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Public Practice of Accounting in the Republic of Ecuador

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Haskins & Sells Foundation

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PUBLIC PRACTICE OF ACCOUNTING IN

THE REPUBLIC OF ECUADOR

Prepared for

AMERICAN INSTITUTE OF ACCOUNTANTS

Under the Auspices of

HASKINS & SELLS FOUNDATION, INC.

By

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New York, N. Y., February 1951

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THE REPUBLIC OF ECUADOR

General Information

Geography:

The Republic of Ecuador is situated on the northwest coast of South America. It is bounded on the north by Colombia, on the south by Peru, on the east by Colombia and Peru, and on the west by the Pacific Ocean. The country is crossed by the Equator, from which comes its name.

Included in its area of approximately 275,936 square miles are the Galapos Islands, 600 miles to the west in the Pacific, with 3,028 square miles. As in Peru, the cordilleras of the Andes Mountains divide the country into three zones: a tropical coastal region, a fertile region east of the Andes, and a central plateau between these two areas.

The country is divided into 17 provinces and the Galapos Archipelago. The Capital city is Quito, with a population of some 300,000 inhabitants. The coastal port of Guayaquil with an estimated population of 217,000 is the most important trading center. Other cities are Cuenca (56,271) in the south, and Riobamba (29,847) in the central highlands.

People:

Ecuador has a population of 3,500,000 according to an estimate made in 1949, which is distributed racially as follows: Whites, 10 percent; Indians, 39 percent; mestizos (mixtures of

white and Indian), 41 percent; mulattoes and Negroes, 10 percent; others, 5 percent. The mestizo group is considered to be commercially interested and nationally-minded.

The official language of the Republic is Spanish, but the Indians speak Quechua or, in the isolated Amazon River region, a tribal tongue of their own -- the Jibara. In 1945 it was estimated that about 62 percent of the country's population was illiterate. The Government has inaugurated a wide-spread campaign to overcome the illiteracy problem, and this percentage is gradually being reduced.

Economy:

Roughly 80 percent of Ecuador's population is directly engaged in agriculture. The principal products exported are rice, cacao, coffee, and tropical fruits, which are grown in the hot coastal regions. In addition, sugar, cotton, wheat, corn, yucca, potatoes, and other vegetables and temperate fruits are grown for home consumption. Livestock production is carried on mainly in the coastal and highland sections of the country.

With the exception of a plateau between the two cordilleras of the Andes Mountains and the agricultural zone along the Pacific Coast, Ecuador is a vast forest. Tagua nuts, toquilla palm leaves for Panama hats, balsa wood, and wild rubber grow on the western slope of the Andes. The world's chief source of Balsa wood lies in Ecuador. East of the Andes is the Amazon region, potentially rich in oil, fine woods, and agricultural products, but not commercially accessible.

Gold and petroleum products are the most important mineral exports. Other methods produced are silver, copper, lead, sulphur, and salt. The leading manufacturing industry is the production of textiles, followed by straw and "Panama" hats, shoes and leather products, and other light consumer goods. With the exception of textiles, petroleum, and gold mining, the size of plants, number of workers employed, and capital invested are small. Manufacturing establishments are located, for the most part, at Quito and Guayaquil.

The country imports machinery, structural iron and steel, chemicals, paper, motor vehicles, tires, and dry goods. In 1947, approximately 73 percent in value of these imports was from the United States. In the same year the United States took nearly 41 percent of Ecuador's exports.

SECTION I

PUBLIC PRACTICE OF ACCOUNTING BY NATIONALS

Basic Laws and Regulations

The Political Constitution of Ecuador, promulgated on March 6, 1945, establishes the basic civil rights for inhabitants of Ecuador. No distinction is made between Ecuadorians by birth and Ecuadorians by naturalization. Ecuador has no law nationalizing professions.

In addition to certain provisions of the Commercial Code covering accounting matters, the following are the basic laws and regulations which now appear to be in force relative to the practice of accounting in Ecuador:

Accountants Law, published April 10, 1947, providing for registration of Public Accountants and defining what constitutes public practice.

Code of Professional Ethics adopted by the Second National Congress of Accountants of Ecuador on October 11, 1947.

Regulations of the Technical Department of the Ministry of Treasury for the application of the Accountants Law, published March 13, 1948.

Regulations for Examinations issued by the Central Executive Council of the National Federation of Accountants of Ecuador, published July 30, 1948.

