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Governance Global Practice

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CV ECA



WORLD BANK GROUP



Financial Information

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## Centre for Financial Reporting Reform



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# Editor's Note

**Soukeyna KANE**

Practice Manager  
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I am delighted to welcome you to this special edition of “Connecting Voices”, published to coincide with the World Bank Centre for Financial Reporting Reform’s (CFRR) Ministerial Conference in Vienna. I hope that it will provide useful background about how financial reporting reform fits into the World Bank’s global development strategy, as well as introduce some of the countries, partners, people and topics that are at the heart of our work in this area.

Concerns over the quality of financial reporting have been an important element of policy dialogue between the World Bank, donor partners and client countries. Connecting the voices of all those who influence, or are impacted by, the availability (or lack of) comprehensive financial information is a key part of the Ministerial Conference, the vision of World Bank Governance Global Practice, and the CFRR mission.

We welcome the high-level commitment and involvement of all those working with us to address these concerns, especially our colleagues in the countries participating in our “Strengthening Accounting and Auditing in Countries of the Eastern Partnership” (STAREP) program and in our “Road to Europe Program of Accounting Reform and Institutional Strengthening” (EU-REPARIS). We look forward to hearing more about participating countries’ progress in financial reporting reform, and also how the connections that developed as a result of participation in these World Bank programs are having an impact nationally, regionally and internationally. The theme for this Ministerial Conference is “Financial information: Catalyst for Growth”. What we mean by financial information in this context is not merely an annual report produced to comply with legislation — then often filed away and forgotten. Instead, we refer to dynamic financial information which is timely, accurate and provided in a format which is user friendly and informs decision making. When developed in a thoughtful manner, data and information provide insights which can underpin efforts to support innovation, investment and growth. There are undeniable benefits of greater transparency and depth in financial information to guide future actions and allow for greater scrutiny. The link between the quality of policy making and the availability of timely and reliable information is particularly vital in a world that is more integrated financially.

Establishing a solid empirical link with growth has been a continuing challenge — and some may even dispute its existence — citing examples of countries managing solid decades of growth, while limiting the availability of financial information. The response to such doubts is pointing to the consequences of poor or insufficient information, both for the public and private sectors. In the corporate sector, we can all cite examples of major corporate and accounting scandals that have cost investors billions of dollars and undermined public confidence in the securities markets. Despite attempts by member countries of the Organisation for Economic Co-operation and Development (OECD) to strengthen corporate accounting and investor protection, accounting scandals — including within publicly listed companies, continue to make the headlines. This includes, for example, the recent case of a major retailer which shocked the market

and the public by revealing that it had overestimated profits by more than the equivalent of US\$350 million.

In the sphere of government financial reporting, a lack of transparency has been flagged as a contributory factor to financial turmoil — including sovereign debt crises. Government activity accounts for a major part of gross domestic product (GDP) and government assets and liabilities are usually substantial in all economies. It is therefore vital that they are managed effectively, and that governments are accountable to their citizens. Objective analysis of the causes of the sovereign debt crises concluded that many countries have a significant amount of unreported contingent liabilities and financial assets. While we acknowledge that improvements in fiscal transparency cannot eliminate all fiscal risk, they can unquestionably help policy makers and the public understand and respond to them.

I would like to end this note by addressing three key themes which feature in various forms in the pages of this magazine and will, I am sure, be at the center of Ministerial Conference discussions:

- Financial information needs to be reliable and relevant. This requires effective regulation and enforcement of laws, as well as the political will to identify and mitigate systemic risks, such as fraud or corruption.
- There must be an investment in skills and knowledge. This is especially important within the accountancy and auditing professions to ensure that the skills and qualities needed to produce, interpret and make decisions using the financial information are available. More broadly, greater financial literacy in the business community and civil society will contribute to better governance and accountability.
- Information technology must be used to its fullest extent. Technology can have a profound effect on the quality of financial information because it can now capture more relevant data and swiftly convert it into information at a lower cost and at a faster rate than ever before.

We do not underestimate the challenges involved in improving the quality of financial information, and it is important to acknowledge that the availability of the data alone will neither change behavior — nor will it be the sole ingredient for driving positive economic reforms. However, it is reassuring that, as a community of donors, investors, and more importantly policy makers, we can all agree on the undisputable benefits of reliable financial information to help support the achievement of sustainable growth. By connecting our voices and reinforcing our commitment, we can drive forward the improved availability of, demand for, and use of good financial information — thereby contributing to the public good and acting as a catalyst for global growth.

I look forward to a successful Ministerial Conference and to many stimulating discussions. On behalf of the World Bank team, we thank all participants for your contributions.



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# Financial Information & Development

## STRATEGIC VISION

### Regional Perspective



**Cyril Muller**

Vice President, Europe and Central Asia Region, The World Bank

#### **CV ECA. What are the current challenges for the Europe and Central Asia region?**

We are facing a shifting landscape in the Europe and Central Asia (ECA) region — economically, socially, politically and environmentally — which requires urgent, resolute action. Shared prosperity is stagnating, and even reversing, in a number of countries. Poverty reduction gains are also at risk; more than half of ECA countries experienced an increase in poverty over the period 2005–2015. Unemployment rates remain stubbornly high and consumption growth is sluggish. The effect of the oil price drop and devaluation of the Russian ruble has had a strong adverse impact. Indeed,

poorer households are disproportionately affected by higher import prices due to devaluations, the disappearance of jobs in construction and other non-tradable sectors, and because of fiscal pressures. Low savings levels make it more difficult to cope with such shocks. There are deep divisions in Europe over how best to resettle more than a million migrants and refugees who crossed into the continent in 2015 — Europe's biggest wave of displaced people since World War II. Despite increasing concern about the rise in global temperatures, many countries throughout the ECA region are reluctant to introduce more ambitious climate policies for a number of reasons, including fears of the negative consequences on competitiveness or energy affordability. The ECA region has still not fully recovered from the after-effects of the global financial crisis, and part of the region is facing strong headwinds. The eastern part of ECA has been hit hard by declining commodity prices, particularly oil, while geopolitical risks and increased financial market volatility in emerging markets are dampening potential growth across all countries. There needs to be an urgent adjustment to the “new normal” of slow economic growth and increased volatility, fragility, and risk.

#### **CV ECA. How can countries adjust to the “new normal” and make progress on reducing poverty and boosting shared prosperity?**

ECA needs bold and targeted action. Although there have been some signs of recovery, notably in Central and South Eastern Europe, it remains far below potential. Action needs to be taken quickly to

seize new opportunities in the tradable sectors to halt rising poverty rates. Exchange rate adjustments, along with prudent monetary policy to keep domestic inflation under control, can help countries regain competitiveness in global markets. However, long-term benefits depend on improvements in the business climate, as well as ongoing efforts to reduce the debt overhang in many ECA countries.

#### **CV ECA. How can the World Bank Group help?**

The World Bank, including the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC), are working together with client countries to seize opportunities under the “new normal” while also managing increased risk. Our role is now more about collaboration rather than coordination under a strategic framework that supports the achievement of the World Bank's twin goals of eradicating extreme poverty and boosting shared prosperity as well as of the Sustainable Development Goals. Jobs and access to quality public services are key to ensuring that economic growth benefits the less well-off. Our regional strategy focuses on competitiveness and shared prosperity, and on environmental, social, and fiscal sustainability, including through climate action. Governance and gender continue to be priorities in both areas. We are working towards the development of more responsible institutions, increased private investment, improved service delivery and better infrastructure. We are also encouraging the protection of the environment, support for human

development, and the empowerment of marginalized groups. We are engaged with client countries throughout the region and our dedicated staff, both locally and in our headquarters in Washington, are actively encouraging countries to embrace new opportunities. We also seek to continue to improve their financial resilience and preparedness for income and terms-of-trade shocks; address unresolved structural issues (unfinished privatization agenda, inefficient state-owned enterprises [SOEs], and so on); and focus on long-term development challenges (climate, migration, gender, and aging). In the last fiscal year, we provided US\$7.2 billion of support to the region.

**CV ECA. What are some of the immediate priorities for the ECA region?**

There are many priorities that should be addressed very soon. However, given the character of the forthcoming Conference, I would like to emphasize the following three priority areas: First, a better prioritization of public expenditures and improving regulations, safety nets and tax systems in order to create fiscal space for shared prosperity. Second, monetary policies that balance price stability with the need for exchange rate variability. Exchange rate adjustments, along with prudent monetary policy to keep domestic inflation under control, will help countries regain competitiveness in global markets. And third, reforming financial sectors to stimulate capital flows and access to finance, which will help boost private sector growth.

**CV ECA. Could you elaborate on this last point and highlight specific measures to reform financial sectors and boost the private sector in ECA?**

Key areas that can strengthen and increase the competitiveness of ECA economies include improving governance and the investment climate, upgrading the skills of the labor force, and building and maintaining energy and transport infrastructure. Stabilization and restructuring in the banking sector is also important. Countries across the region are still dealing with legacy issues from the global financial crisis — particularly the resolution of non-performing loans (NPLs), improving crisis preparedness and management, and implementing new regulatory and supervisory initiatives. An important characteristic of a strong financial sector is capital flows to the most productive ventures. This minimizes capital tied up in non-performing loans. It is also important that the financial sector makes long-term financial instruments available for sustained growth. Businesses of all sizes should be able

to access funding and take considered risks to help stimulate the private sector.

We will continue to help improve financial stability, enhance workers' skills and support competitiveness. Our engagement ranges from modernizing tax administrations, strengthening financial sector regulations and upgrading infrastructure to boosting the business environment, developing policies conducive to innovation and increasing access to finance for small and medium enterprises (SMEs).

**CV ECA. How does financial reporting reform fit with the overall strategy for the region and what progress is being made in this area?**

Reforms in accounting and auditing contribute toward stronger financial sectors. They also help to support deepening capital markets through the provision of reliable and accurate financial information. Improving the quality and availability of financial information has a direct and beneficial impact on economies in the short, medium and longer term. Confidence and trust in financial information requires strong institutional frameworks, underpinned by a well-educated accountancy profession able to implement it and effective regulation to enforce it. This helps build an environment needed to add depth to capital markets and effective enforcement of reporting requirements. It also helps ensure that companies are operating within the formal economy, making their contribution to fiscal sustainability through payment of taxes.

The World Bank Group's programs focused on the financial reporting and auditing aspects of reform — especially through the "Road to Europe: Program of Accounting Reform and Institutional Strengthening" (EU-REPARIS) and the "Strengthening Auditing and Reporting in the Countries of the Eastern Partnership" (STAREP) — are beginning to make a real difference to the quality and availability of financial information. EU-REPARIS helps candidate countries, or potential candidate countries, for European Union (EU) enlargement to integrate more closely with the EU and the EU's internal market, as well as align their legislative frameworks with the EU *acquis communautaire*. STAREP is aimed at creating a transparent policy environment and an effective institutional framework for corporate reporting within the countries that comprise the EU's Eastern Partnership, including: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. There is also greater understanding, which we want to see continue to spread, that the financial reporting agenda covers not only the short term, but the medium and longer terms too.

Building capacity to implement and monitor improvements in financial reporting and auditing systems can help to build stronger institutions. This, in turn, can be leveraged for greater financial literacy, benefitting future generations of entrepreneurs and business owners. Financial and capital market infrastructure that is aligned with the EU *acquis communautaire* can allow for easier trading and investment of capital and reduce barriers between countries. Depth in capital markets provides a sustainable environment for managing and controlling risk. With continued commitment, financial information has the capacity to develop even further as a valued and important tool, contributing to growth throughout the region.

**CV ECA. What kind of partnerships has the World Bank Group leveraged in the ECA region?**

The World Bank Group has cultivated extensive international, regional and bilateral partnerships to benefit partner countries in the ECA region. The European Commission works with the World Bank Group to promote shared goals such as reducing global poverty and shifting economies onto environmentally sustainable growth paths. In particular, the Commission supports our World Bank Centre for Financial Reporting Reform, the CFRR, to ensure that our partner countries receive the best advice on how to transpose the different EU auditing directives in the area of financial reporting and auditing. The CFRR is currently implementing EU-REPARIS which is funded by the EU. The STAREP regional program is also funded by the EU, together with other World Bank Group partners, including: the Austrian Development Cooperation, the Austrian Federal Ministry of Finance, the Ministry of Finance of Luxembourg, and the Swiss State Secretariat for Economic Affairs.

Other partners which are helping the World Bank in its financial reporting reform efforts include: Ministries of Finance throughout the ECA region; the Western Balkans Enterprise Development and Innovation Facility; the International Federation of Accountants; the International Financial Reporting Standards (IFRS) Foundation; Professional Accountancy Organizations; and many others.

On behalf of the World Bank Group, I would like to take this opportunity to express our gratitude to our partners for their unwavering support and commitment to our goals of ending extreme poverty and promoting shared prosperity.



# The Contribution of the Equitable Growth, Finance, and Institutions (EFI) Practice Group to the World Bank Mission



## Jan Walliser

Vice President, Equitable Growth, Finance and Institutions Practice Group

*This interview was conducted by Soukeyna Kane, Practice Manager, Governance Global Practice*

**CV ECA:** As Vice President for the Equitable Growth, Finance and Institutions (EFI) Practice Group, what is your role and how does it contribute to the work of the World Bank?

The Equitable Growth, Finance and Institutions Practice Group unites five Global Practices — Governance, Finance & Markets, Macroeconomics & Fiscal Management, Poverty & Equity, and Trade & Competitiveness. The EFI Practice Group is therefore a one-stop shop for economic policy makers. As an integrator working across all sectors, it connects the micro and the macro, and the public and the private sector perspectives to help ensure overall policy coherence. I see my own role as ensuring that we continue to advance our intellectual leadership and deliver solutions efficiently.

**CV ECA:** How does the EFI Practice Group contribute to achieving the World Bank's twin goals of eliminating extreme poverty and boosting shared prosperity?

Developing countries are particularly hard-hit by the current global economic slowdown — which includes a contraction in global trade volumes, significant drops in commodity prices, and a decline in net

capital flows to developing countries. As a result, our client countries confront severe challenges in achieving the growth rates needed to reduce extreme poverty to 3 percent by 2030 and to build shared prosperity. They will need to continue to undertake structural reforms and to intensify their fiscal management efforts. This is where the EFI Practice Group, through the work of our five constituent Global Practices, can make a significant contribution. We aim to help our client countries achieve and maintain a strong growth trajectory while also ensuring equity and inclusion. Collectively, some of the outcomes that we are helping our clients achieve include: reducing the costs of business, investment and trading; providing more effective service delivery to citizens and businesses; increasing domestic resource mobilization; achieving sound macroeconomic policies and debt management; collecting high-quality data on poverty and equity; and expanding financial inclusion.

**CV ECA:** Given the current global economic context, as well as what you describe as the “one-stop shop” nature of the EFI Practice Group, the demand for EFI's services probably far outpaces what it can deliver. What are EFI's priority areas of engagement?

Development financing has changed profoundly over the last decade, with many more participants providing expertise and financing to developing countries. We recognize the trust that clients place in us when they continually demand our services. We determine priority areas of engagement at the country level — depending on the context-specific constraints to reducing poverty and increasing shared prosperity, a country's development priorities, and our own comparative advantage. Our priority areas of engagement can be grouped under five broad outcomes:

**Equity and Inclusion.** Access to economic opportunities and high-quality basic services are fundamental to shaping the pathway toward our twin goals. EFI helps address challenges to equity and inclusion, such as greater inequality and our clients' limited evidence base for policy making.

### **Sustainable Macroeconomic Foundations.**

Sustainable macroeconomic and fiscal policies help create an enabling environment for broad-based, private-sector-led growth — and they provide the basis for more efficient and more effective development planning and public spending. In the current global economic context, EFI helps our clients gauge the right mix between fiscal management, debt policies and growth.

**Public Sector Efficiency.** More efficient public resource mobilization and spending allows governments to improve service delivery. EFI helps our clients address the constraints to improving public-sector efficiency, such as the lack of prioritization of spending, the lack of budget management and control, and constraints to domestic resource mobilization.

**Productivity.** More integrated economies with competitive private sectors raise the incomes of the less well-off by spurring aggregate productivity gains, promoting sustained economic growth, and by creating more and better-paying jobs. In collaboration with the International Finance Corporation (IFC), EFI engagements help our clients create more competitive sectors.

### **Financial Stability and Deepening.**

Inclusive, efficient and stable financial systems help reduce poverty and contribute to faster growth. Impediments to creating such systems — such as financing gaps for firms and for the poor; infrastructure and housing-finance gaps; and financial-crisis preparedness — are critical areas for our work.

**CV ECA:** Why does financial information for greater fiscal transparency matter?

The global financial crisis of 2007-08 underlined the need for more transparent and rigorous reporting of fiscal data. The crisis saw government holdings of financial assets increase by around 4 to 5 percent of gross domestic product (GDP), while liabilities increased by more than 20 percent of GDP. It is therefore important that public-sector activities be effectively managed and that governments be held to greater accountability. In a context of reduced fiscal space to finance investments, fiscal transparency allows policy makers to adopt



better policies by providing reliable information about fiscal position and risks. The new fiscal transparency framework recognizes the need to better monitor risks related to contingent liabilities, the financial sector, macroeconomic shocks, changes in asset and liability values, public-private partnerships, natural resources and state-owned enterprises (SOEs). I am pleased to note that the World Bank Group is a key partner in an increasing number of countries that are improving fiscal transparency. They are doing so by, among other initiatives, assessing existing standards, such as the Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSC) programs. They are also supporting the implementation of robust standards to align their policies with

international good practices. In addition to our country work, the World Bank Group is a key partner of global standard-setting bodies, helping their deliberations take into account developing country circumstances.

**CV ECA: The EFI Practice Group was created in July 2015. Do you think that it is having an impact on the work of the World Bank Group?**

Like every other part of the World Bank Group, staff who are now part of the EFI Practice Group have continued — throughout the organizational changes that we embarked on starting on July 1, 2014 — to serve our clients with passion. The results we delivered for fiscal year 2015 attest to this. What has changed, particularly since

July 1, 2015, is the heightened level of collaboration that takes place across the Global Practices that comprise our Practice Group. That is leading to more coherent, more complete, and more timely responsiveness to the complex development challenges that our clients face — and to such emerging global priorities such as the Sustainable Development Goals (SDGs), the work on international tax policy, and the formulation of the G20 action plan on small and medium enterprises (SMEs). So, yes, I believe that the EFI Practice Group is already having an impact on the work of the World Bank. The results we are helping our clients achieve are being measured in the demand for our expertise and services, which is at an all-time high.

## Our Talent Pipeline

Bogdan Manuilov (9 years old) & Dana Tokusheva (7 years old)





# Governance Global Practice Perspective



## Debbie Wetzel

Senior Director, Governance Global Practice, The World Bank

**CV ECA: You recently became the Senior Director of the Governance Global Practice. Please tell us what you are looking forward to in this role and what your focus will be for the first 100 days?**

The World Bank Group has for many years done excellent work on governance issues, both at the country and the global levels. As effective governance is absolutely fundamental for development, I am looking forward to leading the group in our next generation of activities. At the outset, I will be in “listening mode” both inside and outside the World Bank Group to better understand where we are today and how to take our existing work to the next level.

Some of my specific priorities include:

- Helping countries to be more effective in raising and using public resources in order to deliver better services for their citizens;
- Supporting countries, especially those in fragile or conflict situations, in building inclusive institutions — drawing in key public entities, citizens and businesses;
- Implementing the Bank’s recently adopted procurement policy to support clients in achieving value for money;
- Continuing to expand our work on transparency, openness and integrity; and ultimately
- Contributing to the Sustainable Development Goals (SDGs) both by supporting Goal 16 on peace, justice and security — but also by helping to

support good governance in meeting the other SDG goals.

### **CV ECA: Emerging opportunities in building open, effective and accountable institutions**

Every country has specific needs and institutional traditions and constraints. However, reforms are still necessary to keep pace with economic development and the global economy. Areas often identified for reform include: (i) strengthening government financial management, procurement and performance monitoring systems; (ii) facilitating streamlined delivery of good governance in sectors and key public goods — such as in health, water, education, energy and extractives; (iii) increasing the effectiveness of institutions and systems within and beyond the executive branch; and (iv) enhancing openness and transparency in the public sector — and engaging and communicating with citizens in ways that not only deliver on essential public service values, but also increase the effectiveness and efficiency of public policies and programs.

One area of broad relevance involves harnessing effective public financial management (PFM) as an essential part of the development process. Sound PFM supports aggregate control, prioritization, and accountability and efficiency in the management of public resources and delivery of services. These are critical to the achievement of public policy objectives. In addition, sound public financial management systems are fundamental to the appropriate use and effectiveness of donor assistance, which relies on well-functioning systems for budget development, execution and control. Using the Public Expenditure and Financial Accountability (PEFA) Program, with the support of a group of donor agencies and international financial institutions, assessments can be made of the performance of countries’ PFM systems throughout the whole budget cycle by using a rigorous, internationally-recognized methodology. PEFA can be very useful in developing well-sequenced reforms and capacity-building actions.

In Serbia, where we recently carried out PEFA diagnostics, we were able to: (a) track progress in the development of the PFM systems and provide our government counterpart with a clear view of where these systems are performing strongly (for instance, with respect to budget classification), (b) note the significant progress since the previous assessment (in external auditing and public procurement),

(c) and identify areas for further improvement. Moreover, based on the PEFA findings, we developed with Serbia a Program for Results (PforR) operation which will co-finance activities to improve the financial and budget information systems, commitment control (which should help deal with the recurring problem of arrears), and business process automation.

### **CV ECA: There seems to be a renewed interest in the governance of state-owned enterprises (SOEs). How important are stronger SOEs to the Governance Global Practice?**

SOEs are often a significant purchaser and provider of goods and services in an economy, which means their performance is important to service delivery to citizens. SOEs can also significantly impact a government’s fiscal position, particularly in cases in which they generate contingent liabilities. There is an important opportunity to work with partner countries in improving governmental capacity to oversee SOEs, and to promote sound corporate governance. This will help to ensure that they deliver goods and services at affordable conditions for citizens and businesses — without negatively impacting fiscal risk and transparency. For some countries, initially, this may mean collecting and centralizing information to better understand and assess the impact of SOEs. For the majority, it is about adequate transparency and corporate governance arrangements, such as publishing financial information and having professional management and effective boards in place. It is important that the State exercise its ownership function responsibly (which requires specific skills), and that SOE boards rely on a healthy mix of competencies and experience to be able to fulfill their oversight role effectively. Our group also supports countries in their efforts to promote modern financial management and reporting systems in their SOEs. These are essential to create transparency and accountability, and therefore better performance.

### **CV ECA: How is the Governance Practice positioned to help partner countries?**

The Governance Practice promotes innovative approaches and can mobilize development professionals from all over the world to provide fiduciary, knowledge, advisory and technical assistance services. Through our strong local footprint, we can also tailor and customize services to respond to local needs. We partner with clients regionally, nationally, locally, and within



specific sectors in a range of ways. This could be by identifying governance challenges and bottlenecks that hamper institutional performance and service delivery; or possibly by developing options and tools for smart, integrated and customized solutions. Or even through suggesting means of improving institutions and systems in areas such as: performance management and delivery; accountability and transparency; integrity and anti-corruption; human resource management; risk assessment and compliance frameworks; revenue mobilization; financial management and public procurement; digital governance; open government and big data; rule of law; and citizen engagement. In addition to our extensive involvement in World Bank projects across the world, we also support more than 50 networks of policymakers in different dimensions of governance, from budgeting to justice administration, to citizen engagement and auditing. This allows us to identify the knowledge and practical experience that is most relevant to specific local challenges. We can then mobilize on a timely basis to provide useful insights into policy making and institutional reform. Our local and regional partnerships also help us to inform global discussions about key governance issues, and help build coalitions for change.

#### CV ECA: What work does the Governance Practice do to support stronger financial reporting systems?

Stronger financial reporting systems improve accountability by providing accurate, transparent and accessible financial information to those who need it. Such systems can also reduce the risk of corruption and improve the ability of investors, boards, shareholders, and—in the case of state-owned enterprises—also the wider public to understand the financial performance of an entity and make informed decisions. We focus on the technical areas of budgeting, accounting, internal controls, internal audit and external oversight, as well as risk management. We support public institutions and public interest entities to achieve greater compliance with generally accepted standards in managing revenues, expenditures, and public investment — including the interests of investors in the corporate sector. Our dedicated regional teams and headquarters staff, deployed in 100 countries, work closely with governments, the accounting and audit profession, business leaders, international financial institutions, academics and others with an interest in improved financial information. In the Europe and Central Asia (ECA) region, the effort for financial reporting is led by the World Bank Centre for Financial Reporting Reform (CFRR). It

implements a number of regional programs using a peer-to-peer approach to disseminate learning, share experience and encourage greater regional cooperation. The Centre, in partnership with our donors, seeks to help clients build capacity to implement new institutional frameworks for accounting and audit in ECA, including Public Oversight Boards to oversee the quality of the audit market. It also works closely with the many active Professional Accountancy Organizations (PAOs) in ECA to implement effective quality assurance frameworks and to build the capacity of the profession to better understand and apply international standards. We also undertake analytical work to comprehensively assess the capacity of accounting and auditing systems. Thus far, these accounting and auditing Reports on the Observance of Standards and Codes (ROSCs) have been completed at least once in 120 countries worldwide, including 29 ECA countries. Specialist teams analyze the comparability of national accounting and auditing standards with international standards, determine how well standards are applied and assess the strengths and weaknesses of the institutional framework in supporting high-quality financial reporting. The resulting report and recommendations are often used to help develop and implement country action plans for improving institutional capacity in support of the corporate financial reporting regime.

## Our Talent Pipeline

Alina Busuioc (10 years old) & Ena Savovska (4 years old)



# A Global Perspective on the Accountancy Profession



**Samia Msadek**

Director, Governance Global Practice,  
The World Bank

## CV ECA: What opportunities are there for the accountancy profession to support sustainable economic growth globally?

The accounting profession can support development in a number of ways. Until now, much of the focus has been on the profession's role in supporting growth in the private sector. Through better, more reliable and transparent financial information, accountants and auditors contribute to the efficient allocation and management of resources, help companies attract investment and access credit. In the aggregate, then, they support an environment of trust that allows businesses to flourish. This is an essential role; but I would also like to raise other areas in which the profession has an important role, and how it can be strengthened and expanded.

In the public sphere, the accounting profession supports a public sector that is more transparent and accountable to its citizens. Effective financial reporting is critical to governments' understanding of their fiscal position and prospects. It is also crucial for providing legislators, markets, and citizens with the information they need to make efficient policy decisions, and to hold governments accountable for their performance.

Further, illicit financial flows (IFF) are a significant threat to global economic growth. The Global Financial Integrity (GFI)

organization reports that, in 2013, the amount of IFF from developing countries was greater than the combined total of foreign direct investment (FDI) and net annual official development assistance (ODA). GFI also reports that fraudulent invoicing of trade transactions was the largest component of illicit financial flows. Responsibility rests with accountants to act in an ethical way to prevent such practices in organizations.

Last but not least, the profession can contribute significantly to the achievement of the Sustainable Development Goals (SDGs) that aim to end poverty, protect the planet and ensure prosperity for all. The ability of countries and corporations to measure progress, monitor impact and report on achievements in these areas will be critical. This is where, in my opinion, accountants have a key, but easily overlooked, role to play.

## CV ECA: How does the World Bank support the accounting profession and the global accounting and auditing reform agenda, and what have been the results?

The World Bank has been providing support in a number of ways. First, we have been working with our partner countries to support the adoption of international standards of financial reporting and auditing (IFRS and ISA). We now see the widespread adoption of international standards, meaning that auditors and accountants increasingly speak the same language worldwide. Global standards promote transparency and enable the easy comparison of transactions across borders and jurisdictions. We support international standards not just for the private sector, but for the public sector as well. In this regard, we have been building capacity on a global scale for the effective implementation of the International Public Sector Accounting Standards (IPSAS). In both the public and private sectors, the World Bank has been delivering targeted capacity development to professional accountancy organizations and regulatory authorities so that they can implement international standards effectively, thereby reaping the benefits of having a common, global financial language.

Second, we have been working closely with our partner countries in developing effective independent audit oversight systems, which play an important role in fostering public trust in financial reporting. However, countries face substantial challenges in

structuring, funding, staffing, and operating such systems. The World Bank has already developed a number of strategic partnerships and is committed to facilitating further engagement among partner countries, including through technical assistance and peer exchange, in order to build and enhance sustainable systems of public oversight for the audit profession.

Finally, we have a growing agenda on state-owned enterprise (SOE) financial accountability, controls and transparency. SOEs are often very significant in their respective domestic economies: they are charged with managing significant state assets and can substantially impact the fiscal environment. Yet, there is little reliable information about their importance in today's global markets — or about the advantages granted to SOEs by governments.

Transparency and disclosure are vital in holding SOEs accountable for their performance. An effective reporting regime requires SOEs to achieve the same standard in reporting, control, and audit frameworks as other significant corporate or public-interest entities. This means that SOEs should produce financial statements according to high-quality accounting standards, and increase the effectiveness of nonfinancial reporting. Furthermore, they should disclose publicly both financial and nonfinancial information. Therefore, I consider improving the transparency and reliability of SOE financial information to be one of the most pressing issues on the global accounting and auditing reform agenda.

## CV ECA: What do you regard as the main challenges and opportunities for the profession?

I believe that the main opportunities lie beyond accounting, auditing, and financial reporting. Of course, this will be the core business of much of the profession, but we need to look beyond. One example of this is using integrated reporting (<IR>), which incorporates non-financial as well as financial data. By communicating all of the factors that can affect a business over time, an integrated reporting approach will help businesses and governments demonstrate how they create value over the short, medium and long term. This can, in turn, ensure that capital—environmental, financial, human, intellectual, and social—is allocated more efficiently and productively. There may also be opportunities for



improved reporting in the public sector through <IR> and Natural Capital Accounting (involving the calculation of total stocks and flows of natural resources and services in physical and/or monetary terms).

Another opportunity is to move beyond compliance work at the small and medium-sized enterprise (SME) level by assuming the additional role of trusted business advisor. This transition will involve accountants being consulted on a much wider range of financial issues than accounting, auditing and tax services. Trusted business advisors can help improve a company's performance and, where possible, enable it to access finance and grow.

In this regard, it is important to address the skills gap in the profession. At times, there is a mismatch between the skills that businesses and the public sector require, and those that accounting professionals are able to offer. There are various ways that this gap can be reduced, including the development of qualification frameworks, strengthening regional organizations, and the professionalization of accounting technicians, which is an approach being taken in New Zealand and South Africa.

Finally, technology is increasingly at the heart of everything we do and offers

enormous potential through the use of intelligent accounting systems, especially for micro and smaller businesses. The accountancy profession needs to adapt and embrace modern tools and information technology. However, buying software can be expensive and a challenge when it comes to compliance and language. We regard the opportunities that information technology (IT) offers for education and training as vital. Therefore, the World Bank has pioneered the development of educational software to teach International Standards on Auditing (ISA) through simulated audits, to name just one example.

**CV ECA: As a former auditor, you often speak passionately about many issues relating to the accounting profession and its role. What issues have been sparking your passion recently?**

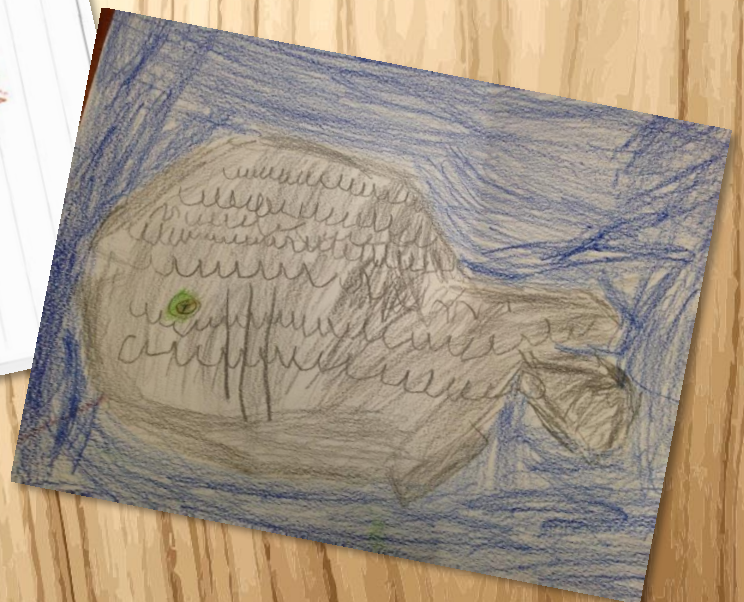
As a former auditor, woman, and development practitioner, I would say that I have been thinking quite a bit about gender, its related development challenges, and how the profession can play a role. More and more across the world, women are entering the accountancy profession at a higher rate than men. This offers an opportunity for the profession to play a leadership role in addressing global gender equality and inclusion.

