

**U.S. Agency for International Development:
Private Sector Accounting Reform Project
Bosnia & Herzegovina**

**QUARTERLY PROJECT PERFORMANCE REPORT
Quarter Ending March 31, 2001**

USAID Contract: PCE-I-00-97-00017-00
Task Order 802

Submitted to:
William H. Lawrence
Cognizant Technical Officer

USAID/Bosnia-Herzegovina
#1 Obala Kulina Bana Street
71000 Sarajevo, Bosnia
Telephone: (387-33) 667-900

Submitted by:

International Business and Technical Consultants, Inc.
8614 Westwood Center Drive, Suite 400
Vienna, Virginia 22182
Telephone: 703-749-0100 - Facsimile: 703-749-0110
E-mail: ibtci@ibtci.com

**USAID Private Sector Accounting Reform Project:
Bosnia & Herzegovina**

**Quarterly Project Performance Report
January - March 2001**

A. General Information

Contractor: International Business & Technical Consultants, Inc. (IBTCI)
8614 Westwood Center Drive, Suite 400
Vienna, Virginia 22182 USA
703-749-0100; 703-749-0110 (fax); ibtci@ibtci.com
Contract: PCE-I-00-97-00017-00
Task Order: 802

Project performance dates: October 1, 2000 - June 19, 2002
Report date: March 31, 2001

Cognizant Technical Officer: William H. Lawrence, USAID/Bosnia-Herzegovina
Chief of Party: Wayne E. West
Expatriate Advisors: Gary M. Scopes, Jack Reynolds, Robert McGee

Project Description

The purpose of this project is to provide Bosnian institutions with the basic level of focused assistance needed to implement the reform of the accounting system, including introduction of International Accounting Standards to accounting practices and delegation of some regulatory functions to the accounting profession. The project will also support, train and strengthen private enterprises and the accounting self-regulating organizations. These efforts should stimulate development of private sector enterprises by improving access to market driven business skills.

Specific task order objectives are to: establish a fully functioning framework for the implementation of IAS and ISA and establish recognized certification and licensing of auditors in accordance with international best practices; convert accounting practices of selected enterprises to IAS-compliant national accounting practices; support the development of SROs as technically and financially self-sustainable professional organizations that can qualify as members of the international accounting and audit community; implement new accounting and audit curriculum at two or more higher educational institutions; provide focused training for users of financial statements, auditors, tax inspectors and enterprise financial managers.

B. Project Performance Report

Executive Summary

During the quarter, the project's Chief of Party and long-term enterprise conversion specialist were mobilized to Bosnia to begin their assignments. The legal and regulatory and curriculum specialists also made initial work trips during the reporting period. The project's draft workplan was completed and submitted to USAID for review and approval. Progress was made in each of the project's task areas, as summarized below.

- Under Task 1, a review of the state of legal and regulatory reform in relation to the accounting and auditing profession was conducted in both the Federation and the RS. The review clarified that legal and regulatory issues in both entities have been completed except for some issues related to 1) correcting entries for the new IAS-based Chart of Accounts, and 2) the control that the government-funded Institute for Accounting and Auditing has over all aspects of the accounting and auditing profession in the Federation. The legal and regulatory specialist began a thorough review of the professional licensing and certification structure in both entities. He conducted research to compare the existing TTCPs to IFAC and UN recommendations and to determine the availability and quality of training, programs and materials. The project staff completed the translation of the Federation accounting standards into English and began a complete review of the standards to determine whether they are 100% compatible with IAS.
- For Task 2, the project's conversion specialist arrived on-site, but departed after only a few days due to personal problems. IBTCI worked to identify other candidates to take over the conversion position. The conversion team continued to develop a database of privatized enterprises and to review conversion candidates (widely held privately owned enterprises). The project team consulted with USAID to refine the definition of conversion and to determine the preferred balance of assistance and the number of enterprises with which to work. The team continued to collect IAS-based financial statements from publicly traded companies in order to prepare a manual similar to the US "Accounting Trends and Techniques" to assist and teach local accountants and auditors in financial statement disclosure.
- For Task 3, meetings were held with the accounting and auditing associations in the Federation and in the RS in order to strengthen working relationships with these SROs and to refine the project's strategy for accomplishing benchmarks on certification and training, membership in IFAC and joint cooperation between the entities. The project team worked closely with the Association of Accountants and Auditors (AAA) in the RS to develop a Memorandum of Understanding to outline joint cooperation. The MoA was signed in March and represented a major step forward for the project team's ability to accomplish important elements of the project. Work also continued with the AAA on the development of a business plan. Discussions continued with the leadership of the Institute of Accounting and Auditing (IAA) in the Federation regarding the delegation of appropriate functions to a private sector SRO. It became apparent, however, that the IAA leadership would need encouragement from top levels of the Bosnian government before

