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**USAID/Madagascar**

**Srengthening the Banking Environment  
by Improving the Framework for  
Accounting and Auditing**

**Final Report**

**May 25, 1993**

# *Price Waterhouse*



May 25, 1993

Frank D. Martin  
United States Agency for International Development  
Villa Vonisoa III  
ANOSY - BP 5253  
Antananarivo, Madagascar

**RE: *Financial Sector Development Project Contract (FSDP)***  
***Contract No. PDC-2206-Z-00-8191-00***  
***Audit Standards Assessment***

Dear Mr. Martin:

Price Waterhouse is pleased to submit 5 copies in English of the final report for the Madagascar Audit Standards Assessment.

This report is entitled "*Strengthening the Banking Environment by Improving the Framework for Accounting and Auditing in the Republic of Madagascar*". We have prepared the report in the context of the World Bank (IDA) Staff Appraisal Report (SAR) No. 116682.1-MAG "Republic of Madagascar - Financial Institutions Development Technical Assistance Project" dated February 9, 1993.

If you have any questions do not hesitate to contact Barbara Friday at tel. (202) 296-0800 or fax. (202) 467-4405.

Sincerely yours,

Barbara E. Friday  
FSDP Deputy Director

Enclosures

## **LIST OF ABBREVIATIONS**

<b>RINDRA</b>	<b>Société Nationale d'Audit</b>
<b>INSCAE</b>	<b>Institut National des Sciences Comptables et de l'Administration des Entreprises</b>
<b>CSC</b>	<b>Conseil Supérieur de la Comptabilité</b>
<b>CCBEF</b>	<b>Commission de Contrôle des Banques et Etablissements</b>
<b>CNFPB</b>	<b>Centre National de Formation de la Profession Bancaire</b>

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**STRENGTHENING THE BANKING ENVIRONMENT BY  
IMPROVING THE FRAMEWORK FOR ACCOUNTING AND AUDITING  
IN THE REPUBLIC OF MADAGASCAR**

**I. INTRODUCTION**

The initial objective of this consulting assignment was to participate in a World Bank financial sector mission to assess the adequacy and appropriateness of Malagasy accounting and audit practices with emphasis on the commercial banking sector. The final report would identify changes to these practices necessary to improve the quality of information produced. The long range goal is to improve Malagasy accounting procedures, audit standards and financial reporting and disclosure practices consistent with international standards. The assignment was delayed and was subsequently combined with the World Bank Staff Appraisal Mission (SAR) which took place from February 22 to March 5, 1993.

Following a reassessment of the SAR project objectives by the World Bank team, it was determined that the USAID funded portion should not be limited to accounting and audit practices in the banking sector. The Bank team requested to expand the review to encompass the latest changes in the regulatory framework for the accounting profession in Madagascar as a whole, with a view to providing World Bank funded technical assistance in implementing such changes. The objective changed from a review of specific practices to an assessment of the state of the accounting and auditing profession in Madagascar. This change to the scope of work was agreed with Frank Martin, USAID/Madagascar.

This report examines the current regulatory environment governing the auditing profession and makes recommendations for providing technical assistance to achieve certain specific objectives of the World Bank Financial Institutions Development Technical Assistance Project (the Project) for Madagascar.

Accounting standards, including a standardized chart of accounts, are also being improved in Madagascar. This report examines the advancements that have been achieved so far and where technical assistance could be made available to accelerate this process, widening the application of the chart of accounts and encourage the incorporation of International Accounting Standards within the national standards.

Additionally, the report discusses the new chart of accounts and accompanying accounting guidelines for banks and financial institutions that is scheduled for implementation next year. The implications of this initiative on the quality and comparability of financial information and the external auditors' reporting thereon are also examined, particularly with respect to possible training requirements.

## **II. SCOPE AND METHODOLOGY**

The World Bank's overall objective for the project, as summarized in paragraph 3.1 of the SAR, is "to facilitate investment and growth in the productive sectors by improving the functioning of the financial system. The Project supports key financial institutions and financial markets in Madagascar to enhance public trust therein, thereby enabling them to mobilize savings to meet the investment financing needs of the private sector..." Specifically, the project aims at:

- (i) improving the Central Bank's ability to formulate and conduct monetary policy;
- (ii) improving the prudential supervision within the banking sector by strengthening the supervisory commission;
- (iii) enforcing the application of auditing standards, accounting principles and disclosure requirements, which reflect international norms.

This review funded by USAID addresses the objectives set out in item (iii) above, and is based substantially on discussions with representatives of the organizations directly involved. A detailed list of the persons interviewed is provided in Appendix I. The interviews with key individuals were supplemented by a substantial number of documents that were examined before, during, and at the conclusion of the field work in Madagascar. A listing of the documents reviewed is provided in Appendix II.

Based on the information gathered a series of actions has been proposed by the World Bank team in implementing the third element of the World Bank project, together with the necessary technical assistance.

### III THE ACCOUNTING PROFESSION AND ORGANIZATIONS

#### A. *New Legislation*

The regulatory framework of the accounting profession in Madagascar has been substantially modified by Ordonnance No. 92-047 promulgated on November 5 1992 by the interim High State Authority. This legislation addresses a number of issues including:

- admission of appropriately qualified accountants (nationals and under certain circumstances non-nationals) to the official accounting body (Ordre des Experts Comptables et Financiers et des Comptables Agréés);
- transitional arrangements for membership of existing practitioners under a series of "grandfather" clauses;
- preparation of internal rules of procedure;
- determination of auditing norms and procedures and standards of professional conduct;
- disciplinary procedures; and
- the process from trainee to full membership for acceptable candidates under the apprenticeship or "stage" system.

#### B. *Establishing a Credible Professional Accounting Body*

Although the Ordre des Experts Comptables et Financiers et des Comptables Agréés (the Ordre) was created on 1st October 1962, it has not achieved the role of a dynamic professional accounting body actively promoting and developing the accounting and auditing profession in Madagascar.

