

ACRONYMS

AAARS	Association of Accountants and Auditors in the Republika Srpska
A&A	Accounting and Auditing
ABRS	Banking Agency of Republika Srpska
BCBS	Basel Committee on Banking Supervision
BiH	Bosnia and Herzegovina
CC&A	Chambers of Commerce & Associations
CBBH	Central Bank of Bosnia Herzegovina
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESRfin	Committee of European Securities Regulators – Operational Group on Financial Reporting
COREP	Prudential reporting - Basel II solvency ratio
CPD	Continuing Professional Development
CPE	Continuing Professional Education
EU	European Union
EC	European Community
FBA	Banking Agency of the Federation of BiH
FBE	Banking Federation of the European Union
FEE	European Federation of Accountants (Fédération des Experts-Comptables Européens)
FBiH	Federation of Bosnia Herzegovina
FBiH SEC	Securities Exchange Commission of FBiH
FDI	Foreign Direct Investment
FINREP	Consolidated financial reporting for the banking industry
FIRST	The Financial Sector Reform and Strengthening Initiative
GDLN	Global Development Learning Network
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
IAPC	International Auditing Practices Committee
IAPS	International Auditing Practice Statement
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IBNR	Incurred But Not Reported
IES	International Education Standards
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
JPTCs	Judicial and Prosecutorial Training Centres
MoE	Ministry of Economy
MoF	Ministry of Finance
MoJ	Ministry of Justice
SC	Steering Committee
OHR	Office of High Representative
OSCE	Organization for Security and Co-operation in Europe (
QA	Quality Assurance
REPARIS	Road to Europe – Program of Accounting Reform and Institutional Strengthening
PIE	Public Interest Entities
ROSC	Report on the Observance of Standards and Codes

ACRONYMS

RS	Republika Srpska
RS SEC	Securities Exchange Commission of RS
SCE	CESRfin Sub-committee on Enforcement
SEEPAD	South Eastern European Partnership on Accountancy Development
SIC	Standing Interpretation Committee
SISE	CESRfin Sub-committee on International Standards Endorsement
SMEs	Small and Medium Enterprises
SMOs	Statements of Membership Obligations
SRRFBiH	Federation Union of Accountants & Auditors
XBRL	eXtensible Business Reporting Language
UEPR	Unearned Premium Reserves
URR	Unexpired Risk Reserves
USAID	United States Agency for International Development

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**APPENDIX A – REPORT ON THE OBSERVANCE OF STANDARDS & CODES (ROSC) ON
ACCOUNTING AND AUDITING (A&A) FOR BOSNIA HERZEGOVINA**

1 EXECUTIVE SUMMARY

1.1 Introduction

This paper sets forth a strategy and action plan to enhance the quality of corporate financial reporting in Bosnia Herzegovina. The strategy was developed by a Steering Committee (SC) comprised of public and private sector stakeholders with an interest in corporate financial reporting which was established in 2005. This strategy and action plan sets out a clear program of reforms to enhance Bosnia Herzegovina's legal framework, institutions, and accounting profession, as well as its accounting, auditing and business culture, to achieve high quality financial reporting.

1.2 Benefits of enhancing corporate financial reporting

The enhancement of corporate financial reporting should not be viewed as an objective for its own sake: it is much more than this. High quality financial reporting is the cornerstone of a well functioning market economy and the bedrock of a robust financial system. Improving the quality of corporate financial reporting in Bosnia Herzegovina will have a significant and positive impact on the economy by:

- Strengthening financial architecture in Bosnia and Herzegovina and reducing the risk of financial market crises, and their associated negative economic impacts;
- Attracting more foreign direct and portfolio investment and helping to mobilize domestic savings;
- Facilitating smaller-scale corporate borrowers' access to credit from the formal financial sector by lowering high costs of information and borrowing;
- Allowing investors to properly evaluate corporate prospects and make informed investment and voting decisions, which results in a lower cost of capital and a better allocation of resources;
- Allowing shareholders and the public at large to assess a company's management performance, thereby promoting the active development of capital markets; and
- Supporting economic integration, both regionally and globally.

1.3 Drivers of enhanced corporate financial reporting in BiH

The SC confirmed that good corporate financial reporting depends on the adoption and application of a number of different benchmarks, standards, codes and practices. The

primary benchmark is the *acquis communautaire*¹ relating to company law, financial reporting, auditing, financial markets, and financial institutions complemented as detailed on page 32 (Section 2.5), by International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA) and good international practice.

The SC took account of the experience of relevant EU Member States in recognizing that a successful strategy must address both statutory and institutional issues. It is not enough to mandate enhanced corporate financial reporting. The improved statutory framework must also be implemented and enforced by suitably resourced institutions. The strategy and action plan identifies actions relating to these two key pillars: the statutory framework and the institutional framework.

The SC has also had regard to the October 2004 World Bank Report on the Observance of Standards and Codes (ROSC²) on Accounting and Auditing (A&A) in Bosnia Herzegovina. The ROSC policy recommendations were agreed between the World Bank, the State and Entity Ministries of Finance and BiH stakeholders and thus formed a significant platform on which to develop a strategy and action plan.

The SC has borne in mind Bosnia Herzegovina's capacity to carry out the activities proposed. In some instances, a relatively lenient rule that is robustly and consistently enforced is preferable to a rigorous one that is unenforceable, as the lenient rule can be progressively made more rigorous as circumstances allow. As a result, the SC has decided to set out reform activities that, while challenging, can be carried out in the short to medium term.

¹ The entire body of European Union laws is known, collectively, as the *acquis communautaire*. The term is most often used in connection with preparations by accession countries to join the European Union. They must adopt, implement and enforce all parts of the *acquis* in order to be allowed to join the European Union. The *acquis communautaire* includes all primary legislation (treaties), secondary legislation (Regulations, Directives etc.) and case law (judgments of the European Court of Justice and European Court of First Instance).

² See Appendix A for the complete ROSC report.

1.4 The strategy to achieve enhanced corporate financial reporting

The benefits of enhanced corporate financial reporting are significant. The actions required to achieve these benefits are also considerable. The SC has identified a number of high-level objectives that form the basis for the strategy to be delivered by the individual actions set out in the plan:

- Enhancing the Framework for Corporate Financial Reporting;
- Strengthening Key Stakeholders in the Corporate Reporting Framework;
- Supporting the Audit Profession;
- Supporting Education, Training & Public Awareness.

The individual actions to achieve these high level objectives are listed in Chapter 4. In deciding on the specific actions, the SC undertook a review of the current corporate financial reporting regime in Bosnia Herzegovina. This review was carried out through a series of interviews and meetings with key stakeholders. It produced a summary of the progress made in the implementation of the ROSC A&A recommendations and of the outstanding issues that still need to be addressed.

With respect to the institutional framework the SC has identified a number of key stakeholders that will play a crucial role in implementing the strategy and action plan. The State & Entity Ministries of Finance (MoF), the Central Bank of Bosnia Herzegovina (CBBH), Entity Banking Agencies (FBA & ABRS) the Securities and Exchange Commissions (FBiH & RS SEC), the Entity tax authorities, State & Entity Insurance Supervisors, the Entity MOF Registries, the Accounting & Auditing bodies (AAARS & SRRFBiH), academia, Chambers of Commerce & other associations, the judiciary and the general public all have a role to play, either directly or indirectly.

Enhancing the Framework for Corporate Financial Reporting

The achievement of a consistent, predictable and practical corporate financial reporting framework is one of the key benchmarks of a robust financial system.

In developing the corporate reporting framework the primary goal is to provide a balanced approach to corporate financial reporting and auditing requirements in Bosnia Herzegovina, which meets the needs of the different users of financial information, that is consistent and predictable and importantly that does not impose unnecessary burdens on the corporate sector.

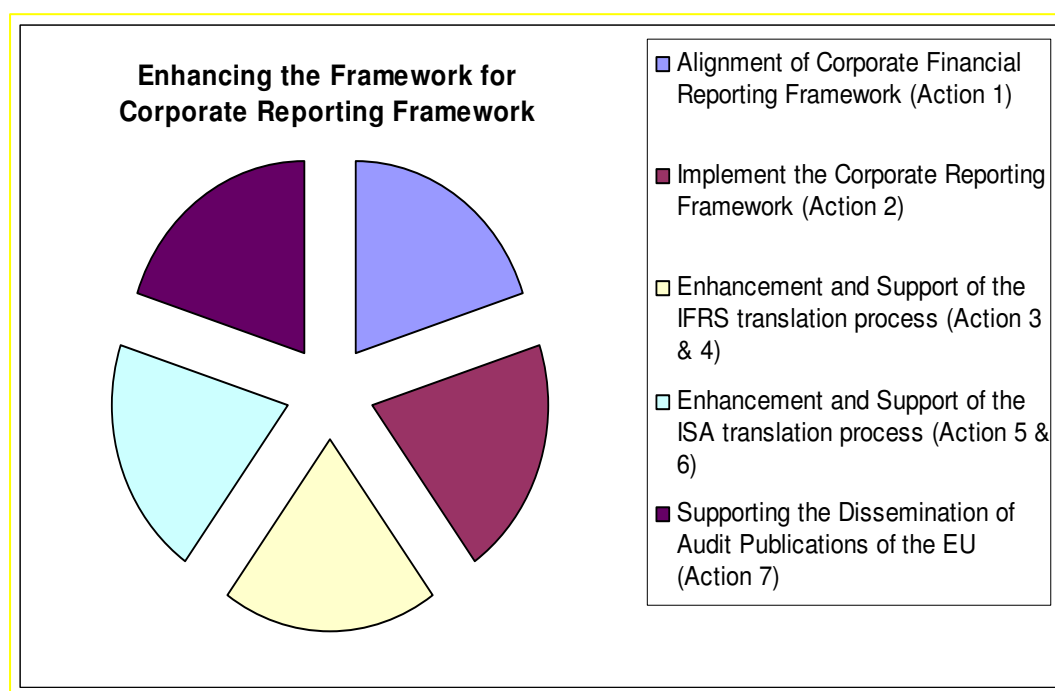


Figure 1-1: Enhancing the Framework for Corporate Financial Reporting

As outlined in section 1.3 the *acquis communautaire* provides a primary benchmark for the delivery of such a framework. The alignment of the current corporate financial reporting requirements in primary and secondary legislation with those of the *acquis communautaire* will significantly encourage the development of an enhanced corporate reporting framework in Bosnia Herzegovina (*Action 1*).

An effective corporate financial reporting environment is underpinned by suitable financial reporting (accounting) standards. The adoption of financial standards conducive to transparent financial reporting will help preparers and users of financial statement in Bosnia Herzegovina. Suitable financial reporting standards must address the needs of different types of entities including small & medium enterprises (*Action 2*).

Supporting the Independent Commission for Accounting & Auditing in enhancing the procedures and processes to facilitate the on-going translation requirements for financial reporting standards in Bosnia Herzegovina (*Action 3*), and the provision of support to ensure an on-going and permanent effective and efficient translation process to be implemented (*Action 4*), are activities which will support high-quality corporate financial reporting in Bosnia Herzegovina.

Effective auditing procedures are implemented through adherence to suitable international benchmarks, specifically the International Standards on Auditing. The on-going availability and enforcement of these standards is fundamental. This strategy will develop and support a properly functioning translation committee, under the control of the Commission on Accounting & Auditing, which will produce on an on-going basis the translated text for auditing standards and other relevant pronouncements. This will provide the basic knowledge for the development of the profession that will in turn improve the quality of auditing in Bosnia Herzegovina along with all the associated benefits that such an improvement would bring (*Action 5 & 6*).

The building up of the knowledge base of the Commission on Accounting & Auditing relating to the evolving European Union discussion on accounting and auditing will offer significant benefit to the Bosnia Herzegovina EU accession strategy in the future. A considerable knowledge base within the audit profession relating to the European Union regulations would greatly assist the implementation process relating to the accounting & auditing of the *acquis communautaire* (*Action 7*).

Strengthening Key Stakeholders in the Corporate Reporting Framework

This strategy took account of the experience of relevant EU Member States in recognizing that an enhanced corporate financial reporting must be implemented and enforced by suitably resourced institutions. For example the Central Bank of Bosnia Herzegovina and the entity Banking Agencies have a key role to play in enforcement of IFRS through statutory powers and prudential reporting requirements. The goal of these actions is to introduce a rigorous enforcement regime that works in conjunction with a suitable corporate reporting framework to produce high-quality financial reporting in Bosnia Herzegovina.

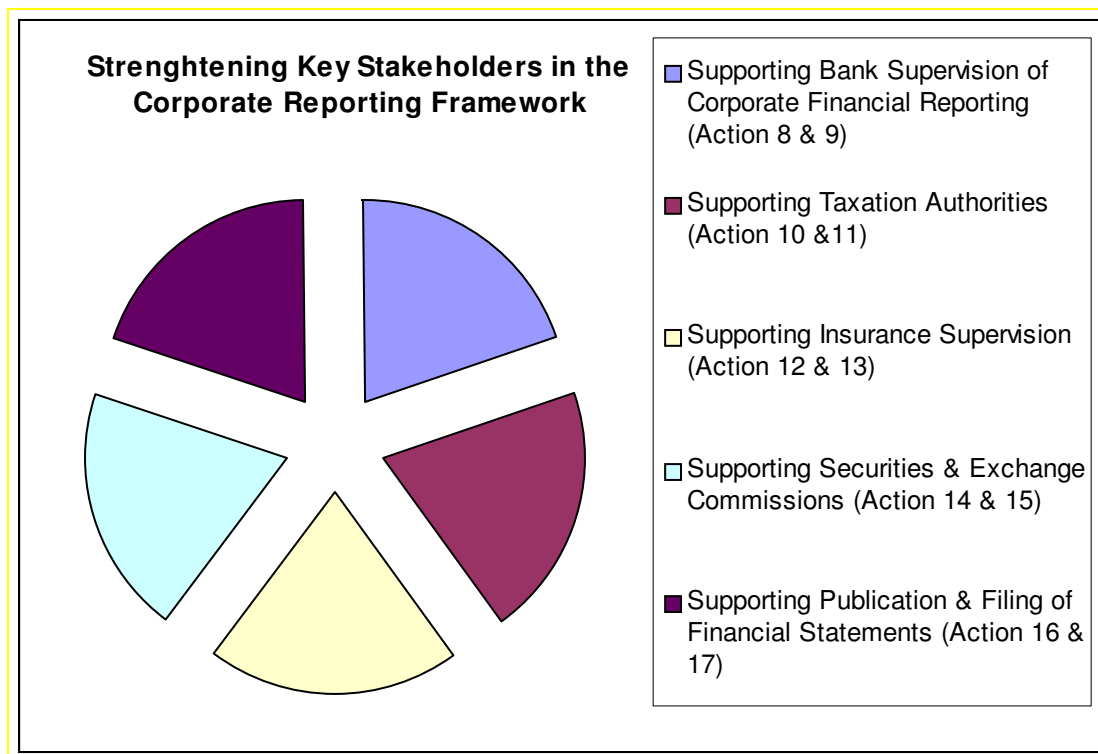


Figure 1-2: Strengthening Key Stakeholders in the Corporate Reporting Framework

For the Banking Agencies in Bosnia Herzegovina this program will review the legislation and regulations applicable to the banking sector to ensure alignment of the legislative framework with the relevant portions of the *acquis communautaire* and to ensure consistency of banking legislation with other relevant domestic legislation (*Action 8*). The strategy would offer significant support to the Supervisory Department of both Banking Agencies to strengthen the institutional capacity to supervise, monitor and enforce the application of IFRS in banking financial reporting (*Action 9*).

Tax reporting in Bosnia Herzegovina currently uses a significant proportion of the accounting capabilities within BiH. Resources used to clarify, simply and co-ordinate the tax and financial reporting environments will contribute significantly to the overall importance placed on financial reporting in Bosnia Herzegovina, leading in the longer-term to enhanced financial reporting. For the Entity Taxation Authorities the strategy would support establishing a statutory framework that provides a predictable tax base and in designing an efficient tax assessment process while reducing the compliance cost imposed on companies (*Action 10*). Furthermore the strategy would support the establishment of an institutional framework that implements an efficient tax assessment process resulting in an effective tax assessment and enforcement (*Action 11*).

Developing key specialized financial sectors in areas including insurance and pensions is a strategic goal for any entity aspiring to develop a robust and growing economy. Such specialist areas require specialist financial reporting and supervision. For the Insurance Supervisory Authorities in Bosnia Herzegovina, the strategy would support the delivery of a consistent legislative and regulatory framework that supports a modernized reporting environment for the insurance industry in line with the *acquis communautaire* (*Action 12*). Furthermore the strategy would support the development of the capability to monitor and to ensure compliance with the financial reporting legislation and regulations for insurance undertakings in Bosnia Herzegovina (*Action 13*).

The establishment of a strong effective and sophisticated capital market is a cornerstone of a successful economy in any region of the world. Strong effective and sophisticated capital markets require suitable regulations (including financial reporting requirements) and institutionalized enforcement mechanisms. For both Entity Securities and Exchange Commissions the strategy would support and develop the legislative and regulatory framework for listed entities (*Action 14*). Additionally the strategy would support the implementation and enforcement of the statutory powers to develop a culture of compliance and ultimately enhanced financial reporting for listed entities in Bosnia Herzegovina. This culture can be exported to the wider financial sector and beyond in the longer term (*Action 15*).

Institutional and statutory strengthening programs will assist in the preparation of high-quality financial reporting that will meet the needs of a wide range of users such as investors, lenders and other creditors. Such high-quality financial reporting is a prerequisite for the raising funds in capital markets and the banking sector, both of which are essential for economic growth.

However these high-quality annual accounts and consolidated accounts are only useful if the public can obtain them quickly and easily. This strategy would ensure that Bosnia Herzegovina legislation and regulations comply with relevant portions of the *acquis communautaire* relating to the publication and filing of financial information including the principle of compulsory disclosure, minimum transparency requirements and are consistent with other relevant domestic legislation (*Action 16*). In addition the strategy would contribute to a significant enhancement in the public availability of quality financial information through a program of operational, hardware and software support (*Action 17*) to the relevant registry holders in each entity. These actions will allow interested parties to access electronic annual accounts and consolidated accounts of relevant companies quickly and easily.

Supporting the Audit Profession

The adoption of an enhanced corporate reporting framework will only be effective to the extent that enterprises adhere to it. Strengthening key regulatory stakeholders is one method of ensuring enterprises adhere to corporate reporting requirements. The statutory audit of selected annual accounts and consolidated accounts (for example annual accounts of public interest entities) is another effective method for encouraging adherence to financial reporting standards.

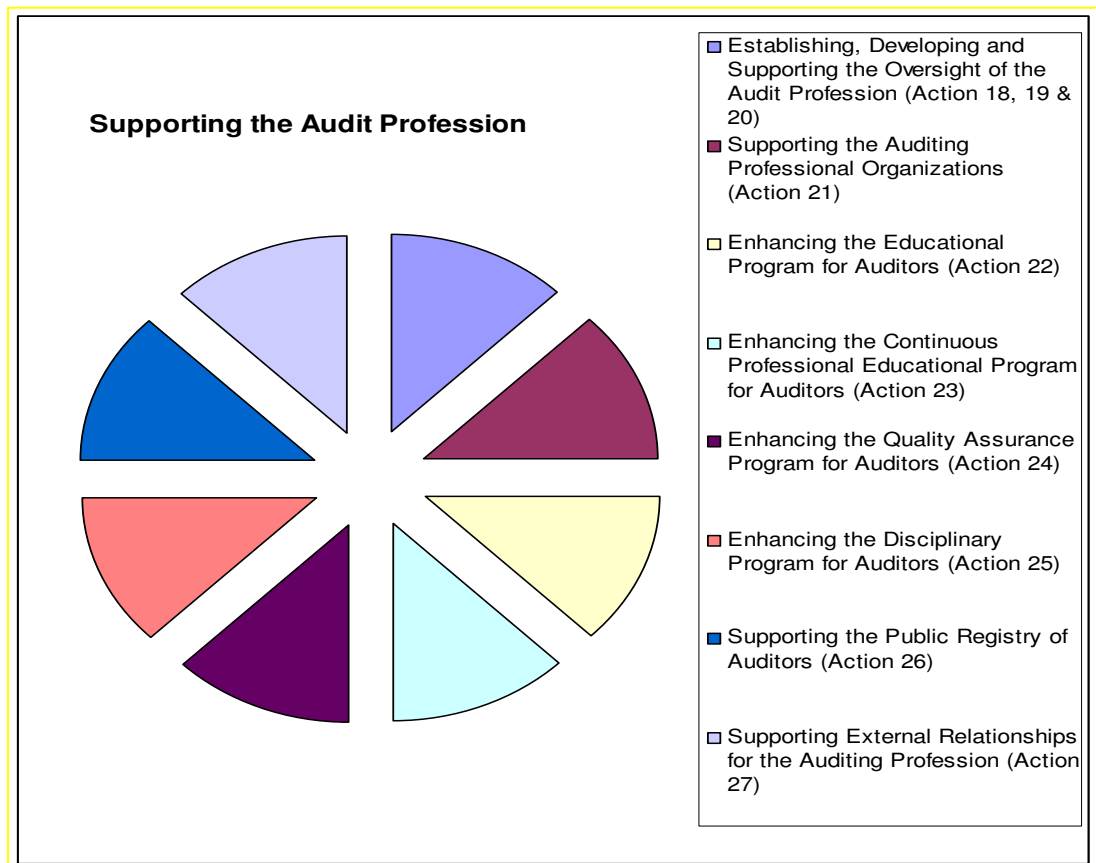


Figure 1-3: Supporting the Audit Profession

The enhancement of the auditing profession in Bosnia Herzegovina will help ensure the quality and consistency of corporate financial reporting through the presence of a reliable, independent auditing profession with ultimate allegiance to company creditors, shareholders, and other stakeholders. The support and development of the audit profession in Bosnia Herzegovina has been identified as a core goal under this strategy and action plan.

The audit profession must develop its internal regulations and procedures as identified in the activities to support the profession in this strategy. However clearly and specifically in light of recent worldwide international accounting scandals (Enron, Parmalat, etc.) and in consideration of recent European Union legislation (New Eighth Company Law Directive on the Statutory Audit) a system of external independent public oversight of the audit profession must be implemented in Bosnia Herzegovina. In addition effective public oversight over the audit profession is a vital element in the maintenance and enhancement of confidence in the audit function.

This strategy will support the design, establishment and development of an Audit Oversight Body to help assure regulators, investors and the public at large that audited annual accounts and consolidated accounts can be relied upon to provide an accurate picture of the financial health of the audited companies (*Actions 18, 19 & 20*). The program of support will help to ensure that the Audit Oversight Body will develop as an effective and efficient organization that will be capable of underpinning the regulatory structure of the auditing profession in Bosnia Herzegovina in the longer-term.

This strategy will directly support the audit profession by assisting the Association of Accountants and Auditors in the Republika Srpska (AAARS) & the Union of Accounting & Auditing in FBiH (SSRFBiH). Support to the AAARS & SSRFBiH in building sufficient capacity will allow for the development of a *modus operandi* of the organization that is effective, efficient and in line with international good practice (*Action 21*)

A full functioning audit profession requires the development of an accounting education and training program that will produce competent statutory auditors capable of making a positive contribution over their lifetime to the profession and society in which they work. This strategy has identified the enhancement and on-going development of such an educational program under the control of the Independent Commission on Accounting & Auditing (Commission), the AAARS & the SSRFBiH as a key activity under this strategy (*Actions 22*).

This strategy has identified the long-term development of the audit profession in Bosnia Herzegovina as a key goal. This encompasses ensuring that statutory auditors remain competent and develop new skills to remain effective in their jobs and careers. This will help maintain AAARS & SSRFBiH members' employability and their reputation with employers, clients and the public. It will also help maintain both the AAARS & SSRFBiH reputations for producing and supporting high caliber professionals. This strategy has identified the enhancement and on-going development of such a Continuing Professional

Educational (CPE) program under the control of the Commission, the AAARS & SSRFBiH as a key activity under this strategy (*Actions 23*).

Demonstrating that the performance of the statutory audit is monitored and reviewed (quality assurance) and enforced (sanction & discipline) is a key method of building public trust in the statutory audit. The establishment of public trust in the audit profession will in turn increase the use of and reliance on audited annual accounts and consolidated accounts. This is a significant objective for this strategy.

Quality assurance is the auditing profession's principal means of demonstrating to the public and to regulators that auditors are performing at a level that meets the established auditing standards and ethical rules. Enhancing and supporting a suitable quality assurance program will be a positive step in this direction for the auditing profession in Bosnia Herzegovina. It also allows the profession to encourage quality improvements in auditing methods (*Actions 24*).

Designing, implementing and supporting a suitable sanction and disciplinary program that will support the quality assurance activities of the AAARS & SSRFBiH will in the longer term allow for the safeguarding the public interest by maintaining and enhancing the standards of conduct of members and member firms of the auditing profession and by seeking to deter future acts of misconduct through its work (*Actions 25*).

The public registration of statutory auditors is an important step in building public confidence in the profession and in establishing the AAARS & SSRFBiH as the organized professional bodies mandated to lead the profession. A suitable register will help to assist in identifying persons acting without licenses, allow the public to identify the proper authorities if a complaint against a statutory auditor is required to be lodged, increase public confidence in registered auditors, and assist the AAARS & SSRFBiH in the regulation of the profession on an on-going basis (*Actions 26*).

To help drive internal improvements and to encourage the efficient and effective running of the AAARS & SSRFBiH, the development of relationships with similar regional auditing institutes, will be very critical to the development of the audit profession in Bosnia Herzegovina. This strategy will support the development of external relationships for the AAARS & SSRFBiH at European Union and international level (*Action 27*)

Supporting Education, Training & Public Awareness

Corporate financial reporting plays a crucial role in a well functioning modern economy. A clear understanding, by future generations of the Bosnia Herzegovina entrepreneurs, lawyers, bankers, creditors and of course statutory auditors, of the significant role played by high-quality financial reporting in a successful economy will greatly enhance the opportunities for the development of the Bosnia Herzegovina economy in the future.

