

MULTILATERAL INVESTMENT FUND PROJECT ABSTRACT

I. BASIC PROJECT DATA

- 1. Title:** Supporting the Improvement of the Accountancy Profession in Trinidad & Tobago.
- 2. Country:** Trinidad & Tobago
- 3. Project Number:** TC-02-06-01-4
- 4. Executing Agency:** The Institute of Chartered Accounts of Trinidad & Tobago (ICATT)
- 5. Estimated cost and financing:**
- | | |
|-------------------------|-------------|
| MIF (non-reimbursable): | US\$500,000 |
| Counterpart: | US\$250,000 |
| Total: | US\$750,000 |
- 6. Date of project request:** April 8, 2002

II. BACKGROUND

- 2.1 Economic and financial crises around the world have shown the need for reliable and transparent accounting and financial reporting to support sound decision-making by investors, lenders and regulatory authorities. Market systems globally demand the delivery of timely and reliable enterprise-wide information; and governments, investors and the public, need the assurance that enterprise resources are optimally allocated to maximize returns through the application of good corporate governance and sound financial reporting and to ensure that these resources are adequately safeguarded.
- 2.2 In common with many developing countries, the main source of enterprise development capital for SME's and even larger companies in Trinidad & 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.
- 2.3 The accountancy profession in Trinidad & Tobago needs strengthening in order to effectively perform its role in delivering accounting, auditing and financial advisory services. The Institute of Chartered Accountants of Trinidad and

- Tobago (ICATT) lacks the technical resources to meet anticipated demands from its members, the business community and regulatory agencies for development of guidance notes and interpretation of accounting standards.
- 2.4 As part of general improvements to financial sector regulation, institutional strengthening of ICATT will: (i) stimulate a system of broader compliance with best practice, (ii) improve investors' confidence, (iii) generate public esteem, and (iv) enhance the profession's reputation.
 - 2.5 The Companies Act 1995 as amended requires the auditor of a limited liability company to be a practising member of ICATT. Similar requirements are in legislation governing listed companies as well as banks, insurance companies and other financial institutions. Members of ICATT are required to prepare financial statements in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB). Audits are to be conducted according to International Auditing Guidelines issued by the International Federation of Accountants (IFAC).
 - 2.6 International Accounting Standards (IAS) were primarily developed as an alternative to US GAAP for use by larger organizations in developed countries seeking cross-border listings. Designed for larger companies, IAS appears complex and costly to medium and small companies operating in an environment such as Trinidad and Tobago.
 - 2.7 In practice, it is likely that the majority of smaller companies 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. Solutions need to be found for smaller companies to make IAS compliance practicable and of sufficient value to warrant the additional cost.
 - 2.8 Even for larger companies, whose auditors are usually affiliated to international accounting firms, there are often differences of opinion and interpretation on the application of IAS to local conditions. This reduces comparability of financial statements and reduces the quality of information provided.
 - 2.9 In many instances, directors, managers, shareholders and other stakeholders are not aware of accounting and auditing standards and so conflicts may arise between management directives and the application and interpretation of accounting principles and standards.
 - 2.10 While there is statutory recognition of the role of ICATT, many non-ICATT "accountants" continue to practice. Users of financial statements must be educated as to the value of using an accountant from a regulated professional body.
 - 2.11 There is increased international pressure for countries to meet minimum standards in the monitoring and interdiction of funds arising from illegal sources. A country whose financial systems fail to comply with international norms will be subject to

sanctions or loss of business. The current focus of the Caribbean Financial Action Task Force is the education and regulation of the “gatekeeper professions” – accountants and attorneys. Recently introduced legislation will impose significant responsibilities on accountants as advisors to and employees of financial institutions and relevant business activities. ICATT will be required to develop training programmes and practice guides for its members and the general public.

- 2.12 The cost effectiveness and development impact of this project will be enhanced through ICATT’s membership and active participation in the Institute of Chartered Accountants of the Caribbean (ICAC). ICAC is a professional body committed to the establishment of a regional monitoring unit, responsible for carrying out evaluation and assessment assignments throughout the eight territories comprising the ICAC (Jamaica, Barbados, Trinidad & Tobago, St. Lucia, Bahamas, Guyana, Belize, and St. Kitts-Nevis). This will ensure transparency and will also facilitate a cost sharing arrangement that will significantly reduce the financial cost each territory would have had to bear in establishing national monitoring units.

III. PROJECT BENEFICIARIES

- 3.1 The direct beneficiaries will include the accountancy profession in Trinidad & Tobago, business managers, financial sector regulators, and other related stakeholders such as private investors and lenders both locally and abroad
- 3.2 The proposed project would complement existing Bank programs in the financial sector, specifically the Commercial Bank Supervision Project (ATN/MT-6025-TT), Integrated Financial Sector Supervision (ATN/MT-6983-TT) and Credit Union Strengthening (ATN/MT-5054 & 5055).

