Corporate Financial Reporting and Auditing Reform

REPUBLIC OF CROATIA

MSc Žana Pedić
Head of the Financial System Directorate

REPARIS Senior Officials’ Workshop
1 October 2013, Vienna
Accounting Act


- **Adopted corresponding decisions and ordinances**
  - On the Publication of CFR standards
  - On the Publication of the International Financial Reporting Standards
  - On the Structure and Content of Financial Statements
  - Regarding Register of the Annual Financial Reports
Main provisions of the Accounting Act

- Application of the accounting standards IFRS
- Introduction of a single form for electronic publication of financial statements and a single register of all financial statements for all entrepreneurs kept by the Financial Agency – reducing burden for companies
- Direct access to the public register by all commercial courts
- Access to a copy of published statements on request
- Free access to the statements by Central Bureau for Statistics and Tax Administration
- Setting up of the Financial Reporting Standards Board and definition of its tasks: issuing CFRS and, until the accession of the Republic of Croatia to the European Union, translation and publication of IFRS
Improvements of the Accounting system

- Croatian Financial Reporting Standards
  - Croatian Financial Reporting Standards Board
  - totally harmonized with relevant EU Directives
  - objective – to simplify financial reporting for small and medium-sized undertakings

- Establishment of the Register of Annual Financial Reports for all entrepreneurs kept by the Financial Agency
  - simplification and modernization the submission of the financial statements

Next steps for further transposition of the new EU acquis:

- Participation in the Accounting Regulatory Committee (ARC will organize “transposition workshop” in order to help MS with the implementation)

- Established working group within Ministry of Finance for drafting the new Law (members: CFRS Board, FINA, Central Bank, Croatian Financial Services Supervisory Agency, Tax Administrators, Croatian Bureau of Statistic, and other)

- Improvement of the existing accounting system (problems observed in practice) – bookkeeping documents (signature), compliance of deadlines for submitting annual financial statements, introducing certification for accountants
Remaining challenges:

- Possible exemptions for micro-undertakings
- Role of the Croatian Financial Reporting Standards Board in the future

- Financing of the Register of Annual Financial Reports – fee for documentation submitted to the Register in electronic form through FINA internet service is currently funded from the state budget – future consideration to transfer financing the Register on undertakings (new burden for undertakings vs. burden for budget)
Audit Act


- Established audit public oversight system
- Established quality assurance system (first QA process initiated in the first quarter 2010)
  - Example of results:
    - 1 July 2012 - 30 June 2013 → 66 conducted inspections

- Publication of Transparency Report (the audit firm and independent auditor that carry out audits out public-interest entities)

- Obligation of having the Audit Committee (PIE)

Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities

The main objectives of the proposals are to:

- clarify and define more precisely the role of the auditor,
- reinforce the independence and professional skepticism of the auditor (mandatory rotation, prohibition from providing non-audit services, obligation to separate audit activities from non-audit activities in order to avoid all risks of conflict of interest etc.),
- improve the supervision of auditors (appropriate supervision by competent authorities which are independent from the audit profession and which have adequate capacity, expertise and resources),
- establish better cooperation between competent authorities – establishment of the Committee of European Auditing Oversight Bodies (CEAOB) vs. European Securities and Markets Authority (ESMA) – Article 46 of the proposed Regulation.

- Negotiations are still in the process
Key challenges for RoC:

- Improving the existing quality assurance system
- Ensuring high quality follow up (conduction of corrective measures, effective sanctions, improvement of the audit system, repeated inspections if needed etc)
- Continuing professional education for certified auditor
- Selection of members in Audit Public Oversight Board
- Administrative capacity within the Ministry of Finance (Department for Financial Reporting)
Main goals in the process of improving quality assurance system

- To solve remaining issues related to independency of inspection body within the Croatian Audit Chamber
- **Better cooperation** between Croatian Audit Chamber, Audit Public Oversight Committee and the Ministry of Finance
- **Proper education of experts, auditors and inspectors, sufficient level of knowledge**
- **Proper licensing system**
- Strengthening the capacity of small and medium companies to implement QA requirements
- **Effective disciplinary and corrective measures**
KEY OBJECTIVES FOR THE MINISTRY OF FINANCE

- Implementation of new Accounting Directive
- Improvement of the existing accounting system (introducing certification of accountants)
- Active participation in Working Party on Company Law
- Monitoring developments and participation in EU decision-making process (new proposals from the Commission)

- Improvement of the process of issuing auditors certificates, introduction of proper education system for auditors and inspectors
- Further improvement of the quality assurance with the aim of increase in the quality of audit work
- Achieving better level of involvement of both boards (CFRSB and APOC) in providing expert opinions that are necessary for preparing the Croatian position on new proposals.
THANK YOU FOR YOUR ATTENTION