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Public Practice of Accounting in the United States of Brazil

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Haskins & Sells Foundation

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PUBLIC PRACTICE OF ACCOUNTING IN
THE UNITED STATES OF BRAZIL

Prepared for

AMERICAN INSTITUTE OF ACCOUNTANTS

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HASKINS & SELLS FOUNDATION, INC.

By

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THE UNITED STATES OF BRAZIL

General Information

Geography:

The United States of Brazil is the second largest of the twenty-one American Republics and the largest and most populous of the Latin American countries. It has an area of 3,825,000 square miles and includes about 47 percent of South America, being nearly 9 percent larger than the continental United States. Brazil is bounded by every country in South America, except Chile and Ecuador. Its coastline extends 4,603 miles along the Atlantic Ocean.

The Federation of Brazil is comprised of twenty states, the Federal District, and five territories. The Capital city is Rio de Janeiro, with an estimated population of 2,300,000. Sao Paulo, the capital of the State of Sao Paulo, with a population of some 2,000,000 is the second largest city in Brazil and third in size in South America. It has had a rapid growth since World War II, and is the largest industrial center in Brazil, accounting for more than 60 percent of Brazil's total production.

Recife, the capital of Pernambuco, with a population of about 400,000, is the commercial and distribution center of northeastern Brazil. Porto Alegre, capital of the State of Rio Grande do Sul, is the most important industrial and distribution center of southern Brazil. Belo Horizonte is the capital of the State of Minas Gerais and is gaining in importance as a commercial center. Santos, in the State of Sao Paulo, is the great coffee exporting port. Other important cities are Sao Salvador (Bahia) and Belem (Para).

People:

The population of Brazil is now estimated at some 50,000,000 inhabitants. About 63 percent of the population is white; mestizos make up 21 percent, Negroes 14 percent, and Indians and others account for 2 percent. Brazil is the only Latin American nation where Portuguese is the official language; although Italian and German are also spoken.

Because of the great interest in education on the part of the Government, particularly since 1930, considerable progress has been made in this field. State universities as well as independent university-level professional schools have been established; the number of high schools has increased from 300 to more than 860; the number of vocational schools has doubled; and elementary schools increased from 27,000 to 47,000 in less than twenty years. Governmental and other campaigns aimed at reducing illiteracy have been so effective that by 1945 the total literacy rate in Brazil was 60 percent.

Economy:

Until quite recently Brazil was primarily an agrarian country. In 1920, agriculture and livestock represented a value of 60 percent more than that of industry. In 1938, the total value of agriculture and livestock was estimated to be only 60 percent of the value of industrial production, and by 1943 industrial production had increased to Cr. \$31,000,000,000. Brazilian industrial production was given increased incentive during World War II years. The increased production has been most noticeable in the field of consumer goods, although the production of certain capital goods,

such as machine tools, motors, machinery, and truck and bus bodies, has not been unimportant. Aside from the processing of foodstuffs, the textile industry, particularly the cotton textile industry, is of primary importance in Brazil. Other important manufacturing lines include chemicals and pharmaceuticals, iron and steel metallurgy, wood and furniture, glass, ceramics and building materials, paper, tobacco products, leather products, and rubber goods.

Brazil ranks first in production of coffee and castor beans, second in production of cocoa, and third in sugar and tobacco. Rubber is another great natural product of the country. In export trade, coffee is by far the most important item.

Brazil is rich in mineral deposits; the principal mining state is Minas Gerais. The country's deposits of iron ore, its most valuable mineral, are one of the world's outstanding reserves of high-grade, low-phosphorous ore.

The majority of Brazilian industrial firms are small in size. For example, in 1944 of the total of 75,614 firms registered for consumption tax purposes, about 73 percent of these firms employed up to 6 workmen. Many leading United States firms have made investments aggregating hundreds of millions of dollars of capital in plants for industrial purposes in the State of Sao Paulo alone. The Brazilian branches or subsidiaries of these United States firms are undoubtedly the principal employers of the country.

In 1949 the United States took about 50 percent in value of Brazil's exports and in turn supplied approximately 42 percent in value of the country's imports of a wide variety of items including particularly machinery, vehicles, industrial chemicals, and pharmaceuticals.

SECTION I

PRACTICE OF ACCOUNTANCY BY NATIONALS

Basic Laws and Regulations

The new Constitution of the United States of Brazil, promulgated on September 18, 1946, provides that the practice of any profession shall be free, subject to observing conditions of capacity that the law may establish. It makes no distinction between Brazilians by birth and Brazilians by naturalization.

