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REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Zimbabwe

ACCOUNTING AND AUDITING

February 15, 2011

Contents

EXECUTIVE SUMMARY

Zimbabwe has a history of a strong accountancy profession. However, the profession suffered significant setback during the decade (1998 – 2008) when the economy went through a major downturn and chronic hyperinflation. A number of accounting professionals left the country and financial reporting environment was negatively impacted. The economy is recovering, but the financial reporting infrastructure still requires strengthening in order to support economic growth.

The Government of Zimbabwe, in 2010, requested the World Bank to conduct ROSC A&A review exercise. The review focuses on institutional framework strengths and weaknesses relating to accounting and auditing environment. International standards – accounting and auditing – and good practices are used as benchmarks. Capacity building initiatives and legislative changes are proposed to address the identified weaknesses with an objective of enhancing the quality of corporate financial reporting that contributes to improving investor confidence and ultimately economic growth in Zimbabwe.

The main findings of the review include the need for updating legal framework to support implementation of accounting and auditing standards, weak capacity of the professional accountancy bodies and the PAAB, inadequate practical professional training in some professional bodies, lack of focus on IFRS and ISA in tertiary educational programs, and the need for improving the degree of compliance with the applicable accounting and auditing standards.

The report outlines principles-based policy recommendations aimed at strengthening institutional infrastructure. International experience, good practice, and local circumstances were considered in developing the recommendations. The key recommendations include (i) Updating the Companies Act to provide legal backing to an accounting standard setting body; prescribe reporting requirements – accounting, auditing, and review – of different types of companies; and sanctions for non-compliance with reporting standards; (ii) Amend the PAA Act to require the composition of PAAB to be independent both in appearance and fact; recognize PAAB as standard setting body for accounting, auditing and ethics; require PAAB to review financial statements of all Public interest entities – a term that should be defined in the act, and introduce administrative sanctions for non-compliance; (iii) Strengthen PAAB secretariat with human and financial resources to effectively undertake its responsibilities; (iv) Strengthen all professional bodies' secretariats and committee structures in order to serve their students, members and public especially to comply with applicable standards; (v) Establish a national body to develop and offer national accounting technician qualification; (vi) Encourage all professional bodies to include public sector subjects in professional qualifications; (vii) Engage in initiatives to strengthen Offices of the Comptroller and Auditor-General and Accountant-General, and (vii) Involvement of the profession in supporting public sector.

The policy recommendations should be considered by the Government to develop and implement a country action plan geared to strengthening corporate financial reporting. In developing the action plan, there is need to prioritize and sequence the reforms taking into consideration the available resources and capacity of the institutions to be involved in the reform process.

PREFACE

There is a broad agreement among the international financial community that the observance of international standards and codes are pivotal in strengthening national and international financial architecture. The Report on Observance of Standards and Codes: Accounting & Auditing (ROSC A&A) focuses on two of the 12 standards covered by the joint Initiative of World Bank and IMF on Standards and Codes (S&C) developed soon after the Asian financial crisis in 1997. The main objective of S&C Initiative is to assist countries in implementing internationally recognized standards for strengthening national and international financial architecture.[1]

The ROSC A&A focuses on the institutional framework regulating the accounting and auditing practices, and the comparability of national accounting and auditing standards with international standards and good practices. It evaluates the effectiveness of enforcement mechanisms for ensuring compliance with applicable standards. An overview of the ROSC A&A program, including detailed methodology, is available at http://www.worldbank.org/ifa/rosc_aa.html.

This ROSC focuses on the systemic issues pertaining to overall institutional framework, underpinning the accounting and auditing practices in Zimbabwe. Upon reviewing the actual accounting and auditing practices, the report presents policy recommendations for further improving corporate financial reporting regime in Zimbabwe.

This ROSC was carried out in Zimbabwe from August 2010 to February 2011 through a participatory process involving in-country stakeholders from the Government, regulatory bodies, accounting and auditing firms, banks, insurance companies, state-owned enterprises, and academia. It was conducted by a World Bank team comprising Pazhayannur K Subramanian (Lead Financial Management Specialist and Task Team Leader); M. Zubaidur Rahman (Program Manager, OPCFM, and Study Adviser); Patrick Kabuya and Daniel Domelevo (Senior Financial Management Specialists), Francis Mkandawire (Financial Management Specialist), Sonny Mabheju and MacDonald Nyazvigo (Consultants). The report also benefitted immensely from comments by peer reviewers: Szymon Radziszewicz (Senior Technical Manager, Member Body Development, IFAC); Thomas Zimmermann (Technical Manager, Member Body Development, IFAC); Samuel M. Maimbo (Senior Financial Sector Specialist, Africa Region); Richard L. Symonds (former Senior Counsel and present World Bank Consultant); Marius Koen (Lead Financial Management Specialist, Europe and Central Asia Region); and Svetlana V. Klimenko (Senior Financial Management Specialist, Latin America and Caribbean Region).

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

ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
CIMA	Chartered Institute of Management Accountants
CPD	Continuing Professional Development
ECSAFA	Eastern, Central, and Southern Africa Federation of Accountants
GAAP	Generally Accepted Accounting Practice
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAZ	Institute of Chartered Accountants of Zimbabwe
ICPAZ	Institute of Certified Public Accountants of Zimbabwe
ICSAZ	Institute of Chartered Secretaries and Administrators of Zimbabwe
IES	International Education Standard
IESBA	International Ethics Standard Board of Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standard
IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing
IPSAS	International Public Sector Accounting Standard
ISQC	International Standards on Quality Control
PAAB	Public Accountants and Auditors Board
RBZ	Reserve Bank of Zimbabwe
ROSC	Report on Observance of Standards and Codes
SAICA	South African Institute of Chartered Accountants
SME	Small and medium-size entity
SMO	Statement of Membership Obligation
SMP	Small and medium-size practice
ZAPB	Zimbabwe Accounting Practices Board
ZIPFA	Zimbabwe Institute of Public Finance and Accountancy
ZSE	Zimbabwe Stock Exchange

I. BACKGROUND

1. This assessment of accounting and auditing practices in Zimbabwe is part of a joint initiative of the World Bank and the IMF to prepare Reports on the Observance of Standards and Codes (ROSC). The assessment focuses on the strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting and involves a review of both mandatory requirements and actual practice. It uses International Financial Reporting Standards (IFRS)[2] and International Standards on Auditing (ISA)[3] as benchmarks and draws on international experience and good practices in the field of accounting and audit regulation.

2. **It is widely recognized that global financial stability largely depends on robust national systems and requires enhanced measures at the country level.** In a world of integrated capital markets, financial crises in individual countries can dislodge international financial stability. This provides the basic public goods rationale for minimum standards that benefit both international and individual national systems. At the international level, standards enhance transparency and comparability of financial information. They identify weaknesses that may contribute to economic and financial vulnerability. They also foster market efficiency and discipline. At the national level, standards provide benchmarks for identifying systemic vulnerabilities and guide in designing an agenda for policy reform. To best serve these two objectives, the scope and application of such standards need to be assessed (without modifying the standards) in the context of a country's overall development strategy.

3. **The recent global financial crisis further confirms the imminent need to follow international standards.** In an effort to deal with the global financial turmoil, the G-20 Summit, held in April 2009 in London, emphasized the adoption of "international agreed high standards that a global financial system requires." Furthermore, it encouraged actions by emerging and developing economies for strengthened transparency, accountability, and enhanced disclosures to reduce the risk of market failure. Monitoring liquidity positions and risk concentrations, especially in banks and financial institutions, calls for a strong accounting and auditing environment. If the preparers, auditors, and regulators ensure proper compliance with high-quality accounting and auditing standards, policymakers and market participants would be able to recognize reliable micro-level financial indicators that could, along with macroeconomic indicators, provide early warning signs.

4. **The Zimbabwe economy is emerging from a major economic downturn and needs to attract investment**. The economic downturn made it impossible for Zimbabwe to fully comply with IFRS after chronic hyperinflation, and a breakdown in the exchange rate system rendered the Zimbabwe currency dysfunctional. The accountancy profession was proactive in developing appropriate guidance for preparers to comply as far as was practicable with IFRS, and for

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[2] IFRS are issued by the International Accounting Standards Board (IASB), an independent accounting standard-setter based in London, UK. The IASB announced that it would adopt all previously issued International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC). For simplicity's sake, the term IFRS will mean both IFRS and IAS in this report.

[3] ISA are issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

auditors to audit such financial statements. Ultimately, the guidance has been used by IASB to amend IFRS 1. The economy is now recovering, but investor perception is still largely negative. The downturn put the economy in a survival mode, and now it needs to move towards sustainable development by attracting international investment and harnessing local initiatives. These efforts would restore stability and growth and transform the economy from the current predominantly net importing and consumption-based country to a predominantly value-adding, export-dominant, and production-driven economy, eventually leading to its place among industrial nations. These developments require Zimbabwe to have a high-quality financial reporting system supported by a robust accountancy profession.