Concept of the Profession

The concept of the profession of Public Accountant, as defined in the Accountants Law, appears to be similar to the idea that prevails in the United States. But, unlike a number of the Latin American countries, Ecuador has not proclaimed it a "liberal" or university profession. Education on the university level is not required for Public Accountants. In fact, it was not until 1943 that business education was organized by the National Ministry of Education which then prescribed an official plan of studies for schools of commerce and administration on the secondary level.

A law promulgated on December 12, 1942, relative to the supervision of individuals practicing "liberal" professions, made no mention of public accountants. Yet, under Supreme Decree No. 317 of May 6, 1936, "accountants and experts in accounting" were required to be registered in the Chamber of Commerce, a governmental bureau, or the Ministry of Treasury. Apparently, such registration was required in order for a person to be designated by the courts or governmental agencies for appointments requiring accounting knowledge.

In 1947, but a few short years following the organization of business education, Ecuador passed its Accountants Law (Ley de Contadores) probably under the sponsorship of the National Federation of Accountants which had been founded only two years before. One of the motives for enacting this law was the recog-

dition of the need for greater technical and cultural knowledge on the part of "professional accountants." Curiously enough, the Law exempts from the requirement of registration, Commercial and Administrative Engineers and university graduates in general because of the superior knowledge attributed to them.

The preamble to the Regulations for the Accountants Law, published in 1948, refers to the importance of accountants in connection with the economic future of the country and the desirability of requiring individuals to have practical experience before granting them a license to practice, in the manner that is customary in the United States, Canada, and Great Britain.

However, the Law and Regulations, as enacted, applied to all accountants, including independent public accountants rendering services to clients, official accountants employed by national and municipal authorities and private enterprises, bookkeepers employed by public and private entities, and persons engaged in teaching accounting subjects. Apparently, confusion resulted from the strict interpretation of the law with respect to accountants in governmental service. The result was that an emergency Decree-Law was passed on May 3, 1949, excluding governmental officials and employees from the requirements of the Accountants Law until such time as the Legislature had had further opportunity to consider their situation. However, this Decree-Law was disapproved by another decree published on November 25, 1949.

Regulatory Authority

The National Federation of Accountants of Ecuador, under the powers granted by the Ministry of the Treasury, is the direct regulatory authority of the accounting profession. Under the provisions of the Accountants Law, this association is charged with the control of the official register of accountants which is maintained by its Central Executive Council and Provincial Councils.

The Accountants Law provides that the National Federation has the power to regulate the accounting profession in all its branches and to prepare a Code of Professional Ethics. It has the duty of qualifying all applications for registration, canceling permits to practice, imposing sanctions on persons for violations, and hearing and resolving appeals, together with the right to do any and all other acts necessary for the proper control of the professional accounting body.

Who May Practice

Under the Law and Regulations, the title Contador Publico (Public Accountant) applies to a person who is duly registered in the National Registry and who holds a certificate or diploma of Perito Comercial (Commercial Expert), or Contador Commercial (Commercial Accountant), or Perito Contador (Accounting Expert).

Registered Accountants:

The Law and the Regulations provide that only the persons who are inscribed in the National Registry may use the title

of Public Accountant and perform the various functions designated by the law and regulations. (But see the following topic relative to university graduates.)

There is no minimum age stipulated for registration. Firms composed of nationals, as well as foreign professional firms, may be registered without prejudice to the titles of registered individuals with such firms.

Non-Registered Accountants:

Commercial and Administrative Engineers and university graduates in general are exempt from the requirement of registration. On this basis, it seems that the holder of a degree in Economic Sciences from a national university might freely engage in the independent practice of accounting.

Exercise of the Profession

In Ecuador, the term "professional accountant" means a person who habitually engages in work of an accounting nature, but "public accountant" -- even though some of the functions appear to be similar to work performed by public accountants in the United States -- does not precisely mean "an accountant who holds himself out to the general public as an independent practitioner." Furthermore, "practice of the profession" may mean offering and performing services in a dependent manner, as an employee; or it may mean executing work in an independent manner; or it may apply to the teaching of accounting subjects.

Definition:

Article 3 of the Accountants Law declares that for the purposes of the law, there shall be considered exercise of the profession, all acts which comprise, require, or are affected by the application of knowledge appropriate to the professional accountants entitled to be called Public Accountants and particularly if such acts consist of:

- a) The offering of and contracting for professional services.
- b) The performance of auditing and investigating work, acting as appraiser or expert, preparation of inventories and other accounting work as a basis for scientifically establishing conclusions as to economic and financial results of institutions, firms, or business enterprises of any kind, public or private.
- c) Acting as accounting teachers in public or private institutions or schools of commerce.

