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

**Quarterly Performance Report
July 1 through September 30, 2001**

Submitted to:

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USAID/Bosnia-Herzegovina
Department of State
Washington, DC 20521-7130

Contract # PCE-I-00-97-00017-00, Task Order 802

Submitted by:

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A. General Information

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Task Order: 802

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Chief of Party: Wayne E. West
Expatriate Advisors: Gary M. Scopes, Jack Reynolds, Robert McGee, Brendan McCole, Laszlo Urmenyhazi

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 of self-regulating organizations. These efforts should stimulate development of private sector enterprises by improving access to market driven business skills.

B. Specific Task Objectives:

1. **Establish a fully functioning legal and regulatory framework for the implementation of IAS and ISA and establish recognized certification and licensing of auditors in accordance with international best practices;**

Specific deliverable are:

- a. By 31 March, all chart of accounts and implementation guidelines are fully drafted and implemented by BiH in conversion to IAS.
- b. By 30 June, IAS book income is mandated by taxing authority as the starting point for calculation of taxable income. A book to tax reconciliation form is accepted by the MoF.
- c. By 31 August, auditing and professional certification/licensing (TTCP) is developed with appropriate BiH recognition.
- d. By 15 February 2002, licensing and certification systems are in place.

Progress:

This task is very near to a successful completion.

- a. International Accounting Standards (IAS) and International Standards of Audit have been adopted by both the RS and FBiH. Both entities are now in transitional phases of implementation at enterprises. All chart of accounts and implementation guidelines are fully drafted and implemented by BiH in conversion to IAS. And IAS book income is mandated by taxing authority as the starting point for calculation of taxable income. A book to tax reconciliation form has been accepted by the MoF.
- b. The RS plans to officially adopt a program of Training, Testing and Certification/licensing (TTCP) in October 2001. This program adheres to best international practice as defined by the International Federation of Accountants (IFAC) and the United Nations Commission on Trade and Development (UNCTAD). It encompasses 14 new, US university level courses on accounting, auditing and related subjects. Brendan McCole, a senior training expatriate and CoP Wayne West have designed a detailed transition plan for re-training existing accountants and auditors. Brendan will begin to implement it in the RS in October 2001, through the local SRO, the Association of Accountants and Auditors of the RS (AAA RS). All regulation of accounting and auditing in the RS is delegated to the private sector AAA RS.

A scholarship program is being designed among USAID, World Learning, IBTCI and the AAA RS to assist current accountants and auditors in paying for the required courses to upgrade their training to meet international standards.

USAID and IBTCI have recently decided upon an appropriate segregation of responsibilities between the government and private sector for the regulation of accounting and audit in the FBiH. USAID/IBTCI suggested revisions to the current Law on Audit are under discussion now with the MoF. USAID and IBTCI have suggested that the governmental organization, the Institute of Accountants and Auditors (IAA), which currently regulates all professional activities in the FBiH continue to define the TTCP in the FBiH. The private sector will, however, implement the program by performing the training function. This decision allows the project to begin negotiations with the IAA to adopt the TTCP in place in the FBiH. Professor Robert McGee arrived in country during the first week of September to assist the CoP in the design of the transitional plan to be suggested to the IAA and to begin the implementation of the program in the FBiH.

With an internationally accepted TTCP in place in the FBiH and a revised audit law, which balances regulation of the profession between the state and the private sector, Task 1 will be successfully completed.

2. Convert accounting practices of selected enterprises to IAS-compliant national accounting practices;

Actual conversion of private sector enterprises has been delayed because of the slow pace of privatization in both the RS and the FBiH.

Our criteria for assistance to enterprises require that the enterprise be privatized to the extent that it is not controlled by the state. We have divided enterprises into three groups to prioritize enterprise candidates for our conversion assistance programs, as follows:

1. Widely held enterprises, which have significant minority shareholder and corporate governance issues and/or are likely candidates to be listed and publicly traded.
2. SME's, which do not have significant minority shareholder and corporate governance issues and are unlikely to be listed and publicly traded, but desire to convert to IAS because of investment or loan needs or the desire to implement western style cost and management accounting systems.
3. Sole proprietors and others.

