

University of Mississippi

eGrove

---

Haskins and Sells Publications

Deloitte Collection

---

1951

## Public Practice of Accounting in the Republic of Panama

Angela M. Lyons

Haskins & Sells Foundation

American Institute of Accountants

Follow this and additional works at: [https://egrove.olemiss.edu/dl\\_hs](https://egrove.olemiss.edu/dl_hs)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

PUBLIC PRACTICE OF ACCOUNTING  
IN THE  
REPUBLIC OF PANAMA

Prepared for

AMERICAN INSTITUTE OF ACCOUNTANTS

Under the Auspices of

HASKINS & SELLS FOUNDATION, INC.

By

Angela M. Lyons

New York, N. Y., February 1951

# C O N T E N T S

	Page
General Information . . . . .	1
<b>Section I</b>	
Public Practice of Accounting by Nationals . . .	4
Basic Laws and Regulations . . . . .	5
Concept of the Profession . . . . .	5
Regulatory Authority . . . . .	6
Who May Practice . . . . .	7
Registration . . . . .	8
Education of Accountants . . . . .	11
Some Aspects of Practice with Respect to Corporations . . . . .	13
Professional Accountants Engaged in Practice .	14
Professional Accounting Societies . . . . .	16
<b>II</b>	
Public Practice of Accounting by United States Citizens and Other Non-nationals . . . . .	18
Basic Laws and Regulations . . . . .	18
Qualification of a United States CPA . . . . .	18
Permanent Practice . . . . .	21
Isolated Engagements . . . . .	22
Immigration Requirements . . . . .	23
Accountants Established in Practice . . . . .	24
<b>III</b>	
Treaties and Legislation Pending . . . . .	25
Treaty Between the United States and Panama . .	25
Treaties Between Panama and Other Countries . .	25
Legislation Pending . . . . .	25
<b>Appendix</b>	
Sources of Information . . . . .	1

## REPUBLIC OF PANAMA

### General Information

#### Geography:

The Republic of Panama, with the Canal, comprises the Isthmus of the same name and forms the connecting link between North and South America. It has an area of 28,575 square miles, with a coastline of 426 miles on the Atlantic and 767 on the Pacific. Much of Panama is mountainous country, covered with dense forests of valuable woods.

The Canal Zone -- a strip of five miles broad on either side of the Canal -- divides the Republic into two parts of almost equal size. The cities in the Zone are Balboa, across the street from Panama City on the Pacific side, and Cristobal, adjoining Colon on the Atlantic side.

For administrative purposes, Panama is divided into nine provinces: Bocas del Toro, Cocle, Colon, Chiriqui, Darien, Herrera, Los Santos, Panama, and Veraguas. The capital and principal city is Panama, with a population of around 150,000. Colon, about half the size of Panama City, is the chief Atlantic port.

#### People:

The population of Panama was officially estimated at 780,000 in 1950; about 40 percent of the inhabitants live in the Province of Panama. Roughly 15 percent live in the Province of Colon and another 13 percent live in the Province of Chiriqui.

Because of its position -- at the crossroads of the world -- Panama is inhabited by people of many races and nationalities. Its diverse population includes whites, Negroes, native tribal Indians, a small proportion of Orientals, with about two-thirds of the inhabitants being mestizos, i.e., of Spanish-Indian origin.

Although Panama is a Spanish speaking country, many sections of Colon, Panama City, and Bocas del Toro are inhabited entirely by English speaking Jamaicans and West Indians. Use of the official language, Spanish, is compulsory.

Economy:

Panama is essentially a rural country. About half of her people are engaged in agriculture, dairying, fishing, and cattle raising. Yet much of the basic food as well as timber is imported. The economy of the country is closely linked with that of the United States and with world trade in general because of the Canal Zone, which is under the jurisdiction of the United States and which largely accounts for the interest of the United States in this Republic.

Although a small country with no major international seaport Panama has one of the world's largest merchant fleets sailing under its flag. It is estimated that there are some 800 vessels registered in Panama.

The United States is Panama's largest customer and in 1949 took 88 percent of Panama's exports, the principal product being

bananas. Panama also exports abaca fiber and cacao. Progress is said to be made towards developing manufacturing and industries. Items such as ceramics, soap, edible oils, shoes, and beer are manufactured. New industries are engaged in the production of cement, nails, whiskey, rectified alcohol, and veneer and plywood. Panama has a huge adverse trade balance, mainly with the United States, and is due to the heavy import of consumers' goods for sale to the Canal Zone employees and to the big transient population.

## SECTION I

### PUBLIC PRACTICE OF ACCOUNTING BY NATIONALS

#### Basic Laws and Regulations

The Republic of Panama adopted a new Constitution on March 1, 1946, under which only Panamanians, United States citizens or other foreigners, who were in business for five years prior thereto could engage in business. However, there are no cases known of this provision being applied to professional practice.