IV. PROJECT OBJECTIVES, COMPONENTS, AND ACTIVITIES

- 4.1 The overall goal and purpose of the project is the strengthening of the regulatory framework of accountancy that is an important part of the foundation for sustainable economic and social development in Trinidad & Tobago.
- 4.2 The project seeks to enable the ICATT to:
 - a. Improve the competence of accountants, through the conduct of seminars and workshops and the development of technical guidance on the application of International Auditing and Accounting Standards, and other rules and regulations;
 - b. Enhance the Institute’s capability to fulfill its role as regulator of the profession;

- c. Begin to establish the legal framework for creating a regional monitoring unit. This component would be done in coordination with other MIF projects in accounting and auditing whether country specific or regional.
 - d. Impart the principles of good governance practices to business managers and stakeholders;
 - e. Become sustainable by increasing membership and offering a range of quality services to the accountancy profession.
- 4.3 The main activities for executing the planned programmes include:

1. Improve Accountants' Competence

- a. Seminars, workshops and technical guidance. ICATT will provide guidance and training to the sector in the application of standards. Seminars and workshops, using local and overseas presenters, will be conducted to educate practicing and non-practicing accountants in the application of standards as analytical, maintenance and reporting tools. Training manuals on subject matter will be developed in conjunction with delivery of seminar/workshop. Practice guides will be developed and mechanisms put in place for their regular updating.
- b. Training needs analysis. ICATT will conduct a needs analysis of its members to determine what skill sets need to be targeted in the development of appropriate Continuing Professional Development programmes.
- c. Material development. *Access to Bye-Laws, Standards and Regulations.* Produce copies of Bye-Laws and procure copies of standards for dissemination/sale to accountants and other interested parties. Literature will be available in hard copy and/or CDROM with updates via the ICATT web site.
- d. Stakeholder Forums. *Collaboration with Regulatory Agencies Within the Financial Sector.* Conduct forums on specific areas that are monitored by agencies within the financial sector to facilitate interpretation, implementation and maintenance of relevant standards. These agencies include the Trinidad & Tobago Stock Exchange, the Securities Exchange Commission, the Board of Inland Revenue, the Central Bank of Trinidad & Tobago, and Auditor General's Department etc. A formal mechanism for on-going coordination will be established as part of the project.

2. Enhance the Institute's Regulatory Capability

- a. Structural Analysis. Conduct a review of the Rules of ICATT and its governance structures to determine what changes if any are required for the Institute to meet its objectives.

- b. Train the Trainer. Establish Technical Expertise. Set up 'Expert Committees' on each aspect of the accountancy profession e.g. Accounting, Auditing, Information Technology, Taxation etc. The committee members will be intensively trained in the relevant subject area, and will provide consulting services.
- c. Applied research The services of a consultant will be acquired to perform the following functions:
 - i. respond to persons who require assistance in interpretation and application of standards
 - ii. review financial statements of publicly listed companies and present such findings to the Accounting and Auditing Standards Committee of ICATT. The review will provide an opportunity to observe the application of the standards and offer advice on their adoption.
 - iii. Provide research assistance as required from time to time by ICATT's Council.
- d. Enhance Investigative Abilities. It is anticipated that improved regulatory oversight of the financial sector, the numerous investigations into Government contracts, the Enron debacle and the expected increase in public awareness and scrutiny may lead to more requests for investigations of members. This will result in the need for persons with specialized training in forensic accounting and auditing techniques. Training manuals and procedures for conducting forensic accounting and auditing techniques will be developed.
- e. Create a System-wide database of Members and Students Expand database to include online personal access for members and students - CPE status; student's progress; account status, newsletters, notices etc. It is expected that this activity will be in the form of e-commerce and e-mail that will require hardware and software upgrade.
- f. Creation of a Resource/Research Centre The Centre will include a library, reading room and computer facilities catering to members, students and non-members. Inventory will include reference material, trade publications, auditing and accounting standards and guidance notes etc.
- g. Staff Training – institutional strengthening Provide on-going staff training to manage the administrative processes of the Institute. Assist in the development of a strategic plan to carry out the missions, goals and objectives.

3. Assist in Establishing Legal Framework

- a. Begin to establish legal framework for a Regional Monitoring Unit within the ICAC. The establishment of this unit requires the removal of legislative and institutional impediments.

4. Impart The Principles of Good Governance Practices

- a. Seminars and workshops: Liaise with the Trinidad and Tobago Chamber of Commerce and other appropriate organisations to conduct seminars and workshops to introduce directors and managers to the underlying principles of accounting and auditing standards using local and overseas presenters. Develop “Handbook for Directors – Sound Business Practices Manuals”.
- b. Public Education: Conduct seminars and workshops for the general public, particularly shareholders and other stakeholders to inform them on their rights and authorities. A strategy for greater dissemination of information will be developed. Periodic educational seminars for SMEs in financial reporting requirements will be held.