Special Functions of Registered Public Accountants:

Under the Regulations the functions which may be performed only by Public Accountants are the following:

- a) Keeping of books -- private accounting.
- b) Fiscal control -- analyzing and computing accounting operations for tax purposes.
- c) Supervision -- relative to study of accounting facts to ascertain their legality and correctness.
- d) Auditing -- investigating procedures, determining methods, designing accounting systems, preparing organization plans, analyzing financial statements, certifying balance sheets, all with respect to particular attention directed to the nature of accounting operations.

- e) Expert work -- in connection with making up inventories, establishing results of accounts and performing, on petition of a party or by a judicial order, certain accounting work.
- f) Teaching in schools and colleges of Commerce and Administration, operated in accordance with regulations for the official plan of studies.

Of the foregoing classifications of work attributed to Public Accountants, Auditing appears to cover the functions commonly performed by accountants engaged in public practice in the United States. Expert work probably covers matters requiring accounting knowledge in connection with court proceedings such as bankruptcies, liquidations, and estate matters.

Registration

General Conditions:

As previously stated, under the Law and Regulations, the title Public Accountant applies to an individual who is duly registered in the National Registry and who holds the required diploma awarded for accounting studies by a secondary school. Registration is carried out by Provincial Councils. When there is no council in the province where a candidate resides, he may be registered in another province designated by the National Federation.

If a citizen holds a foreign diploma, he must have it revalidated by the State. A candidate whose degree is not automatically recognized must take an examination.

No minimum age for registration is indicated either in the Law or the pertinent regulations. Students who complete the required 6-year secondary course and obtain the necessary six months' practical experience are probably at least 18-1/2 years of age.

Council Procedure:

The Provincial Council qualifies the documents and credits of the candidate, making a record thereof. A copy of such record, certified by the President and Secretary is forwarded to the Central Executive Council of the National Federation of Accountants for entry in the National Registry, together with a copy of the application, two photographs, and the respective fee. In case of rejection of an application, the local council must send a report to the Central Executive Committee explaining its reasons for rejection. The Provincial Council has only fifteen days within which to process an application.

Application Requirements:

Candidates must furnish in their applications certain data for entry in the records of the National Registry, which records must disclose the following particulars:

- a) Number of registration.
- b) Date of application for registration.
- c) Date of registration.
- d) Christian names and surname of person registered.
- e) Date and place of birth and nationality.
- f) Number and place of issuance of identity card.
- g) Civil status.
- h) Studies pursued.
- i) Degrees held.

- j) Institutions from which diplomas, degrees, or certificates have been obtained.
- k) Dates on which the above were obtained.
- l) Certificates of professional practice.
- m) Provincial Council which initiated the registration.
- n) Number and date of registration in the Provincial Register.
- o) Officials who were concerned with the registration in the Provincial Register
- p) Signatures of the President and Secretary of the National Federation

Examination:

The National Federation of Accountants, under the powers granted to it by the Accountants Law and Regulations, may provide rules for examination of candidates who hold foreign diplomas not automatically recognized by the educational authorities of Ecuador. Such rules which were issued in 1948 provide for an Examining Board, made up of three registered accountants with experience in teaching.

The examination questions are based upon the program prescribed by the Ministry of Education for commercial and administration studies. The examination consists of two sections, made up as follows:

- 1) Obligatory subjects-
Compilation (or editing), commercial mathematics, notions of business law, general knowledge of tax laws, general accounting, office organization and practice, and mercantile documents.
- 2) Elective subjects-
Statistics, specialized accounting, auditing, and political economy.

Practical accounting problems, commercial mathematics, and the application of tax laws are covered in the written section,

which means that a foreign candidate must be able to read and write Spanish. The oral examination is based upon two of the obligatory subjects, and they are usually subjects which were not included in the written examination. One of these subjects may be chosen by the candidate.

License to Practice:

Within 15 days after receipt of documents from the Provincial Council, the Central Executive Council issues a certificate to the candidate which entitles him to freely practice the profession throughout the country.

