

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) TANZANIA

ACCOUNTING AND AUDITING

April 1, 2005

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PREFACE

In the wake of the international financial crisis of the 1990s, initiatives worldwide were set in place to strengthen the international financial architecture in crisis prevention, mitigation, and resolution. The agenda focused on weaknesses in the international financial systems that potentially contribute to the propensity for and magnitude of global financial instability, hence requiring collective action at the international level. In this regard, the international community emphasized the role of minimum standards and codes in strengthening the international financial architecture.

There was widespread recognition that global financial stability rests on robust national systems and, hence, requires enhanced measures at the country level. In a world of integrated capital markets, financial crises in individual countries can imperil international financial stability. This provides a basic “public goods” rationale for minimum standards, which benefit international and individual national systems. In this context, the World Bank and the International Monetary Fund initiated the Reports on the Observance of Standards and Codes, which cover twelve internationally recognized core standards and codes relevant to economic stability and private and financial sector development. This Tanzania reports focuses on one of these twelve, accounting and auditing of financial reporting by public interest entities.

Based on recommendations of the report, country stakeholders and World Bank staff look forward in working together with the Government of Tanzania to develop a country action plan to strengthen Tanzania’s corporate financial reporting regime. The assistance rendered by the Tanzania authorities and country stakeholders during the review is sincerely appreciated.

This report, prepared by a team from the World Bank, is based on findings from a diagnostic review carried out in Tanzania during November–December 2004. The review was conducted through a participatory process involving various stakeholders and led by the country authorities. The team comprised M. Zubaidur Rahman (OPCFM) and Marius Koen (AFTFM), Marianne Brown (International Consultant) and Yona Killagane (Local Consultant). Anthony M. Hegarty, (Manager, Financial Management, Africa Region) and the FM Anchor ensured that appropriate arrangements for quality assurance were in place. The peer reviewers comprised Gert van der Linde (AFTFM), Antony Thompson (AFTFS), and Manoj Jain (SARFM).

EXECUTIVE SUMMARY

This report provides an assessment of accounting and auditing practices within the context of the Tanzania institutional framework to ensure the quality of corporate financial reporting. Various weakness and encouraging advancements were identified in the course of the review.

Company legislation is outdated. A revised Act provides for modernized requirements but has shortcomings and is still not effective. Some laws specify particular accounting requirements that do not align with International Financial Reporting Standards/ International Accounting Standards (IFRS/IAS). Parastatals lack a single statutory financial reporting act and there is no law or regulatory body monitoring financial reporting by pension funds. On a more positive side, the Auditors and Accountants Act has facilitated the development of an enabling environment for strong accounting practices and the mandatory appointment of professional accountants for entities meeting thresholds. Another positive development was the adoption of IFRS/IAS and International Standards on Auditing (ISA) in 2004. However, full compliance is not yet readily achieved and national ethical requirements for auditors have not kept up to date with international developments.

The National Board of Accountants and Auditors (NBAA) has made a significant contribution to accountancy development over the past decade, its examination process and administration is exemplary, however professional education is not yet in line with International Educational Standards and there is a lack of learning materials on the international standards. The NBAA is not able to function effectively either as (i) a regulator or (ii) a professional accountancy body. Firstly, the composition of the NBAA governing body does not provide adequate regulatory public oversight by nonaccountants. Secondly, as a professional accountancy body, the NBAA needs additional capacity to undertake monitoring activities to ensure that practical training is adequate; and that there is compliance with accounting and auditing standards, as well as the mandatory requirement for continuing professional development. Capacity of other regulators to monitor compliance with financial reporting requirements are generally adequate, with the exception of the Registrar of Companies, the Treasury Registrar, and yet to be established regulator of pension funds.

The policy recommendations provided in this report focus on improving the statutory framework, strengthening enforcement mechanisms, upgrading professional education and training, and enhancing capacity of regulatory and professional bodies. Establishing an independent oversight body is a major recommendation. This is in line with the global trend toward accountancy bodies being more open in their governance and regulatory processes and toward more independent oversight or regulation in areas of public interest. The oversight body would be responsible for adoption, monitoring, and enforcement of IFRS/IAS-based and ISA-based accounting and auditing practices of public interest entities. In addition, stakeholders should agree on criteria to clarify which entities should be eligible to use the standards of the International Accounting Standards Board for small- and medium-size enterprises, when available.

I. INTRODUCTION AND BACKGROUND

1. This report is based on a review of strengths and weaknesses of corporate accounting and auditing practices in Tanzania. It forms a part of the World Bank and the International Monetary Fund (IMF) joint initiative on Reports on the Observance of Standards and Codes (ROSC). An overview of the ROSC Accounting and Auditing program and a detailed presentation of the methodology are available on the [World Bank website](#).

2. The review involved an assessment of the strengths and weaknesses of existing institutional frameworks that underpin financial accounting and auditing practices, the actual practices, as well as an analysis of the effectiveness of monitoring and enforcement mechanisms. International Financial Reporting Standards/International Accounting Standards (IFRS/IAS)¹ and International Standards on Auditing (ISA) served as benchmarks for evaluating international comparability of locally applicable accounting and auditing requirements. The review used a diagnostic template developed by the World Bank to facilitate collection of data. The data was complemented by the findings of a due diligence exercise based on a series of meetings with key stakeholders conducted by World Bank staff. The intended audience of this report includes national and international market participants who have an interest in the corporate financial reporting regime of Tanzania. The policy recommendations of this report are expected to provide inputs for developing and implementing a comprehensive action plan for strengthening institutional capacity to support high-quality corporate financial reporting.

3. The United Republic of Tanzania, a medium-sized country on the east coast of Africa, has a population of 34.4 million and land area of 945,000 square kilometers. Tanzania is one of the least urbanized countries in Africa, less than 10 percent of the population lives in towns. Although recent internal economic growth has outstripped population growth with consequent improvement in per capita income, the gross domestic product (GDP) per capita is low (US\$264.5 as of November 2004).² The inflation rate has declined sharply from 30 percent in the early 1990s to 12 percent in mid-1998 and 6.5 percent in 2004.

4. The Tanzanian economy has traditionally depended on primary production and exports. Gold exports and travel receipts have improved significantly over the past 4 years. Coffee, cotton, cloves, and diamonds account for the bulk of total merchandise exports. The agricultural sector is the dominant sector, employing some 85 percent of the labor force and accounting for approximately half of the total GDP. Government-owned concerns dominate manufacturing and contribute about 5 percent of the GDP. There are 7 companies listed on the Dar es Salaam Stock Exchange (DSE) with a market capitalization of US\$708.3 million,³ 31 banks⁴ are operating in the banking system (none

¹ Within this report, IFRS refers to all standards and related interpretations issued by the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee (IASC). IASC-issued standards are known as International Accounting Standards (IAS).

² Rate applicable as of December 31, 2004 [1,042.96 Tanzania Shillings (TZS) equals 1 USD].

³ TZS value based on market capitalization for September 2004.

⁴ In Tanzania there are 6 major banks, 14 medium-sized banks, 5 rural banks, and 6 non-banking financial institutions.

listed) with banking assets totaling US\$2.98 billion.⁵ There are 12 insurance and re-insurance companies and total earned insurance premiums of US\$66.58 million.⁶

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

5. **Appointment of professional accountants is mandatory for entities meeting thresholds.** The Auditors and Accountants (Registration) Act (1972, as amended in 1995)—hereafter referred to as the Auditors and Accountants Act—requires that all legal entities, incorporated or unincorporated, with assets and turnover exceeding set levels⁷ must employ at least one Certified Public Accountant (CPA). Entities that do not meet the threshold are still required to keep proper books of accounts. There are no statistics available on how many qualifying entities exist.⁸

6. **Involvement of professional accountants in tax returns of certain entities is mandatory.** The Income Tax Act (2004) requires corporations within 6 months of the tax year-end to submit an annual return, which must be prepared or certified as a true and fair view by a Certified Public Accountant in Public Practice (CPA-PP). This Act also requires that only persons approved by the Tax Commissioner can act as tax consultants. The Auditors and Accountants Act requires that certain individuals⁹ should submit an income tax return which has been prepared or certified by a CPA or CPA-PP. The latter requirement is not aligned with the Income Tax Act requirements, and it does not appear to be repealed.

7. **Although the new Companies Act (2002) provides modernized requirements for financial reporting by all private and public companies in Tanzania, there are shortcomings and it is not yet effective.** Although the Companies Act (2002) was enacted in June 2002, the Companies Ordinance, Cap 212 (1932) is still in force in Tanzania. It is expected that the new Act will become operational in 2005 once regulations have been formulated. The new Act addresses a number of weaknesses in the earlier legislation: (a) requiring private companies to file audited financial statements with their annual return, (b) clarifying filing deadlines, (c) removing certain balance sheet disclosures and requirements for the valuation of assets to better align with developments in accounting standards, (d) requiring a person to be a CPA in order to be appointed as auditor, (e) requiring the outgoing auditor to table a report at the annual general meeting, and (f) providing for more realistic criminal liabilities and penalties for noncompliance. However, the new Companies Act still has shortcomings: (a) the accounting standards to be followed are not clearly identified (the Act allows the Minister to determine requirements which by implication refers to accounting standards set by the National

⁵ TZS value as of Sept 2004.

