

Reforms in Public Oversight and Quality Assurance

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CFRR 

Centre for Financial
Reporting Reform



- » CFRR Engagement in Kosovo
- » The Need for Accounting and Auditing Reforms in Kosovo
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CFRR Engagement in Kosovo

Center for Financial Reporting Reform(CFRR)



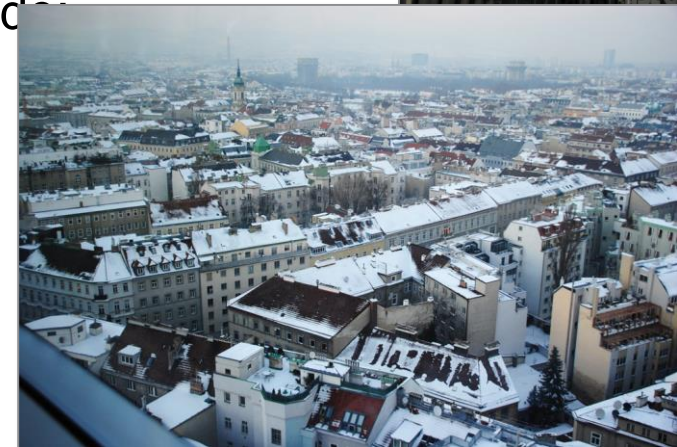
Who we are?

- » Technical unit of the World Bank based in Vienna
- » With 20 staff and consultants in Vienna plus a network of experts in client countries
- » Established 10 years ago and mostly donor funded
- » Part of the Governance Practice of the World Bank and a “Globally mapped” unit

What we do?

- » Dedicated primarily to corporate financial reporting we provide
 - » Knowledge services (analytical and advisory services)
 - » Learning and skill development
 - » Know-how and knowledge transfer
 - » Technical assistance to strengthen existing institutions.

» Visit us at www.worldbank.org/cfrr

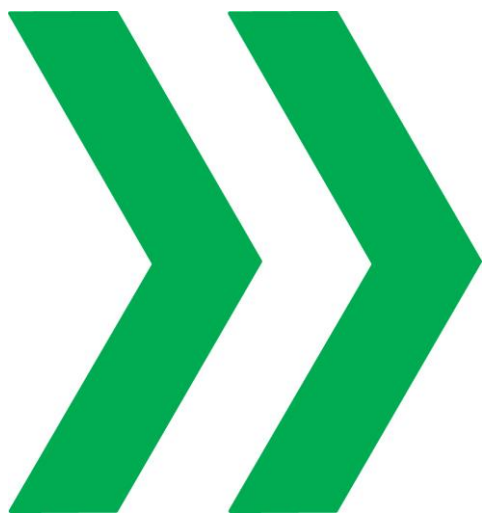




» REPARIS - Road to Europe: Program of Accounting Reform and Institutional Strengthening (2008-2014) and successor EU REPARIS (2015 -2018) is the CFRR's regional program for the Western Balkan

- » Since 2008, REPARIS organized 28 peer learning activities, having benefited over 100 participants from Kosovo
- » KFRC and SCAAK are active Education CoP and CFR CoP member institutions
- » CBK has been actively participating in Financial Regulators Forum on IFRS for Regulators
- » MoF has been actively participating in Senior Officials Workshop - help update on international development and deepen common understanding of the reform issues.

- » **Technical Assistance to implement changes in the Law on Financial Reporting and Auditing:**
 - » Following the publication and dissemination of the Kosovo AA ROSC in May 2013, various stakeholders led by KFRC, submitted request to the MoF to amend the 2011 Law on Financial Reporting and Auditing and address key deficiencies in the financial reporting system of Kosovo
 - » The Minister of Finance agreed to sponsor amendments to the Law and appointed a Working group to draft a set of amendments. The Working Group requested the World Bank CFRR to provide technical assistance to support these efforts by providing: (i) advice on comparability of policy options with the EU *acquis*, (ii) examples of how other EU accession countries have dealt with similar issues, (iii) addressing the recommendations of the ROSC and (iv) advice on further considerations.
 - » On September 10-11, 2013 a workshop organised by SCAAK in co-operation with the Ministry of Finance, Kosovo Financial Reporting Council and the World Bank Centre for Financial Reporting Reform took place in Peja, Kosovo, with main objective to raise stakeholders' awareness of the features and benefits for Kosovo of the ROSC report, discuss proposed amendments to the Law on Financial Reporting and Auditing and support the Ministry of Finance's efforts to finalize the proposed amendments.
 - » Ongoing consultations and missions since supporting working groups developing amendments to the Law
- » The Accounting **Education Community of Practice** (EduCop) met in Pristina during **12-13 May 2011**.



