NATIONAL STEERING COMMITTEE

A country strategy and action plan for reforms in the accounting and institutional strengthening in the Republic of Macedonia

June 2006
# ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>A&amp;A</td>
<td>Accounting and Auditing</td>
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<tr>
<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>CAOA</td>
<td>Council for the Advancement and Oversight of Auditing</td>
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<td>CC&amp;A</td>
<td>Chambers of Commerce &amp; Associations</td>
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<td>CEBS</td>
<td>Committee of European Banking Supervisors</td>
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<td>CEIOPS</td>
<td>Committee of European Insurance and Occupational Pensions Supervisors</td>
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<tr>
<td>CESRfin</td>
<td>Committee of European Securities Regulators – Operational Group on Financial Reporting</td>
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<td>CPD</td>
<td>Continuing Professional Development</td>
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<td>CR</td>
<td>Central Registry</td>
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<td>EU</td>
<td>European Union</td>
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<td>FBE</td>
<td>European Banking Federation</td>
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<td>FEE</td>
<td>European Federation of Accountants</td>
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<td>GDLN</td>
<td>Global Development Learning Network</td>
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<td>IAASB</td>
<td>International Auditing and Assurance Standards Board</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<td>IAPC</td>
<td>International Auditing Practices Committee</td>
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<td>IAPS</td>
<td>International Auditing Practice Statement</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IASCF</td>
<td>International Accounting Standards Committee Foundation</td>
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<td>ICA</td>
<td>Institute of Certified Auditors</td>
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<td>IES</td>
<td>International Education Standards</td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
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<td>IFRIC</td>
<td>International Financial Reporting Interpretation Committee</td>
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<td>International Financial Reporting Standards</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<td>MoE</td>
<td>Ministry of Economy</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MoF-IS</td>
<td>Ministry of Finance, Department of Insurance Supervision</td>
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<td>MoJ</td>
<td>Ministry of Justice</td>
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<td>NBRM</td>
<td>National Bank of the Republic of Macedonia</td>
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<td>NSC</td>
<td>National Steering Committee</td>
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<td>PRO</td>
<td>Public Revenue Office</td>
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<td>QA</td>
<td>Quality Assurance</td>
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<td>REPARIS</td>
<td>Road to Europe – Program of Accounting Reform and Institutional Strengthening</td>
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<td>ROSC</td>
<td>Report on the Observance of Standards and Codes</td>
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<td>SCE</td>
<td>CESRfin Sub-committee on Enforcement</td>
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<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
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<td>SEEPAD</td>
<td>South Eastern European Partnership on Accountancy Development</td>
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<td>SIC</td>
<td>Standing Interpretation Committee</td>
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<td>SISE</td>
<td>CESRfin Sub-committee on International Standards Endorsement</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>SMOs</td>
<td>Statements of Membership Obligations</td>
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<td>XBRL</td>
<td>eXtensible Business Reporting Language</td>
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APPENDIX B – WORLD BANK REPORT ON THE OBSERVANCE OF STANDARDS & CODES (ROSC) FOR THE REPUBLIC OF MACEDONIA

APPENDIX C – OFFICIAL MACEDONIAN GOVERNMENT DECISION TO ESTABLISH THE NATIONAL STEERING COMMITTEE

APPENDIX D – ADDITIONAL INFORMATION DETAILING ESTIMATED STRATEGY EXPENDITURE
1 EXECUTIVE SUMMARY

1.1 Introduction

This paper sets forth a country strategy and action plan to enhance the quality of financial reporting in the Republic of Macedonia (Macedonia). The strategy was developed by a National Steering Committee (NSC) comprised of public and private sector stakeholders with an interest in financial reporting which was established in 2005\(^1\). This country strategy and action plan set out a clear program of reforms to enhance Macedonia’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 financial reporting

The enhancement of 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 financial reporting in Macedonia will have a significant and positive impact on the economy by:

- Reducing the risk of financial market crises and their associated negative economic impacts by strengthening the domestic financial architecture;
- Contributing to 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 financial reporting in Macedonia

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

\(^1\) See Appendix C for decision to establish National Steering Committee
benchmark is the *acquis communautaire*\(^2\) relating to company law, financial reporting, auditing, financial markets, and financial institutions complemented as detailed on page 28 (Section 2.5), by International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA) and good international practice. Proper transposition and implementation of the *acquis communautaire* has become even more important after the European Union (EU) granted Macedonia candidate status on December 17, 2005.

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

The NSC has borne in mind Macedonia’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 NSC has decided to set out reform activities that, while challenging, can be carried out in the short to medium term.

The NSC has also had regard to the 2003 World Bank Report on the Observance of Standards and Codes (ROSC\(^3\)) on accounting and auditing in Macedonia. The ROSC policy recommendations were agreed between the World Bank, the Ministry of Finance and country stakeholders and thus formed a significant platform on which to develop a country strategy and action plan.

### 1.4 The strategy to achieve enhanced financial reporting

\(^2\) 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).

\(^3\) See Appendix B for the complete ROSC report.
The benefits of enhanced financial reporting are significant. The actions required to achieve these benefits are also considerable. The NSC has identified a number of high-level objectives that form the basis for the country strategy to be delivered by the individual actions set out in the plan.

1) Enhancing the Framework for Financial reporting;
2) Strengthening Key Stakeholders in the Financial Reporting Framework;
3) Supporting the Audit Profession;
4) 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 NSC undertook a review of the current financial reporting regime in Macedonia. 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 recommendations and of the outstanding issues that still need to be addressed.

With respect to the institutional framework the NSC has identified a number of key stakeholders that will play a crucial role in implementing the country strategy and action
plan. The Ministry of Finance (MoF), the National Bank of the Republic of Macedonia (NBRM), the Securities and Exchange Commission (SEC), the Public Revenue Office (PRO), the Insurance Supervisory Department (ISD), the Central Registry (CR), the Institute of Certified Auditors (ICA), the Council for the Advancement and Oversight of Auditing (CAOA), the Commercial Banking Association, 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 Financial reporting**

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

In developing the financial reporting framework the primary goal is to provide a balanced approach to financial reporting and auditing requirements in Macedonia, that 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.

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 financial reporting requirements in primary and secondary legislation with those of the *acquis communautaire* will significantly encourage the development of an enhanced financial reporting framework in Macedonia (*Action 1*).
An effective financial reporting environment is underpinned by suitable financial reporting (accounting) standards.

The adoption of financial standards conductive to transparent financial reporting will help preparers and users of financial statement in Macedonia. Suitable financial reporting standards must address the needs of different types of entities, such as public interest entities and small & medium enterprises.

The development of a framework for the on-going and continuous adoption of suitable financial reporting standards in Macedonia, through the development of a body to coherently manage this process, will address a fundamental weakness in the financial reporting framework – the lack of suitable available financial reporting standards (Action 2). Supporting the preparation of procedures and processes to facilitate that structure addressing the on-going translation requirements for financial reporting standards in Macedonia (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 additional separate activities which will support high-quality financial reporting in Macedonia.

**Strengthening Key Stakeholders in the Financial Reporting Framework**

This strategy took account of the experience of relevant EU Member States in recognizing
that an enhanced financial reporting must be implemented and enforced by suitably resourced institutions. For example the National Bank of the Republic of Macedonia has a key role to play in enforcement of IFRS through its own 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 financial reporting framework to produce high-quality financial reporting in Macedonia.

Strengthening Key Stakeholders in the Corporate Reporting Framework

- Figure 1-3: Strengthening Key Stakeholders in the Financial Reporting Framework

The banking sector as a whole represents an important segment of both preparers and users of financial reporting in Macedonia and thus is a critical area in which to establish the expectation for and delivery of good quality financial reporting.

For the National Bank of the Republic of Macedonia 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 5*). The strategy would offer significant support to the Supervisory Department of the NBRM to strengthen the institutional capacity to supervise, monitor and enforce the application of IFRS in banking financial reporting (*Action 6*).
Resources used to build capacity within the Commercial Banking Association will in the longer term allow for the development of a key partner to the NBRM, creating a culture of compliance and ultimately enhanced financial reporting within the sector. For the Commercial Banking Association the strategy will support the development of strong cooperation among commercial banks and other key stakeholders in addition to fostering the dialogue with the NBRM in relation to the strengthening of financial reporting in commercial banks (Action 7).

Tax reporting in Macedonia currently uses a significant proportion of the accounting capabilities of the country. 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 Macedonia, leading in the longer-term to enhanced financial reporting. For the Public Revenue Office 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 8). 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 9).

Developing key specialized financial sectors in areas including insurance and pensions is a strategic goal for any country aspiring to develop a robust and growing economy. Such specialist areas require specialist financial reporting and supervision. For the Insurance Supervisory Department of the Ministry of Finance, 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 10). 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 Macedonia (Action 11).

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 the Securities and Exchange Commission the strategy would support and develop the legislative and regulatory framework for listed entities (Action 12). 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 Macedonia. This culture can be exported to the wider financial sector and beyond in the longer term (Action 13).
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 they can be obtained quickly and easily by the public. For the Central Registry the strategy would ensure that Macedonian 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 14*). 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 15*). 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 financial 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 financial reporting requirements. The statutory audit of selected annual accounts and consolidated accounts (for example public interest entity annual accounts) is another effective method for encouraging adherence to financial reporting standards.

Macedonia is currently missing this essential pillar for ensuring the quality and consistency of financial reporting - 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 Macedonia 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 Macedonia. In addition effective public oversight over the audit profession is a vital element in the maintenance and enhancement of confidence in the audit function.

The new audit law has mandated a structure to undertake these activities. This strategy will support the design, establishment and development of the Council for the Advancement & Oversight of Audit (CAOA) 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 16, 17 & 18). The program of support will help to ensure that the CAOA will develop as an effective and efficient organization that will be capable of fulfilling its legislative mandate in addition to underpinning the regulatory structure of the auditing profession in Macedonia in the longer-term.
In directly supporting the audit profession this strategy will assist the establishment and development of the newly formed Institute of Certified Auditors (ICA) in Macedonia. This will include firstly supporting the three-member commission mandated in the special provisions of the Audit Law to facilitate a transition from the current unstructured auditing environment to the initiation of the ICA in Macedonia (Action 19). Secondly to assist the ICA in designing structured processes and procedures that will allow for the development of a *modus operandi* of the organization that is effective, efficient and in line with international good practice (Action 20) and finally to support the ICA in building sufficient capacity for the efficient and effective implementation of the structured processes and procedures identified by this strategy (Action 21).

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 ICA, 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 Macedonia along with all the associated benefits that such an improvement would bring (Action 22 & Action 23).

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 design, implementation and on-going development of such an educational program under the control of the ICA as a key activity under this strategy (Actions 24, 25 & 26).

This strategy has identified the long-term development of the audit profession in Macedonia 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 ICA members’ employability and their reputation with employers, clients and the public. It will also help maintain the ICA reputation for producing and supporting high caliber professionals. This strategy has identified the design, implementation and on-going development of such a continuing professional development program under the control of the ICA as a key activity under this strategy (Actions 27, 28 & 29).

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. Designing, implementing and supporting a suitable quality assurance program will be a positive step in this direction for the auditing profession in Macedonia. It also allows the profession to encourage quality improvements in auditing methods (Actions 30, 31 & 32).

Designing, implementing and supporting a suitable sanction and disciplinary program that will support the quality assurance activities of the ICA 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 33, 34 & 35).

The public registration of statutory auditors is an important step in building public confidence in the profession and in establishing the ICA as the organized professional body mandated to lead the profession. This 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 ICA in the regulation of the profession on an on-going basis (Actions 36, 37 & 38).

The old Auditing Law, in the time it was passed, did not anticipate the possibility for verifying certificates of the certified auditors who have obtained them through following the certification programs by renowned professional associations (ACCA and others). These professionals are involved in the auditing profession through the Big Four, but, unfortunately, they still haven’t obtained local certificate for certified auditor. Due to lack of regulation the Ministry of Finance was not in a position to make this step and accept these experts as equivalent to domestic. The strategy covers the need of making a balance between the offer of statutory auditors on one hand and the demand for statutory audits in Republic of Macedonia, on the other hand. By the accepted solutions from the New Eight Directive for Business Law related to the verifying of the qualifications obtained through professional associations in the EU member states, the new Auditing Law commences this process. This strategy will support the process of verification through institutional strengthening of the ICA and the Ministry of Finance, in which authority this complex
question is included. The activation of all human resources in the auditing profession, without any doubt, will improve the quality of financial statements auditing in Macedonia (Action 39).

