



Reforming Corporate Financial Reporting: Lessons from REPARIS for Other Technical Assistance Programs

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Key Messages

- The recent financial crisis brought to light the importance of transparent and effective corporate financial reporting to a country's economic recovery and subsequent growth.
- The REPARIS¹ program, supported with technical assistance from the World Bank, was designed to assist its eight participating member countries in improving their institutional frameworks for corporate financial reporting and fostering the adoption of EU standards for business reporting and auditing.
- This program has been used to build the kind of broad stakeholder support – both public and private – that is vital for the successful implementation of financial reporting reforms.
- The emphasis on peer learning, through such tools as Communities of Practice, helps promote the effective implementation of reforms. In-country engagement is also critical to ensure that changes are implemented on the ground.
- REPARIS has already proved successful in promoting regional cooperation and bringing national laws and regulations nearer to EU standards. Priorities going forward include achieving greater alignment with the EU *acquis*, implementing effective procedures for the institutional oversight of auditors, and strengthening systems of professional education.

Introduction: the Role of Financial Reporting in the Policy Response to the Financial Crisis

The international financial crisis has had a serious impact on the countries of the Europe and Central Asia (ECA) region. Growth is slower, unemployment is higher, public debt has soared, and trust in the stability of banks has been eroded. In response to these challenges, the World Bank's strategy for the region has focused on three main pillars: improvements in competitiveness to deliver an early return to economic growth; reforms in the social sector to ensure that growth is inclusive; and action on climate change to ensure that growth is sustainable. These three pillars are linked by a cross-cutting theme of improving governance, as it has become increasingly clear that good public and corporate governance are important to long-term economic growth.

Transparent reporting within the corporate sector plays a key role in promoting good corporate governance and in this way in supporting a sustained economic recovery. Moreover, the rapid spread of the financial crisis demonstrated how interdependent national economies have become, making it particularly important that this corporate transparency extend across national borders. Here, shared frameworks for financial reporting, such as those embodied in International Financial Reporting Standards (IFRS), the international framework for corporate accounting that has been adopted by more than 100 countries around the world, play a crucial role.

Effective systems of corporate financial reporting therefore contribute directly to economic growth. For example, the information provided in credible financial reporting systems makes it easier for firms to gain access to external finance. By improving the information available to those with funds to invest, investment decisions are made more efficiently,

¹ REPARIS refers to the "The Road to Europe: Program of Accounting Reform and Institutional Strengthening", a joint partnership program of the EU, the World Bank and several donor countries.

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with scarce resources being directed to those projects expected to yield the highest returns.

This is especially important for innovative small and medium-sized enterprises (SMEs). These firms tend to lack the physical or financial collateral that banks often require in order to extend credit. Appropriate systems of corporate financial reporting can give banks the confidence to rely less on collateral and base more of their lending decisions on cash flow and business prospects. Rapidly growing SMEs need good financial reporting frameworks to (i) be able to raise funds from early stage equity investors and (ii) ensure the firms' eventual flotation on a public market.

REPARIS: a Regional Program Responding to Common Needs

The countries of South East Europe share a priority of achieving closer economic and political integration with the European Union (EU), providing an additional motivation for adopting the common framework for corporate financial reporting included in the body of EU law and regulations, the *acquis communautaire*. Adopting shared and internationally recognized reporting standards across the Western Balkans makes it easier for domestic businesses to expand both regionally and into the wider European market. At the political level, adopting the *acquis* is a precondition for formal accession to the EU, a goal for most of the countries of the region.

In response to these demands, the REPARIS program was set up in 2009 as a partnership between the eight participating countries (Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Moldova, Montenegro, and Serbia), the EU, the World Bank, and various donor countries (the governments of Austria, Luxembourg, and Switzerland). The Centre for Financial Reporting Reform (CFRR), the Bank's center for technical expertise in corporate financial reporting in the ECA region, manages the REPARIS program and plays the leading role within the Bank in providing critically needed technical assistance to member countries as they work to improve their financial reporting systems.

