

JAMAICA STOCK EXCHANGE JUNIOR MARKET LISTING WORKSHOP:

Accounting / Reporting Requirements

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Agenda



- When is accounting information useful?
- Financial statement disclosures
- Audit Committees
- Role of internal controls
- Board Minutes as part of the auditor's evidence
- Filing reports with the Company Offices of Jamaica
- Quarterly financial reporting

QUOTATION: Who Spoke These Words?

"Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it? For if he lays the foundation and is not able to finish it, everyone who sees it will ridicule him, saying, 'This fellow began to build and was not able to finish.'"

THE FINANCIAL REPORTING CHALLENGE

The objective of a set financial of statements is to provide **information** about the financial position, financial performance and cash flows of an entity that is **useful** to a wide range of **users** in making economic **decisions**.

FINANCIAL STATEMENTS ARE MEANT TO MEET THE OBJECTIVES OF FINANCIAL REPORTING

AREAS	INFORMATION PROVIDED	DIRECT OR INDIRECT?
BALANCE SHEET	FINANCIAL POSITION	DIRECT
INCOME STATEMENT	ENTITY'S PERFORMANCE	DIRECT
STATEMENT OF CASH FLOWS	ENTITY'S CASH FLOWS	DIRECT
FINANCIALS TAKEN AS A WHOLE	MANAGEMENT'S PERFORMANCE	INDIRECT

WHEN IS INFORMATION USEFUL?

1. When it is RELEVANT

– Timeliness

– Information is available when it is able to influence decisions

– **Practical Application:**

» JSE Rule to submit quarterly accounts within 45 days of end of period and audited accounts within 90 or 60 days of your year end

– Predictive value

– Assist users in determining past, present and future events

– Practical Application:

» Use of comparative information (2007 and 2008 figs)

» Significant estimates and judgments are required discloses

WHEN IS INFORMATION USEFUL?

2. When it is RELIABLE

- Representational faithfulness
 - Must be true: can be agreed to underlying events
 - **Practical Application:** Requirement to have audited accounts submitted with 90 or 60 days of year end
 - » Is this requirement enough to safeguard representational faithfulness?
 - » **Proposed solution:** Role of internal and external auditors

- Verifiability
 - The information is objective (can be independently verified)
 - **Practical Application: Required to have audited accounts plus the need to retain records for a certain period of time (Statutory Requirement)**

WHEN IS INFORMATION USEFUL?

2. When it is RELIABLE

- Neutrality: Information must be free from bias
 - Management must exercise sound judgment
 - No deliberate attempt should be made to fraudulently report
 - » Code of Ethics
 - » Example: Enron
- Practical Application:
 - » Use of internal auditors (independence)
 - » Use of external auditors (independence)
 - » Use of specialists on the audits (independence)

WHEN IS INFORMATION USEFUL?

RESOURCE REQUIREMENT: Relevant and Reliable Information

- The right people in the accounting department (PEOPLE)
 - Knowledge of IFRS
 - Understanding of the business
- Strong accounting and management information systems (TECHNOLOGY)
 - To provide information in the format required by IFRS
- Good financial reporting controls (PROCESS & CONTROLS)
 - Segregation of duties
 - Preparation and review of reconciliation
 - Oversight from Audit Committee
 - Access to expert / specialist to assist with valuations and complex instruments
 - Month end close procedures

FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS

1. Significant Accounting Policies

- IFRS requires that significant accounting policies be disclosed
- A policy is significant where its absence would materially affect the users interpretation of the accounts
 - Example: It is important to disclose how various items are measured in the financials e.g. fair value, historical value, net realizable value
- Examples of areas for which significant accounting policies should be disclosed:
 - Financial instruments
 - Cash and cash equivalents
 - Fixed asset and depreciation
 - Revenue recognition
 - Inventory valuation

FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS

2. Material Related party transactions

- A related party is: “management, an affiliate or a principal owner that can significantly affect a transaction. Places where there are likely to be related party transactions:
 - Sales
 - Loans to Director
 - Policy is significant where its absence would materially affect the users
 - Interest expense
 - Interest income
 - Payables
 - Receivables

FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS

3. Fair Valuation

- Demonstrate how fair value amounts were derived
- Key assumptions and techniques used where active markets don't exist

4. Risk Management Practices

- Liquidity
- Market
- Credit

5. Significant Estimates and Judgments

- Pension valuations

6. Segment information

- Need to show information by geography, line of business segments, major customers

FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS

To meet the disclosure requirements companies will need

- Good information systems
 - Data integrity
 - Accessibility
- Access to persons with IFRS knowledge
- A method of keeping current with IFRS changes

AUDIT COMMITTEES

Audit Committees typically exist to assist the board of directors in fulfilling its **oversight** responsibilities for (1) the integrity of the company's ***financial statements***, (2) the company's ***compliance*** with legal and regulatory requirements, (3) the ***independent auditor's qualifications*** and independence, and (4) the performance of the company's **internal audit function** and independent auditors. Many Committees also have **oversight** responsibility for ***risk management*** and the internal controls over the operational aspects of an entity.