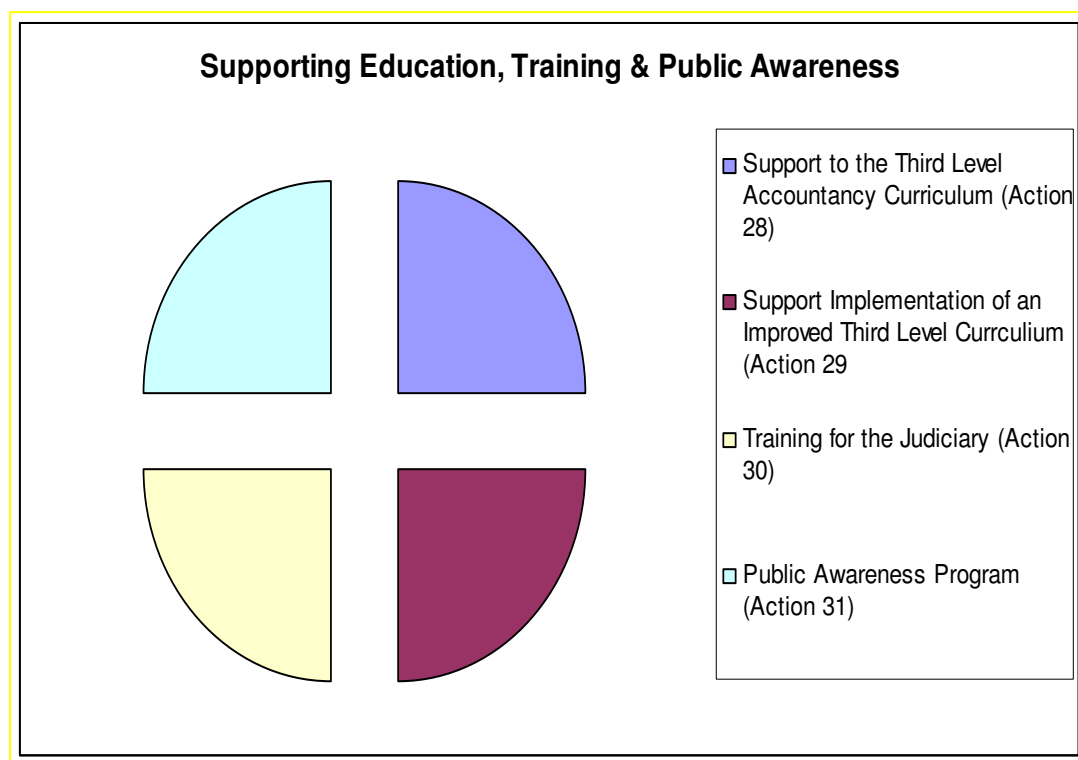


Figure 1-4: Supporting Education, Training & Public Awareness

This understanding is developed by a strong curriculum in accounting and auditing at the third level of education in Bosnia Herzegovina. This is important not only directly for accountancy students but for other disciplines also (e.g., business administration, law, economics) to ensure all sectors of a functioning economy can make informed decision based on reliable financial information. For example future entrepreneurs should appreciate the potential benefits that accrue in producing quality annual accounts and consolidated accounts, leaders of listed entities should see that the cost of capital decreases with the enhancement of financial reporting and the general public should be aware of the importance of being able to place trust in annual accounts and consolidated accounts of companies that hold significant pension investments.

The resources required to initiate a program of activities leading to the enhancement of the curriculum in accountancy will lead to an improvement in the knowledge of entrants to the auditing training programs in the long-term. Importantly also, the improved knowledge of

all third level students taking an accounting module will feed into increasing the overall knowledge base relating to the importance of good corporate financial reporting (*Action 28 & 29*).

The understanding of corporate financial reporting requirements can be important for the protection of key stakeholders. Without investors economies will not develop. Investors in companies must have some protection if directors or management have misled or ignored fiduciary duties. The judicial process is a key ingredient in the overall corporate transaction among the parties involved—the stockholders, directors, management, and state government (legislative, executive, and judicial). Investors have certain expectations of the role of courts in the enforcement of fiduciary duties. This strategy acknowledges that the judiciary requires a well-designed and implemented training program that would increase judges understanding of the importance of good corporate financial reporting and the responsibilities and rights of relevant stakeholders (*Action 30*).

Promoting awareness of good corporate disclosure and transparency in respect of financial reporting will in the long term lead to increased confidence in financial reporting in Bosnia Herzegovina, increase the public demand for good corporate disclosure and transparency, reduce the risk of significant fraud by increasing the awareness of peoples' rights and responsibilities and deepen the local knowledge of financial reporting increasing the potential investor base in Bosnia Herzegovina. A well-designed and implemented public awareness program that would increase the public demand for good corporate financial reporting in Bosnia Herzegovina (*Action 31*).

1.5 Funding requirements for the strategy and action plan

When addressing budget and resource requirements, the SC has split requirements into specific areas, which are:

- **Suitably qualified external technical assistance:** This is particularly important considering the technical nature of many of the activities and the requirement to absorb international good practices.
- **Operational Support:** The SC has identified the need for direct operational support to the relevant stakeholders identified in the strategy and action plan. Such operational support is primarily important in the start-up phase of certain activities and will be phased out over a period of one to three years depending on the activities.
- **Hardware, Software & Equipment:** The SC has further identified the requirement for specific hardware, software and equipment needs as an additional important external resource requirement.

In addition regional technical assistance will allow Bosnia Herzegovina to share experiences with relevant countries in the region and deliver economies of scale in specific technical areas. The SC has identified the World Bank’s Road to Europe – Program of Accounting Reform and Institutional Strengthening (REPARIS) as a vehicle for the delivery of regional technical assistance³.

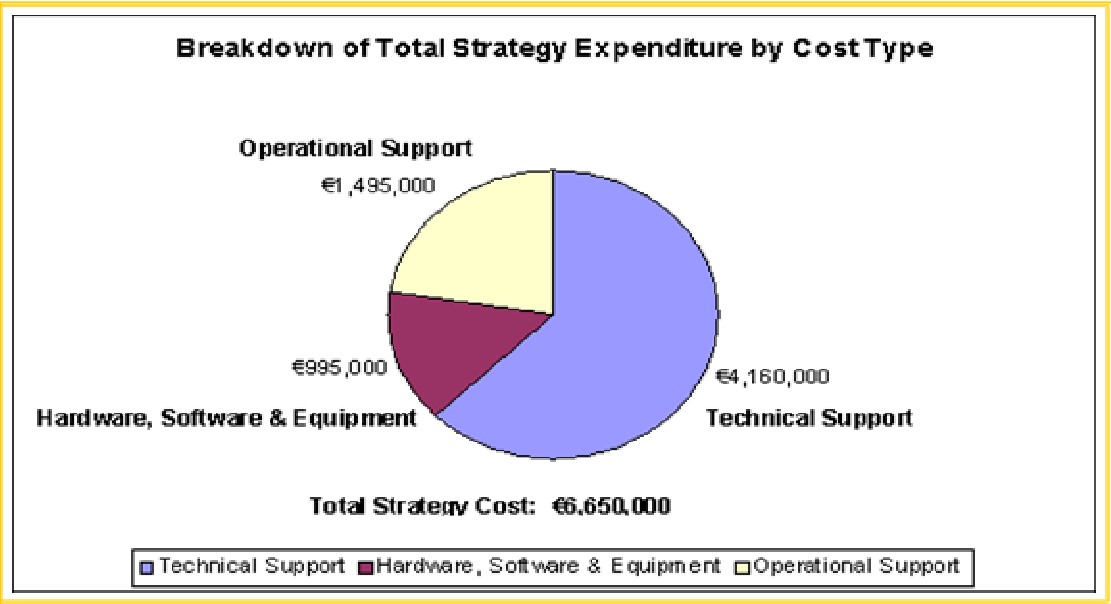


Figure 1-5: Breakdown of total strategy expenditure by cost type

³ Please refer to www.worldbank.org/reparis for additional details

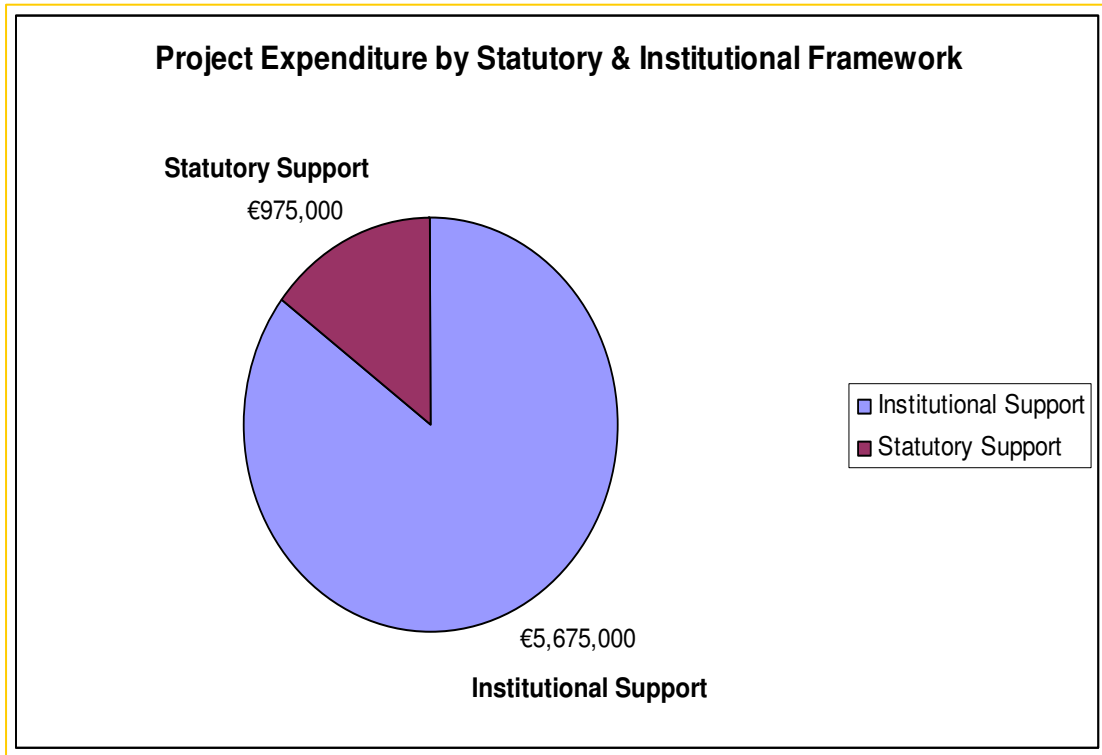


Figure 1-6: Breakdown of total strategy expenditure by Statutory & Institutional expenditure

Below we are detailed the estimated strategy costs by action and by cost type. The total strategy cost is estimated at €6,650,000. Below this expenditure is broken down into cost types. The total estimated expenditure on operational support for this strategy is €1,495,000. The total estimated cost for technical support is €4,160,000 and the total estimated cost for direct hardware, software and equipment costs is estimated at €995,000.

<i>Action \ Costs</i>	<i>Operational</i>	<i>Technical</i>	<i>Hardware/ Software, Equipment</i>	<i>Total Costs</i>
<i>1) Enhancing the Framework for Corporate Financial Reporting</i>	€ 250,000	€ 325,000	€ 200,000	€ 775,000
<i>2) Strengthening Key Stakeholders in the Corporate Reporting Framework</i>	-	€1,900,000	€750,000	€2,650,000
<i>3) Supporting the Audit Profession</i>	€495,000	€1,335,000	€45,000	€1,875,000
<i>4) Supporting Education, Training & Public Awareness</i>	€750,000	€600,000	-	€1,350,000
<i>Total Costs</i>	€1,495,000	€4,160,000	€995,000	€6,650,000

Table 1-1: Strategy costing by action and cost type

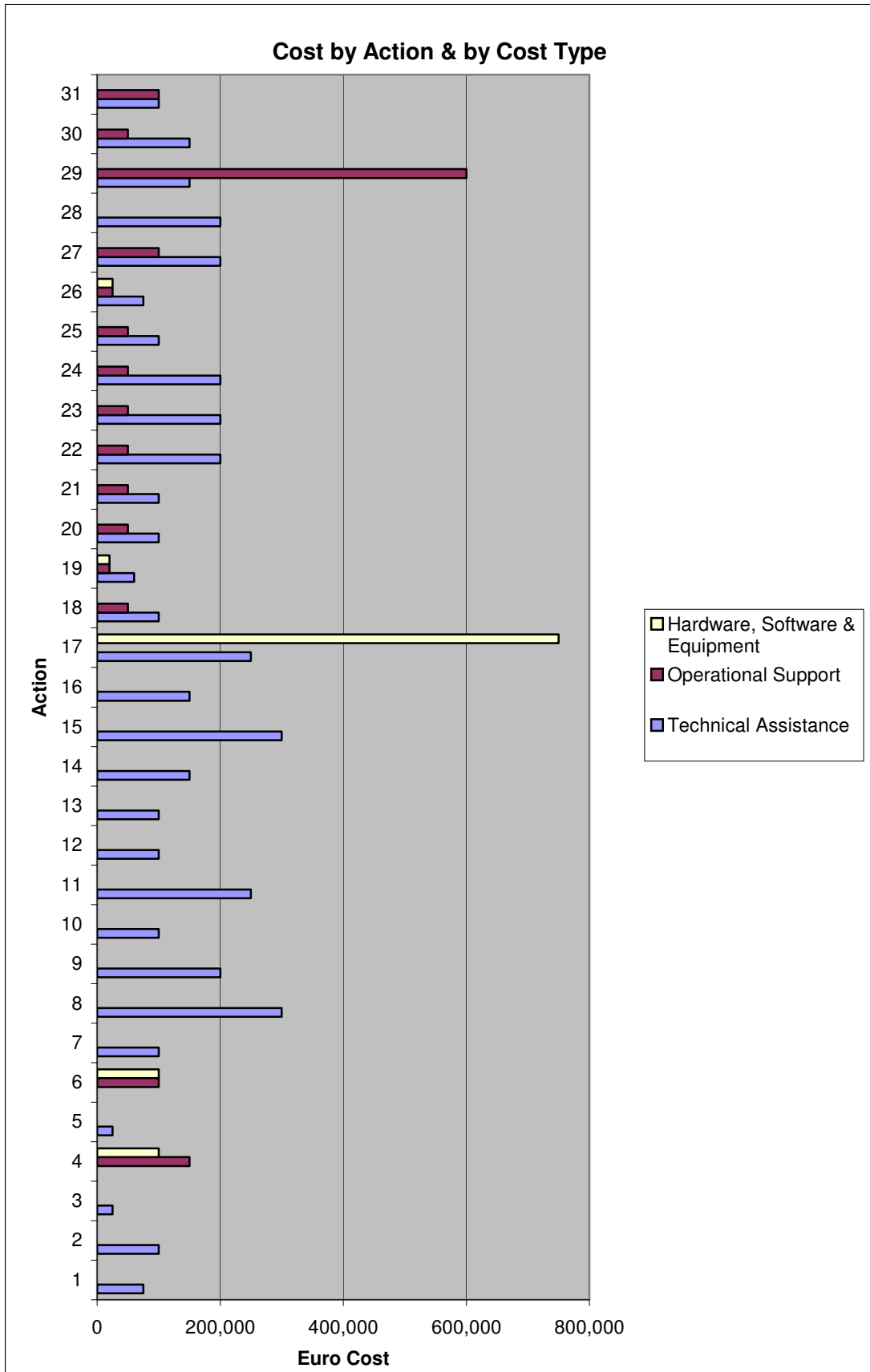


Chart 1-1: Costs by Action & by Cost Type

Further detailed analysis of the strategy estimated costs are detailed below. In Figure 1.7 we have detailed the estimated strategy costs by activity for the enhancement of the corporate financial reporting framework. There are 7 individual actions under this project. The total estimated cost of these actions is €775,000.

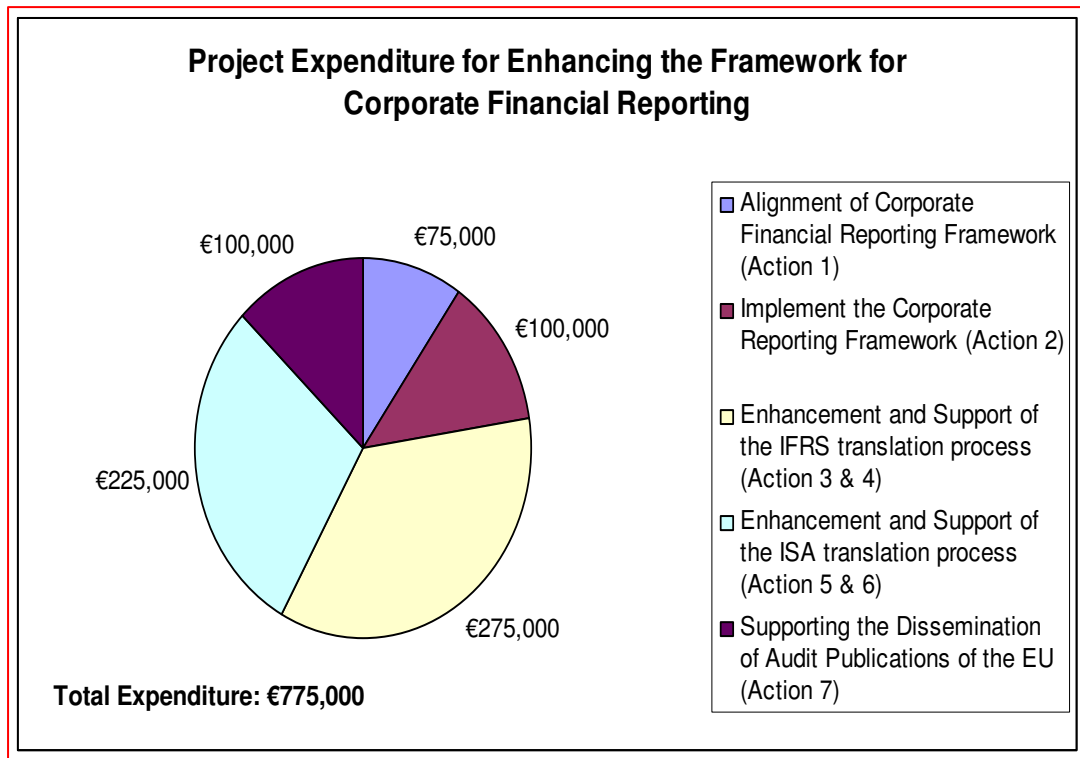


Figure 1-7: Project Expenditure for Enhancing the Framework for Corporate Financial Reporting

In Figure 1.8 we have detailed the estimated strategy costs by activity for the strengthening program for key stakeholders in the corporate reporting framework. There are 10 individual actions under this project. The total estimated cost of these actions is €2,650,000.

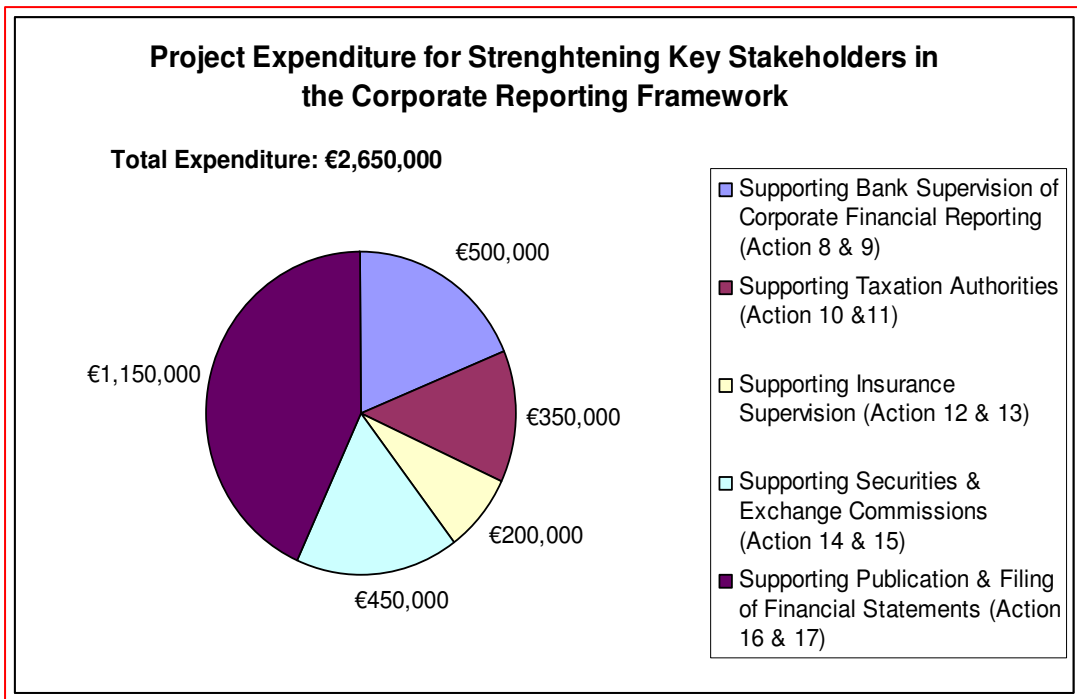


Figure 1-8: Project Expenditure for Strengthening Key Stakeholders in the Corporate Reporting Framework

In Figure 1.9 we have detailed the estimated strategy costs by activity for the support of the audit profession. There are 10 individual actions under this project. The total estimated cost of these actions is €1,875,000.

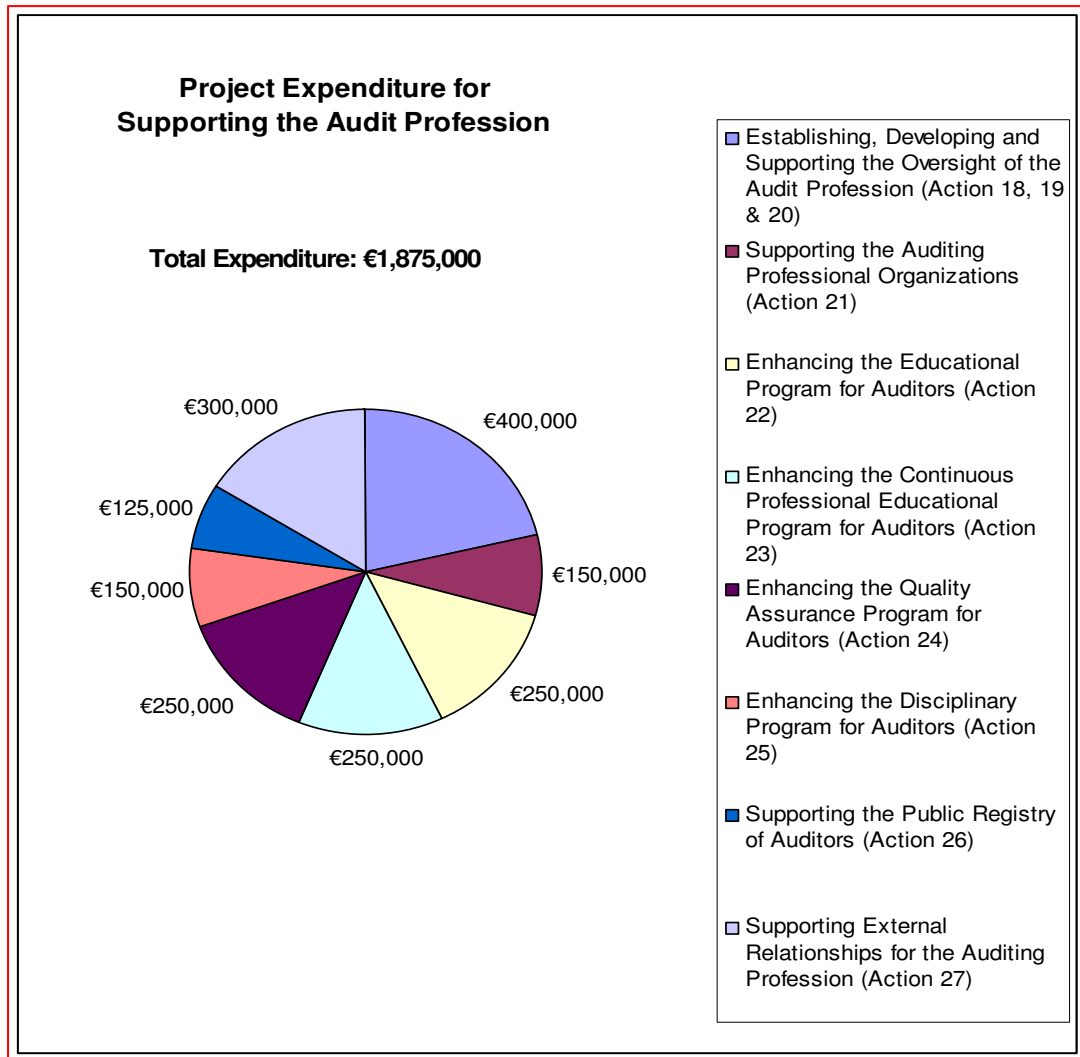


Figure 1-9: Project Expenditure for Supporting the Audit Profession

In Figure 1.10 we have detailed the estimated strategy costs by action for educational programs, training and public awareness program. There are 4 individual actions under this project. The total estimated cost of these actions is €1,350,000.