To help drive internal improvements and to encourage the efficient and effective running of the ICA, the development of relationships with similar regional auditing institutes, will be very critical to the development of the audit profession in Macedonia. This strategy will support the development of external relationships for the ICA at Regional and European Union level (Action 40)

**Supporting Education, Training & Public Awareness**

Financial reporting plays a crucial role in a well functioning modern economy. A clear understanding, by future generations of the Macedonian 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 Macedonian economy in the future.

![Figure 1-5: Supporting Education, Training & Public Awareness](image-url)
This understanding is developed by a strong curriculum in accounting and auditing at the third level of education in Macedonia. 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 financial reporting (Action 41 & 42).

The understanding of 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 require a well-designed and implemented training program that would increase judges understanding of the importance of good financial reporting and the responsibilities and rights of relevant stakeholders (Action 43).

Promoting awareness of good financial disclosure and transparency in respect of financial reporting will in the long term lead to increased confidence in financial reporting in Macedonia, increase the public demand for good financial 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 Macedonia. A well-designed and implemented public awareness program that would increase the public demand for good financial reporting in Macedonia (Action 44).
1.5 Funding requirements for the strategy and country action plan

When addressing budget and resource requirements, the NSC 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 NSC 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 NSC 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 Macedonia to share experiences with relevant countries in the region and deliver economies of scale in specific technical areas. The NSC has identified the World Bank Road to Europe – Program of Accounting Reform and Institutional Strengthening (REPARIS) as a vehicle for the delivery of regional technical assistance\(^4\).

![Breakdown of total strategy expenditure by cost type](image)

Below we are detailed the estimated strategy costs by action and by cost type. The total strategy cost is estimated at €7,360,000. Below this expenditure is broken down into cost

\(^4\) Please refer to [www.worldbank.org/reparis](http://www.worldbank.org/reparis) for additional details
types. The total estimated expenditure on operational support for this strategy is €1,760,000. The total estimated cost for technical support is €4,220,000 and the total estimated cost for direct hardware, software and equipment costs is estimated at €1,380,000.

<table>
<thead>
<tr>
<th>Action</th>
<th>Operational</th>
<th>Technical</th>
<th>Hardware/Software, Equipment</th>
<th>Total Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Enhancing the Framework for Financial reporting</td>
<td>€195,000</td>
<td>€180,000</td>
<td>€110,000</td>
<td>€485,000</td>
</tr>
<tr>
<td>2) Strengthening Key Stakeholders in the Financial Reporting Framework</td>
<td>€60,000</td>
<td>€1,920,000</td>
<td>€800,000</td>
<td>€2,780,000</td>
</tr>
<tr>
<td>3) Supporting the Audit Profession</td>
<td>€695,000</td>
<td>€1,610,000</td>
<td>€470,000</td>
<td>€2,775,000</td>
</tr>
<tr>
<td>4) Supporting Education, Training &amp; Public Awareness</td>
<td>€810,000</td>
<td>€510,000</td>
<td>-</td>
<td>€1,320,000</td>
</tr>
<tr>
<td>Total Costs</td>
<td>€1,760,000</td>
<td>€4,220,000</td>
<td>€1,380,000</td>
<td>€7,360,000</td>
</tr>
</tbody>
</table>

Table 1-1: Strategy costing by Action and 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 financial reporting framework. There are 4 individual actions under this project. The total estimated cost of these actions is €485,000.
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 11 individual actions under this project. The total estimated cost of these actions is €2,780,000.
In Figure 1.9 we have detailed the estimated strategy costs by activity for the support of the audit profession. There are 25 individual actions under this project. The total estimated cost of these actions is €2,775,000.

![Project Expenditure for Supporting the Audit Profession](image)

**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 €1,320,000.
1.6 The implementation of the country strategy and action plan

For each action presented on page 48, 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 country strategy and action plan are also intended to be the basis for discussions on technical assistance with development partners. Now that the country 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 Minister of Finance should decide on the remit of such an advisory group.

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

Please refer to Appendix D for addition information relating the estimated cost of this strategy.
2 INTRODUCTION

2.1 The Strategic context

A sound 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 financial reporting in Macedonia 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 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 financial reporting. In contrast good financial reporting is conducive to financial sector development and private sector development, which in turn spur economic growth. The relationship between high quality 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 Macedonia. Macedonia’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 Macedonia 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. 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 2003, a World Bank team prepared a Report on the Observance of Standards and Codes (ROSC) on accounting and auditing (A&A) in Macedonia. The ROSC policy recommendations were agreed between the World Bank, the Ministry of Finance and country stakeholders. It was also agreed that a detailed country strategy and action plan would be developed and implemented on the basis of these policy recommendations. The country strategy and action plan, to be developed by in-country stakeholders, was to be implemented under the coordination of the Ministry of Finance and with assistance from development partners.

As an immediate response to the A&A ROSC, Macedonia undertook a significant reform of its audit legislation resulting in the enactment of a new audit law based on the acquis communautaire.

Following on from the A&A ROSC report and the preparation of the new audit law, the Ministry of Finance in Macedonia set up a National Steering Committee (NSC) to develop a country 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 financial reporting. The developments to date are mapped in Figure 2-1: Reform path to date.

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5 See Appendix C for the decision of the Ministry of Finance to establish the NSC.
The NSC is made up by a multi-disciplinary group of public and private sector stakeholders with an interest in 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 NSC were to support the preparation of a country 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 NSC’s work.

This country strategy and action plan is intended to be the basis for discussions on technical assistance with development partners. With the completion of the country action plan, there will be a need for an advisory group to provide assurance on the implementation of the reforms. The Minister 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 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 financial reporting.

![Figure 2-2: The importance of high quality financial reporting](image)

This country strategy and action plan is about better 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 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 NSC has identified areas of work that require substantial strengthening in Macedonia 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 country 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 Macedonian 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 Macedonia.

For the institutional framework the NSC 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 financial reporting framework in Macedonia. For example the Ministry of Finance, the Institute of Certified Auditors, and the Central Registry have very direct roles to play in certain areas of the financial reporting framework while for example the Chamber of Commerce and the Banking Association have less direct but, nonetheless, important roles to play.

2.5 Benchmarks

As illustrated in Figure 2-5, the NSC’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.

The **acquis communautaire**

The relevance of the **acquis communautaire** for Macedonia 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 Macedonia’s strategy to become part of the European Union. This has become of increased importance now the EU has granted the Republic of Macedonia candidate status.

In this regard two factors have influenced the NSC in developing this strategy and action plan. Firstly, with regard to enforcement it is anticipated that Macedonia will need to demonstrate that it has not only adopted the **acquis communautaire** in law (statutory framework) but also that Macedonia has taken measures to ensure the **acquis communautaire** is actually implemented (institutional framework). Secondly, the NSC 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 Macedonia’s legal framework, institutions, and accounting profession, as well as changes in its accounting, auditing and business culture. This country strategy and action plan sets out a number of reform activities developed in a holistic manner with due regard to Macedonia’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 NSC 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 NSC has also had regard to IFRS as a benchmark.\(^6\) The NSC agrees with the ROSC report recommendation that IFRS are generally meaningful for Public Interest Entities (PIE)\(^7\) and would be too burdensome in most SMEs. Therefore, the fact that the NSC uses IFRS as a benchmark does not imply that IFRS is suitable for all companies. The NSC 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 NSC 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);\(^8\)
- The Code of Ethics for Professional Accountants;\(^9\)
- International Educational Standards (IES);\(^10\) and

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

7 Within this paper the term public interest entity is used to refer to those entities in which the general public has an interest by virtue of the nature of their business (e.g., banks, insurance undertakings, etc.), their size, or their range of stakeholders.

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

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

10 International Education Standards are developed by the International Accounting Education Standards Board of IFAC.
• Statement of Membership Obligations (SMOs).\textsuperscript{11}

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

\textbf{Good international practice}

Finally the NSC has drawn on examples of good international practice as a useful reference for developing the country strategy and action plan. Thanks to the technical assistance provided, for example by the World Bank “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 NSC has gathered examples of good international practice and drawn on this knowledge to understand:

• How EU Member States have adopted and implemented the \textit{acquis communautaire},\textsuperscript{12} and

• In areas where the \textit{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 as show in Figure 2-6: A&A ROSC Findings.

\textsuperscript{11} 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.

\textsuperscript{12} 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 Germany, France, Ireland, Slovenia, and the Slovak Republic.
The relevant portions of the acquis communautaire

The NSC has reviewed the acquis communautaire and identified Chapter 6, Company Law, as particularly relevant to the establishment of a robust financial reporting framework. Figure 2-7 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.”

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Strategy and Action Plan to Enhance Financial reporting in the Republic Macedonia

**Figure 2-7: Corporate Sector Accounting and Auditing within the Acquis Communautaire**

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

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<table>
<thead>
<tr>
<th>LEGISLATION</th>
<th>ACCOUNTING</th>
<th>AUDITING</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) ANNUAL ACCOUNTS DIRECTIVE (78/660/EEC)</td>
<td>(L) STATUTORY AUDIT DIRECTIVE</td>
<td></td>
</tr>
<tr>
<td>(B) CONSOLIDATED ANNUAL ACCOUNTS DIRECTIVE (83/349/EEC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANKING</td>
<td>INSURANCE</td>
<td>CAPITAL MARKETS</td>
</tr>
<tr>
<td>(C) BANKING ACCOUNTS DIRECTIVE (86/635/EEC)</td>
<td>(E) INSURANCE ACCOUNTS DIRECTIVE (91/674/EEC)</td>
<td>(G) IFRS REGULATION (NO. (EC) 1606/2002 INCLUDING EU COMMISSION REGULATIONS ENDORSING INDIVIDUAL IFRS)</td>
</tr>
<tr>
<td>(D) CAPITAL REQUIREMENTS DIRECTIVE</td>
<td>(F) SOLVENCY DIRECTIVE (2001/13/EC)</td>
<td>(H) PROSPECTUS DIRECTIVE (2003/71/EC)</td>
</tr>
<tr>
<td></td>
<td>(I) TRANSPARENCY DIRECTIVE (2004/109/EC)</td>
<td></td>
</tr>
<tr>
<td>(K) COMMUNICATION ON MODERNISING COMPANY LAW &amp; ENHANCING CORPORATE GOVERNANCE IN THE EU (COM/2003/284)</td>
<td>(N) QUALITY ASSURANCE FOR THE STATUTORY AUDIT RECOMMENDATION (2001/256/EC)</td>
<td></td>
</tr>
</tbody>
</table>
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 NSC has had regard to the requirements of the Directive, as amended, and the various options and maximum thresholds, which will require Macedonian policymakers to determine which options and thresholds, are suitable in the context of Macedonia.

**Banking Sector**

(C) **Banking Accounts Directive (86/635/EEC):** For annual accounts of banks and other credit institutions this Directive sets outs 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 NSC has had regard to it in order to ensure that financial reporting reforms in the context of the country strategy and action plan are conducive to better and consistent approaches to banking supervision.¹⁴

**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 NSC has had regard to the current solvency regime, which recently

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¹⁴ 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.
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 NSC 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.\(^{15}\)

(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 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 Macedonia, the NSC has had regard to the 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 NSC 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

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\(^{15}\) 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.
investment undertakings situated in EU Member States to market their units in other EU Member States (single passport). The NSC has had regard to the financial reporting implications of the Directive.

**Fundamental Accounting Communication**


**Fundamental Auditing Directive**

(L) *Statutory Audit Directive*: This Directive (also known the “new Eighth EU Company Law Directive”), which will replace the existing Eighth 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 NSC has had regard to this new Directive with a view to propose further reform activities in the few areas where the recently enacted Macedonian audit law differs 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 NSC.

