



CENTRAL BANK OF BOSNIA AND HERZEGOVINA

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WORLD BANK REPORT ON THE ASSESSMENT OF THE OBSERVANCE
OF ACCOUNTING AND AUDITING STANDARDS AND CODES IN BIH.

CBBH, SARAJEVO, 20 OCTOBER, 2004.

INTRODUCTORY COMMENTS BY PETER NICHOLL, GOVERNOR,
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I WELCOME ALL OF YOU TO THE CBBH AND TO THIS IMPORTANT PRESENTATION. I WANT TO THANK THE WORLD BANK FOR CARRYING OUT THIS ASSESSMENT OF THE ACCOUNTING, FINANCIAL REPORTING AND AUDITING PRACTICES WITHIN THE ENTERPRISE AND FINANCIAL SECTORS IN BIH.

WHAT ARE SOME OF THE KEY ECONOMIC POLICY AIMS IN BIH? BIH IS ENDEAVOURING TO ESTABLISH A MARKET-BASED, PRIVATE SECTOR-LED ECONOMY; BIH IS TRYING TO DEVELOP BROADER AND DEEPER FINANCIAL MARKETS; BIH IS TRYING TO ATTRACT MORE FOREIGN DIRECT INVESTMENT; BIH IS PROGRESSIVELY MOVING TOWARDS EUROPEAN STANDARDS IN ALL AREAS WITH THE EVENTUAL AIM OF JOINING THE EUROPEAN ECONOMIC AND CURRENCY ZONE.

PROGRESS IN ALL OF THESE CRITICAL AREAS DEPENDS ON INVESTORS, MANAGERS, FINANCIAL INSTITUTIONS AND POLICY-MAKERS HAVING ACCESS TO SOUND AND VERIFIED FINANCIAL AND ACCOUNTING DATA. WITHOUT THIS SOUND DATA, INVESTMENT AND MANAGEMENT DECISIONS WILL BE BASED ON GUESSWORK, INFLUENCE AND OTHER ARBITRARY ALLOCATION METHODS. AS A RESULT, MUCH OF THE COUNTRY'S SCARCE ECONOMIC RESOURCES WILL BE WASTED.

GIVEN HOW IMPORTANT SOUND ACCOUNTING AND AUDITING PRACTICES ARE FOR A COUNTRY'S ECONOMIC PERFORMANCE, THE WORLD BANK'S LARGELY NEGATIVE ASSESSMENT OF THE CURRENT ACCOUNTING AND AUDITING STANDARDS IN BIH IS VERY WORRYING. I DO NOT WANT TO COVER ALL THE ISSUES THAT THE PRESENTERS WILL GO OVER LATER. BUT A FEW OF THE MAIN CONCLUSIONS OF THEIR REPORT WILL ILLUSTRATE WHY IT WORRIES ME:

- THE TWO ENTITIES HAVE DIFFERENT ACCOUNTING AND AUDITING REGULATORY FRAMEWORKS;
- ENTERPRISES REGISTERED IN BOTH ENTITIES ARE REQUIRED TO MAINTAIN TWO SETS OF ACCOUNTING RECORDS AND ARE SUBJECT TO DIFFERENT ACCOUNTING

AND FINANCIAL REPORTING REQUIREMENTS WHICH SUBSTANTIALLY ADDS TO THE COST OF DOING BUSINESS IN BIH AND IMPEDES INVESTMENT AND PRIVATE SECTOR GROWTH;

- **COMPLIANCE WITH ACCOUNTING REQUIREMENTS IS NOT EFFECTIVELY AND CONSISTENTLY ENFORCED;**
- **MANAGERS AND AUDITORS DO NOT CONSISTENTLY COMPLY WITH ACCOUNTING AND AUDITING REQUIREMENTS.**

THESE ARE VERY SERIOUS CONCLUSIONS. IT IS NOT POSSIBLE TO OVERESTIMATE THE ECONOMIC AND REPUTATIONAL DAMAGE THEY DO TO BIH. WHAT I WOULD ALSO LIKE TO EMPHASISE IS THAT THE PROBLEMS ARE, IN MY VIEW, ALSO RELATIVELY EASY TO OVERCOME IF THERE IS A COORDINATED AND SERIOUS EFFORT BY THOSE WHO PASS THE ACCOUNTING REGULATIONS IN BIH, THOSE WHO USE THEM AND THOSE WHO MONITOR AND ENFORCE THEM. WHY DO I MAKE SUCH A CLAIM? I DO NOT LIKE TO BRAG – BUT I AM GOING TO. THE CBBH HAS OVERCOME ALL OF THESE PROBLEMS. WE APPLY INTERNATIONALLY-RECOGNISED ACCOUNTING PRINCIPLES IN OUR FINANCIAL ACCOUNTS AND REPORTS. WE HAVE RECEIVED UNQUALIFIED AUDIT REPORTS FROM OUR EXTERNAL AUDITOR FOR SEVERAL YEARS. AN ACADEMIC STUDY DONE IN THE US TWO YEARS AGO CONCLUDED THAT ONLY SIXTEEN CENTRAL BANKS IN THE WORLD HAD PUBLISHED FINANCIAL REPORTS THAT WERE FULLY TRANSPARENT – WE WERE ONE OF THE SIXTEEN. WE HAVE RECENTLY HAD A SAFEGUARDS ASSESSMENT REPORT OF OUR ACCOUNTING AND AUDITING POLICIES AND PROCEDURES COMPLETED BY AN IMF MISSION. THE MISSION HEAD SAID HE HAD DONE THIS TASK IN 90 CENTRAL BANKS AND THE CBBH WAS AMONG THE BEST FIVE HE HAD SEEN.