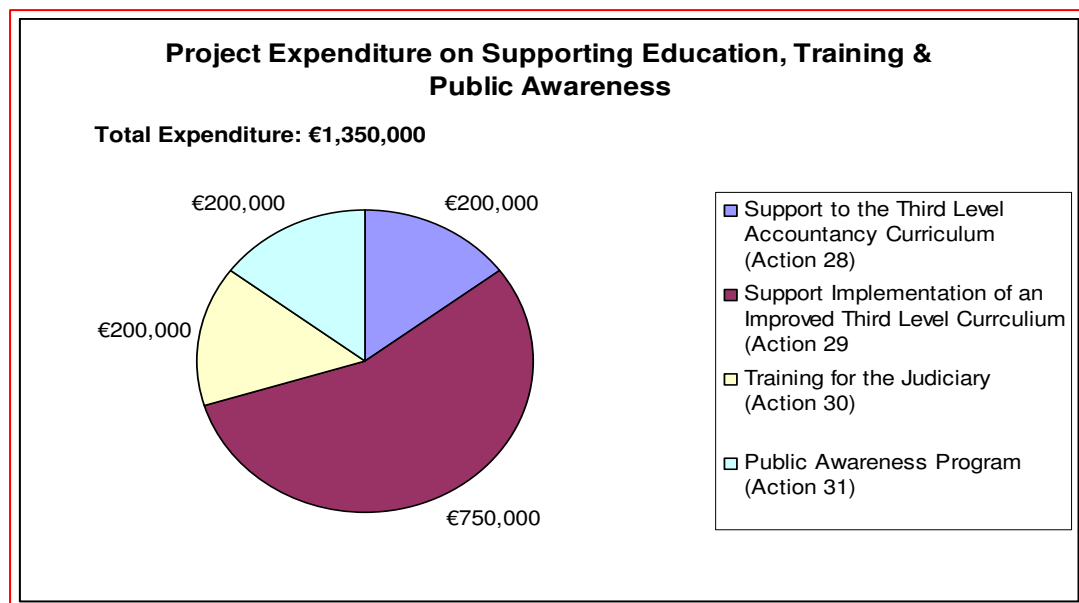


Figure 1-10: Project Expenditure on Supporting Education, Training & Public Awareness

1.6 The implementation of the strategy and action plan

For each action presented on page 54, the strategy shows the objective to be attained, a detailed description of the task, and the outcome, which will be achieved. Linkages between actions are common. The delivery bodies for each of the activities are identified, and clear responsibilities, accountabilities and timeframes for the deliverables of the actions are specified. The costs of each action are estimated, and the resources required are broken down between those to be provided internally and those to be provided externally. External resource requirements are broken down into specific categories such as technical assistance or hardware support.

1.7 The next steps...

The strategy and action plan are also intended to be the basis for discussions on technical assistance with development partners. Now that the strategy and plan have been drawn up, there is the need for an advisory group to ensure implementation of the reforms. It is proposed that the State and Entity Ministries of Finance should decide on the remit of such an advisory group.

2 INTRODUCTION

2.1 The Strategic context

A sound corporate financial reporting system is the cornerstone of a well functioning market economy and the bedrock of a robust financial system.

In developing a strategy to enhance the quality of corporate financial reporting in Bosnia Herzegovina it is important to consider the “deterrents” and “incentives” which motivate the development of this strategy.

- Deterrent is considered in light of the financial crises and corporate scandals that have taken place in the late 1990s in developing markets and over the past few years in industrialized countries. High quality financial reporting helps to avert such scandals, which have enormous economic and social costs. For example:
- Financial system crises in South East Asia resulting from weak corporate financial reporting practices had significant macro-economic consequences on countries such as Thailand (minus 10% in Gross Domestic Product (GDP) in 1998), South Korea (minus 7% in GDP in 1998) and Indonesia (minus 13% in GDP in 1998). Importantly, these crises had a disproportional negative effect on the poor resulting in reversal in school enrolment, severe health implications, etc;
- Enron filed for bankruptcy in 2001 resulting in a loss of US\$67 billion in market capitalization. Consequently, thousands of employees worldwide lost their job and thousands of employees and retirees lost a significant portion of their pension benefits;
- Parmalat underreported loans by approximately US\$14 billion. As a consequence, 36,000 jobs in 65 countries were put at stake and 5,000 farmers are still owed US\$150 million, or US\$30,000 per farmer.

These scandals send a very clear picture of the negative effects of poor corporate financial reporting. In contrast good corporate financial reporting is conducive to financial sector development and private sector development, which in turn spur economic growth. The relationship between high quality corporate financial reporting and financial and private sector development works through several dimensions:

- First, through strengthening domestic financial architecture and reducing the risk of financial market crises and their associated negative economic impacts;
- Second, by contributing to foreign direct and portfolio investment and helping to mobilize domestic savings. Foreign direct investment (FDI) has been slow to materialize, negatively affecting employment in Bosnia Herzegovina. Bosnia

Herzegovina's poor growth record, negative trade balance and low FDI signal a business environment not conducive to robust private sector-led growth or increased domestic and foreign investment. Weaknesses in the legal framework continue to hinder private sector development and foreign investment;

- Third, through facilitating smaller-scale corporate borrowers' access to credit from the formal financial sector by lowering high costs of information and borrowing. Enterprise sector growth has been constrained by poor access to credit. Despite recent improvements in the financial sector, the level of banking intermediation in Bosnia Herzegovina remains among the lowest in the region;
- Fourth, by allowing investors to evaluate corporate prospects and make informed investment and voting decisions, which results in a better allocation of resources. Corporate financial reporting is also a gauge for market-based monitoring, which allows shareholders and the public at large to assess a company's management performance, and thereby promotes the active development of capital markets;
- Finally, by supporting economic integration, both regionally and globally.

2.2 The background to the development of this strategy

In 2004, a World Bank team prepared a Report on the Observance of Standards and Codes (ROSC) on accounting and auditing (A&A) in Bosnia Herzegovina. The ROSC A&A policy recommendations were agreed between the World Bank, the State and Entity Ministries of Finance and relevant BiH stakeholders. It was also agreed that a detailed strategy and action plan would be developed and implemented on the basis of these policy recommendations. The strategy and action plan, to be developed by BiH stakeholders, was to be implemented under the coordination of the State and Entity Ministries of Finance and with assistance from development partners.

As an immediate response to the A&A ROSC, Bosnia Herzegovina adopted uniform accounting and auditing laws at the Entity level and established an Accounting and Audit Commission (the Commission).

Following on from the A&A ROSC report and the preparation of the uniform accounting and auditing laws at the Entity level and establishment of the Accounting and Audit Commission, the Ministry of Finance in Bosnia Herzegovina set up a Steering Committee (SC) to develop a strategy and action plan to address the policy recommendations set forth in the A&A ROSC report with the aim of enhancing the quality of corporate financial reporting. The developments to date are mapped in [Figure 2-1: Reform path to date](#).

Country Owned Reform Agenda

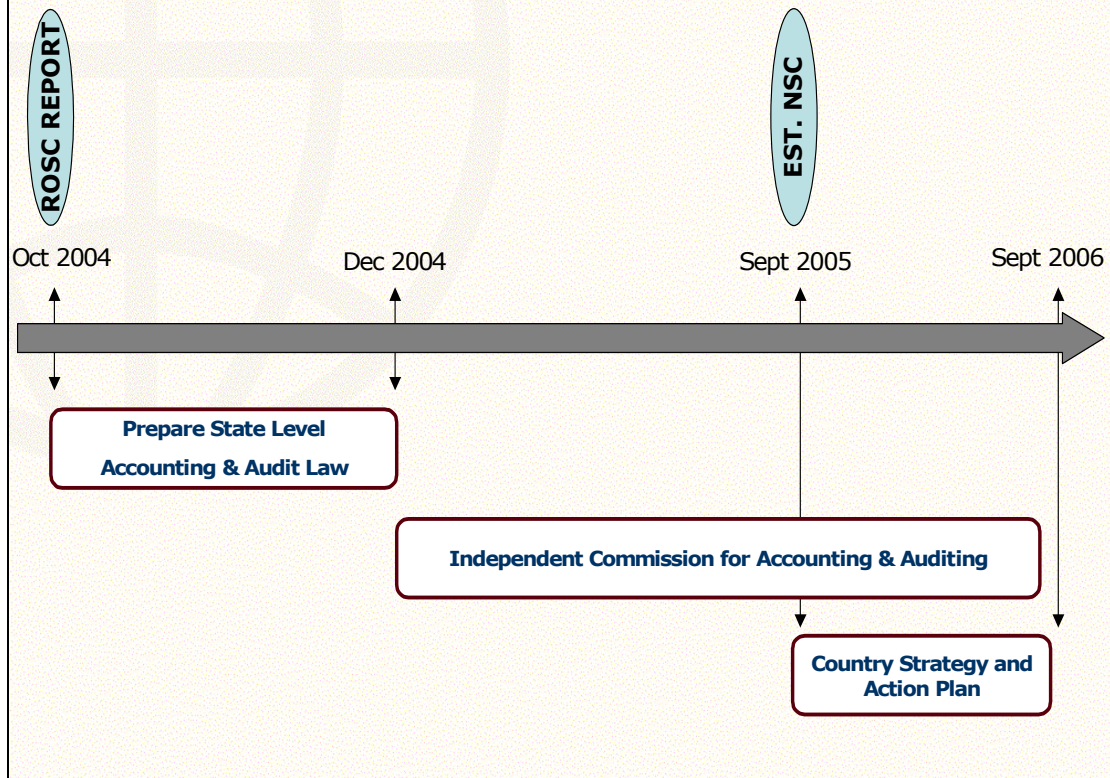


Figure 2-1: Reform path to date

The SC is made up by a multi-disciplinary group of public and private sector stakeholders with an interest in corporate financial reporting. It includes representatives from the government, financial sector regulators, the accountancy profession, academia, commercial banks, insurance companies and large and medium enterprises. The role and activities of the SC were to support the preparation of a strategy and action plan to address the requirements of the *acquis communautaire* relating to accounting and auditing. A World Bank Technical Assistance Program has supported the SC's work.

This strategy and action plan is intended to be the basis for discussions on technical assistance with development partners. With the completion of the action plan, there will be a need for an advisory group to provide assurance on the implementation of the reforms. The State and Entity Ministries of Finance will decide on the remit and structure of such an advisory group.

2.3 Strategic objectives and benefits

The enhancement of the quality of corporate financial reporting extends beyond the specific scope of accounting and auditing. The strategic objectives and benefits are identified below in Figure 2-2: The importance of high quality corporate financial reporting.

Strategic Objectives and Benefits	
European Integration	Adopting and implementing relevant portions of the <i>acquis communautaire</i>
Improved Access to Credit	Facilitating the access of smaller-scale corporate borrowers, including small and medium enterprises, to credit from the formal financial sector by shifting gradually from collateral-based lending decisions to lending decisions that are based on the financial performance of the prospective borrower
Private Sector Growth & Job Creation	Allowing shareholders and the public at large to assess management performance, thus influencing its behaviour and use of resources
Development Markets of Capital	Contributing to foreign portfolio investment; allowing investors to evaluate corporate prospects and make informed investment and voting decisions, which will result in a better allocation of resources
Financial Sector Development	Help mobilize domestic savings
Financial Stability	Strengthening Bosnia Herzegovina's financial architecture and reducing the risk of financial market crises and their associated negative economic impacts, including through increased transparency about the financial condition and performance of public interest entities

Figure 2-2: The importance of high quality corporate financial reporting

This strategy and action plan is about better corporate financial reporting, i.e. a vehicle to achieve a number of economic "goods" outlined in Figure 2-2 above. It is about achieving economic growth and EU integration through the adoption and implementation of the relevant portions of the *acquis communautaire* and other relevant benchmarks. This will result in an environment where users can place reliance on corporate financial reporting for their respective needs as illustrated in Figure 2-3: Benefits of Good Corporate Reporting.

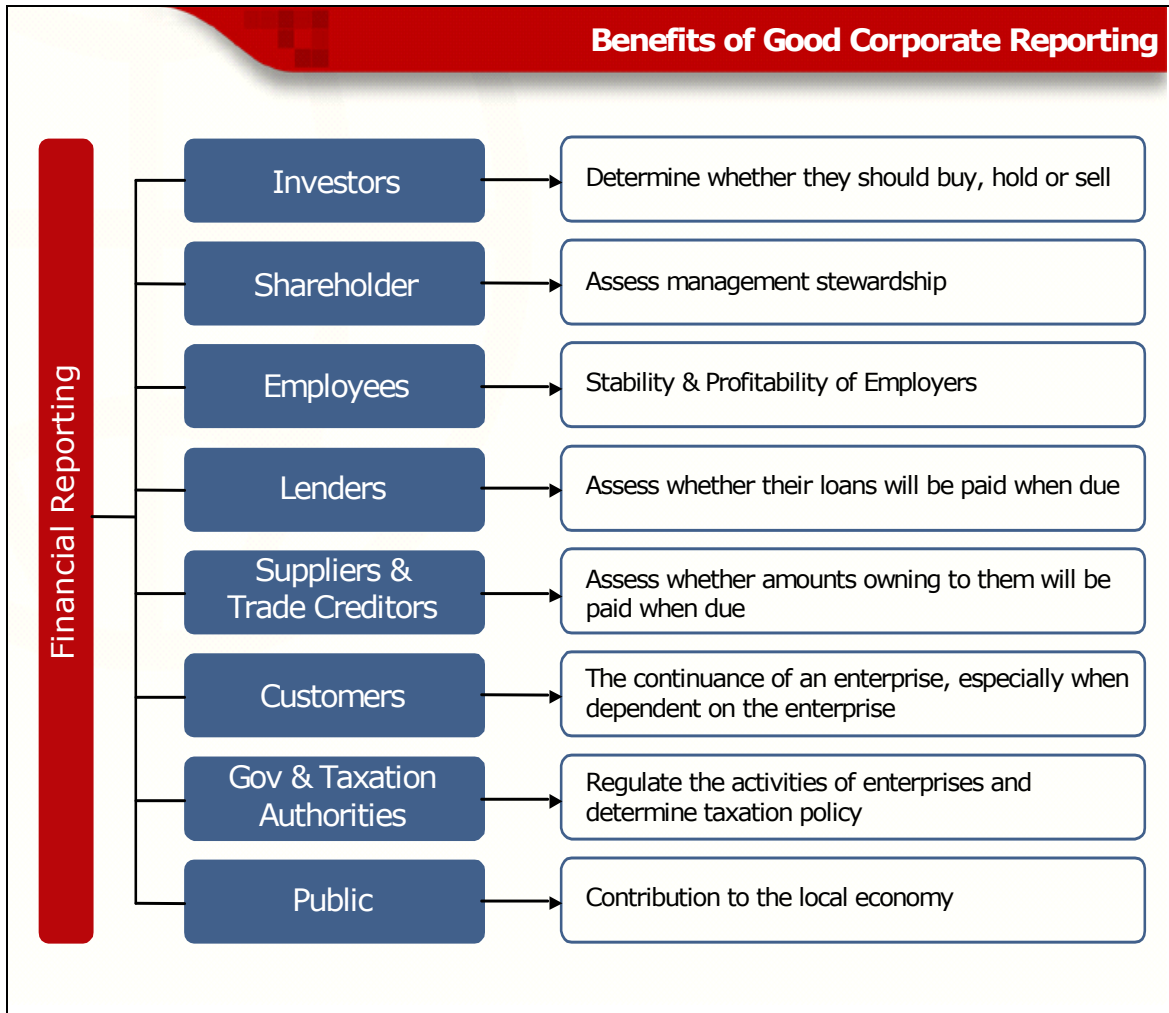


Figure 2-3: The Benefits of Good Corporate Reporting

2.4 The statutory and institutional frameworks

The SC has identified areas of work that require substantial strengthening in Bosnia Herzegovina under two pillars. The first pillar is the statutory framework and the second pillar is the institutional framework. Figure 2-4 outlines the objectives and benchmarks that will drive the strategy and action plan under these two key pillars.

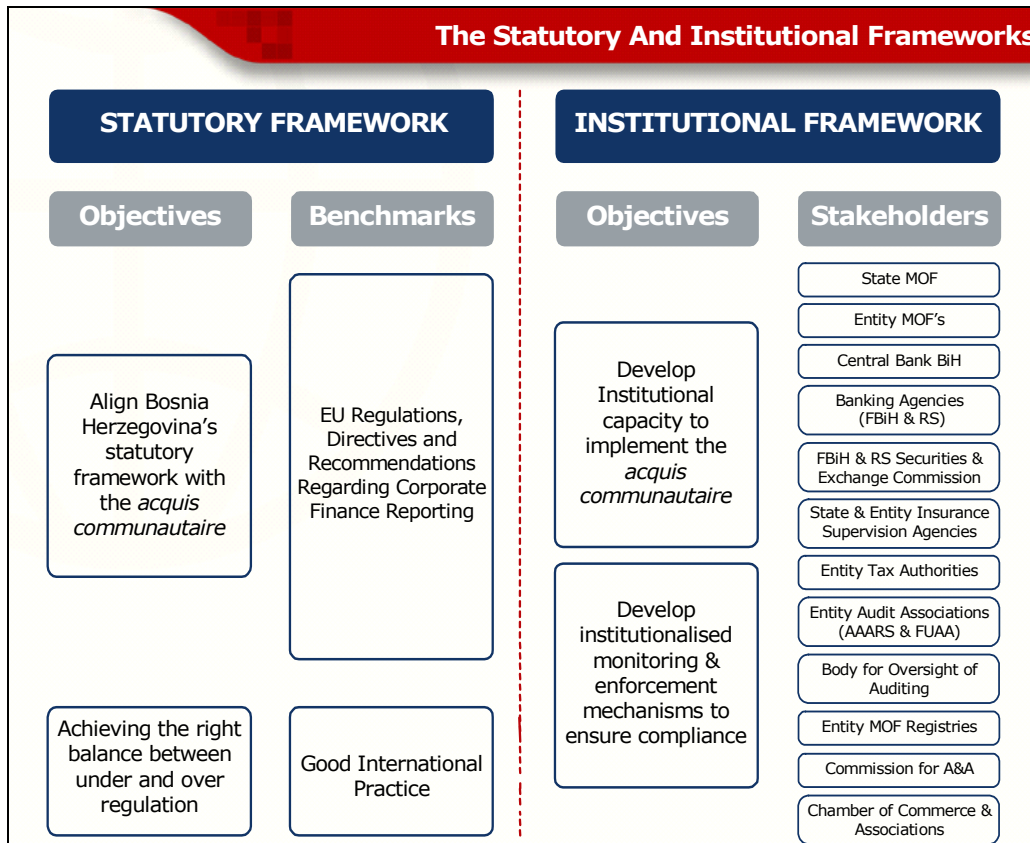


Figure 2-4: The Statutory & Institutional Framework

For the statutory framework the overarching theme is to align the Bosnia Herzegovina statutory framework with the *acquis communautaire* while achieving the right balance between “under- and over-regulation.” This means making full use of the exemptions available in the *acquis communautaire* in order to avoid imposing an unrealistic and unproductive burden on small and medium enterprises (SMEs) in Bosnia Herzegovina.

For the institutional framework the SC has identified a number of key stakeholders that will play a crucial role in implementing the *acquis communautaire* and in monitoring and enforcing its application. The institutions identified have either a direct or indirect role in the corporate financial reporting framework in Bosnia Herzegovina. For example the State and Entity Ministries of Finance and the entity level Profession Audit Institutes have important roles to play.

2.5 Benchmarks

As illustrated in Figure 2-5, the SC's approach to strengthening the statutory and institutional frameworks is driven by a primary benchmark, i.e. the *acquis communautaire* complemented by International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA) and good international practice.

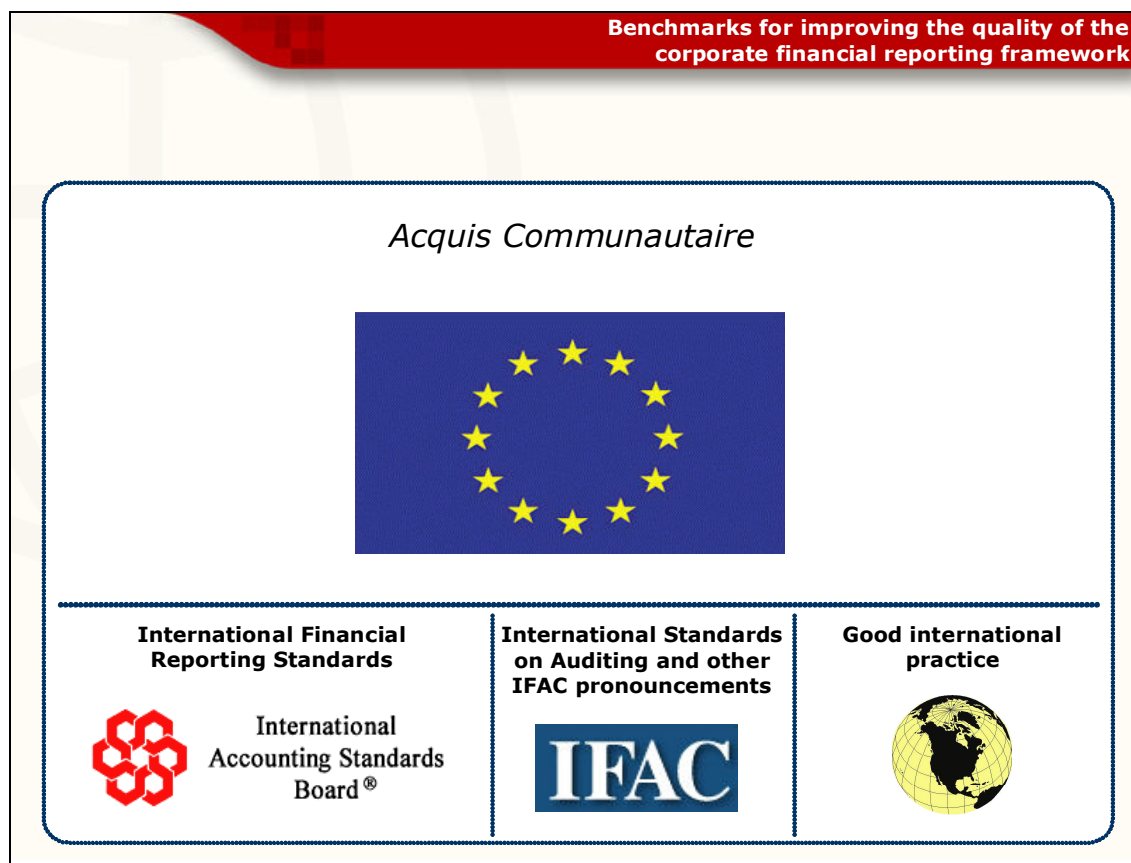


Figure 2-5: Benchmarks for improving corporate financial reporting

The *acquis communautaire*

The relevance of the *acquis communautaire* for Bosnia Herzegovina is twofold. First, it represents a high-quality model for the regulation of accounting and auditing, which may be applied to countries of differing characteristics. Second, the adoption of the *acquis communautaire*, relating to accounting and auditing, supports Bosnia Herzegovina's strategy to become part of the European Union.

In this regard two factors have influenced the SC in developing this strategy and action plan. Firstly, with regard to enforcement it is anticipated that Bosnia Herzegovina will need to demonstrate that it has not only adopted the *acquis communautaire* in law (statutory framework) but also that Bosnia Herzegovina has taken measures to ensure the *acquis communautaire* is actually implemented (institutional framework). Secondly, the SC

acknowledged that no blueprint exists on how exactly to implement and enforce the *acquis communautaire* and therefore has had regard to the experience of existing EU Member States.

Constructing a high-quality regulatory and institutional framework for accounting and auditing requires reforms to Bosnia Herzegovina's legal framework, institutions, and accounting profession, as well as changes in its accounting, auditing and business culture. This strategy and action plan sets out a number of reform activities developed in a holistic manner with due regard to Bosnia Herzegovina's ability to carry out such activities (both in terms of capacity and resources). In some instances, a relatively lenient rule that is robustly and consistently enforced is preferable to a good, rigorous one that is unenforceable, as the lenient rule can be progressively made more rigorous as circumstances allow. As a result, the SC has decided to set forth reform activities that, while challenging, can be carried out in the short to medium term.

International Financial Reporting Standards

As illustrated in Figure 2-5, the SC has also had regard to IFRS as a benchmark.⁴ The SC agrees with the ROSC report recommendation that IFRS are generally meaningful for Public Interest Entities (PIE) and would be too burdensome in most SMEs. Therefore, the fact that the SC uses IFRS as a benchmark does not imply that IFRS is suitable for all companies. The SC has not used these standards as an absolute benchmark but has endeavored to draw on these standards to complement the *acquis communautaire* in instances where the *acquis communautaire* is not specific enough.

International Standard on Auditing

The SC has also had regard to the standards, codes and statements issued by the International Federation of Accountants (IFAC) and its independent boards, including:

- International Standards on Auditing (ISA);⁵
- The Code of Ethics for Professional Accountants;⁶
- International Educational Standards (IES);⁷ and

⁴ The International Accounting Standards Board (IASB), an independent international organization, sets IFRS.

⁵ The International Auditing and Assurance Standards Board (IAASB) of IFAC sets International Standards on Auditing (ISA).

⁶ The Code of Ethics for Professional Accountants is developed by the International Ethics Standards Board for Accountants of IFAC.

- Statement of Membership Obligations (SMOs).⁸

As with IFRS, the SC has not used these standards, codes, and statements as absolute benchmarks but has endeavored to draw on them to complement the *acquis communautaire* in instances where the *acquis communautaire* was not specific enough.

Good international practice

Finally the SC has drawn on examples of good international practice as a useful reference for developing the strategy and action plan. Thanks to the technical assistance provided, for example by the World Bank's "Road to Europe – Program of Accounting Reform and Institutional Strengthening" (REPARIS) program, the assistance provided by the European Agency for Reconstruction and the assistance provided by the United States Agency for International Development, the SC has gathered examples of good international practice and drawn on this knowledge to understand:

- How EU Member States have adopted and implemented the *acquis communautaire*;⁹ and
- In areas where the *acquis communautaire* is too generic or silent (e.g., linkages between corporate income tax reporting and annual accounts), what approach is considered good international practice

These benchmarks also underpinned the assessment procedures that led to the policy recommendations of the A&A ROSC.

⁷ International Education Standards are developed by the International Accounting Education Standards Board of IFAC.

⁸ The SMOs serve as the foundation for the Member Body Compliance Program, which is overseen by IFAC's Compliance Advisory Panel. SMOs provide clear benchmarks to current and potential member bodies to assist them in ensuring high-quality performance by professional accountants.

⁹ During the year 2005, the NSC reviewed a number of discussion papers that outlined the statutory and institutional frameworks of a number of old and new EU Member States, including France, Germany, Ireland, the Slovak Republic and Slovenia.