Recent changes in government policy were directed to improving the country's economy through major reforms in all sectors, and the need to revitalize the accounting profession was perceived as being of key importance. Previously, draft texts for restructuring the Ordre and properly regulating the admissions process had been under discussion for

more than two years. These texts were reviewed by a representative of the World Bank in June 1992 and a number of weaknesses were identified. The results of this review, along with recommendations for improvements, were communicated to the Government.

Based upon our examination of the final draft texts, it appears that some of the concerns expressed by the World Bank have been satisfactorily addressed, and that these texts will provide a sound basis from which to develop a more dynamic professional body. The implications for the professional environment which will result from this legislation were discussed with members of local practicing firms and other organizations (cf. list in Appendix I). The following areas should be given priority attention within the context of development assistance to the financial sector in Madagascar:

- (a) There are currently only four members of the Ordre, admitted under the original membership arrangements. It is vital to achieve a critical mass of membership as quickly as is reasonably possible through judicious use of the "grandfather" clauses contained in the new legislation. The new legislation permits admission to the Ordre only to practicing accountants. The need exists to represent all accounting interests in all industries.
- (b) A new governing council must be established (Conseil de l'Ordre) from the broadened membership which can address key issues;
- (c) The texts provide for the admission, under certain circumstances, of non-nationals to the Ordre. It is highly desirable to expand membership to allow international and/or regional firms to practice in Madagascar, thereby bringing in international professional standards and contributing to the overall heightening of standards locally. It is crucial to firmly establish the criteria and implement the procedures for admitting professionally qualified non-nationals;
- (d) Internal rules of procedure, including all those covering matters of professional ethics (Règlement intérieur) should be drafted, approved and circulated to the membership;
- (e) Of major concern both locally and internationally, is the need to raise auditing standards. It is critical to establish minimum acceptable professional standards (Normes de diligence), and procedures for their universal application, and regular updating in the light of practical experience and international trends;

- (f) Of fundamental importance to the future viability of the profession will be the ability of the Ordre to be financially self sufficient, funded by contributions from its members. The annual budgeting process, establishing funding levels to be provided by members, will have to be created.

Although the regulatory texts map out quite clearly the various tasks to be undertaken, the identification of responsibility for implementation is scarcely addressed. This problem was discussed with the representative of the department within the Ministry of Finance (Direction Générale de la Coordination Financière) which has oversight responsibility for the accounting profession and who admitted that there were little or no resources (human or financial) which could be deployed to undertake the task of implementing the new legislation. This assessment was reiterated by the practicing professionals who, given the constraints of ongoing client responsibilities, would not be in a position to devote themselves full time to implementation, even if operating funds could be secured.

### *C. The Accounting Council*

In Madagascar the body responsible for setting accounting principles is separate from the body governing the profession. The former body was created on 13 June 1989 under Decree 89-191 as the Conseil Supérieur de la Comptabilité (CSC) and was charged with the responsibility of universal application of the 1987 General Chart of Accounts (PCGM-87) and any subsequent modifications. Although membership of the CSC was set out in the Decree, the actual individuals designated to participate in its deliberations were not determined by the Minister of Finance, until October 1990. Despite an obligation to meet at least once a year, the CSC has held only one meeting since its creation. At present, the CSC has no budgetary resources and no nucleus of permanent staff to set up an appropriate organizational structure to carry out its responsibilities.

Although the Decree adopting the PCGM-87 is dated September 17, 1987, introduction of this new chart of accounts was not effective until January 1 1989. Furthermore, the absence of a formal monitoring process has meant that application has not been universal. The advantages of having the accounts of a broad base of business sectors prepared in accordance with a standardized chart of accounts have yet to materialize. The professional auditing firms have not taken a formal position on the acceptability of accounts not prepared in accordance with the PCGM-87. The need for the Ordre to formalize and enforce reporting standards is an important part of ensuring that accounts are prepared in compliance with the PCGM-87.

In the context of the specific objectives of the World Bank project, it should be recognized that PCGM-87 is NOT applicable to banks and financial institutions. These organizations should have been preparing their accounts in accordance with the Bank Chart of Accounts of 1983. A new bank chart of accounts is currently in the process of being finalized and the implications of this initiative for the banks and their auditors are discussed section IV.B. of this report.

It is clear that, without resources and without positive support from the profession, the CSC can achieve very little in improving accounting and financial reporting standards in Madagascar. Efforts must be directed to making the CSC a viable and dynamic entity, operating in close cooperation with the Ordre, whose primary objective is the universal application of the PCGM-87 and secondarily its modification and improvement by the progressive harmonization with International Accounting Standards.

#### *D. The Role of INSCAE*

Apart from determining the process of admitting current professionals as members under the transitional measures, a major task for strengthening the accounting profession will be establishing procedures for admitting candidates to trainee status within the Ordre. There is then a continuing responsibility to monitor candidates' progress during the period of apprenticeship, and conduct the written and oral tests. In accordance with its key role of providing training in accounting and related subjects, INSCAE (Institut National des Sciences Comptables et de l'Administration des Entreprises) will be expected to play a leading role in this area. Conditions for qualifying for membership are covered in a separate Decree, which forms an integral part of the new regulatory framework for the development of the accounting profession.

INSCAE should be called upon to play a major role in the development of training programs which would be an integral part of the qualification process. This should be done in close coordination with the Ordre. Accordingly, establishing the consultative mechanisms between INSCAE and the Ordre should be given a high priority if the programs are to be developed with the three year timeframe of the project.

