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Dominican Republic

Update of the Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing

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CURRENCY: DOMINICAN PESO (RD$)
1 US$ = 35.95 RD$ as of May 31, 2009

Main Abbreviations and Acronyms

A&A	Accounting and Auditing
BCRD	Central Bank of the Dominican Republic
Big-4	Four largest international networks of professional accounting firms
CAFTA	Central American Free Trade Agreement
CODOCON	Dominican College of Accountants
CPC	*Contador Publico Certificado*
CPD	Continuing professional development
DGII	Internal Revenue Services
DR	Dominican Republic
EIRL	limited liability sole proprietorship
FDI	foreign direct investment
FSAP	Financial Sector Assessment Program
GAAP	Generally Accepted Accounting Principles
GDP	gross domestic product
IAS	International Accounting Standards
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IASB	International Accounting Standards Board
ICPARD	Institute of Authorized Public Accountants of the Dominican Republic
IES	International Education Standards for Professional Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
LAC	Latin America and the Caribbean
LMF	Financial and Monetary Law
LMV	Securities Market Law
ROSC	Report on the Observance of Standards and Codes
SB	Superintendency of Banks
SEESCyT	Ministry of Education, Science and Technology
SIPEN	Superintendency of Pensions
SIS	Superintendency of Insurance
SIV	Superintendency of Securities
SME	small and medium enterprise
SMO	IFAC's Statements of Membership Obligations
SOE	state-owned enterprise
SRL	Limited liability company (*Sociedad de Responsabilidad Limitada*)

Executive Summary

i. This report is an update of the 2004 Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing (A&A) in the Dominican Republic (DR). The field work was conducted during 2004 and that report was published in 2005. The main objective of the 2004 ROSC was to assist the Dominican Government in strengthening A&A practices, in support of sustained economic growth and improved competitiveness of local enterprises. For this update, a particular focus was placed on analyzing significant changes in (a) the statutory framework for A&A standards and practices, (b) the A&A profession, (c) the quality of accounting education at the tertiary level, (d) enforcement of A&A requirements both within the profession at by financial sector regulators and (e) financial reporting standards in the banking sector.

ii. Since 2004, the Dominican A&A landscape has not changed significantly although several improvements have occurred. In the corporate sector as a whole, the most significant change is the passing of a new company law in 2008, raising the threshold for statutory audits and establishing a new, simpler form of business entity with lesser A&A requirements, which are positive developments.

iii. In the financial sector, prudential regulations and supervision have been substantially strengthened after the financial crisis of 2003. The securities market regulator continued for its part to strengthen its regulatory oversight, as part of a broader effort to spur the development of the DR's securities market.

iv. As regards the Dominican accounting profession, it remains divided. A new leadership has come on board in the fall of 2008 within the legally-recognized accounting professional body, ICPARD. It has announced plans to implement a continuing education program for the membership. Yet, ICPARD's financial capacity is severely hampered as revenues from a statutory stamp fee levied on annual financial statements have dwindled following the introduction of computerized filing of corporate tax returns; this lack of financial capacity raises questions about whether ICPARD can fulfill its immediate priorities.

v. Another significant challenge facing ICPARD is meeting its obligations as a member of IFAC, especially relating to entry requirement, continuing education, ethics, quality assurance and discipline. The new ICPARD leadership and the main accounting firms have been developing a proposal for the professional certification of public accountants since January 2009.

vi. In terms of education and training, the number of accounting students in the most prestigious universities has been decreasing since 2004, reflecting the diminished prestige of the profession. Improving local A&A practices in line with International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA)—and their SME equivalents—requires upgrading accounting education; a few universities have taken steps to revamp their curricula, but much remains to be done. A government-led project to improve university accounting curricula initiated in 2002 was never completed. Professional accountants' access to training in international standards is quite limited.

vii. On the enforcement side, the most significant change since 2004 is the introduction within the banking supervisor, SB, of a new Audit Control Unit, which has already yielded positive results and an improved perception of banking supervision across the country. Enforcement of accounting requirements among non-banking entities is uneven and needs strengthening. The other financial sector Superintendencies should follow in the steps of the SB; if possible, a common registration and inspection system for auditors should be set up. Oversight of auditors by the Dominican profession itself needs to be strengthened considerably.

viii. The 2004 ROSC A&A had set out 12 recommendations. To date, two recommendations have been substantially implemented, and some progress has been made, or initial steps taken, toward implementing five other recommendations.

ix. Going forward, areas of primary focus should include the following:

- Establishing adequate funding for ICPARD so that the country's official accounting professional body has the means to carry out its statutory functions and comply with its membership obligations vis-à-vis IFAC;
- Adopting the IFRS for SMEs issued by the IASB in July 2009, in order to provide much-needed relief to entities at the lower end of the corporate spectrum and set realistic and achievable standard of reporting;
- Conducting an assessment of the effects of harmonizing regulatory accounting standards for banks and insurance companies with IFRS, to pave the way for IFRS implementation in a way that is orderly and compatible with prudential requirements;
- Implementing a continuing professional development system for practicing accountants and auditors;
- Carrying out the profession's plan to create a US- or Canadian-style certification for the audit profession, first on a voluntary basis except for key sub-sectors such as banking, insurance, pension fund management, and securities; and
- In the short term, drawing up a comprehensive Country Action Plan (CAP) to implement the above policy recommendations.

Summary of Recommendations

	Short-term (within 1 year)	**Medium-term (2 to3 years)**
High priority	• Adopt the IFRS for SMEs issued in July 2009 (in lieu of full IFRS). • Enhance transparency and disclosure in the financial sector. • Establish adequate funding for ICPARD so it can carry out its statutory functions and comply with its IFAC obligations.	• Implement a continuing professional development system for practicing accountants and auditors. • Create a professional certification for auditors, required for the financial sector and voluntary for other sectors.
Medium priority	• Adopt latest IFAC Code. • Draw up a comprehensive Country Action Plan to implement the recommendations.	• Establish joint inspection process among financial sector regulators. • Conduct an assessment of the effects of harmonizing regulatory accounting standards for banks and insurance companies with IFRS. • Revamp university accounting curricula.

I. Background

I.A. ROSC Accounting and Auditing and FSAP Programs

1. The review of accounting and auditing practices in the Dominican Republic (DR) is a part of a World Bank and International Monetary Fund (IMF) joint initiative on Reports on the Observance of Standards and Codes (ROSC). The review focused on the strengths and weaknesses of the accounting and auditing environment in the corporate sector and how they influence the quality of corporate financial reporting. International Financial Reporting Standards (IFRS)[1] and International Standards on Auditing (ISA)[2] were used as benchmarks for this assessment, which included both statutory requirements and actual practices. This report provides an update of the initial ROSC Accounting & Auditing (A&A) for the Dominican Republic completed in 2004 and published in 2005.[3] The dissemination seminar was held in April 2006. A copy is included in Annex 1.

2. The objective of the 2004 A&A ROSC for the DR was to assist the authorities in their effort to strengthen the country's accounting and auditing practices, as well as to enhance the level of financial transparency in the corporate sector. Recommendations included amendments to existing laws, policy recommendations, and capacity building interventions.