Revalidation or Recognition of Foreign Degrees or Titles:

The Accountants Law (Article 6) expressly provides for the recognition of foreign titles, certificates, or diplomas and authorizes the Provincial Councils to qualify such titles. A national with a degree from a United States college or university or a diploma from a high school or business college in the United States would probably be required to submit to an examination in the absence of a convention between the United States and Ecuador providing for academic reciprocity. The same would be true of a national holding a degree or diploma from any other country with which Ecuador has no treaty providing for mutual recognition of titles and studies, but a national holding a title awarded in a country which has signed a treaty with Ecuador relative to recognition of studies and professional titles is entitled to be registered without examination.

Accountants in Practice at Date of Legislation:

Accountants who held certificates as accounting experts conferred by the Chambers of Commerce, Fiscal Treasuries, and Provincial Chiefs of Revenue, under the Supreme Decree (No. 317) of May 6, 1936, were entitled to be registered as Public Accountants. Nationals and foreigners who held diplomas or certificates from business schools in Ecuador, which had been granted prior to the inauguration of the official plan of studies, were also given the right of registration. Also, individuals who held no diplomas but who could prove that they had had five years of practical experience were accorded this privilege.

Education of Accountants

Because of chaotic conditions within the country, little attention was given to general education in Ecuador until the early years of the twentieth century. Ecuador's real educational movement did not get under way until 1938, when a new school law placed all public and private education under State control. According to the Constitution of 1945, education is a function of the State.

Persons entitled to be registered as Public Accountants of Ecuador receive their training in schools of business and administration (escuelas de comercio y administracion), which have as their aim the preparation of skilled workers and of specialists in the fields of business, industry, banking, and public administra-

tion. These schools or colegios provide the necessary background for entrance to the Faculties of Economics in the Universities of Quito and Guayaquil.

Business and administrative education, in general, is organized into the following progress cycles or stages: Prevocational, 3 years; vocational, 1 year; subprofessional, 1 year; and professional, 1 year. A student may enter the prevocational cycle after completing 6 years of elementary school work. The average age upon entering this cycle is between 12 and 13 years.

Graduates of the last, or professional cycle, are given training leading to the professional title of Accounting Expert (Perito Contador), which roughly corresponds to a high school diploma in the United States based upon commercial studies. But before the title of Accounting Expert is conferred, the candidate must engage successfully in practical work for a period of at least six months, in a State, municipal, business, banking, or industrial establishment and he must also prepare a thesis dealing with a national problem related to his specialization field.

According to a study made by the United States Office of Education, Federal Security Agency, entitled Education in Ecuador (Bulletin 1947, No. 2), business education in Ecuador is of relatively recent organization (1942-1943) and, although a number of business schools have been founded, the great volume of this type of training is in a state of transition, or organization, and reorganization. The need and importance of business education is

being increasingly recognized by the people, by employers, and by the government.

The Central University of Quito has no School of Accounting but it does provide higher education in Economics. The University of Guayaquil also has a Faculty of Economic Sciences.

For admission to university study, a student must be at least 18 years of age, hold the degree of bachelor from a secondary school, have completed or be exempt from compulsory military service, and pass an entrance examination. Students graduated by secondary colegios with the title of business expert or accounting expert are granted admission to the University Faculties of Economic Sciences.

The Central University of Quito sets the pattern for the University of Guayaquil, both of which provide the following plan of studies leading to the title of Economist:

	<u>Semester Hours</u>
First Year-	
Civil law	2
General bookkeeping	2
English	2
Statistics	2
Economic geography and history	2
Mathematics	2
Economic theory	2
Seminar on national problems	2
	<u>16</u>
Second Year-	
General bookkeeping	2
English	2
Economic geography and history	2
Mathematics	3
Economic theory	2
Finance	2
Currency and credit	3
Practical economics	2
Seminar on national problems	2
	<u>20</u>

	<u>Semester Hours</u>
Third Year-	
English	2
Mathematics	3
Accounting	2
Administrative law	3
History of Ecuadorian economics	3
Commercial law	2
Fiscal law	2
Seminar on national problems	<u>1</u>
	18

The requirements for any given degree are identical in all Ecuadorian universities which are authorized by law to confer it.

As stated earlier in this article, university graduates are not required to be registered in order to practice accounting.

Some Aspects of Practice

With Respect to Corporations

Statutory Auditors and Annual Audits:

At the annual general meeting of stockholders, the balance sheet of a corporation must be presented for approval. At this meeting, one or more auditors whether shareholders or not, must be appointed to inform the general meeting of the following year concerning the company's position and the state of its balance sheet and other accounts. Any decision approving the financial statement is void unless preceded by the report of the auditors.

