

REPUBLIC OF CROATIA**MINISTRY OF FINANCE****IDF Grant for Enhancing Corporate Financial Reporting in Croatia****IDF Grant (No. TF 090642)****Terms of Reference**

Consultant Services: Technical Assistance Services to Create a Quality Assurance Methodology Manual for the Croatian Chamber of Auditors and Train its Staff

Project ID No. IDF/02-09/CQ

A. Background

1. Croatia is currently negotiating accession to the European Union.
2. The World Bank in collaboration with the Ministry of Finance has updated its assessment of the financial reporting in Croatia with the *2007 Accounting and Auditing Report on the Observance of Standards and Codes*. The *2007 A&A ROSC* noted that while progress had been made in the field of corporate financial reporting, the challenge for Croatia would be to strengthen suitable institutions to properly implement and enforce all *acquis* requirements related to corporate financial reporting.
3. Croatia has now further implemented and aligned its legal framework with the provision of the *acquis communautaire* as it relates to corporate financial reporting by the adoption on new laws on Accounting and Auditing:
 - The new Accounting Act was enacted by the Croatian Parliament in its October 5, 2007 session, was published in the Official Gazette No. 109 dated October 24, 2007 and entered into force on January 1, 2008. The new Accounting Act aligns the Croatian regulatory framework with the *acquis communautaire* as it relates to accounting, including, the Fourth (78/660/EEC) and Seventh (83/349/EEC) Company Law Directives.
 - The new Audit Act was published in Official Gazette No 139/2008, and entered into force in December 2008. The new Audit Act as amended is aligned with the Eight Company Law Directive (2006/43/EC) adopted on 17 May 2006 by the EU Parliament. The new provisions of the Audit Act include the establishment of an efficient quality assurance system (quality assurance of work of certified auditors and auditing firms) and public oversight processes over the audit profession in Croatia. Public oversight is envisaged to be entrusted to the Public Oversight Committee, an independent body conducting oversight of the Chamber, auditing firms, independent auditors and certified auditors. Detail competencies of the Public Oversight Committee and terms and conditions to be met by members of the POC, who render decisions individually and independently, have also been defined by the new Audit Act. The Chamber of Auditors was established in 2006 as a professional body with public authority. The quality assurance of the work of auditing firms, independent auditors and certified auditors shall be conducted by the Croatian Audit Chamber. The quality assurance of the work being conducted by the Croatian Audit Chamber is also envisaged to be subject to the public oversight, performed by Public Oversight Committee. The quality assurance system is to be organized in a manner which ensures its independence from auditors and entities subject to review, and shall be subject to public oversight.

4. Croatia has aligned its relevant legislation with the *acquis* covering, inter alia, the Fourth (78/660/EEC), Seventh (83/349/EEC) and Eight Company Law Directive (2006/43/EC) adopted on 17 May 2006, and has submitted the audit implementation Action Plan with the EU Commission for the remaining work required by the EU to fully align the Croatian Financial Reporting Framework with the *acquis communautaire*. The remaining work required is to strengthen institutions and develop methodologies for the public oversight of the audit function and the quality assurance system delegated to the Croatian Chamber of Auditors.
5. The Republic of Croatia has received an Institutional Development Facility (IDF) Grant for Enhancing Corporate Financial Reporting in Croatia (TF 090642) from the International Bank for Reconstruction and Development (IBRD). The proposed project under this grant is to achieve the common goal of enhancing the quality of financial reporting in Croatia.
6. The development of activities under the IDF Grant for Enhancing Corporate Financial Reporting in Croatia will also benefit from Croatia's participation in the regional REPARIS program activities, which will support countries in the South East Europe region in their reform efforts to meet requirements of the *acquis* in the field of corporate financial reporting.
7. The proposed project is envisaged to create a Methodology Manual for conducting quality assurance reviews and training of Chambers Quality Assurance Team.
8. This assignment is for a consulting firm that will work on the tasks and responsibilities outlined below.

B. Objective, principles, process and responsibilities for the project activities

9. The overall objective of the Project is to support the transition of the corporate financial reporting framework towards the EU *acquis communautaire* and international standards.

