



# Technical Assistance Consultant's Report

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## Regional Technical Assistance: Strengthen Financial Disclosure by Facilitating Transition to International Accounting Standards

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**Asian Development Bank**

## ABBREVIATIONS

AAMD	–	Accounting and Audit Methodology Department
ACAA	–	Association of Certified Accountants of Azerbaijan
ADB	–	Asian Development Bank
APD	–	Accounting Policy Department
ARAMD	–	Accounting, Reporting and Audit Methodology Department
CIPA	–	Certified International Professional Accountant
CoPAA	–	Chamber of Professional Accountants and Auditors
E&Y	–	Ernst and Young
EU	–	European Union
IAS	–	international accounting standards
IASB	–	International Accounting Standards Board
IASCF	–	International Accounting Standards Committee Foundation
IFRS	–	international financial reporting standards
IPSAS	–	International Public Sector Accounting Standards
JSC	–	joint stock company
KASE	–	Kazakh Stock Exchange
KazAS	–	Kazakh accounting standards
KgzAS	–	Kyrgyz accounting standards
MOF-AZE	–	Ministry of Finance of Azerbaijan
MOF-KGZ	–	Ministry of Finance of the Kyrgyz Republic
MOF-KAZ	–	Ministry of Finance Republic of Kazakhstan
MOF-TAJ	–	Ministry of Finance Republic of Tajikistan
PIE	–	public interest entities
PWC	–	PricewaterhouseCoopers
SCFAA	–	State Commission on Financial Accounting and Auditing
TA	–	technical assistance

## NOTES

In this report, "\$" refers to US dollars.

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## EXECUTIVE SUMMARY

### Tasks Achieved

The Technical Assistance (TA) for Regional Financial Sector Development was designed for implementation in five countries in Central Asia and the Caucasus. It was comprised of three components, each of which was implemented separately. The report following is for the component: 2. Strengthen Financial Disclosure by Facilitating Transition to International Accounting Standards (IAS). This component was implemented during the period June 2004 through September 2005 in four of the five countries specified in the TA implemented activities in this component. The following section is a summary showing that all tasks were achieved although implementation varied by country. This summary is arranged to show tasks achieved by country with the exception of the first task. The body of the report describes tasks achieved arranged by individual task.

**Regional Workshops.** The project sponsored two regional workshops: the first on 14-15 October 2004 in the Kyrgyz Republic and the second on 2-3 May 2005 in Azerbaijan. One representative from each of three groups that play a key role in accounting reform in each country made up the core group of participants. The core groups represented were: (i) the accounting policy or methodology department of the ministries of finance of the participating countries responsible for implementing International Financial Reporting Standards (IFRS); (ii) the division of tax responsible for business taxation; and (iii) professional organizations for accountants and auditors. Selected representatives from other financial market regulators were invited as funds permitted. The domestic accounting experts (consultants) from each country recruited under the TA and the international accounting standards expert informed participants on current trends and topics relating to adoption of IFRS. Representatives of the major international auditing firms provided insights on IFRS implementation issues. Participants were given an opportunity to share their experiences and discuss challenges. Results of the workshop increased interest in IFRS implementation, enhanced cooperation among the core group within each country, access to current information on IFRS, sharing of implementation guidelines between countries, cooperation between professional associations, and implementation of knowledge gained at the workshop. The proceedings of both workshops were published and distributed widely to government, universities, businesses and accounting organizations.

**Country Specific Activities and Outputs in Azerbaijan.** The TA in cooperation with the Accounting Policy Department (APD) of the Ministry of Finance of the Republic of Azerbaijan Republic (MOF-AZE) surveyed large joint stock companies (JSCs) to ascertain their readiness to implement IFRS. The results of the survey indicated that JSCs in Azerbaijan were not prepared for transition to IFRS because of lack of knowledge of IFRS, accountants without training in how to implement accounting treatments required by IFRS, lack of current Russian, Azeri or Turkish language translations of IFRS, and lack of incentive to prepare financial reporting consistent with international standards. The survey informed APD of the vital need to provide information on IFRS in the local language and train accountants in how to use it prior to requiring conversion to IFRS.

APD was assisted in developing plans for alleviating impediments to successful implementation of IFRS by providing recommendations based on international best practices. These plans were suggested for inclusion in the Accounting Reform Action Plan of MOF-AZE.

The TA assisted a pilot enterprise to implement IFRS on a limited basis. The chart of accounts, bookkeeping guidance and conversion methodology developed in the pilot conversion will be used by APD in developing official guidance to be issued prior to requiring adoption of IFRS.

Two five-day workshops were conducted to train accountants from the capital city and one southern region of Azerbaijan in practical application of IFRS. 40 participants from 33 JSCs likely to be among the first companies required to implement IFRS were trained. The training included introduction of the accounting law, IFRS, and practical training in how to apply six core IFRS. The curriculum included case studies based on the pilot IFRS implementation above. Feedback from the training will be used by APD in designing workshops to be offered on a countrywide.

**Country Specific Activities and Outputs in Kazakhstan.** The primary focus of the TA in this country was to assist the Accounting and Audit Methodology Department (AAMD) of the Ministry of Finance of the Republic of Kazakhstan (MOF-KAZ) to develop IFRS implementation guidelines. This activity included training AAMD staff in IFRS, reviewing and editing methodological recommendations on individual IFRS, drafting methodological recommendations and coordinating review of the drafts by international auditing firms and the Expert Council. At the end of TA activities, 31 methodological guidelines had been developed. Of these 16 had been approved and issued. An additional 15 were in the process of review. Guidelines were provided to be used in drafting of three additional recommendations. Arrangements had been made with the Chamber of Professional Accountants and Auditors (CoPAA) to review and assist in drafting additional recommendations. Assistance was also provided for several other guidance documents issued by MOF-KAZ.

In addition to the primary activity above, the TA assisted the CoPAA to survey JSCs, and local audit firms to assess readiness to implement IFRS. Although there were few responses to the survey, the results indicated that JSCs were not prepared for full transition to IFRS. It underscored the urgent need for MOF-KAZ to issue implementation guidelines as well as the need for accountant training.

The international consultant developed a list of considerations/suggestions (or “roadmap”) for successful implementation of IFRS for Kazakhstan based on international best practice. This listing included steps necessary to overcome the obstacles to sustainable implementation of IFRS as well as a timetable that corresponded to the MOF-KAZ action plan adopted prior to TA implementation. Several of the suggestions that had not been included in the action plan were implemented before the end of the TA.

In cooperation with CoPAA one three-day seminar was conducted in the northeastern part of Kazakhstan to train accountants from JSCs and staff of the regional tax department in current IFRS. The seminar emphasized the differences between current IFRS and Kazakh Accounting Standards (KazAS) and the changes necessary for implementing IFRS. 31 accountants from 24 JSCs, 11 regional staff department staff, and three employees of the regional Committee on State Property and Privatization were trained. The goals of the training were three-fold: to educate accountants in current IFRS and how it differs from KazAS, to provide a forum for interchange among accountants, AAMD staff and tax department staff. Feedback obtained from the accountants was used by AAMD in designing specifications for regional trainings to be conducted later in the year.

**Country Specific Activities and Outputs in the Kyrgyz Republic.** The primary focus of TA activities in the Kyrgyz Republic was to cooperate with the State Commission on Financial

Accounting and Auditing (SCFAA) under the Government of the Kyrgyz Republic to train accountants from JSCs in regions outside of Bishkek, especially the regions in the south, to implement IFRS. All of the training activities were directed to JSCs that were still using Soviet based accounting rules rather than Kyrgyz Accounting Standards (KgZAS) based on IAS. As such, the regional TA continued the efforts made under previous ADB TA in supporting the IFRS transition of commercial banks, listed companies, and other large companies in and around Bishkek, all of which had already adopted KgZAS.<sup>1</sup> Four 10-day training workshops were conducted under the regional TA. Three were in the south, one in the central region. In total, 142 accountants from 134 JSCs were trained. 16 tax inspectors and four SCFAA staff members also participated in the trainings. Training materials developed under the previous ADB TA were revised and updated throughout the duration of the regional TA. Practical applications and case studies were emphasized.

An informal survey was made of two of the companies that had been trained under the previous TA (Footnote 1) and had begun conversion to IFRS. The information obtained from these two companies was used to revise the workshop materials used. In addition, at the request of SCFAA, information about current accounting practices was collected via questionnaire distributed to accountants attending the workshops. The information was transmitted to SCFAA after the respective workshops.

The SCFAA experienced a change in leadership during the course of the TA as a result of the political changes that occurred in the Kyrgyz Republic in 2005. As a result, the SCFAA did not develop an action plan to alleviate obstacles to sustained implementation of IFRS. The project assisted SCFAA to partially relieve some of the obstacles through wide spread distribution of the proceedings of the two regional workshops, involvement of tax inspectors in three of the four workshops for accountants and promoting IFRS adoption in mass media.

**Country Specific Activities and Outputs in Tajikistan.** The Ministry of Finance of the Republic of Tajikistan (MOF-TAJ) has designated 29 “pilot” companies to be the first to implement IFRS. The TA surveyed 34 enterprises that were either pilot enterprises or their subsidiaries to assess readiness to implement IFRS. The survey was conducted by on-site visits to the companies or telephone inquiry. The results of the survey were shared with the Department on Accounting, Reporting and Audit Methodology (ARAMD) of MOF-TAJ. The report on the survey was then reported to the MOF-TAJ and later to the Presidential Administration.

The TA assisted ARAMD in drafting and issuing nine methodological recommendations on individual IFRS, instructions for how to complete the new forms for financial statements, and the methodological recommendations for developing enterprise accounting policy. It was possible to draft the nine guidance documents on individual IFRS under the TA, because AAMD of MOF-KAZ shared their guidance documents with ARAMD as a result of the first regional workshop.

Three 60-hour workshops were conducted for accountants in Tajikistan, two of which were held in the northern part of the country and one in Dushanbe. A total of 87 accountants from 45 companies, all of which were either pilot enterprises or their subsidiaries, were trained.

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<sup>1</sup> ADB. TA 3779-KGZ: Strengthening Corporate Governance and Judicial Reforms. ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Kyrgyz Republic for the Second Phase of the Corporate Governance and Enterprise Reform Program.* Manila.

A number of accountants from various government agencies also attended the training. Two professional organizations of accountants cooperated in designing and undertaking the workshops. The workshops emphasized practical application of IFRS by including exercises and conversion case studies.

