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MULTILATERAL INVESTMENT FUND
NOT FOR PUBLIC USE**

TRINIDAD AND TOBAGO

**IMPROVING THE APPLICATION OF AND COMPLIANCE WITH
INTERNATIONAL ACCOUNTING AND AUDITING STANDARDS**

(TC-02-06-01-4-TT)

DONORS MEMORANDUM

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ABBREVIATIONS

AASC	Accounting and Auditing Standards Committee
ACCA	Association of Chartered Certified Accountants
APC	Accounting Practices Committee
ASC	Accounting Standards Committee
CESI	Committee on Environment and Social Impact
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAC	Institute of Chartered Accountants of the Caribbean
ICAJ	Institute of Chartered Accountants of Jamaica
ICATT	Institute of Chartered Accountants of Trinidad and Tobago
IADB	Inter-American Development Bank
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
MIF	Multilateral Investment Fund
MPPMR	MIF Project Performance Monitoring Report
ROSC	Reports on the Observance of Standards and Codes
WB	World Bank

Supporting the Improvement of the Accounting Profession

(TC-02-06-01-4-TT)

EXECUTIVE SUMMARY

Executing Agency: Institute of Chartered Accountants of Trinidad and Tobago (ICATT)

Beneficiaries: The direct beneficiaries of this program are the ICATT, accounting and auditing professionals in Trinidad and Tobago, and indirectly business entities in Trinidad and Tobago, investors and other users of financial information such as regulators, academic researchers, etc.

Financing:	Modality:	Non-reimbursable
	MIF Facility I:	US\$ 665,000
	Local:	US\$ 350,000
	Total Project:	US\$ 1,015,000

Objectives and Description: The overall objective of the program is to strengthen the accounting profession in Trinidad and Tobago. The purpose of the program is to improve annual financial statements of business entities in Trinidad and Tobago by providing investor-desired qualities of transparency, reliability and comparability. The program components include: i) conducting an independent assessment of accounting and auditing in accordance with the *Reports on the Observance of Standards and Codes* (ROSC) program and developing a Country Action Plan; ii) assisting in the implementation and application of International Accounting Standards (IAS); iii) building adequate mechanisms for the enforcement of IAS and International Standards on Auditing (ISA); and iv) establishing systems and processes that sustain the implementation of IAS and ISA.

Execution Timetable: The program will be executed over thirty-six months and disbursed over forty-two months.

Special Contractual Conditions: As a condition prior to first disbursement, the ICATT will submit evidence to the Bank's satisfaction, of the selection of a Project Manager (See Section 5.2 and 8.1 for additional details).

**Environmental
and Social
Review:**

The Committee on Environment and Social Impact (CESI) reviewed and approved this program on September 27, 2002. The CESI acknowledged while there is no direct or indirect negative environmental or social impact, the application of IAS includes provisions that require financial reporting to analyze risks beyond financial aspects, such as environmental liabilities, which could have detrimental effects on the enterprise if they are not taken into consideration. The Environmental and Social Strategy proposed by the project team includes the necessary design steps to assure that the operation's activities will effectively generate these potential positive impacts.

**Exceptions to
Bank Policy:**

None.

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 Trinidad and Tobago was declared eligible for all forms of financing from the Multilateral Investment Fund (MIF) on November 30, 1993. This program is eligible for grants under the Technical Assistance Facility (Facility I). In addition, it is consistent with the objectives of the MIF cluster program *Supporting Competitiveness Through International Accounting and Auditing Standards* that was presented to the Donors Committee on May 2002. Programs in the cluster support the implementation of international accounting and auditing standards, thus contributing to the modernization of financial and capital markets in the region, enterprise competitiveness and regional integration.

II. THE PROGRAM

A. Global and country context

- 2.1 In the global arena, the economic consequences of recent financial crises and corporate mis-governance have placed international accounting and auditing standards, and their regulatory environments, at the forefront of high-level discussions on the reform of market systems. At the firm level, internationally recognized accounting and auditing standards offer businesses a doubly effective tool to improve the competitiveness of their operations. First, these are invaluable tools for guiding strategic business decisions, and second, credible financial reports can lead to lower capital costs, increase the potential of outside investment and alliances, and facilitate access to equity markets. At a country level, investors' decisions are greatly influenced by the international comparability of standards applied in the accounting profession and the skills and competence of its accounting professionals.
- 2.2 Currently, the trend in the region and elsewhere is toward the adoption of International Accounting Standards. IAS are "principles" based standards, which by themselves provide no specific indications or "rules" on their application and preparation of financial statements. Proponents of IAS stress that the principles-based nature of IAS makes it easy for users to adopt or harmonize with current systems. This may be one of the reasons IAS has garnered wide acceptance internationally. The fact that the European Union will be required to adopt IAS by 2005 may be another driving factor.
- 2.3 In common with many developing countries, the main source of enterprise development for companies in Trinidad and Tobago is overdraft financing from commercial banks. The failure of local and regional equity markets and venture capital vehicles to develop as expected is due in part to insufficient levels of reliable and comparable financial information. A well-regulated accountancy

profession and well-educated users of financial statements are required for financial market development. In 1999, the Institute of Chartered Accountants of Trinidad and Tobago (ICATT) resolved that the published financial statements of all companies comply fully with International Accounting Standards (IAS)¹ as its national accounting standards, making Trinidad and Tobago one of the first countries in the region to fully and officially adopt IAS. The standards have been adopted concurrently with International Standards on Auditing (ISA)².

