

V. Country Issues and Recommendations

This chapter summarizes the findings and recommendations that are provided in the seven individual country reports.

1. Cambodia

Developments and Challenges

Under the new Constitution, democratic principles were reintroduced and private ownership was allowed. The public sector was organized through the Legislature, the Executive and the Judiciary. Important laws were passed including the Law on Investment (1994), the Chamber of Commerce Law (1995), the Commercial Register Law (1995), the Cambodia Investment Board (1995), the Law on Taxation (1997) and the Audit Law (2000). The current accounting problems include:

- no Company Law
- no Accounting Law
- no International Accounting and Auditing Standards
- no Profession or Accounting Society
- very few qualified Cambodian accountants
- very few regulatory agencies
- inadequate accounting education.

Accounting and Auditing in Cambodia

The accounting system in Cambodia is governed by the General Accounting Plan, which was issued by the Ministry of Economy and Finance (MEF) in 1993. The Plan contains a recommended Chart of Accounts, list of accounts to be applied, accounting treatment, accounting principles and guidelines for financial statement presentation. Foreign companies have unofficially adopted International Accounting Standards (IASs) due to the requirements of their overseas parent companies and the influence of existing international accounting firms in Cambodia.

The draft “Law on Corporate Accounts, their Audit and the Accounting Profession” if passed by the National Assembly, will pave the way for the establishment of an accounting profession, including accounting standards, an Institute of Certified Public Accountants (CPAs) and a National Accounting Council.

The Audit Law was passed in March 2000 and established the position of Auditor-General and a department. An Auditor-General has not yet been appointed. There are only seven accounting firms in

Cambodia and three of the international big five accounting firms are represented.

Professional Infrastructure

There is no officially recognized accounting society or organization in Cambodia nor is there any regulated accounting profession. Cambodia's market is cash based and there are limited commercial and industrial sectors. If the draft Accounting Law is passed this will provide for accounting regulations and the establishment of an Institute and a profession. The Royal Government of Cambodia (RGC) has initiated a Financial Accountability Development Program, the objectives of which are to:

- establish an Institute of Certified Public Accountants in Cambodia
- establish an independent Financial Accounting and Auditing Standards Board, and
- design appropriate accounting and auditing education and training programs.

Accounting and Auditing Standards

The only "formal" accounting system in Cambodia is the General Accounting Plan. Some differences between the Plan and IASs are identifiable as follows:

- Balance Sheet presentation.
- The Income Statement is recorded using expense items rather than functional classification.
- Some extraordinary items would be classified as operating items under IASs.

A working party to consider the introduction of IASs was formed in 1995 and later disbanded in the same year by the Government. French Government assistance and World Bank assistance involving the introduction of IASs is currently being used on projects in Cambodia. No consideration has been given to the application of Public Sector Accounting Standards.

Education and Training

The availability of quality accounting and auditing training in Cambodia is limited. There are four State-owned public institutions and five privately owned institutions providing fulltime education in accounting. The general curriculum in four-year degree courses includes Analytical Accounting, General Accounting, Financial Accounting, Cost

Accounting, Managerial Accounting, International Accounting and Auditing.

The Economics and Finance Institute is government-owned and covers short-term courses in Public Finance Management, Accounting and Control, National Budget Procedures and External Finance.

Government Budgeting and Accounting

The Constitution includes articles that cover the preparation and approval of the National Budget and the Administrative Accounts (Public Accounts). The National Budget is the responsibility of the Department of Budget and Finance and a Financial Management Law is passed each year which proclaims the approval of the budget. The Annual Public Accounts are submitted to the National Assembly each year for approval. The most recent approval given was for the year 1998.

There are no standard financial performance indicators used as benchmarks for project or enterprise performance.

The Department of Public Property is responsible for Asset Management and Control. A new computerized system of asset recording was introduced in 1999 however, the system is not operating and operators need to be trained in order to activate the system.

Donor Assistance

ADB Assistance include a Technical Assistance Project (TA 5866-CAM) for Developing Capacity in Audit and Inspectorate Function. The TA led to the drafting of the recently enacted Law on Audit and other procedures involving the establishment of an External and Internal Audit Function in Cambodia. In addition to this TA, further assistance for Capacity Building in Audit Function II and for Strengthening Capacity in Public Finance Management have recently been proposed.

French Government Assistance has recently been used in the areas of:

- Public Sector Accounting
- Private Sector Accounting
- Revenue Mobilization through Taxation
- Computerization for Ministry of Economy and Finance

World Bank Assistance (IDF Grant No. TF027305) has recently been used for the following tasks:

- Draft an Accounting and Auditing Law
- Draft Reports on Accounting and Auditing Standards

- Draft a report recommending examination, certification, and licensing professional accountants and auditors
- Develop a 30-hour training module for informing Government officials on the new proposed IASs for Cambodia

European Union assistance has been used for the installation of a new computerized system of Government Asset Recording for both line ministries and provinces.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in Cambodian accounting and auditing arrangements.

The Accounting Profession

Cambodia needs to establish an accounting profession that delivers a high quality of service to both the public and the private sector. In order to establish a strong accounting profession in Cambodia the following steps should be taken: upgrade the level of accountancy training; legally form a professional society of accountants; adopt International Accounting Standards by law; and establish an independent Accounting Standards Board. **It is recommended that** (i) a professional institute of accountants be formed in Cambodia and be given due recognition by law. If adopted, the draft Accounting Law would legally establish such an institute; and (ii) International accounting standards be adopted as a base for the development of appropriate local accounting standards.

Accounting Training

The courses of the present institutions involved in accountancy and auditing training fall short of international standards. However, these institutions are reasonably well equipped and consideration should be given to upgrading accountancy education in Cambodia in order that an internationally accepted level is reached. **It is recommended that** (i) the RGC explore the possibility of upgrading the current accounting courses on offer in Cambodia to that of an international standard; (ii) the RGC makes inquiries as to the possibility of sponsored distance learning or correspondence courses with overseas universities on a quantitative basis; (iii) the RGC approach bilateral aid agencies requesting accounting scholarships for Cambodian students; and (iv) technical assistance be provided in the field of postgraduate commercial training.

Training for Accounting Lecturers and Professors

There is no specific advanced training program for continuing education of accounting lecturers and professors. Many factors support the development of competent accountants. The quality of undergraduate teachers is one key factor. **It is recommended that:** (i) a specific training program for accounting professors and lecturers be developed and implemented; and (ii) A professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Security and Control of Fixed Assets

Security and control of Non-Current Assets are lacking in the existing Government accounting procedures. The new Asset Recording System would most likely be satisfactory as regards to format and detail, however staff need to be urgently trained on the use of the software in order to make the system operative. **It is recommended that:** (i) the software for the Asset Recording System be reviewed in order to assess its adequacy and to determine whether a more suitable package may exist in today's market; (ii) If it is decided to continue with the existing software package the staff should receive proper training on the use of the software; and (iii) a monthly report be prepared by National Treasury Department on the capital expenditure incurred and that this report be used as the basis for updating the Assets Register.

The Draft Capital Market Law

There is presently a lack of a coherent code of Company Law in Cambodia with the result that it has been considered necessary to include within the draft Capital Market Law a number of articles covering those aspects of Company Law essential to the formation and ongoing regulation of public companies. The current draft Capital Market Law falls short of many topics that should be covered in a law related to companies. **It is recommended that:** (i) the current draft Capital Market Law and the draft Law of Commercial Enterprises be reviewed and replaced by a comprehensive Law on Companies and at the appropriate time a further law be drafted regarding the establishment of a Securities and Exchange Commission and a Stock Exchange; and (ii) technical assistance be provided to undertake these tasks.

Public Accounts Committee

Under Cambodian laws and regulations there appears to be no independent body, which is separate from the Government, which carries out an independent review of all public expenditures incurred by Government Ministries, agencies and enterprises. **It is recommended that:** (i) a Public Accounts Committee be established and be comprised of members from the National Assembly. The PAC should be established by law and the objectives, rules and procedures should be transparent and in the interests of the general public; and (ii) the appropriate technical assistance be granted to assist in drafting the necessary laws and regulations.

Public Sector Accounting Standards Board

The International Federation of Accountants has released the first eight International Public Sector Accounting Standards (IPSASs) designed to enhance the accountability and financial management of governments worldwide. The release of these documents means that for the first time there is an authoritative set of independent financial reporting standards for governments. **It is recommended that:** (i) consideration be given to the setting up of a Cambodia Public Sector Accounting Standards Board in order to plan and establish the Cambodian Public Sector Accounting Standards, and to organize and monitor the implementation of these Standards; and (ii) the Public Sector Accounting Standards issued by IFAC be used as a base to develop the Cambodian Public Sector Accounting Standards.

Establish Position of Accountant General

With the introduction of International Public Sector Accounting Standards, the MEF establishment needs to be reviewed in order that due recognition is given to developments in this area. There appears to be no senior officer within the MEF whose duties include the monitoring and review of accounting standards. **It is recommended that:** (i) consideration be given to the creation of a position entitled "Accountant General". The duties of this position would ideally include the monitoring and review of International Public Sector Accounting Standards. Recommendations would come from this Officer regarding the adoption of Standards and these submissions would be made to the Public Sector Accounting Standards Board; and (ii) the functions and responsibilities of Public Accounts be included in the duties of the Accountant General.

Transparency

There is a lack of transparency with Government reporting. There is practically no interface with the public or the private business sector. There appears to be no financial reports that disclose information on how resources have been used and accounted for, nor does there appear to be any financial instructions on these matters. **It is recommended that:** all Government accounts of public expenditures and revenues be available for public information and that all statistical data, inventories of public property, Government rules and procedures, procurement policies, etc. be also classified as available for public information.

Financial Performance Indicators

In many countries, state-owned enterprises, in particular those that generate their own revenue, often include financial performance indicators as Notes to the Financial Statements. These financial performance indicators include Rate of Return, Self-Financing Ratio (Contribution to Capital Ratio) and Debt Equity Ratio. Cambodia does not prepare these indicators. **It is recommended that** consideration be given to the adoption of financial performance indicators as benchmarks for comparison purposes between financial periods in State-owned enterprises that generate their own income. If adopted, the indicators recommended are the Rate of Return, the Self-Financing Ratio and the Debt Equity Ratio; and further, that these indicators be included as Notes to the Financial Statements.

Budget Monitoring Process

There appears to be no transparent budget monitoring process where actual performance can be compared against planned performance on a regular basis. There needs to be a coordinated approach by line Ministries and provinces and institutions with the core budget departments of MEF in order that budgeted revenues and expenditures are monitored, at least on a monthly basis, so that planned targets may be met. **It is recommended that:** (i) the budget monitoring process be reviewed in order that adequate procedures are put in place to better attain planned targets of discrepancies; (ii) the functions and responsibilities of senior staff in line Ministries, provinces, agencies and institutions be reviewed; and (iii) the budget cycle be revised in order that the draft Budget is prepared by October each year.

ADB Anti-Corruption Policy

The ADB's anticorruption policy centers on three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration as part of the Bank's broader work in governance and capacity building; (ii) supporting promising anticorruption efforts on a case-by-case basis and improving the quality of the Bank's dialogue with its developing member countries (DMCs) on a range of governance issues, including corruption; and (iii) ensuring that the Bank's projects and staff adhere to the highest ethical standards. In order to combat corruption in the public service the following matters should be **considered**: the establishment of a public accounts committee; improved accountability measures; detection and investigation of corruption; employment of professional accountants; and effective internal controls.

2. People's Republic of China

Developments and Challenges

The PRC had public accounting firms and an accountancy profession before the introduction of central planning. The Soviet accounting system, which catered to the needs of central planning, was adopted in the 1950s. The system provided statistical information, and emphasized standardization and uniformity so that information could be compared across sectors and industries. Detailed instructions replaced professional judgment in the accounts-preparation process and public accounting firms and the accountancy profession were unnecessary.

The PRC's 1979 decision to align accounting practices with the needs of a mixed-market economy posed a number of challenges. First, bookkeepers numbered in millions but there were no qualified Certified Public Accountants (CPAs), let alone a professional accounting body. Second, financial information on the performance and position of organizations was not publicly available. In any case, this information did not meet international standards nor did it cater to the needs of investors or lenders. Third, the users of financial information (investors and creditors) were unfamiliar with what they should demand from organizations. Fourth, financial information was not independently verified (audited) to international standards. Fifth, the entire legal framework was geared to central planning and specified exactly what information should be produced, how it should be produced, and to whom it should be provided. Finally, the regulatory entities that

generally exist in market economies to oversee financial disclosure practices, such as securities exchange commissions, did not exist.

Objectives and Responses

The PRC's continuing accounting reforms have three objectives. First, to standardize and rationalize financial reporting – this is expected to gradually improve the efficiency of business enterprises through associated improvements to financial management and control systems. Second, to transit from the Soviet accounting model to the western accounting model – the adoption of the western accounting model is expected to facilitate foreign direct investment in the PRC. Third, to gradually give business enterprises more discretion to design their own internal accounting and financial systems.

In the two decades since 1979, the PRC has made enormous strides in terms of developing an accounting infrastructure suitable to the needs of a market economy. The first accounting firm was established in 1981 as a subsidiary of a government organization – there are now around 4,800 accounting firms. In 1985, the first *Accounting Law* was enacted which set out accounting responsibilities and procedures for state-owned enterprises. The Chinese Institute of Certified Public Accountants (CICPA) was established in 1988 – it now has 135,000 members. The first IAS-based accounting standard was promulgated in 1992. In 1997, a vigorous 'Rectification Campaign' was conducted to improve professional practices and ethics – by the campaign's end in 1999, 12,700 individual CPAs and 580 CPA firms had been forced from the profession.