## **Recommendations**

The following recommendations are intended to further facilitate transition to IFRS in the participating country:

- (i) The governments of the participating countries should support additional regional workshops on accounting reform to facilitate exchange of information between countries transitioning to IFRS. It would be advantageous to continue to build on the relationships established in the two regional workshops undertaken under the TA. If resources are not available donor support should be sought.
- (ii) The audit profession should be developed to international standards of quality. Compliance with IFRS can be determined only by an audit of financial statements undertaken by knowledgeable auditors in compliance with international standards on auditing. The education, licensing and practice monitoring of auditors in each country should be evaluated for compliance with international best practices. Deficiencies should be remedied. The international donor community should support development of the profession if the government in cooperation with professional associations in each country does not have sufficient resources to do so.

## **Azerbaijan**

- (i) The draft action plan for accounting reforms should be formalized as soon as possible, establishing clear priorities and a reasonable timetable for implementation.
- (ii) MOF-AZE is strongly encouraged clarify exactly what is meant by the specification "from January 1, 2008" in the law requiring IFRS reporting and should promptly communicate this information to avoid confusion that would impede proper implementation of IFRS.
- (iii) MOF-AZE is recommended to begin introductory training for accountants on requirements of the new accounting law and principles of IFRS as soon as possible, including conducting trainings in the regions in Azeri or Russian language as appropriate.
- (iv) MOF-AZE should follow the initial trainings with practical trainings in how to implement IFRS in enterprises. Training materials should be developed in cooperation with the Association of Certified Accountants and Auditors of Azerbaijan (ACAA) and other professional associations using the core materials developed in the project and incorporating MOF-AZE guidance documents and revised source documents as they are approved.
- (v) MOF-AZE should anticipate problems that will occur between financial and tax reporting when IFRS (or national accounting standards based on IFRS) are

implemented by working with Ministry of Taxes to develop financial/tax reconciliation procedures. Once the reconciliation mechanisms are developed, trainings of tax officials, accounting and audit consultants, and enterprise accountants should be conducted throughout the country.

- (vi) MOF-AZE should explore providing direct consultation in implementation of IFRS in pilot public interest entities (PIEs). If sufficient resources are not available, donor assistance should be sought.
- (vii) Professional associations like ACAA should be encouraged to publish a periodical accounting bulletin emphasizing IFRS conversion in order to educate and inform accountants.

## **Kazakhstan**

- (i) The professional organizations in Kazakhstan should be encouraged to poll their members on IFRS conversion issues throughout the implementation period so that knowledgeable professionals can publish timely articles on how to resolve specific implementation issues.
- (ii) MOF-KAZ is encouraged to revise the action plan for implementation of IFRS incorporating suggestions included in the roadmap for successful IFRS implementation which was prepared under the TA, taking care to establish a realistic and achievable timetable.
- (iii) MOF-KAZ should establish and publish a model chart of accounts as soon as possible. If MOF-KAZ decides not to recommend a chart of accounts, it should publicize that fact so that professional organizations like the CoPAA can publish model charts of accounts for companies to use. Without concrete guidance on charts of accounts, enterprise accountants will be very unlikely to fully adopt IFRS.
- (iv) MOF-KAZ should provide further training in IFRS to government staff, especially in AAMD. If rules regarding tender process make contracting for high quality training difficult, MOF-KAZ should request donor aid for such training.
- (v) MOF-KAZ should make the process of IFRS conversion guidance more transparent to the accounting community by publishing clear information on what specific IFRS guidance will be issued and targeted release dates as well as IFRS reporting deadlines. The schedule could be published on the MOF-KAZ website. Without information on what guidance will be issued when, enterprise accountants tend to postpone implementation of IFRS.
- (vi) In order to facilitate prompt transition to IFRS, MOF-KAZ should begin practical training in how to implement IFRS for enterprise accountants in the regions of Kazakhstan as soon as possible. The training schedule should be planned so that it harmonizes with existing reporting deadlines for JSC accountants.
- (vii) After the initial training workshops recommended above, MOF-KAZ is encouraged to facilitate roundtables for enterprise accountants and auditors

during the period of transition. The roundtables could be modeled after the roundtables conducted in the Kyrgyz Republic under TA 3997-KGZ (Footnote 1).

### **Kyrgyz Republic**

- (i) SCFAA should establish a plan for addressing the remaining obstacles to effective implementation of IFRS incorporating an achievable timetable. Where necessary, the SCFAA should cooperate with other agencies and organizations (e.g. the Committee for Revenue under the Government and professional organizations) in establishing the plan.
- (ii) SCFAA should cooperate with professional associations of accountants to develop a plan for issuing and maintaining current guidance for implementation of IFRS to commence when the Russian translation of IFRS becomes available.
- (iii) SCFAA should establish a training program for staff members to upgrade their accounting skills and keep them current on IFRS. If sufficient resources are not available, donor assistance should be sought.
- (iv) SCFAA should continue to provide workshops like those undertaken under the TA in other regions of Kyrgyz Republic using lessons learned, training curriculum and materials developed in Task E, updating them when necessary for changes to IFRS. The workshops may need to be offered in Kyrgyz language as well as Russian. If SCFAA does not have adequate resources to provide this training, donor assistance should be sought.
- (v) SCFAA should conduct follow-up roundtables for accountants from companies after those companies begin the process of implementing IFRS. These workshops would provide needed guidance to ensure that IFRS accounting treatments are applied correctly to promote transparency in reporting under IFRS. If SCFAA does not have adequate resources to provide this training, donor assistance should be sought.
- (vi) SCFAA should establish a website or call-in center to answer questions from companies during the transition period. Ideally this service would be coordinated with associations of accounting and auditing.
- (vii) Once JSC accountants begin to use IFRS based accounting treatments they need practical training in management accounting in order to correctly account for costs of providing goods and services. This is especially true for those companies transitioning from the old Soviet based system of accounting. Accurate accumulation and reporting of costs of production, sales and services lead to better management and enhance sustained use of IFRS. SCFAA staff does not have the ability to provide this training. Cooperation with professional organizations and donor assistance is required. The training could be based on the successful management accounting training developed and conducted under ADB TA in Mongolia.<sup>2</sup>

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<sup>2</sup> ADB. 2003. *Technical Assistance for the Republic of Mongolia for Capacity Building for Accounting and Auditing Professionals*. Manila.

## Tajikistan

- (i) In order to achieve successful implementation of new standards, MOF-TAJ should extend the deadline for implementation in the pilot entities until 2007. Results of the survey of the pilot entities indicate that companies are not prepared to implement IFRS.
- (ii) When the Russian language translation of current IFRS becomes available, in advance of the results of implementation of IFRS in the pilot enterprises, MOF-TAJ should establish a detailed action plan for implementation of IFRS. The plan should include a strategy with achievable target dates for translation of IFRS into the Tajik language, mechanisms for keeping IFRS current, reconciliation mechanisms for financial and tax reporting, and other items included in the “roadmap” developed for Kazakhstan.
- (iii) MOF-TAJ should continue to develop and issue IFRS implementation guidance. If MOF-TAJ does not have the resources necessary to develop the guidance documents, donor assistance should be sought.
- (iv) MOF-TAJ should establish a timetable for issuing guidance for implementing IFRS and communicate the timetable to companies required to implement IFRS.
- (v) MOF-TAJ should establish a plan for training ARAMD staff in IFRS. Such training will likely require donor assistance. If the education and experience of the staff is not sufficient to benefit from the training, every effort should be made to attract staff with a higher level of knowledge and experience.
- (vi) MOF-TAJ should cooperate with professional accounting associations to provide training workshops for accountants in pilot enterprises, especially for enterprises in the areas not included in the Dushanbe and Khujand workshops. The schedule for workshops should include both introductory workshops modeled after the workshops offered in this project and a second round of workshops and roundtable discussions. Whenever feasible, representatives of the tax authority should be invited to participate in either the workshops or roundtables. Since it is unlikely that MOF-TAJ will have sufficient resources to sponsor further training workshops, donor assistance should be sought.
- (vii) Professional accounting associations should be encouraged to establish web sites to provide on-line information on IFRS and advisory services to accountants in close cooperation with MOF-TAJ. If the associations do not have sufficient resources to establish and maintain such a web site, donor support should be sought.

## **I. INTRODUCTION**

1. The single most important constraint to financial sector development in the transition economies in Central Asia and the Caucasus is the small size of the economies. To overcome this constraint, the CACs must integrate their financial markets with each other or larger countries. Although this goal is not achievable in the near future, progress can be made towards integration by harmonizing standards and regulations according to international best practices. To that end, the technical assistance (TA) was designed to assist Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan to harmonize and strengthen (i) banking sector regulation with regards to risk management, (ii) financial disclosure standards, and (iii) the regulatory framework for corporate governance. This report deals with the component of the TA on financial disclosure standards.

2. In the area of financial disclosure, the international benchmark is international financial reporting standards (IFRS) previously called international accounting standards (IAS) as promulgated by the International Accounting Standards Board (IASB). Although training activities for accountants organized and funded by various donor organizations have been conducted in the countries in this region over the past eight years, most large and medium-sized companies have not yet implemented IFRS even in those countries that have allowed implementation. TA activities were tailored to promote concrete implementation of IFRS in a number of companies in the participating countries. Activities relating to strengthening disclosure standards under this TA were begun during June 2004 in two of the five countries, namely Kazakhstan and the Kyrgyz Republic. Activities in Azerbaijan and Tajikistan were initiated in September 2004. After considerable interest during fact-finding for the TA, Uzbekistan declined to participate in the implementation of the TA for unspecified reasons.

## **II. OBJECTIVE AND SCOPE**

3. The goal of the assistance provided by this component of the TA was to strengthen financial disclosure by facilitating transition to IAS or IFRS. In each country, the respective state body in-charge-of accounting standards was the implementing agency for the TA. The terms of reference for the assistance allowed for flexibility in approach and execution in each of the four countries, according to their needs and priorities. To ensure relevance of the TA, most TA outputs should be country-specific.

4. Two regional workshops were held for key regulators and professional associations involved in introducing IFRS from all four countries. The first was held in October 2004 at Lake Issyk-kul in the Kyrgyz Republic; the second was held in May 2005 in Baku, Azerbaijan. The goal of the regional workshops was to promote sharing of experience in implementing IFRS and the steps each country is taking to promote conversion to IFRS and sustain its IFRS in joint stock companies (JSCs). The workshops also provided an opportunity for the project team to inform the participants on current issues relating to IFRS and international best practices. Published proceedings from each of the two workshops were used to educate interested parties in each country on IFRS and implementation issues.

5. In three of the four countries, JSCs were surveyed in order to inform the agency responsible for implementing IFRS about the accounting practices in current use at JSCs and readiness to convert to IFRS. The information obtained functioned also to underscore the need for practical training workshops for JSC accountants and facilitated tailoring of the workshops to the specific needs of the trainees in each country.

6. The government agencies responsible for implementing IFRS in each country were aware of factors that constrained adoption of IFRS in JSCs. The survey highlighted some of these constraints, as did information obtained at the regional workshops and from accountant workshop trainees. The project team developed a “roadmap” detailing common constraints to adoption and sustained use of IFRS and circulated it to the government agencies. All countries implemented some of the recommendations in the “roadmap”. The implementing agency in one country used the “roadmap” as a guideline for making recommendations to MOF in designing the formal IFRS implementation plan.