V. PROJECT COSTS, FINANCING, AND EXECUTION TIME

- 5.1 The estimated cost for the project is US\$750,000 for a three (3) year execution period. The MIF will contribute sixty-seven per cent (67%) amounting to US\$500,000 and the ICATT thirty-three per cent (33%) amounting to US\$250,000. Utilization of MIF funds will include technical assistance in the application of IAS; training, workshops, the dissemination of information, and strengthening of the Institute, including financial sustainability and development of internal processes.

VI. EXECUTING AGENCY

- 6.1 The Institute of Chartered Accountants of Trinidad and Tobago was formally incorporated under Act 33 of Parliament on 17th of September 1970. Its objectives are the regulation and development of the local accounting profession. The Institute is committed to the creation of a cohesive national body of professionals to advance the accountancy profession in Trinidad and Tobago consistent with international standards.
- 6.2 The Institute is a not-for-profit organization managed by a Council of not less than twelve (12) or greater than fifteen (15) members. The Council must elect a President and Vice President from amongst its members. The objectives of the Institute are achieved through various working committees, whose members give voluntary service.
- 6.3 The Institute currently has 632 members, of which 181 are public practitioners. Members are employed in top-level management positions in Industry,

- Commerce, Audit, Information Technology, Banking, Academia and the Public Sector. The Institute serves 5,500 students, representing students on the ICATT / ACCA (Association of Chartered Certified Accountants) joint examination scheme and the Association of Accounting Technicians (AAT) programme. The majority of ICATT members are also members of the ACCA, as well as other recognised accounting bodies such as the US AICPA, Canadian CGA and UK ICAEW.
- 6.4 Membership in ICATT is attainable through a combination of academic examinations and thirty-six months accountancy experience at a senior level; practitioner status requires supervised training for a further twenty-four months under a practising member of ICATT or other accounting body acceptable to ICATT.
- 6.5 ICATT is a founding member of the Institute of Chartered Accountants of the Caribbean (ICAC), an organisation established to ensure harmonisation of entry requirements and professional standards and practices throughout the region.
- 6.6 The ICATT's Secretariat is managed by an Office Manager and employs a staff of 4 persons. Its operations are funded mainly from members' and students' subscriptions and to a lesser extent, from small surpluses that are realized from self-financing activities such as Continuing Professional Education (CPE) Seminars, Luncheons and Graduation Ceremonies and fees from examining bodies for student administration services.

VII. EXPECTED PROJECT RESULTS AND JUSTIFICATION

- 7.1 The following results are expected at the conclusion of the project's execution period.
- a. ICATT will have acquired the necessary expertise and professional capacity to regulate the local accountancy profession. This in turn will strengthen compliance to auditing and accounting standards and adherence to its Bye-Laws.
 - b. ICATT will have acquired the internal capabilities through institutional building on sustainable platforms designed to meet the needs of the profession in the short, medium and long term.
 - c. ICATT will have the capacity to impart the principles of good corporate governance to business managers and stakeholders and disseminate these to all its member firms and business associations.
 - d. To begin to develop the legal framework for a Regional Monitoring Unit; including the examination and preparation of legislation that will have an impact on the accountancy profession.

- 7.2 Trinidad & Tobago's ability to achieve its economic goals depends on attracting and retaining long-term investments; and investors' decisions are greatly influenced by the international comparability of standards applied in the accountancy profession and the skills and competence of accounting professionals. The ICATT has the mandate and responsibility to regulate the accounting profession and provide the required assistance to ensure the proper implementation of accounting standards in Trinidad & Tobago. Given the timing, the MIF assistance is considered critical to the establishing a strong platform that will enable the ICATT to carry out its mission.

VIII. MAJOR ISSUES

- 8.1 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. This will also be 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 Institute has been in the market since 1970 and the Council of the Institute shows commitment to strengthening the accountancy profession. Project ownership amongst the important stakeholders will have to be evaluated during project preparation.

IX. RECOMMENDATIONS BY THE CO AND SPONSORING UNITS OF THE OPERATIONAL DEPARTMENT

- 9.1 The project has been duly vetted and has the necessary support from the Country Office in Trinidad & Tobago. Representatives from the COF/CTT participated actively in fine-tuning the abstract. The Finance and Infrastructure Division of Region III will assume the leadership role in preparing the project.

X. ESTIMATED PROJECT PREPARATION AND ANALYSIS TIME

- 10.1 The preparation timetable is the following:
- a. Abstract approval: June 2002
 - b. Analysis mission: July 2002
 - c. Donors approval: October 2002

Prepared by: Kim Staking, RE3/FI3__(*Original signed*)_Date: 6/20/02

Approved by: Jaime M. Fernandez, RE3/FI3__(*Original signed*)_Date: 6/20/02

VoBo: Neville Beharie, RE3/OD6/CHF__(*Original signed*)_Date: 6/20/02