



Centre for Financial
Reporting Reform



WORLD BANK GROUP



Road to Europe – Program of Accounting Reform and Institutional Strengthening

Progress Report 2017

This project is funded by the European Union



and is an integral part of WB EDIF



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List of Abbreviations and Acronyms

ACCA	Association of Chartered Certified Accountants (UK)
ADA	Austrian Development Agency
A&A	Accounting and Auditing
A&ACoP	Accounting and Auditing Community of Practice
AO	Audit and Oversight
CFR	Corporate Financial Reporting
CFRR	Centre for Financial Reporting Reform
CoP	Community of Practice
CPD	Continuing Professional Development
DAC	Donor Advisory Council
EaP	EU Eastern Partnership
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ECAFM	Financial Management Unit of the ECA
EduCoP	Accounting Education Community of Practice
EU	European Union
EPI	Economic Prosperity Initiative of USAID
FR	Financial Reporting
FSB	Financial Stability Board
GDLN	Global Development Learning Network
IASB	International Accounting Standards Board
IAESB	International Accounting Education Standards Board
ICE	In-Country Engagement
IDF	Institutional Development Fund (World Bank)
IES	International Education Standards (for Professional Accountants)
ESBA	International Ethics Standards Board for Accountancy (IFAC Board)
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
KM	Knowledge Management
MDTF	Multi-Donor Trust Fund
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MSMEs	Micro, Small and Medium-sized Enterprises
PAO	Professional Accountancy Organization
PB	Professional Body
PIE	Public Interest Entity

POB	Public Oversight Board
POS	Public Oversight System
QAS	Quality Assurance System
REPARIS	Road to Europe: Program of Accounting Reform and Institutional Strengthening
ROSC	Report on the Observance of Standards and Codes
SAD	Statutory Audit Directive
SOE	State-owned enterprise
SME	Small and Medium-sized Enterprise
SMP	Small or Medium-sized Practice
SOW	Senior Officials' Workshop
STAREP	Strengthening Auditing and Reporting in the Eastern Partnership
TA	Technical Assistance
USAID	United States Agency for International Development
WB	World Bank

Executive Summary

The Road to Europe: Program of Accounting Reform and Institutional Strengthening (EU-REPARIS) was launched in May 2015 to provide support for Western Balkan countries in financial reporting, in particular to promote enhanced availability, transparency and reliability of financial information as a means to help SMEs grow and access finance. The program focuses on:

- Addressing the need for improved institutional capacity and better statutory frameworks, aligned with the acquis and harmonized regionally;
- Supporting the accounting profession to offer enterprises, especially SMEs, effective business support services, and advice on accessing finance and complying with regulatory requirements;
- Improving financial literacy, raising awareness and promoting the role of sound financial reporting for business management, access to finance and to meet regulatory requirements;
- Improving accounting education systems at all levels; and
- Developing supportive networks of institutions among the countries of Southeast Europe, building sustainability and improving awareness of the benefits and successful approaches to corporate financial reporting reform.

Funded by the EU, and an integral part of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF), the program pursues an approach that combines capacity building and technical assistance. Through communities of practices as well as train-the-trainer courses, key stakeholder groups are invited to training and learning events that provide the necessary skill enhancements at the individual and institutional level and allow for regional experience sharing. In addition, the program offers analytical work as well as targeted technical assistance on institutional and statutory reform.

The program is now in its third year. Key development results to date include:

- Enabling sustainable regional coordination and potential regional sharing of resources and functions, as stakeholders from participating countries, particularly in the area of audit oversight and quality assurance, have built connections and trust through their joint work in the program and now have asked the Bank for help in furthering cooperation and possible regional integration of their work;
- Mobilizing resources for additional, country-level technical assistance projects in Montenegro, Kosovo, and Serbia as well as twinning arrangements for Albania, Macedonia and Kosovo;

- The establishment of regulatory institutions in several countries including public oversight boards that help improve the quality and reliability of accounting and auditing;
- More modernized and advanced accounting and auditing laws aligned with EU requirements in most countries and improved implementation practices;
- The introduction of international financial reporting (IFRS) and auditing (ISA) standards in all countries and improved capacity in their application
- Nationally recognized professional accountancy organizations (PAOs) have been established in all countries, with much improved practices in fulfilling their accreditation and education mandate. More PAOs participate as members in international associations such as IFAC and follow international good practices such as international education standards (IES);
- A much-improved in-depth understanding and capacity among senior decisions makers as well as working level participants to determine effective ways of implementing reform in line with international good practice and EU requirements.