The following basic laws relate to or govern the activities of independent public accountants as well as dependent private accountants:

Decree No. 20,158 of June 30, 1931, establishing the organization of commercial education and regulating the activities of accountants

Decree No. 21,033 of February 8, 1932, establishing conditions for registration of accountants

Decree-Law No. 1,535 of August 23, 1939, modifying Decree No. 20,158 by discontinuing the title of "perito contador" (expert accountant)

Decree-Law No. 6,141 of December 28, 1943, amending Decree No. 20,158 and revising commercial education

Decree-Law No. 7,988 of September 22, 1945, providing for courses of study in economic sciences on the university level leading to the degrees of Bachelor and Doctor in Economic Sciences

Decree-Law No. 9,295 of May 27, 1946, creating the Federal Council of Accountancy, defining the rights of accountants and bookkeepers, and providing for their registration and other matters

Decree-Law No. 9,710 of September 3, 1946, modifying Decree-Law No. 9,295 with respect to term of office of Council members and providing for issuance and registration of professional cards

Concept of Profession

Long before the promulgation of Decree-Law No. 7,988 of 1945, providing for education of accountants on the university level, the profession of Public Accountant was regarded as a liberal profession in Brazil.

Article 26 of Law No. 9,295 of 1946 provides that certified accountants have the exclusive right to make examinations, to design accounting systems, to issue audit reports, and to do any work required by the courts or any work of a technical nature conferred by law to the members of the profession. This law also declares that an individual, in order to engage in practice, must be registered in a Regional Council ^{of Accountancy} as well as in the competent agency of the Ministry of Education and Public Health, according to his title.

The enactment of various laws with respect to the activities of accountants, actuaries, and minor vocations related to public administration, commerce, and industry gave prestige to these professions and vocations. The first of these laws was Decree No. 20,158 of 1931, which established the organization of commercial education in Brazil and regulated the activities of accountants. Commercial education developed considerably and on December 28, 1943, Decree-Law No. 6,141 was passed, revising its organization. Decree-Law No. 7,988 of 1945 prescribed the courses of study on the university level leading to the degrees of Bachelor and Doctor in Economic Sciences, either being required to act as "Contador" (Accountant).

From information furnished to us, it appears that Brazilian qualified accountants, who are not absorbed by industry and commerce, are mostly employed in writing up books of accounts and preparing therefrom the statements which require the signature of a qualified accountant. [Balance sheets and income statements for publication as required by Company, taxation or other law must be signed by a qualified accountant. A signature and not an opinion is called for, although the qualified accountant is responsible for the "correctness" of the documents which he signs. As a general rule, the documents of all enterprises of size are signed by an accountant who is an employee of the enterprise, and an independent accountant is resorted to only when the activities of merchants are so small as to make full-time employment of an accountant too costly. Many Brazilian accountants in private employment also act "independently" for small traders.]

As will be seen from the foregoing remarks, the general concept of professional, or public, accounting in Brazil differs radically from the understanding of the profession in the United States. In Brazil, governmental requirements, rather than the interest of the public, always come first when the necessity for a qualified accountant's services are under consideration, and professional status is said to be more of a matter of qualification than of activity pursued.

Regulatory Authority

Decree-Law No. 9,295 of 1946 authorized the creation of the Federal Council of Accountancy in the Federal District and subordinate Regional Councils of Accountancy where necessary in the states, territories, and municipalities. Article 2 of this Decree-Law provides that the inspection and supervision of the carrying out of the profession of accounting, as well as of those skilled as accountants (contadores) and bookkeepers (guarda-livros) will be performed by the Federal Council and the subordinate Regional Councils.

The Federal Council is composed of nine Brazilian members with professional skill legally acquired, who serve for a three-year term. Two-thirds of the members of this Council must be accountants and one-third, bookkeepers. Regional Councils are organized in the same manner as the Federal Council.

This Decree-Law contains no provisions giving the Council the right to establish standards or to engage in activities aimed at improving the level of professional practices. The principal function of the Council is to register accountants and bookkeepers.

Who May Practice

At present, only persons holding Brazilian qualifications obtained through a university course, may practice as a public accountant or even as an accountant in private employment. The degree of "Contador" is recognized by the courts and gives the holder, in addition to all the rights pertaining to bookkeepers, the exclusive right to make examinations, to design accounting systems,

to issue audit reports and other information, and to perform -- as an independent accountant -- all work of a technical nature attributed to the profession.

The diploma of "Tecnico em contabilidade" (Accounting Technician) or "Guarda-livros" (Bookkeeper), awarded by secondary schools, only entitles the holder to sign as a dependent accountant such financial statements as are required by law to be published or presented to income tax authorities.

