

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND  
NOT FOR PUBLIC USE**

**JAMAICA**

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

**(TC-02-05-00-9-JA)**

**DONORS MEMORANDUM**

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World Bank issued *Report on the Observance of Standards and Codes* (ROSC) in Accounting and Auditing in Jamaica

## **ABBREVIATIONS**

ACCA	Association of Chartered Certified Accountants
APC	Accounting Practices Committee
ASC	Accounting Standards Committee
BOJ	Bank of Jamaica
CESI	Committee on Environment and Social Impact
FSC	Financial Services Commission
IAS	International Accounting Standards
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAC	Institute of Chartered Accountants of the Caribbean
ICAJ	Institute of Chartered Accountants of Jamaica
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
JSSAP	Jamaica Standards and Statements of Accounting Practices
JSA	Jamaican Standards on Auditing
MIF	Multilateral Investment Fund
MPPMR	MIF Project Performance Monitoring Report
PAA	Public Accountants Act
PAB	Public Accountancy Board
ROSC	Reports on the Observance of Standards and Codes
RPA	Registered Public Accountants
WB	World Bank

## Supporting the Improvement of the Accounting Profession

(TC-02-05-00-9-JA)

### EXECUTIVE SUMMARY

<b>Executing Agency:</b>	Institute of Chartered Accountants of Jamaica (ICAJ)		
<b>Beneficiaries:</b>	The direct beneficiaries of this program are the ICAJ, accounting and auditing professionals in Jamaica, and indirectly Jamaican business entities, investors and other users of financial information such as regulators, academic researchers, etc.		
<b>Financing:</b>	Modality:	Non-reimbursable	
	MIF (Facility I):	US\$	665,000
	Local:	US\$	350,000
	Total Project:	US\$	1,015,000
<b>Objectives and Description:</b>	The overall objective of the program is to strengthen the accounting profession in Jamaica. The purpose of the program is to improve annual financial statements of Jamaican business entities 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 <i>Reports on the Observance of Standards and Codes</i> (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.		
<b>Execution Timetable:</b>	The program will be executed over thirty-six months and disbursed over forty-two months.		
<b>Special Contractual Conditions:</b>	As a condition prior to first disbursement, the ICAJ 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 Jamaica was declared eligible for all forms of financing from the Multilateral Investment Fund (MIF) on October 6, 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 in 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. BACKGROUND**

### **A. Global and country context**

- 2.1 In the global arena, the economic consequences of recent financial crises and corporate miss-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 their 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 The lack of good financial reporting and sound corporate governance standards contributed to the meltdown of the financial market in Jamaica in the late 1990s. Jamaica's ability to achieve its economic goals in the wake of its financial troubles depends on attracting and retaining long-term investments. Thus,

transparent and comparable financial statements are critical to Jamaica's access to capital and financial markets.

- 2.4 The financial crisis in Jamaica has highlighted the immediate need to improve compliance with standards in the preparation of financial reports and has increased the demand on the local accounting profession to bring best practices to financial reporting. On July 1, 2002, the Institute of Chartered Accountants of Jamaica (ICAJ) announced to the industry that Jamaica joins many countries worldwide in fully adopting International Accounting Standards (IAS)<sup>1</sup> as its national accounting standards. The standards have been adopted concurrently with International Standards on Auditing (ISA)<sup>2</sup>.

## **B. IAS and ISA in Jamaica**

- 2.5 In order for Jamaica to successfully adopt and implement IAS and ISA, 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 ICAJ 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 Jamaica will undoubtedly lessen its comparability on an international level.
- 2.6 Prior to July 1, 2002 the main accounting principles used in Jamaica were Jamaican Standards and Statements of Accounting Practices (JSSAP), which were based on a pre-1995 version of IAS. The IASB has made many significant changes to its set of standards since 1995. Thus, the transition to the current set of

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<sup>1</sup> 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 (IFRS). The International Financial Reporting Interpretations Committee (IFRIC) provides guidance on the application and interpretation of International Accounting Standards.

<sup>2</sup> 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. ICAJ is a member of IFAC.

IAS standards will be significant and will require considerable efforts and, perhaps a new compliance culture on the part of Jamaican institutions, audit firms and companies. Necessary efforts include further education and training, the development of interpretations and implementation guidance and the establishment of compliance monitoring mechanisms.

**C. Interpretations and training**

- 2.7 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 Jamaica so as to assure smooth convergence. The ICAJ currently possesses limited access and know-how on developing such interpretations. A second yet equally important element will be bringing the approximately 200 practicing public accountants in Jamaica up to speed with IAS and the new interpretations. The ICAJ currently provides its members and other accountants with training courses, however those, too, need upgrading to IAS standards.