ALL OF MY ACCOUNTING AND AUDITING STAFF ARE BOSNIAN. WE HAVE RECEIVED TECHNICAL ADVICE AND SUPPORT FROM TIME TO TIME BUT THESE SOUND ACCOUNTING AND AUDITING PRACTICES HAVE BEEN PUT IN PLACE IN THE CBBH BY MY BOSNIAN STAFF. I THEREFORE CONCLUDE THAT IT CAN BE DONE ELSEWHERE AS WELL.

THE WORLD BANK REPORT DOES SAY THAT ‘A NEW STATE ACCOUNTING AND AUDITING LAW IS UNDER PREPARATION WHICH WILL ADDRESS SOME BUT NOT ALL OF THE ISSUES IDENTIFIED IN THIS REPORT.’ AS I UNDERSTAND IT, THIS LAW HAS NOW BEEN PASSED AND GAZETTED. THIS SEEMS TO BE AN IMPORTANT STEP FORWARD AND I WOULD APPRECIATE IT IF THE WORLD BANK PRESENTERS COULD CONFIRM THIS. I WOULD

ALSO APPRECIATE IT IF THEY COULD PRIORITISE THE OTHER ACTIONS WE NEED TO TAKE AND TELL US WHERE TO FOCUS FIRST.

WHILE IT IS IMPORTANT TO HAVE A SOUND LEGAL FRAMEWORK THAT EMBODIES INTERNATIONALLY- ACCEPTED ACCOUNTING STANDARDS, THERE IS A LOT THAT THE ACCOUNTING AND AUDITING PROFESSIONS CAN AND MUST DO THEMSELVES. THE WORLD BANK REPORT CONCLUDES THAT THE PROFESSIONS DO NOT ALWAYS COMPLY WITH THE CURRENT STATUTORY REQUIREMENTS. CHANGING THE STATUTORY REQUIREMENTS IS THEREFORE A NECESSARY STEP TO IMPROVE ACCOUNTING AND AUDITING PRACTICES IN BIH BUT ON ITS OWN NOT SUFFICIENT. THE ACCOUNTING AND AUDITING PROFESSIONS ALSO HAVE TO IMPROVE THEIR OWN TRAINING AND PRACTICES TO ENSURE THAT THE NEW STANDARDS ARE UNDERSTOOD AND IMPLEMENTED.

THERE IS ALSO A LOT THAT THE MANAGERS OF ENTERPRISES AND FINANCIAL INSTITUTIONS CAN AND SHOULD DO. YOU CAN ADOPT AND ENFORCE INTERNATIONALLY- ACCEPTED PRACTICES IN YOUR INSTITUTION NOW. YOU DO NOT NEED TO WAIT FOR THE LAW TO REQUIRE YOU TO DO THIS. THESE INTERNATIONAL STANDARDS ARE IN THE BEST INTERESTS OF THE PRIVATE SECTOR. I AM SURE SOME BUSINESSES HAVE ALREADY ADOPTED THEM. I WOULD URGE MORE TO DO SO QUICKLY. THAT IS THE WAY A PRIVATE SECTOR ECONOMY WORKS. THEY TAKE THE INITIATIVE TO DO THINGS THAT ARE IN THEIR OWN BEST INTERESTS. IF IT REQUIRES A LEGISLATIVE BASIS, THEY LOBBY THE POLITICIANS TO ADOPT THE REQUIRED LEGISLATION. THEY DO NOT WAIT FOR IT TO BE 'IMPOSED' ON THEM.

SO IN ORDER TO BRING BIH ACCOUNTING AND AUDITING PRACTICES UP TO INTERNATIONAL STANDARDS, EVERYBODY NEEDS TO PLAY A POSITIVE ROLE: POLICY-MAKERS, THE PROFESSIONS, AND BUSINESS MANAGERS. THIS REPORT IS A CLEAR INDICATION OF HOW FAR BIH HAS TO GO IN THIS AREA. IT NEEDS TO BE TAKEN VERY SERIOUSLY AND ITS RECOMMENDATIONS IMPLEMENTED AS SOON AS POSSIBLE.