Panama's first legislation relative to the profession of public accountant was Law No. 10 of January 7, 1935 which provided for the creation of a Board of Accounting and for regulations governing the public practice of accounting. Decree No. 132 of July 25, 1935 approved the internal regulations of the Board of Accounting, the rules relative to examinations for candidates for the certificate of Contador publico autorizado (Authorized Public Accountant), and the rules of professional ethics for licensed accountants.

According to a report from the United States Embassy in Panama, directed to the Department of Commerce in Washington, on February 20, 1945, Law No. 10 was annulled on July 2, 1941. However, subsequent reports from other sources indicate that the Law has not been repealed and is still in effect, though not enforced.

The Board which was originally appointed under Law No. 10 had not met for several years and a new Board, appointed on September 19, 1947, apparently has never functioned. According to reports from Panama, no examinations have been given for a number of years.

It is believed that the accountants society in Panama City has not been satisfied with the 1935 Law or its enforcement. About three years ago the society had a bill introduced to the National Assembly which was not reported out of committee and, therefore, not passed. The society is working on a new bill which has been presented to the National Assembly for consideration. For comments on the provisions of this bill, see "Pending Legislation" at page 25.

#### Concept of the Profession

The functions attributable to Authorized Public Accountants, hereinafter referred to as Certified Public Accountants, as defined in the 1935 Law, correspond closely to what is understood as public practice of accounting in the United States. When this law was enacted, there were no schools offering courses other than book-keeping and elementary accounting and persons desiring to engage in the profession often came to the United States to complete their studies. It was not until several years later that the University of Panama began to offer courses for the further training of accountants.



Therefore, it is apparent that when this law was passed public accounting was not regarded as a university profession. But by 1943, the Ministry of Agriculture and Commerce decided to include certified public accountants among the other professionals, such as doctors and engineers, who were required to obtain licenses in order to practice their professions.

Panama has not followed other Latin American Republics, such as Argentina, Bolivia, Brazil, Cuba, Costa Rica, Mexico, and Peru, in requiring university degrees for the title of Certified Public Accountant. Even under the terms of legislation now being considered, university degrees will not be mandatory for CPA candidates.

In the bill now under consideration, Panama is following the path laid down by several of her sister republics (notably, Argentina, Brazil, and Ecuador) in regulating all accounting activities, including functions normally carried out by controllers or chief accountants in private employment or governmental service, as well as public accounting and work of an expert nature required by the courts or administrative bodies.

#### Regulatory Authority

Law No. 10 of 1935 authorized the creation of a Board of Accounting which was given the power to regulate the profession. This Board was empowered to grant the certificate of Contador publico autorizado (Authorized, or Certified Public Accountant) to candidates who successfully passed examinations given by the Board.

As mentioned previously, there has been no actual enforcement of the law for a number of years. The Board of Accounting has not functioned and no examinations have been given.

### Who May Practice

Under the provisions of Law No. 10, only Certified Public Accountants could engage in the public practice of accounting, but no authorization was necessary to practice as an accountant or bookkeeper.

Because of the non-enforcement of the law, apparently anyone who is twenty-one years of age or over may engage in practice as a public accountant or auditor. He may not, of course, use the title Certified Public Accountant or the initials CPA.

### Exercise of the Profession

A translation of Article 5 of Law No. 10, dealing with the activities of a Certified Public Accountant, is given below:

For the purposes of this law, a Certified Public Accountant is an Accountant who is competent to perform for other persons, for an amount received, or to be received, services which comprise the examination or verification of financial transactions, books, accounts, or records; or the preparation, verification, or certification of the accounting of a business, and the statements or reports related thereto which are intended for publication or for the purpose of obtaining credit; or an accountant who holds himself out to the public as a public accountant, rendering professional services or total or partial assistance in matters of principle or detail relating to accounting procedure or to the recording, presentation, or certification of financial facts or data.

The foregoing definition closely follows the definition of public practice of accountancy contained in the New York CPA law (Section 7401). For the present local thinking as to what constitutes acts of public accounting, see the discussion under Pending Legislation at page 25.

### Registration

#### General Conditions:

Persons who have passed their examinations and have received their CPA certificates must be registered with the Board of Accounting.

A 1943 ruling of the Commerce Section of the Ministry of Agriculture and Commerce stated that members of certain professions must obtain patentes or commercial licenses in order to practice in the Republic. The list included physicians, pharmacists, lawyers, engineers of all kinds, contractors, dentists, and certified public accountants. Licenses must be obtained within one month after the individual begins practice and must be renewed annually.