B. IAS and IAS in Trinidad and Tobago

- 2.4 In order for Trinidad and Tobago to successfully adopt and implement International Accounting Standards and International Standards on Auditing, it must develop a sufficiently robust accounting and auditing infrastructure. The infrastructure must contain: i) a critical mass of qualified preparers of financial statements (i.e., accountants) and reviewers (i.e., auditors); and ii) a well-functioning regulatory environment. In addition, in the process of convergence towards IAS, it is essential that the ICATT establish built-in mechanisms that assure independence from interest groups so as not to arrive at a divergent or watered down application *vis-à-vis* the IASB promulgated standard. Too many variations in the standard applied in Trinidad and Tobago will undoubtedly lessen its comparability on an international level. As part of these general improvements accounting and auditing infrastructure, institutional support to ICATT will: (i) stimulate a system of broader compliance with best practice; (ii) improve investor confidence; (iii) generate public esteem; and (iv) enhance the profession's reputation.
- 2.5 Prior to 1999, ICATT issued national standards that were based on a pre-1995 version of IAS. The IASB has made significant changes to its set of standards since then and continuously makes modifications while also adding new

¹ International Accounting Standards are promulgated by the International Accounting Standards Board (IASB). The International Accounting Standards Board (IASB) is an independent, privately funded accounting standard setter based in London, UK. IASB's predecessor organization was the International Accounting Standards Committee (IASC). The IASB is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the IASB cooperates with national accounting standard setters to achieve convergence in accounting standards around the world. The IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards. The International Financial Reporting Interpretations Committee (IFRIC) provides guidance on the application and interpretation of International Accounting Standards.

² ISA and International Audit Practice Statements (IAPS) are promulgated by the International Auditing and Assurance Standards Board (IAASB), which work to improve the uniformity of auditing practices and related services throughout the world by issuing pronouncements on a variety of audit and assurance functions and by promoting their acceptance worldwide. The IAASB is a standing committee of the International Federation of Accountants (IFAC) and has complete autonomy in issuing ISA and IAPS. IAASB's predecessor organization was the International Auditing Practices Committee (IAPC), which was also a standing committee of IFAC. IFAC is an organization of national professional accountancy organizations that represent accountants employed in public practice, business and industry and the public sector. The mission of IFAC is to develop the profession and harmonize its standards worldwide. IFAC supports the work of the IASB. ICATT is a member of IFAC.

standards. Thus, the transition to dynamic and ever-changing IAS standards has been a challenge for Trinidad and Tobago. Thus, considerable efforts and perhaps a new compliance culture on the part of institutions, audit firms and companies will be required. Necessary efforts include further educations and training, the development of interpretations and implementation guidance and the establishment of effective internal and regulatory monitoring mechanisms.

C. Interpretations and training

- 2.6 One important initial step in the successful application of IAS is the development of interpretations and guidance notes that take into account the economic and financial context of Trinidad and Tobago. Since 1999, in practice, the majority of companies, particularly small ones do not in fact comply fully with IAS. This is partly because of inadequate understanding on the part of users and preparers of financial statements. The ICATT currently possesses limited access and know-how on developing such interpretations. A second yet equally important element will be bringing practicing public accountants in Trinidad and Tobago up to speed with IAS and the new interpretations. While ICATT has already provided some high-level training seminars on IAS, **the courses need some upgrading and need to be scaled down to workshops and other intensive professional education courses** directed at both its members and other prepares and users of IAS financial statements.

D. The profession and self-regulation on accounting

- 2.7 The Institute of Chartered Accountants of Trinidad and Tobago was established in 1970 as an umbrella organisation for the national accountancy profession. It is a self-regulatory organisation. There is no government body that licenses, regulates or otherwise supervises the accountancy profession. Following the full adoption of IAS, the Accounting and Auditing Standards Committee of ICATT (AASC) no longer had a standard setting role. Thus, it was decided to switch its focus to compliance activities with IAS. However, while the AASC has, in the past, reviewed published financial statements for compliance with IAS, its lack of resources, which means that only a limited number of reviews have been carried out since 1999. This is due in large part to the fact that volunteer members of the AASC are tasked to carry out these reviews. The AASC also responded to technical queries from the Securities and Exchange Commission (SEC). The findings from the reviews were reported back to the auditor and the company (orally or in writing as appropriate). The findings, if indicative of significant compliance issues could in theory, have resulted in disciplinary action but no such action has ever been taken.