Business in general is governed by the provisions of the Commercial Code. The Judge of Commerce is charged with the supervision of commercial organizations, and he has the authority to determine at any time the condition of a company and its compliance with legal and statutory provisions by examining all of its books,

documents, and funds. Banks and insurance companies are subject to supervision by the Superintendency of Banks. Publication of financial statements or other reports is not required, except in the case of banks and insurance companies.

Under the Commercial Code, every merchant or manufacturer whose capital is between 10,000 sucres and 50,000 sucres is obliged to maintain accounting records, either personally or with the advice of an accountant or an expert in accountancy; but whenever the capital is 50,000 sucres or more, he is obliged to employ an accountant or an expert in accountancy who has had at least five years' experience, who will be in charge of and who will have the responsibility for the accounting of the business.

According to the Code, foreign industrial or commercial houses, or their branches, are subject to the same rule with respect to five years of experience, whether or not the accounting is performed in Ecuador or elsewhere. Foreign companies with a capital of 50,000 sucres (roughly \$3,300 U.S. currency) or more, which maintain accounting records in Ecuador, would under the Code be obliged to employ expert accountants who had been registered. As previously mentioned, all accountants must be entered in the records of the National Registry in order to be able to offer their services as employees or independently.

Tax Returns:

There appears to be no requirement that tax returns must be prepared and signed by independent auditors. A tax return which

does not bear the signature of a registered accountant is regarded as not filed, and the taxpayer is subject to penalties imposed by the tax laws. A list of accountants is sent at the first of each calendar year by the Technical Department of the Ministry of Treasury to each national and municipal tax office. Each month a list of new registrations as well as the names of accountants suspended or disbarred must be sent by the Central Executive Council of the Federation to the Technical Department.

Professional Accountants Engaged In Practice

Standards and Code of Ethics:

Information is not available as to the actual standards of accountants engaged in public practice in Ecuador. However, certain provisions of the Accountants Law deal with professional responsibilities of accountants. Article 7 of Title IV of the Law provides that accountants are liable for all their acts and that all statements and documents which they sign must be supported by exact and correct figures, or adjusted where necessary. They are prohibited from signing balance sheets and tax declarations without making a complete study of the books of account.

Also, imposed by the Law is the obligation to keep in strict confidence all information concerning operations and financial condition of enterprises of which they have knowledge. Failure to do so renders the accountant liable for damages occasioned to the owner of the business and deprivation of the accountant's right to practice.

The Accountants Law authorized the National Federation of Accountants to prepare a Code of Professional Ethics applicable to all accountants. Accordingly, at the Second National Congress of Accountants held on February 22, 1947, such Code was adopted.

Article 4 of this Code deals with the duty of an accountant when expressing his opinion about financial statements. This rule closely resembles Article 5 of the Rules for Professional Conduct applicable to members of the American Institute of Accountants. Many of the rules are general, being applicable to accountants in private practice as well as public accountants. Among the rules pertaining to the latter are the following:

Article 5. No accountant may express or give an opinion relative to financial conditions or statements unless he has absolute independence and is able to freely express his opinion.

. . .

Article 8. In signing financial or economic statements, it is the duty of the accountant to make a comprehensive examination, obtaining sufficient and documented information as to the operations and carefully observing that accounting applications and values are exact and reflect the true facts and condition of the enterprise or business to which he renders his services.

Article 10. An accountant is prohibited from obtaining, directly or indirectly, the work of another professional, but he may furnish services if they are requested; he may also demand the assistance of a colleague or a professional group in order to solve any problem which he alone is not able to solve.

. . .

Article 17. An accountant is prohibited from accepting remuneration that is not in conformity with the minimum fees determined by the regulations approved by the National Federation of Accountants of Ecuador; in the case of fees, he must estimate them with moderation and prudence, having in mind the time required for completing the work -- its nature, importance, and difficulties -- which he himself procures, and he must see that the fees represent the value of his services without being increased or decreased.

. . . .
Article 21. An accountant is prohibited from associating for practice of the profession with persons who lack the authorization granted by the National Federation of Accountants.

Accountants are prohibited by the Accountants Law (Article 4) from using any form of advertising, which includes directory listings. They may not use such names as Academy, Studio, Council, Office, Institute, Company, or similar titles.

Number of Accountants Engaged in Public Practice:

Figures are not available as to the exact number of nationals engaged in public practice. Anuario Kraft for 1949 lists nine Contadores Balanceros¹ in Quito and none in Guayaquil.

