Main findings and recommendations of the Romania A&A ROSC Update

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Romania A&A ROSC Update

Presentation overview

1. The ROSC Program

2. The A&A ROSC Process

3. 2002-2008 from Transition to Integration

4. Main Findings and Policy Recommendations

5. Moving Forward
1. The ROSC Program
The Need for a Strengthened International Financial Architecture

1990s – Emerging Market Crises and contagion effects

East Asia (Thailand)

→ Philippines
→ Malaysia
→ Hong Kong
→ Indonesia
→ Taiwan
→ South Korea
1. The ROSC Program
The Need for a Strengthened International Financial Architecture

Shift from ex-post crisis resolution  Ex-ante crisis prevention
1. The ROSC Program
Economic Goals

**Promote:**

» Development of capital markets

» Access to credit, particularly for SMEs

» Development of the private sector

» Evaluate corporate prospects, make informed investment and voting decisions

» Assess management performance, thus influencing its behavior

**Avoid:**

![ENRON SCANDAL](image)
1. The ROSC Program
“Standards and Codes” Initiative (modules)

1. Data Transparency
2. Fiscal Transparency
3. Monetary & Financial Policy Transparency

4. Banking Supervision
5. Securities
6. Insurance
7. Payments Systems
8. Anti-Money Laundering

9. Corporate Governance
10. Accounting
11. Auditing
12. Insolvency and Creditor Rights

Transparency standards

Financial sector standards

Market integrity standards
(World Bank ROSCs)
2. The A&A ROSC Process Assessment’s goals and tools

» Analyses the accounting and auditing environment that influence the quality of corporate financial reporting,
  - Statutory Framework, Accounting Standards, Education and Training, Accounting Profession and Ethics, Auditing Standards, Monitoring and Enforcement

» Includes a review of both statutory requirements and actual practice,
  - Review of financial statements
  - Review of annual reports of supervisors

» Uses Benchmarks
  - Acquis Communautaire as it relates to financial reporting
  - IFRS
  - ISA
  - Best practices
2. The A&A ROSC Process
Assessing the Quality of the A&A Framework

Factual Assessment

- Economic Context
- Legal & Institutional Framework
- Accounting in Practice
- Auditing in Practice

Perceptions

FINDINGS  Recommendations
2. The A&A ROSC Process

A diagnostic tool is used to conduct the ROSC A&A assessment

1. Assessment of the accounting & auditing environment:
   - collection of data (diagnostic tool: overview of the statutory and institutional framework, accounting and auditing standard gap)
   - Collection of audited financial statements

2. Comparison of National Accounting Standards and IAS/IFRS

3. Assessment of actual accounting practices (compliance gap)

4. Auditing
   Assessment of actual auditing practices (compliance gap)

Due Diligence Review
Review of data collected using the diagnostic tool, interviews with all stakeholders including auditors preparers and users of financial statements
Inception/closing meeting with NSC

Final Report
- Gap identification
- Gap closing options in the form of Policy Recommendations

Stakeholders provide information
Stakeholders provide comments
3. 2002-2008 From Transition to Integration

- In the context of the 2007 EU accession
  - Many 2003 A&A ROSC recommendations are implemented, some still in progress

- Alignment of the accounting laws and accounting standards and regulations with requirements of the EU Directives and the IAS Regulation for the enterprise and the financial sectors

- The 2008 Audit Law implements the EU 8th Company Law Directive

- Notable process in the public availability of financial statements and in the quality and completeness of audit opinions

- Establishment of monitoring mechanisms, to monitor audits and accounting standards
3. 2002-2008 From Transition to Integration

- Some important challenges are still ahead
  - The public oversight system required by the audit law needs to be operationalized: organizational and financial challenges
  - Cooperation between accounting professional bodies needs to be enhanced
  - The monitoring and enforcement mechanisms for the non-banking sector need to prove their effectiveness
4. Findings and Policy Recommendations

The financial reporting infrastructure
4. Findings and Policy Recommendations

Statutory Framework

Findings

- Statutory framework aligned with the EU acquis communautaire
- Substantially improved availability of financial statements at the trade registry
- The 2008 Audit Law implements the EU 8th Company Law Directive
- The Council for the Public Oversight of the Statutory Audit Activity has been established

Recommendations

- Effective implementation of the Council
4. Findings and Policy Recommendations

**Accounting Standards**

Findings
- Accounting standards aligned with the EU Directives and IAS Regulation
- Good consultative process for issuing accounting standards but could be further improved. High-level preparers, auditors and users are not fully integrated in the process

Recommendations
- Further improve the consultation process for issuing accounting standards by including systematically preparers, auditors and users
4. Findings and Policy Recommendations

**Accounting Profession and Ethics**

Findings

- Governance principles of CAFR and CECCAR have evolved positively but governance arrangements are not widely known or understood
- CAFR regulates the internal audit function
- The MOU on further cooperation between CAFR and CECCAR has not been operationalized

Recommendations

- Independent assessment of the governance principles and arrangements to be carried out and published
- Range of activities of CAFR and CECCAR should be clarified with respect to audit activities
4. Findings and Policy Recommendations

Auditing Standards

Findings
- Audit Law requires the use of International Standards on Auditing (ISAs)
- Much enhanced ISA compliance of audit reports during the review of financial statements
- Duplication of efforts by Professional Bodies in translating these standards

Recommendations
- Cooperation required as IFAC has new requirements for ISAs translation
4. Findings and Policy Recommendations

*Education and Training*

**Findings**
- Important demand for Accountants from the labor market
- Academy of Economic Studies of Bucharest has strengthened and obtained further exemptions for ACCA qualification
- ACCA qualification recognized by CAFR and CECCAR

**Recommendations**
- Encourage other universities to enhance their accounting curricula and to seek exemptions from international accounting qualification providers
- Further cooperation between CAFR, CECCAR and universities to improve the quality of professional education and to agree on a strategy for converging the two education systems
4. Findings and Policy Recommendations

Monitoring and Enforcement

Findings
- CAFR monitoring unit needs strengthening, reviews are too short for complex audits
- CNVM: monitoring started in 2008
- CSA: no instances of non-compliance on accounting standards published

Recommendations
- CAFR to enhance its capacity to review audits in particular audits in the financial sector
- CNVM, CSA and CSSPP to ensure effective supervision over enforcement of accounting standards
6. Moving forward
Centre for Financial Reporting Reform

- Office of the World Bank’s Europe and Central Asia Region, located in Vienna, supported by Government of Austria

- Responsible for the region’s corporate sector financial reporting activities, providing support to other Regions and external partnerships

- 20 staff: a comprehensive mix of skills and experience

- Roster of consultants and experts

- Network of international partners, donors and standard-setters

- Global distance learning facilities
6. Moving forward

Technical Assistance Program for the new EU Member States

- The technical assistance program for the new EU Member States supports countries in the field of financial reporting.

- It aims to assist in the implementation of sustainable regulatory and institutional frameworks and in furthering the correct implementation of the acquis communautaire in the area of financial reporting.

- Funds for this program are provided from the Swiss State Secretariat for Economic Affairs under the Swiss Enlargement Contribution.

- EU Member State can participate early on a cost recovery basis before Swiss Enlargement Contribution is agreed.
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