E. Auditing standards and practice monitoring

- 2.8 In 1999, ICATT resolved to adopt ISA fully, without review. However, there is no mechanism in place to assess on an ongoing basis the level of compliance by ICATT members with ISA and other practice requirements. The Institute of

Chartered Accountants of the Caribbean (ICAC) has proposed the establishment of a regional monitoring unit responsible for the evaluation and assessment of the quality of audit and other public practice work in Barbados, Jamaica, Trinidad & Tobago, St Lucia, Bahamas, Guyana, Belize and St Kitts-Nevis. The unit will ensure the quality of audit and other public practice work. The establishment of a joint unit will facilitate cost sharing and so reduce the cost to each country.

- 2.9 It is intended that the monitoring unit will commence work in 2003. The monitoring will be carried out eventually by full-time staff employed by ICAC. The Association of Chartered Certified Accountants (ACCA) of the U.K. has offered to carry out the initial monitoring on behalf of ICAC. ICATT supports the establishment of the monitoring unit and intends to proceed with it in conjunction with the Institute of Chartered Accountants of Jamaica (ICAJ) as a pilot project. Their experiences are likely to guide other regional Institutes. The scheme may require changes in Trinidad and Tobago law or the by-laws of ICATT in order to allow the access by the monitoring unit to audit working papers of members and deal with the enforcement of any resulting disciplinary action.

F. Regulatory framework

- 2.10 There is statutory backing for accounting and auditing standards issued by ICATT. The Companies Regulations 1977 (s.11) requires that the financial statements and the audit report of limited liability companies be prepared according to standards approved by ICATT. Similar statements exist in legislation governing listed and public interest companies such as financial institutions. However, there is no mechanism in place at the Companies' Registry to monitor whether or not accounts are prepared or audits are performed. It is therefore not possible to assess compliance for entities whose financial statements are not publicly available. ICATT members may, in appropriate cases, be disciplined for issuing, or expressing an inappropriate opinion on, financial statements that do not comply fully with IAS. To date, however, only a handful of cases have been made and no disciplinary actions have been taken, reflecting an internal lack of oversight.
- 2.11 The **Securities and Exchange Commission (SEC)** also has authority over disclosure standards and financial reporting. Listed companies are required to conform to provisions of the Companies Act and to provide the Trinidad and Tobago Stock Exchange with annual audited financial statements. Similarly, the **Central Bank of Trinidad and Tobago** is responsible for financial reporting over licensed financial institutions. Thus, coordination amongst the ICATT and the regulators in Trinidad and Tobago is essential, particularly relating to IAS as it applies to financial institutions.

G. Bank's country program and donor coordination

- 2.12 The proposed project would complement existing Bank programs in the financial sector in Trinidad and Tobago, specifically the Technical Cooperation to strengthen the supervision of insurance companies – Integrated Financial Sector Supervision (TC-00-01-003). The Technical Cooperation program is providing assistance on a range of financial sector supervision issues, including corporate governance principles and financial reporting of insurance companies. This TC program is complementary but does not duplicate activities in the proposed project.
- 2.13 In response to the international community's emphasis on the importance of international standards in strengthening the international financial architecture, the International Monetary Fund (IMF) and the World Bank (WB) are working on a joint exercise in preparing "*Reports of the Observance of Standards and Codes*" (ROSCs).³ The objectives of the ROSC on Accounting and Auditing are to assess the comparability of national accounting and auditing standards with International Accounting Standards (IAS) and International Standards on Auditing (ISA), respectively; and the degree to which corporate entities comply with established accounting and auditing standards in the country. With regards to the program in Trinidad and Tobago, the ICATT, IADB and the WB are working jointly on the preparation of the ROSC – Review of Accounting and Auditing Practices and development of a Country Action Plan. The results of the ROSC have been taken into consideration in the development of the proposed program.
- 2.14 The project was declared eligible and considered part of the MIF Cluster Program *Supporting Competitiveness Through International Accounting and Auditing Standards* which supports new approaches to the implementation of accounting and auditing standards that promote catalytic outcomes in the private sector that foster enhancements in economic growth and social welfare. Given key interests in this and all Cluster programs, the Bank and the MIF will have an active role in promoting the timely exchange of information among executing agencies during project execution and in assessing mid-term and final evaluations.

³ The IMF takes the lead in preparing modules in the area of data dissemination and fiscal transparency and the WB has taken lead in the areas of corporate governance, accounting and auditing, insolvency regimes and creditor rights.