It will be noted that Article 15 of Decree-Law No. 9,295, quoted below, might be literally interpreted to imply that all responsible members of an accounting firm, or any and all officers of any enterprise who might in any way be responsible for the determination or carrying out of accounting procedures must be registered, legally qualified accountants:

"Individuals, firms, societies, associations, companies, and enterprises in general and their sub-agencies that carry out or exploit in any manner, technical accounting services, or in whose care there might be some section for this purpose, can only perform the respective services by proving before the Councils of Accountancy that those charged with the technical parts are exclusively skilled professionals and registered in accordance with the law."

Exercise of the Profession

Definition:

Article 29 of Decree-Law No. 9,295 has the following provision with respect to practice of the profession:

"Everyone who by means of announcements, plaques, commercial cards, or other methods, proposes to carry out the profession of accountancy, in any of its branches, is subject to the applicable penalties for illegal performance of the profession if he is not duly registered.

"For the purpose of inspection, members of the profession are obliged to declare, in all and any work performed and in the elements foreseen in this article, their professional category of accountant or bookkeeper, as well as the number of their registration in the Regional Council."

Special Functions:

The technical work of accountants is defined by Article 25 of the law as follows:

- a) The organization and execution of services of accountancy in general.
- b) The making of entries in the required books of accounting as well as all those necessary in connection with the organization of accounts and the preparation of the respective balance sheets and statements.
- c) Judicial or extra-judicial skill, revision of balance sheets and of accounts in general, verification of physical possessions, permanent or periodic revision of books, judicial or extra-judicial regulation of gross or common averages, assistance to the Fiscal Councils of stock companies, and any other attributes of a technical nature conferred by law to those in the accounting profession.

Except for the individuals who had acquired certain rights under Decree-Law No. 21,033 of February 8, 1932, the work outlined in clause c may be performed only by certified or chartered accountants.

Registration

General Conditions:

An individual must first be registered in the competent agency of the Ministry of Education and Public Health, which means that he must hold a diploma issued by a Brazilian institution, and

he must also be registered in the Ministry of Industry and Commerce.

Registration Requirements:

After being registered in the two ministries mentioned above, an individual is then entitled to request the registration of his name in the appropriate regional office of the Federal Council of Accountancy.

License to Practice:

To every member of the accounting profession, duly certified and registered in the Regional Council, falls the right of obtaining in the Service of Professional Identification in the National Department of Labor, or in the appropriate Regional Delegacies of Labor in the states, a professional work-book containing:

- a) His name in full
- b) His affiliation
- c) His nationality and country of birth
- d) The date of his birth
- e) The name of the institution in which he was trained or registry of his provisional category
- f) The date on which he received his degree or provisional title as well as indication of his registration number in the competent agency of the National Department of Education
- g) Nature of title or titles held, indicating skill
- h) His registration number in the appropriate Regional Council
- i) A front view photograph and a thumb print
- j) His signature

Upon acceptance and issue of the necessary identity and qualification card, the individual becomes entitled publicly to render professional accounting services in such manner that the accounting documents signed by him are valid at law.

Every employee must take out a "carteira profissional" or identity book with the Ministry of Labor, because it is definitely and basically necessary in order to obtain employment. This book constitutes a record of his employment, including holidays and salary status, the entries in the book being made by the employer.

Revalidation or Recognition of Foreign Degrees:

Article 161 of the new Constitution of 1946 provides that the revalidation of diplomas issued by foreign educational institutions shall be regulated by legislation. To date no such regulations have been issued.

Foreign qualifications are accepted in part satisfaction of requirements for obtaining the dependent accounting diploma of "Tecnico em contabilidade" and examination to complement such qualifications must be taken in Portuguese, Brazilian history and geography, Brazilian mercantile accounting, Brazilian law, and commercial mathematics. To obtain the higher degree of "Contador" an individual holding a foreign degree would now be required to pass the four-year university course which is obligatory.

Accountants in Practice at Date of Restrictive Legislation:

Article 26 of Decree-Law No. 9,295 expressly admitted to the practice of the profession of accountancy, the individuals who had acquired the right to practice under Decree No. 21,033 of February 8, 1932. Bookkeepers regularly registered as such before 1945 were given the same rights as accountants.

Education of Accountants

The Ministry of Education and Public Health administers through subordinate agencies all Federal activities in the field of school education and extra-curricular courses. The organization of commercial education, as previously mentioned, was first established by Decree No. 20,158 of 1931 and amended by Decree-Law No. 6,141 of 1943. These laws provide for uniform basic courses leading to diplomas in commercial subjects. In 1945, there were 1,100 commercial schools with an enrollment of 112,000 pupils.

