REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)
Republic of Liberia

ACCOUNTING AND AUDITING
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Contents

EXECUTIVE SUMMARY

This report provides an assessment of the corporate sector accounting, financial reporting, and auditing practices in Liberia. The assessment undertaken is positioned within the broader context of the country's institutional framework and capacity needed to enhance the quality of corporate financial reporting that is a key contributor to improving investor confidence and ultimately economic growth. Efforts are necessary for strengthening the capacity of the regulators and developing accounting and auditing standards in Liberia.

The accounting and auditing practices in Liberia need to develop in line with a growing economy, as well as with international good practice. There is no legal mandate for corporate entities to follow International Financial Reporting Standards (IFRS) or any national standards in preparing financial statements, and national or International Standards on Auditing (ISA) in conducting audits. The Central Bank of Liberia, since 2008, has adopted IFRS for preparing its own financial statements and mandated these standards for commercial bank financial reporting from December 2012. Varying compliance gaps in both accounting and auditing practices are likely to stem from inadequate technical capacities of the auditors and regulators, absence of mandate on applicable standards, lack of independent oversight of the auditing profession, and shortcomings in professional education and training.

The principle-based policy recommendations outlined in this report are aimed for the consideration by appropriate authorities in Liberia. These recommendations will be used as inputs in developing and implementing a country action plan, geared toward strengthening the corporate financial reporting regime in Liberia through building capacities of relevant players. The recommendations include:

- Modernizing the statutory framework for financial reporting with enacting a new Companies Act, updating Insurance Law, and revised Liberian Institute of Certified Public Accountants (LICPA) Act;
- Strengthening the capacity of LICPA by establishing a twinning arrangement with a strong member body of IFAC;
- Improving the capacity of regulators;
- Adopting and implementing IFRS for public interest entities, and implementing simplified reporting frameworks for small and medium-size enterprises;
- Mandating and enforcing ISA for the audit of all public interest entities;
- Instituting a system for independent oversight of audit practice;
- Upgrading the licensing procedure of professional accountants and auditors;
- Increasing roll out of ATSWA and Ghana professional certification examination;
- Strengthening the quality of accountancy education and enhancing continuing professional education.

These recommendations are expected to pave the way for achieving significant improvements in the country's corporate financial reporting practices. This will also create a more successful working environment for professional

accountants and auditors in Liberia. In developing an action plan for the recommendations, the Government should prioritize and sequence the practical reforms, taking into account available resources.

ABBREVIATIONS AND ACRONYMS

A&A	Accounting and Auditing
ABWA	Association of Accountancy Bodies in West Africa
ATSWA	Accounting Technicians Scheme – West Africa
CBL	Central Bank of Liberia
CPD	Continuing professional development
GAAS	Generally accepted auditing standard
GAAP	Generally accepting accounting principle
GEMAP	Governance and Economic Management Assistance Program
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
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
ICAG	Institute of Chartered Accountants, Ghana
IDA	International Development Association
IES	International Education Standard
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
ISA	International Standard on Auditing
LICPA	Liberian Institute of Certified Public Accountants
NGO	Nongovernmental organization
ROSC	Report on the Observance of Standards and Codes
SIDA	Swedish International Development Association
SME	Small and medium-size enterprise
SMO	Statement of Membership Obligation

PREFACE

In the wake of the financial crises of the 1990s, the international community embarked on a range of initiatives to strengthen the international financial architecture. The objectives of these initiatives are crisis prevention, mitigation, and resolution. In this regard, the international community asked the IMF and the World Bank to assist countries in implementing international standards and codes in 12 areas. Two of these standards are International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). The Report on Observance of Standards and Codes, Accounting and Auditing Review (ROSC A&A) helps in identifying and developing the building blocks for a comprehensive action plan for strengthening institutional capacity to support high-quality financial reporting.

One of the priorities of the Liberia Government is to improve the country's investment climate, so as to foster private sector growth. In order to reach that goal, Liberia will need to strengthen its accounting and auditing practices. The requirement has direct impact on local and foreign investors who require credible financial information for investment decision-making purposes.

The ROSC A&A review provides inputs to a comprehensive developmental plan aimed at improving corporate sector accounting, auditing, and financial reporting practices. This ROSC A&A was carried out in Liberia from September to October 2010 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 Maxwell Dapaah (Financial Management Specialist and Task Leader); M. Zubaidur Rahman (Program Manager, OPCFM, and Study Adviser), and Nim'ne E. Mombo, Sr. and Olawale Wale-Awe (Consultants).

I. INTRODUCTION AND BACKGROUND

1. At the invitation of the Government of Liberia, the World Bank carried out a review of corporate sector accounting and auditing practices in Liberia as part of the Report on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A). A ROSC National Steering Committee comprising representatives of stakeholders in the accounting and auditing community in Liberia was constituted by the Ministry of Finance to facilitate the ROSC review.

2. **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)[1] and International Standards on Auditing (ISA)[2] as benchmarks and draws on international experience and good practice in the field of accounting and audit regulation. The assessment uses a diagnostic template developed by the World Bank to facilitate collection of data. The data is complemented by the findings of a due diligence exercise based on a series of meetings with key stakeholders conducted by the World Bank ROSC team. The intended audience of the ROSC includes the Government of Liberia, as well as national and international market participants with an interest in the corporate financial reporting regime of Liberia. An overview of the ROSC A&A and the detailed presentation of methodologies are available on the World Bank Group website.[3]

3. **This ROSC A&A supports two primary development objectives.** The objectives supported by ROSC are (a) making Liberia's business environment more conducive to private investment; and (b) advancing governance and financial accountability in both the public and private sectors**.** The recommendations, discussed in the final chapter, are meant to help the appropriate authorities address these issues by improving the technical skills of accounting and audit practitioners, building the infrastructure for accounting and audit practice in Liberia, and enhancing the institutional capacity of the country's accounting professional bodies.

II. COUNTRY CONTEXT

4. **Post-conflict development.** The central challenge is to move to inclusive growth that will reduce unemployment and underemployment. Liberia is a small country of 4 million people and a GDP per capita of US$222.[4] The country is at a development crossroads as it moves away from post-conflict circumstances toward a more normal development paradigm. More than a

[1] IFRS refer to all standards and related interpretations issued by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and related interpretations issued by its predecessor, the International Accounting Standards Committee.
[2] ISA are issued by the International Auditing and Assurance Standards Board (IAASB) within the International Federation of Accountants (IFAC).
[3] Access ROSC Accounting and Auditing at www.worldbank.org/ifa/rosc_aa.html.
[4] World Bank data and statistics (2009), data.worldbank.org.

decade of conflict, which ended in 2003, had confounded many of the country's authorities responsible for the country's governance and management. Moving forward from a time of transition, Liberia has for the past four years, together with international partners, worked to ensure a peaceful society and to revive its once-thriving economy; but the long path of reconstruction remains a severe challenge. The 2003 Comprehensive Peace Agreement signed in Accra, Ghana, still holds strong with the support of the UN-peacekeeping mission in the country. The National Transition Government of Liberia was succeeded by peaceful legislative and presidential elections in October 2005, with Ellen Johnson Sirleaf becoming Liberia's (and Africa's) first democratically elected female head of state. For the years since this historic election, the local and international community recognizes the progress toward economic and political reforms of the President and the new Government. In June 2010, the IMF and the World Bank's International Development Association (IDA) supported a US$4.6 billion debt relief package for Liberia, of which US$1.5 billion is to be delivered by multilateral creditors and the remainder by bilateral and commercial creditors. Upon reaching the HIPC completion point, Liberia also becomes eligible for further nominal debt reduction from IDA (US$66.9 million) and the African Development Bank (US$17.2 million) under the Multilateral Debt Relief Initiative. Liberia also qualifies for beyond-HIPC assistance from the IMF (US$173 million) and the European Union Special Debt Relief Initiative (US$0.9 million).[5] As a result of this support, Liberia will no longer face a heavy debt service burden in relation to its revenue and foreign exchange resources.