At selected enterprises we may have up to three levels of conversion.

1. We will assist all enterprises selected with a conversion to the new Chart of Accounts and instructions on using IAS for measurement and recognition of Income, Expenses, Assets, Liabilities and Capital, i.e., a Chart of Accounts conversion.
2. At selected enterprises where it is evident that they will be listed and publicly traded at an early date, we will also assist them with on site support in preparing financial statements for publication in full compliance with IAS. We will not do an audit. We will accept management's figures and simply assist the enterprise in presenting them according to IAS.

3. At selected enterprises where we think a significant contribution can be made by the introduction of a western style cost and management accounting system, we will assist the enterprise on-site, with the development of such a system.

The conversion process will consist of several steps:

1. Enterprises will be selected based upon the results of privatization and consultation and coordination with the Corporate Governance Project.
2. A two-three day course in the understanding and use of financial reports will be given for all enterprise managers.
3. A 20 – 40 hour course in the details and methodology of enterprise conversion will be given to all selected enterprise accountants. Follow-up courses in Financial Statement preparation and/or cost and managerial accounting will be given to selected enterprises.
4. In all cases each enterprise will have 3-4 days on-site consulting assistance from the USAID/IBTCI foreign and local conversion experts, assisted by the enterprises audit firm.
5. Selected enterprises will receive about 5 days on-site consulting from a team of USAID/IBTCI expatriate and local conversion experts and staff from their audit firms to assist them in preparing full IAS based financial statements and/or assisting them in setting up a western based cost/managerial accounting system.

Specific deliverable are:

- a. By 31 October 2001, there will be at least 100 companies converted and 100 enterprise accountants trained.
- b. By 31 May 2002, there will be at least another 100 enterprises converted
- c. In all cases there will be documented follow-up with randomly selected companies.
- d. Training of accountants shall be at least 40 hours of class time, but not to exceed 80 hours of class time utilizing methodologies and materials developed by the USAID-funded project in Kyrgystan.
- e. A completed conversion manual that details the process of conversion is to be distributed to all conversion-training participants throughout the remainder of the project.
- f. By the end of the Task Order, 50 companies should have received cost accounting/managerial accounting training and assistance. Candidate enterprises for this assistance should be obtained from the USAID/BiH SME activity, other referrals from USAID or from other sector donors.

Progress:

- a & b. The very slow progress in BiH in the privatization of enterprises has slowed our conversion efforts considerably. It has not been until this quarter that viable BiH

enterprises have been privatized. However, despite this slow privatization progress we have made a major effort to overcome this delay and meet Task Order objectives.

Laszlo Urmenyhazi arrived in country during the quarter as conversion expert and with Senad Pekmez, has made considerable progress. During the quarter Senad has identified and begun conversions of 11 FBiH pilot enterprises. After completion of the pilot enterprise conversions in the FBiH, conversion program training and materials can be customized for the FBiH and audit firms selected to begin a mass conversion program in the FBiH. Senad plans to have 60 enterprises converted by end of year 2001.

Laszlo has made excellent progress in the RS and has completed a conversion-training program, which meets the AAA RS approval and has gained the AAA RS approval to begin 12 pilot conversions in November 2001, despite strong opposition from the AAA RS.

Despite the late start because of the slow privatization effort in BiH, we will make every effort to overcome and meet Task Order deliverables.

- c. Documented follow-up on conversion success is planned for late spring 2002.
 - d & e. Training manuals for both the FBiH and the RS are complete and are based upon previous materials developed in USAID in the CAR's. The conversion courses consist of 24 hours of classroom training and 24 hours of on-the-job training, for a total of 48 hours of training.
 - f. Cost accounting training is scheduled to begin in the RS in early November 2001 and in the FBiH in early 2002.
3. **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;**

Specific deliverable are:

- a. By 31 August 2001, a comprehensive training and testing regime will have been developed that supports at least two stages of local certification (accounting technician and professional accountant/auditor.)
 - i. By end-of-contract, at least 150 students will have passed the first stage local language certification.
 - ii. By the end-of-contract, at least 100 students should have passed Second Stage local language certification.
- b. SRO financial sustainability

By 31 Aug. 2001, the SRO's shall prepare and implement their annual business plans including cash flow projections, which include collection of dues and other methods of generating revenue and cost control. Failure to provide a business plan will result in suspension of USAID financial support to the SRO until such condition is met. The business plan should fully reflect a declining level of USAID financial support.

c. Ethics and continuing education

- i. By 31 Aug 2001, the SRO shall publish guidance on interpretation of the ethics code.
- ii. Throughout the duration of the contract, SRO headquarters and local chapter leaders shall be trained in ethics. They will in turn train another 200 SRO members in each entity.
- iii. By 28 Feb. 2002, the SRO shall enforce ethics code by investigating cases.
- iv. By 28 February 2002, SRO shall have mandatory CPE requirements for certification holders.

d. International liaison

- i. By 31 August 2001, the SRO shall publish guidance on interpretation of the ethics code.
- ii. Throughout the contract, SRO and local chapter leaders shall be trained in ethics. They in turn will train 200 SRO members.
- iii. By 15 February 2002, SRO, at the state level, shall have applied to IFAC, seeking at least associate membership status.
- iv. During the life of this contract SRO shall offer to host at least one SEEPAD council/assembly meeting. SRO will actively participate in SEEPAD general meetings, seek committee and officer roles, and generally become western oriented in their outlook.

e. Local chapter development

- i. By the end of the Task Order, local chapters, as specified in the business plan, plus the SRO Head Offices shall be established, with a membership (associate and full) sufficient to credibly claim professional primacy.
- ii. There will be at least one meeting of all members each year.

f. Institutional strengthening

- i. By 31 May 2002, a project financial review of SRO shall take place and a letter on reportable conditions, if appropriate, issued to their management.
- ii. By 15 July 2002, SRO shall implement recommendations in the management letter.

Progress:

- a. By August 2001, the project had developed a TTCP, which meets IFAC and UNCTAD guidelines for the training and certification of accountants and auditors. This program

consists of 14 US university level courses in accounting, auditing, financial management and related subjects and is closely related to the internationally recognized ACCA program. This relationship to the ACCA program will allow local accountants and auditors to sit for ACCA, in English language, should they choose to do so, with minimum preparation beyond the project developed courses.

For each course, the project has identified high quality and internationally recognized and mostly US textbooks, which are being translated in local language, to provide a sound basis of training materials for each course.

The suggested TTCP has been approved by the AAA RS and classes will begin in November 2001. The TTCP has been orally agreed to in the FBiH, but we are waiting on the passage of a revised audit law, which will transfer some regulatory functions to the private sector, including training, before we can begin actual training in the FBiH.

Moving some self-regulating functions from the government to the private sector has been a major battle in the FBiH. Originally the government representatives of the Institute of Accountants and Auditors would not even discuss this with neither with the project nor with USAID. However, as a result of an aggressive and very difficult lobbying effort by the project, we are now working closely with the Minister of Finance and his staff on amendments to the audit law, which will transfer training and other activities from the government to the private sector. USAID refused to allow us to work with or support the government in training and demanded that we change the law to move this function to the private sector before initiating our new TTCP, in the FBiH.

We plan to have the law approved by January 2002, and begin our TTCP, in the FBiH at that time.

- b. A business plan has been developed for the AAA RS, with revenue streams from our TTCP and other sources, which shows financial sustainability before the end of contract. A business plan and financial projections, for the SRO on the FBiH will be developed during the next quarter, when we expect a SRO to be formed in the FBiH. The SRO in the FBiH is expected to be a union of several existing SRO's.

With both SRO's formed a major effort will be undertaken to form a state level SRO from the two entity level SRO as soon as the new law on associations at the state level passes parliament. We expect this to occur in winter 2001.