3. A joint World Bank-IMF mission to update the Financial Sector Assessment (FSAP) for the DR was conducted in Santo Domingo in January and February 2009. The FSAP Update included "a factual assessment of accounting and audit practices" and incorporated the main findings and recommendations arising from this assessment. The rationale for addressing accounting and audit issues under the FSAP is primarily related to the importance of the information infrastructure for financial and private sector development, since lenders and investors rely on audited financial reports for credit decisions and related risk monitoring. In addition, proper supervision and governance of the financial sector hinges on adequate transparency and accountability being built into reporting practices in the corresponding sub-sectors (banking, insurance, securities market, etc.).

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1 IFRS correspond to the pronouncements issued by the International Accounting Standards Board (IASB) and International Accounting Standards (IAS) issued by its predecessor, the International Accounting Standards Committee, as well as related official interpretations.

2 Issued by the International Auditing and Assurance Standards Board (IAASB) within the International Federation of Accountants (IFAC).

3 Accessible through www.worldbank.org/ifa/rosc_aa_dr_eng.pdf.

I.B. Economic Context

4. **Following the 2003 crisis, the DR's economic performance has been strong.** In particular, growth levels have largely exceeded the regional average as shown in Table 1 below. The collapse in 2003 of three large domestic banks resulted in an estimated loss of up of 20% of the gross domestic product (GDP). The stabilization of the economy and strengthening of the financial system became the government's top priority. Corrective measures were adopted to restore confidence in economic management and strengthen financial oversight.

Table 1 - Macroeconomic Indicators at a Glance

Indicators	DR 2004	DR 2007	LAC 2004	LAC 2007
GDP growth (%)	2.0%	8.5%	6.1%	5.3%
GDP per capita (US$)	5,032	6,316	7,273	8,330
Inflation (%)	51.5%	6.1%	7.2%	6.6%
FDI (% GDP)	4.2%	6.0% (e)	3.5%	4.0% (e)

Source: World Development Indicators, Economist Intelligence Unit and World Bank staff estimates.

5. **The DR has taken important steps since 2004 to integrate its economy with those of the US and Central America, its main trading partners.** In particular, the DR is a signatory of the DR-Central American Free-Trade Agreement (DR-CAFTA), which came into force in March 2007 (for the DR). Another area where the DR is seeking further integration with Central America is the financial markets. To attract investors from abroad, the DR needs to bring its corporate transparency practices to par with those of developed countries.

6. **The local securities market still plays a limited role, even though efforts are being made to expand it by strengthening the regulatory framework and linking it with Central American exchanges.**[4] As of December 2008, 17 brokerage firms and two companies were authorized to participate in the market; nine security issues (mainly commercial papers) were approved totaling RD$11,064 million (US$316 million); and 18 others totaling RD$35 billion (equivalent to US$1 billion) were made in the secondary market.

7. **Large, family-owned financial groups still dominate the DR's financial sector.** Thirteen commercial banks operate in the DR—of which two are foreign (US and Canada); in comparison, only eleven commercial banks were operating in 2004.[5] Three of the banks hold more than 80% of the thrift sector's assets, one of which (*Banco de Reservas*) is state-owned. In addition to these commercial banks, savings and loan associations own close to 13% of the thrift market's assets. There are also two public

[4] This would be achieved by establishing a network of exchanges with Costa Roca, El Salvador and Guatemala allowing cross-listing and trading, following the Scandinavian model.

[5] *Banco Múltiple León* and *Banco Lopez de Haro* were registered as commercial banks in 2004 and late 2007, respectively (as successor as *Bancrédito* in the case of *Banco Múltiple León*).

institutions,[6] savings and credit banks, credit corporations specializing in consumer credit, and credit cooperatives (the latter are not regulated by the banking law). The asset distribution has not changed significantly since the 2005 ROSC A&A report.

8. **The private pension fund system introduced in 2003 continues to invest mostly in the banking system,[7] even though the expectation is that as local securities markets develop, more opportunities for diversification will arise.** Up until 2007, over 98% of the funds collected were invested in fixed income securities issued by the banking sector. In 2007, pension funds were allowed to invest up to 30% of their funds in fixed-income securities issued by the Central Bank. In addition, the Superintendency of Pensions (SIPEN) is seeking to enable pension fund investments in instruments issued by corporate entities.[8]

9. **Supervision of the financial sector is scattered across four separate government agencies, with uneven degrees of coordination among them**:

- The Banking Superintendency (SB) supervises banks and similar financial institutions, which under the Monetary and Financial Law include commercial banks, savings and credit banks, credit corporations and savings and loans (*asociación de ahorro y crédito*). Regulations pertaining to the banking sector are set solely by the Monetary and Financial Administration comprising the Monetary Board, the Central Bank (*Banco Central de la República Dominicana* or BCRD), and SB;
- The Securities Superintendency (SIV) regulates and supervises the securities market;
- SIPEN supervises pension fund administrators; and
- The Insurance Superintendency (SIS) supervises insurance and reinsurance undertakings.

10. **The Monetary and Financial Administration and securities market, insurance and pensions regulators have taken steps ti improve the coordination of their regulatory functions,** in order to allow efficient consolidated supervision and a fluid exchange of information necessary to carry out their duties. ..[9] For example, the SB has been designated as leader for consolidated supervision. Regulations regarding coordination between the Superintendencies are under preparation (memoranda of understanding between them already exist).

11. **State-owned enterprises (SOEs) play a significant role in the country's economy but significant weaknesses inhibit efficient operations.** A trust was

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6 *Banco Nacional de Fomento de la Vivienda y la Producción* (BNV) and *Banco Agrícola*.

7 Law 87-01 creates the Dominican private pension funds. The system provides for a mandatory defined benefit scheme for workers in the private sector, most of the funding coming from employers, with a moderately substantial contribution from the workers themselves.

8 Corporate entities refer to enterprises of any size, owned either by the state or by private interests, and that do not belong to the financial sector.

9 This was included in the presidential platform of President Fernandez ("Programa de Gobierno 2008-2012", Paragraphs 10-11).

established (*Fondo Patrimonial de Empresas Reformadas*) in the mid-1990s to receive the dividends paid by SOEs[10] including the ones of the energy sector. For years, the electricity sector has posed major challenges as the service is relatively expensive and unreliable, riddled with theft, illegal connections, technical inefficiencies and a culture of non-payment of bills.

12. **As in the rest of the region, growth estimates for 2008 and 2009 have been significantly revised downward due to the global financial crisis.** Unemployment is still high, having dropped only to 15.5% at the end of 2007 from 19.7% in 2004. Remittances, mostly from the US, account for 7.5% of GDP; this important source of revenue is jeopardized by the recession in the US. Still further reforms are needed and Dominican enterprises need to become more competitive in international markets.