The Need for Accounting and Auditing Reforms in Kosovo

» The European Commission Kosovo Progress Report, October 2014, pointed out that:

“the capacity of the institutional audit oversight structures needs to be strengthened considerably; enforcement remains weak and substantial efforts are needed to ensure the development of reliable and efficient financial reporting, in line with EU’s practice. Kosovo still needs to align its rules with international accounting and financial reporting standards”

» The World Bank Systematic Country Diagnostic, June 2015 also refers to the issues raised in the AA ROSC Update (see slides 10 – 13)

Accounting and Auditing ROSC Update



- » In June 2012, the Kosovo Report on the Observance of Standards and Codes on Accounting and Auditing (AA ROSC) was completed for the Republic of Kosovo
- » This report is an update of the 2006 AA ROSC



Kosovo A&A ROSC – Major Findings (1/2)



- A. In corporate financial reporting, the most significant change is the passing of a new financial reporting law in July 2011 and raising the threshold for statutory audits. However, a **significant improvement is required to achieve alignment with the *acquis communautaire*.**
- B. In the financial sector, prudential regulations and supervision have been substantially strengthened. A new Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions was approved in April, 2012. There is still no securities market in Kosovo.
- C. Kosovo's **accounting and audit profession experienced a rapid development** and the national professional body, SCAAK, became a member body of the International Federation of Accountants (IFAC) in 2010.

Kosovo A&A ROSC – Major Findings (2)



- D. Enforcement** of accounting requirements among non-banking entities remains a challenge and no visible improvement has been made since 2006.
- E. Kosovo financial reporting regulator, Kosovo Board for Standards on Financial Reporting was never fully functional and has been replaced by the Kosovo Financial Reporting Council in 2011. **No significant change, however, was made to the operating model of the regulator.** Steps have been taken to establish a quality assurance system consistent with the EU Directive on Statutory Audits of 2006.
- F. Modest progress has been achieved on the integration of the accounting education** among universities and the profession; however, more effort is needed in this area.



Targeted Assistance for Kosovo: Public Oversight & Quality Assurance

- » The Kosovo Government and other stakeholders have undertaken several important steps since the ROSC AA in order to improve the Corporate Financial Reporting in the country, including:
 - » Adoption of IFRS for SMEs, simpler and more cost-effective standards for Medium and smaller sized entities;
 - » Kosovo accounting profession, under leadership of SCAAK developed rapidly;
 - » Ministry of Finance continues to work on improvements in the Law



The Kosovo Financial Reporting Council



- » KFRC as per the law is assigned a wide range of responsibilities
- » KFRC is designated as the standard-setter for accounting, auditing, ethics and professional audit education, regulator, and enforcer
- » Organizationally, KFRC is a part of the Ministry of Finance (MoF), and is currently fully financed under the state budget.
- » The KFRC has the authority to issue and approve regulations and sub-legislation (i.e. administrative orders) in the area of its legal mandate, and is responsible to make such administrative orders public via the Official Public Gazette of Kosovo.

The Kosovo Financial Reporting Council



- » In essence, KFRC is composed of a: (i) Board of Experts headed by a Chairman and (ii) Secretariat of seven MoF staff.
- » This Secretariat supports KFRC's day to day business and the Board of Experts, including the working committees on Reporting Standards, Quality Assurance, Discipline and Investigation and Licensing.
- » This Board consists of seven members appointed by the Government upon nomination of the institution they represent, with a three year term, including: one member from the Central Bank of Kosovo, one member from Universities providing higher education in accounting and auditing in Kosovo, one member from the Ministry of Finance, one member from the Professional Associations of Accountants and three members from the business community that are familiar with finance and business administration.

- » Capacity and Resources to execute Oversight and Quality Assurance functions needs to be established
 - » E.g. funding, professional quality assurance inspectors
- » This is a longer term process that cannot be achieved overnight nor without the support of the profession
 - » E.g. specialized industry knowledge, requirement to maintain independence
- » Kosovo needs to implement a time progression and maturity model in order to achieve a custom made model that will consider the capacity and limitations of the profession

The Target Assistance



- » Funded by FIRST Initiative - <https://www.firstinitiative.org/>
- » Two components including:
 - » Developing structural elements of a Public Oversight and Quality Assurance System (including implementation regulations, funding model and principles of delegation of QA)
 - » Critical Manuals to carry out Public Oversight and Quality Assurance (including manual that will guide KFRC on its role vs PAOs, off site and on site Manuals for QA)



Thank you