Highlights of the program year 2017 included:

- Joined by the Serbian Minister of Finance, a Senior Officials meeting was held in Brussels on 28-29 March to review reform status, program progress as well as to provide opportunities of exchange and discussion with representatives of the EU;
- A Financial Reporting Community of Practice workshop on 24-25 October as well as the published paper "Public Oversight Systems for Statutory Audit in the EU focused on transferring knowledge on enforcement systems, public oversight and quality assurance;
- The regional Small and Medium Practices (SMPs) Forum, jointly organized with the International Federation of Accountants on 31 May brought together 20 PAOs for an exchange on how to better assist SMEs;
- The dissemination and the discussion of the contents of the regional Accountancy Benchmarking Study on 1 June helped identify gaps in the education system, lessons learned and the way forward;
- Further workshops of the Audit Training of Trainers Workshop were completed;
- Several publications, case studies and guides in the area of accounting education and SMP practices were finalized and help bridge the gap between theory and practical application;
- Financial sector supervisors met for an IFRS executive seminar from 22-24 November to discuss and hear from experts on implementation challenges and solutions for IFRS9 and IFRS15;

- A survey “Lending Practices in the Balkans” was completed providing an in-depth understanding of Bank lending to SMEs and the role of financial statements;
- Several country-level workshops, round table discussions and technical assistance interventions in the area of convergence, legal amendments, IFRS and education;
- The EU-REPARIS team was represented at the Western Balkans 2017 Summit in Trieste, July 2017, the 5th anniversary event of EDIF in November 2017 as well as several EDIF related events.

In 2018, EU-REPARIS goes into its final year. A Ministerial Conference and several technical events are planned for late November in addition to learning events throughout the year. Several publications and research are planned. Policy dialogue continues through technical assistance missions in all countries. A detailed program plan is available upon request.

Activities and Progress 2017 by Component

Component 1a – Financial Reporting Community of Practice

Activities

Activity	Topic	*	Date	Location
Workshop	Critical path for the successful implementation of the acquis: The example of Croatia		Postponed to 2018	Croatia
	Progress in the implementation of the new accounting and auditing directives ¹	YES	24-25 October	Vienna
Virtual meeting	Two virtual meetings to discuss the progress of implementation by country and to prepare the November workshop		Done through emails and conference calls	N/A
Research/ Publication	Public Oversight Systems for Statutory Audit in the EU ²	YES	June	N/A

The FRCoP met on 22-24 October 2017 to review how better enforcement systems can help to improve compliance with audit standards and accounting standards. The main objective of the workshop was to improve knowledge of the role and practices of audit public oversight and quality assurance systems, including their reporting; and to review the elements of non-financial reporting prepared by companies in the European Union (EU).

Sharing European Expertise

Several experts participated alongside the experts from the CFRR, including representatives of the German Audit Oversight Body and an academic from the Netherlands, who also acts as a director in a listed company. EU-REPARIS countries presented the status of reforms to strengthen public oversight systems as well as the main challenges they face. Most countries are in the process of amending relevant audit legislation to strengthen their public oversight systems. Only two countries currently have an operating quality assurance system (QAS);

¹

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23762799~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

² <http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1380634652337/POS-paper.pdf>

others are in the process of either initiating these systems (Kosovo, Montenegro) or building capacity (Bosnia and Herzegovina).

Supporting Regional Coordination and Possible Integration

Country representatives asked the CFRR for further assistance on quality assurance and public oversight, including through in-country workshops. Notably, however, country representatives also expressed particular interest in the Bank's continuing help to strengthen their coordination across countries and possibly develop shared resources or integrate resources and activities over time. This is a very promising development for the Western Balkans, because many of the functions of audit oversight and quality assurance do not "scale down" well to small countries, and could be much more effectively handled through regional coordination and integration. In addition, coordination and future integration of some of these functions would contribute to a more uniform standard of quality and reliability of financial information in the region, to assist in cross-border investment and regional economic integration. The interest in further regional coordination and possible integration is a significant achievement of EU REPARIS, and results from the opportunities for shared problem-solving and the gradual building of trust among stakeholders from different countries afforded by a regional program.

Promoting European Standards

A publication "Public oversight systems for statutory auditors in the EU"³ prepared jointly under the EU REPARIS and STAREP programs of the CFRR reflects on the rationale for public oversight of auditors, summarizes the relevant EU legislation and international benchmarks for public oversight systems, and thereafter provides the EU REPARIS countries with a comparison and contrasts the different approaches taken by EU member states to operate their public oversight systems.

Progress towards Program Outcomes

Discussions highlighted the lessons learned and experience gained by EU-REPARIS countries in establishing public oversight systems. These included planning well ahead for the time it takes to pass new laws, and the importance of finalizing the concordance tables with the Accounting Directive (2013) and the Audit Directive and the Audit Regulation (2014). Updated concordance tables reflecting the new requirements were prepared for several countries, other are in the process of finalizing those (with the accounting directive for Kosovo, and for both directive Serbia).

³ <http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1380634652337/POS-paper.pdf>

Unforeseen challenges and actions taken in response

A second workshop to take place in Croatia was envisaged at planning stage to disseminate the experience of Croatia in adopting the *acquis* on accounting and auditing. The timing of the workshop had to be reviewed because of the government working on the passing of the new audit law, including the approximation of the directive.

Component 1b – In-Country Implementation Support

Component 1b “In-Country and Implementation Support” is closely linked with the other components of this program. It aims to provide support to countries at the local level, including applying and implementing concepts presented as part of regional events and workshops. CFRR country relationship managers regularly visit the six EU-REPARIS countries to engage in direct dialogue with senior government representatives, working level counterparts as well as representatives from the profession, academia, the business community, and other stakeholder groups. Mission travels are co-funded by the trust fund, companion country-level projects, and the World Bank budget. A list of travels and meetings is available upon request.