**D. The profession and self-regulation on accounting**

- 2.8 In Jamaica, there are three broad categories of accounting professionals: (i) members of the ICAJ (approx. 750); (ii) members of overseas professional bodies; and (iii) persons who have been in the profession for many years (i.e., qualified by experience). Thus given the disparate representation within the profession, there are no unified standards for the practice of accounting. **It is also important to note that some accountants are not regulated by any professional body and regulation by foreign professional bodies of their overseas members, including those in Jamaica, may not be effective.**
- 2.9 In terms of the ICAJ's self-regulating activities, the Accounting Standards Committee (ASC) of the ICAJ has typically monitored compliance with accounting standards by reviewing the published financial statements of listed companies. However, it must be noted that volunteer members of the ASC carry out these reviews; therefore, it does not have the capacity to thoroughly review and assess an adequate number of compliance issues. Currently it acts only on complaint of egregious compliance issues. The ASC intends to continue with the review process following the switch to IAS but requires more resources and technical assistance to carry out a more thorough and systematic self-regulating process.

**E. Auditing standards and practice monitoring**

- 2.10 Up until 2001, the Audit Practice Committee (APC) of the ICAJ issued Jamaican Standards on Auditing (JSA), which were virtually identical to International Standards on Auditing (ISA) promulgated by the International Federation of Accountants. In 2001 the ICAJ decided that as of July 1, 2002 the financial statements of all companies should be audited in accordance with ISA. The effect

of this decision is unlikely to be significant given the similarities between JSA and ISA.<sup>3</sup>

- 2.11 The APC monitors compliance with JSA by reviewing the published financial statements of listed companies. The extent of these reviews is limited, however, as the APC does not review the audit working papers. The findings, if indicative of significant compliance issues, may result in disciplinary action. The APC intends to continue with the review process following the switch to ISA. However, upgraded policies and procedures are required if practice monitoring is to be deemed effective. 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 the Caribbean. Legal impediments will be reviewed to ensure the facilitation of Jamaica's involvement in the regional monitoring unit.

#### **F. Regulatory framework**

- 2.12 **Public Accountancy Board (PAB)** was established under the Public Accountancy Act 1968 to promote, in the public interest, acceptable standards of professional conduct among registered public accountants in Jamaica. All professionals who wish to practice legally as *public accountants* in Jamaica must register with, and obtain a practicing certificate from the PAB. However, in recent years the institutional capacity of the PAB to effectively oversee the quality of the profession has deteriorated, mainly due to a lack of resources. Also, the PAB does not currently have the statutory power to strike off or suspend a registered public accountant. Furthermore, it, too, acts only on complaints, and thus currently does not monitor on a widespread basis the quality of work undertaken by public accountants.<sup>4</sup>
- 2.13 In addition to the institutional capacity and statutory issues mentioned above, the PAB lacks broader representation, as all the current members on the PAB's board are members of the ICAJ. **Thus, there are no outside interests currently represented on the PAB that would provide broader stakeholder and public interest in overseeing the quality of the profession and eliminating conflicts of interest.** In 2001, however, the government agreed that ICAJ should be designated by the Ministry of Finance as the sole agent of the PAB for the purpose of licensing public accountants and that all public accountants should be required to comply with the ethical and professional standards issued by ICAJ. This new arrangement will undoubtedly place more responsibilities on the ICAJ in the future.

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<sup>3</sup> It is anticipated that all new and revised ISA will be adopted by the Council.

<sup>4</sup> The PAB may issue practicing certificates (subject to certain conditions) to: (i) members of the ICAJ; (ii) Jamaican citizens who are entitled to practice in another country by virtue of another professional qualification that is approved by the Minister of Finance; and (iii) a small number of people who are qualified by experience and who practiced as public accountants before 1970 (Grandfather clause).

- 2.14 **Financial Services Commission (FSC)**, a recently established government agency, in its role as regulator of non-banks, particularly insurance companies and the securities industry, has authority over disclosure of standards and financial reporting. In addition, listed companies are required to provide the **Jamaica Stock Exchange (JSE)** with annual audited financial statements. Similarly, the **Bank of Jamaica (BOJ)** is responsible for financial reporting over licensed financial institutions. It is intended that the roles of the FSC, JSE, and BOJ vis-à-vis the accounting profession –as a result of the proposed program- will be better defined and in effect strengthen the regulatory environment; thus enhancing financial disclosure.

