REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Republic of Tunisia

ACCOUNTING AND AUDITING

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Executive Summary

This report provides an assessment of accounting, financial reporting and auditing requirements and practices within the enterprise and financial sectors in Tunisia. The analysis of practices is based—among others—on the review of a sample of 16 financial statements prepared in accordance with Tunisian Accounting Standards, including 6 listed enterprise sector companies, 3 listed credit institutions and 3 insurance undertakings (of which 2 are listed). The assessment uses International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), and the relevant portions of European Union (EU) law (also known as the *acquis communautaire*) as benchmarks and draws on international experience and good practices in the field of accounting and audit regulation. As Tunisia deepens its partnership with the European Union and becomes more integrated in the world market, the country monitors the development of the *acquis communautaire* and enacts legislation that draws upon it.

In law, Tunisia seeks to gradually enact legislation, which draws upon internationally accepted practices, including accounting standards inspired from IFRS, auditing standards consistent with International Standards on Auditing, and draws upon the relevant portions of the *acquis communautaire* to modernize its legal and regulatory framework. The existence of a well-developed *acquis* in the area of accounting and auditing regulation facilitates the choice of appropriate models to follow. However - like EU Member States - Tunisia, once it chooses a legislative and a regulatory model, has to redesign and to reorganize its institutions and to strengthen them in order to be able to implement and to enforce the principles set out in the *acquis communautaire*. In addition, policymakers have to keep abreast with ongoing changes to the internationally accepted practices, which are part of the international response to corporate scandals.

Tunisia was a forerunner in a number of ways, including when it introduced public oversight of the audit profession as early as the early 80s. While public oversight is now internationally accepted as a major element in the maintenance of confidence in the audit function, Tunisia adopted a public oversight system in the early 80s when most developed economies were still embracing the concept of self-regulation of the audit profession without acknowledging that a self-regulating profession runs a risk of conflicts of interests in dealing with its shortcomings. However, Tunisia did not consistently maintain the momentum, which delayed improvements in accounting and audit regulation compared to recent improvements in good practices on the international scene. For example, the imposition of paramount accounting requirements, such as consolidation, insurance, and financial instrument accounting, has been delayed. In practice, the related legislations were not introduced; however they could be quickly developed and implemented.

Executive Summary (Continued)

In practice, Tunisian legislation which is *avant-garde* and well designed faces problems in the application of the law. Currently, compliance with accounting requirements in Tunisia is not always effectively and consistently enforced due to deficiencies in the three core pillars of any enforcement regime, i.e., management, statutory auditors, and regulators. While the Central Bank of Tunisia and the Ministry of Finance seek to enforce accounting standards in credit institutions and insurance undertakings, respectively, their mandate implies a focus on prudential requirements. The Financial Market Council seeks to enforce accounting standards in general purpose financial statements of companies raising funds from the public but does not consistently demand restatement of accounting issues it discovers or impose sanctions on offenders. Among unregulated enterprises, including government business enterprises and large and medium sized privately held enterprises, enforcement rests on corporate managers and directors, and statutory auditors. However, managers and auditors do not consistently comply with accounting and auditing requirements, which adversely impact the Tunisian economy. Corporate managers have to change their practice, from one of concealing their enterprise's financial condition and performance or massaging earnings to reduce taxation, to letting the unvarnished numbers tell the story. The audit profession must renew its commitment to quality, through continuous professional education, independence and disciplinary actions against mediocre auditors. In this context, it should be noted that a new law on strengthening the security of the financial sector was passed in October 2005 which includes the mandatory rotation of the statutory auditor's position.

This report recommends changes to law and regulations to align the statutory framework with evolving internationally accepted practices. As the new regulations come into force, priorities will then turn toward building the monitoring, supervisory, and disciplinary regimes necessary to ensure effective compliance. Such policy reforms and institutional capacity building will contribute to promoting private sector growth, through:

(a) Strengthening Tunisia's financial architecture and reducing the risk of financial market crises, and their associated negative economic impacts; [1/]

(b) Ensuring better transparency in terms of financial situation and performance of family groups;

(c) Contributing to foreign direct investment;

(d) Helping mobilize domestic savings;

(e) Facilitating the access of smaller-scale corporate borrowers, including small and medium enterprises, to credit from the formal financial sector by shifting gradually from collateral-based lending decisions to lending decision, which are based on the financial performance of the prospective borrower;

(f) Improving the assessment and collection of taxes on corporate profits;

(g) Allowing investors to evaluate corporate prospects and make informed investment and voting decisions, which will result in a lower cost of capital and a better allocation of resources; and

Allowing shareholders and the public at large to assess management performance, thus influencing its behavior (financial reporting is also a building block of a market-based monitoring of companies).

[1/] The Central Bank of Tunisia strengthened its transparency process in 2001 and 2003 by requiring that their clients, whose commitments total more than 5.0 million TND, submit financial statements audited by a authorized statutory auditor. Moreover, Banks are also required to ask non listed clients and whose financial commitments represent more than 25 million TND to submit: (a) a recent rating report from an official agency to the Central Bank of Tunisia; (b) a monthly financial statement; (c) a list of client beneficiaries of monthly disbursed funds; and (d) all financial replenishments and relevant financial statements for the last two accounting periods.

This report was prepared by a World Bank team on the basis of a diagnostic review carried out in Tunisia from September to December 2003. The Bank team was led by Frédéric Gielen (ECSPS). The review was conducted through a participatory process involving various stakeholders and was led by the country authorities.

I. INTRODUCTION

1. This assessment of accounting and auditing practices in Tunisia is part of a joint initiative of the World Bank and the International Monetary Fund (IMF) to prepare Reports on the Observance of Standards and Codes (ROSCs). The assessment focuses on the strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting. The assessment involves a review of both mandatory requirements and actual practice. It uses International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), and internationally accepted practices in the field of accounting and audit regulation, including the relevant portions of European Union (EU) law (also known as the *acquis communautaire*), as benchmarks. As Tunisia deepens its partnership with the European Union and becomes more integrated in the world market, the country monitors the development of the *acquis* and enacts legislation that draws upon it.

2. Tunisia, with a population of 9.6 million, has a Gross Domestic Product (GDP) per capita of US$2,531 for 2003 and of US$7,076 based on purchasing-power-parity (PPP)—about 18 percent above the Middle East and North Africa average.[1] Once primarily based on agriculture, oil and phosphates, the Tunisian economy has become more diverse and now has important manufacturing and tourism sectors.

3. The financial system is a mixture of institutions offering a variety of instruments and services. There are 19 commercial banks (only five are state-run, accounting for less than 44.2 percent of total bank assets), one development bank, eight offshore banks and two merchant banks. There are, in addition, 11 leasing companies, two factoring companies, a stock exchange and a growing number of investment funds. The banking sector is regulated and supervised by the Central Bank of Tunisia, *Banque Centrale de Tunisie*. The insurance sector is relatively undeveloped and in poor financial shape, although financial restructuring of the automobile insurance is under way. The ratio of insurance premiums to GDP is under 2%, but is beginning to expand. At the end of 2003, out of a total of 22 insurance undertakings, 18 were Tunisian and 4 are foreign.

4. Tunisian financial markets consist of the semi-privatized Tunis Stock Exchange, *Bourse des valeurs mobilières de Tunis (BVMT)*, and a number of bond and mixed bond/stock investment funds. The government intended the stock exchange, which opened in 1990, to serve as an alternative source of funding through the mobilization of domestic savings and to encourage foreign investment. It has hardly succeeded in both aims; in matter of fact in 2002 the share of corporate financing raised in the market was only 1% of the banks credit. The sector is regulated by a state-run watchdog, the Financial Market Council, *Conseil du marché financier*. As of end 2003, only 45 companies were listed on the stock exchange, including 11 banks and three insurance undertakings. As of December 31, 2003, the market capitalization of the 45 companies listed on the Tunis Stock Exchange was TND 2.98 billion (approximately US$2.34 billion).

5. The number of authorized investment funds rose rapidly in the early 1990s. At the start of 2001 there were 28 open-ended investment funds (SICAVs); 87 closed-ended investment funds (SICAFs); and 26 venture capital funds (SICARs), managing a total of TND 2.1 billion (equivalent to US$1.65 billion).[2] Total SICAV assets have stagnated to about 5 percent of GDP since the year 2000, reflecting the weakness of the stock exchange.

6. Tunisia's industrial sector is dominated by micro enterprises and small and medium enterprises (SMEs). Out of the 84,500 formal sector firms (excluding the self-employed), 83 percent are micro enterprises (less than six employees), and 15 percent SMEs (between 6 and 100

[1] International Monetary Fund, World Economic Outlook Database, April 2004.

[2] All figures in this report are based on Tunisian Dinar (TND) 1.27 = US$1.00, the rate applicable on April 30, 2004.

employees). SMEs play an important role in job creation, as they account for 30 percent of industrial employment. However, the bulk of industrial employment in Tunisia, an estimated 61 percent of total, is provided by large companies with more than 100 employees. Despite privatization efforts over the 1990s, the size of government business enterprises remains important.[3] Certain key economic sectors such as power and port services are still state-controlled, despite the government's plans to accelerate opening up of infrastructure services to private sector participation.

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

7. **In law, Tunisia seeks to gradually enact legislation, which draws upon internationally accepted practices, including accounting standards inspired from IFRS, auditing standards consistent with International Standards on Auditing, and draws upon the relevant portions of the *acquis communautaire* to modernize its legal and regulatory framework.** The existence of a well-developed *acquis* in the area of accounting and auditing regulation facilitates the choice of appropriate models to follow. However - like EU Member States - Tunisia, once it chooses a legislative and a regulatory model, it has to redesign and to reorganize its institutions and to strengthen them in order to be able to implement and to enforce the principles set out in the *acquis communautaire*. In addition, policymakers have to keep abreast with ongoing changes to the internationally accepted practices, which are part of the international response to corporate scandals.