#### Procedure:

Law No. 10 provided that the Board of Accounting should maintain a register of Certified Public Accountants and should issue in January of each year a card to each accountant who is entitled to practice. The Board was empowered to prepare and to give examinations. Each member of the Board had a right to examine

and to qualify independently the work of an candidate. No certificate was to be issued without a favorable vote of at least four members of the Board.

Application Requirements:

Under the provisions of Decree No. 132 of 1935, each candidate for the certificate of Contador publico autorizado (Certified Public Accountant) must fulfill the following conditions

- He must be a resident of the Republic of Panama.
- He must be of age and have a record of good character.
- He must hold a diploma from a university, college, or high school, or, in the judgment of the Board, he must have an equivalent preparation by his commercial experience and studies of a general nature.
- He must have had five years' experience as an accountant at the date of his application, at least two years of which must have been in public practice in the service of a Certified Public Accountant; or, in the opinion of the Board, an experience equivalent to that mentioned.

There was no requirement of citizenship under the provisions of Law No. 10 or its regulations.

Decree No. 132 provided that the examination for the CPA certificate should be based upon: Accounting theory, accounting practice, verification of accounts and financial statements, and commercial law. The examination was to be in writing and a grade of not less than 75 percent in each subject was necessary for qualification.

License to Practice:

The Board issued to successful candidates a certificate on which appeared a legend to the effect that the person had passed examinations in the required subjects and met all the other condi-

tions enumerated in Law No. 10 of 1935. This card was required to be renewed each year. Also, as previously stated, a license must be obtained annually from the Ministry of Agriculture and Commerce.

Revalidation or Recognition of Foreign Degrees or Certificates:

Neither Law No. 10 nor the regulations therefor contained any provision with respect to revalidation of foreign degrees or recognition of foreign certificates in accounting. However, the University of Panama is authorized by a special law to revalidate titles obtained in foreign countries.

In order to have a foreign diploma revalidated, details of academic credits and other documents verifying a candidate's competence, duly authenticated, must accompany his application. After studying the credentials submitted, the University determines in what subjects the candidate must be examined. Revalidation depends upon the result of the examinations. Each candidate must pay a fee of 45 balboas for the examination and a fee of 50 balboas for revalidation, or a total of 95 balboas in all.

According to information received from the University of Panama, there are no formal conventions in effect with foreign countries providing for reciprocity with respect to degrees and studies, but degrees awarded by and studies made at the University of Panama have been recognized in foreign countries.

Accountants in Practice at Date of Restrictive Legislation:

The first Board of Accounting formed under Law No. 10 was authorized to grant during its first year of existence CPA certi-

ificates to persons who proved by examination before the Board that they had the necessary qualifications. The conditions were that the person must be of age, must have acted as chief accountant or public accountant during a period of not less than five years and must not have been sentenced for crimes against the public or against private property.

Information is not available as to the exact number of accountants who obtained certificates under Law No. 10. However, in July 1940 there were 45 Panamanians, 8 United States citizens, 6 Britons, 1 Cuban, and 1 Venezuelan engaged in the public practice of accountancy in the Republic of Panama.

#### Education of Accountants

Control of education in Panama is centralized in the office of the President of the Republic, who delegates this responsibility to the Ministry of Education. Panama has no official commercial schools, but there are commercial sections in the National Institute and in the Professional School, both of which offer training for accountants on the secondary level. Commercial courses are also offered in private schools.

Secondary education in Panama is a 6-year course divided into two cycles of three years each. The certificate for completion of the 6-year elementary school work is required for enrollment in the first cycle, which all students are required to take regardless of the course they elect later. Upon completion of the

first cycle, the student may take the second cycle of 3 years of commercial studies leading to the Certificate of Business Expert. This is roughly equivalent to a high school commercial course in the United States.

Higher education for accountants is available at the National University of Panama, located in Panama City. This University which was founded in 1935 is the only university in the country. Its School of Public Administration and Commerce (established in 1943) provides courses leading to the degree of Licentiate in Economic Sciences (major in Administration and Commerce).

The diploma of secondary education is required to enter the School of Public Administration and Commerce. Students holding the certificate of Business Expert must complete such secondary school courses as they lack before being admitted to this School. Foreign diplomas corresponding to the Bachelor's diploma from a secondary school must be presented to the Secretary General of the University. In case a foreign diploma is not judged admissible, the applicant must take a special entrance examination.