In order to specialize in accounting, students must first take a three-year fundamental course after having satisfactorily completed five years of elementary school work and four years of "ginasio" (junior high) school work. The diploma awarded upon the completion of the seven-year secondary school work corresponds to a high school diploma in the United States.

Decree-Law No. 7,988 of 1945 prescribes the course of study on the university level for the degree of Bachelor in Economic Sciences which is necessary to act as "Contador". The University of Brazil (organized in 1920 as the University of Rio de Janeiro) was Brazil's first university. It has the National Faculty of Economic Sciences and functions as the national center of instruction in economics, accounting, and actuarial sciences. Other State universities with Faculties of Economic Sciences are: Minas Gerais, Sao Paulo, and Bahia. The Faculty of Economic Sciences in the University of Sao Paulo is said to be outstanding. In addition to these universities, there are many schools of commerce attached to other Faculties

some of which are state controlled and others, privately owned. However, all are under the jurisdiction of the Ministry of Education and Public Health, and, as prescribed by law, they furnish uniform courses.

Admission requirements for entrance to any institution higher learning are: Minimum age of 18, certificate of identity, medical certificate, character references, and secondary school certificate. Candidates must pass a competitive examination.

The following is the prescribed course of study leading to the degree of Bachelor in Economic Sciences:

First Year-

- Complements of Mathematics
- Political Economy
- Value and Formation of Prices I
- General Accounting
- Institutions of Public Right

Second Year-

- Structure of Economic Organizations
- Value and Formation of Prices II
- Money and Credit
- Economic Geography
- Structure and Analysis of Balance Sheets
- Institutions of Private Right

Third Year-

- Department of Social Revenue (Income Tax)
- International Commerce and Exchange
- Methodological Statistics
- Economic History
- Science of Finance
- Science of Administration

Fourth Year-

- Evolution of Economic Developments
- Political Finance
- History of Economic Doctrines
- Compared History of Economic Systems
- Economic Statistics
- Principles of Sociology applied to Economy

The title of Doctor in Economic Sciences will be conferred upon a candidate who, within two years, defends an original thesis of exceptional value.

Some Aspects of Practice With Respect to Corporations

Annual Audits and Statutory Auditors:

Decree-Law No. 2,627 of September 26, 1940, published October 1, 1940, is the "Company Law" which regulates all forms of business enterprises in Brazil. There is no requirement that companies and corporations must be audited annually by public accountants. However, Chapter XII, Article 124, states that a limited liability corporation or company shall have a Committee of Syndics (Conselho Fiscal), composed of three or more members with a similar number of substitutes, shareholders or not, resident in the country, elected annually by the statutory general meeting, and who shall be eligible for re-election. The members and alternates may be foreigners but employees of the company and directors' relatives up to the third degree may not be elected to serve on this committee.

Article 127 of the law defines the duties of the committee, as follows:

1. To examine, at any time, at least quarterly, the books and papers of the company, the state of the cash and the safe, the directors or liquidators being obliged to give them any information requested.
2. To draw up the "Minutes and Reports of the Committee of Syndics" and to register the results of the examination made in accordance with Item 1 of this article.
3. To submit to the ordinary general meeting a report on the affairs and operations of the company during the term of office, taking as a basis the inventory, balance sheet, and accounts of the board of directors.
4. To report the errors, frauds, or criminal acts which they may discover, suggesting such measure as they deem useful to the company.
5. To call the ordinary general meeting, should the board delay doing so for longer than one month, and an extraordinary one if serious and urgent motives warrant same.

6. To perform, during the period of the company's liquidation, the acts referred to in the foregoing items, bearing in mind the special provisions governing liquidation.

There is no requirement that members of the Committee of Syndics must be registered accountants. The committee may appoint a qualified accountant, whose fee shall be fixed by the general meeting, to assist in the examination of the books, inventory, balance sheet, and related accountants.

Balance sheets and profit-and-loss statements and certain other documents, as well as the minutes of all stockholders' meetings must be published annually. "Publication" in Brazil means the actual printing in an official or other periodical of such information and not merely notification to the public by the mere issuance thereof.

With respect to foreign limited liability companies, the Company Law (Article 70) provides as follows:

- ". . . must under penalty of annulment of authorization to operate in the country, republish in the official gazette of the Union, and of the State, where applicable, the publications which, in accordance with the law of their nation or country of origin, they have to make in regard to the balance sheet, profit and loss account and acts of their administration.
- . . . Under like penalty, the said companies shall publish the annual balance sheet and the profit and loss account of branches, suboffices or agencies, in the country."