13. **In this context, sustained economic growth and improved competitiveness of local businesses are key strategic pillars of the Dominican Government.** Proposals to achieve these goals include: (i) streamlining the regulatory framework; (ii) the continued strengthening of oversight of the financial system; (iii) improving access to finance for SMEs; and (iv) deepening the DR's financial integration at a regional level. This ROSC A&A update supports these objectives insofar as improving financial reporting will lead to increased investor confidence and facilitate access to finance by local companies.

II. Accounting and Auditing Framework: Main Changes Since 2004

II.A. Statutory Framework

14. **The Code of Commerce, last amended in 1953, sets bookkeeping, financial reporting and external audit obligations for companies above a certain size.** When the first A&A ROSC was published, the threshold had not been updated according to inflation and, therefore, these obligations extended to numerous SMEs. However, compliance with these obligations has been widely acknowledged to be low. In addition, audits of corporate financial statements were required to be published only by the financial groups; thus, virtually no Dominican enterprise published its financial statements. The 2004 A&A ROSC also noted the absence of audit committees and similar governance mechanisms and the lack of explicit provisions under the law for civil or criminal penalties to deter fraudulent or misleading financial reporting. Finally, a *comisario de cuentas* was to be appointed in each Dominican company and its role was found largely redundant with that of external auditor.

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[10] Law 124-01 of 2001 created the *Fondo Patrimonial para el Desarrollo* (FONPER), which owns the stock of the Dominican Corporation of State Enterprises (*Corporación Dominicana de Empresas Estatales)*, the Dominican Corporation of Electricity (*Corporación Dominicana de Electricidad)*, the Corporation for Development of the Hotel industry (*Corporación de Fomento de la Industria Hotelera)* and the State Sugar Council (*Consejo Estatal del Azúcar).*

15. **The statutory framework for accounting and auditing continues to be highly fragmented.** As previously mentioned (Para. 9), the financial sector is regulated by four separate agencies. Different financial reporting regimes and audit requirements apply for banks, listed corporations, insurance companies and pension funds; and improvements in each subsector since the previous ROSC vary across the four superintendencies. SOEs regulations have not changed and are governed by public sector statutes. Closely-held corporations are regulated under the company law. Table 2 summarizes accounting and auditing requirements by types of business entities.

Table 2 – Summary of Accounting and Auditing Requirements by Types of Entities

Type of Entity	Regulator	Financial Reporting Standards	Auditor	Publication of Financial statements
Listed companies (see Box 1)	Superintendency of Securities (SIV)	IFRS [i ii]	SIV-registered auditor	Required
Financial institutions [iii]	Superintendency of Banks (SB)	SB Regulations (Para. 20) [iv]	SB-registered auditor	Abridged form (no notes)
Insurance companies	Superintendency of Insurance (SIS)	SIS Regulations (Para. 22) [v]	SIS-registered auditor	Abridged form (no notes)
Pension funds	Superintendency of Pensions (SIPEN)	SIPEN Regulations [vi]	SIPEN-registered auditor	Abridged form (no notes)
State-owned enterprises	Subject to Chamber of Accounts oversight	IFRS [vii]	Authorized public accountant	Not required
Closely-held corporations	N/A	IFRS	Authorized public accountant (Para. 21)	Not required

i Law No. 479-08 requires companies to prepare financial statements in accordance with ICPARD-issued standards, and ICPARD has adopted IFRS (2004 ROSC A&A report).

ii Law 19-00 on Securities Market, Law 729-04 and SIV Resolution 2008-01.

iii Includes all deposit-taking and credit institutions such as commercial banks, SME development banks, mortgage banks, savings and loans institutions and finance companies specializing in consumer credit.

iv SB Resolution 13-94 and Circular C/012/05 dated on September 30, 2005.

v Law 146-02, Resolution 3-96 and SIS Resolution 2-2006.

vi Decree 969-02 and SIPEN Resolution 28-07.

vii Law No. 10-04. The Chamber of Accounts is to establish the requirements for all the "companies or enterprises whose assets are completely or partially funded by the State, municipalities or autonomous institutions".

16. **A new company law was passed in 2008, which brought some improvements in the accounting and auditing framework for business enterprises; in particular, raising the threshold for statutory audits and identification of a new form of business entity with lesser A&A requirements.** The statutory audit threshold for closely-held companies, which had remained unchanged in nominal terms since 1953 (at RD$50,000. i.e., approx. US$1,000), was brought to 100 times the monthly minimum wage (i.e., approx. US$20,000). One cause for concern, however, is that the language of the law could be interpreted as meaning that any company (other than a sole proprietorship—see Box 1) "that use third-party credit" would have to prepare audited financial statements (Art. 33). Another important change is that the *comisario de cuentas* (Para. 14) must now be an authorized public accountant with at least three years of experience in auditing. Although the respective roles of the external auditors and the

comisario de cuentas have not been clarified as recommended, the requirement that the *comisario de cuentas* be a professional accountant is a step in the right direction, given that discharging this function requires strong accounting expertise. An overview of the key provisions of the new company law is provided in Box 1**.**

Box 1. New Company Law of 2008: Key Provisions

The *Ley General de las Sociedades Comerciales y Empresas Individuales de Responsabilidad Limitada* (No. 479-08) was approved in December 2008. This law introduces two new types of business entities: the limited liability company (*Sociedad de Responsabilidad Limitada* or SRL) and the limited liability sole proprietorship enterprises *(Empresa Individual de Responsabilidad Limitada* or EIRL). EIRL is a much simpler form, especially suited to SMEs. The law also includes provisions relating to listed companies *(Sociedades Anónimas de Suscripción Pública*). Existing companies are required to adjust their bylaws by June 11, 2010 or otherwise undergo a transformation process. Key provisions are summarized hereafter:

Type of entity	Listed Company [i]	Closely-held corporation [ii]	SRL	EIRL
Number of shareholders	Minimum 2	Minimum 2	Minimum 2, maximum 50	One
Authorized capital	Minimum RD$30 million (subject to changes by SIV)	Minimum RD$30 million	Minimum RD$100,000	No minimum or maximum
Comisario de cuentas	Required. Must be a public accountant with at least 3 years of experience		Optional	Not required
Annual audit of financial statements	Required for companies with capital in excess of 100 times the monthly minimum wage. In addition, "all corporation that uses third parties credits, be they unsecured loans, guaranteed or privileged, as well as suppliers or financial trading entities; or have gross revenues greater than 100 minimum wages, must have their financial statements audited in accordance with the auditing norms adopted by ICPARD" (Article 33)			Audited financial statements and management report are required (Article 457)

[i] *Sociedad Anónima de Suscripción Pública*. Listed companies are regulated by the SIV.
[ii] *Sociedad Anónima de Suscripción Privada.*

17. **The statutory framework still does not differentiate sufficiently between large, medium-sized and small enterprises and is excessively burdensome for SMEs, both in terms of financial reporting and auditing.** Even after the new company law was passed and the threshold for statutory audits was raised, a high number of SMEs (i.e., those incorporated as SRL) are still required to comply with full IFRS, although these standards are designed with a clear focus on listed companies and large corporate entities. These Dominican enterprises are expected to observe much more stringent reporting obligations than their peers in US, the European Union, or Mexico, etc., which is unrealistic.