The relevant portions of the *acquis communautaire*

The SC has reviewed the *acquis communautaire* and identified Chapter 6, Company Law, as particularly relevant to the establishment of a robust financial reporting framework. Figure 2-6 differentiates between “hard law” and “soft law.” Regulations (binding in all EU Member States without the need for any national implementing legislation) and Directives (binding with respect to the objectives to be achieved and the time limit within which such objectives must be reached; however, they leave to national authorities the choice of form and means for achieving those objectives) are considered “*hard law*.” Recommendations and Communications are considered “soft law.” Soft law are “rules of conduct which, in principle, have no legally binding force but which nevertheless, may have practical effects.”¹⁰

Corporate sector accounting & auditing within the <i>acquis communautaire</i>					
LEGISLATION	ACCOUNTING			AUDITING	
Regulations & Directives (Hard Law)	(A) ANNUAL ACCOUNTS DIRECTIVE (78/660/EEC)			(L) STATUTORY AUDIT DIRECTIVE (2006/43/EC)	Core
	(B) CONSOLIDATED ANNUAL ACCOUNTS DIRECTIVE (83/349/EEC)				
	BANKING	INSURANCE	CAPITAL MARKETS		Sector Specific
	(C) BANKING ACCOUNTS DIRECTIVE (86/635/EEC)	(E) INSURANCE ACCOUNTS DIRECTIVE (91/674/EEC)	(G) IFRS REGULATION (NO. (EC) 1606/2002 INCLUDING EU COMMISSION REGULATIONS ENDORSING INDIVIDUAL IFRS)		
	(D) CAPITAL REQUIREMENTS DIRECTIVE	(F) SOLVENCY DIRECTIVE (2001/13/EC)	(H) PROSPECTUS DIRECTIVE (2003/71/EC)		
Recommendations & Communications (Soft Law)	(K) COMMUNICATION ON MODERNISING COMPANY LAW & ENHANCING CORPORATE GOVERNANCE IN THE EU (COM/2003/284)			(M) STATUTORY AUDITOR'S INDEPENDENCE RECOMMENDATION (2002/590/EC)	
				(N) QUALITY ASSURANCE FOR THE STATUTORY AUDIT RECOMMENDATION (2001/256/EC)	

Figure 2-6: Corporate Sector Accounting and Auditing within the *Acquis Communautaire*

¹⁰ Snyder, F. 1993. “The Effectiveness of European Community Law: Institutions, Processes, Tools and Techniques.”

Taken together, these Regulations, Directives, Recommendations and Communications can be considered as the significant body of the *acquis communautaire*, relevant to corporate sector accounting. A brief summary of the fundamental Regulations, Directives, Recommendations and Communications is identified below:

Fundamental Accounting Directives

- (A) *Fourth Directive on Annual Accounts (78/660/EEC)*: This Directive coordinates Member States' provisions concerning the presentation and content of annual accounts and annual reports of companies with limited liability, the general principles for the valuation of items in the annual accounts (e.g., prudence), specific valuation rules (e.g., valuation rules for fixed assets), and the publication of annual accounts as set forth in the First Company Law Directive (68/151/CEE), as amended.
- (B) *Seventh Directive on Consolidated Accounts (83/349/EEC)*: This Directive coordinates national laws on consolidated (i.e., group) accounts and defines the circumstances under which consolidated accounts are to be drawn up. A parent company and all its subsidiaries are to be consolidated where either the parent company or one or more subsidiaries is established as a company with limited liability.

Regarding these two Directives, the SC has had regard to the requirements of the Directive, as amended, and the various options and maximum thresholds, which will require Bosnia Herzegovina policymakers to determine which options and thresholds, are suitable in the context of Bosnia Herzegovina.

Banking Sector

- (C) *Banking Accounts Directive (86/635/EEC)*: For annual accounts of banks and other credit institutions this Directive sets out rules concerning presentation and measurement in those areas where such rules are deemed necessary because of the particular nature of the entity.
- (D) *Capital Requirements Directive*: This Directive, which is generally known as the Capital Requirements Directive but technically comprises two Directives, introduces a supervisory framework in the EU, reflecting the Basel II rules on capital measurement and capital standards agreed at the G-10 level. The Directive makes the existing framework more comprehensive and risk-sensitive and fosters enhanced risk management amongst financial institutions, enhancing the effectiveness of the framework in ensuring continuing financial stability, maintaining confidence in financial institutions and protecting consumers. It is also designed to ensure that the capital requirements for lending to SMEs are appropriate and proportionate. EU Member States are to apply the Directive from the start of 2007, with the most sophisticated approaches being available from 2008. While the Capital Requirements Directive is not an "accounting" Directive per se, the SC has had regard to it

in order to ensure that financial reporting reforms in the context of the strategy and action plan are conducive to better and consistent approaches to banking supervision.¹¹

Insurance Sector

- (E) *Insurance Accounts Directive (91/674/EEC)*: For annual and consolidated accounts of insurance undertakings this Directive provides specific rules concerning presentation and measurement in those areas where such rules are deemed necessary because of the particular nature of the insurance industry.
- (F) *Solvency Directives*: An insurance company should have a solvency position that is sufficient to fulfill its obligations to policyholders and other parties. Insurance undertakings in the EU are subject to the same solvency margin requirements to provide the same protection of policyholders' interests as well as to create a level playing field between undertakings. The SC has had regard to the current solvency regime, which recently amended and updated as part of the "Solvency 1" package, including Directives 2002/13/EC (non-life insurance) and 2002/83/EC (life insurance). In addition, the SC has considered the implications of the "Solvency 2 project," which analyses subjects such as a more risk-based approach, the harmonization of the establishment of technical provisions, new risk transfer techniques and recent developments in financial reporting.

Capital Markets

- (G) *Regulation (EC) No. 1606/2002 of the European Parliament and Council*: The Regulation requires listed companies, including banks and insurance companies, to prepare their consolidated accounts in accordance with endorsed IFRS beginning 2005. EU Member States also have the option of extending the requirements of this Regulation to unlisted companies and to the production of annual accounts. European Commission Regulations endorse the standards as agreed and when required.¹²
- (H) *Prospectus Directive (2003/71/EC)*: This Directive together with European Commission Regulation No. 809/2004 sets out the information contained in prospectuses as well as the format, and the rules for publication of such prospectuses and dissemination of advertisements. It is a cornerstone in the creation of the single market for financial services

¹¹ To reduce barriers arising from the responsibilities of separate national supervisory authorities, supervisors are required to work more closely together, including in deciding on applications by financial institutions to use the more sophisticated methodologies. The Committee of European Banking Supervisors (CEBS) has an important role in promoting consistency of approach between different supervisors.

¹² For example, Regulation (EC) No. 1725/2003 of September 29, 2003 (plus annexes) endorsed all existing International Accounting Standards (IASs), including related Standard Committee Interpretations (SICs), except for IAS 32 and 39 and related SICs 5, 16 and 17, which deal with the accounting and disclosure of financial instruments.

and the completion of the EU Financial Services Action Plan. By harmonizing the necessary disclosure requirements, the new legal framework as a whole creates an effective "single passport" for both EU and non-EU issuers. In other words it means that once a prospectus is authorized in one Member State, it can be used in all the others, cutting red tape and costs for issuers. In the context of Bosnia Herzegovina, the SC has had regard to the corporate financial reporting implications of the Directive and the European Commission Regulation especially in the context of nascent capital markets.

- (I) *Transparency Directive (2004/109/EC)*: This Directive sets out minimum transparency requirements for listed companies, raising the quality of information available to investors on companies' performance and financial position. The SC has had regard to the disclosure requirements set forth in the Directive, which complete a package of EU Financial Services Action Plan measures, including Regulation 1606/2002 and the Prospectus Directive (see above). Under the Directive, all securities issuers will have to provide annual financial reports within four months after the end of the financial year. Also, investors in shares will receive more complete half-yearly financial reports.
- (J) *Undertakings for the Collective Investment of Transferable Securities (UCITS) Directive (85/611/EEC)*: The Directive, as amended, sets out the common rules to permit collective investment undertakings situated in EU Member States to market their units in other EU Member States (single passport). The SC has had regard to the corporate financial reporting implications of the Directive.

Fundamental Accounting Communication

- (K) *Communication on Company Law and Corporate Governance (COM/2003/284)*: The European Commission held a consultation on the Commission's Communication on "Modernizing Company Law and Enhancing Corporate Governance in the European Union: A Plan to Move Forward." The Plan, adopted on May 21, 2003, proposed a set of initiatives aimed at strengthening shareholders' rights, reinforcing protection for employees and creditors, and increasing the efficiency and competitiveness of European business.

Fundamental Auditing Directive

- (L) *Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts* (also known the "new Eighth EU Company Law Directive", *amending Council Directives 78/660/EEC and 83/349/EEC and repealing the Council Directive (84/253/EEC)*), clarifies the duties of statutory auditors and sets out certain ethical principles to ensure objectivity and independence. It introduces a requirement—rather than a recommendation—for external quality assurance, ensures robust public oversight over the audit profession and improves cooperation between regulatory authorities in the EU. The SC has had regard to this new Directive with a view to propose further reform activities in the areas where the enacted Bosnia Herzegovina audit laws currently differ from the Directive.

Fundamental Auditing Recommendations

- (M) *Recommendation 2002/590/EC on statutory auditors' Independence in the EU*: The Recommendation features a set of high level principles and recommends that statutory auditors be prohibited from carrying out audits if they have any relationship with their client that might compromise their independence. Although the Recommendation is not a legally binding instrument, it provides a clear benchmark of good practice for the EU audit industry and was duly considered by the SC.
- (N) *Recommendation 2001/256/EC on Quality Assurance for the Statutory Audit*: The Recommendation sets minimum standards for external quality assurance systems for statutory audits in the EU. The aim of quality assurance is to ensure that statutory audits are conducted in compliance with the established auditing standards and that the auditors respect ethical rules, including independence.

3 GAP ANALYSIS

The purpose of this chapter is to undertake a gap analysis to identify the actions that are required to achieve the benchmarks identified in Chapter 2. The SC carried out a review of the existing situation through a series of interviews and meetings with key stakeholders to produce a summary of the progress made in the implementation of the recommendations of the ROSC and of the outstanding problems and issues that still need to be addressed.

3.1 The Statutory Framework for Accounting

A Framework Accounting and Auditing Law (the State Framework Law) was adopted in 2004. The State Framework Law sets out provisions of the general legal framework on the basis of which each Entity has prepared a Law that were adopted by their respective Parliaments.

The accounting and auditing laws specifically outlines the accounting standards to be:

- International Financial Reporting Standards (IFRS), produced by the International Accounting Standards Board (IASB), and related instructions, explanations and guidance issued by the IASB.

BiH has rightly adopted IFRS for public interest entities only and the Implementing Laws of the Entities use three criteria to define public accountability:

- (a) Having securities listed;
- (b) The nature of the business (for example, banks and insurance companies); and
- (c) The size of the business (exceeds thresholds regarding total yearly income or number of people employed).

In both the RS and FBiH, entities for which there is no public interest (e.g., SMEs) are exempted from having to comply with IFRS.

However there is still a lack of a common definition of company thresholds applied across BiH. In fact only the RS has introduced a definition of company thresholds.

The RS considers micro-sized enterprises those with average annual number of employees less than 10, annual total turnover less than €200,000 and assets value of less than €100,000.

The RS considers small-sized enterprises those with average annual number of employees between 10 and 49, annual total turnover between €200,000 and €10,000,000 and assets value of between €100,000 and €5,000,000.

The RS consider Medium sized enterprises satisfy the following criteria: 50 – 250 employees, minimum €10 million annual total turnover and minimum €5 million assets value. All entities above these thresholds are considered large enterprises.

Federation of Bosnia Herzegovina

In the Federation of Bosnia Herzegovina the Law on Business Companies (published, Official Gazette of FBiH 23/1999, amended 45/2000; 2/2002; 29/2003), which is partly based on EU Company Law Directives, primarily regulates business activities¹³. The Law on Business Companies recognizes the following types of companies:

- Joint stock,
- Partnerships (General & Limited),
- Limited liability.

Joint-Stock Company

Shareholders: One or more shareholders. Minimum capital: KM 50,000. Company management. The company is managed by a two-tier system including a management board and a supervisory board. A general meeting of shareholders appoints an auditing board. The auditing board is due to perform annual or 6-month auditing at the request of at least 10% of the shareholders with voting rights.

¹³ **Further relevant laws include:**

FBiH Company Registration - Companies have to be registered into an authorized court register on the respective entity's territory under the FBiH Law on Registration of Legal Entities (published, Official Gazette 27/05 of FBiH and 42/05, Official Gazette 29/03).

FBiH Bankruptcy Regulation - Legal framework: Bankruptcy Law (published, Official Gazette of FBiH 29/2003) and Law on Liquidation (published, Official Gazette of FBiH 29/2003).

FBiH Anti-Trust Rules - Legal framework: Law on Competition (published, Official Gazette of FBiH 30/2001)

Partnerships

Partners: Two or more partners - domestic or foreign individuals or legal entities. There are no requirements for minimum or maximum contributions. A partner may contribute in cash, in kind, as well as in rights or services.

Limited Liability Company

Members: One or more shareholders. Minimum capital: KM 2,000. Company management: The decision-making body of the company is the General Meeting of Shareholders.

Republic Srpska

Business activities in the Republic Srpska are primarily¹⁴ regulated by the Law on Enterprises (published, Official Gazette of RS 24/1998, amended - 62/2002, 38/2003), which is partly based on EU Company Law Directives. The Law on Enterprises recognizes two main types of companies: business and public (i.e., government business enterprises).

Types of businesses include:

- Joint stock,
- Limited liability companies,
- General partnerships,
- Limited partnerships.

Joint-Stock Company

Shareholders: From one to 50 shareholders for companies incorporated simultaneously and two or more shareholders for companies incorporated successively. The General Meeting of Shareholders takes decisions by a qualified majority vote including on the appointment auditors and liquidators, termination of the company as well as distribution of profit.

Limited Liability Company

Members: From one to 30 shareholders; Company management: The company bodies are the Director, the Management Board, the Supervisory Board (if provided by the articles of association) and the General Meeting of Shareholders.

¹⁴**Further relevant laws include:**

RS Bankruptcy Regulation - Legal framework: Bankruptcy Procedures Law (published, Official Gazette of RS 67/2002) and Liquidation Procedures Law (published, Official Gazette of RS 64/2002)

RS Anti-Trust Regulation - Legal framework: Competition Law (published, Official Gazette BiH 30/2001)

Partnerships

Partners: 2 or more - domestic or foreign natural or legal persons. Each member of the general partnership is jointly and severally liable with its property for the partnership's obligations.

Gap

The statutory framework should be further reviewed and harmonized, albeit gradually, with the relevant portions of the *acquis communautaire*. Accounting and auditing regulation should not be revised in a vacuum but rather in the context of a comprehensive review of the statutory framework pertaining to financial reporting. This requires amending relevant laws and legislation (company, banking and insurance, securities market, etc.) in order to establish a sound statutory and regulatory framework and establish the foundations for institutionalized enforcement of those enhanced requirements. The statutory framework should be further gradually amended, through the adoption of Implementing Laws and Regulations in each Entity, and in the District of Brcko, in order to enact the relevant portions of the *acquis communautaire*.

Illustrated Analysis

Reporting Thresholds for Small and Medium Sized Enterprises

The entity laws take advantage of the exemption allowed under the Fourth EU Company Law Directive in order not to impose an excessive audit burden on small- and medium-enterprises. They no longer impose the same accounting and financial reporting requirements on small and medium enterprises (SMEs) as on Public Interest Entities.

However, the thresholds introduced are not in line with those of the EU nor are they consistent across both Entities. The Commission on Accounting & Auditing is in the process of establishing a sub-committee to address the issue of the application of accounting and auditing standards to SMEs.

The SC proposes to require a simplified financial reporting framework to SMEs, which meets the needs of intended users (e.g., lenders) and the capacity of preparers. In this regard, the SC has had regard to the *acquis communautaire*, the experience of other Member States, and the IASB SME project.

Accounting Standards as Designed and Practiced in Bosnia Herzegovina

Accounting requirements and practices are insufficient for investor decision-making. Financial statements are not reliable for financial reporting purposes. Companies view disclosure as a burden rather than a necessity and have little interest / benefit in publishing extensive information. During the ROSC A&A, the World Bank reviewed financial statements of a sample of companies identified a number of instances where the financial statements did not comply with IFRS – lack of disclosure notes, absence of cash flow statements and audit reports, any consolidation or segment reporting and non-disclosure of related party transactions.

3.2 The Statutory Framework for Auditing

The auditing profession is regulated under the 2004 accounting and auditing laws, which have been passed through State and Entity parliaments. This is a significant step for BiH in its progression towards an enhanced financial reporting environment. These laws allow for a number of important actions to align the BiH accounting and auditing environment with European Union requirements. The accounting and auditing laws also meet a significant requirement within the World Bank's ROSC on Accounting & Auditing in BiH.

The State Framework Law creates an entity wide platform for statutory audits. Audits performed and audit reports issued by an auditor licensed in any of the two Entities and the Brcko District will be recognized in all Bosnia and Herzegovina without any additional requirements.

The accounting and auditing laws specifically outlines the auditing standards to be:

- International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) and its independent boards.

The statutory audit is obliged to be performed in accordance with new and amended International Standards of Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB). The last publication of ISA (2004 version) was undertaken in 2005.

The Entity implementing laws impose statutory audit requirements on Public Interest Entities, which should be audited in accordance with auditing standards adopted in the Accounting and Auditing Laws.

Gap

Establishing Oversight of the Audit Profession

The RS and FBiH Implementing Laws set forth a system of public oversight for which the Ministry of Finance is responsible; thus, it acts as a proxy of the public interest. However, such oversight falls short of good practices in EU Member States, as no one stakeholder can claim to adequately represent the interests of the public at large. A proper proxy for the public interest should draw upon a wider constituency, including not only the State & Entity Ministries of Finance, but also the Securities and Exchange Commissions, the Central Bank & Banking Agencies, academia, etc. Although there is no one blueprint as to how to set up an effective public oversight mechanism, BiH should take an approach to public oversight that is aligned with the principles set forth in the Eighth Company Law Directive and draw upon the evolving experience of EU Member States.

Statutory auditors' appointment and termination

The accounting and auditing laws do not cover legal mechanisms pertaining to statutory auditors' appointment and termination. In this respect they are still deficient. There is a need to avoid the situation where the reasons for dismissal and resignation do not have to be disclosed to the responsible oversight authorities. Internationally, it is increasingly common for external auditors to be recommended by an independent audit committee of the board or an equivalent body and to be appointed either by that committee/body or by shareholders directly. The requirement that the board of directors appoint the statutory auditor does not recognize that the auditors owe a duty of due professional care to the business enterprise rather than to a group of executive directors with which they may interact for the purpose of their work.

3.3 The Institutional Framework for Accounting & Auditing

The Independent Commission on Accounting & Auditing

The State Framework Law established a Commission (The Independent Commission on Accounting & Auditing) to monitor the implementation of accounting and auditing standards by the professional bodies. The State Framework Law states that the Commission is responsible for translating and disseminating IASB and IFAC standards and interpretations; establishing qualification requirements; and administering professional examinations, among other activities.

The Commissions functions and jurisdiction are clearly set out in Article 3 of the State Framework Law. The role of the Commission has been clearly established in the BiH Law on Accounting and Auditing 2004. The Commission has been successfully established and has undertaken considerable work to date. A summary of the Commission's activities to date includes for:

- The accounting standards as identified above have been translated into Serbian and the quality assurance of the translation into Bosnian/Croatian is complete (December 2005),
- The auditing standards as identified above including IFACs, Statements of Membership Obligation (SMO) and Education Standards have been translated,
- A uniform program for the qualification, training, testing, certification and licensing for the Accountancy Profession, in full compliance with IFAC standards and guidance, has been established, throughout BiH, and,
- A uniform testing program for the accountancy profession has been established and implementation is underway in all of the territory of BiH.

The Association of Accountants and Auditors in the Republika Srpska (AAARS)

The Association of Accountants and Auditors is the professional accounting and auditing association in the Republika Srpska. Since the implementation of the Dayton Peace Agreement the AAARS has taken significant steps towards meeting IFAC's membership obligations.

The AAARS has implemented a syllabus for the professional education program based upon the ACCA-UK syllabus, as amended to incorporate additional material contained in the UNCTAD model curriculum. The professional education program is being reviewed in 2005 following publication and acceptance of the IFAC International Education Standards. In November 2004 the AAARS became an Associate Member of IFAC, and is working towards the objective of achieving full membership in 2006. It is also a member of SEEPAD. The membership of the AAARS includes 56 certified auditors and 1256 certified accountants according to the association's IFAC membership statement.

The Union of Accounting & Auditing in FBiH (SRRFBiH)

In 2005 the Union of Accounting & Auditing in FBiH held a general assembly at which a new constitution was approved formally recognizing the alignment of 3 separate accounting and auditing associations in existence for the previous decades in FBiH. As of 2006 the total number of registered certified auditors was 41 along with 4000 certified accountants.

Gap

Development of the Oversight of the Audit Profession

The development of an effective system of public oversight that is aligned with the *acquis communautaire* is a key requirement of the audit profession in BiH.

BiH should implement a system of public oversight that is aligned with the proposal for a new Eighth EU Company Law Directive, now adopted by the European Council and Parliament. This system should be headed by an independent body, which is independent of the industry that it regulates, and free from undue political pressure. This independent body should have ultimate responsibility for oversight of the approval and registration of statutory auditors and audit firms, adoption of standards on ethics, internal quality control of audit firms and auditing, and continuing education.

This body should supervise the quality assurance system organized by the professional organizations but must have the right, where necessary, to conduct its own investigations on statutory auditors and audit firms.

Registration of statutory auditors & audit companies

Bosnia & Herzegovina does not currently hold a significant register of statutory auditors and audit firms. It is difficult to determine rapidly whether a statutory auditor or an audit firm has been approved, where it is officially located and how (in the case of firms) they are organized.

Quality Assurance for the Statutory Audit

The professional bodies should enforce the Continuing Professional Education (CPE) requirements and implement an effective system for monitoring CPE attendance. Furthermore, the professional bodies should implement a system of quality assurance to ensure that auditors are subjected to strong disciplinary sanctions if they do not comply with CPE requirements, in order to preclude unqualified auditors from retaining their authorization to practice under the new system

3.4 The Statutory Framework Bank Financial Reporting

In the Federation of Bosnia Herzegovina the Law on Amendments to the Law on Banks (FBiH Official Gazette 41/02), Law on the Banking Agency of the Federation of Bosnia Herzegovina (FBiH Official Gazette 9/96, 27/98, 20/00 & 45/00) and the Law on Banks (FBiH Official Gazette, 39/98, 32/00 AND 48/01) form the primary legislative framework.

The Law on Banks, Law on Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" number 10/98) and the Office of Representative (OHR) "Decision on Modifications and Amendments to the Law on Banking Agency of Republika Srpska" form the statutory framework for the banking sector in the Republika Srpska

Gap

The statutory framework for the banking sector should be fully aligned with the requirements of the Capital Requirements Directive, the Banking Accounts Directive and the new Eighth EU Company Law Directive to achieve better alignment between the statutory audit and the banking supervision functions. As the requirements of Basel II are being integrated in the Capital Adequacy Directive (CAD 3), it is essential for the banking sector in Bosnia Herzegovina to focus on embracing the changes within Basel II if they are to comply with the *acquis communautaire*.

Illustrated Analysis

Gaps in the legislative framework

In both Entities the banking laws do not set out specific filing or publication requirements for general-purpose financial statements. However the banking laws include additional legal requirements concerning statutory audits of banks. They provide that the appointment of a bank statutory auditor is subject to prior approval by the banking regulator. The banking regulator assesses the auditor's acceptability based on experience and independence but lacks a written and well-known process for such assessment (e.g., the reasons for barring an auditor from auditing a bank are not disclosed), and the auditor has no right of appeal.

3.5 The Institutional Framework for Bank Financial Reporting

Banking supervision is currently carried out by entity agencies, with the CBBH having a coordinating role. There is good cooperation among the three institutions and this was recently formalized by the signing of a memorandum of understanding.

The Central Bank of Bosnia and Herzegovina (CBBH), created in 1997, defines and controls the implementation of monetary policy of Bosnia and Herzegovina, maintains appropriate payment and settlement systems and co-ordinates the activities of the two banking supervisory agencies.

The agency in charge of supervising and regulating the banking sector in the Federation of Bosnia Herzegovina is the Federation Banking Agency (FBA), which was established in 1996.

The banking sector in Republika Srpska is overseen by the Banking Agency of Republika Srpska (ABRS).

Gap

The banking sector is well developed and competitive due to the presence of major foreign banks competing for market share. More than 84 per cent of the sector has been privatized, and around 70 per cent of banking assets are now foreign-owned (total banking assets exceed €4.4 billion). Nevertheless, banking intermediation remains relatively low due to the slow privatization process, low level of foreign investment, and the still untested enforcement of the securities legislation that was recently adopted. In addition, further strengthening of the regulatory and supervisory capacities and reconciliation with EU directives and Basle II accords is required.

The Banking Agencies should enhance their financial reporting, monitoring, and enforcement arrangements. Enforcement comprises several factors, including:

- Clear accounting standards,
- Timely interpretations and implementation guidance,
- Statutory audit,
- Monitoring by supervisors,
- Effective sanctions.

Each of these must work efficiently: the system will be as strong as its weakest part in delivering strong investor and creditor protection. The Banking Agencies have a critical role in ensuring that banks, listed companies, insurance companies, and other public interest entities comply with accurate and consistent application of accounting standards in the financial and securities markets.

Illustrated Analysis

The relationship between bank auditors and supervisors in Bosnia Herzegovina needs to be strengthened to their mutual advantage. There is a need to take account of the Basel Committee's Core Principles for Effective Banking Supervision, the Joint Forum under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) in dealing with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates. There is a need to reflect on the IAASB and BCBS guidance on the relationship between auditors and the supervisors of banks. Specifically the following issues should be addressed:

- The primary responsibilities of the board of directors and management;
- The essential features of the role of statutory auditors;
- The essential features of the role of supervisors;
- The relationship between bank supervisors and the statutory auditors; and
- Additional ways in which the auditing profession can contribute to the supervisory process.

3.6 The Statutory & Institutional Framework for Listed entities

The securities markets legal framework in BiH is mostly regulated at Entity level.