In spite of the fact that there is no "national law" compelling United States corporations to publish their financial statements in newspapers, this provision is probably construed to compel United States corporations, authorized to do business in Brazil, to publish consolidated statements reflecting their entire operations. The registration in Brazil of a United States parent corporation subjects the entire capital and assets of the parent organization (not

merely the capital allocated for use in Brazil) to the jurisdiction of the Brazilian courts. Of course, a Brazilian organization established by a United States firm or individual is subject to Brazilian laws and must publish financial statements in accordance therewith. As already stated, the requirement is for a signature of a qualified accountant on such statements, and not an opinion.

Income Tax Returns:

Decree-Law No. 5,844 of September 23, 1943 is the Brazilian Income Tax Law. Article 38 thereof provides that corporate bodies shall support their declarations with the following documents, covering a period of twelve consecutive months of operations, made up to any date of the calendar year immediately prior to the financial year in which the tax is due:

- a) Copy of the balance sheet
- b) Copy of the statement of profit-and-loss
- c) Statement of account of general charges, specifying details of expenses
- d) Statement of merchandise, manufacturing, or production account
- e) Detailed list of credits considered uncollectible and debited to reserve or profit and loss account, with particulars as to the name and address of the debtor, value and due date of the debt and reason why same could not be collected.

Article 39 of the tax law states:

"Balance sheets, statements of profit-and-loss account, extracts, presentation of accounts or entries and any other documents of account, must be signed by actuaries, chartered accountants or legally registered accountants or bookkeepers, the number of the respective registration being stated.

Paragraph 5. For the purposes of this Article, actuaries, chartered accountants, accountants and bookkeepers are obliged to communicate to the Income Tax Department the names and addresses of the corporate bodies with whose accountancy they have been entrusted."

Decree-Law No. 15,028 of March 13, 1944 provides regulations for the execution of Brazilian Excess Profits Tax Law (Decree-Law No. 6,224 of January 24, 1944) and for Decree-Law No. 6,225 of January 24, 1944 relating to "Equipment Certificates" and "Guarantee Deposits." Article 13 of these regulations states that balance sheets, profit-and-loss statements, and any other accounting documents submitted must be signed by actuaries, chartered accountants, or legally registered accountants or bookkeepers.

Professional Accountants Engaged in Practice

Standards and Code of Ethics:

Inasmuch as the concept of "public practice of accounting" -- as that term is understood in the United States -- does not generally prevail in Brazil, it is not possible to make any comment as to the standards of Brazilian professional accountants. A comprehensive code of professional ethics was adopted at the Fifth Congress of Brazilian Accountants held at Belo Horizonte in May, 1950.

The law creating the Federal Council of Accountancy does not give that body the right to set any professional standards for public accountants nor to establish a code of professional ethics. However, the Federal Council is empowered to impose penalties for infractions of the legal practice of the accounting profession, and it may fine a person from Cr. \$500 to Cr. \$1,000 (U. S. equivalents \$25, \$500) for performing work attributed to chartered accountants without having the right to do so.

Independence of Professional Accountants:

There are no rules as to independence of professional accountants. Under the Brazilian concept, previously discussed, none are considered necessary or even desirable.

Minimum Fees:

There are no rules or regulations as to minimum fees.

Work Record and Signature:

In addition to being registered in the Regional Council of Accountancy, every staff member of the profession must have a "carteira profissional," issued by the Ministry of Labor. This constitutes a record of an individual's employment, including holiday and salary status, the entry in the book being made by the employer. The fee for this work-book is Cr. \$30. (U. S. equivalent \$1.50).

When signing reports, financial statements or tax returns, the Brazilian "Contador" must always cite his registration number.

Number of Nationals Engaged In Public Practice:

The approximate number of members of "Sindicatos" of accountants for all of Brazil is 27,900, which includes Bookkeepers duly registered as such prior to 1945 and having the same rights as Accountants. The number of Brazilian accountants rendering auditing and other services and issuing reports on the financial condition of companies is said to be practically negligible.

Professional Accounting Societies

As has previously been indicated, the Federal Council and the subordinate Regional Councils of Accountancy are governmental bodies. There are two societies of professional accountants in Brazil, viz.:

Sindicato dos contabilistas de Rio de Janeiro
(Association of Accountants of Rio de Janeiro)
Rua da Carioca, No. 41, Rio de Janeiro

Sindicato dos contabilistas de Sao Paulo
(Association of Accountants of Sao Paulo)
Sao Paulo

The requirement for membership in these societies is conditioned upon registration of a diploma in the two Ministries previously mentioned.

The official publication of the association in Rio de Janeiro is Mensario Brasileiro de contabilidade (Brazilian Monthly Bulletin of Accountancy); and the official organ of the society in Sao Paulo is Revista Paulista de contabilidade (Paulist Review of Accountancy).