5. **High-quality financial information supports relevant strategic objectives of the Zimbabwe Government.** The strategic objectives include (a) creating a conducive business environment; (b) furthering Zimbabwe's economic reintegration regionally and internationally; (c) better management and increased transparency of public interest entities, including state-owned enterprises (parastatals); (d) increasing SME access to credit that supports the needed shift from security-based lending to lending based on the borrower's financial performance and cash flow; and (e) ensuring stability in the financial sector. It is therefore important for Zimbabwe to have sound accounting and auditing practices in order to produce high quality financial information.

6. **The Zimbabwe economy is depicted by the following salient features:**

(a) The population of 14 million is highly literate and hard working but ethics had been compromised during the economic downturn.
(b) The country has abundant resources in mineral deposits, a strong manufacturing base supported by relatively sophisticated infrastructure, huge potential in agriculture, and many tourist attractions.
(c) The country has a huge debt of US$6.9 billion of which US$4.8 billion are arrears. The debt constituted 150 percent of GDP at the end of 2009. Actual growth in 2009 was 4.7 percent and the ratio of investments to GDP was only 4 percent. The current account deficit is projected to increase from US$0.927 billion in 2009 to US$1.041 billion in 2010 mainly because of increasing imports against subdued exports.
(d) The country adopted a multi-currency system at the beginning of 2009 after a period of chronic hyper-inflation, and a failed foreign exchange rate system that rendered the Zimbabwe dollar dysfunctional.
(e) The banking sector (commercial banks, accepting houses, discount houses, and finance houses) is still weak after the economic downturn with only 16 of the 24 banking institutions meeting the minimum paid-up capital requirements by the end of September 2010. Deposits are still short term partly because of low liquidity in the economy. Additionally, depositors must still gain confidence in the banking sector, which faced a crisis in 2003/2004 and was followed by hyperinflation and a breakdown in the exchange rate system, which resulted in loss of deposits and investments when the country abandoned the Zimbabwe dollar.
(f) The micro-lending system was affected by hyperinflation but is now beginning to grow. Poor liquidity is still a major constraint. The sector is not adequately regulated.

(g) Although improving, lending is still short term and is mostly collateral based, which is not conducive to lending to small and medium-size enterprises (SME). To move from collateral-based lending, entities will need to produce high-quality financial information that will encourage lending decisions based on financial performance and cash flows. This requires a strong accounting and auditing profession.

(h) The Zimbabwe Stock Exchange, as at end-November 2010, had 79 listed companies. It has not yet recovered from the effects of the economic downturn despite modest improvements in industrial capacity. Both investor confidence and liquidity are still low.

(i) The country's infrastructure, though relatively sophisticated, is in need of upgrading and expansion. Massive investment is needed in this area.

(j) The state-owned enterprises (parastatals) sector is significant to the economy and has some of the largest business entities in the country, far bigger than the largest quoted companies. Through self regulation by the accounting profession, these entities report under the IFRS framework. Some of the entities display signs of poor financial reporting discipline as evidenced by late financial reporting and poor compliance with IFRS. Most of them have poor accountability and transparency and record large deficits, which are a burden to the Government. A number of them have been targeted for privatization; this will require large private sector investments going into this sector.

(k) The manufacturing sector has great potential. It is currently affected by obsolete equipment, electricity outages, and low liquidity among other constraining factors leading to high cost of production and rendering products uncompetitive when compared to imports.

(l) Agriculture and tourism also have great potential and need appropriately structured finance to adequately capitalize them.

(m) Mining is doing relatively well and can still do better with an improved operating environment.

(n) The tax base and tax revenue of the economy can be increased by formalizing the huge informal sector, which developed during the economic downturn and is currently not contributing meaningfully to Government revenue.

7. **The challenges facing the accountancy and auditing profession in Zimbabwe are similar to those facing the rest of the economy.** These are affecting the growth and development of the profession and the economy. Some of the challenges are limited-skilled human resources caused partly by extensive brain-drain out of Zimbabwe during the period of economic downturn and challenges in attaining professional qualification. Possessing practical knowledge of IFRS and ISA is highly priced because of the shortage of skilled professionals.

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

8. **The Companies Act (Chapter 24:03) provides basic requirements for accounting and financial reporting (including consolidated financial statements) applicable to all companies registered under it.** A company is required to prepare financial statements at the end of the financial year. Such financial statements must show a true and fair view of the state of affairs of the company (and its subsidiaries – if a group) and the balance sheet. The financial

statements must be signed on behalf of the board by two of the directors of the company and be laid before the company in a general meeting for shareholder approval. The Act requires the form and content of all companies' financial statements to be based on standards adopted by ZAPB and prescribed in regulation. The last regulation relating to standards was issued in 1999, which implies all companies are required to apply standards issued by ZAPB as of that date. On the other hand, ZAPB has continued to adopt all standards regularly issued by IASB. Therefore, there is significant gap between legislated standards and those adopted by ZAPB. The fact that the Act requires all companies to comply with the same standards - does not incorporate differential financial reporting frameworks - creates compliance costs and reporting burdens on small companies that have limited or no public accountability.

9. **The Companies Act (Chapter 24:03) provides basic requirements for auditing of companies that require audits.** The Act requires all public (listed) companies to be audited. Private companies need not be audited if they meet all criteria set by the Act for not appointing an auditor. The Act does not prescribe the qualifications and membership of any professional body for the auditor nor does it refer to the Public Accountants and Auditors (PAA) Act (Chapter 27:12) with regards to who qualifies to be a statutory auditor. It only prescribes persons who do not qualify as auditors purely on issues related to corporate governance. The Act does not provide for monitoring and enforcement mechanisms to ensure compliance with its audit provisions.

10. **The Companies Act outlines the director's obligation for the probity of legal entity (and consolidated) financial statements.** The Companies Act places on the company directors the responsibility of causing proper books of accounts to be kept that will enable the preparation of the company's financial statements. The Act places similar responsibilities on the directors of a holding company. The directors are required to present, at each annual general meeting, a profit and loss account and a balance sheet as at the end of the financial year Although the Act provides for sanctions on company directors for failing to keep proper books of accounts or failing to provide financial statements to the annual general meeting of the company, it does not provide for monitoring and enforcement of compliance. The Act imposes sanctions of either fines or imprisonment or both.

11. **The Insurance Act and Banking Act do not prescribe any accounting or auditing standards to be used in financial reporting by insurance companies and banking institutions.** The requirements, enforced by regulators, are a result of self-regulation by the accounting profession and regulators. The Banking Act requires financial statements of banking institutions to be prepared in accordance with "such accounting standards as may be prescribed" and audited by an auditor registered with the Public Accountants and Auditors Board (PAAB), which is the accounting and auditing regulator in Zimbabwe. The Insurance Act requires insurance companies to prepare a balance sheet and profit and loss account "in appropriate forms prescribed"; there is no mention of any accounting standards. The Insurance Act does not specifically require an auditor to be registered with the PAAB. It also does not mention any qualifications for the auditor. Any auditor who is "not an employee, manager or director of the insurer" can audit an insurance company.

12. **The banks and listed companies are required to publish their financial information.** The banks and listed companies are required to produce half-yearly financial statements within 60 days of the end of the period. However, there is no statutory requirement for these half-yearly financial statements to be reviewed/audited by the statutory auditors. The annual audited financial statements are required to be issued within 90 days of the year-end. The half-yearly and annual financial statements are required to be published in two widely circulated newspapers.

13. **The Companies Act requires that financial statements of companies registered with the Office of the Registrar be annexed to the annual returns and filed with the Office of the Registrar; but this is not being done in all cases.** The Office of the Registrar is unable to cope with the many documents being filed. The Office is poorly resourced in terms of financial resources and staff and has no inspectorate section to check filed documents for completeness and compliance with the requirements of the Companies Act.

14. **The Public Accountants and Auditors Act (Chapter 27:12) established the Public Accountants and Auditors Board.** The PAA Act sets up the PAAB as regulator of the accounting profession. This Act became effective in 1996, bringing together an accounting profession that was fragmented and with no common regulatory body. The original constituent bodies include:

- Association of Chartered Certified Accountants (ACCA), Zimbabwe branch, incorporated by Royal Charter in the United Kingdom
- Chartered Institute of Management Accountants (CIMA), Zimbabwe branch, incorporated by Royal Charter in the United Kingdom
- Institute of Chartered Accountants of Zimbabwe (ICAZ) established by the Chartered Accountants Act (Chapter 27:02)
- Institute of Chartered Secretaries and Administrators in Zimbabwe (ICSAZ) established by the Chartered Secretaries (Private) Act (Chapter 27:03)
- Zimbabwe Institute of Public Finance and Accountancy (ZIPFA), a locally incorporated company, limited by guarantee; later to become the Institute of Certified Public Accountants in Zimbabwe (ICPAZ).