However, an important area that still needs to be addressed is the gender pay gap. In countries such as the United Kingdom, where recent research found that women in accountancy earn 83 percent of the basic salary of their male colleagues, companies employing more than 250 people will have to disclose the difference between the salaries of their male and female employees beginning in 2018. These disclosures will be published on a public, searchable website. Likewise, the United States government issued new proposals at the end of January 2016 requiring all companies with at least 100 employees to disclose salaries disaggregated by gender, race and ethnicity. I hope that other countries will follow suit to ensure greater equality in the workplace.

I also consider that the accountancy profession is well placed to support small and medium-sized practices and SMEs to be more gender inclusive through greater workplace flexibility and mentoring. By removing the obstacles that have traditionally restricted women from realizing their full potential, the profession can contribute to stronger economic growth in a sustainable and equitable manner.

## Our Talent Pipeline

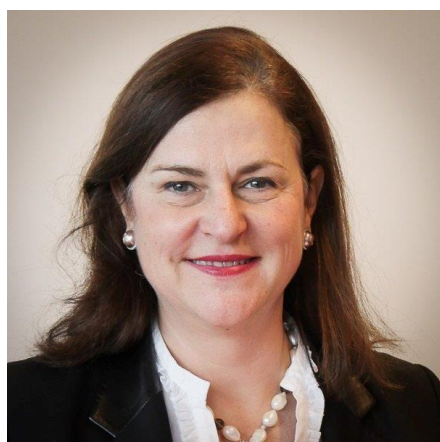
Eliana Hodge (5 years old) & Luka Savosvski (7 years old)





## Our Partners

### The European Union: Supporting Regional Partners to Stimulate and Promote Competitiveness and Growth



**Katarina Mathernova**

Deputy Director General,  
European Commission



*Katarina assumed her function as Deputy Director General of DG NEAR, the Directorate General for Neighbourhood & Enlargement Negotiations, in September 2015. She has*

*previously served as Deputy Director General in DG Regional Policy, where she was in charge of Cohesion Policy Coordination, and has held senior management and advisory posts at the European Commission, the World Bank and in the reform government in Slovakia.*

Small and Medium-Sized Enterprises (SMEs) represent the backbone of the economy. However, SMEs in both the Western Balkans and the Eastern Neighborhood are facing many challenges that prevent them from exploiting their full potential: Limited access to finance; barriers to entering new markets; lack of business skills and financial literacy; and, challenging business and financial climates. The EU addresses these challenges through support for economic development in both regions and contributes to the promotion of sound financial reporting and practices. The establishment of a clear legal framework for financial reporting is an essential element for the development of sound business environments. Reliable financial statements and reporting systems make it easier for investors to take decisions and allow for better designing of public policy. The European Commission is keen to support the development of up-to-date financial reporting systems in its partner countries in order to help stimulate and promote their competitiveness and growth. The European Commission's support for corporate financial reporting is implemented by the World Bank via the EU-REPARIS

program in the Western Balkans and via the STAREP Program in the Eastern Neighborhood. These programs help partner countries to align their regulatory environment and practices with EU law. SMEs are able to generate credible financial information that meets the needs of investors, lenders and guarantors. They can also raise standards on auditing and quality assurance. This assistance is part of broader policy dialogue and cooperation between the EU and its neighboring countries in the field of economic development. In the Western Balkans, the European Commission contributes EUR 100 million to the Western Balkans Enterprise Development & Innovation Facility, which provides finance, advisory services and policy reform advice. International financial institutions, governments of beneficiary economies and bilateral donors have already raised EUR 145 million of initial capital, potentially translating into around EUR 300 million of direct financing for SMEs in the region.

In the Eastern Neighborhood, the European Commission provides approximately EUR 200 million in assistance under its SME Flagship initiative through a series of projects that: a) help policy makers design efficient SME policies; b) help business support organizations enhance their public private dialogue, networking and service capacities; and, c) help businesses further increase their skills, their access to finance and their access to national and international markets.

## Luxembourg's Support for Southeast Europe

A message from

**Miguel Marques**

Alternate Director,  
Belgium/Luxembourg/Slovenia,  
European Bank for Reconstruction and  
Development (EBRD)



LE GOUVERNEMENT  
DU GRAND-DUCHÉ DE LUXEMBOURG  
Ministère des Finances

Soon after the World Bank's Centre for Financial Reporting Reform (CFRR) was established in Vienna, Luxembourg formed a partnership with the governments of Austria and Switzerland to provide support for the *Road to Europe: Program of Accounting Reform and Institutional Strengthening* (REPARIS). This regional program was designed to help countries in Southeast Europe develop and implement sound corporate financial reporting reforms that strengthen their

business and investment climates and bring about closer integration with the European Union. REPARIS was implemented by the CFRR from 2008 to 2014. Through a combination of peer learning and capacity-building activities, REPARIS successfully supported the development of the legal framework and institutional infrastructure for accounting and auditing in six EU candidate and potential candidate countries, as well as Moldova. Luxembourg welcomes the positive conclusions published in a

recent independent evaluation of REPARIS. It also appreciates the high level of acceptance by beneficiary countries, as well as the program's relevance to participants.

We would like to take this opportunity to acknowledge the excellent collaboration with our partners within the multi-donor fund and the support of the beneficiary countries for the reform process, as well as for the CFRR team of experts whose diligent

work, dedication and technical expertise helped the program to fulfill its objectives.

REPARIS is now continuing under the European Union's Enterprise Development and Innovation Facility umbrella. Luxembourg is following program activities with great interest and is pleased that the countries will now reap the benefits through EU-REPARIS. Luxembourg also welcomes the expansion of the regional approach to

countries in Eastern Europe and the South Caucasus.

Luxembourg is pleased to observe how the CFRR has transformed from a small sub-regional initiative in 2007 to a broadly recognized center of excellence in financial reporting reform. We wish the CFRR and its participating countries every success at the 2016 Ministerial Conference, and in their continued reform efforts.

## Austria's Founding Partnership with the World Bank Centre for Financial Reporting Reform



### Harald Waiglein

Director General for Economic Policy and Financial Markets, Ministry of Finance of Austria



Interviewed by Reinhard Haslinger, Senior Operations Officer, World Bank Centre for Financial Reporting Reform

**Could you talk about some of the current focus areas of the Ministry when it comes to economic development and what recent initiatives have been taken?**

The Ministry of Finance has been engaged with the World Bank for many years on several areas of mutual interest, in particular in the ECA (Europa and Central Asia) region and to a lesser extent, in the Middle East and North Africa (MENA) region. Among the most important and long standing programs that we are supporting are the World Bank CCFRR (Centre for Financial Reporting Reform), the Facility for Investment Climate

Advisory (FIAS) and the World Bank's Vienna Center for Financial Sector Advisory Services. **They all have something in common: the promotion of a stable financial sector and a business climate that is conducive to growth.** This became particularly important in the aftermath of the financial and economic crisis when the ECA region was hit hardest and has, unfortunately, been making a slow recovery. This region is of the utmost importance to Austria as we are strongly intertwined culturally, socially and economically.

**The Ministry has been a supporter of the World Bank's CFRR from its very beginning. Could you describe the reasons for the Ministry's initial and continuous involvement?**

The CFRR was established in 2007 in Vienna, with the support of the Austrian Government, to provide expert advice and technical assistance to improve systems of corporate financial reporting. A strong partnership developed between Austria, Switzerland, Luxemburg and the World Bank as we worked together to create a regional program aimed at fostering a transparent policy environment and building an effective institutional framework for corporate reporting in the region. As a result of our efforts, we were able to launch a regional program in South East Europe in 2008, and which has been expanded to include countries in Eastern Europe and South Caucasus. The importance of this program was further underlined by the global financial crisis of 2008, when it became very clear how important regional action plans are with regard to improving financial reporting regulation. Better and harmonized tools of reporting and accounting were seen as an important instrument to increase economic stability and to resume growth. We believe that this agenda is still an unfinished one.

**The 2016 EU-REPARIS / STAREP Ministerial Conference is about how financial information can be a catalyst for growth. What are your views in this regard, particularly when it comes to the Austrian economy, but also in terms of the developing countries which Austria is supporting?**

Reliable and transparent financial information is extremely important for any long term growth process as it creates an environment where businesses and investors have access to vital information. In that context, let me focus on the importance of International Financial Reporting Standards (IFRS) for the financial system and thus, investment and growth in general. IFRS provide a framework and rules that enable investors and users of financial statements to get information on companies that are comparable. The development and the use of IFRS furthers not only transparency by enhancing the comparability and the quality of financial information, but also accountability by reducing the information gap between those who provide capital and those to whom they have entrusted capital. Last but not least, IFRS promote economic growth by helping potential investors to make a judgment regarding the financial soundness of a firm.

**About 250 delegates from all over the globe are expected to attend this Conference, including ministers of finance as well as practitioners. What do you see as the main priority for discussion and what outcome do you envisage?**

The Conference provides an important platform for regional knowledge exchange and offers the possibility to address common challenges in the area of financial reporting. We hope to get a better understanding of these challenges and some guidance on possible topics to cover in the future that will allow the scope of the CFRR's activities to be deepened and/or widened.

# A Perspective on Corporate and Public Financial Reporting from Switzerland's State Secretariat for Economic Affairs

## Lukas Schneller

Deputy Head, Private Sector  
Development Division, SECO

## Irene Frei

Program Manager, Macroeconomic  
Support Division, SECO.

Interviewed by Marius Koen, Lead Financial  
Management Specialist, Governance Global  
Practice



How do the broad Swiss State Secretariat for Economic Affairs (SECO) strategic objectives with regard to private sector development, good governance and sustainable economic growth link with the support provided by your institution to the development of Corporate Financial Reporting (CFR)?

Correct and trustworthy financial information is a baseline to support a private sector-led development process: investors need information to make sound decisions. Individual companies, small or large, can make a case to access finance, and a sound CFR framework is part of a good and resilient economic governance system. Therefore, CFR reform coincides well with SECO's objective of increasing the private sector's competitiveness, facilitating the creation of more and better jobs and fostering sustainable, inclusive growth.

Please tell us more about SECO's past support in light of the fact that SECO has been a close partner to the World Bank Centre for Financial Reporting Reform (CFRR), and one of its founding partners. What do you see as the main added value of the CFRR?

The CFRR has unique expertise when it comes to CFR reform, and is constantly developing its toolbox. In Serbia, for example, SECO and the CFRR collaborate to improve corporate financial reporting in state-owned enterprises, which is key to further reforming the sector. This blend of specific know-how, resolve to try new approaches and the geographic proximity to the eastern European Union (EU) border constitute the CFRR's main added value from SECO's perspective. Also, with the CFRR, we



have a partner who is striving for value for money, and with whom we have constantly engaged on results measurement and reporting. We hope to take this constructive relationship forward also in view of building strong local capacities and demand for good corporate financial reporting.

SECO is one of Albania's main development partners with a large program focusing on improving the business environment and economic governance. We understand that you have also expanded your future support by making contributions to Public Accounting Reforms (PAR). Please, tell us a little more about your objectives, future plans and reasons for supporting PARs.

Support for public accounting reforms is an important area of SECO's activities in strengthening overall public finance management (PFM). A sound public accounting practice is a key factor for PFM reforms. In the end, it is key to supporting budget control, prioritizing expenditures, enhancing transparency and accountability in the management of public resources, as well as in fostering efficient public service delivery. That will also positively affect the business environment.

Together with the World Bank, SECO is working on supporting public accounting reforms in a number of countries in the Europe and Central Asia (ECA) region, in particular in Tajikistan and most recently in

Albania. Work on both corporate financial reporting and public accounting standards supports partner countries in meeting international standards for more transparency, accountability and high-quality financial reporting in both the private and the public sectors.

The Ministerial Conference brings together about 250 delegates from all over Europe and Central Asia, including ministers, donors, and practitioners. What do you think are the benefits of bringing together this specific mix of stakeholders in a forum that will discuss how to promote the use of financial reporting (in both the private and public sectors)? Also, please share with us your expectations about the outcome of this event.

Corporate reporting is typically an area in which international standards matter. Although the standards in this area are widely accepted, their adaption to the country-specific contexts requires a substantial amount of technical expertise, local capacity and strong ownership of reforms. Therefore, coordination and exchange between relevant stakeholders on all levels is key. The ministerial conference serves this purpose by providing a platform that will bring together high-level government representatives, experts and donors.



# The Austrian Development Agency (ADA): A Long-Standing Partner of the Centre for Financial Reporting Reform



## Susanne Thiard-Laforet

Programme Manager Private Sector  
Development and Business  
Partnerships/Asia, Austrian  
Development Agency

Susanne has worked for the Austrian Development Agency (ADA) since 2010 and coordinates the agency's activities in inclusive market system development.

### ADA at a Glance:

Reducing poverty, building peace and protecting the environment - these are the three major commitments of the Austrian Development Agency (ADA), the operational unit of Austrian Development Cooperation. About 600 projects and programs and more than EUR 130 million in funding are implemented every year to improve the standard of living in developing countries.



The economy is one of the most important foundations for the development of a country and for overcoming poverty. The main engine for creating jobs and income opportunities is the private sector. To unfold its potential, stable framework conditions are needed, as well as a positive investment

climate and functioning markets and institutions.

In a functioning economy every individual and every institution should have access to diverse market systems and be able to act on these markets - as a consumer, producer, seller etc. In developing countries in particular, this is very often not the case. The reasons for this are manifold, e.g. a lack of technology or services, insufficient infrastructure, and a lack of transparency regarding prices. Even functioning markets do not usually regulate everything in a fair and sustainable manner. Information and transparency are the keys to success in making markets work for the poor.

One of the focus regions of the Austrian Development Agency (ADA) is the Western Balkans while another is the Black Sea Region. Considerable success has already been achieved in both regions in terms of democratization and economic sustainability, but much still remains to be done. Unemployment, social exclusion and poverty are prevalent in many places and there is a large potential for conflict. European integration has become the explicit goal for some countries, whereas for others it serves as an orientation and an example in terms of aligning national legislation with EU laws and regulations.

The ADA's cooperation with the World Bank Centre for Financial Reporting Reform (CFRR) is an important building block in this regard. The ADA therefore supported the *Road to Europe: Program of Accounting Reform and Institutional Strengthening* (REPARIS) from 2008 to 2014. The second phase of the program started in 2015 through EU-REPARIS, in partnership with the European Union. The ADA welcomes this development and has pro-actively supported the new program along with the CFRR, which is implementing EU-REPARIS.

*The Strengthening Auditing and Reporting in the Countries of the Eastern Partnership* (STAREP) program was co-initiated in 2013 by a former Managing Director of ADA. The long-standing partnership with CFRR has helped to enhance the effectiveness of supported programs and projects, with the

goal of contributing as much as possible to poverty eradication.

Development cooperation aims to support sustainable, inclusive, and hence poverty-reducing growth by strengthening the private sector and facilitating access for all to markets - of goods, services, jobs and information. Development cooperation takes social and ecological principles into account and respects international rights, rules and standards in order to create an economy-friendly environment. Through their programs the ADA and the CFRR aim to strengthen socio-economic systems, building on the basis of fair and transparent conditions.

### The ADA's vision and mission

Our vision: We are the leading Austrian and internationally recognized competency center for sustainable global development and poverty reduction.

#### Our mission:

- We are the federal agency for the Austrian Development Cooperation and make a transparent contribution to processes of change in partnership with others;
- We advocate more concerted European engagement in development so as to mobilize additional resources and enhance effectiveness;
- By carrying out programs and projects worldwide to meet the needs and implement the rights of people in our partner countries, we foster inclusive growth involving broad population groups, and also reduce poverty;
- As a modern service company, we provide our partners with resources and expertise;
- We provide local support to our partner countries for their own sustainable development efforts and ensure the effective allocation of resources;
- We co-shape international policy dialogue, advise policy makers, business and industry on development-policy issues, and raise awareness of global relations;
- In our partner countries, we work towards economic growth, a better business enabling environment and the sustainable development of entrepreneurial synergies.

# A View from the Private Sector and International Standard-Setter

## The Investor's Perspective

### To Invest or Not to Invest? Financial Information Has the Answer

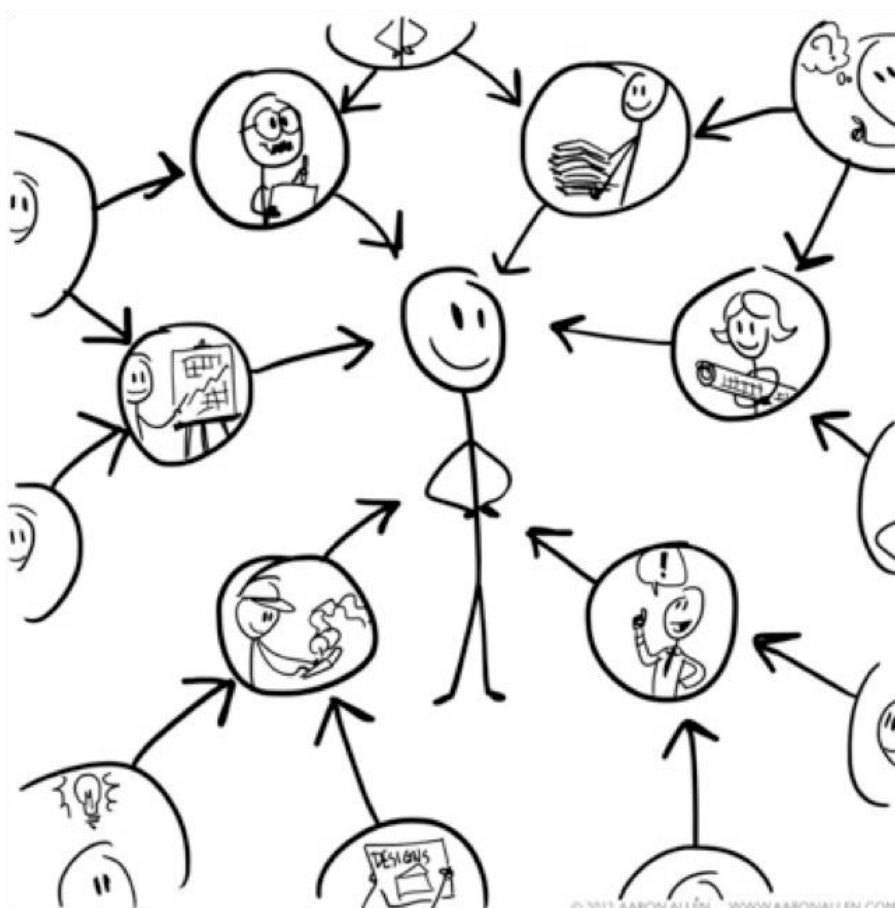
#### Natalie Manuilova

Senior Financial Management Specialist,  
World Bank Centre for Financial  
Reporting Reform

The majority of countries around the Europe and Central Asia region could benefit from improving their investment climates and attracting foreign direct investment. There are many factors that influence an investor's decision making process. However, there are several fundamental factors that an investor considers when assessing an investment proposal, including:

- The political climate in a target country;
- The regulatory and legislative landscape;
- Market opportunities that a country may offer;
- The competition status of an investment target;
- The target company's business strategy and growth perspectives;
- Valuation, pricing of business;
- The expected rate of return on the investment;
- Financial statements of a target;
- The management team's talents and skills;
- Innovation factors, and other information relevant to the specifics of each business.

However, it is clear that without understanding a company's financial standing and operational performance, it is impossible to estimate its current value or to project future returns. The quality of the investment decision relies heavily on the source and accuracy of data used to value and price the business. Most inputs used by investors for business valuation are derived from a company's financial statements and respective notes. At the early stages of the investment decision making process, financial statements give investors an overview of the financial condition of a business, providing a basis for any investment-related calculation. Investors and other stakeholders need understandable and reliable financial



information to enable them to make successful and proficient investment decisions.

Financial statements contain some of the most critical information a company provides its current and potential investors. The three most monitored financial indicators which are scrutinized by investors and analysts include:

#### - Profitability Trends and Revenue Growth.

A company's bottom line is one of the most important things affecting any investment decision. Profitability trends can tell investors whether a company is on a growth trajectory or in decline. Investors estimate future dividends and evaluate risks based on the profits disclosed in the financial statements.

- **Cash Flows.** There can be significant differences between what a company earns and how much cash it collects. Investors look at these differences, analyzing trends and identifying cash sources and uses.

- **Debt Load.** It is critical for investors to understand how much debt a business has and how that debt compares with the ability of that business to pay. This understanding requires examining a company's balance sheet and income statement.

Assessment of these three indicators alone can often heavily influence the investment decision. Therefore, in economies where companies, in the whole, fail to produce reliable financial information, or do not to make such available, there will be reduced opportunity to attract potential investors both domestic and foreign.

## Success Story - BGEO Group

### Good Governance is the Key to Success



#### By Bank of Georgia

At the Bank of Georgia (BGEO Group), we are committed to excellence when it comes to corporate governance. We see robust corporate governance as fundamental to the effective management of the business and a principal contributor to the long-term success of the company, creating trust and engagement between the organization and its stakeholders. Through its governance practice, BGEO seeks to create an environment in which transparency, honesty, integrity and fairness are valued and practiced by its employees every day. This inclusive environment helps the company to attract, retain and develop the best talent. We are committed to our customers and shareholders and work hard to behave ethically and responsibly in all of our business dealings. The governance structures and relevant measures that have been put in place guarantee that the company continuously applies high standards of corporate governance.

Back in 2004, when the new management team took over at the Bank of Georgia, the first institutional shareholders invested and the Bank initiated a major turnaround. Following fundraising by the investors, the Bank of Georgia started limited governance structures and practices, as well as limited financial disclosure for the creditor international financial institutions (IFIs). In 2006, the Bank of Georgia listed its shares in the form of global depositary receipts on the London Stock Exchange (LSE). The Bank further enhanced its governance by initiating representation of the IFIs on the board, putting in place an independent risk management structure, risk identification, monitoring and controlling mechanisms. The Bank started the timely disclosure of Annual Financial Reports and other financial disclosures, a 'persons discharging managerial responsibility' (PDMR) deal, and other transparency disclosures. The BGEO



Group PLC (a UK incorporated holding company of a Georgia-based banking group with an investment arm) has had a Premium Listing on the London Stock Exchange since February 2012 – the first company from Georgia to do so. It entailed robust governance which was aligned with the UK's corporate governance code. As a Premium Listed Company, the roles of the BGEO Chairman and CEO are separated, as are the roles of management and the board of directors. All members of the company's Board of Directors are independent, and management and shareholders' interests are closely aligned. An incentive package for top management features a high percentage of stock vested over a long period of time, encouraging intelligent risk taking, and thinking *like an owner*. Strict financial, PDMR and other transparency disclosures remain in place.

Proper corporate governance has enabled the company to have superior access to capital markets as well as the best talent, helping it to grow. BGEO is now capitalizing on the advantages and tapping into opportunities beyond the Bank. Top-quality access to both equity and debt capital provides flexibility with liability management and is a key competitive advantage in

realizing the company's determination to capture attractive investment opportunities in Georgia. Access to financing is highlighted by events such as the Premium Listing on the LSE in 2012, an initial public offering (IPO) on the LSE in 2006 (the first from Georgia and second from the Commonwealth of Independent States), the raising of US\$114 million of capital in 2014, US\$400 million of Eurobonds outstanding (the only private issue from the Caucasus), and a US\$200 million bond issue in 2007 (the first from Georgia). Through Galt & Taggart and Bank of Georgia custody, BGEO has become an undisputed leader in the local capital market industry, with approximately GEL100 million of local corporate bonds placed by Galt & Taggart in 2014. And it is the only international sub-custodian in the region through State Street, Citi and Deutsche Bank.

BGEO's proper governance and access to capital moves other subsidiaries forward as well. The Georgia Healthcare Group (GHG) adopted robust governance principles and a structure similar to the BGEO, and BGEO's access to capital was key to GHG's IPO. BGEO will continue to extend strong corporate governance standards to other subsidiaries.



# Enterprise Innovation Fund (ENIF)

## Can Better Financial Information Help Start-Ups?



### Jan Kobler

Managing Partner,  
South Central Ventures

Interviewed by John Hodge, Senior Financial Management Specialist, the World Bank Centre for Financial Reporting Reform

#### What is the Enterprise Innovation Fund (ENIF) and what does it aim to achieve?

The Enterprise Innovation Fund (ENIF) is a €40 million early-stage technology fund for start-ups and small and medium enterprises (SMEs) in the Western Balkans region (including Albania, Bosnia and Herzegovina, Croatia, Kosovo, the FYR Macedonia, Montenegro and Serbia). The fund has diverse commitments from international financial institutions, regional corporations, private individuals and local governments. The fund aims to facilitate a start-up ecosystem in the region and support founders who want to grow their businesses internationally. We would like to be a bridge between regional teams and global markets.

#### Can you please describe some of the investments and success factors that went into them?

ENIF recently completed its first investment in drytools, a company that was established in June 2015 by a team that originated from a local outsourcing company. Their main focus is on development tools and templates for software development companies, so they are able to focus on their core business, as opposed to coding. This significantly reduces development time spent (by up to 4 times) and increases efficiency. It is useful to any developer who is building an application

from scratch, or who needs to upgrade their existing software.

Whereas other similar service providers (called back-end as service companies) lock developers into using their services indefinitely, drytools allows for modification and additional programming outside of their service, which is viewed as a significant benefit. Target clients range from startups, through consulting and outsourcing companies, to large international companies seeking to develop in-house applications.

#### Please describe the pipeline of investments. How hard has it been to put together an investable pipeline of deals?

We have been able to develop an interesting pipeline of potential investments, primarily due to the fact that this is our second regional fund under management; therefore, we have already been recognized as one of the few active funds in the region. Another key precondition for being able to put together a decent pipeline is to have local offices. For early stage and SME deals, it is not enough to just fly in and out of the region. Rather, one needs to be present on the ground. For the purpose of managing ENIF, we have opened offices in Zagreb, Croatia; Belgrade, Serbia; and Skopje, FYR Macedonia.

#### In addition to capital, what do the investees need? Technical assistance, help with governance?

What companies in the region are generally lacking are skills in sales and business development. Therefore, the biggest value an investor can bring, in addition to fresh capital, is industry know-how and a business network. Having the right people to talk to when entering a new market saves company founders a lot of time and greatly improves their chances of success.

Another issue concerns governance and reporting. ENIF tries to structure governance and reporting provisions to the benefit of company founders. They, in turn, also need to see the value of the information.

#### How you define success?

Projects are successful when all stakeholders are content. In this context, for ENIF, we obviously seek to create returns for our investors. In addition to that and equally as important, we want to leave behind some

companies that have grown from a founder with a business plan to an organization that creates jobs and opportunities. In this way, it can be a source of inspiration and know-how for other entrepreneurs wanting to travel a similar path. Such positive examples and regional success stories can have a tremendous multiplier effect and can be a great facilitator of a start-up ecosystem.

#### Can you highlight for us the kind of financial information that was required for the investment? Please describe the due diligence process in quantitative and qualitative terms — not only for audited general purpose accounts, but for management accounts and forecasts as well.

Before we invest, we spend a lot of time talking and brainstorming with entrepreneurs about their business. In most cases, we sit down with them and build a financial model in order for us to understand the drivers behind the business. This is also a good exercise for the company because it forces it to go through a specific thought process and gain new perspectives on the business and revenue model.

In terms of financial information required for due diligence, the base is the company's trial balance. The level of detail that we go into depends on the history of the company. Most of the companies in the pipeline do not have much historic financial data. We also do legal and technical due diligence before each investment.

Regardless of the amount of quantitative information we have about the company, we always see founder due diligence as most important. We ask ourselves questions about the ability to work together as partners, for example, whether there are high integrity standards, what the level of commitment is, future ambitions, and so on.

#### Please describe your views about how reliable financial information, including accounting skills, can contribute to improving the investment climate.

Most importantly, I think that reliable financial information can help raise the confidence level of strategic investors and private equity funds. They want to see a stable environment. In this regard, transparent, reliable and comparable financial information is an important stability indicator.

# International Standard Setter's Perspective

## The Important Work of the International Accounting Standards Board and its Collaboration with the Centre for Financial Reporting Reform



### Hans Hoogervorst

Chairman of the International Accounting Standards Board (IASB)

- Publicly accountable companies in well over 100 countries use International Financial Reporting Standards (IFRS)<sup>®</sup> when reporting on their financial performance.
- IFRS are developed by the International Accounting Standards Board (IASB).



**CV ECA. Why are global standards such as the IFRS so important not only for the accountancy profession, but also for the world economy?**

We live in an increasingly globalized world, where companies trade and obtain finance across country borders. Thus having a global financial reporting language makes sense. Investors require financial information that they can trust and that allows them to compare financial statements of companies in different countries and in different industries to make informed investment decisions. IFRS Standards are used by companies in over 100 countries to report on their financial performance. They bring *transparency*, by providing high-quality and comparable information, helping investors identify opportunities and risk; *accountability*, by reducing the information gap between those on the inside of a company and those on the outside, helping investors hold the management of a

company to account; and *efficiency*, by allowing companies to use only one reporting language regardless of how many countries they operate in. This reduces operational costs as well as the cost of capital. Sound financial reporting is a prerequisite for capital markets to function well. And efficient capital markets are important for everybody, either directly or indirectly. In other words, investors, companies, regulators and the wider public all benefit from IFRS Standards.

**CV ECA. What role do IFRS play in the economic growth of developing countries?**

For developing countries, encouraging foreign inward investment is often an important strategic goal. If an investor has to learn the country's reporting standards framework to understand companies' financial statements, or if he or she isn't entirely sure about how sound those statements are, it means they are likely to be less willing to part with their money or they will charge a premium on the money they lend. Thus, reporting using a language that investors are familiar with and trust can help bring down the cost of capital. We have seen that in several countries that have moved from national standards to IFRS Standards, both in the developed and developing world.

**CV ECA. How do IFRS address the needs of small and medium-sized enterprises (SMEs)?**

In 2009, the International Accounting Standards Board issued a specific Standard aimed at companies that do not have public accountability – for example, companies that are not listed on a stock exchange; the *IFRS for SMEs*<sup>®</sup> Standard. It is shorter and simpler than the full IFRS Standard (the whole Standard is less than 250 pages long), making it easier to apply. Topics that are not relevant to SMEs, such as earnings per share and segment reporting, are not included in the Standard, and the disclosure requirements are kept to a minimum. Many of the principles for recognizing and measuring assets, liabilities, income and expenses are also simplified compared with full IFRS Standards. It was issued in response to strong demand both from developed and emerging economies for a rigorous and common set of accounting standards for smaller companies. Tailored to the capabilities of smaller businesses, it focusses on meeting the needs of those who use small-company financial statements.

The *IFRS for SMEs* Standard can play a key role in helping SMEs gain access to capital, because the quality of reporting following this Standard is often improved compared with the reporting following some national reporting requirements. Of the 143 jurisdictions the IFRS Foundation has surveyed to date, 78 require or permit the use of the SMEs Standard, meaning tens of millions of businesses are already reporting using this Standard.

**CV ECA. What kind of activities does the IASB carry out to disseminate knowledge about the IFRS for SMEs and encourage countries to adopt the standard?**

To help companies get to grips with the Standard itself, the Board published implementation guidance when the Standard was first issued. The guidance consists of illustrative examples and helpful reference tables. The IFRS Foundation also has an education initiative, with a team dedicated to developing training materials to help with the implementation and understanding of the Standard. These materials are available from our website – and are also available in different languages. In addition, the IFRS Foundation's staff and Board members have conducted a number of workshops around the world to train the trainers, focusing particularly on developing countries and emerging economies. So far, we have held 35 such workshops, cascading the information further down to the companies who use the Standard. There is also a dedicated SME Implementation Group (SMEIG), which looks at implementation challenges linked to the Standard. To further help the companies using it, the SMEIG publishes questions and answers as non-mandatory guidance. Small companies and other interested parties from all over the world can submit implementation issues for the SMEIG to consider. Finally, there is a newsletter developed specifically to help people stay on top of developments linked to the *IFRS for SMEs* Standard. It is called *IFRS for SMEs Update* and is free to subscribe to from our website.