8. **Business activities in Tunisia are primarily regulated by the Law on Commercial Companies[4] and commercial code which was influenced by the French legal tradition.** The most widely used and modern company structures are the limited liability companies, *société à responsabilité limitée (SARL)*, and joint stock companies, *société anonyme (SA)*. Most Tunisian companies select the limited liability company structure (approximately 34,000) rather than the joint stock company structure (approximately 3,800). Only a joint stock company may issue shares to the public, and thus be listed on the Tunis Stock Exchange. While most joint stock companies have a single-tier management structure (management board), a joint stock company may elect to have a two-tier management structure (management board and supervisory board). Moreover, the law [5] on strengthening the security of financial relations, passed in October 2005, and originally restricted to credit enterprises and insurance companies, has extended the obligation to set up an audit committee to the following entities: (a) public savings companies, except those ranked as such due to financial obligations; (b) primary companies whose consolidated financial holdings are greater than the amount established by decree; and (c) the companies whose assets are within the limits set out by decree related to total of balance sheet, total amount and their financial obligations with financial institutions and total of other financial commitments.

9. **The collective responsibility of board members for the probity of financial statements is consistent with internationally accepted good practices, but directors do not always act accordingly.** Under the Law on Commercial Companies, the probity of a company's financial statements is a collective responsibility of the board: in a one-tier structure, this falls to both executive and non-executive directors; and in a two-tier structure, this falls to both the managing directors and the supervisory directors. This is an appropriate mechanism to avoid a limited

[3] This report uses the term "government business enterprise" rather than "state owned enterprises" to be in conformity with the terminology of the International Public Sector Accounting Standards set by the Public Sector Committee of the International Federation of Accountants (IFAC). In Tunisia, this term encompasses the public enterprises established according to law no 9-89 of February 1, 1989 relative to the participations and to the public enterprises as modified by law no 96 -74 of July 29, 1996.

[4] Law number 93 -2000 of November 2000 on promulgation of the Commercial Companies Code,

[5] Law Number 96-2005 of October 18, 2005, on strengthening the security of financial relations.

number of board members, in particular certain executive directors whose performance is to be reflected in financial statements, having a decisive role in determining their content.

10. **The Tunisian legislation relating to directors' liability is sound but has not yet been tested.** In addition to the aforementioned civil liability, the Law on Commercial Companies recognizes presentation and submission of false financial statements as a criminal offence. However observers were unsure of the enforceability of civil and criminal liability due to the lack of applicable landmark higher court decisions. [6]

11. **The Law on Commercial Companies requires that joint stock companies (*société anonyme*) prepare, publish, and file consolidated financial statements prepared in conformity with applicable accounting standards beginning 2001.**[7] The consolidated financial statements must be audited by a chartered accountant[8]. Based on the original law of Commercial Companies, amended by law 117 -2001 of December 6, 2001 a parent company must be a joint stock company (*société anonyme*[9]) which ensures that all groups are required to prepare consolidated financial statements. However, as discussed more thoroughly in paragraph 0 below, the Tunisian financial reporting framework pertaining to consolidation has two significant drawbacks: (a) it does not include significant existing IFRS requirements and proposed IFRS amendments, and (b) it would not allow Tunisian companies to claim compliance with IFRS, which is increasingly important for foreign direct and portfolio investment as well as trade and financial relationships with foreign partners. Implementation of robust consolidation requirements will only partially address the need for increased transparency. It is estimated that there are approximately 130 horizontal groups, which do not fall under the consolidation requirements set out in the Law on Commercial Companies. While this problem undoubtedly occurs in other countries, including those with developed financial reporting requirements and practice, its extent is more widespread in Tunisia and could adversely impact the banking sector, since these groups appear to be heavily indebted.

12. **The Law on Credit Institutions[10] requires credit institutions to provide timely information to shareholders and investors.** Credit institutions are required to prepare their financial statements in conformity with Tunisian Accounting Standards (TAS), including specific bank accounting standards, which differ significantly from IFRS (see paragraph 0 below). In addition, credit institutions are required to publish their audited financial statements in the Official Journal of the Republic of Tunisia and in Official Bulletin of the Council of the Finanical Market within four months of the fiscal year end. It seems that the Tunisian banking legislations are largely influenced by the prudential legislations despite the fact that a number of credit institutions are listed in the stock market [11] (see paragraph 0 below).

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6 The ROSC team is not aware of any landmark higher court decisions in the last five years.

7 However, Tunisian Accounting Standards pertaining to consolidation were enacted in late 2003 only. Consequently, the legal requirement to prepare consolidated financial statements was largely ignored in 2001 and 2002. At the date of this report, it is still too early to assess compliance with this requirement for the fiscal year ended December 31, 2003.

8 Article 471 of law No 117-2001 dated December 6, 2001, amending the law on Commercial companies, imposing on parent companies the obligation of preparing and submitting to the auditors consolidated financial statements in conformity with the current legislations in addition to their own annual financial statements and audit obligations. The consolidated financial statements must be controlled by a chartered accountant. The chartered accountant will only certify of the consolidated financial statements after reviewing the audit reports of all companies affiliated to the group whenever those companies have to be subjected to auditing by chartered accountants.

9 Article 462 of Law No. 117-2001 dated December 6, 2001, amending the Law on Commercial Companies.

10 Law No. 65-2001 dated July 10, 2001, on Credit Institutions.

11 Sixteen credit institutions are listed on the Tunis Stock Exchange of which five are leasing companies. Foreign equity stakes in these credit institutions were up to 50.38 percent as at December 31, 2003.

13. **The period required for the publication of financial information related to the insurance companies have been shortened.** The insurance companies are required to prepare their financial statements in conformity with Tunisian Companies Accounting Standards, including specific insurance accounting standards, which differ significantly from IFRS (see paragraph 0 below). Insurance companies are also required to publish their audited financial statements in the Official Journal of the Republic of Tunisia and in two daily newspapers, including an Arabic language newspaper. As entities seeking public savings, the insurance companies have had the period required for publishing their financial statements reduced to 4 months after the end of the financial year instead of 1 month after their general assembly meeting which is usually 6 months after the audit exercise closing date (before 2005). This new measure ensures that the information is made available to the capital market in a reasonable time[12]

14. **The extent of the legal control of the Tunisian enterprises accounts is extremely large and could compromise the quality of the control.** The Law on Commercial Companies requires appointment of a statutory auditor by all joint stock companies and all limited liability companies subject to some criteria. The criteria for those later companies were, until October 2005, that their share capital is equal to or greater than TND 20,000 for companies with limited responsiblities and to a capital exceeding a specified amount to be fixed by a decree from the Minister in charge of Finance for other types of companies have now been amended as of the date of the promulgation of the law concerning the reinforcement of the security of the financial relations. The criteria are now three limiting figures, fixed by decree and relative to the total turnover, the first one dealing with the total of tax free products and the other to the average number of employees. These limits, fixed by decree no 1546-2006 of June 6, 2006 are 100,000 TND for the turnover, 300,000 TND for the total tax free products and 10 for the average number of employees. Also, all government business (public) enterprises are obliged to designate a review accountant. The old thresholds resulted in auditing enterprises which did not attract public interest and this led to the adoption, by the legislator, of the new criteria for the obligatory designation of chartered accountant. As shown by the results of a World Bank study[13], over-extensive audit requirement may undermine audit quality, even for the *public interest entities*,[14] since the entire culture of quality and compliance will be compromised, with no countervailing safeguards.[15] The ROSC team noted that a significant number of limited liability companies (primarily SMEs) failed to appoint a statutory auditor in spite of various fines and liability provisions set out in the Law on Commercial Companies.[16]

15. **Shareholders appoint one or more statutory auditor(s) from the membership of the Institute of Chartered Accountants (*Ordre des Experts Comptables*) for a renewable three-year period.[17]** The Law on Commercial Companies includes specific mechanisms that provide additional safeguards to auditor's independence. For example, a statutory auditor may not resign or be dismissed without a reasonable cause. However, it should be noted that the Law on Commercial Companies allows companies which do not fulfill the limiting figures, fixed by decree, relative to the total turnover, total tax free products and total average number of

[12] Three insurance companies are listed on the Tunis Stock Exchange. Foreign equity stakes in one of those companies were up to 22.02 percent as at December 31, 2003.

[13] Implementation of International Accounting and Auditing Standards – Lessons Learned from the World Bank' s Accounting and Auditing ROSC Program, World Bank, September 2004.

[14] Within this report, *public interest entities* mean enterprises in which the general public has an interest by virtue of the nature of their business, their size, their number of employees, or their range of stakeholders. Examples of *public interest entities* include banks, insurance companies, investment funds, pension funds, listed companies, and large enterprises.

[15] Based on available data, these thresholds impose statutory annual audits on approximately 3,800 joint stock companies, 15,000 limited liability companies, and 187 government business enterprises. Among those, 80 percent companies have a turnover of less than TND 3 million (see paragraph 0).

[16] The high degree of non-compliance might however be due to the recent introduction of statutory audit requirements among SMEs.

[17] The appointment of statutory auditors in government business enterprises is regulated by Decree No. 87-529 on Statutory Audits in Government Business Enterprises (see paragraph 0).

employees to appoint an "accounting technician" registered in the list of statutory auditors with the Society of Accountants (*Compagnie des Comptables*) (see paragraph 0 below). These limits have been fixed by decree 1546-2006 of June 6, 2006 at 1,500,000 TND for the total of the turnover, at 2,000,000 TND for the tax free products and at 30 for the average number of employees.

16. **There are additional legal requirements concerning audit of credit institutions, insurance undertakings, undertakings for collective investment, companies raising funds from the public,[18] and government business enterprises.** In relation to the statutory auditors of the licensees of the Central Bank of Tunisia (credit institutions), the Ministry of Finance (insurance undertakings), the Financial Market Council (companies raising funds from the public, including undertakings for collective investment), and of government business enterprises the following apply:

- ***Insurance undertakings–emphasis on prudential matters.*** The Insurance Law requires the statutory auditor to communicate to the Ministry of Finance, which supervises the insurance sector, certain matters which may threaten the insurance undertaking or the interests of the beneficiaries of an insurance policy. In addition, the law imposes on the statutory auditor the obligation to submit to the Ministry of Finance a report dealing with the undertaken control and that in addition to the report to be submitted to the General Assembly of the Shareholders. The auditor's duty of confidentiality is overridden by statute, i.e. the Ministry of Finance is entitled to receive confidential information from the auditors. In addition, statutory auditors are required to submit a long form report to the Ministry of Finance within six months of the fiscal year end as well as a copy of the auditor's report on the financial statements. Finally, the Law grants the Ministry of Finance the authority to bar a statutory auditor from auditing an insurance undertaking temporarily (up to three years) or permanently.[19].
- ***Credit institutions–emphasis on prudential matters, but lack of focus on capital market requirements.*** The Law on Credit Institutions requires the statutory auditor to communicate to the Central Bank of Tunisia certain matters of which the auditor becomes aware. These include matters, which may threaten the credit institution or the depositors. The auditor's duty of confidentiality is overridden by statute. In addition, the Central Bank set out detailed terms of reference for the long form audit report in Note No. 92/23 dated July 30, 1993, which generally conforms with the recommendations of the Basel Committee on Banking Supervision and the International Federation of Accountants (IFAC)—although predating them—subject to minor adjustments[20, 21]. Finally, the law grants the Central Bank the authority to

[18] Under Article 1 of Law No. 94-117 on the Financial Market, companies raising funds from the public, *sociétés ou organismes faisant appel public à l'épargne*, means all listed companies, all insurance undertakings, all banks, all companies with more than 100 shareholders, and all undertakings for collective investment in transferable securities, etc. By end 2002, companies raising funds from the public included 45 listed companies and 77 non-listed companies with more than 100 shareholders.