The following is the 5-year course leading to the degree of Licentiate in Economic Sciences with specialization in Commerce:

First Year-	<u>Semester Hours</u>
Spanish language and literature	3
Fundamental accounting	3
Principles of economics	3
History of civilization	3
Principles of philosophy	3
Intermediate English	1
	<u>16</u>

	<u>Semester Hours</u>
<b>Second Year-</b>	
Principles of sociology	3
Principles of political science	3
Financial mathematics	2
Commercial Spanish	3
Advanced accounting	3
Advanced English	<u>3</u>
	17
<b>Third Year-</b>	
Money, credit and banking	3
Principles of business administration	3
Modern accounting systems	3
Statistical methods	4
Commercial English	<u>3</u>
	16
<b>Fourth Year-</b>	
Geographic economy	3
Cost accounting	3
Business law	3
Office management	3
Auditing	3
International economic relations	<u>3</u>
	18
<b>Fifth Year-</b>	
National economic problems	3
Fundamental economics of Latin America	3
Accounting seminar	2
Business administration seminar	2
Political economy seminar	<u>2</u>
	12

A thesis must be submitted for graduation; students must maintain an academic grade of not less than C (71); but in the last year all courses must be passed with a minimum grade of C.

#### Some Aspects of Practice

#### With Respect to Corporations

#### Annual Audits and Statutory Auditors:

The Commercial Code (1931) provides in Article 95 that every commercial company must present a balance sheet at least



every two years, or whenever a request for accounts is made by any interested party.

The Corporation Law provides that the shareholders at a general meeting may appoint revisores (auditors) to examine the balance sheet. However, there is no requirement that balance sheets must be signed by Certified Public Accountants or that financial statements must be published, except in the case of liquidation of a company, when publication may be necessary.

#### Income Tax Returns:

Corporations, as well as individuals engaged in business activities, must file annual returns with balance sheets and profit-and-loss statements by March 15 of each year with the General Internal Revenue Administration. There appears to be no present requirement in the Income Tax Law that corporate returns and financial statements submitted therewith must be signed by CPAs. However, if and when the proposed law becomes effective, such returns will probably require the signature of a licensed Accountant responsible for their preparation.

#### Professional Accountants Engaged in Practice

##### Standards and Code of Ethics:

Decree No. 132 of 1935 provided rules for professional ethics applicable to Certified Public Accountants. Many of the rules are similar to the Rules for Professional Conduct for members of the American Institute of Accountants.

Contained in the amended by-laws of the Association of Accountants of Panama are provisions for the exclusion of members who lack professional ethics and for a permanent Committee on Professional Ethics. However, we have not been provided with a code of ethics by this association. The Association of Accountants of Colon adopted Rules of Professional Ethics and Moral Code, which were published in the October 1947 number of El Contador Colonense, its official magazine.

#### Independence of Professional Accountants:

Among the rules for professional ethics contained in Decree No. 132 was Article 4 which states that Certified Public Accountants are prohibited from certifying balance sheets, accounts or documents of businesses which they own or those in which they form part of the administrative council or have any part in management. They are also restricted from certifying accounts in cases in which they have been named receiver or executrix.

#### Minimum Fees:

There appear to be no regulations at present concerning minimum fees. However, if the bill now under consideration is enacted as law, the Board of Accounting will be charged with the preparation of a schedule of minimum fees.

#### Number of Accountants in Practice:

Figures are not available as to the number of accountants actually engaged in public accounting in Panama. The Association

of Accountants of Panama had 118 members on January 14, 1950, and the Association of Accountants of Colon had 74 members on October 19, 1947. Not all of the members of these societies were in public practice.

### Professional Accounting Societies

Asociacion de Contadores de Panama (Association of Accountants of Panama), Apartado 1248, Panama, represents the accountants in the Province of Panama. Asociacion de Contadores de Colon (Association of Accountants of Colon), Apartado 363, Colon, represents the accountants in the Province of Colon.

As mentioned previously, the first mentioned society had 118 members in January 1950, but no information is available as to how many of them were engaged in public practice. The only requirement for membership is that the applicant must be engaged in the study or practice of accounting or related subjects. Its purposes are to promote the cultural level of and to render services to its members, and to advance the profession.

The internal regulations of the Panama association refer to a Committee on Professional Ethics, but particulars as to the rules for professional conduct of its members have not been made available. It is possible that the society has adopted the official rules prescribed by Decree No. 132 of 1935.

Inasmuch as citizenship is not a requirement for membership in the Panama society, it would appear that a United States citizen would be eligible for membership.

The Accountants Association of Panama was represented at the First Inter-American Conference on Accounting which was held in Puerto Rico in May 1949. Its official organ is El Contador.

The Association of Accountants was established in 1944, and by October 1947 had a total of 74 active members. Information is not available as to the requirements for membership or as to the number of members who are actively engaged in public practice. Its purposes are to unite all those who practice the profession of accounting, to work for the advancement of the profession, and to render services to its members.

This association has adopted rules for professional ethics and a moral code, among which is a rule that provides that members may associate for practice of the profession in the Province of Colon only with other members of the society.