5. **Economic growth.** The Government's medium-term development strategy is built on foreign direct investment in enclave sectors (export-oriented iron ore, palm oil, and timber) and public–private infrastructure investment in electric power, ports, and roads. The combination of foreign direct investment and infrastructure investment is expected to foster "growth corridors" focused on agriculture, processing, and services supporting higher diversified growth.[6] Agriculture has been one of the major contributors to GDP growth in recent years. Gold and diamond production have been on the increase since 2007. According to the IMF, medium-term prospects are favorable based on foreign investment commitments and continued donor support for rebuilding infrastructure and institutions. The pace of new investment in iron ore and commercial agriculture and the rebound in rubber prices are expected to drive an overall recovery of growth. Accordingly, a GDP growth of 6 percent and a low inflation of 8 percent are expected in 2010.[7]

6. **Governance.** Overall, the governance environment has improved in the past 5 years through the implementation of various programs. According to the Mo Ibrahim Index of African

[5] http://web.worldbank.org/
[6] IMF Policy Note, September 2010.
[7] IMF Fourth Review Report under the Three-year Arrangements Under the Extended Credit Facility, June 2010.

Governance released in October 2010,[8] Liberia's score has improved from 32 (out of 100) in 2004/05 to 44 in 2008/09. Similarly, the World Governance Index shows that Liberia's aggregate indicator for control of corruption has improved during 2008-09.[9] The Government completed the implementation of the Governance and Economic Management Assistance Program (GEMAP) in September 2010 and successfully implemented the IMF structural benchmarks under the Extended Credit Facility through September 2010. These reforms focus on improving transparency and accountability in public financial management. The enactment of the Public Procurement and Concession Act of 2005 and the landmark Public Financial Management Act of 2009 has helped strengthen the legal framework of public procurement and financial management. Through the assistance of its development partners including, the World Bank, SIDA, and other donors, the Government is in the process of implementing the Integrated Financial Management Information System (IFMIS) to help strengthen the budget preparation process, execution, and financial reporting of line ministries.

7. **Private sector.** The structure of Liberia's private sector is characterized by a high degree of informality and minimal long-term investment in productive sectors. Small and medium-size enterprises (SMEs), which dominate the Liberia private sector, operate in an uncertain environment with limited access to credit due to lack of adequate collateral and shorter credit histories. Diversifying the private sector is an important agenda of Liberia's National Poverty Reduction Strategy. The growth of the private sector over the past decade however has been remarkable in light of the destruction brought by the years of conflict and has proven that private investment can create jobs at poverty-reducing wage levels. Several international firms have already made substantial direct investments in Liberia. An improved financial reporting environment will be critical toward enhancing the quality of financial reports that will be relied on by financial institutions and potential investors in making credit and investment decisions in the private sector.

8. **Financial sector.** Liberia's financial sector is at a rudimentary stage, with limited financial intermediation and low public confidence. The Liberian banking system provides basic banking services. While credit is allocated on market terms to foreign and domestic investors alike, the historically high rates of non-performing loans mean banks grant only short-term (less than 18 months) and high-interest loans that constrain capital investment and limit new business development. In addition, there is no effective credit rating system, and many firms lack the business records necessary for credit approval. The obstacles to domestic travel and communication increase the risk in accepting collateral outside Monrovia, and the lack of reliable land title hampers access to credit. In the rural areas, banking services are even scarcer;

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[8] The Ibrahim Index provides a comprehensive ranking of African countries according to governance quality: http://www.moibrahimfoundation.org/en/section/the-ibrahim-index.

[9] The World Governance Indicators cover six areas: Voice and Accountability, Political Stability, Absence of Violence, Government Effectiveness, Regulatory Quality, and Control of Corruption.

the microfinance operations of NGOs are the de facto providers of credit. As of June 2010, Liberia had 8 commercial banks (one of which focuses primarily on micro-financing); 2 microfinance institutions; and 23 insurance companies (out of which only 16 are active). The total assets of the 8 commercial banks were approximately US$279 million in 2009. Minimum capital requirements were raised to US$10 million effective 2010.

9. **Capital markets.** There is no effective capital market or options for portfolio investment. The Liberian market offers the private sector few credit instruments. Private companies do not issue debt in part because there is no government benchmark, and in part because there is a perceived lack of appetite for such investment instruments. Proper development of a capital market requires appropriate legal and accounting infrastructure, necessary regulatory and institutional structures, and human resource capacity.

10. **State-owned enterprises.** Liberia has approximately 15 state-owned enterprises, parastatals, and regulatory agencies. The history of state-owned enterprises in Liberia is characterized by high level of corruption, cronyism, and mismanagement. However, President Sirleaf's administration has embarked on vigorous reforms since taking office in 2006. Several state-owned enterprises, including some autonomous agencies, have been granted minimal budget allocations that will ensure their eventual dissolution. The Governance and Economic Management Assistance Program (GEMAP) framework and other initiatives are improving financial and operational performance at several state-owned enterprises, notably the National Port Authority, Roberts International Airport, the Forestry Development Authority, and the Liberia Petroleum Refinery Corporation. The Government plans a two-pronged restructuring strategy for state-owned enterprises before 2012. Initially, it intends to dissolve or privatize state-owned enterprises that have become obsolete, unnecessary, or more appropriate for private ownership. Then, there are ongoing plans to improve efficiency and economic governance at those remaining state-owned enterprises.[10] A solid financial reporting regime and better oversight are necessary for ensuring that resources are used and accounted for properly in these organizations.

11. **Notwithstanding these accomplishments, the development agenda remains formidable.** Poverty rates remain high with 65-70 percent of the population remaining below the poverty line. “Vulnerable Employment” in Liberia is significantly high at 78 percent, according to preliminary results of the Labour Force Survey conducted in 2010. Weak institutions and limited mechanisms of accountability, which are legacies of Liberia’s recent history, continue to constrain economic growth, private sector development, and poverty reduction. High-quality accounting and auditing together with transparent sound corporate reporting are critical to enhancing governance and the business environment for economic growth and financial stability.

[10] http://www.state.gov/e/eeb/rls

III. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

12. **The Association Law of 1976 is outdated.** The Law was obsolete even in 1976 when it lacked essential elements of a Companies' Law. Overall, it does not include the fundamental requirement to present audited financial statements to shareholders annually. It does not have any mandatory requirement for companies to prepare and submit annual audited financial statements to the Business Registry. Furthermore, the Law does not prescribe any national or international accounting standard for financial reporting. The Association Law is seriously inadequate in terms of defining the framework for corporate financial reporting and does not reflect current realities in Liberia and international standards.

13. **The Central Bank of Liberia (CBL) is empowered to regulate banks and other financial institutions under the Central Bank Act of 1999 and the Financial Institutions Act of 1999.** The Central Bank of Liberia regulates financial reporting of bank and non-bank financial institutions. It requires bank and non-bank financial institutions to prepare financial statements in conformity with its prudential guidelines. It prescribes formats for financial statements, including disclosure requirements that bank and non-bank financial institutions must follow. However, some of these prudential requirements are not in line with IFRS or any national accounting standards. By focusing on enforcing mostly prudential requirements, the Central Bank appears to neglect other important regulatory activities such as ensuring that the general purpose financial statements of banks are in compliance with international accounting standards. Although, the Central Bank adopted IFRS for its own financial reporting in 2008, it lacks the necessary technical capacity to ensure IFRS compliance by commercial banks for which IFRS has been prescribed for adoption by December 2012. As a result, there is the risk that serious regulatory compliance gaps with IFRS may not be detected by regulators.

14. **The Accountancy Act of 1933 is outdated.** Besides providing the statutory framework for the formation of the Liberia Institute of Certified Public Accountants (LICPA), the Accountancy Act does not provide legal backing for standard-setting powers for the LICPA, nor the roles and responsibilities, enforcement and monitoring, and the sanctions that the LICPA can apply. As a consequence, the accountancy profession in Liberia appears to be under-regulated. There is therefore the risk that international good practice on ethics and quality control are not adhered to by practicing accountants and auditors. A new Accountants Act called the LICPA Act of 2010 when passed will recognize LICPA as primarily responsible for determining and maintaining adequate professional standards for its members. A legal recognition of the functions of LICPA and its regulatory activities would provide the organization with further authority with respect to the adoption of accounting, auditing, ethics and quality control standards, and facilitate its IFAC compliance-related activities.

15. **The draft LICPA Act provides for establishing a governance structure for the LICPA.** The Bill, before the National Assembly at time of the ROSC review, provides for a two-year term (renewable once) for the LICPA President. It gives the LICPA President the authority of a chief executive officer. Moreover, Section 9 of the Act also provides for the establishment of a Governing Council with specific responsibilities, including approval and promulgation, in

accordance with duly established procedures, of all accounting and assurance standards; and interpretation of such standards and rules, as well as other regulations, that the LICPA is empowered to formulate, monitor, and enforce. The Act also establishes an oversight board, but the board will not be independent of the LICPA. The lack of independence may undermine the effectiveness of the Board.