**CV ECA. It is five years since you were appointed as Chair of the IASB. What do you consider your main achievements to date, what changes are on the horizon and what sort of challenges do you envisage?**

In my first five-year term, we completed some major new Standards, including on Revenue, Financial Instruments and Leases.



These filled gaps in the existing set of Standards and will result in very different reporting when they come into force in 2018 and 2019 that will vastly improve the information to investors. Another highlight is that the adoption of our Standards continues. Of 143 countries surveyed to date, 119 now require the use of IFRS Standards for all or most companies with public accountability. Many others permit the use of the Standards. In the same period, we have seen reports from jurisdictions that have used the IFRS Standards for some time confirming that the introduction of the Standards has delivered benefits. The most obvious example is the report by the European Commission in 2015. We have also improved our engagement and collaboration with key stakeholders, such as national standard setters, through the establishment of the Accounting Standards Advisory Forum (ASAF), and investors, through our *Investors in Financial Reporting* program. In terms of challenges, there are still a couple of gaps we are yet to fill in our Standards. The main one is the new Standard for Insurance Contracts. We are on the final stretch with this Standard now and expect it to be issued sometime early next

year. It will completely change the way many companies report on their insurance contracts today, and introduce consistency both across country borders and across different types of contracts. Another task is to complete the revision to our *Conceptual Framework*, which underpins our Standards. Last year we published a consultation on the Board's Agenda, asking for stakeholders' input on what should be our focus and priorities. We will complete our analysis of the responses shortly. This will help shape our work plan going forward. However, we already know that one important topic will be to improve how effective financial reports are in communication information to investors. We have a range of initiatives underway to do just that, especially looking at disclosures. Other big questions that we have asked for stakeholders' views on include how the Board should respond to the changes in technology and what role we should play in the discussions about wider corporate reporting. All these topics are likely to feature on our to-do list for the next five years.

**CV ECA.** In which areas do you think the IASB could extend its collaboration with the World Bank and the Centre for Financial Reporting Reform (CFRR) in the future?

The World Bank and the CFRR are extremely important partners in helping us strengthen the knowledge base and capacity to implement IFRS Standards, especially in emerging markets. Our strategies and those of the World Bank are aligned in that area and we are collaborating to deliver educational events to build capacity and encourage adoption of IFRS Standards. As technology continues to develop, it changes the way learning is delivered and, especially, the way younger people expect to receive and consume information. We need to develop new ways to reach out to a wider range of stakeholders who are interested in information about our Standards and financial reporting, and leverage on developments in technology to improve our education offerings. We have some ideas in this field that we hope to collaborate with the World Bank on developing and implementing.

## Success Story - IMC

### Private Sector Success Story

### from the Europe and Central Asia Region



**Alex Lissitsa**

Chief Executive Officer,  
the Industrial Milk Company



The Industrial Milk Company (IMC) is an integrated agricultural company operating in Ukraine. IMC's main activities are: the cultivation of grain and oilseed crops (corn, wheat, soybeans and sunflowers); potato production; the storage and processing of grain and oilseed crops; and dairy farming. At the launch of our business, we knew that we needed efficient cooperation with banks and investors for the company's development and growth. And audited financial statements of high quality are one of the most important tools in our communication with investors and banks. IMC was founded in 2007, and since 2008 we have issued financial reporting in accordance with International Financial Reporting Standards (IFRS). Baker Tilly is IMC's auditor. Over the years, IMC has grown substantially: we have increased our land bank four times, and our revenue has grown more than five times. IMC is among Ukraine's top 10 agricultural companies. In May 2011 IMC conducted an initial public offering (IPO) on the Warsaw Stock Exchange. This growth has been accompanied by close cooperation with international banks and financial

institutions, and active communication with investors from the European Union, the USA and Canada. Credit Agricole was our first partner among the international banks. Today more than 50 percent of IMC's loan portfolio is represented by international banks and financial institutions such as the International Finance Corporation, Credit Agricole, Raiffeisen Bank, and OTP bank. During 2016 the share of international banks in IMC's loan portfolio could reach 90 percent, thanks to the beginning of cooperation with the European Bank for Reconstruction and Development and our continued cooperation with UkrSibbank BNP Paribas Group.

Our financial reporting is, of course, an important source of information for our partners. In this regard, the quality of financial reporting, its completeness and in-depth information, is particularly important. We are proud of the quality of IMC's financial reporting. Banks and investors can find answers to almost all their questions in the financial reports.

# The Impact of our Regional Programs: EU-REPARIS and STAREP

## Community in Practice: The EU-REPARIS and STAREP Programs Regional Programs for the Development of Financial Reporting Systems

The World Bank's Centre for Financial Reporting Reform (CFRR) implements two regional programs, both of which are aimed at promoting sustainable private and financial sector development through establishing robust frameworks for corporate financial reporting, and developing the capacity of accounting professionals, financial and audit regulators, and academics so that these frameworks can be implemented effectively.

The programs offer knowledge, analytical and advisory services and capacity development support to partner countries. In this regard, they deliver targeted learning at face-to-face workshops and through virtual seminars. Peer sharing and learning is an important element of the program, bringing together contemporaries to share good practice and learn from others' experiences. CFRR also offers the convening power to bring leading experts from all over the world to share their expertise with participating countries.

They are set up as regional, not country-level programs for several reasons. First, since the countries face similar issues and challenges with regard to the corporate financial reform agenda, taking a regional approach allows for economies of scale, particularly when it comes to capacity development. In addition, stakeholders from peer countries come together regularly, which has been very effective at sustaining reform momentum over time. As a result of these periodic gatherings, regional collaboration and peer-to-peer knowledge transfer are additional benefits.



To complement the regional activities, country-level implementation support has involved the provision of technical advice and just-in-time assistance for reform implementation in participating countries.



### **EU-REPARIS (The Road to Europe: Program of Accounting Reform and Institutional Strengthening)**

EU-REPARIS focuses on the European Union (EU) enlargement candidates or potential candidate countries including: Albania, Bosnia and Herzegovina, Kosovo, and the Former Yugoslav Republic (FYR) of Macedonia, Montenegro and Serbia. These countries aim to integrate more closely with the EU and the EU's internal market. They must therefore align their legislative and institutional frameworks with the EU *acquis communautaire*, including with regard to accounting, audit and reporting. EU-REPARIS is funded by the European Union. It is an integral part of the Western



Balkans Enterprise Development and Innovation Facility (WB EDIF), which seeks to promote small and medium enterprise (SME) development and financing as well as enhance the associated regulatory frameworks in the region.

### Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP)

STAREP builds on the lessons learned in the REPARI program, and was launched in 2013. This program brings together Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. STAREP is aimed at creating a transparent policy environment and effective institutional framework for corporate reporting. The program is designed to assist these countries in adopting and implementing international standards and fostering the alignment of their financial reporting frameworks with international best practices and EU standards. The program is funded by Austrian Development Cooperation, the Austrian Ministry of Finance, the European Union, the Ministry of Finance of Luxembourg, and the Swiss Confederation.

### Areas of Focus and Results



### Standards and Good Practices as Key Drivers for Reform

Activities in this regard include efforts to increase awareness and understanding of international standards and the EU *acquis* through training workshops and technical assistance. As a result, participating countries are more equipped to align and enhance domestic legislation with international good practices, adopt international standards, and implement requirements effectively.

The programs have advanced reform and achieved results, including:

- ✓ Robust accounting, auditing, and related laws were enacted in Bosnia and Herzegovina and Serbia. Significant progress has made in improving the legal framework creating conditions for enactment in Albania, Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.
- ✓ International Financial Reporting Standards (IFRS) for SMEs were

adopted in Bosnia and Herzegovina, FYR Macedonia, Kosovo, and Serbia.

- ✓ Quality assurance and public oversight bodies for independent auditors were established in FYR Macedonia, Kosovo, and Serbia; in Armenia, they are in the process of establishing one.



### Education and Capacity Development

The program supported the modernization of accounting education consistent with International Education Standards and the educational requirements of the EU's Statutory Audit Directive: (i) at the university level; (ii) for professional qualifications; and (iii) for continuing education of professional accountants. The programs have advanced reform and achieved results, including:

- ✓ A benchmarking tool was developed for universities and initial professional development programs for assessing the comprehensiveness of curricula as compared with international good practices. A number of universities and professional accountancy organizations have already used the tool to benchmark their curricula and have begun to close the gaps.
- ✓ The capacity of trainers to deliver sustainable local training programs for small- and medium-sized audit practices has been increased.
- ✓ Materials were developed to enhance capacity, such as a practical guide for professional accountancy organizations on continuing professional development for accountants.

### Financial Sector Supervision

General purpose financial statements portray information from a different perspective as compared to prudential statements, with the benefit of being audited independently. If general purpose financial statements are prepared and audited well, they can serve as meaningful complements to the prudential information received by supervisors. Thus, developing supervisors' capacity in understanding and applying information from financial statements would allow them to conduct their supervisory activities more effectively. The programs have advanced reform and achieved results, including:

- ✓ Training of banking sector supervisors is a capacity development component for banking sector supervisors, to train them in understanding banks' financial statements.
- ✓ Participants who attended capacity development events for financial sector regulators have consistently given positive feedback on the training activities, including that the skills acquired are relevant to their work.
- ✓ A publication was issued regarding the benefits of, and ways to improve, the cooperation between bank external auditors and financial sector supervisors.

### How effective was REPARI?

An independent evaluation of the REPARI regional program was completed in January 2016. The evaluation highlighted the program's key achievements and concluded that REPARI "was relevant to the efforts of the participating countries to build an accounting and auditing environment that served their needs for economic development, investment and transparency in financial stewardship and accountability." To ensure that any outstanding issues are addressed and that the benefits are sustainable, the CFRR is currently implementing EU-REPARI.

The key findings of the evaluation were as follows:

- Different levels of impact were found in the participating countries, but in all cases the extent of the contribution to modernizing the accounting and auditing frameworks in line with EU legal provisions was strong;
- The program has been effective in updating accounting and audit legislation and in achieving high rates of adoption of the International Financial Reporting Standards (IFRS) and IFRS for SMEs and International Standards on Auditing (ISAs). This has helped to ensure high standards for the integrity of financial reports and the reliability of the audit opinions expressed about them;
- A key impact has been the establishment of the oversight function for audit, which plays a pivotal role in ensuring high audit quality; and
- The curricula for accounting and auditing education in universities has been strengthened significantly. An information e-portal has been created that enables the training and technical outputs developed under REPARI to be made available throughout the region.

## The Ministerial Conference Series 2016: Ensuring Momentum for Effective Reform

*Key policy makers led by Finance Ministers from across the Europe and Central Asia region will meet in Vienna at the invitation of the World Bank to discuss corporate financial reporting reform.*

### What drives this meeting of minds?

The Ministerial Conference, part of a series of meetings to be held from 26-28 April titled “Financial Information: Catalyst for growth”, will be the latest in a series of such conferences that have been held biennially by the World Bank Centre for Financial Reporting Reform (CFRR). The agenda is dedicated to the impact of quality financial reporting on catalyzing growth in investments and economies.

The Conference brings together different users of financial information – investors, financiers, creditors and regulators – to discuss how the quality, reliability and availability of financial information affects their capital investment decisions and contributes to transparency. Ministers of finance, senior representatives of governments, and experts from the business, professional and academic communities from the Europe and Central Asia (ECA) region will join experts from key international institutions and organizations to share and learn from each other’s experiences; some 250 delegates will participate.

The event focuses on how high-quality financial reporting can act as a catalyst for increased confidence, transparency and trust – which in turn create an environment conducive to sustainable economic growth, job creation and development throughout the region.

Businesses across Europe need to be able to source the right kind of finance in order to grow, and finance providers such as investors and credit providers need reliable and timely financial information in order to make sound investment and lending decisions. High-quality financial reporting can reduce information asymmetries and thus contribute to greater access to credit and at a lower cost.

### What are the aims of the Conference?

- To bring together key policy makers, with a goal of contributing to increasing understanding of the mechanisms used



by the EC to monitor progress in CFR and audit reforms, including the transposition and implementation of EU directives;

- To discuss the role of good quality and transparent financial reporting in the economic development of participating countries from East, Central and Southeastern Europe;
- To review progress made in reforms in the countries represented;
- To explore how to build trust in financial reporting and promote its use as the basis for fostering inclusive economic growth in the region;
- To promote the use of financial information in support of financial stability, access to finance for businesses, and economic growth in the region.

The Conference is a key component of the World Bank’s strategy to sustain momentum in reform in this important area, and to foster regional collaboration and active knowledge transfer around the globe.

### Is the Conference a stand-alone event or part of a wider program?

The Ministerial Conference is being organized as part of two CFRR-implemented programs:

- The Road to Europe: Program of Accounting Reform and Institutional Strengthening (EU-REPARIS), which aims to improve the business environment, especially for small- and medium-sized entities (SMEs), by helping European Union (EU) candidates/potential candidates to align their financial reporting systems with the EU’s legislative frameworks for corporate financial reporting. The following countries participate in EU-REPARIS: Albania, Bosnia and Herzegovina, Kosovo (1), the Former Yugoslav Republic of Macedonia, Montenegro and Serbia; and
- The Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP) program, which helps to create a transparent policy environment and effective institutional framework for corporate reporting within the countries that comprise the EU’s Eastern Partnership: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

### What is on the Agenda of the 2016 event - Financial Information: Catalyst for growth?

The 2016 Conference will feature the following topics:

1. *Governance and Financial Reporting Reform in Europe and Central Asia: The Strategic Context*

This session will set the scene for the Conference and will provide an overview of initiatives to create opportunities for





# EU-REPARIS and STAREP in Their Own Words: Interviews with our Partner Countries

## Serbia



**Zlatko Milikic**

Assistant Minister of Finance,  
Republic of Serbia

**CV ECA: Serbia has opened the first chapters in negotiations to join the European Union. What role will reforms in corporate financial reporting play in EU accession?**

As a formal legal matter, Serbia will fully align its laws and regulations governing corporate financial reporting with the EU *acquis communautaire*. We have already made significant progress toward this goal through our 2013 Laws on Accounting and Auditing. We expect to complete the process of full alignment over the next several years. We see this as much more than a process of legal alignment. Our goal is to create a business environment strengthened by transparency, with reliable financial information about Serbian corporations readily available and widely understood and trusted. This will increase the attractiveness of Serbian businesses for investors from our European partner countries and beyond, as well as spurring more local investment. Our continuing reforms in the regulation of corporate accounting and auditing will play a critical role in this process.

**CV ECA: Other than the new accounting and audit laws you mentioned, what do you see**

**as Serbia's notable achievements in reforming financial reporting?**

I would say we have made progress in developing institutions to assure reliable financial reporting. One good example is in the area of quality assurance for auditors. Following the 2013 Law on Auditing, our Chamber of Authorized Auditors launched an inspections program for statutory auditors. The inspections process identified an audit firm and two auditors in charge that were seriously derelict in their compliance with professional auditing standards. As a result, our first disciplinary measures were imposed, with revocation of the licenses of the firm and the two auditors. This shows that meaningful implementation of the Audit Law has started in practice. The Chamber, the Public Oversight Board, and the Ministry of Finance all contributed to this important result in their respective roles of monitoring, receiving proposals for discipline, and issuing decisions. In a very concrete way, we have begun the process of strengthening the audit market, enhancing the quality of the audit profession, and restoring trust in audit reports. You can expect to see even more progress in this area in the years ahead.

**CV ECA: What are your key challenges ahead?**

We have ambitious plans, and we have the commitment to see them through. We want to build an international reputation for Serbia as a model of business transparency. As part of our efforts, we are committed to improving the full range of laws, standards, and institutions needed for reliable and high-quality financial reporting. Thanks to a generous donation from the people of Switzerland and its State Secretariat for Economic Affairs (SECO), we recently received €3.4 million to support our efforts over the next four years. Our work will be conducted in partnership with the World Bank Centre for Financial Reporting Reform. Among other things, the project will support activities to ensure that we are fully aligned with the EU *acquis*. It will also help us to:

update translations of international standards governing accounting and auditing; conduct training for accountants, auditors, regulators, and other stakeholders; revamp curricula and teaching tools for accounting education; improve the methodology and capacity for quality assurance inspections of auditors; and enhance our monitoring of financial information from state-owned enterprises. We have already begun many of these efforts, with significant help from the World Bank's regional Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS) program, which is funded by the European Commission. The Swiss donation in addition gives us the chance to tackle these challenges with the resources and focused attention that will help accelerate our progress. Watch what happens in Serbia over the next four years.

**CV ECA: How would you describe your partnership with the World Bank in your efforts to reform corporate financial reporting?**

We have had a very positive and productive partnership with the Bank, going back many years. The Bank's 2005 Report on Observance and Standards of Codes (ROSC) helped spur some important changes in our framework, including the creation of the Chamber of Authorized Auditors. I would like to mention especially the critical advice we received over the years from the late Liam Coughlan, who was a tireless advocate for reform and had a deep understanding of conditions in our country and throughout the region. We worked with the Bank in developing the updated ROSC assessment, to be published this year. We hope and expect that it will help spur further reform. And we are looking forward to working with the team from the CFRR as we collaborate to implement the Swiss-funded technical assistance program over the coming years. This continues to be a great partnership for us.



## Georgia



### Nodar Khaduri

Minister of Finance of Georgia

**CV ECA: Georgia signed the Association Agreement with the European Union in 2014. What are your country's main achievements in structuring and implementing respective reforms since then?**

Georgia has made its choice and returned to the great European family. The Deep and Comprehensive Free Trade Area (DCFTA), which is a part of the Association Agreement signed between the EU and Georgia in June, 2014, creates unique opportunities for Georgia to stabilize, diversify and develop its economy to the benefit of all its citizens. Georgia is now much closer to Europe than ever before and this proximity requires institutional support through, *inter alia*, the introduction of European institutions of management and regulation of the economy, thus ensuring transparency. The Ministry of Finance of Georgia is conducting a comparative analysis of its tax legislation and a set of amendments have already been made to approximate the country's legislation with EU directives.

Amendments to Georgia's law on Public Internal Control (PIFC) were drafted in 2014 with the aim of reforming the PIFC legal framework. The main purpose of the changes was to make the law more compliant with the applicable international standards, eliminate chances of dual interpretation and ensure the functional independence of the Central Harmonization Unit under the Ministry of Finance by taking into account best international practices.

Georgia approximated its legislation with EU sanitary and phyto-sanitary (SPS) standards. We have made progress in developing secondary SPS legislation and have built capacities for SPS border control procedures carried out by the Georgian Revenue Service (GRS). GRS also continues to implement an advanced customs policy and carries out

further capacity-building measures (i.e. creating the right conditions for livestock in transit, veterinary border inspections etc.), as well as implementing tax and customs reforms, and upgrading customs infrastructure at border crossing points.

The country has achieved progress in developing a legal framework for the execution of a Visa Liberalization Action Plan, which is being implemented effectively. This has placed Georgia's integrated border management system in line with European standards. Furthermore, the integrated border management strategy has been updated (the Government of Georgia adopted the State Border Management Strategy for 2014-18 on March 13, 2014).

The Ministry of Finance of Georgia has been coordinating the work of the Inter-governmental group on the Accounting and Audit Reform Agenda since April 2015. This Group is aimed at the approximation of Georgian legislation with the applicable EU Directives, and is composed of officials from the Ministry of Economy and Sustainable Development, National Bank of Georgia, Parliament of Georgia, Ministry of Justice and other regulators. Close consultations have been held with all stakeholders, including professional organizations, business associations, audit firms etc. The draft Law on Accounting, Reporting and Audit has been prepared as a result of almost one year's work. It is currently pending a final review and agreement, prior to the launch of public hearings in Georgia's Parliament by early-April 2016 at the latest. According to the World Bank, this draft Law indeed meets the EU approximation requirements. In addition, significant achievements have been made in the transparency of the actual process, public awareness and stakeholder engagement.

**CV ECA: What are your main reform priorities in the governance field (including corporate financial reporting and public financial management) in the next 12 months?**

Reforms are a permanent and revolving process, by their very nature. Achievements need to be encouraged in order to make real progress. This principle applies to both public and corporate financial reporting.

The main priorities within the corporate financial reporting are as follows: the establishment of a well-functioning Public Oversight Body (POB), with the best possible composition and staff and the provision of required resources; drafting of all important regulations to administer the law and EU regulations; and the technical design/implementation of important systems such

as the State Register of Auditors and a Financial Statements Portal, while taking into consideration the need to create a nationwide reporting platform by incorporating the recent achievements made in this area.

Public finance management (PFM) reform is high on our agenda. Treasury system of accounts and PFM software developed in-house allow accurate, effective and real-time tracking of all the operations within the Budget System. Program Budgeting and the effective mid-term public expenditure framework have turned into an essential part of PFM in Georgia. The methodology for public sector investment management has been prepared with the support of the World Bank and will soon be approved by the government. . This will allow us to establish a more inclusive approach to further boost infrastructural development.

Mechanisms has been developing at all stages of budgeting for the pro-active public disclosure of information and transparency of the process. In addition, measures are being taken to eliminate the gaps revealed during the Open Budget Survey process.

The Treasury Service of Georgia is introducing the International Public Sector Accounting Standards (IPSAS) in order to produce financial statements that are in full compliance with the applicable international standards. The process was launched in 2014 and it is anticipated that IPSAS will be introduced by 2020. The implementation and effective application of the Financial Management and Control (FMC) system in the public sector is among the key priorities of the country.

**CV ECA: What type of challenges do you face in improving corporate financial reporting, including financial transparency and disclosure, corporate governance practices, governance of state-owned enterprises, etc.?**

The lack of qualified professional staff on both sides – corporations/enterprises and audit firms – may be perceived as the principal challenge. The implementation schedule defined in the draft Law referred to above and the simplifications envisaged for small and medium-sized enterprises (SMEs) are manageable, however, to avoid having a significant effect on the businesses. We constantly ensure that there is an exchange of information and we stand ready to offer our skills and capacity to businesses so that they are better prepared for future reforms.



**CV ECA: Public sector financial reporting received significant attention internationally, especially due to the recent sovereign debt crisis in some countries. What are the challenges of reforming this area in your country and what are the recent and planned reforms?**

Comprehensive and transparent reporting on Public Finance is an important element of PFM reform. Georgia has been following international standards and best international practices: GFSM 2001 classification has been practiced since 2008, and IPSAS standards are being implemented gradually. Georgia has scored high in the Open Budget Index. Public expenditure and financial accountability (PEFA) scores show a significant improvement. Georgia is constantly working on improving financial reporting. The Government started preparing a fiscal risk assessment report last year and is working on statements which will include information on contingent liabilities.

**CV ECA: What is the level of financial reporting reform acceptance by the Georgian business community and the public?**

We are strongly committed to openness and transparency. This involves continuous communication with businesses. The Government of Georgia organized several presentations and roundtables with business associations last year; the most recent one took place in late March 2016 with the support of the World Bank. The overall feedback has been positive, and the significance of the approach and the associated challenges are appreciated. However, as the impact on some business

segments has not been measured yet, no significant resistance to financial reporting reform has been noticed so far. The draft Law referred to above has been communicated to the most vocal business associations and we are awaiting their comments and suggestions.

**CV ECA: Where do you see Georgia five years from now?**

Reforms require a consistent set of actions. Only such an approach will achieve the desired outcome. We thus anticipate the following achievements five years from now:

- » A well established and functioning Public Oversight Board with good reputation;
- » A reporting platform (based on XBRL or other standards) that operates nationwide;
- » The effective use of financial reports for the purposes of measuring taxpayers' compliance risk (according to the corporate track record);
- » An advanced capital market;
- » Reduced cost of capital and loans.

I strongly believe that consistent and well-structured reforms will result in tangible outcomes and outputs.

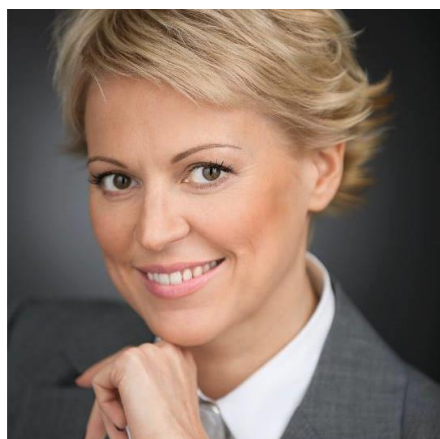
**CV ECA: What is your experience in working with the World Bank under the regional STAREP program and what main value do**



**you see from this partnership in reforming corporate sector financial accountability?**

The World Bank remains a reliable and loyal partner of Georgia at many levels, not only with regard to financial reporting reform. It plays an extremely important and valuable role in our reform process through the provision of international expertise, by providing qualified reviews of draft documents, offering suggestions and recommendations, through well-organized conferences and public awareness events, and other types of technical assistance which lead to the drafting of appropriate legislation. We will continue our fruitful cooperation with the World Bank and look forward to extending our cooperation further to advance the Public Oversight Board once it is established, and the reform process, which requires more technical support focused on the needs of businesses and accounting professionals.

## Ukraine



**Olena Makeieva**

Deputy Minister of Finance, Ukraine

**CV ECA: Ukraine signed the Association Agreement (AA) with the European Union (EU) in 2014. What are your country's main achievements in structuring and implementing reforms since then?**

We have made progress in a variety of reforms, including public procurement, technical regulations and standards, food safety, and the anti-monopoly policy. These reforms were all made in line with the relevant chapters of the Association Agreement. Macroeconomic stability is certainly also within the framework of the Agreement chapters. We have more technical and long-term work connected with the planning and monitoring of AA implementation. Finally, this Agreement has had a direct, positive impact on trade. We

are selling more and more types of products to the EU. Indeed, the EU has become Ukraine's key trading partner.

**CV ECA: What are the main reform priorities in the governance field (including corporate financial reporting and public financial management) over the next year?**

In 2015, Ukraine launched a number of important reforms to improve the investment climate, reduce corruption and increase the transparency and efficiency of public finance. Of these reforms, the most important are the creation of the first open web portal of public finance transactions (called 'E-data') and the full-scale launch of e-procurements by all governmental bodies. Our goal for 2016 is to further

increase transparency in governance and public finance, and to gradually improve the quality of state property management, including state-owned enterprises (SOEs) and state-owned banks. To achieve this, we need to: reform the tax and customs' administration; ensure the efficient use of the taxpayer money through verification of the distribution of the social safety net; and further increase budgetary transparency through the E-data web portal and its next stage, the 'Transparent Budget' system. We also need to further strengthen our banking sector. In this context, we need to reform state-owned banks, including establishing independent supervisory boards for them. We also need to adopt legislation to implement best international practices in resolving banks' non-performing loan (NPL) problems. Finally, we aim to increase investment resources available to Ukraine through new lending programs from our bilateral and multilateral partners, including the World Bank.

**CV ECA: What type of challenges do you face in improving corporate financial reporting, including financial transparency and disclosure, corporate governance practices, and the governance of SOEs, among others?**

Our current priority with regard to accounting reform is to increase the transparency of corporate financial reporting. Transparency requirements are applied to all companies, whether state-owned or private. Our main steps here comprise: (i) expanding areas where the use of the International Financial Reporting Standards (IFRS) is obligatory; (ii) implementing European regulations regarding the obligatory disclosure of the financial reports of all companies (with the exception of small businesses); (iii) disclosing data on new areas of company activities; and (iv) ensuring public access to the financial reports of all companies. At the same time, the key challenges we are facing with regard to the quality of SOE reporting are ensuring that they are subject to independent financial statement audits, and that their audits are conducted in adherence with international standards, and carried out in a professional manner. Currently, only some SOEs, such as *Naftogaz of Ukraine* are subject to an audit. Further, there is the need to improve the quality of SOE corporate governance. This will ensure the independence of their operations from political influence. A very important step in this direction was the designation of three independent members for the supervisory board of *Naftogaz*, as well as the approval of the development strategy for state-owned banks. In addition, the adoption of relevant regulations will pave the way for the creation



of independent supervisory boards at the state-owned banks.

**CV ECA: Public sector financial reporting has received significant attention internationally, especially following the recent sovereign debt crisis in some countries. What are Ukraine's reform challenges in this area? What are some examples of recent and planned reforms?**

With regard to the reform of public sector financial reporting, we have recently achieved a huge breakthrough. The process of modernization of the public financial system started with the adoption of the strategy for the modernization of accounting in the public sector for the period from 2007–2015, as well as the strategy for the management modernization of public finance. These strategies outline the key steps to be made for the modernization of accounting, which shall contribute to better management in public finance and ensure compliance with international standards. First, regarding the basis of the International Public Sector Accounting Standards (IPSAS) for the public sector, we have prepared and approved a special package of 19 national accounting regulations (standards) for the public sector, as well as a new plan of accounts and new reporting forms. Second, we are actively implementing them. Today, more than a half of the new standards are already applied, including mainly those regulating records of assets and liabilities. Now we need to implement the remaining standards starting from 2017. They set new rules for the records about revenues and expenses, as well as regulations regarding the disclosure of information in financial reporting. Our next goal is to ensure that the main managing entities for public funds publish their annual financial reports, as well as their annual consolidated financial reports. We also must

have SOEs publish their annual consolidated financial reports on their general property situation, as well as the results of their operations. This will help us significantly improve the overall transparency of public finances. With this purpose in mind, the Ministry of Finance has elaborated the draft law, "Accounting and Financial Reporting in Ukraine", and submitted it to the Parliament. We expect it to be adopted as soon as possible. Another aspect which is crucial to ensure the transparency of financial reporting is the reform of audit activities. Those who use data from financial reporting must be absolutely confident in their reliability. In this context, the quality of audit services must be improved. Therefore, the Ministry of Finance has elaborated a draft law on the regulation of the audit profession aimed at implementing relevant European standards in Ukraine. For instance, this draft law sets higher requirements for audit services for all public interest entities (for instance, public joint-stock companies, banks, insurance companies, private pension funds, other non-bank financial institutions and big enterprises) irrespective of their form of property, whether public or private.

**CV ECA: What is the level of financial reporting reform acceptance by the Ukrainian business community and the public?**

We can rely on a rather high level of acceptance of our reforms, including audit reform, by the professional community because representatives of the biggest civil society organizations were involved in the elaboration of draft regulations and improvement of the regulations issued by the Ministry of Finance. However, not all Ukrainian companies are ready to disclose information about their businesses just yet. First, company culture is not yet accustomed to the new disclosure and transparency

standards. Second, some businessmen consider the disclosure of information an additional hazard because of potential unfriendly take-over activities still present in our country. Subsequently, we see an approach — pursued not only with regard to accounting, but also to other areas — whereby supporters claim that the transition to European business principles as a whole is good. However, it needs to ensure a balanced and well-founded treatment for selected branches or companies taking into account their respective business interests. Normally, such an approach actually means that the implementation of the European regulations is discarded or postponed without any clear deadlines. Such an approach to reforms is unacceptable. We regard the success of the reforms as crucial for new foreign investment and the pace of economic growth.

**CV ECA: Where do you see Ukraine five years from now?**

Ukraine must continue on the path of reform which it started after the Revolution of Dignity. This is the way Ukraine is going now and the way which helped other countries in Central and Eastern Europe build a

developed democratic economy and significantly improve the prosperity of their citizens. If we succeed on this path without deviations and delays, in five years Ukraine will be a country with an efficient and properly-sized state administration and public sector. It will have a liberal economy attractive for investors, including simple regulations and a simple, transparent and fair tax system. Thanks to the reforms which we are already implementing, we will be able to improve the quality of public services, especially in the areas of healthcare and education. We will also be able to minimize opportunities for corruption. All these steps must create pre-conditions for steady economic growth and improvements in the prosperity of each citizen.

