



Strengthening Auditing and Reporting in
the Countries of the Eastern Partnership

**Progress
Report
2013**

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List of Abbreviations and Acronyms

A&A	Accounting and Auditing	IES	International Education Standards for Professional Accountants
ASEM	Academy of Economic Studies of Moldova	IFAC	International Federation of Accountants
CAPSAP	Corporate and Public Sector Accountability Project	IFRS	International Financial Reporting Standards
CFR	Corporate Financial Reporting	ISA	International Standards on Auditing
CFRCoP	Corporate Financial Reporting Community of Practice	MDTF	Multi-Donor Trust Fund
CFRR	Centre for Financial Reporting Reform	M&E	Monitoring and Evaluation
CoP	Community of Practice	MoF	Ministry of Finance
CPD	Continuing Professional Development	NAS	National Accounting Standards
EBRD	European Bank for Reconstruction and Development	OECD	Organization for Economic Cooperation and Development
EC	European Commission	PAO	Professional Accountancy Organization
EduCoP	Accounting Education Community of Practice	PDO	Program Development Objective
EIB	European Investment Bank	QA	Quality Assurance
EU	European Union	REPARIS	The Road to Europe: Program of Accounting Reform and Institutional Strengthening
FEE	Federation of European Accountants	ROSC	Report on the Observance of Standards and Codes
FIRST	Financial Sector Reform and Strengthening Initiative	SAD	Statutory Audit Directive
IAASB	International Auditing and Assurance Standards Board	SME	Small or Medium-sized Enterprise
IASB	International Accounting Standards Board	SMP	Small and Medium-sized Practice
		STAREP	Strengthening Auditing and Reporting in the Countries of the Eastern Partnership

Table of Contents

INTRODUCTION	1
ACTIVITIES PERFORMED IN 2013 BY COMPONENT	2
COMPONENT 1 - REFORM MOMENTUM AND SUPPORT	2
COMPONENT 2 – ACCOUNTING EDUCATION REFORM.....	3
COMPONENT 3 – ACCOUNTING AND AUDITING STANDARDS	3
COMPONENT 4 – FINANCIAL REGULATORS PRACTICE FORUM	3
COMPONENT 5 – COUNTRY-LEVEL IMPLEMENTATION SUPPORT.....	4
LESSONS LEARNED AND OUTLOOK FOR 2014.....	5
PROGRAM ADMINISTRATION AND FINANCIAL SUMMARIES	6
ACTIVITY TABLES	6
FINANCIAL SUMMARIES	6
FINANCIAL RESOURCES	7

Introduction

Since 2004, as part of the Reports on the Observance of Standards and Codes (ROSC) program, the World Bank has been assessing accounting and auditing (A&A) practices in the countries of the EU's Eastern Neighborhood—Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Working with country counterparts, the Bank developed policy recommendations to improve the institutional framework underpinning the countries' corporate financial reporting environment. In the years following the publication of the country A&A ROSC reports, the Bank maintained its engagement with the six countries through a combination of regular policy dialogue, targeted interventions (e.g., training for senior officials, academics and practitioners), and capacity-building projects (e.g., CAPSAP for Azerbaijan), or exchange programs (e.g., South-south exchange for Moldova). Moreover, Moldova participated in the Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS) between 2008 and 2013. These efforts - which are part of a broader process to complete the transition toward a fully functional market economy - have led to some progress in building a nascent accounting profession. Progress has been more limited in establishing an adequate institutional framework and developing sufficient capacity conducive to sound financial reporting practices.

In this context, a new regional program on Strengthening Auditing and Reporting in the Eastern Partnership (STAREP) implemented by the World Bank's Centre for Financial Reporting Reform (CFRR) was launched on October 1-2, 2013. STAREP aims to support participating countries in designing and implementing sound corporate financial reporting reforms with a view to achieving closer integration with the EU as part of the Eastern Partnership.

Given that the issues faced by the six countries are often similar, a regional approach offers both the widest reach and the greatest potential for countries to work together in addressing the shared challenges.

STAREP seeks to support a broad range of stakeholders, including ministries of finance, the accounting profession, financial regulators, and teachers of accounting in universities. It focuses on enhancing accounting education systems; improving institutional frameworks for corporate financial reporting; fostering the adoption of EU-compliant standards for financial reporting and auditing by local businesses; building closer international links between key institutions; and helping participants to benefit from other countries' experiences.