Albania	
Activity/Topic	No further activities due to companion country project
Expected Outcomes	Refer to documentation of companion country project (available upon request).
Bosnia and Herzegovina	
Activity/Topic	<ul style="list-style-type: none"> Workshop to identify and report on key priorities and challenges for convergence of the two main entities and national level law with the EU <i>acquis</i> in the areas of accounting and auditing; Workshop to build capacity of institutions involved in quality assurance and audit oversight, October 2017.⁴
Expected Outcomes	<ul style="list-style-type: none"> Closer alignment of legal framework with EU requirements; Greater coordination between the Federation of Bosnia and Herzegovina and Republika Srpska in building capacity to implement revised laws on accounting and auditing; Better understanding of audit oversight among key stakeholders.

⁴<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23767887~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

Kosovo	
Activity/Topic	<ul style="list-style-type: none"> Country-level project was approved and launched in mid-2017. Funded by FIRST Initiative, it provides assistance to the Kosovo Financial Reporting Council (KFRC) to increase capacity in public oversight and quality assurance; Policy dialogue, mission travels and just-in-time technical assistance regarding ongoing law amendments (two technical support mission in September and November 2017 provided support and written comments to the MoF and the KFRC working group drafting amendments to the Law on Accounting, Financial Reporting and Auditing); Accountancy education benchmarking in-country working conference (with academia, regulators, the profession, policymakers and business support community), July 2017.⁵
Expected Outcomes	<ul style="list-style-type: none"> Increased capacity of regulators and PAOs to perform public oversight and quality assurance roles; Greater alignment of legislation with EU requirements through legislation amendments and improvements; Increased compliance of professional bodies with IFAC statements of membership obligations, and enhanced compliance of accounting education systems with IES; Connections established between a wide range of stakeholders, including academic and professional accountancy educators, regulators, policymakers, public and private sector employers and the business community whose coordinated efforts are required to improve national accountancy education and drive in country reforms consistent with IES requirements.
Macedonia	
Activity/Topic	<ul style="list-style-type: none"> Policy dialogue, mission travels and just-in-time technical assistance; Two-day workshop on IFRS 9 Training for Banks Supervisors in January 2017;

⁵<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23752673~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

	<ul style="list-style-type: none"> Accountancy education benchmarking in-country working conference (with academia, regulators, profession, policymakers and business support community), June 2017.⁶
Expected Outcomes	<ul style="list-style-type: none"> Greater alignment of legislation with EU requirements through legislation amendments; Progress in implementing standards compliant with the EU Auditing Directive and readiness to implement the process for audit quality assurance; The Institute of Accountants and Certified Accountants envisioned by the Law on Accounting Services became operational; Increased compliance among professional bodies with IFAC statements of membership obligations and compliance of accounting education systems with IES; Connections established between a wide range of stakeholders, including academic and professional accountancy educators, regulators, policymakers, public and private sector employers and the business community whose coordinated efforts are required to improve national accountancy education and drive in country reforms consistent with IES requirements; Raised capacity of financial regulators to monitor banks' compliance with IFRS 9 starting January 2018.
Montenegro	
Activity/Topic	<ul style="list-style-type: none"> Policy dialogue, mission travels and just-in-time technical assistance; In-country conference (with academia, the profession, policymakers, representatives of employers and business support community), October 2017;⁷ Provided support to the Institute of Certified Accountants of Montenegro's (ICAM) application for full IFAC membership.
Expected Outcomes	<ul style="list-style-type: none"> A new Law on Accounting and Auditing was passed showing greater alignment of legislation with EU requirements;

⁶<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23752624~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

⁷<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23761357~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

	<ul style="list-style-type: none"> Progress in implementing standards compliant with the EU Auditing Directive and increased readiness to implement the process for audit quality assurance; Increased compliance among professional bodies with IFAC statements of membership obligations, and compliance of accounting education systems with IES; IACM became a full IFAC member in November 2017. Connections established between a wide range of stakeholders, including academic and professional accountancy educators, regulators, policymakers, public and private sector employers and the business community whose coordinated efforts are required to improve national accountancy education and drive in country reforms consistent with IES requirements;
Serbia	
Activity/Topic	No further activities due to companion country project "STAR-CFR".
Expected Outcomes	See documentation of companion country project.

Component 2a – Education Community of Practice

Activities

Activity	Topic	*	Date	Location
Event / Workshop	SMP Forum: Joint event with IFAC ⁸	*	31 May	Vienna
	EduCoP: Accountancy Education Benchmarking Study - Dissemination Workshop ⁹		1 June	Vienna
Research/ Publication	Accountancy Education: A Collection of Good Practices ¹⁰		February	N/A

⁸<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23751134~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

⁹<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23751170~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

¹⁰http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/9765106-1487166467531/benchmarking_good_practices.pdf

Activity	Topic	*	Date	Location
	Commitment to Lifelong Learning: Guide for Implementing Output Based CPD ¹¹		August	
	Success Story – Accountancy Education Benchmarking Program ¹²		August	
	Towards Regional Integration of Professional Accountancy Education in Western Balkan Countries – Regional Survey		December	

The program year was devoted to disseminating the results of the Accountancy Education Benchmarking Study. Regional workshops provided an opportunity for educators in the region to discuss the Study's findings, the lessons learned, and the best way forward to align accountancy education programs with international best practices as well as to increase the labor readiness and skills of the next generation accountancy workforce. The focus was on initial university education as well as further capacity development of PAOs in complying with IES as a best practice for initial and continuous professional development. Many good practices in accountancy education in the Western Balkan region emerged from the Study, including some unique insights into how often resource constrained institutions have innovated in order to implement IES, and these were cataloged in an accompanying regional publication for knowledge sharing.