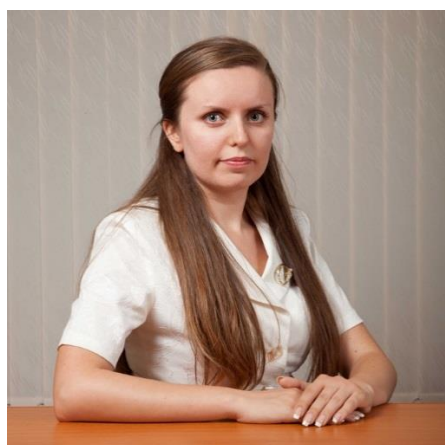
**CV ECA: What is your experience in working with the World Bank? What do you see as the main value added from this strategic partnership in reforming corporate and public sector financial accountability?**

Help and support from the World Bank are extremely important for the reform process in our country, including the improvement of transparency in public and corporate finance. We are grateful to the World Bank

and to its Vienna-based Centre for Financial Reporting Reform for enrolling Ukraine as a country and enabling it to participate in the Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP) regional program. For example, in 2014-2015 alone, approximately 120 representatives of the Ukrainian audit profession and local regulators were updated on recent accounting and statutory audit reforms in the EU, as well as the impact of these reforms on audit quality in EU member states. Dialogue was initiated between leading universities on improving the accounting curricula and the next steps were agreed upon. Follow-up discussions are scheduled for 2017. At the same time, the active role of the World Bank in the improvement of the quality of SOE corporate governance is crucial for us. We need to explore further ways to ensure SOE capacity building and improve SOE corporate governance. More support is also needed to establish the public audit oversight body in line with the EU *acquis*.

We are very grateful to the World Bank for its advisory support in this area and expect this active cooperation to continue.

## Moldova



### Veronica Vragaleva

Deputy Minister of Finance,  
Republic of Moldova

**CV ECA: Moldova signed the Association Agreement with the European Union in 2014. What are your country's main achievements in structuring and implementing respective reforms since then?**

With the implementation of the **Strategy for the Development of Public Finance Management 2013-2020**, the Ministry of

Finance has registered a number of achievements. First of all, the Concept on key policy areas for new accounting and auditing legislation has been developed. This is the first step in aligning accounting and auditing legislation with the requirements of the European Union (EU).<sup>(1)</sup> Moldova's law on Public Finance and Budgetary and Fiscal Accountability was adopted on 25 July 2014 and is compliant with the key principles of the EU and international principles of transparency, accountability, economy, efficiency and efficacy. A new budgetary classification has also been developed in line with international benchmarks (**Classification of the Functions of Government (COFOG)** and Government Finance Statistics 2001) and will be applied in the budgetary cycle 2016-2018.

In the fiscal field, a new local budget formation system was implemented in 2015 and has been applied in all administrative-territorial units. At the same time, reforms to harmonize Value-Added-Tax (VAT) and excise duties with EU legislation are being implemented. In the public procurement field, a law on public procurement has been adopted and will enter into force on May 1, 2016. The Roadmap for the implementation of the Association Agreement between the European Union and the Republic of Moldova (EU-RM) on public procurement

has been developed at the same time. There have also been important achievements regarding customs policy and administration reforms to align national legislation with EU standards and practices. The harmonization of Moldova's Customs Code with the 1992 European Economic Community Customs Code has started. Customs procedures have been upgraded through the implementation of electronic declarations, which complies with the European electronic customs initiative. And a significant development for the Customs Service has been the joint border control operations with Romania and Ukraine at the EU's external border.

**CV ECA: What are your main reform priorities in the governance field (including corporate financial reporting and public financial management) in the next 12 months?**

Although in recent years we have succeeded in significantly improving the legal framework in the accounting and audit field, reform implementation and application have been impeded by major capacity and resource limitations. The National Action Plan for the implementation of the EU-RM Association Agreement envisages the development of a new Audit Law and a new Accounting Law. The process of developing



these new laws will be launched this year, and we would like to involve all stakeholders in this process. It is intended that the draft accounting and audit laws will be submitted to the Government at the end of 2016, and they should be approved in the second quarter of 2017. We would like to do this openly and transparently, ensuring compliance of the national accounting and financial reporting legislation with the requirements of the European Directives. In the following period, which is very important for us, we count on fruitful cooperation with professional accountancy organizations, other regulation bodies, World Bank experts, and members of the academic community, for their support and in monitoring future activities. The Republic of Moldova is committed to finalizing the transposition of European accounting and statutory audit legislation within three years of signing the Association Agreement. The Accounting and Audit Directives will therefore be implemented by September 1, 2017. In the public finance management field, key reform priorities result from the need to ensure the efficient and effective allocation of public financial resources for activities that would contribute to Moldova's economic growth and development. They are also necessary to maintain the effective management of public funds in all fields and sectors of public administration by: improving the quality of fiscal and macroeconomic forecasts; ensuring the allocation of financial resources in close correlation with medium-term policy priorities; increasing revenue deployment by enhancing the capacity of administration authorities to collect planned fiscal and customs revenues; and establishing a modern system of public procurement in accordance with EU standards.

**CV ECA: What type of challenges do you face in improving corporate financial reporting, including financial transparency and disclosure, corporate governance practices, governance of state-owned enterprises, etc.?**

Transparency requirements have improved significantly as a result of reform implementation but their observance is unsatisfactory. The Information Service of Financial Statements responsible for the collection and publication of financial statements of entities (including state-owned enterprises) has a limited capacity and resources, which impedes its activity. The quality of financial statements is not uniform. Banks' financial statements are generally of good quality, reflecting the intense supervision by the National Bank of Moldova in the banking sector. However, the financial statements of non-banking entities are generally incomplete, particularly with regard to the disclosure of information. The mandatory implementation of the

International Financial Reporting Standards (IFRS) by non-banking public-interest entities is still challenging. Also, the fiscal consequences of the IFRS need to be studied in more detail. Currently, the key state-owned enterprises (SOEs) are not classified as public interest entities and are exempted from the application of transparency requirements envisaged for public interest entities in Moldova. As for SOEs, collaboration has been initiated with the World Bank at the request of the Ministry of Finance. In this regard, we have received technical assistance that is being implemented under the aegis of the United Kingdom Department for International Development Good Governance and Investment Climate Trust Fund, aimed at providing support in reforming state-owned enterprises in Moldova. This assistance will formulate recommendations focused on improving the economic performance of SOEs, as well as improving reporting and governance. Also, the World Bank team will carry out an assessment in 2016, which will serve as the basis for future reforms in the area of SOE governance. The Ministry of Finance plays an important role in managing public property with a potential impact on the state budget resulting from the inefficient administration of state-owned companies. Taking this factor into account, we have requested SIGMA (Support for Improvement in Governance and Management, a joint initiative of the Organisation for Economic Co-operation and Development and the European Union) for assistance in enhancing the capacity of the Ministry of Finance to monitor state entities and stock companies with a majority of state-owned shares, in accordance with European good practice and corporate governance. Moreover, in order to improve the transparency of SOEs, some amendments have been made to the Law on State Enterprises, which will require them to publish their financial statements, audit report, management report, information about the Administrative Board, etc. on their webpage annually. The draft law is currently being discussed in Parliament.

**CV ECA: Public sector financial reporting received significant attention internationally, especially due to the recent sovereign debt crisis in some countries. What are the challenges of reforming this area in your country and what are the recent and planned reforms?**

The Ministry of Finance drafts and publishes reports on budget execution on its official webpage every month. These reports are presented in a format accessible to the general public, have a comparable structure, and include key indicators of national public budget execution and its components. At the same time, three new financial reporting

forms have been developed in accordance with international standards.

The main reform priorities on transparency and quality of financial reporting set by the Ministry of Finance for the next few years are to:

- enhance the efficacy and transparency of the budgeting process by implementing performance-based budgeting;
- establish a financial management system in the public sector in accordance with international practice to ensure the efficient and transparent use of public funds;
- establish an information instrument of modern and efficient management to support the users in budgeting and to supply a wide range of financial and non-financial information necessary for decision making purposes;
- improve and modernize all public finance management processes including budget development processes, budget execution, accounting and financial reporting.

Moreover, the Government implements necessary institutional arrangements to protect the public as well as investors in government bonds, by providing accurate and complete information on public debt. The legislature and the public are informed through quarterly reports about debt management and on the outcomes of the debt management strategy. The Ministry of Finance regularly publishes information on the outstanding stock and composition of its debt liabilities and, where they exist, contingent liabilities, including the currency denomination and interest rate structure.

**CV ECA: What is the level of financial reporting reform acceptance by the Moldovan business community and the public?**

The development of a market economy in Moldova and the intensification of international economic relations have justified the need for financial reporting and statutory audit reform in the corporate sector, which represents an important element of an emerging market, such as in this country. The Ministry of Finance's efforts regarding financial reporting and statutory audit reform in the corporate sector provide clear and direct benefits for entities and the business environment in the country; high quality financial information is essential for corporate governance to function well. All sides, including the Ministry of Finance, representatives of the profession, and the business environment, are very interested in promoting reforms. Corporate financial reporting reform is very important for commercial relations between the European Union and the Republic of Moldova in implementing the EU-RM Association Agreement. Improving the quality of local entities' financial statements will increase the credibility and comparability of information in financial statements internationally and will contribute to the creation of a favourable business environment. Accounting will become an instrument for international economic communication, and the users of these statements will be able to compare the local and international financial and property situation and will also be able to make proper economic and management decisions.

**CV ECA: Where do you see the Republic of Moldova five years from now?**

This is quite a complicated question. First of all, it is obvious that we will invest all our efforts in order to accomplish those priorities, which we aim to accomplish through the RM-EU Agreement. On the other hand, based on our current situation it is quite challenging to be absolutely positive about the success of these accomplishments. This is because we are currently facing a deep financial crisis, which we are trying to manage by using best practices from the region and from the international field.



**CV ECA: What is your experience in working with the World Bank under the regional STAREP program and what main value do you see from this partnership in reforming corporate sector financial accountability?**

The Ministry of Finance highly appreciates the significant support it has received in promoting accounting and audit reform through the regional *Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP)* Program, and the continuous implementation of the *acquis communautaire* and best practices in the country. This has been made possible through the participation of specialists in regular practical activities that provide the necessary support in upgrading financial reporting and audit in the corporate sector, the exchange of experiences between representatives of participating countries, as well as the experiences of EU member states which take part in events organized by STAREP. With the support of STAREP, a number of activities have been convened in the field of International Audit Standards' application, including training seminars for accountants, auditors, specialists from the ministry, and members of the Audit Oversight Council and the Certification Commission for Auditors. Also, transposition tables have been developed for the Accounting Directive and Audit Directive into national legislation, as well as the Concept on key policy areas for new accounting and auditing legislation. I would like to convey my thanks for the efforts made by the World

Bank Centre for Financial Reporting Reform (CFRR) specialists to promote reforms and support regional cooperation. Through our joint efforts, we hope to deploy the necessary resources to implement the reforms in this important field. We believe that the World Bank and the community of development partners want to continue to support reform initiatives in financial reporting and auditing, both regionally and countrywide.

**CV ECA: What are you looking forward to hearing discussed at the 2016 Ministerial Conference in Vienna? Are there any topics of particular interest to you?**

We would like to learn the experiences of European countries in establishing audit committees for public-interest entities. In the context of drafting new Accounting and Auditing laws we would like to hear more about the scope of definition of Public Interest Entities, especially the option allowing the inclusion of a broader range of economically important entities in this definition. We are also looking into discussing the advantages of enforcing and applying stricter requirements with regard to accounting standards, financial reporting, the publication and disclosure of financial information, and audits.

(1) Recently amended Statutory Audit Directive 2006/43/EC, Regulation 537/2014 on specific requirements regarding statutory audit of public-interest entities, and the accounting directive 2013/34/EU.

# Financial Reporting Reform In Practice

## Around the Globe

### Sub-Saharan Africa (AFR)

#### Partnering to Accelerate the Growth of the Accountancy Profession in Sub-Saharan Africa

By Ousmane Kolie and Patrick Kabuya,  
Senior Financial Management Specialists,  
Governance Global Practice

In the Africa region, commendable progress has been made toward strengthening the accounting profession. Indeed, a number of Professional Accountancy Organizations (PAOs) are making positive contributions to their respective country's economic development. However, analysis of the Reports on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A) conducted in Africa indicates that there are still a number of challenges to be addressed in order for the profession to increase its contribution to improving the lives of Africans. Improvements could also help to address the World Bank twin goals of ending extreme poverty and boosting shared prosperity. Firstly, there is a need to increase the demand for and relevance of the accountancy profession and services. Compared to other professionals — doctors, teachers, and engineers, for example — the role of accountants is generally less known. In fact, in a number of countries, policy makers, businesses and citizens do not embrace the relevance and contributions of the accountancy profession in the economy.

Secondly, the number of accountants in Africa remains low. In this context, the 2015 membership declarations by the Pan African Federation of Accountants (PAFA) members indicate that there are less than 100,000 accountants in the entire region — excluding those in the diaspora — with 74 percent clustered in just two countries, Nigeria and



South Africa. The majority of accountants are also male. In Francophone Africa, the number is even lower as only accountants working in audit practice are registered as members of professional accountancy organizations. Region-wide, the number of accountants is low in comparison with the population and the companies that require accountancy-related services.

Thirdly, there are capacity constraints and governance challenges at the PAO level. According to information from the International Federation of Accountants (IFAC) in Sub-Saharan Africa, only 23 PAOs from 22 countries are full or associate members of IFAC. A number of countries still

do not have PAOs, and where they exist, most do not have adequate human and financial capacity required to fulfill their mandate. Internal conflicts especially at the Council/Board level, between council and management, and within management hinder growth of the PAOs. To strengthen the profession in Africa, the World Bank has been playing an instrumental role in designing, developing and implementing accountancy profession capacity-building initiatives at the national and regional levels. We highlight here the support provided to regional institutions, namely PAFA and the Organization for the Harmonization of the Business Law in Africa (OHADA).



## The Pan African Federation of Accountants (PAFA)

The Bank has been actively involved in supporting PAFA since its establishment in 2011. Specific support has included: (i) facilitating and providing the convening platform that led to the establishment of PAFA, as well as hosting and funding its launch in May 2011; (ii) providing technical assistance and input in developing the 2012–2015 and 2016–2020 PAFA Strategies, the PAFA PAO strategic plan formulation toolkit, the guidelines for PAO revenue sources, and the PAFA finance policy; (iii) partnering and providing technical and financial support in hosting knowledge sharing events, including the Public Financial Management Conference in 2015, The 3 African Congress of Accountants (Ghana, Kenya and Mauritius), the PAFA Conference in 2012, and the International Financial Reporting Standards (IFRS) for small and medium enterprise (SME) training in Zambia in 2013, among others; and (iv) participating and providing input in PAFA Board meetings. The Bank's involvement also resulted in the establishment of a regional Federation, the development of tools used by African PAOs, and the hosting of a number of knowledge-sharing opportunities. PAFA has been implementing initiatives aimed at achieving its strategic objectives to: (i) build strong and sustainable PAOs in each African country; (ii) influence and facilitate the adoption and implementation of international standards; (iii) support the accountancy profession in strengthening Public Finance Management (PFM) systems; (iv) create a common working approach and platforms that facilitate sharing of knowledge, resources and experiences; and (v) generate cutting-edge knowledge and solutions on future issues that will impact the economy, society and the profession.

Progress is evident in PAFA's membership increases from 39 PAOs in 34 countries in 2011 to 46 PAOs in 38 countries in 2016. In addition, the Federation is developing tools for the benefit of its members, including partnerships with other institutions that can contribute to the achievement of PAFA objectives.



## Governance and T&C GPs partner to support the OHADA

Harmonized corporate financial reporting in the Organization for the Harmonization of African Business Law (OHADA) countries is a success story. There have been many achievements as well as challenges in harmonizing the accounting standards and strengthening the accountancy profession. OHADA was established in 1993 through a Treaty to improve the legal security and predictability of doing business in 17 countries in West and Central Africa (comprising one-third of the continent). As mandated under the OHADA Treaty, member states have adopted unified legislative norms in commercial law areas that, once adopted, have become domestic laws. This unification effort created a harmonized set of laws and regulations intended to make it easier for the private sector to do business in member countries. There are 9 OHADA laws, or *Uniform Acts*, currently in place. They cover key areas of private-sector development, including corporate financial reporting, as described in the OHADA Uniform Act on Accounting. In November 2012, the World Bank Group approved a technical assistance project of US\$ 15 million to strengthen OHADA's institutional capacity to support selected aspects of investment climate reforms, including improved corporate financial reporting, in member countries. World Bank project support to OHADA is being implemented jointly by the Trade & Competitiveness and Governance Global Practices. With regard to the corporate financial reporting component, the project intends to address three main issues. The first issue concerns outdated accounting standards. The OHADA Accounting System sets primary requirements for financial reporting of most registered businesses and companies in OHADA countries. It also provides guidelines for the preparation,

presentation, and publication of corporate financial statements.

The OHADA Accounting System has not been amended since its adoption in 2000 and contains significant departures from the International Financial Reporting Standards (IFRS). As a result, financial statements prepared in accordance with the provisions of the OHADA Accounting System provide the users with information that is of substantially lower quality and is considerably less useful in attracting foreign investors. The second issue concerns weak Professional Accountancy Organizations. Several OHADA countries still do not have PAOs. Where they do exist, PAOs often lack the necessary resources, knowledge, and skills to perform their role of building and maintaining a high-quality accounting profession as recommended by the International Federation of Accountants. Finally, the third issue involves insufficiencies in the education and continued professional development scheme. These are two of the major professional challenges facing OHADA countries. There is no active professional qualification scheme at the regional or national level. The West African Economic and Monetary Union (WAEMU) has developed a professional qualification scheme for its member states that is not yet fully operational. In more than 10 years, the scheme has produced only 15 qualified professional accountants.

## Outcomes

Regarding outdated accounting standards, the project supported OHADA in conducting the policy dialogue and technical revisions of the OHADA accounting standards. Benchmarking missions were organized to compare the draft revised OHADA accounting standards with international standards at the World Bank Group Reporting Center in Vienna, France's Standard Setting Body, and the International Accounting Standards Board (IASB). Key technical aspects of the modernization of the standards include incorporation of the IFRS for SME when applicable; and enforcement of the full IFRS for listed companies. The final draft is expected to be approved by the OHADA standards setting committee in April 2016, to be followed by the adoption by the Council of Minister by the end of 2016. Following that, a dissemination campaign will be organized and enforcement will begin in January 1, 2018. World Bank-supported activities to address the remaining issues are ongoing.

## East-Asia and Pacific (EAP)

### Beyond Compliance: Closing the IFRS Gap at the Electricity Vietnam Company

#### The Impetus for Reform

There were a number of driving forces for reform at the Electricity Vietnam Company (EVN). First, EVN's ability to produce high quality, transparent and comparable financial information in full compliance with IFRS had strong linkages to EVN's *Financial Recovery Plan*, which included focusing on improved corporate governance and financial reporting. In addition, there were important implications for EVN's *Restructuring and Divestiture Strategy*, including the ability to raise finance and attract investors.

Furthermore, external factors such as the signing of the Trans-Pacific Agreement (a trade agreement among twelve Pacific Rim countries signed in February 2016) have meant that more attention is now being placed on the need to adopt international good practice in terms of governance, accountability and transparency. In the corporate financial reporting context, it is likely that the Ministry of Finance will mandate that all public interest entities (including SOEs) prepare their financial statements in compliance with IFRS.

Finally, recent changes in the energy sector regulatory regime have put more emphasis on accurate and reliable financial information for tariff-setting and other purposes.

#### Initial reform effort at EVN

Vietnamese companies, including EVN, prepare their financial statements in accordance with Vietnam Accounting Standards (VAS). However, due to requirements under donor financing agreements with development partners, it was also required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Thus, EVN made relevant adjustments to their VAS financial statements to comply with these requirements; however, a full migration to IFRS was not undertaken. While EVN's IFRS financial statements broadly complied with requisite disclosure requirements, there were several departures. Some of these were of such significance that the external audit opinions on the IFRS consolidated financial statements were heavily qualified. Therefore, while considerable resources were spent in preparing IFRS consolidated financial statements, EVN was not able to reap the full benefits of IFRS for a several of



reasons. First, the financial statements were not used for management decision-making or other purposes aside from donor reporting. Second, because of the significant qualifications in the audit report, external users, including donors, were not able to rely on the quality of the financial information.

#### Scope of World Bank support

##### The World Bank in Vietnam

The World Bank has substantial investments in the energy sector in Vietnam. Ongoing investment lending projects and development policy lending total US\$ 1.8 billion. Projects in the pipeline total a further US\$ 600 million. EVN is one of Vietnam's major state-owned enterprise (SOE) groups and plays a significant role across all aspects of the electricity sector.

The Bank provided technical assistance to prepare an IFRS Gap Analysis, financed by the Energy Global Practice Trust Fund. The gap analysis provided an assessment of EVN's readiness to transition to full compliance with IFRS requirements. This included a review of:

- EVN's compliance with relevant IFRS disclosure requirements to identify significant areas of non-compliance;
- The adequacy of the systems and processes for the preparation of its financial statements to identify key areas for improvement; and
- EVN's current level of capacity, to identify capacity development needs particularly in the areas of governance

and accountability structures, human resources, and equipment.

#### Key findings

Service delivery and sustainable tariff setting in the electricity sector — and indeed any sector — can be severely compromised as a result of a company's poor quality of financial information. Ultimately, such information will be of little use to the company, the government, or to potential investors.

As a result of seeking to comply with IFRS, EVN identified inadequate asset management processes. This meant that the financial impacts of the current asset base condition — in terms of asset replacement, maintenance, depreciation and impairment — had not been reflected in the financial information used for management decision-making purposes.

The most problematic area for EVN was the valuation of property, plant and equipment. Therefore, a complete asset reevaluation in accordance with International Asset Valuation Standards will be required. Also, the statements of financial position and financial performance were potentially currently and materially misstated. This type of information is also essential for the maintenance of service delivery and sustainable tariff setting.

#### Catalytic reform

EVN accepted the IFRS Gap Analysis report findings. The company indicated that it would be prepared to implement a pilot

project for the transition to full IFRS — as long as they received permission from the Ministry of Finance. In addition, they stated that they did not want to continue to maintain dual financial reporting systems under both IFRS and VAS.

What this demonstrates is that this work has broader significance for Vietnam's SOE sector. The Ministry of Finance has agreed that the EVN pilot will be used to inform the planning for the transition of the other major SOE groups to the IFRS as well.

### Lessons learned

EVN's work on IFRS compliance began as part of a review of fiduciary compliance with the lending covenants of donor financing agreements. However, EVN came to recognize that transitioning to full compliance with IFRS is a major medium-term undertaking that has broad implications for the way in which it manages its business.

EVN's transition to the IFRS raised the profile of what in other cases may have simply been regarded as a low priority accounting matter. It shifted from a compliance exercise to one that will now add value to the SOE sector in



general, and to EVN in particular. Indeed, the EVN pilot project is now leading the way to work toward a full migration from national to IFRS standards for all SOEs in Vietnam.

This project helped to raise awareness among country, donor and EVN representatives about the value of accounting standards and the key role they play in quality financial reporting. The profound implications of full compliance

with IFRS need to be recognized in terms of their impact on corporate governance, and the greater levels of required disclosure and transparency. Indeed, the magnitude of the transition from national to IFRS standards needs greater stakeholder recognition and support, particularly as it involves substantial resources for capacity building, information technology systems, human resources, and the like.

## Europe and Central Asia (ECA) Croatia's Experience: At the Crossroad of Financial Reporting Reform

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### Richard Frederick

Independent Consultant

Transition has been a defining theme in Croatia's recent past: transition from command to market economy; transition from public to private ownership; transition to greater democracy; transition from manufacturing industries to service and technology, and so on. It is a theme that is of enormous importance to policy makers who are interested in understanding how transitions work and what makes some succeed and others fail. Accession to the European Union (EU) is usually framed as compliance with the *Acquis Communautaire*, the cumulative body of European Community laws. It could be viewed as a simple compliance exercise. However, the purpose of accession is not just compliance on paper. It is to effect a real improvement

in the economic, social and political life of the country.

### Driving Reform: The Ministry of Finance

Accession to the EU required compliance with four key aspects of the EU Directives. The Directives required Croatia to:

- Be able to conduct quality assurance of the audit profession;
- Establish a public oversight function over the audit profession;
- Have national financial reporting standards compliant with the Directives; and
- Ensure the publication of financial statements.

Accomplishing these goals was principally the responsibility of the Ministry of Finance. The quality assurance process was delegated to the Chamber of Auditors. A new body

called the Public Oversight Board (POB) was established to exercise oversight of the audit profession. Responsibility for bringing Croatian reporting standards in line with the Directives was delegated to the Croatian Financial Reporting Standards Board (FRSB) and publication of accounts was carried out by the Financial Agency (FINA). The Croatian National Bank and the integrated supervisor HANFA focused on prudential supervision.

### The transposition of the Directives

During the transposition period, the Croatian government followed the EU Directives closely. The approach was to copy the Directives almost literally into Croatian legislation. The result was a rapid and accurate transposition of EU Directives into Croatian law. However, when transposed, the Directives did not fit Croatian legal tradition. Croatia has a civil law tradition. Civil law countries tend to be detailed and directive in their legislation, while the EU Directives left many questions open. Furthermore, the speed with which



transposition occurred meant that some remedial legislative work would be required, including:

- *Provide greater detail:* The EU Directives are in some cases quite general. Further detail was needed to enhance their implementation. For example, the duties and role of a public oversight body for the audit profession were not defined in detail;
- *Enhance clarity:* In some cases, EU legislation allowed for differing interpretations. For example, it was uncertain what aspects of auditor certification were subject to approval by the POB;
- *Overlaps:* There was an overlap between Croatian company law and the Accounting Act. Accounting professionals wrote the accounting law. The rest of company law was written by lawyers. Differences in terminology were thus inevitable. Lawyers and accountants need to cooperate more in future to ensure consistent terminology and avoid overlap;
- *Create consistency:* There are cases of contradictory requirements even within the same law;
- *Introduce sanctions for non-compliance:* The law in Croatia requires consequences for inaction such as, for example, sanctions. At present, it is uncertain what remedies are available for non-compliance.

#### The reform team within the Ministry of Finance

The Ministry of Finance was responsible for driving the financial reporting reform necessary for EU accession. A team within the Ministry of Finance operationalized the reform goals.

The team included four professionals and a team leader. It had access to political leaders, thus giving the team sufficient authority to achieve its goals, and had the requisite independence, giving it room to maneuver when needed.

#### Addressing stakeholder concerns and exercising leadership

The reforms as envisioned by the EU would have been impossible to implement without the involvement of representatives and experts from the audit and accounting profession. The collaboration of stakeholders, in particular the Chamber of Auditors, was indispensable. Stakeholder involvement and support required strong leadership and direction from the Ministry of



Finance. The alternative was a cacophony of conflicting goals with the risk of gridlock. The Ministry of Finance needed to establish the final goal, define what needed to be done to achieve it, and determine how different stakeholders would be implicated.

#### Working with Parliament

The transposition of the *acquis communautaire* placed significant strains on Croatia's legislative apparatus. Parliamentarians were clearly overwhelmed by the volume of work. Common complaints were a lack of time to consider new legislation, the complexity of the new rules, a lack of detail and explanations for new legislation, as well as the absence of alternatives from which to choose. Despite these burdens, parliamentarians maintained a positive and collaborative attitude. Parliamentary committees discussed texts mainly from a technical perspective before plenary sessions. Plenary discussions were more political. The requirements to open audit services to all EU members were particularly contentious, and influence was exerted through both the opposition and Members of Parliament. But EU membership was at stake. The argument that the Ministry of Finance offered was that there was little if any room for negotiation. A profound political commitment to EU membership, once again, facilitated the process.

#### Stages of transition

There are two distinct stages of transition that call for different strategies and approaches. Prior to the accession stage, the focus is first and foremost on achieving membership. This requires working rapidly and decisively, and may mean sacrificing perfection for the sake of practicality. The great opportunity offered prior to accession

is the sense of urgency and the political will that make it possible for people and institutions to overcome differences and move in one direction. After accession, transition continues. But work takes place in a more normal framework and reverts to a customary pace. The time frame is altered: policy initiatives are considered in greater detail; new people (more managerial and less entrepreneurial) have responsibility; and there is greater stakeholder involvement.

#### Factors favoring reform

- *Clear goals and a commitment to achieve them:* There must be a simple and clear objective, a sense of urgency, and consensus. EU accession was a clear and non-negotiable goal. Accession created a sense of urgency, and strong commitment.
- *Champions:* The leadership qualities of individuals, their capacity to work with individuals and resolve conflicts are fundamental.
- *People matter most:* Written plans with outcomes and time lines are not the essential element. People are more important. The right people need to be available to lead and implement reform. A good plan cannot be a substitute for good people.
- *Ownership:* Many reforms are imposed and people do not see them as important or relevant or their own. It is important to get the ownership of the people and the institutions who are going to implement. If they do not own it, they will not do it.

## Serbia to Implement a €3.4 million Technical Assistance Project

Switzerland's State Secretariat for Economic Affairs (SECO) has generously agreed to provide €3.4 million for a four-year technical assistance project to reform corporate financial reporting in Serbia. The project will be implemented by the World Bank Centre for Financial Reporting Reform (CFRR) in Vienna, Austria and by the Serbian Ministry of Finance. Oversight will be provided by a steering committee with representation from key stakeholders.

The project will take a multi-pronged approach to improve formal rules and standards, as well as actual practices in corporate accounting and auditing. It will also support Serbia's efforts to seek accession to the European Union (EU). Project work begins in April 2016. Among the contemplated activities are the following:

- Identification of any remaining areas in Serbian law governing accounting and auditing that need revisions to align with the EU *acquis communautaire*;
- Training for accounting and auditing practitioners and regulators to ensure better understanding of the application of international standards governing accounting and auditing;
- Assistance in strengthening accounting and auditing curricula, teaching materials and training for instructors at the university level and in professional education;
- Support to improve monitoring and enforcement and ensure reliable financial reporting, including quality assurance and discipline for statutory auditors; and
- Capacity enhancement for officials charged with monitoring and responding to reported financial information for state-owned enterprises.



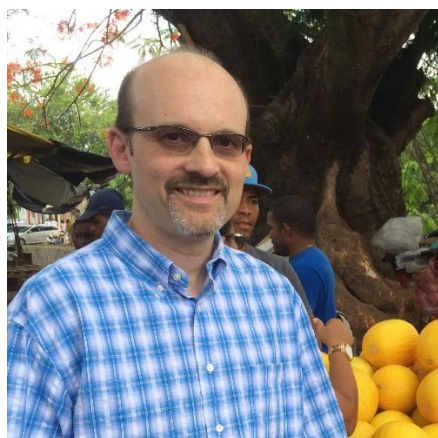
## The Public Accounting Certification Training (PACT) Project in the Former Yugoslav Republic of Macedonia

The objective of the Public Accounting Certification Training Project is to assist the Government of the FYR Macedonia to strengthen the professional public sector accounting capacity through the completion of a two-level international certification program.

This project is being financed through a Trust Fund related to the Strengthening Accountability and the Fiduciary Environment (SAFE) program financed by the Swiss State Secretariat for Economic Affairs (SECO) and the European Union.

The training material has been developed by the Chartered Institute of Public Finance and Accounting (CIPFA). It has been adapted and translated into the local language, including helping local trainers to support the sustainability of the program through the Center of Excellence in Finance (CEF). The project is being implemented by Macedonia's Ministry of Finance. It is currently offering the certification level after successful completion and approval of the final examination by 29 public officials.

## Latin America and the Caribbean (LAC) Improving Accounting Standards



**Dan Boyce**

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Since June 2007, the World Bank, the Inter-American Development Bank (IDB), the International Federation of Accountants (IFAC), and six leading global audit firm networks have promoted high-quality financial reporting and auditing as a key contributor to economic growth and shared prosperity in Latin America and the Caribbean.

### CRcER

The Accounting and Accountability for Regional Economic Growth (CRcER) initiative, which draws on the Report on the Observance of Standards and Codes (ROSC) Accounting and Auditing program, includes a flagship conference and a number of other knowledge activities. One of CRcER's main achievements has been to raise awareness of the benefits of international standards,

namely International Financial Reporting Standards (IFRS), IFRS for Small and Medium Enterprises (SMEs), International Standards on Auditing (ISA), and International Public Sector Accounting Standards (IPSAS). Since the inaugural event in Mexico City, the region has made great strides in the adoption and implementation of these standards. At the latest CRcER Conference in Quito, Ecuador in May 2015, policymakers and practitioners discussed how improved financial accountability could help the region preserve its recent economic gains and invest in its future. The next conference is planned for May 2017, and will focus on fostering trust in markets and societies in support of sustainable development.