*E. Technical Assistance*

Very limited resources, both human and financial, are currently available to implement the restructuring of the Ordre and to allow the CSC to assume its responsibilities. It would be appropriate for the project to fund a 24 month technical assistance program involving one or more full time consultants and short term assistance from the local professional community. The nature and scope of the work to be carried out by the full time consultant is contained in the terms of reference set forth in Appendix III, and addresses the priority areas detailed in the preceding paragraphs. By assigning the responsibility for this initiative to an independent consultant, it is possible to secure a qualified individual's full time commitment to achieving the initial objectives. Nevertheless, the consultant cannot be expected to operate in a vacuum, and the commitment of both the Executing Agency and the body of practicing professionals is an essential ingredient for success. It is vital that such demonstrable commitment be a condition to the provision of funding.

#### IV. ACCOUNTING AND AUDITING STANDARDS IN THE BANKING SECTOR

##### A. *The Supervisory Commission*

Much of the prudential oversight of the primary banking sector has, until very recently, been handled exclusively by staff in the Central Bank. The ability to perform this task has been severely hampered by the poor quality of the financial information available, and the lack of timeliness. The need to strengthen the accounting practices and financial information presentation for the primary banking sector has been acutely felt.

The 1988 Banking Act provided the legal framework for creating a supervisory body separate from the Central Bank - the Commission de Contrôle des Banques et Etablissements Financiers (CCBEF). The role of the CCBEF is to ensure that banks and financial institutions adhere to the prudential rules and other regulations promulgated and to take appropriate corrective or disciplinary action. The CCBEF is responsible for determining acceptable financial ratios and for establishing a satisfactory chart of accounts for banks. The Commission has the authority to carry out inspection visits and review the reports prepared by the statutory auditor (Commissaire aux Comptes) and/or external auditors.

Although created in 1988, the CCBEF will only now begin to assume its supervisory role as personnel are transferred from the Central Bank. Nevertheless, much remains to be done to provide it with the requisite structure and resources to carry out its role effectively. This need is being addressed as the second of the three key objectives of the World Bank project but, as it was handled by another group within the World Bank SAR team, it is not within the scope of this report.

##### B. *Accounting and Financial Information Presentation*

A principle cause of the inadequacy of financial statements prepared by banks in Madagascar has been the inappropriateness of the existing Bank Chart of Accounts. Although in 1983 this chart of accounts was designed specifically for banks, it has failed to impose the application of acceptable accounting standards on banks in certain key areas, particularly the treatment of loan loss provisions (bad debts, doubtful accounts and income on non-performing debts). The situation was particularly unsatisfactory while the commercial, or primary banks, were state-owned. There was a reluctance on the part of

bank management to observe normal conservative accounting rules, and on the part of external auditors and statutory auditors to take issue on the collectibility of doubtful customer debts. As the private sector takes over control of the primary banking sector, a process which is now well in hand, many of these difficulties will progressively disappear.

An important initiative to improve bank accounting will be the introduction, later this year, of a new bank chart of accounts (NPCB). The chart of accounts specifies the number, class, composition and nature of the accounts to be used by all financial organizations. It is accompanied by a lengthy series of guidelines prescribing the accounting treatment for various classes of transaction, and the format for presenting financial information. Financial disclosure (explanatory notes to the financial statements) are NOT covered by these guidelines. The new standardized accounts were developed by the CCBEF secretariat in close collaboration with the banks themselves and, to a lesser extent, with members of the accounting profession. Based on a review of the current draft documents, the proposed NPCB should make significant progress in overcoming the inadequacies of the existing chart of accounts of 1983, especially the proper classification of bad or doubtful customer loans and advances and restrictions on accruing income on such loans and advances. Based upon our discussions with representatives of the primary banks, there do not appear to be any major problems which would preclude effective introduction of the NPCB by the beginning of the next accounting year (January 1, 1994), provided that CCBEF formally adopts it by the planned date of June 30, 1993. There may well be some training needs for bank staff to facilitate their understanding of the NPCB and these needs are addressed later in this report under section V.A.

### *C. Auditing Bank Financial Statements*

A major concern of users of the financial statements published by banks in Madagascar has been the inconsistency in the reporting by external and/or statutory auditors. There is clearly a lack of established standards for performing such audits. This is evidenced by the variety in financial statement presentation and reporting contained in the bank reports which were reviewed (cf. list in Appendix II). This concern was discussed with representatives of each of the three major professional firms responsible for these audits, including RINDRA (the state-owned auditing entity), and the following points require consideration in the context of the World Bank project.

The imposition of a more appropriate chart of accounts for banks will facilitate financial statement presentation and ensure greater comparability of data. The timely adoption of the NPCB by the CCBEF is an important factor in achieving this objective and should be considered as a pre-condition for the development loans.

The roles and responsibilities of the statutory auditor (Commissaire aux Comptes) are as enunciated in the Original Companies Act of 1867 (Code Napoléon). As long as this legislation continues to be in force in Madagascar, the efforts of the statutory auditors are unlikely to evolve to meet the needs of today's users of financial statements. Pending a fundamental review of this legislation which may take several years, the CCBEF should use its authority to establish the requirement for an annual full scope external audit. This would improve the quality of the audits carried out and the content of the financial statements presented.

During our discussions with the firms directly concerned, all confirmed that they use some form of auditing manual to help them plan and execute their work. In two of the three cases, the audit manual was a published work no more than five years old. However, what is less certain is the degree of understanding amongst the firms' professional staff of the unique nature of bank accounting and the types of risks involved. None of the firms interviewed had developed or applies the more sophisticated risk assessment techniques which are standard practice for the major international accounting firms when performing audits of banks and financial institutions.