**G. Bank's country program and donor coordination**

- 2.15 The proposed project would complement existing Bank programs in the financial sector in Jamaica, specifically the Financial Sector Reform Program (JA-0049) and Technical Cooperation to strengthen the Financial Services Commission (TC –0101045). The Technical Cooperation program is providing assistance on a range of non-bank issues, including corporate governance principles and regulatory reporting of insurance companies and the securities industry. This TC program is complementary and does not duplicate activities of the proposed project.
- 2.16 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).<sup>5</sup> 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 Jamaica, the ICAJ, 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 developing the proposed program.
- 2.17 This 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

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<sup>5</sup> 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.

promoting the timely exchange of information among executing agencies during project execution and in assessing mid-term and final evaluations.

- 2.18 As mentioned, the ICAJ has recently been given the mandate and responsibility to regulate the accounting profession and provide the required assistance to ensure the proper implementation of accounting and auditing standards in Jamaica. As such, ICAJ 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 Jamaica.

### **III. PROGRAM OBJECTIVES AND BASIC COMPONENTS**

#### **A. Program objectives**

- 3.1 The overall objective of the program is to strengthen the accounting profession in Jamaica. The purpose of the program is to improve the usefulness of the annual financial statements of Jamaican business entities 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 Jamaica 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 of 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\$19,500)**

- 3.3 The purpose of this component is to develop a baseline in terms of measuring where Jamaica 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 ICAJ as part of local counterpart cash contribution (approximately \$19,500) and will be recognized retroactively. In preparation for this review, the ICAJ conducted a self-assessment exercise in

June and July 2002 to review local accounting and auditing standards against the benchmarks of IAS and ISAs. 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 Jamaica 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 Jamaican standards. 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\$356,250; Local US\$155,500)**

- 3.5 The purpose of this component is to strengthen the capacity within the ICAJ and its Accounting Standards and Audit Practice Committees to provide tools for: (i) the implementation of IAS 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 IAS, 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 assist ICAJ's Committees in the development of 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 Jamaica of any SME version of IAS issued by the IASB. The project also will help finance the development and/or upgrading of dissemination mechanism (e.g. website) to create greater awareness of IAS, recent interpretations, guidance notes and best practices. Upgrading will also allow for enhanced follow-up on continuing education requirements.

**b) Delivery of Training Programs.**

- 3.7 The project will finance the development of upgraded IAS-based continuous 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 training 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). These training programs also should be conducted in areas outside of Kingston. Furthermore, this activity will have a Train-the-Trainer component (10-12 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\$216,000; Local US\$48,000)**

- 3.8 The purpose of this component is to build capacity within the ICAJ 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 financial statements of business entities, 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 strengthen reviews of the IAS financial statements of all listed Jamaican business entities, all financial institutions and a sample of other entities for compliance with IAS and ISA. 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 PAB and ICAJ, to regulate and supervise the public accounting profession. Technical assistance will include the diagnosis, which should be conducted within the first year of the program) and implementation of recommendations to address any gaps/weaknesses in the: structure of PAB and ICAJ; the involvement of non accountants in the PAB's and the ICAJ's processes; the PAB's oversight role; ICAJ's implementation of its delegated licensing powers and its readiness to respond to criticisms of it as a self-regulated organization; and ICAJ'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 Jamaican Law, PAB regulations, and ICAJ by-laws and procedures to prepare registered practicing accountants for the reviews. The Project will also assist the ICAJ 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\$24,000; Local US\$7,000)**

- 3.12 The purpose of this component is to address the issue of sustainability of both the ICAJ 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 ICAJ'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 ICAJ'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 Jamaica.

#### 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 be provided by ICAJ 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	ICAJ	Total
<b>Component I:</b> Independent ROSC review	0	19,500	19,500
<b>Component II:</b> Implementation/Application of IAS	356,250	155,500	511,750
<b>Component III:</b> Enforcement of IAS and ISA	216,000	48,000	264,000
<b>Component IV:</b> Sustainability of ICAJ	24,000	7,000	31,000
<b>Operational/Administration:</b>	20,250	99,000	119,250
<b>Evaluation &amp; Auditing:</b>	37,000	21,000	58,000
<b>Contingencies:</b>	11,500	0	11,500
<b>Total:</b>	665,000	350,000	1,015,000

##### B. Operational sustainability

- 4.2 The program objectives will be sustained by ensuring that the ICAJ 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 ICAJ's services and products. Furthermore, as ICAJ gains additional expertise in the application and implementation of IAS and ISA it will be able to increase its range of services. While the ICAJ 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 ICAJ staff. Furthermore, as part of program, the ICAJ 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 ICAJ, such as targeted training workshops.