The design of STAREP has been guided by the experiences gained from REPARIS, the CFRR-led regional program for countries of Southeast Europe. STAREP's approach is based on a model of "peer learning" so that participating countries can gain insights into each other's reform experience, especially successful ones. Several communities of practice (CoPs) led by CFRR staff bring together specialist practitioners in professional education, corporate financial reporting, and relevant regulatory issues, both from the participating countries and countries with significant reform experience in this policy area, in addition to representatives of relevant international and EU institutions.

Activities Performed in 2013 by Component

Component 1 - Reform Momentum and Support

National stakeholder meetings

The key activities in 2013 involved engaging stakeholders and creating ownership of the new program in partner countries. A series of meetings in all beneficiary countries were undertaken. These provided unique opportunities to present the program, develop awareness, and secure commitment at all levels including in government, the accounting profession, the private sector and academia. It was also an important opportunity to discuss country-specific reform priorities, themes to be addressed, and time lines for activities which were then used to help develop program activities.

Official launch on the occasion of a CFRR-hosted Regional Conference

STAREP was officially launched during a CFRR-hosted conference on October 1, 2013 for over 160 participants, including deputy ministers, officials and financial and audit regulators from 26 countries of Central, Southeast and Eastern Europe as well as senior staff from the World Bank, the European Commission, International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB). Keynote speakers included the President of IFAC, the Vice President and Controller of the World Bank and the IASB Board member who is responsible for liaison with Eastern European countries.

1st STAREP Senior Officials Workshop

On 2 October 2013, STAREP senior officials joined World Bank representatives to discuss priorities in more depth and secure the countries' full support for the broad objectives and agenda of the program. Focus areas which emerged included improving education through updated university curricula, training for professors teaching accounting and audit, and quality continuing professional education for existing professionals. The workshop discussed the need for a clearer definition and reinforcement of the audit profession, issues of oversight, quality control, adoption of code of ethics; an improved overall institutional framework. Participants agreed on the need to improve the understanding of financial reporting issues among regulators, state agencies, top management, and other users, and the need to receive targeted advice on IFRS application including its effect on regulatory requirements for the financial sector. Policy makers showed particular interest in how SMEs can be supported as well as policy advice with regard to aligning with EU law and dialogue with the European Commission and other international stakeholders.

Vilnius SME Policy Conference

On November 26, at the European Commission's invitation, Henri Fortin, Head, CFRR participated in a conference organized by DG Enterprise in the context of the Eastern Partnership on SME Policy to present STAREP, and attended the Annual Partners Conference of Eastinvest on November 27. Overall, these events provided a unique opportunity to promote STAREP and the importance of corporate financial reporting vis-à-vis business support organizations, and government officials in charge of SME-related policy issues in EaP countries, along with the EC, EIB, EBRD and other development partners. Representatives of STAREP participating countries as well as from the EC expressed strong support, noting that STAREP represented an important initiative providing technical assistance with the implementation of recently enacted laws on accounting and auditing as well as assistance to business support organizations.

Knowledge Portal

Dedicated sections of the regional portal hosted by the World Bank CFRR, specifically serving the STAREP program and its participating countries, were developed. Within the World Bank web platform, the CFRR website offers a distinct “one-stop-shop” for participants with registration services and relevant materials available from events. In addition, the CFRR’s quarterly newsletter showcases the activities organized or sponsored by the CFRR and helps maintain an ongoing contact with stakeholders.

The planned virtual meeting to present the program was instead incorporated into the national stakeholder gatherings and launch events.

Component 2 – Accounting Education Reform

Joint-REPARIS-STAREP Education Community of Practice (EduCoP) Workshop

Work was undertaken in 2013 to identify and convene individuals to establish the EduCoP which will work together toward enhancing the quality of accounting education both for those entering the profession and for ongoing professional development throughout their career. To identify suitable members, the CFRR relied on its extensive network of contacts in the Eastern Partnership countries and among academic circles in Europe. This process was also facilitated by bilateral meetings during in-country missions conducted during 2013 and informal coordination with the local authorities. To provide opportunities for cross-fertilization between the two programs it was decided to hold the first STAREP EduCoP workshop jointly with the REPARIS EduCoP. Due to scheduling constraints, the workshop was moved to January 2014.