## FOCAL

Another initiative, which arose from a discussion during a CReCER event, is the Network of Government Accountants of Latin America (FOCAL), a network of 18 Latin American countries launched in 2014 with the support of the World Bank, the IDB and International Monetary Fund (IMF). The goal of FOCAL is to support the modernization of public-sector accounting through knowledge sharing and peer-to-peer collaboration.

The inaugural conference in November 2014 was hosted by Chile's Supreme Audit Institution, the General Comptroller Office (CGR) in Santiago. It focused on "operational" issues related to public-sector accounting reform. As part of FOCAL, a World Bank research paper took stock of the region's reform experience and highlighted potential priorities, such as education for public-sector professionals, the importance of fixed asset accounting and management to effective public investment management, and improved financial reporting to enhance transparency in public expenditure.

The second FOCAL event in Cartagena, Colombia focused on the challenges of implementing IPSAS and its contribution to accurate government financial statistics, fiscal transparency and country credit risk analysis.

The next FOCAL conference will take place in Asunción, Paraguay in July 2016.

(Photo: Inaugural FOCAL conference in Santiago, Chile – November 2014. )



## Middle East and North Africa (MENA)

### Connecting Voices of the Middle East and North Africa (CV MENA)

**Manuel Vargas**, Lead Financial Management Specialist, GGP

**Gabriella Kusz**, Senior Financial Management Specialist, GGP

#### Context and Scope of World Bank Support

Connecting Voices of MENA (CV MENA) is a regional partnership that promotes governance and improved financial management practices in the public and private sectors. Its ultimate aim is to support the demands of citizens throughout the Arab



World for better governance, a voice in public affairs, and social and economic inclusion.

CV MENA acts to seize on the windows of opportunity currently available in the region to support capacity building in the area of financial management, facilitate the development of a professional community,





and the sharing and transfer of knowledge both within countries and within the region as a whole. CV MENA seeks to foster greater transparency and accountability, thereby engendering enhanced public trust.

In addition, building public and private sector financial management capacity also aids in attracting and providing much-needed foreign direct investment in the region.

To achieve these objectives, CV MENA consists of various activity streams:

- **Boot Camps** are targeted workshops which gather a small number of key decision makers and experts to address a particular issue through focused and intensive discussion sessions. The result of these events is the creation of realistic and timely work-plans for guiding future work and efforts at the national and /or regional levels.
- **Solutions Labs** are CV MENA's virtual conference series. These virtual events connect participants from across the MENA region on a regular basis through the World Bank Office Video Conferencing facilities to share experiences and lessons learned regarding key issues of corporate governance and financial reporting and public financial management.
- **The Maarefah ("knowledge" in Arabic) Community of Practice (CoP)** is an online platform which serves as a forum for ongoing dialogue and continuous peer-to-peer and expert knowledge exchange. In addition to ongoing engagement, *Maarefah* provides training and web seminars on topics and issues of importance to the region.
- **The Exchange Conference** series is CV MENA's major annual in-person forum. The Exchange provides a channel for dialogue, enabling countries to share experiences and best practices.
- **Ad-hoc studies**, including new survey data collection and analysis.
- **Connecting Voices Magazine** was established to reach out to a broad

audience, communicating key challenges, issues of interest and lessons learned. It also showcases success stories.

Taken together, CV MENA activities facilitate the World Bank in picking up where governance and financial management diagnostics leave off — and in supporting the creation of an enabling environment for reforms to move from concept to reality.

**With CV MENA support, research was undertaken regarding the knowledge and opportunities for collaboration among Supreme Audit Institutions (SAIs), civil society organizations (CSOs)/media, and academia. Survey and roundtable discussions explored CSO / media / academia's knowledge of and work with SAIs and identified opportunities for learning, sharing of information and collaboration.**

#### Forging Regional Cohesion

Before CV MENA, there was no distinctive forum for regional dialogue and knowledge-sharing in the MENA region to enhance public financial management, corporate governance, and financial reporting practices. The voices of different actors that is, government, private sector, academia, civil society, and so on, were fractured. Efforts to support reforms were hindered by the lack of a unified vision and direction.

Consequently, CV MENA adopted a **transformational approach** based upon the following features:

- Solutions-oriented knowledge management that is, helping World Bank clients fashion solutions that are attainable through comprehension of

different perspectives and experiences from the Region and abroad, taking both technical and non-technical factors into consideration.

- Addressing the skills gap in financial management with a view to support sustainable public financial management reform, entrepreneurial activities, investment, and job creation.
- Use of mutually reinforcing mechanisms to maintain momentum and dialogue.
- Leveraging and consolidating funding mechanisms.
- Bringing together global, regional, and country-level partners.

**CV MENA, in coordination with AMIDEAST, the Palestinian Ministry of Women's Affairs, and the Palestinian Association of CPAs, the Palestinian Women's Accounting Technician Project (PWAT) provided accounting technician training to 72 women in the West Bank and Gaza. Many of the participants noted that the PWAT training assisted them in the attainment of employment or in their own start-up small and medium enterprises (SMEs).**

With initial financing provided by the World Bank's MENA Multi-Donor Trust Fund, CV MENA has been able to attract a productive co-financing partnership involving the MENA Micro-, Small-, and Medium Enterprise (MSME) Trust Fund Facility, the MENA Governance and Anti-Corruption Fund, the global Center on Conflict, Security and Development, and the African Development Bank — all of whom have contributed at

different stages of the initiative. Moreover, in addition to World Bank staff, expert support has been provided by the World Bank's Leadership, Learning and Innovations Group (LLI), the International Monetary Fund (IMF), the International Budget Partnership (IBP), the Public Expenditure and Financial Accountability (PEFA) Secretariat, the International Organization of Supreme Audit Institutions (INTOSAI), the International Federation of Accountants (IFAC), the European Commission, the Global Initiative for Fiscal Transparency (GIFT), the International Forum of Independent Audit Regulators (IFIAR), the Harvard Business School, the Global Reporting Initiative (GRI), and other regional and country institutions.

### **Impact and Outcomes**

CV MENA activities have had a significant impact on the region. A few highlights include:

- More than 600 participants took part in the Exchange Annual Conferences in 2013–2015, in which country representatives shared experiences and good practices in governance, corporate financial reporting and public financial management. Through efforts initiated at the 2014 Exchange Conference (held in Abu Dhabi, United Arab Emirates [UAE]), the Arab Federation of Accountants and Auditors (AFAA) and the *Direction du Développement et des Partenariats Internationaux* CSOEC/CNCC have signed an agreement to facilitate access to small and medium practices (SMPs) audit software throughout the francophone part of the MENA region.
- Eight Boot Camps were conducted in 2013–2015 in Egypt, Lebanon, Morocco and Yemen, where more than 200 participants, decision makers and experts gathered to address a particular country issue through focused and intensive discussion sessions that resulted in practical solutions. In Yemen, Boot Camps resulted in the creation of a national Action Plan to strengthen the country's professional accounting organization (PAO), as well as in efforts to adopt International Financial Reporting Standards (IFRS) for the country.
- Five Solution Labs on the subjects of: International Public Sector Accounting Standards; Auditing Standards in Small/Medium Practices; Islamic Finance as a Tool for Financial Inclusion
- Outreach through *Maarefah* has produced more than 15 *Maarefah* online events, and one face-to-face conference uniting the entire 400+ person community. Using this platform, the World Bank has been able to connect with professionals in the region regarding new and emerging topics, such as integrated reporting in the public sector and women in anti-corruption efforts. In addition to providing an outlet for engagement for the region, this platform has also successfully engaged and incorporated female participation. Although initiated with the goal of engaging 20 percent female participation, today the *Maarefah* platform boasts 32 percent female membership.
- Research pieces were undertaken regarding regional aspects of knowledge and collaboration among SAs, CSOs, the media and academic concerning public finance accountability matters, the IFAC SMP Survey, and on how accountancy professionals can better meet the needs of Palestinian MSMEs.

and Micro-, Small-, and Medium Enterprise (MSME) Development; Developing Accounting and Auditing (AA) Policy in Harmony with MSME Development; and Supporting Small and Medium Practices in Times of Fragility and Instability. Around 500 participants — connected through videoconference and web-streaming technology — were given the opportunity to learn from global experts and to share experiences on key issues of financial management. Stemming from the discussion on auditing standards on small and medium practices, the World Bank was able to facilitate engagement between the American Institute of Certified Public Accountants and the Lebanese Association of Certified Public Accountants (LACPA) to provide training and education to LACPA audit quality assurance reviewers.

**Using the CV MENA platform, the World Bank partnered with the IFAC Small and Medium Practices Committee to roll-out and engage SMPs from the MENA region to participate in the IFAC SMP Quick Poll. MENA region respondent data was aggregated and analyzed, and formed the basis upon which Exchange Conference sessions and further CV MENA activities were developed.**

### **Lessons Learned**

In undertaking CV MENA activities, the World Bank's MENA Region Governance Global Practice (GGP) gained valuable insight into the needs, desires, challenges and areas of success for the region.

- Through Exchange Conference events, the World Bank learned that not only those presenting had important knowledge and experience to convey, but that encouraging strong attendee interaction and engagement (through roundtable discussions, expanded question and answer sessions) can further enhance the learning experience of all attendees.
- Through Boot Camp events, the value of convening leaders in small groups in an open and informal setting — allowing participants to engage with their policy-making peers in a manner which may not be available to them on a daily basis. These brainstorming sessions allowed participants to engage with one another and with the assistance of experts, to lay the groundwork for future reforms.
- Through Solutions Lab events, the World Bank learned that when faced with situations of instability and fragility, continued engagement may be successfully achieved through video connection, webinar and employment of technologies.
- Through *Maarefah* events, the World Bank learned that new and emerging topics may be best introduced in brief seminars so as to allow attendees to participate from home / office without significant cost to them in terms of time and commitment.

## South Asia (SAR)

### Mainstreaming Corporate Governance in Indian State-Owned Enterprises



#### Fily Sissoko

Practice Manager for South Asia,  
Governance Global Practice

Corporate governance has been an important part of the government of India's broader economic reforms aimed at improving the performance and competitiveness of some of India's most important national assets, thereby allowing companies easier access to capital markets, and making them more transparent and accountable.

To support this agenda, in 2008, the World Bank governance team in India initiated an ambitious, in-depth assessment of governance practices in state-owned enterprises (SOEs) being considered for Bank support as a part of Financial Management Assessment. A Corporate Governance and Financial Accountability Assessment (CGFA) was used as a tool to assess, monitor and improve corporate governance practices. Its findings and recommendations were systematically incorporated into Bank-funded projects.

The CGFA's objectives were to build, strengthen and mainstream governance practices of SOE clients in line with

internationally- and nationally-accepted practices. The CGFA uses benchmarks developed by the government for listed entities (modeled on private sector and/or Organisation for Economic Co-operation and Development- Development Assistance Committee [OECD-DAC] indicators), including: the appointment of qualified *independent* directors at the Board; a Board-level audit committee with adequate scope;

loans in a project spanning throughout India; (iii) SJVN, for implementing the US\$400 million Rampur Hydropower Project; and (iv) THDC, for implementing the US\$600 million Vishnugad-Pipalkoti Hydroelectric Project.

As a result of the CGFA, a significant number of Bank-supported large SOEs (in sectors as diverse as energy, transport, infrastructure, railways) have made or are making

#### Snapshot of Public Sector Enterprises (PSEs) in India

	Amount (US\$ billion)
Market Capitalization	170
Net profit	24
Total Assets	538
Net Worth	179
Number of PSEs	383

Source: World Bank

the adoption of a code of conduct/ethics for Boards/managers; the introduction of Enterprise Risk Management (ERM) systems; an increase in the scope and frequency of reporting; institution of best practices in Human Resource Management (HRM); implementation of an entity-wide Enterprise Resource Planning (ERP) software system; and a strengthening in public disclosure and grievance handling. The assessment usually results in the formation of a coherent action plan, and is key to project preparation and supervision.

Over the years, the effort has paid off. The CGFA has been mainstreamed in all SOE-financed bank operations in India, including in the following companies: (i) Powergrid, the 2<sup>nd</sup> largest transmission utility in the world, with six loans totaling US\$3.5 billion; (ii) Dedicated Freight Corridor, a Special Purpose Vehicle of Indian Railways, with

significant changes such as:

- Listing on the stock exchange, divestment by the government of India, and funds raised for productive investments;
- Enhancement of Board independence; effective audit committees;
- Increased understanding of the business case for better governance and accountability; compliance with corporate governance norms as mandated by the country and stock exchange;
- Better understanding and disclosure and mitigation of enterprise-level risks; and
- Tangible improvements in project reporting, strengthening of internal controls, and quality of internal audits.



# Thinking Small First: Micro, Small and Medium Enterprises

## One Size Doesn't (Always) Fit All: Financial Reporting Frameworks for Small and Micro-Sized Entities

### Bonnie Sirois

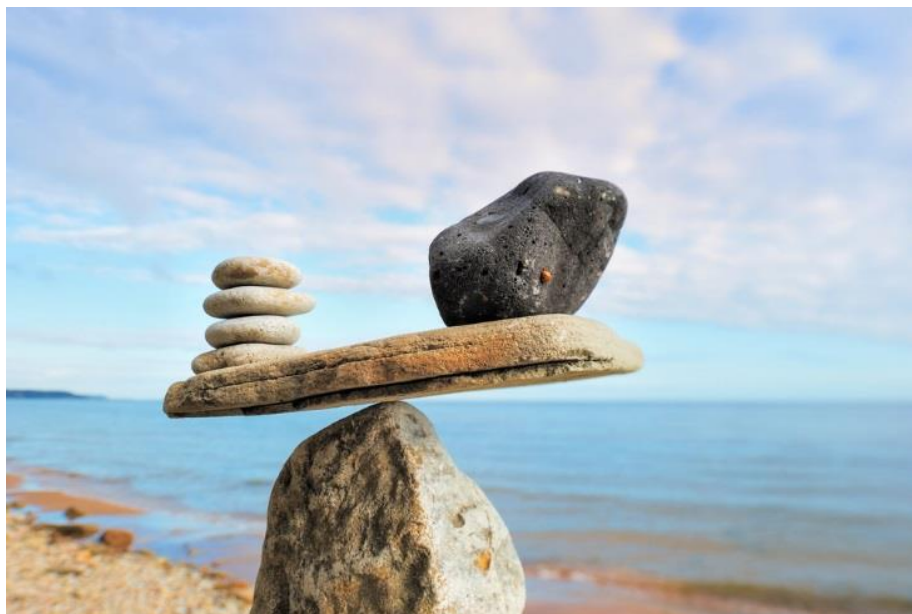
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#### Overview

There is a broad consensus that financial statements produced under a recognized financial reporting framework and designed to provide relevant and reliable information to users, allow those users to make more informed decisions concerning the entity. A sound financial reporting framework reduces information risk and promotes more constructive engagement. Financial reporting standards have been developed with a focus on the financial information produced by public interest entities (PIEs), which are often defined as listed companies, banks or other companies with public accountability.

Small and micro-sized entities generally do not have public accountability or a significant public interest impact. Further, they typically engage in less complex transactions than medium-sized and large entities. However, there are many benefits of financial reporting in a small and micro-sized enterprise context, including increased access to finance, lower borrowing rates, and more favorable business alliances. These benefits are realized through the use of financial reporting to provide information to stakeholders of the entity who are not in a position to demand information directly from the entity themselves. Such stakeholders may include non-majority shareholders, creditors and vendors. In some cases, there may be no users of financial statements for small and micro-sized entities, and financial information is only produced to fulfill statutory requirements.

Financial reporting has benefits, but also costs. In determining an appropriate financial reporting framework for small and micro-sized entities, both the information needs of users and the reporting burden for the entities are factors that must be considered. Policy makers must strike the right balance between these two factors to avoid imposing an excessive administrative



burden on small entities so that the cost of compliance does not exceed the benefits to users of financial information.

#### Simplified Reporting for SMEs

Following a growing trend toward “simplified reporting”, which entails reducing the volume of disclosures and simplifying accounting treatments for small- and medium-sized entities (SMEs), many jurisdictions prescribe financial reporting frameworks for smaller entities that are less complex than those applicable to larger entities and those that serve the public interest. A set of simplified financial statements typically includes a balance sheet, income statement and minimum notes. Examples of simplified reporting include:

- The European Union (EU) Accounting Directive 2013 establishes simplified financial reporting requirements for small and micro entities. The provisions of the Directive prohibit Member States from imposing a legal requirement on small companies to disclose more information in their financial statements beyond those prescribed by the Directive, with limited discretion in a few areas.
- The Organisation for the Harmonization of Business Law in Africa provides for a

both a Simplified System and Minimal Cash Basis System of accounting as alternatives for smaller companies.

- International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) (IFRS for SMEs). Over 80 countries either require or permit the use of IFRS for SMEs, an internationally recognized framework that requires fewer disclosures than full IFRS and eliminates topics that are not relevant to SMEs. The International Accounting Standards Board (IASB) also issued a guide on applying the IFRS for SMEs for micro-sized entities (2009).
- The United Nations Conference on Trade and Development (UNCTAD) Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises (SMEGA) for small companies that are typically owner-managed companies with no or few employees. The guidelines follow a simplified accruals-based approach with simplified reporting requirements. Minimum elements include a balance sheet, income statement, and explanatory notes.

#### Assurance to users of financial information

Many jurisdictions do not sufficiently consider the needs of users of the financial

statements of small and micro-sized entities, and may impose financial reporting frameworks that far exceed user information requirements. Statutory audit thresholds should also be considered in the context of small and micro-sized entities. Universal statutory audit thresholds or those that apply to entities with very low levels of turnover or net assets require small and micro entities to incur significant time and expense to produce audited financial statements under the required framework — oftentimes for no other purpose than for submission to the regulatory agency. This results in not only a higher cost of doing business, but often produces low quality financial information and sub-standard audit assurance due to the inability of these entities to afford adequate quality of services.

Users of financial statements of small and micro-sized entities may be exposed to information risk caused by factors such as lack of access to information or unverifiable data. Assurance services, such as audit or review services, provided by an independent accountant can be instrumental in reducing information risk to users of the financial statements. However, these users may need differing levels of assurance. An audit of

financial statements provides reasonable assurance to users that the financial information is presented, in all material respects, in accordance with the stated reporting framework (e.g., IFRS for SMEs). A review of financial statements provides a lower level of assurance than that of an audit. A compilation of financial information provides no assurance to users, in that no audit or review procedures were performed. Jurisdictions should therefore consider alternative levels of assurance to audits for small and micro-sized entities, including compilations providing no assurance and limited assurance reviews. Alternative financial reporting structures should also be considered. For example, the jurisdiction may determine that compiled financial statements prepared on a tax reporting basis are more appropriate for family-owned, micro-sized entities with no creditors, or that reviewed financial statements providing limited assurance are appropriate for small entities with limited debt.

In order to establish a relevant financial reporting framework, jurisdictions must first define small and micro entities in the context of their respective environments, and then identify potential users of these financial statements to assess their financial reporting

needs. Jurisdictions should also consider simplifying other reporting structures, such as tax reporting or reporting with limited disclosure for smaller entities with fewer financial statement users.

Stakeholders are divided on the issue of simplification of financial reporting requirements. Among the objections raised by the entities is the worry that simpler financial reports will make creditors reluctant to lend and traders reluctant to engage, fearing that micro-entities will be unable to honor their debts. On the other hand, supporters argue that cutting through red tape will liberate time and resources, allowing businesses to thrive. Institutions are cautious, welcoming the principle of simpler reporting — but fearing the practice.

Regardless of the arguments both for and against simplified reporting, it is clear that one size does not fit all in the context of financial reporting frameworks and the unique requirements of small and micro entities and their stakeholders. The issue of simplified reporting must be addressed in order to reduce the disproportionately high administrative burden to these entities, while still allowing for the generation of high-quality financial information.



## Knowledge Transfer and Skills Development: 'Training the Trainer'

**Alfred Borgonovo** and  
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For many years, countries developed their own accounting standards, which could be rules-based, principles-based, business-oriented or tax-oriented. With globalization, the need to harmonize these standards became necessary.

International Financial Reporting Standards (IFRS) have become the *de facto* global standard for financial reporting. IFRS are principles-based standards and interpretations that have been implemented by the International Accounting Standards Board (IASB) as a framework for global financial reporting. Around 120 jurisdictions around the world require IFRS for all or most domestic, publicly accountable entities (listed companies and financial institutions).

In 2003, the IASB decided that it should develop accounting standards that are appropriate for small and medium-sized enterprises (SMEs). In July 2009, the IASB released the "IFRS for SMEs" after a five-year development process which had involved extensive consultations worldwide. This self-contained standard of about 230 pages is tailored to the needs and capabilities of smaller businesses.

The 2015 Amendments to the IFRS for SMEs were published in May 2015. Today, around 80 jurisdictions around the world require or permit IFRS for SMEs, and several other jurisdictions are currently considering requiring or allowing their use. Many of the jurisdictions which have not adopted IFRS or IFRS for SMEs are instead converging their national standards with them.

Principles-based accounting standards are here to stay. They provide much more valuable information to financial information users, including investors, as they allow transactions to be recorded in (or excluded from) financial statements based on economic substance rather than arbitrary rules.

### Addressing the need for retraining in applying principles-based standards

Accountants trained under the old rules-based systems of accounting for other purposes (for example, tax accounts, central planning information) now need reskilling to apply principles-based accounting standards

that support management, investing, and lending decisions. Members of Professional Accountancy Organizations (PAOs) need to be able to apply these standards to the kinds of transactions to which SMEs in their region are typically exposed.

Supporting access to bank and investor finance for SMEs through modernized accounting and financial reporting is key. The adoption of, or convergence with, the more principles-based international standards will contribute to a financial reporting modernization program.

### IFRS for SMEs: The workshop series that 'trains the trainer'

The World Bank Centre for Financial Reporting Reform (CFRR) helps client countries to modernize their systems of financial reporting. The CFRR has initiated a series of workshops (face-to-face and online) to promote the adoption and more consistent application of principles-based standards, as well as to build the capacity of PAOs to deliver more relevant local training programs. This series has been designed for trainers of accountants and auditors, including universities, PAOs, and professional trainers.

#### The Teaching Guide

The last stage of the workshop series introduces a guide which will enable participating PAOs to modernize the financial reporting components of their teaching and assessment methods. The guide will draw on the experience of many universities and Professional Accountancy Organizations around the world to compile useful resources. In particular, the guide will:

1. Highlight the need to modernize relevant components of programs that lead to certification as a professional accountant;
2. Describe the benefits of modernizing the teaching and assessment of financial reporting in the initial professional development programs of PAOs, as well as of continuing professional development programs;
3. Outline effective approaches to developing capacity to make the



- judgments needed to apply principles-based financial reporting standards;
4. Share examples of effective financial reporting curricula that lead to certification as a professional accountant (sometimes called initial professional development);
  5. Disseminate effective financial reporting teaching materials for continuing professional development (sometimes called continuing professional education); and
  6. Provide examples of effective assessment of competence in making the judgments necessary to apply principles-based accounting standards.

### Long-term objectives

The long-term objectives of the training-the-trainers program include:

- Improving the capacity of the accounting profession to fulfil its mandate effectively—and to be better equipped to provide business support services to SMEs in particular; and
- Promoting broad-based knowledge sharing activities on the IFRS for SMEs.

The development of this series has been funded by the Road to Europe: Program of Accounting Reform and Institutional Strengthening (EU-REPARIS) and the Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP) programs.



# High Quality Financial Reporting: A Catalyst for Access to Finance for SMEs?

## Pascal Frerejacque

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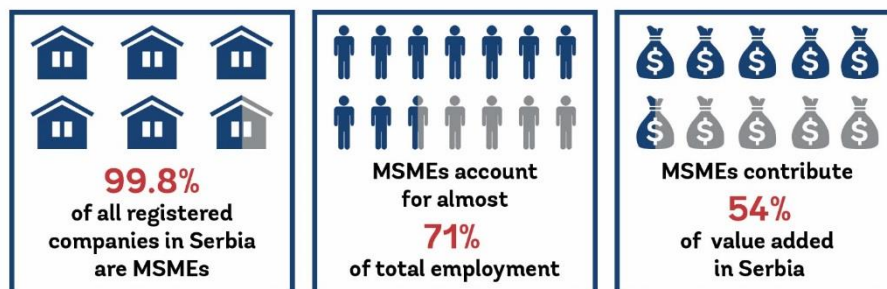
Small and medium-sized enterprises (SMEs) have traditionally been viewed as a challenge by commercial banks. Banks face higher costs in assessing and monitoring investments by SMEs and servicing their smaller transactions. Regulatory requirements with respect to loans to SMEs also present challenges. Some bankers even argue that SMEs themselves show insufficient interest in obtaining bank loans. However, in a context where yields on government borrowings remain low and corporate banking margins are shrinking, there is a renewed interest from banks in exploring the SME sector.

**The quality of financial reporting is a contributing factor to increased SME access to finance**

Several academic papers have specifically demonstrated the positive relationship between the quality of financial reporting and improved access to finance for SMEs. Smaller companies tend to be more 'informationally opaque' than larger companies because they often 'do not have certified audited financial statements to yield credible financial information on a regular basis.(1) This opaqueness may hinder small firms from credibly conveying their potential.(2) It has also been associated with a higher cost of financing.(3) High quality financial information enhances the confidence of SME owners in accessing capital.(4) It is positively related to SME leverage,(5) and negatively related to SME interest costs.(6)

While the relationship between access to finance and economic growth has been well documented in the relevant literature,(7) recent research (8) has demonstrated that improved access to finance also results in increased levels of job creation in developing countries. The research showed that micro, small, and medium enterprises (MSMEs) with access to a loan have between a one and four percentage point greater employment growth rate than MSMEs without a loan. This study also showed that the impact of access to finance on job

## Importance of Micro, Small and Medium Enterprises (MSMEs) in Serbia



Source: World Bank 2015 ROSC

creation is stronger among MSMEs than among large firms.

**Road to Europe: Program of Accounting Reform and Institutional Strengthening (EU REPARIS): World Bank Technical Assistance Pilot Project**

As part of the EU-REPARIS component on Access to Finance and the Financial Sector, a technical assistance pilot project is being conducted in the Western Balkans. The project's main objectives include:

- Testing whether the quality of financial statements affects SME access to credit, as well as the terms of credit in selected Western Balkan country
- Engaging in a constructive dialogue with banks and SMEs to better understand their needs. This includes both the informational needs of banks—identifying what they need to facilitate the loan application process for SMEs, as well as the needs of SMEs in relation to banks (for example, what types of credit products they demand; what kinds of offerings would be of greatest utility).
- Collaborating with the accounting profession to explore the ways in which they can serve the SME community in expanding their access to finance and in improving their terms of finance. For many SMEs, the accountant or auditor is their only professional service provider and, as such, is uniquely placed to advise SMEs in this regard.

By exploring ways of improving and expanding access to finance for SMEs, the

project seeks to contribute to unlocking the potential of these companies, which are often referred to as the backbone of an economy. This, in turn, would lead to an improved business and investment climate, job creation and sustainable growth which are critical components of the World Bank Group's mission to end extreme poverty and to boost shared prosperity.

This pilot project is financed under EU REPARIS, a program funded by the European Commission through the Enterprise Development and Innovation Facility (EDIF) initiative.

<sup>1</sup> A. N. Berger, A. M. Cowan and W. Scott Frame, "The Surprising Use of Credit Scoring in Small Business Lending by Community Banks and the Attendant Effects on Credit Availability and Risk." Federal Reserve Bank of Atlanta Working Paper. 2009.

<sup>2</sup> A. N. Berger and G. F. Udell, *The Economics of Small Business Finance: The Roles of Private Equity and Debt Markets in the Financial Growth Cycle*, 1998.

<sup>3</sup> T.B. Gregory, W.M. Rutherford, S. Oswald, and L. Gardiner, "An empirical investigation of the growth cycle theory of small firm financing." 2005. *Journal of Small Business Management*, no. 43, pages 382–392.

<sup>4</sup> N. Sarapaivanich and B. Kotey, "The effect of financial information quality on ability to access external funds and performance of SMEs in Thailand." 2005. *Journal of Enterprising Culture*, number 14, pages 219–239.

<sup>5</sup> T. Van Caneghem and G. Van Campenhout, "Quantity and quality of information and SME financial structure." *Small Business Economics*, 2012, Volume 39, Issue 2, pages 341–358.

<sup>6</sup> H. Vander Bauwhede, M. De Meyere, and P. Van Cauwenberge, "Financial reporting quality and the cost of debt of SMEs." 2015. *Small Business Economics*, no. 45, pages 149–164.

<sup>7</sup> For a comprehensive review, see: R. Levine, "Finance and growth: Theory and evidence." in *Handbook of Economic Growth*, 2005 and T. Beck, "The econometrics of finance and growth." In *Palgrave Handbook of Econometrics*, 2009, vol. 2, ed. Terence Mills and Kerry Patterson, pages 1180–1211.

<sup>8</sup> M. Ayyagari, P. Juarros, M. S. Martinez Peria, and S. Singh, *Access to Finance and Job Growth: Firm-Level Evidence across Developing Countries*. 2016.

# SMEs Finance at the World Bank Group

## Small and Medium-Sized Enterprises (SMEs) Finance: A Global Agenda

### Simon Bell

Head SME finance, Finance & Markets  
Global Practice (GP), The World Bank

### Ghada Teima

Principal Operations Officer, Finance &  
Markets GP, The World Bank Group

#### Key Messages

*600 million jobs are needed in the next 15 years to absorb a growing global workforce. Most formal jobs in emerging markets are with small and medium enterprises (SMEs), which also create 4 out of 5 new positions. Yet more than 50 percent of SMEs lack access to finance, which hinders their growth. A key area of our work is improving SMEs' access to finance and finding innovative solutions to unlock sources of capital.*

#### Overview

Small and medium-sized enterprises (SMEs) play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to estimates, 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets,

most formal jobs are with SMEs, which also create 4 out of 5 new positions. However, access to finance is a key constraint to SME growth; without it, many SMEs languish and stagnate.

SMEs are less likely to be able to secure bank loans than large firms; instead, they rely on internal or "personal" funds to launch and initially run their enterprises. Fifty percent of formal SMEs do not have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account. Overall, approximately 70 percent of all micro, small and medium enterprises (MSMEs) in emerging markets lack access to credit. While the gap varies considerably between regions, it is particularly wide in Africa and Asia. The current credit gap for formal SMEs is estimated to be US\$1.2 trillion; the total credit gap for both formal and informal SMEs is as high as US\$2.6 trillion.

A World Bank Group study suggests there are between 365-445 million micro, small and medium enterprises (MSMEs) in emerging markets: 25-30 million are formal SMEs; 55-70 million are formal micro enterprises; and 285-345 million are informal enterprises. Moving informal SMEs into the formal sector can have considerable advantages for the SME (for example, better access to credit and government services) and to the overall economy (for example, higher tax revenues, better regulation). Also, improving SMEs' access to finance and finding solutions to unlock sources of capital

is crucial to enable this potentially dynamic sector to grow and provide the needed jobs.