The PAA Act clearly stipulates PAAB functions but does not authoritatively state its objectives: regulator of the accounting and auditing profession; and promoter of quality and credible provision of professional services and protection of public interest

15. **The Institute of Chartered Accountants of Zimbabwe (ICAZ) established by the Chartered Accountants Act (Chapter 27:02); and Institute of Chartered Secretaries and Administrators in Zimbabwe (ICSAZ) established by the Chartered Secretaries (Private) Act (Chapter 27:03)** make these professional bodies regulators of their members. The Acts and related by-laws give these bodies authority to administer examinations, register members, and firms, administer continuing professional development (CPD), conduct practice reviews, enforce

compliance with code of professional conduct, conduct investigations, and take appropriate disciplinary actions on members.

16. **The Securities Commission operates under provision of the Securities Act.** The Securities Commission regulates the Zimbabwe Stock Exchange, which in turn regulates financial reporting by listed companies. The Securities Commission, in addition to regulating securities exchanges, registers and licenses brokers. It also sets out minimum requirements to be met through listing requirements, which are then administered by the Exchange for compliance by listed companies. The Securities Commission requires listed companies to apply accounting standards which may be prescribed by reference to the international standards specified in the listing requirements. Currently the listing requirements mandate the application of IFRS.

17. **The Banking Act, ZSE Listing Requirements, and Securities Act (through Statutory Instrument No. 100 of 2010) require companies to have audit committees.** However, the Companies Act and Insurance Act that cover many companies do not have stipulations relating to audit committee.

18. **State-owned enterprises (parastatals) are governed by individual acts of Parliament, under which the parastatals are incorporated, and the recently enacted Public Finance Management Act**. The Public Finance Management Act applies to all the entities and requires them to have an accounting authority. The accounting authority should be the board or, in the absence of a board, the chief executive officer or equivalent in title. The authority is responsible for the maintenance of proper records and establishment of systems of financial management and internal control and safeguarding assets of the entity. The accounting authority should also cause financial statements of the entity to be prepared in accordance with GAAP: with no specific mention of who to issue GAAP or specific GAAP framework/standards., The parastatals are currently reporting under IFRS because of self-regulation by the accounting profession. These entities are under statutory obligation to submit financial statements for audit within two months of year-end; and audits are required to be finalized within five months of year-end. The Act requires each entity to have an audit committee whose responsibilities are specified in the Act. There is no regulator for the entities and great reliance is placed on audited financial information. The Act provides for penalties in cases of financial misconduct by the accounting authority but there is no monitoring mechanism provided. In the absence of a sector regulator, non-compliance goes undetected.

19. **The Constitution of Zimbabwe requires the Comptroller and Auditor-General to audit all public sector financial statements, including state-owned enterprises and local authorities as well.** This is a large sector of the economy to which the accounting profession is minimally involved mainly as auditors of parastatals and local authorities.

B. The Profession

20. **The Public Accountants and Auditors Board was set up to regulate the accounting profession but requires institutional strengthening to achieve its objectives.** The PAAB comprises of 10 members (two members from each of the five constituent bodies), the Comptroller and Auditor-General and the Accountant-General. The PAAB secretariat only has

one professional staff and limited financial resources. Therefore, it does not have capacity and appropriate tools to discharge its responsibilities. Most functions of PAAB including practice reviews, investigation, and discipline are not being carried out. This hinders PAAB ability to meet its overall objective of protecting public interest and serving the profession. The PAAB registers accounting and audit professionals in their individual capacities only. The PAA Act does not require registration of practicing firms (accountants and auditors). The PAAB is not a member of the International Forum of Independent Audit Regulators (IFIAR). This means it has limited access to current developments and trends in the regulation of auditors against which it can benchmark itself. The PAAB requires extensive capacity building for it to be the lead regulator of accounting and auditing issues and to resist any possible regulatory capture by the constituent bodies. (Refer to Annex Tables A and B for current and proposed functions of PAAB).

21. **All the constituent professional accountancy bodies of PAAB as listed below require enhancing their capacity to effectively achieve their objectives.**

- ***Institute of Chartered Accountants of Zimbabwe (ICAZ)***. This is the largest and dominant player in the accountancy profession in the country. It is the main player in provision of audit services. It is a member of the Eastern, Central, and Southern Africa Federation of Accountants (ECSAFA) and International Federation of Accountants (IFAC). It has reciprocal agreements with a number of IFAC member bodies globally. It operates through committees, some of which are very effective and have contributed over the years to the high standards, visibility, and relevance maintained by ICAZ in the private sector. Its past involvement in the public sector has been minimal. The technical department provides services to its members though it requires enhancing its service offerings. The ICAZ has made progress with respect to the compliance with IFAC Statements of Membership Obligations (SMOs). The status of compliance is as presented below:

  SMO 1, *Quality Assurance* – Quality Assurance reviews are not being done because ICAZ has no in-house capacity to do this.

  SMO 2, *International Education Standard for Professional Accountants and other papers issued by EDCOM Guidance* – ICAZ needs to enhance arrangements for teaching and workplace learning in professional values, ethics, and attitudes as is required by International Education Standard (IES) 4, *Professional Values, Ethics and Attitudes.*

  SMO 3, *International Standards, related Practice Statements and other Papers* – issued by IAASB, ICAZ adopts these without amendment.

  SMO 4, *IFAC Code of Ethics for Professional Accountants* – ICAZ adopts the Code without amendment.

  SMO 5, *International Public Sector Accounting Standards and other PSC Guidance* – ICAZ involvement in public sector accounting has been minimal in the past.

  SMO 6, *Investigation and Discipline* – ICAZ continuously reviews mechanisms to ensure in line with the SMO requirements.

SMO 7, *International Financial Reporting Standards* – ICAZ adopts these without amendment.

- ***Institute of Certified Public Accountants of Zimbabwe (ICPAZ)*** is a locally incorporated company, limited by guarantee, and successor to a body that used to specialize in public sector finance and accounting. ICPAZ no longer has specialization in training public sector accountants but is now aligned to the Institute of Certified Public Accountants of Ireland, an IFAC member body. Together they write the same final examination. The ICPAZ is a new body that needs strengthening in its ongoing process of establishing its secretariat and committee structures. It is a member of ECSAFA but not IFAC. The ICPAZ has no capacity to fully regulate itself at the moment. It has applied for its members to provide statutory audit services for which the legal process is almost complete.

- ***Zimbabwe branches of ACCA and CIMA*** are aligned to their parent bodies in the United Kingdom who are members of IFAC. There are 223 and 90 members of ACCA and CIMA respectively registered with PAAB. The ACCA members that are trained through an accredited audit training office are allowed to provide statutory audit services. The CIMA members do not provide statutory audit services. ICSAZ is a division of the Institute of Chartered Secretaries and Administrators of the United Kingdom. Although ICSAZ has about 1,800 members, only about 302 are registered with the PAAB. Most of the unregistered members are practicing or employed in accounting and management positions. The ICSAZ is locally incorporated by an act of Parliament in Zimbabwe. However, it has not obtained membership of ECSAFA or IFAC. Presently, it is in the process of changing its focus from secretarial and administration to accountancy by strengthening its accountancy curriculum.

22. **There is a shortage of professional accountants in the country.** All statutory auditors and accountants offering professional services to the public are required to register with PAAB. The size of the profession in terms of individual members registered with PAAB is summarized in Table 1. Considering the size of Zimbabwean economy and its growth potential, it seems that there is an acute shortage of professional accountants in the country.

Table 1. PAAB constituent bodies and their registered members

Professional body	***Auditors***	***Public accountants***	***Total***
ICAZ	240	1,163	1,403
ACCA	13	210	223
CIMA	-	90	90
ICPAZ	-	92	92
ICSAZ	-	302	302
Total	***253***	***1,857***	***2,110***

Source: PAAB, October 31, 2010

23. **Slow growth, limited financial resources and inadequate secretariat capacities characterize local professional bodies.** Established in 1917, ICAZ has 1,403 members registered with PAAB; about half of them are outside Zimbabwe as a result of the serious brain-drain Zimbabwe suffered from 1998 to 2008. With limited financial resources, the professional bodies are unable to attract, recruit, and retain qualified people for their secretariats. This leads to inability to provide adequate and appropriate services to their students, members, and general public; the bodies ultimately lose visibility and relevance in the market. In addition, local professional bodies have been minimally involved in public sector. The few members coming through the system get absorbed by the private sector. The professional bodies should pursue to improve their sustainability by combining growth-oriented strategies while maintaining high professional standards throughout the training and qualification process.

24. **Small and medium practices face major challenges in the market, and professionals working in these firms face some challenges.** The Big 4 international firm networks dominate among the large audit and non-audit clients, leaving the smaller firms struggling to attract and retain the larger clients. It is a situation that can make the smaller firms financially weak and unable to attract, recruit, and retain high-quality staff. Some of the SMPs find it difficult to access and keep up to date with some standards and publications, particularly IASB-issued standards and accompanying documents (i.e., IFRS/IAS and related interpretations, illustrative examples, implementation guidance, and basis for conclusion). There is also general lack of training on practical application of international standards and codes issued by IASB and IFAC which are freely available on their websites. Most SMPs have no technical desk to turn to for assistance: they don't have internal technical teams and further, technical departments of local professional bodies do not have adequate capacity. Some of the small firms still use outmoded management and audit practice/methodology with limited computerization.

