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### Appendix 1. Interviewees

Aspects of financial management and governance were discussed with the following people:

Dr Djuraev Turobjon Ikramovich	Deputy Minister for Finance	Government of Uzbekistan
V. N. Gnanathurai	Resident Representative	Asian Development Bank
Professor Yuri Itkin	President	Association of Accountants and Auditors
Dilshod Gozibekov	Deputy Rector	Banking and Finance Academy
Associate Professor Bakhodir Khasanov	Head of Accounting	Banking and Finance Academy, Control and Audit Department
Benjamin Ryan	Vice President / Country Manager – Uzbekistan	Central Asian-American Enterprise Fund
Dr Sobir Safaev	Director	CIAR Consulting Group
Dr Christoph B. Rosenberg	Resident Representative	International Monetary Fund
Dr Akhmedjanov	Audit Lecturer	Tashkent State Economic University
Dr Arazekulov	Audit Lecturer	Tashkent State Economic University
Professor Durbek Akhmedov	Vice Rector	Tashkent State Economic University
Professor Ishbaev	Deputy Dean – Accounting School	Tashkent State Economic University
Professor Wahidov	Chief of Accounting School	Tashkent State Economic University

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Professor Dulakhodjaeva	Chief of Audit / Executive Director	Tashkent State Economic University / Association of Accountants and Auditors
Bakhadir Burkhanov	Program Officer	United Nations Development Program
Florida Perevertailo	Chief, Program Section	United Nations Development Program
Lara Rio	Program Officer	United Nations Development Program
Anthony Gioffre	Chief of Party	USAID Accounting Project, Carana Corporation
John Lindberg	Accounting Advisor	USAID Accounting Project, Carana Corporation
Bakhtiyor Abdullaev	Operations Officer / Economist	World Bank
David Pearce	Resident Representative	World Bank
Gerhard Botha	Financial Sector Specialist	World Bank
Tunc Uyanik	Senior Financial Sector Specialist	World Bank
Susan Rutledge	Private Sector Development Specialist	World Bank

## **Appendix 2. RETA-5877 (Regional Study) Information**

### **1. Study Phases**

The study had four broad phases as follows:

- Phase I – Uzbekistan Case Study on Accounting and Auditing Support and Structures
- Phase II – Tashkent Workshop (10-11 July 2000)
- Phase III – Development of Reference Materials
- Phase IV – Formulation of Action Plan

### **2. Phase I : Case Study On Accounting and Auditing**

This phase involved the examination of Uzbekistan's current accounting and auditing structure and systems. It also (i) analyzed Uzbekistan's political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

A structured questionnaire, that covered the following areas, was used to collect descriptive information:

- (i) Legal and regulatory framework (public and private sector)
- (ii) Accounting infrastructure (professional bodies and accounting standards)
- (iii) Institutional issues (public and private sector)
- (iv) Government and administrative arrangements
- (v) Financial reporting (public and private sector)
- (vi) Accounting and computerization (public and private sector)
- (vii) Accountancy education and training
- (viii) Budgeting (public sector)
- (ix) External audit (public and private sector)
- (x) Previous studies and initiatives on financial management and governance.

The fieldwork for the study was conducted by Barry Reid, with the assistance of Nailya Ablieva and Dr Sobir Safaev, from 13 June to 11 July 2000. Financial management and governance arrangements were discussed with representatives from: the Ministry of Finance, other government organizations, cabinet ministers, professional accounting

and auditing bodies, private sector businesses, tertiary institutions, bilateral donors, and multilateral financing institutions. A list of interviewees is attached as Appendix 1.

### **3. Phase II : Tashkent Workshop**

Issues arising from the study were discussed and debated at a workshop held in Tashkent on 10-11 July 2000. The Honorable Dr Djuraev, the Deputy Minister for Finance; Professor Yuri Itkin, the President of the Association of Accountants and Auditors; and Barry Reid, jointly chaired the workshop. Francis B. Narayan, Lead Financial Specialist, ADB, participated in the Workshop as a resource person and provided overall guidance with respect to the objectives of the Study. Fifty-five participants, representing the following organizations, attended the workshop:

- Accounting and Auditing Department (MOF)
- Asian Development Bank (project representatives)
- Association of Accountants and Auditors
- Banking and Finance Academy
- Banking Association
- Budget Department (MOF)
- Carana Corporation (USAID Accounting Project)
- Central Bank of the Republic of Uzbekistan
- Chamber of Auditors
- CIAR Auditing Company
- Farmax Auditing Company
- Scientific and Agricultural Institute (MOF)
- Supranova Auditing Company
- Tashkent Finance Institute
- Tashkent State Economic University

### **4. Phase III : Development of Reference Materials**

In phase III, reference materials on International Accounting and Auditing Standards (IAAS) were developed. In developing these materials, consideration was given to production of these materials in local languages.