REPARIS supports a broad range of stakeholders, including ministries of finance, the accounting profession, financial regulators, and teachers of accounting in universities. It focuses on:

- enhancing accounting education systems
- improving institutional frameworks for corporate financial reporting
- fostering the adoption of EU-compliant standards for financial reporting and auditing by local businesses

- building closer international links between key institutions and helping participants to benefit from other countries' experiences

The program is centered on a regular program of face-to-face regional workshops and distance-learning events for working-level contacts. To ensure that political commitment to the reform process is maintained, the program uses the World Bank's convening power to bring together policy makers from participating countries and the EU and other global standard-setters for regular meetings. These regional activities are complemented by tailored assistance from the CFRR in designing and implementing national reform initiatives.

Building on the Findings of the ROSC reports

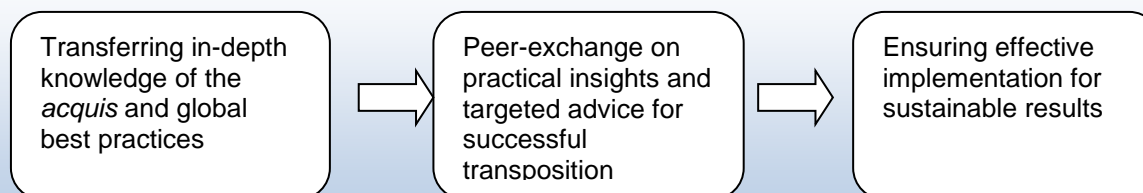
In some respects, REPARIS represents a logical extension of the Bank's established program of Accounting and Auditing Reports on the Observance of Standards and Codes (A&A ROSCs). The A&A ROSCs, which formed part of the policy response to the financial crises of the 1990s, describe national frameworks for corporate financial reporting, benchmark them against international standards, and set out recommendations for improvements. REPARIS helps the participating countries draw up Country Action Plans (CAPs) to carry out the recommendations of the A&A ROSCs and then supports them in implementing these plans. Updates of the A&A ROSCs are commissioned to monitor progress, allowing CAPs to be adapted in response to emerging issues.

One important feature of both the A&A ROSCs and REPARIS is that they take a broad view of the reform process, covering not only changes to the legal and regulatory framework but also the need to improve the capacity of the public and private institutions (standard-setters, oversight bodies, professional accountancy organizations, etc.) active in financial reporting. Improvements in both laws and institutions are required to ensure that the quality of financial reporting actually improves in practice.

Learning from Each Other's Experiences

The regional aspect of REPARIS makes it much more than a technical assistance program focused on helping countries implement the recommendations of the A&A ROSCs. As the participating countries are trying to reach the same destination (a framework of corporate financial reporting that is aligned with the EU *acquis*) from similar starting points, they face many common challenges. Thus from the beginning, REPARIS has been based on a model of "peer learning," so that the participating countries learn from the reform experiences of their fellow participants, helping

Supporting the effective implementation of reforms through a regional approach to knowledge transfer and peer learning



them avoid problems that others have already faced. Although CFRR staff play a valuable coordinating role, the structure of the REPARIS program, in particular its use of Communities of Practice, which bring together specialist practitioners in professional education, corporate financial reporting, and financial regulation from all the participating countries to exchange experiences, is designed to allow as many opportunities as possible for participants to learn from their peers' experiences with designing and implementing financial reporting reforms.

Providing Tailored and Timely Support for Implementing Reforms

In addition to its regional activities, REPARIS seeks to support the implementation of reforms by providing tailored technical advice on a just-in-time basis to national governments and other bodies, such as professional accounting organizations (PAOs). As an example, the CFRR provided advice in early 2012 to the Serbian Ministry of Finance when it was drafting updated laws on financial reporting and statutory audit to align them more closely with the EU *acquis*. In Albania, REPARIS is supporting a national reform program that complements the regional program and aims to assist the Albanian authorities and PAOs in implementing reforms to corporate financial reporting.