exhibiting a level of cooperation similar to that of the SRO in the RS. The USAID CTO requested that the project delay negotiating a MoA with an SRO in the FBiH until after USAID had a chance to obtain support from the new Minister of Finance for making necessary changes.

The project conducted a thorough review of the professional licensing and certification structure in both the Federation and the RS, prepared a model Training, Testing and Certification Program based upon IFAC IEG 9 & 11 and UNCTAD Guidelines, translated the model and presented it to the primary SRO counterparts for their review and consideration. Work began on planning the translation of textbooks to support the program in the RS. Discussions were held with the AAA in the RS regarding the development of an ethics enforcement program and in conducting related training. The project team assisted in developing an agreement between USAID and the World Bank to mandate that the Bosnian government require the SROs in each entity to agree to form a joint venture to represent the accounting and auditing profession at the state level for Full Member status in IFAC, as well as to initiate uniform TTCP and curriculum reform activities in both entities. The project continued to assist OECD in operating SEEPAD by beginning to hire staff for the SEEPAD office and in organizing for the next regional SEEPAD meeting to be held in Croatia.

- As part of Task 4, a preliminary review of the undergraduate accounting curriculum used at the universities was conducted in conjunction with the review of the current accounting TTCP. The project's curriculum reform specialist made an initial visit to Bosnia and visited several universities to discuss the project's objectives and plans. The project team began developing a curriculum of 14 university-level courses in accounting, auditing, financial management and other business subjects which will meet all IFAC, UNCTAD and EU Directive 8 requirements. The project submitted to USAID and World Learning a Training Program Request to fund a five to six week training program at Seton Hall University this summer for ten accounting professors from Bosnian universities. The project team prepared to pursue obtaining a signed Memorandum of Agreement with each university and to establish a joint entity committee to select professors for summer training, agree on textbooks to be translated and organize the curriculum reform effort.
- Under Task 5, discussions were begun with the AAA in the RS and an outline of expected training programs was prepared. These training courses will include the certification program, enterprise conversions, ethics and focused training for special industry segments. The project began to modify an existing training course to instruct non-accountants such as enterprise managers and market participants in the understanding and use of financial information and financial statements. The team continued discussions with key counterparts and other USAID projects to coordinate future cooperation on training support from the project.

More detail of the technical work completed during the reporting period is provided in the sections that follow.

Task 1: Establish a fully functioning legal and regulatory framework for the full implementation of IAS and ISA.

A review of the state of legal and regulatory reform in relation to the accounting and auditing profession was conducted in both the Federation and the RS. The review clarified that legal and regulatory issues in both entities have been completed except that the actual adjustments and correcting entries needed to go from the old Chart of Accounts to the new IAS-based Chart of Accounts was not complete, and that a government body, the Institute for Accounting and Auditing, controlled all aspects of the accounting and auditing profession in the Federation, despite the fact that best practice suggests that a private sector SRO should have the authority for the training, testing and certification of accountants and auditors, as well as for publishing and the initial authority for professional ethics enforcement. Both of these areas were slated to receive significant attention from the project.

Legal and regulatory specialist Jack Reynolds began a thorough review of the professional licensing and certification structure in both the Federation and the RS. He conducted research in both entities to compare the existing TTCPs to IFAC and UN recommendations and to determine the availability and quality of training, programs and materials. Both entities are in the process of developing licensing systems and initial review showed that international caliber certification and licensing programs did not presently exist in either entity.