(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 NSC carries 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

Accounting in Macedonia is regulated by the Trade Company Law (Official Gazette of RM” No. 28/04) and by the Rulebook for Accounting Standards (Official Gazette of RM” No. 40/97 and 73/99). The Trade Company Law defines five types of companies:

- General partnership companies;
- Limited partnership companies;
- Limited liability companies;
- Joint-stock companies; and
- Limited partnerships by share.

In this strategy and action plan the NSC is primarily concerned with large and medium size enterprises organized as joint-stock companies, companies with securities listed on the stock exchange, and large and medium size enterprises organized as limited liability companies. The Trade Company Law defines thresholds for identifying the size of companies: large, medium sized, small enterprises. The classification of companies is now based upon the thresholds below:

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of employees</strong></td>
<td>Less than 30</td>
<td>Less than 250</td>
<td>Greater than 250</td>
</tr>
<tr>
<td><strong>Annual turnover</strong></td>
<td>Not more than €2,000,000</td>
<td>Not more than €10,000,000</td>
<td>Greater than €10,000,000</td>
</tr>
<tr>
<td><strong>Average asset</strong></td>
<td>Not more than €2,000,000</td>
<td>Not more than €11,000,000</td>
<td>Greater than €11,000,000</td>
</tr>
</tbody>
</table>

Table 2-1: Company definition thresholds in Macedonia
The Trade Company Law requires the following companies to prepare their annual/consolidated accounts in accordance with IFRS as published in the Official Gazette of Macedonia (The last version of IFRS (2004) was published in the Official Gazette in 2005):

- Large companies;
- Medium sized companies;
- Banks;
- Insurance undertakings;
- Companies listed on the Stock Exchange; and
- Companies being part of the consolidated accounts of some of the above mentioned types of companies.

**Gap**

The statutory framework is not consistently aligned with the *acquis communautaire*. The statutory accounting framework should be fully harmonized, in both primary and secondary legislation, with the Fourth EU Company Law Directive on annual accounts and the Seventh EU Company Law Directive on consolidated accounts.

The statutory framework itself is not perfectly consistent. Full alignment of domestic legislation is a key factor in allowing for the development of a consistent statutory framework. Alignment of the Trade Company Law with other relevant domestic legislation should be undertaken specifically for example with the new Audit Law.

Consideration should be given to the experience of other EU Member States in finding the right balance between over and under regulation. This can be achieved by imposing IFRS, beyond what is required under the *acquis communautaire*, only when meaningful. Subjecting SMEs to simplified financial reporting requirements and providing exemptions from statutory audit are examples of finding this balance.

**Illustrated Analysis**

**Reporting Thresholds for Small and Medium Sized Enterprises**

The common view among stakeholders is that IFRS is too onerous for SMEs and that managers and those preparing SME accounts do not have the skills or knowledge to apply IFRS. Hence, in line with the *acquis communautaire*, the NSC 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 NSC has had regard to the *acquis communautaire*, the experience of other Member States, and the IASB SME project.

**Macedonian legislation does not endorse any of the existing interpretations of IFRS**

Macedonia has not endorsed any of the existing interpretations published by the International Financial Reporting Interpretations Committee. This may hamper rigorous and uniform application of IFRS in Macedonia. The International Financial Reporting Interpretations Committee (IFRIC) provides guidance on financial reporting issues not specifically addressed in IFRS, or issues where unsatisfactory or conflicting interpretations have developed. This is an important component of the IFRS financial framework.

### 3.2 The Statutory Framework for Auditing

The statutory audit and the auditing profession are regulated under the Audit Law, which was approved by Parliament in September 2005. Macedonia has passed a law that addresses a significant portion of the requirements of the new Eighth EU Company Law Directive. This was a significant step for Macedonia in its progression towards an enhanced financial reporting environment. As outlined in Chapter 2, the new Eighth EU Company Law Directive puts into EU legislation a significant body of requirements governing national auditing frameworks. The new Audit Law addresses to some degree issues such as the mandating of a structured audit profession and the independent oversight of the audit profession.

According to the Trade Company Law (Article 478) the following enterprises are subject to statutory audit:

- Large and medium size enterprises organized as joint-stock companies;
- Companies with securities listed on the stock exchange; and
- Large and medium size enterprises organized as limited liability companies.

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), as published in Official Gazette. The last publication of ISA (2004 version) was undertaken in 2005.

**Gap**

The new Audit Law is a sound basis upon which to build a framework for auditing in Macedonia. However the statutory auditing framework should now be fully harmonized, in both primary and secondary legislation, with the new Eighth EU Company Law Directive.
While acknowledging the initial progress in amending the Audit Law in 2005, full alignment is proposed between the audit legislation and the new Eighth EU Company Law Directive.

**Illustrated Analysis**

**Statutory consistency with the new Eighth EU Company Law Directive**

Article 31.5 of the new Eighth EU Company Law Directive states that “the system of public oversight must have the right, where necessary, to conduct investigations on statutory auditors and audit firms and must have the right to take appropriate action.” Article 8 of the Audit Law currently mandates an Oversight Body for the auditing profession (Council for the Advancement and Oversight of Auditing) to monitor specific activities of the audit profession. However, the Audit Law does not specifically state that the Council for Advancement and Oversight of Auditing has the right to take any actions based on its monitoring activities.

### 3.3 The Institutional Framework for Accounting & Auditing

**Gap**

Macedonia is missing one of the essential pillars for ensuring the quality and consistency of financial reporting: that is the presence of a reliable, independent auditing profession with ultimate allegiance to company creditors, shareholders, and other stakeholders. These fundamental activities, which internationally are generally undertaken by the auditing profession, subject to suitable public oversight, have only been mandated by legislation in late 2005. A significant institutional program of activities is now required to implement the articles of the Audit Law.

There have been many attempts to organize a professional institute (Macedonian Association of Certified Auditors and Council of Certified Auditors; Association of Accountants, Financial Workers, and Auditors), but for a variety of reasons such an institute has never been sustained on a long-term basis. In the absence of such an organization, the Ministry of Finance has acted as the main agent regulating the auditing profession.

**Illustrated Analysis**

**Approval, Continuous Education and Mutual Recognition of** statutory auditors

The auditing profession in Macedonia has significant gaps in relation to the education, training, approval, continuous education, and the mutual recognition of auditors. The
current level of activity in these areas in Macedonia does not constitute a realistic effective structure. All stakeholders agree that a detailed program of activities is required, if Macedonia is to meet current EU requirements. The new Institute for Certified Auditors should establish suitable committees to address these issues within a structured environment. Suitable international benchmarks as identified in Chapter 2 will allow the profession to develop the structures required to produce competent professional auditors capable of making a positive contribution over their lifetime to the profession in which they work.

**Registration of statutory auditors & Audit Companies**

Macedonia does not currently hold a register of statutory auditors and audit firms. It is difficult to determine 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. The actions required to develop and maintain this register have been mandated in the new Audit Law, however the institutional capacity required to actually implement the articles of the Audit Law are not yet in place in Macedonia.

**Professional ethics and professional secrecy for statutory auditors**

Macedonia is currently unable to demonstrate that statutory auditors and audit firms comply with robust professional ethics. In particular, observers note widespread non-compliance with the requirement for auditor independence. One audit firm in Macedonia, reportedly, audits the annual accounts of a company where one of its audit partners serves on the Board of Directors. Also, examples exist of audit partners who incorporate two separate legal entities (for example, an audit firm and a consulting company) to circumvent the letter of the law.

**Quality Assurance for the Statutory Audit**

Effective quality assurance programs have been absent in Macedonia to date. Quality assurance is a vital element in the maintaining confidence in the audit function. There is currently a lack of confidence in the auditing profession in Macedonia. Quality assurance is addressed in the articles of the new Audit Law. However, the institutional capacity to carry out the quality assurance of statutory auditors and audit firms has not yet been developed in Macedonia.

**Capacity of the auditing profession**

The auditing profession does not have the capabilities to respond to the pool of companies that require auditing. Although approximately 900 companies are required to be audited,
there are only 173 licensed auditors in public practice and only 25 audit firms are registered with the Ministry of Finance. Establishing a well-functioning professional organization, as part of an overall strategy to enhance the quality of financial reporting in Macedonia, will help to address the shortage of auditors and enhance the credibility and attraction of the profession.

**Translation of IFRS and ISA into the Macedonian language**

Article 479, paragraph 2 of the Company Trade Law states that “commercial entities shall be obliged to prepare and submit annual and consolidated accounts in accordance with the adopted International Accounting Standards, published in the Official Gazette of the Republic of Macedonia. The International Accounting Standards shall be updated on an annual basis, so as to be harmonized with the current standards, as revised, amended or adopted by the International Accounting Standards Board.” Article 479, paragraph 6 of the Company Trade Law states that the “auditor shall apply International Standards on Auditing published in the Official Gazette of the Republic of Macedonia, updated on an annual basis to incorporate all amendments adopted by IFAC.” However, the time gap between the previous publication in the Official Gazette of IFRS and ISA in 1998, and the most recent publication in 2005, was almost seven years.

### 3.4 The Statutory Framework Bank Financial Reporting

The statutory framework for the National Bank of Macedonia is the Law on the National Bank of the Republic of Macedonia (Official Gazette of RM No. 3/02, 51/03, 85/03, 40/04 and 61/05) and for the banking sector is the Banking law (Official Gazette of RM No. 63/00, 37/02, 51/03 and 85/03). A new Decree for Banks, Savings Banks and Other Financial Companies is currently being drafted.

**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.

The NSC developed the actions relating to the banking sector in line with the ROSC recommendation that the supervisory department of the NBRM should clearly distinguish between prudential and general-purpose financial reporting. Prudential accounting requirements (e.g., loan loss provisioning in the banking sector) should not affect IFRS-based annual accounts and consolidated accounts. Where regulators need additional (unpublished) information for prudential supervision purposes, this should be by way of
topping-up IFRS. Given that regulators have a keen interest in ensuring that the fundamental IFRS-based annual accounts and consolidated accounts are correct (since their reports would be built on that foundation) this would mobilize them to assist in the enforcement of shareholder- or stakeholder oriented annual accounts and consolidated accounts as well. As the requirements of Basle II are being integrated in the Capital Adequacy Directive (CAD 3), it is essential for the banking sector in Macedonia to focus on embracing the changes within Basle II if they are to comply with the *acquis communautaire*.

In February 2006, the NBRM adopted a detailed Supervisory Development plan, as a roadmap that should allow NBRM to gradually move to a more risk-based approach in the next several years. One of the key preconditions for introducing the risk-based supervision is accurate financial reporting.

**Illustrated Analysis**

**Gaps in the legislative framework**

Several gaps exist in the legislative framework. Clear responsibility and accountability for annual and consolidated accounts (that reflect the economic and risk positions of the banks) have not been explicitly assigned, although the Company Law requirement, that the executive member of the board of directors or the officer appointed by the management board, signs the annual accounts is a step forward. Accurate and truthful financial reporting (to the supervisor and public) is not explicitly required, therefore, if (materially) inaccurate annual or consolidated accounts are provided, the Board and executive management cannot be held responsible, nor are they required to amend and republish (where applicable) the accounts.

**Inadequate NBRM Regulatory Authority**

Currently bank prudential accounting requirements affect the preparation of general-purpose annual accounts and consolidated accounts. Banks are required to prepare their annual and consolidated accounts in accordance with IFRS as published in the Official Gazette (i.e., the 2004 translation of IFRS). However, banks calculate impairment in the secured and unsecured portion of loans and receivables on the basis of a provisioning matrix that specifies fixed provisioning rates for the number of days a loan has been classified as non-performing (as required by the NBRM). While the NBRM methodology may be appropriate for prudential purposes, the results may differ from the recoverable amount of originated loans and receivables under IAS 39, *Financial Instruments: Recognition and Measurement*. IAS 39 requires impairment or bad debt losses to be
calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

3.5 The Institutional Framework for Bank Financial Reporting

The NBRM is a key stakeholder in the financial reporting framework in Macedonia. The Bank Regulation Department of the NBRM has a very important role in supervising the operations of commercial banks, saving houses and other financial institutions and is a standard setting body for these institutions. Although official approval is reserved to the Ministry of Finance, this Department is responsible for drafting relevant regulations and instructions for submission to the Ministry.