16. **The Insurance Law of 1973 does not set out adequate measurement principles and disclosure requirements with respect to the financial statements of insurance companies in Liberia.** Insurance companies are not required to comply with any national or international accounting standards in financial reporting. Furthermore, the 1973 Law does not require insurance companies to publish their quarterly and annual financial reports. This practice seriously limits the availability of significant information of public interest.

17. **The Bureau of Insurance, which was established by the Insurance Law of 1973, lacks adequate capacity to regulate the insurance industry.** The insurance regulatory framework remains undeveloped due to lack of technical expertise and financial resources. The Bureau works under the supervision of the Ministry of Transport but lacks human, financial, and technical resources to regulate financial reporting in the insurance sector. Section 5.8 of the Insurance Law requires insurance companies to file their annual financial report with the Commissioner of Insurance on or before March 31. However, per discussions with the Insurance Commissioner, the ROSC team noted that insurance companies had not been submitting their financial statements regularly. The ROSC team was able to obtain the audited financial statements of only 2 of the 16 active insurance companies for review. Furthermore, the Commission has no qualified accountants to review financial statements for ensuring compliance with regulatory requirements. The weak regulatory capacity of the Commission poses the risk that insurance companies may not comply with regulatory requirements. As a result, insurance operators in Liberia, lacking sound financial strength, may operate undetected.

18. **Because the Revenue Code of Liberia 2000 does not require companies to submit annual financial statements with their annual tax returns;** and also, since the Association Law does not require audited financial statements, the Revenue Board accepts unaudited financial statements from companies. Corporations derive corporate income for tax purposes after adjusting relevant figures from their general purpose financial statements, as per applicable provisions and allowances under the Tax Law.

19. **The General Audit Commission Act of 1976 empowers the General Auditing Commission to undertake audits of state-owned enterprises.** The Liberia Constitution provides for the appointment of an Auditor General by the President of the Republic, subject to approval by the Parliament. Audits of state-owned enterprises are undertaken directly by the Commission or through private auditors who are appointed by the General Auditing Commission. The Commission was reconstituted in 2005as part of the overall public financial management reform efforts of the Government.

20. **The scope of audit by the General Auditing Commission is limited due to lack of capacity.** The General Auditing Commission performs the audit of state-owned enterprises in accordance with ISA. However, due to lack of capacity, the audit primarily focuses on

compliance with rules governing the financial management of state-owned enterprises. The General Auditing Commission has had to supplement its staff with auditors from other member countries of the International Organization of Supreme Audit Institutions (INTOSAI) in the sub-region. The Commission staff largely lacks exposure to relevant public sector accounting, auditing and IFAC-issued standard-setting pronouncements. Two out of the 15 state-owned enterprises for which the ROSC team obtained financial reports had their financial statements audited by private audit firms during the 2009 fiscal year. The General Auditing Commission was unable to audit the financial statements of the other SOE's due to capacity constraints. The lack of capacity exposes public resources to the risk of misuse that may remain undetected. The Government has embarked on various activities with donor assistance to help strengthen the capacity of the General Auditing Commission.

21. **The Public Financial Management Act of 2009 requires state-owned enterprises to prepare and submit quarterly and annual financial statements. The Government of Liberia has mandated the use of IPSAS for preparing the financial statements for all government and donor assisted funds in accordance with the Accounting Regulations established under the PFM Act.** Section 45(1) of the Public Financial Management Act (2009) states that state-owned enterprises must submit, within one month of the previous quarter-end, their quarterly financial statements to the Minister, Sector Minister. Section 45(2) also states that state-owned enterprises must prepare and submit their annual reports to the Minister, Sector Minister, Auditor General, and the Bureau of State Enterprises within two months after the financial year-end to which they relate. There is however no provision specifying the accounting standards to be used in preparing the financial statements.

B. The Accounting and Auditing Profession

22. **The LICPA has serious capacity issues that require immediate remedial actions to forestall erosion of public confidence.** The LICPA was established in late 1933 on the platform of the one-page 1933 Accountancy Act, which was archaic and inadequate from its very beginning. The demise of the founders brought the LICPA to a period of inactivity until it was resuscitated in 1978 and gained IFAC membership in 1987. The LICPA was dormant again in the war years (1990–2005) and revived in 2006. In addition to its IFAC membership, the LICPA is also a member of the Association of Accountancy Bodies in West Africa (ABWA).[11] At the time of the ROSC review, LICPA membership was 40, of which 23 were engaged in public practice, although only 7 operated with LICPA practice license. The 1933 Act does not provide for a governing body. Therefore, in practice the Institute is run by an Executive Committee, based on bylaws drawn up and adopted by those who restarted the LICPA in 1978. Then too the 1933 Act also contains no criterion for evaluating eligibility of potential LICPA members. The LICPA Act of 2010, when passed, is expected to address the governance issue through the setting up of a governing council that will oversee the affairs of LICPA. The proposed Act also provides admission criteria for membership classes and for admission of new into each class.
The LICPA Secretariat is dependent on volunteer members to function. It has an office, but there are no full-time, qualified personnel. This state of affairs has limited the capacity of LICPA in

[11] ABWA was founded in 1982 and recognized by the IFAC with membership opened to accountancy bodies that are recognized by individual national laws to be of good standing within the accountancy profession. Open to the 17 countries in West Africa, its current membership comprises the main accounting bodies in Gambia, Ghana, Liberia, Nigeria, Senegal, and Sierra Leone.

developing member programs for professional development, improving the pre-qualification accountancy education system, ensuring adherence to professional ethics and standards, and taking disciplinary action against erring members. Although the World Bank is engaged in an effort to help strengthen the institutional capacity, significant human capacity challenges remain to be addressed.

23. **The mandate of LICPA, as enshrined in the 1933 Accountancy Act, does not specifically include serving the public interests.** This gap could be interpreted to isolate LICPA from being seen as serving public interest. However, Section 7 of the proposed LICPA Act of 2010 would remediate this gap. It states, "the overarching objectives of the Institute are and shall be to represent, promote and regulate the accountancy profession in Liberia, in the public interest". It further states that to accomplish these objectives, the operational activities of LICPA shall include (a) setting, monitoring, and enforcing accounting, auditing, other assurance, education, ethics, and other professional standards of general and specific application in Liberia; (b) licensing qualified individuals and firms to engage in public accounting in Liberia; and (c) supervising the conduct of all persons, firms, and individuals who are engaged in public accountancy in Liberia.

24. **Dominated by two large audit firms, the actual market for auditing services in Liberia is small due to a relatively low demand.** Two audit firms affiliated with international networks perform the audits of most financial entities, as well as large corporate entities. Many small and medium-size enterprises interviewed during the ROSC review indicated that their financial statements are not audited. The low demand for audit services has limited the market for external audit and thus may compel audit firms to substantially reduce fees to win clients.

25. **Professional indemnity insurance is not required by law.** Professional indemnity insurance is not a well-known concept in Liberia, but some practicing auditors who work for affiliates of international accounting firm networks in Liberia are covered. However, it is possible to obtain such insurance coverage but at an exorbitant price that seems to be beyond the means of most audit practitioners. Section 9(2)(4) of the draft LICPA Act of 2010 states that the Governing Council shall determine the need, if any, for and the nature of professional indemnity and fidelity insurance requirements for persons in public practice. Such insurance is a necessary feature in a system where accountability for negligence or failure to adhere to applicable legal provisions and professional standards is expected from licensed practitioners.

26. **The LICPA, an IFAC member, does not fully meet the obligations specified in the IFAC Statements of Membership Obligations (SMO).** Although Section 17 of the draft LICPA Act of 2010 does extensively stipulate mandatory requirements for the LICPA to meet its member obligations as required by IFAC SMOs 1-7, , its leadership has yet to articulate or develop an IFAC Compliance Program Action Plan that would show a clear strategy toward compliance with IFAC requirements. Table 1 shows LICPA's level of compliance with IFAC SMOs (as recorded at time of ROSC review).