Professional Accounting Societies

The Federacion Nacional de Contadores del Ecuador (National Federation of Accountants of Ecuador) in Quito is the entity which represents the societies of accountants throughout the country. By means of its Central Executive Council, the Federation regulates the accounting profession as a whole. This association has been recognized officially by the Accountants Law, which authorized it to open and maintain the National Registry and charged it with the preparation of a Code of Ethics. As previously mentioned, such Code was adopted in 1947.

Among the purposes of the Federation are the development of the accounting profession, the unification of commercial instruction, the enactment of laws and decrees which will benefit accountants, and the encouragement of the adoption of modern accounting methods.

¹ Accountants who adjust balance sheets.

A Council in each province represents the societies established therein. Such Council is composed of two delegates from each society in a province where there are more than two entities, or by three delegates of each society where there are only two such entities.

In the City of Quito, Province of Pichincha, there are two societies:

Asociacion de Contadores y Expertos del Pichincha
(Association of Accountants and Experts of Pichincha)

Asociacion de Contadores Publicos de Pichincha
(Association of Public Accountants of Pichincha)

Membership in the Association of Public Accountants of Pichincha is divided into active, honorary, and adherent members. Active members must be Ecuadorians by birth, at least 21 years of age, and registered according to law; they must have at least five years of continuous experience. However, persons who hold the title of Insurance Actuary or Commercial Engineer, or a similar title, are admitted on only a year's experience.

Honorary members are persons to whom the Board of Governors grants such distinction because of extraordinary services rendered to the Association or because of their position in the fields of banking, finance, commerce, agriculture, industry, or social economics. Adherent members may be teachers of accounting or persons who have completed their studies in accounting but who have not had the required experience.

This Association was established in 1943 by some 83 "founding members". None of the individuals whose names appear in

the by-laws indicated that they were engaged in independent practice. Practically all of them were listed as being in the employment of some branch of the government or of private entities; only one person was a professor in accounting.

The official publication of the Association of Accountants and Experts of Pichincha is entitled Boletin de informacion de la Asociacion de contadores y expertos del Pichincha (Information Bulletin of the Association of Accountants and Experts of Pichincha). The Association of Public Accountants publishes Revista Contable (Accounting Journal).

The following societies are established in other provinces:

Asociacion de Contadores de Imbabura, Ibarra
(Association of Accountants of Imbabura), Ibarra

Sociedad de Contadores de Tungurahua, Ambato
(Society of Accountants of Tungurahua), Ambato

Asociacion de Contadores de Chimborazo, Riobamba
(Association of Accountants of Chimborazo), Riobamba

Sindicato de Contadores del Azuay, Cuenca
(Syndicate of Accountants of Azuay), Cuenca

Asociacion de Contadores de Los Rios, Babahoyo
(Association of Accountants of Los Rios), Babahoyo

Sociedad de Contadores del Guayas, Guayaquil
(Society of Accountants of Guayas), Guayaquil

Sociedad Cultural de Contadores, Guayaquil
(Cultural Society of Accountants), Guayaquil

These associations are affiliated with the National Federation of Accountants. Information is not available as to their requirements for membership, but it may be assumed that the requirements are similar to those of the two societies established in the City of

Quito. The Cultural Society of Accountants of Guayaquil publishes Revista de la Sociedad cultural de contadores (Review of the Cultural Society of Accountants).

The National Federation of Accountants is a member of the Pan-American Institute of Technicians, whose headquarters are in Buenos Aires, Argentina. The Federation was represented at the First Inter-American Congress of Accounting which was held in Puerto Rico in 1949.

SECTION II

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

Basic Laws and Regulations

The Constitution of the Republic and the Law of Alienship establish the basic rights of foreigners and provide that aliens in Ecuador shall enjoy the same civil rights and be subject to the same civil obligations as Ecuadorians, with specific exceptions largely relating to political actions.

The Accountants Law of 1947 expressly provides for the registration of foreign accountants, including persons who had made their studies in business schools in Ecuador as well as those who had obtained diplomas or certificates from foreign institutions. Even alien accountants without diplomas or certificates who were able to prove that they had had five years' experience prior to April 10, 1947 were entitled to be registered.

In addition to the accounting laws and regulations which are in force, United States citizens and other non-nationals are, of course, subject to the immigration laws of Ecuador. The Law on Foreigners, covering the employment of nationals, must also be considered.