## **V. EXECUTING AGENCY AND IMPLEMENTATION MECHANISM**

### **A. Execution agency**

- 5.1 ICAJ was established on January 18, 1965 and formally incorporated under the Public Accountancy Act (1968). A Council consisting of twelve members, elected in accordance with the Bye-Laws, manages the affairs of the Institute. The Institute as of year-end 2002 reported a net surplus and is financially sustainable. While income increased, expenditure increased as a result of the upgrading of staff remuneration in an effort to retain and attract quality staff and the ending of a cost sharing arrangements with ICAC. The majority of revenue is derived from members' and student subscription, admission fees and self-financing activities, mainly seminars. The ICAJ has the institutional capacity to manage this program effectively and has demonstrated its commitment to improving the adoption and compliance with IAS/ISA standards.

### **B. Execution mechanism**

- 5.2 The program will also fund a full-time Project Manager who will be responsible for managing and monitoring the program on a day- to-day basis (see draft terms of reference in RE3/FI3 technical files). The Project Manager would be hired with project resources and be based in the ICAJ. The Project Manager would report to a Project Committee (which will have broad representation e.g. non-accountants). The Project Manager will also be responsible for ensuring that ongoing stakeholder meetings (at least one every six months) are conducted during project execution and to ensure that the feedback obtained is incorporated into training programs and consultancies. A Project Assistant, from the ICAJ's existing staff, will work with the Project Manager. In addition, the Project Manager will work in close cooperation with the Project Manager of the Trinidad and Tobago (see draft terms of reference in RE3/FI3 technical files).

### **C. Project readiness**

- 5.3 During project preparation the ICAJ 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 23, 2002. In addition, the Project Team in conjunction with the ICAJ 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 ICAJ 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 ICAJ will prepare and submit to the Bank, within ninety (90) days after 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 (CO) in Jamaica will be responsible for supervising this technical cooperation. ICAJ will submit to the CO 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 CO 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 CO 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 CO 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 CO, 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 ICAJ, 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 Jamaica, 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, ICAJ 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 ICAJ 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 Jamaica, the ICAJ 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 ICAJ; accounting and auditing professionals in Jamaica, and indirectly Jamaica business entities (including small and medium enterprises), 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 ICAJ, including its ability to provide on-going quality of services to its members and to fulfill its role as regulator of the profession. There is also the risk of continuing resistance to the application of some IAS in some sectors. To mitigate this risk, the program includes a component on strengthening the ICAJ and developing a broader set of IAS based products and services to assist its members and the public at large in a smooth transition to IAS and ISA based standards.
- 7.4 Additional changes to the legal framework may need to be addressed to allow the Institute to carry out its role of regulator of the profession and the passage of the new Companies Bill is important to the achieving program objectives. To facilitate the identification of legal impediments, the project will finance a review of the regulatory framework and provide recommendations for improving it.

**D. CESI**

- 7.5 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. Nevertheless, there are measures that will benefit the environment given that IAS includes provisions that require financial reporting to 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 ICAJ 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
<b>OBJECTIVE</b>			
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.	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 IAS and ISA is sustained
<b>RESULTS</b>			
Completion of ROSC – Review of Accounting and Auditing Standards and Regulations.	<ul style="list-style-type: none"> <li>Country Action Plan developed.</li> </ul>	Agreed Action Plan with IDB, WB and ICATT	Govt. will take appropriate measures vis supervised financial institutions SEC oversight
Implementation and application of IAS and ISA will have been completed.	<ul style="list-style-type: none"> <li>At least one training program per quarter on application of IAS/ISA and at least one outreach workshop semi-annually</li> <li>Increased quality of training seminars within 18 months of the project. 15-25 Trainers trained.</li> <li>Interpretations, guidelines and best practices of IAS by the end of the project.</li> </ul>	Evaluations of seminars/workshops  Mid-term evaluation/Survey  Website	
Enhanced capabilities of IAS and ISA strengthened.	<ul style="list-style-type: none"> <li>ICATT will have reviewed financial statements of all financial institutions, and other listed companies for compliance with IAS</li> </ul>	Compliance Reviews	A quality program for reviews such as ACCA, is  Training programs will



## LOGICAL FRAMEWORK

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

## 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"> <li>15-25 trainers trained during the first and second year.</li> <li>Expert for IAS hired during first quarter.</li> <li>Website improvements concluded by second year.</li> </ul>	<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"> <li>Structure in place and reviews carried out during by second and third year.</li> <li>Practice guides developed during the first year.</li> <li>Disciplinary procedures developed by second year.</li> <li>Recommendations issued to ICATT by first year.</li> <li>Technical expert devise plan and implements the plan by the third year.</li> </ul>	<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"> <li>Project Manager hired by first quarter.</li> <li>Cost recovery mechanism developed by second year.</li> <li>Members needs assessment carried out during first and second year.</li> </ul>	<p>Contract</p> <p>Progress reports</p> <p>Progress reports</p>	