Brazil was represented at the First Inter-American Congress of Accounting held in Puerto Rico in 1949.

SECTION II

PRACTICE OF ACCOUNTANCY BY UNITED STATES CITIZENS AND OTHER NON-NATIONALS

Basic Laws and Regulations

The same basic laws, listed under Section I, governing the public practice of accounting by nationals applies to non-nationals. The right to permanent residence or temporary entry is, of course, subject to the immigration laws in effect.

During the period between the promulgation of the Constitution of 1937 and the present Constitution of 1946, the practice of the profession of accountancy, as well as all other professions, was restricted to Brazilian citizens, except for those foreigners who were already practicing in Brazil when the prohibition became effective. The new Constitution (Article 161) provides that the practice of the liberal professions and the revalidation of diplomas issued by foreign educational institutions shall be regulated by legislation. However, regulatory laws have not yet been passed by the Brazilian Congress.

Qualification of a United States C.P.A.

By Examination:

A United States C.P.A. would not be admitted to the practice of public accountancy by simply taking and passing an examination. Under the laws now in effect, he would have to obtain the degree of "Contador" from a Brazilian university. The language problem will probably effectively bar entry by this route of United States citizens.

Revalidation of United States Degree:

Foreign qualifications are accepted only in part satisfaction of the requirements for obtaining the dependent accounting degree of "Tecnico em contabilidade". Examination to complement such qualifications must be taken in Portuguese, Brazilian history, and geography, Brazilian mercantile accounting, and Brazilian law, and commercial mathematics.

A United States degree in accounting, permitting the holder to engage in public practice, would not be revalidated under existing laws. As previously mentioned, regulations have not been issued under Article 161 of the Constitution with respect to revalidation of diplomas issued by foreign educational institutions.

Reciprocal Treaty Provisions:

There is no treaty between the United States of America and Brazil containing reciprocal provisions under which public accountants in either country would be permitted to practice in the other country. There is no convention between the two countries as to recognition of professional degrees.

Proof of Practical Experience:

Proof of practical experience obtained in the United States has no bearing on qualification to practice public accounting in Brazil. The holder of the degree of "Contador" is entitled to practice his profession without first obtaining experience, subject to registration in a Regional Council. A United States accountant could not obtain practical experience in Brazil without being registered.

Membership in Recognized Society:

The only way a United States accountant can qualify for practice in Brazil is by registration in the official Council. Membership in a non-official association or a recognized United States society, such as the American Institute of Accountants, or any state society, would not be a factor in obtaining qualification to practice in Brazil.

Permanent Practice

Under existing laws, a United States C.P.A. would not now be able to establish an office in Brazil for the permanent practice of accountancy. However, if a United States citizen had secured the right to practice under Article 2 of Decree No. 21,033 of February 8, 1932, he would be entitled to be registered under the provisions of Decree-Law No. 9,295 of 1946.

Foreigners who actually practice in Brazil at the present time fall into two categories: The first embraces those who had acquired rights to practice previous to the enactment of the present laws. The second category is composed of more recent arrivals who practice the profession as consultants. Generally, the latter method of practice implies a firm contract of employment with some foreign controlled company, executed prior to entering Brazil. But, under the existing immigration laws, this procedure may not now be feasible.

Firms that were established in 1932 are permitted to conduct independent practice, even though all of the partners of such firms do not hold Brazilian qualifications. In addition to the firm's signature on reports, the signature of a partner holding the Brazilian "Contador" degree as "Contadel Responsavel" (Responsible Accountant)

together with his registration number, is required. However, he need not be a national. In the absence of a partner signing as "Responsible Accountant", it would seem that a manager in charge of an office would be required to have the necessary Brazilian qualification.

From the standpoint of the basic accounting laws, there seems to be no prohibition against a Brazilian registered accountant engaging in practice with a United States accountant who already resides in Brazil, or from becoming affiliated with a United States, or other non-national, accounting firm already established there. Practically, however, under the immigration laws, a United States certified public accountant would encounter difficulty in obtaining a permanent visa.

There is no limitation as to size of staff. But, under the labor laws, all employers are required to have staffs composed of at least two-thirds (both in numbers and remuneration) of citizens. Foreigners having ten years' residence and a Brazilian wife or children are counted as citizens.

Due to immigration restrictions, as well as the labor laws, it does not appear that any staff member of an accounting firm could now be replaced by a United States accountant. The labor laws have provisions relative to the discharge of employees, payments of indemnity, minimum wages, etc., which are strictly interpreted and decisions are generally, though not always, in favor of employees. Permanent visas are issued only for "technicians of an average or superior grade whose activities are concerned directly with production".