Gap

The relationship between bank auditors and supervisors in Macedonia 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.

In addition there is a need to address the availability of sufficient technical expertise to assist the banking sector and the National Bank of Macedonia to address these challenges.
Illustrated Analysis

Lack of enforcement activities

There is a lack of enforcement arrangements empowering the bank supervisor’s to expand the disclosure requirements for banks and increase the frequency of public disclosure of banks’ financial position. Furthermore there is a need to require banks, as “public interest entities,” to expand their disclosure of governance arrangements, ownership and Board structures, etc. There is a need for a system that empowers the supervisor to impose or seek realistic sanctions on officers, directors or employees of a bank who assist or facilitate non-compliance with IFRS.

Technical knowledge within Regulatory Authorities

Financial institutions will have to modify their information systems, and both they and the NBRM need training to build their capacity to apply the new standards. The lack of knowledgeable professionals within regulatory authorities hampers effective monitoring and enforcement.

3.6 The Statutory & Institutional Framework for Listed entities


Gap

Because of resource constraints and lack of accounting expertise, the SEC does not review the annual and consolidated accounts of listed companies to determine if the companies have met their disclosure requirements. The Macedonian Stock Exchange, also, does not enforce accounting standards. Additionally lack of enforcement power in SEC prevents other actions to counter activities that are in breach of the law.
3.7 The Statutory & Institutional Framework for the Insurance Entities

The Insurance Supervision Department of the Ministry of Finance (MoF-IS) is the regulatory authority in this sector. Macedonia’s insurance sector\textsuperscript{16} is one of the smallest in Europe.

\textbf{Gap}

The Insurance sector suffers from weak governance practices and the supervisory capacity is limited. The Insurance Act does not set specific accounting, auditing, and reporting requirement regarding insurance companies. The MoF-IS does not distinguish between regulatory and general-purpose annual accounts and consolidated accounts.

3.8 The Statutory & Institutional Framework for Taxation

Currently all legal entities are required to submit a tax return, which is processed by the Public Revenue Office (PRO). The Public Revenue Office (PRO) published a new tax law in the Official gazette in February 2006.

\textbf{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. For example, companies do not provide for bad debt until such time as they sue the debtor, or the receivable is three-years overdue, which results in overstated accounts receivables. Transparency and accountability suffer from the emphasis on tax reporting.

Additionally, a gap in the statutory and institutional framework exists in relation to reviewing the possible effects of the utilization IFRS in a company’s annual accounts on corporate income tax reporting in the Macedonia.

3.9 The Framework for the Publication and Filing of Financial Statements

Trade companies are obliged to submit their annual accounts to the Central Register of the Republic of Macedonia. These annual accounts should provide the opportunity for ratio analysis, liquidity, solvency, profitability, debt-to-equity and other ratios on the company’s condition and performance.

\textsuperscript{16} For further analysis of this sector please refer to the final report and presentation prepared by the EU funded technical assistance project to the Ministry of Finance in the Field of Insurance Related Legislation in FYR of Macedonia.
**Gap**

Annual accounts and consolidated accounts filed with the Public Revenue Office and the registers within the Central Registry are abridged. Such abridged statements may mislead investors and other users. According to the Trade Companies Law, the annual accounts, financial statements, consolidated annual accounts and financial statements, approved financial statements, approved consolidate annual accounts and financial statements should in precise terms be submitted to the Central Register. The annual accounts include Income Statement, Balance Sheet, Tax Balance and separate data for public evidence. The financial statements include Balance Sheet, Income Statements, Statement of Stockholders Equity, Statement of Cash Flows, company’s polices used and other notes with explanations prepared in accordance to the International Accounting Standards.

The approved financial statements with the annual report for working of the company and the report for completed audit by certified auditing firm, the consolidated accounting with the statement for working of the company, approved consolidated annual accounts and approved consolidated financial statements with the annual report for working of the company and conducted audit, are submitted to the Central Register at precisely defined term.

The Central Register accepts, checks, processes and analyses the date contained in the annual accounts. Thus, the Central Register has so far made analysis of the liquidity, solvency, profitability in the subject’s operation through preparation of document for the solvency in accordance to the Public Procurements Law and the Regulation for preparation of documents for solvency.

The Central Register offers possibility of electronic sending of data from the annual accounts through prepared software solution. But, continual development of the operative, hardware and software support for improving the software solution of electronic sending of data from the annual accounts is needed.

Also, the Central Register should allow on line access to the data from annual accounts through using the international practice, what requires external technical and operative support.

### 3.10 The Framework for Education and Training

**Gap**

Education and training in Macedonia 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. Although universities started adapting their curricula approximately seven years ago to cover internationally recognized accounting and auditing standards and significant progress has been achieved in many areas, some faculty members are not up to date with recent accounting trends. In addition, the quality of accounting education is compromised by the lack of IFRS training material translated into the Macedonian language.

Besides that, the quality of the accounting education is also affected by the lack of educational material for IFRS translated into Macedonian. The limited financial resources which the Ministry of Education and Science is separating for the public universities for publishing books and additional materials translated into Macedonian burdens the process of renewing and innovating the curriculum. The strategy and the action plan should allow cooperation with professors from accredited institutions from the EU member states and wider, transfer of experiences, knowledge and financial resources for publishing quality educational materials in Macedonian, which will be in pace to the last regulation in the area of accounting and auditing.

**Illustrated Analysis**

**University Curriculum**

In some instances University curricula do not cover business ethics. Academic institutions in Macedonia place little emphasis on the study of business ethics. Formal education can enhance aspiring professionals’ awareness of ethical problems and can influence their reasoning and judgment with respect to ethical dilemmas. Also, the quality and availability of Macedonian language textbooks, case studies and other training materials on ISA and IFRS are insufficient, particularly in terms of practical application of standards. This is predominantly result of the limited financial resources for developing and publishing books and manuals in the area of accounting and auditing.

The departments for accounting and auditing would have use if in their curriculum are involved courses related to the latest regulation in the scope of accounting and auditing, practical examples based on the proper use of the standards and case studies, all in order to provide that the graduated students are prepared to work as accountants (not as bookkeepers or tax adjustment officials) and easily to involve into the process of professional certification for obtaining the title of certified auditor in Macedonia.
4 DETAILED ACTIONS

The NSC 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 Macedonia and ultimately enhance the quality and reliability of 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 appendix A we have detailed the risks and dependencies of each of the activities identified in the strategy.

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

- For external resources the NSC 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 Macedonia, there are other instances the technical assistance can ideally be delivered through regional approaches in order to allow Macedonia to gain access to expertise which otherwise would not be available.
  - Regional technical assistance will allow Macedonia to share experiences with relevant countries in the region and deliver economies of scale in specific technical areas. The NSC has identified the World Bank Road to

17 Please refer to Appendix A: Risk Factors and Dependencies in relation to actions to be included in strategy and action plan.
Europe – Program of Accounting Reform and Institutional Strengthening (REPARIS) as a vehicle for the delivery of regional technical assistance.\textsuperscript{18}

- The NSC 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 NSC 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 NSC has had regard to specific support requirements from the stakeholders considered accountable or responsible for actions (internal resources).

On page 135 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.

\textsuperscript{18} Please refer to www.worldbank.org/reparis for additional details.
Objective
Align the financial reporting requirements (in the financial and non-financial sectors) as identified in primary and secondary legislation with those of the acquis communautaire. Support to the Ministry of Finance for enhancing of the institutional capacity engaged in the reporting, monitoring and conducting the legal acts from accounting and auditing area.

Description
This action will include the following:

- Review and amend if necessary the Trade Company Law and related 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 Macedonia’s gross domestic product based on purchasing-power-parity per capita versus the EU average. Among others, this will reduce the burden on SMEs in two ways:
  - Financial reporting requirements – allow SMEs to use simplified financial reporting requirements; and
  - Statutory audit requirements – require a statutory audit only in entities where there is a “public interest” for such an audit in order to avoid imposing an unnecessary burden on SMEs and taking due account of the limited number of qualified auditors in Macedonia.

- Adopt (or develop) simplified accounting standards for SMEs. In this regard Macedonia 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 Macedonia 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 and auditing requirements with a view to:

- Meet the needs of the different users of financial information such as lenders, creditors, shareholders, SMEs, and tax authorities;
• Providing the preparers with a set of requirements that does not impose unnecessary burdens on the corporate sector.

**Key Stakeholders**

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<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<td>Relevant EU Member States</td>
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**Resources, Budget, Timing and Performance Indicators**

<table>
<thead>
<tr>
<th>External Support Required</th>
<th>Internal Support Required</th>
<th>Total Budget Required</th>
<th>Timing (Yrs)</th>
</tr>
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<td>Suitable external technical assistance – 60,000 EUR Regionally coordinated support under the REPARIS program</td>
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*Performance Indicator: European Commission Progress Report for Macedonia.*

### 4.2 Implement the Financial reporting Framework (I)

**Objective**

Establish a framework for the adoption of accounting standards in Macedonia, on an ongoing and continuous basis, through the development of a body to coherently manage this process.

**Description**

This action will support the design and implementation of a structure (for example, a Macedonian Accounting Council), which will:

- Support the adoption (or development) of simplified accounting standards for SMES in Macedonia in conjunction with action No. 1.
• Work with the IASB, national standards-setters and other relevant EU institutions to encourage high quality in the IASB’s standards and their adoption in the EU
• Address urgent issues regarding the implementation of IFRS in Macedonia;
• Support training and development of resources for long-term sustainability and development of this function.

**Outcome**
The establishment of an effective framework to develop maintain and facilitate the implementation of a financial reporting framework consistent with the *acquis communautaire* and conducive to private sector development in Macedonia.

**Key Stakeholders**

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<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
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**Resources, Budget, Timing and Performance Indicators**

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<tr>
<th>External Supports Required</th>
<th>Internal Supports Required</th>
<th>Total Budget Required</th>
<th>Timing (Yrs)</th>
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<td>Outside technical assistance – 60,000 EUR</td>
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Performance Indicator: Establishment of a Macedonian Accounting Council or an equivalent system
4.3 Establishing the IFRS Translation Process (I)

**Objective**
Prepare the procedures and processes to facilitate a structure addressing the on-going translation requirements for IFRS in Macedonia.¹⁹

**Description**
The design of a sustainable translation process for IFRS in Macedonia, including for the following:

- Formalize the arrangements for the translation of the IFRS in Macedonia between the relevant stakeholders (Ministry of Finance, the International Accounting Standards Committee Foundation (IASCF)²⁰ and other relevant stakeholders, as appropriate).

- Establish an IFRS translation’s committee to formalize the efficient and effective translation procedures to:
  - Co-ordinate with the translation process of ISA and assess how these processes can share resources;
  - Co-ordinate with any other relevant translation projects in Macedonia (e.g., International Public Sector Accounting Standards);
  - Allow for a prompt response to the significant volume of material requiring translation; and
  - Address the requirement to pass each translation process through Macedonian legislation.

- 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;
  - Translation of key words; and
  - Consideration of the Translating Body’s translation process.

¹⁹ 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.

²⁰ For additional information refer to: www.iasb.org/resources/translations.asp
• 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 Macedonia 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 Macedonia;
- 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**

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<th>Responsibility (R)</th>
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*ICA = Institute of Chartered Accountants; CAOA = Committee of Audit and Accounting Offices; NSC = National Commission on Standards; World Bank*
## Resources, Budget, Timing and Performance Indicators

<table>
<thead>
<tr>
<th>External Supports Required</th>
<th>Internal Supports Required</th>
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<th>Timing (Yrs)</th>
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<td></td>
<td>Other Relevant Stakeholders</td>
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</table>

Performance Indicator: Timely issuance of translated IFRS

### 4.4 Supporting the IFRS Translation Process (I)

**Objective**
Support the proposed translation committee in order to allow for an effective and efficient on-going translation process to be implemented.

**Description**
Support 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.\(^{21}\)
- Capacity building and support on an initial basis to allow for a fully up to date translation of IFRS.