18. **Except for basic forms used to prepare tax returns, accounting information in the enterprises (i.e., non-financial) sector is insufficiently standardized.** Unlike many countries with civil law tradition, the DR has not adopted a standardized accounting system which would include a nomenclature of accounts, formats for all financial statements, and a minimum set of accompanying notes.

19. **The recently issued IFRS for SMEs, would provide relief to smaller reporting entities, provided ICPARD adopts them.** The IFRS for SMEs are a full, self-contained set of standards with a simpler presentation and lesser level of disclosure, better suited for non-listed companies and SMEs. These standards, for which development was initiated in 2003, were issued as final in July 2009.

20. **In the financial sector, prudential regulations and supervision have been substantially strengthened after the financial crisis of 2003.** Most recently, new regulations have been introduced to provide greater protection to depositors; new sanctions and new norms were established for evaluating liquidity and market risks; on-site audits were carried out; minimum capital requirements and provisions were strengthened; norms for the issuance and operation of mortgage securities were established; new corporate governance requirements were introduced; etc. Proposed amendments to the Monetary and Financial Law intended to strengthen regulation and supervision have also been submitted the Congress.

21. **SIV continued to strengthen its regulatory oversight, as part of a broader effort to spur the development of the DR's securities market.** Several resolutions were adopted to strengthen regulations and improve operation of the securities market. Listed companies must now forward to it a copy of the external auditor's management letter, thus enabling the SIV to monitor issues raised by them on internal controls and operational risks. The SIV also introduced an electronic system for submission of documents ("SERI") and modified the requirements for publication of financial statements in newspapers to reduce operational costs. As another sign that the SIV is intent on improving the capacity of securities market participants, a mandatory, three-hour exam was introduced in 2008 for all securities brokers.

22. **The regulatory framework for accounting and auditing in the insurance sector remains comparatively weak.** No significant changes have been made to the accounting and auditing statutory framework by the SIS since the first ROSC A&A. Conditions for obtaining external auditors license are still mere formalities. With a few exceptions, the financial statements of insurance undertakings, which are public-interest entities (as are banks, listed companies and pension funds), are not published, which prevents policyholders from knowing the financial health of their insurance provider.

23. **Overall, whereas some progress has been observed since 2004, Dominican enterprises, especially SMEs, continue to be subject to a fairly heavy regulatory burden.** This creates an incentive for non-compliance and fosters a perception by local entrepreneurs that accounting is largely an administrative function adding limited value

to their business activities. One relatively easy way to provide relief to local enterprises would be to adopt the simpler IFRS for SMEs, in lieu of the full IFRS, as the latter are designed with a focus on listed companies.

II.B. The Accounting Profession

24. **Changes in the DR's accounting profession since the 2004 A&A ROSC have been limited.** The financial capacity of the Institute of Authorized Public Accountants of the Dominican Republic (*Instituto de Contadores Públicos Autorizados de la República Dominicana* or ICPARD) has diminished in the last years, making it more difficult to maintain its level of leadership and to promote reforms.

25. **The DR's accounting profession remains divided.** ICPARD is the main profession body, and is also legally empowered with general-purpose accounting and auditing standard-setting and self-regulation of the profession. Membership in ICPARD is mandatory for all practicing accountants. In addition, there are two voluntary associations of professional accountants: the Dominican College of Accountants (CODOCON), and the Association of Public Accounting Firms (*Asociación de Firmas de Contadores Públicos Autorizados)*.[11] A proposal to amend the law (no. 633-44) to unify the profession under ICPARD is pending approval since 2006. Several attempts have been made to merge these professional bodies, but these attempts have failed due to a lack of support among the respective memberships. These divisions, which are not uncommon in Latin America and the Caribbean,[12] have hampered the development of the accounting profession, especially when it is still at an incipient stage as in the DR. Nonetheless, the fact that divisions persist should not prevent the profession from moving forward, as shown by the recently initiated process to develop a professional certification system (Para. 31). This project provides opportunities for the different associations to work together in pursuit of the beneficial goal of enhancing the profile of the profession vis-à-vis the local business community.

26. **ICPARD's financial capacity has diminished since 2004 as revenues from the stamp fee levied on annual financial statements have dwindled.** In the past, 90% of the proceeds from the sale of the stamps were allocated to in equal shares to ICPARD and CODOCON. Since the 2008, the tax administration (DGII) allows companies to submit their annual returns ("IR-2") electronically and physical copies are no longer required. As a result, the number of stamps acquired by companies has fallen dramatically and both ICPARD and CODOCON lost their primary source of income. At the same time, membership dues remain modest[13] and collections of those modest dues are low,[14] as

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[11] In addition, an Association of Public Accounting Firms (*Asociación de Firmas de Contadores Públicos Autorizados)*, serves as a forum for its 76 members to agree on common positions on all matters relating to accounting and auditing standards, taxation, corporate law, etc. At the time of the first ROSC A&A (2004), this voluntary organization was dormant.

[12] Panama has, for instance, four different professional accounting bodies. Most Central American countries have two, and so do Brazil Paraguay and Peru.

[13] ICPARD's member dues are RD$1,200 (approx. US$35) annually. By comparison, Mexico City's accounting professional body charges the equivalent of US$530 yearly to its members.

many members do not pay them. ICPARD needs to find ways to increase its revenues in order to perform its role adequately.

27. **A new leadership was elected at ICPARD in the fall of 2008 and has since then announced plans to implement a continuing education program for the membership.** Other stated priorities for the new leadership include the passing of the new professional law (Para. 25) and restoring the revenue stream previously provided by the stamp fee. While ensuring a sustainable source of revenue for ICPARD is important, a stamp fee is not the best suited mechanism. It tends to associate the role of accountants with an administrative function and accounting service as a form of tax. Instead, the leadership should focus on implementing a high quality continuing education program, thereby raising the quality of accounting services; ensure that members pay adequate dues; and develop other cost recovery mechanisms (e.g., training courses) to enable adding value to the profession and the users of accounting and audit services. They should also reach out to the Government to seek a medium-term subsidy to finance its immediate priorities that are in the public's interest.

28. **One of the challenges facing ICPARD is meeting its obligations as a member of IFAC, regarding international standards, entry requirement, continuing education, ethics, quality assurance and discipline.** These are set out primarily in the seven Statements of Membership Obligations (SMOs). Since these were promulgated only in April 2004, it was unrealistic to expect broad compliance with them in the context of the 2004 DR ROSC A&A. At present, ICPARD complies with the two SMOs dealing with the formal adoption of IFRS (no. 7) and ISA (no. 3) as the standards for the DR. Observance of the ethics SMO is partial (no. 4). The main problems relate to the SMOs on quality assurance (no. 1), education (no. 2), and investigations and discipline (no. 6).

