

IV. Accounting and Auditing Standards

This chapter describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports. The chapter comprises seven sections, in two parts, as follows:

Part One: Accounting Standards

- 1 – Accounting Standard Setting Responsibilities – describes the roles and responsibilities of organizations involved in the accounting standard setting process.
- 2 – Accounting Standard Setting Process – describes the accounting standard setting process.
- 3 – Mongolian Accounting Standards – discusses Mongolian accounting standards.
- 4 – Conformity with International Accounting Standards – analyses differences between Mongolian accounting standards and IAS.
- 5 – Public Sector Accounting Standards – discusses developments in public sector accounting standards.

Part Two: Auditing Standards:

- 6 – Legal Basis – describes the legal basis for Mongolian auditing standards.
- 7 – Development and Promulgation – describes responsibilities and the process for developing and promulgating auditing standards.

Part One. Accounting Standards

1. Accounting Standard Setting Responsibilities

Three organizations contribute to the development of private sector accounting standards: the Accounting Division of the Ministry of Finance and Economy (MOFE), the Mongolian Professional Accounting Council (MPAC), and the Mongolian Institute of Certified Public Accountants (MICPA). The respective responsibilities of these organizations are as follows:

- **MICPA** is not legally involved in the standard-setting process but has established the Accounting Committee which prepares proposals on the development and improvement of accounting standards, and disseminates information on accounting standards to business entities (chapter III refers).

- Under the *Auditing Law 1997*, **MPAC** is responsible for suggesting improvements to accounting standards and submitting these to MOFE for consideration. However, MPAC is not particularly active in this respect.
- Under the *Accounting Law 1993*, the **Accounting Division** of MOFE is also responsible for developing accounting standards. It promulgates these by way of regulation.

In March 2000, the Fiscal Policy Division of MOFE assumed responsibility for setting public sector accounting standards.

2. Accounting Standard Setting Process

As mentioned above, three organizations are involved in developing and promulgating accounting standards. There is however, no formalized process for development, exposure, approval, and promulgation. Rather, drafts are circulated around selected organizations for comments.

3. Mongolian Accounting Standards

Mongolian accounting standards are part of a 'uniform accounting system' based on the former Soviet accounting system. In this respect, detailed accounting instructions and reporting formats are issued, of which accounting standards are an integral part. The accounting instructions also include taxation requirements.

4. Conformity with International Accounting Standards

Private sector accounting standards must conform to International Accounting Standards (IAS):

“Accounting forms and methods [must] be consistent with International Accounting Standards.”

Accounting Law 1993 (Article 4.3.3).

Table 5 examines differences between the 'Mongolian Accounting System' and IAS. The identified differences are due to either treatments not being specified (e.g. IAS 9) or accounting choices being restricted (e.g., IAS 4 – straight-line depreciation must be used).

Table 5: Comparison of IAS to the Mongolian Accounting System

International Accounting Standards (IAS)	Comparison Against the Mongolian Accounting System
IAS 1 Presentation of Financial Statements	<ul style="list-style-type: none"> • The accounts preparation process – including preparation of source documents, journal preparation and posting, ledger account maintenance and preparation of final statements – is specified in detail. Given this level of prescription, underlying assumptions for the preparation of financial statements are not included (with the exception of the ‘going concern’ assumption). • Comparative financial information must be prepared, however there is no specific requirement to disclose this information.
IAS 2 Inventories	The weighted-average cost method is mandated.
IAS 4 Depreciation	The straight-line depreciation method is mandated.
IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	<ul style="list-style-type: none"> • The definition / treatment of the following items is not specified: • Abnormal / exceptional items • Correction of fundamental accounting errors • Changes in accounting policies • Changes in accounting estimates, and • Discontinued operations.
IAS 9 Research and Development Costs	Not specified.
IAS 10 Contingencies and Events Occurring After Balance Date	Same as IAS.
IAS 11 Construction Contracts	With the exception of the requirement to disclose current period contract revenue and contract completion stage, requirements are not specified.