[19] Barring a statutory auditor by the Ministry of Finance is relatively recent (April 1, 2003). Up to the end of 2006, only one auditor has been suspended by the Ministry of Finance for a period of 3 years starting February 2005.

[20] See *The Relationship between Banking Supervisor and Bank's External Auditor*, Basel Committee on Banking Supervision, Publication No. 87, January 2002, which has been prepared in association with the IFAC. IFAC published the recommendation as International Auditing Practice Statement (IAPS) No. 1004.

[21] Certain requirement of Note No. 92/23 may be outdated or lack clarity. For example, the Note states that "the (auditor's) reports and opinions must be prepared in conformity wit the standards set by the Institute of Chartered Accountants of Tunisia, the recommendations of the International Accounting Standards Committee (IASC) and the IFAC." Reference to the IASC is somewhat misleading, since Tunisian banks are not required to prepare their financial statements in conformity with IFRS.

bar a statutory auditor from auditing a credit institution temporarily (up to three years) or permanently.[22]

- ***Undertakings for collective investment (UCI)–statutory auditor's contribution to the protection of investors.*** The Law on Undertakings for Collective Investment[23] requires the statutory auditor to communicate to the Financial Market Council certain matters of which the auditor becomes aware. These include matters, which may threaten the undertaking for collective investment or the investors. The auditor's duty of confidentiality is overridden by statute, i.e. the Council is entitled to receive confidential information from the auditors. The Law grants the Financial Market Council the authority to bar a statutory auditor from auditing temporarily (up to three years) or permanently.[24]
- ***Listed companies and companies with more than 100 shareholders–lack of statutory auditor's contribution to the protection of investors.*** The legislation does not include any specific mechanism to further strengthen requirements concerning audits in companies raising funds from the public, including listed companies. The law does not grant the Financial Market Council the authority to bar a statutory auditor from auditing temporarily (up to three years) or permanently, but allows the Council to request a court to do so.
- ***Government business enterprises.*** Decree No. 87-529 on Statutory Audits in Government Business Enterprises requires the statutory auditor to review budgeting, investment, and procurement procedures, and to assess the internal control system.

17. **While the Law on the Trade Registry (1995) requires that companies file their accounting documents with the trade registry within one month following the annual shareholders' meeting, in practice audited financial statements are not yet always timely and readily available.** A Ministerial Order dated February 22, 1996 states that these accounting documents include the balance sheet, the statement of off-balance commitments, and the statutory auditor's report. There is no institutionalized mechanism to enforce this requirement. The ROSC team selected a sample of 20 companies. The team approached the Trade Registry, which is obliged to make these reports public. In all instances, financial statements were not available.[25]

18. **Listed companies must present preliminary un-audited financial statements to the Financial Market Council and the Tunis Stock Exchange within one month of the fiscal year-end, accompanied by a limited review report issued by the statutory auditor.** The preliminary statements must also be published in the Official Bulletin of the Financial Market and in a daily newspaper. The listed enterprises have to submit to the Financial Market Council and to the Tunisian Real Estate Stock Market, the indicators of activity, as fixed by sectors, by the rules of the Financial Market Council, and this at the most twenty days after each trimester, and to publish these trimestrial indicators in the official bulletin of the Financial Market Council and in a daily newspaper. The same enterprises have also to submit to the Council and the Real Estate Stock Market, at the most two months after the first semester of the audit exercise, the financial statements accompanied by the reports of the statutory auditors and to publish them as above.

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22 To date, the Central Bank of Tunisia has never barred a statutory auditor.

23 Law No. 83-2001 dated July 24, 2001, enacting the Code on Undertakings for Collective Investment.

24 Article 51 of No. 2001-83 dated July 24, 2001, enacting the Code on Undertakings for Collective Investment. The Council has taken action against a statutory auditor on one occasion when it noted that the audited net asset value of the undertaking for collective investment was overstated, which resulted in severe losses for investors.

25 It should be noted, however, that the law governing the commercial register was amended by the law on strengthening the security of financial relations as regards sanctions and reference points for submitted documents .

19. **Audited financial statements prepared by listed companies are generally readily available.** The Law on the Financial Market[26] and related regulation require joint stock companies raising funds from the public to file their audited financial statements with the Financial Market Council and the Tunis Stock Exchange at least 15 days prior to the annual shareholders meeting. Also, those companies are required to publish their audited annual financial statements in the Official Journal of the Financial Market Council and in a daily newspaper before their general assembly meetings are held. As is the case in several countries, financial statements published in newspapers are usually abridged (see paragraph 0 below). However, complete audited financial statements are readily available in the Official Journal and are starting to be available on the Tunis Stock Exchange. Unfortunately, many listed companies find these requirements burdensome and duplicative, and some do not comply. The Financial Market Council does not appear to levy severe sanction against those offenders. In 2003, and as a consequence of complaints made by the Financial Market Council, two companies have been asked to appear in front of the first magistrate to present their annual financial statement and in 2004, for the publication of the integrality of their draft financial statements. In order to reinforce the power of the Financial Market Council in this domain, the law dealing with the security of the financial relations, allowed the Council to directly sanction the failing companies

B. The Profession

20. **In line with the international practice, the right to conduct statutory audits of financial statements is reserved for members of the Institute of Chartered Accountants. However, the recent extension of that right to members of the Society of Accountants raises concerns if not accompanied by measures guaranteeing the quality of the audits performed by accounting technicians (*Techniciens en Comptabilité*).** The Law on the Chartered Accountancy Profession[27] created the Institute of Chartered Accountants in 1988. The Institute is managed by a Board and remains under the purview of the Ministry of Finance. In addition, the Ministry and the Institute established a liaison committee to ensure timely and regular communication between them. By the end of June 2006, the Institute had 448 individual members and 141 audit firms.[28] Audit firms include local member firms of international audit firm networks,[29] as well as "truly local firms." The Law on the Accounting Profession[30] created the Society of Accountants, which comprised approximately 1,139 members as of the end of June 2006 (see paragraph 0 above). Among those members, the Society includes 422 accounting technicians who meet more stringent education and experience requirements than other members of the Society. However, education requirements are more lax than those pertaining to Chartered Accountants and fall short of IFAC International Education Standards, in part due to the lack of professional examination. Also, there is little evidence that the Society can ensure an adequate system of quality assurance and effective systems of investigations and sanctions to detect correct and prevent inadequate execution of a statutory audit by all accounting technicians.

21. **The mandate of the Institute and the Society does not explicitly include serving the public interest.** The Laws, which established the bodies, state that the objectives of the Institute and the Society are "to ensure the normal operation of the profession, to enforce the rules and obligations of the profession, and to protect the honor and independence of the profession."

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[26] Ministry of Finance Order dated November 17, 2000, enacting the rules of the Financial Market Council concerning seeking of public saving.

[27] Law No. 108-1988 dated August 18, 1988, on the Chartered Accountancy Profession.

[28] A number of registered sole practitioners are also registered as audit firms.

[29] Local member firms of international audit firm networks audit approximately 70 percent of listed companies. However, they tend not to disclose the legal and structural arrangements in the network. Therefore, readers of financial statements may not be able to assess the extent of reliance that can be placed on the implicit quality assertion that underlies the use of a common international network brand name.

[30] Law No. 16-2002 dated February 4, 2002, on the Accounting Profession.

22. **Chartered Accountants must comply with professional ethics requirements set out in the Code of Professional Duties and stringent independence requirements set out in the Law on Commercial Companies and the Law on the Chartered Accountancy Profession.** A Ministerial Order dated July 26, 1991 requires all chartered accountants to comply with the Code of Professional Duties accompanying the Order. The Code requires compliance with generally accepted ethical standards and as a consequence with the IFAC Code of Ethics for Professional Accountants. These rules are reinforced by the strict obligations of independence foreseen by the Code of the Commercial Companies and by the Law on the Chartered Accountancy Profession. For example, the law prevents statutory auditors from performing audit for a company from which they receives remunerations, or administration remunerations, or remunerations from any of their directors or any shareholder having at least one tenth of the capital.

23. **Tunisian legislation relating to auditor's liability has been tested only recently.** Existing law provides a strong deterrent, but until recently creditors and equity holders tended not to pursue their claims against auditors, in part due to a perception that such claims were too time-consuming and costly. The main issues concerning current Tunisian legislation on auditors' activities include the following:[31]

- **Third parties could claim for damages caused by an auditor's breach of duties.** Under the Law on Commercial Companies, an auditor or an audit firm is obliged to provide auditing services duly and carefully and observe the rules of the profession. The statutory auditor owes a duty to the company and third parties who will rely on the auditor's work. A defense to a negligence action would revolve around disproving that the auditor breached his or her duty of care. Although this has not been tested, experience in countries with similar legal traditions shows that the best evidence that an auditor has met his or her duty of care is that the audit was performed in compliance with applicable auditing standards. The Institute of Chartered Accountants has adopted ISA, which establishes an internationally accepted threshold of due care, subject to recognition of ISA by the courts as described below. However, as shown in paragraph 0 below, the Society of Accountants has not adopted ISA. Therefore, the ROSC team is concerned that the threshold of due care applicable to accounting technicians is lower than at ISA which may constitute an easy defense in court and hamper the rights of plaintiffs.
- **The Law on Commercial Companies identifies cases where an auditor's criminal liability may apply.** There are specific circumstances of the statutory auditor's liabilities included in the Law that could lead up to five years of imprisonment.