Accounting and Auditing in the People's Republic of China

The 'Chinese accounting system' is governed by the recently amended *Accounting Law 1985*, which sets out accounting arrangements, responsibilities and procedures. The *Accounting Law 1985* serves as the 'constitution' for the school of accounting regulations and defines the accounting and reporting practices for all public and private sector organizations. Furthermore, 'Uniform Accounting Systems' and 'Accounting Standards for Businesses' determine accounting and financial reporting practices. The Uniform Accounting Systems prescribe charts of account, reporting formats and detailed accounting instructions. The 'Accounting Standards for Businesses' are based directly on IASs. All organizations use double-entry bookkeeping and

prepare balance sheets. In these respects, PRC government accounting is more advanced than most developed countries.

The *Audit Law 1994* governs auditing in the PRC and defines the basic principles for government auditing supervision, government audit institutions and auditors, the responsibilities and powers of audit institutions, audit procedures, and the legal liability of auditors. The PRC had no independent audit institutions from 1949 until December 1982, when the National People's Congress adopted a resolution to establish an auditing system in the PRC. Because of this resolution, the China National Audit Office (CNAO) was established in September 1983. The Auditor General who is a member of the State Council heads the CNAO. The CNAO audits public sector organizations (including many State-owned enterprises). It is also responsible for leading, developing, and supervising the auditing profession – it does not conduct financial attest audits.

After a 30-year hiatus, the first public accounting firm was established in the PRC in 1981. Much has happened in the ensuing 20 years – the PRC now has a thriving CPA profession. In the past two years, domestic accounting firm mergers have been actively encouraged. With the removal of restrictions – firms were previously legally allowed to only cover a single specific region – a number of accounting firms have merged. The Big Five international accounting firms are all present in the PRC.

Professional Infrastructure

The Chinese Institute of Certified Public Accountants (CICPA) was established in 1988 and is now one of the world's largest professional accounting bodies, with around 135,000 individual members and 4,800 group members (CPA firms). While the Institute is nominally an independent organization, it is under the direct supervision and direction of the Ministry of Finance (major policies must be approved by the MOF). The *Certified Public Accountants (CPA) Law 1993* governs its activities. Since 1991, aspiring CICPA members must have an approved accounting degree, pass a uniform CPA examination, and demonstrate appropriate practical experience to gain membership. Some 530,000 candidates sat the examination in 2000, making it one of the world's largest practising-certificate examinations. CICPA members must undertake Continuing Professional Education to remain a member.

Accounting and Auditing Standards

In the 1950s, the PRC adopted a highly centralized administrative system from the Soviet Union (uniform accounting systems). In the early 1990s, it was decided that a series of basic and specific accounting standards that would be consistent with international accounting practices and that would cater to Chinese realities should be developed. In 1992, the Ministry of Finance issued the first of the PRC's new IAS-based accounting standards – Accounting Standards for Business Enterprises – No. 1 *Fundamental Accounting Standards*. A further ten standards have been issued since and more are on the drawing board. With the release of the first new accounting standard, the Ministry of Finance published a series of new uniform accounting systems for the major economic sectors. The Ministry of Finance is responsible for developing accounting standards but does so on advice from the China Accounting Standards Committee (CASC) which has seven members drawn from various backgrounds. With one exception, there are no significant differences between the PRC's accounting standards and IASs. The significant difference involves the requirement to agree; divergences from regulations (to comply with relevant accounting standards), and provisions for damaged or obsolete inventories, with the relevant authorities.

In the past six years, CICPA has developed a series of Independent Auditing Standards for the private sector, which are consistent with International Standards on Auditing. The CNAO has issued 38 Government Auditing Standards – these are currently being reviewed with ADB assistance.

Education and Training

Before 1978, the teaching scheme for accounting was virtually a replica of the Soviet system. The accounting major was reintroduced into universities and colleges in 1978. A new accounting curriculum was introduced in the late 1980s – changes involved the introduction of core courses covering: accounting principles, intermediate financial accounting, advanced financial accounting, management accounting, cost accounting, financial management, and auditing. New textbooks were prepared and teaching materials were updated to reflect the new curriculum. Accounting academics recently examined accounting education and identified the following systemic weaknesses which, in the opinion of workshop attendees, are overstated: poorly-defined accounting education objectives, poor design of accounting majors, a

weak curriculum system that does not fully reflect the needs of a mixed-market economy, poor compilation of textbooks, and lack of teaching consistency.

The 500 higher-education institutions that offer accounting majors include 23 universities and colleges that provide specialized CPA-oriented education. These institutions produced 1,500 graduates in 1999. In addition, three more schools specializing in CPA education are to be opened in Beijing (National Accounting Institute), Shanghai (Shanghai Accounting Institute), and Guangdong in the next year. A rudimentary estimate, based on an average of ten teaching staff at each of the 500 institutions teaching undergraduate accounting, is that the PRC has about 5,000 accounting teachers (higher education). A 'self-sponsored' training approach is taken to their development. Accounting professors and lecturers do not however, receive formal training. For instance, the target-training group for the National Accounting Institute does not include accountancy professors and lecturers.

Government Budgeting and Accounting

While the PRC's fiscal deficit has remained comparatively low in the past 20 years, there is increasing concern about public finance arrangements. These concerns center on the use of extra-budgetary funds (surtaxes, levies, and user charges accruing to government and administrative units) and the growing identification of public sector wastage and mismanagement. In recognition of these issues, the Ministry of Finance, with support from the United Nations Development Program (UNDP), the World Bank and the International Monetary Fund (IMF), is currently examining options for budgetary reform with the intention of designing a comprehensive program to overhaul the PRC's budget procedures.

The aggregate budget is prepared on a cash basis – the Government also prepares a consolidated balance sheet, which includes information on the level and composition of debt. Individual budget units use modified cash accounting. Their reports include cash information, which is consolidated for aggregate budgeting and reporting requirements. Not-for-profit organizations (e.g., schools, kindergartens, hospitals) have recently moved from cash accounting to a modified form of accrual accounting. While there are no firm plans for government organizations to report in accordance with International Standards, a research study into the feasibility of developing accounting standards for

government organizations will be conducted as part of the World Bank-supported *Accounting Reform Project*.

Donor Assistance

The **ADB** is supporting broad governance activities through the technical assistance program. Directly relevant projects include:

- TA No-1483-PRC: *Audit Administration of the PRC* (\$600,000: 1991–1995). This TA improved the CNAO's capacity to audit externally assisted projects.
- TA No. 3103-PRC: *Strengthening the Government Audit System* (\$700,000: 1999–2001). This TA is providing assistance to help strengthen the Government's audit system to conform to the requirements of the *Auditing Law 1994* and, as far as practicable, international standards on auditing.
- Pipeline 2001: *Strengthening the Accounting Profession* (\$600,000: 2001). The recommendations from this study will be considered when the details of this TA are decided.

The **World Bank** has been the major provider of external assistance in relation to the development of accounting and auditing arrangements. Projects include:

- *Financial Sector Technical Assistance (FSTA) Loan* (\$60 million: 1992–). In the period 1992–1995, the Ministry of Finance's Task Force on Accounting Standards prepared 25 accounting standards in harmony with International Accounting Standards (IAS).
- *Fiscal Technical Assistance Project* (\$50 million: 1995–2001). Despite the 1995 starting date, very little was accomplished under this project until April 2000, with completion of a comprehensive Public Expenditure Management Review, by a World Bank team. A plan to reform and computerize government budgeting and accounting systems and procedures is currently being developed – the plan is drawing on the findings of the PEM, and will be implemented using the funding set aside in the Fiscal Technical Assistance Project.
- Technical Assistance to the CNAO (\$487,000: 1997–2000). Technical assistance has been provided to the Foreign Funds Application Audit Department (FFAAD) of the CNAO to: establish a management information system that will enable the FFAAD to efficiently and accurately collect and distribute audit data among its nationwide network of offices; familiarize senior FFAAD management with the experiences of Supreme Audit Institutions in performance auditing; enhance the skills and knowledge of selected

senior FFAAD auditors in specialized areas of accounting and auditing practice with an emphasis on performance auditing, and establish a core training program to develop the knowledge and skills of auditors in areas of modern audit theory and practices.

- *Accounting Reform and Development Project* (\$33 million: 1999–2004). This project is building upon the FSTA project – its objectives are to further strengthen the caliber and training of members of the accounting profession and to develop and promulgate additional accounting standards. The project has three components: (i) to establish the National Accounting Institute which will be a Beijing-located residential facility that can accommodate up to 1,500 students at one time; (ii) to strengthen CICPA through the provision of computers, software and other essential equipment; and (iii) to develop and disseminate further accounting standards.

The **IMF** and the **UNDP** are working together with the World Bank on public expenditure management and treasury management. **AusAID** (Australia) is supporting a five-year, \$11 million, capacity-building program to help strengthen the public sector. The program has supported Australian training for nine middle-ranking managers from the CNAO on state-owned enterprises auditing. The suitability of computerized audit approaches was also investigated. A key output will be a Financial Statements Audit procedures manual for conducting audits of SOEs. Multimedia and information technology specialists have worked with CNAO who will produce highly interesting inter-active training material for CNAO's auditors conveying the content of this manual. Canadian International Development Agency (**CIDA**) has provided training support to the CNAO. The German Technical Assistance Agency (**GTZ**) is providing ongoing support to the CNAO, in particular, to the Continuing Education Centers.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in the PRC's accounting and auditing arrangements.

Professional Supervision of CPA Firms (Quality Control)

CICPA is strengthening professional supervision through the: establishment of provincial supervision teams; development of reporting systems in the key finance, securities and insurance sectors; and experimental introduction of peer-review systems. They would like to enhance professional supervision and have requested for technical

assistance in this respect. **It is recommended that** a professional supervision improvement project be undertaken which would involve: (i) studying the existing structures and processes of CPA firms; (ii) examining, and drawing useful lessons from international experience with regards to supervisory regimes (including peer-review regimes); (iii) designing a supervisory system for the PRC that takes account of the country's situation and provides sufficient flexibility to deal with environmental changes; (iv) implementing the supervisory system and associated reporting systems; (v) reviewing and, where necessary, revising CPA legal responsibilities and associated disciplinary regulations, and (vi) improving the competence and effectiveness of managers with supervisory responsibilities through training.

CPA Examination System Reform

Over 530,000 candidates sat the Uniform CPA Examination in 2000. CICPA is seeking technical assistance to address issues with management systems and examination procedures. **It is recommended that** a project be undertaken to improve the CPA examination system which would involve: (i) investigating design options for examination systems; (ii) establishing a database of examination questions; (iii) reviewing and reforming the grading system; (iv) examining the feasibility of, and options for, developing an on-line examination system; (v) developing suitable examination software, and (vi) implementing changes to management procedures.

Organization for Accountants (Non-CPAs)

CICPA represents CPAs. But, in addition to CPAs, the PRC has a further twelve million accountants. These accountants work in the public and private sectors. They gain their qualifications by passing the National Uniform Accountant (NUA) examination. These accountants have no professional organization. The establishment of a professional body for this group of accountants would provide a transitional route for aspiring CPAs. It would also raise the societal status of public sector accountants, and improve their knowledge and competence. **It is recommended that** a new professional body be established to represent accountants who are not in public practice.

National Uniform Accountant Examination

The vast majority of the PRC's accountants qualify through the National Uniform Accountant Examination. There are around twelve million of these accountants. As with the Uniform CPA Examination, there are

major issues with the existing examination system. **It is recommended that** a project be undertaken to improve the National Uniform Accountant Examination system which would involve: (i) investigating design options for examination systems; (ii) establishing a database of examination questions; (iii) reviewing and reforming the grading system; (iv) examining the feasibility of, and options for, developing an on-line examination system; (v) developing suitable examination software, and (vi) implementing changes to management procedures.

China Institute of Internal Auditing: Certification

There is currently no specific internal auditor designation. This contributes to the lack of status of internal auditors in their resident organizations. The adoption of a China Institute of Internal Auditing (CIIA) certification would help to elevate the perceived value and prestige of internal auditors. Furthermore, the exposure of candidates to examination materials will facilitate the modernization and upgrading of internal-auditing practices. **It is recommended that** a project to develop CIIA certification and examinations be undertaken which would involve: (i) developing a PRC-specific qualification (certification) for internal auditors, and (ii) developing a PRC-specific examination system for internal auditors.

Development of CICPA Training Materials

While CICPA has been active in developing training materials, the rapidly changing environment combined with the dramatic increase in Institute members and examination candidates, are major challenges. Multi-media and Internet-based technologies present options to prepare effective interactive training materials that are easily redeveloped to reflect the changing environment and can easily be distributed to far-flung regions. CICPA has requested assistance to improve the development and delivery of training materials. **It is recommended that** a project to improve training materials for CPA continuing professional education be undertaken which would involve: (i) studying options for preparing and providing training materials to CPAs; (ii) developing a medium to long-term plan for developing continuing professional education; (iii) studying options for developing and delivering training materials using modern technology; (iv) developing training materials, and (v) reviewing the core course teaching materials at the 23 pilot colleges and universities that have established CPA programs. Furthermore, **It is recommended that** the CICPA: (vi) review existing interactive accounting training materials (such as those developed by

New York Stern University in association with John Wiley and Sons); (vii) study the CNAO's experiences with the development of Multi-media training materials (as supported by AusAID); (viii) study the development of video-based training materials under the Accounting Reform Project; and (ix) consider Internet-based provision of the materials.

Plan for Strategic Development of the CPA Profession

To date, CICPA has dealt with issues in a competent, coordinated fashion – at least to the extent that its operating environment allows. Its challenge is to deal with future issues in a similar fashion. CICPA has requested assistance to support the preparation of a medium to long-term development plan for CICPA and the accountancy profession which would encompass professional development goals, professional administration, and administrative structures and systems. **It is recommended that** a project to prepare a strategic plan for the development of accounting profession be undertaken which would involve: (i) researching the present situation of the Chinese CPA profession; (ii) analyzing existing problems; (iii) examining and drawing useful lessons from international experience in terms of the development of the accountancy profession, and (iv) using this information and the associated analyses to formulate a medium to long-term development plan for CICPA and the accountancy profession.