7. The project team provided assistance to the government agency responsible for implementing IFRS in developing specific guidance documents incorporating international best practices for converting to and using IFRS for financial reporting in three of the four countries. The documents contained specific recommendations for how to apply the accounting treatments necessary for reporting economic activity using IFRS. Developing these guidance documents was the primary focus for the project in one of the countries.

8. Workshops for accountants from JSCs were conducted in all four countries. The workshops focused on how to implement IFRS and to apply accounting treatments consistent with IFRS reporting. Government guidance documents and forms were used in the workshops emphasizing practical applications.

### III. PROJECT TEAM

9. The team for the accounting component of the TA consisted of one international accounting standards expert (team leader) and four domestic accounting experts. Their responsibilities are provided below.

10. The contract of the international accounting standard expert recruited under the TA commenced on 15 June 2004 for a period of five months work on an intermittent basis through 30 June 2005. During that period the consultant made three trips to the region as follows:

21 June 2004 – 15 July 2004	Inception in Kazakhstan and the Kyrgyz Republic
8 September 2004 – 19 October 2004	Inception in Tajikistan and Azerbaijan Field work in Kazakhstan and the Kyrgyz Republic First Regional Workshop in the Kyrgyz Republic
7 April 2005 – 15 May 2005	Field work in Kazakhstan, Tajikistan and Azerbaijan Second Regional Workshop in Azerbaijan

11. The consultant engaged in planning and supervision over the life of the project from her home office in the United States. Activities were extended in all four countries and required more time than originally planned. The consultant’s contract was extended for an extra two-week period.

12. The terms of reference of the consultant included:

- (i) Survey compliance of major non-financial joint-stock companies (JSCs) with IAS or IFRS. Take into account the findings of ADB TA (Footnote 1)]. JSCs should be selected in cooperation with the regulatory body and after agreement through ADB based on information about the total population of JSCs and criteria such as compliance/noncompliance with requirements for accounting standards, size, branch, potential for listing or sale to foreign investors, etc.

- (ii) Identify constraints that prevent major non-financial JSCs from converting to or sustaining compliance with IAS, and propose measures for the regulator to overcome these constraints.
- (iii) Help the body that monitors compliance with IAS or IFRS in each country select JSCs that could be converted to IAS.
- (iv) Prepare and undertake two regional workshops for regulators to share experiences in conversion to IAS and steps to promote and sustain compliance with IAS or IFRS.
- (v) Guide local consultants in drafting IAS or IFRS introduction guidelines (conversion manuals) that incorporate international best practices, and give detailed guidance on how to use local documents, journals, and ledgers to record and report enterprise activity in IAS-compliant financial statements, and thereby implement conversion to IAS. Take into account manuals on some accounting standards in similar countries, in particular those developed in the Kyrgyz Republic under previous ADB TA (Footnote 1)
- (vi) Guide the work of local consultants in undertaking country-by-country workshops that support conversion to IAS in selected JSCs. In designing the workshops take into account TA output mentioned in (v).

13. The domestic accounting standard expert for Azerbaijan was the last to be recruited under the TA. Fortunately he had attended the first regional workshop representing the Association of Certified Accountants and Auditors of Azerbaijan. Therefore, the consultant was familiar with the project and had met the other project team members. The consultant began work on 15 December 2004. His original contract was for 5.5 months on an intermittent basis through 31 May 2005. The second regional workshop was held in Azerbaijan and entailed a considerable commitment of his time. At the request of APD of MOF-AZE, the contract of the consultant was extended by an additional person-month (total 6.5 person-months) through 31 August 2005. APD provided office space and equipment to the consultant.

14. Responding to an urgent request for assistance from MOF-KAZ, efforts were made to recruit two domestic consultants to work in Kazakhstan. One candidate was successfully recruited in June 2004. Efforts to recruit a second candidate continued until early 2005 but no qualified and available candidates were found, thus making it necessary to revise the activities planned and to extend the contract for the single consultant in Kazakhstan. The domestic consultant's contract was originally for seven months beginning 1 July 2005. At the request of MOF-KAZ his contract was extended by an additional four person-months (total eleven person-months on an intermittent basis) until 31 July 2005.

15. The consultant worked in two locations: AAMD in Astana and in Almaty. Although Astana is the capital of Kazakhstan, the financial center of the country is Almaty making it necessary for the consultant to work in both cities. MOF-KAZ provided office space and equipment for the consultant in Astana. Since he was working in two cities, a laptop computer was procured under the TA for his use. The computer was turned over to AAMD of MOF-KAZ at the conclusion of his contract. The Chamber of Auditors of RK made office space available to the consultant when he was in Almaty, which facilitated collaboration with this professional association.

16. The domestic consultant recruited in the Kyrgyz Republic under the TA had worked before under another ADB TA (Footnote 1) conducting trainings in practical application of IFRS. She began work under the regional TA 1 July 2005. Her original contract was for seven person-months of work on an intermittent basis through 31 March 2005. The first regional workshop

under the TA was held in the Kyrgyz Republic and required weeks of preparatory work for the domestic consultant. In addition, project activities were expanded by request of SCFAA to include four country-specific workshops for accountants. At the request of SCFAA, the contract of the domestic consultant was extended by 3.5 person-months (total 10.5 person-months on an intermittent basis) until 31 December 2005. SCFAA was unable to provide office space or equipment to the consultant. Therefore, she used her home office.

17. The domestic consultant from Tajikistan was recruited prior to the first regional workshop and was able to attend this workshop in the Kyrgyz Republic. Her contract began 1 October 2005 for seven person-months on an intermittent basis until 15 May 2005. ARAMD of MOF-TAJ requested three country-specific training workshops for accountants to be conducted. The contract of the consultant was, therefore, extended for an additional person-month (total eight person-months on an intermittent basis) until 31 July 2005. ARAMD was unable to provide office space or equipment to the consultant. The consultant, therefore, made arrangements for workspace at the offices of the Association of Teachers of Accounting, which facilitated cooperation with this professional association.

18. Terms of reference for domestic consultants specified: The experts will be guided and supervised by the international accounting specialist and will closely cooperate with the international consultant and agencies in charge of introducing international accounting standards.

#### **IV. FRAMEWORK**

19. All four participating countries were in the process of transition to IFRS. However, the particulars of transition are country-specific. This section of the report is designed to provide a brief overview of IFRS transition in each country.

##### **A. Azerbaijan**

20. Although Azerbaijan achieved independence from the Soviet Union in 1991, economic progress was delayed because of conflicts with Armenia during the early years of independence. In the area of financial reporting, Azerbaijan did not follow the practice of many of the countries of the former Soviet Union in adopting accounting and reporting standards based on IAS but continued with a system that remains based in large part on the former Soviet system.<sup>1</sup>

21. During an 18-month period in 2003-2004 a project funded under the TACIS program of the European Union (EU) on Introduction of International Accounting Standards worked to assist MOF-AZE to introduce IFRS in Azerbaijan. With the assistance of the TACIS project, Azerbaijan drafted and adopted a new accounting law in 2004 (Appendix 1) requiring IFRS for public interest entities beginning no later than 2008.

22. The law specifies a three-tier system for financial reporting for commercial enterprises:

- (i) "Public interest entities" (PIEs), including certain financial entities, companies issuing securities on the stock exchange ("listed" companies), and commercial organizations that meet thresholds for income, number of employees or total assets will be required to implement IFRS from January 1, 2008. The full list of PIEs has not yet been determined. A list of "pilot" PIEs was specified by

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<sup>1</sup> Diagnostic Study of Accounting and Auditing Practices in Azerbaijan prepared under ADB RETA 5980, 2002.

resolution of Cabinet of Ministers in July 2005. These entities will be required to convert to IFRS prior to January 1, 2008. This list is in Appendix 2.

- (ii) Other commercial enterprises will be required to follow national accounting standards by 2008.
- (iii) Small enterprises will be required to follow simplified accounting rules for small enterprises by 2006.

23. Reporting requirements for non-commercial organizations are also covered in the law, following a regulatory framework based on international public sector accounting standards (IPSAS).

24. The new accounting law stipulates that the relevant state body (assumed to be the MOF) is responsible for:

- (i) organizing translation of IFRS into the Azeri language. The translation should be sanctioned by the International Accounting Standards Committee Foundation (IASCF);
- (ii) developing and approving national accounting standards, regulatory guidelines, and rules for bookkeeping;
- (iii) cooperating with IASB to keep national accounting standards up to date, reflecting changes in IFRS;
- (iv) developing and approving simplified accounting rules; and
- (v) cooperating with the professional accounting organizations in order to improve the national accounting system.

25. The law also provides the basis for an Advisory Council for Accounting with the main function to advise MOF-AZE. The council, which established in August 2005, consists of representatives of state authorities, commercial and non-commercial organizations, accounting profession, and educational institutions. The list of the council members is in Appendix 3. MOF-AZE is required to consult with the Advisory Council on all significant issues relating to accounting standards and requirements.

26. Accounting and reporting requirements for banks and financial institutions are determined by the National Bank of Azerbaijan. IFRS reporting has been required for these entities beginning in 2004.

27. The three-tier system for financial reporting addresses the needs of various sized businesses but requires development of national accounting standards consistent with IFRS. This is a time consuming process. The EU TACIS project assisted in development of eight core standards. Additional EU TACIS and World Bank projects are assisting in development of the remaining standards.

## **B. Kazakhstan**

28. Kazakhstan began transition to IAS in 1995 when a Presidential decree required that businesses use Kazakhstani accounting standards. These standards, based on IAS, were officially adopted during 1996-1997. Training and conversion activities were supported by donor organizations. As of today, most companies continue to use these standards. In 2002 the Law on Accounting and Financial Reporting replaced the Presidential decree. This law required transition to IAS and/or IFRS beginning 1 January 2004 for JSC and 1 January 2005 for all other companies except for very small businesses. This law was amended to delay the dates for

transition to 1 January 2005 and 1 January 2006, respectively. The English translation of the Law is in Appendix 4.

29. Banks and financial institutions in Kazakhstan were required to implement IFRS beginning in 2003. These institutions are now regulated and supervised by a unified financial services agency, the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations.

30. MOF-KAZ developed a work plan for the period 2004-2005 to support the transition to IFRS. Key activities in this work plan were issuance of guidance commentaries on individual IFRS, a model chart of accounts, and guidance on accounting policy. Contracting for accountant training was also included. The work plan is discussed in more detail in Task C below.