The ROSC team noted that the statutory auditor of a SICAV has recently been sentenced to two years in jail. The statutory auditor of a listed company (see paragraph 0 below) has been held in custody since January 2004 and is waiting for the trial. In the second case, the Control Committee determined that the statutory auditor carried out his audit in conformity with applicable standards. In another case, the ROSC team noted that the Control Committee has recently suspended the license of a chartered accountant for five years. The court acknowledged the facts but reduced the suspension to four months. These examples are indicative to clarify civil and criminal liability arrangements, the role of the statutory auditor, and to enhance the relationship between the Institute and the judiciary.

C. Professional Education and Training

[31] This report outlines the legal principles applicable with regard to each of the described areas and some miscellaneous issues. This report is not meant to give an exhaustive rendition of the law nor legal advice.

24. **Membership of the Society of Accountants (as an accounting technician) requires obtaining an accounting degree, being a Tunisian national for at least five years, completing a one-year internship with a member of the Institute or the Society. In addition, to subscribe to the list of statutory auditors, a supplementary internship of at least 2 years with statutory auditor, a member of the of the Order of the Chartered Accountants, is required** The Society does not have in place assessment procedures that ensure candidates admitted to membership as accounting technician are appropriately qualified. The Society fails to test underpinning theoretical knowledge and the practical application of knowledge in accordance with IFAC International Education Standards. The conditions of completing and controlling the internship, and the obligations of the internees, would be fixed by the internal regulations of the enterprises as foreseen by Law no 16-2002 of February 4, 2002 dealing with the organization of the profession.

25. **Full membership in the Institute of Chartered Accountants requires obtaining the Tunisian chartered accountancy diploma, completing a three-year internship, and being a Tunisian national for at least five years.** The Ministry of Higher Education (actually, the National Committee on Chartered Accountancy) administers the written and oral examination. In order to ensure the ability to apply theoretical knowledge in practice, a trainee must also complete practical training for a minimum of three years under the direction of a mentor who is also a member of the Institute of Chartered Accountants. A test of application of theoretical knowledge is included on the examination. At least two-thirds of practical training must be completed with a statutory auditor. The internship is monitored by the Education Committee of the Institute, which supervises the quality of the practical training.

26. **The Institute of Chartered Accountants does not require participation of members in continuing professional education (CPE).** The Institute is well aware that it should ensure that statutory auditors are subject to appropriate programs of continuous education in order to maintain sufficient theoretical knowledge, and professional skills and values, and that failure to respect the continuous education requirements should be subject to appropriate sanctions. The Institute has recently adopted IFAC International Education Guidance, *Continuing Professional Education*, and is currently assessing the impact of the recently issued International Education Standard (IES) No. 7, *Continuing Professional Development (CPD): A Program of Lifelong Learning and Continuing Development of Professional Competence*.

D. Setting Accounting and Auditing Standards

27. **The law on the Enterprise Accounting System[32] provides for establishment of the National Accounting Council, which is an advisory body to the Ministry of Finance.[33]** The National Accounting Council's (which took over from the Supreme Council of Accounting) mandate specifically encompasses the following tasks: review and opine on draft accounting standards including modalities for their application and accounting matters set out in draft laws and regulations. Tunisian Accounting Standards are enacted by Orders issued by the Minister of Finance. The membership of the Council embodies a wide array of stakeholders: the Minister of Finance; the Governor of the Central Bank (or their respective designate); representatives from different ministries with an interest in accounting matters; the supreme audit institution, the accounting and audit profession, and the relevant regulators. The Council has four bodies: a general assembly, a committee, technical working groups, and a permanent secretariat. In practice, the National Accounting Council lacks resources, which impede the timely adoption of standards and related accounting standard-setting activities.

28. **A governmental decree sets out the Tunisian accounting conceptual framework, which is largely based on IASB's *Framework for the Preparation and Presentation of***

[32] Law No. 96-112 dated December 30, 1996, on the enterprise accounting system.
[33] The Council succeeded the Higher Council on Accounting establish by Decree in December 1975.

Financial Statements. The Tunisian framework sets out the concepts that underlie the preparation and presentation of financial statements for external users to assist the Council and the Minister in the development and review of Tunisian Accounting Standards. The development of an exposure draft is generally outsourced to a recognized audit firm and monitored by a steering committee comprised of chartered accountants, members of the Council, etc. The exposure draft is then submitted for comments by a wide array of stakeholders. The review comments are taken into account in preparing the accounting standards enacted by the Minister of Finance upon receipt of the approval of the general meeting of the Council. The standard is then published in the Official Journal.

29. **Accounting standards for credit institutions are supplemented by certain regulations issued by the Central Bank of Tunisia.** Tunisian accounting requirements pertaining to credit institutions are primarily set out in the body of Tunisian Accounting Standards, which include five specific credit institution accounting standards (TAS 21 to 25) supplemented by Central Bank of Tunisia regulations. These regulatory requirements apply to general-purpose financial statements although they obviously reflect the banking supervisors' view on sound accounting, especially loan accounting (see paragraph 0 below). These regulatory requirements are meant to ensure that assets and income are prudently stated.

30. **The Institute of Chartered Accountants adopted International Standards on Auditing in 1999.** Between 1984 and 1990, the Institute issued accounting and auditing standards, which its members were required to apply when preparing and auditing financial statements, respectively. These standards however were seriously deficient for any regulatory role, and most audit firms would refer to ISA for complementary guidance. Following the adoption of the Law on the Enterprise Accounting System in 1997 (see paragraph 0 below), the Board of the Institute adopted IFAC-issued ISA issued as statutory auditing standards applicable in Tunisia beginning in 2000. Paradoxically, the weaknesses of the formerly applicable standards greatly facilitated Tunisia's transition to the unquestionably preeminent ISA.

E. Enforcing Accounting and Auditing Standards

31. **The Code of Commerce specifies that accounting records, which comply with legal and regulatory requirements, can be produced as evidence in court, which creates a positive incentive for compliance among enterprises.** Serious irregularities in maintaining accounting records are considered by tax authorities to be grounds for rejecting the records. While these basic incentives undoubtedly contribute to a certain degree of compliance by Tunisian enterprises, they are not sufficient to achieve compliance with specific accounting measurement, and disclosure requirements. This is also the case in other countries, including those with highly developed financial reporting and practices.

32. **The Financial Market Council seeks to enforce accounting standards in the audited financial statements included in initial and secondary public offering prospectuses.** The Council's 2001 and 2002 Annual Reports highlight a number of substantive noncompliance accounting issues that the Council requested issuers to correct in the prospectuses (i.e. in the audited financial statements) filed with the Council for approval. Issuers need the Council's approval before they can issue equity or debt securities on the market. While the Council effectively performed its watchdog functions on these occasions, the Council's findings are very disturbing, since they reveal two major weaknesses of the Tunisian accounting and auditing environment:

- ***Tunisian Accounting Standards are not always conducive to transparency of financial statements.*** Corporate managers take advantage of lax accounting rules. For example, two companies elected to revalue certain assets (as permitted by Tunisian Accounting Standards) and recorded an unrealized gain in the income

statement in order to balance their operational losses[34] (the ROSC team noted a similar accounting issue in paragraph 45) but did not disclose sufficient information for the readers to assess the impact of this one-off revaluation. The Council demanded that the disclosure be enhanced; it reviewed the revaluation based on the supporting appraisals. As indicated in Section III, Tunisian Accounting Standards are seriously flawed and are not adapted to modern securities market transparency requirements[35]. However, had the issuer's management complied with the spirit of Tunisian Accounting Standards, they would have disclosed all the required information. While this report recommends the adoption of IFRS for listed companies, it also acknowledges that corporate managers must change their practice, from one of massaging earnings to letting unvarnished numbers tell the story.

- ***Statutory auditors must renew their commitment to quality and independence, and the auditors with records of failed audits must face disciplinary actions[36].*** The Council noted several cases where income taxes were not recorded in audited financial statements, which obviously resulted in an overstatement of the reported net income.

33. **The Financial Market Council seeks to enforce publication requirements and accounting standards in the audited financial statements that listed companies file on a regular basis** The Finanical Market Council oversees the obligation to publish (see paragraphs 18 and 19 above). In 2001, the Council proactively reminded issuers of the legal and regulatory publication requirements but did not take any sanctions to enforce compliance.[37] The Council also monitors compliance with accounting standards. Its 2001 and 2002 Annual Reports highlight material departures from accounting requirements (consistent with those the ROSC team noted in Section III). The Council can demand that a company publish financial statements after restating them to ensure compliance with accounting standards. However, the Council does not appear to have demanded such restatement in the noncompliance cases noted in its Annual Reports and in the cases noted in Section III by the ROSC team. The lack of stringent enforcement of accounting standards in annual audited financial statements may result from the following:

- ***Scope of monitoring***. The Council monitors compliance with financial reporting requirements by companies raising funds from the public. These include all listed companies, all insurance undertakings, all banks, and all companies with more than 100 shareholders, etc. The Council also has to verify the conformity of the information received or published with the legal and regulatory requirements. The

[34] It is to be noted that the Tunisian Accounting Standards of 2005 only take into account a lower re-evaluation as a currently authorized practice.

[35] The Tunisian Accounting Standards (TAS) does not consider any re-evaluation. However, according to TAS no 4, 5 and 6 related respectively to stocks, corporate and non-corporate fixed assets, the evaluation of an active element is always based on the lowest of the following costs: net accounting value (purchase cost minus the depreciation), the salvage value of the active assets, the procurement or production costs and the right value or the gained value for stocks.

[36] In order to reinforce the independence of the companies statutory auditors, law no 96-2005 dealing with the reinforcement of the security of the financial relations, stipulated principles dealing with rotation, misdemeanor, obligatory invitation of the statutory auditors to the board meetings and to the general assembly meetings, confirmation letter, and the co-statutory auditors. In case of co-statutory auditors, the same law stipulates that the statutory auditors should be fully independent. In case of non-compliance, a process is put in place to ensure full respect of the law and to discipline the failed auditors.

[37] In its 2001 (and 2002) Annual Reports, the Council noted that 67 percent (80 percent in 2002) of the listed companies did not file on time, which obviously hampers the enforcement role of the Council. It also noted that only 89 percent (85 percent in 2002) of the non-listed companies raising funds in the public companies did not file on time, including 45 percent (36 percent in 2002), which did not file at all.

scope may be too broad in comparison to the Council's resources. Also, the scope may overlap with the duties of the banking and insurance supervisors.[38]

- ***Office of the Chief Accountant.*** The Office of the Chief Accountant assists others departments within the Council to address complex accounting issues. However, the Office has only been recently created.