CNAO Training and Capacity Building

The China National Audit Office (CNAO) is preparing a training program with World Bank assistance to develop the knowledge and skills of auditors in areas of modern audit theory and practises. In addition, the Nanjing Training Institute has been established. It is important that the training program be effectively implemented. Once the program has been implemented, the CNAO should reevaluate its training needs. **It is recommended that** the CNAO develop an explicit strategy for professional development that might include: (i) an analysis of current staff competencies against current and future requirements; (ii) an analysis of how well the core training program and other initiatives, such as continuing professional development, are meeting current and future needs; (iii) an assessment of the available options for addressing gaps in professional development, including the resources necessary for each option, and (iv) an integrated time-bound plan that includes current professional development initiatives and new professional development initiatives.

CNAO Computerized Audit Support Systems

The CNAO has been investigating the usage of computerized audit support systems – for instance, software that supports risk analyses, audit planning, working paper preparation, and computer assisted audit techniques (CAATs). But, the CNAO faces financial resource constraints in terms of procuring the necessary hardware and software and undertaking training. **It is recommended that** the CNAO collate the results of its research on computerized audit support systems and prepare a business case that includes an assessment of hardware, software and training requirements for consideration by the Government and other parties. The case should reflect the results of studies undertaken through ADB TA 3103-PRC.

China Institute of Internal Auditing: Standards

The *Audit Law 1994* and the *Accounting Law 1985* identify guiding principles, as well as the rights and responsibilities for internal auditors, but no detailed standards are provided which specify qualifications, competency, or the necessary due diligence processes and procedures that are required from internal auditors – training and education needs cannot be adequately determined without clear standards. **It is recommended that** the CIIA should develop: (i) a set of professional standards and guidelines and training materials to support their introduction; and (ii) Internal Auditing Standards, based upon International Internal Auditing Standards.

Training for Accounting Lecturers and Professors

The quality of undergraduate teachers is a key factor in developing competent accountants. A rudimentary estimate, based on an average of ten teaching staff at each of the 500 institutions teaching undergraduate accounting, is that the PRC has about 5,000 accounting teachers (higher education). However, the training target group for the National Accounting Institute does not include accountancy professors and lecturers. **It is recommended that:** (i) a specific training program for accounting professors and lecturers be developed and implemented; (ii) a professional organization for accounting academicians be established; and (iii) accounting professors and lecturers be included in the targeted training group for the National Accounting Institute.

Development of Public Sector Accounting Standards

While there are currently no firm plans for government organizations to report in accordance with the recently issued International Public Sector

Accounting Standards (IPSASs), the Accounting Reform Project, does include a component for a research study into this issue. **It is recommended that**, if the accounting reform project research supports the development of accounting standards for government organizations: (i) a project to implement public sector standards be developed; and (ii) a project to train government accountants in public sector standards be developed and implemented.

Conflicts between Accounting Standards and Regulations

The coexistence of accounting standards and the uniform accounting system regulations frequently confuses accountants and auditors. On one hand, the accounting standards require principles to be followed (for instance, that of prudence). On the other hand, the uniform accounting system regulations are extremely prescriptive. Moreover, the existence of regulated provisions significantly undermines the value of financial information. While these regulations may improve official statistics and enhance tax collections, they are not in line with internationally accepted accounting practices. **It is recommended that** laws and regulations be amended as necessary so that, where a conflict arises between regulations and the Accounting Standards, the Accounting Standard treatment overrides the regulated treatment.

CPA and CICPA Independence

The most important element among the fundamental ethical principles accepted by the international accounting profession is independence. However, most CICPA officials are Ministry of Finance employees and the organization works under the direct supervision of the Ministry of Finance. As such, CICPA is more a government organization than a professional body. But, in late July, the Ministry of Finance tentatively agreed that CICPA could be de-linked and re-established as an independent, professional organization. **It is recommended that** de-linking of CICPA from the MOF be pursued as a priority.

Accounting Standard-Setting Body

In the PRC, most observers agreed that accounting standard setting should be a government function on the basis that only the Government, has the required authority to enforce the implementation and monitoring of accounting standards. While this report concurs with the decision to initially assign standard-setting responsibilities to the Ministry of Finance, at this point, these arrangements should be seriously reconsidered – particularly in light the conflicts between

accounting standards and accounting regulations. **It is recommended that** the Ministry of Finance consider assigning accounting standard-setting responsibilities to an independent body that is comprised of financial sector representatives, financial sector regulators, and representatives from the accountancy profession.

3. Mongolia

Challenges and Responses

Mongolia had no accounting infrastructure before 1922 when it adopted the communist system. Mongolia developed its accounting systems in parallel with the Soviet Union throughout the 1920s and 1930s. The 'Soviet accounting system' catered to the needs of central planning – in particular, the system provided statistical information, including financial information. It emphasized standardization and uniformity so that information could be compared across sectors and industries. Detailed instructions negated the need for professional judgment in the accounts-preparation process. Consequently, public accounting firms and an accountancy profession were never necessary.

Mongolia's rejection of communism in 1990 placed it in the same position as other Soviet Bloc countries concerning accounting arrangements. However, the Soviet accounting system created a sound basis on which to build. First, the system used many concepts of modern accounting including accrual measurement and double-entry bookkeeping. Second, large numbers of bookkeepers were trained in these concepts and were proficient in their application.

In the decade since the beginning of the transition, Mongolia has made reasonable progress in terms of developing an accounting infrastructure suitable to the needs of a market economy. In particular, a competent professional accountancy institute has been established, and, in broad terms, the legislative framework for the accountancy profession is sound.

Accounting and Auditing in Mongolia

The Ministry of Finance and Economy (MOFE) administers the *Accounting Law 1993*. This law regulates the maintenance of accounting records and the preparation of balance sheets by business entities and organizations in both the private and the public sectors. It also sets out financial reporting requirements, which require the Minister for Finance and Economy to approve standard accounting forms and methods for

in the regulation and organization of Mongolia's accountancy profession: MICPA, MPAC, and the Accounting Division of the MOFE. The *Accounting Law 1993* gave MPAC the authority to administer the professional accounting examinations that qualify accountants as CPAs. MPAC administered the inaugural CPA examinations in July 1993, but these examinations were prepared and graded by non-CPAs. The syllabus, on which candidates were examined, did not include auditing. So, those CPAs who qualified between 1993 and 1997 did so under low criteria. The *Auditing Law 1997* tightened up the process for granting CPA titles and requires that accountants pass a three-stage examination. CPAs do not have to meet continuing professional education requirements to retain the title.

MICPA had 366 members as at 31 December 1999. Females and males are represented equally; 116 members worked in the public sector (Central Government, local government, and State enterprises), the other 250 worked in the private sector. Excluding honorary memberships (of which there are two), MICPA has only one membership category – that of CPA.

Accounting and Auditing Standards

Three organizations contribute to the development of private sector accounting standards: the Accounting Division of MOFE, MPAC, and MICPA. There is however, no formalized process for development, exposure, approval, and promulgation. Rather, drafts are circulated around selected organizations for comments.

Mongolian accounting standards are an integral part of a 'uniform accounting system' – based upon 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. There are few differences between the 'Mongolian Accounting System' and IASs. The Fiscal Policy Department of MOFE has recently assumed responsibility for developing and promulgating accounting standards for public sector reporting. In 1998, as part of the Public Administration Reform Project, accounting policies were developed based on International Accounting Standards (IAS) and the (then unreleased) International Public Sector Accounting Standards (IPSAS).⁴¹

⁴¹ ADB TA No. 2931-MON: *Program Preparation for Governance Reforms*, for \$967,000 approved December 1997.

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

Education and Training

Communism has left Mongolia with a legacy of high educational standards – particularly in the sciences – on which to build. Like many other countries in transition, Mongolia has a very large number of ‘accountants’. The MOFE estimates that there are 4,000 to 5,000 public sector accountants and around a further 30,000 private sector accountants. In reality, most of these accountants are bookkeepers and producers of statistical information. Mongolia has moved away from the Soviet educational model in the past 10 years. Before 1991, accountancy was not taught as a major in universities and colleges. Five state institutions now offer undergraduate and postgraduate programs in accountancy but, as these institutions are unable to meet demand, a number of private-sector accountancy training providers have emerged.

A recent United Nations Development Program (UNDP) study identified the following issues with respect to tertiary training:⁴²

(i) Teaching aids – the blackboard is the prime teaching tool due to budgetary constraints; (ii) Textbooks – there is a shortage of Mongolian textbooks, in terms of both quantity and range. Moreover, the quality of these texts is poor in terms of translation and their application to the Mongolian environment; (iii) Staff development – the faculty members that were interviewed in the UNDP study acknowledged that their accounting knowledge and skills base could be improved, but financial constraints limited further study opportunities; (iv) Teaching methods – these focus on the traditional lecture approach. To an extent, this is due to accounting lecturers being paid based on hours taught. Not only does this compromise learning effectiveness but lecture hours are very high at the expense of tutorials and research; (v) Academic association – accountancy lecturers do not have an association; and (vi) Training for academics – accountancy lecturers do not receive targeted training.

Government Budgeting and Accounting

Mongolia’s public sector budgeting, accounting, and reporting arrangements represent a continuation of pre-transition central-

⁴² International Management Consultants Ltd. April 2000. UNDP Governance and Economic Transition Programme: *National Training Strategy for Public Sector Accountants*. UNDP MON/97/141. p. 41.

planning systems. They are based on the Soviet model of accounting that dictates prescriptive rules and requirements. The information provided meets the needs of central planning but does not provide the necessary information to support transparent, accountable or efficient government operations. State-owned enterprises (SOEs) and the Bank of Mongolia are required to prepare financial statements in accordance with IAS. Government organizations use modified accrual accounting – aggregate government reporting is on a cash basis.

In 1996 and 1997, the Government identified a number of problems with public sector arrangements. In response, a program was formulated to address problems with: strategy formulation and resource allocation; budget execution; role clarity; performance objectives; accountability for performance; accountability information; and inter-governmental accountability. In December 1999, ADB approved a \$25 million program loan, along with three technical assistances, to support the governance reforms. The objectives of the Governance Reform Program are to: (i) enhance aggregate fiscal discipline; (ii) improve public sector's budget formulation and execution; (iii) strengthen public sector's operational efficiency; (iv) address social impact of the reforms and the financial needs under the Program; and (v) prepare the groundwork for continuation of the reforms. The overall goal of the program loan and the accompanying technical assistances is to lay the groundwork for enabling a successful implementation of the whole spectrum of reform of the public sector in its entirety, while at the same time, ensuring that the system which is implemented is consistent with that designed.

Donor Assistance

Three **ADB** program loans are directly related to supporting improved financial management and governance arrangements. First, the Financial Sector Program Loan I⁴³ supported strengthening of the banking system, including the legal and regulatory framework. Second, the Financial Sector Program Loan II⁴⁴ is intended to further strengthen governance arrangements in the sector, including further attention to legal and regulatory deficiencies. Finally, the Governance Reform Program loan is intended to support the Government's intention to pilot administrative reforms, including the adoption of IAS-based accounting, in five

⁴³ Loan 1509-MON: *Financial Sector Program*, for \$35 million, approved on 16 December 1996.

⁴⁴ *Financial Sector Program II*, for \$15 million.

government agencies.⁴⁵ Furthermore, directly relevant TA projects include:

- TA No. 2390-MON: *Improving Accounting and Auditing Systems* (\$600,000: 1996–1997). The activities under this TA included: preparing a training manual for accountants; preparing an auditing manual; developing a draft audit law; assisting the establishment of a national accounting profession (e.g., articles of association, by-laws, and code of ethics); and developing and delivering a training program on financial accounting, managerial accounting, and accounts conversion. Additional courses on accounting information systems and auditing were also developed and delivered.
- TA No. 2931-MON: *Program Preparation for Governance Reforms* (\$967,000: 1998–1999). This TA had three aspects: assisting the Government prepare the inputs for a possible program loan on governance reforms; assisting in the development, refinement and communication of draft legislation (the Public Sector Management and Finance Law); and supporting the groundwork for the implementation of the reforms arising from the enactment of the draft legislation. With respect to the third aspect, this involved developing accounting policies and accounting guidelines for the public sector based upon International Accounting Standards (IAS) and International Public Sector Accounting Standards (IPSASs). It also involved assisting five pilot agencies to prepare annual financial statements based on these financial policies.
- TA No. 2964-MON: *Improving Accounting and Auditing Systems II* (\$688,000: 1997–1998). The activities under this TA included: preparing 34 accountants for international standard CPA examinations and conducting these examinations (18 candidates passed the examinations), providing accountancy textbooks in Russian and Mongolian, and assisting MICPA.
- TA No. 3316-MON: *Initial Phase of Public Administration Reform* (\$700,000: 2000–2001). The broad objectives of this TA are to move five pilot agencies to output-based budgeting. As part of this process, accrual-based budgeting and reporting will be entrenched in five organizations.

The **World Bank** approved the *Fiscal TA Project* for \$5 million in June 1998. The intention of this project is to support the development of an

⁴⁵ Loan 1713-MON: *Governance Reform Program*, for \$25 million, approved on 2 December 1999.

efficient and transparent government financial management system, and the introduction of a value-added tax to strengthen the government's revenue base. The *Fiscal TA Project* will provide funding for: computerized government financial management information systems (including debt, cash, treasury management, whole-of-government consolidation, and organizational accounting); training in management development; training in accrual accounting, and budgeting; and development of attest auditing capacity. An earlier project, the *Accounting Development Project*, was implemented from July 1993 to September 1994. The project had the following aspects: converting the accounting systems of three State-owned enterprises to IAS; developing a strategic plan for improving accounting and auditing system; updating the accounting curricula for universities; and providing training in financial and management accounting for accountants of major SOE and tertiary institutions.