The project staff completed the translation of the Federation accounting standards into English, highlighting additions and using the "strike-out" feature for deletions, making deviations from IAS more readily apparent. COP Wayne West began a complete review of the accounting standards to determine whether they are 100% compatible with IAS. Initial reaction was that the FBiH standards changed considerably from IAS during the translation process, but that for the most part they remained 100% compatible. The analysis was to be completed in April and followed by a report on any differences which would make the resulting financial statements not in full compliance with IAS and recommendations for appropriate changes to be made.

Task 2: Convert accounting practices of 250 enterprises from each entity to IAS-compliant national accounting practices, including providing short-term training in the conversion process and IAS core standards.

The project's conversion specialist arrived on-site early in the quarter, but departed after only a few days due to personal problems. IBTCI worked to identify other candidates to take over the conversion position. This position remained unfilled at the end of the reporting period.

The conversion team continued to develop a database of privatized enterprises from the 1990 privatization effort and from the recent "small scale" privatization effort to determine if some of these enterprises might be used as pilots on which to test the project's conversion methodology, financial statement assistance and assistance with establishing sound cost accounting systems. The project team's review of conversion candidates (widely held privately owned enterprises with high probability of being publicly traded) revealed that the first phase of these enterprises would not be privatized until the end of March. USAID and other sources also indicated that there might not be as many enterprises as initially expected which will meet the criteria for

inclusion in the conversion program over the next year. The project team consulted with USAID to refine the definition of conversion and to determine the preferred balance of assistance and the number of enterprises with which to work, given the project's budgeted resources and the time and effort needed to provide each type of assistance.

The team continued to collect IAS-based financial statements from publicly traded companies in order to prepare a manual similar to the US "Accounting Trends and Techniques" to assist and teach local accountants and auditors in financial statement disclosure. This manual should also be helpful in assisting enterprises in preparing IAS-based financial reports. Planning began to have the project's four local conversion accounting experts trained in these tasks prior to the start of the actual conversions so that they can begin to train local audit and accounting firm staff and other accounting professionals.

Task 3: Develop SROs as technically and financially self-sustainable professional associations that are qualified to become members of the international accounting and audit community, capable for carrying out accounting reform and development without USAID assistance.

Numerous meetings were held with USAID and with the various accounting and auditing professional associations in both the Federation and in the RS in order to strengthen working relationships with these SROs and to refine the project's strategy for accomplishing benchmarks on certification and training, membership in IFAC, joint cooperation between the entities and project financial assistance. The project team focused on crafting an effective SRO development strategy to not only guide the project but to also provide useful direction for the development of the profession in Bosnia well into the future. Through several meetings with USAID and World Bank officials, a strategy emerged for obtaining support from the highest levels of the Bosnian government to encourage and possibly mandate that the accounting and auditing SROs in each entity form a national joint venture for the profession to embrace international caliber training and testing for the certification program and for joining IFAC as a Full Member.

The project team worked closely with the Association of Accountants and Auditors (AAA) in the RS to develop a Memorandum of Understanding to outline cooperation between the project and the AAA, based on the and workplan. In exchange for technical and financial support from the project, the AAA agreed to implement the model TTCP developed by the project, to help implement and maintain accounting and auditing standards in the RS that are in compliance with IAS and ISA, to form an association with an appropriate SRO in the Federation to pursue joint IFAC membership, a joint TTCP and joint publications, and to support the project's accounting reform efforts in Bosnia. The MoA was signed in March and represented a major step forward for the project team's ability to accomplish important elements of the project. To further strengthen the working relationship with the SRO, the project's office in Banja Luka was relocated to office space within the AAA's headquarters. Work also continued with the AAA on the development of a business plan, which will include training activities to be conducted in the AAA's new training center.