### **5. Phase IV : Formulation of Action Plan**

Phase IV assessed the roles that ADB and other funding agencies played in improving the current situation in the selected DMCs. The roles included policy intervention, projects and program assistance, and mobilization of cofinancing resources to address the identified

problems and weaknesses. This activity was undertaken in close consultation with the Government, regulatory authorities, representatives of the accounting and auditing professions, and other local interest groups and funding agencies. At this stage of the RETA, the commitment in principle of each selected country to implement the findings and recommendations of the study was agreed. The findings of the RETA were disseminated and debated at a conference in Manila on 16-18 October 2000 and the developed action plan was finalized for implementation.

## **6. Consultation and Acknowledgements**

Drafts of this report were provided to a variety of organizations and individuals for review. We would very much like to thank the Deputy Minister for Finance, Honorable Dr Djuraev Turobjon Ikramovich, for his efforts, support and assistance throughout this study and for his detailed review comments during the finalization of this report. The following people also provided helpful comments on report drafts:

- Nematulla Karimov, Republican Union of Auditors.
- Yukiko Kojima, Asian Development Bank.
- Victor Virtucio, Asian Development Bank.
- Jean-Marc Lafreniere, Asian Development Bank.
- Susan Rutledge, Private Sector Development Specialist, World Bank.

## **Appendix 3. Administrative and Institutional Arrangements**

### **1. Introduction**

This appendix reviews government and administrative arrangements in Uzbekistan. It begins by describing executive, legislative, and judicial arrangements, then proceeds to discuss the structure of the state, organs of state authority, the banking sector, and the stock exchange.

### **2. Executive, Legislative, and Judicial Arrangements**

In accordance with the 1992 Constitution, Uzbekistan is a sovereign democratic republic. The President is Head of State and Head of the Supreme Committee of the Executive Branch of the Cabinet of Ministers. The country has a unicameral legislature (*Oli Mazhlis*) comprising 250 members. The President wields extensive control over all branches of power and appoints the Prime Minister and the Cabinet.

The President is elected for a five-year term with a right to re-election. Parliament members are elected every five years; the next parliamentary elections will be held in December 2004.

The Supreme Court serves as the Appeals court. Judges are nominated by the President and confirmed by the Supreme Assembly.

### **3. Organs of State Authority**

#### **Parliament**

The highest legislative body in the Republic of Uzbekistan is the unicameral Supreme Assembly. Parliament meets about four times per year and, as such, law making is predominantly by regulation and decree. Parliamentary elections were last held in December 1999.

#### **Ministries and Committees**

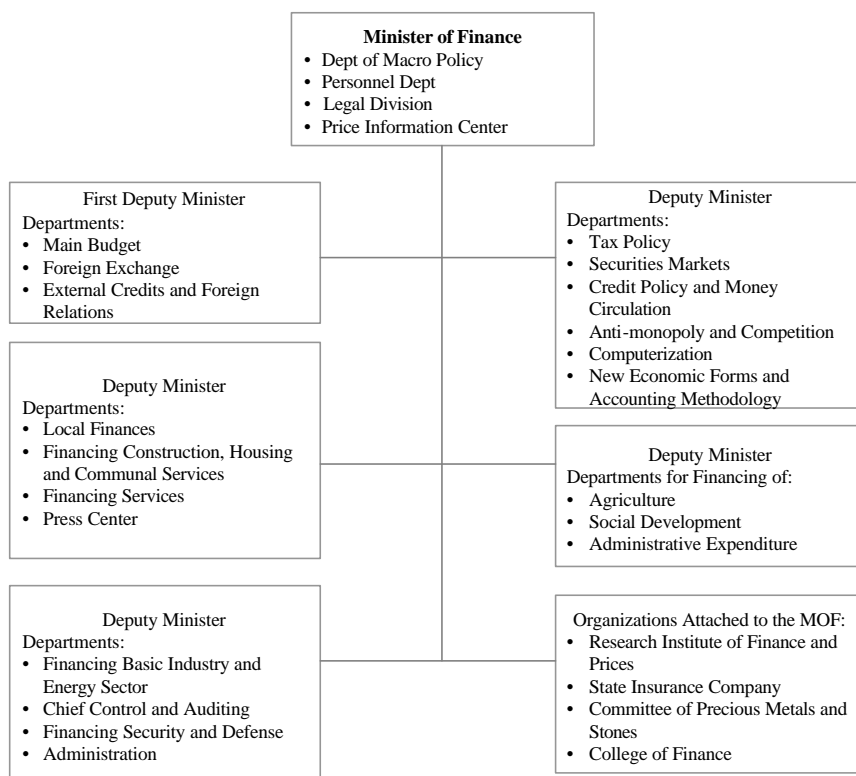
The Central Government comprises about 44 ministries and committees. The Ministry for Macroeconomics and Statistics (MMS), and the Ministry of Finance (MOF), hold leading positions in the bureaucracy.

