

**ADDRESS BY DR. THE HON. OMAR DAVIES
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Expectations of the Accountancy Profession in Jamaica

I wish to congratulate Mr. Eric Crawford, Chairman, and members of the Public Accountancy Board (PAB) for arranging this event to discuss a number of issues facing the accountancy profession in Jamaica. In the recent past, weaknesses in the system of disclosure, financial reporting, corporate governance and accounting practices have been exposed in various jurisdictions causing much shock and disbelief. Prominent business persons and firms have been revealed to have been involved in practices designed to cheat the public and to enrich themselves. Furthermore, there are signs that the various regulatory systems failed to keep up with the needs of today's investors and with the complex transactions that now characterise corporate activities. Whilst developments in Jamaica have not been as spectacular, it would be unwise for us not to learn from the experiences of other countries.

Since the Board was reconstituted in 2000, it has worked tirelessly to promote a number of important reforms in the oversight machinery for the accounting profession, and this is a unique opportunity for all stakeholders to review of its initiatives and to discuss others which are likely to form part of the agenda for the future.

Within this context, I have been asked to outline my expectations of the accountancy profession. My observations in this regard, are driven by two key public policy considerations. First of all, a modern and dynamic market economy must have, as its foundation, a robust audit and financial reporting system. It is at the heart of capital market development and is fundamental to maintaining investor confidence. In this regard, the development of appropriate standards for presentation of information that ensure that financial reports are accurate, standardised, and are understood by a broad range of users, must be a public policy priority. This is particularly important as we operate in an increasingly liberalised economy, with

participation from a wide range of investors, domestic and foreign, with a clear specific objective to foster more cross-boundary transactions. In that regard, I note that one of the presentations which will follow mine speaks directly to the implications of the CSME on the profession.

Secondly, Government's interest in creating improved accounting and auditing systems also stems from its ownership of a number of entities engaged in strategic sectors of the economy where increased performance and efficiency are paramount. Failure to accurately assess performance has serious consequences for the economy, as a whole, and for the fiscal budget in particular. Therefore, government has a keen interest in creating strong and effective standards for accounting and auditing driven also by the need to promote efficiency and enhanced accountability in public sector entities.

Hence the accountancy profession must function effectively and in the public's interest. The key areas which I will focus on are: the regulatory

environment; the development of appropriate standards; monitoring and disciplinary oversight, enhancing the quality of audits and oversight and finally corporate accountability. Finally in concluding, I will raise a number of emerging issues which are worthy of consideration by the Board.

Regulatory Framework

Highly publicised auditing failures in the USA and elsewhere have shaken public confidence in the quality of financial reporting system in many jurisdictions. Even before these high profile corporate failures, certain deficiencies came to light in Jamaica from as early as 1998 through the Government's intervention in the financial sector. I shall not dwell on these, except to say that, there was clear evidence that some members of the accounting profession, either through deliberate or unintentional misrepresentation of the true state of affairs of many entities, have to share some of the blame for the demise of these institutions. Our objective,

therefore, is to learn from this experience and to strive to prevent similar failures from recurring.

Jurisdictions have responded in various ways to the audit failures, but have all sought to implement enhanced oversight framework for the accounting profession. Jamaica is no exception in this regard. The Public Accountancy Board, which was created in the 1970s, had been dormant for a number of years, and was brought within the regulatory machinery which is under the responsibility of the Ministry of Finance and Planning. A new Board was appointed and its members moved quickly to strengthen the Public Accountancy Act to promote enhanced standards of professionalism and to increase its authority over registered public accountants in Jamaica. The specific amendments which I introduced in the House of Representative earlier this year are to be discussed later in the programme so I will not elaborate on them here.

Going forward, I believe that the current regulatory regime is adequate, given our resources and the size of the profession. The Board with enhanced legal authority will be at the centre of the regulatory process and will play the lead role in protecting the public's interest. However, the profession itself must play a pivotal role in resolving the vulnerabilities and weaknesses which could undermine its integrity in the eyes of the public.