### **C. Kyrgyz Republic**

31. The Kyrgyz Republic began transition to international standards for financial reporting in 1998 when Kyrgyz accounting standards based on IAS were adopted. Although training and conversion activities in Kyrgyz companies were supported by donor organizations, most notably United States Agency for International Development (USAID), beginning in 1998, subsequent surveys showed that few companies (2-3%) actually used the Kyrgyz accounting standards. In 2001 and 2002, decrees and laws on accounting and audit were adopted requiring implementation of IFRS for all commercial companies except for very small businesses. The original accelerated timetable for conversion to IFRS was changed to allow conversion during 2003-2009, depending on company type, size and location. An English language outline of the accounting law and the timetable for conversion are included as Appendixes 5 and 6. A new chart of accounts, methodology for conversion and guidelines for implementation of 20 core standards were developed by SCFAA.<sup>2</sup> These guidelines were developed based on the Russian translation of IAS 2001. Since that time there have been a number of new standards issued by the IASB, as well as amendments to previously issued standards. However, there is no updated Russian translation of IAS nor IFRS.

32. A survey of large companies was conducted under past ADB TA (Footnote 1) which showed that many companies do not comply with either Kyrgyz accounting standards or IFRS but continue to use the old Soviet system of bookkeeping and financial reporting. Two training workshops and a roundtable seminar were conducted under past ADB TA (footnote 1) to provide training in IAS, to demonstrate the accounting differences when IAS accounting treatments are used, and to provide instruction on how to convert to accounting consistent with reporting under IAS. These practical workshops proved successful, and SCFAA wished to extend the training to other regions of the country.

### **D. Tajikistan**

33. Tajikistan gained independence from the Soviet Union in 1991. Economic reforms, however, were hampered by a civil war, which lasted from 1992-1997. There is little substantive capital market activity in the country and thus little demand for international standards of financial reporting, audit or corporate governance.<sup>3</sup> Accounting standards based on IAS were not adopted in the 1990's as they were in Kazakhstan and Kyrgyz Republic and many other

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<sup>2</sup> 11 of the commentaries were developed under TA 3779-KGZ (Footnote 1)

<sup>3</sup> World Bank. 2004. *Tajikistan: Country Financial Accountability Assessment*. Washington.

former Soviet countries. Most companies continue to employ accounting rules based on the old Soviet system.

34. Accounting in Tajikistan is regulated by the Accounting Law adopted in 1999, which defines how accounting departments should be structured, and rules for bookkeeping and documentation. In 2002, a presidential decree required that IFRS should be adopted and assigned responsibility to the Ministry of Finance of the Republic of Tajikistan (MOF-TAJ). (The Law on Accounting and decree are included in Appendixes 7-8.) A working group comprised of members of professional organizations, the National Bank, Ministry of State Revenues and Duties, and practicing accountants and auditors was formed in 2003 to establish the process. Representatives from the working group visited the Kyrgyz Republic in March 2003. As a result of that visit MOF-TAJ and the working group decided to emphasize implementation aspects of IFRS in Tajikistan. Implementation of IFRS starts first in designated large enterprises (termed pilot enterprises) beginning in 2004. If reports by the Ministry of Finance indicate that the implementation is successful in these select enterprises, IFRS will be required for other enterprises in future years. A government decree specified 29 enterprises designated by various state ministries for initial implementation of IFRS. These enterprises were originally required to adopt IFRS in 2004 but this deadline was extended until 2005, with full implementation scheduled by 2007.

35. Accounting and reporting requirements for banks and financial institutions are determined by the National Bank of Tajikistan. IFRS implementation for banks began in 1999 with assistance of the World Bank.

## **V. PROJECT TASKS**

36. At the inception of the TA , enterprises in the participating countries were at different stages of transition to IFRS. In order to maximize effectiveness of the TA's limited resources, the tasks were adapted to the conditions and needs of the individual countries in consultation with the implementing agency in each country. Task A, which included conducting two regional workshops, is discussed for all four countries combined. Each of the four remaining tasks is discussed by country, since activities and outputs were country specific. Recommendations are included on an as needed basis.

### **A. Conduct Two Regional Workshops**

#### **1. Background**

37. Although the four countries were at different stages of adoption and implementation of IFRS and each experienced some unique problems in introducing IFRS, the challenges faced were similar. Each could benefit to a degree from the experience of other countries' transition to IFRS, but opportunities for representatives of the implementing agencies from each country to meet with their counterparts in other countries have been limited.

#### **2. Approach and Results**

38. The TA sponsored two regional meetings or workshops: one early in the life of the TA and one six months later. The goal of the regional workshops was to promote sharing of knowledge and experience among the countries. Rather than inviting dignitaries from international organizations and other donor groups, the international accounting standards

expert and domestic accounting experts from each country and representatives of international auditing firms presented information on topics relevant to transition to IFRS at the working level. This was cost effective and encouraged informal interchange of ideas. After consultation with the respective directors of the accounting policy or methodology departments responsible for implementation of IFRS in each country, key participants in IFRS implementation from each country were identified and invited to the workshop. In order to provide a suitable working atmosphere and facilitate a free interchange of views among the participants, participation was limited to three to five representatives from each country who were designated to be representatives from the working level such as department heads or lead specialists rather than members of senior management such as deputy ministers. This was in line with the methodology and the spirit of the TA.

39. The core group of invitees was:
- (i) The directors of the accounting policy or methodology departments from each of the four countries. These departments have been assigned the responsibility of implementing IFRS.
  - (ii) A representative from the tax authority responsible for business taxation. Accountants in countries of the former Soviet Union experience significant difficulty in implementing accounting policies for financial reporting that differ from those required for tax reporting. IFRS requires accounting treatments that differ materially from tax reporting in all four countries. It is imperative that tax authorities be aware of the impact and timing of transition to IFRS so that they can cooperate with implementation of IFRS, rather than impede it.
  - (iii) An officer from a major professional organization for accountants and auditors in each country.
40. In addition, representatives from other financial sector regulatory bodies were invited when possible, subject to travel budget constraints..

#### **a. First Regional Workshop**

41. During inception of the TA, the deputy chairman of SCFAA in Kyrgyz Republic offered to host the first regional workshop. The workshop was undertaken as early in the project as possible from an organizational point of view on 14-15 October 2004 at Issyk-Kul in the Kyrgyz Republic. The working language of the workshops was Russian. All presentations were made in Russian. A total of 22 persons attended the workshop. This number included the international accounting standards expert, the three domestic accounting experts recruited under the TA at the time, and three representatives from three leading international accounting and audit firms. The program of the conference and list of participants are in Appendixes 9-10.

42. Formal addresses were kept to a minimum. Each participant made a brief report on his or her activities and plans related to IFRS conversion. The international consultant and the domestic consultants from Kazakhstan and the Kyrgyz Republic made presentations and answered questions related to (i) history of IFRS and the IASB, (ii) status of global convergence with IFRS (English language version is in Appendix 11, (iii) recent changes in IFRS, (iv) issues relating to translation of IFRS into languages other than English, and (v) a IASB discussion paper on development of IFRS for small and medium-sized enterprises (English language version is in Appendix 12).

43. The only speakers not related to the ADB or the implementing agencies of the TA invited to the workshop were representatives of the large international audit firms. Three of the largest

international audit firms participated in a panel discussion of issues related to practical implementation of IFRS. Whereas enterprise accountants and managers are responsible for implementing IFRS, it is the auditors who examine the accounts and financial reports to determine compliance with IFRS. All four countries are in the process of transition to IFRS, but during the past several years some large companies in the region with foreign ownership and banks have been issuing financial reports for investors and regulators on the basis of IFRS. Major international auditing firms have assisted them. These auditors are, therefore, knowledgeable in both requirements of IFRS and problems faced by their clients. The panel discussed a variety of topics including (i) first time adoption of IFRS (IFRS 1), (ii) the appropriate role of management in financial statement preparation and audits, (iii) audits using International Standards of Audit (ISA), and (iv) challenges encountered when making the transition to IFRS. They representatives of the audit firms also answered questions from the participants. The managing director of the Bishkek office of Deloitte attended most of the workshop and served as a valuable resource during the discussions. At the request of Kazakhstani and Kyrgyz MOF, both Kazakhstani and Kyrgyz offices of the international firms were represented on the panel. The final afternoon of the workshop was devoted to roundtable discussions among the participants.

44. The participants recognized a number of common impediments to implementation of IFRS and discussed various ways of addressing these problems:

- (i) Lack of information in Russian and native languages. The lack of a timely translation into Russian poses a significant problem. There was much discussion on this topic. The IASCF has stringent rules regarding translation. There is to be only one officially sanctioned Russian translation and rights to translate and publish IFRS in Russian language have been awarded. There have been problems with getting the translation approved by the review panel; therefore an authorized Russian translation is not yet available. This poses a major problem for the agencies developing guidance documents because most of the staff does not read English, the official language of IFRS.
- (ii) Insufficient attention has been focused on coordination with the tax authorities relating to implementation of IFRS in all countries except Kazakhstan.
- (iii) There is a lack of understanding of IFRS on the part of enterprise accountants. They cannot, therefore, effect conversion to IFRS or properly prepare financial statements in compliance with IFRS.
- (iv) There is a lack of qualified local auditors. Moreover, the major international auditing firms have ethical problems when they both assist their clients in preparing financial statements according to IFRS and then are required to audit those same statements. Objectivity and independence are impaired.
- (v) There are few incentives for companies to begin using IFRS. Although the countries are passing legislation requiring it, the most powerful inducement for improving the quality and transparency of financial reporting is the demand of investors or credit institutions. These forces operate on only a limited basis in the four participating countries.

45. The participants expressed their interest in continuing their discussions at the second regional workshop to be held in the spring of 2005.

46. The TA supported the dissemination of workshop outputs through a publication. Compiling and publishing the proceedings was a time consuming activity, especially for the Kyrgyz domestic consultant. However, it proved a significant contribution in the area of

accounting reform in the region. The full proceedings of the workshop in Russian language are in Appendix 13. An English language report prepared by the Kyrgyz domestic consultant containing summaries of presentations is in Appendix 14. In response to demand from organizations within the countries, 250 additional copies of the proceedings (100 copies for Kyrgyz Republic, 50 for the other three countries) were published for distribution to ministries, educational institutions and libraries. The distribution list for the Kyrgyz Republic is in Appendix 15.

#### **b. Second Regional Workshop**

47. The APD of MOF-AZE hosted the second regional workshop in Baku, Azerbaijan on 2-3 May 2005. The 24 participants included the core group from each country (head of the department responsible for implementation of IFRS, a representative from the tax authority, and a representative from a professional accountant and/or auditor association), representatives of the financial sector regulators and the chamber of auditors in Azerbaijan, three representatives from international audit firms located in Azerbaijan, the international consultant, and the four domestic consultants. At the request of the deputy chairman of SCFAA in Kyrgyzstan, an additional representative from that implementing agency was invited as well. The Kyrgyz Republic and Tajikistan invited representatives from associations of accounting teachers instead of the associations represented at the previous workshop. Since the person who had represented the ACAA in Azerbaijan was now the project's domestic accounting expert, there was a new person from ACAA at this second workshop. For the most part, the participants knew each other and were able to reestablish the collegial atmosphere that existed at the first workshop six months earlier. The list of participants and the program for the workshop are included in Appendixes 16-17.