29. **In relation to SMO 2, obtaining a license to become an authorized public accountant is still a mere formality, requiring only evidence of a bachelor degree in accounting.** In addition, continuing professional development (CPD) is still not required, no periodic assessment of practitioners' competence is performed, and professional experience is not a prerequisite to perform audits. In relation to SMO 1, no system of quality assurance on work performed has been implemented. As regards investigation and discipline, there is no record of investigations being conducted in recent years and nor any record of sanctions.[15] The last SMO, on International Public Sector Accounting Standards (IPSAS), does not apply to the DR since ICPARD has no powers over public sector accounting. Table 3 provides an overview of SMO observance in the DR.

Table 3 – Observance of IFAC's Statements of Membership Obligations by ICPARD

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[14] Illustrating its difficulties to collect member dues, ICPARD recently published a resolution (no. 6, dated January 15, 2009) whereby it granted an amnesty to all members for all past dues.

[15] In particular, ICPARD did not conduct any investigation following the demise of Baninter and two other large banks in 2003.

SMOs	Comments
SMO 1: Quality assurance	• No quality assurance system is in place.
SMO 2: International education standards for professional accountants and other IAESB[16] guidance	• Professional accountants are required to have a bachelor's degree in accounting and receive an administrative authorization (*"exequatur"*) from the Government. No post-education assessment is required. • CPD is not mandatory. • A proposal for a professional certification is being discussed within the profession.
SMO 3: ISA and other papers IAASB statements.	• ISA has been adopted as drafted without amendments, but it is not available in Spanish. [i]
SMO 4: IFAC code of ethics for professional accountants	• ICPARD's Code of Ethics is broadly consistent with the IFAC Code. [ii] Conflict resolution requirements are similar to the IFAC Code. Provisions related to threats and safeguards are not included.
SMO 5: International public sector accounting standards (IPSAS) and related	• Public sector standards are not under ICPARD's purview.
SMO 6: Investigation and discipline	• ICPARD does not conduct investigations unless a complaint is brought before the disciplinary court. No cases have been reported at least since 2003.
SMO 7: IFRS	• IFRS were formally adopted by ICPARD in 1999.[iv]

Source: ICPARD – Responses to IFAC Part 2, SMO Self-Assessment Questionnaire (October 2007). Available at: http://www.ifac.org/ComplianceAssessment/published.php

i ICPARD normally uses a translation of the 2006 version of IAASB Handbook published by *Instituto Mexicano de Contadores Públicos, A. C.* International Standard of Quality Control no. 1 has not been adopted by ICPARD.

ii Ethical requirements in DR are based on a version of the IFAC Code prior to 2004. A recent version has not been adopted due to lack of language capacity, financial and technical resources.

iii Law 633 gives authority to ICPARD to set accounting and auditing standards.

iv Refers to IFRS without bringing in the full or partial text of individual IFRS.

30. **Since 2005, IFAC has initiated a program to monitor compliance with the SMOs among its membership.**[17] The first and second parts of the process (self-assessments) have been completed for the DR. It is expected that ICPARD should develop a detailed action plan to achieve compliance with the SMO.

31. **Since January 2009, the ICPARD leadership and main accounting firms have been developing a proposal for the professional certification of public accountants.** This project is still at an early stage. The criteria for awarding the professional qualification exam, including education requirements, content of the entry exam, "grandfathering" arrangements, and specific requirements for auditors of banks and listed companies, are being defined. The objective would be to begin by introducing, on a voluntary basis, a professional exam based on, if not equivalent to those used to acquire

16 International Accounting Education Standards Board.

17 IFAC Member Body Compliance Program (see http://www.ifac.org/ComplianceProgram/).

reputable international certificates (e.g., Canada and US). A new title, *Contador Público Certificado* (CPC), would be created to differentiate accountants passing the exam from the authorized public accountants.[18] If successfully implemented, this certification system would provide incentives for universities to deliver high quality education, since their graduates' pass rates at the certification exam would be known by the public.

32. **In addition, the governance of ICPARD should be strengthened**, to ensure that its leadership fulfills its stewardship role and undertakes the necessary reforms and capacity buildings efforts to comply with IFAC's SMOs. Lastly, ICPARD needs to address urgently the issue of its financial weakness. Unless it is properly financed, the accounting profession cannot carry out to the necessary transformation needed to implement the international standards of A&A.

II.C. Accounting Education and Training

33. **Most universities in the DR offer an accounting curriculum, either for accounting technicians (two-year program) or for bachelors in accounting; nevertheless, the number of accounting students in the most prestigious universities has been diminishing.** Private universities have legal autonomy in defining their curricula, and there are no minimum requirements in terms of the type and content of the courses. Therefore, the quality of these curricula is uneven, and the perceived value of financial audit and related services has diminished in the country. This has had unfavorable effects in the image of the accounting profession in the Dominican society and of the business community in general.

34. **Improving local accounting practices and implementing IFRS and ISA (and their SME equivalents) requires upgrading accounting education; this process has begun in the DR but much remains to be done.** A few universities have already taken steps to revamp their curricula.

35. **A government-led project to improve university accounting curricula initiated in 2002 was never completed.** As mentioned in the 2004 ROSC A&A, a working group had been set up under the aegis of the Ministry of Education, Science and Technology (SEESCyT) involving representatives of the main universities, ICPARD and CODOCON, to develop proposals for harmonizing and updating accounting curricula. In spite of an encouraging start, the process never yielded an implementable outcome. Based on the experience of the A&A ROSC program in other LAC countries, this result is not unexpected, given the difficulty of the task and the unclear incentives for competing universities to collaborate in this type of initiative. Improving the quality of accounting education—i.e., redesigning curricula, implementing the necessary information technology base, retraining professors, acquiring teaching material, etc.—requires significant time and effort.

[18] This would follow the example of Mexico. A Mexican CPC can practice accountancy in the United States and Canada, subject to passing examinations on national legislation and standards, in accordance with the provisions of a Professional Mutual Recognition Agreement signed on September 27, 2002.

36. **Accounting curricula need to be improved to include better coverage of IFRS, IAS and key related subjects.** A survey of the leading universities conducted as part of the ROSC A&A process revealed that courses in professional ethics, economics, finance and corporate governance are generally lacking in the curricula. Three out of four of the top universities that offer an accounting degree have courses on IFRS, and two of them on US Generally Accepted Accounting Principles (GAAP) and ISA.[19] Desirably, faculty members should have experience in public practice and be trained in international standards, which is not always the case in the DR. In order for the universities to develop meaningful research activities, expanded financial resources and English-language skills are also needed.[20] Finally, appropriate coverage of important matters in the curricula is essential for students to become competitive at international levels in a country that is seeking further regional integration.

37. **Professional accountants' access to training in international standards is quite limited.** ICPARD offers a nine-hour training course, which focuses primarily on tax accounting. The partners and staff of the larger audit firms (the so-called "Big-4" and "tier-2" firms) have access to courses through their respective networks. Overall, the availability of training courses on IFRS, auditing and other relevant topics is insufficient to assure that practicing accountants and auditors adequately update their professional knowledge.