The official publication of this society is El Contador Colonense.

## SECTION II

### PUBLIC PRACTICE OF ACCOUNTING BY UNITED STATES CITIZENS AND OTHER NON-NATIONALS

#### Basic Laws and Regulations

As stated in Section I dealing with public practice by nationals, the Constitution of 1946 contains a provision limiting to citizens, United States citizens, and other foreigners who had been in business five years prior to March 1, 1946, the right to engage in business. Whether or not this clause would apply to the practice of professions, including accounting, has not been determined.

United States citizens and other aliens in Panama would, of course, be subject to the basic laws and regulations in force on any given date. At the present time, the laws and regulations relative to accounting practice are not being enforced. In addition to whatever legislation may now or hereafter apply to the practice of accounting, United States citizens and other foreigners must comply with immigration laws relative to permanent residence or temporary entry into Panama.

#### Qualification of a United States CPA

##### By Examination:

Under Law No. 10 and the regulations issued thereunder, an accountant from the United States would have to pass the examina-

tion given by the Board of Accounting before he could qualify for the title of Certified Public Accountant in Panama. In order to pass the examination a candidate would need to be able to read and write Spanish. Residence in Panama was also a condition. A bill now under consideration provides that citizenship is a requisite.

#### Revalidation or Recognition of United States Degree:

The University of Panama may revalidate foreign diplomas of professional people who wish to practice in the country. But this would not be sufficient, under the proposed law, for a United States CPA to practice there. Revalidation of his diploma would enable him to satisfy, in part, only the requirements necessary to take the examination for the certificate. Actually, a university degree is not an absolute requirement under Law No. 10, because the holder of a high school diploma or its equivalent would satisfy the education requisites. Under the terms of the bill now being considered, citizenship would be an absolute condition for CPA candidates. This provision would, of course, rule out United States citizens and other foreigners.

#### Reciprocal Treaty Provisions:

As mentioned in Section I, there are no formal conventions in effect between Panama and foreign countries providing for reciprocity with respect to degrees and studies. There is no Treaty between the United States and Panama, under the terms of which United States citizens could freely practice accounting in Panama, and vice versa.

Proof of Practical Experience:

The Regulations for Law No. 10 provided that a candidate for the CPA certificate, without a university degree in accounting could take the examination upon furnishing proof of having practiced as an Accountant for five years, at least two of which must have been in the employ of a Certified Public Accountant. It was not stipulated that such experience must have been obtained in Panama, but the Board of Accounting had the discretion to decide whether or not any candidate's experience was sufficient.

Under the terms of the proposed law, a CPA candidate will need to have a minimum of three years' experience after having obtained a license as Accountant. Assuming that a United States citizen does fulfill these conditions, in the absence of any treaty provisions, he still would not be able to qualify as a CPA of Panama because of the citizenship requirement.

Membership in a Recognized Society:

Membership in a professional society of Panama is not compulsory. While, under Law No. 10 and its Regulations, evidence of membership in a United States professional society might have been useful in supporting an application for the CPA examination, membership alone would not satisfy the requirements for such examination. The same thing may be said of the bill now under consideration.

Permanent Practice

Inasmuch as pending legislation may eventually be passed, this topic will be considered in the light of the provisions thereof.

A United States citizen or a United States accounting firm would not be permitted to establish an office in Panama. It would seem that offices already established should be allowed to continue, especially any that were being maintained in the five-year period prior to the adoption of the new Constitution in 1946, and provided that the principals in Panama have been qualified by the effective date of any new legislation. One of the provisions of the bill under consideration is that only CPAs may perform auditing work, certifying reports. Therefore, a manager of a United States accounting office established in Panama would necessarily have to be qualified there.

The proposed law stipulates that all CPAs of Panama must be citizens. If and when this bill becomes law, a qualified Panamanian accountant would probably not be allowed to engage in practice with a United States CPA unless, of course, the latter had obtained his certificate in Panama prior to the enactment of the law. The proposed bill also contains a provision to the effect that all persons natural or juridical, are forbidden to enter into contracts relative to accounting services with anyone who does not conform to the precepts of the law.



The bill has no provisions relative to practice under a firm name or any limitations as to size of staff. However, the Labor Code requires that any legal entity operating in Panama must have 75 percent Panamanian personnel (both in number and salary). Exemptions may be obtained in certain cases for technical and other experts. For the purposes of this law, persons born or adopted in Panama and foreigners married to Panamanians, or with a minimum of twenty years' residence in the country, are regarded as Panamanians.

Should the bill under consider become law and in the absence of any treaty protecting the right of United States citizens to engage in accounting activities in Panama, United States citizens not qualified therein, could not perform any type of public accounting work. Even accountants performing internal work would have to be licensed as Accountants. Replacement of the present staff of any firm established in Panama would not be possible because all accountants performing audits would have to be qualified as CPAs of Panama.