#### **Ministry of Finance**

The Minister and five deputies head the MOF. It has around 380 staff and is structured into 24 departments (Figure 4 refers). Four

organizations are attached to the MOF including the Banking and Finance Academy. The MOF also has local finance departments that are accountable to both the MOF and to the local government.

Figure 4: Structure and Responsibilities of the Ministry of Finance



#### 4. Banking Sector

The Central Bank of Uzbekistan (CBU) heads the banking system. There are 35 commercial banks active in Uzbekistan with assets of SUM952 million (\$ 8.6 billion) at the end of 1999. The State-owned National Bank for Foreign Economic Activity (NBU) accounts for more than 90 percent of all foreign banking transactions. While 13 foreign banks maintain offices in Uzbekistan, none of them have opened branch operations.

Substantial efforts are underway with regards to privatization of the banking sector and, in November 1999, the Government issued a decree on *Privatization of Entities and Attracting Foreign Investors During 2000-2001*.

The CBU is working closely with EBRD, ADB, and International Finance Corporation (IFC) to privatize local banks; preference is being given to foreign investors.

## **5. Stock Exchange and Securities Markets**

The Uzbek Stock Exchange was established in accordance with the *Securities and Stock Exchange Law 1993*. Decisions on listing and de-listing are taken on the recommendation of the Listing Commission. Official listings include securities (private shares and State-issued shares) of resident organizations, which have been registered and examined by the Listing Commission, as well as listings of nonresident organizations in accordance with current regulations. Listed securities are classified into three groups; each group must follow certain requirements. Classifications into these groups is determined with reference to the following criteria: duration of enterprise activity, amount of paid-up capital, amount of additional issuance of securities, amount of gross assets, number of shareholders, and duration of non-loss-making period.

## **Appendix 4. Regulatory and Legal Framework**

### **1. Introduction**

The Uzbekistan legal system represents an evolution of Soviet civil law. This appendix describes the laws and regulations that pertain to financial management and governance.

### **2. Legislative Process**

Parliament (*Oli Mazhlis*) sits four times each year, as such; Uzbekistan is governed largely by Resolutions and Presidential Decrees. Resolutions are drafted and presented to the Cabinet of Ministers for discussion by the Responsible Minister. If the Cabinet of Ministers agrees the Resolution: the President, as Chairman of the Cabinet of Ministers, will sign the Resolution thereby enacting it into law. Presidential Decrees are issued directly by the President.

### **3. Law on Accounting 1996**

This law governs accounting and financial reporting arrangements and was developed with EU-TACIS and UNDP assistance. It applies to government agencies, other legal entities, and individuals conducting entrepreneurial activities.

The regulation of accounting and financial reporting, and the design and approval of accounting standards is the responsibility of the Ministry of Finance. These include developing simplified standards for Small and Medium Enterprises. The Central Bank is responsible for the accounting and reporting practices of banks (Article 5).

Article 6 states that the accounting basis is accrual, double-entry accounting, and sets out accounting principles (going concern, reliability, etc). It also states that the chief of the organization is responsible for accounting arrangements and that the organization chief has the right to:

- establish accounting practices and procedures within the organization with the employment of a head accountant or through a contracted accountant
- delegate bookkeeping duties to an accounting firm or to an internal accounting department.

The organization chief is obliged to develop and maintain:

- an internal reporting system
- a system for controlling the economic activities of the organization
- robust record-keeping procedures
- an external reporting system
- a system for meeting taxation requirements, and
- a system for ensuring that payments are made on time.

Articles 9–10 set out the arrangements for accounting records and accounting journals. Article 11 sets out procedures for inventories and assets. Article 12 sets out valuation procedures for inventories and assets.

Financial reports are prepared based on the accounting data. They must contain (Article 16):

- a balance sheet
- a financial results report
- a fixed assets report
- a movements in fixed assets report
- a cash flow report
- a capital report, and
- supporting notes, calculations, and descriptions.

