

Croatia EU Accession: case studies on reform and the acquis transposition

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26 April 2018

Advancing quality assurance systems: trends and opportunities



Road to Europe: Program of Accounting Reform and Institutional Strengthening



EU-REPARIS is funded by the European Union and is a part of WB EDIF.



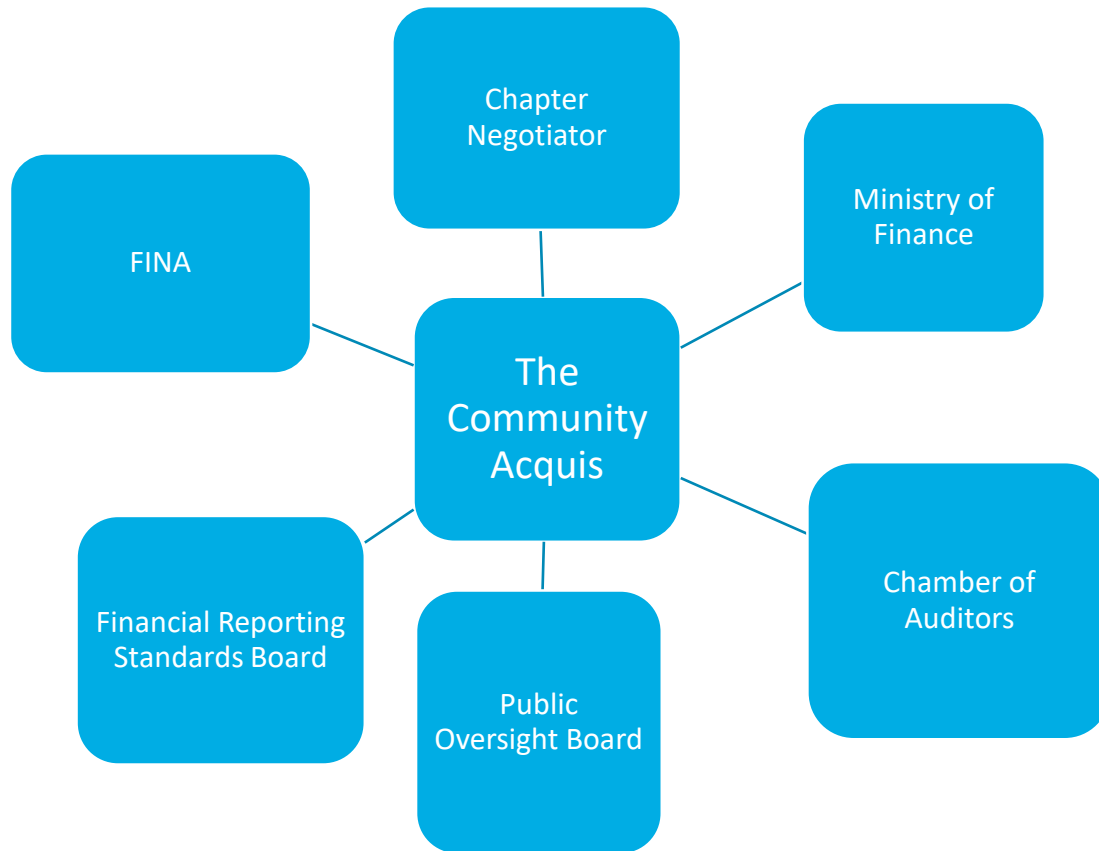
The book!



The story

- » October 2009: Croatia presented their negotiating team for the chapter 6 at the first REPARIS Sr. Officials Workshop
- » Sharing an adventure of a group of people rather than technical knowledge
- » Based on interviews complemented by desk research
- » Aimed at empowering people for reform and providing
- » Only 50 pages

The key actors



Chapter Negotiator Sinisa Petrovic
MoF: Damir Kaufmann
CoA: Tihana Mavric (QA)
PO: Zeljko Faber, Ivan Cevizovic
FRSB: Ivica Smiljan
FINA: Dragutin Kovacic

The Book and its layout



Box

Quote

Highlights

2 pages on the how to... Change management



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2 pages on the what... Specific reforms



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13 Operationalizing Specific Reforms

14 *Transposition of the Directives and Legal Reforms*

15 *Regulation of the profession – Chamber of Auditors and the Audit Public Oversight Committee*

17 *External quality assurance*



Key Milestones in Croatia accession

October 2001	Stabilization and Association Agreement (SAA) signed
March 2003	Application for EU membership
June 2004	Confirmation of Croatia's candidacy
October 2005	Accession negotiations began
June 2006	Formal commencement of Chapter Negotiations
June 2011	Closure of last of the 35 Negotiating Chapters
December 2011	Adoption of decision by European Council (EC) on Croatia's admission to the EU
December 2011	Accession Treaty signed by Croatia and the EU
July 2013	Croatia's accession to the EU



Data on transposing the EU acquis an enormous task

- » 80.000 pages of Official Journal pages
 - » To understand
 - » To “localize”
 - » To transpose”
 - » To “translate”
 - » To “implement”



The acquis covered during accession

- » 1st Council Directive
 - » Publication of financial statements
 - » Electronic access to companies' registry
- » 4th Council Directive
 - » Accounting and auditing requirements for annual accounts
 - » Layouts for the financial statements
 - » Deadlines for publication
- » 7th Council Directive
 - » Consolidation
 - » Layouts
 - » Audit Requirements
- » 8th Company Law Directive
 - » QA – PO, requirements for statutory auditors



Nine insights for successful reforms



Insight 1: an accession is a unique opportunity for policy makers to reform

- » Accession is an opportunity to set aside political differences in pursuit of a common goal.
- » After accession, government returns to a pattern of business as usual. It is critical that policy makers take advantage of the accession to make needed reforms.
- » The opportunity is not likely to present itself twice.