Table 1. Compliance with IFAC Statements of Membership Obligations (SMOs)

SMO No.	***Issue covered by SMO***	***Comments***	***Ref.***	***Compliance with SMO***
1	Quality Assurance	▪ No quality assurance mechanism implemented by LICPA. ▪ No arrangement with another member body to carry out such exercise for its members.	Para 65	None
2	IES for Professional Accountants and related guidance	▪ Conducting ATSWA exams. ▪ Memorandum of understanding with ICAG to offer its full professional exams in Liberia. ▪ No continuous professional development requirement for members. ▪ Accountancy programs at tertiary institutions that prepare students for ATSWA do not incorporate IFRS and ISA in their syllabi.	Para 27, 28, 30	Low
3	International standards, related practice statements and other papers issued by the IAASB.	▪ No national accounting standards developed incorporating IAASB pronouncements. ▪ No implementation regulations or guidance on international standards or other related practice statements issued by IAASB.	Para 29, 33	None
4	IFAC Code of Ethics for Professional Accountants	▪ No code of ethics for members. ▪ IFAC Code of Ethics has not been explicitly adopted. ▪ Tertiary institutions do not offer a separate course for ethics in Liberia.	Para 32, 35	None
5	International Public Sector Accounting Standards and related guidance	▪ No arrangements in place to disseminate the standards and guidance issued by the IPSAB or to raise awareness about IPSAS in Liberia.	Para 21	Medium
6	Investigation and Discipline	▪ No legal mandate to discipline members. ▪ Draft LICPA Act of 2010, if passed, will grant mandate to Governing Council to discipline members.	66	None
7	IFRS	▪ IFRS adopted by Central Bank of Liberia for its own financial reporting. Central Bank has mandated all commercial banks to comply with IFRS by December 2010. ▪ Other public interest entities do not comply with any accounting standards, including IFRS. ▪ No implementing regulations or guidance on adoption of IFRS issued by LICPA.	Para 13, 33	Low

C. Professional Education and Training

27. The LICPA does not have its own separate curriculum for professional certification. The LICPA is planning to launch its own curriculum for professional training in the near future. It has initiated a bilateral professional certification program with the Institute of Chartered Accountants, Ghana (ICAG). Based on the framework agreement, LICPA will offer the ICAG exams in Liberia. Members who meet the certification requirements after completion of the exams will earn both the ICAG and LICPA certifications. Such reciprocity arrangements with regional and international accountancy associations would enhance the recognition of planned

LICPA qualifications. Moreover, the LICPA runs the Accounting Technicians Scheme – West Africa (ATSWA) in Liberia but attracts few candidates because of inadequate publicity. The LICPA is making efforts to market the ATSWA exams to the accounting departments of universities, polytechnics, and the civil service in an effort to increase participation.

28. **Continuing professional development (CPD) in Liberia is not mandatory.** The LICPA members are not required to participate in any continuing professional development. Since its inception, LICPA has organized only one such program. In addition, the LICPA does not have any mechanism to enforce continuing professional development as a requirement for professional membership.

29. **Professionals working in small accountancy firms find it difficult to stay updated on current developments in accounting and auditing.** These practitioners are constantly struggling to keep their client base and earn enough revenue to stay afloat. In most cases, they do not have the money and time for training programs. Many audit practitioners in small and medium-size practices in Liberia are also handicapped by lack of access to current literature on applicable accounting and auditing standards. This situation has limited the quality of auditing in the country.

30. **University courses in accountancy do not focus on teaching IFRS or ISA.** The courses of the institutions of higher learning in Liberia do not incorporate IFRS and ISA in their bachelor's and graduate degree programs in accountancy. The curricula are mainly restricted to teaching accounting technicalities and basic procedural aspects of auditing. Some universities have started integrating IPSAS into their curricula. However, faculty capabilities of teaching practical implications of these standards remain a concern. From interviews with university staff, the ROSC team found little academic-side involvement with international professional accounting organizations. For example, universities in Liberia do not subscribe to IASB publications and, due to their unfamiliarity, have not made attempts to implement the IFAC/IAESB-issued International Education Standards (IES). As a result, students are not exposed to international financial reporting and auditing standards and good practice through the in-place university degree programs.

31. **Accounting education and training in universities and colleges lack focus on skills necessary for meeting the demands of the corporate sector in Liberia**. In opinions expressed to the ROSC team, many stakeholders felt that the overall quality of accounting education and training in the country was not sufficient to produce skilled professional accountants and auditors. Inadequate practical exposure and lack of arrangements for enhancing broad-based knowledge and critical thinking skills were identified as major contributing factors affecting the quality of students graduating from accounting programs across the country. In essence, accountancy education in Liberia is severely challenged in terms of providing a broader practical exposure to the necessary conditions for pre-qualification accountancy training and education. This is a serious problem that requires urgent attention.

32. **The academic education in accounting lacks adequate coverage on ethics.** The IFAC recommends teaching professional ethics separately in the pre-qualifying education of professional accountants. However, in Liberia, the academic institutions do not provide adequate

coverage on ethical dimensions in their curricula. In preparing for professional careers, aspiring accountants need to recognize potential ethical problems and how such issues can be resolved.

D. Setting Accounting and Auditing Standards

33. **No institution has the legal mandate to set accounting or auditing standards.** As at now**,** neither the LICPA nor any other entity has the legal mandate to set standards for ensuring high-quality corporate financial reporting in Liberia. However, section 9(2)(5) of the draft LICPA Act of 2010 proposes to confer the authority to set accounting and auditing standards on the Governing Council of the LICPA. In the absence of a body that is legally empowered to determine and promulgate accounting standards, there is no legislation that specifies any accounting or auditing standard to be followed in Liberia. The Central Bank is the only institution in Liberia that has been using IFRS for its own financial reporting. It has also prescribed IFRS for adoption by commercial banks by December 2012. Apart from the Central Bank requirement, no legislation specifies which entities must comply with IFRS. In respect of auditing standards, auditors choose to comply with either generally accepted auditing standards (GAAS) or ISA, albeit none of these standards are mandated in Liberia. The lack of national standards or the non-prescription of any international accounting and auditing standards to be followed has contributed to a weak legal and regulatory framework for accounting and auditing practice in Liberia.

E. Monitoring and Enforcement of Accounting and Auditing Standards

34. **No effective mechanism exists to enforce requirements for accounting and financial reporting in Liberia.** The Association Law does not have adequate provisions for corporate financial reporting. It does not stipulate any legal sanctions for not preparing financial statements. As a result, most companies, especially small and medium-size enterprises, do not generally feel obligated to prepare financial statements. Some companies prepare financial statements only when it is required by regulators or needed to obtain an operating license or a loan from the bank.

35. **There is no mechanism for ensuring that accountants and auditors in public practice follow IFAC Code of Ethics for Professional Accountants.** The LICPA does not as yet have an enforceable code of ethics for its members owing to the Institute's lack of legal authority in such matters; although members largely state that they follow the IFAC Code of Ethics. However, LICPA has not instituted a mechanism to monitor compliance. In the absence of any monitoring and enforcement mechanisms, it is simply not practicable to independently confirm that the IFAC Code of Ethics is followed by LICPA members in practice.

36. **The Insurance Commission does not have the technical capacity to review the financial statements of insurance companies for compliance with regulations.** In addition to the lack of any requirement for insurance companies to follow a particular accounting standard, the Insurance Commission is not staffed with qualified actuaries or professionally qualified accountants to review financial statements for compliance with the Commission's prescribed formats. This lack of expertise seriously limits the Commission's capacity to verify whether or not the provisions relating to insurance contracts are correctly calculated, one of the most

sensitive aspects of accounting by insurance companies. The capacity constraints have impacted the Commission's ability to undertake onsite inspections.

37. **Due to lack of capacity, the CBL Department of Banking Supervision focuses more on compliance with prudential requirements.** Primarily to ensure compliance with prudential regulations, CBL officials conduct both offsite and onsite supervision of bank and non-bank financial institutions. With respect to prudential reporting by these institutions, the Department of Banking Supervision examines financial statements, approves the appointment of statutory auditors, and reviews communications between banks and their statutory auditors as appropriate. It may further convene a meeting with a bank's auditors to clear areas of disagreement with prudential guidelines before the bank publishes its financial statements. While this establishes a regular compliance review process, the Central Bank focuses more on prudential reporting than on general purpose financial reporting. Consequently, misstatements and errors in general purpose financial statements may remain undetected or not known to the public unless prudential considerations warrant it.

IV. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

38. **The lack of a clear mandate has led corporate management to prepare financial statements based on different standards.** There are inconsistencies with which standard to comply. The ROSC team conducted interviews with corporate accountants, practicing auditors, academics, and members of professional bodies and regulators. From the review and interviews conducted, the ROSC team learned that due to the lack of any mandate to comply with a particular standard, preparers of financial statements appear not to comply with any standard but chose to make reference to either the United States generally accepting accounting principles (GAAP) or IFRS. The lack of an applicable standard of compliance has seriously impacted the quality of financial statements of corporate entities in Liberia.