Further discussions with IFAC took place in New York during October to build further on the work established through the Accountancy Education Benchmarking Study and develop a tool to support IES adoption that will provide a public good to support sustainable adoption of IES among a broad range of stakeholders for the whole economy.

As a joint event with IFAC, the SMP Forum emphasized the comprehensive role that SMPs play in supporting SMEs to grow, and further explored the professional services that are emerging. Successful models and cases were showcased and participating PAOs benefited from IFAC SMP Committee's knowledge sharing and resources.

A dedicated webpage was developed for the EU-REPARIS Education Community of Practice¹³ summarizing the regional knowledge, resources and accountancy education benchmarking tools developed under this activity. Also testimonials and wide reaching benefits of accountancy education benchmarking were published in a Success Story.

¹¹http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/Output_based_CPD_pages.pdf

¹²http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/eu-reparis_success_story2_pages.pdf

¹³<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23753732~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

A survey was launched through the regional Education Community Practice to explore the Western Balkan PAOs' views and opinions and explore practical proposals to enhance their regional cooperation in the area of education and professional development and consider developing harmonized professional qualifications that achieve a high level of international recognition.

Progress towards Program Outcomes

- Increased capacity of professional bodies to comply with IES and, in particular, with IES2 – Initial Professional Development – technical competence; IES 3 - Initial Professional Development – Professional Skills; IES4 – Initial Professional Development – Professional Values, Ethics and Attitudes and others. Awareness was raised regarding the ongoing proposed amendments to IES 7 – continuing professional development (CPD) as well as the need to move away from traditional CPD systems that focus on recording and measuring inputs, rather than whether actual learning has occurred;
- Synergies identified and connections established in several countries between a wide range of stakeholders, including academic and professional accountancy educators, regulators, policymakers, public and private sector employers and the business community whose coordinated efforts are required to improve accountancy education,;
- Participating universities and PAOs learned from good practices and through the peer exchange process, with a view to facilitate knowledge sharing and exchange within the institutions from the region;
- Increased commitment from PAOs to collaborate more closely regionally to develop and maintain high quality accountancy education systems aligned with IES.

Unforeseen Challenges and Actions taken in Response

- N/A

Component 2b – Training of Trainers (ToT)

Activities

Activity	Topic	*	Date	Location
Workshop	Audit ToT Module 3 - Audit Execution ¹⁴		15-16 March	Vienna

¹⁴<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23745935~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

Activity	Topic	*	Date	Location
	Audit ToT Module 4 - Conclusion and Reporting ¹⁵		2-3 October	Vienna
Virtual seminar	Responding to Non-Compliance with Laws and Regulations (NOCLAR) ¹⁶		26 April	N/A
	Leveraging Data Analytics to Add Value to SMEs ¹⁷		31 August	
Resources/ Publication / Articles	Data Analytics: Opportunities and Tips for SMPs ¹⁸		January	N/A
	CFRR article published on the IFAC Knowledge Gateway discussing Audit Data Analytics and offering useful tips for SMPs based on this publication ¹⁹		January	
	Small and Medium Practices: The Trusted Advisors of SMEs ²⁰		April	
	Educational Resource: Role Play Exercise – Developing Effective Interview Skills ²¹		March	
	Educational Resource: Simulated Client Meeting – Developing Client Relationship Skills ²²		March	
	Educational Resource: Going Concern Judgements ²³		August	
	Success Story – Audit Training of Trainers Program ²⁴		August	

¹⁵<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23759943~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

¹⁶<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23748161~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

¹⁷<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23756579~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

¹⁸http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/SMPs_spreads_digital.pdf

¹⁹<http://www.ifac.org/global-knowledge-gateway/audit-assurance/discussion/audit-data-analytics-opportunities-and-tips>

²⁰http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/SME-SMP_pages.pdf

²¹<http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/9765106-1477404108473/RolePlay.pdf>

²²http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/9765106-1457708707133/Client_Meeting_Simulation.pdf

²³http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/Group_Challenge_Going_Concern.pdf

²⁴http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/eu-reparis_success_story_pages.pdf

Activity	Topic	*	Date	Location
	Case Study: SME Client Simulation Volume 1 ²⁵		October	
	Case Study: SME Client Templates and Examples Volume 2 ²⁶		October	

The program year delivered workshops and virtual seminars aimed at raising the capacity of Small and Medium Sized Practitioners (SMPs) to provide quality services to SME clients and to ensure that they are up to date with important developments in accountancy standards, such as the newly issued ethical standard - NOCLAR that become effective in July 2017.

Several publications, educational resources and case studies were developed to (i) help bridge the gap between theory and the practical application of international standards, to (ii) support SMPs develop competencies in communication, problem solving and business acumen skills necessary to appropriately serve their SME clients, and (iii) to take advantage of the opportunities offered by advances in technologies. An article was published on the IFAC Knowledge Gateway, a global resource for disseminating knowledge to accountants worldwide.