⁶ TZS value as of December 2003.

⁷ Levels are when the asset base exceeds 100 million TZS or annual gross turnover of 50 million TZS.

⁸ As of November 2004, there were 50, 640 registered limited companies in Tanzania. There are an estimated 12 public companies. Reliable statistics on the number of private and unlimited companies are not available. The number of inactive companies are not known but thought to be significant. Registered business names number 148, 302.

⁹ It does not apply to an individual whose income is totally derived from employment or if the gross annual income is less than 5 million TZS.

Board of Accountants and Auditors (NBAA);¹⁰ (b) certain accounting requirements are incompatible with IFRS/IAS¹¹, and (c) the reference to the qualification of the auditor is not aligned with other legislation.¹² Under the new Companies Act, audited financial statements have to be filed with the Registrar of Companies within 7 and 10 months of year-end for public and private companies, respectively.¹³ It also provides that a private company meeting qualifying conditions may be exempted from audit. These thresholds have not yet been set, will be specified in regulation by the Minister of Finance and will be based on a certain value of turnover and gross assets.¹⁴ The Act also empowers the Minister to apply to the court to have financial statements revised and audited if he is not satisfied with an explanation or revised accounts provided by the directors upon being given a notice to that effect.

8. The Capital Markets and Securities Authority (CMSA), *inter alia*, regulates initial disclosures of companies intending to list, and the Dar es Salaam Stock Exchange regulates continuous financial reporting practices of listed companies. The Capital Markets and Securities Act (1994), as amended, and the related regulations empower the CMSA to regulate entities whose shares or debt are publicly traded, brokers, dealers, investment advisors, as well as the DSE. The Capital Markets and Securities (Accounting and Financial Requirements) Regulations (1997), as amended in 2003, require brokers, dealers, and investment advisors to prepare annual financial statements in accordance with Tanzania Financial Accounting Standards issued by the NBAA. The format prescribed in the Regulations is not in line with IFRS/IAS.¹⁵ The financial information contained in the prospectus of a company seeking listing has to comply with IFRS/IAS and be audited in accordance with ISA. The DSE, a self-regulating organization, supports the CMSA and regulates ongoing disclosures by listed entities under the DSE Blue Print, 2003. Audited financial statements have to be filed with the DSE within 3 months after year-end. The standards to be followed in preparing and auditing the accounts are not plainly spelled out but imply NBAA standards and

¹⁰ The wording is vague and ambiguous: "...shall comply with the requirements specified in regulations prescribed by the Minister, or the National Board of Accountants and Auditors or such other body as the Minister may decide, having regard in either case to generally accepted principles of accounting." "Generally accepted principles of accounting" are defined as "such practices, principles, guidelines or accounting and auditing standards, taking into account international practices, principles and standards, as shall be issued by the National Board of Accountants and Auditors." In practice, companies are complying with NBAA standards, which are IFRS/IAS and ISA.

¹¹ No mention is made of the statement of changes in equity or notes to the financial statements as part of financial statements; reference is made to a profit and loss account instead of an income statement. Other inconsistencies with IFRS/IAS relate to the definition of a subsidiary, exemption to qualifying groups from preparing consolidated financial statements, and the requirements related to the alignment of reporting dates in consolidated financial statements. The Companies Act provides that directors shall depart from accounting standards to the extent necessary so that the financial statements give a true and fair view, disclosing particulars of any such departure, the reasons, and its effect.

¹² The Auditors and Accountants Act requires that only CPA-PP may act as auditor, while the new Companies Act (2002) only refers to the auditor being a CPA. In practice, it is expected that the Auditors and Accountants Act would take preference.

¹³ An unlimited company is exempted from filing financial statements with the Registrar of Companies if certain conditions are met. The conditions relate to being a subsidiary or parent company of a limited company.

¹⁴ The directors have to include with the financial statements a certificate, confirming that the qualifying conditions have been satisfied, and a statement regarding their responsibilities for the financial statements, all of which is to be verified at least once every 5 years by an auditor.

¹⁵ Although the 2003 amendments provided some improvements, the balance sheet and income statement is not in conformity with IFRS/IAS in terms of the prescribed format, terminology, and contents. There is also no requirement for a statement of changes in equity.

IFRS/IAS are to be applied.¹⁶ Interim financial statements are required to be filed with the DSE within 3 months of period-end, although the disclosure requirements are not in line with IAS 34, *Interim Financial Reporting*. Annual and interim results have to be announced to the DSE, but there is no requirement for publication in the newspapers. In practice, most listed companies publish their results in newspapers in an abridged or complete format.

9. **The Bank of Tanzania (BOT) regulates financial reporting by banks and nonbanking financial institutions¹⁷ under the Banking and Financial Institutions Act (1991) and the Bank Supervision Regulations.** Banks must submit audited annual financial statements to the Director Banking Supervision within 15 days after approval by board of directors (but no later than 105 days of year-end) and publish results in newspapers. Circular 7 empowers the BOT to approve the levels of provisions for bad and doubtful debt before the audited financial statements are finalized. There are inconsistencies between the BOT regulations dealing with provisioning and IFRS/IAS.¹⁸ The Independent Auditors Regulation (2000) requires the auditor to ensure that the financial statements are in line with the NBAA standards and guidelines or, in their absence, IFRS/IAS. Banks must submit unaudited quarterly financial statements in the prescribed format (which is not in line with IAS 34)¹⁹ to the Director Banking Supervision within 45 days after the end of the quarter and publish results in newspapers.

10. **The Insurance Supervisory Department within the Ministry of Finance regulates the financial reporting practices of insurance companies under the Insurance Act (1996) and the Insurance Regulations (1998).** Legal requirements for insurers' financial statements are not in line with IFRS/IAS.²⁰ The standards to be followed in the preparation of the accounts are not clearly specified, referring only to international accounting standards and omitting the reference to the standard setter. This may be partly due to a debate whether the international standards should refer to those set by the IASB or the International Association of Insurance Supervisors. Audited financial statements have to be submitted to the Commissioner of Insurance within 4 months from year-end, yet there is no requirement for publication in newspapers. The audit has to be carried out in accordance with provisions of Company Ordinance (1932) and/or "international accounting standards"; there is an incorrect legal reference here, it should have been *auditing* standards. By regulation, the Minister may specify any other information in the audit report (although none has been specified to date). Auditors are also legally obliged to report on various statutory returns.

¹⁶ "Annual accounts must have been drawn up in accordance with the Companies Ordinance and must be prepared and independently audited in accordance with the standards regarded by the Council (governing body of the DSE) as appropriate for companies of international standing and repute. Indication of compliance with this requirement would be accounts prepared, in all material respects, in accordance with Tanzania Financial Reporting Standards or other standards as may be prescribed by NBAA and Auditing Guidelines published by the National Board of Accountants and Auditors both of which incorporate International Accounting Standards."

¹⁷ The 6 nonbanking financial institutions in Tanzania are deposit taking institutions that are also regulated under the same legislation applicable to banks.

¹⁸ BOT regulations require specific rates for provisioning as a percentage based on the aging, whereas IAS requires entities to test assets for impairment under IAS 36 Impairment of Assets.

¹⁹ A statement of changes in equity and condensed notes are lacking; and the treatment of extraordinary items is not in line with IFRS/IAS.

²⁰ With respect to general purpose financial statements, the presentation and disclosure rules prescribed by the Insurance Act are inconsistent with IFRS/IAS (e.g., the treatment of extraordinary items and omitting references to statement of changes in equity, cash flow statement, accounting policies, and notes).

11. **The CMSA will regulate financial reporting of collective investment schemes under the Collective Investment Schemes Act (2003) and related regulations.** With the intent of broadening the market, several collective investment schemes are in the pipeline but not yet trading. The contents of the financial statements and audit reports are prescribed but in need of updating to enable compliance with IFRS/IAS.

12. **Parastatals lack a single statutory accountability regime that covers accounting, preparing financial statements, auditing, and other basic reporting requirements.** Treasury Registrar's Ordinance Cap 370 (1959), as amended, provides a general mandate to the Treasury Registrar to monitor public and statutory corporations. Inconsistent financial reporting requirements are specified in various pieces of legislation.²¹ The legal framework lacks effective sanctions to be instituted for noncompliance with financial reporting requirements.²² There are two broad types of public sector enterprises: (a) 35 specified parastatals monitored by the Parastatal Reform Sector Commission, and (b) 109 unspecified parastatals monitored by the Treasury Registrar. To perform audits of parastatals, which receive government funds or create a liability to public funds (e.g., pension funds), the Controller and Auditor General approves external auditors from private independent firms to carry out the audit on his behalf. Parastatals that are limited liability companies with no recourse to government are subject to the Public Procurement Act [(2001, amended 2004)] and should advertise for the appointment of private sector auditors. Under the Executive Agencies Act (1997), the Treasury Registrar also regulates to some extent certain executive agencies,²³ however the legal framework governing executive agencies is not robust.²⁴ Executive agencies should maintain their accounting records in accordance with "commercial accounting standards" (which is not defined) and submit financial statements to the Treasury Registrar within 2 months of year-end.