Tools to Improve Professional Education

One of the main conclusions of the A&A ROSC program has been the need to improve the education of accountants and auditors at both university and professional levels. One component of the REPARIS program is devoted to providing tools and solutions in this area. In particular, in order to improve the understanding of modern, internationally accepted accounting standards (such as IFRS) and to raise the standard of continued professional development (CPD) among existing members of the accounting profession in the REPARIS countries, the REPARIS program has put a strong emphasis on “training

of trainers” (TOT) activities. These expose local providers of training in accounting and auditing to the most up-to-date techniques, illustrated through relevant examples, and provide tailored teaching materials that can be used in participants' own courses. Examples of this approach include TOT workshops on the IFRS for SME reporting standards in Sarajevo in October 2011 and on auditing in Vienna in September 2012.

A Program Bringing Positive Results

The REPARIS program can already point to some clear successes. First, the key actors and institutions in the participating countries now have a clearer understanding of what they are trying to achieve – a reporting system aligned with the *acquis* – and also are more aware of what changes are needed to achieve it.

Second, the program has encouraged a spirit of regional cooperation among participants that is already producing clear benefits. Croatia, which is set to join the EU in mid-2013, is using its experience of adapting its legal framework to meet the requirements of the *acquis* to support other participants' reform efforts. Participants are sharing local language translations of international standards and educational materials (e.g., Albania and Kosovo; Serbia, Macedonia, and Montenegro) and are taking the first steps in recognizing each other's professional qualifications.

Third, the program is helping to modernize the PAOs in the participating countries, where the leading PAOs are now either full or associate members of the International Federation of Accountants (IFAC), the global umbrella body for national PAOs. Becoming a member of IFAC gives a PAO access to important resources, but also requires it and its members to meet international standards in terms of professional qualifications, competence, and ethics.

Finally, there has been clear progress toward the objective of aligning national laws and regulations with the *acquis*. Four of the eight participating countries have introduced significant changes to accounting and auditing laws, moving

them closer to the requirements of the *acquis*; Croatia and Macedonia have set up systems of quality assurance for audit based on the EU's Statutory Audit Directive, and Serbia is currently drawing up legislation to establish such a system.

Remaining Challenges

In some areas, the approach of REPARIS has had to be adapted in response to unexpected challenges. At the start of the program, it was anticipated that REPARIS would be complemented by national technical assistance projects for the reform of corporate financial reporting in each participating country. However, in practice, it has proved difficult to establish these national reform projects (currently only one of these projects – in Albania – is active). In response, the CFRR has shifted the focus of the program toward a greater emphasis on providing concrete support at the national level for implementing reforms.

Some of the CFRR's more ambitious attempts to develop the Communities of Practice have also had to be scaled back. Initially, a set of "wikis" (web-based discussion sites) were set up to encourage members of the various working groups to interact with each other. However, these proved to be unpopular and the Centre has reverted to the more conventional approach of using regular electronic newsletters and providing resources and materials through its website to keep Communities of Practice members and other partners up to date.

Although there has been substantial progress since REPARIS began in 2009, several issues are likely to remain when the current program finishes at the end of 2013. The process of aligning national legal frameworks to the *acquis* is unlikely to be complete, and the institutional arrangements for overseeing auditors will, at best, still be in their initial stages. In addition, further progress will be needed on the development of sustainable systems of professional education.

Where Next for REPARIS?

The European Commission has expressed its support for a new CFRR-led program to continue the work of REPARIS after 2013. This program, provisionally named EU-REPARIS, aims to improve the business environment, especially for SMEs, by further helping candidates for EU accession in South East Europe adapt their systems of corporate financial reporting to the requirements of the *acquis*. As a concrete sign of the EU's support, the Commission has proposed the allocation of funds from the new Western Balkans Enterprise Development and Innovation Facility to EU-REPARIS.

The priorities of the new program will include:

- Improving professional education, especially the links between universities and the profession and continuing professional education
- Developing more relevant accounting standards for SMEs
- Improving the relationship between financial and tax reporting for taxation purposes
- Implementing effective quality assurance and public oversight systems for statutory auditors

REPARIS's regional approach is also being adopted elsewhere. As in the Western Balkans, the countries of the Black Sea and Southern Caucasus have similar goals in the field of financial reporting reform and face many common challenges. The CFRR is currently discussing with donors proposals for a new regional program, modeled on REPARIS, to strengthen accounting and auditing in this group of countries.

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