#### What We Do

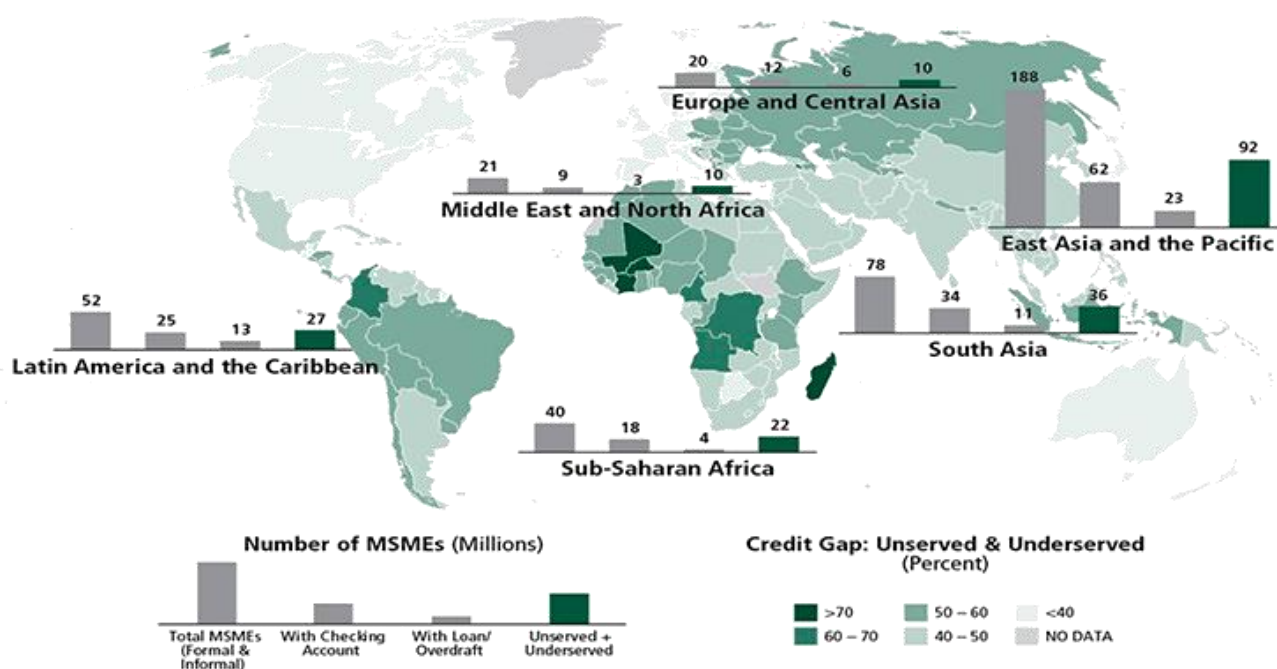
A key area of the World Bank Group's work is to improve SMEs' access to finance and find innovative solutions to unlock sources of capital.

Our approach is holistic, combining advisory and lending services to clients to increase the contribution that SMEs can make to the economy.

#### Advisory Support for Financial Sector Infrastructure:

- Credit reporting systems are important because better credit information can lead to increased credit for SMEs;
- Secured transaction registries ensure that SMEs can provide moveable collateral as the basis for more lending;
- Modernized insolvency regimes can help restructure viable businesses while also promoting the efficient and effective "exit" of those firms that are not economically efficient;
- Streamlining of payment systems supports the more efficient movement of money throughout the economy, including e-commerce payments (Government-to-Business, Business-to-Business), remittances and other payments;

### Total Credit Gap – Formal and Informal Enterprises is \$2.1-2.6 Trillion



The World Bank can help establish the legal and institutional framework for strong financial infrastructure systems.

#### Lending Operations and Policy Work:

- SME lines of credit provide dedicated bank financing — frequently for longer tenors than are generally available in the market — to support SMEs for investment, growth, export and diversification;
- Partial credit guarantee schemes (PCGs) — the design of PCGs is crucial to SMEs' success, and support can be provided to design and capitalize such facilities;
- Early stage innovation financing provides equity and debt/quasi-debt to start up or high growth firms which may otherwise not be able to access bank financing;
- Policy work, analytical work, and other advisory services can also be provided in support of SME finance activities;

The World Bank Group is increasingly looking to develop more innovative forms of SME financing, including: an extension of early stage innovation financing delivery mechanisms; franchising models; digital finance solutions; crowd funding; peer-to-peer financing; and Big Data Solutions.

#### Results

A few examples of the World Bank's work in the SME finance space:

- Lines of credit: In 2011 after the revolutions, countries in the Middle East and Africa region requested funding for SMEs to support private sector growth and employment generation. Around one billion dollars have subsequently been lent to Egypt, Tunisia, Morocco, Jordan and Lebanon. This has helped restore private sector funding in economies where severe budgetary strains have crowded out the private sector — particularly the more marginal SME sector. It is estimated that these loans have directly created around 150,000 jobs over the past four years;

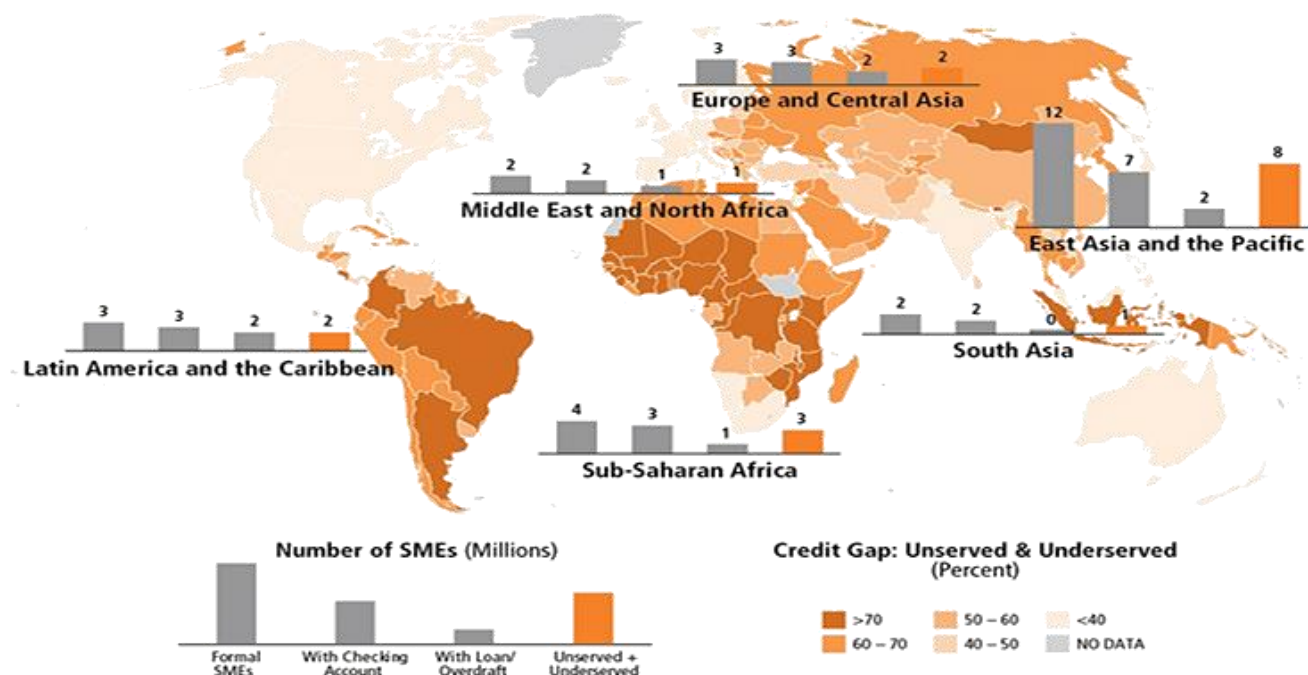
- Secured transactions reform: Between October 2007 and June 2011, the secured transactions reform work supported by the World Bank Group in China cumulatively facilitated US\$3.58 trillion accounts receivable financing, of which US\$1.09 trillion went to SMEs. As a result of the reform, the total number of commercial loans involving movable assets grew by 21 percent per year between 2008 and 2010, versus a flat rate over the period 2006 to 2008;

- In Colombia, more than 100,000 loans secured with movable assets have been registered in less than one year in the movable collateral registry. Of these loans, 5,000 were for SMEs for an aggregate amount of US\$3.43 billion (compared to a few hundred per year before the reform);
- Liberia started a collateral registry in 2014 to securitize movable assets, making it possible for farmers and entrepreneurs to use such assets against which they could borrow money. In less than a year since its launch — most of which was during the Ebola crisis — US\$227 million in loans were registered;
- In Afghanistan, the recent establishment of the Public Credit Registry to determine the credit performance of borrowers has significantly improved access to financing of small and medium-sized enterprises.

#### Who We Work With

Leveraging our expert knowledge, the Finance and Markets Global Practice of the World Bank Group works globally in partnership with other multilateral and bilateral development organizations to support SME finance development in emerging markets.

### For the Formal SME Sector the Credit Gap Stands at \$0.9-1.1 Trillion



Figures source: <http://www.worldbank.org/en/topic/financialsector/brief/smes-finance>



# Where Public Meets Private: State-Owned Enterprises (SOEs)

## Why having effective state-owned enterprises matters

### Natalie Manuilova

Senior Financial Management  
Specialist, World Bank Centre for  
Financial Reporting Reform

State-owned enterprises (SOEs) remain significant players in many countries around the world, providing sizable contributions to gross domestic product (GDP), creating jobs, and supplying essential services to citizens, such as light and power, healthcare, water, transportation and education. As a result,

the performance of SOEs has a direct impact on the social, political, and economic development of the country and on people's everyday lives.

### Challenges of building effective state ownership

Economies with inadequate governance and low accountability of SOEs tend to face poor delivery of essential public services, stifled competitiveness and restricted economic growth - including through the crowding out of private companies - as well as increased opportunities for political patronage and corruption. One of the key challenges that countries are facing in building effective state ownership is to ensure proper governance of SOEs. On the one hand, SOEs may be subject to political influence, which reduces the efficiency and transparency of these companies; on the other hand, weak oversight or ineffective ownership by the state may undermine the performance of SOE management and staff, allowing interests other than those of the public good to be pursued.

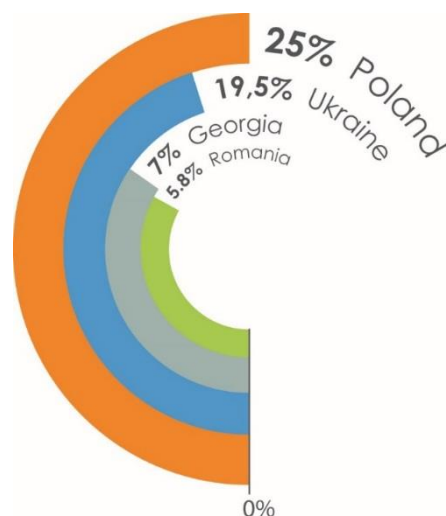
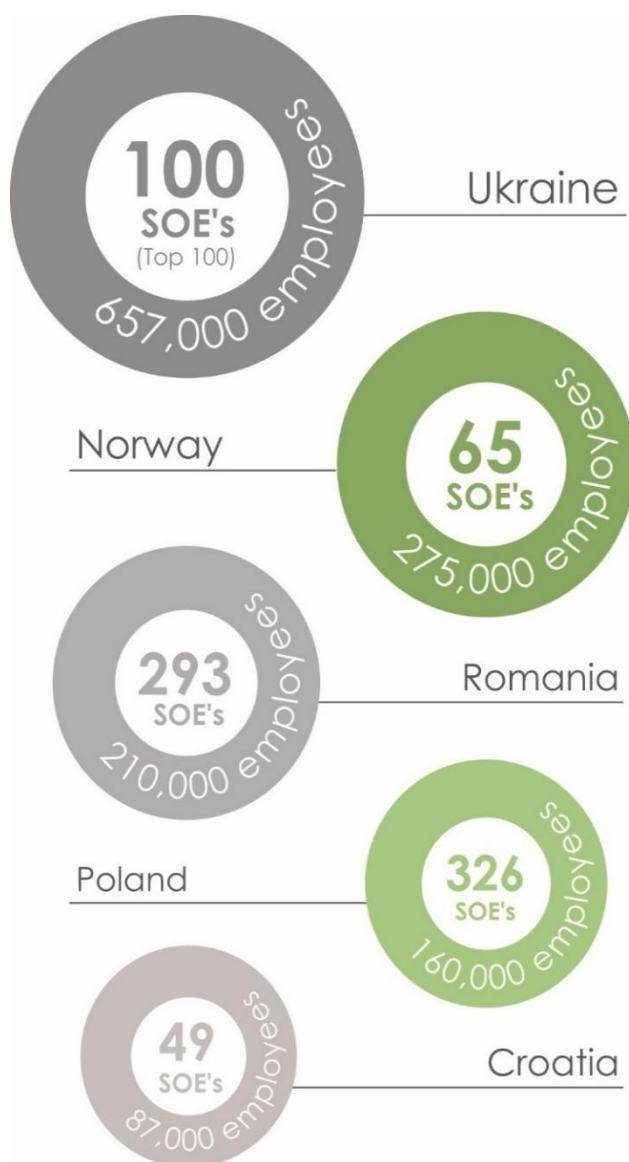
Reliable financial information as a basis for management and decision making

The ability of any company, state-owned or private, to build a strong financial management function capable of producing trustworthy financial statements is critical for

the company's development and growth. Reliable financial information is essential for well-informed decision making on the part of management, the board of directors, government acting as a shareholder, potential and current investors and lenders, as well as civil society and citizens, as ultimate owners of SOEs. The operation and governance of state-owned companies in many countries is still shrouded in secrecy, while the regulatory frameworks for private companies have evolved rapidly. Fragmented information on revenues, profitability, and state subsidies may indicate that many SOEs drain public resources and operate less effectively than their privately owned peers.

### The World Bank's Governance Global Practice. Our offer to improve SOEs' financial accountability

The Governance Global Practice is engaged in SOE reform on many levels, including policy advice to client governments, as well as individual tailored assistance to state owned companies under the World Bank's lending operations. Our team helps countries around the world to strengthen their role in managing their state-owned companies, enabling them to carry out economic activities effectively, manage fiscal risk, and to fulfill its important role in delivering essential public services effectively.



## How the Governance Global Practice adds value to state-owned entities

### At the government and policy level:



Assessing the legislative framework and practices applicable to the operation, governance and state monitoring of SOEs;



Performing a gap analysis of the existing governance mechanisms and structure in managing SOEs against international good practices, such as the Organisation for Economic Co-operation and Development's (OECD) Guidelines on Corporate Governance of SOEs;



Providing policy advice and technical assistance to governments aimed at strengthening SOEs governance, increasing transparency and accountability, and improving fiscal risk management and operational performance for the public good;



Conducting an effectiveness assessment of processes and oversight functions carried out by state bodies charged with SOE governance/ supervision, and developing methodologies and tools enabling them to carry out their functions effectively;



Performing a skills set assessment and developing the capacity of SOEs' supervisory staff in order to improve their ability to scrutinize/ monitor financial and other information of SOEs.

### At the enterprise level:



Assessing SOEs' corporate governance structure focusing on financial reporting hierarchy and existing financial reporting practices;



Improving internal policies and procedures in financial management and accounting through hands-on assistance to address identified gaps;



Reviewing and designing accounting policies in line with good international practice, such as International Financial Reporting Standards (IFRS);



Developing an internal control system for accounting and financial reporting based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO);



Raising entities' accountability through timely independent audits and publication of financial statements \;



Establishing an effective and sustainable financial reporting function with a proper segregation of duties;  
Strengthening the capacity of key financial personnel by improving their knowledge and practical skills in using IFRS and preparing financial statements;



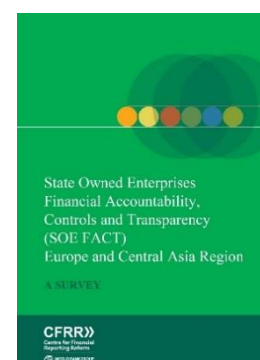
Educating management and boards on the importance of correct and transparent financial information to ensure proper governance of SOEs;



Training Audit Committee members to empower them to proactively monitor SOEs' financial reporting, as well as properly engage with SOEs' independent auditors.

### SOE-FACT

To better understand the landscape of state-owned companies across Europe and Central Asia, and to enhance the World Bank's assistance to partner countries in improving SOEs' governance, the Centre for Financial Reporting Reform (CFRR), part of the Governance Global Practice, is conducting a survey "State-Owned Enterprises Financial Accountability, Controls and Transparency" (SOE FACT). This survey assesses transparency and the control environment faced by SOEs in Europe and Central Asia, which will provide valuable insights and benchmarks comparing SOE practices and accountability requirements across the region. If your government has not taken part and you are interested in participating, please reach out to our CFRR team.



## Governance in Power: CASA-1000

### Galina Kuznetsova

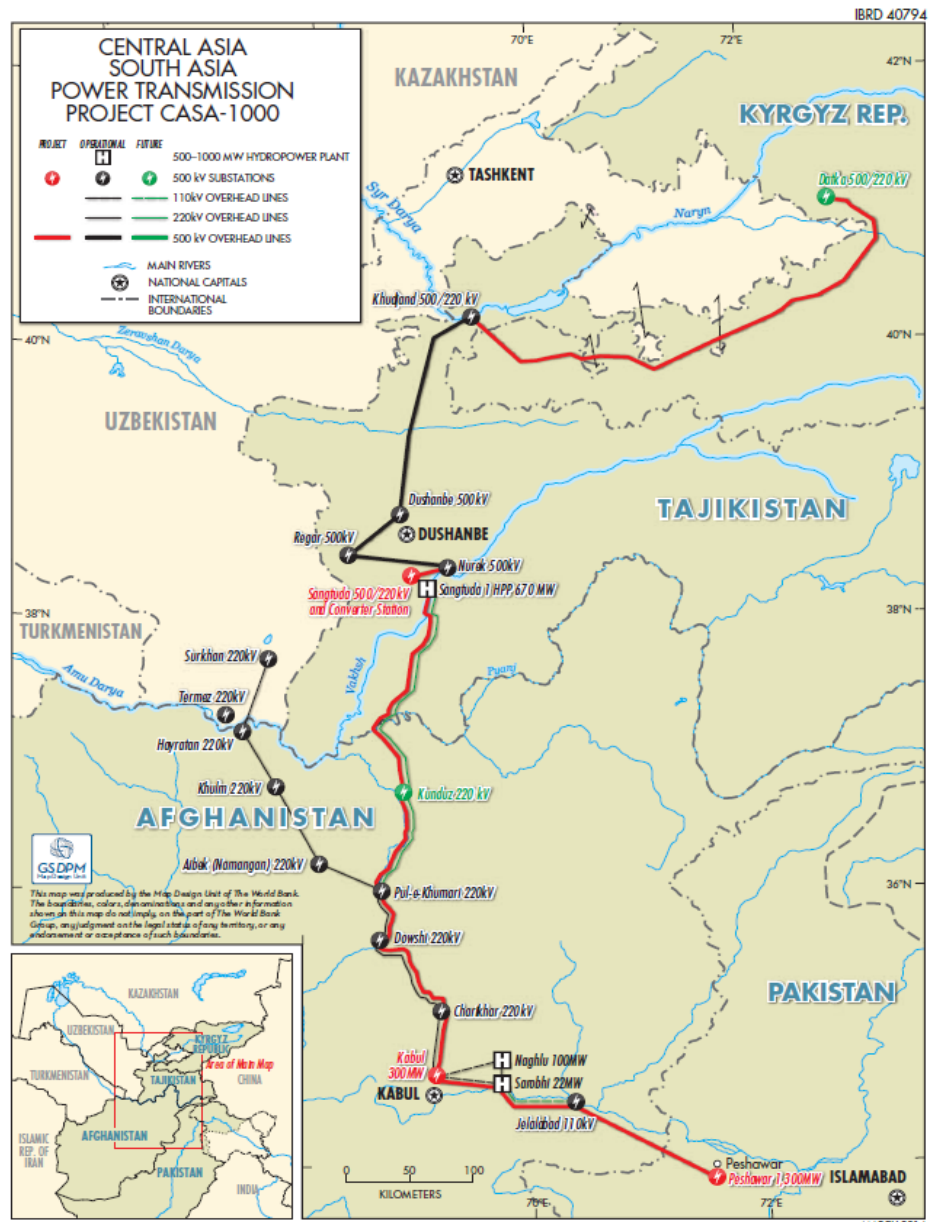
Senior Financial Management  
Specialist, Governance Global Practice

The World Bank Group-financed Central Asia South Asia Electricity Transmission and Trade Project (CASA 1000) seeks to create conditions for sustainable electricity trade between the Islamic Republic of Afghanistan, the Kyrgyz Republic, the Islamic Republic of Pakistan and the Republic of Tajikistan. It supports the construction of transmission infrastructure and trading mechanisms to enable the sale of 1,300 megawatts of electricity between Central Asia and South Asia.



The objectives of CASA-1000 are aligned with the World Bank's twin goals of ending extreme poverty and boosting shared prosperity. As energy importers, Afghanistan and Pakistan will be able to alleviate chronic power shortages suffered by households and businesses during the summer months. The Kyrgyz Republic and Tajikistan will develop new revenue streams from power exports, thereby contributing to investment in new energy solutions to alleviate the winter energy deficits.

In addition to strengthening Afghanistan's role as a viable transit country, the project will also bring important trade opportunities for neighboring countries. The success of these initiatives are dependent on transparency and accountability in the management of export revenues in the Kyrgyz Republic and Tajikistan. An export revenue management plan under the project will support these efforts by instituting safeguard measures to ensure that revenues are used only for the purposes intended — and that they are properly accounted for and publicly reported.



At the institutional level, the World Bank and the Swiss Government's Secretariat for Economic Cooperation (SECO) have been supporting Tajikistan's energy utility, Barqi Tojik, to strengthen its financial management and corporate governance structures and systems. To reduce technical and commercial losses, the Governance Global Practice is supporting Barqi Tojik in improving their revenue collection, accounting/reporting systems and management practices.

Under a financial management improvement plan, progress is being achieved toward strengthening Barqi Tojik's

billing and realization of revenues from electricity sales. The plan also helps to build proper accounting and reporting systems that comply with International Financial Reporting Standards, to improve the valuation of fixed assets, inventories, trade receivables and payables. These efforts are critical for the government to play an effective role in monitoring the company's performance and in supporting its restructuring efforts. Reforms will ultimately contribute to reducing the government's fiscal risk through fair disclosure of the company's financial position, and remedial actions to improve financial sustainability.



# Developing the Accountancy Profession: Education and the Path Ahead

## The Accounting Profession: The Road Ahead?



### John Hodge

Senior Financial Management  
Specialist, the World Bank Centre for  
Financial Reporting Reform

Over the past few decades, and particularly since the 2008 global financial crisis, countries have increased regulations aimed at strengthening the reliability and relevance of financial information in order to restore trust in corporate reporting. These measures have often been taken in reaction to events that have sharply eroded investor wealth and for which there have been actual or perceived shortcomings in the quality of financial reporting. This increase in regulation means that the accounting profession must have the capacity to apply requirements through highly skilled professionals. This article discusses the importance of Professional Accounting Organizations' (PAOs) qualifications and professional designations in responding to this demand, and also for positioning the profession to compete for the talent required in the future economy.

**Meeting the Increased compliance work in the accounting profession**

These regulations, in their synthesis, construct a "compliance framework" that is ever converging across the world to create better integration and efficiency. One important driver of this convergence is regional integration and the need to build strong "internal markets" based on a solid information infrastructure: a case in point is the European Union. More recently, the Association of Southeast Asian Nations (ASEAN) countries have also taken steps toward common market regulations. Interestingly, the demand for convergence persists even in countries which have a relatively immature financial infrastructure and/or no particular events have otherwise led governments to react.

Implementing these compliance frameworks effectively is of fundamental importance to the accounting profession. The market looks to the accounting profession to support compliance with increasingly complex requirements; the audit profession is being asked to take on new responsibilities (for example, audit reports) while at the same time, more restrictions are imposed on the way the profession conducts business (for example, independence requirements).

The effectiveness of these compliance frameworks is significantly impacted by three key aspects. Firstly, the accounting and audit profession must be able to attract enough professional talent to meet requirements (in particular, the more "at risk" component of the market: the so-called "Public Interest Entities"). Secondly, these professionals must have sufficient competence to meet requirements. Thirdly, the oversight system for the accounting and auditing profession must also contain sufficient experience and skills (including good compensation approaches).

In some of the World Bank's client countries, implementing these compliance frameworks is a short and medium term focus, and it is unlikely that 'maturity' will be established until the medium to longer term. PAOs, universities and even secondary education facilities have an important role to play in educating current and future professionals to ensure that sufficient skills and competencies exist to achieve the outcomes that this compliance framework aims to achieve.

**Beyond compliance: Will the accounting profession play a key role in supplying**

## transitioning and modernizing economies with the skills it needs?

Looking beyond developing the capacity to comply with these increased regulations, PAOs have an equally (if not more) important opportunity for their medium to longer term strategic planning. A growing economy will become increasingly hungry for talent and skills beyond those required for effective compliance. Increasing investment and productivity in developing economies will create more demand for accountants supporting businesses. Such accountants may either be in practice (i.e. servicing small and medium-sized enterprises) or employed in business. The common denominator will be that these professionals will have the skills necessary to be 'trusted business advisors'. They will be financial mentors to small businesses and help them access capital, improve performance and grow. In larger businesses they will control finance functions that will solve complex problems, innovate, and provide the insightful analysis required to achieve strategic goals and grow. Assuming that further advancements in technology such as Artificial Intelligence do not render human capital obsolete in the future economy, PAOs should ask themselves the following question about the longer term: Are we currently positioned to attract the best talent into the profession to meet this evolving demand?

### The road ahead: How PAOs can seize the opportunity

If the answer to this question is "no" or "unsure", PAOs should start considering strategies to address the opportunity. A starting point is analyzing the kind of talent the profession is attracting and determining whether this current trajectory is sufficient for the longer term (i.e. whether the profession will be competitive in meeting this demand).

The quality of the accounting qualification and the strength of the professional designation play an important role in attracting talent. This distinction between the qualification and the professional designation is important. The qualification is the embodiment of the learning outcomes that have been achieved and demonstrated by the professional accountant on the path to becoming qualified, particularly in respect to the Initial Professional Development (IPD), but also in terms of practical experience. The professional designation is awarded on the basis of the qualification and other requirements. Professional accountants must meet ongoing requirements in order to

be retained. These include maintaining competence by undertaking Continuing Professional Development (CPD) and ensuring their professional behavior meets the requisite ethical standards. Professional designations can be branded to be more competitive in attracting members. They can embody core values such as being ethical, lifelong learners and thought leaders, which also makes the designation holder more competitive.

Beyond the actual learning experience of which skills and competencies are acquired, the most talented individuals are looking for a professional designation that is clearly recognized in the market place and is respected. One that attracts better job opportunities with the best employers, higher salaries and good chances of promotion, and for those in public practice, a premium fee. Those who are less financially oriented may value a professional designation that will enable them to be more involved in addressing social and environmental issues by being equipped with skills that can make a difference (for example, improving transparency and accountability with integrated reporting <IR>, integrated thinking and sustainability reporting).

Building or acquiring a strong IPD qualification that meets the needs of both the market and future professionals can require significant upfront investment. The costs associated with maintaining the qualification's relevance as time passes may, however, be even more expensive. It is therefore very important for PAOs to ensure that their education platforms are responsive to changing needs in the market and are not closed (e.g. ensuring any curriculum suppliers permit reasonable adaptation/flexibility to change).

Building a strong brand for the professional designation also requires significant investment which is beyond the reach of many PAOs. It is therefore important that they identify opportunities to achieve scale in the short to medium term to ensure that the necessary investments are made in the future profession. Many PAOs already work closely together domestically and internationally, and there may be opportunities to further increase this collaboration in order to boost "buying power" or to gain access to a premium education product. It may even be advantageous in some cases for this to take the form of a merger. Greater collaboration may help to establish a stronger global accounting profession that offers relevant

services, has greater consistency in quality, and offers its members more career opportunities.

### The first step

As much as increased government regulation has provided opportunities (as well as challenges!) for the accounting profession, it is important that the profession remains forward looking and does not become complacent about the relevance of the skills and experience that it is providing.

According to the saying that originated from a famous Chinese proverb, "*A journey of a thousand miles begins with a single step*". In this spirit, considering responses to the following questions is a "small step" for PAOs to take:

- Could more work be done with universities to promote the professional designation and also ensure that the curricula of the university degree/diploma and the IPD are more aligned and eliminate duplication?
- Has the IPD that is being offered (together with the university degree/diploma) been benchmarked to identify gaps in learning outcomes achieved?
- Is there a well branded professional designation that supports the qualification? If not, is there an opportunity to create a brand that has global recognition such as CA or CPA?
- Is the designation currently recognized and respected in the market? Could research be performed to understand this in more depth?
- Is there a program to engage with key employers to understand their recruitment needs, inform IPD and CPD, and promote the professional designation?
- Is there a program to engage with students to promote the accounting profession as a career choice (for example, student brand ambassadors who engage with other students)?
- Has the PAO's Board or Council specifically discussed the idea of partnership opportunities with other PAOs?

# Teaching International Standards of Accounting and Professional Ethics: A Practical Approach

## Kalina Shukarova Savovska

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Specialist, World Bank Centre for  
Financial Reporting Reform

## Seda Aroyamak

Senior Financial Management  
Specialist, Governance Global Practice

Teaching International Standards on Auditing (ISAs) and professional ethics is increasingly about “learning by doing” with a specific focus on industry and sector. This approach differs from traditional classroom lecturing because it involves fuller and more active participation by learners. Knowledge of the ISAs in full is very important, but being able to apply that knowledge to real life scenarios is vital. This article outlines some practical teaching approaches that support learning by application.

### Audit simulations

Simulation allows participants to enact a real life business situation, tackle and solve some real life problems. As a result, participants are equipped with valuable awareness and knowledge that can then be applied in their future business practices.

Case studies and role play are forms of simulations that have a wide application in the practical teaching of ISAs:

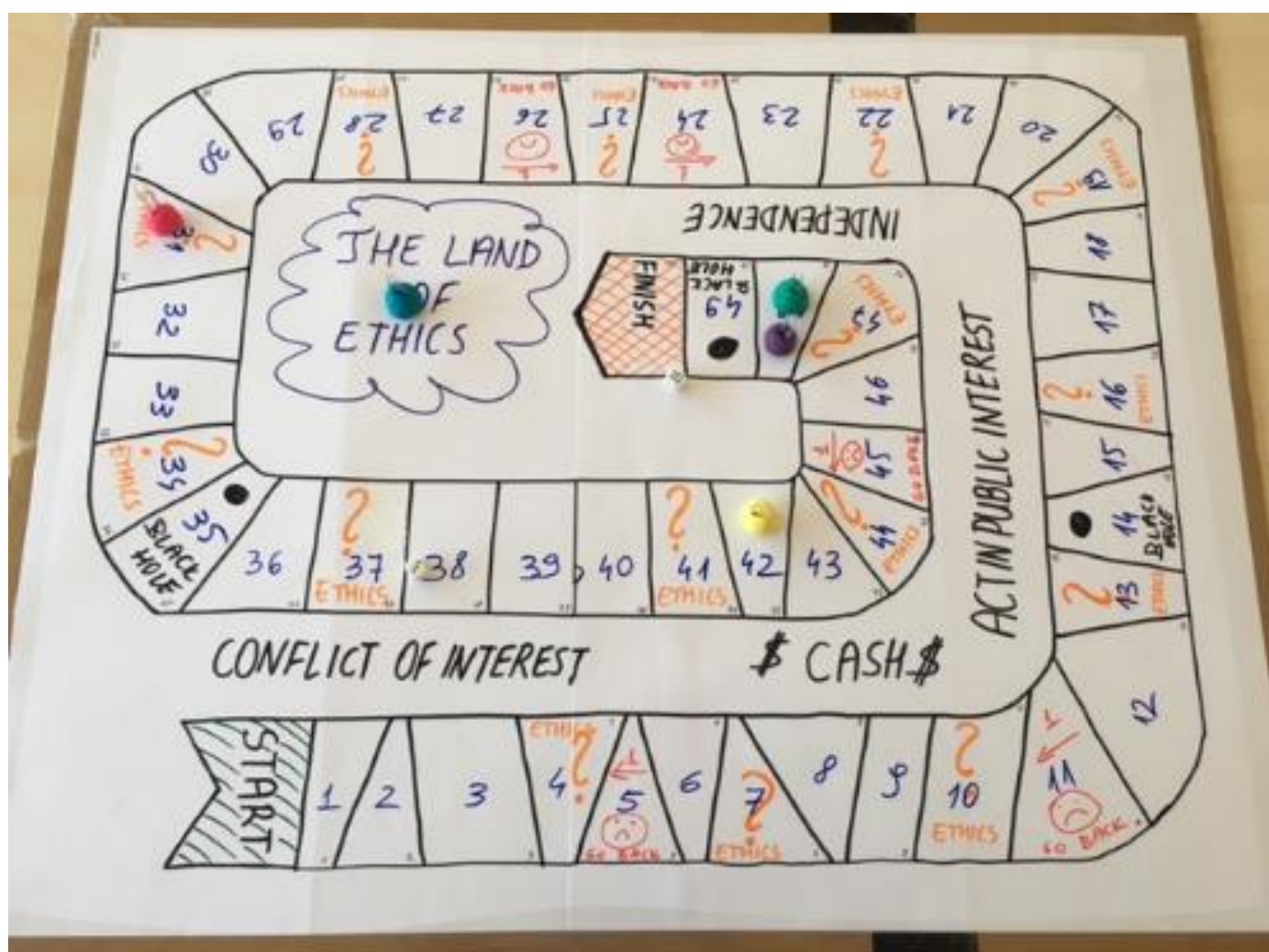
- **Case Studies.** Case studies are comprehensive examples which elicit discussion around the context of a particular problem and allow for the application of theoretical concepts to be demonstrated, thereby encouraging active learning. They also provide an opportunity to bridge the gap between the theory and practical application of ISA, and help develop other skills including communication, working as a

team and problem solving. The most effective case studies are those that are customized for the audience.