Executing a full scope audit in accordance with international standards could impose a cost which certain institutions would be unable to bear. If auditing firms decide to adopt these standards and impose them on their bank clients, they could find themselves being undercut by those firms who are less conservative. It is therefore essential that uniform auditing standards be imposed for all professional firms undertaking bank audits. This should preferably be achieved by the standard-setting body to be established within the Ordre (cf. Section III.A.). However, as an interim measure pending the availability of such standards, the CCBEF could impose minimum acceptable auditing standards and monitor their application in line with its supervisory role. This objective could also be achieved by generalizing the practice of having local firms carry out the audits of banks jointly with international firms, until such time as the Ordre has issued its own standards which are deemed acceptable by the CCBEF. It is important, therefore, that the CCBEF gives priority to establishing its expectations for work performed by the external/statutory auditors of banks.

*D. The Role of RINDRA*

The possibility of RINDRA, the state-owned auditing office, playing a central role in popularizing and implementing improved audit practices for banks, has been overtaken by events. This firm is in the process of being privatized and is already operating as an independent entity, competing with the other professional firms in the marketplace. It will be called upon to make its contributions, along with those of other firms, both to restructuring the Ordre, improving auditing standards, and making the CSC a viable body for the development of accounting standards.

## V. TRAINING NEEDS FOR THE BANKING SECTOR

### A. *Personnel of the Primary Banks*

The introduction of the NPCB will be a fundamental step towards improving the accounting, auditing and financial reporting in the primary banking sector. Although the managers of these banks do not foresee any major obstacles to introducing this chart of accounts, there will be a distinct need for training. The banks need to ensure that staff in the accounting, inspection and internal audit departments expand their knowledge of the specifics of bank accounting. They should simultaneously acquire an in-depth understanding of the goals of the NPCE and how it will be applied. Training is required in risk assessments for primary bank staff, particularly in an era of computerization of operations and electronic transfer of funds.

As the efforts towards harmonizing local accounting standards with international standards are intensified through the actions to be undertaken by both the Ordre, the CSC and the CCBEF, an appreciation of International Accounting Standards by these same bank staff will be essential.

### B. *The Central Bank and the CCBEF*

The World Bank project anticipates providing specific training to the Central Bank accounting and internal audit staff and to the inspection staff of CCBEF. Part of the training requirements will need to address the areas set out in section V.A. above and could well be integrated therein.

### C. *External Auditors*

The lack of understanding of the risks associated with banks that was noted in staff in the primary banking sector, is also prevalent amongst certain levels of professional personnel in the external audit firms. Comprehensive audit programs directed towards the specific risks associated with current banking operations are not universally applied, meaning that an acceptable standard of auditing is not assured. There is a need to provide appropriate technical training to such staff to enhance their understanding of bank accounting and operations and thereby improve the quality of their work. Such training programs should be developed by individuals or organizations with appropriate expertise in International Standards on Auditing as they apply to banks.

*D. The Role of INSCAE in Association with the CNFPB*

For some time now, INSCAE has played a key role in providing accountancy training. Many graduates from INSCAE have been recruited by the banks and accounting firms. It would be appropriate for INSCAE to be actively involved in any initiatives to develop a training program to meet the specific needs discussed in the paragraphs above. The primary banks (including the Central Bank) have directly taken actions to set up their own training entity, the CNFPB (Centre National de Formation de la Profession Bancaire), to provide a program of basic training in banking operations and accounting. The training is performed on a part-time basis throughout the academic year. This approach has provided the flexibility needed to accommodate the training needs of the individual participants and their employment obligations.

INSCAE may be asked to assume overall responsibility for developing of training programs. CNFPB should be closely involved in the course development and be encouraged to play an active role in its delivery. This will enable the organizations to avoid duplication between their programs, and allow them to capitalize on CNFPB's corps of part-time trainers, most of whom are professionals in the banking sector.

*E. Technical Assistance*

In order to ensure that a high priority is given to developing the proposed training program as quickly as possible, the World Bank project may provide technical assistance spread over a two year period. The overall objectives of this assistance, the deliverables and the level of expertise required, are set forth in the draft terms of reference in Appendix IV. The exact role of the technical specialist, and the organization that the specialist will be seconded to, have not been determined. The Ministry of Finance may require that the specialist be located within one of its organizations (CSC or INSCAE).

## **VI. SUMMARY**

The World Bank Project has identified where improvements are crucially needed in the accounting principles, auditing standards and financial disclosure in Madagascar. The entire accounting and auditing profession needs significant strengthening in order to raise it to the level of international standards. The provision of long term technical assistance, coupled with short term assistance from local and expatriate experts is being contemplated.

Regardless of the manner in which the development of the accounting and auditing profession is achieved, the following intermediate steps should be considered as key to achieving the long range goals:

- Establish a viable, independent accounting and auditing professional organization (the Ordre).
- Improve accounting practices through the requirement (and subsequent enforcement) that promulgated charts of accounts (PCGM 87 and NPCB) must serve as the basis of financial accounting, auditing and reporting.
- Create the educational programs for new accountants and auditors, and continuing education for current professionals, both generally and for banking specifically.
- Create a process whereby the promulgated charts of accounts will be continually upgraded and evolve to incorporate International Standards.
- Adopt a program of developing, promulgating and enforcing financial disclosure requirements (explanatory notes to the financial statements).
- Identify the responsible organization and establish the procedure for the development of formal auditing standards, directly incorporating the promulgated charts of accounts and relevant international standards.