#### Isolated Engagements

Inasmuch as financial statements need not be published annually and there is no enforcement of regulations on public accounting, United States citizens probably encounter no difficulty in performing engagements even though reports are intended for use in Panama. Under present conditions, they may perform engagements in connection with reports for use in the United States.

## Immigration Requirements

### Permanent Residence:

A person wishing to establish residence in Panama must have a valid passport and visa from the nearest Panama Consul. Sufficient time should be allowed for the Panama Consul to file the person's application with the Ministry of Foreign Relations in Panama.

The Panama Consul requires two passport size photographs, health certificate, police certificate, and certificate from the person's employer. The latter certificate must state that the employer will be responsible for the person making application. In the case of a person not employed, a certificate of sufficient income from a bank must be furnished. Deposit of \$150.00 per person is also required.

### Temporary Entry:

Permits for temporary entry into Panama are of three kinds: travelers in transit; tourists, who go exclusively for recreation, observation, or study; and transients -- foreigners who go with the idea of continuing their journey to another country or of returning to their place of origin within three months. Commercial travelers are included in the latter group. Travelers in transit and tourist may not accept employment.

All persons entering Panama to engage in commercial or professional activities (transients) require a valid passport and a

visa from the nearest Panama Consul. When applying for the visa, a ticket away from Panama must be shown, together with a health certificate and a police certificate. The visa is free for citizens of the United States.

Accountants Established in Practice

Among the seven listings of Public Accountants in Panama City shown in Anuario Kraft for 1949 are the following:

- Westman Bros. (United States citizens)
- Horton Wheeler Roe (United States citizen)
- Leonard Christopher Williams (British subject)

Also, Messrs. Price, Waterhouse & Co. has an office in Panama City.

The foregoing names are not intended to be a complete list of foreign accountants practicing in Panama but are only those of which we have obtained some knowledge.

### SECTION III

#### TREATIES AND LEGISLATION PENDING

##### Treaty Between the United States and Panama:

There is no commercial treaty between the United States and Panama providing for reciprocal provisions for the practice of accountancy by citizens of either country in the other country.

##### Treaties Between Panama and Other Countries:

Unlike many of the Latin American countries, Panama appears to have entered into no conventions with other countries providing for reciprocity with respect to professional titles or academic studies.

##### Legislation Pending:

It has already been mentioned throughout this article that a bill has been drawn up to regulate the practice of accounting. This bill, which has been proposed by the Association of Accountants of Panama, contains provisions limiting the performance of accounting work to licensed Contadores (Accountants) or Contadores publicos autorizados (Certified Public Accountants).

Acts of accounting are defined in this bill as follows:

...all those which are related to the determination or interpretation of the status and development of economic and financial conditions, the following being considered as such-

- a) The systematized recording of economic values of commercial operations.

- b) The preparation, analysis, and interpretation of financial statements and their supporting schedules.
- c) The design, installation, or reforms of accounting systems.
- d) The preparation and presentation of reports on the consequences of administrative and treasury departments of the State, Provinces and Municipalities.
- e) The direction of any of the work previously mentioned.
- f) Auditing, checking, verification, and inspection of accounting records as well as certification or report concerning their correctness and accuracy.
- g) Expert judicial, administrative, or any other kinds of testimony which may require accounting information.

Under the provisions of the proposed bill, only CPAs could perform all of the foregoing functions and Accountants could perform only the work specified in items a to e, inclusive.

In order to obtain the CPA certificate, an individual would first have to obtain the certificate of Accountant, the requisite for which would be one of the following:

University degree with specialization in accounting, issued by a creditable institution recognized by the Ministry of Education; or

Certificate of Commercial Expert or its equivalent, issued by a creditable secondary school recognized by the Ministry and three years' experience in accounting under the supervision of an Accountant or a CPA; or

Five years' experience in accounting under the supervision of an Accountant or a CPA and the passing of an examination given by a school of secondary education, covering accounting theory and practice, introduction to business law, and treasury provisions.

After having had three years' experience as an Accountant, a person would then be eligible to take the examination given by

the National University for his license as a CPA, provided that he is a citizen of Panama and complies with other requirements. The examination would cover such subjects as accounting theory, accounting practice, auditing, business law, treasury provisions, and introduction to political economy. Under the terms of the proposed law, the National Board of Accounting would be obliged to fix dates for at least two examinations each year.

Before applying for a license to practice as an Accountant, an individual must know how to read and write Spanish, must be in enjoyment of his civil rights, and must not have a penal judgment pending nor have been convicted by judicial sentence for any crime against the public or against private property.

