

Opening Statement

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Governor, Ministers, Ladies, and Gentlemen:

Governor, thank you for hosting this workshop on the Review of Accounting and Auditing Practices within the ROSC Initiative. Your opening statement sends a very strong message to all of us in attendance and emphasizes that you recognize the importance of the agenda.

When historians look back on the final quarter of the 20th century, they will no doubt regard it as a defining period in the evolution of global financial arrangements. Advances in information technology and the ascendancy of free market principles supported the transformation from a government-led to a market-led global financial system. At the same time, we became aware during this period of the emergence of financial instability as a key policy concern.

The question of how to ensure financial stability rises to the top of the international policy agenda. The answer is to build the foundations of the financial system of the 21st century into a system that is better capable of promoting robust improvements in living standards within an open international economic and political order.

An approach to this objective is to develop and implement a set of codes or standards that pertain to key elements of the financial system infrastructure, and at the same time seek global acceptance of these codes and standards. The codes and standards define the “rules of the game” of a well-functioning and sound financial system. This endeavor has come to be known, somewhat grandiosely, as building an international financial architecture.

The objective of the new international financial architecture is to ensure the public is provided with reliable and essential information about the financial condition, performance, and risk profiles of a country’s enterprises. The Reports on the Observance of Standards and Codes, or ROSC, and more specifically the accounting and auditing review module was born in this context. Financial statements prepared and

audited in accordance with reliable accounting and auditing standards is one of the pillars of this new international financial architecture.

However, enhancing the quality of corporate financial reporting is not only important for achieving financial stability; it is also an important driver of economic growth, particularly private sector growth. In fact, empirical studies have pointed to a causal link between financial development and economic growth; it has also been found that finance-driven growth lowers poverty. Over the long run, this translates into long-term prosperity and the improvement of living standards for your citizens.

In this international context, I would like to underline the proactive role of the National Bank of Bosnia and Herzegovina, the government, and their private sector partners. Bosnia and Herzegovina has expressed its willingness to conduct the ROSC accounting and auditing module within the ROSC review, as done by other countries in the region, including Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Poland, the Slovak Republic, and Slovenia. In partnership with the World Bank, Bosnia and Herzegovina has undertaken an assessment of its accounting and auditing standards and practices in order to improve and enhance the quality of financial reporting throughout the country.

The diagnostic review completed this past June and the policy recommendations made in the ROSC accounting and auditing review have laid the foundation for a reform agenda and a concrete action plan. Specifically, the key policy recommendations set forth in the ROSC include:

- The review and harmonization of the statutory framework with the relevant portions of the *acquis communautaire*,
- The adoption of a unified accounting framework, which will result in transparent and reliable financial reporting, and will reduce the cost of doing business in Bosnia and Herzegovina, and
- An increase in the accountability of preparers of financial statements.

These reforms need to be squarely addressed. We understand the task is a broad one; however, it is necessary not only for its own sake, but also for a closer approximation to the European Union. Furthermore, please remember that the reforms undertaken as a result of the ROSC recommendations will not occur in a vacuum; they will be sustained by the REPARIS project, a regional program of technical assistance aimed at creating a transparent policy environment and effective institutional framework for corporate reporting in South East and South Central Europe. The program would be designed around the introduction, implementation, and effective enforcement of relevant portions of the EU's *acquis communautaire*. So, as you can see, you are not alone in this endeavor. We, at the World Bank, are honored to be involved in facilitating the reform process.

I would like to conclude with a simple message. A high-quality financial reporting system, which entails accounting and auditing standards, as well as a statutory and institutional framework to implement and enforce such standards, is only a means to an end. Ultimately, the goal is to enhance the corporate financial reporting system in order to achieve stability of the financial system and increased private sector growth.

Progress is being made, but much needs to be done. Progress requires the active cooperation of all parties with a stake in the process. Progress will be made if the current momentum is maintained and, if possible, enhanced. We have before us a window of opportunity; don't shut it.

Thank you.