The **UNDP** is involved in financial governance issues through its Program for Accountability and Transparency (PACT). The *Accounting Training Project* (\$76,000; 1999–2000) has involved the development and delivery of a training program to finance staff in government organizations (focusing on the requirements of the new public administration system). The **IMF** has provided three Technical Assistance on public expenditure management, although these TAs have not directly involved accounting or auditing. **AusAID** (Australia) is providing support to the State Audit Board in association with the ADB-supported governance reform program. **JICA** (Japan) is supporting the design and implementation of a Public Investment Program (PIP) Budgeting Process in the Ministry of Finance and Economy through the provision of consulting advice and training (1998–2001). **EU-Tacis** (European Union) is supporting the Academy of Management (AOM) to improve the effectiveness and efficiency of public administration through provision of short- and long-term training of public administrators. **GTZ** (Germany) is providing support to the State Audit Board through a project titled *Institutional Strengthening of the State Audit Board* (DM3 million: 1998–2001). The Project aims to improve state auditing (methodologies and technical skills) by providing equipment, training and short-term experts. Its project involves training (seminars and study tours) for staff from the SAB, MOFE and AOM.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in Mongolia's accounting and auditing arrangements.

Institutional Arrangements

Four key organizations are involved in the regulation and organization of Mongolian accounting and auditing arrangements: MICPA, MPAC, the Accounting Department of the MOFE and the Fiscal Policy Department of the MOF. Responsibilities overlap and role assignments undermine quality and effectiveness. For instance, institutional arrangements should support high certification standards for accountants and auditors. In Mongolia's case they do the opposite. **It is recommended that:** (i) International Accounting Standards be adopted directly, without any modifications; (ii) a statutory body, the Accounting Regulatory Board, be created to promulgate accounting standards; (iii) MPAC be disestablished and its CPA examination and auditor-licensing functions be assigned to MICPA; (iv) the requirement to license accounting trainers be eliminated; and (v) legislation be recast to reflect the above arrangements and to give MICPA legal status. This would ideally involve the amalgamation of the accounting and auditing laws.

Resource and Reference Materials

There have been a variety of initiatives to translate or develop resource and reference materials on accountancy and auditing over the past decade. However, many interviewees and workshop attendees questioned the quality and availability of these materials. In particular, several accounting textbooks have been translated into Mongolian. Furthermore, sets of model sectoral financial statements, such as those that have been developed by international accounting firms, would be extremely useful practical reference materials for accounting and auditing practitioners. **It is recommended that** a comprehensive review of Mongolian resource and reference materials should be conducted. The objectives of the review would be to: (i) identify all existing resource and reference materials, and (ii) review these materials for consistency, quality, and local applicability. It is also recommended that, following the review; the best of these materials should be selected and used as the basis on which to prepare excellent Mongolia-specific resource and reference materials. A particular emphasis should be

placed on the development of case studies and a series of model sectoral IAS-based financial statements.

Supervision of Bank Audits

The Banking Supervision Department of the Bank of Mongolia is responsible for licensing bank auditors and reviewing the financial statements of banks. The Department does not, however, have any qualified CPAs. Moreover, while staff recognise their shortcomings in this area, and are attempting to address them through self-study, there has been only one formal training initiative in International Accounting and Auditing Standards or on Reporting by Financial Institutions.⁴⁶ **It is recommended that** (i) the Banking Supervision Department of the Bank of Mongolia recruit at least one qualified CPA to their ranks; and (ii) Personnel of the Banking Supervision Department of the Bank of Mongolia, together with bank accountants and finance directors, receive further training in International Accounting and Auditing Standards and Financial Reporting.

Public Education on Financial Information

The public education initiatives that are being supported by MICPA and USAID are worthy of attention. MICPA sponsors a limited public education campaign from its small budget. USAID supports the publication of newspapers and the development and broadcasting of television serials. **It is recommended that:** (i) public education initiatives on the nature and uses of financial information should be continued and broadened; and (ii) a short leaflet be prepared that describes; the purpose and methodology of audits, and what users should look for when reading financial statements.

Professional Supervision of CPA Firms

The Mongolian CPA profession is in its infancy and the quality of services provided by accounting firms ranges from poor to very good. The implementation of an effective professional supervision regime would lift standards and eliminate less competent firms from the market. **It is recommended that** a project to improve professional supervision be undertaken which would involve: (i) studying the existing structures and processes of CPA firms; (ii) examining, and drawing useful lessons from international experience with regards to supervisory regimes

⁴⁶ TA No. 2964-MON: *Improving Accounting and Auditing Systems II*. For \$688,000 approved December 1997.

(including peer-review regimes); (iii) designing a supervisory system for Mongolia that takes account of the country's situation and provides sufficient flexibility to deal with environmental changes; (iv) reviewing and, where necessary, revising CPA legal responsibilities and associated disciplinary regulations; (v) implementing the supervisory system and associated reporting systems, and (vi) improving the competence and effectiveness of managers with supervisory responsibilities through training.

Continuing Professional Education (CPE) for CPAs

MICPA is currently considering options for CPE requirements and delivery of CPE. They have requested assistance to develop the CPE system. **It is recommended that** a project to develop a sustainable Continuing Professional Education (CPE) System for CPAs be undertaken.

MICPA Membership Categories

MICPA has one individual membership category – that of the CPA. It is common international practice for professional bodies to have a range of membership categories with differing qualification criteria (e.g. Accounting Technician). **It is recommended that** MICPA should: (i) establish subsidiary membership categories – at least for accounting technicians; and (ii) establish a new category of membership for public-sector accountants and develop appropriate entry criteria.

Countryside Training

The MOFE and MICPA estimate that there are around 18,000 'accountants' (bookkeepers) in the countryside (i.e., outside Ulaanbaatar). This group has received limited training in modern accounting and financial management. It is recommended that: (i) A project be developed to train a selection of countryside accountants in modern accounting and financial management; (ii) 100 accountants be trained in each of the 21 *Aimags* (provinces); (iii) the training be practical in that it involve the conversion of two enterprises in each *Aimag* to International Accounting Standards; and (iv) the exercise then be extended to the remaining 'accountants' and enterprises in each *Aimag*. This would involve the trained accountants working with a central team.

Training for Accounting Lecturers and Professors

A model tertiary accountancy curriculum has been developed with ADB assistance and has been adopted by tertiary institutions.⁴⁷ The curriculum reflects the three major components of an acceptable degree program, and includes semester-by-semester listings of courses – including the academic units for each semester. To this end, accounting lecturers and trainers recently held a conference to discuss progress in introducing the uniform curriculum. **It is recommended that:** (i) a specific training program for accounting professors and lecturers (train the trainers) be developed and implemented, and (ii) a professional organization be established for accounting academics.

Improving Audit Quality through Legislative Changes

Mongolian legislation requires that annual financial statements be prepared and audited within extremely short timeframes (41 days), which undermines the status of auditing and devalues the role of the independent audit. **It is recommended that** legislation be amended: to either completely remove the requirement for quarterly certifications of financial statements; or to define the quarterly certification process as being a limited numerical review which does not constitute an audit, and to increase the allowable timeframe for submission of “certified” financial statements from 20 days following the end of the quarter, to at least 60 days following the end of the quarter. **It is also recommended that:** (i) the *Accounting Law 1993* be amended to allow alternative balance dates for financial reporting (other than 31 December); and (ii) the *Auditing Law 1997* be amended to increase the allowable timeframe for annual audits from 10 February (41 days following balance date), to at least 120 days following balance date.

Recognition of Public Sector Accounting Policies

A comprehensive set of public sector accounting policies has been developed as part of the ADB-supported Governance Reform Program. These accounting policies are consistent with International Public Sector Accounting Standards (IPSASs) and IAS. Moreover, they have been successfully applied to the financial statements of five pilot agencies. The MOFE does not recognise these accounting policies. **It is recommended that** the Fiscal Policy Department of the MOFE officially

⁴⁷ TA No. 2964-MON: *Improving Accounting and Auditing Systems II*. For \$688,000 approved December 1997.

4. Pakistan

Developments

Since Pakistan gained independence in 1947, the Republic has been under military rule for 50 percent of the time. The current government is headed by a military regime, which came into power on 12 Oct 1999. The Constitution was promulgated in 1973 and includes articles covering the Annual Budget, Federal Consolidated Fund and the appointment and duties of the Auditor-General.

In 1951 the Institute of Cost and Management Accountants was formed and legally established in 1966. In 1961 the Institute of Chartered Accountants of Pakistan was legally established. In 1984 the Pakistan Institute of Public Finance Accountants of Pakistan was legally established under the Companies Act. The accounting profession in Pakistan is strong and accounting and auditing standards are well established and based on International Accounting Standards (IAS).

Accounting and Auditing in Pakistan

The Government accounting system in Pakistan is governed by the Pakistan (Audit and Accounts) Order 1973 that requires submission by the Auditor-General of a General Financial Statement incorporating a summary based on the Consolidated Fund and the Public Accounts. The Auditor-General is responsible for both accounting and auditing in Pakistan, however a committee has been established to review this situation.

In the private sector, the Companies Ordinance 1984 requires that account books be kept and details the financial reporting requirements of listed companies and unlisted companies. The Act also contains details of audit requirements. Mandatory application of each International Accounting Standards (IAS) is also prescribed by issue of Special Regulatory Orders issued by the Securities and Exchange Commission.

The accounting basis of the public sector is cash and the private sector uses full accrual. The Auditor General is responsible for auditing and accounting and is a member of the International Organization of Supreme Audit Institutions (INTOSAI). All international big five accounting firms are represented and most have Pakistan citizens as their principals.

Professional Infrastructure

Three accounting organizations exist in Pakistan. These organizations are established legally and they are all members of the International Federation of Accountants (IFAC).

The Institute of Chartered Accountants of Pakistan (ICAP) has 2,400 members and is governed by a Council, through the Standing Committee, and other Committees. Members must pass pre-entry proficiency tests and foundation examinations.

The Institute of Cost and Management Accountants of Pakistan (ICMA) has over 1,400 qualified members. It instigated an active training program four years ago, and there are now 23,000 registered students. ICMA is governed by a Council, through the Steering Committee, and other Committees. Members must have a degree or equivalent, for entry.

The Pakistan Institute of Public Finance Accountants (PIPFA) has 1,450 members who are mainly public servants. The PIPFA was formed to produce a second tier of professionals. It is governed by a Board of Governors, through the Standing Committee and other Committees. The prerequisite entry is intermediate examination from a recognized education board, university or institution.

Accounting and Auditing Standards

The ICAP plays the major role in setting accounting and auditing standards. ICAP publishes Exposure Drafts and receives members' comments. ICAP then recommends acceptance of the IAS to the Securities and Exchange Commission and, if in agreement, a Special Regulatory Order is issued under S 234 (3) of the Companies Ordinance and all listed companies must comply with this Order. Almost all International Standards have been adopted in full. Public Sector Accounting Standards have not yet been considered for adoption.

Education and Training

There are 56 universities in Pakistan, the majority of which offer business and accounting degree courses. Public Sector training is mainly undertaken at the Audit and Accounts Training Institute in Lahore. Public Sector pre-service training is a requirement for all new entrants. ICAP and PIPFA training is available at private colleges and ICMA training is available at the Institute's colleges. ICAP training is based on Pre-entry Proficiency Test, then two years Full-time Foundation Course, then four years training with Chartered Accountants, during which time two stages of the professional exams must be passed to become an

associate member. ICMA training at its own colleges is based on passing Foundation and Professional exams and completing three years practical training before becoming a member. PIPFA training is in three stages – Foundation, Intermediate and Final. PIPFA courses are aimed at government accounting and students must complete two years practical training before becoming a member.

Government Budgeting and Accounting

The Constitution contains articles covering the National Budget and National Government Accounts. The Government Accounts are in two parts – Consolidated Fund and Public Accounts. The annual accounts are designed to present all Government accounts on a common and comparable basis. A “Balance Sheet” is prepared, however, the figures do not contain totals of all assets. An Audit Certificate is issued.

Under the Project for Improvement to Financial Reporting and Auditing (PIFRA), the Consolidated Fund and Public Account are maintained. A Modified Cash System is introduced then full accrual is recommended. A Physical and Financial Assets Register is also recommended. Budgeting is compiled in order to be consistent with the Chart of Accounts. Spending ministries are responsible for their own budgets and the coordination of the Budget is the responsibility of the Ministry of Finance.

Donor Assistance

The Project for Improvement to Financial Reporting and Auditing (PIFRA) is sponsored by the World Bank (\$28.8 million). The highlights are:

- Studies commenced in early 1990s and the project commenced in 1997.
- The Project has two parts – To improve public sector accounting systems and to provide the basis for enhancing public sector accountability.
- The Project includes provision of consultancy assistance to design and implement a core accounting and reporting system for financial reports and budgets. Consultants are currently being sought for these activities.
- Various manuals and a Chart of Accounts have been distributed for comment.

PIFRA does not cover the Private Sector Accounting Infrastructure and Accounting and Auditing Standards.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in Pakistan's accounting and auditing arrangements.

Islamabad Accounts and Audit Academy

The accounting and auditing training conducted at the Accounts and Audit Training Institutes at Lahore and the regions appears to be well documented and adequate for internal courses within the Government. The Institute's Headquarters was established in 1973 and now there is a problem of accommodation and facilities. Land is available at Islamabad for the construction of a new accounts and audit academy. **It is recommended that** assistance be provided to the Government of Pakistan for the construction of an Accounts and Audit Academy at Islamabad and further, that technical assistance be provided for the purchase of equipment and training aids necessary to establish the Academy. It is also recommended that, once the Academy is established, assistance be sought to cover the development of course material and expert review of course content.