38. **The DR-CAFTA and further financial integration with Central America entail that the accounting education improves for the country to be able to comply with international requirements.** Continuing harmonization of the curricula among universities and appropriate coverage of important subjects are essential for achieving this objective. IFRS and ISA need to be fully implemented, which requires upgrading the accounting curricula in universities.

II.D. Accounting and Auditing Standard-setting

39. **ICPARD is the official A&A standard-setting body in the DR; in addition, the financial sector regulators set their own specific rules that override ICPARD-endorsed standards in case of conflict.** An A&A standard-setting body independent both from the profession and government is considered a good practice given the public good nature of corporate financial reporting and the potential conflicts of interest associated with setting standards and having to apply them. A number of Latin American countries[21] have established A&A standard-setting entities with varying degrees of independence. Yet, operating these entities in an effective way requires adequate

19 A survey questionnaire was provided to the universities offering accounting courses, which covered questions on the characteristics of the university, the curricula, professors and students. Conclusions in this section are obtained from the survey and face-to-face meetings with the faculty advisors.

20 English is currently the dominant language of the accounting profession, with much of the current research and ongoing discussion related to changes in standards being written in English.

21 Brazil, El Salvador, Honduras, Mexico, Panama, Peru and Uruguay.

resources, which is a challenge for most countries. For the foreseeable future, the current arrangements are likely to remain in place.

40. **Since 2004, ICPARD's standard-setting activities have been very limited.** Although adopting IFRS and ISA has relieved ICPARD of a large part of its standard-setting duties, that organization should use this as an opportunity to become a more active participant in the international standard-setting process. To date, ICPARD has not yet sent comment letters to either the IASB or the IAASB on their exposure drafts. This means that it has foregone opportunities to influence the standards that it has decided to apply. Further, it has provided limited guidance and interpretations on applying IFRS. The only action taken since 2004 was issuing a resolution in April 2005 setting out ICPARD's interpretation of whether the DR was in a hyperinflationary situation under IAS 29 (inflation reached 27% in 2003 and 51% in 2004). The resolution concluded that the DR was not is a hyperinflationary situation based on an assessment of the four main criteria set forth in IAS 29.[22]

41. **The recently issued IFRS for SMEs has not attracted significant interest in the DR so far, despite the fact that the overwhelming majority of Dominican enterprises would qualify to use these standards.** ICPARD has not organized any activity to disseminate and/or promote the standards which are meant to complement full IFRS, not has it provided any comments to the IASB during the exposure draft phase (February-October 2007).

42. The lack of an active accounting and audit standard-setting process is a fairly common issue throughout Latin America and the Caribbean, one that cannot be solved easily due to the resources necessary for conducting these activities. **For the DR, the solution probably lies in reaching collaborative arrangements with Central American countries and other countries that have adopted IFRS as their national standards.**

II.E. Enforcing Accounting and Auditing Standards

43. **In the aftermath of the banking crisis of 2003 and during the preparation of the previous ROSC, state supervision of the financial sector was in the process of being strengthened, with the assistance of international donors.** Each of the four superintendencies (Banking, Insurance, Pensions and Securities) had its own set of regulations on external audits and their own registries of authorized external auditors. As mentioned before, this is still the case in the country. Neither ICPARD nor CODOCON has enforced A&A reporting standards among their membership. Although in the previous A&A ROSC it is reported that tax authorities received financial statements from over 5,000 corporate entities, this did not ensure that accounting standards had been properly applied.

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22 It does mention that AICPA's (US) International Practice Task Force concluded that, under USGAAP, the DR was hyperinflationary.

44. **For the banking sector, the SB has significantly strengthened its enforcement of financial reporting requirements.** In addition to exercising greater oversight related to the application of loan loss provisioning rules, the staff of the SB performs reviews of the financial statements presented by banks. These reviews are conducted by the SB's Audit Control Unit.

45. **The creation of an Audit Control Unit at the SB has been the major step forward in the Dominican accounting and auditing enforcement processes since the first ROSC A&A.** The unit emerged in 2006 to address the enforcement weaknesses in the financial sector, as part of its transition toward a risk-based supervision approach. It is in charge of reviewing applications for the auditor registry and conducting inspections of audit firms. It is staffed by three employees with a background in accounting and auditing. The unit is also considering cooperative agreements with foreign superintendencies for internships, as a way to enrich the work of the staff by providing international experience.

46. **The introduction of the SB's Audit Control Unit has already yielded positive results and an improved perception across the country of the supervision in the banking sector.** During 2007, eight evaluations of potential auditing firms were made, moving toward a more controlled entry in the banking system; and inspections were conducted in relation to audits of five different entities. Also, the fact that an auditor was sanctioned is a signal that the enforcing mechanism in the banking sector is improving. This unit represents a good initial step, but this is a long-term process and more needs to be done in the future.

47. **Enforcement of accounting requirements among non-banking entities is uneven and needs strengthening.** The Superintendencies of Banks, Securities and Pensions review the financial statements and the work of auditors as part of their supervisory process. The SIV also carries out reviews of issuers' financial statements as part of the offering circulars. On the other hand, the Superintendency of Insurance (SIS) needs to strengthen its enforcement mechanisms to ensure compliance with proper accounting and auditing standards for the insurance companies. In addition, the SIS should review the undertakings' financial statements, using actuaries in addition to its current staff.

48. **Oversight of auditors by the profession in the DR needs to be considerably strengthened.** ICPARD needs to enhance its leadership and capacity to appropriately oversee the audit profession, as well as to fully comply with the SMOs (see Para.27). Even though it is the main standard setter, ICPARD does not verify compliance with IFRS and lacks the means to impose sanctions (see Table 4).The lack of financial resources imposes obvious obstacles for ICPARD to fulfill its function properly.

49. **The others regulatory agencies in the financial system should continue improving their audit enforcement mechanisms.** The Superintendencies of Pension and Securities have a fairly rigorous procedure to register auditors as part of their supervisory process. However, the review process is limited to the audit report itself and

does not address more general aspects related to the audit process, including the audit firms' quality assurance arrangements, ethical behavior, training, compensation policy and "tone at the top".[23]

50. **The favorable outcome brought about by the SB's Audit Control Unit bodes well for the future; this example should be replicated to the other financial sector superintendencies, if possible through a common system.** In the longer run, a system of independent oversight of the statutory audit function should be introduced, as was previously recommended in the 2004 ROSC A&A. Given the broad range of stakeholders (from the financial superintendencies to the tax authorities and the profession itself), and because introducing such system poses significant challenges (including how to fund it), the specific features of the system need to be carefully analyzed and the DR should seek to rely on the experience of other Latin American countries in this field.

[23] A December 2007 Guidance Paper by IFAC (*Tone at the Top and Audit Quality*) defines tone at the top as follows: the standard set by the organization's leadership whereby performance is measured; the culture within which the members of the organization operate; the tone set by senior management; irrespective of management's documented strategy and policies, it is the force that drives individual professionals; the "unseen hand" that directs activities regardless of management's proximity to the action; and a commitment to the quality of care clients receive.