- **Role Play.** When applied in the context of teaching auditing and ISA, role playing can be a very effective method to enhance the learner’s ability to conduct on-site client interviews, as well as develop various perspectives on a particular problem. This method emphasizes that in the real world there is no one right answer. The audience is faced with the fact that a complex skills set is needed that goes beyond the theory and ISAs. Therefore, role play provides a good opportunity for the participants to exercise their professional judgement.

### Group challenges and games

Involving participants by introducing a group challenge is always a good way to focus





attention and generate interest in a topic. Group challenges and games play an important role in developing critical judgment skills among participants.

#### Using audit software as a teaching resource

Teaching the application of ISA requires technologically advanced methods and significant resources for a teaching package with appropriate software and hardware capabilities. It requires a substantial investment. Indeed, it is likely that demand for such teaching resources will grow, especially at the university level, as the method allows for linking audit theory to practice. It also enhances the use of technology which is important for the profession.

#### The World Bank Centre for Financial Reporting Reform's Audit Trainers of Trainers (Audit ToT) Program

Delivered under the aegis of the European Union (EU) the Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS) Program (1), the World Bank Centre for Financial Reporting Reform (CFRR) has developed an audit training product aimed at developing the capacity of the audit profession. Specifically, it seeks to deliver high-quality training and continuing professional development programs, with a particular focus on meeting the needs and challenges of Small and Medium-Sized Audit Practices (SMPs) in implementing ISA. The target participant group includes trainers from Professional Accounting Organizations (PAOs) and/or other organizations responsible for the design and delivery of continuing professional development training programs for statutory auditors and audit firms.

The audit training program is delivered through Audit ToT workshops including:

- A series of training sessions which include both fundamental and advanced subjects, supplementary

modules on other activities (such as reviews and compilations) and online sessions;

- Core teaching resources, such as an integrated Audit Case Study simulating a small audit client. Client file documentation templates are made available as part of the case study. This facilitates learning and promotes the use of audit tools and solutions that can be used in actual practice;
- The approach and format of the workshop is highly interactive. The Audit ToT Community of Practice (CoP) approach elicits shared learning and peer exchange. CoP members participate in delivery of some training sessions and in developing shared materials.

*Note:* CPD=continuing professional development; ISA= International Standards of Accounting; SME= small and medium enterprises.

Part of the Audit ToT workshop modules cover professional ethics. During the workshop, participants engage in "group challenges". "The Ethical Dilemmas Board Game" is one such exercise that enables participants to approach professional ethics training and education in a practical way by analyzing threats that arise and selecting an appropriate course of action in line with the fundamental principles of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. Participants are divided into groups and solve the ethical dilemmas by playing the board game. The more correct answers a team gets, the higher their chance to win.

Some of the outcomes of this exercise include:

- An interactive platform that brings to the fore the views and ideas of participants in a constructive manner; and

- Development of ethical decision-making skills, as well as skills to apply sound judgments regarding how the ethical dilemmas can be practically resolved or mitigated.

To learn more about the Audit ToT program and the Ethical Dilemmas Board Game, see: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23698794~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

#### The Financial Reporting Technical Assistance Program (FRTAP) for Poland: Using audit software as a practical teaching tool

A pilot session was held at the University of Lodz in Poland that included the use of professional software in the teaching process. The overall aim of the pilot was to introduce ISA lectures in universities all over Poland. Lectures are supported with the practical audit case and practical documentation tool, thus linking audit theory closer to the practical exercise of the profession.

The project took place from March–June 2015 for the selected group of 21 students. Participants met once a week for a total of 30 hours. Courses were held in English. Before participating in the classes, students had to possess the relevant accounting and basic audit knowledge. In this way, they could concentrate on business issues and ISA, rather than on basics.

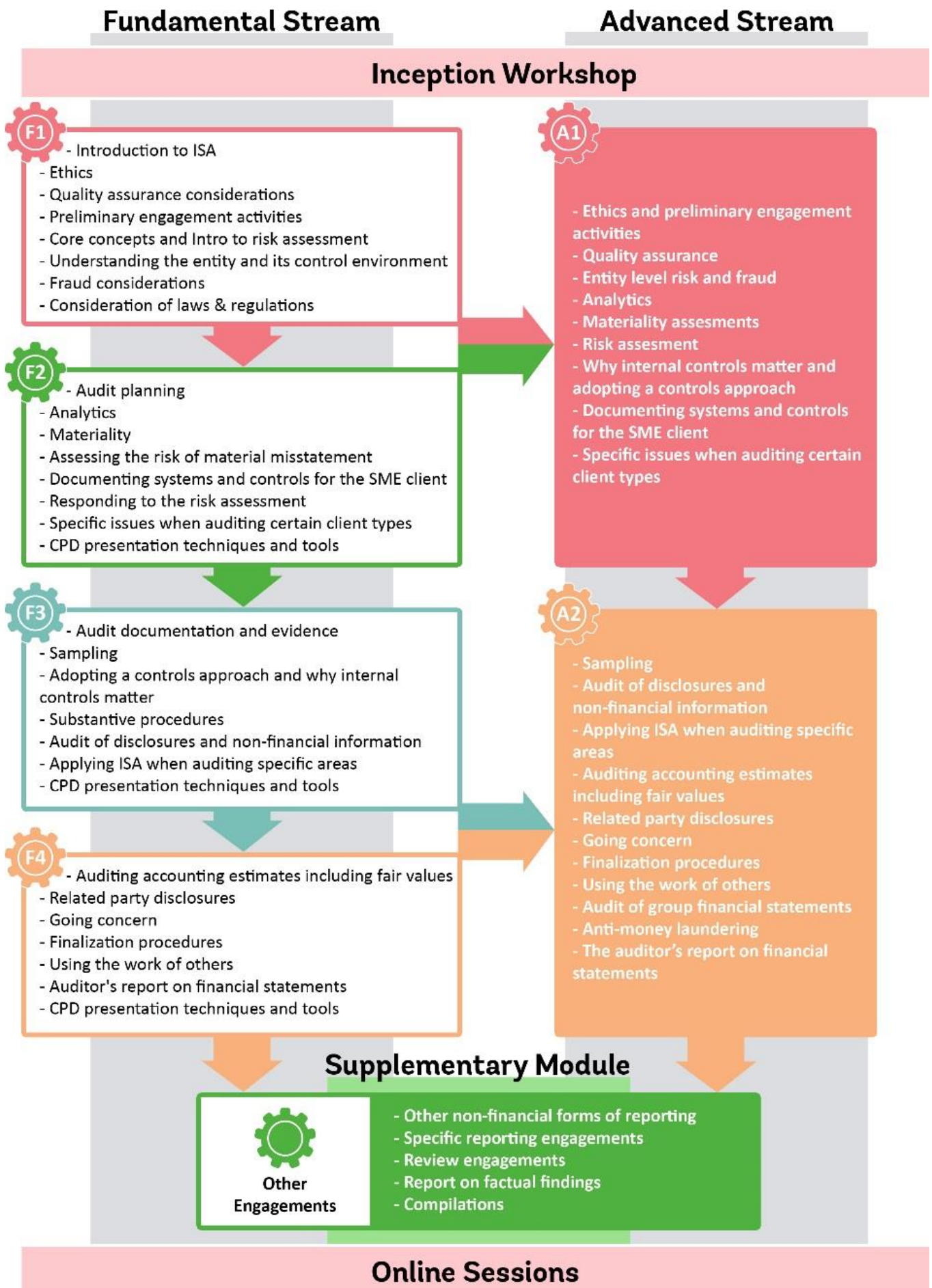
Overall student feedback from the course was very positive. Students appreciated the practical approach to the topic (including some accounting issues introduced), and the overall user friendliness of the software.

(1) REPARIS Program countries include: Albania, Kosovo, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, and Serbia.



*“The whole purpose of education is to turn mirrors into windows.”*

*Sydney J. Harris*



## Accountancy Education: Implementing a Learning Outcomes Approach

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#### Why “learning outcomes” are at the core of the revised International Education Standards

The main theme of the revised International Education Standards (IES) is the focus on a “learning outcomes approach” when developing Initial Professional Development (IPD) education programs, Continuing Professional Development (CPD) programs, as well as the development of professional competence through practical experience. The International Accounting Education Standards Board (IAESB) has emphasized that highly effective learning can only be achieved if the learning process is based on an individual’s demonstrated achievement of learning and development experiences, rather than focusing on the learning process itself.

There are many benefits to adopting a learning outcomes approach, including promoting individual capabilities. Indeed, there is a direct link between education and on-the-job capability.

Transitioning to a learning outcomes approach will require International Federation of Accountants (IFAC) member bodies to engage in an education conversion process. This can begin with a mapping of existing education learning outcomes and the performance of a gap analysis.

#### How accountancy education benchmarking helps to align with IES requirements

The countries of the Western Balkans (Albania, Kosovo, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia) are participating in an Accountancy Education Benchmarking Study, involving selected universities and Professional Accountancy Organizations (PAOs) in each country.

One of the expected study outcomes will be the ability to provide an accountancy education baseline by comparing the content of the accounting syllabus offered at a selected university or PAO against a set of

#### Student perspective:

- Visibility of entire syllabus coverage
- Understanding difference in course selection (core vs. elective and undergraduate vs. master’s program)
- Improved future curricula reform; next generation of students receive more focused education

#### Employer perspective:

- Skilled students with improved work readiness
- Improved recruitment base; easier recruitment process and reduced human resource costs (transaction costs, training costs, etc.)
- Employees with international proficiency in accounting

#### University perspective:

- Highlights areas that need improvement and the need for curricula reforms
- Provides international comparability and documentation to support an application for accreditation
- Closes gaps between academia and professionals; better linkage with PAOs / possibility for exemptions
- Tool to influence policymakers

#### PAO perspective:

- Self-diagnostic tool that shows to what extent the learning objectives of a program compare to the IES revised learning outcomes.
- Gap analysis tool that aids in making a successful transition to a learning outcomes approach, as required by IFAC.
- Closes gaps between academia and professionals, and enables better linkage with universities

#### Policy maker perspective:

- Overview of the education system at the country level
- Tool to support effective education resource allocation decisions

Source: The Authors

Note: IES= International Education Standards; IFAC= International Federation of Accountants; PAO= Professional Accountancy Organization.

international benchmarks, including the revised learning outcomes of IES. This can benefit the universities and PAOs because it is a self-diagnostic tool. Using a gap analysis tool can demonstrate the extent to which the learning objectives of a program compare to the IES revised learning outcomes. The gap analysis, then, can help with the successful transition to a learning outcomes approach as required by IFAC.

#### Applicable methodology

The methodology recognizes that accountancy education is multi-layered: it starts by considering the fundamental role of universities in the education of future accountants, and then focuses on the critical need for university accounting curricula to be aligned with the actual needs of the profession. Understanding the level of alignment of university accounting programs

with professional qualifications is a prerequisite for developing a consistent accountancy education process — and ensuring the effective use of country-level education resources.

In addition to survey questionnaires, the analysis is supported by an innovative tool developed by the World Bank Centre for Financial Reporting Reform (CFRR) team and piloted in the Western Balkans Accountancy Education Benchmarking Study. The power of the tool is in its ability to instantly relay results after the information is input. It is also very user friendly, and the data are easy to interpret. The tool has a modular approach, that is, a module for university accountancy education and another module for professional accountancy education. If populated by data from both, it provides for the possibility of integrated analysis and assessments.



Some high level results are now available from the Western Balkan Accountancy Education Study. A few of the results are highlighted as follows:

- On average, the university segment at both the undergraduate and master levels aligns better to the learning outcomes prescribed by the revised *IES 2 – Content of Professional Accounting Educational Programs* (as compared to the professional accounting and auditing qualification programs of the PAOs).
- Learning outcomes prescribed by the revised *IES 4 - Professional values, ethics and attitudes* is a common area in both segments (that is, for the university and PAO) where curricula will need to be strengthened.
- On average, the least amount of coverage is in the area of public sector financial reporting.

## Developing a Regional Curriculum in Accounting and Auditing Education in STAREP Countries

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The *Strengthening Auditing and Reporting in the Eastern Partnership* (STAREP) Program is a regional capacity development and knowledge transfer program for Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. One of its components is dedicated to enhancing education at the tertiary level and the professional level, the latter including both (a) initial professional development programs that prepare candidates who intend to gain a professional qualification in accounting, and (b) continuing professional development programs of accountants and auditors who have already obtained a professional qualification. In this regard, the program aims to align curricula and related requirements with international good practice, namely International Education Standards (IESs), developed by the International Accounting Education Standards Board (IAESB), and the educational requirements of the Statutory Audit Directive of the European Union (EU). Within this component, a Community of Practice (EDUCoP) was established with the main objective of bringing together key accounting educators from universities and professional accountancy organizations in order to create a platform for expressing views and developing solutions. The Community of Practice allows its members to conduct a dialogue and strengthen the relationship between the profession and academia.

The first meeting of the Community identified three major levels of accounting education and developed a timeline to address its different components, as illustrated in this figure.

“Education is the most powerful weapon which you can use to change the world.”

Nelson Mandela

The Community recognized the fundamental role of universities in the education of future accountants and reached a consensus view that the university curriculum development process should embody a more competency-based approach. Revised programs should address deficiencies in the coverage of subjects, as required by IESs. In addition curricula, should also better align with international good practices.

Agreement was reached to assist universities in developing an accounting syllabus that gives students a level of proficiency to underpin and support their future professional development. The goal was to create a shared vision, establish agreed minimum proficiencies at each level across the region, and develop a syllabus to meet these minimums, thereby fostering regional accreditation and recognition.

Working with the academic community, a benchmarking tool was developed that allows universities to assess the extent to which the content of their Bachelor degree programs in accounting is aligned with professional qualifications and international standards, namely IESs.

Although the terminology used by the various professional organizations and educational institutions varies, all university courses in accounting and finance address six key subject areas: management and management accounting; financial accounting and reporting; audit and assurance; financial management; and tax and law. In this context, it was important to establish the level of depth that each individual course had in each of these subject levels. This was necessary to

establish the adequacy of courses in delivering the first stages of the Initial Professional Development (IPD) for the accounting profession.

### Toward the development of a regional curriculum

In the process of sharing the results of their individual benchmarking activities, the members of the Community of Practice realized that their respective degree programs were quite similar across the region. This conclusion led to a new opportunity, that is, the development of a regional curriculum.

Sub-groups were formed to develop a regional curriculum: two groups worked to develop minimum syllabus content proposals for Bachelor's degrees across the STAREP region. As the law and tax subject areas are heavily influenced by domestic issues, members of the education Community of Practice met to develop syllabi relevant to the region and appropriate for undergraduate students studying accounting. The curriculum is in the process of being finalized, and will be published by the Community in both English and Russian by the end of 2016. Once finalized, it will serve as the regional minimum curriculum in accounting and auditing for participating universities.

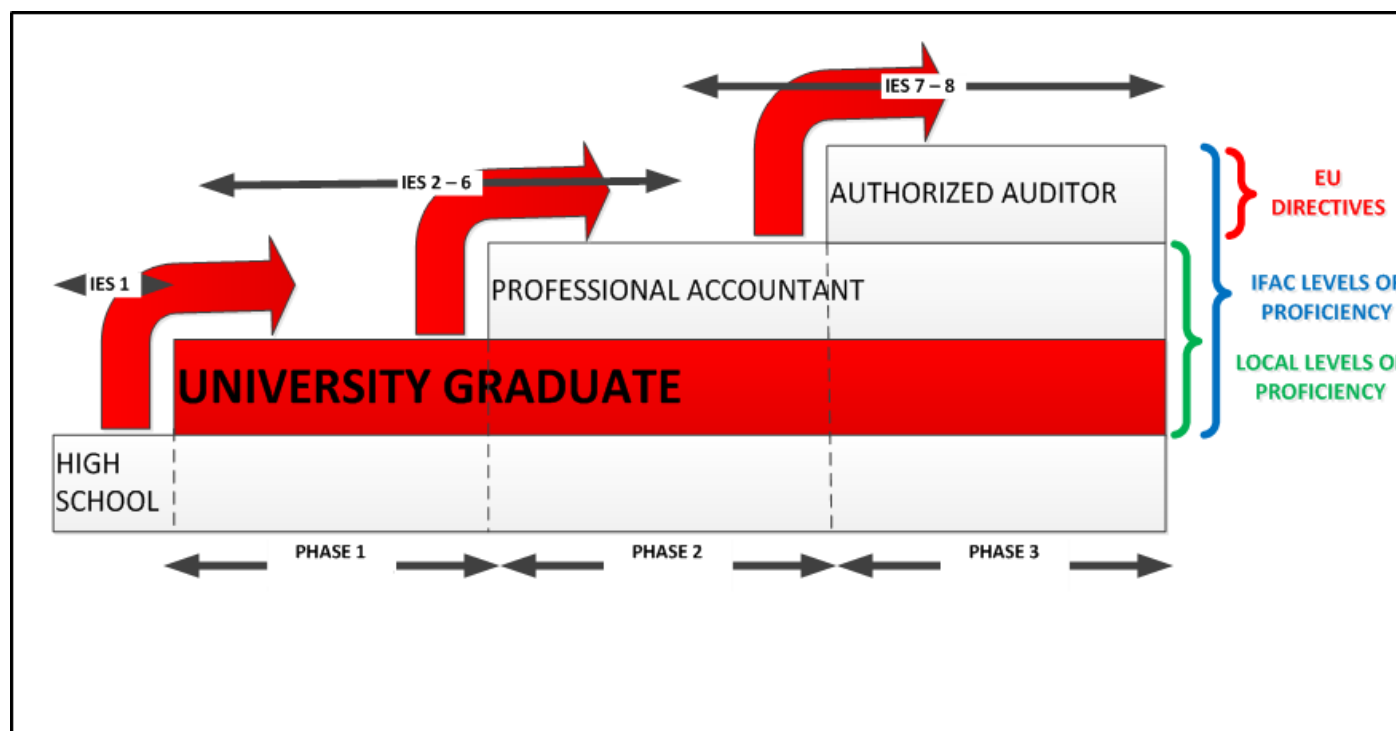
The universities learned a great deal about their programs by completing the benchmarking exercise. Several have since updated their degree programs as a result. They have also helped to provide exemptions for their graduating students who wish to pursue an internationally recognized professional accountancy designation.

Completing the benchmarking exercise and agreeing on a regional curriculum will have many other benefits. For example, it will:

- Provide a useful monitoring tool for syllabus changes and gaps, and highlight areas needing improvement;

- Reduce the amount of duplication between syllabus planning, benchmarking and accreditation
- Provide verifiable schedules of syllabus content;
- Enable members of the Community representing the leading universities in their field to use it as foundation for a national curriculum in their respective countries;
- Facilitate exchanges between universities in the region, for both faculty and students;
- Facilitate the recognition of degrees and universities by international accreditation agencies; and
- Enable PAOs to use the curriculum as a foundation on which to build their professional qualifications, thus avoiding unnecessary and costly overlap between university and PAO programs.

Finally, the education Community of Practice has proven to be a successful regional platform to strengthen accounting and audit education. It has led to the building of strong ties between academia and the profession, both within and between countries. In addition, it has infused a sense of ownership among community members.



Source: The Authors

Note: EU=European Union; IFAC= International Federation of Accountants.

## The Role of Government: Regulating and Leading by Example

### The Role of Public Accounting Reform in Building Effective Public Institutions

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The delivery of services that promote the well-being of citizens is central to the role of

any public administration. Basic services, such as health care, education, clean water, electricity and transportation infrastructure can have long-lasting effects that enhance the quality of life, while the absence of such services can have devastating effects on populations. Effective public institutions implement the policies and investments that mobilize domestic resources efficiently. They can also help fight corruption, promote competitiveness, strengthen human capital and improve infrastructure. According to the 2013 World Bank Strategy, the far

reaching effects of these efforts include the stimulation of private investment, job creation, and productivity gains. Emerging and developing countries face a more difficult economy and service delivery environment. Continued growth deceleration, coupled with a decreasing foreign investment flows from developed economies, and creates an environment of tightened fiscal space. In this context, then, there is an increased need for governments to better control scarce public resources to achieve effective service delivery. Enhanced

budget accountability and control, transparency of public finances and effective management of assets and liabilities can only be achieved through accurate and reliable financial accounting and reporting which lends itself to external audit and scrutiny — as well as comparison of actual revenues and expenditures with approved budgets.

Modern accrual-based systems of accounting and financial reporting facilitate these efforts by capturing all present and future economic benefits and obligations, and by providing information about estimates, uncertainties, and significant assumptions underlying the financial information that would otherwise not be captured under cash-based systems. Advanced accrual-based systems provide valuable information about natural resources, intellectual capital, heritage assets, pension liabilities, environmental liabilities, derivative financial instruments, and the fair value of debt obligations. These elements are key inputs in planning future service delivery and limiting the economic burden on future generations.

The World Bank recognizes that good governance is central to strong economic growth. The efficient mobilization of domestic resources attained by effective public institutions can only be achieved by establishing a budgetary infrastructure which generates relevant, reliable and timely financial and non-financial information. Despite the critical role of an effective and informative system of public accounting in promoting effective service delivery, it could be argued that the modernization of public financial management systems has not historically been considered a development priority. In this regard, the global financial crisis of 2007-2008 emphasized the need for more transparent fiscal reporting and accountable government as well as the significant role that public accounting reform can play in achieving this goal.

Whereas a small number of Organization for Economic Co-operation and Development (OECD) countries have developed national standards based on full accrual accounting with full disclosure, the establishment of an internationally recognized framework of government accounting standards lagged behind corporate financial reporting. Then, in the late 1990s, the International Federation of Accountants (IFAC) established



the International Public Sector Accounting Standards Board (IPSASB) for the purpose of developing International Public Sector Accounting Standards (IPSAS).

Currently the IPSASB has issued a set of 34 accrual-based standards to be used by governments and other public sector entities in the preparation of general purpose financial statements. The standards were developed with the objective of strengthening public financial management. They are designed to increase transparency which will in turn lead to a more accurate and comprehensive view of financial performance.

The European Union (EU), with the goal of establishing budgeting and accounting standards for public entities in Member States, is now working on a project to establish European Public Sector Accounting Standards (EPSAS), using IPSAS as a starting point. Over 50 countries across the globe are planning to adopt or are in the process of adopting either the cash basis or full accrual IPSAS (1). However, implementation progress is not being monitored and compliance has not yet been assessed.

Although many countries have adopted, or are in the process of adopting, accrual-based accounting standards, implementation is often lagging. The need for careful planning and sequencing of reforms is paramount to the process, but is often times ignored or underestimated. Awareness must be raised among stakeholders and a consensus built.

The World Bank is working with many governments around the world in developing their accounting systems, often

as part of broader public financial management reforms. In this context, an analysis can be undertaken to determine current deviations from the targeted accrual-based accounting framework and the costs and benefits of conversion. Further, comprehensive transition plan can be developed to map out the process of implementation and the amount of resources required. Capacity must be built in the form of knowledge, practical experience, and infrastructure, including information technology. Operational procedures and internal processes — such as human resources, payroll, treasury operations, accounts payable, procurement, and others — should be evaluated for alignment with accrual-based accounting requirements. Necessary modifications should be identified, assessed and undertaken.

Most countries around the world still have much work to do in the area of public accounting reform. Such reforms will help promote the effective mobilization of resources and attain the levels of transparency and accountability required to provide stakeholders with accurate and reliable information concerning the use of public funds. Although the challenges are great, the benefits of efficient public resource allocation — and the stabilizing influence of effective public institutions on the economic environment — are attainable objectives that can produce lasting benefits for future generations.

(1)

[http://www.ifac.org/system/files/publications/files/IPSA\\_S\\_Adoption\\_Governments.pdf](http://www.ifac.org/system/files/publications/files/IPSA_S_Adoption_Governments.pdf)



# Learning from Audit Failure: The Challenges of Public Oversight in Emerging and Transitional Markets

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### Overview

Independent oversight of the auditing profession began in the most developed market economies as a way to help realign the incentives of the auditing profession, as auditors were perceived as too closely tied to the companies that hired and paid them. In this regard, there was insufficient motive to identify and address financial reporting abuses. However, audit oversight has now become a global movement, spreading to many countries with less developed financial markets, accounting and auditing professions, and regulatory bodies. The spread of audit oversight to lower capacity countries has the potential to help create more comprehensive and effective global regulation. But it also carries risk. Auditing is one of the most difficult professions to regulate properly. To be effective, oversight bodies must be staffed with experienced and sophisticated former auditors. Oversight of auditors by incompetent bodies can be a destructive force, misdirecting the auditing profession and retarding its development. In countries with limited capacity and resources for audit oversight, it may be difficult or impossible to create an oversight body that is fully independent of the auditing profession — and that is fully competent to understand and regulate its activities. Where possible, policymakers in these countries should consider an approach of “working their way towards independence,” in some cases beginning with regulatory bodies led by or staffed with knowledgeable experts who may not be fully independent of the profession. As their regulatory and professional capacities improve, these countries can then move towards increasing independence in their oversight of auditing.

### Beginnings of the Oversight Movement

The modern movement for independent public oversight of the corporate auditing profession began in the United States (U.S.) with the Sarbanes-Oxley Act (SOX) of 2002. A broad consensus had emerged that self-regulation was inadequate to assure competent and independent auditing. For about 25 years, the American Institute of Certified Public Accountants had overseen a “peer review” system to assess audit quality.

However, audit firms—particularly the largest international network firms—had little incentive to perform exacting scrutiny of each other, knowing they could be judged accordingly. Peer reviews were widely seen as unrigorous and even perfunctory. The peer review system was finally discredited through a wave of notorious corporate reporting scandals beginning in the late 1990s, including Xerox, Waste Management, and Sun Beam, and culminating in the massive debacles at Enron and WorldCom. Enron was the most famous. However, WorldCom was the scandal that ultimately prompted passage of the SOX by a nearly unanimous U.S. Congress. Arthur Anderson, arguably the most sophisticated auditing firm in the world at the time, had failed to challenge a crude and obvious accounting fraud at the telecommunications company, in which routine line maintenance expenses were reclassified as capital investments through “top side” journal entries, amounting to hundreds of millions of dollars. The perceived credibility of auditing and financial reporting plummeted. The U.S. Congress responded with the SOX by, among other things, creating the Public Company Accounting Oversight Board (PCAOB). The PCAOB was authorized to act as an independent watchdog for auditors of publicly-traded companies — overseeing their registration, inspecting their quality assurance systems and selected audits of public companies, and investigating misconduct and imposing discipline, among other functions. Significantly, public oversight did not begin because of any perceived lack of capacity among auditors. Arthur Anderson, for example, certainly had the sophistication and capacity to audit Enron, WorldCom, or any other company of any complexity. Rather, public oversight was instituted initially with the main goal to realign the incentives of the auditing profession. Auditors were perceived to have more incentive to please the companies that hired and paid them than to approach their auditing with full independence and rigor, particularly in an environment in which audit partners were often “cross-selling” consulting services to their clients — with



revenues that dwarfed the audit fees. The PCAOB was given force of law to identify those auditors who failed to uphold professional standards and address their deficiencies, with sanctions including possible heavy fines and removal from auditing public companies. While the PCAOB’s work is subject to supervision by a governmental agency (the U.S. Securities and Exchange Commission), the PCAOB itself is structured as a private, non-profit corporation, with express authority to pay salaries competitive with the private sector. This feature was seen as crucial to attracting experienced auditors from international network firms to serve as inspectors. Given the complexity and sophistication of modern corporate auditing, only highly trained and experienced auditors could be expected to perform effective inspections of corporate audits. Such experienced auditors were unlikely to be attracted to positions subject to civil-service pay scales. Further, to ensure competence in the PCAOB’s governance, SOX requires that two (but only two) of the PCAOB’s five full-time board members must be Certified Public Accountants (CPAs). All board members must be severed completely from any continuing connection to regulated auditing firms while they serve.

## Public Oversight Goes Global

Some of the new regulations imposed by SOX—perhaps mostly notably, a requirement for a separate audit opinion on the effectiveness of internal controls over corporate financial reporting—were controversial and not widely emulated outside of the United States. However, the idea of independent oversight for auditing became popular and has spread throughout the world. A signal event in this international growth was the European Union's 2006 Audit Directive, requiring all member states to develop an independent oversight body. In that same year, the International Forum of Independent Audit Regulators (IFIAR) was formed. IFIAR is a platform for audit oversight bodies to share knowledge, promote collaboration and consistency in regulatory activity, and organize dialogue with other international organizations that have an interest in audit quality. About half of the 50 countries now represented in IFIAR are from the European Union (EU), testifying to the significance of the 2006 EU Directive in developing the international movement for public oversight. Indeed, oversight bodies from all over the globe now participate. The 2006 Audit Directive has had an impact well beyond the current borders of the European Union, in part because countries seeking accession to the EU must comply with aspects of the EU's body of laws (known as the *acquis communautaire*). Consequently, a number of countries seeking accession have developed their own audit oversight bodies, or are in the process of doing so. These new audit oversight bodies are being created in economies with underdeveloped financial markets and limited capacity in the accounting and auditing professions, regulatory bodies, and other relevant areas. In addition, the strength of the international movement for audit oversight has prompted countries in other parts of the world to implement public oversight, again, often in conditions of limited capacity. The global spread of audit oversight creates the potential for more effective international regulation of auditing, in part because the largest audit firms operate throughout the world, and so ideally should be monitored wherever they operate. But implementation of audit oversight in lower capacity countries also creates significant risks. An incompetent public oversight board could be not only ineffective, but destructive to the development of an effective auditing profession. To understand why, it is helpful to consider briefly the sophisticated nature of modern corporate auditing and the consequent challenges of regulating it effectively.

### The Peculiar Nature of Audit Regulation

Auditing complex companies does not involve just following some standard set of procedures and ticking boxes on a checklist. To be effective, auditors must use their knowledge and experience to:

- Understand the company's business and the way it estimates, records, accumulates, and reports information about its transactions, obligations, and assets;
- Identify the specific risks that might cause some of these items to be reported inaccurately for that company, based on how it operates; and
- Design and perform tests for the particular company to obtain reasonable assurance that the financial reporting is reliable.

Furthermore, the auditor must do all of this efficiently, within a reasonable time and at a reasonable cost. Thus, audit regulators must understand that they are not regulating a routinized activity, in which they could expect to see the same steps and procedures performed every time. This is an enormous challenge for effective regulation.

### The Capacity Needs for Effective Oversight

Auditing is in fact one of the most difficult industries to regulate properly. To determine whether the auditor acted with professional competence and reasonable diligence, the regulator must:

- Become familiar with the large set of facts about the audited company that the auditor considered (or should have considered);
- Identify and understand the procedures the auditor performed to test the company's financial reporting, as well as the audit firm's quality assurance programs that impacted the audit; and
- Assess whether those procedures and programs appear reasonable in light of the risks of unreliable reporting that the auditor faced.

Only someone highly trained and experienced in auditing can adequately perform this regulatory function. For review of some audits (for example, in the financial services industry), specialized industry experience may also be needed.