The accounting firms, composed of non-nationals, already established in Brazil have a Constitutional right to engage in their activities, subject to the registration formalities. Therefore, they

are not restricted as to types of engagements that may be undertaken.

Isolated Engagements

Reports for Local Use and Publication:

In view of the definition of accountancy expressed in Article 25 (c) of Decree-Law No. 9,295, to the effect that only chartered accountants may perform work requiring "judicial or extra-judicial skill ***** and any other attributes of a technical nature conferred by law to those in the accounting profession", it appears that a United States C.P.A. who is not duly registered as a Brazilian chartered accountant would not be able to sign and deliver in Brazil any financial statements or reports for use in Brazil, whether or not such reports were required to be published.

Reports for Use in the United States:

A United States C.P.A. may enter Brazil under a special temporary "business man's visa" to examine the accounts of a branch or affiliate of a United States corporation authorized to do business in Brazil, or of a Brazilian organization established by a United States individual or firm, in connection with reports for use in the United States. Such work is considered as internal auditing.

As previously mentioned, there is the requirement of publication of financial statements by Brazilian subsidiaries and by parent United States corporations authorized to do business in Brazil. Therefore, a United States C.P.A. who enters Brazil on a temporary basis and who is not registered as a "Contador" would not be permitted to sign any financial statements which must be published. He would not be able to sign Brazilian tax returns.

Immigration Requirements

Permanent Residence:

For permanent residence in Brazil, a technician of an average or superior grade whose activities are concerned directly with production, may be granted a visa under the Brazilian immigration and colonization law (Decree-Law No. 7,967 of September 18, 1945, as implemented and amended by subsequent decrees and administrative orders). Although the immigration regulations state that "within the limits of the law, the entry of any foreigner is legal, provided he is 18 years of age or over, is in perfect health, of proven moral character, and shows that he is able to provide for himself and his dependents either through his labor or by means of financial resources that he possesses", there may be difficulty in obtaining a permanent visa for a public accountant. In any event, prior authorization from the National Department of Immigration would have to be obtained.

Temporary Entry:

The immigration laws provide for temporary visas for persons on business trips who do not intend to remain in Brazil for more than 180 days. These visas may be obtained at the Brazilian Consulate at the port of departure in the United States. Special temporary visas are also issued to foreigners who need to remain in the country for more than 180 days but do not intend to remain indefinitely. In the case of contracted technicians of an average or superior grade, to be engaged in special activities, their entries must be previously approved by the National Department of Immigration

for a period fixed in the particular contract, but not to exceed three years.

Transferring a temporary visa classification to a permanent visa is authorized by law, but the procedure is involved, expensive, and time-consuming, and the outcome is uncertain.

Accountants Established In Practice

There appear to be no United States citizens engaged in public practice in Brazil.

The following firms have offices in one or more of the major cities of Brazil:

Deloitte, Plender, Haskins & Sells,
Rio de Janeiro and Recife

Deloitte, Plender, Griffiths & Co.,
Sao Paulo and Santos

Peat, Marwick, Mitchell & Co.,
Rio de Janeiro

Price, Waterhouse, Peat & Co.,
Rio de Janeiro

McAuliffe, Turquand, Youngs & Co.,
Rio de Janeiro and Sao Paulo

Moore, Cross & Co.,
Rio de Janeiro, Sao Paulo, and Santos

While practically all of these firms have affiliations with United States accounting firms, they probably are more properly classified as British or international firms.

SECTION III

TREATIES AND LEGISLATION PENDING

Treaty between United States and Brazil:

There is no treaty presently in effect between the United States and Brazil under which United States citizens or United States accounting firms are permitted to enter Brazil for the purpose of making examinations of companies in which United States capital is invested and rendering certified reports for publication in official periodicals or newspapers, or for submission to Brazilian authorities. However, newspaper articles published from time to time indicate that a treaty is under consideration.

Though it is not possible to predict what provisions will be included in any treaty that may be negotiated and that will be acceptable to both countries, it may well be expected that any treaty entered into by the United States will contain provisions affording United States citizens and United States accounting firms the right to make examinations of, and to render reports in Brazil with respect to, any form of Brazilian enterprise that may be financed by United States capital.

Treaties between Brazil and Other Countries:

Brazil was signatory to the Treaty of 1889 with Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay which Treaty provided for revalidation of professional titles or diplomas earned in one country by each of the other countries. Information is not available as to whether or not the provisions of this Treaty are still recognized by

Brazil in view of Article 161 of the new Constitution of 1946. As earlier stated, this article provides that revalidation of diplomas issued by foreign educational institutions shall be regulated by legislation, and such regulations have not yet been issued.