39. **Most of the banks prepare financial statements that have a semblance of IFRS compliance.** Seven out of the 8 banks in Liberia are subsidiaries of foreign parent corporations and report in compliance with IFRS. For the purpose of consolidation with their parent company's financial statements, local banks prepare their financial statements in a form that appears to comply with IFRS though they do not fully comply in substance as evidenced by the varying compliance gaps identified in the financial statement review. The Central Bank of Liberia has set December 2012 as the date for banks to comply with IFRS. There is however no comprehensive strategy in place that would ensure that banks are fully prepared to comply with IFRS by this deadline. Although the Central Bank and LICPA have scheduled IFRS awareness training seminars and conferences in late 2010 and early 2011, there is a risk that most banks may not be ready to make the conversion to IFRS by December 2012 due to the lack of a comprehensive strategy for IFRS adoption.

40. **Preparation of financial statements is the responsibility of corporate management but auditors often carry out this function.** There are cases where corporate management tends to shift the responsibility for preparing financial statements on the auditors. Some stakeholders have cited a few instances where company management has either partly or fully shifted the

responsibility for preparation of financial statements to the auditors. This may be due to the lack of qualified professionals available to prepare financial statements and corporate management's misperceptions about the role of auditors. The latter point arises from company directors' lack of knowledge of auditing procedures, thus impairing significantly their fiduciary responsibility.

41. **Except for financial institutions, the corporate sector in general does not have access to professionally qualified accountants.** The acute shortage of professionally qualified accountants in Liberia makes it difficult for most companies to access the services of accountants with the required skills to prepare financial statements. Many small companies outsource the preparation of financial statements to accounting firms who only compile the statements based on the records presented to them at the end of the year. The lack of qualified in-house accountants poses the risk that financial transactions may not be accurately recorded in the books of account, and thus may impact the quality of financial statements in such entities.

42. **The preparation of financial statements is sometimes influenced by taxation considerations.** The ROSC team noted in its review of financial statements instances where preparers of general purpose financial statements followed tax rules as the method of accounting treatment. The taxation laws and regulations provide accounting requirements that companies must follow in determining taxable income. In order to satisfy the taxation requirements regarding recognition of taxable revenues and deductible expenses, some preparers of general purpose financial statements tend to follow taxation laws and regulations. A note to the financial statements of an insurance company stated that the company "maintains and recognizes all categories of fixed assets in accordance with Revenue and Finance Law of the Republic of Liberia". Yet the auditors of this company did not qualify their audit opinion for departures from accounting standards.

43. **Information on compliance gaps reveals weaknesses of corporate financial reporting.** The ROSC team review of a sample of published financial revealed serious compliance gaps with IFRS, which is the standard of compliance as stated by these companies. These findings have serious implications about the reliability of the financial statements and related audit opinions expressed. The review involved examination of the audited financial statements of all 8 banks, 2 insurance companies, 2 corporate entities, and 2 state-owned enterprises. The ROSC team also conducted interviews with corporate accountants, practicing auditors, academics, and members of professional bodies and regulators. Among the findings, the following compliance issues were discovered from the review:

- ***Presentation of financial statements.*** Showing noncompliance with IAS 1, *Presentation of Financial Statements,* some companies deducted overdraft from cash and cash balances to arrive at the net figure inserted on the balance sheet thereby distorting current assets and current liabilities and accompanying ratios. One financial institution provided prior-year comparative without operations in the prior year—revenue and expenditure were nil and therefore no figures in the income statement under the prior-year column—and showed assets acquired in prior year without the accompanying depreciation in the fixed assets schedule.
- ***Related party.*** Many entities, including some financial institutions, omitted important disclosures such as the relationship and transactions, pricing policies, volumes of related

party transactions, and corresponding amounts. In some cases the name of the parent company is not disclosed. Adequate disclosure of material related party relationships and transactions is essential to users' understanding of a company's financial position and results, and for minority investors' confidence that they will receive fair treatment. Inadequate disclosure in this regard leads to noncompliance with IAS 24, *Related Party Disclosures.*

- ***Employee benefits.*** Inadequate disclosure as to whether actuarial or any other forms of valuation had been used to quantify outstanding liabilities for post-employment benefits and thus not adhering to the requirements of IAS 19, *Employee Benefits*.
- ***Inventory.*** Some companies failed to follow all requirements related to measuring and disclosing inventories (IAS 2) at the lower of either cost or market value.
- ***Contingent liabilities.*** Some companies did not adequately disclose contingent liabilities; for example, an insurance company made no provision for unearned revenue due to inadequate documentation on the life of each policy, thus making their financial statements noncompliant with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets.*
- ***Impairment losses***. The financial statements examined did not indicate whether the long-term assets indicated therein were valued under the Cost or the Fair Market Value Model per IFRS; presumably because those assets are valued under the cost model, there was no indication of impairment disclosures in the financial statements; and therefore may not comply with IAS 36, *Impairment of Assets.* Failure to comply could create a misconception that the carrying amounts of property, plant, and equipment in audited financial statements may well be overstated or understated.
- ***Revenue recognition***. Non-adherence of applicable accounting policy on revenue recognition can be exemplified by a case of installment sales where revenue was recognized on a cash basis rather than accrual basis, resulting in noncompliance with IAS 18, *Revenue*.
- ***Disclosures in financial statements.*** Contrary to the requirement of IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, some financial institutions did not make adequate disclosure with regard to (a) gains/losses from dealings in securities and foreign currencies; (b) methods of calculating fair values of each class of financial assets and liabilities; (c) information relating to loans and advances on which interest is not being accrued; (d) information on the amounts set aside for general banking risks; (e) significant concentration in the distribution of assets, liabilities, and off-balance sheet items; (f) amount of significant net foreign currency exposure; and (g) irrevocable commitments to extend credit.[12]

V. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

44. **In the absence of accounting and auditing standard-setting arrangement in Liberia, auditors do not consistently comply with a particular auditing standard.** Auditors in Liberia generally comply with either US-based GAAS or ISA, as they deem convenient. Those local firms that are members or correspondents of international networks of accounting firms do

[12] IAS 30 was replaced by IFRS 7, effective January 2007.

follow ISA as required by the international networks to which they belong. Thus there is inconsistency in application among professionals.

45. **Absence of methodological guidance hinders application of auditing standards.** With the exception of audit firms associated with the international network of accounting firms, most audit firms have no access to high-quality audit practice manuals. Lacking practice-oriented methodological guidelines, auditors generally find it difficult to handle important concepts such as audit risks, audit planning, internal control, documentation, and going concern.

46. **Lack of understanding by directors and members of management about the purpose of audits sometimes makes it difficult for auditors to obtain appropriate audit evidence.** Many auditors claimed that some directors and members of management often fail to appreciate the purpose and value of auditing. Such a situation limits access to evidence to form professional judgments. Despite the arduous efforts by some auditors to carry out audits in accordance with international good practice, they view the lack of cooperation from management as a major constraint to discharging their professional responsibilities.

47. **Small and medium-size practices are generally not well organized**. Most small and medium-size practices are individual practitioners who struggle to find clients. They do not have the financial resources to stay updated on current audit developments. They are unable to hire adequate staff to undertake audits. They generally charge lower fees to win clients in order to survive. Moreover, they do not have access to current practice guidelines and audit manuals to guide them in the conduct of their work. As a result, the quality of their audit is typically very low.

48. **In general, audit practices diverge from ISA.** To better understand actual auditing practices, the ROSC team interviewed practicing auditors and experienced accountancy professionals and facilitated discussions with the partners representing large- and medium-size audit firms, from which the following shortcomings were noted on auditing practices in Liberia:

- Lack of knowledge of theoretical and practical application of standards, coupled with a lack of independent practice review mechanism and disciplinary procedures, has adversely affected audit quality.

- Documentation practices fail to provide quality audit evidence to support the audit opinion, mostly in the audit of small and medium-size enterprises.

- Meaningful analytical procedures are difficult due to the absence of industry information.

- Some small audits firms undertake audit engagements for which those firms appear not to have the level of resources and expertise appropriate to the complexity of the audit.

- Apart from international affiliates, most firms lack the capacity to comply fully with ISA on quality control. Second partner peer reviews are generally not done.

- Independent confirmation of claimed assets is not conducted; most firms tend to rely on management representations.