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

- 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);

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\(^{21}\) This action will not directly subsidize the printing costs of the IFRS volume, which will be priced on a commercial basis.
• 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

The availability of resources to implement the strategy to develop an effective and efficient translation framework is a key part of enhancing financial reporting in Macedonia. Considering that local standards were last developed in 1995, and 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 financial reporting in Macedonia. The immediate and on-going availability of translated IFRS in Macedonia, 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.

Key Stakeholders

<table>
<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<td>Statutory auditors and audit firms</td>
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<td>World Bank</td>
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</tbody>
</table>

Resources, Budget, Timing and Performance Indicators
### 4.5 Alignment of Bank Financial Reporting Requirements (S)

**Objective**
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 Macedonia.
- 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 Exchange and Commission.
- Organize the relationship between “accounting capital” and “prudential capital” as well as other key prudential and general-purpose accounting issues. In this context, the NSC will have regard to (i) the guidelines on a common reporting framework (COREP)\(^{22}\) to be used by credit institutions and investment firms when they report their solvency ratio to supervisory authorities under the Capital Requirements

\(^{22}\) The guidelines are available at [http://www.c-ebs.org/standards.htm](http://www.c-ebs.org/standards.htm).
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 services. This is particularly important in the context of Macedonia where a significant portion of the banking sector is foreign owned.  

- Revise the “chart of accounts” mandated by the NBRM 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 NSC 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. CEBS considers that eXtensible Business Reporting Language (XBRL)—rather than a chart of accounts—can be a helpful tool in constructing a standardized reporting system.  

- Prepare and issue a bank accounting manual consistent with the requirements of the legislation, IFRS requirements and the specific prudential requirements of the NBRM. This should be undertaken in parallel with the revision of the “chart of accounts.” The NBRM should set out guidelines regarding the recognition, measurement and disclosure requirements applicable to commercial banks. This activity will also include the establishment of a process within the NBRM to ensure that the banking manual is kept up-to-date to reflect changes in IFRS and prudential requirements;  

- Organize the relationship between bank supervisors, statutory auditors and commercial banks in accordance International Auditing Practice Statement (IAPS)  

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23 At the end of 2004, foreign capital was present in 15 banks and comprises 47.5% of the total capital of the banking system.

24 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.

25 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.
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 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

<table>
<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<td>NBRM</td>
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<td></td>
<td>Ministry of Finance</td>
<td>Statutory auditors and audit firms</td>
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<td>Relevant EU Member States</td>
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Resources, Budget, Timing and Performance Indicators

<table>
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<th>External Support Required</th>
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<th>Total Budget Required</th>
<th>Timing (Yrs)</th>
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<tr>
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<tr>
<td>Regionally coordinated support under the REPARIS program</td>
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</tbody>
</table>

Performance Indicator: European Commission Progress Report for Macedonia; survey of commercial banks, supervisors, statutory auditors and other users of banks annual accounts and consolidated accounts

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26 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.
4.6 Institutional Strengthening For Bank Supervision (I)

Objective
Support the NBRM to strengthen the institutional capacity to supervise, monitor and enforce the application of IFRS in banking financial reporting.

Description
Provide capacity assistance to the NBRM in the development of an accounting and auditing unit within the supervision department. The primary responsibilities of the unit would include:

- Monitor the consistent application of the requirements of the legislation, IFRS requirements and the specific prudential requirements of the NBRM. 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 NBRM, 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, IFAC, and the IASB. To facilitate this aspect, the NBRM could delegate a member of its staff to the Permanent Mission of the Republic of Macedonia to the EU in Brussels.

- Facilitate a transfer of knowledge between the NBRM and the banking sector by developing a program of training for commercial bank staff.

- To build capacity with the NBRM to ensure sufficient expertise in accounting and auditing are available.

27 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.
• Prepare a human resources strategy for the NBRM that will allow for the orderly development of resources to meet technical requirements.

**Outcome**

Develop the supervisory function of the NBRM to review, monitor and control the implications of IFRS for corporate bank reporting. Additionally, since the banking sector in Macedonia offers probably the best structured and resourced sector in which to implement IFRS, the resources made available to the NBRM 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.

**Key Stakeholders**

<table>
<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
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**Resources, Budget, Timing and Performance Indicators**

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<th>Timing (Yrs)</th>
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</table>

Performance Indicator: European Commission Progress Report for Macedonia during the action timeframe & Conduct of a survey of commercial banks, supervisors, statutory auditors and other users of banks annual accounts and consolidated accounts

### 4.7 Institutional Strengthening of the Banking Association (I)

**Objective**

Build capacity within the Commercial Bankers Association, in order to assist the development of strong co-operation among banks and other key stakeholders and to foster
the dialogue with the NBRM in relation to the strengthening of financial reporting in the banking sector.

**Description**

This action will include the following:

- Strengthen and coordinate commercial banking sector to work with the NBRM in implementing a program of change in relation to statutory and institutional activities identified in action 4.5 and 4.6.
- Allow for the provision of feedback from the banking sector to the NBRM in order to feed into the process of review of legislation and institutional change.
- Promote co-operation with the Government, the NBRM and a wide range of stakeholders to support the development and growth of the sector. This should cover areas such as accounting, compliance, consumer protection, prudential supervision, and public affairs.

Additionally, this action will assist the Bankers Association in taking full advantage of the legislation to strengthen financial reporting in the banking sector in Macedonia, including:

- Regular meeting with partners in the sector to assist with the implementation of IFRS for the banking sector including specialized working groups to discuss specific reporting issues such as:
  - The impact of IFRS on prudential capital;
  - IFRS Implementation;
  - Company law and corporate governance; and
  - XBRL.
- Education and training of banking sector staff, in IFRS specific issues such as IAS 39, *Financial Instruments: Recognition and Measurement*.
- Initiate associate membership of a suitable international banking federation such as the European Banking Federation (FBE), which monitors and influence legislative and regulatory developments in the EU on behalf of the sector.

**Outcome**

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28 Set up in 1960, the European Banking Federation (FBE) represents the European banking sector. It represents the interests of over 4500 European banks, large and small, from 28 national Banking Associations, with assets of more than EUR 20 000 billion and over 2.3 million employees.
Resources used to build capacity within the banking association will in the longer term allow for the development of a key partner to the NBRM, creating a culture of compliance and ultimately enhanced financial reporting within the sector. This culture can be exported to the wider financial sector and beyond in the longer term.

Key Stakeholders

<table>
<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
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<td>Financial Institutions, Chamber of Commerce</td>
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Resources, Budget, Timing and Performance Indicators

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

Objective

To support the Public Revenue Office (PRO) 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 Trade Company Law (articles 469 and 476) mandates the use of IFRS in the annual accounts of large and medium size commercial entities, as well as credit institutions, insurance undertakings, listed enterprises, as well as their subsidiaries, this action will seek to:

- Ensure that the PRO is 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 Macedonia’s budget, tax disputes resulting from ambiguous rules, etc.

- Address the potential problems arising in situations where some taxpayers use IFRS as the starting point for calculating taxable profit, and others use national accounting standards. This will include ensuring that the book-tax reconciliation process results in the same taxable profit or loss, irrespective of whether the starting point is IFRS or national accounting standards.

- 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, Macedonia 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, 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**
4.9 Institutional Strengthening of the Public Revenue Office (I)

Objective
To support the Public Revenue Office 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 the Public Revenue Office 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 the Public Revenue Office 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.
As IFRS, where applicable, form the basis of the annual accounts upon which taxable profits are then calculated it was felt that the tax inspectors need to gain 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. It is necessary to educate group of employees form the IRS (20-30 participants) for better understanding of the IFRS in the part related to the tax law, who will obtain certificates and will allow further education of other employees in the IRS.

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.

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

**Outcome**

Tax reporting in Macedonia currently uses a significant proportion of the accounting capabilities of the country. 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 Macedonia, leading in the longer-term to enhanced financial reporting.

**Key Stakeholders**

<table>
<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<td>Public Revenue Office Ministry of finance</td>
<td>ICA MoF NSC Relevant EU Member States World Bank</td>
<td>Entities using IFRS Chamber of Commerce Industry Associations Banking Association</td>
</tr>
</tbody>
</table>
Objective

Ensure Macedonian 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**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
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<td>Insurance undertakings</td>
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**Resources, Budget, Timing and Performance Indicators**

<table>
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<tr>
<th>External Support Required</th>
<th>Internal Support Required</th>
<th>Total Budget Required</th>
<th>Timing (Yrs)</th>
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</table>

Performance Indicator: European Commission Progress Report for Macedonia during the action timeframe; conduct of a survey of insurance companies, supervisors, statutory auditors and other users of insurance annual and consolidated accounts

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4.11 Supporting the Insurance Supervisor

**Objective**

29 For the pension sector consideration will be given to leveraging this action to address that sector.
Develop and strengthen the Insurance Supervisory Department of the Ministry of Finance in order to support the enforcement of statutory review undertaken by this strategy under action 10.

**Description**

Supporting the Insurance Supervisory Department of the Ministry of Finance 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 Macedonia (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);

- A program of training to the regulator on the impact of IFRS on the insurance sector and in particular the specific reporting requirements of insurance companies.

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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 Macedonia, and since the IASB is still finalizing the specific standards on insurance accounting, this report recommends that Macedonia 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.
• Develop guidance for the insurance sector in implementing IFRS.
  
  o 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), the International Association of Insurance Supervisors (IAIS), IFAC, and the IASB.

**Outcome**

The development of an insurance regulator with the capability to monitor and to ensure compliance with the financial reporting legislation and regulations for insurance undertakings.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<td>Insurance undertakings</td>
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</tbody>
</table>

**Resources, Budget, Timing and Performance Indicators**

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

32 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.
### 4.12 Financial Reporting for Listed entities (S)

**Objective**

Ensure Macedonian 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 when Macedonia joins the EU. However, we have had regard to Regulation No. 1606/2002 and will ensure that Macedonian listed companies are well equipped to meet the Regulation’s requirements by the date of accession.
  - 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.

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<thead>
<tr>
<th>External Support Required</th>
<th>Internal Support Required</th>
<th>Total Budget Required</th>
<th>Timing (Yrs)</th>
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</table>

**Performance Indicator:** European Commission Progress Report for Macedonia during the action timeframe; conduct of a survey of insurance companies, supervisors, statutory auditors and other users of insurance annual accounts and consolidated accounts.
• Transparency Directive for publicity 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 Macedonian 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 NBRM.

**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**

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<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<td>World Bank</td>
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</tbody>
</table>

**Resources, Budget, Timing and Performance Indicators**
4.13 Supporting the Securities and Exchange Commission (I)

Objective
Develop and strengthen the Securities and Exchange Commission (SEC) in order to support the implementation and enforcement of the statutory review initiated by this strategy under action 12.

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 SEC an effective independent administrative authority.
- 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 the authority expects in terms of documents from issuers listed on the stock exchange.
- Development of manuals for SEC 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 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 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 the SEC plays a potentially vital role for shareholders in Macedonian listed companies, 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 SEC to support the implementation and enforcement of the statutory review initiated by this strategy under action 12, to develop a culture of compliance and ultimately enhanced financial reporting for listed entities in Macedonia. This culture can be exported to the wider financial sector and beyond in the longer term.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
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<td>Listed entities</td>
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</table>

**Resources, Budget, Timing and Performance Indicators**

*Strategy and Action Plan to Enhance Financial reporting in the Republic Macedonia*
4.14 Publication and Filing of Financial Information (S)

**Objective**

Ensure Macedonian 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.

**Description**

This action will include the following:

- Ensure consistency and predictability within the legislative framework within Macedonia.
- 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 Exchange and Commission and the NBRM.
- Ensure that the competent independent administrative authority has the necessary powers.

It also includes support activities that will review the legislation and regulations applicable to the Central Registry 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 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. 34

• To set out minimum transparency requirements for listed companies. The NSC 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 Macedonia that meets the requirements of European legislation and encourages a culture of compliance.

34 Specifically, the NSC will ensure Macedonia 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.
Objective
Develop and strengthen the Central Registry in order to support the design, implementation and enforcement of the statutory review initiated by this strategy under action 14.