ACCOUNTING AND AUDITING STANDARDS

International Accounting Standards (IAS)	Comparison Against the Mongolian Accounting System
IAS 12 Income Taxes	Deferred tax liabilities and tax assets should only be recognized for temporary and permanent differences in respect of depreciation.
IAS 14 Segmental Reporting	Requirements are not specified.
IAS 16 Property, Plant and Equipment	Treatments are similar to IAS, however the treatment of changes in useful lives and depreciation methods is not specified.
IAS 17 Accounting for Leases	<ul style="list-style-type: none"> • The treatment of financial leases is not specified. • The treatment of operating lease expenses is in accordance with IAS.
IAS 18 Revenue	The measurement of revenue is the same as IAS except that there is no provision for exchange.
IAS 19 Employee Benefits	Not specified.
IAS 20 Accounting for Government Grants and the Disclosure of Government Assistance	Not specified.
IAS 21 The Effects of Changes in Foreign Exchange Rates	Similar to IAS except that the Central Bank (Bank of Mongolia) rates must be used for conversion purposes.
IAS 22 Business Combinations	Same as IAS.
IAS 23 Borrowing Costs	Same as IAS.
IAS 24 Related Party Disclosures	Disclosures are specified but treatments are not.
IAS 25 Accounting for Investments	Same as IAS except that revaluation treatments on investment disposals are not specified.
IAS 26 Accounting and Reporting by Retirement Benefit Plans	Not specified.

FINANCIAL MANAGEMENT AND GOVERNANCE ISSUES IN MONGOLIA

International Accounting Standards (IAS)	Comparison Against the Mongolian Accounting System
IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries	Disclosure requirements are specified but treatments are not.
IAS 28 Accounting for Investments in Associates	Disclosure requirements are specified but treatments are not.
IAS 29 Financial Reporting in Hyper-Inflationary Economies	Not specified (Mongolia is not a hyper-inflationary economy within the definition of IAS 29).
IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions	These disclosure requirements are regulated by special rules issued by the Bank of Mongolia.
IAS 31 Financial Reporting of Interests in Joint Ventures	Disclosure requirements are specified but treatments are not.
IAS 32 Disclosure and Reporting of Financial Instruments	Not specified.
IAS 33 Earnings per Share	Similar to IAS.
IAS 34 Interim Financial Reporting	Not specified. However, the <i>Accounting Law 1993</i> requires that quarterly financial statements must be prepared on the same basis as annual financial statements.
IAS 35 Discontinued Operations	Not specified.
IAS 36 Impairment of Assets	Not specified.

International Accounting Standards (IAS)	Comparison Against the Mongolian Accounting System
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	<ul style="list-style-type: none"> • Contingent liabilities must be disclosed in the notes to the financial statements. • There are no requirements in relation to contingent assets.
IAS 38 Intangible Assets	<ul style="list-style-type: none"> • Definition is similar to IAS. • Must be valued at historical cost and amortized on a straight-line basis over 1 to 40 years. • Tax law requires that amortization be on a straight-line basis over 10 years.
IAS 39 Recognition and Measurement of Financial Instruments	Not specified.

5. Public Sector Accounting Standards

The Fiscal Policy Department of the MOFE has recently assumed responsibility for developing and promulgating accounting standards for public sector reporting. Public sector organizations currently report based on a 'uniform accounting system' of the Soviet accounting system. In this respect, detailed accounting instructions and reporting formats are issued, of which accounting standards are an integral part.

In 1998, as part of the Public Administration Reform Project (PARP), accounting policies were developed based on IAS and (the then unreleased) International Public Sector Accounting Standards (IPSAS).²⁰ Guidance and instructions are incorporated in three documents: (i) the *Framework for Financial Reporting in the Public Sector* sets out and explains the concepts and principles that underlie IAS in terms of their application to Mongolian public sector reporting; (ii) the *Accounting Policies* contains the accounting policies for public sector reporting; and (iii) the *Reporting Formats* for public sector reporting (forecast financial statements and actual accounting statements) provide a set of pro-forma statements for individual organizations and for the Government as a whole.

²⁰ ADB TA No. 2931-MON: *Program Preparation for Governance Reforms*, for \$967,000 approved in December 1997.

Annual financial statements for the five pilot agencies involved in the first implementation stage of the Public Administration Reform Project have been prepared based on these instructions and guidance.

Part Two. Auditing Standards

6. Legal Basis

The *Auditing Law 1997* requires that auditors apply International Standards on Auditing (ISA). Consequently, Mongolian auditing standards are a direct translation of ISA.

7. Development and Promulgation

As with accounting standards, three organizations contribute to the promulgation of auditing standards; the Accounting Division of MOFE, MPAC, and MICPA. The responsibilities of these organizations are as follows:

- **MICPA** is not legally involved in the standard-setting process but has established the Accounting Committee which prepares proposals on the development and improvement of auditing standards, and disseminates information on auditing standards to audit firms (chapter III refers).
- Under the *Auditing Law 1997*, **MPAC** is responsible for proposing improvements to auditing standards and submitting these to the Ministry of Finance and Economy for consideration. However, MPAC is not particularly active in this respect.
- Under the *Accounting Law 1993*, the **Accounting Division** of the MOFE is also responsible for developing auditing standards. It promulgates these by way of regulation.

As mentioned above, three organizations are involved in developing and promulgating auditing standards. There is however, no formalized process for development, exposure, approval, and promulgation.