Under the proposed law, the practice of accounting, as defined therein, would be forbidden to all persons who did not have a license, excepting in the following cases:

- a) In towns where there were not more than two licensed professionals but in no case would unlicensed accountants be able to perform work in connection with lucrative activities where the business capital was more than 3,000 balboas or the annual sales volume was more than 15,000 balboas.
- b) Accountants who devoted themselves to lucrative activities having a business capital of more than 3,000 balboas and a sales volume of more than 15,000 balboas a year would be permitted to keep the books of account when they proved before the National Board of Accounting that they were capable of attending to the work by means of a satisfactory reply to a questionnaire concerning the recording of operations and the preparation of financial statements required by the Director of Income Tax.

The bill further provides that all public officials would be forbidden to admit the legality of any accounting acts performed

by unlicensed persons, and all persons, natural or juridical, would be forbidden to contract for the performance of accounting services by those who do not conform to the law. No one would be able to use the title Contador (Accountant) or Contador Publico Autorizado (Certified Public Accountant) without having obtained the necessary license.

Under the transitory provisions of the proposed law, persons who at the date of promulgation thereof had practiced or were practicing accounting in the territory of the country would be entitled to have their licenses extended in the following manner:

Accountants -- when they had practiced the profession for a period of not less than five consecutive years, or by passing examinations.

Certified Public Accountants -- when they had practiced accounting for a period of not less than ten consecutive years; or had had two consecutive years of experience in public accounting and held a university degree in the subject awarded by a creditable institution recognized by the Ministry of Education; or by passing examinations.

In both cases, the respective requirements previously mentioned would have to be fulfilled. CPAs would have to prove Panamanian citizenship and be able to read and write Spanish; they would have to be in full enjoyment of their civil rights. Accountants would not be obliged to be citizens, but would have to fulfill the other requisites.

The CPA certificates issued by the Board of Accountant prior to the promulgation of the proposed law would be recognized.

The proposed law provides for the creation of a National Board of Accounting, composed of five principals and five alternates all of whom must be Panamanian citizens, to serve for a term of one

year without compensation. The Board would function under the Ministry of Agriculture and Commerce and would have the exclusive authority to issue licenses to Accountants and CPAs and to suspend, after hearing, licenses when offenses against the public have been committed or violations of rules for professional ethics have occurred. A card index of all licenses issued, as well as those suspended or cancelled, would be maintained in the Administration of Internal Income. The Board would be charged with the regulation of the accounting profession and would also be required to prepare within six months following its formation a schedule of minimum fees which could be collected for professional services, in the absence of established arrangements as to fees.

In the event the proposed bill becomes law in Panama, United States citizens or accounting firms -- in the absence of any treaty -- would not be permitted to establish an office for the practice of public accounting in Panama unless they became citizens of that country. United States citizens who had already received CPA certificates in Panama by the date any new law goes into force would be permitted to continue in practice, as provided by the transitory provisions of the proposed law.

Assuming that there are no restrictions passed relative to temporary entrance into Panama, United States citizens should be able to perform services on behalf of United States investors with respect to enterprises in which United States capital is invested, provided that reports are not required for submission to govern-



mental authorities in Panama. As previously mentioned, one of the provisions of the proposed bill is that all public officials, under penalty of fine, would be forbidden to admit the legality of any accounting acts performed by unlicensed accountants. Also, all persons, natural or juridical, would be prohibited from making contracts for accounting services to be performed by unlicensed persons.

- - - - -

In conclusion, it should be stated that the foregoing study of Public Practice of Accounting in the Republic of Panama has been prepared on the basis of a review of the laws dealing with accounting practice and other information which has been obtained from sources considered to be reliable. A list of such sources is furnished in the attached appendix.

## Sources of Information

American Institute of Accountants, New York, N. Y.

Anuario Kraft, 1949: Guillermo Kraft Ltda., Buenos Aires, Argentina.

Asociacion de Contadores de Panama, Apartado 706, Panama, R. P.

The Consulate General of Panama in New York, 30 Rockefeller Plaza, New York, N. Y.

Education in Panama, Bulletin 1948, No. 12, U. S. Office of Education, Washington, D. C.

El Contador Colonense, October 1947, Asociacion de Contadores de Colon, Colon, R. P.

Instituto Panameno de Contadores, P.O. Box 567, Panama, R. P.

International Reference Service, Vol. VII, No. 78, July 1950, U. S. Department of Commerce, Washington, D. C.

Pan-American Union, Washington, D. C.

Price, Waterhouse & Co., Panama, R. P.

The Statesman's Year-Book, 1949, The Macmillan Company, New York, N. Y.

United States Department of Commerce, American Republics Division, Washington, D. C.

United States Library of Congress, Washington, D. C.

United States Embassy, Panama, R. P.