**APPENDIX I**

**DISCUSSIONS WERE HELD WITH THE UNDERMENTIONED PERSONS  
AS PART OF THE ASSIGNMENT**

**1. Central Bank**

The Governor  
The Director General  
Mme Louissette Rahajarivony - Director of Credit

**2. Commission de Contrôle des Banques et Etablissements  
Financiers (CCBEF)**

Mr Frédéric Rasamoely - Secretary General

**3. Primary Banks**

Mr Désiré M Boarlaza - Deputy General Manager BTM  
Mr René Guignard - Operations Manager BMOI  
Mr Henri Rajerison - General Manager BTM  
Mr Théodore Rapanoel - Deputy General Manager BNI-  
Crédit Lyonnais  
Mr Jocelyn Thomasse - Union Commercial Bank

**4. Local Professional Accounting Firms**

Mme Liliane Raserijaona - Cabinet Ramaholimihaso  
Mr Martin Rasonaivo - Cabinet Fivoarana  
Mr Alain Y Rahobisoa - Cabinet Fivaorana  
Mme Sahondra Rasoarisoa - RINDRA  
Mr Joseph Rakotoasimbola - RINDRA

**5. International Accounting Firms**

Mr Jean-François Ladurelle - Guy Barbier & Associés  
(Arthur Andersen) Paris  
Mr H Ghazarossian - Price Waterhouse Afrique (Paris)  
Mr Vivien Lyng - Price Waterhouse Afrique

**6. Other Institutions**

Mme Nivonirina R Raveloarison - Ministry of Finance  
(Direction Générale de la Coordination Financière  
- Division Audit)

Mr Flavian Tody - General Manager INSCAE

Mr Gervais M Rakotorimanana - Administration &  
Finance Manager INSCAE

Mr Hubert Razafinjato - Secretary General CNFPB

**7. World Bank Representatives**

Mr Govindan Nair - Mission Leader & Task Manager

Mr Simon Gray - Economist

Mr Colin A Lyle FCA - Sr Financial Analyst

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**APPENDIX II**

**LIST OF DOCUMENTS CONSULTED  
IN THE CONTEXT OF THE ASSIGNMENT**

**1. Background Documentation**

Madagascar - Financial Policies for Diversified Growth:  
Choices for a Market Economy - World Bank Report No 9817-MAG  
dated March 16 1992  
Draft Staff Appraisal Report - Financial Institutions Development  
Technical Assistance Project dated February 9 1993  
International Accounting Standards up to and including No 30  
International Standards on Auditing  
Madagascar: Auditing and Accounting Mission - Back to Office  
Report by Colin A Lyle FCA of the World Bank dated June 23 1992  
Assessment of the Effectiveness of the CEM's (Caisse d' Epargne  
de Madagascar) Policies and Procedures - Report by Julia Philipp  
of PW Washington to USAID dated February 4 1993

**2. Reports on Financial Statements of Banks**

Banky Fampanandrosoana ny Varotra (BFV):  
Rapport d'Audit des Comptes Annuels de l'Exercice 1991  
Bankin'ny Tantsaha Mpamokatra (BTM):  
Rapport Relatif à l'Audit des Comptes de l'Exercice 1991  
Point de le Situation de la Comptabilité au 30 Juin 1992  
Revue du Budget 1992  
Report on the BTM by Warren S Chase  
Banque Malgache de l'Océan Indien (BMOI):  
Rapport Annuel 1991  
Audit des Comptes au 31 Décembre 1991 - Note de Synthèse  
BNI - Crédit Lyonnais Madagascar:  
Rapport Annuel 1991

**3. Laws, Ordinances, Decrees and Ministerial Directives**

Loi sur les Sociétés (Companies Act) 1867 as amended  
Ordinance No 88-005 Portant Réglementation Bancaire (1988  
Banking Act)  
Draft Ordinance Relative à l'Organisation des Professions  
d'Expert Comptable et Financier et de Comptable Agréé et à  
la Restructuration de l'Ordre Groupant les Membres de ces  
Professions  
Draft Décret Relatif à la Structure des Examens Conduisant au  
Diplôme d'Expert Comptable et au Diplôme de Comptable Agréé  
Draft Arrêté Interministériel Relatif à la Structure des  
Examens Conduisant au Diplôme d'Expert Comptable et Financier  
et au Diplôme de Comptable Agréé  
Draft Arrêté Interministériel Relatif aux Dispositions  
Transitoires Déterminant les Conditions Nécessaires pour  
être Admis comme Expert Comptable et Financier Stagiaire  
Décret Portant Création du Conseil Supérieur de la Comptabilité  
dated 13 June 1989  
Arrêté Ministériel Portant Nomination des Membres du Conseil  
Supérieur de la Comptabilité dated 29 October 1990  
Réglement Intérieur du Conseil Supérieur de la Comptabilité

**4. Other Documentation**

Statutes of the Centre National de Formation de la Profession  
Bancaire  
Draft of the new bank chart of accounts (Plan Comptable Bancaire)  
French Plan Comptable Bancaire  
Part V - Financial Statements, Audit and Supervision - of the  
Mauritius Banking Act  
The Ivory Coast law dated 10 September 1992 creating the Ordre  
des Experts Comptables et des Comptables Agréés et Organization  
de ces Professions

APPENDIX III

REPUBLIC OF MADAGASCAR  
FINANCIAL INSTITUTIONS DEVELOPMENT  
TECHNICAL ASSISTANCE PROJECT

Draft Terms of Reference

These Terms of Reference cover assistance to be provided to the Ministry of Finance by ..... for a period of 24 months, beginning on or about (date).