- c. Ethics and continuing education – The project team continues to develop the ethics enforcement program and has conducted related training in the RS. In a prior period a total of 68 people were trained in ethics and the team drafted the *Ethics Enforcement Procedures Manual* for the RS. The team has translated and presented this *Manual* to the SRO in the RS. As soon as the SRO President in the RS approves the draft, he will appoint an Ethics Committee to begin implementing ethics enforcement. Regarding ethics in the Federation, in a prior period the team received an ethics complaint from another project regarding a bank, which received a clean opinion from a Big 5 audit firm, but had failed to write off a bad debt

in possible violation of IAS. The auditor's opinion stated the statements were done in accordance with IAS. The team has discussed the complaint with the complainant and is discussing the case with the Institute in the Federation. This complaint can also serve as a test case for the establishment of ethics enforcement by the project in the Federation.

The proposed Model for TTCP anticipates employing continuing education as the primary approach to qualify SRO members for completing the international level TTCP.

- d. International liaison – As previously reported the project team assisted in developing agreement with USAID and the World Bank to mandate that the government require the SROs in each entity agree to form a joint venture to represent the accounting and auditing profession at the state level for Full Membership in IFAC. This new state-level SRO is expected to implement uniform TTCP and standard setting activities in both entities. As a result, a contract amendment has removed the Task of obtaining IFAC Associate Membership for each entity. The Ministry for European Integration included the project's state-level SRO approach in their recommendations for institutional changes in BiH in support of the European Stability Pact and the project continues to assist them.

The project team has assisted in hosting two regional SEEPAD meetings with the most recent one held in Zagreb, Croatia. The SEEPAD office continues to function as part of the project office. The project team has assisted OECD in developing objectives, which were sent to all SEEPAD participants. During this reporting period a site map for the SEEPAD web site was developed by the team.

- e. Local chapter development – The SRO President in the RS has agreed to schedule chapter visits with the project team for chapter development and ethics training. These visits will begin after the certification and IAS conversion programs are established. During a prior period the project team addressed approximately 80 accountants who attended a canton chapter meeting of one of the accounting associations in the Federation where the members agreed to join the project's efforts to establish a new SRO, combining the existing associations.
- f. Institutional strengthening – The financial reviews of the SROs will occur toward the end of the project.

4. Implement new accounting and audit curriculum at two or more higher educational institutions;

Specific deliverable are:

a. New curriculum

- i. By 30 June 2001, recommendations will have been finalized detailing curriculum revisions for all undergraduate years and will have been submitted to the Ministry of Education.

- ii. By 1 September 2001, the selected educational institutions will be equipped with guidelines for the appropriate accounting training materials.
- iii. By 1 September 2001, up to three faculty members from each participating university trained together, in the United States and locally, in delivering appropriate courses.
- iv. By 1 September 2001, the revised curriculum for at least the first undergraduate year will have been delivered and be ready for implementation by the selected higher education institutions,

b. Partnership development

- i. By 30 June 2001, candidate partner universities are identified.
- ii. By 31 July 2001, partnerships are sought and, if possible, established.
- iii. By 31 October 2001, a faculty exchange program between a U.S. partner and the universities is accomplished (in coordination with other USAID contractors including World Learning).
- iv. By 19 June 2002, efforts will have been made to have other donors or projects supply and install basic equipment.

Progress:

This task has been extremely successful. We have exceeded task order goals by having all eight Bosnia universities enrolled in our curriculum reform program and a state level working group consisting of all ethnic groups leading the effort.

During July and August 11 University professors from all 8 universities and representing all ethnic groups proportionally, selected by the Working Group and approved by USAID/World Learning attended a five-week training course at Seton Hall University in NJ. Professor Robert McGee, project-training coordinator led the training courses at Seton Hall. The professors studied the two most critical courses of the four courses scheduled for integration into the curriculum during the 2001/2002 academic year. The course taught were Introduction to Accounting (IAS based), which used a translation of the Needles book and Cost Accounting, which used a translation of Horgren's book.

The program was a great success. The ethnic groups lived, studied and played together and strong bonds among themselves and professor McGee were achieved. This cadre of important accounting professors and their new relationship with each other and professor McGee will greatly enhance the realization of not only our curriculum reform effort, but also the entire project.