25. **In some cases the auditor independence is impaired.** Company management sometimes receives help from auditors when preparing financial statements, tax computations, and making accounting decisions in IFRS applications and interpretations. This problem is common across the whole market in Zimbabwe, including large listed companies, banks, insurance companies, parastatal organizations, government, and local authorities. The problem arises largely because of shortages of skilled professional accountants in the country and the belief by certain entities that the preparation of financial statements is part of the audit function. Public awareness of the role of auditors in the financial statement progression is generally low. Some auditors may not be in a position to take steps that mitigate threats to their independence by applying appropriate safeguards to independence either because of lack of resources or lack of professional ethics arising from commercial pressure of chasing lucrative non-audit fees.

26. **Other challenges faced by the profession.** Accelerated promotion of accountants to senior positions before they acquire appropriate practical experience is one of the major problems. This poses a reputational risk to the profession in cases where poor quality work is performed. It also contributes to training problems since there are few qualified professionals to provide effective on-the-job training resulting to high trainee/trainer ratios. The profession is also facing challenges in providing adequate awareness and implementation guidelines for the ever-changing international standards. There is also a shortage of training material and trainers at affordable costs. The high costs of attending the few training courses limit attendance to an elite

few and dissuade many preparers, users, auditors (especially small and medium-size practices). The shortage of professionals has also brought challenges in meeting the requirements of International Standard on Auditing and Quality Control (ISQC) and some recommendations of the Ethics Code regarding auditor independence in areas of audit partner rotation, concurring reviews, internal consultation processes, and provision of non-audit work. The profession should view these challenges as offering opportunities for the provision of training and consulting services and map growth strategies in these areas.

27. **The profession in Zimbabwe adopts the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board of Accountants (IESBA), a standard-setting body of IFAC.** Monitoring compliance with the Code appears to be a major challenge faced by all the professional bodies in the country. Professional bodies have an obligation to their students, members, and the public to ensure that their members have a continuing understanding of values, ethics, and attitudes that enable them to operate effectively and with integrity.

C. Professional Education and Training

28. **Professional accounting and auditing education in Zimbabwe meets most of the International Education Standards (IES) for Professional Accountants issued by the International Accounting Education Standards Board (IAESB).** Both ICAZ and ICPAZ have developed education and training programs, which meet most of the requirements of the IES. However, they need to improve teaching and workplace learning for professional values, ethics, and attitudes in their curriculum in line with the requirements of IES 4, *Professional Values, Ethics and Attitudes.* The ICPAZ does not have its own monitored practical training facilities and arrangements unlike ICAZ which performs this role through its accredited member firms. For the global IFAC members, ACCA and CIMA, training is determined from their head offices in the United Kingdom. The ICSAZ is in the process of transforming from an administration and secretarial institute to an accounting institute for which IES alignment is still required.

29. **Practical experience requirements for professional accountants in Zimbabwe compares rather well with IES 5, *Practical Experience Requirement* although monitoring of training periods should be improved**. Most young accounting candidates for ICAZ and all for ICPAZ join practical training after a relevant degree in accounting. They are required to serve a minimum training period of 3 years and achieve certain minimum hours of on-the-job training in core disciplines and to write professional qualifying examinations. For ICAZ, a decreasing number of young candidates join training after high school (6 years of high school) and undergo a degree program in accounting before they write professional qualifying examinations. These students serve a minimum of 5 years practical training period. The training periods are closely monitored. Some accredited firms are facing challenges of effective monitoring of trainees because of a shortage of qualified principals or from those who do not review training records on required due dates. This results in the young accountants not being made aware of their areas of weakness that need attention and ultimately affect their quality of work after training.

30. **Professional accountancy examinations for ICAZ and ICPAZ are generally in line with IES 6, *Assessment of Professional Capabilities and Competence*.** The professional bodies

assess the capabilities and competence of students. In the case of ICAZ, the South African Institute of Chartered Accountants (SAICA), an IFAC-member body, and Independent Regulatory Board for Auditors (IRBA) set and assess the final examinations with ICAZ providing substantial input. Tax examinations are set and marked by ICAZ according to Zimbabwe tax law. The decision to externalize the final qualifying examinations of ICAZ was made after Zimbabwe had lost most of its experienced examination setters and markers when the country started losing professionals to other countries. The idea was to maintain quality. For ICPAZ, the final examinations are set and assessed by CPA Ireland, an IFAC member. Candidates are tested in both Irish and Zimbabwe tax law. The Zimbabwe tax paper is set and marked locally. The arrangements between SAICA and ICAZ and between ICPAZ and CPA Ireland are provided for by IES 6, which states that member bodies may wish to cooperate with other member bodies in making their assessment arrangements, in whole or in part. The responsibility for the assessment remains with the professional body whose qualifications will be awarded.

31. **University curriculum needs to include international accounting and auditing standards, and link to accountancy professional qualification.** The varying degrees of access to standards in universities depend on the initiative of lecturers and department heads to incorporate standards in the teaching syllabus. There is no integration of IFRS and ISA modules into university accountancy education curriculum. There is no coordination of university education programs with professional qualifications and regulation, although ICAZ and the University of Zimbabwe have signed a memorandum of understanding to begin cooperation. A substantial gap exists between university accounting graduates and required skills to serve in the corporate sector.

32. **The accounting and auditing curriculum are not harmonized among universities.** There is need to harmonize curriculum among all the 13 universities (8 government and 5 private) and comply with IES and include public sector accounting and ethics training at university level. University accounting and auditing curriculum is generally uniform at government universities with all core subjects and topics covered for the undergraduate degree. These universities train most of the students who go into professional accountancy training. There are some privately funded universities that include many non-core subjects, which are not relevant to the accountancy degree. Students from such universities tend to have a poor pass rate in professional examinations.

33. **Structure of chartered accountancy examination meets most of requirements of IES 8, *Competence Requirements for Audit Professional*.** The ICAZ examinations have a long history of high quality from the first stage to the final stage set and assessed by SAICA and IRBA, with input from ICAZ through its education committee and examination board. The structure of the examination meets the requirements of IES 8 except that it does not include training in professional values, ethics, and attitudes, which is one of the most important sections of the accountancy education program. Most of the knowledge in these areas is acquired through experience at the workplace after qualifying. Problems arise when a work place displays poor ethical values from the top down among its workforce, and such workplace environments became common during the economic downturn period.

34. **Continuing professional development for practicing accountants is well developed at ICAZ, ACCA and ICSAZ, and still in the process of development at ICPAZ.** There is a section within the technical department of the ICAZ secretariat that is fully dedicated to continuing professional development. At the beginning of the year, ICAZ develops a CPD calendar for the next 6 months after consultation with members on topics and presenters. The same is done for the second half of the year. Presentations are done in Harare and Bulawayo, the two major urban centers where most chartered accountants reside and work. Members log their hours online to the database kept at ICAZ and monitored by the CPD officer. One of the conditions for members to renew their practicing certificates is that their CPD hours must be up to date. ACCA and ICSAZ have well developed CPD programs offered throughout the year. While the CPD process for ICPAZ is still under development, its members are encouraged to attend CPD seminars arranged by other professional bodies.

35. **There are many private colleges and government polytechnics in Zimbabwe that train students in various diplomas in accounting.** The graduates from these polytechnic institutions do not belong to any professional body and consequently have no regulated professional identity. Because of this lack of regulatory control, the members do not have CPD obligations and quickly get out of touch with current developments. Some end up performing professional assignments for which they are not qualified. They therefore create reputational damage to the accountancy profession. The country could benefit if, through a legislative enactment, these graduates and junior professionals would be brought under the umbrella of a national accounting technician body that would regulate and support them with their professional development.

D. Setting Accounting and Auditing Standards

36. **The Companies Act requires companies to prepare financial statements based on international standards as adopted by the Zimbabwe Accounting Practices Board (ZAPB), a standard-setting board functioning under PAAB and prescribed in regulation.** The ZAPB had been a standards-setting board of ICAZ whose functions have since been moved to PAAB though the PAA Act does not refer to it. Its membership is made up of representatives from the PAAB constituent bodies, Comptroller and Auditor General, Accountant General, and various commerce and industry sector body representatives. Although ZAPB is not yet incorporated in the PAA Act, the Companies Act recognizes it as an adopter of international accounting standards. It participates in the international standard-setting process by commenting to the IASB on exposure drafts of proposed standards. Once the standards are issued by IASB, the ZAPB adopts them without amendment. With regard the ZAPB-adopted international standards, the Companies Act provides that the form and content of financial statements, including the notes, shall be prescribed in regulations. These provisions were last implemented in 1999 and cover standards up to IAS 29, *Financial Reporting in Hyperinflationary Economies*. All standards and interpretations issued since then are therefore not covered by the Companies Act. On the other hand, ZAPB adopts all standards issued by the IASB. This has resulted in a significant gap between compliance required of the Companies Act and compliance required of the accountancy profession through ZAPB. This has made it necessary for companies in Zimbabwe to issue dual audit opinions—one dealing with the Companies Act and the other with IFRS—as a way of managing compliance with both the law and IFRS, which are not aligned. The ROSC team was

informed that no process has been initiated to legally recognize ZAPB- standards and interpretations issued after 1999.