“You could be an Eurosceptic but it was impossible to believe that we would not be part of the European Union.”
- Sinisa Petrovic



Insight 2: reforms are most likely to succeed when there are clear and compelling objectives

- » Reform proceeds well if there is a clear goal such as EU membership and specific objectives such as the implementation of EU Directives.
- » Clear and compelling objectives focus attention
 - » Opening and closing chapters
 - » Benchmarks
- » It is also helpful to have a structured accession process with clear deadlines.

“Not only do [the EU] want the substance, they want the form. I could critique the EU accession process. There was an insistence on formal issues that was sometimes difficult. But, even if it is complicated and maybe even unnecessary, the good things prevail.”
- Sinisa Petrovic



Insights 3: political will and commitment are essential for a successful accession

» The presence of political will and a commitment to reform makes it more likely that reform challenges can be conducted successfully.

“2005 Declaration of fundamental principles of negotiation of full membership of republic of Croatia in the EU”

» It will also enhance implementation and the quality and effectiveness of the reform process.

This could have been a nightmare if there were not a coalition in place. The coalition process ensured that work that needed to be done could not be obstructed by any political party.



Insights 4: the same time, an effective strategy for involving stakeholders is essential..

- » The collaboration of stakeholders is critical to effective reform
- » Active communication with stakeholders is needed to educate and to build consensus
- » Reforms are more successful and sustainable when there is good collaboration between private and public sector stakeholders.

“You need a team in the Ministry to coordinate the reform. Its structure should be minimal but it should be efficient and have power and autonomy. There’s no need to create unnecessary structures – it is better to use light and flexible groups.”
- Damir Kaufman



Insight 5: a judicious use of power may be necessary to achieve reform goals.

- » Different interests can conflict and block reform.
- » Where a blockage emerges, the government needs to step in and make judicious use of its power to remove roadblocks and clear the way for progress.
- » Such intervention should be fair and limited in scope and time.

They said “You know, if you want to be part of the EU you have to use the Directives fully.” But they issued these Directives in 1978! I didn’t know why they asked us for that. We use IAS, why should we use the old stuff?



Insight 6: international rules need to be localized

- » Countries need to find a way to make the EU Directives operational at the local level
- » Each country will likely have different solutions to their implementation.
- » Local stakeholder engagement is the key to effective localization.
- » The measure of the quality of transposition is not just a legal text but a change in actual practice.

“Everything was started by a question addressed to the EU on whether all companies could use international standards. The response was that this was not a good idea. They found it hard to imagine that a small coffee shop might produce their reports according to big international standards.”
- Ivan Cevizovic



Insights 7: The ability to consider new approaches is essential

- » In an accession, all parties need to be able to consider new approaches.
- » Croatia had a tradition of government control over financial reporting. Yet, it recognized the role of private sector stakeholders.
- » In contrast, an audit profession that previously operated with extensive independence needed to assimilate the need for greater public oversight.

“Under socialism, the idea was centralization. That left us with a strong centralized reporting infrastructure. From a practical point of view, that was a really good thing.”
- Damir Kaufman



Insight 8: it takes time for new institutions to become effective

- » Croatia had no self-regulatory tradition in reviewing auditors work
- » It was difficult to introduce self-regulation to the audit profession on quality assurance
- » The challenge was not principally a technical one since successful models exist.
- » The challenge was developing effective working relationships between institutions such as audit chamber, government, and members of the accounting profession.

“Of course nobody wanted to be checked. Auditors had never been subject to quality assurance and were afraid.”
- Tihana Mavric



Insight 9: transposition can be viewed as an ongoing processes that continues even after accession.

- » EU membership is granted at one particular instant.
- » Yet, accession should result in the emergence of a continuing process of transposition, adaptation, integration and reform.

After accession new directives were issued by the EU. The transposition process has to continue, without the goodwill and cooperation will that EU accession creates. Individual objectives might prevail. Keeping a reform and communication structure communication is essential

Focus on PO and QA



Public Oversight

- » Croatia decide for committee rather than a new institution
- » The MoF wanted to accompany the development of this new body and make sure that it was going in the right direction
- » Resources constraints
- » Independent members appointed from different horizons
- » Built with the assistance of the WB in the form of a grant

“Each member country has to identify a model, create an institution and comply in its own way in the area of public oversight



Quality Assurance

- » Finding the right people and being able to pay them
- » Getting methodology and assistance
- » Having first a communication/educational approach
- » Communicate on future enforcement
- » Built with the assistance of the WB in the form of a grant

**“Of course nobody wanted to be checked. Auditors had never been subject to quality assurance and were afraid.”
- Tihana Mavric**



**THANK YOU FOR YOUR ATTENTION
AND HAVE A GREAT READ!**