- Professional clearance (communication with retiring auditor) is often not done, as most retiring auditors do not respond to such requests.

- Firms tend to keep clients too long and risk impairment of objectivity.

- Lack of expertise in information technology (especially in medium and small firms) erodes audit quality. Reliance is placed on work of presumed experts without assessing the adequacy, competence, and objectivity of their work.

49. **Audit reports showed that auditors substantially fail to comply with ISA, which was stated as the standard being complied with**. Many audit reports do not keep to the prescribed ISA format. The ROSC team observed major lapses in the audit reports of corporate entities, which include the following points that either imply a non-existence of audit quality control or that the auditors lacked understanding of the auditing standards:

- In the opinion paragraph, one auditor reported:

    We conducted our audit in accordance with International Accounting Standards (ISA).

- Another auditor tended to confuse the usage of GAAP and GAAS as shown by the statements below:

    Our exercises were carried out in accordance with generally accepted accounting principles (GAAP), and we believe our audit provides a reasonable basis for our opinion.

    In our opinion, the financial statements refer to above present fairly in all material respects the result of the operation for the year then ended in conformity with generally accepted auditing standards (GAAS).

- An audit firm, which audited most of the financial statements of banks in Liberia, stated that the financial statements were prepared in compliance with IFRS whereas the statements complied entirely with the CBL prudential guidelines, which are in all material respects different from IFRS.

- An auditor reported on a financial statement that presented prior year comparative amounts for a bank that had only operated for one year in Liberia. There were neither expenses nor revenue in the prior year meaning that the bank was not in operation during the prior year.

- Most audit firms stated in their audit report that they were reporting on the financial statements of two years. An example is:

*We have audited the financial statements of [*XYZ Inc*] for the year ended June 30, 2009 and 2008 set out on pages 4 to 8.*

- Evidence showed that some auditors sign their reports before the directors sign the financial statements. In some of these instances the directors never sign the financial statements at all.

- There are grammatical and typing errors, inconsistent titles/headings, and incorrect numbering of notes to financial statements.

VI. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

50. **The quality of audited financial statements is a concern to investors and other users of financial statements.** Interviews and discussions with bankers, regulators, and other stakeholders revealed concerns about the quality of financial reporting. There was a widespread opinion that weak regulatory enforcement mechanisms and the lack of qualified accountants have contributed to the low quality of financial reports. Most interviewees shared the opinion that improving financial reporting quality requires a robust regulatory regime and effective enforcement mechanisms that would provide incentives for high-quality financial reports.

51. **Low demand persists for high-quality audits.** Interviews and discussions with various stakeholders, including bankers, revealed that reliance on audited financial statements of small and medium-size enterprises is usually supplemented by request for records and on-site inspection to assess the quality of management. The public perception is that the audit profession in most cases does not add value. However, because audited financial statements are required in situations such as contract bidding or bank loan application, audit services are demanded to satisfy such requirements as needed.

52. **The financial statements of companies are not readily available due to the perception that they are confidential**. With the exception of banks and insurance companies, other public interest entities were reluctant to share copies of financial statements with the ROSC team. There is a general perception among owners and top management of companies that the information in financial statements is confidential and should not be shared with anyone outside the company.

53. **Auditors get involved in tax advisory services that may pose a threat to audit independence.** In Liberia statutory auditors are not specifically prohibited from providing some non-audit services, including tax advocacy and representation before tax authorities. There is a strong perception among the various stakeholders that such involvement may pose a threat to auditors' independence.

54. **Graduates of accountancy programs of universities and colleges are not adequately prepared for employment**. Interviews and discussions with some stakeholders in industry revealed that the business community perceives new graduates as lacking required skills and

training. The problem is exacerbated by the general lack of full-time accounting faculty at tertiary institutions and unavailability of modern accountancy literature to students and faculty alike.

55. **The LICPA has yet to build the image of a strong professional body**. Some stakeholders felt that LICPA lacks the essential elements of a full professional organization. Consequently, students prefer to enroll in foreign examinations, and some potentially eligible members refuse to join the organization. Some existing members are not active in the affairs of the LICPA.

56. **The Insurance Commission lacks capacity to regulate the insurance industry.** Some stakeholders were of the opinion that the Bureau of Insurance lacks capacity to carry out its mandate to monitor and enforce financial reporting and auditing in the insurance industry. Some insurance operators were of the opinion that the Bureau should be autonomous rather than reporting to the Ministry of Transport.

VII. POLICY RECOMMENDATIONS

57. The policy recommendations outlined in this section emerge from this ROSC A&A review in Liberia, as well as the valuable inputs received from the various stakeholders. These primarily principle-based recommendations will provide inputs in preparing and implementing a comprehensive country action plan geared toward the sustainable, high-quality, corporate financial regime in Liberia. The following points have been taken into account while designing the policy recommendations:

- Building capacities for professional accountants and auditors and regulators;
- Emphasizing the case for strengthening capacity of national institutions with support from sub-regional/regional institutions (e.g., ABWA), considering the limited capacity of Liberia, and rationalizing the cost of implementing some of the policy recommendations;
- Achieving greater financial transparency in the corporate sector and limiting tax evasion through ensuring proper calculation of corporate profits;
- Promoting a gradual process of improvement whereby the public interest entities will lead the reform process; and
- Strengthening the country’s financial architecture aimed at reducing the risks of financial market crises and their allied negative impacts.

A. The Profession

58. **Strengthen capacity of LICPA by establishing a twinning arrangement with a strong member body of IFAC.** Given the dearth of experienced professional accountants in Liberia, it is important to strengthen LICPA capacity through a twinning partnership with a

reputable international IFAC member body. Through shared experience and capacities, LICPA should improve and be able to undertake the following activities:

- Market and run the subsisting accounting technician program (i.e., ATSWA) and increase student membership. This should include marketing exams to accounting students in tertiary institutions and integrating accounting professionals in the civil service, including General Auditing Commission and Revenue Administration, as members.
- Establish an ongoing dialogue with universities and polytechnics to encourage inclusion of the ATSWA and ICAG syllabi as well as the practical study of IFRS, ISA, IPSAS, and the IFAC Code of Ethics in their accountancy education programs. This will allow accounting students to have a proper understanding of the standards and prepare them for professional exams. The development of the pre-qualification accountancy education is a major priority for the accountancy profession in Liberia.
- In the short and medium term, put in place necessary arrangements for effective implementation of the plan for professional certification examinations in accordance with the Memorandum of Understanding signed with the ICAG. For the long term, duly consider and make reasonably realizable plans that will eventually enable the LICPA to mount credible professional exams of its own.
- Organize and offer internationally comparable continuing professional development for members (professionals and technicians). Develop a CPD program that would be updated frequently to take into account new and revised standards.
- Develop a strategy and a due process through which IFRS, IFRS for SMEs, and ISA can be implemented locally. Also develop appropriate implementation guidance.
- Assist in reforming LICPA governance structure in line with international good practice.
- Consistent with the provisions of Section 17 of the proposed LICPA Act of 2010, develop a compliance program action plan and build capacity to comply with the 7 IFAC Statements of Membership Obligations. The compliance program action plan can be a useful tool for professional accountancy organizations to aim projects and activities in line with the critical areas of IFAC SMOs.
- Constitute and operate the proposed oversight arrangement effectively.
- Assist in establishing a LICPA secretariat with professionals to support its functions and to expand its revenue base to be a financially self-sustaining institute.
- Organize hands-on training programs aimed at improving the quality of audit services provided by small and medium-size practices, in keeping with the relevant “handholding coaching and mentoring” provisions of Subsection 11 of Section 17 of the proposed LICPA Act of 2010. The LICPA, with the assistance of its twinning partner, should arrange access for small and medium-size practices to practical-oriented training programs, internationally comparable audit manuals, and other good practice procedures and processes. This will improve professional conduct and the quality of audits of these smaller-size firms thereby improving the public image of the profession as a whole in Liberia. Also, LICPA should encourage small and medium-size practices to merge to help facilitate peer reviews and create economies of scale in operations;

- Provide guidance on proper implementation of IFAC Code of Ethics for Professional Accountants. For purposes of ensuring ethical standard and independence of practicing auditors in line with international good practice, the twining partner could help LICPA develop detailed guidance using local examples focusing on various issues covered by the IFAC Code. Guidance notes, using active cases, should address issues covering threat to auditor's independence in Liberia. The twining partner should also assist LICPA to develop mechanisms for investigating and disciplining its members for breach of rules and standards. In the longer term, consistent with the relevant subsections of Sections 16 and 17 of the proposed LICPA Act of 2010, this should be coupled with the adoption of the International Standard on Quality Control (ISQC) 1 by LICPA and the development of the external quality assessment review system to ensure that the quality control standards and other professional requirements are properly implemented by audit practices.