37. **There is no act, legislation, or regulation in Zimbabwe that deals with setting auditing standards.** All registered auditors are however required through self-regulation by the accountancy profession to comply with ISQC and ISA issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC without amendment. Practitioners are also required by professions self-regulation to comply with the Code of Ethics for Professional Accountants, which has been issued by the IESBA of IFAC. The ICAZ and ACCA, the two bodies with members who carry out statutory audits, adopt the standards. These standards are complex, and most practitioners require regular guidance to implement them.

38. **Standard-setting requires significant resources.** The profession in Zimbabwe recognizes and appreciates the amount of technical and financial resources required to set national standards. Given the size of the economy, the profession consciously made a decision to adopt international standards. By adopting IFRS, ISA, IES, ethics standards, and IFRS-for-SME, the profession in Zimbabwe hopes to focus technical effort away from setting national standards to strengthening other activities that aim to increase the effectiveness of implementing the adopted international standards. It is however also clear that the development of an effective standard-setting process focused on the adoption of international standards also requires significant financial, technical, and institutional capacity as it generally includes various activities, including monitoring new and revised international standards, providing comments to exposure drafts, updating regulations, publishing, and raising awareness. It also necessitates the development of implementation activities, including updating education and training programs and courses and developing relevant implementation guidance. In this respect, the standard-setting process needs strong financial and technical support to develop efficient standard-setting mechanisms through the adoption of international standards. The profession also adopts international standards with the general objective of enhancing the quality of financial reporting. Other than commenting on some exposure drafts, very few of the other activities mentioned above take place in Zimbabwe mainly because of capacity constraints.

E. Ensuring Compliance with Accounting and Auditing Standards

39. **There is no mechanism to effectively monitor compliance with applicable financial reporting requirements for state-owned enterprises and large non-listed private companies.** State-owned enterprises are established by their respective acts of Parliament, which require them to prepare and present audited financial statements. The Public Finance Management Act provides some penalties for noncompliance with the applicable accounting and financial reporting requirements of these enterprises. However, there is no arrangement for monitoring and enforcement in this regard. Most of these state-owned enterprises are big in size and are individually significant to the economy. The quality of financial statements presented by these economically significant entities have important implications for decision making in both private and public sectors of the economy. However, the absence of an effective mechanism for monitoring and enforcing compliance with the financial reporting requirements have adversely affected the availability of quality financial statements of these enterprises. There are also large privately owned companies that are not subject to any monitoring and enforcement in regard to

financial reporting. Because of their economic significance, these privately held companies need to be considered as public interest entities; and hence be subject to financial reporting monitoring.

40. **The Central Bank regulates the financial reporting of banks and similar financial institutions.** This is done through the bank licensing, supervision, and surveillance division of the Reserve Bank of Zimbabwe. It carries out prudential supervision and reviews compliance with the applicable financial reporting requirements. The division has issued two regulatory guidelines relevant for IFRS and audit supervision and compliance follow-up. One is entitled "Minimum Disclosure Requirements for Financial Institutions," and the other is "Framework on the Relationship between Bank Supervisors and Bank's External Auditors". The former is intended to give guidance on disclosures by banking institutions, but it does not cover all disclosures required by IFRS for banking institutions. Additionally, it does not deal with presentation, recognition, and measurement in the preparation of financial statements. It has not been updated since issuance in 2004. Because of all these factors, the guideline does not form the basis for a full and comprehensive review of general purpose financial statements of banking institutions. The unit that reviews compliance with financial reporting requirements, needs capacity strengthening both in terms of number of people doing the reviews, their skills, and tools. In most cases, the supervisor places significant reliance on the opinion of the external auditors.

41. **The Insurance and Pensions Commission regulates insurance companies, including brokers and pension funds.** The Commission checks on prudential, regulatory, and financial reporting compliance for all companies under its jurisdiction. There are two separate units: one checks prudential and regulatory compliance, and the other checks on financial reporting compliance. The regulatory report produced by the insurance companies and pension funds is not totally aligned with general purpose financial statements. Therefore, the entity needs to prepare reconciliation between the figures in the financial statements and the regulatory report. The auditor is required by the Insurance and Pensions Commission to verify the reconciliation process and certify the regulatory report. The reliability of this certification is affected by the auditor's knowledge of the regulatory reporting requirements. The unit at the Insurance and Pensions Commission which is responsible for reviewing compliance with the financial reporting requirements did not have any staff at the time of the ROSC review. The unit relies totally on information from auditors without carrying their own independent compliance checks.

42. **The Zimbabwe Stock Exchange, jointly with the accountancy profession, has set ZSE Monitoring Panel to review and enforce listed companies' compliance with IFRS. This is a self-regulation initiative.** The listing requirements mandate application of IFRS . At the moment both the ZSE do not have technical capacity and methodologies to effectively review and enforce listed companies' compliance with IFRS. The ZSE relies on the ZSE Monitoring Panel, which was set up as a joint committee of PAAB and ZSE. The panel reviews published annual financial statements of listed companies for IFRS compliance. The panel has not been active during the past few years. The effectiveness of financial statement review to ensure compliance with applicable standards is normally enhanced by providing legal backing to a regulatory body like PAAB.

III. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED

43. **Applicable standards for financial reporting in Zimbabwe are based on IFRS framework.** The market faces practical difficulties in implementing IFRS.[4] During the period of hyperinflation, companies departed from full compliance with IFRS because it became impractical to comply with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 29, *Financial Reporting in Hyperinflationary Economies*, and all the standards that have fair value implications. The Accountancy profession developed guidance to support preparers to comply with IFRS as far as was practicable. Efforts are underway to move back to full IFRS compliance by the end of 2010.

44. **Boards and management in a number of companies believe that it is the responsibility of external auditors to decide on the accounting policies of the company and prepare the financial statements.** During discussions with various stakeholders, the ROSC team was told that a number of companies do not have in-house technical capacity for practical implementation of IFRS, and they relied on their auditors to prepare the financial statements or the auditors might offer significant assistance in the preparation of financial statements. The widespread practice gives rise to "self-review threat" to auditor independence. Listed companies and internationally partnered banks are perceived to have a comparatively higher level of implementation compliance. Unlisted local banks and unlisted large local companies have comparatively low-level compliance. Audited large state-owned entities generally have very low levels of compliance and produce late audited financial statements. Large unaudited companies and small and medium-size enterprises generally have very low compliance levels. Cross-cutting among all these entities is that even where the compliance is rated good, they disclose the bare minimum required by IFRS and a lot of significant assumptions and judgments made in the preparation of financial statements are not disclosed.

45. **Problems also arise in areas like valuations, IAS 16, *Property, Plant and Equipment,* and IAS 40, *Investment Property,* where there is over-reliance on uncorroborated third party representations and inadequate application of the required levels of professional skepticism.** Implementation of IFRS is made more difficult in the current market environment where there is no depth in the stock market, the interest free rate is not readily available, discount rates are not easy to establish, there is poor market liquidity, there is low inter-bank market, banks are employing interest-enhancing mechanisms to boost revenue, the market is registering low levels of trade volumes, cash flow trends are difficult to establish, and the willing-seller/ willing-and-able-buyer assumption for sale transactions is largely not there. These factors make IFRS implementation, which is largely fair value based, very difficult in a market that has a critical shortage of qualified professional accountants.

46. **Quality of reviewed audited banks' financial statements is generally good although some areas of noncompliance were noted.** Disclosure was comprehensive for the

[4] Observations in Sections III and IV are based on review of audited financial statements of 15 listed companies; 14 of the 16 commercial banks registered at the end of 2009 (2 commercial banks still required finalization of financial statements 9 months after year end); 2 insurance companies; 10 state-owned public entities; and 3 private limited companies. Comments were restricted mainly to presentation and disclosure. Recognition, measurement, and compliance with ISA and quality control could not be commented on.

banks reviewed although there were cases where disclosed information on preparation of financial statements was not consistent with the notes supporting related figures in the financial statements. Examples suggest that such notes may have been taken from a standard template and no effort was made to make them relevant in support of the financial statements or to remove those notes that were not applicable to the financial statements.

47. **Financial statements of listed companies show a relatively high level of compliance with standards, but with some shortfalls.** These companies generally employ appropriately qualified staff in their accounting departments and are generally subjected to close scrutiny by the market, including financial analysis. However, there are areas where disclosures were not sufficient. Some companies did not comply with showing product/service and geographical segment information as required by *IFRS 8, Operating Segments*. The reviews also highlighted the need to improve disclosures of significant judgments and assumptions as required by IAS 1, *Presentation of Financial Statements*, made by management in the process of preparing financial statements. IAS 24, *Related Party Disclosures*, was poorly complied with in as far as it relates to (a) disclosure of parent and ultimate controlling party, (b) compensation of key management personnel, and (c) transactions between related parties. Such information is essential for a better understanding of the financial statements by various users. Considering the current environment of Zimbabwe, insufficient disclosures were evident in revenue recognition, fair values including valuations, and how such would have been arrived at with related judgments and assumptions and extent of reliance placed on work done by experts.

