

REPARIS

Road to Europe: Program of Accounting Reform and Institutional Strengthening



Progress Report

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The World Bank Centre for Financial Reporting Reform

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List of Abbreviations and Acronyms

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|--------|--|---------|--|
| A&A | Accounting and Auditing | IFAC | International Federation of Accountants |
| ASEM | Academy of Economic Studies of Moldova | IFRS | International Financial Reporting Standards |
| BiH | Bosnia and Herzegovina | ISA | International Standards on Auditing |
| CFR | Corporate Financial Reporting | MDTF | Multi-Donor Trust Fund |
| CFRCoP | Corporate Financial Reporting Community of Practice | M&E | Monitoring and Evaluation |
| CFCU | Central Finance and Contracting Unit (Albania) | MoF | Ministry of Finance |
| CFREP | Corporate Financial Reporting Enhancement Project (Albania) | NAC | National Accounting Council (Albania) |
| CFRR | Centre for Financial Reporting Reform | NAS | National Accounting Standards |
| CoP | Community of Practice | PAO | Professional Accountancy Organization |
| CPD | Continuing Professional Development | QA | Quality Assurance |
| EC | European Commission | REPARIS | The Road to Europe: Program of Accounting Reform and Institutional Strengthening |
| EDIF | Enterprise Development and Innovation Facility | ROSC | Report on the Observance of Standards and Codes |
| EduCoP | Accounting Education Community of Practice | RS | Republika Srpska (Entity within BiH) |
| EU | European Union | SAD | Statutory Audit Directive |
| FBIH | Federation of Bosnia and Herzegovina (Entity within BiH) | SCAAK | Society of Certified Accountants and Auditors of Kosovo |
| IASB | International Accounting Standards Board | SME | Small or Medium-sized Enterprise |
| IEKA | Albanian Institute of Authorized Auditors | SMP | Small and Medium-sized Practice |
| IES | International Education Standards for Professional Accountants | STAREP | Strengthening Auditing and Reporting in the countries of the Eastern Partnership |

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Foreword

I am pleased to present the REPARIS Progress Report for 2013. At this final stage of program implementation, the Senior Officials Workshop on September 30 provided an excellent opportunity to reflect on the progress each country has accomplished in reforming its corporate financial reporting framework.

One of the key achievements of REPARIS is a much greater awareness of the benefits and importance of financial reporting reform and an increased understanding of the EU *acquis communautaire*. In addition, the program has enabled the participating countries to gain a precise understanding of where they stand in terms of *acquis* transposition, through the use of concordance tables. REPARIS has also fostered a genuine spirit of cooperation among participating countries in Southeast Europe. In that regard, Croatia, the 28th EU member state, continues to participate actively in the program and share its invaluable reform experience.

In more tangible terms, the knowledge and technical assistance delivered as part of the program have helped build stronger accounting and audit professions in the Western Balkans. We have also seen reform happening on the ground, most recently in Serbia with two new laws enacted last summer. In each of the participating countries, the institutional framework for corporate financial reporting is now more closely aligned with the *acquis*.

Much remains to be done for the participating countries to complete their corporate financial reform framework. Starting this year, a new program, EU-REPARIS, will be implemented by the CFRR in the context of the Western Balkans Enterprise Development Innovation Facility. It will build on these successes and help toward completing the reform process in the six countries.

Furthermore, thanks to the new regional program on Strengthening Auditing and Reporting (STAREP), the experience of REPARIS will now benefit the Eastern Partnership countries.

I take this opportunity to express our deepest gratitude to our generous donors, whose financial support has made REPARIS possible, to all the partner institutions in the EU and elsewhere who have supported the program since 2008, and to our counterparts in partner countries whose commitment to REPARIS has helped us fulfill our objectives.

Henri Fortin
Head, Centre for Financial Reporting Reform
February 2014

Introduction

REPARIS - The Road to Europe – Program of Accounting Reform and Institutional Strengthening - aims to assist countries of Southeast Europe adopt and implement effective corporate financial reporting systems, aligned with the EU *acquis communautaire*. Countries participating in the program currently include Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro, and Serbia. Moldova was a beneficiary country until October 2013 but has now joined the new regional STAREP program which includes all Eastern Partnership countries.

REPARIS is funded by the REPARIS multi-donor trust fund (MDTF) managed by the Vienna-based World Bank Centre for Financial Reporting Reform (CFRR). The funding is provided by the Austrian Development Agency, the Austrian Finance Ministry, the Grand Duchy of Luxembourg, and the Swiss State Secretariat for Economic Affairs. .

The REPARIS program was established in late 2008 and will run until June 2014. As the program approaches completion there has been a focus on finalizing and evaluating current activities and designing the future content of the follow-on EU-REPARIS program - part of the EU Western Balkans Enterprise Development Innovation Facility and implemented by CFRR - which is expected to launch in July 2014.

Associated with REPARIS is the Albania country project CFREP – Corporate Financial Reporting Enhancement Project, also supported by the REPARIS MDTF. CRFEP works to strengthen the country’s financial reporting system and is implemented by the Albanian Government with support from CFRR.

This report presents a summary of activities¹ carried out during 2013 as well as more detailed tables setting out program activities and intermediate results included in the results framework.

¹ A detailed description of each activity can be found on the CFRR website.

I. REPARIS Regional Activities

1. Summary of Main Activities in 2013

Reform Momentum and Regional Cooperation

High Level Regional Conference brings together senior officials, global standard-setters and stakeholders

On 1 October high-level representatives from REPARIS countries and others in Central, Eastern and Southern Europe, the European Commission, international accounting organizations, and the World Bank, met in Vienna for a joint REPARIS/STAREP conference. Building on the success of previous events organized by the CFRR, this conference facilitated peer exchange on shared issues, innovative approaches and success stories and focused attention particularly on new EU accounting legislation and possible changes to EU audit legislation.

A related event on 30 September was an opportunity for senior officials from the REPARIS countries to discuss national progress and the ongoing challenges in building strong and sustainable financial reporting environments. Much had been accomplished, but more effort is needed especially in the areas of SME financial reporting and audit regulation.

In-Country Engagement

CFRR country managers continued to work closely with national stakeholders on a range of country specific issues, for example on local legislative amendments.