- 2.15 ICATT is the appropriate executing agency for this program and has demonstrated commitment and leadership in taking on its role of strengthening the accounting profession in Trinidad and Tobago.

III. PROGRAM OBJECTIVES AND BASIC COMPONENTS

A. Program objectives

- 3.1 The overall objective of the program is to strengthen the accounting profession in Trinidad and Tobago. The purpose of the program is to improve the usefulness of the annual financial statements of business entities in Trinidad and Tobago by providing investor-desired qualities of transparency, reliability and comparability. Specifically, by the end of the project, at a minimum, all financial institutions and listed companies will have fully implemented IAS.

B. Basic components

- 3.2 The program components include: i) conducting an independent assessment of accounting and auditing in Trinidad and Tobago in accordance with the *Reports on the Observance of Standards and Codes* (ROSC) program and developing a Country Action Plan; ii) assisting in the implementation and application of IAS; iii) building adequate mechanisms for the enforcement IAS and ISA; and iv) establishing systems and processes that sustain the implementation of IAS and ISA.

1. Component I: Conduct Independent Assessment of Accounting and Auditing in accordance with *Reports on the Observance of Standards and Codes* (ROSC) program and develop a Country Action Plan (Local US\$20,000)

- 3.3 The purpose of this component is to develop a baseline in terms of measuring where Trinidad and Tobago stands with regard to the adoption of IAS and ISA and the level of compliance with these standards. The baseline will be instrumental in the supervision and evaluation of the project determining to what degree all financial and listed companies comply with IAS. Thus, as part of project preparation an independent ROSC assessment was carried out and policy recommendations were developed. The consultancy was financed by the ICATT as part of local counterpart cash contribution (approximately \$20,000) and will be recognized retroactively. In preparation for this review, the ICATT conducted a self-assessment exercise in June and July 2002 to review local accounting and auditing standards against the benchmarks of IAS and ISA. The Country Action Plan, along with the Logical Framework, will serve as monitoring tools to ensure that program objectives and goals are being met.

- 3.4 The main objective of the Accounting and Auditing ROSC exercise in Trinidad and Tobago was to review accounting and auditing practices in the corporate sector using international standards as a benchmark, while focusing on the institutional framework and application of standards in Trinidad and Tobago. The ROSC review exercise sought to provide information to: (i) assess the strength of the existing institutional framework for supporting high quality accounting and auditing practices, (ii) have an overview of the investors' perception about the quality of financial accounting and reporting, (iii) determine the comparability of national accounting and auditing standards with international standards (standards gap), and (iv) examine the extent to which national accounting and auditing standards are observed in practice (compliance gap). The final Report and Country Action Plan will serve as a baseline for measuring the outcomes and impact of the project during its execution. This information as well has been fed into the Logical Framework, which will serve as monitoring tools to ensure that program objectives and goals are being met.

**2. Component II: Implementation and application of IAS (MIF
US\$244,000; Local US\$ 94,500)**

- 3.5 The purpose of this component is to strengthen the capacity within the ICATT and its Accounting and Auditing Standards Committee to provide tools for: i) the implementation of IAS/ISA over the next three years and the continuing application of these standards in subsequent years; (ii) the development of reliable interpretations of IAS that are consistent with IASB, International Financial Reporting Interpretations Committee (IFRIC), and interpretations in other Caribbean countries which have adopted IAS; and (iii) upgraded IAS based training seminars and courses. The main activities to be financed include the:

a) Development of Technical Information as Implementation Tools.

- 3.6 The project will finance technical assistance: i) to develop locally harmonized IAS interpretations (approximately 35 interpretations) implementation guidance notes, and best practice statements and to develop tools for providing guidance to its members; and ii) on the application of IAS on specialized topics, including IAS by small and medium enterprises (SMEs) and the implementation in Trinidad and Tobago of any SME version of IAS issued by the IASB. The project also will help finance the development and/or upgrading of dissemination mechanisms e.g. website to create greater awareness of IAS, recent interpretations, guidance notes and best practices. Thus, project funds will be used for enhancing the ICATT's website (upgrade capacity and design) to improve access to information and to develop Q&A series on IAS/ISA.

b) Delivery of Training Programs.

- 3.7 The project will finance the enhancement of training programs, workshops, seminars and other intensive professional education for accountants on the preparation and audit of IAS financial statements of business entities as well as

for business managers, bankers, investment analysts, fund managers, government officials, regulators and other users of financial statements. As a pilot, the project will finance training programs that will consist of both intensive practical workshops targeted at approximately 20 participants (at least once a quarter) and industry outreach “public awareness” initiatives, targeted at approximately 75 participants (at least semi-annually). The project will also finance the introduction of workshops on auditing standards. Furthermore, this activity will have a Train-the-Trainer component (approx 15-25 trainers will be trained) to ensure sustainability and that training can be provided to address ongoing accounting and auditing implementation challenges. It is critical that the training programs build upon, to the extent possible, existing training materials already available.