In FBiH, the basic legal framework for the establishment, functioning and the development of the capital market is comprised of the Law on Securities, the Law on the Securities Registrar, the Law on the Securities Commission, the Law on Fund Management Companies and Investment Funds, and the Law on Business Companies. Most of the laws were enacted in 1998 and amended in 1999. The FBiH Securities Commission was established at the beginning of 1999 as the independent securities markets regulator in the FBiH.

In RS, the capital markets legal framework is comprised of the Law on Securities (1998 and amended in 2001), the Law on Privatization Investment Funds and Privatization Fund Management Companies (1998), the Law on the Central Registry of Securities (1998) and the Law on Enterprises (1998 and amended in 2003). The RS Securities Commission was established in 2000 on the basis of the Law on Securities as the independent securities markets regulator in the RS. Statutory audit is required for all listed companies financial statements. Shareholders appoint the statutory auditors of listed entities, auditors who

perform audits of listed entities are not appointed for a specified period and rotation of the auditor or audit firm for audits of listed entities is not required

There are two stock exchanges in BiH, one in Banja Luka (RS), and the other in Sarajevo (FBiH).

The Sarajevo Stock Exchange has 485 listed companies and 11 privatization investment funds with a market capitalization of approximately US\$ 1.2 billion.

The Banja Luka Stock Exchange has only three listed companies and 13 privatization investment funds plus 642 on the free market list, with a market capitalization of approximately US\$ 760 million. Trading is primarily related to privatization vouchers.

Gap

The existing laws relating to securities impose specific accounting requirements on listed companies and additional filing requirements on listed companies (e.g., publication on the Securities Commission website etc), but these are not enforced. In practice, issuers do not file their audited financial statements with the relevant Securities & Exchange Commissions.

Based on the discussions with the Securities Commissions the main problem with enforcement is the lack of capacity to undertake the function. The Securities Commissions should enhance their financial reporting, monitoring, and enforcement arrangements.

Additionally in 2004, the **European Bank for Reconstruction and Development (EBRD)** performed an assessment of the extensiveness of securities markets legislation benchmarked against the IOSCO principles¹⁵. The entities scored “medium compliance”, being better only than Serbia and Montenegro and Albania among the countries in South East Europe.

3.7 The Statutory & Institutional Framework for the Insurance Entities

The insurance industry is still developing in BiH. The 10 largest insurance companies in Bosnia hold 70% market share and most policies are written for auto and third party liability (USAID, 2004).

¹⁵ For more information please refer to <http://www.ebrd.com/country/sector/law/articles/cgsmetc.pdf>

BiH Parliamentary Assembly adopted the Law on Insurance Agency of BiH («Official Gazette of BiH, No.12/04). For the purpose of harmonization and adoption of a set of laws that would regulate the insurance sector in the Entities, a working group composed of representatives of both Entities has completed the harmonization of the relevant laws. The RS National Assembly adopted the set of laws and they are in the procedure of publishing. In the FBiH the set of laws is in the parliamentary procedure. It provides for the set up of a State-level insurance agency, responsible for ensuring congruency between entity supervisors, EU convergence, and conciliation of inter-entity supervision disputes.

Currently at the State-level, the Ministry of Finance and Treasury is in charge of the insurance sector. In the FBiH and RS, each Ministry of Finance oversees insurance, but with differences between them. In the Federation the function of the supervision of insurance entities is devolved by law to the Insurance Supervision Authority. In the RS, the Ministry of Finance is in charge of supervision.

The EU has initiated an Insurance Project. Any developments in this sector should be coordinate with proposals contained in this Action Plan.

Gap

The Insurance sector suffers from weak governance practices and the supervisory capacity is limited. The insurance market in BiH is poorly regulated. Insurance companies are not required to comply with specific accounting, auditing, and financial reporting requirements with the exception that the RS Insurance Law requires the board of directors of an insurance company to appoint a statutory auditor and that the appointment must be approved by the Ministry of Finance. Consequently, insurance companies have few additional further obligations than do any other enterprises.

3.8 The Statutory & Institutional Framework for Taxation

BiH has three separate tax administrations operating at entity/district level and it's developing a fourth one, operating at state level. Each administration has its own procedures, tax collection schedules and inspection systems.

Gap

General-purpose annual accounts and consolidated accounts are often influenced by taxation rules and regulations. In order to satisfy the requirements of taxation authorities regarding recognition of revenues and expenses, the preparers of general-purpose annual

accounts and consolidated accounts of small and medium-size private companies and public interest entities often deviate from financial reporting standards and follow tax rules.

3.9 The Framework for the Publication and Filing of Financial Statements

Financial statements are not publicly available. In practice, financial statements are very difficult to obtain. This falls short of the requirement of the First EU Company Law Directive. The Entities do not have a unified access portal giving stakeholders access to (audited) financial statements.

3.10 The Framework for Education and Training

The education segment of the USAID Accounting Reform Project in Bosnia and Herzegovina trained both professors and practitioners over the last number of years in reform of accounting education. However, its effectiveness has been hampered by the rigidity within the university system, which is organized along ethnic lines. The need for structural reform within BiH university sector has been clearly identified by the EU and USAID.

Gap

Education and training in Bosnia Herzegovina relating to accounting and auditing has progressed considerable in recent years. However, due to the significant developments internationally, a program of activities is urgently required to ensure that the current requirements converge towards the adoption of IFRS and international good practice.

The process of changing from central planning to a market model requires significant resources on an on-going basis to continue the process of adoption of a new financial reporting system. Practitioners and professors generally are not familiar with the accounting models that exist in the United States, Germany, England and other market economies and need significant and on-going assistance in learning the new system is the absence of previously adopted learning materials. Also due to the complex language requirements in BiH often are no textbooks or other learning materials they can refer to. Thus, there is a need to translate materials from English.

4 DETAILED ACTIONS

The SC during its development of the strategy and plan identified the key actions under the statutory and institutional framework. Each of the actions represents an area in which the objectives identified will lead to an improved framework for accounting and auditing in Bosnia Herzegovina and ultimately enhance the quality and reliability of corporate financial reporting. For each individual action, the objective is identified, the activities involved in this action are outlined, and the planned outcome is identified. Each action is designated as a statutory (S) or an institutional action (I). This denotes whether the action required is an action to align or amend the legislative or regulatory framework (statutory action) or an action that is about improving compliance with and enforcement of the statutory framework (institutional action)..

In identifying the actions to be delivered, institutions relevant to each action were also considered. The actions set out clear responsibilities and accountabilities for the delivery of the actions required to achieve a successful implementation phase following the acceptance of the strategy and action plan. The actions also detail other relevant stakeholders who have an important input to the activities.

The SC has identified the timescales for each of the actions. When addressing budget and resource requirements, the SC has divided requirements into external and internal resources:

- For external resources the SC has split requirements into specific areas:
 - Suitably qualified external technical assistance: This is particularly important considering the technical nature of many of the activities and the requirement to absorb international good practices. While a significant portion of such assistance will be specific to Bosnia Herzegovina, there are other instances the technical assistance can ideally be delivered through regional approaches in order to allow Bosnia Herzegovina to gain access to expertise which otherwise would not be available.
 - Regional technical assistance will allow Bosnia Herzegovina to share experiences with relevant countries in the region and deliver economies of scale in specific technical areas. The SC has identified the World Bank's Road to Europe – Program of Accounting Reform and Institutional Strengthening (REPARIS) as a vehicle for the delivery of regional technical assistance.¹⁶

¹⁶ Please refer to www.worldbank.org/reparis for additional details.

- The SC has identified the need for direct operational support to the relevant stakeholders identified in the strategy and action plan. Such operational support is primarily important in the start-up phase of certain activities and will be phased out over a period of one to three years depending on the activities.
- The SC has further identified the requirement for specific hardware, software and equipment needs as an additional important external resource requirement.
- In identifying internal support needs the SC has had regard to specific support requirements from the stakeholders considered accountable or responsible for actions (internal resources).

On page 134 of this strategy and action plan a chart has been developed to fold outward and act as an additional information source as each action is considered.

4.1 ALIGNMENT OF CORPORATE FINANCIAL REPORTING FRAMEWORK (S)

Objective

Align the corporate financial reporting requirements (in the financial and non-financial sectors) as identified in primary and secondary (state & entity) legislation with those of the *acquis communautaire*.

Description

Supply technical assistance to the Independent Commission on Accounting & Auditing and to the State and Entity Ministries of Finance to, as an immediate priority, review and harmonize the statutory framework with the relevant portions of the *acquis communautaire* including for:

- Review and amend if necessary the primary and secondary legislation to achieve compliance with the Fourth Directive on Annual Accounts (78/660/EEC), Seventh Directive on Consolidated Accounts (83/349/EEC) and Regulation (EC) No. 1606/2002 of the European Parliament and Council, specifically leveraging the thresholds allowable by the *acquis communautaire* while considering adjustments to the thresholds based, for example, on Bosnia Herzegovina’s gross domestic product based on purchasing-power-parity per capita versus the EU average.
- Supply technical assistance to the Small & Medium Sized Enterprises working group set up under the auspices of the Commission of Accounting & Auditing to develop and implement an appropriate accounting framework for Small & Medium Sized Enterprises (Adopt/or develop simplified accounting standards for SMEs). In this regard Bosnia Herzegovina should leverage the experience of comparable EU Member States in adopting SME accounting standards compliant with the principles of the Fourth Directive on Annual Accounts (78/660/EEC). Also Bosnia Herzegovina will assess whether it can leverage the SME accounting standards that are being developed by the IASB and are due for release in 2007.

Outcome

Provide a balanced approach to financial reporting requirements with a view to:

- Meet the needs of the different users of financial information such as lenders, creditors, shareholders, SMEs, and tax authorities;
- A “transposition table” showing as the basis for identifying amendments to the State and Entities Legislation;
- Providing the preparers with a set of requirements that does not impose unnecessary burdens on the corporate sector.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
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1	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>SMEs</p> <p>Corporate Entities</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 75,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	75,000 EUR	X		
<p>Performance Indicator: Improved alignment of corporate financial reporting framework with the relevant portions of the acquis communautaire, number of amendments.</p>					

4.2 Implement the Corporate Financial Reporting Framework (I)

Objective

Strengthening the framework for the adoption of accounting standards in Bosnia Herzegovina

Description

This action will support the Commission on Accounting & Auditing through:

- Support the adoption (or development) of simplified accounting standards for SMES in Bosnia Herzegovina in conjunction with Action No. 1.

- Offer technical assistance to the discussions of the working group on development of a simplified set of codes and practices for SME's to use in the period leading up to adoption of an appropriate FRSSE (Financial Reporting Standards for Smaller Enterprises).
- Offer technical assistance to the discussions of the working group on development of tax reporting for SME's – discuss whether to develop a separate approach to corporate taxation for small companies in conjunction with the tax authorities.
- Offer technical assistance to the discussions of the working group on development of a training program and instruction manuals for distribution to financial managers in SME's outlining the reporting requirements in place.
- Work with the IASB, national standards-setters and other relevant EU institutions to encourage high quality IASB's standards and their adoption in the EU.
- Address urgent issues regarding the implementation of IFRS in Bosnia Herzegovina.
- Support training and development of resources for long-term sustainability and development of this function.

Outcome

The establishment of an effective proportionate framework to enhance and maintain a corporate financial reporting framework consistent with the *acquis communautaire* and conducive to private sector development in Bosnia Herzegovina

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
2	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>SMEs</p> <p>Corporate Entities</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 100,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	100,000 EUR		X	
<p>Performance Indicator: Development and availability of financial standards for SMEs</p>					

4.3 Enhancement of the IFRS Translation Process (I)

Objective

Prepare the procedures and processes to enhance the framework for the on-going translation requirements for IFRS in Bosnia Herzegovina.¹⁷

Description

The enhancement of the translation process for IFRS in Bosnia Herzegovina, including for the following:

- Assist the Commission’s IFRS translation’s committee to enhance the efficient and effective translation procedures to:
 - Co-ordinate with the translation process of ISA and assess how these processes can share resources;
 - Allow for a prompt response to the significant volume of material requiring translation; and
- Ensure the translation committee consults with the IASCF and meet the requirements of the official translation process. This will include the following key requirements:
 - Responsibilities of the Translating Body;
 - Design and implementation of a translation process;

¹⁷ The use of IFRS demands an on-going translation effort. IFRS are enhanced and improved on an on-going basis. Failure to translate leads to outdated standards being applied which has consequences such as the loss of internationally comparable financial information.

- Translation of key words; and
- Consideration of the Translating Body’s translation process.
- Develop and implement a strategy to ensure the sustainability of the translation process based on the experiences of similar sized countries in the EU (e.g. Estonia, Latvia, Lithuania, Slovenia).

Outcome

It is important that users, preparers, legislators, lawyers, educators, students and all other interested groups in Bosnia Herzegovina should have access to the IASB’s standards in their native language on an on-going basis, to allow:

- Production of internationally comparable financial information;
- Level of knowledge of IFRS to build in Bosnia Herzegovina;
- Allow for the quality of financial reporting to keep up to date with international best practice; and
- Meet the requirements of the *acquis communautaire*.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
3	The Commission on Accounting & Auditing	The Commission on Accounting & Auditing	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS) AAARS SRRFBiH SC Relevant EU Member States World Bank	Certified Accountants Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 25,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>The Commission on Accounting & Auditing</p>	<p>25,000 EUR</p>	<p>X</p>		
<p>Performance Indicator: Timely issuance of translated IFRS</p>					

4.4 Supporting the IFRS Translation Process (I)

Objective

Support the Commission’s translation committee in order to allow for an effective and efficient on-going translation process to be implemented.

Description

Considering that IFRS have only been translated periodically for the last number of years, the on-going availability of translated standards will now provide for a consistent set of financial standards suitable for corporate financial reporting in Bosnia Herzegovina. The immediate and on-going availability of translated IFRS in Bosnia Herzegovina, will also allow for the adoption of best practice in financial reporting requirements as amended to reflect the on-going developments in financial instruments internationally. Support for the translation committee to initially fund the on-going translation process to include:

- Software programs to assist with the translation process based on good international practice.
- Hardware to enable the software programs on a continuous basis.
- Operational expenses associated with the translation process.¹⁸
- Capacity building and support to allow for the continuous translation of IFRS.

In addition, this action will strengthen the capacity of the appropriate translation committee to allow:

¹⁸ This action will not directly subsidize the printing costs of the IFRS volume, which will be priced on a commercial basis.

- Immediate translation and adoption of new IFRS (and exposure drafts) issued by the International Accounting Standards Board, and new interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC);
- On-going translation and adoption of new IFRS and exposure drafts issued by the International Accounting Standards Board, and new interpretations developed by IFRIC.

Outcome

On-going availability of resources to implement the strategy to develop an effective and efficient translation framework is a key part of enhancing corporate financial reporting in Bosnia Herzegovina.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
4	The Commission on Accounting & Auditing	The Commission on Accounting & Auditing	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS) AAARS SRRFBiH SC Relevant EU Member States World Bank	Certified Accountants Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 150,000 EUR Hardware, Software & Equipment – 100,000 EUR	The Commission on Accounting & Auditing	250,000 EUR		X	
Performance Indicator: Timely issuance of translated IFRS					

4.5 Enhancement of the Translation Process for Auditing Standards (I)

Objective

The objective of this activity is to support the Commission in enhancing the processes and procedures required to successfully translate International Standards in Auditing (ISA) and other relevant pronouncements of the International Auditing and Assurance Standards Board (IAASB) and IFAC on an on-going basis and in an effective and sustainable manner.

Description

Enhancing the translation process for ISA in Bosnia Herzegovina, including for the following:

- Assist the ISA translation’s committee to formalize the efficient and effective translation procedures to:
 - Co-ordinate with the translation process of IFRS and assess how these processes can share resources;
 - Co-ordinate with any other relevant translation projects in Bosnia Herzegovina
 - Allow for a prompt response to the significant volume of material requiring translation.
- Ensure the translation committee consults with IFAC and meet the requirements of the official translation process.¹⁹

¹⁹ Refer to IFAC Policy Statements, *Translation of Standards and Guidance Issued by IFAC*, September 2004.

- Develop and implement a strategy to ensure the sustainability of the translation process based on the experiences of similar sized countries in the EU (e.g. Estonia, Latvia, Lithuania, Slovenia).

Outcome

The on-going translation of up-to-date ISA and related pronouncements in Bosnia Herzegovina in a timely manner, allowing for the provision of the audit of financial reporting in Bosnia Herzegovina to keep up to date with international best practice. It is important that auditors, regulators, lawyers, academia, students and other interested groups in Bosnia Herzegovina should have access to the IAASB standards in their native language on an on-going basis to allow the level of knowledge ISA to build in Bosnia Herzegovina.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
5	The Commission on Accounting & Auditing	The Commission on Accounting & Auditing	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS) AAARS SRRFBiH SC Relevant EU Member States World Bank	Certified Accountants Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 25,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>The Commission on Accounting & Auditing</p>	<p>25,000 EUR</p>	<p>X</p>		
<p>Performance Indicator: Timely issuance of translated ISA</p>					

4.6 Supporting the Translation of Auditing Standards (I)

Objective

Capacity building and support to the Commission on an on-going basis to allow for an up-to-date translation of the ISA and other relevant pronouncements of the IAASB and IFAC.

Description

This action will support the Commission and to fund the on-going translation process, including:

- Software programs to assist with the translation process based on good international practice.
- Hardware to enable the software programs on a continuous basis.
- Operational expenses associated with the translation process.²⁰
- Capacity building and support on an initial basis to allow for a fully up to date translation of ISA.

In addition, this action will strengthen the capacity of the ICA to allow:

- Immediate translation and adoption of new ISA (and exposure drafts) issued by the IAASB and other IFAC pronouncements; and

²⁰ This action will not directly subsidize the printing costs of the ISA volume, which will be priced on a commercial basis.

- On-going translation and adoption of new ISA and exposure drafts issued by the IAASB and other IFAC pronouncements.

This action will consider the IAASB “Clarity Project” to re-draft ISA and to develop new standards using a new style. This will have an impact on the volume of material required for translation. The IAASB developed its new drafting style based on responses to its 2004 Proposed Policy Statement and Consultation Paper on Clarity.

Outcome

The dedication of resources to the translation process of auditing standards and other relevant pronouncements of the International Assurance & Audit Standards Board (IAASB) and IFAC is a necessary investment in the auditing profession in Bosnia Herzegovina. The translated volumes of these publications will provide the building blocks on which the regulations and requirements of the auditing profession in Bosnia Herzegovina will be formed.

An enhanced translation committee, under the control of the Commission will produce on an on-going basis the translated text for auditing standards and thus provide the basic knowledge for the development of the profession that will improve the quality of auditing in Bosnia Herzegovina along with all the associated benefits that such an improvement would bring.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
6	The Commission on Accounting & Auditing	The Commission on Accounting & Auditing	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS) AAARS SRRFBiH SC Relevant EU Member States World Bank	Certified Accountants Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 100,000 EUR Hardware, Software & Equipment – 100,000 EUR Regionally coordinated support under the REPARIS program	The Commission on Accounting & Auditing	200,000 EUR		X	
Performance Indicator: Timely issuance of translated ISA					

Objective

To build a structure within the Commission on Accounting & Auditing to allow for an informed dissemination and discussions of the publications of the European Union relating to accounting & auditing on an on-going basis.

Description

Provide technical assistance and capacity building support to the Commission on Accounting & Auditing to allow for the dissemination and discussions of the publications of the European Union relating to accounting & auditing including

- Offer technical assistance to write summary reports on the on-going discussions with the European Union relating to the enforcement of accounting standards and other relevant discussions
- Offer support to translate relevant European Union pronouncements on accounting and auditing on an on-going basis. There is a need to translate and disseminate existing and looming EU directives specifically: -consolidated 4th directive dated 1st May 2004 (ref CONSLEG: 1978L0660 — 01/05/2004), new EU mutual recognition directive (ref Official Journal L 255, 30/09/2005 P. 0022 – 0142) and new 8th directive re auditors/quality/oversight
- Facilitate the discussions within the Commission on Accounting & Auditing on an on-going basis to allow for a build up in the knowledge base of the Commission members of the discussions within the European Union relating for example to CESRfin or Basel II.

Outcome

The building up of the knowledge base of the Commission on Accounting & Auditing relating to the evolving European Union discussion on accounting and auditing will offer significant benefit to the Bosnia Herzegovina accession strategy in the future. A considerable knowledge base within the audit profession relating to the European Union regulations would greatly assist the implementation process relating to the accounting & auditing of the *acquis communautaire*

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
7	The Commission on Accounting & Auditing	The Commission on Accounting & Auditing	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS) AAARS SRRFBiH SC Relevant EU Member States World Bank	Certified Accountants Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Suitable external technical assistance – 100,000 EUR Regionally coordinated support under the REPARIS program	The Commission on Accounting & Auditing	100,000 EUR		X	
Performance Indicator: Suitable dissemination of EU publications relating to accounting & auditing in Bosnia Herzegovina					

Objective

Support the Central Bank of Bosnia Herzegovina (CBBH), the Federation of Bosnia Herzegovina Banking Agency (FBA) & the Republika Srpska Banking Agency (ABRS) to review the legislation and regulations applicable to the banking sector to ensure alignment of the legislative framework with the relevant portions of the *acquis communautaire* and to ensure consistency of banking legislation with other relevant domestic legislation.

Description

The review of the legislation and regulations applicable to the banking sector will include the following:

- Ensure consistency and predictability within the legislative framework in Bosnia Herzegovina. Further required legal enactments are primarily in the following:
 - Decision on capital management minimum standards;
 - Decision on credit risk management and assets classification minimum standards;
 - Decision on risk concentration management minimum standards;
 - Decision on financial control risk management minimum standards;
 - Decision on banking group consolidated financial reports;
- Ensure the harmonization of the regulatory requirements for example in the case of a listed financial institution in having regard to the regulatory requirements of the Securities Regulators (FBiH & RS Securities Commissions) in Bosnia Herzegovina.
- Organize the relationship between “accounting capital” and “prudential capital” as well as other key prudential and general-purpose accounting issues. In this context, the SC will have regard to (i) the guidelines on a common reporting framework (COREP)²¹ to be used by credit institutions and investment firms when they report their solvency ratio to supervisory authorities under the Capital Requirements Directive, and (ii) the guidelines establishing a standardized financial reporting framework (FINREP) for credit institutions operating in the EU. This framework enables credit institutions to use the same standardized data formats and data definitions for prudential reporting in all countries where the framework is applied, reducing the reporting burden for credit institutions that operate cross-border, and lower barriers to the development of an efficient internal market in financial

²¹ The guidelines are available at <http://www.c-eps.org/standards.htm>.

services. This is particularly important in the context of Bosnia Herzegovina where a significant portion of the banking sector is foreign owned.²²

- Revise the “chart of accounts” mandated by the Banking Agencies (FBA & ABRS) with a view to ensuring compliance with the Fourth Directive on Annual Accounts (78/660/EEC), Seventh Directive on Consolidated Accounts (83/349/EEC), Banking Accounts Directive (86/635/EEC) and Regulation (EC) No. 1606/2002 of the European Parliament and Council. In this context, the SC will have regard to modern developments in financial reporting (e.g., FINREP) rather than impose a mandatory list of accounts, which would increase costs of compliance for foreign banks and actually reduce the quality of reporting as compared to FINREP. CEBS²³ considers that eXtensible Business Reporting Language (XBRL)—rather than a chart of accounts—can be a helpful tool in constructing a standardized reporting system.²⁴
- Organize the relationship between bank supervisors, statutory auditors and commercial banks in accordance International Auditing Practice Statement (IAPS) 1004, *The Relationship between Banking Supervisors and Banks’ External Auditors*.²⁵

Outcome

Enhance the stability of the banking sector through a balanced combination of prudential supervision on the one hand and market incentives on the other hand in line with the three pillars of Basel II: (1) minimum capital requirements, (2) supervisory review of capital

²² At the end of 2004, private banking institutions accounted for 86% of total banking capital in BiH, with the share of foreign private capital in total capital coming to 67%. The five largest banks in BiH accounted for more than 64% of total banking assets at end-2003. Three of these five banks were direct subsidiaries of Austrian banks. The banking assets of the biggest bank in BiH, the Austrian Raiffeisen banka dd Bosna i Hercegovina, accounted for nearly 20% of total banking assets and the two largest banks, Raiffeisen banka dd Bosna i Hercegovina and Zagrebačka banka BH (both in foreign ownership), together accounted for about 36% of total banking assets in BiH at end-2003.

²³ The Committee of European Banking Supervisors (CEBS) advises the European Commission on banking policy issues and promotes convergence of supervisory practice across European Union. The Committee also fosters and reviews common implementation and consistent application of Community legislation.

²⁴ XBRL is a language for the electronic communication of business and financial data. It is an open standard, free of license fees, that was developed by a non-profit international consortium.

²⁵ IAPS 1004 was prepared by the International Auditing Practices Committee (IAPC) of the International Federation of Accountants, and was approved for publication by the Basel Committee on Banking Supervision and the IAPC.

adequacy and (3) public disclosure. This action will also enhance the role of the banking sector as the engine of economic growth by facilitating banking intermediation.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
8	<p style="text-align: center;">Central Bank of Bosnia Herzegovina</p> <p style="text-align: center;">Republika Srpska Banking Agency</p> <p style="text-align: center;">Banking Agency of the Federation of BiH</p>	<p style="text-align: center;">Central Bank of Bosnia Herzegovina</p> <p style="text-align: center;">Republika Srpska Banking Agency</p> <p style="text-align: center;">Banking Agency of the Federation of BiH</p>	<p style="text-align: center;">Ministry of Finance (State)</p> <p style="text-align: center;">Ministry of Finance (FBiH)</p> <p style="text-align: center;">Ministry of Finance (RS)</p> <p style="text-align: center;">The Commission on Accounting & Auditing</p> <p style="text-align: center;">AAARS</p> <p style="text-align: center;">SRRFBiH</p> <p style="text-align: center;">SC</p> <p style="text-align: center;">Relevant EU Member States</p> <p style="text-align: center;">World Bank</p>	<p style="text-align: center;">The Banking Sector</p> <p style="text-align: center;">Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 300,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>Central Bank of Bosnia Herzegovina</p> <p>Republika Srpska Banking Agency</p> <p>Banking Agency of the Federation of BiH</p>	300,000 EUR		X	
<p>Performance Indicator: European Commission Progress Report for Bosnia Herzegovina; survey of commercial banks, supervisors, statutory auditors and other users of bank annual accounts and consolidated accounts</p>					

4.9 Institutional Strengthening For Bank Supervision (I)

Objective

Support the Central Bank of Bosnia Herzegovina (CBBH), the Federation of Bosnia Herzegovina Banking Agency (FBA) & the Republika Srpska Banking Agency (ABRS) to strengthen the institutional capacity to supervise, monitor and enforce the application of IFRS in banking financial reporting.