Curricula Development and Education Reform in Accounting and Auditing

Supporting educational quality enhancement

The Accounting Education Community of Practice (EduCoP) has been working together since 2010. It comprises representatives from universities, professional accounting bodies, standard-setting boards, audit licensing boards/chambers and other regulatory authorities with responsibility for or an interest in accounting education in REPARIS countries. Activities continued in 2013 to support quality accounting education programs at universities, and promote the implementation of the IFAC's International Accounting Education Standards Board (IAESB) standards and guidance, as well as statutory audit requirements for qualification of auditors, for the pre- and post-qualification training of professional accountants and auditors. A workshop in April covered a range of topics including practical methods for improving accounting education, with a particular focus on co-operative arrangements, such as twinning of institutions, for developing sustainable systems of education and accreditation.

Training audit trainers to act as multipliers

In 2013 the CFRR continued its program to develop the capacity of audit trainers to deliver high-quality training, based on ISA, using a Training-of-Trainers (ToT) approach. Following an initial

successful event in 2012, two further workshops took place in February and November 2013. Attended by Professional Accountancy Organizations and others providing continued professional development training for auditors, the workshops aimed to facilitate shared learning and peer exchange on the design, content, implementation, teaching and quality control arrangements for successful and effective continuing professional education/development. They are also being used to develop an integrated audit case study and simulated Client File Series that will form a useful teaching resource for Audit ToT trainers in the region.

The CFRR also sought to replicate the knowledge to wider audience groups in client countries. It is important that the knowledge gained is passed on to a wider group of audit trainers in each country. An event in Moldova shows how this type of "information cascade" can work in practice. With the support of REPARIS, the Ministry of Finance in Moldova organized a workshop in April 2013, disseminating the materials and insights gained at the CFRR ToT workshop to a wider group of audit trainers.

Moving Forward in Accounting and Auditing

Corporate Financial Reporting Community of Practice

The Corporate Financial Reporting Community of Practice (CFRCoP) assists policy makers and other stakeholders to achieve adequate national policies, regulations and institutional arrangements, and by keeping them up to date with developments in the *acquis communautaire*, international financial reporting and auditing standards, global regulation and sharing implementation experience. Over the years of the program implementation, the CFRCoP has generated and shared a lot of knowledge both regionally and nationally which has contributed to reducing the knowledge gap in client countries and empowered policy makers to make the changes required to their legal and institutional frameworks for CFR. During the reporting year, a CFRCoP workshop was held in May 2013 in Vienna. Attended by over 30 participants from ministries of finance, national chambers of auditors and practicing auditors, it focused on recent developments in audit regulation in the EU and in the REPARIS countries and also discussed the roles of audit committees in auditing arrangements.

IFRS for Regulators

Enhancing financial regulators understanding of International Financial Reporting Standards

Financial regulators' ability to effectively supervise the institutions which they are responsible for overseeing and, in particular, to monitor that these institutions are meeting the required prudential standards relies on their understanding of the financial information submitted to them. This information comes mainly from financial statements produced by banks and insurance companies using, in the EU and in many other countries, International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB). As many financial regulators do not have an accounting background a five-day Executive IFRS Seminar for financial regulators, jointly organized with the IASB in June 2013, enhanced participants' understanding of IFRS – both of the current form of the standards and of the changes that are due to be introduced in the near future - so that they could use this knowledge to improve the effectiveness of prudential regulation.

Sharing approaches to aspects of bank lending

Given international interest in the accounting treatment of losses on bank loans, the CFRR organized a virtual seminar for financial regulators to gain a better insight into how a commercial bank approaches the issue of loan loss provisions (LLP) for small and medium-sized enterprises (SMEs) and micro entities, and how this compares with requirements under Basel II and with reporting obligations under current and proposed IFRS. Senior staff from Raiffeisen Bank International (RBI) presented in a virtual seminar for banking supervisors from REPARIS countries in February 2013, outlining various models used by RBI to assess the level of loan loss provisions on SME lending.

Encouraging a constructive dialogue between banking supervisors and auditors

The relationship between banking supervisors and auditors is increasingly in the spotlight. The EU are developing regulation to enhance the quality of statutory audit of Public Interest Entities and a Basel Committee on Banking Supervision (BCBS) consultative paper on the external audit of banks directly links enhancement of the auditor/supervisor relationship with improved audit quality. Experts, including from the CFRR, sought to update senior staff of banking supervisory agencies from CFRR partner countries on this topical issue at a seminar in November 2013. The event also marked the launch of a Regulator's Exchange Forum study, supported by the CFRR, on key topics in building a constructive dialogue between external auditors and supervisors. Participants highlighted topics that will be included in a survey to be completed by senior banking supervisors from partner countries. The results are expected to be published in 2014.

Studies and analytical work

Two analytical studies, detailing the financial reporting framework of Austria and experience of corporate financial reform in Croatia, were begun in 2013 and are due to be published in 2014.

Implementation Support, Monitoring and Evaluation, Results Framework and Knowledge Management

Results framework

A robust results framework for REPARIS regional activities was applied in 2013. This is used to monitor and evaluate progress. Close monitoring of activity and outcome helped ensure that implementation remained on track.)

Knowledge Services

The CFRR continued to develop the knowledge resources available for REPARIS program beneficiaries. The website (www.worldbank.org/cfrr) is a distinct, branded entity within the World Bank web platform. It offers a "one-stop-shop" for participants with registration services and relevant materials available from events, such as presentations, in slide form or video recorded; materials used at workshops; relevant links to external sites; regulatory news; and other pertinent information. The users found the website and its content very useful. In addition, a regular newsletter showcases the activities of the CFRR and maintains ongoing contact with stakeholders. In addition, distance learning tools have enabled cost-effective teaching events to be organized.

Country-specific implementation support activities

In 2013 the CFRR continued work to facilitate the transfer of knowledge and expertise, tailored to the needs of each country and to support national stakeholders in their reform efforts..

Albania

Support for the national project, CFREP, continued and enabled implementation of knowledge from regional activities at the national level. More detail on CFREP is available further down in this document.