Description
This action will include the following:

- To supply to the Central Registry 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 Central Registry 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 Central Registry (limited to the activities of the Register in the filing of company information) consistent with EU filing requirements of annual reports and consolidated annual reports, analyzing the possible use of XBRL.

- Redevelop the data dissemination activities of the register in light of acquis communautaire and the requirements of the Macedonian government.

- Build additional capacity to strengthen the resources of the register and to develop the enforcement activities of the Central Registry, 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 Macedonia 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

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
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<td>Central Registry</td>
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<td>Corporate entities, General public</td>
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Resources, Budget, Timing and Measurable Goals

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<th>Timing (Yrs)</th>
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</table>

Performance Indicator: European Commission Progress Report for Macedonia
Number of (consolidated) annual reports provided to users and compliance with filing requirements (as a % of registered companies)
Objective
Support the identification and detailed design of the operational architecture of the Council for the Advancement and Oversight of Auditing (CAOA). 35

Description
This action will support the design of the operational architecture of the CAOA including:

- 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 ICA (Institute of Certified Auditors);
  - To monitor the implementation and provide opinion upon the proposals of the general acts of the ICA; and
  - To monitor the operations of the ICA 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 such as the NBRM, the MoF-IS, and the SEC.
- Preparation of guidance describing set up of arrangements at the CAOA for quality assurance and disciplinary systems, taking into consideration:

35 The CAOA will undertake independent oversight of the regulation of the auditing profession, 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 as mandated in the audit law (Articles 7, 8 & 9) and having regard to Article 31-34 of the new EU Eighth Company Law Directive (sets out the rules for public oversight and regulatory arrangements between Member States).
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 cooperation in investigations related to the carrying out of statutory audits.

**Outcome**
The establishment of the CAOA 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.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
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<td>NSC</td>
<td>Statutory auditors and audit firms</td>
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<td>Relevant EU Member States</td>
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**Resources, Budget, Timing and Performance Indicators**

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**Performance Indicator:** Initiation of the CAOA, publication of the CAOA annual report, demonstrating achievement of the objectives set forth in the Audit Law
4.17 Developing Oversight of the Auditing Profession (I)

**Objective**
To assist the CAOA in the implementation of the structured processes and procedures identified through its establishment initiated by this strategy under action 16.

**Description**
This action will initially develop the capabilities of the CAOA including:

- Establishment of a Secretariat – Recruit and appoint staff.
- Implement resources plan for delivery of CAOA 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 CAOA, which are in line with the proposed Audit Law.
- Implementation of business plan to meet targets and goals relating to the financial sustainability of the CAOA.
- Sign and implement “Memoranda of Understanding” with key regulatory partners such as the NBRM, the MoF-IS, and the SEC.

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

**Outcome**
The program of support will help to ensure that the CAOA will develop as an effective and efficient organization that will be capable of fulfilling its legislative mandate in addition to underpinning the regulatory structure of the auditing profession in Macedonia 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**
4.18 Capacity Building Support to the Oversight Function (I)

Objective
To assist the on-going and long-term oversight of the auditing profession in Macedonia through support to develop the capacity, experience and skills of the CAOA.

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

- Making international expertise available to assist the CAOA 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 CAOA 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 CAOA the capability to undertake the oversight of the auditing profession in Macedonia in an effective and efficient manner on a consistent long-term basis.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
<th>Responsibility</th>
<th>Accountability</th>
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<td>and audit firms</td>
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**Resources, Budget, Timing and Performance Indicators**

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**Performance Indicator**: Initiation of the CAOA, publication of the CAOA annual report, demonstrating achievement of the objectives set forth in the Audit Law.
Objective
Support the three-member commission mandated in the special provisions of the Audit Law to facilitate a transition from the current unstructured auditing environment to the initiation of the ICA in Macedonia.

Description
The preparatory activities of the three-members commission in the process of formation of the Institute include:

- Preparation of an operative plan for working of the Commission.
- Preparation of statement for approaching into membership and approval of the statements.
- Preparation of Proposal Statute of ICA.
- Preparation of Journal for working of the establishing Assembly of the ICA.
- Preparation of suggested lists for choosing organs and commissions in the frames of the Institute.
- Organizing an establishing assembly.
- Obtaining support of the Assembly from the members for establishing the Institute, election of president and organs and commissions in the frames of the Institute.

Outcome
Supported program of actions relating to the initiation of the ICA. Sustained development of the auditing profession is best achieved by the creation of a professional auditing body that will have as its key objectives to protect the public interest in all matters that pertain to the profession, to establish professional standards, especially standards of professional conduct and to represent professional auditors and auditing staff.

With the beginning of the work of the Institute of Certified Auditors, enhancement of the auditing profession will be provided as well as improvement of the quality of financial reporting, what will have positive effects for the financial growth and economic stability of Macedonia, as given in Chapter 2.

Key Stakeholders
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<tr>
<th>Action No.</th>
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**Resources, Budget, Timing and Performance Indicators**

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Performance Indicator: Initiation of the ICA

**4.20 Design Operational Architecture of the ICA (I)**

**Objective**
To assist the ICA in designing structured processes and procedures that will allow for the development of a *modus operandi* of the organization that is effective, efficient and in line with international good practice.  

**Description**
This action will support the identification and detailed design of the operational architecture of the ICA including:

- Develop the organization structure to deliver on a scope of activities in line with bylaws of ICA and the Audit Law, which will include:

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36 These processes and procedures will be consistent with the Statements of Membership Obligations developed by IFAC and existing practices in EU Member States.

37 The activities should have regard to the legal competences of the ICA as outlined in Article 11 of the Audit Law.
Strategy and Action Plan to Enhance Financial reporting in the Republic Macedonia

- Ethics and independence;
- Education and certification;
- Register of auditors;
- Continuing Professional Development;
- Quality control; and
- Discipline.

- Organize the process for the translation of International Standards on Auditing (ISA) and the IFAC Code of Ethics for Professional Accountants.
- Identify the organizational structure for ICA secretariat.
- Design a plan for delivery of ICA fundamental requirements (Premises, Office fit-out, IT, Stationary, Telecommunications etc.).
- Design corporate business plan to cover objectives, funding, structures, targets and annual activity program by objective.
- Identify each functional area.
- Outline the reporting and communications arrangements both with members, the CAOA and with other key stakeholders.

**Outcome**
The action will increase the effectiveness of the ICA in providing the conditions to promote the quality of audit services in Macedonia. The resources required to allow for the design of the architecture of this ICA and of its *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 ICA to ensure high quality performance by professional auditors.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
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<td></td>
<td>NSC</td>
<td>World Bank</td>
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Objective
To assist the ICA in building sufficient capacity for the efficient and effective implementation of the structured processes and procedures identified by this strategy under action 20. The activities of the new professional auditing body should support the development and enhancement of an auditing profession able to provide services of consistently high quality in the public interest.

Description
In order to meet this objective the capabilities of the ICA should be built upon solid foundations that will include the following:

- Establishment of Secretariat – Recruit and appoint staff.
- Implement resources plan for delivery of ICA 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 ICA, which are in line with the proposed Audit Law.
- Implementation of business plan to meet targets and goals relating to the financial sustainability of the ICA.

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

Outcome
The establishment of a functioning ICA with sufficient capabilities and resources to impact on the quality of auditing of financial reporting in Macedonia will lead to an enhancement in the quality of financial reporting.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
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**Resources, Budget, Timing and Performance Indicators**

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<th>Timing (Yrs)</th>
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<tr>
<td>Operational Support to the ICA – 100,000 EUR</td>
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<tr>
<td>Premises and Equipment (including IT support) – 300,000 EUR</td>
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</table>

**4.22 Develop Translation Process for Auditing Standards (I)**

**Objective**

The objective of this activity is to support the ICA in developing 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**

The design of a sustainable translation process for ISA in Macedonia, including for the following:
• Formalize the arrangements for the translation of the ISA between the relevant
stakeholders (Ministry of Finance, IFAC and other relevant stakeholders, as
appropriate).

• Establish an ISA translation’s committee to formalize the efficient and effective
translation procedures to:
  o Co-ordinate with the translation process of IFRS and assess how these
    processes can share resources;
  o Co-ordinate with any other relevant translation projects in Macedonia (e.g.,
    International Public Sector Accounting Standards);
  o Allow for a prompt response to the significant volume of material requiring
    translation; and
  o Address the requirement to pass each translation process through Macedonian
    legislation.

• Ensure the translation committee consults with IFAC and meet the requirements of
the official translation process.38

• 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 Macedonia in a
timely manner, allowing for the provision of the audit of financial reporting in Macedonia
to keep up to date with international best practice. It is important that auditors, regulators,
lawyers, academia, students and other interested groups in Macedonia 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 Macedonia.

Key Stakeholders

38 Refer to IFAC Policy Statements, Translation of Standards and Guidance Issued by IFAC,
September 2004.
4.23 Support Translation of Auditing Standards (I)

Objective
Capacity building and support to the ICA on an initial 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 ICA and initially 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.\(^{39}\)
- 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:

\(^{39}\) This action will not directly subsidize the printing costs of the ISA volume, which will be priced on a commercial basis.
• Immediate translation and adoption of new ISA (and exposure drafts) issued by the IAASB and other IFAC pronouncements; and
• 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 Macedonia. The translated volumes of these publications will provide the building blocks on which the regulations and requirements of the ICA will be formed.

A properly functioning translation committee, under the control of the ICA 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 which will improve the quality of auditing in Macedonia along with all the associated benefits that such an improvement would bring.

**Key Stakeholders**

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<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<tr>
<td>23</td>
<td>ICA</td>
<td>ICA</td>
<td>CAOA, NSC, World Bank</td>
<td>Statutory auditors and audit firms</td>
</tr>
</tbody>
</table>

**Resources, Budget, Timing and Performance Indicators**
4.24 Design Educational Program for Auditors (I)

Objective

To assist in the development of an accounting education program that will produce competent professional auditors capable of making a positive contribution over their lifetime to the profession and society in which they work.

Description

This action will provided assistance to the ICA to design a program of education that will meet the requirements regarding the development of general knowledge, intellectual skills and communication skills needed by statutory auditors. This will be achieved by establishing an educational program for statutory auditors in Macedonia that will have due regard to:

- Article 18 of the Macedonian Audit Law;
- 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.

The program should include the following support:

• Initially assisting the ICA in the transfer of the professional examination and training arrangements for entry into the auditing profession from the Ministry of Finance (subject to public oversight). This will allow for the continued entry of new members to the auditing profession on an uninterrupted basis.

• Using the above identified international standards and good practices for benchmarking purposes, assess the state of compliance of Macedonia with IFAC and EU requirements with regard to education standards, examination and practical experience of new entrants to the auditing profession.

• Establish the Education Committee within the ICA. The Education Committee should be mandated to set the education and training standards for members, to develop an accreditation program, and to oversee the examination/assessment process where appropriate. The Education Committee should prescribe standards of generally accepted good practice in the education and development of professional accountants based on the benchmarks above.

• Additionally develop a strategy to ensure the sustainability of the education process based on the experiences of similar sized countries in the EU (e.g. Estonia, Latvia, Lithuania, Slovenia).

**Outcome**

The resources required to effectively proceed with this activity, will be an investment in the long-term success of the ICA by allowing for the establishment of a key function of the profession under the control of the ICA but subject to public oversight. Additionally, the design of an efficient and effective educational program in Macedonia will have a significant positive impact in enhancing Macedonian financial reporting through improving the standard and consistency of the education framework used to train statutory auditors.

**Key Stakeholders**
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### Resources, Budget, Timing and Performance Indicators

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<th>Timing (Yrs)</th>
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<tr>
<td>Regionally coordinated support under the REPARIS program</td>
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**Performance Indicator:** Establishment of an effective Education Committee within the ICA; performance of the ICA under the IFAC compliance program

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### 4.25 Implementation of Education Program for Auditors (I)

**Objective**

The implementation of an accounting education program as identified by this strategy under action 24, having due regard to the requirements of the Audit Law, 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.
Description
This action will support the Education committee of the ICA to deliver the strategy identified in action 24 including:

- Set up the capacity to administrate the entry of new students to the training program.
- Develop the capacity to ensure new entrants are suitably qualified including evidence of the Entry Requirements to a Program of Professional Accounting Education.
- Develop a curriculum.
- Develop the material required to deliver that curriculum.
- Identify the syllabus; organize the training calendar; recruit the lectures; if required deliver the courses.
- Develop the capacity to ensure new entrants are suitably qualified including evidence of the Practical Experience Requirements.
- Deliver a fair method of assessment of professional capabilities and competence;
- Develop the capacity to recommend to the Ministry of Finance those candidates that are suitably qualified to join the profession on an annual or bi-annual basis.