**Background**

1. The Project's objective is to facilitate investment and growth in the productive sectors of the country's economy by improving the functioning of the financial system. The Project supports key financial institutions and financial markets in Madagascar to enhance public trust therein, thereby enabling them to mobilize savings to meet the investment financing needs of the private sector. Specifically, the Project aims at: (i) improving the Central Bank's (BRCM) ability to formulate and conduct monetary policy; (ii) improving the prudential supervision within the banking sector by strengthening the Commission de Contrôle des Banques et Etablissements Financiers (CCBEF); and (iii) enforcing the application of both auditing standards and standards of accounting and disclosure, which reflect international norms.
2. The accounting, auditing and financial disclosure requirements and practices of a country are important for creditors, shareholders and potential investors. The main weaknesses in this area in Madagascar, have historically been the obsolescence of the accounting framework set by law and the poor quality and availability of records and information on companies generally. An important component of the overall Project, therefore, will be that set forth in item (iii) above and which aims to provide assistance: (i) in implementing the process of reorganizing and strengthening the accounting profession, including restructuring the Ordre des Experts Comptables et Financiers et Comptables Agréés (Ordre), following the recent adoption of revised regulatory texts; and (ii) putting in place an appropriate organization and infrastructure in order that the Conseil Supérieur de la Comptabilité (CSC) - the regulatory body responsible for overseeing and/or approving the application of, and modifications to, national accounting standards - can undertake its responsibilities with regard to ensuring the comprehensive application throughout the country of the General Chart of Accounts (currently the Plan Comptable Général Malgache of 1987 - PCGM-87)

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and reviewing and improving national accounting standards generally. In accordance with Article 2.2 of the Decree creating the CSC (Décret No 89-161), this body is also required to give its prior approval to all rules, instructions or recommendations of an accounting nature, proposed by any other national entity, public or private. Any proposed sectoral chart of accounts, such as the new chart of accounts for banks and financial institutions (Nouveau Plan Comptable Bancaire - NPCB) being submitted by CCBEF, should normally, therefore, also receive prior approval from the CSC. With this in mind, close links will need to be established between the CSC and the CCBEF in order that this consultation and approval process can be carried out with a minimum of delay. In fact, the CSC would be expected to assume the ongoing responsibility, in close association with the CCBEF, of reviewing and updating the NPCB to ensure that, as far as possible, it adheres to existing and future international accounting standards applicable to banks and financial institutions.

### Objectives

3. The objectives of this consultancy are twofold. Firstly, it is expected that, at the conclusion of the assignment, there will be a fully functioning professional body (Ordre des Experts Comptables et Comptables Agréés) in Madagascar which will have: (i) established and implemented appropriate "one time" transitional measures for admission of members under the "grandfather" clauses contained in the regulatory texts; (ii) established its own governing council (Conseil de l'Ordre); (iii) established the criteria and procedures for admitting to membership nationals and non-nationals having acceptable alternative professional qualifications; (iv) drafted and circulated to its members the internal rules of procedure including all those covering ethical matters (Règlement Intérieur); (v) established and circulated to members the initial minimum acceptable auditing standards (normes de diligence) and set up the procedures for ensuring their universal application, as well as their regular review and updating in the light of practical experience and international trends within the profession; and (vi) established an annual budget and adequate sources of funding from within the membership to ensure the perennity of the Ordre in Madagascar as a dynamic body committed to maintaining the highest professional standards.

4. In parallel with the first objective, at the end of the period of this consultancy, the CSC will have become an effective body, committed to ensuring the widest application of the PCGM-87 throughout the country. An organizational structure, together with access to appropriate ongoing funding sources, will be in place to enable the CSC to: (i) pursue its responsibilities for monitoring the application of the PCGM-87 and the use to be made of the financial data which can be extracted from accounts presented in accordance therewith; (ii) periodically make recommendations for changes or improvements in the light of both practical experience and the evolution of international accounting standards generally; and

(iii) update the implementation guidelines (Guide Annoté) to take account of such changes or improvements. Appropriate links with the CCBEF will also be in place to facilitate monitoring the implementation of the NPCB and approve proposals for its improvement, as circumstances dictate.

### **Timing**

5. The Consultant will be expected to be in Madagascar by .... 1994 and immediately establish contact with the person(s) designated by the Executing Agency as being directly responsible for coordinating this part of the Project. As the person principally involved in carrying out the tasks associated with this consultancy, the Consultant will report directly to the coordinator.

### **Additional Resources**

6. A key factor for the success of this consultancy will be the very wide and active involvement expected of members of the profession, particularly the President and existing members of the Ordre and those other professionals who are in the major practicing firms. Given the importance of their input, the Project will support the cost of up to 36 staff-months of local short term consultancy, to be drawn from a broad base of professionals in the practicing firms, to assist the Consultant in carrying out certain specific tasks associated with the assignment. The Consultant will have responsibility for defining these tasks and agreeing the terms of reference for the short term consultancies with the Executing Agency. The Consultant will also be expected to encourage the active involvement of representatives of the: Ministry of Finance (probably from the Direction Générale de la Coordination Financière); Institut National des Sciences Comptables et de l'Administration des Entreprises (INSCAE); Commission de Contrôle des Banques et Etablissements Financiers (CCBEF); and the primary banking sector. In addition, the Project will support the cost of a full time secretary for up to 24 months, as well as the necessary office furniture, equipment and professional and technical literature up to a total value of US\$ 35,000. The Executing Agency will provide appropriate office space for the Consultant and the secretary, including a separate telephone line. Furthermore, it will provide resources to meet the cost of document reproduction and diffusion, office supplies and all other incidental office expenses.

### **Workplan**

7. As part of his proposal, the Consultant shall define a general workplan for each of the two components of the assignment, indicating the anticipated approach to carrying out the work and the provisional timetable for its execution. In preparing the workplan, the

Consultant will be expected to make use of the information gathered during the appraisal mission and copies of the following documents should be obtained and studied by the Consultant, prior to making the submission:

- The Staff Appraisal Report
- The Report "Helping to Strengthen the Banking Environment by Improving the Framework for Accounting and Auditing in the Republic of Madagascar"
- The Plan Comptable Général Malgache - 1987 and the accompanying Guide Annoté
- The Nouveau Plan Comptable Bancaire
- ..... (details of the relevant Ordonnances, Décrets, Arrêtés etc relating to the Ordre and the exams and admission details, to be added once they have been received by WB)
- Décret No 89-161 creating the CSC
- Ordonnance No 88-005 - the Banking Act
- Companies Act of 24 July 1867, as amended
- International Accounting Standards as released by the International Accounting Standards Committee (IASC)
- International Standards on Auditing as issued by the International Auditing Practices Committee.