Bosnia and Herzegovina (BiH)

Ongoing advice and support was provided in support of the recommendations made in the 2010 A&A ROSC, including to Ministries of Finance on alignment of the legal framework with relevant aspects of the acquis and to professional bodies and the Federation Chamber of Audit Control on developing quality assurance activities.

Croatia

Dialogue on the continuing development of audit quality assurance and public oversight activities was maintained. The Croatian experience of successfully implementing the acquis is being used to prepare a CFRR publication.

Kosovo

The A&A ROSC update was disseminated in April 2013 and the government of Kosovo initiated amendments to its Law on Financial Reporting and Auditing to align with acquis. A CFRR technical support mission provided advice to the Ministry of Finance in support of these legal reforms and institutional development.

Building on the recommendations of the A&A ROSC Update, just-in-time technical advice to senior government officials within the Ministry of Finance was provided in support of planned legal reforms and institutional developments.

Macedonia

The CFRR participated in a round table co-organized by the Council for Audit Advancement and Oversight and Institute of Certified Auditors, which looked at the findings from quality inspections concerning areas of non-compliance with International Standards on Auditing, and discussed recommendations for audit quality improvement.

Moldova

A&A ROSC completion and dissemination, South-south completion and international conference (both not funded by REPARIS but highly relevant re- country progress). As of October 2013, Moldova no longer participates in the REPARIS program but is now an integral partner of the STAREP program.

Montenegro

CFRR technical experts are providing implementation support to the IDF project on Developing Effective Capacity for Quality Assurance and Public Oversight which launched in summer 2013 and is due to run until the end of 2016. This involves providing support and technical assistance to the Government in establishing a system for public oversight and quality assurance for the statutory audit function.

Serbia

2013 was a year of intense in-country support to Serbia. CFRR provided technical advice to the Ministry of Finance in drafting amendments to the accounting and auditing laws in order to more closely align these with the acquis. One of the key considerations was to alleviate the administrative burden on smaller companies. In that respect, the IFRS for SMEs was adopted as the accounting standard for SMEs and a specific standard for micro companies is being developed. Small and micro enterprises are no longer subject to mandatory audit.

2. Lessons Learned and Outlook for 2014

The focus for the REPARIS program in 2013 was to help partner countries move towards achieving a significant degree of transposition of the acquis, or having a detailed plan in place to do so.

As the program reaches maturity there has been a great deal learnt about the most effective methods of delivering knowledge. The Training of Trainers approach has been a success, the careful targeting of participants and the use of engaging materials at workshops have driven awareness of the need to develop both initial and ongoing professional development curricula, the analytical and research work supported the countries to make policy choices in various CFR reforms. The series of activities will continue in 2014. More challenging is how to ensure that this knowledge is cascaded to other trainers on return to home countries. Sample curricula, being worked on as part of the program, should help with this and we continue to encourage participants to hold multiplier events in home countries.

The emphasis on improving regulators' understanding and ability to work with IFRS was well received in 2013. A detailed series of technical briefings by members of the IASB targeted the group well. The briefings were video recorded and put on the CFRR website to be available both to participants and more widely and a further series of briefings is to be held in 2014.

As the REPARIS program nears completion attention will increasingly focus on completing activities and working to ensure a smooth transition to the follow-on EU-REPARIS program. As part of this process there will be close attention paid to the evaluation of progress in the results framework and a fine-tuning of activities to take place under the new program.

A Program Plan for 2014 is available as separate document detailing the activities planned to be carried out during the period January – June 2014.

3. Activities and Outcomes by Component

Component 1: Reform Momentum and Regional Cooperation

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|---------------------------|--|--|--|
| Activity/Objective | Component 1 aims to foster support for the program’s objectives and commitment to its effective implementation from Ministers of Finance, their Deputies and Senior Officials. | | |
| | Key inputs and outputs 2013 | Key intermediate outcomes 2013 | Overall program status |
| | The REPARIS Senior Officials workshop on 30 September discussed progress and ongoing challenges in building strong and sustainable financial reporting environments. On 1 October they were joined by high-level representatives from other countries in Central, Eastern and Southern Europe, the European Commission, international accounting organizations, and the World Bank, to discuss “Financial Reporting and Auditing at a Crossroad: Joint REPARIS/STAREP conference”. | Senior officials and staff with responsibilities for steering accounting and auditing reforms, including preparing draft laws and organizing consultations with in-country stakeholders, from seven REPARIS countries took part in a workshop in Vienna on September 30, 2013. There was recognition of the achievements and of the ongoing challenges. The Program’s progress was reviewed and its contribution endorsed. | Beneficiary countries show a high degree of reform awareness and there is a spread of understanding at the senior official and political levels, as well as at the expert level. REPARIS events are well attended. A reasonable degree of cooperation and experience sharing between beneficiaries has been established and a climate of joint-learning created. |

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| Activity/Objective | In-Country Engagement continues to allow CFRR to develop and maintain country specific dialogue and follow up country specific issues | | |
| | Key inputs and outputs 2013 | Key intermediate outcomes 2013 | Overall program status |
| | See component 4 for more details. | Direct contacts help sustain the momentum of reform and address, or diffuse potential national level issues. | |

Component 2: Curricula Development and Education and Training Reform in Accounting and Auditing