Component 3 – Accounting and Auditing Standards

STAREP Accounting and Auditing Standards Community of Practice (A&ACoP) Workshop

During the program period initial work in establishing a Community of Practice was undertaken. Discussions with beneficiaries were held and there was a process of identifying and engaging with potential participants from Ministries of Finance, standard setting boards and academics. A framework for the A&ACoP was agreed and the first Workshop is scheduled for April 3-4, 2014.

Component 4 – Financial Regulators Practice Forum

Sharing approaches to aspects of bank lending

Given international interest in the accounting treatment of losses on bank loans, the CFRR organized a virtual seminar for financial regulators to gain a better insight into how a commercial bank approaches the issue of loan loss provisions (LLP) for small and medium-sized enterprises (SMEs) and micro entities, and how this compares with requirements under Basel II and with reporting obligations under current and proposed IFRS. Senior staff from Raiffeisen Bank International (RBI) presented in a virtual seminar for banking supervisors from Western Balkan countries in February 2013, outlining various models used by RBI to assess the level of loan loss provisions on SME lending. STAREP countries were invited to join this event.

Joint CFRR-IFRS Foundation Workshop on IFRS for regulatory purposes

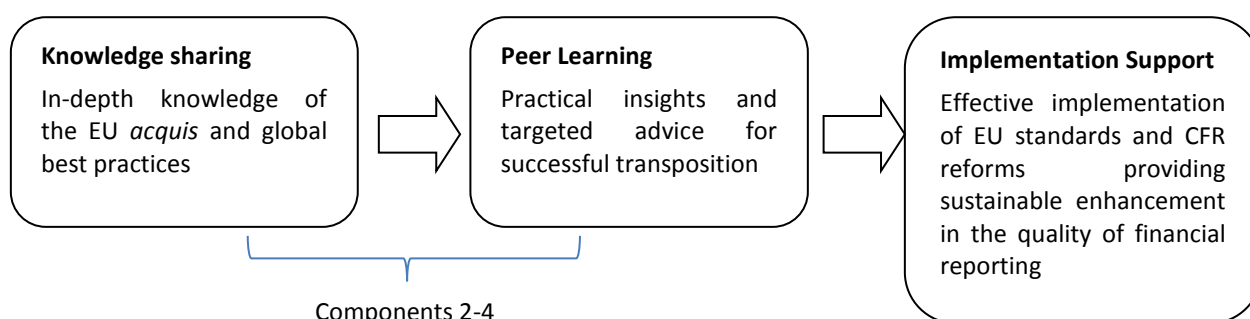
An area of focus for STAREP is to develop financial regulators' effectiveness in supervising institutions for which they have oversight responsibility. To help develop competence in understanding financial statements drawn up using International Financial Reporting Standards (IFRS), the CFRR and the IASB jointly organized a five-day Executive IFRS Seminar in June 2013 in Vienna. Attended by financial regulators from both STAREP and REPARIS partner countries, the workshop guided participants on the need to understand the assumptions and judgments made in putting together IFRS-based financial statements in order for them to make sound judgments and be more effective in their prudential regulation.

Financial Regulators and External Auditors Workshop

Senior staff of banking supervisory agencies from STAREP countries joined REPARIS colleagues for a workshop in Vienna on November 21-22, 2013 titled "Financial Regulators and External Auditors: Building a constructive dialogue". With the relationship between banking supervisors and auditors increasingly in the spotlight, discussions focused on examples of cooperation between auditors and prudential supervisors, and emphasized how better cooperation contributed to enhanced supervision and audits. Participants heard how a range of countries addressed this issue and shared knowledge and practical solutions to the challenges.

The planned virtual seminar was moved to April 2014 due to scheduling conflicts.

Component 5 – Country-level Implementation Support



Following the creation of STAREP in mid-2013, the priority has been to launch the program, build ownership by the national counterparts and initiate the communities of practice under the three thematic streams described above (Components 2 to 4). Some country-specific activities, implemented by the World Bank but not financed from STAREP funds, took place in 2013. These complement the knowledge, policy advice and technical assistance provided by STAREP at the regional level. They included an update of the A&A ROSC report for Georgia; a technical assistance project in Armenia as part of the FIRST TA initiative; the Corporate and Public Sector Accountability Project (CAPSAP) in Azerbaijan; and a new South-South exchange project to enhance A&A curricula and certification in Moldova.