The situation in the Federation has been much more difficult. Discussions continued with the leadership of the Institute of Accounting and Auditing (IAA), which is authorized by law to regulate the accounting and auditing profession, regarding the delegation of appropriate functions to a private sector SRO established for the auditing profession and the project's review of the IAA's certification program. It became apparent, however, that the IAA leadership will need more encouragement from top levels of the Bosnian government before exhibiting a level of cooperation similar to that of the SRO in the RS. These issues have been discussed with the World Bank, the Ministry of European Integration and the U.N. Office of the High Representative. The USAID CTO requested that the project delay negotiating a MoA with an SRO in the Federation until after USAID had a chance to obtain support from the new Minister of Finance for making necessary changes to the TTCP in the Federation, including the delegation by the government of such activities to a SRO. Work on the certification, financial sustainability, ethics and local chapter development benchmarks in the Federation will follow the signing of a MoA with an SRO there.

a. Certification. The project's legal and regulatory specialist, Jack Reynolds, conducted a thorough review of the professional licensing and certification structure in both the Federation and the RS. He conducted research to compare the existing TTCPs to IFAC and UN recommendations and to determine the availability and quality of training, programs and materials. The review showed that international caliber certification and licensing programs did not presently exist in either entity.

Following the review, the project team prepared a model Training, Testing and Certification Program based upon IFAC IEG 9 & 11 and UNCTAD Guidelines. The TTCP model, like the ACCA programs, has 14 US university-level accounting, auditing and business courses. The accounting staff developed a comparison of the model to the existing SRO and university programs in the Federation and the RS in order to determine where additional training programs were needed to support the TTCP. The model TTCP was translated and presented to the primary SRO counterparts in the Federation (the IAA and AA) and the RS (the AAA) for their review and consideration. Work began on planning the translation of textbooks to support the program in the RS.

b. SRO financial sustainability. The project team completed a draft business plan for the AAA in the RS and presented the draft to AAA officials. This business plan, based upon the project workplan being reviewed by USAID, includes planned dues collections, TTCP activities and revenue projections from other activities, and supports the objective of positioning the AAA to become self-supporting without USAID financial assistance. Cooperation from the AAA for activities included in the business plan is outlined in the MOA signed by the SRO leadership and the project. The project team also obtained bids for equipment for the SRO training center, the payment for which was contingent upon completion of the business plan. The development of a business plan for the SRO in the Federation will be subject to the cooperation received from the leadership of the SRO the project identifies as having the most potential for success.

c. Ethics and continuing education. Discussions were held with the AAA in the RS regarding the development of an ethics enforcement program and in conducting related training. In April, the project team will begin working with the AAA to establish an ethics committee and to

schedule continuing education to train association members on ethics. The first such training program was scheduled for April in the AAA training facility in Banja Luka for 38 candidates for the certification program. The project's SRO specialist, Gary Scopes, will present a three-hour program on ethics at that session, covering the requirements of the IFAC Code of Ethics, which has been adopted in the RS. The proposed TTCP model anticipates employing continuing education as the primary approach to qualify SRO members for completing the international level TTCP.

d. International liaison. Following extensive discussions, the project team assisted in developing an agreement between USAID and the World Bank to mandate that the Bosnian government require the SROs in each entity to agree to form a joint venture to represent the accounting and auditing profession at the state level for Full Member status in IFAC, as well as to initiate uniform TTCP and curriculum reform activities in both entities. As the task order and workplan call for the project to assist the main SROs in each entity to join IFAC as Associate Members, an amendment is expected to recognize the change in direction in this benchmark. At the request of the Ministry of European Integration, the project team prepared recommendations for reforms in accounting and auditing for inclusion in the Ministry's stabilization agreement with Bosnia. The project's recommendations included this state-level approach.

The project continued to assist OECD in operating SEEPAD. During the reporting period, the OECD approved a budget proposed by the project for operating the SEEPAD office in Sarajevo, which will function in close coordination with the accounting reform project office. The project team began hiring staff for the SEEPAD headquarters office. The project also continued to assist OECD in organizing for the next regional SEEPAD meeting in June, in Croatia.

e. Local chapter development. Following the signing of a MoA between the AAA-RS and the project, chapter development in the RS was expected to be scheduled during the next reporting period. This would include conducting ethics training at the chapter level. The project team discussed with two local cantons (chapters) of the Association of Accountants and Auditors in the Federation the possibility of realigning with the new Association of Auditors (AA) sponsored by the Institute of Accounting and Auditing. This possibility will need to be further explored in the context of the effort to clarify the SRO situation in the Federation.

f. Institutional strengthening. There were no activities in this area during the reporting period. The financial reviews of the SROs will occur toward the end of the project.