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| Activity/Objective | Component 2 aims to promote internationally compatible accounting education at (i) university level; (ii) for professional qualification; (iii) for continuing professional development. | |
| Key inputs and outputs 2013 | Key intermediate outcomes 2013 | Overall program status |
| <p>A regional EduCoP workshop to support quality accounting education programs at universities, and promote the implementation of the International Accounting Education Standards Board (IAESB) standards and guidance for the pre- and post-qualification training of professional accountants and auditors took place on 24 and 25 April 2013. It covered a range of topics including practical methods for improving accounting education, with a particular focus on co-operative arrangements, such as twinning of institutions, for developing sustainable systems of education and accreditation.</p> | <p>CoP participants had the opportunity to gain new insight and fresh ideas which can be integrated into new curricula and training syllabuses. A further workshop will take place in January 2014, joined by STAREP counterparts as an introduction for them to the CoP concept.</p> | <p>Statutory frameworks of all countries show full or partial compliance with the education requirements of the SAD, however, all countries continue to face challenges in implementing them.</p> |
| <p>Audit Training of Trainers workshops were held from 6-8 February and 18-19 November 2013. They focused on aspects of the design, content, implementation, teaching and quality control arrangements for effective continuing professional development and education. Participants were encouraged to share and learn. A cascade event took place in Moldova on 3 April, to further disseminate ideas on modernizing accounting and auditing curricula.</p> | <p>There was active engagement with workshop materials and themes. The tools and methods discussed equip participating professional bodies and educators with the capacity to deliver high quality ISA compliant CPD courses for auditing, addressing a specific challenge faced by SMPs. CFRR is encouraging the cascading of this information within partner countries. The development of teaching materials as part of the workshops will be of wider benefit to audit trainers in the region.</p> | <p>Tertiary education remains a challenge and further resources will be devoted to further strengthen initial accounting and audit education. PAOs of all countries are IFAC members, a condition of which is to implement IES, however, the quality of implementation varies, and capacity building efforts are ongoing.</p> |

Component 3: Moving Forward in Accounting and Auditing

| Activity/Objective | (i) Financial Reporting and Audit and Oversight aims to promote the implementation of corporate financial reporting systems that are aligned with the <i>acquis</i> and meet the needs of users of financial statements, and promotes the quality of external audit by assisting in the implementation of the SAD. | |
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| Key inputs and outputs 2013 | Key intermediate outcomes 2013 | Overall program status |
| <p>A Corporate Financial Reporting Community of Practice (CFRCoP) workshop on 22-23 May continued to focus on the implementation of the audit oversight and quality assurance elements of the SAD through audit-focused activities. Participants shared national progress and discussed future challenges.</p> | <p>The workshop is one of the activities to address the knowledge gap in key reform implementation areas and to help participants better understand new and forthcoming EU legislation and specific detailed aspects of <i>acquis</i> requirements.</p> | <p>With the support of REPARIS, the majority of countries completed transposition tables. These show significant progress in aligning the legal framework with the <i>acquis</i>, though this varies between countries. Even when laws are aligned, their implementation remains a challenge. Although the definitions of PIEs have been broadly harmonized, a shared definition of SMEs and micro entities is lacking. SME standards including the IFRS for SMEs have been widely promoted and have been adopted in Serbia, Macedonia and BiH. Limited resources have been devoted to the links between tax and accounting and challenges remain. Particular challenges lie ahead with regard to systems for registration and quality assurance of auditors, although some elements of audit oversight and quality assurance were implemented in most participant countries. There will be an increased focus on SMEs and micro enterprises financial reporting framework in the successor EU REPARIS program from 2014.</p> |

| Activity/Objective | (ii) IFRS for Regulators aims to help financial sector regulators to enhance the use of IFRS for regulatory purposes and build awareness of IFRS for SMEs. | | |
|---|--|--|--|
| Key inputs and outputs 2013 | Key intermediate outcomes 2013 | Overall program status | |
| From 3-7 June the CFRR and the International Accounting Standards Board held a seminar for financial regulators from REPARIS countries to provide detailed information on IFRS and enhance the understanding of the assumptions and judgments inherent in compiling financial statements to help them make sound decisions. | Many financial regulators do not come from an accounting background and have only an imperfect understanding of the principles behind IFRS. Participants now have a depth of knowledge of IFRS, current and forthcoming. As all the formal sessions were videotaped and are available on the CFRR website there is wider potential for others to benefit from the event. | Qualitative feedback shows a high degree of agreement among financial supervisors on using financial statements for regulatory purposes. Supervisors have an increased demand for high quality financial reports and most central banks make IFRS statements a requirement for banks. Challenges remain in facilitating discussions between regulators, regulated entities and auditors. A study to better understand the key topics is being initiated by the CFRR. | |
| A virtual seminar for banking supervisors was held on 13 February on how a commercial bank operating in REPARIS countries approaches the issue of calculating loan loss provisions (LLP) on loans for small and medium-sized enterprises (SMEs). | The approach of an Austrian bank in calculating LLP was useful background for REPARIS banking supervisors in understanding the issues and reporting obligations involved. | | |
| A regional workshop on 21-22 November brought together senior staff of banking supervisory agencies from REPARIS (and STAREP) countries with international experts to discuss recent developments and how auditors can contribute to bank supervision. | The workshop highlighted the importance, and reviewed the means, of building constructive dialogue and effective cooperation between auditors and prudential supervisors. Enhanced supervision resulting from closer cooperation between supervisors and auditors contributes to financial stability. | | |

Component 4: Implementation Support, M&E, Results Framework and Knowledge Management

| Activity/Objective | (i) Implementation Support aims to assist countries in shaping and implementing national reform efforts, drawing on lessons learned from the experience of other countries in the region. | |
|-------------------------------|--|--|
| Overall program status | See Annex for status by country. | |
| Country | Key inputs and outputs 2013 | Key intermediate outcomes 2013 |
| Albania | Activities under regional REPARIS provided support to local institutions. To ensure timely delivery, the CFRR is providing monitoring and program management support on a daily basis. For more detailed information, see the CFREP section below. | All components of the national project (CFREP) are close to completion. The project will end on March 30, 2014. For more detailed information, see the CFREP section of this report below. |
| Bosnia and Herzegovina | Technical discussions continued with both Republika Srpska and the Federation of Bosnia and Herzegovina with the respective MoFs, financial supervisors and representatives of the A&A profession. Contacts were developed with the University of Business of Economics of Sarajevo to participate in an international benchmark on accounting education to be developed in 2014. All institutions continued to participate regularly in Regional activities. | BiH made no progress in 2013. There was a reversal of progress made in 2012 by the Chamber of Auditors of FBiH, with the cancellation of adoption of a manual for reviewing the quality of audit work. An audit public oversight board, required by the 2009 auditing law, will be appointed in early 2014. A benchmark on the accounting curricula will be performed in 2014. |
| Croatia | A mission to Zagreb discussed the implication of several officials in a publication that will demonstrate the implementation of the <i>acquis</i> as it relates to accounting and auditing by Croatia. | A publication will be produced in 2014. |
| Kosovo | Following the ROSC dissemination during April 2013, the government of Kosovo initiated a process of amending its Law on Financial Reporting and Auditing to align with EU <i>acquis</i> . CFRR supported this legal reform effort and conducted a technical support mission with aim to provide just-in-time technical advice to the senior government officials within the Ministry of Finance and support their planned legal reforms and institutional development. | Kosovo stakeholders are active participants in regional activities. These activities have made the MoF and SCAAK aware of the need for further work to align the national reporting framework with the <i>acquis</i> . |

