

## IV. Accounting and Auditing Standards

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

### Part One. Accounting Standards

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

### Part Two. Auditing Standards

- 6 – Introduction – describes the introduction of, and legal basis for, Uzbekistan auditing standards.
- 7 – Development and Promulgation – describes responsibilities and the process for developing and promulgating auditing standards.

## **Part One. Accounting Standards**

### **1. Introduction**

As related in chapter II, accounting in the former Soviet Union was designed to meet the needs of the statistical and tax authorities. Accounting consisted of adhering to a prescribed chart of accounts that was subordinated to requirements of the central planning system and reflected the diminished scope of financial management in a centrally planned economy. The primary function of accounting was to record factual data to assess plan accomplishments, rather than an enterprise's financial situation.

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 International Accounting Standards (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 by the Ministry of Justice. An additional NAS, relating to the new Chart of Accounts, was approved in June 2000.

## **2. Accounting Standard Setting Responsibilities**

The design and approval of NASs is the responsibility of the MOF. When an NAS is being developed, the MOF establishes a consultative group including representatives of the AAA, the RUA, and international organizations. This group provides comments on various accounting aspects, but the final document is shaped and approved by the MOF. The NAS must then be registered with the Ministry of Justice.

## **3. Uzbekistan Accounting Standards**

Uzbekistan follows NASs designed on the basis of the *Accounting Law 1996*. NASs are part of the regulated system for accounting in Uzbekistan and have been developed based on IASs.

Uzbekistan has developed a differential reporting regime for small and medium enterprises – it is ahead of the International Accounting Standards Committee (IASC) in this area. At present, 18 NASs have been developed and approved as follows:

- ... Framework for National Accounting Standards
- 1 Accounting Policies and Financial Reporting
- 2 Revenues (from the Basic Economic Activity)
- 3 Income (Reporting on Financial Results)
- 4 Inventories
- 5 Fixed Assets
- 6 Leases
- 7 Intangible Assets
- 8 Consolidated Financial Reports and Investments in Subsidiaries
- 9 Statement of Cash Flows
- 10 Accounting for Government Grants
- 11 Research and Development Expenses
- 12 Accounting for Investments
- 16 Events Occurring After Balance Date
- 17 Construction Contracts
- 19 Orders for Inventory Management
- 20 Orders for Differential Reporting (for small enterprises)
- 21 Orders for the Chart of Accounts

#### 4. Conformity with International Accounting Standards

An analysis of differences between NASs and IASs is presented in Table 4. The identified differences are minor and are primarily due to accounting choices being restricted (e.g., NAS 4 specifies that the Last-in-First-out inventory valuation method cannot be used).

Table 4: Variations Between IASs and NASs

IAS	Variations Compared with NAS
IAS 1    Presentation of Financial Statements	<p>NAS 1    Accounting Policies and Financial Reporting</p> <ul style="list-style-type: none"> <li>• A report on physical asset movements must be included in the financial statements.</li> <li>• The deadline for submitting financial reports is 15 February.</li> <li>• Banks, budget organizations, and insurance organizations do not have to comply with NAS No. 1.</li> <li>• Double-entry bookkeeping must be applied.</li> <li>• The reporting period must be the calendar year.</li> <li>• The financial report must disclose the recipients of the financial statements.</li> </ul>
IAS 4    Depreciation Accounting  IAS 16    Property, Plant, and Equipment	<p>NAS 5    Fixed Assets</p> <ul style="list-style-type: none"> <li>• Decrees determine revaluation ratios (the most recent revaluation decree was issued in 1995). These ratios apply uniformly across the country but differ between asset types.</li> <li>• Accumulated depreciation is not required to be written back on revaluation.</li> <li>• Different depreciation rates are applied to different classes of assets.</li> <li>• NAS require that, at least once every two years, there must be a stock take of physical assets.</li> </ul>
IAS 17    Leases	<p>NAS 4    Leases</p> <ul style="list-style-type: none"> <li>• Validity of lease agreement is the signing date.</li> <li>• Operating leases are classified as those with a period of less than one year.</li> </ul>

IAS	Variations Compared with NAS
IAS 2 Inventories	NAS 4 Inventories <ul style="list-style-type: none"> <li>• Stipulates that tools and inventories have a life of less than one year.</li> <li>• Prohibits usage of the Last-in-First-out (LIFO) method</li> <li>• Prescribes annual stocktaking procedures.</li> </ul>

## 5. Public Sector Accounting Standards

Uzbekistan uses sector-neutral accounting standards – with very few exceptions, accounting standards and procedures apply to both the public sector and the private sector.

### Part Two. Auditing Standards

## 6. Introduction

The new *Auditing Law 2000* introduced auditing standards to Uzbekistan in May 2000. Auditing standards are being developed based on International Standards on Auditing. Ten of the 24 National Auditing Standards that had been developed had been approved by June 2000.

The *Auditing Law 2000* requires that audits must be conducted, and audit reports prepared, on the basis of national audit standards.

## 7. Development and Promulgation

Article 21 of the new *Auditing Law 2000* states that audit licences will be issued by a specially authorized state agency which will also design and approve norms regulating audit activities including national audit standards. The Ministry of Finance was identified as this agency on 22 September 2000.<sup>28</sup> The newly registered Republican Union of Auditors (RUA) will provide input to the development of these standards.

<sup>28</sup> 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.*