Qualification of a United States CPA

By Examination:

Before a United States CPA can be registered as a Public Accountant of Ecuador, he must submit to an examination. The examination is the same one that is provided for nationals with foreign degrees which are not automatically recognized. In this connection, see page 12.

By Revalidation of United States Diploma or Certificate:

There is no reciprocal arrangement between Ecuador and the United States covering mutual recognition of professional degrees and diplomas. A United States citizen should have his diploma or certificate authenticated by the Ecuador Foreign Service in this country. As previously mentioned, a certificate or diploma from any country with which Ecuador has no convention for academic reciprocity will not be revalidated without examination.

By Proof of Practical Experience:

Under the official plan of studies in Ecuador, a candidate must have six months of practical experience before he receives his certificate as Accounting Expert. A United States citizen who desires to be registered, particularly in the "auditing" category, would probably be required to show evidence of at least the same amount of experience. Proof of practical experience by itself, obtained in the United States or elsewhere, outside of

Ecuador, would not now be sufficient to qualify a United States citizen without examination. A United States citizen residing in Ecuador on April 10, 1947, who could prove five years' experience was entitled to be registered. The law does not state that such experience had to be obtained in Ecuador.

By Membership in Recognized Society:

In order to be able to engage in practice, a United States accountant must first be registered in the National Registry maintained by the National Federation of Accountants. Membership in a professional society does not appear to be compulsory in Ecuador.

A certificate of membership in a United States professional society would not fulfill the requirements of the law. Information is not presently available as to what recognition is afforded to members of Canadian or British professional societies.

As mentioned on page 22, one of the requirements for membership in the Association of Public Accountants of Pichincha is citizenship by birth, which would preclude United States citizens from becoming active members.

Permanent Practice

Assuming a United States citizen obtains a permit for permanent residence in Ecuador, he could establish an office after being registered in the National Registry. A United States citizen who has already had his papers validated by the Ecuadorian government and has been engaged in practice may, under the present laws, continue in public practice.

The Accountants Law provides that foreign firms are permitted to be registered without prejudice to the titles held by individuals who may be associated with such firms. It does not state that a firm must have a qualified partner residing in Ecuador, or that all partners of a foreign firm must be residents of Ecuador. There is no requirement that a partner or manager must be a national.

Neither the Law nor the regulations contains any restriction to prevent a national qualified accountant from engaging in practice with a United States CPA or a United States accounting firm, or any foreign firm. But under Article 21 of the Code of Ethics (see page 21), an accountant is prohibited from associating for practice of the profession with persons who lack the authorization granted by the National Federation of Accountants.

Practice may be conducted under firm names, and there is no limitation as to size of staff. However, under the Law on Foreigners, any enterprise employing more than five persons is obliged to hire at least 80 percent Ecuadorian workers, except in the case of technical positions which cannot be filled by nationals and providing this fact is satisfactorily proved to the Immigration Administration. This rule applies to professions.

There seems to be no legal restriction against replacing present staff of a foreign accounting firm with United States citizens. Such replacements would, of course, have to conform to the law and regulations with respect to revalidation of diplomas and registrations in the National Registry. The percentage of national employees would also have to be observed.

There appear to be no restrictions on types of engagements that may be undertaken by United States or other alien accountants.

Isolated Engagements

Theoretically, under the laws and regulations in force, an accountant from the United States should not practice in Ecuador even temporarily without being registered. Since there is no law requiring annual audits of private enterprises to be made by registered auditors and compelling publication of certified financial statements, the law relative to registration is difficult to enforce.

The immigration laws of Ecuador permit a foreigner to enter on a business visa for a period of three months during which he may engage in legitimate commercial activities. Based upon information available, it is thought that an accountant who wishes to perform an isolated engagement during a period of thirty days could do so without registering as an accountant. If the engagement is expected to take longer than thirty days, he should have in his possession the certificate which identifies him as a certified public accountant and evidence that he has had experience in the practice of the profession. It might be well, in order to avoid any possible delays, to have such documents notarized.

Immigration Requirements

Permanent Residence:

For any period longer than six months, an immigrant visa is required. A person who wishes to reside in Ecuador must first apply directly to the Ministry of Foreign Affairs at Quito, requesting that authorization be granted to any consulate in the United States to issue this type of visa. Under the Law on Foreigners, immediately upon entering Ecuador, the alien must register with the Immigration Department, which maintains a special register of foreign residents.