A dedicated webpage was developed for the Training of Trainers Program²⁷ summarizing the developed educational resources and tools under this activity. Also testimonials, participants feedback, program reviews and impact measurements were published in a Success Story.

Progress towards Program Outcomes

- Raised capacity of professional bodies to comply with IES and, in particular, with: IES 7 – continuing professional development (CPD); IES 8 – competence requirements for audit professionals and others;
- Greater capacity of professional bodies to deliver high quality and sustainable training for SMPs and design CPD systems that comply with IFAC SMOs and IESs, including delivering training materials, practical teaching approaches and case studies for further local replication and use;
- Improved awareness and knowledge regarding the benefits that technology advances and data analytics bring to practitioners and how these advancements are impacting the accountancy profession to offer a wide range of services to SME clients;

²⁵<http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/CaseStudyPejaSko-Volume-I.pdf>

²⁶<http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/CaseStudyPejaSko-Volume-II.pdf>

²⁷<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23698794~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

- Improved awareness and knowledge regarding the new ethical standard on Responding to Non-Compliance with Laws and Regulations (NOCLAR) that is effective for all professional accountants engaged in business and in practice;
- Strengthened capacity of SMPs to deliver a broader range of professional services more suitable to the SMEs (e.g. create fundable business plans, raise finance, take advantage of fiscal and other incentives, and generate credible financial information that meets the needs of investors, lenders and guarantors).

Unforeseen Challenges and Actions taken in Response

- N/A

Component 3a – Financial Reporting Exchange Forum

Activities

Activity	Topic	*	Date	Location
Seminar	IFRS seminar	Yes	23-24 November	Vienna
	Auditors and Supervisors	Yes	22 November	Vienna
Research/ Publication	Policy note: Critical path for enhancing collaboration between supervisors and auditors	Yes	Draft in progress to be published in 2018	N/A

Supervisors and regulators responsible for supervising banks and insurance undertakings from the EU REPARIS countries met on 22-24 November for the 2017 Executive IFRS for Regulators workshop organized by the CFRR with the collaboration of the international accounting standards setter, IFRS Foundation and the International Accounting Standards Board. The workshop was organized in Vienna, Austria, at the premises of the Federal Ministry of Finance of Austria. Supervisors from existing European Union member countries supported the discussions.

The three-day workshop provided opportunity for participants to discuss implementation of IFRS 9-financial instruments, IFRS 17-insurance contracts and other standards with a board member of the IASB and staff from the IFRS Foundation, supervisors and experts from the World Bank, as well as exchange experiences on the preparation for the implementation of IFRS 9 that should be implemented across banks and insurance companies starting January

1st, 2018. IFRS 9 in particular presents substantial challenges and risks in the region, particularly with respect to SME access to finance, because it requires financial institutions to account for expected and not just incurred losses on the loans they make, which could in turn affect lending policies and potentially worsen lending conditions for SMEs. The workshop was in part aimed to help assure proper understanding and implementation of IFRS 9 requirements by bank supervisors, to address the risk that a misinformed approach by regulators could unnecessarily worsen lending conditions. Other topics were discussed such as the experience of De Nederlandsche Bank, the Netherlands' banking supervisors, in implementing a better relationship between banking supervisors and auditors and how to optimize interactions with auditors by properly sequencing the activities.

A policy note based on this experience is being drafted and will be published in 2018. This policy note will complete the set of publications on the relationship between auditors and supervisors done under EU-REPARIS such as the report on Banking Supervisors and External Auditors: Building a Constructive Relationship (2015) and the World Bank Guide for Banking Supervisors and External Auditors: Building a Constructive Relationship (2016).

Progress towards Program Outcomes

- The level of interaction and complexity of the questions asked by participants to presenters demonstrates that their knowledge of IFRS 9 on financial instruments, together with their new experience with implementation challenges, have considerably increased since inception of the program.
- Matters relevant to the collaboration of auditors and supervisors in the area of banking supervision have been reported as a very relevant topic during the workshop and using the formal feedback process.
- Participants have also reported that this event was a unique opportunity to learn from and interact with renowned international experts.

Unforeseen Challenges and Actions taken in Response

Two workshops were held on three consecutive days to save costs, and to facilitate the collaboration with the Austrian Finance Ministry.

Component 3b – Pilot Project on SME Reporting

Activity	Topic	*	Date	Location
Study/ Publication/ Survey	Lending practices in the Balkans: A survey of banks' practices in Serbia and dissemination workshop in Serbia		October 2017	Belgrade
	Empirical study on the linkages between quality financial reporting and cost of finance		Publication in 2018	N/A
	SME survey /Technical assistance product		In progress	N/A

Progress towards Program Outcomes

The study of bank lending practices to SMEs in Serbia, based on a survey of six of the largest banks, finds that financial statements are a significant input to banks' lending decisions to SMEs. The report was disseminated on 17 October 2017 in Belgrade at the Banking Association; in attendance were representatives from ten commercial banks (some of which had participated in the study), the Ministry of Economy, and other stakeholders.. The meeting acknowledged the findings and conclusions of the study and found them in line with their own practices.