48. **Insurance companies and pension funds showed a wide range of compliance with very poor-quality to high-quality financial statements.** Some cases showed inadequate basic notes to the financial statements and others where highly material, and the largest figures in a set of financial statements like investments, fair value adjustments, and other income were not supported by notes and related accounting policy notes. This reduced the quality of the financial statements significantly. At least one set of financial statements of a reviewed company was so deficient in disclosures, both in the core financial statements and in the notes to the financial statements. In fact the ROSC team questioned how the auditors cleared the financials for publication. The reviews in this sector showed a systemic compliance problem.

49. **Results from review of financial statements of state-owned enterprises show a major problem of late reporting.** Late reporting is a major problem with most of the state-owned enterprises. However, no appropriate disciplinary action has been taken against the management. Most of these enterprises had not finalized audits of financial statements for the December 2009 year-end as of September 2010. The level of compliance with the applicable financial reporting requirements in these enterprises is very low. All the enterprises selected for review by the ROSC team had significant government grants and or government assistance. Only a few had complied with the disclosures required by IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance.* One set of the reviewed financial statements was for December 31, 2008, the peak of hyper-inflation. The financial statements were prepared on a historical cost basis, and IAS 29, *Financial Reporting in Hyperinflationary Economies*, was not complied with. However, the financial statements received clean audit opinion with an emphasis of matter on noncompliance with IAS 29. It is worth noting that historical cost basis of

preparation of financial statements cannot give a true and fair view in a hyperinflationary environment.

50. **Review of financial statements of some large-size non-listed private companies indicated very low-level of compliance with the applicable accounting standards.** These companies are not required to be audited in terms of the Companies Act. In most cases, accountants with limited knowledge of high quality financial reporting standards prepare these financial statements.

IV. AUDITING STANDARDS AS DESIGNED AND PRACTICED

51. **Zimbabwe adopts ISA and ISQC, which have compliance challenges among auditors.** The level of actual and perceived compliance with these standards varies significantly among the audit firms. Generally greater compliance is perceived in firms belonging to international networks. However, it appears that complying with all applicable ethical and quality control standards (i.e., ISQC 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and ISA 220, *Quality Control for an Audit of Financial Statements*) is a challenge faced by these firms as well. There is simply a shortage of appropriately skilled professionals in audit firms. This shortage contributes to the weakness of audit quality in the country. Highly skilled audit professionals are needed to deal with issues involving judgments, estimates, assumptions, and third party and management representations in Zimbabwe's complex financial reporting environment. These require above-normal levels of professional skepticism and practical experience. These problems are even greater in small and medium-size practices.

52. **Variances exist between actual audit practices and ISA.** Based on discussions with partners in audit firms and observations in the market, a gap exists between what auditors do in practice and what the standards require. This has been the case particularly for the following standards: ISQC 1; ISA 220; ISA 230, *Audit Documentation*; ISA 330, *The Auditor's Responses to Assessed Risks*; ISA 550, *Related Parties*; ISA 580, *Written Representations*; ISA 620, *Using the Work of an Auditor's Expert*; and ISA 705, *Modifications of the Opinion in the Independent Auditor's Report.* The gap widens on issues that materially misstate financial statements but ends up being communicated through the report to management or report to those charged with governance and not picked up in the audit report, leading to inappropriate audit opinions. These problems are perceived to be common in all firms of large-, small-, and medium-size practices.

53. **Auditors do not usually face difficulty in obtaining appropriate audit evidence.** The Companies Act requires all companies to keep accounting records and information for a minimum period of 8 years. The Act also gives the auditor the right of access to all company records for purposes of conducting the audit. For these reasons, information, which should be housed on the company's premises, is not difficult to retrieve. There may be problems of accessing and retrieving the information where the audit is done long after the year being audited. In the current environment in Zimbabwe, appropriateness and reliability of audit evidence may be compromised or the evidence may not readily be there in cases of fair value measurements, estimates, and judgments. The auditor will have to use guidance in clarified ISA 540, *Auditing*

Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures. In the majority of cases reviewed by the ROSC team where significant management judgments and estimates were made, disclosures of such judgments and estimates were inadequate.

V. PERCEPTIONS ON THE QUALITY OF FINANCIAL REPORTING

54. **The stakeholders interviewed generally perceived the quality as satisfactory among financial reporting by quoted companies, companies with external reporting obligations, and banks and financial institutions that are part of global groups.** Financial reporting by private companies with significant public interest was perceived as requiring improvement. Parastatals or state-owned enterprises were rated as poor in presentation, disclosure, and timely production of audited financial statements, and in need of urgent attention. The RBZ supervisors, Zimbabwe Revenue Authority, Auditor General, Zimbabwe Stock Exchange, Securities Commission, Insurance and Pensions Commission, and other stakeholders place much reliance on audited financial statements. Some stakeholders have reservations on auditor independence and level of skepticism of auditors.

55. **In practice there is need to improve implementation of independence rules for auditors to be and be seen as independent.** The accounting profession in Zimbabwe adopts the Code of Ethics for Professional Accountants. All professional accountants are required to identify threats to independence and apply safeguards to ensure independence is not compromised. Audit firm rotations are mostly taking place in bank audits at the insistence of the Reserve Bank of Zimbabwe. From interviews held with representatives of individual member firms, the auditing profession is generally against firm rotations. There are some locally listed companies in Zimbabwe that have been audited by the same audit firm for over 30 years. In the absence of audit practice reviews at the moment, it is not possible to establish whether partner rotations are taking place in the audit firms as a safeguard against independence and over-familiarity threats. Some stakeholders interviewed expressed concern over close relationships between some companies and their auditors in different forms that compromise auditor independence. There is also a widespread use of “special purpose vehicles” in the form of management consultancy firms by audit firms. Assignments that would bring to question independence and conflict of interest in the audit firm are diverted to the special purpose vehicle, which usually is a private company controlled and owned by the partners of the audit firm.

56. **For state-owned enterprises, financial statement audits generally do not benefit the Government and the public as they are always issued late.** The law requires these entities to be audited by the Comptroller and Auditor General. Because of inadequate capacity in the Office of Comptroller and Auditor General, many of these entities have their audits subcontracted to private auditors. Each entity is governed by its own act of Parliament, which stipulates specific audit provisions for that entity. The reporting deadlines set by the Public Finance Management Act are largely not being complied with. This means the public has to rely on the boards and management of these entities to be accountable. Many of these entities have technically weak boards, audit committees, and accounting staff. The introduction of National Code of Corporate Governance in 2010 will most likely address these challenges. Audited financial statements are produced very late, and in most cases boards and management are not

made to account for late submission. All these factors significantly reduce the usefulness of the audited financial statements of these entities.

57. **Some users of financial statements say that the audited financial statements do not tell the whole story and that they very often must ask for more information from management.** They say there is usually little disclosed above the minimum IFRS disclosure requirements. Stakeholders also expressed concern for the lack of uniformity in audited financial statements, especially with regards to disclosures. The markets feel there is a lot of discretion in this area, leading management and boards to decide on what and what not to disclose and therefore affecting the quality of financial statements made available to the market. The extent to which financial information produced by companies in Zimbabwe is currently being used for decision-making and management purposes varies significantly. Most banks indicated that in virtually all cases they ask for much more information in addition to that disclosed in the financial statements of their clients, mainly because of inadequate disclosure. Most financial statements of state-owned enterprises (parastatals) are published too late and usually with poor compliance with IFRS to be of any use for decision-making and management use. The quality of financial statements of unlisted companies, non-banking financial institutions, and all other unregulated companies vary significantly with the quality of the preparers and whether or not they are audited and, if audited, who audited them. This in turn makes the usefulness of these financial statements for decision-making and management purposes vary significantly. However, the financial statements of quoted companies, financial institutions and unquoted companies that are part of international groups are generally perceived to be of high quality and are used for decision-making and management purposes.

Some key stakeholders in the country perceive that the quality of audit is adversely affected by reduced accountability of the auditors impacted by some or all of the following factors:

(a) General market ignorance about client rights against the auditors in cases of auditor negligence.
(b) Lack of client technical capacity to question and challenge audit decisions and work.
(c) Weak and in some cases incompetent company boards and audit committees.
(d) Belief that anything that comes from the auditors is correct and cannot be questioned.
(e) The culture of litigation is generally weak in Zimbabwe.
(f) Very often auditors audit work they will have done or decisions they were part to especially in the areas of preparation of financial statements, IFRS compliance issues and tax leading to threats to independence arising from self-review.
(g) In the rare cases where the quality of audit work is questioned, the auditors are quick to threaten clients with legal action instead of giving clients justification of the quality and adequacy of their work.