The Ministry of Finance defines the structure and contents of financial reporting. Financial reports must be submitted to (Article 19):

- Tax agencies
- Owners on the basis of the organization's founding documents
- Government statistics agencies, and
- Other agencies according to regulations.

In accordance with Article 20, financial reports should be available to banks, stock exchange, investors, creditors, and others. Open joint-stock companies, insurance companies, banks, stock and commodity exchanges, investment funds and other financial institutions, must publish their financial reports on an annual basis after the auditors have confirmed the reliability of these reports, by May 1.

#### **4. Law on Auditing 2000**

This law was developed with USAID assistance and was passed on 26 May 2000 and governs auditing activities (attest audits, performance audits, and associated services); procedures for bank auditing are the

responsibility of the Central Bank. The law prohibits government organizations and committees from conducting audits.

An auditor is an individual who has qualified and been certified as an auditor. A person can conduct audit activity if they are a staff member or contractor of an audit organization. Auditing organizations are legally liable for the quality of their work and the accuracy of their opinions (Article 3).

Audit firms can adopt a variety of legal forms, including partnerships and limited-liability companies. An audit firm must employ at least two auditors, and the chief of the audit organization must be a certified auditor. Audit organizations must be registered with the Ministry of Justice, which maintains an official register of audit organizations. Audit firms can conduct audits within the limits of their professional indemnity insurance (Article 5).

Article 6 sets out the following auditor rights and powers:

- to access information
- to receive explanations as necessary
- to receive information from third parties, and
- to withdraw from the audit if requested information is not provided.

Article 7 sets out the following auditor obligations:

- to retain confidentiality
- to provide adequate feedback on findings and recommendations, and
- to report irregularities to the head of the organization being audited.

Article 9 defines an audit as being the inspection of the activities and position of a legal entity with the intention of forming an opinion as to the truth and fairness of the entity's financial statements.

Article 10 states that the following organizations must be audited on an annual basis:

- Joint-stock companies
- Banks and other credit-issuing organizations
- Insurance organizations
- Investment funds
- Charities and other organizations that receive charitable donations
- Funds that are financed from compulsory contributions (e.g. earthquake funds)
- Entities that are partially owned by the Government

Entities are responsible for audit fees. Shareholders are responsible for selecting the audit organization. Organizations are prohibited from pressuring or interfering with the audit organization, or from any actions that compromise the independence of the audit (Article 14).

Article 16 prescribes the code of conduct for auditors as regards conflict-of-interest situations and sets out situations that would constitute such a conflict.

Article 17 allows the firm conducting the audit to also provide services in relation to bookkeeping, financial statement preparation and other issues.

Article 18 defines the audit report as being a document addressed to the chief of the organization, owners, and shareholders containing detailed information on the audit inspection process, issues in relation to bookkeeping and accounting practices, financial reporting violations, and any other information received during the audit. The report must contain recommendations on addressing deviations and violations, and proposals for improving the operational financial and economic performance of the entity. This information is confidential and does not have to be distributed. The form and content of the audit report is determined by national audit standards.

Article 19 defines the audit conclusion as a document that provides an opinion on the authenticity of the financial statements and whether they comply with legal requirements. The conclusion is based on the audit report. The form and content of the audit conclusion is determined by national audit standards.

Article 20 states that the auditor's license will be revoked in the case of substandard audit procedures. Article 21 states that audit licenses are issued by a specially authorized state agency which also:

- designs and approves norms regulating audit activities including national audit standards
- controls compliance of auditing organizations with their licensing agreement
- sets qualification requirements for candidates to be qualified as auditors
- approves educational programs and the framework of examinations
- conducts exams
- revokes, terminates audit licenses, and publishes information in the media about suspension or termination of audit licenses
- issues, suspends, and revokes qualification certificate, and

- maintains a register of qualified individuals and licensed organizations.

The process for issuing auditing licenses is subject to the approval by the Cabinet of Ministers. Articles 22-26 set out procedures for suspending and terminating audit licenses and qualifications.

Article 27 provides for the establishment of the Republican Public Union of Auditors, which is to be a nongovernment, noncommercial organization that unifies auditors on a voluntary basis. The objective of the Union is to assist in the development and support of professional auditors, defend their professional interest.

The Union of Auditors:

- participates in the design and approval of the curriculum, and structure of the qualifying examinations
- conducts the qualifying exams, and
- designs and prepares proposals on improving audit legislation.