3. Component III: Enforcement of IAS and ISA (MIF US\$215,000; Local US\$45,000)

- 3.8 The purpose of this component is to build capacity within the ICATT and other institutions to assess compliance with IAS in the financial statements of business entities and to assess compliance with ISA in the audit of those financial statements, provide feedback and take appropriate action (including disciplinary action) in cases of non-compliance. By the end of the project, systems, processes and procedures will be in place to assess if all financial institutions and listed companies have complied with IAS. The main activities to be financed include:

a) Compliance (Quality) Reviews.

- 3.9 The project will finance technical assistance to build the appropriate structure and carry out reviews of the IAS financial statements of all listed business entities in Trinidad and Tobago, all financial institutions and a sample of other entities for compliance with IAS (including large non-listed companies). The project also will assist in defining mechanisms to coordinate responsibilities amongst the regulators, ICATT and other interested parties. Technical assistance will be provided in the development of practice guides for medium and small firms. The project will also finance the enhancement of policies and procedures guiding the conduct of compliance (quality) reviews, including guidelines on quality control policies and procedures, examination of manuals, working papers and other documents to ensure adherence to professional standards.

b) Enforcement Mechanisms for Dealing with Results of Compliance Reviews.

- 3.10 The project will finance technical assistance in developing appropriate systems and mechanisms for dealing with IAS and ISA compliance issues arising from the reviews. The project will also finance the development of processes and procedures for communicating findings and feedback of the reviews to relevant parties and in cases, of material non-compliance, develop a set of policies and procedures for the initiation of appropriate disciplinary proceedings against practicing and non-practicing accountants.

c) Regulatory and Supervisory Framework.

- 3.11 The project will also finance technical assistance to strengthen the existing framework, in particular the regulation and supervision of the public accounting profession. Technical assistance will include the diagnosis and implementation of recommendations to address any gaps/weaknesses in the: existing structure; the involvement of non accountants; the oversight role; ICATT's implementation of its delegated licensing powers and its readiness to respond to criticisms of it as a self-regulated organization; and ICATT's procedures for setting and enforcing standards. The Project also will finance technical assistance in the facilitation of a "regional monitoring unit" consisting of the implementation of any necessary or desirable changes in Trinidad and Tobago Law, regulations, and ICATT by-laws and procedures to prepare registered practicing accountants for the reviews. Assistance will also include assisting ICATT in meeting the requirements of IFAC's International Policy Statement on *Assuring the Quality of Professional Services*.

4. Component IV: Sustaining the Implementation of IAS and ISA (MIF US\$20,000; Local US\$24,000)

- 3.12 The purpose of this component is to address the issue of sustainability of both the ICATT in carrying out its responsibilities but also of other institutions and bodies involved in the application and enforcement of IAS/ISA. The main activities to be financed include:

a) Strategic Planning for Sustainability.

- 3.13 The project will finance assistance to enhance ICATT's processes for sustainability including re-engineering the Institute to be a more responsive organization; developing a concrete business plan; improving innovation in products and services given the changing environment; and improving its marketing and advocacy programs. The project will also support improving ICATT's systems for monitoring the quality of its members including compliance with continuing professional educational requirements. Furthermore, technical assistance will be provided to establish a mechanism to address sustainability including increasing commercial sponsorships and alliances for certain activities.

b) Member Needs Assessment and Research.

- 3.14 The project will also finance assistance in carrying out periodic assessments of the needs and priorities of its members and integrating findings of the assessment into the strategic planning and training programs. Furthermore, assistance will be provided in carrying out research on specific topics such as corporate governance, audit committees, taxation and other requirements, including such matters as compulsory professional indemnity insurance that will impact the future of the accounting profession in Trinidad and Tobago.

IV. COST, SOURCE AND SUSTAINABILITY

A. Cost and source

- 4.1 The cost of the program is estimated at US\$1,015,000 of which US\$ 665,000 will be provided by the MIF on a non-reimbursable basis from Facility I and US\$350,000 will be provided by ICATT as local counterpart funding, of which 50% will be in cash, in accordance with the table below. After completing all conditions prior to first disbursement, a revolving fund of up to 10% of the grant may be made available. Disbursements of grant funds and the purchase of goods and services will be done in accordance with Bank's procedures.