58. **Market perception of the audits generally favors audits by international firms over local firms.** The general perception is that local firms lack capacity and therefore are not

able to perform high-quality audits. Most regulators in the country accept financial statements audited by international firms without further checks and place total reputational reliance on them. Some regulators admit that this is because of lack of capacity in their structures to enable them to do the check. Others perceive that the mere fact of international network firms auditing the financial statements makes them more reliable. Many stakeholders felt that audit services provided by all categories of audit firms appears to be of poor quality as evidenced by audits of state-owned enterprises where there is a varied range of compliance with IFRS, generally poor quality reporting in the audited financial statements, and widespread late reporting. Most of these, because of their size and complexity, are audited by network firms.

VI. POLICY RECOMMENDATIONS

59. The main purpose of this ROSC A&A assessment is to assist the Government of Zimbabwe in strengthening the private sector's accounting and auditing practices and in enhancing financial transparency in the corporate sector. In turn, these activities are integral components of a broader effort to address certain strategic objectives, including (a) attracting and maintaining sustained levels of foreign direct investment, (b) enhancing the investment climate, (c) supporting the development of small and medium-size enterprises, (d) ensuring stability of the financial sector, and (e) furthering Zimbabwe's economic reintegration internationally. The principle-based policy recommendations arising from the assessment of existing practices will be discussed during a workshop with the Government and in-country stakeholders. Following these discussions, a country action plan will identify specific activities to be undertaken for implementation of the ROSC recommendations, under the supervision of the Ministry of Finance.

60. **The ROSC A&A recommendations are interrelated and mutually supportive and require a holistic and carefully prioritized approach for implementation.** Critical success factors for implementation include high-level government leadership, and capitalizing on previous achievements. The Government should form a multi-disciplinary steering committee to champion and coordinate the accounting and auditing reform. The members of the steering committee should advise policymakers on how to implement the country action plan for further improvement of the corporate financial reporting regime.

61. **The policy recommendations are based on the assumption that long-term country objectives include development of a sound corporate reporting infrastructure, leading to an environment of producing high-quality corporate financial statements.** This requires continued reorganization and improvement of Zimbabwe's legal framework and institutions; strong accounting and auditing profession and statutory regulators; improvement of an enforcement mechanism; and making necessary changes in the curriculum for supporting high-quality professional training in accounting and auditing. The ROSC A&A recommendations are interrelated and mutually supportive and require a holistic approach for implementation. Critical success factors for implementation include high-level government leadership and capitalizing on previous achievements.

A. Statutory Framework

62. **Amend the Companies Act and related company regulations.** The Companies Act and related company regulations should be amended to give legal backing to an accounting standard setter for the country. Specifically the law should require companies to comply with applicable accountings standards as issued by the standard setter. Such standards should be in line with International Standards. In addition, the Act should specify the reporting requirements – accounting and auditing - for different types of companies classified in the Companies Act. It is common practice that large companies both public and private will require to be audited. The Act should also specify whether a review would be required for companies that would not be subject to audit.The Act should specify who can be a statutory auditor—this should be a person registered as an auditor with the PAAB. The Act must also include sanctions – penalties – for non compliance with applicable accounting standards. To enhance governance in companies, the Act should stipulate the need to constitute audit committees in specific types of companies especially those with public interest and stipulate functions of such a committee.

63. **Amend the Public Accountants and Auditors Act as follows**:

(a) The composition of PAAB to be independent both in appearance and fact. At present the PAAB comprises 10 members representing constituent bodies and the Comptroller and Auditor General and the Accountant General. Since PAAB is the regulator of the members of professional accountancy organizations, inclusion of the same professional accountancy organizations in the Board appears to pose a threat to independence.

(b) To include as PAAB's objectives (i) the regulation of the accountancy profession focusing on issuance, monitoring and enforcing internationally comparable standards and codes, (ii) the promotion of quality and credible provision of professional services and protection of public interest.

(c) To recognize PAAB as a standard setting body for accounting, auditing and ethics.

(d) To require registration of professional accounting and audit firms with PAAB.

(e) To introduce administrative sanctions for noncompliance.

(f) To require collaboration between PAAB and relevant regulators (e.g Banking, Insurance and securities regulators) in regard to monitoring and enforcement of applicable accounting and auditing requirements.

(g) To require PAAB to review financial statements of all Public Interest Entities. In this regard, the Act should also define public interest entities using both quantitive and qualitative factors. PIE's normally include listed companies, banks, insurance companies, pension funds and large sized economic entities in both private and public sector.

64. **Amend accounting and auditing requirements in various Acts and regulations.** Based on the proposed amended in Companies Act and PAA Act, the accounting and auditing requirements mentioned in various laws and regulations (e.g. Insurance Act, Banking Act) should be updated.

B. Institutional Capacity Building and Other Measures

65. **Strengthen PAAB.** The PAAB should be made more effective by implementing the following proposed measures:

(a) ***Strengthen the secretariat***. The PAAB secretariat should (i) develop and implement a long term strategic plan (ii) recruit and capacitate adequate number of technical staff to perform practice reviews and financial statement reviews (iii) develop practice review and financial statement reviews methodologies in line with international good practices, (iv) organize sessions to enhance knowledge of audit practitioners especially on providing quality audit services, and (v) organize train-the-trainer sessions on IFRS and IFRS for SMEs.

(b) ***Increase financial-sustainability.*** PAAB should identify alternative sources of financing in order to ensure financial sustainability.

(c) **Establish effective committees/panels to fulfill PAAB functions.** The PAAB should have committees covering *at least* accounting standards setting, auditing standard setting, financial reporting review, audit practice review, enforcement, education and training, and member registration and oversight. The committee/panels should be representatively constituted by members with relevant skills.

(d) ***Comments on exposure drafts***. Standard-setting committees/panels of PAAB needs to take part in commenting on all exposure drafts of standards and codes, issued by the IASB and the relevant standard-setting boards of IFAC. The participation will ensure that Zimbabwe specific issues are considered in developing the standards.

(e) ***Join International Forum of Independent Audit Regulators (IFIAR)***. In order to benchmark its activities against international good practices and receive timely update of regulator developments, the PAAB should pursue its application to be a member of IFIAR. Through IFIAR membership, the PAAB will be able to actively participate in international developments on independent regulation of the audit profession.

66. **Improve effectiveness of financial reporting review activities of various financial sector regulators.** The financial reporting review activities of the Zimbabwe Stock Exchange, Securities Commission, Insurance and Pension Commission, and Reserve Bank of Zimbabwe need to improve effectiveness by taking the following measures:

(a) Regulators should give recognition and regulatory authority to applicable accounting and auditing standards in all their regulatory pronouncements and provisions. They should also provide sanctions in the regulations for noncompliance.

(b) All regulators should increase the number of companies in post-review for compliance with standards.

(c) Financial reporting review and follow-up activities should be conducted through collaboration with PAAB by the committee responsible of Financial Reporting Review**.** There should be a collaboration arrangement between the PAAB and various regulators with regard to checking compliance with the applicable financial reporting requirements, and imposing appropriate sanctions on corporate management for infractions. This would increase synergies and reduce the cost of the whole system.

67. **Strengthen capacity in the Office of the Comptroller and Auditor General and Accountant-General.** Different initiatives should be put in place to capacitate staff in both offices. One of the initiatives should be to accredit Office of the Controller and Auditor-General and Accountant-General as training offices of professional accountants and auditors. Professionals would be attached to the offices, normally for a period of three years, to perform practical training: a period when the capacity in both offices would be strengthened. In addition, the accountancy profession should support the Accountant-General and Auditor-General with capacity building initiatives; on pro-bono basis where practicable. Such support may include attaching a number of staff from the audit firms to the two offices; offering financial support by professional bodies to a number of officers to study and acquire accounting technician and professional qualifications, funding a number of officials to long-term learning programs etc. Ultimately, the offices will require more financial resources in order to be able to attract and retain senior qualified professionals on long term basis. In the short term, the offices should consider approaching the development partners to offer both financial and technical assistance to support some of the initiatives.

68. **Strengthen capacity of regulators.** Supervision divisions of the Securities Commission, Zimbabwe Stock Exchange, Reserve Bank of Zimbabwe, and Insurance and Pensions Commission should recruit and retain qualified staff to deal efficiently and effectively with matters relating to financial reporting by the respective regulated entities. They should also enter into collaboration arrangements with PAAB for skills sharing during the review processes. This streamlining will reduce duplication of effort by various regulatory bodies.

69. **Further strengthen ZIMRA official's technical skills relating to financial reporting**. Training opportunities, relating to accounting standards and relevant topics, should be designed and offered to ZIMRA officials.. In addition, a plan should be developed and implemented to enable ZIMRA to achieve the status of an accredited practical training office for professional accountants. The profession should partner with ZIMRA to offer the training and develop the accreditation requirements and a plan to achieve them. The initiatives will contribute to strengthening human capacity in ZIMRA which will enable the office to effectively perform its role of ensuring accuracy of tax computations by corporate tax payers.