### The Danger of Misdirection

Incompetent audit oversight can be a destructive force because it can misdirect the auditing profession. Auditors must

perform their complex function in a limited time and with limited resources. If regulators force auditors to spend time and resources on activities that do not involve identifying and addressing the real risks of inaccurate financial reporting for the companies they audit, they will have less time and fewer resources to fulfill their real and important function. A regulator that does not adequately understand modern auditing might force auditors to spend too much time on unproductive "compliance" activities such as:

- Satisfying excessive documentation requirements, beyond those necessary to memorialize the audit under prevailing international standards;
- Performing formalistic or rote audit procedures, that might be unwarranted based on the actual and assessed risks for particular audits; and
- Creating formalistic quality assurance processes tailored to the regulator's demands rather than actual audit risks.

A misdirected profession will not develop and improve. Instead of developing to identify and address financial reporting risks as they emerge and change, the profession will be focused on satisfying the whims of a regulator that does not understand what they do, why they do it, and/or how they could serve their actual function better.

### Audit Oversight in Lower Capacity Countries

Any country at any level of development that attempts audit oversight without devoting sufficient resources to create a competent body faces the risk of creating an ineffective and counterproductive system. However, this risk is particularly acute in lower capacity countries. For example, countries in Eastern Europe or the former Soviet Union that only began transitioning from communism to a market economy a few decades ago often have underdeveloped accounting and auditing professions and regulatory authorities. Modern accrual accounting and risk-based auditing are often still not widely understood among either practitioners or those who oversee them. Modern practices may be fully applied only by elite members of the local profession, such as those employed by the local affiliates of the "Big Four" and other international network firms. In these countries, it may be difficult or impossible to create an audit oversight body that is fully independent of the profession, but yet sufficiently informed by the expertise of the profession to regulate it competently. In fact, all countries in which modern accrual



accounting and risk-based auditing were recently introduced are likely to face substantial challenges in developing effective oversight. For example, retired auditors can be excellent members for an independent oversight board because they are knowledgeable about the profession, but no longer a part of it. However, in a country where accrual-based accounting and modern auditing were only recently introduced, few or no auditors versed in practicing modern accounting and auditing may have yet reached retirement



age. Therefore, there may be no pool available to serve as board members. Moreover, if an oversight board cannot provide meaningful compensation to board members, experienced auditors are unlikely to sever themselves from the profession to serve on the board. Similarly, countries with limited capacity may not have either the resources or the political will to create a body with the funding and legal authority to offer competitive salaries in order to attract a staff of experienced auditors from sophisticated firms to perform inspections and other complex regulatory functions. These countries may attempt “oversight on the cheap,” that is, using recent accounting graduates or even, for example, tax inspectors with little or no training in modern accrual accounting and risk-based auditing, to handle inspections. By these means, they may create the formal appearance of having implemented independent audit oversight. However, as noted, oversight systems that adopt these approaches are unlikely to be effective in improving audit quality. In fact, they are likely to be destructive.

#### **A “Next Best” Alternative Approach**

In countries that cannot presently implement an adequately funded and fully competent audit oversight system, a “next best” approach may be to start with a regulatory system that is not fully independent of the auditing profession, and then work towards full independence as the capacities of professionals and regulators improve over the years. For example, inspections of quality assurance systems and

sample auditors could be left initially in the hands of a professional body, which may have ready access to the technical expertise of the profession — and may sometimes be in a position to pay higher salaries to inspectors than an independent public agency could. Restrictions could be imposed to help assure relative autonomy and independence of the inspectors from inappropriate influence or interference, for example through the use of a committee of independent figures to oversee their work. Alternatively, an independent public oversight body might be created to oversee the professional body (initially without assuming its inspections and disciplinary functions). The oversight body could then help protect the relative independence of inspectors by requiring approval for their hiring, firing, compensation, evaluation, targeting of inspections, and similar decisions. If a lower-capacity country opts to create an oversight board but cannot find board members with both an adequate understanding of modern accounting and auditing and independence from the profession, it might initially opt to have a minority of board members who are still members of the profession (with appropriate rules for recusal regarding any decisions where there is a conflict of interest). This minority of board members could provide helpful technical background and information to inform the decision-making majority. Alternatively, the board could be empowered to seek advice and counsel from experts who are members of the profession, as long as they do not participate in actual decision making.

#### **Working towards Full Independence**

The ideal is, of course, an audit oversight board with the capacity to perform effective inspections, investigations, discipline, and other functions, while remaining fully independent from the profession. The concerns about auditor incentives that prompted creation of fully independent audit oversight in the most developed market economies also apply in transitional and emerging market countries. However, in some countries, full independence — while still ensuring competence — may not be a realistic goal in the near or intermediate term. A gradual transition is possible. For example, an oversight board that initially includes a minority of current practitioners may move to full independence once the local profession has sufficiently matured so that retired audit partners are available to serve on the board. Alternatively, an inspections system that begins in the professional body may be moved to the independent oversight board once legal authority and an adequate funding mechanism are developed so that the independent board can directly serve these functions, while backed by a staff of competent and experienced former auditors. In some legal regimes (for example, those governed by the EU *acquis communautaire*), policymakers may be constrained in their choices as to how to structure audit oversight. However, where they have the choice, they may find it better to opt for less independence initially, and work their way towards full independence later.



## Promoting Financial Stability: How the World Bank is Facilitating a Closer Relationship between Banking Supervisors and External Auditors in Europe

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World Bank Centre for Financial Reporting Reform

On 28 September 2015, Governor Ewald Nowotny of the Austrian National Bank opened a high-level conference for over 100 of Europe's banking supervisors and external auditors at the bank's prestigious headquarters in Vienna. The main objective of the conference, which was organized by the World Bank Centre for Financial Reporting Reform (CFRR), was to promote cooperation between these practitioners in order to enhance the quality of supervision and auditing and to contribute further to the resilience of the banking system. The conference was convened to launch a publication on "Banking Financial Supervisors and External Auditors: Building a Constructive Relationship".

### Background

The 2008 financial crisis triggered the worst global recession in almost 80 years. Amongst other things, the economic meltdown exposed weaknesses in banks' control and governance processes as well as in their statutory audit and financial supervision structures. It became clear that the work of external auditors and banking supervisors is extremely important because it contributes significantly to market discipline, reliable financial information and financial stability – so their work has had far-reaching impacts.

**Basel Committee on Banking Supervision acknowledges the importance of close collaboration between auditors and supervisors**

Client countries of the CFRR were interested in greater clarity about the different roles of external auditors and banking supervisors and how collaboration between them could be improved. Around the same time, the Basel Committee on Banking Supervision published a draft paper on external auditing which further highlighted the importance of the relationship between auditors and supervisors for financial stability. So the CFRR decided to review auditing and banking supervisory practices in the Europe and Central Asia region and consider the impact



of the relationship between regulators and external supervisors. Dialogue was initiated through workshops in 2012 and 2013 which were convened as part of the REPARIS and STAREP programs. It was clear from these workshops that there were a range of practices - some more effective than others at influencing the audit quality of banks' financial statements and making good use of information provided by external auditors.

### Impressive response to survey on "Financial supervisors and external auditors: building a constructive relationship"

The CFRR subsequently designed a questionnaire with two objectives. Firstly, to understand the existing relationships between banking supervisors and external auditors in its client countries. And secondly, to explore practices that make better use of information shared between these key players and influence both the audit quality of banks' financial statements and the effectiveness of supervision, and could be used to help suggest good practice models. It was possible to expand the scope of respondents by partnering with the European Banking Authority (EBA) which granted the CFRR access to relevant counterparts at European central banks and banking supervisory agencies, who built on the CFRR's work for drafting their guidelines. Responses were received from supervisory authorities in 35 countries. Almost 90 percent of the authorities approached took the time to respond to the 44 questions in the survey, which indicates the importance they attach to this subject.

### The survey's main findings, target audience and feedback



The main conclusion of the survey was that an effective relationship between banking supervisors and external auditors is a key factor in the quality of audits and the supervision of banks. While each have distinct roles and responsibilities, they can both benefit from better communication and closer interaction. The CFRR received great examples of good practices which are featured in the report and can now be shared on a global basis. The survey was mainly directed at policy makers and regulators. By sharing policy actions based on good practice and encouraging discussions about implementing changes with our clients we hope the report will improve audit quality and the supervision of banks and encourage greater cooperation between auditors and supervisors. The feedback from countries under the EU REPARIS and STAREP program was excellent. Other countries in Europe – for example, France, Germany, the Netherlands and the UK - also expressed great interest in the

report and its conclusions. Standard setters such as board members of the International Auditing and Assurance Standards Board have asked us to keep them informed, and several experts from European central banks and banking supervisory agencies have commended the report for clarifying a number of issues.

### The next steps

There is a lot of information in the report that can have global relevance. Within the EU a high quality framework has been developed and there is great potential for this experience and good practice to be

shared and implemented in other regions around the world.

Read more about the survey and its findings in the CFRR's publication on "[Banking Supervisors and External Auditors: Building a Constructive Relationship. Supervisors' Insights](#)". This publication is co-funded by the European Union.

## Poland's Success Story: The Ripple Effect of Financial Reporting Reform

### Andrei Busuioc

Senior Financial Management Specialist,

### Piotr Pyziak

Extended Term Consultant,

### Svetlana Platon, Consultant

The World Bank Centre for Financial Reporting Reform

The Financial Reporting Technical Assistance Program (FRTAP) is an initiative of the World Bank Centre for Financial Reporting Reform (CFRR) to support member states that joined the European Union (EU) in 2004. Specifically, it helps them to implement the portions of the *acquis communautaire* relating to accounting, auditing, and reporting. The FRTAP covers a range of activities related to, among other things, audit public oversight, quality assurance, and accountancy education.

By providing technical assistance and training to a number of key stakeholders in Poland, the CFRR has been instrumental in building Poland's capacity to implement financial legislation, leading to more accurate financial reporting. To date, around 10,000 accountants, certified auditors, preparers of financial statements, university professors, and tax inspectors have participated in various training activities across Poland.

#### The FRTAP for Poland

- Project duration: December 2009 to December 2016.
- Funding: Swiss Contribution to the Enlargement of the EU.
- Total budget: CHF 10 million.

The key outcome of the project has been its ability to leverage the common interests of diverse stakeholders to achieve results. As such, it employed a multi-layered approach to engage the accounting profession, tax inspectors, financial regulators, the public



oversight body, and academia — which proved to be a key to its success. Specific achievements include:

1. **Increased knowledge and expertise of auditors, regulators and other stakeholders regarding the International Standards on Auditing (ISAs), which will be adopted by Poland at the end of 2016.**

CFRR was successful in building the capacity of 750 practicing auditors, audit oversight authorities, and Ministry of Finance staff in ISAs and their proper application. The training program incorporated practical elements using software-based methodologies.

2. **Enhanced capacity of financial regulators to use information in financial reports to perform supervisory activity.**

When conducting their supervisory activities, financial market regulators must be able to deal with the complexities of

financial reporting standards and keep abreast of new developments. The CFRR team designed a set of International Financial Reporting Standards (IFRS) training courses to equip the supervisory staff of *Komisja Nadzoru Finansowego* (KNF, the financial sector supervisor in Poland) with the knowledge and skills to use financial statements prepared under IFRS for their own supervisory needs. This targeted program was successful in enhancing the capacity of 80 staff in carrying out their supervision duties through courses on IFRS standards, and training on a monitoring tool to review IFRS information.

3. **The audit simulation project — enhancing the capacity of university lecturers.**

One of the program's innovative ideas has been to introduce ISA lectures at universities



all over Poland. The lectures are complemented by a practical audit case and audit software-based methodology for audit documentation. This has allowed students to experience real life situations by operating in a real business and legal environment, solving genuine problems and mitigating actual risks. As a result, students have obtained knowledge and awareness that they can then apply in their future business lives.

**4. Increased the capacity of tax inspectors to understand financial statements prepared under International Financial Reporting Standards (IFRS).**

A number of training courses were delivered that broadened the knowledge of tax inspectors in areas such as financial analysis, accounting and tax-related topics. These activities have made a number of valuable contributions, including: (i) increasing the effectiveness of the tax accounting system; (ii) helping tax authorities understand the tax consequences of changes in financial reporting standards; and (iii) alleviating the regulatory burden on corporate taxpayers, especially small and medium-sized enterprises (SMEs).

**5. Enhanced effectiveness of public oversight and quality assurance of auditors by the Public Audit Oversight Commission and the National Chamber of Auditors (KIBR).**

An institutional analysis of KIBR was conducted, which identified capacity constraints in a number of areas, including



quality assurance and accountancy education. The CFRR provided assistance on a broad range of topics, from enhancing the relevant legislative framework, to the future direction of the KIBR strategy, with a focus on areas within the organization's mandate that are of significant public interest. Information technology (IT) solutions were also delivered to strengthen the quality assurance and oversight system.

**Poland: a development partner in financial reporting reform**

The World Bank's Country Partnership Framework (2014–2017) identifies four strategic engagement areas, including that of Poland as a global development partner. Poland can offer useful support and advice to

countries that are about to embark on a similar journey on the road to financial reform, especially countries that aspire to join the EU. This opportunity for 'knowledge cascade' was put to good use during a workshop organized by the CFRR in Warsaw in March 2016. The workshop convened accountants and auditors from six countries in the EU's Eastern Partnership – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Representatives from these countries explored ways of implementing the most appropriate accounting and financial reporting regime for SMEs, with Poland's experience in this area providing them with a source of invaluable information.





# Our People

## Interview: Henri Fortin

### About the Work and Impact of the World Bank Centre for Financial Reporting Reform



#### Henri Fortin

Global Lead for Governance and Financial Reporting

Henri Fortin was Head of the World Bank Vienna Centre for Financial Reporting Reform (CFRR) from January 2011 to January 2016.

The interviewer was Jiwanka Wickramasinghe, Senior Financial Management Specialist, Governance Global Practice

**When you became Head of the CFRR in 2011, what were the main challenges that you had to address?**

When I joined the CFRR, it had been in existence for just over three years and we were ready to move from a start up to a mature organization. One of my first challenges was ensuring that we managed to bring on board sufficient new talent to deliver a growing program for our partner countries. Promoting the importance of

accounting and auditing among business people and convincing them that it is actually very important is not an easy feat. Further, bringing a real business perspective into accounting, which is often seen as a purely technical and, some may say, a boring subject, were a couple of the challenges I had to address – and which continue to prevail. With regard to financial reporting in general, there was quite a lot of resistance to change and it was not always easy to keep stakeholders engaged and committed. In order to maintain reform momentum and ensure that the right policy instruments were put in place and that implementation was effective, we had to adopt a strategy which encouraged involvement at all levels. It takes time to make progress in implementing regulatory reform so it was also important to make partner countries aware of this. Another challenge was gaining acceptance of innovative approaches such as peer learning, which helps participants to benefit from the experiences of other countries. Such approaches can help promote the effective implementation of reforms. This was a new concept for some of the CFRR's partner countries, so it took a while before the value of this approach was fully recognized.

**What do you regard as the CFRR's most significant accomplishments during your tenure from 2011–2016?**

A major accomplishment has been to help the accounting and auditing profession, regulators, students and other stakeholders in our partner countries understand and actually carry out financial reporting reform, including the adoption of the International Financial Reporting Standards (IFRS) for small and medium enterprises (SMEs). So it is clear that CFRR's programs have had a real

impact and can continue to make a contribution to the achievement of several key development goals, including: sustainable private sector-led growth; financial stability; economic governance; and regional integration as an engine of development. Financial reporting can be challenging as it involves many different and sometimes complex dimensions – legal reforms, modernizing education systems, institutional building, adopting new standards, and so on. Therefore, we are very pleased of the progress that the countries of Europe and Central Asia have made in this field. We have hosted a number of regional and in-country workshops and have provided technical assistance in accounting education, accounting and auditing standards, public oversight, and the transposition of European Union (EU) directives. Another area in which the CFRR has made important strides is in helping countries to develop a cadre of well-trained accountants and auditors. The leading professional accountancy organization in each of the CFRR's partner countries is now affiliated with the International Federation of Accountants (IFAC). This is an important milestone as achieving IFAC membership helps the country's accounting and audit profession become a part of the international community. Members also gain access to important resources, for instance on auditing methodologies and continuing professional education. Since it is imperative that universities keep their curricula up-to-date, apply modern learning approaches and gain recognition, the CFRR has also developed a university education benchmarking tool for undergraduate and master accountancy programs at several universities. The CFRR recognizes the importance of a strong SME sector – estimated to account for over 95 per cent of

all companies around the world – for boosting growth, competitiveness and innovation, creating jobs, and achieving shared prosperity. Prior to 2015, there was a growing consensus against requiring SMEs to enforce the full IFRS because they were considered too small to shoulder the cost of meeting that very high standard, with no corresponding benefits. At the same time, complete deregulation of SME reporting was seen as a risky alternative. Therefore, in December 2015, a revised version of *IFRS for SMEs* was issued to meet the needs and capabilities of SMEs. Together with the IFRS Foundation and the International Accounting Standards Board (IASB), the CFRR is raising awareness about these new standards. It is also helping SMEs in partner countries to build capacity for the implementation of the *IFRS for SMEs* through activities such as 'train the trainers' workshops. By promoting the use of information technology among accountants and audit practitioners, we are assisting small accounting and audit practices to move beyond traditional accounting services toward achieving excellence and greater efficiency. This also means that SMEs have greater access to quality accounting and audit services at a fair price. One of the CFRR's main activities has been to promote a better understanding of audits by financial regulators. Such an understanding is essential to reduce expectation gaps, avoid unnecessary duplication of efforts, and, ultimately, support financial stability. In addition, financial regulators need to be proactive in monitoring the quality of financial reporting by the companies under their purview. The CFRR has facilitated an increase in dialogue between financial sector supervisors and bank auditors – key players in ensuring financial stability – by enhancing

the ability of regulators to use IFRS standards, and to apply a reconciliation approach between financial statements and prudential capital. In addition, through more dialogue, the oversight of banks' activities will also improve.

#### **What have been the key factors in the CFRR's success?**

Several factors have been instrumental in the organization's success. The fact that we were granted sufficient time to develop programs designed to help our partner countries has been invaluable. We also received unwavering support from our partners including the European Commission, the global standard-setters, professional accountancy organizations and many others. A talented, highly motivated and dedicated team with complementary skills and experience has played a key role in ensuring that we meet our objectives. We learned many lessons from our experiences and developed a clear vision in the form of a results framework. And, of course, the World Bank's convening power and experience has been of paramount importance. We realize that a "one-size-fits-all" approach does not work in a diverse regional context. Therefore, an important factor in the CFRR's success has been its engagement with partner countries to develop technical assistance that is tailored to their specific needs. For example, several of our partner countries have already prepared transposition tables and draft laws that are more closely aligned with EU requirements, as well as draft amendments to the accounting and auditing laws. A final evaluation report issued in January 2016 on the Road to Europe: Program of Accounting Reform and Institutional Strengthening

(REPARIS) program concluded that the CFRR has made a significant contribution to the development of the auditing profession and the creation of Public Oversight Bodies. We have also increased trainers' capacity to deliver sustainable local training programs tailored for small to medium-sized practice auditors, and have designed programs to meet the needs of financial regulators. Another key ingredient has been the constant reinforcement of links with stakeholders and institutions involved in financial reporting around the world, and promoting cooperation between partner countries through the sharing of experiences and lessons learned. Encouraging greater collaboration between key institutions within countries to ensure, for example, the effective regulation of audits has also been very significant. Through discussions with senior officials and local experts and the organization of regional workshops and in-country missions, the CFRR has ensured that its partner countries have gained a clear and complete understanding about the EU's *acquis communautaire*.

#### **What priorities do you see for the CFRR on the road ahead?**

Corporate financial reporting reform will, of course, remain key priorities for CFRR and the Governance Global Practice more broadly. We will continue and deepen our relations with the other Global Practices to ensure that, when relevant, reforms in the areas of accounting, audit and financial reporting are integrated as part of countries' broader development agendas and to our overall mission of eradicating extreme poverty and boosting shared prosperity. When it comes to accounting and auditing standards, I would say that it is "complicated









## Interview: Peggy Blake

### Retrospective of a Changing World Bank over the Past 33 Years

Peggy Blake is a Senior Program Assistant working with the Financial Management Team for the Europe and Central Asia Region's Governance Global Practice.

The interviewer was Jamie Lazaro, Research Analyst, Governance Global Practice.

#### What do you like most about working for the World Bank?

Even after 33 years, I continue to find the World Bank an incredibly interesting place to work. The staff are truly dedicated to the goal of reducing poverty in the world, and many give up a great deal of their personal time to pursue this mission. I was and continue to be impressed by the knowledge and experience that staff bring to the World Bank and by their ability to work together towards a common goal. Our cultural diversity also helps us to create better products for our clients.



#### How has your role evolved over the years?

The role of Administrative and Client Support (ACS) has changed quite a bit. When I joined the Bank, ACS staff were assigned to provide administrative support to 2-3 task team leaders. We all had typewriters on our desks, and the department shared the 2-3 word processing machines which were just being introduced at the World Bank. ACS staff spent a good part of their time typing reports and correspondence from handwritten notes. Being able to take dictation by shorthand was also a valuable skill. As technology evolved and e-mail was introduced, the ACS staff had the responsibility for typing the e-mail replies from their supervisors. Gradually, over a period of about 10 years, typing became a skill that was a requirement for all staff. ACS



staff responsibilities then shifted from supporting individuals to supporting larger and larger teams.

#### What has been your favorite assignment at the World Bank?

My favorite assignment has been my current position as Senior Program Assistant working with the financial management staff for the Europe and Central Asia (ECA) Region. It is a small group of about 30-35 staff located at Headquarters and in the field. Partially due to our small size, we have been able to create a supportive team that works well together despite our dispersed locations. As part of World Bank missions, I have traveled to Austria, Belgium, Croatia, Russia, and Turkey. I truly appreciate the opportunities I have had to learn more about the world in general, and about the financial management work the World Bank does in the ECA countries in particular.



#### Describe a memorable moment or event during your career.

I participated in a month-long, 40-member agriculture mission to Moscow in November 1991, just after the breakup of the former Soviet Union. At the time, the Moscow office was one large room and located in a hotel. I remember how helpful the local staff were and how dependent we were on them to understand the language and the culture. These were very difficult times for the countries involved. I was happy to visit

Moscow nine years later to see the great improvements that had taken place. I am also proud to have been part of the Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS) from the early stages. In this context, I have assisted with three conferences between the years 2004 and 2012.



#### Over the past 30 years, what are some examples of positive changes you have seen in the World Bank?

I feel that the Bank has become more client focused over the years. Instead of making assumptions about what is best for the borrower, we are listening more and allowing them to come up with solutions. Also, improved gender balance in management positions has benefitted the World Bank, and has allowed us to be a role model for developing countries.



# Events & Publications

## Events

### Knowledge Exchange on Financial Reform for Economic Development (FRED) in Asia

#### Fily Sissoko

Practice Manager for South Asia,  
Governance Global Practice



The Confederation of Asian and Pacific Accountants (CAPA), together with the World Bank and the International Federation of Accountants (IFAC), launched the first in a series of high-level regional conferences on *Financial Reporting for Economic Development (FRED)* in May 2014. The aim of the conference was to increase awareness among regulators and policy makers in Asia about the role and importance of accounting and auditing to improve the business climate, as well as to strengthen public financial management to enhance governance and accountability for the public interest. The 2014 conference in Sri Lanka convened some 200 regulators, policy makers, business leaders, academics and professionals from across Asia to discuss with international experts the state of the financial reporting supply chain in Asia, including its relevance to private and public sector development.

Through a series of plenary and breakout sessions, the delegates discussed various aspects of the supply chain and the



particular challenges in South Asia. Challenges include, for example, ethics, education and the supply of adequately qualified accountants in the private and public sectors, as well as effective quality assurance and oversight. The sessions were interactive and featured a high degree of audience participation, resulting in frank and at times heated discussions of realities in South Asia. Participants also addressed the challenges in providing for the kinds of corporate and public sector reporting that could foster better governance and help create the business environment necessary to attract investment and create jobs in the region.

#### Agreed actions

Conference delegates endorsed the following actions:

- Contribute to enhancing quality corporate financial reporting by developing practical implementation guidance that is based on case studies, and that empowers the preparers and accountants in applying them.
- Develop more professional accountants to serve both the public and private sectors at the technical and professional levels.
- Establish partnerships between the profession and governments to



implement public sector accounting standards.

- Initiate a process to implement integrated reporting.
- Establish a regional center of knowledge about financial reporting.
- Host FRED Conferences periodically.

The program and further details including all presentations made can be found at the conference website at <http://www.fredasia.org>.



#### Future directions

Building on the success of the first conference, the 2nd Financial Reform for Economic Development Forum in Asia (FRED II) will be held in Kuala Lumpur, Malaysia on

May 17-18, 2016. The theme of the conference will be 'Driving Future Outcomes from Past Experience'. The 2016 Forum will explore how improved public financial management contributes to strengthening the public sector, improving government accountability and transparency — thereby supporting poverty reduction and encouraging economic growth. Experts from governments, non-governmental organizations (NGOs) and the private sector will share their experiences in dealing with challenges as they relate to public financial management, and identify practical strategies to enhance the implementation of effective public sector financial systems across Asia.

## Selected Publications

### From the World Bank Centre for Financial Reporting Reform



#### Practical Guide for PAOs on Continuing Professional Development for Accountants (2016)

Professional accountants recognize that achieving and maintaining the highest levels of professional competence can help them win business and retain clients. Professional Accountancy Organizations (PAOs) have an important role to play in encouraging, facilitating and monitoring life-long learning. With the support of participating PAOs involved in the EU-REPARIS Audit Training of Trainers program, the World Bank Centre for Financial Reporting Reform has produced a short practical guide on Continuing Professional Development (CPD). It offers tips and suggestions on good CPD practices to help PAOs and their members meet international standards and keep pace with accountancy changes and innovations. The full version of the guide can be found at:

[http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/cpd\\_21\\_01.pdf](http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/cpd_21_01.pdf)



#### Banking Supervisors and External Auditors: Building a Constructive Relationship (2015)

This publication presents key findings from the World Bank CFRR survey that was conducted during the second half of 2014, as well as discussions with regulators conducted in 2015.

Responses from 35 supervisory authorities from the European Union and other countries in Eastern Europe, South Eastern Europe and the South Caucasus suggest that stronger two-way interaction between external auditors and supervisors can improve the quality of external audits and enhance banking supervision.

This report highlights some actionable insights based on reported good practices that can be helpful to banking supervisors in managing their relationships with bank auditors. The report can be used to define the necessary policies and guidelines toward building enhanced collaboration between auditors and supervisors, thereby contributing to better auditing and supervisory practices.

The full version of the report can be found at:

[http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/survey\\_final\\_lq.pdf](http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/survey_final_lq.pdf)

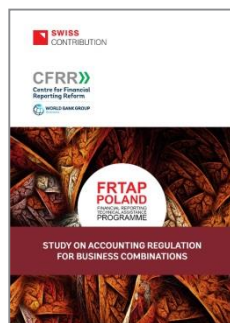




## Guide to Corporate Sector Accounting and Auditing in the Acquis Communautaire (2015)

This Guide outlines the European Union (EU) legislative framework governing corporate sector accounting and auditing. It is primarily intended for policy makers, regulators, and other stakeholders in EU Member States, enlargement countries, countries within the "European Neighborhood" and others interested in understanding the EU regulatory model. This third edition of the Guide, published in May 2015, provides an overview of the relevant provisions of the *acquis communautaire*, including significant recent changes in EU corporate financial reporting following the adoption of a new Accounting Directive in June 2013, a "new Statutory Audit Directive" of April 2014, and a new Audit Regulation addressing oversight. The full version of the guide can be found at:

[http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1314868857605/EU\\_Acquis\\_3.pdf](http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1314868857605/EU_Acquis_3.pdf)



## Study on Accounting Regulation for Business Combinations (2014)

This study is available in both English and Polish, and includes an analysis of domestic and international accounting standards applicable to business combinations. It also features a review of the literature available on the subject, as well as practical information and case studies. The report proposes enhancements to existing legislation to ensure compliance with EU laws and regulations, in particular with Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 regarding the annual financial statements.

The full version of the report can be found at:

[http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1275645279412/Business\\_Combination\\_EN.pdf](http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1275645279412/Business_Combination_EN.pdf)



## Review of Polish and International Accounting Standards in Scope of Financial Instruments (2014)

This report is available in both English and Polish and contains an analysis of domestic and international accounting standards applicable to financial instruments. It also features a review of the literature available on the subject, as well as practical information and case studies. The report proposes enhancements to existing legislation to ensure compliance with EU laws and regulations, in particular with Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements.

The full version of the report can be found at:

[http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1275645279412/Financial\\_Instruments\\_EN.pdf](http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1275645279412/Financial_Instruments_EN.pdf)



## Financial Reporting in Austria: The Views of SMEs and Local Banks (2013)

Small and medium-sized enterprises (SMEs) play a particularly important role in the Austrian economy, with commercial banks acting as their main source of external finance. As SMEs are also very important in the Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS) countries (participating countries/entities included Albania, Bosnia and Herzegovina, Croatia, Kosovo, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, and Serbia), analyzing how SMEs and their banks view the operation of financial reporting in Austria could produce some useful guidance for the design of financial reporting frameworks in the REPARIS countries.

In cooperation with the Austrian Federal Economic Chamber and the Austrian Institute for SME Research, the CFRR conducted two surveys in late 2012 collecting information on SME experience with corporate financial reporting, as well as Austrian bank requirements for financial information from SMEs applying for credit. The surveys found that

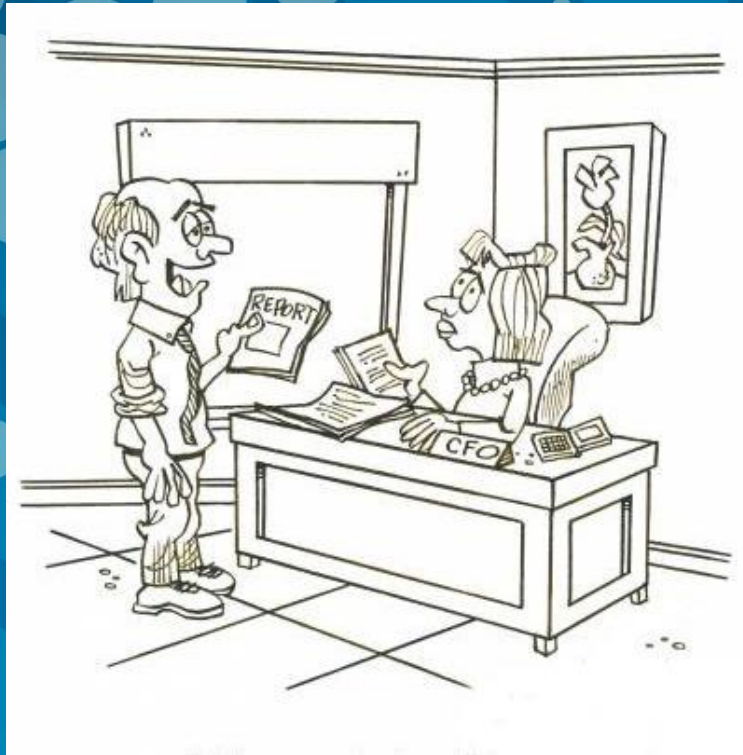
financial statements, both audited and unaudited, play a valued role for Austrian SMEs; this is the case not only for tax purposes, but also in terms of helping SMEs to improve the financial management of their businesses. In addition, due to their important role in bank decisions about whether to extend a loan, financial statements facilitated SME access to bank financing.

However, the potential benefits for Austrian SMEs from financial reporting very much depend on: (i) the system striking an appropriate balance between promoting improved financial information and reducing the regulatory burden on reporting firms; and (ii) the accounting and auditing profession's ability to provide reasonable assurance regarding the data accuracy of the financial information provided in a SME credit application. In this respect, the surveys found that the Austrian audit profession has a generally good reputation for providing reasonable quality assurance for financial decision making among Austrian credit institutes.

The full version of the report can be found at:

[http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1270824012230/6954188-1369301061218/CFRR\\_SME\\_Austria\\_CFR\\_Study.pdf](http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1270824012230/6954188-1369301061218/CFRR_SME_Austria_CFR_Study.pdf)

## Comic Relief



“This year we’re in really great shape.  
Nobody understands our financial statement!”



“Next time be more careful  
where you put the decimal point!”



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Washington, DC  
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