AUDIT COMMITTEES :Financial Reporting

- Committee needs to
 - ***Read and discuss financial statements*** with management and external auditors where applicable
 - Assess quality, not just reliability, of earnings
 - Apply appropriate level of skepticism, ***ask probing questions***, and engage in ***frank discussions*** with management and auditors
 - Be comfortable with ***treatment of unusual/complex issues***
 - Derivatives and margin accounts

AUDIT COMMITTEES :Financial Reporting

- Effectiveness of oversight is based on:
 - Applying robust knowledge of the company's business and industry to reviewing financial reports
 - ***Understanding significant accounting policies*** as well as estimates and other areas where management applies judgment

AUDIT COMMITTEES: Members' Attributes

- Good understanding of the business—including the company's products, services, and industry
- Willingness to dedicate ***substantial time and energy***
- Other relevant attributes
 - Extremely high level of integrity
 - Healthy skepticism and courage to challenge
 - Inquisitiveness and ***independent judgment***
- Chair needs **strong leadership** qualities, objectivity, and ability to promote ***effective working relationships***

AUDIT COMMITTEES: Members' Attributes

- Financial knowledge
 - Good ***understanding*** of financial reporting
 - Retain ***at least one “financial experts”*** – but don't over rely on this person – be prepared to challenge him/her
- Independence
 - Essential, because committee must be ***willing to question management's judgment*** or challenge its position

AUDIT COMMITTEES : Training

- **Training** is vital to support committee effectiveness
- Set specific educational and training objectives
 - E.g. each member should have at least 14 hours training per year
- Possible venues
 - Specially scheduled sessions
 - Part of regular meetings
 - External directors “colleges” or conferences

AUDIT COMMITTEES: Training

- Ensure new members receive robust orientation re:
 - Responsibilities
 - Processes
 - Relationships
- Ensure all members receive continuing education in
 - Accounting (**ICAJ Seminars**), financial reporting, and regulatory developments
 - Risk identification and management, including special risk areas
 - Changing governance standards

AUDIT COMMITTEES :Frequency and Duration

- Audit committees should meet **at least 4 times** a year in person and may also speak 3 or 4 times via phone
- Frequency driven largely by
 - Requirements for involvement with quarterly regulatory filings
 - Need to address responsibilities stemming from stock exchange rules
- Most in-person meetings **could last for 2–4 hours**
- Need sufficient **time for discussion** of issues

AUDIT COMMITTEES :Agendas and Materials

- Committee chair involvement crucial
- Distribute detailed written agenda, along with briefing materials, well before meeting
 - Typically ***materials are distributed at least 5 working days before the meeting***
 - Strike balance between communicating ***needed information and avoiding extraneous detail***

AUDIT COMMITTEES :Participants

- Chair is crucial in ensuring effectiveness
- Both internal audit director/manager and external auditors typically attend every meeting
- ***Management's participation*** is important
- Meet privately with internal audit director, external auditors, finance management, and others, as warranted

AUDIT COMMITTEES : Minutes and Reporting

- Consider carefully what information is captured in minutes and at what level of detail
 - Most audit committees provide high-level summary of meeting discussions
- ***Minutes should be provided to the full board***
- Committee ***chairs report regularly to the board*** and discuss issues with other directors

INTERNAL CONTROLS: Definition

1. Internal control - The dynamic, integrated processes, effected by an organization's board of directors (or its equivalent), management and all other staff, that are designed to **provide reasonable assurance** regarding the **achievement of objectives** in the following general categories of objectives:
 1. Effectiveness and efficiency of operations.
 2. **Reliability of financial and management reporting.**
 3. Compliance with applicable laws and regulations and internal policies.

INTERNAL CONTROLS

**COSO Internal Controls framework
provides the basis on which to develop
your company's financial reporting
controls**

5 COSO Components of Internal Control

- 1. Control Environment** - Tone at the top, Ethics, People quality, Locations. **Implementation Action:** Code of Ethics, Hotlines & Whistle Blowing Policies
- 2. Risk Assessment**- Strategy setting, Budget and forecasting, Risk management, Change management: **Implementation Action:** Identify key risks affecting the financial statements

5 COSO Components of Internal Control

- 3. Control Activities** - Policies & procedures, Management and supervision activities, Process controls design and execution.
Implementation Action: Document and implement controls that will mitigate the risks identified from the risk assessment e.g. Monthly reconciliation of GL to subledger is a key financial reporting control