The empirical study analyzed 12,656 firm-year observations from 3,879 distinct SMEs over an eight-year period. The study finds a statistically significant relationship between the quality of financial reporting and cost of debt. These findings are in line with similar studies conducted in mature economies; to our knowledge this is the first time such a study is conducted in an emerging economy. The paper was reviewed by a professor and researcher of accounting from New York University's Stern School of Business, a top US business school. He found the paper of good quality and made some suggestions for improvement. The paper has been revised in line with the professor's comments, and will undergo an internal review before publication in 2018.

Unforeseen Challenges and Actions taken in Response

A survey of the challenges SMEs face in accessing finance was envisaged at planning stage, which would be used to inform the design and content of the technical assistance product. However, upon discussion with several stakeholders, it was found that: a) numerous SME surveys have been undertaken, with low reliability of results, and b) such surveys were prohibitively costly. Consequently, the team engaged in several discussions with the Chamber of Commerce of Serbia to find ways to gather useful information from SMEs, including through small group discussions/workshops. A first meeting with four SMEs/startups was held

in December. While the information is anecdotal, the discussion was interesting and insightful and supported a conclusion that challenges to bank lending persist such as lack of compliance with loan application requirements (not having enough years of financial statements). The team plans to hold more such workshops going forward, with a view to develop a TA product that adequately meets the needs of SMEs.

Component 4 – Regional Cooperation and Knowledge Sharing

Activities

Activity	Topic	*	Date	Location
Workshop	Senior Officials' Workshop: ²⁸ <ul style="list-style-type: none"> Day 1 (technical focus): Implementing the acquis communautaire: key challenges; Day 2: Reviewing EU-REPARIS progress/supporting reform momentum jointly with donors. 	Yes	March 28-29	Brussels
Knowledge	Newsletter covering EU-REPARIS activities	Yes	Postponed	N/A
Management	Website pages: topics, events, country	Yes	Ongoing	N/A

In Brussels on 29 March 2017, Serbian Finance Minister Dusan Vujovic joined senior representatives of program beneficiary countries working with the World Bank Centre for Financial Reporting Reform (CFRR), CFRR development partners including the European Commission, and the Governments of Austria, Switzerland and Luxembourg, as well as World Bank/CFRR representatives. The meeting was convened to discuss financial reporting reform progress in countries in the Western Balkans and the European Union's Eastern Partnership, the results of two programs being implemented by the CFRR, and the road ahead.²⁹

Progress towards Program Outcomes

- Participants acquired additional knowledge to help them solve their reform challenges in a timely manner. The CFRR helped participants identify common challenges faced by countries, thus ensuring that its work for the duration of EU-REPARIS is performed effectively;

²⁸<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23746604~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

²⁹<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,contentMDK:23746604~pagePK:64168445~piPK:64168309~theSitePK:4152118,00.html>

- Increased opportunities for networking, experience sharing and international exchange, particularly with EU representatives;
- Clarity on the reform status and progress in each EU-REPARIS country, including reaching agreement on preferred future activities;
- Stronger linkages with reform partners, including a shared assessment of the status quo and consensus on possible avenues for the way forward.

Program Administration and Financial Summaries

Program Governance and Partners

EU-REPARIS is managed by the Vienna-based World Bank Centre for Financial Reporting Reform (CFRR), with a core team of experts and a panel of short-term consultants. Each of the program's components is led by a senior specialist. The country dialogue is led by designated country relationship managers supported by World Bank colleagues in the local offices.

Senior Officials representing the governments of the program's participating countries, typically Deputy Ministers of Finance, meet at least annually to review progress of the program and to endorse the work-plan. A ministerial level conference is held every two years.

A group of stakeholders is consulted regularly. The group comprises market participants from the region, foreign investors and other stakeholders, and provides insights into improving the design and implementation of EU-REPARIS.

EU-REPARIS is an integral part of the Western Balkans Enterprise Development and Innovation (WB EDIF) Facility, an EC-led initiative to support the development and growth of SMEs in the Western Balkans region. The program is funded by the European Commission, Directorate General for European Neighbourhood Policy and Enlargement Negotiations, with which the CFRR partners closely throughout the implementation of this program. The CFRR drafts program plans and progress reports for discussion with the EC.

For the program period January – December 2017, the following individuals were involved.

Management

Name	Position
Roby Senderowitsch	Practice Manager
Jarett Decker	Head, CFRR

Country-relationship responsibilities

Country	CFRR	Country- based Support
Albania	Andrei Busuioc	Keler Gjika
Bosnia and Herzegovina	John Hodge	Lamija Marijanovic

Country	CFRR	Country- based Support
Kosovo	Kalina Sukarova	-
FYR Macedonia	Kalina Sukarova	Atanasko Atanasovski
Montenegro	Kalina Sukarova	-
Serbia	Alfred Borgonovo	Aleksandar Crnomarkovic

Activity responsibilities

Overall program oversight		CFRR Head, Jarett Decker
Component 1	Corporate Financial Reporting Reform	Pascal Frerejacque
Component 2	Education and Capacity Development	Kalina Sukarova
Component 3	Access to Finance and Financial Sector	Pascal Frerejacque
Component 4	Regional Cooperation and Knowledge Sharing	John Hodge
Program Management		Reinhard Haslinger

Status of Outputs and Activities

The following table reflects on the status of activities initially planned as of 31 December 2017. Overall, cost-savings and other efficiency gains have allowed the team to deliver in a timely fashion. Given that resources are still available and the program scheduled to run throughout 2018, it is expected that at program end, more activities than initially envisaged and planned for will have been delivered.