Accounting Training

The professional courses of ICAP, ICMA and AAT are comprehensive and appear to be adequate for each organization. It may be that further attention needs to be directed to Information Technology Courses and it may be appropriate to have an expert in this field review the syllabi of each course. It is also understood that the training institutions require assistance with the acquisition of teaching aids and equipment especially in the computerization field. The enhancement of trained teaching staff to deliver the lectures and tuition at various accounting training institutions by the introduction of train-the-trainer courses would be an advantage. **It is recommended that** a Joint Committee of the three organizations be formed to review the following: (i) the current and future needs in relation to training aids and equipment at the various training institutions; (ii) the current and future requirements for professional and competent trainers in the field of accounting teaching and tuition; and (iii) that an expert in the field of IT be engaged to review the course content of ICAP, ICMA and AAT syllabi.

Training For Accounting Lecturers and Professors

There is no specific training program for continuing education of accounting lecturers and professors in Pakistan. Many factors support

the development of competent accountants. The quality of undergraduate teachers is a key factor. **It is recommended that:** (i) a specific training program for accounting professors and lecturers be developed and implemented; and (ii) a professional organisation be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Security and Control of Non-Current Assets

Security and control of Non-current Assets are lacking in the existing government accounting procedures. It has been recommended that PIFRA accounting implementation should commence at the beginning of a financial year and this is likely to occur on the 1st July 2002 or later. A physical stock-take needs to be carried out, and all assets taken up preferably before PIFRA is implemented. **It is recommended that** the Government of Pakistan consider the undertaking of a total stock-take of all Government Non-current Assets, over a period to be determined by the Government, in order to facilitate proper recording, monitoring, security and financial control of these assets. Should the Government decide to undertake this stock-take **it is recommended that** technical assistance be provided for this purpose. It is also recommended that the Government should consider the application of full accrual basis of accounting before the end of the completion of this stock-take.

Review of Commercial Laws

The last time the Laws of Pakistan were consolidated was in 1966 with the issue of 16 volumes under the Pakistan Code. The Laws of Pakistan again need to be reviewed and consolidated for ease of reference by professionals and other users. In many cases, titles have changed and cross-references are either incorrect or out of date. **It is recommended that** the commercial laws of Pakistan be reviewed and amended to reflect best present day practices after taking account of local requirements and ideologies and that technical assistance be provided for this purpose. It is further recommended that the laws of Pakistan be administratively reviewed and up-dated and consolidated for ease of reference.

Amalgamation of Accounting Bodies

The three National Accounting Bodies appear to have a good working relationship and liaison with each other. This is evidenced by the fact that ICAP and ICMA jointly sponsored the establishment of AAT with

the Auditor General and the three organizations each have representatives on various committees. **It is recommended that** amalgamation of IPAC, ICMA and AAT be considered by the Governing Councils of the three organizations and, if considered appropriate, a Steering Committee be formed consisting of an equal number of members from the three accounting bodies to study and report on the feasibility of amalgamation. At this stage, if the Governing Councils viewed amalgamation as a feasible option, the matter should then be put to the vote of all members concerned.

Public Relations - National Accounting Bodies

The Government is attempting to broaden its tax net through the medium of a national survey and it is at the lower end of the business scale that most attention is being directed. The Chamber of Commerce has advised that there are many small traders and businesspeople that simply do not know where to begin in order to meet their tax liabilities. **It is recommended that** the accounting profession mount a public relations campaign, directed mainly at the small businesspeople, and advise the public of the professional services available. If implemented this scheme would assist the Government to broaden its tax net and enhance the image of the profession at the lower end of the business scale.

Independent Pakistan Accounting Standards Board

When application is made by ICAP to SEC to issue an order for the implementation of an IAS, the SEC undertakes a review before issuing the order. The SEC has qualified accountants on its Board of Commissioners and it seems appropriate that the SEC should be considered as the vehicle to establish an independent Accounting Standards Board. It is understood that a form of Accounting Standards Board may have existed at the same time as the Corporate Law Authority, which was superseded by the SEC with the enactment of the Act in 1997. **It is recommended that** a Steering Committee be formed consisting of members of the corporate sector, ICAP, ICMA and the AGP to review and report on the establishment of an independent Pakistan Accounting Standards Board.

Public Sector Accounting Standards Board

The establishment of the Pakistan Consortium of Governmental Financial Management represents a serious attempt to upgrade the quality and standard of accounting and auditing practices in the Public

Sector, including Government Owned Enterprises. It seems appropriate for the Consortium to play a major role the establishment of a Public Sector Accounting Standards Committee. **It is recommended that** the Pakistan Consortium on Governmental Financial Management should consider: (i) the legal establishment and promotion of a Public Sector Accounting Standards Board; and (ii) the establishment of an independent Secretariat.

Pakistan Public Sector Accounting Standards

The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts for comment. The first eight IPSAS issued are based on accrual accounting and ED 9 refers to Financial Reporting under the Cash Basis of Accounting. Since Public Sector Accounting has now gathered momentum on an international basis, it is convenient to introduce appropriate training to cover this subject. Universities and colleges should be encouraged to include this subject in their curricula. **It is recommended that** the Pakistan Government establish the Pakistan Public Sector Accounting Standards and that these Standards be based on the International Public Sector Accounting Standards issued by IFAC.

Application of IAS for Unlisted Companies

The Companies Ordinance 1984 requires that listed companies must comply with International Accounting Standards as directed by the SEC. In the course of their audit, the auditors encourage all companies to comply with International Accounting Standards, including the unlisted organizations as well as the listed. If compliance is mandatory for the listed companies there appears to be justification in making it mandatory for unlisted companies especially if the companies have a large asset base or paid-up capital. **It is recommended that** the procedures adopted for directing mandatory compliance with International Accounting Standards for listed companies should also be applicable to unlisted companies, where the paid-up capital or the asset base is in excess of Rs. 50 million.

Public Accounts Committees

It is understood that the provincial PACs have met on very few occasions in recent years and subsequently the examination of the accounts of the provinces is up to fifteen years overdue. The provincial PACs should be constituted under a higher authority and the powers,

functions, rules and procedures regularized in order that the provincial PACs have the confidence of the public and that they are performing their main function as the nations overseer of the use of public funds. **It is recommended that** the duties and responsibilities of provincial PACs be legally constituted and that the provincial PACs are required to meet on a more regular basis as prescribed in that legislation.

Establishment of Internal Audit Function

Government Ministries/Departments do not have an internal audit function within their organizations. Auditing is left to the Auditor Generals Department, which is mainly involved in compliance with procedures, accuracy of calculations, audit investigations as a result of special requests, and performance audits. There appears to be no formal procedures to ensure that effective internal control and risk management are being considered at department level. **It is recommended that** the establishment of an internal audit function be considered for implementation in certain Government Departments/Ministries. The audit function should include internal control and risk management functions.

Joining the Institute of Internal Auditors

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association and is the acknowledged leader in research, education, technology and certification and risk management for the profession worldwide. At this stage of development, it is appropriate for Pakistan to consider joining the international professional auditing association and establishing the Institute of Internal Auditors Pakistan (IIAP). The IIA issues standards by which the operations of an internal auditing department can be evaluated. The standards are the same for private business and governments. **It is recommended that** Pakistan join the Institute of Internal Auditors by forming its own national institute and that a steering committee consisting of the three national accounting bodies and the Auditor General's Department be formed to evaluate this recommendation and, if agreed, establish the Institute of Internal Auditors Pakistan.

ADB Anti-Corruption Policy

The ADB's anti-corruption policy centers on three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration; (ii) supporting promising anticorruption efforts on a case-to-case basis and improving the quality

of the Bank's dialogue with its developing member countries on a range of governance issues, including corruption; and (iii) ensuring that the Bank's projects and staff adhere to the highest ethical standards. In order to combat corruption in the public service the following matters should be **considered**: improving accountability measures, detection and investigation of corruption, employment of professional accountants; and effective internal controls.

5. Papua New Guinea

Developments and Challenges

Generally, accounting was introduced into Papua New Guinea after World War II. During the 1950s the users of accounting systems were plantations, large trading companies, the PNG Administration, and the Australian Administration.

In the 1960s, mining companies and local businesses became more prominent and universities and colleges commenced operations in Port Moresby and Lae, although accounting degree programs were not available until the late 1970s.

Self-government was established in 1973, the PNG Institute of Accountants Inc. commenced in 1974 and Papua New Guinea gained its independence in 1975.

The problems with the accounting profession at that time were centered on the following:

- No PNG accountants;
- No accounting degree programs;
- No regulatory agencies; and
- Heavy reliance on foreigners.

Objectives and Responses

The immediate objectives at independence were to upgrade the accounting profession, train PNG citizens to become accountants, adopt standards for accounting and auditing and introduce regulations and registration procedures. In response to these requirements the following important laws were passed: Public Finance Management Act 1985; Audit Act 1989; Public Finance Management Act (Amended) 1995; Accountants Act 1996; New Companies Act 1997; and Securities Act 1997.

Accounting and Auditing in PNG

The accounting system in Papua New Guinea is governed by the Accountants Act (1996) which established the Accountants Registration Board and the PNG Institute of Accountants (PNGIA); and the Companies Act (1997) which established the principles for Financial Statements Reporting and Annual Reports and also established the Accounting Standards Board (ASB). The ASB approves International Accounting Standards (IASs), International Standards on Auditing (ISAs) and PNG Accounting Standards, based on recommendations from the PNGIA.

The PNG Government uses a cash basis of accounting and the private sector and Government Statutory Authorities use accrual accounting based on IASs.

The audit practice in the public sector is governed by the Audit Act. The Act established the Office of the Auditor-General (AG). The AG is not subject to ministerial direction and reports directly to Parliament.

There are 31 accounting and auditing firms in Papua New Guinea, including three from the international "big five," the other two are represented by other firms in PNG. The Companies Act 1997 details the provisions relating to the appointment, qualifications, responsibilities, and duties of auditors in relation to the private sector.

Professional Infrastructure

The PNGIA Inc. was originally established under the Companies Act in 1974 and is now established under the Accountants Act (1996). The Institute has 1,500 members, both citizen and non-citizen. A development program was introduced in the mid-1990s and professional examinations introduced. Registered graduates need a pass in the Competency exam to become an Accounting Technician, then passes in seven core subjects to become an Associate. Special experience and at least 10 years' membership are required to become a Fellow. Forty hours per year of Continuing Professional Education (CPE) are required – 20 hours structured and 20 hours unstructured.

The National Council is the main governing body and manages the affairs of PNGIA through the Executive Committee and various subcommittees. A branch of the Australian Society of Certified Public Accountants (CPAs), with 180 members, also exists in PNG.

Accounting and Auditing Standards

International Accounting Standards have been adopted in PNG without alteration to the Standards. Problems exist with the application of these

Standards in some local audit firms and businesses. Papua New Guinea Accounting Standards have been adopted for PNGAS 3 “Accounting for Plantations” and PNGAS 4 “Reporting Currency.” International Standards on Auditing have been adopted, using International Federation of Accountants (IFAC) Standards for the private sector.

International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government field audits have been adopted by the Auditor-General. International Public Sector Accounting Standards have not been considered for adoption in PNG at this stage.

Education and Training

Bookkeeping and computerization are taught in primary and high schools and community schools. Full-time Accounting Diploma and Degree courses are covered at universities and colleges, however no Masters Degree courses are available in PNG. The curricula of degree courses are based on IAS.

There are two State-owned universities and four State-owned colleges. Two universities and four colleges are also owned by private sector interests. Accounting students currently number 1,800 with approximately 4,000 qualified graduates, of which 1,500 belong to the PNGIA. Papua New Guinea needs approximately another 2,000 accountants; 50 percent in the public sector and 50 percent in the private sector. There is very little accounting training provided by the Department of Finance and Treasury and some audit training is provided by the Auditor-General's Department.

Government Budgeting and Accounting

The PNG Constitution contains articles covering financial matters such as taxation, loan raising, public accounts, national budget and audit. The Public Finance Management Act (1995) details procedures relating to the Consolidated Revenue Fund and the Trust Fund, and is the legislative authority for the management of these funds.

The Public Finance Management Act defines the National Budget and allows for transfers between appropriations. The Act also allows for the issue of Finance Regulations and Instructions. There is a Centralized Budget System in place and no centralized Asset Management and Control System. There are five Information Technology systems in place. The Public Accounts Committee has not met for at least three years although the Constitutional office holders have been appointed.

Donor Assistance

The ADB-sponsored Financial Management Project (FMP) (PNG 30535) covers the strengthening of public sector financial management. The FMP also assisted the Year 2000 Information Technology Remedial Program. Under the Government's Financial Management Improvement Program a strategic framework was developed covering:

- Implementation Plan and Terms of Reference for Consultants;
- Details of Operational Strategies;
- Details of Information System Packages;
- Details of Human Resources and Training Strategies;
- Chart of Accounts; and
- Details of Existing Financial Management.

The World Bank and ADB-supported Government Structural Reform Program is designed to improve fiscal management and governance.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in Papua New Guinea's accounting and auditing arrangements.

Enhancement of Public Sector Training

The first eight IPSAS issued by IFAC are all based on accrual accounting. ED No. 9 refers to Financial Reporting under the Cash Basis of Accounting. Public Sector Accounting has now gathered momentum and it is now appropriate to keep pace with developments by increasing the training effort in PNG. **It is recommended that:** (i) Public Sector Accounting be included in the curriculum of accountancy training institutions; (ii) PNGIA add a separate status of Public Sector Accountant; (iii) PNGIA add a further PS module to their professional exams; and (iii) appropriate Technical Assistance be considered to establish the modules.