Description

Provide capacity assistance to the CBBH, FBA & ABRS in the development of the accounting and auditing units within the supervision department. The primary responsibilities of the units would include:

- Monitor the consistent application of the requirements of the legislation, IFRS requirements and the specific prudential requirements of the CBBH, FBA & ABRS. Ensuring that guidelines regarding the recognition, measurement and disclosure requirements applicable to commercial banks are enforced.
- Implement a financial reporting approach consistent with FINREP. The introduction of IFRS in the banking sector changes the way that credit institutions using these standards prepare their published annual accounts and consolidated accounts. These changes require that the CBBH, FBA & ABRS, like peer institutions in the EU, modify its prudential financial reporting requirements, since these reporting requirements are based to a large extent on accounting data. CEBS

has developed FINREP based on the fact that IFRS, unlike the Banking Accounts Directive, do not impose a standardized reporting format, and based on calls from the banking community for a reduction of the reporting burden.

- Have due regard to the on-going pronouncements of CEBS, the Basel Committee on Banking Supervision,²⁶ IFAC, and the IASB. To facilitate this aspect, the CBBH could delegate a member of its staff to the Permanent Mission of the Bosnia Herzegovina to the EU in Brussels.
- Facilitate a transfer of knowledge between the CBBH, FBA & ABRS and the banking sector by developing a program of training for commercial bank staff.
- To build capacity with the CBBH, FBA & ABRS to ensure sufficient expertise in accounting and auditing are available.
- Prepare a human resources strategy for the CBBH, FBA & ABRS that will allow for the orderly development of resources to meet technical requirements.

Outcome

Develop the supervisory function of the CBBH, FBA & ABRS to review, monitor and control the implications of IFRS for corporate bank reporting. Additionally, since the banking sector in Bosnia Herzegovina offers probably the best structured and resourced sector in which to implement IFRS, the resources made available to the CBBH, FBA & ABRS will allow for the build-up of a national knowledge base, which will facilitate a transfer of expertise to the users within the sector and in time to the wider financial sector as a whole.

²⁶ The Basel Committee on Banking Supervision (BCBS) provides a forum for regular cooperation on banking supervisory matters. Over recent years, it has developed increasingly into a standard-setting body on all aspects of banking supervision, including the Basel II regulatory capital framework.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
9	<p>Central Bank of Bosnia Herzegovina</p> <p>Republika Srpska Banking Agency</p> <p>Banking Agency of the Federation of BiH</p>	<p>Central Bank of Bosnia Herzegovina</p> <p>Republika Srpska Banking Agency</p> <p>Banking Agency of the Federation of BiH</p>	<p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p> <p>The Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>The Banking Sector</p> <p>Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 200,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>Central Bank of Bosnia Herzegovina</p> <p>Republika Srpska Banking Agency</p> <p>Banking Agency of the Federation of BiH</p>	200,000 EUR		X	
<p>Performance Indicator: European Commission Progress Report for Bosnia Herzegovina; survey of commercial banks, supervisors, statutory auditors and other users of bank annual accounts and consolidated accounts</p>					

4.10 Organizing the Relationship between Annual Accounts and Corporate Income Tax Reporting (S)

Objective

To support Entity Tax Authorities in establishing a statutory framework that provides a predictable tax base and in designing an efficient tax assessment process while reducing the compliance cost imposed on companies.

Description

Since the entity accounting & auditing law mandates the use of IFRS in the annual accounts of Public Interest Entities this action will seek to:

- Ensure that the all Entity Tax Authorities are equipped to assess the possible effects of the utilization of IFRS in annual accounts and take relevant measures to avoid any unintended consequences on tax income and hence Bosnia Herzegovina's budget, tax disputes resulting from ambiguous rules, etc.
- Assess the impact of IFRS on the degree of accounting competence required of tax inspectors. Because of differences in recognition and measurement rules, and because of varying degrees of subjectivity attaching to both under different accounting standards, the degree of competence required may differ.

In this context, Bosnia Herzegovina will draw on the experiences of relevant EU Member States in the area of taxation where IFRS is permitted/required in annual accounts (e.g., Denmark, Malta, and United Kingdom).

Outcome

Organizing an efficient relationship between annual accounts and corporate income tax reporting will result in significantly reduced compliance costs on preparers of annual accounts. It will also result in enhanced predictability in corporate income taxation and compliance with tax requirements (reduction in undetected tax fraud).

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
10	Entity Tax Authorities	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	The Commission on Accounting & Auditing AAARS SRRFBiH SC Relevant EU Member States World Bank	The Insurance Sector Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Suitable external technical assistance –100,000 EUR Regionally coordinated support under the REPARIS program	Entity Tax Authorities	100,000 EUR		X	
Performance Indicator: Development of the relationship between tax reporting and corporate financial reporting					

Objective

To support Entity Tax Authorities in establishing an institutional framework that implements an efficient tax assessment process resulting in an effective tax assessment and enforcement.

Description

This action will include the following:

- Support to Entity Tax Authorities in implementing the regulations, systems, forms and guidelines that will allow for the linkage of the tax collection process with annual accounts produced under IFRS.
- Technical assistance to all Entity Tax Authorities to include:
 - Prepare corporate income tax reporting forms, reconciling the corporate income tax base with the net income/loss reported in the annual accounts.
 - Development of formal enforcement policies and monitoring procedures.
- Training for tax inspectors encouraging a greater knowledge of IFRS as well as the tax law for a better understanding of the mutual compliance and relationship between accounting rules and tax law.
- Investigate tax reporting for non-IFRS based users: Owners and managers aim to minimize their tax burden, which leads to pressure being exerted upon the accountants and auditors to influence the results reported in the annual accounts. This is particularly true of smaller enterprises, which may require a separate approach to corporate taxation for small companies.

Bosnia Herzegovina should draw on the experiences of relevant EU Member States in the area of taxation.

Outcome

Tax reporting in Bosnia Herzegovina currently uses a significant proportion of the accounting capabilities of the entities. Resources used to clarify, simply and co-ordinate the tax and financial reporting environments will contribute significantly to the overall importance placed on financial reporting in Bosnia Herzegovina, leading in the longer-term to enhanced financial reporting.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
11	Entity Tax Authorities	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	The Commission on Accounting & Auditing AAARS SRRFBiH SC Relevant EU Member States World Bank	The Insurance Sector Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Suitable external technical assistance – 250,000 EUR Regionally coordinated support under the REPARIS program	Entity Tax Authorities	250,000 EUR		X	
Performance Indicator: Development of the relationship between tax reporting and corporate financial reporting					

Objective

Ensure Bosnia Herzegovina legislation and regulations comply with the relevant portions of the *acquis communautaire* relating to financial reporting in the insurance sector and are consistent with other relevant domestic legislation.

Description

This action will include the following:

- Review and amend all legislation to ensure financial reporting requirements are in compliance with the *acquis communautaire* specifically **the Insurance Accounts Directive (91/674/EEC)** in addition to the Fourth Directive on Annual Accounts (78/660/EEC), Seventh Directive on Consolidated Accounts (83/349/EEC) and Regulation (EC) No. 1606/2002 of the European Parliament and Council;
- Review rules on capital adequacy and solvency to ensure that legislation and regulations set out suitable principles to underlie solvency regimes for insurers. The International Association of Insurance Supervisors (IAIS) sets out three principles regarding the level of solvency:
 - Principle 6 – Capital adequacy and solvency regimes have to be sensitive to risk;
 - Principle 7 – A control level is required;
 - Principle 8 – A minimum level of capital has to be specified;
- Review supervisory powers to determinant of the ability of the supervisor to, on an on-going basis, adjust minimum and control levels of solvency, both on an industry-wide and insurer-specific basis (In some jurisdictions the minimum and control levels are established by legislation, whereas in other jurisdictions the supervisor has the authority to impose alternative solvency requirements);
- Assist in developing the structures to allow for an on-going annual review of national and European legislation requirements relating to financial reporting for the insurance sector.

Outcome

The delivery of a consistent legislative and regulatory framework that supports a modernized reporting environment for the insurance industry in line with the *acquis communautaire*

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
12	State & Entity Insurance Supervisors	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	The Commission on Accounting & Auditing AAARS SRRFBiH SC Relevant EU Member States World Bank	The Insurance Sector Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Suitable external technical assistance – 100,000 EUR Regionally coordinated support under the REPARIS program	State & Entity Insurance Supervisors	100,000 EUR		X	
Performance Indicator: European Commission Progress Report for Bosnia Herzegovina; survey of insurance supervisors, statutory auditors and other users of insurance entity annual accounts and consolidated accounts					

Objective

Develop and strengthen the state and entity insurance supervisors in order to support the enforcement of statutory review undertaken by this strategy under action 12.

Description

Supporting the state and entity insurance supervisors to establish best practice in:

- Licensing requirements – setting and monitoring the minimum amount of capital required to be licensed to write insurance business in the jurisdiction of Bosnia Herzegovina (including that a separate control level may be established for new insurers to provide for growth of new business or other risks related to their operating plans);
- Reserves – including determining whether individual Insurer’s risk profiles should be assessed to the industry solvency control level or a higher level applied, e.g., there may be non-capital-related supervisory concerns within an insurer that may cause the supervisor to require that a higher solvency level be maintained until a problem is rectified;
- Skills and capacity building within the current staff of the regulatory authority to build expertise in the area of specific reporting requirements of insurance companies including:
 - Loss triangulation (methods which elicits loss development patterns based on historical data collated in the form of basic loss development triangles);
 - Setting loss reserves;
 - Actuarial selections including the prudence of the accounting and actuarial standards;
 - Estimating Incurred But Not Reported (IBNR) claims;
 - Practices and procedures used to calculate unearned premium reserves (UEPR);
 - Estimating unexpired risk reserves (URR);

²⁷ For the pension sector consideration will be given to leveraging this action to address that sector.

- A program of training to the regulator on the impact of IFRS²⁸ on the insurance sector and in particular the specific reporting requirements of insurance companies.
- Develop guidance for the insurance sector in implementing IFRS.
 - Organize the relationship between insurance supervisors, statutory auditors and insurance undertakings, leveraging the principles set forth in IAPS 1004, *The Relationship between Banking Supervisors and Banks' External Auditors*.

This activity should have due regard to the on-going pronouncements of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS),²⁹ the International Association of Insurance Supervisors (IAIS),³⁰ IFAC, and the IASB.

Outcome

The development state and entity insurance supervisors with the capability to monitor and to ensure compliance with the financial reporting legislation and regulations for insurance undertakings

²⁸ While this report generally recommends the application of IFRS, it is aware that its application in insurance undertakings is still under discussion. Given the scarce resources of Bosnia Herzegovina, and since the IASB is still finalizing the specific standards on insurance accounting, this report recommends that Bosnia Herzegovina observe what the EU decides before adopting full IFRS in the insurance industry. In the meantime, the Insurance Accounts Directive, and relevant adjustments made by individual Member States in its transposition would be an appropriate benchmark.

²⁹ CEIOPS is composed of high-level representatives from the insurance and occupational pensions' supervisory authorities of the EU Member States.

³⁰ IAIS represents insurance regulators and supervisors of some 180 jurisdictions and issues global insurance principles, standards and guidance papers, provides training and support on issues related to insurance supervision, and organises meetings and seminars for insurance supervisors.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
13	State & Entity Insurance Supervisors	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	The Commission on Accounting & Auditing AAARS SRRFBiH SC Relevant EU Member States World Bank	The Insurance Sector Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Suitable external technical assistance – 100,000 EUR Regionally coordinated support under the REPARIS program	State & Entity Insurance Supervisors	100,000 EUR		X	
Performance Indicator: European Commission Progress Report for Bosnia Herzegovina; survey of insurance supervisors, statutory auditors and other users of insurance entity annual accounts and consolidated accounts					

Objective

Ensure Bosnia Herzegovina legislation and regulations comply with relevant portions of the *acquis communautaire* relating to financial reporting for listed entities and are consistent with other relevant domestic legislation.

Description

This action will include the following:

- Review the legislation and regulations applicable to the listed entities to ensure alignment of the legislative framework with the relevant portions of the *acquis communautaire* including:
 - Regulation (EC) No. 1606/2002 of the European Parliament and Council: The Regulation requires listed companies, including banks and insurance companies, to prepare their consolidated accounts in accordance with endorsed IFRS beginning 2005. EU Member States also have the option of extending the requirements of this regulation to unlisted companies and to the production of annual accounts. Since Regulations are directly applicable and binding in all EU Member States without the need for any national implementing legislation (as opposed to Directives), Regulation No. 1606/2002 will automatically become mandatory if Bosnia Herzegovina joins the EU. However, we have had regard to Regulation No. 1606/2002 and will ensure that Bosnia Herzegovina listed companies are well equipped to meet the Regulation's requirements over the coming years.
 - Prospectus Directive (2003/71/EC): This Directive together with Regulation No. 809/2004 sets out the information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.
 - Transparency Directive for publicly traded companies (2004/109/EC): This Directive sets out minimum transparency requirements for listed companies, raising the quality of information available to investors on companies' performance and financial position.
- Ensure that Bosnia Herzegovina laws and regulations are consistent with the relevant standards issued by CESR-fin. CESR-fin is the Committee of European Securities Regulators (CESR) permanent operational group with the role of coordinating the work of CESR members in the area of endorsement and enforcement of financial reporting standards in Europe. We will have regard in

particular to Standard No. 1 on Financial Information, *Enforcement of Standards on Financial Information in Europe*, and Standard No. 2 on Financial Information, *Co-ordination of enforcement activities*.

- Ensure the harmonization of the regulatory requirements for example in the case of a listed commercial bank in having regard to the regulatory requirements of the Entity Banking Agencies.

Outcome

The delivery of a consistent legislative and regulatory framework that supports a modernized reporting environment for listed entities in line with the obligations inherent in the *acquis communautaire*.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
14	<p>Republika Srpska Securities Exchange Commission</p> <p>Federation of BiH Securities Exchange Commission</p>	<p>Republika Srpska Securities Exchange Commission</p> <p>Federation of BiH Securities Exchange Commission</p>	<p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p> <p>The Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>Listed Entities</p> <p>Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 150,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>Republika Srpska Securities Exchange Commission</p> <p>Federation of BiH Securities Exchange Commission</p>	150,000 EUR		X	
<p>Performance Indicator: European Commission Progress Report for Bosnia Herzegovina</p>					

4.15 Supporting the FBiH & RS Securities and Exchange Commissions (I)

Objective

Develop and strengthen the FBiH Securities and Exchange Commission (FBiH SEC) and the RS Securities and Exchange Commission (RS SEC) in order to support the implementation and enforcement of the statutory review initiated by this strategy under the statutory action relating to Financial Reporting for Listed entities

Description

This action will include the following:

- Organizational impact study to determine and implement the most efficient and effective organization structures and resources required to make FBiH & RS Securities and Exchange Commissions effective independent administrative authorities.
- Development of appropriate strategy and policies in relation to CESR standards, such as a consistent policy of actions whereby similar actions are adopted where similar infringements are detected.
- Development of guidelines for listed companies – what each authority expects in terms of documents from issuers listed on the stock exchange.
- Development of manuals for FBiH & RS Securities and Exchange Commissions staff – how the authority will go about monitoring and enforcement of standards including methods of enforcement, ranging from pure formal checks to in-depth

substantive checking dependent upon risk assessment, actions on material misstatements, coordination of enforcement with other responsible bodies and reporting to the public.

- Establishment of a quality review/continuous improvement process for monitoring and enforcement.
- Establishment of a twinning program for each SEC with an appropriate regulator and CESR member in an existing EU Member State to facilitate the secondment of appropriately qualified staff to/from each organization to assist each SEC with:
 - Training and knowledge transfer on the implications of CESR standards both in terms of theoretical concepts and applied techniques and practice, such as a risk-based approach to monitoring and enforcement.
 - Performance of inspections and/or day-to-day supervision and guidance on monitoring and enforcement process;
- Additionally as both the FBiH & RS Securities and Exchange Commissions play a potentially vital role for shareholders of listed companies in Bosnia Herzegovina, in order to increase awareness of its role and benefits to shareholders, a campaign of awareness as part of an overall public awareness program will be undertaken.

This complete activity should have due regard to the on-going pronouncements from the European Commission, CESR-fin, the International Organization of Securities Commissions (IOSCO), IFAC, and the IASB.

Outcome

Development of the FBiH & RS Securities and Exchange Commissions to support the implementation and enforcement of the statutory review initiated by this strategy under the statutory action relating to Financial Reporting for Listed entities, to develop a culture of compliance and ultimately enhanced financial reporting for listed entities in Bosnia Herzegovina. This culture can be exported to the wider financial sector and beyond in the longer term.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
15	<p>Republika Srpska Securities Exchange Commission</p> <p>Federation of BiH Securities Exchange Commission</p>	<p>Republika Srpska Securities Exchange Commission</p> <p>Federation of BiH Securities Exchange Commission</p>	<p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p> <p>The Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>Listed Entities</p> <p>Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 300,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>Republika Srpska Securities Exchange Commission</p> <p>Federation of BiH Securities Exchange Commission</p>	300,000 EUR		X	
<p>Performance Indicator: Reliability and Consistency of annual and consolidated accounts of listed entities as measured by the World Bank A&A ROSC team and CESR Standards</p>					

Objective

Ensure Bosnia Herzegovina legislation and regulations comply with relevant portions of the *acquis communautaire* relating to the publication and filing of financial information³¹ including the principle of compulsory disclosure, minimum transparency requirements and are consistent with other relevant domestic legislation.

Description

This action will include the following:

- Ensure consistency and predictability within the legislative framework within Bosnia Herzegovina.
- Ensure the harmonization of the regulatory requirements for example in the case of a listed financial institution in having regard to the regulatory requirements of the FBiH & RS Securities Exchange and Commissions and the Banking Agencies (FBA & ABRS).
- Ensure that each competent administrative authority has the necessary powers.

It also includes support activities that will review the legislation and regulations applicable to the Registry of Financial Statements in the entities to:

- Establish the principle of compulsory disclosure of financial information. The Directive concerns information of a legal nature, notably the instrument of constitution, the statutes if contained in a separate instrument, the amount of the subscribed capital, the balance sheet and the profit and loss account for each financial year, any transfer of the seat of the company, any declaration of nullity of the company by the courts, and any instrument or decision concerning the duration, winding-up or liquidation of the company.

The means of disclosure are threefold: firstly, the opening of a file on every company in an official register; secondly, publication in a national official gazette; and thirdly, an indication, on all business documents, of the legal form and

³¹ The First Company Law Directive (68/151/EEC), the Fourth Directive on Annual Accounts (78/660/EEC), and the Seventh Directive on Consolidated Accounts (83/349/EEC) apply to all companies with limited liability. They establish the principle of compulsory disclosure. The Transparency Directive (2004/109/EC) sets out minimum transparency requirements for listed companies, raising the quality of information available to investors on companies' performance and financial position.

registered place of business of the company and the register in which the file on the company is kept, together with the number of the company in that register.

In addition, Directive 2003/58/EC amending the First Company Law Directive facilitates and streamlines access by the public to company information and simplifies the disclosure formalities imposed on companies. It also requires Member States to provide for appropriate penalties in the event of non-compliance by companies.³²

- To set out minimum transparency requirements for listed companies. The SC has had regard to the disclosure requirements set forth in the Transparency Directive, which complete a package of EU Financial Services Action Plan measures, including Regulation 1606/2002 and the Prospectus Directive. Under the Directive, all securities issuers will have to provide annual financial reports within four months after the end of the financial year. Investors in shares will receive more complete half-yearly financial reports.
- Design deterrent incentives (e.g., sanctions) to ensure that compliance with the filing requirements relating to annual accounts and consolidated accounts.

Outcome

The delivery of a consistent legislative and regulatory framework relating to the publication and filing of financial information in Bosnia Herzegovina that meets the requirements of European legislation and encourages a culture of compliance.

³² Specifically, the SC will ensure Bosnia Herzegovina examines the practical implementation of the requirement to make available, from a date no later than 1 January 2007, by paper means or by electronic means as the applicant chooses, the specified disclosure documents of certain types of companies.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
16	<p>Ministry of Finance (State)</p> <p>Financial Registry of the Ministry of Finance (FBiH)</p> <p>Financial Registry of the Ministry of Finance (RS)</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>FBiH SEC</p> <p>RS SEC</p> <p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>Corporate Entities</p> <p>General Public</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 150,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>Ministry of Finance (State)</p> <p>Financial Registry of the Ministry of Finance (FBiH)</p> <p>Financial Registry of the Ministry of Finance (RS)</p>	150,000 EUR		X	
<p>Performance Indicator: European Commission progress report for Bosnia Herzegovina</p>					

Objective

Develop and strengthen the Entity level MoF Registries of Financial Statements in Bosnia Herzegovina in order to support the design, implementation and enforcement of the principles of compulsory disclosure, minimum transparency requirements consistent with other relevant domestic legislation.

Description

This action will include the following:

- To supply to the MoF (Registries of Financial Statements) the systems and technology to allow the implementation of the policies and procedures identified in the statutory action related to the filing of financial information. These systems should:
 - Facilitate the collection of annual reports and consolidated annual reports electronically.
 - Allow the storage of annual reports and consolidated annual reports for time periods consistent with EU requirements.
 - Allow access to annual reports and consolidated annual reports electronically subject to certain safeguards.
 - Support the monitoring of compliance with the legislative requirements for the filing of annual reports and consolidated annual reports.
- Support the establishment of a system of procedures that will follow up on the detection of non-compliance with filing requirements with proper enforcement that will encourage long-term compliance.
- Support the MoF (Registries of Financial Statements) to leverage the experience of other EU Member States in ways to commercialize information based on the collected data (e.g., specific sector data, trends snapshots). However, all these activities hinge upon the collection of quality corporate financial reports, which is the primary aim of this strategy and action plan.
- Design and implement an Information Strategy and a business process review for the MoF (Registries of Financial Statements) consistent with EU filing requirements of annual reports and consolidated annual reports, analyzing the possible use of XBRL.

- Develop the data dissemination activities of the registers in light of *acquis communautaire* and the requirements of the Bosnia Herzegovina government.
- Build additional capacity to strengthen the resources of the register and to develop the enforcement activities of the MoF (Registries of Financial Statements), including for the taking actions on breaches of filing requirements.

Outcome

Contribute to a significant enhancement in the public availability of quality financial information in Bosnia Herzegovina that will:

- Meet the requirement of the *acquis communautaire* relating to the publication and filing of financial information.
- Protection of third parties (including creditors, suppliers, employees, etc.), as making annual reports and consolidated annual reports publicly available would reduce the asymmetry of information between the firm and third parties, thus making the latter less vulnerable.
- Protection of the public from potential negative economic impact (e.g., in the case of economically significant companies, where their actions and/or demise would have a significant negative impact on the local economy)
- Promote improved allocative efficiency both within firms and in the economy (e.g., managers and investors are better able to distinguish between good and bad investment opportunities and business operations.)

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
17	<p>Ministry of Finance (State)</p> <p>Financial Registry of the Ministry of Finance (FBiH)</p> <p>Financial Registry of the Ministry of Finance (RS)</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>FBiH SEC</p> <p>RS SEC</p> <p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>Corporate Entities</p> <p>General Public</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Suitable external technical assistance – 250,000 EUR</p> <p>Hardware, Software & Equipment – 750,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>Ministry of Finance (State)</p> <p>Financial Registry of the Ministry of Finance (FBiH)</p> <p>Financial Registry of the Ministry of Finance (RS)</p>	<p>1,000,000 EUR</p>		X	
<p>Performance Indicator: European Commission progress report for Bosnia Herzegovina; Number of annual (consolidated accounts) made available to users and compliance with filing requirements (as a % of registered companies)</p>					

Objective

Support the initiation of a public body to oversee the audit profession in Bosnia Herzegovina, to include for the identification and detailed design of the operational architecture of that body³³

Description

This action will support the design of the operational architecture of an oversight body including:

- Alignment of state and entity legislation with oversight of audit profession requirements.
- Scope of oversight (e.g., education, licensing, standards setting, quality assurance, disciplinary systems).
- Competences of oversight (e.g., investigative and disciplinary powers):
 - To promote adherence to high professional standards in the auditing profession;
 - To monitor the implementation of the provisions of the law and regulations arising;
 - To review the procedure of acquiring the title certified auditor conducted by the AAARS & SRRFBiH;
 - To monitor the operations of the AAARS & SRRFBiH regarding the operations of its members, in relation to education, quality assurance system and professional ethics.
- Transparency of oversight (e.g. publication of annual work programs and activity reports).
- Funding of the oversight system secure and free from any undue influence by statutory auditors or audit firms.
- Prepare “Memoranda of Understanding” with key regulatory partners

³³ Independent oversight of the regulation of the auditing profession includes monitoring of the quality of the auditing function in relation to economically significant entities and independent oversight of the regulation of the accountancy profession by the professional accountancy bodies in accordance with Article 31-34 of the new EU Eighth Company Law Directive (sets out the rules for public oversight and regulatory arrangements between Member States).

- Preparation of guidance describing set up of arrangements at the body for quality assurance and disciplinary systems, taking into consideration:
 - Current quality assurance and disciplinary systems; and
 - Need for cooperation with the competent authorities of EU Member States whenever necessary for the purpose of carrying out public oversight responsibilities under the new Eighth EU Company Law Directive. In particular, the system will provide for the exchange of information and co-operation in investigations related to the carrying out of statutory audits.

Outcome

The establishment of an oversight body will help assure regulators, investors and the public at large that audited annual accounts and consolidated accounts can be relied upon to provide an accurate picture of the financial health of the audited companies in Bosnia Herzegovina.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
18	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	The Commission on Accounting & Auditing Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	AAARS SRRFBiH SC Relevant EU Member States World Bank	Oversight Bodies in EU member states General Public Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support –50,000 EUR Suitable external technical assistance – 100,000 EUR	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	150,000 EUR	X		
Performance Indicator: Initiation of Oversight Body					

Objective

To assist the oversight body in the implementation of the structured processes and procedures identified through its establishment initiated by this strategy under action 19.