## **5. Other Relevant Legislation**

### **The Constitution of the Republic of Uzbekistan 1992**

The Constitution sets out the following rules in relation to financial management and governance:

- The Republic of Uzbekistan has its own financial and monetary credit system. The State Budget of the Republic of Uzbekistan includes the Republican budget, the Budget of the Republic of Karakalpakstan, and local budgets [Chapter 25, Article 122].
- There is only one taxation system in the Republic of Uzbekistan. The right to establish taxes belongs to the Parliament of the Republic of Uzbekistan [Chapter 25, Article 123].
- The banking system is headed by the Central Bank of the Republic of Uzbekistan [Chapter 25, Article 124].

### **Law on the Central Bank 1995**

The legal status, objectives, functions, authorities, organizational and operational principles, of the Central Bank are determined by the Constitution together with this law and other relevant laws. This law defines the Central Bank as a self-sufficient and independent organization, and as a legal entity wholly owned by the Government.

### Law of Budget Principles 1988

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 but was not approved by the Government or the Parliament. With the exception of revenue classifications, which have been largely updated to international standards, the budget classifications currently used represent a modification of the classifications used when Uzbekistan was part of the Soviet Union.

### Taxation and Customs Legislation

Taxation and customs legislation includes:

- *Law on Customs Tariffs 1997*
- *Law on Fines for Overdue Taxes 1995*
- *Law on Government Duties 1992*
- *Law on State Taxes and Duties 1992*
- *Law on the Government Tax Office 1997*

### Law on Banks and Banking Activity 1996

With the adoption of the *Law on the Central Bank and on Banks and Banking Activity*, in December 1995 and April 1996 respectively, Uzbekistan created a two-tier banking system. The responsibilities of the Central Bank are clearly defined and include control over money supply and circulation as well as licensing, regulating and supervising commercial banks.

### Law on Enterprises 1991

This law defines the legal, economic, and social bases of creation, activity, reorganization and liquidation of enterprises in all forms. The law sets out the responsibilities, rights, and relationships of profit-making enterprises. It covers State enterprises as well as private enterprises. The law sets out the creation of an enterprise’s charter in which the following issues are defined: enterprise details (name, etc), purpose and activities, management bodies, profit distributions, and reorganization and discontinuance.

The law states that the officials of the enterprise are responsible for financial record-keeping and are subject to civil or criminal liability in cases of distortion (Article 33). The law also contains auditing provisions, e.g., audits can be conducted at the initiative of the

enterprise's owners with audit expenses being borne by the enterprise (Article 36).

#### Law on Business Companies and Partnerships 1992

This Law sets out the organization and functioning of business companies and partnerships (including State enterprises). The following articles and provisions are particularly relevant to financial management and governance:

- Participants (owners) have the right to receive information about company activities including: bookkeeping data, financial information and other records (Article 2)
- The financial reports of limited liability companies must be approved at Annual General Meetings (Article 18[2])
- The English translation of this law makes extensive reference to the "Auditing Commission" (see, for instance, Article 18), however in this sense, the Auditing Commission is akin to a Board of Directors.

#### Law on Bankruptcy 1998

This law governs the process of bankruptcy of legal and natural entities. It does not apply to state enterprises, budgetary organisations, or budgetary funds.

#### Law on Nongovernmental and Noncommercial Organizations 1999

This law regulates the activities of nongovernmental and noncommercial organizations, including international organizations, representatives, and subsidiaries of overseas organizations.

#### Law on Joint Stock Companies and Protection of Shareholder Interests 1996

This Law governs the creation, activities, and liquidation of joint-stock companies. It includes provisions on the protection of shareholders rights. The law specifies treatment of the creation and legal position of joint-stock companies in the agricultural, banking, investment, and insurance sectors. It also specifies privatization arrangements for State enterprises.

Under the law, joint-stock companies can either be open or closed. Open companies are allowed to issue shares to the public. When selling

their shares, the shareholders of open companies are not required to first offer their shares to existing owners.

The duties of Accounting Commissions involve voting issues (e.g., vote counting – Article 73).

Section XI describes accounting and reporting provisions that include:

- The reliability of annual report data is the responsibility of the Auditing Commission
- The company must make arrangement for an independent audit to be conducted of annual report data before publication
- Specified documents, including annual reports, are to be made available to shareholders (on payment of fee).
- Annual report data must be published in the media
- Auditors are appointed at the Annual General Meeting.

#### Other Laws

Other laws that are relevant to financial management and governance include:

- Law on Leases 1991
- Law on Stock Exchange and Its Activities 1992
- Law on Securities and Stock Exchange 1993
- Law on the Mechanisms and Functioning of the Securities Market 1996
- Law on Entrepreneurship and Guarantees of the Entrepreneurs Activities 1999
- Law on Insurance 1993