Table 4.1

Budget

Categories	MIF	ICATT	Total
Component I: Independent ROSC review	0	20.000	20.000
Component II: Implementation/Application of IAS	244.000	94.500	338.500
Component III: Enforcement of IAS and ISA	215.000	45.000	260.000
Component IV: Sustainability- Strengthening ICATT	20.000	24.000	44.000
Operating/Administration:	137.000	140.500	277.500
Evaluation & Auditing:	37.000	26.000	63.000
Contingencies:	12.000	0	12.000
Total:	665.000	350.000	1.015.000

B. Operational sustainability

- 4.2 The program objectives will be sustained by ensuring that the ICATT is strengthened to provide quality services and products to its members. Through the program, services and products will be improved to address the needs of the industry, therefore increasing the demand for ICATT's services and products. Furthermore, as ICATT gains additional expertise in the application and implementation of IAS and ISA it will be able to increase its range of services. While the ICATT still relies to a great extent on volunteer services, it is envisioned that the position of Project Manager, initially funded by the program will become a full-time trained member of the ICATT. Furthermore, as part of program, the ICATT will receive technical assistance in establishing a mechanism

for cost recovery and achieving sustainability including utilization of commercial sponsorships and alliances for carrying out certain activities. Additionally, sustainability will be improved by the program given that it will stimulate the development of a market for improved IAS-based products as well as improved services to be offered by the ICATT, such as targeted training workshops.

V. EXECUTING AGENCY AND IMPLEMENTATION MECHANISM

A. Executing agency

- 5.1 ICATT was established under by Act of Parliament in 1970. The affairs of the Institute are managed by the Council consisting of 12 to 15 members, elected in accordance with the Bye-Laws. The Institute as of year-end 2002 reported a net surplus and is financially sustainable. The majority of revenue is derived from members' and student subscription, admission fees and self-financing activities, mainly seminars. The ICATT has the institutional capacity to manage this program effectively and has demonstrated its commitment to improving compliance with IAS/ISA standards.

B. Executing mechanism

- 5.2 The program will also fund a Project Manager who will be responsible for managing and monitoring the program (see draft terms of reference in RE3/FI3 technical files). As a condition prior to first disbursement, the ICATT will submit evidence to the Bank's satisfaction, of the selection of a Project Manager. The Project Manager would be hired with project resources and be based in the ICATT. The Project Manager would report to a Project Committee (which will have broad representation e.g. non-accountants). A technical expert will be provided to the Project Manager as well as an Assistant from the ICATT's existing staff. The Project Manager will work closely with technical experts that assist in implementation of the program. In addition, the Project Manager will work in close cooperation with the Project Manager of the Jamaica project in terms of cost-sharing arrangements of technical experts and the use of common training materials. The project will also finance periodic trips to Jamaica for the Project Manager to ensure coordination.

C. Project readiness

- 5.3 During project preparation the ICATT completed the independent assessment of accounting and auditing in accordance with the ROSC program and developed a Country Action Plan. The findings of the assessment were incorporated into the final project document and discussed at the stakeholders meeting on September 26, 2002. This was the first step in pursuing ongoing dialogue between ICATT and the industry. In addition, the Project Team in conjunction with the ICATT developed terms of reference for the Project Manager, including selection criteria and for the coordination of projects in Jamaica and Trinidad and Tobago. Lastly,

the Project Team and the ICATT developed Operational Guidelines for the project execution.

- 5.4 **Accounting.** The executing agency will maintain adequate accounting, financial, internal control, and filing systems, which will allow the identification of sources and uses of funds of the program. The accounting system will be organized to provide necessary documents, permit verification of transactions, and facilitate the timely preparation of financial statements and reports. The project's records will be kept in a way that: (i) identifies sums received from different sources; (ii) reports project spending in accordance with a chart of accounts previously approved by the Bank, distinguishing between MIF contributions and funds from other sources; and, (iii) includes details necessary to identify goods acquired and services contracted, as well as the use of those goods and services. The executing agency will also open separate and specific bank accounts for the administration of the MIF's contribution, and for the local counterpart funds. Finally, the executing agency will process the disbursement requests and their respective justifications of expenditures, in accordance with the Bank's disbursement procedures.
- 5.5 **Financial Audits.** The ICATT will prepare and submit to the Bank, within ninety (90) days after the final disbursement of the project, final financial statements regarding the Bank's contribution and local counterpart funds. A firm of independent auditors acceptable to the Bank will audit these financial statements. The audit costs will be financed with proceeds from MIF's contribution, in accordance with the Bank's procedures.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** The IDB Country Office in Trinidad and Tobago (COTT) will be responsible for supervising this technical cooperation. ICATT will submit to the COTT all project progress reports within 30 days after the completion of each semester and a final report within 30 days from the last disbursement. These reports will follow a format previously agreed with the COTT and will address project activities and finances, as well as results measured in terms of the indicators and benchmarks identified in the project's logical framework and ROSC review. The COTT will utilize these reports to monitor project implementation progress and to prepare a Project Completion Report within three months of the last disbursement. The Project Team will work closely with the COTT on the technical issues regarding the execution of the project
- 6.2 **Evaluation.** The Bank will contract consultants to carry out a mid-term and final evaluation of the program. The mid-term evaluation will be prepared 18 months after program implementation or when 50% of the resources have been disbursed. This mid-term evaluation will use the logical framework indicators and baseline information generated by the ROSC to determine progress and identify corrective measures as needed. Based on the mid-term evaluation, the COTT, together with

the project team if needed, will carry out annual performance evaluations to determine whether the project should be continued, suspended, or cancelled.