48. As in the first workshop, the emphasis was on sharing experience rather than formal speeches. Each participant made a report about the status of accounting reform and implementation of IFRS in his or her sphere. The international consultant and each of the domestic consultants made presentations on the following topics: (i) example of a national accounting standards setting board – a discussion of the board in Malaysia (the English language version is in Appendix 18), (ii) update on activities of IASB and IFRS translation issues, (iii) report on enterprise accountant training in the Kyrgyz Republic and lessons learned to date, (iv) assessment of readiness for IFRS implementation in Tajikistan; and (v) issues experienced in introduction of IFRS in a pilot enterprise in Azerbaijan.

49. Representatives from two international audit firms attended parts of the workshop but due to work commitments were not able to schedule time for a panel discussion. The managing director of PricewaterhouseCoopers (PWC) in Azerbaijan gave a presentation on the role of management and internal and external auditors in financial statement audits. An audit senior from E&Y gave a very informative presentation on IFRS 6: Exploration for and Evaluation of Mineral Resources, issued by the IASB in December 2004. The English version of this presentation is in Appendix 19. This was a timely and relevant topic of interest to all participants.

50. All of the core group of participants attended all sessions and actively participated in discussions. Unfortunately when the participants made their presentations, rather than merely providing updates since the last workshop, most participants included the information presented before plus current activities, which made the presentations longer. Time for questions on each presentation was included in the time allotment but rather than leaving time for questions, the presentations filled (or exceeded) the allotted time resulting in little time for questions and answers and the final round table discussion.

51. Participant discussions centered on tax implications of IFRS implementation and the problems for both enterprises and the tax authority; education needs, training and retraining of accountants; and provisions included in the national accounting laws. Often participants from countries farther along in the transition process provided useful information and advice to colleagues at an earlier stage of transition. An example of this was the advice from the representative of the Kazakhstan tax authority. She described succinctly the situation with differences between tax and financial reporting, making it clear that these differences will continue to exist because of the different goals of tax collection and financial reporting. She went on further to describe how these differences can be managed. International advisors may give advice on the same issue but it is more readily accepted coming from a knowledgeable person from a neighboring country that faces similar challenges. During the roundtable discussion, the deputy chairman of SCFAA presented the draft memorandum of understanding on the role of accounting standard-setters and their relationship with the IASB, which was recently issued by the IASB for discussion and suggested that participants submit their comments to the IASB. This memorandum of understanding is included in Appendix 20.

52. The proceedings of the second regional workshop were published and distributed to the participants. The full proceedings in Russian are included in Appendix 21. An English language report prepared by the domestic consultant in Azerbaijan containing summaries of the presentations is included in Appendix 22. As with the first regional workshop, there was demand for additional copies of the proceedings by SCFAA in the Kyrgyz Republic and APD in Azerbaijan. Arrangements were made under the TA for printing of 200 additional copies in the Kyrgyz Republic and 400 additional copies in Azerbaijan to facilitate dissemination of the TA outputs.

53. Results of the Workshops. In addition to the primary goal of knowledge sharing among participants, results of the workshop included:

- (i) Increased interest in project activities in all countries. In particular, desire to be represented at the first regional workshop facilitated inception activities in Tajikistan and Azerbaijan.
- (ii) Opportunities for the participants to be informed on activities of the IASB and trends in IFRS on a global level, including changes to IFRS, exposure drafts and new standards issued by the IASB as well as development of standards for SMEs and discussion of the role and structure of national accounting standards boards.
- (iii) Establishment of a cooperative team approach to the process of implementing IFRS among key agencies and associations within each country, particularly between the agency responsible for IFRS implementation and the tax department;
- (iv) Agreement by MOF-KAZ to share approved guidance commentaries developed by the AAMD with the equivalent agencies in each of the other four countries. Receiving these commentaries resulted in MOF-TAJ's ability to issue nine guidance commentaries in the spring of 2005. It should be noted that MOF-TAJ also incorporated the practice of MOF-KAZ described at the workshop by involving audit firms in the review of the guidance documents prior to issuance;
- (v) Introduction of the professional accounting and audit association in Azerbaijan, ACAA) to the regional body International Council of Certified Accountants and Auditors (ICCAA), a regional member of IFAC. The ICCAA sponsors the

- Certified International Professional Accountant (CIPA) credential<sup>4</sup>, a Russian language certification and training program.
- (vi) Implementation of knowledge gained. Following the 2nd regional conference, MOF-KAZ included a Consultative Body (similar to a national standards setting body) in the draft of their new accounting law. This action, recommended in the “roadmap” prepared for the Republic of Kazakhstan in Task C below, is an important step for success in fully adopting IFRS on an ongoing basis.
  - (vii) Information received on current changes to IFRS and new standards such as IFRS 6 were used in accountant training activities in Task E below, particularly in Kyrgyz Republic and Republic of Kazakhstan.
  - (viii) Publicity for IFRS implementation as well as information on current changes to IFRS included in the published proceedings of the workshop. In many cases (e.g. Kyrgyz Republic) these proceedings were the most up-to-date information on IFRS and issues relating to conversion available in the Russian language. In addition, articles on the workshop were published in accounting journals in several countries.

54. The regional workshops were one of the most successful and valuable contributions of this TA. It should, however, be noted that they required an enormous commitment of time and effort on the part of the host agencies and the domestic consultants, especially the consultants in the Kyrgyz Republic and Azerbaijan who were required to make most of the arrangements. The logistical challenges were great, especially in terms of official letters of invitation and travel arrangements. With only one domestic consultant and no office support staff, managing the regional workshop took precedence over other project tasks. It should be noted as well that the countries progressing more rapidly in implementation of IFRS (e.g. Kazakhstan) may benefit less from the knowledge exchange in regional workshops.

### **3. Recommendations:**

55. The governments of CACs should support regional workshops on accounting reform designed for information exchange between countries transitioning to IFRS. It would be advantageous to continue to build on the relationships established in the two regional meetings by inviting participants from the countries. If resources are not available, the governments should seek donor assistance.

56. The audit profession in CACs should be developed to international standards of quality. Compliance with IFRS can only be determined by an audit of financial statements by knowledgeable auditors in compliance with International Standards on Auditing. The education, licensing and practice monitoring of auditors in each country should be evaluated for compliance with international best practices. Deficiencies should be remedied. The international donor community should support development of the audit profession if the government in cooperation with professional associations in each country does not have the resources to do so.

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<sup>4</sup> The CIPA program is established through the Eurasian Council of Certified Accountants and Auditors, a regional association formed with USAID sponsorship. Website at [globalcipa.org](http://globalcipa.org).

## **B. Survey Major Nonfinancial JSCs for IAS/IFRS Compliance**

57. It should be noted that although questionnaires and surveys may indicate what system a company is using for accounting and financial reporting, true compliance with IFRS can only be ascertained by a financial audit. The heads of the accounting and audit methodology departments of ministries of finance in all four countries expressed their desire for their staff to be able to examine financial statements for compliance with IFRS. This is not a realistic goal.

58. In order to know whether or not IFRS is being followed it is necessary to have audits of the financial reports that are prepared by enterprise accountant. The audits should be conducted according to International Standards on Auditing by auditors knowledgeable in IFRS. Although representative offices of major international accounting firms are established in Azerbaijan, Kazakhstan and Kyrgyzstan, most non-listed JSCs do not need, and cannot afford, the services of these firms. In all four countries, the quality of the local audit firms who will be employed as auditors or consultants by most JSCs is not assured. The audit profession in all four countries requires upgrading to international standards.

### **1. Azerbaijan**

#### **a. Background**

59. Some changes were made to the accounting system in Azerbaijan since its independence but the changes were not the major changes necessary to align accounting and reporting for non-financial enterprises with IFRS. The head of APD and auditors with international audit firms report that few, if any, companies without significant foreign ownership report in compliance with IFRS so there was no need to survey JSCs for compliance with IFRS. The head of the APD, however, expressed interest in conducting a survey to ascertain readiness to adopt IFRS. Unless managers and accountants understand the transition process and commit adequate resources to implement IFRS, the transition may become merely an exercise in rearranging items on financial reports rather than implementing accounting treatments required to produce financial statements that comply with IFRS.

#### **b. Approach and Results**

60. The project team, in consultation with the APD and the professional association ACAA, developed a questionnaire to assess interest in implementing IFRS and resources available for the transition. The APD requested that a series of questions relating to enterprise size (e.g. turnover, total assets, number of employees) also be included. The questionnaire was produced in both Russian and Azeri language. 600 questionnaires were distributed: 500 through publication of a special accounting magazine; and 100 questionnaires sent by direct mail to a list of large JSCs provided by the State Statistic Committee of Republic of Azerbaijan.

61. Companies in the former Soviet Union are reluctant to divulge information, especially financial information, so even with the assurance that responses would be confidential, only 35 companies responded to the survey, all of them located in the capital city, Baku. Twelve of the 35 responders were in the oil and gas sector (the most highly developed sector in Azerbaijan); other responders were in construction, agriculture, telecommunications, transport, manufacturing and other sectors. Most companies responding were large companies as shown by total assets, turnover and number of employees. The report on the survey, including the questionnaire and analysis, of responses is included in Appendix 23. Analysis of the responses indicated that Azeri enterprises were not prepared for transition to IFRS, in the following ways:

- (i) Lack of knowledge of IFRS or management commitment to implementation of IFRS;
- (ii) Insufficient training of accounting staff in IFRS compounded by inability to use English language IFRS, lack of Azeri translation of IFRS, and inaccessibility of IFRS in Russian or Turkish language; and
- (iii) Lack of interest in obtaining equity or debt financing in the near future, which would serve as an incentive to implement IFRS.

62. The survey information was shared with APD. Results confirmed APD's assessment that translation of IFRS into the Azeri language, extensive training of management in benefits of IFRS (and national accounting standards based on IFRS for 2nd tier enterprises), and training for accountants in IFRS (and national accounting standards) in both theory and practice will be vital to facilitating transition to IFRS and IFRS based financial reporting.