Component	Activity Type	Initial Plan	Actual	Completion rate
C1 (CFR and In-country)	2-day WS	10	9	90%
	Virtual seminar	7	3	43%
	TA in mission travels	12	28	233%
C2 (Education)	2-day WS	8	9.5	119%
	Virtual seminar	11	6	55%
	TA in mission travels	12	9	75%
C3 (Financial sector)	2-day WS	5	6	120%
	Virtual seminar	5	3	60%
	TA in mission travels	12	6	50%

Component	Activity Type	Initial Plan	Actual	Completion rate
C4	MC	2	1	50%
	2-day WS	3	2.5	83%
	Virtual seminar	3	1	33%
	TA in mission travels	7	0	0%
Total	MC	2	1	50%
	2-day WS	26	27	104%
	Virtual seminar	26	13	50%
	TA in mission travels	43	43	100%

NB: For program management reasons, TA mission travels have largely been focused in Component 1's sub-component "In-Country Implementation Support" and accordingly transferred from other components. TA missions to Albania and Serbia are being charged to the respective companion country project (i.e. not to EU-REPARIS), thus, saving cost under EU-REPARIS have been realized. Furthermore, TA is supported by locally based consultants in several countries, thus limiting the number of TA travel.

Supplemental Information - Publications, Research papers, Case studies

The following table indicates the publications, guide and case studies that have been produced under EU-REPARIS as of 31 December 2017.

Component	Type	Total completed
C1	Publication	3
	Guide/ Case study	0
C2	Publication	6
	Guide/ Case study	8
C3	Publication	2
	Guide/ Case study	0
C4	Publication	2
	Guide/ Case study	0
Total	Publication	13
	Guide/ Case study	8

Financial Information

Financial information can be made available upon request.

Annex 1: Program Background

Program Structure

The program is structured along three thematic components, and one cross cutting component:

- Corporate Financial Reporting Reform: To support the implementation of a framework for accounting and auditing that meets international standards. Key themes include the specific reporting needs of SMEs, the application of International Financial Reporting Standards (IFRS), the enforcement of financial reporting requirements, and the introduction of public oversight and quality assurance arrangements for statutory audit. The component includes two sub-activity streams with the following objectives:
 - Financial Reporting Community of Practice: To provide direct technical assistance for the alignment of company law with the *acquis communautaire*, and for candidate countries to transpose the *acquis communautaire*, drawing on the experience of countries that have completed this process, especially Croatia. Ensuring increased transparency and confidence, this activity promotes and supports the enforcement of high standards of financial reporting that meet the needs of business management as well as potential investors, thus contributing to an improved business environment and investment climate fostering private sector and particularly SME development. The focus of this activity is on peer learning, seminars, facilitated knowledge exchange with relevant EU and global bodies, and the identification of common solutions to shared challenges. Technical assistance is provided to the community of practice to address challenges in the financial reporting needs of SMEs, the application of IFRS, the enforcement of financial reporting requirements, and the introduction of public oversight and quality assurance systems.
 - In-Country and Implementation Support: To help create effective links between the regional program and country-level implementation of national activities. Tailored to the needs of individual countries, help-desk type of assistance and on-demand technical assistance is being provided and addresses country or institutional specific needs/requests. Assistance allows for trouble-shooting specific technical issues during the program delivery phase, as well as providing individual and specific institutions with tailored technical advice, as appropriate. The activity is also intended to facilitate monitoring and evaluation of progress made in financial reporting reforms and related capacity development in beneficiary countries.

- **Education and Capacity Development:** To promote the development of accounting education aligned with International Accounting Education Standards and the educational requirements of the EU's Statutory Audit Directive: (i) at university level; (ii) for professional qualifications; and (iii) for CPD of those already qualified. The component includes two main activity streams with the following objectives:
 - **Education Community of Practice:** Supporting the educating and training of individuals to become and remain highly qualified accountants, this activity contributes to the development of internationally compatible accounting education for professional qualification, CPD, and at university level. There is substantial commonality of curriculum content, qualification systems, and lifelong learning requirements which are being addressed on a regional basis by the community of practice. Topics include the implementation of International Accounting Education Standards, application of the education requirements of the EU Statutory Audit Directive, and identification and replication of the experiences of EU universities in accounting education.
 - **Training of Trainers:** To provide training sessions and tools for professional accounting organizations to train accountants in delivering effective financial reporting support to SMEs and private sector enterprises. This helps accounting organizations provide assistance to the private sector, particularly high-potential SMEs, to create fundable business plans, raise finance, take advantage of fiscal and other incentives, and generate credible financial information that meets the needs of investors, lenders and guarantors. This also includes support for the implementation of international auditing standards and the quality assurance of auditors that are necessary for a credible information infrastructure underpinning SME private sector financing.
- **Access to Finance and Financial Sector to:** (i) provide practical guidance and solutions to facilitate easier access to finance, and (ii) build capacity among financial sector regulators in the use of financial reporting standards to effectively monitor the financial sector, particularly the bank and insurance sectors. The component includes two activity streams with the following objectives:
 - **Pilot Project on SME Reporting:** To support an ongoing dialogue with banks, chambers of commerce, and business associations to develop a common understanding of the financial information required for a loan application and the relevance of financial statement audits. Workshops will discuss and benchmark financial information required from SMEs in existing loan applications, which will be used to develop a set of financial information to be tested during focus groups. The activity will also build on the experience of EU countries and best practices in other regions.