Upgrading of Accounting Facilities at Training Institutions

All accounting training institutions need additional accounting facilities and equipment including modern accounting books for their libraries. Funds are also required for the following institutions to develop separate buildings for their School of Business Studies: University of PNG; Pacific Adventist University and Divine Word University; and School of International Business Studies. In order to meet the acute shortage of training facilities for business, accounting, and computing courses in

PNG, **it is recommended that** funding assistance be sought for the above equipment and facilities.

Training Program for Lecturers and Professors

There is no specific advanced training program for the continuing education of accounting lecturers and professors in PNG. Many factors support the development of competent accountants. The quality of undergraduate teachers is a key factor in developing these competent accountants. **It is recommended that** (i) A specific training program for accounting professors and lecturers be developed and implemented; and (ii) a professional organisation be established so that professors and lecturers may further their education and share their technical knowledge through a common forum.

Forensic Audit – Auditor-General's Office

The Auditor General of PNG confirmed that fighting corruption within the Public Service was high on the Government's agenda. The Auditor General has requested the ADB's assistance in establishing a Forensic Audit Unit within his Department. Some of the Auditor General's staff have recently been trained in the ADB assisted Instructor Training Program conducted by ASOSAI and SPASAI and it is intended to use these people to set up the Unit. **It is recommended that** technical assistance be provided to the PNG Government to assist in the establishment of a Forensic Audit Unit within the Department of the AG.

Establish a Public Sector Accounting Standards Board

International importance is now being actively directed towards the issue of accounting standards for the public sector and it is appropriate that Papua New Guinea should keep pace with developments. **It is recommended that** (i) consideration be given to the setting up of a PNG Public Sector Accounting Standards Board in order to plan and establish the PNG Public Sector Accounting Standards, and to organize and monitor their implementation; and (ii) the Public Sector Accounting Standards issued by IFAC be used as a base to develop the PNG Public Sector Accounting Standards.

Establish Position of Accountant General

With the introduction of International Public Sector Accounting Standards, the DFT establishment needs to be reviewed in order that due recognition is given to developments in this area. **It is**

recommended that (i) the position of "Accountant General" be created. The duties of this position would include the monitoring and review of International Public Sector Accounting Standards; and (ii) the functions and responsibilities of the Public Accounts Division be included in the duties of the Accountant General

Review of Accountants Act

The PNGIA have advised that although the Accountants Act was only promulgated in 1996 it is in urgent need of review. One of the major problems refers to accountants in employment under Section 67 of the Act. The strict interpretation of the Act discloses that there are many employees and employers, including the PNG Government, who are acting illegally under the Accountants Act and this situation needs to be corrected urgently. **It is recommended that** the Accountants Act be urgently reviewed and that the sections dealing with Accountants in Employment be immediately addressed.

Public Accounts Committee Activity

It is understood that the Public Accounts Committee has not held a public hearing for at least three years although the Committee has been constituted. In previous years the PAC met on a regular basis and instilled public confidence in the Government system of examination and questioning of the actions of public officials. **It is recommended that**, in accordance with Articles 118 and 214 of the Constitution, The Public Accounts Committee be required to meet on a regular basis in open public hearings.

ADB Anti-Corruption Policy

In order to combat corruption in the public service the following matters **should be considered**: improved accountability measures; detection and investigation of corruption; employment of professional accountants; and effective internal controls.

6. Uzbekistan

Developments and Challenges

Accounting in the former Soviet Union (FSU), which included Uzbekistan, catered to the needs of statistical and tax authorities. It consisted of adhering to a prescribed chart of accounts that was designed to meet the requirements of the central planning system. The primary function of accounting was to record the factual data necessary to assess plan accomplishments, rather than to assess an enterprise's financial situation. The focus of Soviet accounting was more on bookkeeping than on the process of accounting. In fact, they were considered the same thing. Consequently, public accounting firms and an accountancy profession were never necessary. In fact, accountancy had a very poor reputation in the FSU. One study ranked accountancy at 91st place in terms of prestige on a list of 92 professional occupations.⁴⁹

On independence from the Soviet Union in 1991, Uzbekistan took a gradual approach to market reforms. These reforms included making accounting and financial reporting practices and arrangements consistent with the needs of a market economy.

Objectives and Responses

In the decade since the beginning of the transition, Uzbekistan has made progress in terms of developing an accounting infrastructure suitable to the needs of a market economy. In 1992, a working group, led by the Ministry of Finance (MOF), was organized to draft new legislation. Work was conducted from January 1994 until December 1995 in which time the working group produced: a draft accounting law, including formats for financial statements; a production-cost regulation and associated materials; a revised chart of accounts; a draft auditing law; recommendations for a standard on foreign currency translation during periods of inflation; and preliminary recommendations for the strengthening of the accounting profession.

In contrast to other FSU countries, Uzbekistan realized that, for accounting reform to succeed, it would be necessary to separate financial accounting from tax accounting to prevent tax rules from distorting financial information. The *Production Cost Regulation (PCR)*, in simple terms, guided accountants in how to prepare income statements. The

⁴⁹ Smirnova, Irina, Jaroslav Sokolov and Clive Emmanuel. 1995. Accounting Education in Russia Today, *The European Accounting Review* 4 (4), 833-46.

PCR was a key element in the Uzbekistan accounting reforms; this has been belatedly recognized by other FSU countries, which in the past couple of years, have begun to examine Uzbekistan's experiences in this respect.

Uzbekistan's first professional accountancy body, the Association of Accountants and Auditors (AAA) was established in 1992 and, in 1993, the UNDP/EU-TACIS-supported *Accounting Reform Project* began. One of this project's objectives was to provide accountancy and auditing training to over 100,000 'accountants.' The enactment of the *Accounting Law* in 1996 enshrined general accounting principles, the roles and responsibilities of entities, accounting practices, and financial reporting requirements, in law. Notably, the *Accounting Law 1996* applies equally to public and private sector organizations. The first set of IAS-based National Accounting Standards (NASs) was promulgated in 1998. In 2000, the *Auditing Law* has tightened auditor-certification procedures and clarified the roles and responsibilities of auditors.

Accounting and Auditing in Uzbekistan

The Accounting Law 1996, the provisions of which came into force on 1 January 1997, governs the 'Uzbekistan accounting system'. In 1999, the Cabinet of Ministers decreed that the Chart of Accounts should be updated so that it aligned with the new National Accounting Standards (NASs) that were based on International Accounting Standards (IASs).⁵⁰ The new Chart of Accounts and Instructions were developed as a coordinated effort between the MOF and USAID consultants. They were approved, and were registered with the Ministry of Justice on 1 June 2000, as National Accounting Standard 21. Around 80 regulatory documents must be amended before the new Chart of Accounts comes into effect on 1 January 2002. In addition to the new Chart of Accounts and NAS, the MOF developed new forms of financial statements, initial documentation, order-journals, and books of register.

Asset management arrangements for public and private sector organizations are stipulated in the *Accounting Law 1996* and NAS 19. The basic financial reporting requirements, in accordance with the *Accounting Law 1996*, *Enterprise Law 1991*, and the *Taxation Code 1998*, are as follows: (i) accounting data must be prepared with guidance from NAS, and financial reports must be based on that accounting data; (ii) the annual financial reports of enterprises and organizations must be made available

⁵⁰ Decree of the Cabinet of Ministers (No. 54). 5 February 1999.

to banks, stock exchange, investors, lenders, creditors, and others; and (iii) open companies,⁵¹ insurance organizations, banks, stock and commodity exchanges, investment funds, and other financial agencies, must publish their audited financial reports.

The MOF estimates that Uzbekistan currently has around 400,000 to 500,000 public and private sector 'accountants' of whom 148,000 are chief accountants (the *Accounting Law 1996* requires that every organization must have a chief accountant although chief accountants do not have to be certified accountants).⁵² These 'accountants' are equally divided between the public and the private sectors. This surprisingly high estimate is due to the: predominance of manual-transaction processing systems; inclusion of bookkeepers, tax inspectors, and record keepers in the estimate; and significant compliance requirements imposed on organizations by regulations and statistical reporting requirements – Uzbekistan has an abundance of regulations and decrees, many of which are accompanied by the requirement to make reports to a range of government agencies.

Until 1991, auditing in the Soviet Union, which included Uzbekistan, reflected the highly prescriptive nature of the underlying accounting system. It was primarily a verification exercise, with the final accounts being compared to bookkeeping records by accountants from another enterprise within the same group. With the exception of a few large international firms, auditing in accordance with International Standards on Auditing (ISAs) is a relatively new concept in Uzbekistan. As such, qualified audit certificates have not been issued in Uzbekistan as National Auditing Standards (which are based upon ISAs) have only been recently introduced with the *Auditing Law 2000*.

Auditing licenses are currently issued by the MOF to auditing companies that must employ at least two certified auditors. The new *Auditing Law 2000* will tighten up auditor licensing. In particular, it states that audits can only be conducted by licensed audit firms (all audit firms must be registered with the Ministry of Justice); makes audit firms legally liable for the quality of their work and for the accuracy of their opinions; requires that an audit firm must employ at least two certified auditors; and requires that audit firms must meet and maintain minimum capital adequacy requirements. Article 21 of the *Auditing Law*

⁵¹ Open companies are allowed to issue shares to the general public. Closed companies are not allowed to issue shares to the general public.

⁵² These estimates were confirmed by the Deputy Minister of Finance on 2 October 2000.

2000 states that audit licenses will be issued by the MOF which will also: design and approve norms regulating audit activities including national audit standards; control compliance of auditing organizations with their licensing agreement; set qualification requirements for candidates to be qualified as auditors; approve educational programs and the framework of examinations; conduct exams; revoke and terminate audit licenses and publish information in the media about suspension or termination of audit licenses; issue, suspend, and revoke qualification certificates; and maintain a register of qualified individuals and licensed organizations. The new process for issuing auditing licenses was approved by the Cabinet of Ministers on 22 September 2000.⁵³ The *Auditing Law 2000* also provided for the establishment of the *Republican Union of Auditors*, which is a nongovernmental, noncommercial organization that represents auditors on a voluntary basis. The Union's objectives are to assist in the development of, and to provide support to, professional auditors, and defend their professional interest. Its role will be to: participate in the design and approval of the curriculum and structure of the qualifying examinations, conduct the qualifying exams, and design and prepare proposals on improving audit legislation.

Uzbekistan does not have a Supreme Audit Institution (SAI). The Head Department of Control and Revision (HDCR), which is a division of the MOF, is the organization that is closest in concept to an SAI. The HDCR monitors financial activities, using a transaction-based approach (i.e., examination of financial transactions, identification of financial discrepancies, and fraud investigation). As a division of the Ministry of Finance, the HDCR would not appear to be independent from the Executive. However, the Government contends that the HDCR is independent as the Minister for Finance submits their reports directly to the Parliament.

Four of the five largest international accounting firms are represented in Uzbekistan. As of June 2000, there were 517 registered auditing companies in Uzbekistan. It is estimated that 108 of these auditing companies are subsidiaries of government agencies. The Government has recognized that these arrangements undermine auditor independence and the new *Auditing Law 2000* prohibits such linkages. In addition, 394 of these auditing companies have capital ranging from SUM200 to SUM100,000 (\$0.29–\$147.00). Many of these companies do

⁵³ Resolution of the Cabinet of Ministers (No. 365). 22 September 2000. *On the Improvement of Audit Activity and Promotion of the Role of Audit Inspection*.

not have offices and, in the opinion of some workshop attendees, do not even conduct audits. Moreover, in undertaking audits, many of these firms exposed themselves to liabilities far in excess of their financial resources – i.e., they were not financially accountable for their audit conclusions (opinions). In recognition of this situation, the new *Auditing Law 2000* stipulates minimal capital requirements for auditing firms.

Professional Infrastructure

Uzbekistan's first professional accountancy organization, the Association of Accountants and Auditors (AAA), was formally established as a nongovernmental organization in March 1992 and currently has around 4,000 members. The AAA has two membership categories: associate member and full member. There are currently around 3,000 associate members and 1,000 full members. In general, associate members must have a bachelor degree and three years of practical experience, and must pass professional exams. Full memberships are granted once further professional exams are passed. Uzbekistan has sector-neutral accounting and auditing standards and a unified accounting profession. As such, officials do not consider it necessary to establish a separate membership category for public sector members.

The approval of the *Auditing Law* in May 2000, provided for the establishment of a state organization that would license auditors and audit firms (this responsibility was assigned to the MOF), and a *Republican Union of Auditors* (RUA) that would act as a professional body for auditors.

Accounting and Auditing Standards

One of the main aspects of accounting reform in Uzbekistan is the development of a series of National Accounting Standards (NASs) that are based upon IASs. Nineteen NASs were drafted towards the end of 1997 and by the end of 1998, 16 had been approved by the MOF and registered with the Ministry of Justice. The design and approval of NASs is the responsibility of the MOF. There are only minor differences between NASs and IASs, primarily due to accounting choices being restricted. Uzbekistan uses sector-neutral accounting standards. With very few exceptions, accounting standards and procedures apply to both the public sector and the private sector.

The Auditing Law 2000 has only recently introduced the concept of auditing standards to Uzbekistan. Auditing standards are being

developed based on International Standards on Auditing. As of June 2000, 10 out of the 24 National Auditing Standards that had been developed had been approved.

Education and Training

Like other states of the Former Soviet Union (FSU), Uzbekistan has a very high literacy rate (99 percent) and high educational standards. To maintain high education levels, and to improve the effectiveness of the education system in meeting the skills requirements and societal needs in a market economy, the Government is implementing an education system reform program. This program, called the National Program for Personnel Training was approved by Parliament in 1997. ADB is providing substantial support through project loans and technical assistance.⁵⁴ It should be noted that, due to the lack of differences between public sector and private sector accounting practices, public sector and private sector accountants are trained under the same programs.