| Country | Key inputs and outputs 2013 | Key intermediate outcomes 2013 |
|-----------------------------|--|--|
| | <p>Following the technical support mission, during 10 & 11 September 2013, a two day workshop in Peja, Kosovo, was co-organized by the Society of Certified Accountants and Auditors of Kosovo (SCAAK) and the World Bank Office in Kosovo and Centre for Financial Reporting Reform (CFRR). Over 50 participants representing key institutions concerned (including the Central Bank, Ministry of Finance, Kosovo Financial Reporting Council and the Society of Certified Accountants and Auditors of Kosovo) contributed to the discussions concerning the proposed amendments to the Kosovo Law on Financial Reporting and Auditing.</p> | |
| <p>FYR Macedonia</p> | <p>Two missions undertaken to start work on the A&A ROSC Update. CFRR engaged a national consultant, and undertook a wide range of meetings with stakeholders in CFR reform. CFRR mission undertaken to participate in the round table co-organized by the Council for Audit Advancement and Oversight and Institute of Certified Auditors. At the roundtable, the main findings arising from the quality inspections concerning areas of non-compliance with International Standards on Auditing and proposed recommendations for improving the overall audit quality in the country were discussed.</p> | <p>The Chamber of Auditors has completed the third round of QA reviews of audit firms. The Public Oversight Board has become operational and has completed the auditors licensing according to the new law.</p> |
| <p>Moldova</p> | <p>The CFRR helped the leading university (ASEM) to modernize its curricula, and the MoF to prepare a draft transposition table of auditing legislation. An exchange visit to Bucharest took place in December 2012 as part of a project (funded by the South-South Exchange Facility) to improve A&A curricula, and in 2013 follow-up work was undertaken by the faculty to modernize curricula and</p> | <p>A consensus has been reached among key stakeholders on how to develop new core A&A curricula for universities aligned with good international practice and progress has made in 2013 to design the changes that will be in effect from September 2014 (new school year). ASEM re-submitted an application for accreditation with an</p> |

| Country | Key inputs and outputs 2013 | Key intermediate outcomes 2013 |
|-------------------|--|---|
| | gain accreditation by an internationally recognized professional accountancy association. | internationally recognized accountancy body in late 2013 updated curricula will ensure a higher degree of compliance with IFAC's IES. |
| | The CFRR has updated the A&A ROSC to reflect changes since the previous ROSC in 2004 and provided policy recommendations for the next phase of reforms (some support for CFR reforms in Moldova is envisaged under the STAREP). The report was completed in June 2013, and the dissemination workshop was organized in September 2013, setting the new stage of reforms and recognizing the achievements from the past. | Policy makers and other CFR stakeholders were informed on A&A ROSC findings and recommendations, which raised their awareness on the remaining challenges in modernizing CFR institutional framework in Moldova. The exchange visit to Romania raised awareness in academia and the profession in Moldova of the content of modern accounting education curricula. This will enable reforms in this area to be continued. The first results are expected in 2013 and the first modernized courses are expected to be introduced in the 2013/2014 university year. |
| Montenegro | The IDF Grant for Capacity Building for Effective Audit Oversight Project was signed in the summer 2013 and formally launched during November in Podgorica. The launching event was organized by the CFRR and co-hosted by the government of Montenegro where 30 participants representing the key institutions concerned (Ministry of Finance, the Accounting and Auditing Council, the Professional Audit and Accounting Associations of Montenegro, Tax authorities, Faculty of Economics, Central Bank, Security and Exchange Commission, Agency for Supervision of Insurance, and other stakeholders) contributed to the discussions concerning the objectives and expected outcomes of the IDF Grant. CFRR staff worked closely with the MoF and other stakeholders to develop a Proposal for an IDF Grant to support the implementation of CFR in Montenegro. The application was successful and the IDF awarded a grant of of \$500,000 to support | The IDF program focuses on full transposition of the EU 7th Directive, establishment of public oversight and quality assurance systems for auditors, and further development of the capacity of the PAO (ICAM). The CFRR will supervise the IDF program, and will use activities under this Component of REPARIS to further accelerate and deepen the reform efforts. |

| Country | Key inputs and outputs 2013 | Key intermediate outcomes 2013 |
|---------------|--|---|
| | the Ministry of Finance in achieve clearly specified ambitious reform objectives in 2013/2014 | |
| | On 10-11 December, 2012, a CFRR team delivered a seminar on bank accounting to banking supervisors at the Central Bank of Montenegro (CBM). The seminar’s main objective was to help CBM staff deepen their understanding of IFRS and prudential requirements and so enhance banking supervision in Montenegro. The seminar was financed under the Balkan Technical Assistance Facility. | CBM participants improved their understanding of current IFRS projects on accounting for financial instruments and EU regulation on prudential requirements, explored how the review of IFRS financial statements can help them to fulfill their supervisory duties, and analyzed the interactions between Basel regulations and IFRS through the use of prudential filters. |
| Serbia | The CFRR provided continuous assistance during 2013 to Serbia in the form of several missions to Belgrade, on-call assistance, and dedicated local experts to provide technical support the MoF in developing new audit and accounting laws and by-laws. | The passage of new A&A laws with greater alignment to the EU <i>acquis</i> is a key accomplishment for Serbia. The law requires formal implementation of ISAs and differential reporting according to the size of economic entities. Completion of most of the by-laws will support compliance with the <i>acquis</i> . The IFRS for SMEs has been translated into Serbian, and a reporting regime for micro-entities is being developed. The formats prescribed by the new accounting directive were used as the basis to develop the new financial reporting formats. |

