



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
SERBIA TECHNICAL ASSISTANCE TO REFORM CORPORATE FINANCIAL REPORTING  
APPROVED ON FEBRUARY 20, 2016  
TO  
REPUBLIC OF SERBIA

IBRD

GOVERNANCE

EUROPE AND CENTRAL ASIA

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## ABBREVIATIONS AND ACRONYMS

A&A:	Accounting and Auditing
BRA:	Business Register Agency
CAA:	Chamber of Authorized Auditors
CFO:	Chief Financial Officer
CPD:	Continuing Professional Development
EU:	European Union
IFRS:	International Financial Reporting Standards
IT:	Information Technology
ISA:	International Standards of Auditing
PDO	Project Development Objective
PE:	Public Enterprise
SME:	Small and Medium Enterprise
SOE:	State-Owned Enterprise



**Note to Task Teams:** The following sections are system generated and can only be edited online in the Portal.

## BASIC DATA

### Product Information

Project ID P154862	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 20-Feb-2016	Current Closing Date 31-Dec-2019

### Organizations

Borrower Ministry of Finance of the Government of Serbia	Responsible Agency Central Fiduciary Unit established within Ministry of Finance
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### Financing (in USD Million)

## SUMMARY

<b>Total Project Cost</b>	0
<b>Total Financing</b>	0
<b>Financing Gap</b>	0

## DETAILS



**Project Development Objective (PDO)**

Original PDO

The Project Development Objective is to contribute to an enhanced investment climate in Serbia by improving the institutional and technical capacity of supervisory authorities, professional organizations, and universities for quality financial reporting in line with the EU *acquis communautaire* and good international practice. To that effect, the project will focus on strengthening capacity for the accountancy and audit professions and improved monitoring and evaluation by regulators of financial reporting, for both private companies and SOEs.

**Summary Status of Financing**

TF	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-A2080	24-Mar-2016	24-Mar-2016	24-Mar-2016	31-Dec-2019	1.92	1.35	.60

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No

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**I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING**

Improving the institutional and technical capacity of supervisory authorities and achieving better alignment with the EU Acquis Communautaire are key to the achievement of the project development objectives. The adoption of new Accounting and Auditing Laws in October 2019 is a key milestone in the achievement of the project goals. Extending the Project end date from December 2019 to June 2021 provides the required time to support the implementation of the changes foreseen in the new laws. The establishment of a project steering committee to oversee all recipient-executed activities significantly extended the time required to finalize terms of reference and the selection of consultants during the initial phase of the project. Staffing changes at the Ministry of Finance also contributed to some delays. No additional financing is being sought as remaining available funds under the project are sufficient to achieve the project development objectives.

The project was designed for a 4-year implementation period with the initial closing date set for December 2019. The parent Multi-Donor Trust Fund (TF071151) was recently extended until June 30th 2023. The project contains both Bank-executed and Recipient-executed components, which have a roughly equal share of the overall Euro 3.4 Million budget. The project periodic interim unaudited reports (IFRs) as well as annual project financial audit reports have been delivered timely to the bank and were found acceptable. There are no overdue IFRs or audit reports at the moment. The financial management arrangements continue to be acceptable to the Bank.

Under the Bank-Executed part of the project (Euro 1.66 Million), there are three components which have merely extended the timeframe for completion of their scheduled activities as part of the extension. As of December 2019, EUR 1.27 Million have been spent, leaving an available balance of EUR 0.389 which is adequate for the remaining activities.:

**State-Owned Enterprise Component.** Activities undertaken so far include the production of a report on the quarterly forms to be reported by the Public Enterprises (PE) to the Ministry of Economy, the organization of three workshops jointly with the Ministry of Economy for various stakeholders in the PE financial monitoring process, nine working sessions with the Ministry of Economy to discuss and agree on technical solutions for the financial monitoring of PE. Financial Indicators have been agreed with both representatives of Public Enterprises and the Ministry of Economy. Reports finalized under this component include the SOE Diagnostic Report and the Enhancement of Forms for quarterly reporting. **During the extension period**, the following activities will be undertaken: (1) Production of a monitoring dashboard for monitoring of public enterprises by the Ministry of Economy, (2) Production of a guide to review financial statements, (3) Training in financial statements analysis, (4) Training in preparation of quarterly reports and annual business plan, and (5) Training in performance analysis.

**Accounting Education Component.** Activities undertaken so far include the production of a “Practice analysis of accounting and audit curricula for University and Professional education programs in the Republic of Serbia”, a “Benchmarking study on the undergraduate degree programs in accounting of the four Public Universities in Serbia”. Four trainings for professors and examiners were delivered on competency-based examinations and integrative case studies. Four training of trainer programs were delivered to accredit providers of continuing professional development programs. **During the extension period**, the CPD Diagnostic and Recommendations Report for the Chamber of Auditors, as well as CPD Guide will be finalized. Analysis and recommendations in relation to the Chamber’s Qualification Program for Auditors will also be concluded.

**Monitoring and Enforcement Component.** Activities undertaken so far include the organization of a workshop to identify key priorities for developing the capacity to improve the audit oversight system, as well as a workshop held as part of the audit market study and aimed to identify key constraints and possible solutions to improving audit quality in Serbia through improved audit regulation. A workshop was also organized with key stakeholders to review the proposed changes to the audit law. A study visit was hosted by the Dutch Authority for Financial Markets to share their experience in performing their audit oversight role. **During the extension period**, the institutions will receive technical advice on undertaking their new responsibilities. A tool to support the quality inspection of audits of financial institutions will also be developed.