34. **The Central Bank of Tunisia enforces accounting standards in financial statements of banks.** The Central Bank of Tunisia reviews banks' statutory financial statements, but the primary responsibility rests with the auditors. The same applies to the Ministry of Finance regarding the insurance sector.

35. **The Law on the Chartered Accountancy Profession establishes within the Institute of Chartered Accountants a Control Committee, which is responsible for enforcing independence and auditing standards.** Tunisia was a forerunner when the Law on the Chartered Accountancy Profession in early 1988 and Decree No. 89-541 dated May 25, 1989, introduced public oversight of the audit profession. Public oversight is now internationally accepted as a major element in the maintenance of audit confidence in the audit function. But, Tunisia adopted a public oversight system in 1988, when most developed economies were still embracing the concept of self-regulation of the audit profession without acknowledging that a self-regulating profession runs a risk of conflicts of interests in dealing with its shortcomings. However, Tunisia failed to maintain the momentum and effectively implement the quality assurance mechanism set out in Article 31 of Decree 89-541. The following are key characteristics and areas for improvement of the Tunisian quality assurance system:

- ***The quality assurance system is organized in a manner that it is independent from the reviewed statutory auditors and audit firms and subject to public oversight.*** The Control Committee manages the quality assurance system. The Committee relies on auditors in public practice to form a review team. The review team assesses the internal quality control system of the reviewer (sole practitioner or audit firm) and tests the procedures and audit files for full compliance with International Standards on Auditing.
- ***Members of the Control Committee include three civil servants appointed by the Minister of Finance and three chartered accountants appointed by the members of the Institute of Chartered Accountants.*** While civil servants may be a proxy for representation of the public interest, any initiative concerning public oversight also should take into account the potential role of other stakeholders, such as securities regulators. No single stakeholder has a sufficiently broad scope to adequately reflect these diverse interests in the oversight of auditors.
- ***In law, the cycle to achieve full coverage of all statutory auditors is adequate, but the Control Committee has not been able to implement these legal requirements.*** The Law requires that the Committee reviews all audit firms or auditors every three years in line with good practices. By way of illustration, observers point to resource constraints and the unfortunate lack of acceptance of the quality assurance system by prominent members of the Institute. This required quality assurance system is still not implemented, 15 years after it became mandatory.

36. **The Law on Chartered Accounting Profession grants authority to the Disciplinary Committee within the Institute of Chartered Accountants to take sanctions that will detect, correct and prevent inadequate execution of the statutory audit, but the system has not**

[38] The General Insurance Committee notes that reforms underway to amend the law governing the Central Bank and the General Insurance committee plan to implement measures to better coordinate these three financial control entities: the Central Bank, the Financial Market Council and the General Insurance Committee.

been effectively implemented. The Law provides civil, disciplinary (admonition, reprimand, fine, and temporary or permanent suspension), or criminal penalties in cases when statutory audits do not conform to the law. The Committee is chaired by a judge appointed by the Minister of Justice and comprises three civil servants appointed by the Minister of Finance and three chartered accountants appointed by the members of the Institute. The Disciplinary Committee is a first degree jurisdiction.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

37. **While recent changes to Tunisian Accounting Standards (TAS) contributed to enhanced transparency, remaining weaknesses still impede reliability and comparability.** Until 1996, there were many differences between Tunisian Accounting Standards and IAS. Tunisian Accounting Standards changed dramatically on January 1, 1997, when the Law on the Enterprise Accounting System became effective.[39] The changes in Tunisian Accounting Standards can generally be considered to have been a massive step toward harmonization with International Financial Reporting Standards. However, some fundamental differences remain, and Tunisian Accounting Standards do not provide the general public with sufficient information about *public interest enterprises*. Selected differences between IFRS and TAS include the following:

- ***Consolidation reporting requirements fall short of IAS.*** Tunisia enacted TAS 35, *Consolidated Financial Statements*, in 2003. TAS 35 is largely based on IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*. However consolidation requirements in Tunisia fall short of IFRS because Tunisian Accounting Standards failed to incorporate the body of international standards that together form IFRS. Under IFRS, IAS 27 is merely one of the standards that are required when preparing consolidated financial statements. Other international accounting standards such as IAS 1, *Presentation of Financial Statements*, IAS 39, *Financial Instruments: Recognition and Measurement*, are equally important.[40] The adoption of a standard based on IAS 27 does very little if other international accounting standards are not adopted. As stipulated by the international standards, the application should be based on the "details of each standard and on each applicable interpretation". .
- ***TASs lag behind improvements to IFRSs.*** International accounting standards are continuously being improved in part based on changes in the business environment. Tunisia's choice to develop its own standards based on IFRS rather than adopting IFRS preclude Tunisia from improving financial reporting at the same pace as other developed economies.
- ***TASs do not require that information be reported for business segments and geographical segments.*** The lack of segment information hinders analysis of a group's financial performance, and its absence is severely criticized by investors and bankers. Many enterprises provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks. Information about an enterprise's different types of products and services and its operations in different geographical areas (i.e. segment information) is relevant to assessing the risks and returns of a diversified or multinational enterprise but may not be determinable from the aggregated data. Therefore, segment information is widely regarded as necessary to meeting the needs of users of financial statements.

[39] Prior to January 1, 1997, accounting in Tunisia was loosely regulated. Accountants relied primarily on the Code of Commerce, a number of accounting requirements set out in various laws and regulations, and the 1968-issued Tunisian generic chart of accounts, which enterprises could elect to apply or not.

[40] Tunisia has enacted 5 standards (TAS 35, 36, 37, 38, and 39) based on international accounting standards (IAS 27, 28, 31, 22, and 24).

- ***TASs require that gains and losses on long-term unsettled foreign currency monetary items be deferred over the period of the active and passive elements.*** A Tunisian enterprise borrowing Euro 10 million for ten years in 1998 would have recorded deferred exchange losses amounting to approximately Euro 1 million as an asset at end 2003. Consequently, the enterprise balance sheet portrays a rosier picture of the financial condition. IAS 21, *The Effects of Changes in Foreign Exchange Rates*, does not permit such treatment.

- ***TASs do not include a standard on accounting for leases.*** Finance lease accounting as set out in IAS 17, *Leases*, is not foreseen.[41] Consequently, finance lease transactions are not reflected in the lessee's balance sheet. Hence, the economic resources and the level of obligations of the lessee are understated, thereby distorting financial ratios. Under IAS 17, a finance lease is recognized in the lessee's balance sheet both as an asset and as an obligation to pay future lease payments (i.e. as a debt). Applying Tunisian Accounting Standards result in an understatement of an enterprise's outstanding debt.

- ***TASs do not mention deferred tax accounting.*** IAS 12, *Income Taxes*, requires that an enterprise recognize the amount of current and future tax related to events that have been recognized in financial accounting income. Consequently, deferred tax liabilities derived from situations where future taxable income will be greater than future financial accounting income due to temporary differences (e.g., due to differences between tax depreciation and book depreciation) are not reported under TAS. Conversely, deferred tax assets are not recorded either.

38. **There are specific differences between Tunisian Accounting Standards pertaining to credit institutions and IFRSs.** Selected differences include the following:

- ***Formulaic approach to the determination of the allowance for loan losses.*** The Central Bank of Tunisia issued Circular No. 91-24 on December 17, 1991. The Circular (as amended) requires credit institutions to calculate impairment in the unsecured portion of loans and receivables on the basis of a provisioning matrix that specifies a range of fixed provisioning rates for the number of days a loan has been classified as nonperforming (0 percent if less than 90 days, at least 20 percent if 90-180 days, at least 50 percent if 180-360 days, and 100 percent of more than 360 days).[42] The accountability rules related to the evaluation of commitments and to the estimation of provisions presented in TAS 24 take into account several factors such as the general and specific economical climate related to the sector in question, the financial situation of the debtor, the delays in payment, the received guarantees, etc. The Circular's formulaic approach differs significantly from the method to calculate the recoverable amount of originated loans and receivables under IAS 39. IAS 39 requires impairment or bad debt losses to be calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. The allowance for loan losses under IFRS may therefore differ significantly from the Circulars.

39. **There are specific differences between Tunisian Accounting Standards pertaining to insurance undertakings and IFRS.** Insurance-related accounting standards are primarily set out in the regular body of Tunisian Accounting Standards and supplemented by specific insurance accounting standards (TAS 27–31), which are also prepared by the National

[41] A finance lease is generally defined as a lease, which transfers substantially all the risks and rewards incident to ownership.

[42] The Circular mentions other criteria, including deterioration of cash flows, which may adversely impact the debt service capacity of a borrower. However, the overwhelming criterion remains the borrower's payment record.

Accounting Council and approved by the Minister of Finance upon proposal. Selected differences include the following:

- ***Asset and liability matching issues.*** On the one hand, Tunisia has adopted modern measurement principles (enacted in 1997) for the asset side of the balance sheet that generally follow fair value accounting principles set out under IFRS (with exceptions). On the other hand, technical reserve accounting (liability side of the balance sheet) is largely based on outdated prudential requirements, which lag behind internationally accepted practices. For example, prospective methods are not used to determine technical reserves. Consequently, technical reserves are often likely to be understated [43].
- ***Potential overstatement of receivables from policyholders.*** Tunisian Accounting Standards do not require that impaired receivables be provided for in line with the discounted cash flow methodology set out in IAS 39. Premium receivables are traditionally significant and their recoverability sometimes questionable[44]. Lax impairment accounting requirements may result in overstated receivables[45].
- ***Likely understatement of the provision for claims outstanding.*** The Insurance Code sets out three methods to determine provision for claims outstanding but does not include a prospective method of valuation. Past experience has demonstrated that the three methods currently mandated by the Insurance Code could result in severely understated provisions. Also, the methods set out in the legislation do not distinguish between claims and claim-handling expenses, which may evolve very differently over time.[46]
- ***Equalization provision.*** Tunisian Accounting Standards require an equalization provision for group life insurance policies. This requirement departs from IFRS and tends to smooth technical results in cases of changes in the mortality rate, hence distorting the actual performance of the insurance undertaking[47].