13. **There is no law or regulatory body monitoring financial reporting by pension funds.**²⁵ Various enabling legislation mostly specify that audited accounts should be submitted to the parent ministry within 6 months after year-end for tabling to parliament. Neither the parent ministries nor the Treasury Registrar has capacity to review their financial statements, and this is rarely done in practice. Pension funds command significant resources and are essentially public interest entities. There is a clause in some of the fragmented legislation that in case liabilities exceed assets, the Treasury consolidated fund would be utilized, which poses a financial risk to be monitored. Government is investigating the establishment of a pension fund regulatory authority.

14. **Not all regulators have a statutorily mandated role in the appointment and termination of auditors in regulated industries.** Approval of the appointment and termination of auditors by regulators may be valuable in providing assurance regarding the capacity and independence of the auditor and, in the case of termination, to ensure

²¹ Refer to Annex B of this report.

²² Effective administrative sanctions could include for example restatement of financial statements at the cost of the parastatal and/or appropriate fines.

²³ Executive agencies are semi-autonomous government departments that are charged with the execution of a specific task. They are usually being nurtured to become profitable government business-type enterprises.

²⁴ There are uncertainties as to when it becomes a recognized government business enterprise. Reporting and accountability lines are not clear.

²⁵ There are 5 pension funds operating in Tanzania: the National Social Security Fund, Parastatal Pension Fund, Local Authority Pension Fund, Public Service Pension Fund, and the National Health Insurance Fund.

that they are not removed for frivolous reasons. Banks and non-banking financial institutions have to appoint an external auditor who is registered with the BOT.²⁶ The BOT must approve any change of auditors during audit work, must receive a written notice of an outgoing auditor, and has a legal mandate to revoke an auditor's appointment. Dealers are required to appoint an auditor that meets additional legislative requirements relating to independence; and although the CMSA must consent to the resignation of auditors appointed by dealers, the CMSA does not approve the auditors' appointments. Neither the CMSA nor the DSE have specific requirements relating to auditors of listed companies. There is however a requirement to notify the DSE of a change of auditors as soon as possible. Managers of collective investments schemes are required to appoint an auditor that is registered by the NBAA and that meets additional legislative requirements relating to independence. The CMSA however has no statutory mandate for the appointment or termination of such auditors. The Commissioner of Insurance has a legal mandate to approve the appointment of the auditor of an insurance company.²⁷ There is no explicit right to be notified of the termination of an auditor or to revoke his or her appointment.²⁸ The Controller and Auditor General has recently developed a mechanism for shortlisting private sector audit firms to carry out audits on his behalf.²⁹ The Companies Act or other laws have no provisions on joint audits or rotation of auditors apart from the Banking and Financial Institutions Act, which requires audit firm rotation every 3 years.

B. The Profession

15. **The NBAA regulates the accountancy profession in Tanzania.** Established by the Auditors and Accountants Act, the NBAA reports to the Minister of Finance. It has the characteristics of both a regulator and a professional accountancy body. It has a governing board of 12 members. The President of the United Republic of Tanzania appoints the NBAA chairman to a 3-year term, which may be renewed once. The Minister of Finance in consultation with NBAA appoints the other 11 members. The arrangement does not provide for public oversight by any nonaccountants. The current chair is a managing partner of a practicing firm (even though not by design), and 6 members must have knowledge and practical experience in the accountancy profession, while 5 other members are nominated by accountants' professional bodies. The only professional body is the Tanzania Association of Accountants (TAA).³⁰ The NBAA acts

²⁶ The Banking Supervisory Department maintains a list of auditors qualified to audit banks, which currently includes 11 audit firms. In addition to being a registered as a CPA-PP, further independence requirements have to be met. Auditors have to confirm in writing their competence, coverage of specific audit areas, and compliance with continuing professional development requirements and provide information relating to partners and staffing of the firm. Prior experience requirements are sometimes relaxed in the case of small rural banks.

²⁷ In practice the company appoints the auditor; the Commissioner will ensure that the auditor is registered with the NBAA before granting approval. Auditors' experience in insurance industry is not currently a pre-requisite.

²⁸ The Commissioner of Insurance has a broad legal mandate to be satisfied that the insurance business is operated on a sound basis, and by implication could therefore require a change of auditors as a condition to renew the insurer's annual certificate.

²⁹ Private sector audit firms are short-listed based on certain criteria, from which the parastatal appoints the auditor, taking into account procurement legislation requirements. The appointment of the auditor from the pre-approved list is again subject to confirmation by the Controller and Auditor-General.

³⁰ The TAA is a member's association registered under the Registrar of Societies Act. It was formed subsequent to establishment of the NBAA, when the NBAA Board comprised a majority of nonaccountants. The NBAA Board composition changed to majority accountants to address concerns about inadequate professional development. The TAA purely serves members' interest and does not have any legal sanction on its members. It has been ineffective due to capacity constraints caused by a lack of interest. Since both NBAA and TAA are serving the same members of the profession, there is duplication of work of the two institutions.

inter alia as an examining body for awarding the CPA designation and the licensing authority for members engaged in public auditing practice. It has a legal mandate for professional development, as well as monitoring and enforcement. Its members are recognized under the new Companies Act as sole auditors of companies. The NBAA is a member of the International Federation of Accountants (IFAC) and the Eastern, Central, and Southern African Federation of Accountants (ECSAFA).

16. **The capacity of NBAA needs strengthening.** The NBAA has made a significant contribution to accountancy development in Tanzania over the past decade, its examination process and administration is exemplary. However, due to technical and financial resource constraints, the NBAA is not able to function effectively either as a regulator or as a professional accountancy body. The NBAA needs additional capacity to undertake monitoring activities to ensure that practical training is adequate and that there is compliance with auditing standards.

17. **There appears to be a shortage of qualified accounting professionals in Tanzania.** At the end of 2004, the NBAA membership stood at 1,135 of which 398 members were in public practice. Professionals with foreign accountancy qualifications held approximately 25 percent of the total membership. Female members made up 2.6 percent of the total membership. A report prepared by ACCA³¹ in 1999 revealed that Tanzania had a below average number of professional accountants relative to its GDP, however the ratio of accounting technicians to professional accountants was higher than the regional average.³²

18. **The Auditors and Accountants Act has facilitated the development of an enabling environment for strong accounting practices.** Tanzania had diverse accounting practices prior to the promulgation of the Auditors and Accountants Act. It introduced various improvements, including the mandatory appointment of a CPA for entities exceeding set limits and mandates for setting accounting and auditing standards, and arrangements for monitoring and enforcement of accounting and auditing practices.

19. **The big 4 international accounting firm networks audit the 7 listed companies in Tanzania.** In addition, these firms also audit most of the major financial institutions, multinational, and other large companies in the country. Local accounting firms mainly audit small and medium enterprises.

20. **The NBAA Code of Ethics needs updating.** Issued in 1999 as a by-law to the Auditors and Accountants Act, the Code of Ethics has mandatory application to all the NBAA members. To bring it in line with IFAC, the NBAA Code needs updating in areas like application of principles to specific situations, responsibilities regarding the use of

³¹ In 1999 the NBAA commissioned ACCA to undertake the study, "The status of Accounting and Auditing functions in Tanzania and Harmonization with International and Regional Standards." The main objective was to review existing statistics to establish the demand and supply of accounting personnel in both private and public sectors. An updated study may be helpful, also considering the accounting needs of the smaller companies and the impact of the Companies Act (2002) provision exempting certain private companies from being audited.

³² The NBAA produces on average 100 CPAs a year; the forecast is that Tanzania will need 162 CPAs per annum to keep pace with GDP growth.

non-accountants, activities incompatible with the practice of public accountancy, rotation of lead engagement auditor, and auditor's independence.³³

21. **Tanzania has not yet experienced litigation against auditors.** There are no reported cases of litigation against auditors and audit firms. Partners in firms have unlimited liability and are jointly and severally liable under common law principles. Professional indemnity insurance is compulsory at no less than 3 times the latest annual turnover of the firm. The NBAA does not monitor adherence to this requirement, and it is probable that smaller firms especially do not comply with this requirement.

C. Professional Education and Training

22. **Becoming a CPA requires passing the NBAA examinations and obtaining practical experience.** Candidates pursuing the NBAA professional examination must have the same entry qualifications as for university entry, which is in line with IFAC International Educational Standards (IES). The NBAA examinations consist of three stages: foundation, intermediate, and final. Each stage has two parts. Two consecutive parts may be attempted at a time. After passing the NBAA professional examinations, a graduate member is required to undergo 3 years of practical training to be admitted as an associate member of the NBAA. They are eligible to become a fellow member after 7 years. To register as a CPA-PP, the 3-year practical training must take place under the supervision of another CPA-PP. Practicing certificates are renewed annually, and renewal is linked with payment of membership fees. Foreign membership requirements include being resident in Tanzania and passing examinations in local taxation and law.