Selection of the Consultant will be made partly on the soundness of the workplan, which should be refined as the first task upon arrival in Madagascar and agreed with the Executing Agency.

### **Deliverables**

8. The assignment will result in a number deliverables which need to be presented to and approved as follows:

- (a) By the Executing Agency (copied to the World Bank)
  - (i) 3-monthly progress reports
  - (ii) An execution report at the end of the first 12-month period and the programme of work for the following 12 months;
  - (iii) An end-of-assignment report setting out what has been achieved and what remains to be done to ensure the continued activities of both the Ordre and the CSC.

(b) By the Conseil de l'Ordre

- (i) All items identified within the latest regulatory texts as being within its purview (it is to be noted that these items also require approval/endorsement by various government bodies as identified in the texts); of particular importance are: the internal rules of procedure (Règlement Intérieur), the auditing standards (bearing in mind the importance the World Bank places on the adherence to International Standards on Auditing) and the disciplinary process;
- (ii) An initial membership list for publication in the Official Journal (ie after the admission of new members following application of the "grandfather" clauses);
- (iii) An annual budget and recommendations for funding (eg subscription levels).

(c) By the Conseil de la Comptabilité

- (i) The organizational structure of the CSC secretariat;
- (ii) A plan for ensuring general application and regular updating of the PCGM-87 and the Guide Annoté throughout Madagascar;
- (iii) Proposals for the rational use of information available from the accounts in such areas as the production of national and sectoral economic statistics;
- (iv) The process of consultation between CSC and the CCBEF on all accounting matters relating to banks and financial institutions and approval of any subsequent modifications thereto;
- (v) The process of consultation between CSC and both the Ordre and those educational institutions which are designated as responsible for providing the requisite technical tuition in accounting and other related subjects up to admission to membership of the Ordre.

(The foregoing list is indicative and will need to be refined in the light of both the official texts relating to the profession and the evolution of the work).

**Reports**

9. Throughout the assignment, the Consultant will meet regularly with the Executing Agency and submit a report on progress being made, problems encountered and the proposed solutions. The timing and frequency of such meetings will be agreed with the Executing Agency but should normally be at a minimum of three monthly intervals. At the end of the first 12 months, a general report of achievements will be submitted, together with the

programme of work for the remaining 12 months to completion. At completion, the Consultant will submit a full implementation report, together with a programme for the ongoing activities of both the Ordre and the CSC, including resource needs, subscription levels and other funding sources. Copies of all such reports will be sent to the World Bank.

### **Qualifications of the Consultant**

10. The Consultant selected for this assignment will be a qualified accountant with at least 10 years practical experience in the profession, a significant part of which will have been accumulated in developing countries, preferably Africa. (S)he will have: a sound knowledge of the workings of an established professional accounting body; a good understanding of the French accounting profession; an intimate knowledge of both International Accounting Standards and International Standards on Auditing; a sound knowledge of French accounting practices; and a proven ability to communicate clearly and concisely both orally and In writing. In addition, the Consultant will be fluent in both written and spoken French and will be able to demonstrate a clear ability to organise and oversee the services to be provided by the short term consultants drawn from amongst the local profession and other bodies, in order to ensure their sustained commitment to achieving the objectives of the assignment.

### **Administrative Details of the Assignment**

The project financing provides for a family saloon car to be purchased for use by the Consultant throughout the period of the assignment. All other personal logistic arrangements for the implementation of this contract, both prior to arriving and throughout the Consultant's stay in Madagascar, are, however, the responsibility of the latter.

APPENDIX IV

REPUBLIC OF MADAGASCAR  
FINANCIAL INSTITUTIONS DEVELOPMENT  
TECHNICAL ASSISTANCE PROJECT

Draft Terms of Reference for .....

These Terms of Reference cover assistance to be provided through the the Ministry of Finance (the Executing Agency) to the Institut National des Sciences Comptables et de l'Administration des Entreprises - INSCAE (the implementing agency) in association with the Centre National de Formation de la Profession Bancaire -CNFPB, by ..... for a period of six months, beginning on or about (date).

**Background**

1. The Project's overall objective is to facilitate investment and growth in the productive sectors of the country's economy by improving the functioning of the financial system. The Project supports key financial institutions and financial markets in Madagascar to enhance public trust therein, thereby enabling them to mobilize savings to meet the investment financing needs of the private sector. Specifically, the Project aims at: (i) improving the Central Bank's (BRCM) ability to formulate and conduct monetary policy; (ii) improving the prudential supervision within the banking sector by strengthening the Commission de Contrôle des Banques et Etablissement Financiers (CCBEF); and (iii) enforcing the application of both auditing standards and standards of accounting and disclosure, which reflect international norms.
2. The quality of banks' and financial institutions' accounting and financial disclosure within a country are important for management, shareholders, the supervisory authority and potential investors alike. The main weaknesses in this area in Madagascar have historically been the obsolescence of the accounting framework set by law, the poor quality and availability of records and information on banks and financial institutions generally and a deficiency in their prudential supervision. In the light of the perceived need to strengthen the banking environment, an important element of the overall Project, and contained in item (iii) above, will be to provide assistance in developing a training programme, specifically directed to banking and other professional personnel who already have a sound basic understanding of accounting and financial reporting. The programme will be directed to: (i) increasing participants' knowledge and understanding of risk as applicable to banking

operations and of the corresponding prudential requirements and ratios necessary to ensure the financial wellbeing of a banking institution; (ii) expanding their knowledge of the specificities of banks' and financial institutions' accounting and of reporting financial information; (iii) providing a detailed understanding of the requirements of the new bank chart of accounts (Nouveau Plan Comptable Bancaire - NPCB); and (iv) developing a solid understanding of the international accounting and auditing standards specifically applicable to banks and financial institutions.