III. Observed Reporting and Auditing Practices

III.A. Status of IFRS and ISA Adoption in the DR

51. **As mentioned in the 2004 ROSC A&A, except for the financial sector, IFRS has been the official standard of corporate financial reporting in the DR since 1999.** In the banking, insurance and pension sectors, prudential rules issued by the respective regulatory bodies or supervisors take precedence over IFRS whenever a discrepancy may exist.

52. **ICPARD conducted a self-assessment in 2007, and confirmed its decision to adopt the pronouncements of the IAASB without modifications**. ISA have been the official standards for audits in the DR since they were adopted officially in 1999**.** Significant improvements have been achieved nevertheless, despite the lack of resources and technical expertise that have made it difficult to comply fully with ISA.

53. **The Banking sector has implemented stricter regulations stemming from the enactment in 2002 of the Monetary and Financial Law (*Ley Monetaria y Financiera* or LMF)**. The objective of that reform was to move from a corrective to a preventive model of banking supervision, which reduces the gap with international practice that follows an approach based on risk. The revised LMF provides the tools to measure and assess integral risks in financial groups, monitor compliance with the regulations, and set up effective sanctions programs.

54. **Insurance accounting standards differ significantly from IFRS and fall short in terms of disclosure requirement.** Law no.146-02 on Insurance has not been modified since its publication on September 26, 2002.

55. **The review noted a substantial difference between audit reports produced by audit firms affiliated with large international networks and those produced by smaller, local firms, or sole practitioners**. The reports produced by audit firms affiliated with the larger international networks (primary Big-4 member firms) are prepared to a reasonable degree of sophistication and good quality; in contrast, those prepared by small audit firms and sole practitioners include inconsistencies and incomplete information.

III.B. Financial Statement Review

56. **The review of a small sample of financial statements prepared by local enterprises shows some improvements compared to 2004 although it identified a number of departures with IFRS.** The ROSC team reviewed 16 sets of corporate financial statements issued by Dominican companies with a view to assess actual reporting practices since the initial DR ROSC A&A. The review covered financial statements issued on or after March 31, 2007 by: three listed companies; seven non-listed

private enterprises; two state-owned enterprises; two banks; and two insurance companies.[24]

57. **The main area of departure identified through the review had to do with insufficient disclosure.** Adequate disclosure is necessary for the users of the financial statements to made properly informed decisions. Areas where disclosure was insufficient included:

- ***Accounting policies, estimates and errors (IAS 1 and 8) –*** The description of accounting policies observed was generic. For instance, the method used for measuring property, plant and equipment was not clearly displayed by several companies. In six cases, the companies failed to disclose dividends and share capital in the accompanying notes. Accounting policies adopted in measuring inventories, including the cost formula used, were rarely disclosed;
- ***Details of key elements of the financial statements –*** This applied in particular to: estimates of the impact of potential contingent assets and liabilities; employee benefits; and earnings per share; and
- ***Risk management policies***, including credit and liquidity risk (the disclosures provided were generic).

III.C. Perceptions of the Quality of Financial Reporting

58. **As was the case in 2004, perceptions of the quality of financial reporting in the DR remain mixed at best, and most users consider that more efforts are needed to meet the requirements of international standards.** The ROSC team interviewed officers from leading banks during a workshop organized by the Association of Banks. Financial statement users perceive that while the quality and reliability of financial reporting has improved somewhat, it is still relatively weak overall, and the quantity of information provided by enterprises seems to be limited. Financial reporting in the financial sector and by listed corporations is perceived to have improved, in large part due to fact that these are audited by firms belonging to large international networks and are subject to regulatory supervision. However, greater reliability of audit reports is still needed, and accountability of external auditors is viewed as insufficient.

59. **Representatives of the leading commercial banks expressed concerns about a number of aspects of financial reporting by their clients.** There is a marked preference for larger firms auditing the financial institutions and listed corporations, and small firms and individuals for auditing SMEs. There is a higher level of confidence in the larger firms with international affiliations, as opposed to smaller, local audit firms. The accounting profession and enforcement mechanisms of small audit firms are generally perceived to be weak.

[24] The regulatory agencies for each type of entity are specified in Table 2.

IV. Recommendations

60. **The 2004 ROSC A&A had set out 12 recommendations. To this date, two recommendations have been substantially implemented, and some progress has been made, or initial steps taken, toward implementing seven other recommendations.** Table 4 provides an overview of the status of implementation of the 2004 ROSC A&A's recommendations.

61. **Several of factors contribute to the current situation in the DR.** First, ICPARD's lack of resources hampers its ability to take on a leadership role and raise the level of the profession. The resource issue creates a vicious cycle: since ICPARD is unable provide high value-added services to its members, it struggles to collect membership dues and create new sources of revenue. Since it has limited resources, it is unable to provide services of high quality. Second, the onerous requirements applicable to SMEs (e.g., full IFRS and statutory audits) have resulted in a watering down effect, fostering a culture of noncompliance. Finally, accounting education needs to be improved if the profession is to be strengthened in the medium to longer term. Considering these factors, and even though prior recommendations that have not yet been implemented remain valid, this A&A ROSC update focuses on a limited number of priority actions, for which there is a reasonable expectation that they can be implemented in the medium term. The specific policy recommendations are summarized below. Other issues not covered under these recommendations should be addressed as part of the proposed Country Action Plan (Para. 74).

Table 4 - Status of 2004 Recommendations

Action	Status of implementation
1. Amend the Code of Commerce to alleviate the regulatory burden on SMEs of having to present audited financial statements under IFRS	***Partially implemented:*** New Company Law (No. 479-08) issued in Dec. 2008; threshold for audit requirements lowered from approx. US$1,000 of issued capital to approx. US$20,000.
2. Require enterprises to file annual audited financial statements with a public registry to be set-up	***Initial steps:*** Large corporate debtors submit annual audited financial statements with commercial banks as part of the required documentation to obtain credit.
3. Establish an oversight body for the audit profession with wide-ranging responsibilities (...)	***Initial steps:*** Establishing a professional certification system would pave the way for the introduction of an oversight system (see item 4.)
4. Introduce a system of professional certification required for awarding the license of statutory auditor	***Initial steps:*** Since January 2009, the ICPARD leadership and main accounting firms have been working on developing a proposal for a professional accountant certification.
5. Strengthen the code of ethics for professional accountants	***Not implemented.*** ICPARD is expected to address this issue as part of IFAC's Compliance Program.
6. Harmonize and strengthen academic curricula in the field of A&A	***In progress:*** A few leading universities have updated their accounting curricula.
7. Require mandatory partner rotation for all audits of public-interest entities	***Substantially implemented:*** Mandatory three-year audit partner rotation for financial entities.
8. Require large corporate groups whose shareholding structure implies a higher degree of accountability to present audited consolidated financial statements	***Not implemented.***
9. Clarify the function of the *comisario* in the statutes, eliminating any redundancy with the role of the external auditor	***Initial steps:*** The *comisario* must be an authorized public accountant with at least 3 years of experience in auditing (Law 479-08).
10. Require that external auditors be invited to shareholders' AGM in all public interest entities	***Not implemented.***
11. Harmonize regulatory accounting principles for banks, insurance companies and pension funds with IFRS. Conduct a survey of the impact of such harmonization	***In progress:*** Implementation of the prudential regulation on consolidated supervision in June 2006. Consolidated supervision is a stated priority of the current Dominican Administration.
12. Establish training programs for regulators on accounting and auditing and auditing standards, and enforcement of financial reporting requirements	***In progress:*** The Audit Control Unit (SB) has developed collaborative arrangements for capacity building activities (e.g., internship) with regional counterparts.