23. **Professional education is not yet adequate.** The 2001 NBAA-prescribed curriculum for educating and training of professional accountants is being revised and will go into effect November 2006. The current curriculum does not fully meet the requirements of IES.³⁴ The NBAA monitors the quality of universities and educational institutions on an ongoing basis and acts as external moderator of their exams. Nonetheless, many accounting educators lack the experience to teach especially the practical aspects of IFRS/IAS and ISA. The situation is worse in universities and colleges outside Dar es Salaam. Universities and colleges struggle to retain professionally qualified lecturers due to higher compensation offered in commerce and industry. Students must attain 6 months of practical training while still studying and encounter difficulty finding placements for training. Some accounting graduates have poor verbal and written command of English. Despite concerted efforts of the NBAA, the IFRS/IAS and ISA learning materials are expensive, not widely available, and not up-to-date.³⁵ The capacity and resource constraints at higher educational institutions, as well as students'

³³ The NBAA's Code does not adopt a conceptual approach to independence; threats to independence (in terms of self interest, self review, advocacy, familiarity, and intimidation) are missing. And safeguards capable of eliminating these threats or reducing them to an acceptable level are not stated as under the IFAC Code.

³⁴ Certain subjects are not taught separately as required by IFAC International Educational Guideline (IEG) 9. IES were issued in October 2003 to replace IEG 9, effective January 2005. They require inter alia the following components to be taught separately: professional values and ethics, corporate governance, business ethics, organizational behavior, marketing, international business, and globalization. The information technology component is also not in line with IFAC. It is unclear how professional skills required by IES 3 (intellectual, interpersonal and communication, organizational and business management) would be acquired. The revised curriculum proposes that stronger focus be placed on IFRS and ISA training, public sector financial reporting, as well as governance and ethics.

³⁵ Over 24 months the NBAA purchased and distributed approximately 2,100 copies of the IASB handbook and 1,000 copies of the IFAC - ISA handbooks, the largest number of copies ordered among African countries. Despite negotiating discounts on purchase prices, landing costs and taxes contributes to the high costs of these publications.

poor English ability, contribute to low passing rates in the professional examinations. The NBAA offers special awards to outstanding candidates as incentive for better performance on examinations.

24. Monitoring and control of the practical experience requirement needs to be enhanced. As a positive step in the right direction, the NBAA assesses the suitability of practical experience by reviewing the trainee's logbook of practical experience. However, the NBAA does not screen training providers and does not specify at the outset the core skills to be mastered during the practical training period.

25. Continuing professional development (CPD) in Tanzania is compulsory but not yet monitored. Mandatory CPD requirements are set out in a NBAA Circular. The requirements now in force are 30 and 40 hours per annum for CPAs and CPA-PP, respectively.³⁶ With regard to IFAC requirement—making CPD compulsory for all its member bodies—the CPA requirements are not in line with the latest IES, and guidance is not provided on the scope of structured and unstructured learning activities.³⁷ The CPD seminars are readily available although there is a perception that more technical updates are needed, especially in the transition stage to adopt IFRS/IAS and ISA. There is a requirement to file an annual CPD return. Compliance with CPD requirements is a condition for the renewal of the CPA-PP certificate to practice. The NBAA, which monitors this compliance, has not identified any instances of noncompliance. With regard to other CPAs, effective monitoring and sanction mechanisms do not exist except in the move from an associate to a fellow member at which time the Board reviews minimum CPD requirements.

D. Setting Accounting and Auditing Standards

26. The NBAA prescribes IFRS/IAS and ISA. The NBAA has a legal mandate to set accounting and auditing standards. Until recently the national standards³⁸ were generally modeled on IAS and ISA; and where there was no local standard, the international standards were mandatory. Considered a move in the right direction, the NBAA adopted wholesale IFRS/IAS and ISA in effect July 1, 2004. No implementation guidelines are issued, although a couple of additional local standards (serving as implementation guidance), remain in use.³⁹

27. In certain instances there is no clear legal backing for compliance with accounting standards. Although the NBAA has a legal mandate to set accounting standards, entities which must comply with the standards are not clear; the Auditors and Accountants Act merely refers to "...compliance of the standards and guidelines by the

³⁶ The NBAA Bylaws (Registration and Membership, and Code of Ethics) set out the minimum CPD requirements as 40 hours and 60 hours per annum for CPA and CPA-PP, respectively.

³⁷ IFAC IES 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*, was issued in May 2004. The NBAA should ensure that this standard is considered in planning its future role in CPD; for example IES 7 provides for measurement of completion of CPD to be achieved by three different approaches.

³⁸ The NBAA had issued 30 local accounting standards, 17 auditing standards, and 3 statements of recommended practices. These were more or less based on IASB and IAPC standards, but lagged behind IAS/ISA.

³⁹ Tanzania Financial Accounting Standard (TFAS) include TFAS 12, *Directors Report*; TFAS 23, *Accounting for VAT*; TFAS 24, *Public Sector Financial Reporting*. Tanzania Statements of Recommended Practice (TSRP) include TSRP 2, *Basic Recordkeeping and Accounting Practices for Non-governmental Organisations in Tanzania*; and TRSP 3, *Governance in the Public Sector: Accounting Officer's Perspective* (which focuses on governance issues rather than financial reporting).

subjects” without defining ”subjects.”⁴⁰ Legislation governing companies, listed entities, insurance companies, parastatals, and executive agencies do not explicitly provide clear backing for accounting standards set by the NBAA. Moreover, some laws specify particular accounting requirements that do not align with NBAA-prescribed standards.⁴¹ Adequate legal backing exists for auditors to comply with NBAA standards.

E. Ensuring Compliance with Accounting and Auditing Standards

28. **The Registrar of Companies has no capacity to enforce financial reporting requirements.** The requirement in force states that only public companies should file annually audited financial statements with the Registrar of Companies at the Business Registration and Licensing Authority (BRELA); the new Companies Act (2002) requires private companies to do the same.⁴² Currently BRELA only acts as a custodian of documentation; it does not monitor compliance with financial reporting requirements. Present capacity, including ineffective manual filing systems, is inadequate to administer the financial reporting requirements of the new Act. A needs assessment would be helpful to determine the staffing and resources to administer the new Act.

29. **The CMSA performs an oversight function over the DSE and monitors compliance with financial reporting requirements of brokers, dealers, investment advisors, and entities intending to list.** The Directorate of Market Supervision and Development performs off-site supervision and ad hoc on-site inspection to monitor brokers, dealers, and investment advisors. Adequate legal sanctions are available, including power to suspend trading. There have been instances where two companies had to restate their financial statements at their initial public offering and takeover deals respectively in 1998 and 2000; and one dealer has recently been penalized for late submission of a quarterly report.

30. **The DSE monitors compliance with ongoing financial reporting requirements of listed companies.** Although the Operations and Legal Department lacks qualified staff to effectively monitor compliance with financial reporting requirements, the professional accountant in the Finance Department fulfills a monitoring role over the 7 listed companies. Capacity may become a problem when the number of listed companies increases. Reliance is placed on assurance provided in audit reports.

31. **The BOT monitors compliance with financial reporting requirements related to banks and non-banking financial institutions.** The Banking Supervisory Department is responsible for monitoring the prudential regulation of the banks and non-banking financial institutions, as well ensuring that the general purpose financial statements are prepared in accordance with applicable standards. It monitors banks through regular on-site inspection and off-site supervision, and relies on external audit assurance. The

⁴⁰ The National Board of Accountants and Auditors (Practicing) By Laws (1997) requires a CPA-PP to comply with accounting and auditing standards and guidelines issued by the Board; and in their absence guidelines issued by IFAC and IASC would be used. Failure to comply could result in de-registration of membership. However, this is inadequate to also cover the requirement for legal backing for accounting standards; a CPA in commerce and industry or entities that do not employ CPAs are not covered by this By-Law. Other vague requirements in Code of Ethics do not explicitly require compliance with accounting standards set by the NBAA.

⁴¹ Refer to paragraph 35.

⁴² As of November 2004, there were 50,640 registered limited companies in Tanzania. There are an estimated 12 public companies. Reliable statistics on the number of private and unlimited companies are not available. The number of inactive companies are not known but thought to be significant. Registered business names number 148,302.

Banking Supervisory Department generally has a good relationship with external auditors; noncompliance with its requirements could result in an auditor's removal. The external auditor of a bank must report to the BOT instances of noncompliance, fraud, dishonesty, serious irregularities, and insolvency. The Banking Supervisory Department has adequate capacity to monitor compliance with financial reporting requirements, however, skills base may need to be broadened to support its intended move to risk-based supervision. Banks are subject to the imposition of extensive and effective sanctions—reissue of financial statements, fines, revocation of license (in extreme cases), variations in the terms and conditions of licensing, and criminal penalties.

32. The Commissioner of Insurance monitors compliance with financial reporting requirements of insurance companies. Capacity seems satisfactory at the Insurance Supervisory Department to monitor financial reporting by insurers. Professionally qualified accountants participate in a team performing regular on-site inspection and off-site supervision of annual returns and financial statements of insurers; as a result, there have been occasional clarifications sought from auditors. The Commissioner has a co-operative relationship with the auditors of insurance companies. The current skills base should be enhanced to monitor compliance with IFRS 4, *Insurance Contracts*, which became effective January 1, 2005, and to support its intended move to risk-based supervision. There are adequate legislative sanctions available for noncompliance, including appointing another auditor at the insurance company's expense, reissuing of financial statements, amending the accounts directly by the Commissioner, and in extreme cases suspending or revoking an insurer's license.