Outcome
The successful delivery of this activity will allow the Education Committee to deliver upon the strategy developed in action 24 and establish an educational process for entrants to the profession that meets international good practice and EU requirements in producing competent professional auditors.

Key Stakeholders
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### Resources, Budget, Timing and Performance Indicators

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<td>Regionally coordinated support under the REPARIS program</td>
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Performance Indicator: Public availability of the program for accountancy education

### 4.26 Capacity Support to the Education Committee (I)

#### Objective
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 Macedonia.

#### Description
This action will support the Education Committee as follows:
• Capacity support for an initial period 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 Education Committee to periodically review and enhance the framework for education of statutory auditors using good international practice.

• Make final recommendation on the structure and content of updated educational professional examination and training arrangements for new entrants taking into consideration the accounting and auditing curriculum at higher institutions in Macedonia.

**Outcome**

To offer the support required to the ICA Education Committee to build the capacity to undertake the full responsibilities of their mandate and encouraging 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 Macedonia in the longer-term.

**Key Stakeholders**

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<th>Action No.</th>
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Objective
To assist the ICA to design a Continuing Professional Development (CPD) program for members of the ICA that will assist with ensuring the continuous maintenance, development and enhancement of the professional and personal knowledge and skills that members of the ICA require throughout their working lives.

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

- Articles 11 and 19 of the Macedonian Audit Law;
- 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:
• Recommend a structure and scope of training programs\textsuperscript{40} for improving the expertise of members of the ICA with particular emphasis on practical application of IFRS, ISA and the IFAC Code of Ethics for Professional Accountants.

• Document the formal requirement of the CPD program and document a schedule of activities leading to the full implementation of CPD within the auditing profession.

• Recommend a structure and scope of learning materials relating to practical implementation of ISA and the Code of Ethics to be used by members of ICA.

**Outcome**

It is important that ICA 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 ICA 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 Macedonia in the long term.

**Key Stakeholders**

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\textsuperscript{40} The design of the CPD courses should allow for non-members to undertake courses which 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 ICA in the longer term.
4.28 Assist Implementation of CPD program for Auditors (I)

Objective
Efficient and effective delivery of the designed CPD program as identified by this strategy under action 27, to ensure that the ICA is responsive to the needs of all members and provides positive and appropriate support to help them achieve the CPD requirement that will help members realize their potential and career aspirations.

Description
This action will support the implementation of the designed CPD program as follows:

- Assist with the practical implementation of the CPD program designed by this strategy under action 27.
- Deliver the expertise to the ICA to train staff to deliver programs of CPD 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 ICA to form the basis of the CPD training programs.
• To co-ordinate with the higher educational institutions in Macedonia to consider how the higher educational institutions could assist with the development of CPD programs in the longer term.

• Implement a strategy to ensure the sustainability of the CPD 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 ICA in this area on a regular basis.

Outcome
The CPD program will add value to ICA membership. Members of the ICA shall sustain their professional competence by keeping themselves informed of, and having regard to, developments in professional standards in all functions in which they practice, or are relied upon to have reasonable knowledge in that area. In addition to the professional competency achieved by the implementation of a program of CPD, the public perception of the profession will be enhanced, allowing for an indirect long-term underpinning of the role of the profession in ensuring the quality of financial reporting in Macedonia.

Key Stakeholders

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</table>

Resources, Budget, Timing and Performance Indicators

41 The methods of delivery of the CPD program should be open to individual choice subject to suitable quality assurance
4.29 Capacity Building to the ICA to Support the CPD Program (I)

**Objective**
To support capacity building within the ICA to facilitate local knowledge developing and growing to implement on an on-going long-term basis the CPD program for members of the ICA in Macedonia.

**Description**
This action will support to the CPD program of the ICA including:

- Capacity support for an initial period to the CPD implementation process to ensure that a self-sustaining program is established that meets the objectives of the CPD requirements regarding the continuous maintenance, development and enhancement of the professional and personal knowledge and skills of members of the ICA.
- Deliver capacity building support for the on-going implementation of the CPD program to be delivered by the ICA.
- Assist with the transfer of knowledge from international to local expertise in the area of CPD training for statutory auditors.

**Outcome**
The delivery of resources to the ICA to allow local expertise to develop in the area of CPD training that will in the long term allow the ICA to successfully meet the mandate it has been given through the articles of the Audit Law. The design and implementation phase for CPD in Macedonia must be accompanied by a strategy to allow local expertise to develop and on that basis in the longer-term implement a self-sustaining effective CPD program in Macedonia.

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<th>External Support Required</th>
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<td>Regionally coordinated support under the REPARIS program</td>
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Performance Indicator: The number of statutory auditors who comply with CPD requirements
Key Stakeholders

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<th>Responsibility (R)</th>
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Resources, Budget, Timing and Performance Indicators

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<th>External Support Required</th>
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<th>Timing (Yrs)</th>
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Performance Indicator: The number of statutory auditors who comply with CPD requirements

4.30 Design Quality Assurance (QA) Program for Auditors (I)

Objective

To design an external quality assurance program for members of the ICA that will review the compliance of statutory auditors with the fundamental principles of external quality control as prescribed Article 12 of the Audit Law and the by-laws of the ICA and 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; \(^{42}\)

• IFAC Statements of Membership Obligation No. 1, *Quality Assurance*.\(^{43}\)

**Description**

This action will support the design of the external quality control regime within the auditing profession in Macedonia 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;

• The design of such a program should introduce linkages between the quality assurance program and other relevant working committees of the ICA. 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 CPD 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 the CAOA. This includes also the supervision and ultimate responsibility in quality assurance proceedings organized by the ICA;

\(^{42}\) 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.

\(^{43}\) 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.
• 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);

• Make available international expertise to independently assess the progress of the ICA in this area on a regular basis.

**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. Designing a suitable quality assurance program will be a positive step in this direction for the auditing profession in Macedonia. It also allows the profession to encourage quality improvements in auditing methods.

**Key Stakeholders**

<table>
<thead>
<tr>
<th>Action No.</th>
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**Resources, Budget, Timing and Performance Indicators**

<table>
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<tr>
<th>External Supports Required</th>
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Performance Indicator: Number of statutory auditors subjected to external quality assurance by the ICA in a given year; performance of the ICA under the IFAC compliance program.
Objective
Successful implementation of an external quality control regime within the auditing profession in Macedonia, as designed by this strategy under action 30. This will put 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 implementation of an effective and efficient external quality control regime within the auditing profession in Macedonia 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.
- The rules differentiate between the quality assurance approaches depending on whether or not the statutory auditors have public interest entity clients.
- To judge the success of such a regime, specific targets and goals based on international practice in the area of quality control should be set. At a minimum the quality control regime should monitor all auditors of public interest entities initially and extend the work program from this point.

Additionally, this action will include the organization of a series of workshops with the selected ICA members to initiate the quality assurance program.

Outcome
An effective external quality control regime will assure both users and third parties of the standard of work produced by auditors and audit firms and meet the requirements of the fundamental principles of external quality control as prescribed by law (Article 12 of the Audit Law) and the by-laws of the ICA and with due regard to international benchmarks.

Key Stakeholders
<table>
<thead>
<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
<th>Inform (I)</th>
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<tr>
<td>31</td>
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<td>General public Statutory auditors and audit firms</td>
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### Resources, Budget, Timing and Performance Indicators

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Performance Indicator: Number of statutory auditors subjected to external quality assurance by the ICA in a given year; performance of the ICA under the IFAC compliance program

#### 4.32 Capacity Support To The ICA Relating To The QA Program (I)

**Activity**
To assist the ICA in developing the local expertise and knowledge to, on a long-term basis, implement an on-going external quality assurance program for members of the ICA in Macedonia.

**Description**
This action will support the quality assurance program of the ICA as follows:
- Capacity support for an initial period to the ICA to allow a 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.
• A program of training to the relevant staff within the ICA and relevant ICA members on the requirements of a quality assurance program.

• Capacity building for the ICA to enforce specific quality assurance program of requirements.

Outcome
The long-term strategy is to allow the ICA to build up the internal expertise to undertake the quality assurance program as designed by this action plan. This will be facilitated by supporting for the ICA in developing the capabilities to deliver in the long term the quality assurance program. Additionally, the continued investment of resources in this area will allow for a concerted improvement in the standard of the profession, thus raising the standard of auditing in Macedonia in the longer term.

Key Stakeholders

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<tr>
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Resources, Budget, Timing and Performance Indicators

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</table>

Performance Indicator: Number of statutory auditors subjected to external quality assurance by the ICA in a given year; performance of the ICA under the IFAC compliance program.
Objective

To design a disciplinary program for members of the ICA in Macedonia 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 as prescribed by Articles 12 and 13 of the Audit Law and the by-laws of the ICA 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 development of the ICE’s disciplinary program, which should investigate and discipline misconduct, including breaches of professional standards and rules by individual ICA members. This action will assist in designing a functioning Disciplinary Committee under the control of the ICA (and subject to public oversight) to include the following sanctions:

- Warning;
- Interim suspension of the membership in the ICA; and
- Permanent suspension of membership in the ICA.

The ICA should ensure that they comply with all obligations under local laws requiring them to:

- Report possible involvement in serious crimes and offences by members or member firms to the appropriate public authority; and
- Disclose related information to that authority.

Outcome

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 benefits of the design of a disciplinary system 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.

### Key Stakeholders

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<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
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<th>Inform (D)</th>
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### Resources, Budget, Timing and Performance Indicators

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Performance Indicator: Performance of the ICA under the IFAC compliance program

#### 4.34 Support Implementation of the Disciplinary Program (I)

**Objective**

To support the implementation of an effective disciplinary program for members of the ICA in Macedonia considering the design identified by this strategy under action 33.

**Description**

*Strategy and Action Plan to Enhance Financial reporting in the Republic Macedonia*
This action will include the following:

- Implement a strategy to deliver the disciplinary program identified under action 33. Specifically implement a strategy to assist the Disciplinary Committee to enforce the recommendations of the quality control system.
- Establish a clear 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 ICA.
- Develop the arrangements for appeals against sanctions imposed by the Disciplinary Committee including appeals lodged to the Minister of Finance. The development of structure for the disciplinary system should include:
  - All measures imposed by the ICA shall be made public in the Bulletin of the ICA; and
  - The ICA shall inform the Minister of Finance about all imposed measures.
- Organize a series of workshops with the selected ICA members to confirm their understanding of disciplinary structures and procedures of the ICA and provide practical guidance in the disciplinary structures and procedures of the ICA.

**Outcome**

The effective establishment of a disciplinary system 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**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
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<td>World Bank</td>
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</table>
Objective
To assist the ICA in developing the local expertise and knowledge, to on a long-term basis, implement an on-going disciplinary program for members of the ICA in Macedonia.

Description
This action will support the disciplinary program of the ICA including:

- Capacity support for an initial period to the ICA to allow a disciplinary program to be implemented that meets the objectives of the disciplinary requirements regarding assuring users of the standard of work produced by auditors and audit firms.

- A program of training to the relevant staff within the ICA on the requirements of a suitable disciplinary program.

- 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 long-term strategy is to allow the ICA to build up the internal expertise to undertake, on an on-going basis, the disciplinary program as designed by this strategy. This will be facilitated by support for the ICA in developing the capabilities to deliver, from internal expertise, the disciplinary program.