Description

This action will initially develop the capabilities of the oversight body including:

- Establishment of a Secretariat – Recruit and appoint staff.
- Implement resources plan for delivery of oversight body fundamental requirements (Premises, Office fit-out, IT, Stationary, Telecommunications etc.).
- Establish the detailed identification of the internal procedures and rules including voting, decision, enforcing and supervising.
- Establishment of written rules and regulations for the oversight body, which are in line with the legislation.
- Implementation of business plan to meet targets and goals relating to the financial sustainability of the oversight body.
- Sign and implement “Memoranda of Understanding” with key regulatory partners.

The action will also include the organization of a series to workshops with the selected members of the oversight body to confirm their understanding of the role and functions to the oversight body, including the public oversight requirements relating to quality assurance and disciplinary systems.

Outcome

The program of support will help to ensure that the oversight body will develop as an effective and efficient organization that will be capable of underpinning the regulatory structure of the auditing profession in Bosnia Herzegovina in the longer-term. Effective public oversight over the audit profession is a vital element in the maintenance and enhancement of confidence in the audit function.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
19	<p>Oversight Body</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>Oversight Bodies in EU member states</p> <p>General Public</p> <p>Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Operational Support – 20,000 EUR</p> <p>Suitable external technical assistance – 60,000 EUR</p> <p>Hardware, Software & Equipment – 20,000 EUR</p>	<p>Oversight Body</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	100,000 EUR		X	
<p>Performance Indicator: Publication of suitable annual report by oversight body indicating annual activity and targets met and planning for next year.</p>					

4.20 Capacity Building Support to the Oversight Function (I)

Objective

To assist the on-going and long-term oversight of the auditing profession in Bosnia Herzegovina through support to develop the capacity, experience and skills of the oversight body

Description

The action will support the on-going long-term independent oversight of the auditing profession through:

- Making international expertise available to assist the oversight body for a period.
- On-going training and development in monitoring of the quality of the auditing function.
- Establishing relationships with oversight bodies in the EU to allow for an experience transfer.
- Developing and implementing a strategy to ensure the sustainability of the oversight body based on the experiences of similar sized countries in the EU (e.g., Estonia, Latvia, Lithuania, Slovenia).

Outcome

The development of set of internal skills and experience that will give the oversight body the capability to undertake the oversight of the auditing profession in Bosnia Herzegovina in an effective and efficient manner on a consistent long-term basis.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
20	<p>Oversight Body</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>The Commission on Accounting & Auditing</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>AAARS</p> <p>SRRFBiH</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>Oversight Bodies in EU member states</p> <p>General Public</p> <p>Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 50,000 EUR Suitable external technical assistance – 100,000 EUR	Oversight Body Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	150,000 EUR		X	
Performance Indicator: Publication of suitable annual report by oversight body					

Objective

To assist the Commission on Accounting & Auditing, the AAARS & the SRRFBiH in building sufficient capacity to increase the effectiveness of the organizations in providing the conditions to promotion the quality of audit services in Bosnia Herzegovina. The activities should support the development and enhancement of an auditing profession to enable the provision of services of consistently high quality in the public interest.

Description

In order to meet this objective the capabilities of the AAARS & SRRFBiH should be built upon which will include the following:

- Support of Secretariat in the AAARS & SRRFBiH;
- Support of a business plan to meet targets and goals relating to the financial sustainability of the AAARS & SRRFBiH;
- Support of a human resources strategy to meet targets and goals relating to the expertise available to the AAARS & SRRFBiH;

The SC will have regard to IFAC's guidance entitled *Establishing and Developing a Professional Accountancy Body*.

Outcome

The action will increase the effectiveness of the AAARS & SRRFBiH in providing the conditions to promotion the quality of audit services in Bosnia Herzegovina. The resources required to allow for the enhancement of the architecture of the AAARS & SRRFBiH and of their *modus operandi* will be effectively used if they can underpin its structures allowing for its future success. Consistency with the IFAC Statements of Membership Obligations (SMOs) will provide clear benchmarks assist the AAARS & SRRFBiH to ensure high quality performance by professional auditors.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
21	<p>Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p>	<p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>General Public</p> <p>Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Operational Support – 50,000 EUR</p> <p>Suitable external technical assistance – 100,000 EUR</p>	<p>Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p>	150,000 EUR		X	
<p>Performance Indicator: Sustainable Business plan for Auditing Organizations</p>					

Objective

The enhancement of the accounting education program for auditors in Bosnia Herzegovina having due regard to the requirements of the accounting & audit legislation, the new Eighth EU Company Law Directive, IFAC International Education Standards, and the “Global Curriculum for the Professional Education of Professional Accountants” issued by the intergovernmental working group of experts on International Standards of Accounting and Reporting.

This action will include the delivery of capacity building support to allow for local expertise to develop and facilitate the on-going long-term development and implementation of an education program for statutory auditors in Bosnia Herzegovina.

Description

To provide assistance to the Commission and to the AAARS & SRRFBiH to enhance the program of education to support the development of general knowledge, intellectual skills and communication skills needed by statutory auditors. This will be achieved by enhancing the educational program for statutory auditors in Bosnia Herzegovina having due regard to:

- Articles 6, 7 and 8 of the new EU Eighth Company Law Directive;
- IFAC International Education Standard (IES) No. 1, *Entry Requirements to a Program of Professional Accounting Education*;
- IFAC IES No. 2, *Content of Professional Accounting Education Programs*;
- IFAC IES No. 3, *Professional Skills*;
- IFAC IES No. 4, *Professional Values Ethics and Attitudes*;
- IFAC IES No. 5, *Practical Experience Requirements*;
- IFAC IES No. 6, *Assessment of Professional Capabilities and Competence*;
- IFAC IES No. 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*;
- IFAC IES No. 8, *Competence Requirements for Audit Professionals* (draft); and
- The experiences of relevant EU Member States in establishing educational programs.

This action will support the Commission and the AAARS & SRRFBiH as follows:

- Capacity support to the professional education process to ensure that a self-sustaining program is established that meets the objectives of the general education requirements regarding the development of general knowledge, intellectual skills and communication skills needed by professional auditors.
- Assist with the transfer of knowledge from international to local expertise in the area of education and training for statutory auditors.
- Assist the Commission and the AAARS & SRRFBiH to periodically review and enhance the framework for education of statutory auditors using good international practice.

Outcome

The successful delivery of this activity will allow the Commission and the AAARS & SRRFBiH to enhance the educational process for entrants to the profession to ensure best practice and to meet international good practice and EU requirements in producing competent professional auditors. Enhancing the educational program in Bosnia Herzegovina will have a significant positive impact in supporting corporate financial reporting in Bosnia Herzegovina through improving the standard and consistency of the education framework used to train statutory auditors.

In addition this action will further build the capacity to encourage local expertise to develop the skills and experience to allow for a sustained improvement in the standard of education and examination of new entrants to the profession, thus raising the standard of auditing in Bosnia Herzegovina in the longer-term.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
22	<p>The Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p>	<p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>General Public</p> <p>Statutory Auditors & Audit Firms</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Operational Support – 50,000 EUR</p> <p>Suitable external technical assistance – 200,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>The Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p>	250,000 EUR		X	
<p>Performance Indicator: Enhanced educational program for auditors as evidenced by meeting IFAC International Educational Standards (IES)</p>					

Objective

Enhancing the efficient and effective delivery of the Continuing Professional Education (CPE) program to ensure that the AAARS & SRRFBiH is responsive to the needs of all members and provides positive and appropriate support ensuring the continuous maintenance, development and enhancement of the professional and personal knowledge and skills that members of the AAARS & SRRFBiH require throughout their working lives. This action will include supporting capacity building within the AAARS & SRRFBiH to facilitate local knowledge developing and growing to implement on an on-going long-term basis the CPE program for members of the AAARS & SRRFBiH in Bosnia Herzegovina.

Description

This action will entail designing enhanced policies and procedures for CPE that will be consistent with the requirements of:

- Articles 13 and 30 of the new EU Eighth Company Law Directive;
- IFAC IES No. 7, *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*; and
- Existing practices and experiences of relevant EU Member States.

The program should include the following support assistance:

- Enhance the structure and scope of training programs³⁴ for improving the expertise of members of the AAARS & SRRFBiH with particular emphasis on practical application of IFRS, ISA and the IFAC Code of Ethics for Professional Accountants.
- Enhancing the formal requirement of the CPE program and document a schedule of activities leading to the full implementation of CPE within the auditing profession.
- Enhancing the structure and scope of learning materials relating to practical implementation of ISA and the Code of Ethics to be used by members of AAARS & SRRFBiH.

This action will support the implementation of the enhanced CPE program as follows:

³⁴ The design of the CPE courses should allow for non-members to undertake courses that has two key advantages, it adds to the knowledge of the financial community as a whole and also could offer a valuable revenue stream to the AAARS & SRRFBiH in the longer term.

- Deliver the expertise to the AAARS & SRRFBiH to train staff to deliver programs of CPE to members, with particular emphasis on practical application of the IFRS, ISA, and the IFAC Code of Ethics for Professional Accountants.
- Deliver learning materials relating to practical implementation of ISA and the IFAC Code of Ethics for Professional Accountants to be used by members of AAARS & SRRFBiH to form the basis of the CPE training programs.
- To co-ordinate with the higher educational institutions in Bosnia Herzegovina to consider how the higher educational institutions could assist with the development of CPE programs in the longer term.³⁵
- Implement a strategy to ensure the sustainability of the CPE process based on the experiences of similar sized countries in the EU (e.g. Estonia, Latvia, Lithuania, Slovenia).
- Make available international expertise to independently assess the progress of the AAARS & SRRFBiH in this area on a regular basis.
- Capacity support for an initial period to the CPE program supporting the continuous maintenance, development and enhancement of the professional and personal knowledge and skills of members of the AAARS & SRRFBiH.
- Deliver capacity building support for the on-going implementation of the CPE program to be delivered by the AAARS & SRRFBiH.
- Assist with the transfer of knowledge from international to local expertise in the area of CPE training for statutory auditors.

Outcome

It is important that AAARS & SRRFBiH members remain competent and develop new skills to remain effective in their jobs and careers. This will help maintain members' employability and their reputation with employers, clients and the public. It will also help maintain the AAARS & SRRFBiH reputation for producing and supporting high caliber professionals. The benefit of putting resources into the design of this program will be long term. The successful development of the knowledge base of the current generation of auditors will have far-reaching effects on the quality of auditing services in Bosnia Herzegovina in the long term.

³⁵ The methods of delivery of the CPE program should be open to individual choice subject to suitable quality assurance

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
23	AAARS SRRFBiH	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Commission on Accounting & Auditing SC Relevant EU Member States World Bank	General Public Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 50,000 EUR Suitable external technical assistance – 200,000 EUR Regionally coordinated support under the REPARIS program	AAARS SRRFBiH Voluntary contribution by members of the auditing profession in Bosnia Herzegovina	250,000 EUR		X	
Performance Indicator: The number of Statutory Auditors who comply with CPE requirements					

Objective

To enhance the external quality assurance program for members of the AAARS & SRRFBiH with due regard to:

- Article 29 of the new Eighth EU Company Law Directive, which introduces the requirement for all statutory auditors and audit firms to be subject to a system of quality assurance;
- The European Commission's Recommendation of November 2000 on Quality Assurance for the Statutory Auditor in the EU;³⁶
- IFAC Statements of Membership Obligation No. 1, *Quality Assurance*.³⁷

This will primarily consist of putting in place a quality control regime, which will review and monitor the quality of the work of the audit profession on an on-going basis. For users of financial information, external quality assurance ensures a certain level of credibility of audited annual and consolidated accounts.

Description

This action will support the enhancement of the external quality control regime within the auditing profession in Bosnia Herzegovina as follows:

- The criteria to be applied for such a quality assurance system are those identified in the new Eighth EU Company Law Directive and the European Commission Recommendation of November 2000 on Quality Assurance for the Statutory Auditor in the EU. Specific requirements deal with issues such as the frequency of the quality reviews, the scope of the quality reviews and confidentiality;

³⁶ The European Commission has adopted the Recommendation setting minimum standards for external quality assurance systems for statutory audits in the EU. External quality assurance systems have developed as a check on the quality of statutory audits. The aim of quality assurance is to ensure that statutory audits are conducted in compliance with the established auditing standards and that the auditors respect ethical rules (including independence). The Recommendation lays down a comprehensive set of minimum requirements for quality assurance systems in EU Member States with a view to ensuring that all statutory auditors are covered by equivalent quality assurance systems with sufficient public oversight and published results.

³⁷ SMO 1 is to be applied by member bodies of IFAC to quality assurance review programs for their members performing certain audit engagements of financial statements. It applies whether the Member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of governments, regulators or other agencies, or whether the programs are carried out by another body.

- The enhancement of such a program should introduce linkages between the quality assurance program and other relevant working committees of the AAARS & SRRFBiH. For example, the disciplinary program for statutory auditors should specify a deterrent outcome for not meeting the quality assurance program requirements identified under this activity. Additionally, the Education Committee should embed in its CPE programs the areas for improvement in the audit process identified by the quality assurance program.
- In addition, the system of quality assurance should be overseen by an oversight body. This includes also the supervision and ultimate responsibility in quality assurance proceedings organized by the AAARS & SRRFBiH;
- Additionally develop a strategy to ensure the sustainability of the quality assurance process based on the experiences of similar sized countries in the EU (e.g. Estonia, Latvia, Lithuania, Slovenia);

This action will support the implementation of an enhanced external quality control regime within the auditing profession in Bosnia Herzegovina considering the following:

- Reviewers must have appropriate professional qualifications and experience. Their impartiality and objectivity must be guaranteed. Resources must be allocated to the quality control system to ensure that it is credible and effective.
- The scope of the quality review should include an assessment of the internal quality control system of an audit firm with sufficient compliance testing of procedures and audit files to verify its adequate functioning.
- Capacity support for an initial period to the AAARS & SRRFBiH to allow an enhanced quality assurance program to be implemented that meets the objectives of the QA requirements regarding assuring both users and third parties of the standard of work produced by auditors and audit firms.
- Capacity building for the AAARS & SRRFBiH to enforce specific quality assurance program of requirements.

Outcome

Quality assurance is the auditing profession's principal means of demonstrating to the public and to regulators that auditors are performing at a level that meets the established auditing standards and ethical rules. Enhancing the quality assurance program will be a positive step in this direction for the auditing profession in Bosnia Herzegovina. It also allows the profession to encourage quality improvements in auditing methods.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
24	AAARS SRRFBiH	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Commission on Accounting & Auditing SC Relevant EU Member States World Bank	General Public Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 50,000 EUR Suitable external technical assistance – 200,000 EUR Regionally coordinated support under the REPARIS program	AAARS SRRFBiH Voluntary contribution by members of the auditing profession in Bosnia Herzegovina	250,000 EUR		X	
Performance Indicator: The number of Statutory Auditors subjected to external quality assurance in Bosnia Herzegovina in a given year; the performance of the AAARS & SRRFBiH (provisionally) under the IFAC compliance program					

Objective

To enhance the disciplinary program for members of the AAARS & SRRFBiH in Bosnia Herzegovina to assure both users and third parties of the standard of work produced by auditors and audit firms is subject to the fundamental principles of quality assurance and discipline with due regard to:

- Article 30 of the new Eighth EU Company Law Directive, which sets up the general principle that Member States shall organize effective systems of investigation and effective and dissuasive sanctions, which may be civil, administrative or criminal;
- European Commission Recommendation of November 2000 on Quality Assurance for the Statutory Auditor in the EU; and
- IFAC SMO No. 6, Investigation and Discipline.

Description

This action will support the enhancement of the AAARS & SRRFBiH's disciplinary program, which should investigate and discipline misconduct,³⁸ including breaches of professional standards and rules by individual AAARS & SRRFBiH members. This action will include the following:

- Enhance the delivery of the disciplinary program specifically implementing a strategy to assist the relevant committees of the AAARS & SRRFBiH to enforce the recommendations of their quality control systems.
- Enhance the mandate for action with the imposing of sanctions on members in breach of regulations to underpin the clear consequences of breaking the by-laws of the AAARS & SRRFBiH.
- Develop the arrangements for appeals against sanctions imposed by the relevant committees of the AAARS & SRRFBiH (Disciplinary Committee's) including appeals lodged to suitable bodies (Ministry of Finance). The enhancement of the structure for the disciplinary system should include:
 - All measures imposed by the AAARS & SRRFBiH shall be made public; and

³⁸ Misconduct includes all and any of the following: criminal activity, acts or omissions likely to bring the accountancy profession into disrepute, breaches of professional standards, breaches of ethical requirements, gross professional negligence, less serious instances of professional negligence that, cumulatively, may indicate unfitness, and unsatisfactory work.

- The AAARS & SRRFBiH shall inform suitable authorities (Minister of Finance) about all imposed measures.
- Capacity support for an initial period to the AAARS & SRRFBiH to allow a disciplinary program to be enhanced to meet the objectives of the disciplinary requirements regarding assuring users of the standard of work produced by auditors and audit firms.
- Capacity building for the ICA to enforce specific disciplinary findings.
- Assist with the transfer of knowledge from international to local expertise in the area of disciplinary actions for statutory auditors.

Outcome

The benefits of the enhancement of the disciplinary systems of the AAARS & SRRFBiH will in the longer term allow for:

- Safeguarding the public interest by maintaining and enhancing the standards of conduct of members and member firms of the auditing profession;
- Proceeding expeditiously with a view to sanctions being imposed on those found guilty of misconduct, including removal of their eligibility to audit; and
- Seeking to deter future acts of misconduct through its work.

In addition the effective enhancement of the disciplinary systems will:

- Encourage compliance with auditing standards;
- Encourage professional conduct by statutory auditors;
- Assist in assuring the quality of auditing; and
- Assure the general public of the quality of the work of statutory auditors.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
25	AAARS SRRFBiH	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Commission on Accounting & Auditing SC Relevant EU Member States World Bank	General Public Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 50,000 EUR Suitable external technical assistance – 100,000 EUR Regionally coordinated support under the REPARIS program	AAARS SRRFBiH Voluntary contribution by members of the auditing profession in Bosnia Herzegovina	150,000 EUR		X	
Performance Indicator: The number of Statutory Auditors subjected to disciplinary procedures in Bosnia Herzegovina in a given year; the performance of the AAARS & SRRFBiH (provisionally) under the IFAC compliance program					

4.26 Public Register for Statutory Auditors (I)

Objective

To assist in ensuring that a suitable electronic public register for statutory auditors and audit firms is available in Bosnia Herzegovina that will allow interested parties to determine rapidly whether a statutory auditor or an audit firm has been registered, where it is officially located and how (in the case of firms) they are organized.³⁹ This includes the provision of technical and operational resources to the AAARS & SRRFBiH to allow the public register for statutory auditors and audit firms to be enhanced and maintained and to assist the AAARS & SRRFBiH in on-going population of this public register.

Description

This action will include the following:

- Technical assistance in enhancing the process for the registry of statutory auditors in Bosnia Herzegovina fully considering the requirements of the new EU Eighth Company Law Directive;
- Technical assistance to enhance the processes and procedures to allow for an effective registry of statutory auditors on an on-going basis;

³⁹ This action will implement Articles 15 to 20 of the new Eighth EU Company Law Directive. Additionally, due regard should be given to the experience of similar EU Member States (e.g., Lithuania where a specific project is addressing some key issues that Bosnia Herzegovina now faces). Refer to FIRST Initiative, Technical Assistance for Accounting and Audit Reform Phase 2.

- Supporting the secretariat to manage the registry process i.e. updating information, dealing with public queries, and on-going maintenance of registry information taking consideration of the new EU Eighth Company Law Directive stating that the registration information must be updated without undue delay.

To increase the resources available to the AAARS & SRRFBiH to fund the registration process to include:

- Software programs to assist with the electronic registration process based on good international practice;
- Hardware to enable the software programs on a continuous basis; and
- Operational expenses associated with the initial development of the public register.
- Deliver capacity building support to the AAARS & SRRFBiH for the on-going registration of statutory auditors and audit firms in Bosnia Herzegovina;
- Make available international expertise to independently assess the public register and its contents having regard to Articles 15 to 20 of the new Eighth EU Company Law Directive; and
- Assist with the transfer of knowledge from international to local expertise.

Outcome

The supply of operational resources and expertise will allow interested parties to determine whether a statutory auditor or an audit firm has been registered, where it is officially located and how (in the case of firms) they are organized. This will help to:

- Assist in identifying persons acting without licenses;
- Allow the public to identify the proper authorities if a complaint against a statutory auditor is required to be lodged;
- Increase public confidence in registered auditors; and

Additionally resources allocated to this project will allow for the regulation of the profession on an on-going basis and help to meet requirements of the new Eighth EU Company Law Directive.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
26	AAARS SRRFBiH	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Commission on Accounting & Auditing SC Relevant EU Member States World Bank	General Public Statutory Auditors & Audit Firms

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 25,000 EUR Suitable external technical assistance – 75,000 EUR Hardware, Software & Equipment – 25,000 EUR Regionally coordinated support under the REPARIS program	AAARS SRRFBiH	125,000 EUR		X	
Performance Indicator: Availability of electronic register of Statutory Auditors in Bosnia Herzegovina; requests for information from these registries on an annual basis					

Objective

To ensure Bosnia Herzegovina plays a role in the international accounting and auditing community to achieve:

- Bosnia Herzegovina representation at the European and International level in order to provide its input into the development of accounting and auditing; and
- Leverage on the experience of European and International partners to gain insights into good international practices.

Description

This action will assist the AAARS & SRRFBiH to become members of European and International accountancy organizations (FEE and IFAC).

Specific activities will include:

- Design, initiate and delivery of a strategy to allow for the application to membership of the AAARS & SRRFBiH to FEE, including for the meeting of FEE obligations of a candidate body. These include the following requirements:⁴⁰
 - Principally practice the traditional activities of an accountant;
 - Having the highest professional qualifications;
 - Principally practice activities regulated by the EU Directives; and
 - Be authorized to do statutory audits without restriction, i.e. audit all the accounting documents of all categories of companies.

Additional assistance and supports include the strengthening of the SRRFBiH to meet the criteria for associate membership of IFAC to include activities that will help to establish:⁴¹

- Good standing and appropriate visibility on an international scale;
- Financial and organizational structure that supports its viability;
- An interest in IFAC and IASB and their programs, activities and pronouncements; and
- Promote IFAC and IASB's activities.

⁴⁰ Initially the SRRFBiH will likely apply for Correspondent Membership (do not meet all the membership criteria but are working towards full ordinary membership) with a longer-term strategy to obtain Ordinary Membership (have appropriate professional standards and are recognised as being substantial reputable organisations and are not governmental bodies).

⁴¹ In the longer term, the SRRFBiH will seek to establish full membership of IFAC.

Additional assistance and supports include the strengthening of the AAARS to meet the criteria for full membership of IFAC to include activities that will help to establish:

- Maintain appropriate quality control standards in accordance with International Standards on Quality Control issued by the IAASB in addition to relevant national quality control standards and conduct, to the extent not prohibited by national regulation, regular globally coordinated internal quality assurance reviews;
- Have policies and methodologies for the conduct of such audits that are based, to the extent practicable, on ISAs;
- Have policies and methodologies which conform to the IFAC Code of Ethics for Professional Accountants and national codes of ethics; and
- Agree to submit to the Secretary of the Forum an annual report, in a form approved by the Transnational Auditors Committee (TAC), indicating that it meets the membership obligations set forth above

Outcome

Meeting the membership requirements for an international organization like FEE and IFAC will have a dual purpose. Firstly the membership criteria are also the type of strategic goals that in meeting the AAARS & SRRFBiH will ensure the regulation of the profession. Furthermore the international experience of the AAARS & SRRFBiH will help drive internal improvements and allow for the efficient and effective running of the AAARS & SRRFBiH.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
27	<p>Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p>	<p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>SC</p> <p>Relevant EU Member States</p> <p>FEE</p> <p>IFAC</p> <p>World Bank</p>	<p>General Public</p> <p>Statutory Auditors & Accountants</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 100,000 EUR Suitable external technical assistance – 200,000 EUR Regionally coordinated support under the REPARIS program	Commission on Accounting & Auditing AAARS SRRFBiH	300,000 EUR			X
Performance Indicator: Status and level of membership of FEE and IFAC					

Objective

To continue the education segment of the USAID Accounting Reform Project in Bosnia and Herzegovina to improve the standard of the curriculum of accountancy modules taught within third level institutions (e.g., universities) with the ultimate aim of improving the quality of accountancy graduates produced for the profession and the general understanding of accounting by graduates in other disciplines, for example, law students. The accounting and auditing curriculum should reflect the significant changes in the accounting and auditing framework in recent years.

Description

Delivery of activities to include:

- Establish a consultative committee working with the relevant ministries and universities and representing the views of all key stakeholders (e.g. preparers, regulators, users and auditors of annual and consolidated accounts) to develop and enhance the curriculum of accounting modules, as delivered by all the relevant educational institutions, in line with the needs of a modern market economy.
- Design, initiate and establish a program led by an internationally recognized university to meet the agenda established by the consultative committee.
- Design and implement a strategy to improve the quality and availability of Bosnia Herzegovina textbooks, case studies and other training materials on ISA and IFRS, which are currently insufficient, particularly in terms of practical application of standards.

Outcome

Corporate financial reporting plays a crucial role in a well functioning modern economy. The understanding of the general public and third level students of this reality is important. This understanding is developed by a strong curriculum in accounting and auditing at the third level of education in Bosnia Herzegovina. This is important not only directly for accountancy students but for other disciplines also (e.g., business administration, law, economics) to ensure all sectors of a functioning economy can make informed decision based on reliable financial information.