40. **Tunisian Accounting Standards are geared to the needs of SME financial statements.** As indicated, the measurement and recognition principles in the new Tunisian Accounting Standards are largely inspired from IFRS. In some cases, however, Tunisian standards provide simplified methods and require fewer disclosures than IFRS (partly, because TAS is based on an earlier version of IFRS, which was much less complex than the current version). These simplifications are generally adequate to satisfy the identified needs of users of

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43 The General Committee for Insurance underscores that Article 59 of he Insurance Law stipulates that the insurance companies must put in their assets and liabilities sufficient technical provisions to be utilized for the full payment of their obligations towards the insured and the beneficiaries.

44 In the absence of regulatory standards, the General Committee for Insurance has incited the insurance companies to ensure that provisions are made to cover doubtful payments totaling 20% of the non-paid premiums for the year (N-1), 50% fro the year (N-2) and 100% for the previous years.

45 The General Committee for Insurance is stressing the fact that a normalization of this aspect is foreseen.

46 It should be mentioned that Article no 21 of the Ministry of Finance Order of February 27, 2001 which fixes the list, the method of calculation of the technical provisions and the conditions of their presentation (excluding the automobile branch which has its own rules) stipulates that provisions for calamities to be paid have to be calculated by risk category, year by year and claim by claim. The provisions take into account the occurred by not yet claimed calamities at the time of the closing of the financial year as well as the cost of processing the calamities (which should not be less than 5% of all payments). Thus, the General Committee underscores the fact that processing costs are included in the total costs. The Committee indicates that it is foreseen that this aspect would be normalized in order to distinguish between the calamities costs and the processing costs.

47 The General Committee for Insurance underscores that the fact that the adoption of the IFRS could be based on the finalized standards related to insurance operations.

SME financial statements. Therefore, this report essentially recommends that Tunisia adopts full IFRS for *public interest entities* but maintains TAS for the majority of the country's enterprises.

41. **The ROSC team made assessments of the compliance gap sampling 16 sets of financial statements prepared in accordance with Tunisian Accounting Standards.** For the sample review, the ROSC team selected 6 listed enterprise sector companies and 10 financial institutions, including 3 listed credit institutions, 3 insurance undertakings (of which 2 are listed), 3 investment funds (of which 1 is listed), and 1 listed leasing company. The ROSC team found that financial statements published in the Official Journal included the required statements (balance sheet, income statement, cash flow statement) and the explanatory notes accompanied by the statutory auditor's report. While the publication requirements are burdensome (see recommendation in paragraph 0 below), interested stakeholders have access to complete audited financial statements—albeit not in a timely manner. The General Insurance Committee stresses that the law on strengthening financial security has set the publication deadline to four months after closing of the financial statements.

42. **The assessments revealed that financial statements are often influenced by taxation rules.** To satisfy requirements of taxation authorities with regard to recognition of revenues and expenses, preparers of general-purpose financial statements of small- and medium-size private companies and *public interest entities* tend to follow tax rules rather than the accounting treatment required by Tunisian Accounting Standards in various areas (e.g., depreciation, revenue recognition, provisions). Transparency suffers from this emphasis on tax and deviation from applicable financial reporting standards.[48]

43. **The financial statements in the enterprise sector generally complied with Tunisian Accounting Standards with some significant exceptions.** The ROSC team noted the significant issues where there may be material noncompliance with TAS, which may also raise questions about the quality of the statutory audit:

- ***Consolidated financial statements were not presented, which has an adverse impact on the transparency of financial reporting.*** [49]None of the companies in the sample presented consolidated financial statements. Three of the sample companies had material subsidiaries, which should have been consolidated. The lack of consolidated financial statements prevents the users of these company financial statements to assess their actual financial position and performance.[50]
- ***Accounting policies are not disclosed.*** TAS 1 (section 79ff.) requires that a company disclose its accounting policies in the notes to its financial statements. Five sample companies included only very limited disclosures. Failure to disclose the accounting policies pertaining to revenue recognition, recognition and depreciation of tangible assets, financial instruments and investments, etc. precludes users from

[48] The General Insurance Company underlines that the IAS standards could be adopted based on the finalized standards on insurance operations.

[49] The requirement to consolidate financial statements was imposed through Law 2001-117 passed in December 2001. However, the effectiveness of this law has been delayed by two years to enable companies to structure their consolidation efforts. Thus, this law will only apply to financial statements dated December 31, 2003, at the latest. The group of companies whose primary company relies on public savings has been inventoried and all these companies published their consolidated financial statements, including reports by the statutory auditors, in 2005.

[50] In 2002, Tunisia experienced a severe enterprise failure when a listed company, BATAM, went into receivership. The group did not prepare consolidated financial statements and the mother company reported net income of TND 3 million. During the receivership three audit firms were appointed to determine the actual group net income, which turned out to be a loss of TND 67.5 million. The lack of consolidated financial statements precluded the investors, including 4,000 individual investors representing 7 percent of the share capital, and lenders from assessing the group's true financial condition and performance. Credit institutions are reported to have incurred loan losses amounting to TND 33 million in addition to a debt equity swap amounting to TND 37 million.

understanding the way in which transactions and events are reflected in the reported performance and financial position.[51]

- ***Earnings per share are not disclosed.*** In all instances, companies failed to disclose earnings per share as required by TAS 1 (section 83). Disclosure of earnings per share improves performance comparisons among different companies in the same period and among different accounting periods for the same company. Failure to disclose such information is particularly a concern with respect to listed companies.

44. **The financial statements of financial institutions generally complied with Tunisian Accounting Standards with some significant exceptions.**[52] The ROSC team noted the following significant issues where there may be material noncompliance with TAS, which may also raise questions about the quality of the statutory audit:

- ***Consolidated financial statements were not presented, which has an adverse impact on the transparency of financial reporting***[53]**.** None of the companies in the sample presented audited consolidated financial statements[54]. While one of the sample institutions prepared un-audited consolidated financial statements, some of the sample credit institutions may have material subsidiaries, which should have been consolidated. The lack of consolidated financial statements prevents the users of these credit institution financial statements from assessing their actual financial position and performance.

- ***Accounting policies are not disclosed.*** As with companies in the enterprise sector, two sample institutions included only very limited disclosures. This is particularly worrying given the weaknesses in financial sector accounting standards noted above (e.g., finance lease, financial instruments, etc.). In the absence of a specific Tunisian Accounting Standard, management must use its judgment in developing an accounting policy that provides the most useful information to users of the institution's financial statements. Stakeholders should be informed about management's choices and the rationale for such choices in order to best understand the financial statements.

45. **The TAS-based financial statements prepared by insurance undertakings do not provide adequate information about the financial position and performance necessary to investors, regulators, and other stakeholders in making economic decisions.** Selected issues include the following:

- ***Consolidated financial statements were not presented, which has an adverse impact on the transparency of financial reporting.*** [55]The ROSC team found that none of the insurance undertakings in the sample presented consolidated financial statements.

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51 A similar issue was repeatedly raised by the Financial Market Council in its 2001 and 2002 Annual Reports.

52 This paragraph does not apply for insurance companies analyzed in paragraph 45.

53 To be noted that the study undertaken by the ROSC team has be done on the basis of a sample of companies selected during the period from September to December 2003, prior to enforcing the establishment pf the consolidated financial statements.

54 The Leasing banks and establishments concerned with the consolidation have prepared by the end of 2003 their consolidated financial statements certified by the statutory auditors as stipulated by article 417 of the Commercial Companies Law and in conformity with the accountancy standard TAS 35 related to the consolidated financial statements. As indicated above, this report has been prepared by a World Bank Team based on the Tunisian context as of December 2003. During this time, and despite the fact that the list of the affiliated companies hade to be published (TAS 21; Section 33), not a single bank for the sample chosen has respected this obligation.

55 The General Committee for Insurance underscores the fact that the obligation for the Insurance Companies to publish their consolidated financial statements concerns the accounts closed by 2003 and that some companies have already consolidated their accounts.

The three insurance undertakings appear to have subsidiaries, which should have been consolidated.[56] The lack of consolidated financial statements prevents the users of these insurance undertakings' financial statements to assess their actual financial position and performance[57].

- ***Continuity issues.*** The sample insurance undertaking financial statements led the ROSC team to question whether these undertakings were going concerns and would continue operations in the foreseeable future. Their assets included material illiquid equity security holdings, overstated receivables from policyholders (representing one-third of the balance sheet in one sample undertaking, of which two-thirds are more than one year overdue). Their liabilities included understated technical reserves as disclosed by one of the sample undertakings, which however failed to disclose the amount of the understatement. [58].
- ***Unexplained variations in provisions for non-life insurance unearned premiums.*** One of the sample undertakings reported a threefold variation of the provisions for non-life insurance unearned premium, which remained unexplained.
- ***Management of earnings.*** One sample undertaking revalued the carrying amount of its buildings based on the appraised market value and credited the increase (representing 50 percent of net equity at the beginning of the fiscal year-end) to income. It is to be noted that the General Committee for Insurance did not take any measure for this particular case. The Control Authority underscores that the accountability aspect presented above is the responsibility of enterprise management and falls under the diligence of the statutory auditors.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

46. **The Institute of Chartered Accountants requires that audits be conducted in accordance with ISA, but the Society of Accountants has not adopted ISA.** Since the Institute of Chartered Accountants requires ISA-based audits, the concern is obviously one of compliance rather than quality of the standards. This does not hold for audits conducted by accounting technicians (see paragraph 0 above), since the Society of Accountants has not adopted ISA. The ROSC team was unable to determine the auditing standards that accounting technicians are required to apply in conducting their audits, which gives rise to serious concerns about the quality of the applied auditing framework. Since they are allowed to audit a large though undetermined number of enterprises, the impact on the economy as a whole of this weakness should not be discounted.

47. **The Law on Commercial Companies conflict with certain ISA requirements.** The Law sets out the elements of the auditor's report. Under the Law, a statutory auditor may issue an unqualified opinion, a qualified opinion, or an adverse opinion. The Law does not authorize a statutory auditor to disclaim his or her opinion. ISA require an auditor to disclaim an opinion when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence. The legal and regulatory framework would benefit from resolving these discrepancies.

[56] In spite of the requirement to disclose the list of subsidiaries and affiliates under TAS 26 (section 78), only one of the three sample undertakings complied with that requirement. Therefore, the ROSC team was not in a position to establish with certainty whether two of the three undertakings were subject to consolidation requirements. The statutory auditors did not highlight this important departure from TAS 26.