The STAREP team maintained close communication throughout 2013 with other relevant World Bank teams to ensure maximum synergy and that the lessons from other activities, or needs identified through them, were properly reflected in the planning of regional activities.

A joint STAREP/EBRD workshop on corporate financial reporting reforms and the IFRS for SMEs for counterparts in Ukraine was convened in Kyiv on December 3 but had to be postponed due to the recent and ongoing political situation.

Lessons Learned and Outlook for 2014

The main objective for 2013 was to successfully launch the program and to create ownership in partner countries. This was achieved, with high-level stakeholder engagement at a well-attended and focused launch event and senior officials' workshop in October. This engagement needs to be maintained and developed, which can be challenging in some partner countries due to changing political situations, for example in Ukraine. The CFRR will continue to work closely on this in 2014.

After successfully undertaking the ground work for the program in 2013 – discussing priorities, developing activities, identifying participants - the outlook for 2014 is of activities getting underway and growing the program. Where appropriate, opportunities to engage with REPARIS colleagues will continue to be valuable, as they have recently tackled many of the issues STAREP countries now face and can offer good practice solutions.

While the sequencing of events worked out well overall, the timing of events needs to be carefully considered in order to avoid future postponement of scheduled activities, as happened with two virtual seminars planned this year.

Program Administration and Financial Summaries

Activity Tables

The following two tables compare the activities that were planned to take place in 2013, as set out in the Program Plan, with the outturn. The main divergence between planned and delivered activities was the absence of virtual seminars.

Component	Activity	Planned activities	Delivered activities
Component 1	Senior Officials Conference	1	1
	Workshops	1	1
	Virtual Seminar	1	0
	Information Portal	3	3
Component 2	Workshops	1	0 (*)
Component 4	Workshop – 5 days	1	1
	Workshop	1	1
	Virtual Seminar	1	1

* 1 workshop to take place in January 2014

Activity	Planned activities	Delivered activities
Conference	1	1
Workshops	4	3
Virtual seminars	2	1
Mission travels	8	8(**)

** Includes ROSC missions and missions paid for other sources than REPARIS.

Financial Summaries

Planned and Actual Disbursements

The following table compares the budget, disbursements and unspent funds in the disbursing funds for regional activities. The overall disbursements for regional activities represent 43% of the Budget for 2013 (full year). The disbursement rate reflects cost savings (allocated Bank budget paid partially for staff time and mission travels) and cost sharing with the REPARIS program, prudent cost management across the board (combination of events to save travel costs, use of JVI facility and other), rescheduling of workshops and virtual seminars to early 2014, as well as program administration costs borne by resources other than STAREP.

	Planned a	Actual b	Unspent budget a-b
Component 1¹	123,200	142,488	-19,288
Component 2²	84,550	6,000	78,550
Component 3³	58,363	0	58,363
Component 4⁴	126,850	19,059	107,791
Component 5	0	0	0
Program Administration⁵	0	0	0
Total Disbursing Funds	392,963	167,547	225,416

¹ Due to cash based accounting, disbursements in the system do not reflect the estimated amount of EUR 55,485 in meeting costs and EUR 37,003 in repostings.

² The planned workshop was rescheduled to January 2014.

³ The workshop planned for early 2014 was rescheduled to April 2014, therefore no preparatory charges.

⁴ Participants were encouraged to cover their own travel and accommodation cost for the June seminar. The November workshop was cost shared with REPARIS.

⁵ Program administration costs were borne by resources other than STAREP.

Disbursements Details

The following table gives a detailed breakdown of expenditures by cost categories in the regional components including staff and consultants, travel and transport, meetings and other.


Components	C1	C2	C3	C4	C5	Program Administration	Total
Staff and Consultants	38,910			9,450			48,360
Travel and Transport	1,114						1,114
Meetings	58,850	6,000		9,609			74,459
Other (includes repostings)	43,614						43,614
Total	142,488	6,000	0	19,059	0	0	167,547

Financial Resources

The CFRR partners with the European Commission's Directorate General for Development Cooperation (DG DEVCO) and expects DG DEVCO to join as STAREP donor in 2014 with a contribution of EUR 1 Million.

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 Austrian
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Schweizerische Eidgenossenschaft
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