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### Resources, Budget, Timing and Performance Indicators

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<th>External Supports Required</th>
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<th>Total Budget Required</th>
<th>Timing (Yrs)</th>
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Performance Indicator: Performance of the ICA under the IFAC compliance program
4.36 Design a Public Register for Statutory Auditors (I)

**Objective**

To design an electronic public register for statutory auditors and audit firms in Macedonia 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.\(^{45}\)

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\(^{45}\) This action will implement the requirements of Articles 11 and 21 (A) of the Audit Law and 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 Macedonia now faces). Refer to FIRST Initiative, Technical Assistance for Accounting and Audit Reform Phase 2.
Description

This action will include the following:

- The provision of technical support to the ICA to allow for the documentation of the requirements for the registry of statutory auditors i.e. the requirements of the new EU Eighth Company Law Directive;
- Technical assistance in the design of a process for the registry of statutory auditors in Macedonia fully considering the requirements of the new EU Eighth Company Law Directive;
- Technical assistance to develop processes and procedures to allow for an effective registry of statutory auditors on an on-going basis;
- The design of and support for a 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.

Outcome

The public register is an important database, and should be available in electronic form and to be freely accessible to the public. Resources allocated to this project will in the long-term increase public confidence in the audit profession, 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

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
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<td>Statutory auditors and audit firms</td>
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Resources, Budget, Timing and Performance Indicators

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Performance Indicator: Availability of register electronically; number of requests for information on an annual basis

4.37 Establishment of a Public Register for Statutory Auditors (I)

Objective
To supply the technical and operational resources to the ICA to allow the public register for statutory auditors and audit firms, as identified by this strategy under action 36, to be established and maintained and to assist the ICA in initiation and population of this public register.

Description
To make available to the ICA the resources to initially 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.

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
• Assist the ICA in the regulation of the profession on an on-going basis.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
<th>Responsibility (R)</th>
<th>Accountability (A)</th>
<th>Consult (C)</th>
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**Resources, Budget, Timing and Performance Indicators**

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<td>Hardware, Software and Equipment - 50,000 EUR</td>
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Performance Indicator: Availability of register electronically; number of requests for information on an annual basis.

**4.38 Capacity Support to the ICA for the Public Register of Auditors (I)**

**Objective**

To assist the ICA in developing the local expertise and knowledge, to on a long-term basis, implement an on going updated public register for members of the ICA in Macedonia.

**Description**

On-going support to the ICA public register project including:

- Deliver capacity building support to the ICA for the on-going registration of statutory auditors and audit firms in Macedonia;
• Make available international expertise to independently assess the public register and its contents having regard to Articles 11 and 21 (A) of the Audit Law and 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 long-term strategy is to allow the ICA to build up the internal expertise to undertake the registration activities as designed by this strategy under actions 36 and 37.

**Key Stakeholders**

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<tr>
<th>Action No.</th>
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</table>

Performance Indicator: Availability of register electronically; number of requests for information on an annual basis

**4.39 Recognition of Audit Qualifications Acquired Abroad (S)**

**Objective**

Prepare a proposal to deal with the recognition of professional qualifications for a statutory auditor acquired abroad and the preparation of a proposal to deal with the issue of recognition of EU professional qualifications in auditing and any bi-lateral agreements reached by Macedonia. Establishing the policies and procedures in this area will assist Macedonia to address two key issues:
- The insufficient quantity of qualified statutory auditors current practicing in Macedonia;
- The perceived low quality of statutory audit in Macedonia.

**Description**

This action will include the following:

- Assist the Ministry of Finance to develop policies governing the recognition of professional qualifications for a certified auditor acquired abroad in a manner consistent with the principles of the new EU Eight Company Law Directive as transposed in Articles 11 and 20 of the Audit Law and having regard to policies and procedures of comparable EU Member States.

- To implement procedures and policies identified to govern the process. While the Audit Law does not currently differentiate between EU Member State and third country accreditation, the Education Committee of the ICA should over time develop a two-tier system that reflects the different requirements of these distinct groups.

- To establish and then provide aptitude tests for auditors from professional organizations in EU Member States in accordance with the provisions of the new Eighth EU Company Law Directive.

- On a national basis, for those qualified accountants from other recognized professional accountancy bodies currently working as auditors in registered audit firms in Macedonia, assist the Ministry of Finance to determine and agree the exam exemptions, required experience and other criteria for their recognition.

**Outcome**

The accountants in Macedonia who are qualified or in training with recognized accountancy bodies from EU Member States represent a valuable pool of resources for both the country and the profession. The use of these resources in the auditing profession will increase the availability of resources to enhance the quality of the auditing of financial reporting in Macedonia.

An additional important outcome of the successful undertaking of this activity is the avoidance of barriers to market entry by allowing persons with suitable foreign qualifications to practice in Macedonia, subject to a transparent application process.
Key Stakeholders

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<th>Action No.</th>
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Resources, Budget, Timing and Performance Indicators

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</table>

Performance Indicator: Number of foreign qualified auditors practicing in Macedonia

4.40 ICA – Regional/European and International Relationships (I)

Objective

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

- Macedonian representation at the Regional/European/International level in order to provide its input into the development of accounting and auditing; and

- Leverage on the experience of Regional/European/International partners to gain insights into good international practices.
Description
This action will assist the ICA to become a member of Regional/European and International accountancy organizations including (i) the South Eastern European Partnership on Accountancy Development (SEEPAD), FEE and IFAC.

Specific activities will include:

- Design, initiate and delivery of a strategy to allow for the application of member of the ICA to SEEPAD.
- Design, initiate and delivery of a strategy to allow for the application to membership of the ICA to FEE, including for the meeting of FEE obligations of a candidate body. These include the following requirements: 46
  - 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 ICA to meet the criteria for associate membership of IFAC to include activities that will help to establish: 47

- 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.

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 ICA will ensure the regulation of the profession. Furthermore the international experience of the ICA will help drive internal improvements and allow for the efficient and effective running of the ICA. The development of relationships with regional

46 Initially the ICA 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).

47 In the longer term, the ICA will seek to establish full membership of IFAC.
professional institutes through the SEEPAD organization will help drive regional initiatives to improve the audit profession.

**Key Stakeholders**

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<th>Action No.</th>
<th>Responsibility (R)</th>
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**Resources, Budget, Timing and Performance Indicators**

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**Performance Indicator:** Status and level of membership of SEEPAD/FEE/IFAC

**4.41 Support to the Third Level Accountancy Curriculum (I)**

**Objective**

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 Macedonian textbooks, case studies and other training materials on ISA and IFRS, which are currently insufficient, particularly in terms of practical application of standards.

Outcome

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 Macedonia. 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 financial reporting.

Key Stakeholders
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**Resources, Budget, Timing and Performance Indicators**

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Performance Indicator: Updated accountancy and auditing curriculum consistent with good international practice

### 4.42 Support Implementation of an Improved Third Level Curriculum (I)

**Objective**

Preparation of core group of university professors who can bring up to date the existing books and teaching materials, as well as prepare books and develop additional literature for the new courses and subjects in accordance to the innovated curriculum with focus on the practical aspects of IFRS and ISA.

**Description**

The performance of the activity will involve:
• Preparation, implementation and conduction of program which will offer training of the lecturers in accounting and auditing at the universities in Macedonia on the following bases:
  
  o In the process of education should be involved renowned professor from departments for accounting and auditing at public universities in Macedonia. The training should be conducted in Macedonian by professors in accounting and auditing from accredited universities from EU member states in cooperation with local Macedonian professors who, after the completion of the training, should prove that they have obtained the needed skills and knowledge for teaching the practical implementation of the IFRS and ISA. Thus, workshops should be focused on the precise methodology for teaching IFRS and ISA all in order to understand their practical aspects. Transfer of knowledge and skills will be realized through organizing interactive sessions where domestic and foreign professors will meet and clearly discuss the information. Of primary importance is significant number of the Macedonian professors to become familiar with the IFRS and ISA and the new methodology for their use, on which bases they will be in a position to write books and other accompanying literature from accounting and auditing area for easiness in overcoming the teaching disciplines by the students.
  
  o In interest of a quality transfer of knowledge with accredited international institution, program should be organized for support which will be performed for a target group of professors in accounting and auditing departments at Macedonian universities, chosen on competitive base. The target listeners should be professors with excellent communication abilities, proven teaching academic experience in the high education, rich experience of presenting papers on international congresses, fertile publishing activity confirmed by publishing articles in domestic magazines, significant participation in national and international projects, as well as proven ability for preparing quality teaching materials in the area they are considered as experts.

• Building of capacities in the university education in order to improve the curriculum in accounting and auditing area on continual bases.

**Outcome**

Enhancing the capacity of the Macedonian professors for preparing and realizing current teaching programs in the accounting and auditing area, as well as for developing new curriculum based on the use of IFRS and ISA.
Key Stakeholders

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Resources, Budget, Timing and Performance Indicators

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Performance Indicator: Number of secondments of lecturers or professors to international universities; delivery of updated accountancy and auditing curriculum consistent with good international practices

4.43 Training for the Judiciary (I)

Objective

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

- Increase awareness in the judiciary of the benefits and requirements of good corporate disclosure and transparency in respect of 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 financial reporting.

Key Stakeholders

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Key Stakeholders

Resources, Budget, Timing and Performance Indicators

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Performance Indicator: Number of judges trained under the new program
4.44 Public Awareness Program (I)

**Objective**

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

**Description**

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

- 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 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 Macedonia;
- 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 Macedonia.

**Key Stakeholders**

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**Resources, Budget, Timing and Performance Indicators**

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5 KEY PILLARS OF THE STRATEGY AND ACTION PLAN

The National Steering Committee during its consultations identified the key pillars under which the Country 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 country strategy and action plan.
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.
6 TIMING OF THE STRATEGY AND ACTION PLAN

During the identification of the activities to be delivered in the country 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 Country Action Plan, clear timeframes need to be identified. To meet this objective the National 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 below: Figure 6-1: Timeline for Implementation of the country strategy and action plan.
**Figure 6-1: Timeline for Implementation of the country strategy and action plan.**

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7 PLANNED IMPLEMENTATION OF THE STRATEGY AND ACTION PLAN

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

We have documented this information in Figure 7-1: Approval & implementation of country strategy and action plan.
Figure 7-1: Approval & implementation of country strategy and action plan

![Diagram of project implementation unit with key project pillar 1 and 2 actions]

Key Project Pillar 1: Statutory Actions
- Alignment of corporate financial reporting framework (5)
- Alignment of banking financial reporting requirements (5)
- Organising the relationship between annual accounts and corporate income tax reporting (5)
- Financial reporting for insurance undertakings (5)
- Financial reporting for listed entities (5)
- Publication & filing of financial information (5)
- Recognition of audit qualifications acquired abroad (5)

Key Project Pillar 2: Institutional Actions
- Implement the corporate financial reporting framework (1)
- Establishing the IFRS translation process (1)
- Supporting the IFRS translation process (1)
- Institutional strengthening for bank supervision (1)
- Institutional strengthening of the banking association (1)
- Institutional strengthening of the public revenue office (1)
- Supporting the insurance regulator (1)
- Supporting the securities and exchange commission (1)
- Supporting filing of statements in the central registry (1)
- Establish oversight of the auditing profession (1)
- Develop oversight of the auditing profession (1)
- Capacity building support to the oversight function (1)
- Establish the Institute of Certified Auditors (ICA) (1)
- Design operational architecture of ICA (1)
- Capacity building to support the ICA (1)
- Develop translation process for auditing standards (1)
- Support translation for auditing standards (1)
- Design educational program for auditors (1)
- Implementation of educational program for auditors (1)
- Capacity support to the education committee (6)
- Design continuing professional development program for auditors (6)
- Assist implementation of CPD program for auditors (6)
- Capacity building to the ICA to support the CPD program (6)
- Design quality assurance (QA) program for auditors (6)
- Assist implementation of the quality assurance program (6)
- Capacity support to the ICA relating to the QA program (6)
- Design disciplinary program for auditors (6)
- Support implementation of disciplinary program (6)
- Capacity support to the ICA for the disciplinary program (6)
- Design a public register for statutory auditors (6)
- Establishment of a public register for statutory auditors (6)
- Capacity support to the ICA for the public register of auditors (6)
- ICA - Regional/European & International Relationships (6)
- Support to the third level accountancy curriculum (6)
- Support implementation of an improved third level curriculum (6)
- Training for the judiciary (6)
- Public awareness program (6)