- 6.3 A final evaluation will be conducted within three months after the project is completed. For the final evaluation, an independent evaluation expert will take into account the program's impact on the application and implementation of IAS and ISA as well as the degree to which the reform program assisted in the adoption of these international standards. The ROSC will be an important evaluation tool as well as it specifically cites which standards -of the 41 IASB promulgated standards- companies may encounter difficulties applying. Thus, the evaluation will determine to what extent the development of the interpretations and guidance notes facilitated the application of these particular IAS among listed companies. Second, the ROSC also sets forth a series of recommendations to be implemented to strengthen the internal capacity of the Accounting and Audit Practice Committees of the ICATT, and provides indications on the most desirable regulatory arrangement among public sector stakeholders to improve the regulation of compliance. Finally, an assessment of perception of the quality of financial reporting was conducted. While this is only a qualitative appreciation of the utility of statements in Trinidad and Tobago, it will be useful to track any changes that may become apparent during the course of the project's execution.
- 6.4 The executing agency will provide access to all the information and documentation needed to conduct these evaluations. The mid-term and final evaluation will be financed with MIF funds. During the program's execution, ICATT will compile supervision and program evaluation indicators. These indicators are set forth in the Logical Framework (See Annex I) and will be used by the Bank's Country Office and ICATT to gauge the overall impact and to assess the results. The Logical Framework will include base line data for key activities. This information will also correspond to the MIF Project Performance and Monitoring Report (MPPMR), and will allow for a rigorous evaluation of the Program's effect on the beneficiaries and for the evaluation of Cluster programs.

VII. PROJECT JUSTIFICATION AND RISKS

A. Benefits and justification

- 7.1 As part of the MIF Cluster Program *Supporting Competitiveness Through International Accounting and Auditing Standards*, the project is considered **innovative** as this area of support is not only new to the MIF but to the Bank as well. While the Bank has led many efforts in supporting the improvement of financial disclosure and transparency in the public sector, this will be the first time a set of comprehensive actions will be directed at the private sector. The project will undoubtedly have a **demonstration effect** as one of the first projects of the cluster. It is anticipated this project will serve as a model and thus stimulate greater demand for this type of operation not only in the Caribbean but in the entire region as well. As mentioned previously, a comprehensive approach

to supporting the application of international accounting and auditing standards in the private sector is new to the Bank. As such MIF actions in this area have a large degree of **additionality** or value added since they go hand in hand with the Bank's efforts in the area of financial sector reform. Finally, the project will be **sustainable** as Trinidad and Tobago, the ICATT representing the profession, and other important stakeholders have long term vested interests in ensuring the continued and appropriate application of international accounting and auditing standards.

B. Beneficiaries

- 7.2 The direct beneficiaries of this technical cooperation are the ICATT; accounting and auditing professionals in Trinidad and Tobago, and indirectly business entities (including small and medium enterprises) in Trinidad and Tobago, investors and other users of financial information, such as regulators, academic researchers etc.

C. Risks

- 7.3 The main issues relate to the sustainability of the ICATT, including its ability to provide on-going quality of services to its members and to fulfill its role as regulator of the profession. Furthermore, it is the first Bank TC program with the Institute, therefore close coordination during project execution on Bank policies and procedures will be important. To mitigate this risk, the program includes a component on strengthening the ICATT and developing a broader set of IAS based products and services to assist its members and the public at large.

D. CESI

- 7.4 The Committee on Environment and Social Impact (CESI) reviewed and approved this project on September 27, 2002. Because of the nature of the program there is no direct or indirect negative environmental or social impact foreseen. In addition, there are measures that will benefit the environment given that IAS include requirements that make clear that financial reporting include the analysis of risks and uncertainties facing a company and that these risks should not be restricted to financial aspects of its business. Furthermore, the problem deals indirectly with certain aspects of accounting for environmental liabilities, as addressed by IAS. The Environmental and Social Strategy proposed by the team includes the necessary design steps to assure that the operation's activities will effectively generate these potential positive impacts.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 As a condition prior to first disbursement, the ICATT will submit evidence to the Bank's satisfaction, of the selection of a Project Manager. Terms of Reference for the Project Manager are in RE3/FI3 technical files.

IX. EXCEPTIONS TO BANK POLICIES AND PROCEDURES

- 9.1 No exceptions to Bank policies are involved.

