

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. The issues and recommendations are divided into two parts as follows.

- Part One: Where the matter referred to may be considered and, if any action were to be taken, this would be better achieved with external assistance.
- Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

Part One. Where Donor Assistance Might be Appropriate

1. 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 (MOF) and the Republican Union of Auditors (RUA). The establishment of the RUA is in response to concerns over the quality of auditors and auditing firms, and the coverage of their services throughout Uzbekistan.

Audit licences 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 licences and publish information in the media about suspension or termination of audit licences, issue, suspend and revoke qualification certificates, and maintain a register of qualified individuals and licenced organizations.

The RUA'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.

Development of Auditor Certification Procedures

The RUA and the Statutory Audit Agency (MOF) are being established in response to concerns about the quality of audit services; for instance, a major factor is the way in which auditors are certified. The Statutory Audit Agency and the RUA will be establishing a new auditor examination and certification system.

It is recommended that the Government request for technical assistance to develop the new auditor examination and certification system. The project would involve:

- **investigating design options for examination systems⁴⁸**
- **establishing a database of examination questions**
- **developing a grading system**
- **examining the feasibility of, and options for, developing an online examination system**
- **developing suitable examination software, and**
- **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 auditing firms. In addition, 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:

- **studying the existing structures and operations of accounting and auditing firms**

⁴⁸ 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.

- **examining, and drawing useful lessons from international experience with regards to supervisory regimes (including peer review regimes)**
- **designing a supervisory system for Uzbekistan that takes account of the country's situation and provides sufficient flexibility to deal with environmental changes**
- **implementing the supervisory system and associated reporting systems**
- **reviewing and, where necessary, revising auditors' legal responsibilities and associated disciplinary regulations, and**
- **improving the competence and effectiveness of managers with supervisory responsibilities through training.**

2. Strategic Development Plan for Accounting Profession

The establishment of the Statutory Audit Agency (MOF) and 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 accounting and auditing profession be developed. The project would involve:

- **researching the present situation of the Uzbek accounting and auditing profession**
- **analyzing existing problems**
- **examining and drawing useful lessons from international experience in terms of the development of the accounting and auditing profession, and**
- **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.**

3. Establishment 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:

- **establish a professional institute for Internal Auditors**
- **develop internal auditing standards, based on those issued by the International Institute of Internal Auditors, and**
- **develop and deliver a training program for internal auditors based on those internal auditing standards.**

4. 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.

5. Development of Auditing Standards

The resources available to the Statutory Audit Agency 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.

6. Development of Educational and Training Materials

The AAA and tertiary institutions have developed a range of training materials in the past 10 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. Multimedia and Internet-based technologies present options to prepare effective interactive training materials that are easily redeveloped to reflect the changing environment, and which can easily be distributed to outlying 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:

- **studying options for preparing and providing training materials to accountants and auditors**
- **developing a medium to long-term plan for developing continuing professional education**
- **studying options for developing and delivering training materials using modern technology, and**
- **developing training materials.**

7. 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. These include:

- transfers to extra-budgetary funds which are presented as a single line without explanation
- local budgets are included in budget expenditure through transfers of shared taxes (local governments have the right to establish extra-budgetary funds)
- most budgetary institutions have so-called special accounts in the banks held separately from budget accounts where revenues from provided paid services are collected. The revenues and expenditures associated with these special funds are not included in the classification.

It is recommended that a comprehensive review of aggregated government budgeting and reporting practices be undertaken and that:

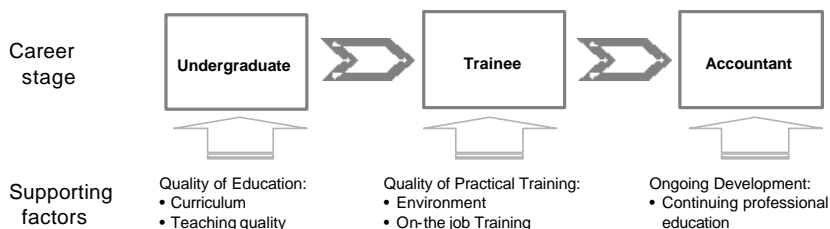
- **the Government reporting entity should be redefined in accordance with international norms**
- **all Government transactions and balances should be included in the consolidated budget**
- **the amount of information provided with the Budget should be more detailed, and**
- **a new report that analyses 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.

8. Training for Accounting Lecturers and Professors

In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practises and trends. The quality of undergraduate teachers is a key factor in developing competent accountants (Figure 3 refers). 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.

Figure 3: Developing Competent Accountants



It is recommended that:

- **a specific training program for accounting professors and lecturers be developed and implemented. This training program should include present day best practices in accounting procedures and current information available on International Accounting Standards. Important matters such as information technology (including both hardware and software) should also be included; and**
- **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.**

9. Establish an Independent Supreme Audit Institution

Along with the absence of an independent statistics function (statistical information is collected and published by the Ministry of Macroeconomics and Statistics), the absence of an independent Supreme Audit Institution (SAI) 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 little experience in conducting value-for-money audits and 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:

- **Defining and agreeing suitable organizational objectives and responsibilities for the SAI**
- **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**
- **Identifying staffing and structural needs**
- **Developing a strategic plan for the establishment of the SAI which would include professional development and training arrangements for personnel**
- **Establishing the SAI based on the foregoing actions.**

Part Two. Where External Assistance is Not Required

1. AAA Membership Categories

The AAA has two membership categories; associate member and full member. The membership criteria for associate members (Bachelor's degree plus three years' practical experience) are 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:

- **establishing additional membership categories – at least for accounting technicians, and**
- **establishing a new category of membership for public sector accountants and developing appropriate entry criteria.**

2. Independence of Auditing Firms from Government

The most important element among the fundamental ethical principles accepted by the international accounting profession is independence. It is estimated that 108 of Uzbekistan's 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.

3. 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. The assignment of this role is influenced by country-specific factors including the:

- role that the Central Government plays in the economy⁴⁹
- status of the legal system – in European countries, where the status of the legal system is considered to be of the utmost importance

⁴⁹ Zeff, Stephen. 1987. Setting Accounting Standards: Some Lessons from the US Experience. *Accountant's Magazine*. December. p. 27.

(e.g. Germany and France), financial reporting requirements are codified in laws, and

- influence of historical factors – for instance, accounting standards in Anglo-Saxon countries were traditionally developed by professional organizations, such as the Financial Accounting Standards Board (FASB) in the US, and the Accounting Standards Committee in the UK.

In Uzbekistan, many commentators 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.

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

4. 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. During the Tashkent workshop, one participant commented on this issue as follows:

“[Every week, we often have to prepare and provide] 20 different reports to 20 different agencies – how can accounting and reporting be improved in such conditions? After regulatory reporting, [an] accountant has to do [their] regular job.”

It is recommended that the Government consider the impacts of the regulatory regime on the accountancy profession.