B. Statutory Framework

59. **Update statutory framework of accounting and auditing**. Take immediate steps to repeal the LICPA Act of 1933 and pass the new LICPA Act of 2010. Arrangements should be made to further update the draft LICPA Act 2010 before it is enacted. The updating should be made to include recent international developments and other proposals made in this report especially establishing an independent Audit Quality Assurance Board separate from LICPA. In this regard, international development partners may be approached for assistance.

60. **Develop a new Companies Act.** Take immediate steps to replace the Association Law of 1976 with a modern companies code that would address the following:

- Provide legal backing for accounting and auditing standards, specifying which entities should prepare financial statements and with which standards, and which entities should be audited.
- Empower the Business Registry to enforce applicable rules and requirements, including those relating to accounting and auditing.
- Include small and medium-size enterprises in the financial reporting arrangement in Liberia**.** Most businesses in the country are small or medium size, operating under the umbrella of the Liberian Business Association.
- Make mandatory the submission of audited financial statements of all public interest entities.
- Define auditors' duties and responsibilities in line with modern business environment and challenges.
- Specify who is qualified to be an auditor.
- Outline the auditors' liabilities and termination procedure.
- Grant more authority to regulators such as the Liberian Institute of Certified Public Accountants (LICPA), Central Bank of Liberia and the Insurance Bureau for imposing appropriate administrative sanctions.

61. **Insurance Law should be updated to provide specific reporting requirements.** The Insurance Law should mandate IFRS as the accounting standards to be used in the preparation of financial statements of insurance companies, considering their importance to the economy of Liberia. It should bring the Insurance Bureau under the rubric of the Central Bank of Liberia and define the regulatory responsibilities of the Central Bank over the Bureau. This will ensure better oversight over the entire financial services industry.

C. Implementing International Accounting and Auditing Standards

62. **Fully adopt IFRS and ISA without modifications, and mandate observance of these standards in the case of public interest entities.** Adopt IFRS and related interpretations issued by the IASB as legally enforceable standards applicable to the preparation of the legal entity and consolidated financial statements of all public interest entities. The audit of financial statements prepared by public interest entities should be carried out in accordance with ISA and other related pronouncements issued by the IAASB of IFAC.

63. **Implement a simplified financial reporting framework for small and medium-size enterprises.** All but the smallest enterprises may be subjected to the simplified financial reporting framework.[13] In this regard, the IFRS for SMEs should be mandatory for the preparation of financial statements of medium-size enterprises that do not belong to the category of public interest entities. More simplified financial reporting requirements should be introduced for the small-size business enterprises and micro-entities. These simplified reporting requirements may be based on *Accounting and Financial Reporting Guidelines for SMEs* developed by the United Nations Conference on Trade and Development. Also, the *Financial Reporting Standard for Smaller Entities*, issued by the UK Accounting Standards Board might be used as a reference point.

64. **Develop an IFRS and ISA dissemination and implementation strategy.** The LICPA and the Central Bank of Liberia should work jointly to design an implementation strategy highlighting clear and measurable benchmarks for the adoption of IFRS in Liberian banks by the December 2012 deadline. Shareholders, directors, and representatives from the corporate sector should be involved in designing the strategy. The current arrangements for the adoption of IFRS by commercial banks are inadequate given the experience of European countries. Many European countries designed a four-year implementation strategy toward the adoption of IFRS. The LICPA and the Central Bank should issue practical implementation guidance on IFRS illustrating local cases and the following:

- Develop public awareness programs highlighting the benefits of compliance with standards and good practice;
- Undertake capacity-building programs for corporate accountants, auditors, and regulators;
- Set adoption deadline for public interest entities;

[13] The definition of micro-enterprise in the context of financial reporting will need to be developed.

- Develop cases focusing on emerging international developments and the role of transparent financial reporting in attracting both strategic and portfolio investors; and
- Issue interpretations on IFRS and ISA in consultation with the IFRC (of IASB) and the IAASB (of IFAC), respectively.

D. Independent Audit Oversight

65. **Establish the Audit Quality Assurance Board as an independent oversight arrangement to monitor and enforce auditing requirements.** Given the inadequate number of experienced and professional accountants in Liberia, it is important to operationalize the Audit Quality Assurance Board (as contained in the proposed LICPA Act) with the involvement of the twinning partner. Section 18 of the proposed LICPA Act 2010 would establish an Audit Quality Assurance Board to perform this role as a unit of LICPA. The needed improvement would separate the Board from LICPA governance structure and make it independent under the auspices of the Minister of Finance with membership inclusive of the Central Bank of Liberia, Ministry of Justice, LICPA, Insurance Commission, Auditor General, Comptroller General, the Revenue Office, the Registrar of Companies, the Liberian Bar Association, the Liberian Bankers Association, and Liberian Chamber of Commerce. Efforts should be made to learn from the twinning partner's experiences and to use capacities from the partner in order to make the Audit Quality Assurance Board effectively operational. The Board should be empowered to delegate audit firm inspection work to competent regional or international organizations. The scope of work of the Audit Quality Assurance Board would include the following:

- ***Audit practice review.*** Specialists should perform practice reviews of the auditors of public interest entities, ensuring that each firm is reviewed every three years in accordance with IFAC SMO 1. After completion of the initial review, recommendations should be provided to the audit firms for overcoming detected shortcomings concerning quality control standards. The practice review should evaluate an audit firm's quality control, its audit approach, and the working papers with regard to selected audit engagements. The policies and procedures for carrying out audit practice review activities should be developed by the Board.
- ***Investigation.*** Valid complaints against auditors and audit firms and any irregularities identified from the reviews of audit practices should be investigated.
- ***Disciplinary power.*** Following reviews, steps should be taken for appropriate sanctions against the violators of accounting and auditing requirements.

66. **Ensure coordination between the Audit Quality Assurance Board and LICPA.** There should be coordination between the oversight board and LICPA in order to function cohesively, and together ensure sustainable, high-quality corporate financial reporting. The proposed Audit Quality Assurance Board should focus on compliance while LICPA complements the efforts by enforcing required professional standards through the set up of an investigation and disciplinary mechanism. This mechanism would address enforcement and compliance issues related to ethics and other professional standards, illegal exercise, as well as other complaints brought directly to their attention but not necessarily focused on compliance with quality control standards.

67. **Strengthen the monitoring and enforcement mechanism.** High-quality financial reporting cannot be ensured by the lone act of adopting international standards. To a large extent, the quality depends on the design and implementation of a proper monitoring and enforcement system. There are three crucial links in the enforcement process that need strengthening:

- Company directors with legal obligations to prepare financial statements must ensure that accounting staff apply standards properly.
- Statutory auditors must discharge their professional responsibilities independently in order to provide assurance that financial statements comply with all applicable standards and portray "true and fair" view of enterprises' conditions and results of the operations.
- Both self-regulatory organizations and statutory regulators must ensure proper compliance with the standards and consistently take actions against violators.

To ensure effective enforcement, the regulators in particular need adequate capacity, authority, and independence. Since they cover a wide range of sophisticated and complicated activities, their actions should not be constrained by lack of appropriate human and financial resources. Strengthening the enforcement mechanism through increasing capacity of the regulators and granting them more authority in dealing with infractions of accounting and auditing standards is particularly important for Liberia to supplement Government's efforts to promote investment and to consolidate a sound financial sector. Any capacity-building effort should focus on the following:

- Recruiting qualified accountants and other relevant technically qualified people in the respective regulatory bodies. It is important to strengthen the capacity of the regulatory regime to avoid a false sense of security by stakeholders. Specifically, the Central Bank and the Insurance Bureau should further strengthen their capacities to conduct in-depth review of financial statements of banks and insurance companies for determining the degree of compliance with the applicable standards, not only in appearance but also in substance. These regulators should have enough authority to impose administrative sanctions for infractions.
- Providing meaningful IFRS theoretical and practical training to the staff of the regulatory bodies so that they can enforce applicable accounting standards.
- Providing training to corporate accountants in public interest entities highlighting the practical applications of IFRS in order to build their technical capacities to prepare IFRS-compliant financial statements.
- Facilitating access of smaller audit firms to materials on recent developments in auditing practices, in particular, the practical application of ISA to IFRS-compliant financial statements.