- Financial Reporting for Supervisors: To help financial regulators acquire the skills necessary to analyze financial statements of banks prepared under IFRS and explore regulations that would require banks to obtain audited financial statements or other type of assurance for loans over certain thresholds. It also gives financial regulators a better understanding of the work of auditors, and the various types of assurance and types of opinion that an auditor can issue on financial statements.
- The cross-cutting component, Regional Cooperation and Knowledge Sharing: (i) helps maintain the momentum for accounting and audit reform among policy makers, including ministers of finance, their deputies and other senior officials; and (ii) facilitates knowledge capturing and sharing through an online information portal and other knowledge management activities. It aims to nurture continued reform momentum and facilitate greater regional cooperation and regulatory coordination. Activities seek to ensure decision makers are fully aware of the issues at hand, have a solid financial reporting knowledge base, are up-to-date with regard to requirements and developments at the EU and international level, and are in a position to master the much needed financial reporting reform agenda. Additionally, a range of knowledge sharing activities, such as a comprehensive online information portal, are supported.

Results Framework

Program Development Objective	Outcome Indicators	Means of Verification	Institutional Constraints and Assumptions
The objective of EU-REPARIS is to support the implementation of corporate financial reporting frameworks in line with the EU <i>acquis communautaire</i> in the countries of Southeast Europe with a view to promoting enhanced availability, transparency and reliability of financial information.	<ul style="list-style-type: none"> Progress in aligning existing frameworks with the <i>acquis</i>; Enhanced capacity of the profession for applying international and EU standards of corporate financial reporting; Presence of a functional audit quality assurance system. 	<ul style="list-style-type: none"> Transposition tables; EC Country Progress Reports; Surveys; Reports and statistic published by the International Federation of Accountants (IFAC) Official Gazettes; A&A ROSC reports; Regulatory and oversight agencies' annual reports. 	<ul style="list-style-type: none"> Continuing support of the beneficiary countries to corporate financial reporting reforms; Commitment to collaboration and regional harmonization by the beneficiaries; Support for reforms and capacity development efforts by the beneficiary countries' business communities.
Intermediate Outcomes	Outcome Indicators	Means of Verification	Institutional Constraints and Assumptions
Statutory frameworks for corporate financial reporting more effective and aligned with the <i>acquis</i> .	<ul style="list-style-type: none"> Progress in implementing standards compliant with the EU Accounting Directive, including financial reporting standards and process for audit quality assurance; Published strategies to improve corporate financial reporting frameworks and practices; International Financial Reporting and Auditing Standards (IFRS and ISA) available in local languages. 	<ul style="list-style-type: none"> Official Gazettes, government websites and other official communications; EC Country Progress Reports; Transposition tables; A&A ROSC reports; Government and PAO websites; Published financial statements; Independent auditor reports; Regulators' enforcement reports; Financial Sector Stability Assessment (FSSA) reports; Perception surveys. 	<ul style="list-style-type: none"> Efforts to sustain reform momentum can help overcome resistance by vested interests to modernizing the statutory framework and mobilize support of national parliaments.

Intermediate Outcomes	Outcome Indicators	Means of Verification	Institutional Constraints and Assumptions
Improved accounting education systems and capacity of the accounting profession.	<ul style="list-style-type: none"> Professional bodies comply with IFAC statements of membership obligations; Accounting education systems comply with International IES; Academic qualification of local universities are recognized by EU-based universities and professional accountancy bodies. 	<ul style="list-style-type: none"> IFAC website and publications Analytical reports and published research on accounting education systems; A&A ROSC reports. 	<ul style="list-style-type: none"> Tertiary and professional education institutions in EU countries willing to cooperate with peers in beneficiary countries; Accounting organizations and regulatory agencies cooperate to develop audit quality assurance systems.
Enhanced reporting practices in the financial sector and improved understanding of how IFRS and financial reporting can facilitate access to finance.	<ul style="list-style-type: none"> Capacity of financial supervisors to monitor quality of financial statements; Application of reconciliation approach using prudential filters; Financial institutions using accounting information for credit decisions and risk monitoring. 	<ul style="list-style-type: none"> Participation in technical workshops and training courses; Central bank and banking supervisory body reports; Surveys of SMEs and banks. 	<ul style="list-style-type: none"> Continued commitment of financial supervisory authorities to building their capacity for monitoring and enforcing IFRS.
Sustained reform momentum, regional collaboration and active knowledge transfer.	<ul style="list-style-type: none"> Continued commitment to peer exchange Translations of international standards and education materials shared by relevant countries Participation of Ministers and other senior officials in program events 	<ul style="list-style-type: none"> Government, professional accounting organizations, CFRR and IFAC websites; REPARIS Progress Reports; Website and newsletter traffic monitoring tools; Surveys; Self-assessment; Degree of participation in meetings and seminars. 	Beneficiary countries commit to achieving single economic space through collaboration and harmonization of their corporate financial reporting systems.