[57] To be noted that the ROSC study was carried out based on sampling of companies selected in September through December 2003 when the mandatory consolidation of financial statements became effective.

[58] The General Committee for Insurance underscores the fact that the insurance companies having problems of debts or provision are under a restructuring plan which covers a period of 5 years aiming at re-establishing their financial credibility so as to allow them to continue their work.

48. **In general, statutory auditors appear to comply with auditing standards and ethical requirements.** From discussions conducted by the ROSC team with sole practitioners, small and large audit firms, and the Institute of Chartered Accountants, selected problem areas surfaced that adversely impact the average quality of auditing practices in Tunisia:

- ***Inadequate audit opinion.*** The auditor's reports on one of the listed enterprises and one of the investment fund financial statements were not dated. In two sample listed companies, the auditor's report included the following statement: "We have assessed the internal control system of [enterprise's name]. Our remarks and recommendations were presented in our 'management letter,' which forms an integral part of our auditor's report in accordance with auditing standards set out by the Institute of Chartered Accountants." Failure to date a report prevents the reader from assessing up to which date the auditor has considered the effect on the financial statements and on the report of events and transactions of which the auditor became aware and that occurred up to that date. Reference to the management letter in the auditor's report is absolutely inappropriate. The letter is not publicly available, and the inclusion of weaknesses in internal controls in that letter, if any, may be used by the auditor to mitigate his/her liability risk. In 2003, the Financial Marketing Council made some remarks to the Institute of Chartered Accountants concerning the homogeneity of opinion formulation by the statutory auditors of listed companies and concerning the absence of some obligatory items to be included in their reports. The Council requested the Institute to intervene so that reports are in conformity with international standards.

- ***Abridged financial statements.*** Four sample listed enterprises publish glossy annual reports, including a balance sheet, income statement, and cash flow statement, and the auditor's report. However, the annual reports do not include the notes to the financial statements. The auditor's report accompanying these abridged financial statements should be prepared in accordance with ISA 800, *The Auditor's Report on Special Purpose Audit Engagements*. ISA 800 requires the following statement: "For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the abridged financial statements should be read in conjunction with the financial statements from which the abridged financial statements were derived and our audit report thereon." Statutory auditors and regulators do not appear to enforce this ISA requirement in readily available annual reports, which may mislead users due to the abridged statements.

- ***Internal control systems.*** In most SMEs, auditors tend to start with substantive testing and do not always seek to obtain an understanding of the accounting and internal control systems. As a result, auditors may not become aware of weaknesses in the systems. As a consequence, they may fail to make management aware of material weaknesses in the design or operation of the accounting and internal control systems. This is a missed opportunity to enhance financial management in Tunisian SMEs.

- ***Auditing in a computer information systems environment***. Most audit firms lack staffs that have skills sufficient knowledge of the computer information systems. This lack of skills can adversely impact audit quality in credit institutions, insurance undertakings, and large commercial and industrial enterprises. Complying with the related ISA requirements will become further complicated when ISA 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and ISA 330, *The Auditor's Procedures in Response to Assessed Risks*, become effective.

- ***External confirmations.*** External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements. For example, the auditor may request external confirmation of bank balances and other information from bankers. Auditors indicated that the usual low response rate requires alternative audit procedures. This is unfortunate, since the reliability of evidence provided by a confirmation is often greater than that of the evidence gathered through alternative procedures.

V. PERCEPTIONS ON THE QUALITY OF FINANCIAL REPORTING

49. **Credit institutions often request audited financial statements when lending to a corporate client.** The Central Bank of Tunisia regulations require that audited borrowers' financial statements be on file, inter alia, for a loan to be classified in category A, which does not require the bank to record an allowance for loan losses. In addition, a few foreign invested banks are introducing credit-pricing strategies that draw, inter alia, upon the borrower's financial statements.

50. **Regulators and institutional investors point to significant deficiencies in the quality of financial reporting, which adversely impact capital markets.** Accounting scandals that occurred in Tunisia in 2002 had a very negative impact on the perception of users of audited financial statements.[59] As discussed more thoroughly in paragraph 0 above, these accounting scandals arose in part from weaknesses identified in this report. The policy recommendations in Section VI are responsive to the circumstances identified.

VI. POLICY RECOMMENDATIONS

51. **The recommendations of this ROSC accounting and auditing report are mutually supportive in some obvious ways.** For example, superb accounting standards are jeopardized at the beginning if people do not understand how to translate the standards into a journal entry. Without attempting to provide a detailed tactical design for reform, and without pretending to do justice to the true specificity of the country's conditions, this ROSC auditing and accounting report sketches the policy recommendations to enhance the quality of corporate financial reporting. This will contribute to promoting private sector growth and reducing volatility, through:

- Strengthening Tunisia's financial architecture and reducing the risk of financial market crises and their associated negative economic impacts, including through increased transparency about the financial condition and performance of family-owned groups;
- Contributing to foreign direct investment;
- Helping mobilize domestic savings;
- Facilitating the access of smaller-scale corporate borrowers, including small and medium enterprises, to credit from the formal financial sector by shifting gradually from collateral-based lending decisions to lending decision, which are based on the financial performance of the prospective borrower;
- Improving the assessment and collection of taxes on corporate profits;

[59] See the letter of H.E. Mohamed Daouas, Governor, in 44th Annual Report of the Central Bank of Tunisia, 2002. Also, see *Recherche No.19*, Tunisie Valeurs (stock exchange broker), October – November 2002, page 2.

- Allowing investors to evaluate corporate prospects and make informed investment and voting decisions, which will result in a lower cost of capital and a better allocation of resources; and
- Allowing shareholders and the public at large to assess management performance, thus influencing its behavior (financial reporting is also a building block of a market-based monitoring of companies).

52. **Significant changes to the statutory framework and its implementation are needed.** It is recommended that all appropriate laws and regulations be amended to incorporate the following changes:[60]

- ***Increase the accountability of preparers of financial statements.*** With a view to enhancing accountability, all company board members are collectively responsible for the true and fair view of financial statements by law and in practice (see paragraphs 9 and 10 above). Tunisia should strive for regulations and practices that encourage honest, capable people to serve on boards. Equally the laws and practice must be robust to deal fairly with cases when something goes wrong by either (gross) negligence or dishonesty. It is recommended that a panel of experts from Tunisia ensure that the Law on Commercial Companies and its implementation (i.e., the judiciary) provide an appropriate framework for companies to do business. The framework should ensure that Tunisian criminal and civil liability provisions conform to company law best practices and that the laws and regulations are actually enforced. In this context, Tunisian authorities may want to conduct the corporate governance module of the ROSC program, which should make recommendations to ensure that directors effectively review the financial statements and the critical accounting policies and practices applied by the company.
- ***Ensure all public interest entities present consolidated financial statements in conformity with full IFRS.*** Tunisia should adopt full IFRS for all *public interest entities* rather than standards based on IFRS (see paragraph 11 above). Tunisia should define public relevance based on using three criteria: (a) having securities listed; (b) the nature of the business (e.g., credit institutions and insurance undertakings); and (c) the size of the business, which could be determined by reference to total assets, turnover, and number of employees. The first article of law no 117-94 of November 14, 1994, dealing with the re-organization of the financial market, defined the organizations which can raise funds from the public based on the nature of their activity (banks, insurance companies, etc.), the admittance of their shares in the stock market, the number of their share holders, etc. This definition encompasses criteria (a) and (b), but is would seem that it could be enlarged so as to take into account other criteria which define the "public interest"; a larger concept than the one which raises funds from the public. For example, the size of the entity (measured by the number of employees, the total balance sheets and or turnover) or its activity (for example, the hospitals) could positively contribute to expanding the concept of "raising funds from the public" to reinforce the requirements for annual accounts and the control of the annual accounts of the "entities of public interest". It is to be stressed here that some of the above criteria have been used, by the law dealing with the reinforcement of the security of financial relations, to impose on certain categories of public enterprises the obligation to designate an audit committee and to designate at least two statutory auditors. Furthermore, Tunisia should seek to address the issue describe in paragraph 11 above regarding those groups that are not subject

[60] In Tunisia, accounting and auditing are primarily regulated by the Commercial Code, the Law on Commercial Companies, the Law on the Enterprise Accounting System, the Law on the Chartered Accountancy Profession, the Law on the Financial Market, the Law on Credit Institutions, the Insurance Law, Law on Undertakings for Collective Investment, Decree No. 87-529 on Statutory Audits in Government Business Enterprises, and related secondary legislation.

to consolidation requirements. There is however little international experience in this matter.

- ***Ensure the financial reporting framework applicable to small- and medium-size enterprises and micro-enterprises is adapted to their size.*** While the IASB is currently preparing international accounting standards for SMEs, the standards are unlikely to be completed in the immediate future. The ROSC team therefore encourages Tunisia to seek to maintain its current accounting standards for SMEs and micro-enterprises (see paragraph 0 above) while monitoring the related work of the IASB.[61]

- ***Enhance the auditor's contribution to the supervisory process.*** A bank and insurance statutory auditor carries out specific assignments and issues special reports in accordance with statutes to assist the respective supervisory functions of Central Bank of Tunisia and the Ministry of Finance (see paragraph 0 above). Moreover, regulators should extend accounting and auditing requirements beyond prudential requirements (see paragraphs 12 and 13 above). They should ensure public disclosure of reliable and timely information that enables market participants and other users of that information to make an accurate assessment of a credit institution's or insurance undertaking's financial condition and performance.[62] It is recommended that IFRS be adopted for consolidated financial statements of *public interest entities*, including credit institutions and insurance undertakings, is paramount.[63]

- ***Enhance audit regulation to strengthen audit quality.*** A panel of stakeholders, including representatives of the Institute of Chartered Accountants, the Society of Accountants, and a majority of non-accountants, should evaluate the inclusion of the following principles within the legal and regulatory framework:

    - Remove discrepancy between the legal and regulatory framework, ISA, and the Code of Ethics for Professional Accountants. All statutory audits should be carried out in accordance with ISA (e.g., see paragraph 0 above), which mandate compliance with the IFAC Code of Ethics (see paragraph 0 above).