Twelve state institutions offer undergraduate and postgraduate programs in accountancy. The Accountants and Auditors Association (AAA) provides advice and input to universities and technical colleges in terms of the development and quality of accounting and auditing courses – their advice reflects input from private sector representatives. In addition, both USAID and the British Council have supported curriculum development. The accountancy curricula of tertiary institutions include courses on management accounting, financial accounting, international accounting, audit, finance, and taxation. Sector-specific and industry-specific courses are also offered, for instance, in transportation accounting. Four of the 12 educational institutions have been delegated auditor-training responsibilities. The Government's intention, as part of the overall accounting and auditing reforms, is to extend this right to nongovernmental organizations and other higher education institutions so as to broaden the regional provision of training.

Government Budgeting and Accounting

In line with other reforms, Uzbekistan has taken a gradual approach to reforming public sector budgeting, accounting, and reporting arrangements. These represent a continuation of pre-transition central

⁵⁴ See for instance, Loan-1594: *Basic Education Textbook Development*, for \$20.0 million, approved on 17 December 1997.

planning systems. The Government is continuing to improve fiscal management systems and processes, particularly since 1996. In addition, a public investment planning (PIP) framework and process has been successfully established. The PIP framework covers capital budgeting and planning for the public sector.⁵⁵ With respect to budgeting, the present *Law of Budget Principles* dates back to 1988. A new law on *Organization of the Budget of the Republic of Uzbekistan* was drafted in 1995, with USAID assistance, but was never approved. In 1999, in place of this proposed law, the Cabinet of Ministers approved a resolution on *Improved Order of Budget Financing*. This resolution updated revenue classifications to international standards, and adopted some of the more acceptable provisions that had been included within the proposed law.

Uzbekistan uses sector-neutral accounting. That is, with few exceptions, accounting standards, regulations, and procedures apply equally to public sector organizations and to private sector organizations. Budget organizations account and report in accordance with the *Accounting Law 1996*, NASSs, Accounting Instructions for Budget Organizations and operational classifications of revenues and expenditures of the State Budget. The staged introduction of NASSs, based on IASs, will improve public sector reporting because the accounting and financial reporting requirements for the private and public sectors are the same,

Donor Assistance

ADB has only recently commenced operations in Uzbekistan. The first Technical Assistance was approved on 9 July 1996 and the first loan on 17 December 1996. ADB has provided loans to support transport sector rehabilitation, textbook development, and rural enterprise development. Technical assistance has been provided along with these loans to support the development of financial management capacity within executing agencies.⁵⁶ The major initiatives that ADB has supported, or is supporting, in direct relation to financial management and governance are as follows:

- TA on *Corporate Governance* (\$700,000: 2000–). The objective of this TA is to enhance transparency and disclosure in decision-making

⁵⁵ TA No. 2771-UZB: *Improving Aid Coordination and Management*, for \$600,000 approved on 18 March 1997.

⁵⁶ See, for instance, TA No. 2948-UZB: *Capacity Building in Education Finance*, for \$500,000, approved on 17 December 1997.

processes, and to strengthen the protection of investors' rights within enterprises in Uzbekistan.

- TAs No. 2771-UZB and 3190-UZB: *Improving Aid Coordination and Management* (\$600,000 and \$800,000). These TAs are supporting the development of a comprehensive and fully integrated planning, budgeting and aid-management system, and a transparent procurement system.
- TA No. 3045-UZB: *Developing Commercial Banking Skills* (\$1 million). This TA supported the development of training capacity within the Banking and Finance Academy.
- TA No. 3352-UZB: *Strengthening the Banking Sector* (\$1 million). In addition to providing specific assistance to two commercial banks, this is supporting a comprehensive evaluation of the banking sector. The TA will also recommend measures to improve financial disclosure and corporate governance within the sector.
- Proposed Regional TA for an *Audit Training Program for Central Asian Republics*. The objective of this proposed TA, to Kazakhstan, the Kyrgyz Republic, and Uzbekistan, is to enhance government auditing capacity by introducing basic auditing concepts and techniques, and introducing basic fraud investigation techniques.

The **International Monetary Fund** program has been suspended since December 1996, due to the Government's introduction of restrictions on the trade and foreign exchange regimes. The **World Bank** has taken a lead role in the banking and finance sector, but has not provided direct assistance for upgrading accounting and auditing. The **UNDP / EU-TACIS** Accounting Reform Project initially had three directions: development of the *Accounting Law*, development of the *Production Cost Regulation*, and development of a new Auditing Law. In addition, a large training program was designed and implemented to support the introduction of the Production Cost Regulation. The project provided direct training to 1,800 accountants and tax inspectors. It was intended that these trainees would pass knowledge on to a further 100,000 'accountants'.

USAID has provided substantial support to improve accounting and auditing capacity and arrangements, including: (i) *Financial Sector*⁵⁷ – USAID is providing support to improve bank supervision and the ability of the Central Bank to enforce tightened financial performance and

⁵⁷ 110-S001.4: *A More Competitive and Market Responsive Private Financial Sector*. \$1,500,000. Continuing since 1993.

reporting requirements for commercial banks. In this respect, USAID has supported the training of accountants in commercial banks and assisted the Central Bank to develop reporting requirements for all commercial banks; (ii) *Fiscal Management*⁵⁸ – The purpose of this project is to improve fiscal policies and fiscal management practices. In early 1998, a new tax code and a proposed Budget System Law were introduced to Parliament but neither was passed by Parliament. USAID assistance has been responsible for three budget reform seminars and one seminar in fiscal reform; and (iii) *Accounting Reform*⁵⁹ – This project represents a continuation of the EU / UNDP efforts (see above) and was launched in late 1998. USAID advisors are working with the Ministry of Finance to introduce a new Chart of Accounts that is in accord with IASs. Substantial training is also being provided to accountants. Since 1993, **JICA** (Japan) has organized training in Japan's financial and audit system for about 20 trainees from Uzbekistan. **TICA** (Turkey) has provided accounting training to 106 Uzbek financiers, and has supported the development of the Banking and Finance Academy through the training of teachers and students (1997–1998). The **European Bank for Reconstruction and Development** supported the foundation of the Banking and Finance Academy. The **British Council** has been providing ongoing support for accounting training. The project began in September 1992 with the objective to assist in the process of reforming accounting and accounting education. Under the project, over 300 teachers of accounting, finance, and management from accountancy education institutions throughout Uzbekistan have been intensively retrained in the new accounting requirements of a market economy. The approach taken has been to train accounting trainers. Nottingham Business School, the project consultant, has established Accountancy Training Resource Centers in leading accounting education institutions. Each resource center has well-equipped teaching rooms, a strong organizational structure, computer and reprographic facilities, and Internet and e-mail facilities.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in Uzbekistan's accounting and auditing arrangements.

⁵⁸ 110-S001.2: *Increased Soundness of Fiscal Policies and Fiscal Management Practices* \$800,000. 1993–2000.

⁵⁹ 110-S001.3: *Accelerated Development and Growth of Private Enterprises* \$6,200,000. 1998–.

Strengthening the Accounting and Auditing Profession

The new *Auditing Law 2000*, in combination with Cabinet resolutions, assigns auditor certification and audit standard-setting responsibilities to the Ministry of Finance and the Republican Union of Auditors (RUA). This in response to concerns over the quality of auditors and auditing firms, and the coverage of their services throughout Uzbekistan. The Ministry of Finance will issue audit licenses. The RUA's objectives are to assist in the development of, and to provide support to, professional auditors, and defend their professional interest. **It is recommended that** the Government request for technical assistance to develop the new auditor examination and certification system. The project would involve: (i) investigating design options for examination systems;⁶⁰ (ii) establishing a database of examination questions; (iii) developing a grading system; (iv) examining the feasibility of, and options for, developing an on-line examination system; (v) developing suitable examination software, and (vi) designing and implementing management procedures.

Professional Supervision of Accounting and Auditing Firms

The new *Auditing Law 2000* was enacted with the objective of improving the quality of audit services. The measures that the new law will introduce, such as better qualifications and minimum capital requirements will, no doubt, have a positive impact on the competence of accounting and auditing firms. Furthermore, improved supervision can have significant impacts on the quality and availability of professional services. There are a variety of options available for strengthening professional supervision, which include supervision teams, development of reporting systems and peer-review regimes. **It is recommended that** a project to improve professional supervision be undertaken. The project would involve: (i) studying the existing structures and procedures of accounting and auditing firms; (ii) examining, and drawing useful lessons from international experience with regards to supervisory regimes (including peer-review regimes); (iii) designing a supervisory system for Uzbekistan that takes account of the country's situation and provides sufficient flexibility to deal with environmental changes; (iv) implementing the supervisory system and associated reporting systems; (v) reviewing and, where necessary,

⁶⁰ In February 1999, UNCTAD issued Education Guidelines – agreed by 146 countries of which Uzbekistan is one. The Standards spell out the various subjects in each examination and the level of knowledge required.

revising auditors' legal responsibilities and associated disciplinary regulations, and (vi) improving the competence and effectiveness of managers with supervisory responsibilities through training.

Strategic Development Plan for the Profession

The establishment of the RUA represents a new phase in the development of Uzbekistan's accounting and auditing arrangements. A medium to long-term strategic plan, for the development of the accounting and auditing profession would guide efforts and provide a basis against which to measure progress. Such a plan would encompass professional supervision, professional development, and administrative structures and systems. **It is recommended that** a project to develop a strategic plan for the development of auditing and accounting profession be undertaken. The project would involve: (i) researching the present situation of the Uzbek accounting and auditing profession; (ii) analyzing existing problems; (iii) examining and drawing useful lessons from international experience in terms of the development of the accounting and auditing profession; and (iv) using this information and the associated analyses to formulate a medium to long-term development plan for the Ministry of Finance, RUA and the accounting and auditing profession.

Creation of Internal Auditing Profession

Internal Auditing is an important part of the accountability mechanism. However, Uzbekistan has no professional organization for Internal Auditors. Nor are there standards for Internal Auditing. **It is recommended that** the Government request for technical assistance to: (i) establish a professional institute for Internal Auditors; (ii) develop internal auditing standards, based on those issued by the International Institute of Internal Auditors; and (iii) develop and deliver a training program for internal auditors based on those internal auditing standards.

Development of Accounting Standards

The speed at which accounting standards are developed is severely constrained by the Ministry of Finance's capacity in this area – the accounting division only has seven staff. **It is recommended that** the Government request for technical assistance to assist in the development of the remaining National Accounting Standards.

Development of Auditing Standards

The limited resources available to the Ministry of Finance and the RUA will determine the speed at which auditing standards are developed. **It is recommended that** the Government request for technical assistance to assist in the development of the remaining 14 National Auditing Standards.

Development of Educational and Training Materials

The AAA and tertiary institutions have developed a range of training materials in the past ten years. However, the rapidly changing environment and the need to provide materials in the Uzbek language are major challenges. For instance, there is no textbook on budgeting and management accounting available in Uzbek. Multi-media and Internet-based technologies present options to prepare effective interactive training materials that are easily redeveloped to reflect the changing environment and can easily be distributed to far-flung regions. **It is recommended that** a project to improve training materials for continuing professional education of accountants and auditors be developed. The project would involve: (i) studying options for preparing and providing training materials to accountants and auditors; (ii) developing a medium to long-term plan for developing continuing professional education; (iii) studying options for developing and delivering training materials using modern technology, and (iv) developing training materials.

Public Budgeting and Finance Issues

Public sector reporting classifications do not meet international standards. In addition, the consolidated budget entity is very narrowly defined and a significant amount of government activities are excluded from budget classifications and government balances. **It is recommended that** a comprehensive review of aggregate government budgeting and reporting practices be undertaken and that: (i) the Government reporting entity should be redefined in accordance with international norms; (ii) all government transactions and balances should be included in the consolidated budget; (iii) the amount of information provided with the Budget should be more detailed, and (iv) a new report that analyses financial information in accordance with Government Finance Statistics (GFS) classifications should be developed and introduced. These recommendations are consistent with the International Monetary Fund's Guidelines on Fiscal Transparency and previous World Bank recommendations.

Training for Accounting Lecturers and Professors

The quality of undergraduate teachers is a key factor in developing competent accountants. The training that accountancy tutors and professors received in 1996-1997 was well received and highly regarded. However, that was a one-off initiative and has not been repeated. **It is recommended that** (i) a specific and sustainable training program for accounting professors and lecturers be developed and implemented, and (ii) a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Independent Supreme Audit Institution (SAI)

The absence of an independent Supreme Audit Institution severely undermines public sector transparency and accountability. Furthermore, the Head Department of Control and Revision (HDCR), which is a division of the Ministry of Finance, is the organization that is closest in concept to an SAI, monitors financial activities using a transaction-based approach (i.e. examination of financial transactions, identification of financial discrepancies, and fraud investigation). HDCR's auditors have no experience in conducting value-for-money audits, or reviewing internal control systems. Moreover, compliance audits focus on compliance with budget rules and regulations. Reviews do not involve the attestation of financial statements. **It is recommended that** the Government consider establishing an independent, competent Supreme Audit Institution in line with best international practice. This would require the following steps: (i) defining and agreeing suitable organizational objectives and responsibilities for the SAI; (ii) designing and agreeing a legislative and organizational framework that afforded the SAI a suitable level of independence and the necessary powers to discharge its responsibilities, and identified funding arrangements that would support independence while encouraging operational efficiency; (iii) identifying staffing and structural needs; (iv) developing a strategic plan for the establishment of the SAI which would include professional development and training arrangements for personnel; and (v) establishing the SAI on the basis of the foregoing actions.