C. Scope of work

10. The consulting firm will work under the supervision of the Government of Croatia. The consulting firm reports to the Project Leader appointed by the Minister of Finance. The consulting firm will also provide reports to the Project Leader on progress made during the assignment as per the timetable of deliverables (see section D).
11. The consulting firm will provide technical assistance the Government of Croatia in following:
 - Create a Methodology Manual for conducting the quality assurance over audits, audit firms and independent certified auditors in the Republic of Croatia, which includes predefined detailed processes, written instructions, forms and procedures to the Croatian Chamber of Auditors in order to carry its mandate effectively as per the requirements of the new Audit Law and the provisions of the Eight Company Law Directive,
 - Agree the Methodology Manual with the Croatian Chamber of Auditors and the Public Oversight Committee,
 - Training of the Quality Assurance Team for conducting quality assurance reviews effectively based on the above mentioned Methodology Manual as mentioned above. At least 5 people will be trained for a minimum of 30 working days. The trainings will take place in Zagreb. A comprehensive training programme (with train-the-trainer component) will be implemented, thereby improving skills and knowledge of the Quality Assurance Team for conducting created Methodology Manuel, in compliance with national legislation and EU directives and regulations.
 - Organize a post training examination on quality assurance for the Croatian Chamber of

Auditors Quality Assurance Team.

D. Reporting Arrangements and timing

12. The project will be effective upon signing of the contract and will close 12 months subsequently to that date. A preliminary work plan shall be delivered within one week of taking up the assignment. Any observations, comments and modifications called for by Ministry of Finance or the Public Oversight Committee or Croatian Audit Chamber should be incorporated into the plan in no more than five (5) business days.
13. The Ministry of Finance, the Public Oversight Committee and the Chamber of Auditors will provide access to executives, managers, and staff whom the consultant considers necessary to interact with for the assignment. The consultant will also be given a list of all relevant background material and basic data.
14. During the course of the projects the consulting firm shall submit the English and Croatian version of the project deliverables in hard copy and CD to the Government of Croatia within the following specified details:

E. Deliverables

Deliverables defined in section C	Deadlines in weeks and months after signing the contract
Inception report and preliminary work plan	2 weeks
Quality Assurance Methodology Manual	6 months
Training at least 5 people for conducting quality assurance reviews effectively based on the Quality Assurance Methodology Manual	9 months
Post training examination	9 months
Final report	10 months

The Consulting firm will coordinate the work of all its consultants and report to the Project Leader.

Delivered Quality Assurance Methodology Manual including predefined detailed processes, written instructions, forms and procedures remain the property of the Republic of Croatia.

G. Consultant Qualifications

15. As indicated below, the consulting firm's team should comprise consultants that should have, as a team (meaning at least one member of the team) or individually:
 - Individually; an EU recognized (or equivalent) professional accountancy and audit qualification, a relevant advance degree with at least seven (7) years of experience, and for a least one of the member of the team a minimum 15 years of relevant professional experience in the field of corporate financial reporting;
 - As a team; demonstrated ability to provide intellectual leadership in the field of quality assurance systems, to assist in providing directions to complex policy and institutional development work, outstanding organization skills, including having experience in managing projects with several participants;

- Individually; In-depth knowledge of, International Standards on Auditing, and ISQC1 on quality assurance as issued by the International Federation of Accountants;
- Individually; In-depth knowledge of the EU institutions and *acquis communautaire* as it relates to corporate financial reporting, and more specifically of the Eighth Company Law Directive and related recommendations of the European Commission;
- Individually; in depth knowledge and practical experience of the challenges faced in the implementation of quality assurance systems in jurisdictions subject to the *acquis communautaire*;
- Individually; outstanding communication and persuasion skills, including the ability to speak articulately and persuasively, and write concisely;
- Individually; familiarity with European Union countries, and demonstrated ability to work in diverse environments;
- Individually; having not worked for at least three years in public practice;
- Individually; English language skills essential, knowledge of Croatian would be an advantage.

H. Institutional Arrangements

16. The Ministry of Finance IDF Grant Project Implementation Unit will coordinate and facilitate activities of the consulting firm with Public Oversight Committee, Croatian Audit Chamber and other appropriate counterparts and members of government. The Project Leader from the Croatian side would be appointed by the Minister of Finance.

17. All the associated costs including international travel costs¹ and accommodation, as well as the office costs including any interpretation, translation, preparation and printing of reports and documents would be borne by the consulting firm, and included in their financial proposal². Details of items to be reimbursed at cost would be itemized in the financial proposal.

I. Confidentiality

18. Although the endorsed deliverables may or will ultimately be made public, the consulting firm shall not, during the term of this assignment and within two years after its expiration, disclose any proprietary or confidential information relating to deliverables, the services provided, or any other aspect of this assignment, except as explicitly permitted by the World Bank and the Croatian Ministry of Finance. The confidentiality undertakings do not apply to employees or other persons appointed by the consulting firm to work on this assignment. They will however be bound by the same confidentiality undertakings as the consulting firm towards third parties.

¹ International travel costs can be estimated at 600 USD per return flight.

² Translation costs can be estimated at 25 USD per page.