Legislation Pending:

Both public and private accountants are now strictly regulated in Brazil and, so far as is known, there is no legislation pending with respect to further regulation. However, it is possible that under Article 161 of the Constitution some legislation could be enacted relative to the practice of public accountancy and the revalidation of foreign degrees which would enable United States C.P.A.'s to perform temporary engagements and to sign reports for use and publication in Brazil.

Because of the extremely nationalistic attitude prevailing in Brazil -- and in all Latin American countries -- it would be wishful thinking to expect that any such legislation would permit a United States citizen or a United States accounting firm to establish and maintain a permanent office for the unrestricted practice of accountancy in Brazil. The most that should be hoped for is legislation or ratification of a treaty which would allow United States citizens to perform services with respect to enterprises in which United States capital is invested and to render such reports thereon as are necessary for publication or for submission to governmental authorities and other parties in Brazil.

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In conclusion, it should be stated that the foregoing study of Public Practice of Accounting in The United States of Brazil 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 contained in the attached appendix.

Sources of Information

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MEMORANDUM RE PUBLIC PRACTICE OF ACCOUNTING
IN THE UNITED STATES OF BRAZIL

✓ Status of Profession:

Contador (Certified Accountant) is a university or "liberal" profession, requiring a degree from a national university. Concept of profession is entirely different from that in United States. Accountant signs financial statements of enterprise which employs him, signature being necessary and not the opinion of an independent public accountant.

✓ Regulatory Laws:

Decree-Law No. 9,295 of 1946 authorized the creation of the Federal Council of Accountancy. Previously, Decree No. 20,158 of 1931, Decree-Law No. 6141 of 1943, and Decree-Law No. 7,988 of 1945, had been enacted relative to commercial education, university courses, etc.; these were the accounting regulations.

✓ Regulatory Authority:

Federal Council of Accountancy in Federal District and subordinate Regional Councils requires registration of all accountants, but actually there is no regulatory law for public practice, in the strict sense.

✓ Registration:

Mandatory for all accountants and bookkeepers. Registration in the competent Agency of Ministry of Education and Public Health, with respect to diploma, and registration in the Ministry of Industry and Commerce entitles accountant to registration in the Federal Council or subordinate Regional Council. Accountants must hold a professional card in order to obtain employment.

✓ Conditions for Registration:

Under the present Constitution of Brazil, citizenship is not a requirement. To act as Contador, individual must hold Brazilian qualifications, i.e., degree from a University in Brazil.

Minimum age is not indicated in the laws, but university graduates probably are more than 21 years of age.

Experience is not necessary for registration as Contador, and no examination is necessary to obtain license.

Registration number must be cited by Contador when signing reports, financial statements, and tax returns.

Professional Accountants in Practice:

It is believed that the number of accountants in public practice is practically negligible.

Law No. 9,295 creating the Federal Council of Accountancy made no provision relative to professional standards or code of ethics. Council has disciplinary powers. A comprehensive Code of Ethics was adopted at the Brazilian Congress of Accountancy held in 1950.

Societies: Sindicato des contabilistas de Rio de Janeiro (Association of Accountants of Rio de Janeiro), located in Rio de Janeiro, is a professional society. It publishes Mensario Brasileiro de contabilidade (Brazilian Monthly Bulletin of Accountancy). Another professional society is Sindicato des contabilistas de Sao Paulo (Association of Accountants of Sao Paulo), which publishes Revista Paulista de contabilidade (Paulist Review of Accountancy).

These two societies were represented at the First Inter-American Congress of Accounting held in Puerto Rico in 1949.

Practice by United States Citizens or Firms:

There are no United States citizens known to be engaged in public accounting in Brazil. Permanent offices may not now be established. International firms which were established in 1932 are permitted to conduct independent practice, even though all partners of such firms do not hold Brazilian qualifications. In addition to the firm's signature on reports, the signature of a partner holding the Brazilian Contador degree as Contadel Responsavel (Responsible Accountant) with his registration number is required.

Temporary practice may be carried on by United States citizens in connection with the examination of accounts of branches and affiliates of a United States corporation, doing business in Brazil, provided that reports are for use in the United States. Unless a United States citizen is registered as a Contador of Brazil, he may not sign reports or financial statements for use and publication in Brazil.

Treaties and Legislation Pending:

There is no commercial treaty presently in effect between the United States and Brazil containing provisions relative to accounting and other technical experts. Newspaper articles from time to time indicate that a treaty is under discussion.

There is believed to be no further restrictive legislation under consideration.