33. The Treasury Registrar lacks capacity to fully exercise a monitoring role over financial reporting by unspecified parastatals. The Parastatal Reform Sector Commission adequately monitors compliance with financial reporting requirements by the 35 specified parastatals.⁴³ The Treasury Registrar exercises a strategic economic investment monitoring role over unspecified parastatals. Although accountants analyze financial statements of parastatals, the focus is not on monitoring compliance with accounting standards. Some reliance is placed on monitoring by the Controller and Auditor General over private sector audit firms performing the audit on his behalf.⁴⁴ There have been instances where special audit investigations or a change of auditors have been instituted on request of the Treasury Registrar, but there are still many parastatals that are in arrears with submission of financial statements. The Treasury Registrar also regulates certain executive agencies, but monitoring is hampered due to uncertainties in the legal framework.⁴⁵

34. Enforcement of compliance with auditing standards and the professional code of ethics is ineffective. Disciplinary actions are complaints-driven only. None of the members of the NBAA Membership and Ethics Committee are independent from the

⁴³ "Specified parastatals" are designated as such by the Minister on recommendation of the Parastatal Reform Sector Commission, focusing on parastatals earmarked for restructuring and divestiture.

⁴⁴ Monitoring of work done by private sector auditors on behalf of the Controller and Auditor-General has only recently been instituted. The focus of the monitoring actions is to ensure that matters of national interest have been addressed, rather than to provide assurance on compliance with accounting and auditing standards. If instances of non-compliance were detected, corrective steps would include referral to the NBAA. The monitoring activities have not been in place long enough to conclude on the quality of such audit work. To date, no instances of non-compliance have been identified.

⁴⁵ There are uncertainties as to when it becomes a recognized government business enterprise. Reporting and accountability lines are not clear.

accountancy profession. Auditors are not yet subject to quality assurance reviews. There are examples of breakdowns in quality assurance arrangements, even in the big international accounting firm networks.⁴⁶ The NBAA Audit Quality Review Program is to be implemented in 2005 with ACCA assistance. Detailed guidelines were developed in 2003, and the NBAA has sufficient funding for the first two years of its establishment. Proposals to establish a central ECSAFA monitoring unit for auditors have not yet materialized, and consideration is being given to the possibility of quality assurance reviews in the 3 East African countries as a medium-term objective.

III. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED

35. **Other laws specify particular accounting requirements that do not align with IFRS/IAS.** As mentioned earlier, accounting and disclosure requirements set by the following legislation are incompatible with IFRS/IAS requirements: Companies Act (2002); Capital Markets and Securities Regulations (2003); Dar es Salaam Stock Exchange Blueprint (2003), interim financial statements; BOT's Independent Auditors Regulation (2000), quarterly financial statements; Insurance Act (1996); Collective Investment Schemes Act (2003); and the Public Corporations Act 1992 with subsequent amendments.

36. **There are significant compliance gaps.** "Compliance gaps" refer to the differences between applicable⁴⁷ standards and actual practice. The World Bank ROSC team reviewed 34 sets of financial statements (all 7 listed companies, 5 major banks, 8 other banks and banking institutions, 8 insurance companies, 2 parastatals, and 4 other companies in various industries) and conducted interviews with accountants, auditors, and regulators. The review of financial statements focused on issues of presentation and disclosure but did not cover compliance with "recognition and measurement" requirements of accounting standards, which is not detectable through a review of financial statements. Selected compliance gaps found in the review are presented below:

- **Presentation of financial statements.** The financial statements of some companies use outdated terminology. Many companies do not appropriately separate current and non-current items in balance sheet presentation. Income statement presentation lacked disclosure of expenses by nature or function, and disclosure of finance costs. A statement of changes in equity was not always presented as part of the financial statements. Some companies did not disclose the measurement basis adopted in the treatment of specific items in the financial statements, some stated accounting policies as a mere formality, but did not apply those policies, particularly policies related to financial instruments, impairment, and provisions. For 11 of the sample companies, the accounting policy on revenue recognition was inadequate.
- **Cash flow statement.** In some instances, required reconciliations were omitted.

⁴⁶ Cases where a re-audit on request of regulators revealed auditor negligence included the Ministry of Defense Forces, Muhimbili Orthopaedic Institute, National Audit Office, and the National Bureau De Change Limited (now Twiga Bankcorp Limited). In another 1998 case, an auditor (that also acted as the reporting accountant) issued misleading reports with the listing of TOL Limited, which has not paid any dividends since. The NBAA issued a reprimand letter to the audit firm for misleading investors. In another case, Tanzania Telecommunication Company Limited was scheduled to be sold in part to a foreign investor; 3 major audit firms presented 4 separate sets of financial statements related to the same year.

⁴⁷ The review took into account that the IFRS/IASs became operational in Tanzania only after July 1, 2004. Compliance gaps identified in this section relates to those where the TFAS and IFRS/IASs requirements were in substance the same. Most instances of non-compliance noted in this section were also a requirement of TFAS.

- **Segment reporting.** Only 1 of the 7 listed companies provided segment information; all others failed to comply with the disclosure requirements.
- **Financial Instruments.** There was significant noncompliance with financial instruments requirements, especially disclosures relating to interest rate risk, credit risk, and information about fair values. Major banks and some insurance companies complied, however, listed companies, parastatals, and small banks were generally not compliant. Stakeholder interviews revealed that group accounting policies might not always take into account country differences when formulating accounting policies. Examples were cited of local systems not able to generate information to identify and account for embedded derivatives and the difficulty in auditing fair value assessments due to a thin market.
- **Related party disclosures.** Many companies did not disclose information on related party relationships, and some companies that reported related party transactions failed to provide the required detailed information.
- **Impairment of assets.** Although some made reference to an impairment review, none of the companies disclosed impairment adjustments, which seemed unreasonable since many were loss-making companies.
- **Investment property.** In 3 instances, the treatment of the gain or loss arising on the revaluation of investment property was incorrectly recognized in equity (revaluation reserves) instead of in net profit or loss. Required disclosures were also not provided.
- **Finance leases.** It appeared that only 1 company entered into a finance lease; in this case the accounting policy and disclosures were inadequate.
- **Employee benefits.** Some companies failed to provide the required disclosures.
- **Dividends.** Seven companies incorrectly showed proposed dividends as a liability.
- **Additional disclosure by banks.** There is a higher degree of compliance with IFRS/IAS by banks than other entities. Within the banking sector, major banks were most compliant, with government-owned and community banks least compliant. Contrary to the requirement of IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, most banks did not disclose (a) expenses related to fee and commission income, (b) gains/losses from dealings in securities and foreign currencies, (c) fair values of each class of financial assets and liabilities, (d) information relating to loans and advances on which interest is not being accrued, and (e) information on the amounts set aside for general banking risks. In addition, some banks did not disclose (a) significant concentration in the distribution of assets, liabilities, and off-balance sheet items; (b) amount of significant net foreign currency exposure; (c) accounting policy and movement of provisions for losses on loans during the period; (d) contingencies and commitments arising from off balance sheet items; and (e) irrevocable commitments to extend credit.

IV. AUDITING STANDARDS AS DESIGNED AND PRACTICED

37. **International Standards on Auditing have been adopted, but many compliance gaps exist.** Examples of noncompliance with auditing standards are well known (refer to footnote 46). From the review of financial statements carried out as part of this report, it appeared that transparency in disclosure of audit fees is lacking, with no

separation between auditing and nonauditing services. The ROSC team made these observations from interviews with practicing auditors and senior leaders of the auditing profession:

- The majority of local audit firms do not have quality practice manuals. The lack of implementation guidelines hinders application of auditing standards. Some auditors generally find it difficult to handle important concepts, such as audit risks, audit planning, internal control, materiality, documentation, analytical procedures, and audit sampling. Lack of knowledge of practical application, coupled with no independent practice review mechanism, adversely affects audit quality.
- Substandard work due to a lack of planning and supervision over junior staff is exacerbated by clients' late submission of draft accounts and pressure to meet filing deadlines.
- Apart from the firms with international affiliations, most firms do not comply fully with the ISA on quality control due to affordability constraints. Second partner peer reviews are generally not done.
- Documentation practices sometimes fail to provide audit evidence to support the audit opinion.
- Independence may be sacrificed by accepting a related party as an audit client.
- Engagement letters are not always issued due to familiarity or close association with the client.
- Auditors sometimes find it difficult to obtain audit evidence and so rely on management representations, particularly for fair values, impairment of assets, related party transactions, segment information, contingent liabilities, and going concern. Obtaining external confirmations is difficult.
- Shortage of expertise in information technology (especially in medium and small firms) erodes audit quality. Reliance is placed on work of experts, without assessing the adequacy of such work, and the expert's competence, and objectivity.
- It is not always possible to obtain audit evidence that the opening balances do not contain material misstatements that affect the current period's financial statements. Typically the incoming auditor does not liaise with the predecessor auditor and review their working papers.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

38. **The perception of the quality of financial statements is mainly determined by the company's auditor.** Interviews and discussions with various stakeholders revealed that more reliance is placed on financial statements audited by the affiliates of large international firm networks. Regulators placed reliance on the NBAA to oversee the audit function, although this has not taken place yet (refer to para 34). Generally the view was that larger companies and companies with international links, as well as banks and financial institutions, prepare better quality financial statements. Some believed that the mandatory employment of qualified CPAs have contributed to better quality financial statements.