70. **The Office of Registrar of Companies should be further capacitated.** The government should introduce appropriate information system, conduct training for current staff and recruit additional suitably qualified and skilled staff for the office. The initiatives will enable the Office to achieve its objectives: to effectively check that all companies comply with Companies Act requirements.

C. The Profession

71. **Strengthen the professional bodies.** All professional bodies should strengthen their secretariat especially the technical departments and committee structures. This would require hiring and retaining suitably qualified professionals. Strengthened structures would ensure that professional bodies effectively support their members and public e.g. by offering appropriate CPD opportunities that are affordable to all; providing relevant guidance for application of different standards – IFRS, IFRS for SMEs, ISAs, ethics code; monitoring compliance, and disciplining members. The professional bodies should also continue to identify alternative sources of revenue in order to be financially sustainable. In addition, these bodies should put in place policies that achieve membership growth while further strengthening quality in the professional qualification.

72. **Direct support to small and medium-size practices**. Small and medium-size practices, as the professional service providers to SMEs, are the main drivers for economic growth in the economy at the moment and are likely to continue to be so in the future. Small and medium-size practices need assistance from the professional bodies to access updated audit practice manuals and implementation guidance on IFRS and ISA, including ISA application in the audit of small and medium-size enterprises or their successor standards. The professional bodies should offer capacity building programs to small and medium-size practices in order for them to provide SMEs with a wide range of professional services that are necessary for their growth. In addition, deliberate efforts should be made to give the capable small and medium-size practices an opportunity to be engaged in important accounting and/or audit assignments—e.g. joint audit assignments. This would enable the SMPs to grow and contribute to strengthening the accounting profession in the country on a sustainable basis.

73. **Increase the visibility and relevance of accountancy profession to the public sector.** The accountancy profession has been supporting the public sector in certain areas, notably capacity building of Public Accounts Committee of Parliament and participating in development of the National Code of Corporate Governance. The profession should continue to support the public sector and especially assist Accountant-General with the adoption of IPSAS, and capacity building of the public sector financial management officials. Professional bodies should therefore ensure that they have professionals with appropriate knowledge to support the development of IPSAS implementation strategy and guidance and conduct training.

74. **Develop a national body to offer a national accounting technicians qualification.** The Government should establish a national body through an Act of Parliament that would develop and offer a national accounting technician qualification. The qualification should serve both the private and public sectors. The qualification should be designed in a way that it offers technician graduates a path to advance to study for professional qualification in any of the 5 constituent professional bodies. The technician body should be regulated in the same manner as the other accounting professional bodies. Graduates with accounting diplomas from various government technical colleges and private business colleges should be encouraged to enroll and be members of the technician's body which would regulate and serve them.

75. **Professional firms should strive to stay relevant and have an appropriate top-to-bottom attitude toward audit quality and professional independence.** This can be achieved

through implementation of an effective and robust quality control practice in each firm. The practitioners must strive to stay relevant by participating in CPD programs on current developments, and regularly update their audit methodologies.

D. Professional Education and Training

76. **Align university-level training with professional training.** There should be close cooperation between universities and professional bodies in curriculum development and review. PAAB should play a key role in coordinating the partnership. There is a need to strengthen quality of training, improve teaching resources, and consider professional partnerships between commerce and industry and universities. There is also need to monitor the quality of entrants to the accountancy profession from universities and high schools and keep the standards high and uniform. Teaching practical aspects of IFRS and ISA should be introduced at all universities and not relegated as a responsibility of just the professional bodies. This will contribute in ensuring that graduates have skills required to serve in the business environment. Public sector accounting and related topics, and "Business Ethics" as a separate subject should be introduced in university-level accounting and auditing curricula.

77. **Maintain up-to-date teaching material in university accounting departments.** Professional bodies and PAAB should support accountancy departments at universities to develop up-to-date teaching materials focusing on IFRS and ISA. Universities should also be assisted with resources to attract suitably qualified lecturers to sustain appropriate research capacity. This will contribute to developing competent accountancy graduates capable of providing guidance in the implementation of IFRS, IFRS for SMEs, ISA, and IESBA Code of Ethics leading to high-quality financial reporting.

78. **Improve and maintain high standards in pre- to post-qualification learning.** The quality of education must be closely monitored by PAAB to ensure it complies with IES at each stage of development of the professional accountant and auditor. PAAB should also encourage all professional bodies to include public sector related subjects in the professional qualifications. This will ensure that the qualified professionals have relevant skills that are required to serve in both private and public sectors. To maintain professional competency, continuing professional development programs should be offered by all professional accountancy bodies and made compulsory for all professional accountants.

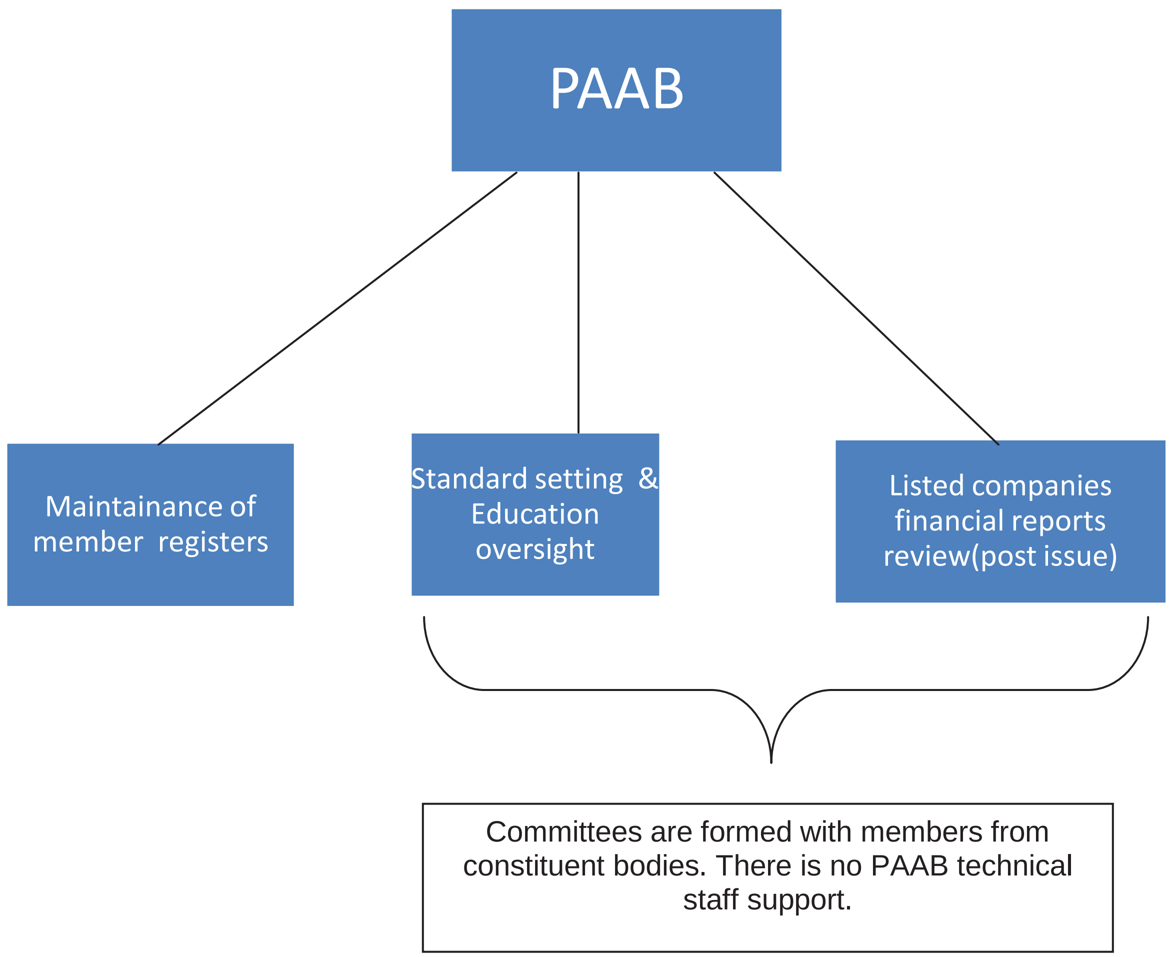
E. Other Issues of Relevance

79. **Audit or review of the half-yearly financial statements of banks, insurance companies and listed companies should be made compulsory.** There is also a need to increase disclosures in half-yearly financial statements published in newspapers. The regulators and the accountancy profession should partner to develop a guideline to prepare such disclosures.

80. **Require senior management to sign the audited annual financial statements.** The Government should consider introducing a legal provision to require the chief executive officer and chief finance officer of a public interest entity to also sign the audited annual financial statements. This will be in addition to the current requirement in the Companies Act where two

directors must sign the financial statements. This will reinforce management responsibility of preparing financial statements.

Annex
Table A: Current Functions of PAAB



Annex
Table B: Proposed Functions of PAAB