The current legislation provides for representation by the Institute of Chartered Accounts of Jamaica (ICAJ) on the PAB, and the recent amendments to the Act provide a formal mechanism for the Institute to undertake specific functions on behalf of the Board. Hence, we are confident that the input from the Institute can transform the current system into one which will inspire public confidence as well as provide the flexibility to respond to the changes which are taking place in the accounting profession globally.

One issue which we will have to keep constantly under review is the composition of the PAB and its appointment, in order to ensure that it remains independent and capable of addressing the broad range of public policy issues related to the accounting profession.

Monitoring and Disciplinary Oversight

Once systems are developed and implemented, there should be vigilance in monitoring and enforcement, to ensure compliance. Within the profession, it is expected that leaders will be proactive in strengthening and updating systems to protect its integrity.

An area where I believe there is need for improvement, and which lends itself to a stronger collaborative relationship between the Board and the ICAJ, is the creation of an effective disciplinary mechanism. The profession currently adheres to established standards. However, a mechanism must be in place to monitor adherence to these standards, to promote prompt

investigation of violations and to take disciplinary actions against substandard performance and questionable conduct of members. Each individual needs to recognise his own professional responsibilities in the performance of his job. However, the truth is that we still have a far way to go in seeking to establish credible and transparent mechanisms to promote discipline and to deal with those who deviate from established Code of Conduct.

One reality which we face is that we live and operate in a small society. And so, protecting the confidentiality of investigations into disciplinary matters and also into alleged audit failures is always a challenge. Similarly, those charged with enforcing discipline are also sometimes faced with the challenge of taking action against a colleague with whom you may have interacted over many years. Nevertheless, if we are to maintain confidence in the integrity of the system, there must be mechanisms which are not only effective and transparent, but seem to be so.

Enhancing quality of Audits and Financial Reporting

Another area where the profession needs to become more proactive is in the monitoring of audit quality and competence. The importance of continuing education is vital in this regard, and the ICAJ must be commended for the priority which it has given to this issue. However, while we seek to develop the skills of practitioners, attention should also be focussed on promoting full adherence to International Accounting Standards (now International Financial Reporting Standards) to ensure comparability across sectors of the economy. But even as we accept those standards, ways should be found to ensure that financial reports are understood more easily by users, and, where necessary, I would urge the ICAJ to ensure that they are appropriate for our local situation.

Corporate Accountability

Another key role for the profession is the promotion of improved corporate governance and reforms designed to increase corporate accountability.

Government, as owner of a number of entities, has taken innovative steps in this regard which are aimed at improving the framework for accountability of public sector entities. Within the Public Sector, the Public Bodies Management and Accountability Act of 2001 speaks to various accounting related matters, such as the timely preparation of accounts, the role of audit committees, the development of a code of audit practices, and the right of auditors to information. It is expected that the Act, if fully enforced, will promote improved financial reporting among Public Bodies.

Unfinished agenda

While steps have been taken to modernise accounting and audit practices and also to correct a number of existing deficiencies, there are still a few critical areas which need to be addressed. Other jurisdictions have sought to address them through ongoing reforms, and I would encourage the Board to lead the discussions on the appropriate stance for the profession in Jamaica

to ascertain whether any adjustment of current practice is needed. Among the issues, I would include the following:

1. Dealing with a number of issues related to audit independence e.g. rules associated with the scope of non-audit services to be performed by an audit firm;
2. Mandatory period for the rotation of auditors;
3. Responsibilities of CEOs, financial officers and penalties for making fraudulent assertions used in the preparation of statements.
4. Monitoring of audit quality - who audits the auditors? Developing stronger peer review mechanisms which can be promoted to monitor the quality of audits of firms and to ensure that adequate internal controls are in place.

Conclusion

In closing, let me once again congratulate the PAB on this initiative. Having seen the agenda for the rest of the seminar, I have no doubt that all who participate will benefit greatly.