39. **Users question the reliability of some audited financial statements.** There is a perception among various users of financial statements that some companies' financial

statements are misleading and that audit firms collude with management. Different sets of financial statements are submitted to Inland Revenue and credit institutions. This perception is fueled by a limited number of unlicensed auditors who are illegally responsible for the audit of substandard financial statements.

40. **A strong enforcement mechanism is needed.** The interviewees in general viewed that the precondition for improvements in the quality of corporate financial reporting in Tanzania is the establishment of a strong regulatory regime with effective enforcement mechanisms for ensuring compliance with accounting and auditing standards.

VI. POLICY RECOMMENDATIONS

41. While IFRS/IAS and ISA are the two benchmarks that the World Bank uses to assess accounting and auditing standards and practices, *regulatory* standards for accounting and auditing are still evolving internationally and vary from country to country. The regulatory regimes lie between complete self-regulation (by the professional bodies themselves) at one extreme to comprehensive independent regulation (by direct government regulation in its strictest form) on the other. It is worth noting that the worldwide trend is toward accountancy bodies being more open in their governance and regulatory processes, and for more independent oversight or regulation in areas of greater public interest.⁴⁸ There is also recognition that high-quality corporate financial reporting depends on effective enforcement mechanisms. Merely adopting international accounting and auditing standards is not enough. Three important links exist in the enforcement sequence: (a) directors and top management must ensure that financial statements are prepared in compliance with established standards; (b) auditors must act independently and judiciously to ensure that financial statements comply with applicable accounting standards and represent a true and fair view of the entity's financial position and results; and (c) regulators, both self-regulatory organizations and statutory regulators, must implement arrangements for efficient monitoring of compliance and consistently take appropriate actions against violators.

42. In the absence of international regulatory standards for accounting and auditing, World Bank staff drew on experience and international best practices, as well as valuable inputs from the country stakeholders, in formulating the following principle recommendations. Annexes A and B set out options and further guidance to find the most appropriate and effective regulatory structure for the accountancy profession in Tanzania. The recommendations provide input for preparing a comprehensive country action plan and are aimed at the country authorities that have authority for implementation.

43. **Improve the statutory framework of accounting and auditing.** Steps should be taken to ensure that legal requirements on accounting, auditing, and financial reporting fully protect the public interest. An effort is needed to make audit and accounting requirements consistent across various pieces of legislation and to consolidate financial reporting requirements for parastatals and pension funds. A pension fund regulator should be identified. Updated companies' legislation should be put into operation. Amendments

⁴⁸ Many countries have already moved closer to changing the balance away from self-regulation of the auditing profession. Post Enron, WorldCom, and Parmalat developments have been dramatic; governments, including those of the United States of America, the United Kingdom, the member states of the European Union, and South Africa, have responded to the many issues arising, including the regulation of auditors.

should be integrated with existing law ensuring a complete, revised version is available. Legal reforms should focus on the following:

- ***Legally mandate the use of IFRS/IAS and ISA without modifications.*** The provisions on accounting, auditing, and financial reporting for general purpose financial statements should be reviewed in various pieces of legislation⁴⁹ to clearly identify the standards to be complied with. Existing laws may be amended or repealed and a new Financial Reporting Act be enacted. IFRS/IAS and related interpretations issued by the IASB need to be the legally enforceable standards applicable to the preparation of the general purpose financial statements⁵⁰ of all public interest entities,⁵¹ including government business enterprises.⁵² The audit of financial statements prepared by public interest entities should be carried out in accordance with ISA and other IFAC-issued pronouncements. Also, the IFAC Code of Ethics for Professional Accountants should be mandated for all practicing auditors. And separate disclosure of audit and nonaudit service fees should be required. Adequate legal sanctions should be provided for noncompliance with these financial reporting requirements.
- ***Agree to a simplified financial reporting framework for small and medium enterprises.*** Until finalization of the IASB project, “Accounting standards for small- and medium-size entities (SMEs),” stakeholders should agree on criteria to clarify which entities should be eligible to use the IASB standards for SMEs.⁵³ Once the international standard is available, it should be applied in terms of the agreed local criteria.

44. **An independent oversight body should set, monitor, and enforce accounting and auditing standards and codes.** Such an independent oversight body should be accountable to a minister and the legislature, not only administratively, but also for its oversight responsibilities. In order to ensure proper factual and perceived independence of the oversight body, there should be a mixture of professional accountants and nonaccountants in its governing body or council. Members of the council may be drawn

⁴⁹ Such legislation include the Companies Act (2002), Capital Markets and Securities Act (2002), DSE Blue print (2003), Banking and Financial Institutions Act (1991), Insurance Act (1996), Public Finance Act (2001), Public Corporations Act (1992 and its amendments), Executive Agencies Act (1997) and the Auditors and Accountants Act and related By laws.

⁵⁰ General purpose financial statements are intended to meet needs of users who cannot have reports tailored to specific information needs. These users include investors, creditors, suppliers, the media, employees, and Tanzania Revenue Authority. Regulators such as those in the banking, insurance, and securities and exchange markets would specify additional regulatory reporting requirements.

⁵¹ Public interest entities may be defined by the nature of their business, their size, and their number of employees; or by their corporate status by virtue of their range of stakeholders or some other measure. Examples of public interest entities might include banks, insurance companies, investment funds, pension funds, medical schemes, listed companies, and large enterprises. The large enterprises to be considered as public interest entities may be defined to align with the thresholds set in the Auditors and Accountants Act (requiring the mandatory appointment of CPAs), and yet to be enacted regulations under the Companies Act (private companies exempted from audits).

⁵² In accordance with International Public Sector Accounting Standards (IPSASs) issued by International Public Sector Accounting Standards Board (IPSASB) of IFAC, government business enterprises should comply with IFRS/IAS. A government business enterprise is defined in IPSAS to mean an entity that has all the following characteristics: (a) is an entity with the power to contract in its own name; (b) has been assigned the financial and operational authority to carry on a business; (c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery; (d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) is controlled by a public sector entity. Other public enterprises should comply with IPSAS.

⁵³ It is expected that the IASB would not develop guidelines on which entities should or should not be eligible to use the IASB standards for SMEs, but rather it is a matter to be decided by national jurisdictions. However, the IASB would indicate those entities for which the standards of SMEs were not appropriate, and any such entities using the SMEs standards would not be able to assert that their financial statements were prepared in accordance with IFRS/IAS.

from the appropriate government ministries, CMSA, DSE, BOT, professional accountancy bodies, the legal profession, and academia. All stakeholders, in particular government, should assure adequate funding for the oversight body. Separate units within the oversight body could be responsible for the following activities:

- ***Setting accounting and auditing standards.*** The oversight body should adopt, without modification, all IFRS/IAS, ISA, and IFAC-issued Code of Ethics for Professional Accountants. The oversight body should also prescribe accounting and auditing requirements for SMEs.
- ***Licensing of auditors.*** The oversight body should maintain a register of auditors and audit firms approved for auditing public interest entities. Policies and procedures for accreditation of auditors to comply with the IFAC IES should be developed. A mechanism should be developed for renewing the practice license of auditors in public practice based on a performance evaluation.
- ***Conducting quality assurance reviews for auditors of public interest entities, investigating complaints, and assessing stakeholders' and public's interest.*** The quality assurance review should evaluate an audit firm's system of quality assurance, its audit approach, and its working papers. Valid complaints against auditors and audit firms should also be investigated. In the case of material infractions, the oversight body should recommend appropriate actions to the enforcement authority for implementation. In addition, oversight activities should include assessing whether professional bodies are serving the interests of stakeholders, including the public.
- ***Monitoring compliance with accounting standards.*** Monitoring actions should ensure compliance with the legal requirement to employ qualified CPAs in entities meeting certain thresholds. General purpose financial statements of public interest entities should be reviewed for compliance with accounting standards. Findings on non-compliance should be forwarded to the enforcement authority along with recommendations on the sanctions for infractions. Sufficient legal backing is needed for effective monitoring activities.
- ***Enforcing sanctions for violations.*** The enforcement authority of the oversight body should determine appropriate actions against violators of standards and codes. In addition to resorting to the national legal system, the oversight body should impose administrative sanctions against management of entities, auditors, and audit firms. This will facilitate enforcement without depending fully on the lengthy legal process. Wide public disclosure of the results of monitoring and enforcement actions will bolster a culture of compliance by acting as incentives both for preparers and auditors to abide by standards.

45. **Ensure co-ordination among regulatory and professional bodies for improving compliance practices.** The oversight body should pro-actively monitor compliance. The other regulatory bodies should complement these efforts by swiftly alerting the oversight body to noncompliance issues that require further investigation. Other regulators should liaise with the oversight body in approving the appointment of an auditor and to verify that audit reports are prepared only by licensed auditors. Auditors may be required to report material irregularities to the oversight body, which in turn may report to the appropriate regulator. The relationship between the oversight body, as the

statutory regulator, and the professional self-regulatory bodies needs to reflect the mutual recognition of functions that are of interest to both (refer to Annex A).