| | | |
|---|---|---|
| Activity/Objective | (ii) Knowledge Management and Results Framework: aims to ensure that the lessons learned and resources developed in the REPARIS program are shared throughout the region. | |
| Key inputs and outputs 2013 | Key intermediate outcomes 2013 | Overall program status |
| <p>Nearly 50 evaluations were carried out as of February 2014 and responded by over 700 participants. Electronic newsletters were sent in February, May and December. The website’s country pages, event pages and topics pages continues to be updated on a regular basis.</p> | <p>The overall evaluation results showed a very high satisfaction level for the series of REPARIS events, reaching on average about 4.7 out of 5 on a scale of 1 to 5. The overall traffic to the CFRR website has been increasing. Nearly all REPARIS countries ranked in the top 20 visiting countries, accounting over 15% of total visitors. Web cooperation agreements with selected PAOs from six partner countries (Albania, Kosovo, Macedonia, Moldova, Montenegro and Romania) were established.</p> | <p>Knowledge Management (KM) is an important contributing factor to the success of REPARIS. It has helped establish an environment of joint learning and experience sharing among program participants by establishing communities of practice and organizing numerous learning events, seminars and conferences. Other KM activities, including the information provided by the CFRR website and the CFRR Newsletter, have facilitated the transmission of knowledge to program participants in an effective and efficient manner.</p> |

4. Program Administration and Financial Summaries

Activity Tables

The following two tables compare the activities that were planned to take place in 2012 as set out in the Program Plan with the outturn.

| Component | Activity | Planned activities | Delivered activities |
|--------------------|-----------------------------|--------------------|----------------------|
| Component 1 | Senior Officials Conference | 0 | 1 |
| | Workshops | 1 | 1 |
| Component 2 | Workshops | 4 | 3 (*) |
| | GDLNs (virtual seminars) | 2 | 0 (**) |
| Component 3 | Workshops | 4 | 3 (***) |
| | GDLNs (virtual seminars) | 0 | 1 (**) |

* 1 workshop to take place in January 2014

** Fewer updates from regulatory or standard setting bodies which were covered in workshops and in-country missions as well as the introduction of the Training of Trainers (ToT) activity replaced the planned GDLN series.

*** The June workshop was a 5-day workshop.

| Activity | Planned activities | Delivered activities |
|--------------------------|--------------------|----------------------|
| Conference | 0 | 1 |
| Workshops | 9 | 7 |
| GDLNs (virtual seminars) | 2 | 1 |

Financial Summaries

Planned and Actual Disbursements

The following table compares the budget, disbursements and unspent funds in the disbursing funds for regional activities. The overall disbursements for regional activities represent about 70 % of the budget for 2013 (full year). The disbursement rate reflects cost saving which include allocated Bank budget that paid partially for staff time and mission travels, cost sharing with STAREP program, and overall office maintenance costs shared with the larger Vienna office.

Overview

| | Budget Jan-Dec 2013 | Disbursements Jan-Dec 2013 | Unspent budget 31 Dec 2013 |
|---------------------|--------------------------------|---------------------------------------|---------------------------------------|
| | a | b | a-b |
| Component 1* | 198,650 | 137,714 | 60,936 |
| Component 2 | 246,250 | 158,448 | 87,802 |
| Component 3 | 491,325 | 331,520 | 159,805 |
| Component 4 | 180,600 | 140,624 | 39,976 |
| Component 5 | 139,500 | 112,692 | 26,808 |
| Total | 1,256,325 | 880,998 | 375,327 |

* Due to cash based accounting, disbursements in the system do not reflect meeting costs in estimated amount of EUR 90,510.

Disbursements - Regional Activities

The following table gives a detailed breakdown of expenditures by cost categories in the regional components including staff and consultants, travel and transport, meetings and other.

Disbursement Details

| Components | C1 | C2 | C3 | C4 | C5 | Total |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Staff and Consultants | 30,037 | 60,881 | 162,455 | 128,145 | 90,446 | 471,965 |
| Travel and Transport | 12,196 | 1,996 | 24,029 | 8,147 | 289 | 46,657 |
| Meetings | 95,142 | 95,095 | 144,210 | | | 334,447 |
| Other^ | 339 | 476 | 826 | 4,332 | 21,957 | 27,929 |
| Total | 137,714 | 158,448 | 331,520 | 140,624 | 112,692 | 880,998 |

* Due to cash based accounting, disbursements in the system do not reflect meeting costs in estimated amount of EUR 90,510.

^ C5 : includes office operating and maintenance costs

II. Albania Corporate Financial Reporting Enhancement Project

This section of the report presents a summary of the REPARIS project in Albania, including lessons learned and a table on main activities implemented and intermediate results achieved.

1. Summary of Main Activities in 2013

The project has seen major development over 2013, with most of the activities completed and others at an advance stage of delivery. The project activities will be finalized by the closing date of March 30, 2014. The development objective is expected to be achieved. With all major deliverables submitted, efforts under component 1 (improving the legal framework) are currently mostly focused on awareness raising activities with relevant stakeholders in support of the Road Map and Action Plan for Audit Law changes. Component 2 (strengthening accounting standards setting) activities have been completed. A few additional needs were identified which will be addressed before the end of the project. Component 3 (establishing an audit oversight system) is well underway, with progress on all fronts (audit oversight toolkits, pilot inspections, register of auditors, etc). Significant progress was made on component 4 (improving the auditing curricula) in 2013, an assessment of the current framework curricula was completed, delivered and discussed with stakeholders.

2. Lessons Learned and Outlook for 2014

A new government was established, following general elections in Albania in June 2013, resulting in changes in the Ministry of Finance, including the deputy Minister, head of National Steering Committee, and of the Reform Implementation Group. Representatives of the new government have expressed their support for corporate financial reporting reform but one significant element of the CFREP, implementation of the Road Map and Action Plan for Audit Legislative changes already formally endorsed by the previous government, was delayed. There is now increased effort under component 1 to raise stakeholder awareness and drive forwards implementation, which will continue through 2014. This has already resulted in the new officials at the Ministry of Finance committing to take a more active role in steering the process.

The priority for Component 2, 3 and 4 will be to finalize the remaining and additional activities before the project end date of March 30, 2014. All activities should involve the Government, the Reform Implementation Group, and the Central Financing and Contracting Unit (with support from CFRR) in order to mitigate and effectively address any potential timing of delivery issues.