Temporary Entry:

A business visa, issued for a three-months period, permits a foreigner to engage in legitimate commercial activities and is renewable for a similar period at the discretion of the Director General of Immigration. As mentioned in the preceding paragraph, an immigrant visa is required for a period longer than six months. On entering Ecuador, the person must register with the Immigration Department which grants a permit enabling him to engage in business activities.

Accountants Established In Practice

There are believed to be no United States CPAs engaged in practice in Ecuador. So far as is known, the only foreign firm in Ecuador is Price, Waterhouse, Peat & Co., which maintains an office in Quito.

SECTION III

TREATIES AND LEGISLATION PENDING

Treaty between United States and Ecuador:

There is no treaty presently in effect between the United States and Ecuador providing for mutual recognition of professional titles or academic studies. Neither is there any treaty under which accountants from either country are permitted to enter the other country for the purpose of making audits, examinations, and technical investigations and to render reports to nationals and companies within the territories of such other country, regardless of the extent to which they may have qualified for the practice of the profession of public accounting within such other country.

Treaties between Ecuador and Other Countries:

Ecuador has signed an agreement with Chile relative to mutual recognition of degrees and educational credits. It is not known whether or not similar agreements are in effect with other Latin American countries.

Legislation Pending:

So far as is known at the time of preparing this report,¹ there is no legislation pending which is aimed at restricting the practice of accounting by United States citizens or United States accounting firms.

¹ February 1951.

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

Sources of Information

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MEMORANDUM RE PUBLIC PRACTICE OF ACCOUNTING IN THE
REPUBLIC OF ECUADOR

✓ Status of Profession:

The profession of Contador Publico (Public Accountant) is not a university or "liberal" profession in Ecuador, although it is regulated.

✓ Regulatory Laws:

The Accountants Law, published April 10, 1947, provides for registration of all accountants, public and private, and defines their functions. Regulations issued by the Technical Department of the Ministry of the Treasury provide for the application of the Accountants Law; these were issued on March 13, 1948. Regulations for Examinations were issued by the Central Executive Council of the National Federation of Accountants of Ecuador on July 30, 1948. Also, a Code of Professional Ethics had been published in 1947; these rules were formulated by the Second National Congress of Accountants of Ecuador.

✓ Regulatory Authority:

The National Federation of Accountants of Ecuador with headquarters in Quito is the regulatory authority for all accountants.

✓ Registration:

Registration is carried out by Provincial Councils, subordinate to the National Federation which maintains the official register.

✓ Requirements for Registration:

Citizenship is not a condition for registration. The diploma of Perito Contador (Accounting Expert) issued by schools of business and administration on the secondary level is sufficient to qualify a person to engage in public accounting under the laws now in force. (Business schools were established in relatively recent years -- 1942-1943.)

No minimum age is stipulated, but candidates probably are between 18 and 19 years of age. Six months of practical experience with a governmental office, bank or business house is necessary for candidates to be registered.

Examinations are not generally required, but Ecuadoreans and aliens with foreign diplomas, or persons without diplomas but with five years' practical experience obtained prior to the effective date of the Accountants Law are required to take examinations for registration. University graduates, because of the superior knowledge accredited to them, are exempt from registration.

Professional Accountants in Practice:

Estimates are not available as to the actual number of accountants engaged in public practice.

The Accountants Law imposes certain standards and, as mentioned above, a Code of Ethics was formulated in 1947. Accountants are prohibited from using any form of advertising, including directory listings.

The Federacion Nacional de Contadores (National Federation of Accountants), in Quito, is the entity which represents societies of all provinces, among which is Asociacion de Contadores Publicos de Pichincha (Association of Public Accountants of Pichincha). The latter society issues Revista Contable (Accounting Review). Membership in any society is voluntary, but accountants must be registered in a Provincial Council of the National Federation.

Practice by United States Citizens or Firms:

There is no restriction against the establishment of a permanent office by a United States citizen or accounting firm. Registration of both the firm and individuals would be necessary. The Law does not state that a firm must have a qualified partner residing in Ecuador, nor that a partner or manager must be a national.

Theoretically, an accountant from the United States should not engage in practice, even temporarily, without being registered. But, since there is no law requiring annual audits of private enterprises to be made by registered auditors and publication of certified financial statements, the law relative to registration is difficult to enforce.

Treaties and Legislation Pending:

There is no treaty between the United States and Ecuador under which United States citizens may enter Ecuador to perform audits on behalf of United States investors.

So far as is known, there is no legislation proposed or pending which would affect public practice by United States citizens or firms.