46. **Enhance the role of financial statements in tax collection.** Align the legal requirements for involvement of professional accountants in tax returns of certain entities (refer to paragraph 6). The Tanzania Revenue Authority should utilize IFRS/IAS- and ISA-based financial statements in its tax assessments. Differentiation in financial reporting requirements for SMEs will also enhance the quality of their financial statements, which would in turn facilitate improved performance in domestic revenue collection.

47. **Require separate disclosure of audit and nonaudit service fees.** Currently audit fees are disclosed in financial statements. It is perceived that auditors supplement audit fees with relatively higher fees for nonaudit work in the same entity, which may impair independence. To ensure transparency, it is recommended that arrangements should be in place to disclose the amount of audit and nonaudit services fees separately.

48. **Enhance professional education and training.** Relevant training programs and current copies of IFRS/IAS and ISA should be easily accessible to all players:

- **Preparers.** Directors of public interest entities should be made aware of their responsibilities with regard to financial reporting; and corporate accountants should get training in preparing IFRS/IAS-based financial statements. For example, smaller banks have an immediate need for training in financial instruments requirements.
- **Regulators.** Staffs of the CMSA, DSE, BOT, Commissioner of Insurance, and other regulators could better enforce accounting standards by receiving IFRS/IAS theoretical and practical training. Tax assessors at the Tanzania Revenue Authority also need to build their capacity.
- **Auditors.** Auditors of public interest entities should get practical training to help them to audit the IFRS/IAS-based financial statements, and to comply with ISA.
- **The NBAA syllabus.** Global developments in accounting and auditing must be reflected in the NBAA education and training arrangements on a timely basis. The proposed curriculum for 2006 should conform to IFAC IES.
- **Trainee accountants.** Practical experience leading to qualification as a professional accountant should be conducted under the direction of a mentor who is an experienced NBAA member. The mentor should have sufficient knowledge and experience with practical aspects of all the applicable standards and codes. The practical experience environment also needs to be assessed and approved (reviewing the nature and scope of practical experience and training arrangements of employers to ensure trainees are receiving practical exposure to core areas and proper direction and supervision). The NBAA should also monitor employers and mentors previously approved. In addition, the NBAA should provide detailed written guidance to employers, mentors, and trainees regarding the program of practical experience.
- **Students.** Further efforts should be made to make updated IFRS/IAS and ISA learning materials easily accessible and inexpensive to students.
- **Training providers and teachers.** To qualify as an authorized training provider, an individual should have sufficient knowledge and experience with practical

aspects of all the applicable standards and codes. Teaching must be practical-oriented. The skills of some existing educators should be upgraded with train-the-trainers programs.

49. **Continuing professional development should be regularly monitored.** The NBAA requirements on continuing professional development should be brought in line with the IFAC IES 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*. An efficient mechanism for monitoring and enforcement of such requirements should be developed for members not in public practice. Technical programs should focus on addressing practical implementation aspects of accounting and auditing standards.

50. **The NBAA should make arrangements to meet IFAC membership obligations.** Further efforts are needed to bring the NBAA requirements in line with IFAC as related to professional education, practical training, continuing professional development, and investigation and disciplinary processes. The NBAA should update the Tanzania Code of Ethics in line with the IFAC Code. The NBAA should require firms to implement a quality control system in accordance with the IFAC's International Standard on Quality Control. And the NBAA should implement its own practice review system to ensure that auditors comply with applicable auditing and ethical standards and independence requirements. This recommendation may serve as an interim improvement until effective implementation of the recommendations regarding the oversight body, but will still be relevant thereafter. The NBAA may then consider the appropriateness of relying on the work of the oversight body to fulfil its IFAC membership obligations. Furthermore, the NBAA should use its best endeavors to ensure that general purpose financial statements of public sector entities (other than government business enterprises) comply with International Public Sector Accounting Standards.

51. **Strengthen the capacity of the NBAA.** The NBAA Board should include further non-members to ensure wider accountability and increased credibility of the profession. The NBAA's capacity (technical staff and funding) needs to be strengthened to achieve the improvements in the areas set out above to meet IFAC membership obligations.

52. **Strengthen capacity of the regulatory bodies.** Take necessary steps to strengthen capacity of the Treasury Registrar with respect to unspecified parastatals, the Registrar of Companies, and the yet to be established regulator of pension funds to enable them to effectively deal with accounting and financial reporting practices of regulated entities. The staffs of the CMSA, DSE, BOT, Commissioner of Insurance, and other regulators could better enforce accounting standards by receiving IFRS/IAS theoretical and practical training.

53. **Utilize limited capacity effectively by joining efforts on a regional basis.** Possibilities of regional joint efforts should be explored and supported to increase capacity of accountancy professional bodies and regulators in the region. Discussions on regional co-operation have been initiated; the ECSAFA is planning to establish a central monitoring unit to undertake monitoring visits of licensed auditors in the region. Furthermore, there is a drive to harmonize East African capital markets led by the regulatory authorities; the stock exchanges; and broker's associations in Kenya, Uganda, and Tanzania. The East African Members States Securities Regulatory Authorities (EASRA) has been formed to drive the harmonization.

ANNEX A: IMPLEMENTATION OF POLICY RECOMMENDATIONS REGARDING THE REGULATION OF AUDITORS AND ACCOUNTANTS IN TANZANIA

There are several options that may be considered in finding the most appropriate and effective regulatory structure for the accountancy profession in Tanzania. The following factors should be taken into account when considering the most appropriate structure:

- The NBAA currently serves the purpose of both a regulator and a professional accountancy body.
- The NBAA has regulatory functions;¹ however accountants and auditors dominate the composition of its governing body.
- The relatively small numbers of members, students and audit firms in the country.
- The complexities of effecting any legislative change in existing laws.
- Differentiating between functions of a professional membership body and those functions in need of oversight in the public interest (Table A1).
- The relationship between a statutory regulator and a professional body, specifically the mutual recognition of functions that are of interest to both; including matters such as (a) accreditation of professional education and training of professional bodies for the licensing of auditors; (b) quality assurance (practise) review of auditors, (c) Code of Ethics; (d) sequence and processes involved in taking disciplinary action. (Also see introductory note to options over the page.)
- Cost-benefit considerations and capacity constraints relative to each option.

Table A1. Differentiating between Professional Entity Role and Functions of Oversight

<i>Regulatory oversight type functions</i>	<i>Professional body/ representative type functions</i>
<p><i>Protect public interest - accountable to minister and legislature</i></p> <ol style="list-style-type: none"> 1. Set accounting standards (adopt IFRS/IAS) 2. Set auditing standards (adopt ISA) 3. Set ethical standards or monitor ethical standards adopted by profession 4. License auditors and firms 5. Monitor compliance with accounting standards 6. Practice review for auditors of public interest entities 7. Investigating complaints and assessing stakeholders' and public's interest 8. Enforce sanctions for violations 	<p><i>Protect member' interests - accountable to members</i></p> <ol style="list-style-type: none"> 1. Provide implementation guidance on IFRS/IAS, as well as ISA 2. Provide guidance on additional local accounting and auditing issues 3. Set standards or provide guidance in areas other than accounting and auditing such as financial management, corporate governance, ethics etc. 4. Regulate admission requirements to profession: <ul style="list-style-type: none"> ▪ Set requirements for membership ▪ Set educational standards ▪ Define syllabus ▪ Monitor quality of tertiary training providers ▪ Set professional exam and assess candidates ▪ Set practical experience requirements and verify compliance 5. Practice review for all licensed auditors 6. Investigate complaints and enforce disciplinary actions against members 7. Provide for Continuing Professional Development of members, and monitor compliance

¹ The NBAA acts as inter alia the licensing authority for members engaged in public auditing practice, and has a legal mandate for monitoring and enforcement. Its members are recognized under the new Companies Act as sole auditors of companies, and the appointment of an accountant certified by NBAA is mandatory for entities exceeding certain thresholds.

A. Relationship between regulator and professional body to achieve their respective functions

Both regulator and professional body may undertake similar activities, or arrangements may be made whereby reliance is placed by one party on the work of the other. For example, the regulator may monitor activities of professional bodies such as the quality assurance review program for auditors and disciplinary matters, and, if done effectively by professional bodies, may place reliance on such activities to achieve their regulatory functions. It may however want to have a separate investigative and disciplinary process available for high profile public interest cases. Note that to fulfill its IFAC membership obligations, the professional body should ensure that a mandatory quality assurance review program is in place for those of its members performing audits of financial statements of, as minimum, listed entities. The professional body should establish and publish criteria for evaluating all other audits of financial statements to determine whether they should be included in the scope of the program. The professional body may consider the appropriateness of relying on the work of the oversight body to fulfill its IFAC membership obligations. Where regulators perform any of the functions, the professional body should use their best endeavors to encourage those responsible for those functions to follow IFAC guidance in implementing them, and assist the regulator in that implementation where appropriate. If the scope of the regulator's quality reviews is materially narrower than the scope required by IFAC, the professional body should establish a program to deal with such aspects that are not within the scope of the regulatory program.