A major focus (and Component 5 – Project Management) will remain planning the next phase of reform. Following consultations with relevant potential stakeholders, the project concept proposal should be finalized by early March to allow discussion of potential funding with development partners and to follow up further administrative procedures. The project will seek to widen the reforms to include areas that were not covered by CFREP, and deepen some areas that were part of CFREP.

3. Activities and Outcomes by Component

Component 1: Improving the legal framework in the area of corporate financial reporting

| | |
|----------------------------------|--|
| Activity | This component involves technical assistance and workshops to establish a sound basis for corporate financial reporting legislation in the light of the EU <i>acquis communautaire</i> . |
| Key inputs and outputs | Focused awareness raising activities related to the Action Plan. |
| Key intermediate outcomes | The program has secured a high degree of awareness among stakeholders who remain committed to updating the audit legal framework and higher degree of compliance with the EU <i>acquis</i> . |

Component 2: Strengthening the capacity of the National Accounting Council

| | |
|----------------------------------|---|
| Activity | Under this component, the capacity of the NAC will be strengthened, as well as processes for the setting and endorsement of financial reporting standards, through technical assistance and training. |
| Key inputs and outputs | The consultants have delivered: (i) A final set of amendments/improvements to National Accounting Standards (NAS), including a guideline manual, (ii) NAS workshops to present and demonstrate the guidelines to targeted groups of professionals, (iii) an international conference with NAC on financial reporting standards in the context of EU integration, (iv) study tours to standard setting bodies in EU countries and in candidate EU countries. . |
| Key intermediate outcomes | The NAC is fully engaged and has taken leadership in strengthening its capacity with the support of a consultant. The NAS setting process and content have improved. Hardware and software were made available to facilitate the translation of standards. |

Component 3: Establishment of an audit oversight system

| | |
|---|---|
| <p>Activity</p> | <p>Under this component, the project will provide technical assistance, workshops and tools to support strengthening of the recently established public audit oversight system. The beneficiaries are the Public Oversight Board and IEKA.</p> |
| <p>Key inputs and outputs</p> | <p>The consultant has delivered: (i) a set of formal regulations serving the functioning of Public Oversight System.; (ii) training for POB Members and IEKA core staff on the revised audit oversight system; (iii) training for inspectors and potential inspectors including tools, approaches, methodologies and case studies; (iv) awareness raising activities for auditors to familiarize them with the revised audit oversight system; (v) a report reviewing the existing IEKA translation procedures system; (vi) an outline document describing the sustainable procedure to be followed by IEKA for translation of ISAs as well as other relevant documents and papers issued by various boards of IFAC; (vii) a report of gap analysis to establish the audit standards translation backlog including the quality of translation; (viii) a proposal for improvements to the external Quality Assurance System; (ix) a methodology and guidance to support quality assurance, with tools to facilitate monitoring the application of requirements; (x) a complete quality control manual, including guidelines, methodologies and tools to support quality control by IEKA (and the POB for public interest entities); (xi) an assessment report on the system of investigation and discipline for statutory auditors and proposals for improvements; (xii) pilot inspections, including at least 1 public interest entity, shadowed by appointed national reviewers; (xiii) training for statutory auditors on the implementation of quality control systems and procedures to enhance their capabilities to comply with external quality assurance requirements; (xiv) training for existing and potential trainers and quality reviewers on the quality control manual and implementation of external quality control methodologies and procedures; (xv) A study tour in the Czech Republic with the participation of representatives from IEKA, POB and Certification Authority</p> |
| <p>Key intermediate outcomes</p> | <p>Key stakeholders are now more aware of the roles and responsibilities of the various institutions involved in public oversight (this is also linked to the outcomes of Component 1). In addition skills were enhanced by developing tools and methodologies for quality assurance. The consultant has provided substantial input to help strengthen the audit oversight system.</p> |

Component 4: Improving accounting and auditing curricula for university education and professional certification

| | |
|----------------------------------|--|
| Activity | This component will assist PAOs, universities and the Certification Authority to lay the foundations for sustainable curricula for A&A education and the certification of accountants and auditors. |
| Key inputs and outputs | The consultant has delivered the following: (i) Inception report; (ii) Final Education Assessment Report on compliance of education programs in accounting, finance and auditing of universities and professional bodies with requirements of IES of IFAC and EU Statutory Audit Directive for education and professional certification. |
| Key intermediate outcomes | The gaps and needs for curricula improvements are identified and discussed with the stakeholders and their awareness raised, setting the scene for the next phase of reform. |

Component 5: Project management, strengthening reform capacity, and monitoring and evaluation

| | |
|----------------------------------|--|
| Activity | This component covers the necessary operating costs related to project management. |
| Key inputs and outputs | The management and administration of project implementation have proceeded smoothly. The preparation of a concept note for a new potential project addressing the next stage of CFR reforms on the basis of the Country Action Plan and results achieved under CFREP. |
| Key intermediate outcomes | The needs for further stages of reform are identified and translated into a project concept proposal. |

4. Financial Summary

The disbursement rate to date is 60 % of the total grant amount.

The CFREP Project has been audited twice by external audit companies, in May 2012 (year 2011) and May 2013 (year 2012).

Table 1: Total Grant

| Procedures | Total | Completed (contract signed) | Current (procurement ongoing) | Forthcoming |
|-----------------------------------|-----------|-----------------------------------|-------------------------------------|-------------|
| Consultant services | 1,116,655 | 1,120,325 | 0 | 0 |
| Goods | 90,222 | 90,233 | 0 | 0 |
| Incremental Operating Cost | 25,000 | 8,046 | 16,954 | 0 |
| Training | 18,000 | 15,777 | 2,223 | 0 |
| Unallocated funds | 123 | | | |
| Total | 1,250,000 | 1,234,382 | 19,177 | 0 |

Table 2: Disbursement under the Grant as of December 31, 2013

| Amount | In thousands Euro | % |
|---|----------------------|------|
| Total (as per the Grant Letter Agreement) | 1,250.00 | 100% |
| Disbursement (funds withdrawn from the project account) | 755.133 | 60% |
| Expenditure (paid to contractors) | 675.964 | 54% |
| Committed (including disbursed) | 1,234.38 | 99% |
| Estimated (on procedures in progress) | 1,253.56 | 100% |
| Forthcoming (unallocated) | 0 | 0% |

