-type: none"> Full audit assurance engagement Audit to be performed in accordance with ISA Performed by ZICA-registered practitioners 	<ul style="list-style-type: none"> File financial statements with PACRA as part of annual return Submit to the Bank of Zambia
Insurance companies	<ul style="list-style-type: none"> Companies Act 1994 (as amended) Accountants Act 2008 Insurance Act 1997 (as amended) 	<ul style="list-style-type: none"> Pensions and Insurance Authority PACRA 	<ul style="list-style-type: none"> Full IFRS 	<ul style="list-style-type: none"> Full audit assurance engagement Audit to be performed in accordance with ISA Performed by ZICA-registered practitioners 	<ul style="list-style-type: none"> File financial statements with PACRA as part of annual return Submit to the Pensions and Insurance Authority