*Under the Recipient-Executed part of the project (Euro 1.74 Million), a number of activities have been undertaken in relation to the adoption and training in new accounting (IFRS, IFRS for SMEs) and auditing standards (ISAs). The PDO remains applicable, but savings achieved on the training component have enabled a re-prioritization of activities in the aftermath of the adoption of new laws in October 2019, as highlighted in Section II below.*

***The 18-month extension for the project is being sought as a result of delays with the launch of activities on the recipient-executed component of the project. The establishment of a project steering committee ensured support for the reforms amongst a broad range of stakeholders. It also resulted in a long lead time to initiate activities, including the adoption of legislation. The extension will be key to ensuring the implementation of the new laws can be properly supported, as detailed in the next section.***



## II. DESCRIPTION OF PROPOSED CHANGES

### A. *Summary of the proposed changes*

**The Project Development Objective continues to be achievable within the extended implementation period.** Cost savings which are a result of completing certain activities below the initially budgeted amounts, allowed to introduce new activities to be undertaken during the extended implementation period, as presented in Table 1 below. The new activities are aligned with the PDO, and will contribute to its achievement. Introduction of new activities does not change total allocations per components.

The adoption in October 2019 of new accounting and auditing laws represents a significant achievement for the project. The change of the project closing date from December 2019 to June 2021 will support the implementation of the new laws by the relevant institutions.

Significant progress has been made towards achievement of the original project development objective, which will continue to be pursued under both Recipient Executed and Bank Executed components of the project. Reallocation of budgeted activities under the Recipient-Executed components of the project are as follows:

- (a) Cost savings achieved will allow the project administration to continue with a minor increase (approx. 2,5 %) of the project administration budget.
- (b) Cost savings achieved in the training and knowledge-sharing components of the project will allow activities to be undertaken during the project extension to support the implementation of the new accounting and auditing laws.

Several activities have already been contracted, and will be completed early in 2020. These activities include: (1) Training in use and application of IFRS, IFRS for SMEs, and ISAs and organization of events and activities in order to increase understanding and use of financial reporting, (2) Analysis of existing legislation and regulations and support alignment of the financial regulatory framework with relevant EU Acquis Communautaire, (3) Public awareness campaigns regarding audit and financial reporting, (4) Development of a sustainable process for translating and adopting IFRS, IFRS for SMEs and ISAs, (5) Knowledge exchange visits for Ministry of Finance staff to relevant EU Countries, (6) Procurement of licenses for audit software for State Audit Institution in order to improve data analysis in the audit procedure and complete training in software to an advanced level, and (7) Review Committee activities for alignment of translated IFRS and IFRS for SMEs with Serbian official terminology and for ensuring the accuracy of translated standards.

In light of the initial delays in procurement activities for the recipient-executed components of the project, the adoption of new accounting and auditing laws, as well as significant savings achieved under the training component of the program, it seems highly appropriate to extend the project end date and reallocate remaining funds to new activities which support the PDO. One of the key outcomes of the revised laws is to transfer some of the responsibilities for audit oversight from the Chamber of Auditors to the Securities and Exchange Commission. Another outcome is to establish a new register of accounting services providers which is to be maintained by the Business Register Agency, with support from the Chamber of Auditors.

The table 1 below provides a breakdown of the reallocation of funds for the recipient-executed activities.



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### III. SUMMARY OF CHANGES

	Changed	Not Changed
Loan Closing Date(s)	✓	
Implementation Schedule	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Cancellations Proposed		✓
Additional Financing Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Change in Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓

### IV. DETAILED CHANGE(S)



**LOAN CLOSING DATE(S)**

TF	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A2080	Effective	31-Dec-2019		30-Jun-2021	30-Oct-2021

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**Table 1. Re-allocation of Recipient-executed activities, budget comparison table**

ACTIVITY	INITIAL BUDGET	CONTRACTED	REVISED BUDGET
Training in use and application of IFRS, IFRS for SMEs, and ISAs and organization of events and activities in order to increase understanding	1,050,000	783,508	783,508
Analysis of existing legislation and regulations and support alignment of the financial regulatory framework with relevant EU Acquis Communautaire	160,000	154,992	154,992
Public awareness campaigns regarding audit and financial reporting	50,000	49,824	70,000
Development of a sustainable process for translating and adopting IFRS, IFRS for SMEs and ISAs	90,000	90,000	99,900
Knowledge exchange visits for Ministry of Finance staff	50,000	11,044	25,000
Procurement of licenses for audit software for State Audit Institution	60,000	56,820	56,820
Review Committee activities for alignment of translated IFRS and IFRS for SMEs with Serbian official terminology	0	11,100	17,100
Support in preparation and implementation of the new by-laws (enforcement of the accounting laws) including training	0	0	70,000
Improving Securities Commission IT system	0	0	70,000
Support to the Business Register Agency, introduction of the new Register of accounting services providers	0	0	50,000
Analysis of the existing and preparation of new Chamber of Authorized Auditors (CAA) by-laws and providing inputs/suggestions for improvements and implementation of the new by-laws within the accounting and audit regime	0	0	40,000



# The World Bank

Serbia Technical Assistance to Reform Corporate Financial Reporting (P154862)

Upgrade of the software for the registries kept in the Chamber of Authorized Auditors (CAA) including trainings provided to the CAA staff in using the new version of the software	0	0	15,000
<b>SUBTOTAL</b>	<b>1,460,000</b>	<b>1,157,288</b>	<b>1,452,320</b>
Administration Costs	280,000	208,848	287,680
<b>GRAND TOTAL</b>	<b>1,740,000</b>	<b>1,366,136</b>	<b>1,740,000</b>