LOGICAL FRAMEWORK			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
OBJECTIVE			
One of the objectives of this program is to improve the accounting profession in Trinidad and Tobago.	All financial statements prepared by registered public accountants will be in compliance with IAS/ISAs and regulatory backing for adoption of IAS/ISA will be in place.	Compliance Reviews/Legislation Final Evaluation	
Another objective of this program is to improve the quality of annual financial statements of business entities in Trinidad and Tobago with IAS/ISA and thereby increase the effectiveness of annual financial statements.	At the end of the project, an enforcement mechanism will be established to assure that financial statements are prepared according to IAS and that firms are audited according to ISAs. [Consisting of approximately 95 financial institutions and 30 other listed companies]	Annual Reports/Compliance Reviews Final Evaluation	Public and other stakeholders will be involved in the process. IAS and ISA is sustained
RESULTS			
Completion of review of ROSC – Regulatory Oversight and Auditing Standards in Trinidad and Tobago.	<ul style="list-style-type: none"> Country Action Plan developed. 	Agreed Action Plan with IDB, WB and ICATT	Govt. will take appropriate measures to ensure that financial institutions are under SEC oversight
Implementation and application of IAS and ISA will have been completed.	<ul style="list-style-type: none"> At least one training program per quarter on application of IAS/ISA and at least one outreach workshop semi-annually Increased quality of training seminars within 18 months of the project. 15-25 Trainers trained. Interpretations, guidelines and best practices of IAS by the end of the project. 	Evaluations of seminars/workshops Mid-term evaluation/Survey Website	
Enhancement of the capabilities of IAS and ISA will have been strengthened.	<ul style="list-style-type: none"> ICATT will have reviewed financial statements of all financial institutions, and other listed companies for compliance with IAS 	Compliance Reviews	A quality program for financial reviews such as ACCA, is in place. Training programs will be implemented.

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> Number of exceptions to IAS/ISA noted in the compliance reviews decline by 10% per year. Sanction and disclosure procedures developed for non-compliance. 	<p>Exception Reports</p> <p>Manuals/Procedures</p>	where exceptions are observed
and processes for effectiveness of the implementation	<ul style="list-style-type: none"> Increase number of reporting of compliance with CPE requirements received electronically by 10% Annual periodic assessment of memberships completed ICATT's operating surplus increased to cover full salary cost of project manager by end of project. 	<p>Website/Mid-term Evaluation</p> <p>Assessment</p> <p>Annual Report of ICATT</p>	
Independent review of Country Action Plan	<ul style="list-style-type: none"> Country action plan with recommendations developed. 	Progress reports	Consultants/Trainers have expertise to carry out the assignment
Interpretations. Implementation guidance and best practices	<ul style="list-style-type: none"> Interpretations developed in first and second year of program. 	Progress reports	
for inputs into IAS regarding SME application in T&T.	<ul style="list-style-type: none"> Technical expert develops inputs for SME application during the second year. 	Progress reports	
Training programs for auditors on preparation and audit of financial statements of business entities & Workshops on	<ul style="list-style-type: none"> Program/Course agendas developed during the first year. 	Participant List/Evaluations	
Training programs for business managers, bankers, investment fund managers etc on use	<ul style="list-style-type: none"> Program/Course agendas developed during the first year. 	Participant List/Evaluations	

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Interpretation of IAS.</p> <p>Agency for Train the Trainer</p> <p>Part-time Expert for IAS</p> <p>Website/electronic filing and reporting</p>	<ul style="list-style-type: none"> 15-25 trainers trained during the first and second year. Expert for IAS hired during first quarter. Website improvements concluded by second year. 	<p>Progress reports</p> <p>Consultant Contract</p> <p>Progress reports</p>	
<p>Structure and TA to carry out IAS financial statements and Trinidadian business for compliance with IAS</p> <p>Practice guides for small and medium firms.</p> <p>Compliance issues arising from laws. Establish appropriate disciplinary proceedings</p> <p>Regulatory framework and recommendations for strengthening oversight, governance and institutional capacity</p> <p>Implementation of diagnostic above</p>	<ul style="list-style-type: none"> Structure in place and reviews carried out during by second and third year. Practice guides developed during the first year. Disciplinary procedures developed by second year. Recommendations issued to ICATT by first year. Technical expert devise plan and implements the plan by the third year. 	<p>Progress reports</p> <p>Progress reports</p> <p>Progress reports</p> <p>Progress reports</p> <p>Progress reports</p>	
<p>Project Manager</p> <p>Mechanism for cost recovery</p> <p>Agency for needs assessment and research</p>	<ul style="list-style-type: none"> Project Manager hired by first quarter. Cost recovery mechanism developed by second year. Members needs assessment carried out during first and second year. 	<p>Contract</p> <p>Progress reports</p> <p>Progress reports</p>	