Plans have been made with USAID to continue this program of US study over the next three years to ready the BiH university professors to implement new courses over each of the next three years.

Plans are now being made and discussions are in process to develop a more formal partnership relationship with Seton Hall to allowed continued input and sharing between BiH university

professors and their US colleagues. Seton Hall is already allowing all the BiH professor full access to their research database via the Internet.

In addition to this US link, all BiH professors studying in our program attended the American Association of Accountants annual meeting in Atlanta Georgia and became full members for the next year. This is the largest and most respected association for accounting academics and their annual meeting is usually attend by thousands of US and international accounting academics. The BiH professors made many contacts with US accounting professors and had a reception especially to meet the authors of the two translated textbooks they will be using in the upcoming academic year.

The project needs to supervise and ensure that universities actually implement the scheduled four new courses in 2001/2002; finalize plans for continuation of the US training program and formalize a partnership relationship probably with Seton Hall.

- a. By June 30, 2001 curriculum revisions had been finalized and all eight BiH universities had signed a Memorandum of Agreement with USAID and the IBTCI AR project, agreeing to revise their curriculum based upon our proposed 14 courses TTCP. The program is designed to be implemented over four years. Four new courses will be introduced during the first year and another four courses during the second year. During years three and four, three courses each will be introduced.

By September 1, 2001 all institutions were equipped with guidelines and appropriate training materials for the first four courses to be introduced during the first year.

By September 1, 2001, 11 faculty members representing all eight universities and all ethnic backgrounds had spent six weeks, at Seton Hall University training together to deliver the four courses to be introduced during the first year of reform.

By September 1, 2002, the first year courses were being delivered in all eight universities.

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

Specific deliverables are:

a. Miscellaneous

- a. By the end of the contract, conduct a course for 50 professional employees of the securities commission, stock exchange and brokerage houses to provide understanding in the use of financial statements for due diligence and oversight.
- b. By the end of contract, conduct a course for 250 tax inspectors to provide understanding in the use of financial statements for determining taxable income or loss and book-to-tax reconciliation.

- c. By the end of contract, as part of the conversion training, train 50 accounting managers from priority SOE's scheduled for privatization.
- d. By the end of the contract, as part of the conversion training, train 25 energy sector accounting managers.

b. Audit engagement training through SRO

- i. By 30 April 2001, agreement will be reached between the SRO and MoF on an approach to auditor training that best meets the interests of the professional auditing community.
- ii. By 31 March 2002, a total of 150 auditors and prospective auditors will have been trained in audit engagement practices that include engagement planning, working paper preparation, control and substantive testing, working paper review, audit program design and statistical sampling.

c. Managerial accounting training through SRO.

- i. By the end of the Task Order, at least 50 enterprise financial managers from the converted enterprises will have been trained in management accounting concepts, cost accounting, planning and control, and inventory control. Training includes work assignments for accountants, of converted enterprises to provide actual hands-on costing of their companies' products.

Progress:

- a. During the quarter the PWC Corporate Governance project and our project agreed to joint training programs scheduled for mid-November and mid-December. During these joint training programs, the project will present a two-day workshop to over 50 market participants from PIF's, brokers, dealers and other sectors. This workshop will focus on understanding and using the new IAS based financial reports and information.

Our planned training and certification program for enterprise tax inspectors is on hold, while USAID and IBTCI try to fit the program into other international community tax programs and the USAID and US Treasury Department tax reform efforts. At present the EU Tax program has told IBTCI and USAID that they will do the training of tax inspectors. The issue of jurisdiction of reform efforts among the IC has been a problem in the past and we have been informed by USAID that if the EU wants to train Tax inspectors, based upon previous agreements, they can do so. This task may then be eliminated from our project.

As of the end of this quarter, there have not been any SOE's or energy companies identified by USAID for conversion training.

- b. During late fall we plan to develop or identify a textbook for a practical audit case study course to be provided to auditors in early spring 2002.
- c. Cost accounting training is scheduled in spring 2002.