University of Panama, Faculty of Public and Commercial Education, Panama, R. P.

Universities of the World Outside U.S.A. 1950, American Council on Education, Washington, D. C.

MEMORANDUM RE PUBLIC PRACTICE OF ACCOUNTING IN  
THE REPUBLIC OF PANAMA

✓ Status of Profession:

Contador Publico Autorizado (Authorized, or Certified Public Accountant) is the professional title used in Panama. The status of the profession is not clear; it does not appear to be regarded as a university or "liberal" profession. Law No. 10, passed in 1935 to govern public accounting, has not been enforced. This Law created a Board of Accountancy which has not functioned in recent years.

✓ Regulatory Laws:

As mentioned in the preceding paragraph, Law No. 10 of 1935 has not been enforced in recent years. A bill is before the National Assembly to regulate public and private accounting.

✓ Regulatory Authority:

The Board of Accountancy which was created by Law No. 10 never really functioned. Under a law now pending, a National Board of Accountancy would be created and have exclusive authority to issue licenses and to regulate the accounting profession.

✓ Registration:

Persons who wish to engage in the public practice of accounting are not required to be registered at the present time. However, under the proposed law, CPAs and Accountants would have to be licensed by the National Board of Accountancy.

Conditions for Practice:

✓ The Constitution of 1946 contains provisions limiting to nationals, United States citizens, and other foreigners who had been in business for five years prior to March 1, 1946, the right to engage in business. Whether this clause applies to practice of professions including accounting, has not been determined. Under the proposed bill, CPAs must prove Panamanian citizenship, but Accountants need not be citizens.

✓ Law No. 10 provided that in order to be eligible to take the CPA examination, a candidate must have a diploma from a university, college, or high school, or, in the judgment of the Board, he must have an equivalent preparation by his commercial experience and general studies.

✓ Under the proposed law, to obtain the CPA certificate a candidate would be required to have a university degree with major in accounting; or a certificate of Commercial Expert or its equivalent, issued by a creditable secondary school and three years' accounting experience; or five years' accounting experience under the supervision of a CPA or

Accountant and passing examinations given by a secondary school on accounting subjects.

A CPA in Panama must be 21 years of age. Under Law No. 10 of 1935, a candidate was required to have five years' experience as an accountant, at least two of which was spent in public practice under a CPA. Under the proposed law, candidates must first obtain the certificate of Accountant, for which candidates with university degrees in accounting need have no experience; candidates with diplomas from secondary schools must have three years' accounting experience; and candidates without required diplomas may be eligible for certificates with five years' experience under supervision of an Accountant or a CPA and by passing examinations on accounting subjects given by secondary schools. After a person has had three years' experience as an Accountant, he would then be eligible to take the CPA examination.

CPAs are now required to obtain licenses from the Ministry of Agriculture and Commerce in order to practice the profession, in the same manner as doctors, dentists, and engineers.

#### Professional Accountants in Practice:

Figures are not available as to the number of nationals in actual practice in Panama. The Accountants Association of Panama had 118 members on January 14, 1950 and the Accountants Association of Colon had 74 members back in 1947. However, not all the members of these societies were in public practice.

Decree No. 132 of 1935 approved the internal rules for the Board of Accountancy and rules of professional conduct for CPAs. No information is available as to the professional standards of Panamanian CPAs. The Accountants Association of Colon also adopted its own Code of Ethics. Presumably the Accountants Association of Panama has adopted the rules prescribed in Decree No. 132 for its members.

Asociacion de Contadores de Panama (Accountants Association of Panama) and Asociacion de Contadores de Colon (Accountants Association of Colon) are the two societies representing accountants, both public and private, in Panama. The Panama society publishes El Contador and the Colon association issues El Contador Colonese.

#### Practice by United States Citizens or Firms:

No legal restriction at present prevents the establishment of a permanent office by United States citizens or firms. However, pending bill, if enacted, would prohibit the establishment of a permanent office in Panama unless principals were already qualified when law takes effect. New law would limit the title of CPA to citizens. Offices already established might be allowed to continue if principals were qualified.

Under present conditions, United States citizens and firms are permitted to perform engagements in Panama for local use and publication. There is no requirement under Panama law that financial statements must be published or that corporations must submit certified financial statements to any governmental authority.

If the bill now being considered becomes law, auditing and certification of reports could be made only by licensed CPAs and public officials would be forbidden to admit the legality of all accounting acts performed by unlicensed persons. Also, all persons, natural or juridical, would be forbidden to contract for accounting services to be performed by unlicensed persons. Aliens would be permitted to be licensed only as Accountants.

Legislation Pending:

Several attempts have been made in recent years to have a new CPA Law passed. A law to regulate the profession is now pending before the National Assembly. See comments above with respect to pertinent provisions.