5 COSO Components of Internal Control

- 4. Information & Communication** - Operational, financial, regulatory reporting, Quality, timeliness of data flows, communication channels.
Implementation Action: Map who should get what financial reports and when as well as identify the information systems and the persons required to provide these reports
- 5. Monitoring** - External and internal audit (**IT, financial and operational**), Other compliance & regulatory functions.
Implementation Action: Internal audit to do independent reviews of financial reporting and controls. External audit had to focus on the financial statements at year end. Management to do self assessment reviews

REWARDS FOR STRONG INTERNAL CONTROLS

1. Reduces the risk of restatements
2. More reliable financial statements are produced
3. Quicker and more cost effective external audits
4. Significantly increases the likelihood of meeting the JSE quarterly and annual reporting requirements and other regulatory requirements
5. Reduces the risk of fraud
 - Help to mitigate the chances of fraudulent financial reporting
 - Fraudulent financial reporting is now a strategic risk (Enron)

MINUTES OF THE BOARD FOR AUDITING PURPOSES

1. Forms part of audit evidence for verifying approval of significant decisions and purchases e.g. key resolutions by the Board (share capital etc)
2. Minutes help auditor to identify likely contingent liabilities such as lawsuits
3. Also help to identify possible illegal acts being committed by the company (e.g. illegal disposal of waste, violation of ethics rules).
4. Minutes help to identify fraud (asset misappropriation) that may have occurred during the year
5. **Implementation Action:** Ensure all minutes are properly recorded, approved and stored.

FILINGS WITH THE COMPANIES OFFICE OF JAMAICA

COMPANIES OBLIGED TO FILE AUDITED ACCOUNTS

1. **Public companies (co. permitted to offer its shares to the public)**
 - **Junior Exchange Members** would therefore be required to file
 - Late fees are charged for late filings (\$1,000)
2. Private companies with public companies as shareholders.
3. Private companies with individuals and other private companies as shareholders, where the total of all the members of these companies exceed twenty (20).
4. Private companies with an overseas company as a shareholder. (An overseas company is one that has a duly registered branch within the jurisdiction).

QUARTERLY REPORTING

1. JSE requires quarterly accounts be submitted within 45 days of each quarter end
2. Implies a well structured finance and accounting department to get out accurate accounts in time
 - Will need access to chartered accountants
3. Good information systems to assist with information requirements of IFRS (e.g. fair valuation)
4. Use of templates and standard note disclosures
5. Configure GL in the same format as is required by the JSE – avoid exporting data from GL and then reformatting

QUARTERLY REPORTING

6. Use of a financial statement checklist that requires the CFO / Financial Controller to represent that:

- All reconciliations have been done with no major reconciling items
- No major internal audit or external audit recommendations are outstanding
- All material journals were reviewed and approved by appropriate accounting personnel
- Computer access controls over the accounting systems were in effect

QUARTERLY REPORTING

7. Consider using internal audit or an outside entity to do a limited review of the financials before they are published or sent to the JSE :
 - International Standards on Review Engagements (ISRE 2400 / 2410) govern these reviews – NEGATIVE ASSURANCE IS GIVEN
 - Could be done once per year e.g. for a 31 December year end company this would be at 30 June
 - This ISRE review is FAR less in scope than an annual external audit (about 70% less time and energy)
 - This review should **help** to reduce the likelihood of large differences and errors found by the external auditors at the year end: WILL BOOST INVESTOR CONFIDENCE

CONCLUSION: Who said these Words?

"Therefore, everyone who listens to these messages of mine and puts

them into practice is like a wise man who built his house on a rock".

The rain fell, the floods came, and the winds blew and beat against that house,

but it did not collapse because its foundation was on the rock.

PRESENTER PROFILE

Bruce Scott FCA, FCCA, CPA, Partner PricewaterhouseCoopers

Bruce is an assurance partner at PricewaterhouseCoopers Jamaica and has been with the firm for over 18 years. Has served as the statutory audit partner for a number of companies as well as he is the lead internal audit outsourcing partner for the firm.

He has extensive experience in auditing financial reporting controls as well as dealing with Audit Committees. He is a UK and Jamaican chartered accountant, as well as a USA certified public accountant (CPA). In addition to holding an MBA from Manchester Business School, he holds several credentials in other related fields and is one of the youngest Jamaican ever to qualify as a chartered accountant doing so at age 21 (June 1993).

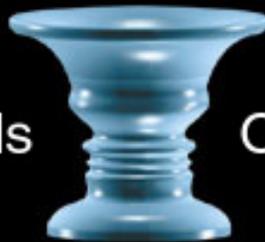
Bruce has obtained international experience during a six month tour of duty with the PwC Toronto office. He is also a regular conference and seminar speaker having done presentations for both local and regional entities.

He is a Christian, and is married to one wife, and he has two sons. He enjoys studying world religions and sharing his Christian faith.

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Your worlds



Our people