## **2. Kazakhstan**

### **a. Background**

63. Prior to 2005, non-financial companies in Kazakhstan were required to comply with KazAS, modeled on IAS. Companies with an "A" listing (for bonds or equity) on the Kazakh Stock Exchange (KASE) are required to submit audited financial statements; a number of these companies comply with either IFRS or US GAAP. Approved auditors for "A" listed companies include the "Big Four" international audit firms (KPMG, PWC, Deloitte, and E&Y) and BDO Kazakhstanaudit; all of these firms are capable of assisting their clients in complying with IFRS. The Director of AAMD and auditors from the international audit firms agree that most large and medium-size companies in Kazakhstan follow KazAS but few companies (other than "A" listed companies) report in compliance with IFRS in addition to the required KazAS reporting. Since companies were not yet allowed by law to follow IFRS for statutory reporting, a compliance survey was not appropriate at the inception of the project. The Director of AAMD was not interested in conducting a survey of current accounting practices.

### **b. Approach and Results**

64. Although it was not appropriate to survey companies for compliance with IFRS, the professional association CoPAA expressed interest in surveying major companies to determine their readiness to implement IFRS. An invitation by the Ministry of Finance of Republic of Kazakhstan (MOF-KAZ) to accountants and auditors to identify issues relating to conversion to IFRS published earlier in 2004 in the country's largest accounting journal specializing in IFRS received no response. It was hoped that a survey sponsored by the respected professional group rather than MOF-KAZ would garner more responses. Information attained would be shared with AAMD and could be used to pinpoint actual impediments to implementation of IFRS. The project team in cooperation with CoPAA developed the survey questionnaire. It was published in the Accounting Bulletin IFRS in August 2004. A similar questionnaire was distributed to audit firms to assess their clients' readiness for IFRS implementation. (Both questionnaires are included in Appendix 24.)

65. Unfortunately, only 11 responses were received. Of these 11, only one company indicated that an IFRS conversion project was established. Responses to queries concerning the impact on IFRS on reported income and assets showed a lack of understanding of IFRS. The domestic consultant's analysis of the responses is included in Appendix 25. The results of the survey and analysis were shared with AAMD. The survey, even with a limited number of

responding companies, indicated that Kazakh companies are not prepared for a full transition to IFRS. It underscored the importance to accountants of adequate guidance for applying IFRS as well as the need for training in how to accomplish implementation.

### **c. Recommendations**

66. In order to provide appropriate guidance on specific issues encountered in practical transition to IFRS, the professional organizations in the Republic of Kazakhstan should be encouraged to poll their members on IFRS conversion issues throughout the implementation period so that knowledgeable professionals can publish timely articles on how to resolve specific implementation issues.

## **3. Kyrgyz Republic**

### **a. Background**

67. A survey of large companies was conducted under the previous TA 3779 (Footnote 1). This survey revealed that many companies did not comply with either KgzAS or IFRS but continue to use the old Soviet accounting system.

### **b. Approach and Results**

68. An additional general survey of JSCs for compliance with IAS/IFRS was not considered necessary. Two specific surveys of company accounting practices were considered more appropriate:

- (i) An informal survey of some of some of the companies whose accountants had been trained in IFRS accountant training workshops sponsored by TA 3779 (Footnote 1) to determine the status of IFRS implementation; and
- (ii) A survey of current accounting practices for companies required to convert to IFRS during 2004-2006.

69. In August 2004, the domestic consultant contacted and visited two such companies (designated as company A and company B) in the Bishkek area. Both companies had begun implementing IFRS in 2004. They reported that the knowledge gained in the workshop was useful and they continued to use the workshop materials. Both companies employed consultants from audit companies to help them develop their new accounting policy consistent with IFRS and to properly effect the conversion. The accounting policy developed in company B included detailed instructions on proper accounting for the most common transactions. Company A's policy was not as detailed and they continue to encounter problems in daily accounting work because most of their accountants are not knowledgeable in practical application of new accounting treatments. Company B is a very large company with many subsidiaries. Although the parent company implemented IFRS, some of the affiliates have not. They have merely reclassified items on their financial reports. As a result, the parent cannot issue credible or accurate IFRS compliant financial reports. The insights gained from the experiences of these two companies were used to improve the training curriculum and materials for the workshops in Task E below.

70. A questionnaire was developed for distribution to accountants participating in IFRS workshops conducted in Task E below. The questionnaire (included as Appendix 26) was designed to collect information on current accounting practices in these JSCs, which are

scheduled to implement IFRS during 2004-2006. Completed questionnaires were returned to SCFAA for their use.

#### **4. Republic of Tajikistan**

##### **a. Background**

71. Implementation of IFRS in Tajikistan will start in 29 large enterprises beginning in 2005. Individual government ministries selected these enterprises. Decisions regarding wide spread adoption of IFRS will be based on the experience of these pilot enterprises. The list of 29 pilot enterprises is included in Appendix 27. Although a general survey of JSCs for compliance with IFRS was not considered appropriate since most companies continue to follow the old Soviet based system, the head of ARAMD of MOF-KAZ was interested in surveying the 29 pilot enterprises to ascertain their readiness to implement IFRS. It should be noted that although 27 of the 29 companies are joint-stock companies, almost all of them are predominantly state owned.

##### **b. Approach and Results**

72. Most Tajik companies are reluctant to share information, so a survey of the pilot enterprises would be unlikely to result in an adequate response if it was limited to circulation of a printed questionnaire. In order to obtain information from these enterprises, the local consultant contacted a sample of the 130 subsidiaries of the 29 pilot enterprises to survey them personally either over the telephone or by actually visiting their offices. Telephone communications proved difficult. The most successful approach was actual on-site visits to companies.

73. Initially, the management of the enterprises was reluctant to share information regarding their accounting activities. The local consultant met with representatives of the government ministries<sup>5</sup> that had recommended the enterprises to be included as pilots. She described both the project and the survey in order to obtain their cooperation. In addition, the head of ARAMD arranged for a letter from MOF-TAJ requesting that the companies cooperate with the project consultant.

74. Accounting or financial managers from 34 selected enterprises (pilot enterprises or their subsidiaries) located in the southern (Dushanbe) and northern (Khujand) regions of the country were asked questions regarding:

- (i) Current accounting system used;
- (ii) Intention to implement IFRS including plans and timing;
- (iii) Difficulties encountered or anticipated in transition;
- (iv) Knowledge of IFRS and MOF-TAJ materials issued to assist in transition; and
- (v) Accounting staff and their training.

75. Results indicated that:

- (i) More than 90% of the enterprises still used the old Soviet accounting system.
- (ii) Six percent (2) of the enterprises indicated that they are already using IFRS.
- (iii) 12 % do not intend to convert to IFRS, and wish to continue with their present accounting system or use Russian accounting standards.
- (iv) 53 % wish to convert to IFRS but do not have the knowledge or staff to do so.

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<sup>5</sup> Ministry of Industry, Ministry of Energy, Ministry of Transportation, and Ministry of Communication.

- (v) 30% wish to convert to IFRS and are making plans to do so using either in house staff or employing outside consultants.
- (vi) Less than 40% of the accountants working in these enterprises had any training at all in IFRS.
- (vii) 14% of the enterprises were unaware of materials relating to adoption of IFRS issued by MOF-TAJ.

76. All entities reported the same difficulties in transition:
- (i) Lack of IFRS in Tajik or Russian language;
  - (ii) Shortage of knowledgeable accountants to effect transition;
  - (iii) Lack of resources for hiring outside assistance;
  - (iv) Lack of government guidance on how to implement and follow IFRS;
  - (v) Complexity of IFRS and government guidance; and
  - (vi) Problems with the discrepancies between IFRS accounting treatments and tax requirements.

77. The report on the survey of pilot enterprises is included in Appendix 28.

78. The head of ARAMD found the results of the survey of the pilot enterprises to be of significant value. He presented the report on the survey to the Minister of Finance and thereafter to the Presidential Apparatus.

### **c. Recommendations**

79. In order to achieve successful implementation of new standards, MOF-TAJ should extend the deadline for implementation in the pilot entities until 2007. Results of the survey of the pilot entities indicate that companies are not prepared to implement IFRS.

### **C. Identify Constraints and Develop an Action Plan**

80. A major constraint to adoption of IFRS in all four countries was the lack of a Russian translation of current IFRS. Each of the four countries has its own national language and may be required to translate IFRS to that language, but many accountants rely on the Russian language terminology for accounting terms. In many instances, accounting terms that adequately describe the technical accounting treatments required by IFRS are not common in the national language. Given the history of the region, many more accountants know Russian rather than English (the official language of IFRS). It was, therefore, necessary to have access to the Russian translation of the official standards and interpretations promulgated by the IASB. The accountants of enterprises implementing IFRS needed the Russian text and the MOF departments responsible for issuing guidance on implementation required it as well.

81. The most recent IASB approved Russian language translation of IFRS was IAS at 2001. Many significant revisions have been made to the IAS existing in 2001 and new standards have been issued. Implementation of IFRS as codified in 2001 is no longer appropriate. USAID financed and managed a Russian language translation of IFRS 2003 but it was never issued in its entirety. Since substantial changes were made to IFRS for 2004 to form the so-called "stable platform" of IFRS to be used by the EU countries' adoption of IFRS for listed companies in 2005, it was more valuable to devote attention to translating the "stable platform" (IFRS 2004). USAID supported translation of that edition into Russian as well. It should be noted that the IASCF maintains rights to IFRS and requires that translations conform to IASCF standards. IASCF will sanction only one translation into any language. The required review procedure to ensure the

quality of translation has been cumbersome for the Russian language translation. Throughout the project, the international and local consultants corresponded with the IASC and the USAID project team responsible for the translation to obtain the official Russian language translation of the IFRS “stable platform”. Although representatives of IASC stated that the translation would be approved soon, it had not yet been issued in September 2005. In the absence of a current Russian translation of IFRS, the domestic Accounting Experts made a major contribution to the implementing agencies in all four countries through their skill in the English language and ability to read and interpret IFRS in their official English form.

82. The international consultant explored the possibility of arranging translation of summaries of IFRS into Russian language. These summaries which are available on the Deloitte website [www.iasplus.org](http://www.iasplus.org) may be duplicated as long as the copyright information is clearly marked on each page. While the summaries do not replace the need for the complete standards, they do provide information that the accountants need now. The political upheaval in Kyrgyz Republic interfered with the negotiations for translation of the summaries and the idea was discarded.

## **1. Azerbaijan Republic**

### **a. Background**

83. Azerbaijan has taken a measured approach to implementing IFRS, with implementation required by January 1, 2008. With advice and donor assistance from EU Tacis, and World Bank International Development and Finance as well as this TA, APD is developing an action plan to address the major obstacles to implementation of IFRS and national accounting standards (based on IFRS).

### **b. Approach and Results**

84. The project team shared the “roadmap” developed for Kazakhstan (see below). The head of APD used the “roadmap” template to develop suggestions for inclusion in the Accounting Reform Action Plan for the Republic of Azerbaijan, to be approved by MOF-AZE. The suggestions are included as Appendix 29. The action plan suggestions include activities outside the scope of this project (e.g. accounting reform in non-commercial sector by transitioning to IPSAS).