62. **Establishing adequate funding for ICPARD would seem to be an immediate priority**, even if a government subsidy is required for the short to intermediate term. Unless the leadership of the accounting profession is provided with resources adequate to

fulfill its role, the profession's contribution to the needed reform will be anemic at best. In addition, ICPARD should seek the support of IFAC in identifying solutions to increase its revenues based on the experience of other countries facing similar challenges.

63. **At the same time, ICPARD needs to enhance its governance and demonstrate its willingness to meet its obligations vis-à-vis both IFAC and the Dominican society.** Key attributes of good governance include a well-defined and effective organizational structure (e.g., fully-functioning technical committees and disciplinary board), an adequate representation of the public interest within organization interest (of which IFAC's Public Interest Oversight Board is a good example), appropriate communication and disclosures to the public (e.g., through the issuance of a high quality annual report).

64. **There is a need for a simplified accounting and financial reporting framework for SMEs, including simplified accounting standards.** SME requirements should be commensurate with their size, the types of transactions they conduct, and their limited range of stakeholders. In this regard, Dominican authorities should adopt IFRS for SMEs, issued by the IASB in July 2009. These simplified standards would require a lesser level of disclosure and eliminate the most complex options provided in IFRS, especially those requiring the use of fair values. While adopting them for non-listed companies would be no doubt a significant step in the right direction, it is important to note that even these scaled-down standards may be overly complex for the country's smallest companies. For those companies, the government should consider removing financial reporting and audit obligations altogether. This would provide the DR with a three-tiered system consistent with the recommendations of the United Nations

65. **As an accompanying measure, the authorities should consider introducing a standard nomenclature of accounts**, as increased standardization would help improve the comparability and homogeneity of the accounting information within a given sector; in addition, it would also facilitate the preparation of financial statements for SMEs.

66. **As part of its efforts to comply with IFAC's statements of membership obligations (SMOs), ICPARD should implement a continuing professional development system.** This system should focus initially on the IFRS for SMEs and the recently published ISA *Guide to Using ISA in the Audits of Small- and Medium-sized Entities*, of which a Spanish translation is available. Providing high quality training and CPD courses on relevant issues to its members, including public accountants and accountants in the private sector (i.e. the preparers of corporate financial statements) and in government, would help ICPARD overcome it financial difficulties in the long term. In addition, it would address the capacity shortcomings of the profession as a whole. Over time, as its CPD program becomes more established, ICPARD should make CPD a membership requirement, in line with IFAC's SMOs. Introducing such system will likely require and attract support (seed funding) from international organizations. Other important priorities included in the CPD should be compliance with other SMOs as quality assurance, education, ethics and investigation and discipline.

67. **In that regard, ICPARD should adopt the latest version of the IFAC Code**, which sets stronger independence requirements for external auditors as compared to previous versions.

68. **The profession should carry out its plan to create a US- or Canadian-style certification for the audit profession.** Creating a robust certification system, which culminates with a professional examination, is one way to ensure that new entrants into the profession have the qualifications necessary to conduct high quality audits. Since this is an endeavor that will require significant time, resources and technical capacity, one possible transitional solution would be to create a certification for auditors of regulated entities (banks, listed companies, insurance companies) as a first step. In this regard, the four regulators should work together with ICPARD to implement a professional examination that must be passed in order to audit regulated entities. This would follow the examples of Brazil, where the Central Bank administers its own exam for auditors of financial institutions, and Mexico, where the three financial regulators require auditors to be certified by the Mexican Institute of Public Accountants. Over time, this certification process could be broadened to all auditors. The success of this effort hinges on the sustained commitment and effort of all key stakeholders, an appropriate engagement of the academic community by ICPARD, and a strong involvement and leadership role played by the financial sector supervisors.

69. **Universities should thrive if they improve and modernize their accounting curricula**, through better coverage of IFRS, auditing, corporate governance, risk management and other key aspect of modern corporate financial reporting, and thereby retain or enhance their competitive position. The proposed certification is expected to create incentives for universities to improve the quality of the education they deliver. The pass rates for the certification exam would be known to the public, allowing students to choose which university to enroll with based on that indicator.

70. **In view of the transition toward consolidated supervision, the four superintendencies should establish joint audit inspection processes that are adequately resourced.** This will achieve more harmonized oversight of entities and audit firms, and reduce the duplication of effort involved in the registration process and supervision. In order to ensure effective implementation, consolidated supervision should be risk-based. Further effort should be made to enhance cooperation and harmonize regulations across sectors (e.g., establishing a single registry for audit firms, and aligning aspects of financial reporting regulations such as reporting deadlines and valuation rules for financial instruments or property).

71. **The quality disclosure of financial sector entities should be enhanced** by: i) enforcing full ownership of the financial statements by the top officials of financial intermediaries; ii) posting audited financial statements on the respective supervisory agencies' websites; and, iii) ensuring that disclosure practices are fully aligned with IFRS.

72. **Financial sector regulators should conduct an assessment of the effects of harmonizing regulatory accounting standards for banks and insurance companies with IFRS.** Banking regulators should study the impact of aligning banking norms with IFRS and the Basel Committee's recommendations, with a view to adopt IFRS in the medium term. The study should be comprehensive, covering at a minimum the following issues: (1) identification of gaps between Dominican accounting standards for banks and IFRS; (2) evaluation of the broad range of specific financial impacts related to applying IFRS for banks; and (3) assessment of the capacity building needs for banks to apply IFRS and the Basel Committee's principles. Likewise, a similar study should be launched on the impact of adopting IFRS 4, *Insurance Contracts*, for the insurance sector.

73. **In the short term, the Dominican authorities are encouraged to draw up a comprehensive Country Action Plan (CAP) to implement the above policy recommendations.** The CAP development process, which would involve all relevant stakeholders, would be helpful in transforming the ROSC recommendations into a prioritized, time-bound set of concrete activities. In this regard, a National Steering Committee could be established under the aegis of the SB, with significant collaboration from financial and other sector-specific regulators and ICPARD to oversee the preparation and implementation of the CAP. The CAP should incorporate ICPARD's own action plan, which that organization will have to develop as part of the IFAC Member Compliance process. An important set of provisions to be considered for inclusion in the CAP is the continuing training needs of practicing auditors and accountants as well as the basic training requirements for regulators, academics and financial analysts.

Annex 1 – (ROSC A&A 2004)

http://www.worldbank.org/ifa/rosc_aa_dr_eng.pdf.