Additionally, steps should be taken to empower the regulators with necessary legal backing to sanction the preparers of financial statements and auditors for violation of financial reporting and auditing requirements. The regulators should have the authority to issue warnings, impose fines and penalties, and restrict particular auditor(s) from carrying out statutory audit of public interest entities.

68. **Strengthen the capacity of the General Auditing Commission.** The General Auditing Commission has a critical role to play in ensuring accountability in the use of public resources. To this end, immediate steps should be taken to train, support, and equip a new team of auditors within the General Auditing Commission in order to strengthen the Government's external audit function through the following:

- Increase staffing capacity of General Auditing Commission to perform audits for all ministries, departments and state-owned enterprises;
- Procure licenses for computer-aided auditing techniques (software) and pay for annual maintenance of the software licenses;
- Train the audit teams on the use of the computer-aided auditing techniques, including the risk-based audit sampling and data aggregation/disaggregation techniques;
- Train the audit teams on ISA as well as the development of guidance to further assist the staff of the General Auditing Commission in implementing the ISA.

E. Improving Professional Education and Training

69. **Strengthen the accounting program of the University of Liberia to enhance the quality of pre-qualification accountancy education.** The University of Liberia's Accounting Department should be twinned with the accounting department of a world-class university (to be selected through a competitive bidding process). The aim of the twining arrangement is to enhance the capacity of the department in preparing students for the ATSWA and ICAG professional qualifications while building a solid foundation for preparing students for the LICPA professional qualification in the future. The twining arrangement would improve a department's ability to:

- Provide accounting education and training, which includes attracting and maintaining a full-time faculty, with focus on the skills necessary for discharging professional obligations in both the public and private sectors. The integration of IFRS, IPSAS, ISA, IES, as well as use of the IESBA Ethics Education Toolkit, would help strengthen the accountancy education program.
- Build a network with the accounting department of the twining partner in a way that will facilitate knowledge sharing and international best practice in accountancy education.

70. **Improve delivery of continuing professional development.** The LICPA should organize high-quality training programs/workshops to enable accountants and practicing auditors to gain exposure to the practical application of IFRS, ISA, and IFAC-issued Code of Ethics for Professional Accountants. Continuing professional development should be frequently updated to take into account new and revised standards. To meet requirements of continuing professional

development, practitioners should be required to attend such training programs across the country. A monitoring mechanism should be established to ensure attendance to these courses. In case of violation of the rules established for continuing professional development, offenders should be deferred to the disciplinary chamber of LICPA.

F. Other Issues of Relevance

71. **Put in place an arrangement for rotation of audit engagement partners**. Arrangement should be made so that audit firms are required, after conducting audits for one company for a specific number of years, to propose a new partner with responsibility for that particular audit engagement. In cases where an auditor is sole practitioner, the company would need to appoint a new auditor. This would enhance the independence of the auditor in Liberia.

72. **Introduce awareness programs for improving the degree of compliance with accounting and auditing requirements by the public interest entities**. The LICPA, in collaboration with leading audit firms in Liberia, should work to design an awareness program on the importance of compliance with accounting and auditing requirements. Shareholders and top management of public interest entities should be briefed on their responsibility regarding compliance with standards and on enforcement policies. These programs should include case studies demonstrating strengths and weaknesses of financial reporting in Liberia, emerging international developments, and the role of transparent financial reporting in attracting both strategic and portfolio foreign investments.

In Appendix 1, a proposed sequencing of the policy recommendations is provided.

Appendix 1:
Proposed Sequencing for Implementation of ROSC A&A Recommendations

To help guide the implementation of the ROSC recommendations, the ROSC team proposes the following sequencing of activities.

Measures	***Responsible agency and planned actions***	***Timeframe***
Action #1. Pass the LICPA Act of 2010	**Parliament** Take immediate steps to pass the LICPA Act of 2010 currently before Parliament. The new legal provisions should also provide legal backing for the establishment of an independent monitoring and enforcement mechanism in partnership with LICPA	1 year
Action # 2 Modernize the statutory framework of accounting and auditing	**Ministry of Finance/Commerce** Revise the Association Law of 1976 and the Insurance Law of 1973. Update provisions of these laws in line with the newly developed regulatory regime of accounting and auditing. The new provisions of the Association Law will give legal backing to an arrangement for issuance of IFRS and ISA as mandatory standards for public interest entities and simplified reporting requirements for small and medium-size enterprises.	1–2 years
Action # 3 Establish the independent oversight arrangement	**Ministry of Finance** Put in place arrangements for establishment of the oversight unit, and functioning of the monitoring and enforcement activities. For carrying out the monitoring activities, expertise from regional and sub-regional organizations can be used while gradually building Liberia's own capacity in this regard.	2–3 years
Action # 4 Establish a twinning arrangement for two years between a developed professional accountancy body and the LICPA	**LICPA** Organizational capacity should be strengthened in line with recent international developments, enabling LICPA to fully comply with the 7 IFAC Statements of Membership Obligation. In addition, the twinning partner will assist LICPA to put in place arrangements for the following: ▪ Issuance of practical application guidance on IFRS, ISA, and Code of Ethics for Professional Accountants; ▪ Issuance of practical application guidance on IPSAS; ▪ Bringing public sector accountants and auditors within the mainstream accountancy profession; ▪ Help implement the memorandum of understanding between LICPA and ICAG for conducting full professional exams in Liberia in the interim; ▪ Starting Liberia's own professional accountancy qualification linking it with sub-regional and regional initiatives; and ▪ Improving the delivery of continuing professional development. ▪ Develop a compliance program action plan and build capacity to comply with the 7 IFAC Statements of Membership Obligations. The compliance program action plan can be a useful tool for professional accountancy organizations to aim projects and activities in line with the critical areas of IFAC SMOs. ▪ Assist in establishing a LICPA secretariat with professionals to support its functions and to expand its revenue base to be a financially self-sustaining institute.	1–5 years

Measures	*Responsible agency and planned actions*	*Timeframe*
	▪ Assist in reforming LICPA governance structure in line with international good practice. ▪ Establish an ongoing dialogue with universities and polytechnics to encourage inclusion of the ATSWA and ICAG syllabi as well as the practical study of IFRS, ISA, IPSAS, and the IFAC Code of Ethics in their accountancy education programs. This will allow accounting students to have a proper understanding of the standards and prepare them for professional exams. The development of the pre-qualification accountancy education is a major priority for the accountancy profession in Liberia.	
Action # 5 Take steps for improving academic and professional curriculum and education	**LICPA** Immediate steps should be taken in consideration of the following recommendations: ▪ Review and update the accounting curricula to incorporate IFRS and ISA at institutions of higher learning. Teaching should focus on the practical implementation aspects of these standards using illustrations and cases. ▪ The ethical issues embedded in business management, auditing, and corporate finance should be incorporated in the curricula. Furthermore, emphasis should be placed on teaching communication skills and developing critical-thinking ability of students. ▪ Arrange retraining of university and college teachers for improving their knowledge base for teaching modern accounting subjects, including practical aspects of IFRS and ISA. ▪ Review the curricula for adequate coverage of professional ethics. Business ethics should be taught as a separate subject to professional accountants. ▪ Provide IFRS training to officials of relevant regulatory bodies in order to improve their capacities to effectively monitor and enforce applicable accounting and auditing requirements.	1–5 years
Action # 6 Design, develop, and deliver training programs on IAS/IFRS and IPSAS	**LICPA** Design, develop, and deliver a training-of-trainers program involving international experts, for 50 master trainers (specialists who will act in future as trainers on IAS/IFRS) representing academia, profession, and regulators, on practical application of IAS/IFRS and IPSAS; the training program should be organized in Liberia and should be offered throughout the country.	2–5 years
Action #7 Enhance the capacity of General Auditing Commission, Central Bank of Liberia, and Bureau of Insurance	**Ministry of Finance/General Auditing Commission/Central Bank** Immediate steps should be taken in considering of the following: ▪ Increase General Auditing Commission staffing capacity to conduct quality assurances for all ministries, departments, and state-owned enterprises. ▪ Procure licenses for computer-aided auditing techniques (software) and pay for annual maintenance of the software licenses. ▪ Training the audit teams on the use of the computer-aided auditing techniques, including the risk-based audit sampling and data aggregation/disaggregation techniques. ▪ Increase the staffing capacity of Central Bank and the Bureau of Insurance to help with oversight of bank and non-bank financial institutions.	1–3 years