85. Many of the activities in the suggestion can be accomplished without additional aid from international donor groups beyond what is already being provided (e.g. clarification of the deadlines for implementing IFRS). In order to correctly implement IFRS in an enterprise, it is necessary to know exactly what is meant by the specification “from January 1, 2008”. Full compliance with IFRS requires that comparative statements be presented. If a company is required to fully comply with IFRS reporting for the year 2008, it means that the balance sheet at January 1, 2006 (Dec. 31, 2005) must be restated in compliance with IFRS and that activity and balances for 2007 be stated in compliance with IFRS in order to generate comparative statements. This would entail lengthy reworking of the previous year’s balances and activities. Attention to past activity is not a good use of resources that would be better used to apply IFRS accounting treatments correctly. A superior approach, given the lack of expertise in applying IFRS in Azerbaijan, would be to require that beginning in January 2008, the specified enterprises begin to use IFRS compliant accounting treatments and that full IFRS reporting should be required only at the end of 2009. Regardless of the decision of how to interpret “from January 1, 2008”, it must be clearly specified and communicated so that there is no confusion.

86. Other activities may require outside assistance. These include:
- (i) Establishment of translation unit to translate IFRS into the Azeri language;
  - (ii) Review of Azeri laws to determine those laws that are in conflict with IFRS;
  - (iii) Development of a mechanism for reconciling IFRS and tax reporting and training for both enterprise accountants and tax staff in its use;
  - (iv) Training for enterprise accountants of public interest entities (required to implement full IFRS) in exactly how to convert to accounting practices that will produce IFRS reporting and disclosures necessary for IFRS.
  - (v) Assistance for development of high quality auditors, including training in ISA, similar to that provided to auditors in Mongolia in TA 3913 (Footnote 2).
  - (vi) Reform of university curriculum to incorporate training in IFRS and national accounting standards.

### **c. Recommendations**

87. MOF-AZE should formalize the Action Plan for Accounting Reform as soon as possible, establishing clear priorities and a reasonable timetable.

88. MOF-AZE should clarify exactly what is meant by the specification “from January 1, 2008” in the law requiring IFRS reporting and should promptly communicate this information to avoid confusion that would impede proper implementation of IFRS.

## **2. Republic of Kazakhstan**

### **a. Background**

89. Prior to project inception, MOF-KAZ had developed a plan of activities for transition to IFRS. The plan defined activities to be carried out by AAMD, the tax committee and the department of legal services. A major portion of the plan was development of methodological recommendations on application of each IFRS. The plan also included establishing a web page for IFRS transition, review of laws and statutes for compliance with IFRS, training of MOF-KAZ staff, training of accountants, translation of IFRS into state language (Kazakh), seminars for enterprise accountants and other items. The majority of the tasks were to be accomplished by AAMD by the end of 2004. (The action plan is included in Appendix 30.) Since AAMD had already established an action plan they were focused on accomplishing the tasks defined in that plan rather than additional undertakings. The obstacles deemed by AAMD to need the most urgent attention were:

- (i) Lack of Russian language translation of IFRS; and
- (ii) Need for guidance on IFRS and how to implement each of the standards.

### **b. Approach and Results**

90. The project team reviewed the action plan. See Tasks D and E below for assistance provided to AAMD in action plan tasks. The timetable for accomplishing the tasks included in the action plan was obviously overly ambitious but since it had been submitted for approval by the MOF-KAZ, it was futile to do more than point out that fact.

91. Whereas the AAMD was not interested in an action plan for overcoming additional obstacles to IFRS implementation, the Vice Minister of Finance-RK was eager to know

international best practice for successful transition to IFRS. The international consultant developed a list of considerations/suggestions for successful implementation of IFRS (or “roadmap”) based on international best practices (included in Appendix 31). This listing included steps necessary to overcome the obstacles to sustainable implementation of IFRS. The timetable in the “roadmap” was formulated so that it did not directly contradict the existing MOF-KAZ action plan although in some cases deadlines were extended. The document was distributed to all four countries for guidance. Azerbaijan is in the process of adopting a similar plan.

92. Several suggestions from the best practice “roadmap” that had not previously been included in the action plan were adopted before the end of the project:

- (i) MOF-KAZ interpreted the January 1, 2005 deadline for implementing IFRS in JSCs to mean that companies would be allowed to report according to IFRS in 2005 but that full compliance with IFRS would not be required until January 1, 2006 (annual reports issued in 2007). Since full compliance with IFRS requires comparative financial statements, mandating that companies report in compliance with IFRS beginning in 2005 would require them to restate 2004 in compliance with IFRS. This would entail lengthy reworking of the previous year’s balances and activities. The project team was encouraged by MOF-KAZ’s decision.
- (ii) Assistance was requested from EU Tacis to analyze “existing legislative and regulative acts and to produce concrete and workable recommendations on bringing them in compliance with the IFRS”<sup>6</sup>. The work began in April 2005.
- (iii) Changes proposed to the Law on Accounting and Financial Statements in conjunction with the EU Tacis project above included establishment of a “Consultative body on accounting and financial reporting” with many functions of an Accounting Standards Board. The proposed body would be comprised of experienced auditors, accountants, and academicians appointed by MOF-KAZ.

### **c. Recommendations**

93. MOF-KAZ should revise their action plan for implementation of IFRS incorporating suggestions included in the “roadmap” for successful IFRS implementation, taking care to establish a realistic and achievable timetable.

## **3. Kyrgyz Republic**

### **a. Background**

94. The SCFAA has been supporting implementation of IFRS for a number of years. Based on analysis of a survey of JSCs conducted in 2003, a timetable was developed for implementation of IFRS in JSCs over the period 2003-2009. The timetable is included in Appendix 6.

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<sup>6</sup> European Union Tacis Programme “Transfer of the real sector of economy in Kazakhstan to International Financial Reporting and Accounting Standards” Policy Advice Project.

## **b. Approach and Results**

95. As a result of discussions at the two regional workshops conducted in Task A above and feedback from accountants during the training workshops in Task E below, the Deputy Director of SCFAA specified the following as the principal constraints to implementation of IFRS:

- (i) Lack of current Russian language translation of IFRS.
- (ii) Lack of current Kyrgyz language translation of IFRS. A formal plan for translation including the review and approval process has not been established nor have funds been allocated for this activity. Moreover, there are few textbooks or guidance documents published in the Kyrgyz language.
- (iii) Few accountants with sufficient knowledge and experience of accounting and reporting in compliance with IFRS.
- (iv) Inadequate interest in IFRS reporting by company management, which results in failure to commit the resources necessary to effect meaningful implementation.
- (v) Complexity of individual IFRS and lack of support structure for application of some aspects of IFRS (e.g. inadequate markets and valuation specialists).
- (vi) Preference for reporting under tax rather than IFRS rules.

96. As a result of political unrest and upheaval during 2005, the leadership in the SCFAA was in transition. Although the "roadmap" developed for IFRS implementation in Kazakhstan was shared with the Deputy Director of SCFAA, it was not feasible to develop a comprehensive plan and timetable for removing the obstacles within the timeframe of the project.

97. SCFAA, with the assistance of the project team, acted to relieve several of the constraints listed above by the following activities:

- (i) SCFAA widely distributed the Russian language proceedings of the first and second regional workshops. These proceedings provide information on IASB activities and current changes to IFRS, as well as how regulators, tax authorities and professional associations can cooperate in IFRS implementation. This action addresses in some part the lack of current Russian translation of IFRS while also informing accountants.
- (ii) Invited representatives of the regional tax offices to the accountant workshops conducted in Task E below. 16 tax inspectors from the trainee regions participated in workshops 2-4. Their involvement served to educate them on IFRS transition issues and gave the accountants an opportunity to ask questions about how to satisfy tax requirements while using IFRS for financial reporting.
- (iii) Promoted IFRS conversion activities by initiating or participating in media coverage to inform both managers and accountants in the Kyrgyz Republic about accounting reform and implementation of IFRS. In January 2005 the domestic consultant participated in a talk show on national television devoted to issues involved in accounting reform in the Kyrgyz Republic. Media coverage has the additional benefit of increasing the status of the accounting profession in the eyes of the public.

### **c. Recommendations**

98. SCFAA should establish a plan for addressing the obstacles to effective implementation of IFRS incorporating an achievable timetable. Where necessary, the SCFAA should cooperate with other agencies and organizations (e.g. MOF Committee for Revenue and professional organizations) in establishing the plan.

## **4. Republic of Tajikistan**

### **a. Background**

99. Tajikistan is at an earlier stage in the process of implementing IFRS than are the other three countries in this regional project. Although the government of Tajikistan issued a decree in November 2002 requiring adoption of IFRS, there is little pressure from capital markets or foreign investors for accounting reform. Most enterprises still use the accounting treatments based on the Soviet system. Numerous impediments to adoption of IFRS exist, not the least of which is lack of demand for financial reports that follow accepted international standards.

### **b. Approach and Results**

100. The head of ARAMD considered it premature to prepare an action plan for overcoming obstacles to implementation of IFRS before the overall plan for conversion was established in Tajikistan. The decree issued in 2002 (see Appendix 8) requires that MOF-TAJ submit a report on implementation of IFRS as a preliminary to requiring wide spread adoption. The Working Group established under the decree will evaluate the implementation in the 29 pilot enterprises and report the results.

101. According to the head of ARAMD, the single greatest obstacle to implementation of IFRS in Tajikistan is lack of current IFRS in Russian language. It is impossible to require implementation of IFRS if it is not available in a language that people can read. Moreover, IFRS must be published in the Tajik language before it can be required. Without a Russian language text it is not possible to begin translation. In addition, it is difficult to publish guidance for conversion to IFRS (also stipulated in the 2002 decree) prior to requiring implementation without the Russian text of the standards. The lack of a Russian language translation of IFRS was a major problem for all four countries but the need was most acute in Tajikistan where there is little foreign investment to drive demand for better reporting and there have been fewer donor projects to support accounting reform.

102. A second obstacle cited by pilot enterprises surveyed in task B above was the problem that will occur from the differences between financial reporting under IFRS and reporting to the tax authorities. As a result of the discussions at the first regional workshop held in Kyrgyz Republic in October 2004 (Task A above), the head of the ARAMD proposed that the project sponsor a roundtable for representatives of the tax department, selected accountants from among the 29 pilot enterprises and auditors to discuss a form for reconciling financial and tax reporting. Although the idea was good, it was considered to be premature. Since it was to be held locally without the presence of anyone knowledgeable in international best practice in the area of book to tax reconciliation, it was not considered to be appropriate and was not supported by the project.

### **c. Recommendations**

103. When the Russian language translation of current IFRS becomes available, in advance of the results of implementation of IFRS in the pilot enterprises, MOF-TAJ should establish a detailed action plan for implementation of IFRS. The plan should include a strategy with achievable target dates for translation of IFRS into the Tajik language, mechanisms for keeping IFRS current, reconciliation mechanisms for financial and tax reporting, and other items included in the “roadmap” developed for the Republic of Kazakhstan discussed above.