3. INSCAE was set up originally within the context of an IDA-financed project to establish the legislative and training requirements for the accounting profession in Madagascar. Its ongoing activities and development are currently being supported under the Accounting and Management Training Project (Cr. 1661-MAG) and which provides training to students up to accounting technician level only.

4. With effect from 1st February 1991, the primary banking sector in Madagascar, together with the Central Bank, formally set up its own training establishment called the Centre National de Formation de la Profession Bancaire (CNFPB). Since that time, the CNFPB has developed and dispensed part time training courses (including correspondence courses for participants living and working outside Antananarivo) to banking personnel from basic clerical (brevêt d'exécution) up to first level supervisor (brevêt de maîtrise). (Courses are only delivered during the standard academic year). In order to achieve this, the CNFPB received some funding from the European Development Fund (EDF) and which was used to fit out and furnish the offices of the secretariat and provide a certain amount of training equipment and basic technical documentation.

### Objectives

5. It is expected that, at the conclusion of this consultancy, INSCAE, in association with CNFPB, will have developed and be able to dispense a broad-based training programme, addressing the specific areas set forth above, to personnel in both the primary banking sector and the Central Bank, as well as to those responsible for the regulatory supervision and external audit of banks. Given that a substantial proportion of those expected to participate in such a training programme will most likely be based in Antananarivo, initially, the course will be part time and structured for oral delivery, with accompanying detailed documentation for conservation by participants. Should it be deemed appropriate to extend access to the course to participants living and working outside Antananarivo, a version by correspondence could be developed subsequently. Such an action is not part of the present assignment. In addition to the foregoing, a process of regular review and updating of the

course content will be in place by the end of the period of the consultancy This should ensure that new initiatives and improvements in banking operations, as well as the comments and suggestions provided by course participants and their employers, are fully considered.

### **Timing and Duration**

6. It is expected that the Consultant will spend a total of 6 staff-months on the assignment spread over a period of 24 months. It is very important that a maximum amount of this time be spent in Madagascar working with INSCAE and those professionals identified to participate in the development and delivery of the training programme. Furthermore, the Consultant will be expected to consult closely with the primary banking sector, the Central Bank and the banking sector's regulatory authority or Supervisory Commission (the CCBEF), in identifying specific areas where staff understanding of banking operations and accounting is particularly weak. Ideally, at least one third of the estimated time should be allocated to initial development of the course, in order that it can be given a trial during the academic year 1994/1995. Thereafter, the Consultant will pay periodic visits to Madagascar to monitor implementation. Such monitoring will include active participation in the course delivery and making such modifications to the course content as may prove necessary. Such active participation by the Consultant will include sessions with those responsible, in how to improve overall course delivery and monitor and document participants' progress.

### **Additional Resources**

7. Working closely with the INSCAE, the Consultant will be able to use the former's office premises and other facilities as well as the secretarial support. The project funding provides some US\$8,000 for the acquisition of technical literature in support of the courses. All other expenses, including telecommunications, document reproduction and the printing of course material for participants, will be provided by INSCAE and recouped from the course fees.

### **Workplan**

8. As part of the proposal, the Consultant shall define a general workplan for the assignment, indicating the anticipated approach to developing the course material, the contribution to be expected from CNFPB, training the trainers and monitoring implementation, as well as the expected timetable for execution. In preparing the workplan, the Consultant will be expected to obtain and study copies of the following documents prior to submitting proposals:

- The Staff Appraisal Report
- The Report "Strengthening the Banking Environment and Improving the Framework for Accounting and Auditing in the Republic of Madagascar"
- The Nouveau Plan Comptable Bancaire
- Ordonnance No 88-005 - the Banking Act
- Copies of recent published accounts of banks
- Existing INSCAE and CNFPB banking course material
- International Accounting Standards, as released by the International Accounting Standards Committee (IASC)
- International Standards on Auditing, as released by the International Auditing Practices Committee.

Selection of the Consultant will be made partly on the soundness of the workplan, which should be refined as the first task upon arrival in Madagascar, and agreed with the Executing Agency and the CNFPB.

#### **Deliverables**

9. The assignment will result in the following deliverables, all of which must be in the French language:

- (i) A programme of some 30 four-hour courses (one for each week of the academic year) for oral delivery, together with detailed course notes for retention by the participants; the courses will include periodic test papers to evaluate participants' progress in each of the subjects covered and the degree of overall competence achieved at the conclusion of the programme;
- (ii) A programme of course familiarisation for the training personnel;
- (iii) At the conclusion of the first year's programme of courses, an evaluation of its strengths and weaknesses, together with proposals for any revisions to be incorporated in the subsequent year's programme;

- (iv) At the conclusion of the assignment, a report setting out what was achieved and outlining the ongoing process to be in place for reviewing and updating the course programme and the related material.

Items (i) and (ii) will initially be produced in draft form for review with the Executing Agency and INSCAE. They will then be finalised for introduction in time for the 1994/1995 academic year. If, after discussion with the parties concerned, the Consultant deems that limiting the presentation of courses to the period of the academic year is likely to prove detrimental to effective implementation of the training programme, an alternative timetable should be proposed for adoption.

### **Qualifications of the Consultant**

10. The Consultant selected for this assignment will have a recognised banking qualification and at least 10 year's practical banking experience, part of which will, probably, have been spent in a bank inspection and/or internal audit department. Furthermore, (s)he will be fluent in both written and spoken French and have significant experience in developing and delivering training courses on banking operations, preferably in a French banking environment. A good understanding of international accounting and auditing standards, particularly as they affect banks and financial institutions, will be a key element in the Consultant's ability to develop a programme of courses having the appropriate focus on the primary areas of perceived weakness.

### **Administrative Details of the Assignment**

11. The Consultant will be fully responsible for all personal logistical arrangements for the implementation of this assignment.