AAA Membership Categories

The AAA has two membership categories; associate member and full member. The membership criteria for associate members (Bachelor degree plus three years practical experience), is reasonably high. The

membership of the new Republican Union of Auditors (RUA) will be comprised solely of certified auditors and audit firms. It is common international practice for professional bodies to have a range of membership categories with differing qualification criteria (e.g. Accounting Technician). The establishment of additional membership categories within the AAA would provide transitional routes for aspiring accountants and a professional body for lower-level accountants. Furthermore, a separate membership category for lesser-qualified public sector accountants would provide public sector accountants with a professional organization, improve their societal status, and improve their knowledge and competence. It would also increase the AAA's membership and revenue base and further unify the accountancy profession. **It is recommended that** the AAA consider: (i) establishing additional membership categories – at least for accounting technicians, and (ii) establishing a new category of membership for public-sector accountants and developing appropriate entry criteria.

Independence of Auditing Firms from Government

The most important element among the fundamental ethical principles accepted by the international accounting profession is independence. In Uzbekistan it is estimated that 108 of the 517 auditing companies are subsidiaries of government agencies. The new *Auditing Law 2000* prohibits such linkages. As required by the *Auditing Law 2000*, **it is recommended that** the Government separate auditing firms from government agencies as a matter of priority.

Independent Accounting Standard-Setting Body

The issue of whether accounting standard -setting should be a government or private sector function is a common one for many countries. Uzbekistan has taken the former option. **It is recommended that** the Ministry of Finance consider assigning accounting standard-setting responsibilities to an independent body, which comprises financial sector representatives, financial sector regulators, and representatives from the accountancy profession.

Regulatory Compliance Requirements

Uzbekistan has a highly regulated economy. The level of regulation is accompanied by a stringent reporting regime to government agencies. Accountants bear the brunt of this regime as they are the ones who have to prepare and provide information. This impedes their ability to

improve internal and external, management and financial reporting practices and to contribute to improved financial management within their organizations. **It is recommended that** the Government consider the impacts of the regulatory regime on the accountancy profession.

7. Viet Nam

Developments and Challenges

The early stages of accounting development in Viet Nam were influenced by countries that had an association with Viet Nam either by military, social or trade links.

1960 – 69	Accounting practices were influenced by China.
1969 – 89	The former Soviet Union played a catalytic role in accounting procedures.
1989 – 95	France and the United States of America had an important influence on financial reporting.
1995 – 98	European Union Project (EUROTAPVIET) introduced International Accounting Standards to the Vietnamese Government.

Current accounting problems include:

- The need for more qualified Vietnamese accountants
- The introduction of International Accounting and Auditing Standards
- The strengthening of the accounting profession and the Viet Nam Accounting Association, and
- The reduction of Government control in accounting and financial reporting matters.

Accounting and Auditing in Viet Nam

The accounting system in Viet Nam is governed by the *Ordinance on Accounting and Statistics 1988* and the *Vietnamese Accounting System*, which was introduced in 1995. The Ordinance gives details of accounting records and reports required to be compiled to suit the needs of taxation and statistics. The system is completely regulated and all forms are standardized and controlled by the Ministry of Finance (MOF). The Vietnamese Accounting System is a reporting system intended to be used by both public and private sector enterprises in Viet Nam.

The State Audit of Viet Nam was established by Government decree in 1994 and the department is a member of INTOSAI and ASOSAI. There are 18 audit firms in Viet Nam; six owned by the State, six owned

by local interests, five owned by foreign interests and one partly state-owned joint venture firm.

Professional Infrastructure

The Chief Accountants Club, which was the first organized accounting association in Viet Nam, was formed by the MOF in 1989 and started with 200 members. This club grew to 600 members and, in 1994, with the assistance of MOF; the Club formed the Viet Nam Accounting Association (VAA).

VAA is a member of the International Federation of Accountants (IFAC) and the ASEAN Federation of Accountants. It is not a member of the Confederation of Asian and Pacific Accountants (CAPA). The membership is approximately 5,000 and the members are categorized as primary members, honorary members and sponsor members. The financial health of VAA is weak and the annual subscription is the equivalent of US\$3.55. The structure of the VAA consists of an assembly, a central committee, a standing committee and various subcommittees. Elections for the executive and the central committee are held every five years.

Accounting and Auditing Standards

The Accounting Standards Board was established by the MOF in 1999 and this Board is responsible for the establishment and monitoring of accounting standards in Viet Nam. Vietnamese Accounting Standards are currently being formulated and the plan is to complete a full set by the end of 2003. These Standards will be based on International Accounting Standards (IAS). Four Standards have been completed but not issued. A further six standards have been drafted for comment. Deviations between the present Vietnamese Accounting System and International Accounting Standards have been comprehensively explained in the individual country report. Public Sector Accounting Standards have not yet been considered.

Four Vietnamese Standards on Auditing have been issued and a further six have been completed but not issued. The plan is to complete a full set of auditing standards by the end of 2002. The Vietnamese Auditing Standards are based on International Standards on Auditing (ISAs).

Education and Training

There are 11 State-owned universities providing full-time accounting training in Viet Nam. There are a further six privately owned

universities covering accounting and there are six universities covering postgraduate studies.

To obtain a degree requires a high school certificate plus the successful completion of four years university study; or a high school certificate plus three years successful completion of a college course, plus two years practical experience, plus the successful completion of a qualifying exam, plus one final year at university. The Vietnamese Accounting System is taught at universities. The term “Professional Accountant” is soon to be recognized as a status category for accountants with high qualifications and professional experience.

The Public Sector caters for limited training in government procedures and requires Continuous Professional Education (CPE) training for advancement. The levels of advancement in the public service are Expert, Key Expert, and then Senior Expert.

Government Budgeting and Accounting

The MOF is responsible for the management of financial, accounting and budgeting procedures of the State. The MOF operates under the Vietnamese Accounting System, which is geared at central control. The move towards a free market economy is creating problems that will be overcome when the Vietnamese Accounting Standards are established.

The State Budget System is a unified system consisting of the central state budget and budgets at grassroots levels. Budget preparation is the responsibility of the Department of National Budget in accordance with the State Budget Law 1996. A Capital Investment Plan is produced as part of the Budget process.

No Central Assets Register is kept and each department maintains its own register.

Donor Assistance

In recent years, the major assistance provided for accounting and auditing improvement was from the European Union. The European Union Assistance Project (EUROTAPVIET) commenced in September 1995 and was completed in June 1998. The general objective of the Project was to develop skills and competencies for the Vietnamese Accounting and Auditing profession in a market economy. Achievements included:

- Provided knowledge of IAS and ISA through workshops and studies overseas
- Assisted Viet Nam in forming relationships with international accounting bodies

- Improved the quality of audit and accounting training in Viet Nam, and
- Assisted in technical matters relating to computer hardware and software.

Issues and Recommendations

This part presents the issues and recommendations that are associated with gaps or weaknesses in Viet Nam's accounting and auditing arrangements.

Vietnamese Accounting and Auditing Standards

The Accounting Policy Department has drafted ten Vietnamese Accounting Standards (VAS) using IAS as a base with adjustments to suit Vietnamese conditions. Four of these standards have been commented on by other Government Departments and private sector interests including independent accounting and auditing firms. The Accounting Policy Department has also drafted and finalized ten Vietnamese Standards on Auditing. At this stage, four have been issued and the other six are with the Minister pending approval for their issue.

It is recommended that technical assistance be provided to the Vietnamese Government to assist in the completion of the new Vietnamese Accounting Standards and the Vietnamese Standards on Auditing.

Vietnamese Public Sector Accounting Standards

The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts for comment. The first eight IPSAS issued are based on accrual accounting and ED 9 refers to Financial Reporting under the Cash Basis of Accounting. Since Public Sector Accounting has now gathered momentum on an international basis, it is convenient to introduce appropriate training to cover this subject. Universities and colleges should be encouraged to include this subject in their curricula.

It is recommended that technical assistance be provided to the Vietnamese Government in order to establish the Vietnamese Public Sector Accounting Standards and that these Standards be based on the International Public Sector Accounting Standards issued by IFAC.

Ordinance on Accounting and Statistics

The Ordinance on Accounting and Statistics was promulgated in 1988 and remains the major law on accounting in Vietnam. It was drafted in a

period when the Government and State-owned Enterprises formed the major part of the economy and foreign invested businesses and the non-government private sector were practically non-existent. With the move to a market economy, it is appropriate that the accounting laws be completely reviewed. **It is recommended that** the Ordinance on Accounting and Statistics be repealed and technical assistance be provided to the Vietnamese Government for the drafting of a new Law on Accounting. It is also recommended that this Law should be drafted in parallel with the drafting of the new Vietnamese Accounting and Auditing Standards and that its promulgation should occur no later than the formal issue of the new Standards.

Accountancy Education and Training

When the new Vietnamese Accounting and Auditing Standards are issued, the staff of the SOEs will need special training and instructions on the use of the new Standards. The new International Public Sector Accounting Standards (IPSAS) have recently been issued by IFAC, and, if the Viet Nam Government agrees to accept these as a base for the introduction of Vietnamese Public Sector Accounting Standards, then Government financial staff will need training on the use and application of these new Standards. **It is recommended that:** (i) technical assistance be provided to the Vietnamese Government to draw up a plan for the training of Vietnamese accountants on the use of the new Vietnamese Accounting and Auditing Standards; and (ii) this plan should be drawn up in parallel with the setting up of the new Standards. The plan should cover the special training needs of Government and SOE staff.

Training For Accounting Lecturers and Professors

There is no advanced training for accounting lecturers and professors. Many factors support the development of competent accountants. The quality of undergraduate teachers is a key factor in developing competent accountants. **It is recommended that:** (i) a specific training program for accounting professors and lecturers be developed and implemented; and (ii) a professional organisation be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

Public Accounts Committee

Under Viet Nam laws and regulations there appears to be no independent body, which is separate from the Government, which

carries out an independent review of all public expenditures incurred by Government Ministries, agencies and enterprises. Most countries have established a Public Accounts Committee, which publicly examines the expenditure of governments and their agencies. **It is recommended that:** (i) a Public Accounts Committee be established and be comprised of members from the Vietnamese National Assembly. The PAC should be established by law and the objectives, rules and procedures should be transparent and in the interests of the general public; and (ii) technical assistance be provided to the Vietnamese Government to assist in drafting the necessary laws and regulations.

Review Consolidation and Translation of Laws

The regulatory framework, involving the laws, ordinances, decrees, circulars and decisions of the Vietnamese authorities, appears in need of review and consolidation for ease of reference by professionals and other users. In many cases, titles have changed and cross-references are either incorrect or out of date. **It is recommended that:** (i) the Vietnamese laws, ordinances, decrees, circulars and decisions be administratively reviewed and up-dated for ease of reference, and (ii) technical assistance be provided for all current commercial laws to be translated into the English language.

Viet Nam Accounting Association

An examination of the VAA Charter reveals some functions that are being undertaken by the Government instead of the Association. There are also problems regarding financial health and non-achievement of objectives by the VAA. **It is recommended that** the Committee structure and rules should be reviewed as follows: (i) the General Assembly should meet annually, not every five years, and elect the members of the various Committees; (ii) the Central Committee should be abolished and its functions taken over by the Standing Committee, which should be renamed the “Council”, and which should meet bi-monthly; (iii) the Standing Committee should adopt a more positive role in achieving the functions outlined in the VAA Charter; (iv) the VAA should also consider increasing its fees; and (v) the VAA should open its membership to non-citizens.

Public Sector Accounting Standards Board

The International Federation of Accountants (IFAC) saw the need to develop another set of accounting standards for “not for profit” organizations, which mainly consisted of national governments, and, in

1996, formed a committee to develop a set of International Public Sector Accounting Standards (IPSAS). These Standards were issued in May 2000 and included eight Public Sector Standards and one guideline. A further seven Exposure Drafts were issued in July 2000. Most countries have two Accounting Standards Boards; one for the private sector and one for the public sector. **It is recommended that** consideration be given to the setting up of a Vietnamese Public Sector Accounting Standards Board in order to plan and establish the Vietnamese Public Sector Accounting Standards, and to organize and monitor the implementation of these Standards.

Conflict of Interest

There are more than 5,000 State-owned Enterprises, owned by the Central Government and “managed” by the Ministry which has functions and powers which relate to that SOE. While this procedure may be suitable from an administrative point of view, it does present problems in the nature of a conflict of interest, eg. awarding tenders, etc. The SOEs will be equitized over future years in accordance with the Equitization Plan of the Government and the conflict of interest situation will diminish. Until this happens **it is recommended that**: (i) In the case of public complaints and quality control of accountants and auditors these responsibilities should be handed over to the Viet Nam Accounting Association; (ii) in the case of the letting of accounting and auditing tenders an independent board should be established to oversee the selection process.

Transparency Issues

There is a lack of transparency with Government financial reporting. There needs to be an increase in transparency in connection with budgetary and public accounts information. Circular No. 65 dated June 1999 prescribes the amount of information available to the government, the employees and other interested parties. Most public inquiries would be classified in the third category and the information available under this category excludes the annual financial statements of SOEs although certain information relating to assets, debt and profits is available. **It is recommended that** all Government accounts of public expenditures and revenues and all State-owned Enterprises annual financial statements be classified as public information, and that all statistical data, inventories of public property, government procurement policies, and the like be also classified as public information.

Financial Performance Indicators

Under the Viet Nam Accounting System certain ratios are required to be included as notes to the financial statements. These ratios are not strong indicators of performance and they are not the ratios generally required by international lending agencies as part of the covenants of loan agreements. **It is recommended that** consideration be given to the adoption of financial performance indicators as benchmarks for comparison purposes between financial periods in State-owned enterprises that generate their own income. If adopted, the indicators recommended are the Rate of Return, the Self-Financing Ratio and the Debt Equity Ratio; and further, that these indicators be included as Notes to the Financial Statements.

ADB Anti-Corruption Policy

In order to combat corruption in the public service the following matters **should be considered**: improvement of accountability measures; detection and investigation of corruption; employment of professional accountants; and effective internal controls.