The resources required to initiate a program of activities leading to the enhancement of the curriculum in accountancy will lead to an improvement in the knowledge of entrants to the auditing training programs in the long-term. Importantly also, the improved knowledge of all third level students taking an accounting module will feed into increasing the overall knowledge base relating to the importance of good corporate financial reporting.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
28	U. Sarajevo U. Srpska Sarajevo U. Banja Luka U. Brcko U. Mostar U. Mostar U. Tuzla U. Bihac	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Commission on Accounting & Auditing AAARS SRRFBiH All Third Level Institutes SC Relevant EU Member States World Bank	General Public SMEs Corporate Entities

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Suitable external technical assistance – 200,000 EUR	U. Sarajevo U. Srpska Sarajevo U. Banja Luka U. Brcko U. Mostar U. Mostar U. Tuzla U. Bihac	200,000 EUR		X	
Performance Indicator: Updated Accountancy & Audit Curriculum consistent with good international practice					

Objective

To continue the education segment of the USAID Accounting Reform Project in Bosnia and Herzegovina in supporting a core group of professors, lecturers and other educational experts who will be able to deliver and write high quality academic training and literature and in the longer-term design internationally comparable curriculum and understand practical aspects of IFRS and ISA.

Description

Delivery of activities to include:

- Design, initiate and establish a program to offer training to accounting and auditing instructors in education institutions in Bosnia Herzegovina based on the following:
 - Expertise should be provided to allow for the involvement of stakeholders from all faculties of accounting across Bosnia Herzegovina. Training should be conducted in Bosnia Herzegovina language under international expertise along with local Bosnia Herzegovina trainers who prove to have acquired competitive skills in teaching IFRS and ISA. Workshops should focus on the specific methodology of teaching IFRS and ISA aiming to build an understanding of the practical aspects of IFRS and ISA. The transfer of knowledge and skills will be made through specific methods designed to bring professors and lecturers together in interactive sessions where they can share information. It is essential that a large body of Bosnia Herzegovina professors get acquainted with IFRS and ISA and the new methodology in applying them.
 - In order to facilitate a transfer of knowledge with a recognized international institution, a secondment program shall be organized and delivered to a targeted group of lecturers or professors to be selected on a competitive basis from all faculties of accounting across Bosnia Herzegovina. The targeted trainee should be lecturers or professors with strong communication skills with proven teaching academic experience in higher education and ability to develop teaching materials.
- Build capacity within the third level education sector to continue to improve the curriculum for accountancy and auditing education.

Outcome

To enhance the capacity of Bosnia Herzegovina university professors, lecturers and other stakeholders in accounting and auditing education to design and deliver current and new courses that will use and apply IFRS and ISA.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
29	U. Sarajevo U. Srpska Sarajevo U. Banja Luka U. Brcko U. Mostar U. Mostar U. Tuzla U. Bihac	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Commission on Accounting & Auditing AAARS SRRFBiH All Third Level Institutes SC Relevant EU Member States World Bank	General Public SMEs Corporate Entities

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 600,000 EUR Suitable external technical assistance – 150,000 EUR Regionally coordinated support under the REPARIS program	U. Sarajevo U. Srpska Sarajevo U. Banja Luka U. Brcko U. Mostar U. Mostar U. Tuzla U. Bihac	750,000 EUR		X	
Performance Indicator: Number of secondments of lectures or professors to international universities; Updated Accountancy & Audit Curriculum consistent with good international practice					

Objective

A well-designed and implemented training program that would increase judges understanding of the importance of good corporate financial reporting and the responsibilities and rights of relevant stakeholders.

Description

Working with the Judicial and Prosecutorial Training Centres⁴² support a program of training to assist judges to:

- Summarize the underlying financial reporting principles and conventions that are fundamental to the understanding of annual and consolidated accounts.
- Describe the degree of estimation and judgment inherent in the financial reporting process.
- Distinguish between audited and unaudited annual and consolidated accounts.
- Make informed decisions on assessing the credibility of business valuations experts.
- Outline some of the issues that frequently arise in litigation involving financial information.

This training would include as a minimum:

- Annual and consolidated accounts:
 - Uses and purposes;
 - Objectives;
 - Components; and
 - Conventions and standards;
- Principles as the basis for annual and consolidated accounts:
 - Basic principles (IFRS);

⁴²The Judicial and Prosecutorial Training Centres (JPTCs) are intended to ensure delivery of sustainable, high quality, standardised induction and continued education courses for judges and prosecutors in BiH. The Organization for Security and Co-operation in Europe (OSCE) is co-ordinating capacity-building support to the Entity JPTCs in conjunction with the Council of Europe through technical and international donor assistance, whilst working to enhance financial and political support from the national authorities for these institutions. The Organization for Security and Co-operation in Europe (OSCE) plays a major role in the creation and development of a stable, peaceful, democratic and self-sustaining Bosnia and Herzegovina (BiH). The JPTC steering boards in both the RS and Federation are now operational. The directors have been appointed and in April 2003 both institutions became legally registered public bodies.

- Source and hierarchy; and
- Estimation and judgment.
- Audited annual and consolidated accounts:
 - Objectives and purpose of an audit;
 - Auditing Standards (ISA);
 - The audit report; and
 - Levels of assurance.
- Types of annual and consolidated accounts:
 - Who Uses annual and consolidated accounts;
 - Annual and consolidated accounts vs. regulatory reporting; and
 - The needs of investors and others.

Outcome

Training and support for the judiciary in the understanding of corporate financial reporting will:

- Increase awareness in the judiciary of the benefits and requirements of good corporate disclosure and transparency in respect of corporate financial reporting;
- Increase the demand by the judiciary for good corporate disclosure and transparency;
- Increase the public confidence in taking legal action if breaches of regulations have taken place;
- Increase the public demand for good corporate disclosure and transparency; and
- Reduce the risk of significant fraud by increasing the judiciary awareness of peoples' rights and responsibilities relating to corporate financial reporting.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
30	<p>Judicial and Prosecutorial Training Centres</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	<p>Commission on Accounting & Auditing</p> <p>AAARS</p> <p>SRRFBiH</p> <p>Third Level Institutes</p> <p>SC</p> <p>Relevant EU Member States</p> <p>World Bank</p>	<p>General Public</p> <p>SMEs</p> <p>Corporate Entities</p>

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
<p>Operational Support – 50,000 EUR</p> <p>Suitable external technical assistance – 150,000 EUR</p> <p>Regionally coordinated support under the REPARIS program</p>	<p>Judicial and Prosecutorial Training Centres</p> <p>Ministry of Finance (State)</p> <p>Ministry of Finance (FBiH)</p> <p>Ministry of Finance (RS)</p>	200,000 EUR		X	
<p>Performance Indicator: Number of Judges trained under the new program</p>					

Objective

A well-designed and implemented public awareness program that would increase the public demand for good corporate financial reporting.

Description

To increase the public awareness and confidence in financial reporting in Bosnia Herzegovina assistance should be offered to the various stakeholders to allow for a program of public awareness to include:

- Co-ordination with the May 2004 Office of the High Representative (OHR) three-part communications strategy that carefully laid the foundation for a campaign to reinforced an ongoing advocacy effort to improve the BiH business environment.
- Highlighting the rights of shareholders;
- Highlighting the requirement for statutory audit;
- Highlighting the financial advantages of a strong compliance culture;
- Increasing public awareness of the advantages of good corporate reporting;
- Promoting public awareness of the integrity, objectivity, competence, and professionalism of auditors and key stakeholders;
- Providing information, educational guidance and technical assistance to the public; and
- Promoting good disclosure and transparency in respect of corporate financial reporting.

More specifically awareness campaigns may focus on:

- For managers – Highlighting a culture of honest and open communications, refocusing internal audit onto big and more riskier issues, and encouraging a safe channel for employees to communicate serious concerns (whistle blowing); and
- For directors – Highlighting gaining a better understanding of the business, using that understanding to make a more informed and constructive challenge to management, exercising the right of access to information via internal and external auditors.

Outcome

Promoting awareness of good corporate disclosure and transparency in respect of financial reporting will in the long term lead to:

- Increased confidence in financial reporting in Bosnia Herzegovina;
- Increase the public demand for good corporate disclosure and transparency;
- Reduce the risk of significant fraud by increasing the awareness of peoples' rights and responsibilities; and
- Deepen the local knowledge of financial reporting increasing the potential investor base in Bosnia Herzegovina.

Key Stakeholders

Action No.	Responsibility (R)	Accountability (A)	Consult (C)	Inform (I)
31	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	Commission on Accounting & Auditing AAARS SRRFBiH Third Level Institutes SC Relevant EU Member States World Bank	General Public SMEs Corporate Entities

Resources, Budget, Timing and Performance Indicators

External Supports Required	Internal Supports Required	Total Budget Required	Timing (Yrs)		
			0-1	1-3	3-5
Operational Support – 100,000 EUR Suitable external technical assistance – 100,000 EUR	Ministry of Finance (State) Ministry of Finance (FBiH) Ministry of Finance (RS)	200,000 EUR		X	
Performance Indicator: Survey of the general publics understanding of good corporate financial reporting					

5 KEY PILLARS OF THE STRATEGY AND ACTION PLAN

The Steering Committee during its consultations identified the key pillars under which the Action Plan will be implemented.

Below in Figure 5-1: The Statutory and Institutional Framework we have set out the key pillars, which will determine each of the key actions identified by the strategy and action plan.

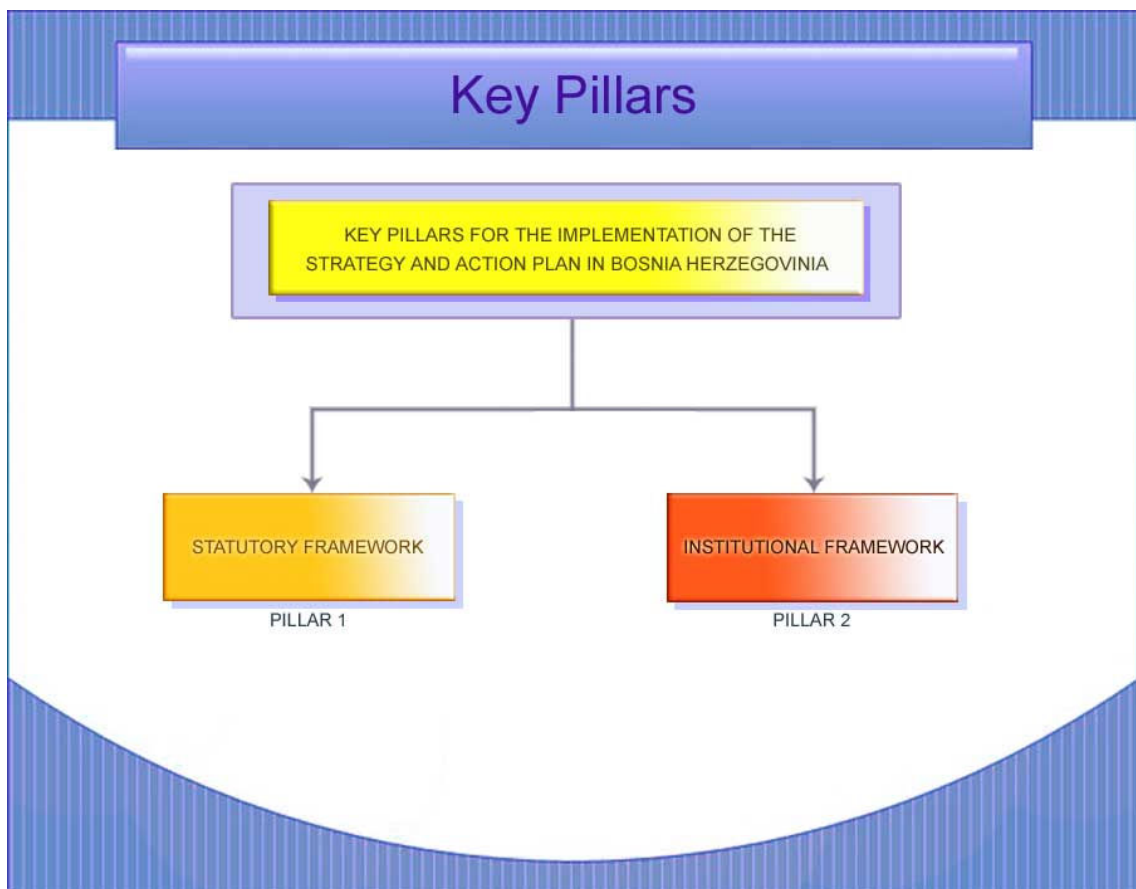


Figure 5-1: The Statutory and Institutional Framework

Below in Figure 5-2: The Statutory Framework we have set out the actions to be considered under the statutory framework.

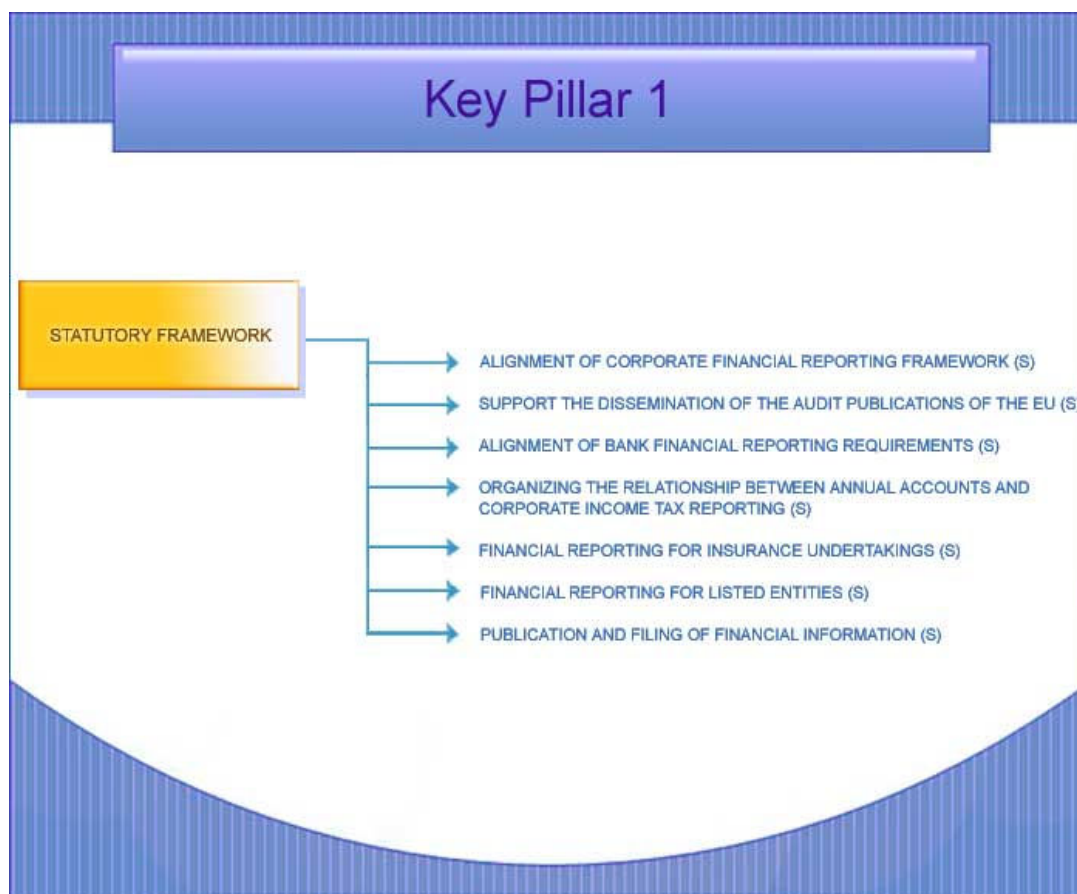


Figure 5-2: The Statutory Framework

Below in Figure 5-3: The Institutional Framework, we have set out the actions to be considered under the institutional framework.

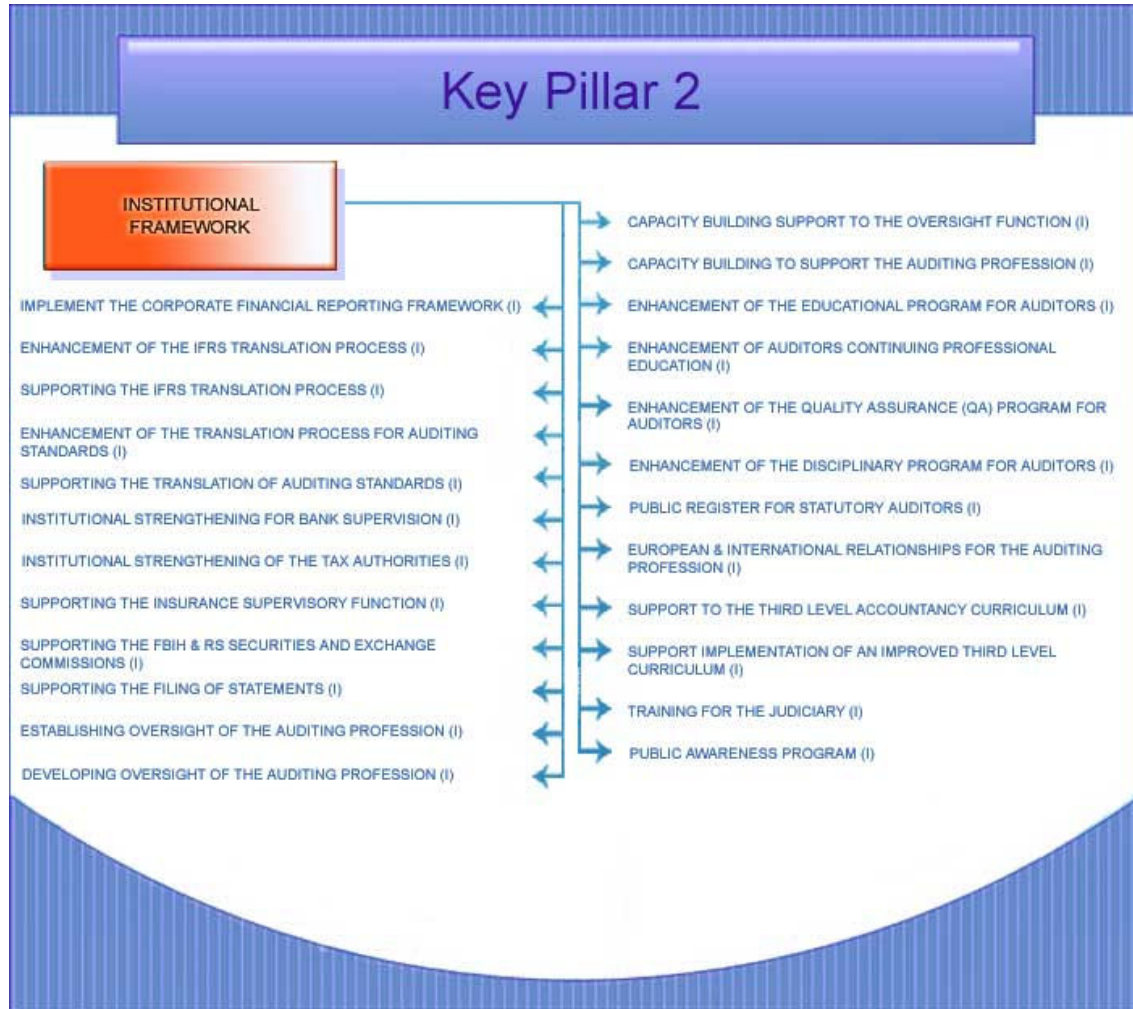


Figure 5-3: The Institutional Framework

6 TIMING OF THE STRATEGY AND ACTION PLAN

During the identification of the activities to be delivered in the strategy and action plan the delivery timelines were also considered. We consider that, in order for a successful implementation phase to follow the acceptance of the Action Plan, clear timeframes need to be identified. To meet this objective the Steering Committee has identified the key dates for each of the individual actions under the key pillars of the plan.

We have documented this information as related to the state level of FBiH below: Figure 6-1: Timeline for BiH Implementation of the strategy and action plan.

We have documented this information as related to the entity level of FBiH below: Figure 6-2: Timeline for FBiH Implementation of the strategy and action plan.

We have documented this information as related to the entity level of BiH below: Figure 6-3: Timeline for RS Implementation of the strategy and action plan.

Figure 6-2: Timeline for the FBiH implementation of the strategy and action plan

ID	Task Name	2007				2008				2009				
		Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3
1	Supporting Bank Supervision of Corporate Financial Reporting (Action 8 & 9)													
2	Supporting Taxation Authorities (Action 10 & 11)													
3	Supporting Insurance Supervision (Action 12 & 13)													
4	Supporting Securities & Exchange Commissions (Action 14 & 15)													
5	Supporting Publication & Filing of Financial Statements (Action 16 & 17)													
6	Establishing, Developing and Supporting the Oversight of the Audit Profession (Action 18, 19 & 20)													
7	Supporting the Auditing Professional Organizations (Action 21)													
8	Enhancing the Educational Program for Auditors (Action 22)													
9	Enhancing the Continuous Professional Educational Program for Auditors (Action 23)													
10	Enhancing the Quality Assurance Program for Auditors (Action 24)													
11	Enhancing the Disciplinary Program for Auditors (Action 25)													
12	Supporting the Public Registry of Auditors (Action 26)													
13	Supporting External Relationships for the Auditing Profession (Action 27)													

Figure 6-3: Timeline for the RS implementation of the strategy and action plan

ID	Task Name	2007				2008				2009				
		Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3
1	Supporting Bank Supervision of Corporate Financial Reporting (Action 8 & 9)													
2	Supporting Taxation Authorities (Action 10 & 11)													
3	Supporting Insurance Supervision (Action 12 & 13)													
4	Supporting Securities & Exchange Commissions (Action 14 & 15)													
5	Supporting Publication & Filing of Financial Statements (Action 16 & 17)													
6	Establishing, Developing and Supporting the Oversight of the Audit Profession (Action 18, 19 & 20)													
7	Supporting the Auditing Professional Organizations (Action 21)													
8	Enhancing the Educational Program for Auditors (Action 22)													
9	Enhancing the Continuous Professional Educational Program for Auditors (Action 23)													
10	Enhancing the Quality Assurance Program for Auditors (Action 24)													
11	Enhancing the Disciplinary Program for Auditors (Action 25)													
12	Supporting the Public Registry of Auditors (Action 26)													
13	Supporting External Relationships for the Auditing Profession (Action 27)													

7 PLANNED IMPLEMENTATION OF THE STRATEGY AND ACTION PLAN

The SC has considered the method of approval for the strategy and action plan and the role of SC itself in the implementation phase. The strategy and action plan will be formally presented to the State and Entity Ministries of Finance. Subject to sufficient funding and full acceptance of the strategy and action plan by the State and Entity Ministries of Finance, a project board will be formed to implement the plan.

We have documented this information in [Figure 7-1: Approval & implementation of strategy and action plan](#)

Figure 7-1: Approval & implementation of the strategy and action plan

FORMAL PRESENTATION OF COUNTRY STRATEGY & ACTION PLAN TO MINISTRY OF FINANCE

ACCEPTANCE OF COUNTRY STRATEGY & ACTION PLAN BY MINISTRY OF FINANCE

FORMATION OF PROJECT UNIT BY MINISTRY OF FINANCE

PROJECT IMPLEMENTATION UNIT

NATIONAL STEERING COMMITTEE (ADVISORY COUNCIL TO PROJECT UNIT & MINISTRY OF FINANCE)

KEY PROJECT PILLAR 1
STATUTORY ACTIONS

- ALIGNMENT OF CORPORATE FINANCIAL REPORTING FRAMEWORK (S)
- SUPPORT THE DISSEMINATION OF THE AUDIT PUBLICATIONS OF THE EU (S)
- ALIGNMENT OF BANK FINANCIAL REPORTING REQUIREMENTS (S)
- ORGANIZING THE RELATIONSHIP BETWEEN ANNUAL ACCOUNTS AND CORPORATE INCOME TAX REPORTING (S)
- FINANCIAL REPORTING FOR INSURANCE UNDERTAKINGS (S)
- FINANCIAL REPORTING FOR LISTED ENTITIES (S)
- PUBLICATION AND FILING OF FINANCIAL INFORMATION (S)

KEY PROJECT PILLAR 2
INSTITUTIONAL ACTIONS

- IMPLEMENT THE CORPORATE FINANCIAL REPORTING FRAMEWORK (I)
- ENHANCEMENT OF THE IFRS TRANSLATION PROCESS (I)
- SUPPORTING THE IFRS TRANSLATION PROCESS (I)
- ENHANCEMENT OF THE TRANSLATION PROCESS FOR AUDITING STANDARDS (I)
- SUPPORTING THE TRANSLATION OF AUDITING STANDARDS (I)
- INSTITUTIONAL STRENGTHENING FOR BANK SUPERVISION (I)
- SUPPORTING THE INSURANCE REGULATOR (I)
- INSTITUTIONAL STRENGTHENING OF THE TAX AUTHORITIES (I)
- SUPPORTING THE INSURANCE SUPERVISORY FUNCTION (I)
- SUPPORTING THE FBII & RS SECURITIES AND EXCHANGE COMMISSIONS (I)
- SUPPORTING THE FILING OF STATEMENTS (I)
- ESTABLISHING OVERSIGHT OF THE AUDITING PROFESSION (I)
- DEVELOPING OVERSIGHT OF THE AUDITING PROFESSION (I)
- CAPACITY BUILDING SUPPORT TO THE OVERSIGHT FUNCTION (I)
- CAPACITY BUILDING TO SUPPORT THE AUDITING PROFESSION (I)
- ENHANCEMENT OF THE EDUCATIONAL PROGRAM FOR AUDITORS (I)
- ENHANCEMENT OF AUDITORS CONTINUING PROFESSIONAL EDUCATION (I)
- ENHANCEMENT OF THE QUALITY ASSURANCE (QA) PROGRAM FOR AUDITORS (I)
- ENHANCEMENT OF THE DISCIPLINARY PROGRAM FOR AUDITORS (I)
- PUBLIC REGISTER FOR STATUTORY AUDITORS (I)
- EUROPEAN & INTERNATIONAL RELATIONSHIPS FOR THE AUDITING PROFESSION (I)
- SUPPORT TO THE THIRD LEVEL ACCOUNTANCY CURRICULUM (I)
- SUPPORT IMPLEMENTATION OF AN IMPROVED THIRD LEVEL CURRICULUM (I)
- TRAINING FOR THE JUDICIARY (I)
- PUBLIC AWARENESS PROGRAM (I)