Task 4: Implement new accounting and audit curriculum at two higher educational Institutions.

A preliminary review of the undergraduate accounting curriculum used at the universities was conducted in conjunction with the review of the current accounting training, testing and certification program. The curriculum reform and university partnership elements of the project were begun in earnest when the project's curriculum reform specialist, Professor Robert McGee of Seton Hall University, made an initial visit to Bosnia during the quarter. McGee visited several universities to discuss with the appropriate deans and department heads the project's objectives and plans. Those universities were: the University of Sarajevo, the University of

Mostar - East, the University of Mostar - West, the University of Tuzla and the University of Banja Luka. All of the universities appeared to be eager to participate in the USAID/IBTCI curriculum reform program and orally agreed to do so. During this initial visit, Professor McGee and Wayne West began developing a curriculum of 14 university-level courses in accounting, auditing, financial management and other business subjects. This model will meet all IFAC, UNCTAD and EU Directive 8 requirements for TTCPs for accountants and auditors.

The project submitted to USAID and World Learning a Training Program Request to fund a five to six week training program at Seton Hall University this summer for ten accounting professors from Bosnian universities. The professors would study two of the four courses planned for introduction during the 2001/2002 academic year, from about July 1 to August 15.

The project team prepared to pursue obtaining a signed Memorandum of Agreement with each university and to establish a joint entity committee to select professors for summer training, agree on textbooks to be translated and generally organize the curriculum reform effort. A return trip to Bosnia by Professor McGee was planned for May.

Task 5: Provide focused training for users of financial statements, auditors, tax inspectors, and enterprise financial managers.

Discussions began with Professor Djurasovic of the AAA in the RS about conducting a program to train tax inspectors, with hopes of finalizing training plans in April. An estimate of the volume of anticipated training to be conducted through the SROs began to emerge. An outline of expected training programs for the AAA in the RS was begun in order to estimate revenue projections for the SRO's business plan. These training courses will include the certification program, enterprise conversions, ethics and focused training for special industry segments.

Robert McGee began working to modify an existing training course to instruct non-accountants such as enterprise managers and market participants in the understanding and use of financial information and financial statements. This course of about 150 pages will be translated and prepared to be presented starting in May in the Federation and in the RS. USAID accounting reform projects in the Caucuses region have successfully used this textbook. Instructors will be trained to continue the course on a fee basis for each SRO.

The team continued discussions with key counterparts and other USAID projects to coordinate future cooperation on training support from the project.

C. Problems Encountered During the Reporting Period

Obstacles to the successful implementation of the project include the resistance to the privatization of accounting and auditing regulation in the Federation, which prevents the project from developing and working with a private sector SRO, and the slow pace of privatization in the Federation, which will hinder the timely implementation of the enterprise conversion program.

D. Team Days Worked

	Current Quarter	To Date
Wayne E. West	63	63
Gary M. Scopes	62	102
Jack Reynolds	24	24
Robert McGee	10	10
Greg Grosenick	4	4
Albert A. Hrabak	0	10
Total	163	213

E. List of Acronyms Used

AA-Fed:	Association of Auditors of the Federation of BiH
AAA-RS:	Association of Accountants and Auditors of the Republika Srpska
ACCA:	Association of Chartered and Certified Accountants
BiH:	Bosnia & Herzegovina (entire country)
FBiH:	Federation of Bosnia & Herzegovina (Muslim/Croat entity within Bosnia)
IAS:	International Accounting Standards
IFAC:	International Federation of Accountants
ISA:	International Standards on Auditing
IAA-Fed:	Institute of Accountants and Auditors of the Federation of BiH
MOA:	Memorandum of Agreement
OECD:	Organization for Economic Cooperation and Development
OHR:	United Nations Office of the High Representative
RS:	Republika Srpska
SEEPAD:	South Eastern European Partnership on Accountancy Development
SRO:	Self Regulating Organization
TTCP:	Training, Testing and Certification Program
UNCTAD:	United Nations Conference on Trade and Development