B. Options 1-4 for finding the appropriate regulatory structure in Tanzania: The four options in Table A2 are not the only possibilities but are provided as a broad frame of reference to find the most appropriate regulatory structure.

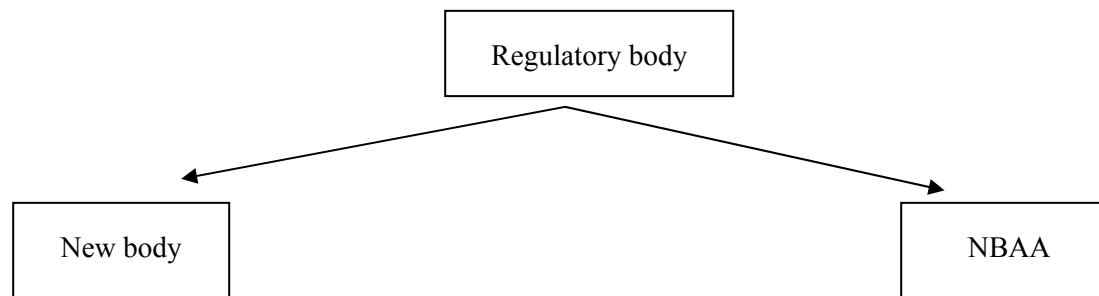
Table A2. Options for Appropriate Regulatory Structure in Tanzania

Option 1. First step to statutory oversight <i>Ensure appropriate public representation on the Governing Board of the NBAA.</i>	
<ul style="list-style-type: none"> ❑ Keep the NBAA intact; clarify responsibilities to include both regulatory and professional body functions. ❑ Increase public interest representation on Governing Board of NBAA. Accountants and auditors not to dominate the Board. ❑ Capacitate the NBAA to perform functions. ❑ Consider appropriateness of establishing a Financial Reporting Review Panel (which investigates complaints about the financial statements of public and large private companies) within NBAA over medium term. 	<p>Strength</p> <ul style="list-style-type: none"> • Provide for public oversight to some extent. • Least legislative amendments required, could be implemented in the short term. • Least cost implications. <p>Weakness/Risk</p> <ul style="list-style-type: none"> • Buy-in from profession to give up self-regulation. • No perceived separation of public interest and self-interest functions.
Option 2. Improved statutory oversight <i>Self regulation by profession, limited statutory oversight by separate committee</i>	
<ul style="list-style-type: none"> ❑ Similar to option 1, but instead of increasing public interest representation on the Governing Board of the NBAA, establish a Professional Oversight Board / Committee having oversight of the regulatory functions of the NBAA. Could be a committee within CMSA or National Treasury, its composition to reflect public interest stakeholders. 	<p>Weakness/Risk</p> <ul style="list-style-type: none"> • There are some (although not adequate), public interest representation on NBAA Board, however, they are also CPAs. There will be, to some extent, duplication of public interest / government oversight in the same sector. • Additional funding requirement for new body.

Option 3. Strong statutory regulation of audit function only <i>Establish a statutory Regulatory Board for Auditors</i>	
<ul style="list-style-type: none"> ❑ Establish a new Regulatory Board for Auditors (i.e. an Audit Oversight Body) with responsibility for regulating functions 2, 4, 6 as well as 3, 7 and 8 in Table A1 (as far as it relates to the audit function). ❑ Regulatory Board for Auditors to focus on regulation of audit profession. This is similar to approach in US with oversight of accounting and auditing by separate bodies. ❑ The Regulatory Board for Auditors may consider accrediting members of various professional bodies (including NBAA, ACCA, CPA Kenya etc.) that it will licence as auditors. 	<p>Strength</p> <ul style="list-style-type: none"> • Protect public interest with regard to audit function by splitting regulatory type functions from professional body type functions. • More appropriate that an external body accredits qualification for licensing of auditors than the provider of such a qualification. <p>Weakness/Risk</p> <ul style="list-style-type: none"> • Monitoring of compliance with both accounting and auditing standards not centralised in one regulatory body. To achieve economies of scale, it may be beneficial to have one body monitoring and enforcing compliance with accounting and auditing standards, as the same case may have both accounting and auditing ramifications. • Additional funding requirement for new body.
Option 4. Strong statutory regulation to include financial reporting	
<ul style="list-style-type: none"> ❑ Establish a statutory regulator of accounting and auditing, fulfilling functions 1-8 in Table A1. ❑ Professional membership functions fulfilled by separate professional bodies. ❑ As with option 3, the CPA Tanzania qualification would compete with other existing institutes (such as ACCA, CPA Kenya etc.) to be accredited to provide accountants that could be licensed as auditors. 	<p>Strength</p> <ul style="list-style-type: none"> • Same as Option 3, but expanded to include public oversight of financial reporting as well. <p>Weakness/Risk</p> <ul style="list-style-type: none"> • Additional funding requirement for new body.

C. Assignment of bodies to fulfil regulatory and professional membership functions in options 3 and 4 in section B.

A schematic presents the options available to assign bodies to fulfil regulatory and professional membership type functions respectively in options 3 and 4 in Table A2.



- The NBAA and TAA could consider merging into one professional body.
- If a new statutory regulator is established, it may have a better chance of success than trying to re-invigorate or re-organise existing bodies. However, risks with such an approach include the failure to amend timely the enabling legislation of the NBAA and to adopt new legislation for the new regulatory body, rejection due to perception that NBAA is already a regulatory body reporting to government.

- Consider using the TAA or other professional bodies to fulfil professional membership type functions.
- If the NBAA becomes the regulatory body, it has the advantage that no additional bodies are created. However, the composition of the NBAA Board has to be amended to adequately protect the public interest. Membership should include inter alia interests of Government, industry, industry regulators, investors, public, and the accountancy profession. Accountants and auditors could be represented on the Board, but should not dominate. There may be reluctance to sacrifice current self-regulation. In addition, the NBAA has to accept wider responsibilities of functions that are not currently being undertaken (such as regulatory functions 5 and 6 in Table A1), and more aggressively fulfil functions 7 and 8 in Table A1. Under this approach some of the professional membership type functions (such as education and training of accountants) of the current NBAA would be transferred to TAA or other professional bodies. There is no guarantee that the TAA will have adequate resources to act in a sustainable manner as the professional body.

ANNEX B: FINANCIAL REPORTING LEGISLATION APPLICABLE TO PARASTATALS

With reference to paragraph 12 of the report, parastatals lack a single statutory accountability regime that covers accounting, preparing financial statements, auditing, and other basic reporting requirements. The inconsistent financial reporting requirements specified in various sets of legislation are set out below:

	<i>Public Corporations Act, (1992 as amended)</i>	<i>Public Finance Act (2001)</i>	<i>Companies Ordinance (1932)</i>	<i>Companies Act (2002)</i>	<i>Auditors and Accountants Act</i>
<i>Accounting standards to be followed</i>	Not identified	Refers to generally accepted accounting practice with instructions approved by the Permanent Secretary and issued by the Accountant-General.	Not identified	Read with NBAA Act, it implies NBAA standards [section 154 (2)].	Entities over threshold must employ at least one CPA that should comply with NBAA regulations, which implies NBAA standards to be followed.
<i>Submission requirements</i>	<u>1993 Amendments</u> Section 15 (e): All public corporations submit within 6 months after year-end audited accounts to the responsible Minister and the Parastatal Reform Sector Commission (PRSC) <u>1999 Amendment</u> Section 40 (e): Specified parastatals: to be audited within 4 months, copy to PRSC within 1 month of completion of audit.	Section 25 (3): Submit for auditing within 4 months. Section 38: Controller and Auditor General submits to Minister, Minister submits to National Assembly. It appears that there is no requirement to submit audited financial statements to the Minister and the National Assembly (only the audit report is submitted).	Parastatal accounts to be audited within 6 months, submitted to Minister within 7 months, and to Parliament within 8 months.	To Registrar of Companies within 7 months for public company and 10 months for private company.	None

The Public Finance Act, 2001 defines generally accepted accounting practice to mean accounting practices and procedures recognized by accounting profession authorities as appropriate for reporting financial information relating to government, a ministry or department, a fund, an agency, or other reporting unit and being practices and procedures that are consistent with this Act and any relevant Appropriation Act. This implies that NBAA should recognize accounting standards applicable to the public sector, which has not yet been done. Refer to paragraph 43, specifically footnote 52, of the main report. In summary, government business enterprises should comply with IFRS/IAS; and other public enterprises should comply with International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board of IFAC.

ANNEX C: ABBREVIATIONS AND ACRONYMS

ACCA	The Association of Chartered Certified Accountants
BOT	Bank of Tanzania
CMSA	Capital Markets and Securities Authority
CPA	Certified Public Accountant
CPA-PP	Certified Public Accountant in Public Practice
CPD	Continuing Professional Development
DSE	Dar es Salaam Stock Exchange
ECSAFA	Eastern Central and Southern African Federation of Accountants
GDP	Gross Domestic Product
IAS	International Accounting Standards.
IASB	The International Accounting Standards Board
IES	International Educational Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
NBAA	National Board of Accountants and Auditors
SME	Small- and medium-size entities
TAA	Tanzania Association of Accountants
TFAS	Tanzania Financial Accounting Standards
TZS	Tanzania Shillings