Annex: Update by Country

| Country | State of financial reporting reform in December 2013 |
|------------------------|--|
| Albania | <p>Albania has achieved significant progress in aligning its CFR legislation with the requirements of the <i>acquis</i>. There are a few more areas where the law needs further strengthening. All the key institutions and functions have been set up, though they require further strengthening. The country has made progress in adopting IFRS, modernizing reporting standards for SMEs, establishing a chamber of auditors (IEKA), and setting the basis for public oversight system.</p> <p>The national project, CFREP, focuses on four areas: (i) further legislation alignment – a roadmap is planned to be adopted in 2013; (ii) modernizing accounting standards setting and adoption – an updated translation of IFRS was issued in 2013, national accounting standards will be modernized and the capacity of national accounting council is being strengthened; (iii) setting-up an effective oversight system, including clarifying the roles and responsibilities of the oversight board and Chamber of auditors (IEKA) - pilot quality inspections undertaken in 2013.</p> <p>Key strategic decisions have yet to be made in the area of public oversight – the legal status and funding of the POB, funding of IEKA’s quality assurance function and moving away from peer-review system. The CFRR is advising the Albanian Government on those issues through regional knowledge sharing activities and through implementation support of the national CFREP.</p> |
| Bosnia and Herzegovina | <p>The complexity of governmental arrangements in Bosnia and Herzegovina complicates the accounting framework, with different arrangements in place in the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska. This complexity also impedes the availability of EU funding for a national corporate financial reporting project.</p> <p>2013 saw a reversal of the progress made by the Chamber of Auditors of FBiH in 2012, cancelling the adoption of a manual for reviewing the quality of audit work. As a result, scheduled missions to support the implementation of quality assurance in the Federation were cancelled. Early 2014, the MoF of FBiH appointed the Audit Public Oversight Board as requested under the 2009 Law on Accounting and Auditing. CFRR remains in close contact with the government authorities.</p> |
| Croatia | <p>As Croatia accessed EU membership in July 2013, all institutions participating in the REPARIS program reiterated their desire to remain involved. In 2013, the Ministry of Finance and the Croatian Chamber of Auditors continued sharing their experience of CFR reform with South Eastern Europe countries during REPARIS events, and with Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine during the launch of the STAREP program in October 2013. Following accession, continued reform efforts will be important in 2014 and beyond to sustain Croatia’s progress in audit quality and transparency.</p> |
| Kosovo | <p>The CFRR disseminated the ROSC-A&A report for Kosovo. The report underscores the need for continued capacity-building support at all levels of the financial reporting</p> |

| Country | State of financial reporting reform in December 2013 |
|---------------|--|
| | <p>infrastructure, especially in quality assurance and public oversight. The new government has agreed to the findings of the report and signaled its willingness to implement its recommendations, especially to introduce elements of the financial reporting framework that were not addressed in the 2011 A&A Law. A process to reform the existing law on financial reporting and auditing was initiated and CFRR is supporting the ongoing reform with technical advice.</p> |
| FYR Macedonia | <p>The government adopted a new Law on Accounting Services, which reflected extensive comments from the CFRR; however institutional enforcement of the law is still ongoing. The Chamber of Auditors has completed the third round of QA reviews of audit firms. The main findings from the quality inspections concerning areas of non-compliance with International Standards on Auditing and proposed recommendations for improving the overall audit quality in the country are being discussed. The Public Oversight Board has become operational and has completed the auditors licensing according to the new law.</p> <p>Missions to Skopje focused on completion of the initial information gathering for the A&A ROSC-Update. Completion of the ROSC was deferred to 2014 as the MoF was focusing on reforms to the Law on Accounting Services and planned amendments to the Audit Law.</p> |
| Moldova | <p>CFR legislation in Moldova is now more aligned with the <i>acquis</i>. Moldova has established a three-tier financial reporting requirements system, where PIEs are required to use IFRS, and other entities have to apply NAS, while micro entities are subject to simpler requirements. Progress has been achieved in setting up the regulatory framework for public oversight and quality assurance of audit. There has also been some progress in raising awareness of modern accountancy educational methods (in both professional and university education).</p> <p>The CFRR team finalized the ROSC-A&A in 2013. The conclusions of the report informed the programming of the CFRR's support for Moldova under the new STAREP program. Furthermore, CFRR facilitated an exchange activity with Romanian institutions in modernizing accountancy education curricula (funded by the South-south exchange facility), which successfully empowered the local university to modernize its curricula in accounting and auditing.</p> <p>The main challenges facing Moldova lie in (i) ensuring compliance with existing legislation and (ii) reaching consensus on and designing a sustainable structure (incl. funding) for the public oversight system, as well as the contribution of the profession to quality assurance and public oversight.</p> |
| Montenegro | <p>Elections in Montenegro in late 2012 led to a change in Minister of Finance, though the commitment of MoF senior officials and in-country stakeholders to CFR reform agenda has remained very high.</p> <p>The EC Progress Report for 2012 highlighted the need for transposition and effective implementation of the Statutory Audit Directive. The World Bank has provided a grant of \$500,000 to implement this plan under the Institutional Development Fund. The project will be implemented by the MoF with implementation support provided by the CFRR.</p> |
| Serbia | <p>Since mid-2013, the CFRR has provided continuing technical support to the Ministry of</p> |

| Country | State of financial reporting reform in December 2013 |
|---------|--|
| | <p>Finance through several missions, on-call assistance and dedicated local experts, as the MoF was drafting the new accounting and auditing laws to align the statutory framework more closely with the <i>acquis</i>. The new laws were passed in June, and several by-laws (for which the CFRR also provided technical assistance) were issued in December 2013 and January 2014.</p> <p>The major challenges facing Serbia are (i) building capacity for effective implementation of the new accounting and auditing laws and (ii) ensuring the long term sustainability of the institutions involved. The CFRR will continue assisting the MoF in 2014 to prepare a national project to implement Serbia's new CFR framework.</p> |

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