    - Ensure that statutory audits are mandated only when there is a public interest requirement for the audit of financial statements. Public relevance may be determined by reference to practices such as those enacted in EU Member States to comply with the Fourth and Seventh EU Company Law Directives. Obviously the Euro thresholds set out in the Directives (balance sheet total, turnover, and number of employees) should be tailored to the Tunisian economy.

    - Take account of the most recent international scandals in strengthening auditing requirements. For example, Article 471 of the Law on Commercial Companies (see paragraph 11 above) should be amended to introduce the principle that the group auditor bears full responsibility for the audit report in relation with the consolidated financial statements. This principle implies that the group auditor needs to ensure that he maintains sufficient documentation of the review performed by another auditor or audit firm

[61] To be noted that a simplified accountancy standard to the micro-enterprises are currently being prepared by the Nation Council of Accountancy,

[62] This would also conform to the guiding principles of the third pillar, *Market Discipline*, under the New Accord set out by the Banking Committee on Banking Supervision. The third pillar aims to encourage market discipline by developing a set of disclosure requirements, which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of a credit institution.

[63] The ROSC team recognizes that Tunisia may want to delay adoption of IFRS for credit institutions and insurance undertakings until IAS 39 and insurance accounting standards are finalized. Based on the forthcoming mandatory use of IFRS in the European Union, this is expected to be completed by 2005.

audits part of the group and that he obtains copies of the audit documentation.

- As a condition of using an international network name (see paragraph 0 above), require local member firms of international audit firm networks to disclose sufficient information about the structure and operation of their respective networks and about their individual relationships with them. This disclosure would enable an audit report user to assess the extent of reliance that can be placed on the implicit quality assertion that underlies the use of a common international network brand name. Such disclosures should describe the quality standards applied by the networks, the quality assurance for enforcement of standards, and details of how frequently the local firm is subject to network review. This would force the networks to exercise a much higher standard of care with respect to the quality of their member firms—since their procedures would be publicly transparent—and would ensure that quality weaknesses are addressed rapidly.

- ***Enhance financial transparency requirements.*** Tunisia may want to draw on the requirements of the new EU Directive on the harmonization of transparency requirements with regard to issuers whose securities are traded on a regulated market. These requirements would shorten submission deadlines of *audited* annual financial statements. This would help alleviate concerns of investors regarding preliminary financial statements as explained in paragraph 0 above and concerns regarding selective disclosures in the insurance sector as explained in paragraph 13 above. Tunisia should therefore remove the existing requirement to publish un-audited preliminary financial statements and introduce the following key requirements are the following:

  - The final deadline for disclosing an annual financial report, including the statutory audit report, to the public should be four months after fiscal year-end. The authorities should therefore ensure that the Law on Commercial Companies does not prevent timely disclosure (as would be the case if the annual financial report was the final version approved by shareholders in the annual general meeting).

  - The half-yearly report should be upgraded to an interim condensed financial statement following IAS 34, *Interim Financial Reporting*, and a management report on the company activities. The half-yearly financial report should be published after two months after semester-end.

  - An issuer of listed equity securities should also disclose to the public quarterly financial statements within two months of the quarter-end.

  In addition, Tunisia should significantly enhance compliance with disclosure requirements for all legal entities with limited liability (see paragraph 0 above). This would facilitate the granting and monitoring of credit to the private sector (e.g., banking intermediation, credit insurance) and preserve fair competition and prevent company law from being abused for fraud, terrorism, or other criminal activity. Deterrent incentives such as those enacted by certain EU Member States may help enforce filing requirements.[64]

53. **Objectives and organization of the National Accounting Council should be adjusted.** The resources of the National Accounting Council are very limited. In time, the adoption of

[64] For example, Tunisia may want to review the legal reforms that ensued from the Parliamentary review of the Law on Commercial Companies in 1993 and 1994 in Belgium when the Minister of Justice noted that 60,000 enterprises filed their financial statements after the deadline and 100,000 did not file at all. Subsequent to these reforms, compliance with filing requirements was significantly enhanced.

IFRS for *public interest entities* will reduce the pure standard-setting workload of the Council. A reorganization of the Council should focus on facilitating IFRS implementation, developing guidance, establishing an urgent-issue task force, and maintaining development of Tunisian Accounting Standards, which meet the SME needs. The Council should develop a feasible plan to build sufficient capacity in intellectual, financial, and administrative resources to maintain a structure for both setting and disseminating accounting standards following internationally accepted models.[65]

54. **The audit profession needs to be significantly enhanced.** Aside from enhancing audit regulation, the authorities, the Institute of Chartered Accountants, and the Society of Accountants should also address the following major issues:

- ***Ensure that the Institute of Chartered Accountants and the Society of Accountants formally endorses and follows its mandate to serve the public interest*** One of the main attributes of the auditing profession is the acceptance of its responsibility vis-à-vis the public. The accountancy profession's public consists of clients, credit grantors, governments, employers, employees, investors, the business and financial community, and others who rely on the objectivity and integrity of auditors to maintain the orderly functioning of commerce (see paragraph 0 above).
- ***Ensure accounting technicians are subject to quality assurance and disciplinary mechanisms fostering audit quality.*** This report recognizes that the Institute of Chartered Accountants and the authorities should significantly strengthen the governance of the Institute. However, the ROSC team is even more concerned about the quality of audits performed by accounting technicians. The authorities and the market should not accept the concept of differential levels of audit assurance. Therefore, the ROSC team recommends that accounting technicians to be subjected to the same quality requirements (after enhancement), including quality assurance and disciplinary mechanisms, as chartered accountants. Until such time as this can be achieved, the authorities should suspend their right to conduct statutory audits.
- ***Ensure the Institute of Chartered Accountants and the authorities implement the quality assurance system set out in Decree No. 89-541 to ensure that auditors comply with applicable auditing and ethical standards and independence requirements.*** The system should include in-depth quality reviews of audit firms and specific audit engagements based on an established schedule, so that every audit firm or sole practitioner and every public interest entity would be subject to regular oversight (see paragraph 0 above).

55. **The Financial Market Council should enhance its financial reporting monitoring and enforcement arrangements.** Effective enforcement comprises different elements that work together to deliver strong investor and creditor protection: (a) clear accounting standards, (b) timely interpretations and implementation guidance, (c) statutory audit, (d) monitoring by supervisors, and (e) effective sanctions. Each of these must work efficiently: the system will be as strong as its weakest part in delivering strong investor and creditor protection. The Council has a critical role in ensuring that listed companies and other companies raising funds from the public comply with financial reporting requirements. Therefore the financial reporting enforcement role of the Financial Market Council should be enhanced as follows:

- ***Monitoring objectives.*** Compliance with accounting requirements (IFRS for consolidated financial statements) by listed companies should be formally adopted in the Council's monitoring objectives.
- ***Definition of enforcement.*** The Board of Directors or the Issuers Board are responsible for the completeness, accuracy, and truthfulness of the financial

[65] To be noted that National Council for Accountancy has completed some work related to this aspect. This work could serve as base for preparing an eventual reform.

information. Statutory auditors act as a first external line of defense against mis-statements by expressing their opinion on the financial information The Council should monitor compliance of the financial information presented by the listed companies with respect to accounting standards and take appropriate measures in case of infringements discovered in the course of enforcement.

- ***Necessary powers.*** The necessary powers of the Council should at least include power to monitor financial information, require supplementary information from issuers and statutory auditors (see paragraph 0 above), and take measures consistent with the purposes of enforcement. The Council should be responsible for setting up an appropriate due process of enforcement and the implementation of that due process. The Council should therefore be provided with resources sufficient to establish and carry out an effective monitoring system. This includes having skilled staff experienced with IFRS and the legal implications of enforcement.
- ***Issuers and documents.*** Financial information should include annual and interim financial statements and reports (see paragraphs 0 above), prepared on individual and consolidated basis, as well as prospectuses and equivalent documents (see paragraph 0 above).
- ***Methods of enforcement.*** For financial information other than prospectuses ex post enforcement is the normal procedure; for prospectuses, ex ante approval is the normal procedure. Enforcement of all financial information is normally based on selection of issuers and documents to be examined. The preferred models for selecting financial information for enforcement purposes are mixed models whereby a risk-based approach is combined with a rotation or a sampling approach. Enforcement methods on selected range from pure formal checks to in-depth substantive in-nature checking. The level of risk should normally determine the intensity of the review to be performed by the enforcers.
- ***Corrective actions.*** When a material misstatement in the financial information is detected, the Council should take appropriate actions to achieve appropriate disclosure and, when relevant, public correction (in line with the requirements of IFRS). Normally, non-material departures from the reporting framework will not trigger public correction even though they also deserve an action (e.g., statement from the Council conveyed to the infringer). Actions should be effective and timely and proportional to the impact of the detected infringement.
- ***Reporting.*** The Council should continue reporting to the public on its activities in its excellent annual report.

56. **Academic and professional education as well as training should be upgraded.** In adopting IFRS and ISA, Tunisia will set challenging and demanding objectives for itself. Education and training for preparers, auditors, and regulators must keep pace:

- ***Enhance academic education, as well as training, for students and instructors.*** The adoption of the IFRS and TAS will increase the requirements for education as well as for instructors. At the university level, an advisory board should review and update the accounting curriculum in order to incorporate all international accounting and auditing standards and practical-oriented teaching at the undergraduate university level. The ethics of business management, corporate finance, and accounting and auditing should be taught, supplemented with case studies in undergraduate programs. Particular attention needs to be given to increasing students' critical thinking skills. To enhance the capacity of faculty to teach accounting and auditing courses with international components, universities may need to retool and expand the scope of existing programs.

- ***Enhance professional education, as well as training, for directors as well as preparers, auditors, and regulators.*** The application of the IFRS and TAS will increase the need for more education and training for the preparers of the financial statements, the enterprise directors, the auditors and the regulators. The staffs of the Central Bank of Tunisia, the Ministry of Finance, and the Financial Market Council should be provided meaningful theoretical and practical training in order to enforce accounting, financial reporting, and auditing standards. Training should encompass practical experience in the banking, insurance, and securities market; with legal and compliance issues; and with accounting and auditing and financial issues.
- ***Continuing professional education (CPE).*** The Institute of Chartered Accountants should continue its initiatives regarding continuous professional education and adopt the recently issued International Education Standard (IES) No. 7, *Continuing Professional Development (CPD): A Program of Lifelong Learning and Continuing Development of Professional Competence*. It should ensure that failure to respect the continuous education requirements is subject to appropriate sanctions.