### **D. Develop IFRS Implementation**

104. Accounting in the Soviet era was highly standardized and included specific instructions for accounting and bookkeeping for each and every transaction. Charts of accounts were standardized throughout all countries and used by all entities. Choices among various acceptable accounting treatments and flexibility to tailor the system to the needs of a particular organization were not allowed. Unlike the former system with its detailed instructions for bookkeeping, IFRS are statements of proper ways to report economic activity. They do not include detailed instructions for implementation, correct bookkeeping entries or which accounts to debit and credit. Although it is hoped that over time accountants in the CACs will be able to use professional judgment in adopting accounting treatments without detailed instructions, this is not possible at the present time. Specific guidance is required.

105. An additional problem relating to implementing IFRS that is mentioned earlier in this report is the lack of IFRS text material. IFRS are copyrighted materials and even in English (official IFRS language) the bound text or electronic subscriptions are expensive (more than \$100). There is a problem with translations because IASCF has stringent translation requirements and pricing policies. The result is that IFRS is being required in these countries but the text of the standards is not available to accountants because of language and price. Guidance documents (“methodological recommendations”) issued by Ministries of Finance can include much of the information from each IFRS with specific guidance on implementation without violating copyright thereby giving accountants access to the substance of each standard.

#### **1. Azerbaijan Republic**

##### **a. Background**

106. The Accounting Law of Azerbaijan specifies implementation of IFRS and national accounting standards (based on IFRS) in most commercial enterprises beginning in 2008. Promulgation of guidance documents for implementing IFRS is a priority for APD, but it did not have the same urgency as in some of the other countries with earlier implementation deadlines (e.g. Kazakhstan).

##### **b. Approach and Results**

107. The recommendations on specific IFRS developed in Kyrgyz Republic and Republic of Kazakhstan (approved by May 2005) were shared with APD. APD had access to current IFRS in English so there was no need for the project to supply an electronic subscription. The

current edition of the book Wiley IFRS7 was provided to APD to assist in developing the recommendations for implementation of IFRS.

108. During the pilot conversion activity in Task E below, a model chart of accounts, bookkeeping guidance, and partial IFRS conversion methodology was developed. These will be used by APD when that department develops the official model chart of accounts, bookkeeping guidance and conversion methodology to be issued prior to the 2008 IFRS implementation deadline.

## **2. Republic of Kazakhstan**

### **a. Background**

109. The Vice Minister of Finance-RK and the Director of the AAMD placed this task as their highest priority for activities under this TA. Specific implementation guidance documents to be developed listed in the MOF-KAZ action plan (Appendix 30) were:

- (i) Methodological recommendations [commentaries] for application of 31 individual IFRS;
- (ii) Recommendations for developing company accounting policies;
- (iii) Recommended chart of accounts and instructions for its use;
- (iv) Guidance for industry specific accounting treatments; and
- (v) Revision of recommended forms for source documents.

110. Methodological recommendations for each IFRS and guidance for developing accounting policies were considered the most urgent need. MOF-KAZ requested that the “Big Four” international audit firms, BDO and professional organizations assist in drafting recommendations. The final methodological recommendation would then be reviewed and approved by an Expert Council appointed by MOF-KAZ before publication. The Director of AAMD requested that the project’s domestic consultant act as coordinator for this activity.

111. The timetable in the action plan for publishing the guidance documents appeared overly ambitious even with the assistance of the project because of the limited resources in AAMD. The entire department has 20 employees in addition to the Director and Deputy director for both audit and accounting methodology. Ten employees were assigned to the accounting sub-department, only five to the IFRS division. Most of the staff are recent graduates with little or no practical accounting experience and little knowledge of either IFRS or the English language. (The official language for IFRS is English.) It should be noted that over the year of project implementation in Republic of Kazakhstan, there was considerable turnover in this staff; the most highly experienced staff members in the IFRS division left the department. Note also that although the original timetable required 31 methodological recommendations to be issued by the end of 2004, drafting was not scheduled to commence until the Russian translation of IFRS was available.

### **b. Approach and Results**

112. Obtaining a recent Russian translation of IFRS was a major problem. MOF-KAZ expected that the IASB sanctioned Russian translation of IFRS would be released in early 2004, but it was delayed and not yet released in the summer of 2005. The most recent Russian

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<sup>7</sup> Wiley IFRS 2005: Interpretation and Application of International Accounting and Financial Reporting Standards by Barry Epstein, et al.

language translation available to the staff was the 2001 version of IAS. Important new standards had been issued after that date and many revisions made to existing standards, some profound. Guidance based on any version of IFRS before the 2004 version (“stable platform”) would be incomplete at best. In some cases it would contain significant errors. In order to provide current IFRS information, the project team:

- (i) Arranged for the SCFAA in Kyrgyz Republic to provide electronic versions of the 19 guidance commentaries developed in the Kyrgyz Republic. Although changes have been made to the standards since these commentaries were issued, part of the information remained appropriate.
- (ii) Arranged for subscription to the electronic version of IFRS (English language) from the IASCF and Wiley IAS 20048, which provides information on application of IFRS.
- (iii) Provided a summary schedule of newly issued standards and changes to existing IAS since 2001.
- (iv) Conducted training sessions for AAMD staff in IFRS theory and concepts with emphasis on the “stable platform”.
- (v) Obtained current Russian translations of international accounting textbooks and journal articles pertaining to IFRS for AAMD staff use.

113. The domestic consultant’s role as coordinator for the methodological recommendations was expanded because of the needs of the AAMD. At the insistence of the Director of AAMD, the methodological recommendations were drafted by AAMD staff (rather than the international public accounting firms or professional organizations). This process required review and significant input from the domestic consultant. Three recommendations were drafted entirely by the domestic consultant due to the complexity of the standard. Each methodological recommendation included:

- (i) An explanation of the standard;
- (ii) Guidance on how to apply the standard in Kazakhstan;
- (iii) Explanation of how the IFRS treatment differs from KAZAS;
- (iv) Illustrations of how to apply the standard using journal entries for both simple and complex cases.

114. After each draft was complete it was sent to the international public accounting firm (KPMG, Deloitte, Ernst & Young (E&Y), PWC or BDO-Kaz) that had agreed to assist on that particular standard for review and editing. The domestic consultant communicated with the firm to expedite review and resolve questions. Upon receiving the edited recommendation document, the domestic consultant again coordinated review by the deputy director of AAMD and revision of the recommendation. Once this additional revision was complete, the recommendation was submitted to the Expert Council for approval.

115. After unsuccessful attempts to assemble the Expert Council on a regular basis to consider the recommendations, it was decided that they would communicate by email rather than meet together as a group. Each member had questions and comments on the recommendations submitted. The domestic consultant worked with the AAMD staff, the audit firms and the council members to resolve the issues relating to the commentaries so that a final document emerged that was approved by the council. This was a lengthy process requiring much time and effort by the domestic consultant. Success was due in large part to his thorough knowledge of the standards and diplomatic advice. At the request of AAMD the domestic

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<sup>8</sup> Epstein, Barry. 2004. *Interpretation and Application of International Accounting and Financial Reporting Standards*. IFRS.

consultant's original contract for seven months was extended to ten and then eleven months (through July 2005) to accommodate this work.

116. At 31 July 2005, 16 methodological recommendations had been approved by the Expert Council for official release. Another 15 had been drafted and were being reviewed by the international auditing firms and/or Expert Council. Materials and guidelines were provided for three additional standards in the process of being drafted by AAMD staff. Arrangements were made with the professional organization CoPAA to review and assist in drafting the recommendations in process at the end of the project. The listing of the methodological recommendations and their status is included in Appendix 32.

117. The project team also provided assistance to AAMD in drafting the Recommendation on Accounting Policy (approved by the Expert Council), revision of model forms for financial statements for companies with state ownership and numerous other issues and accounting treatments. Although the project team assisted in developing the model chart of accounts, the chart has not yet been finalized. Lack of a model chart of accounts makes correct application of accounting treatments based on IFRS difficult for enterprise accounts and delays adaptation of accounting software used by enterprises to record transactions and prepare financial reports.

### **c. Recommendations**

118. MOF-KAZ should establish and publish a model chart of accounts as soon as possible. If MOF-KAZ decides not to recommend a chart of accounts, it should publicize that fact so that professional organizations like the CoPAA can publish model charts of accounts for companies to use. Without concrete guidance on charts of accounts, enterprise accountants will be very unlikely to fully adopt IFRS.

119. MOF-KAZ should provide further training in IFRS to government staff, especially in AAMD. If rules regarding tender process make contracting for high quality training difficult, MOF-KAZ should request donor aid for such training.

## **3. Kyrgyz Republic**

### **a. Background**

120. A new chart of accounts, methodology for conversion and guidelines for implementation of 20 core standards (Footnote 1) were developed by the SCFAA based on the Russian translation of IFRS 2001. These guidelines, while they are helpful to accountants in implementing IFRS (especially those using the old Soviet accounting system), do not fully reflect current IFRS requirements. New standards have been issued and existing standards modified. SCFAA planned to develop guidelines for standards not addressed by the earlier guidelines as well as issue guidelines for new IFRS. This work was to begin when the official Russian language translation of the "stable platform" was published.

### **b. Approach and Results**

121. The project team planned to assist SCFAA in issuing and updating IFRS implementation guidance. To support this activity, the project team facilitated access to the text of the most recent IFRS in English and provided the book Wiley IAS 2004 (Footnote 10) with interpretation and application information for current IFRS. In fact, the activity did not commence during the period of the project due to the delay in release of the official Russian language translation of

current IFRS. The domestic consultant used the English language materials provided for improving the training materials for JSC accountants trained in Task E below.

122. Training on current IFRS was provided to the SCFAA staff in November with a presentation on changes to IFRS embodied in the “IFRS stable platform 2004.” In addition, four of the SCFAA attended the training workshops in Task E below.

### **c. Recommendations**

123. SCFAA should cooperate with professional associations of accountants to develop a plan for issuing and maintaining current guidance for implementation of IFRS to commence when the Russian translation of IFRS becomes available. The process should include assignment of responsibility for initial drafting of guidance documents and a review and approval process. The review and approval process should be modeled after the process used by AAMD in the Republic of Kazakhstan, described in Task D.2 above with review and comments by staff of international public accounting firms and a council of experts to approve the final documents. Since the SCFAA staff does not have sufficient knowledge to draft the guidance documents, the professional community of accountants and auditors should be encouraged to contribute their time and expertise in developing the guidance documents.

124. SCFAA should establish a training program for staff members to upgrade their accounting skills and keep them current on IFRS. If sufficient resources are not available donor assistance should be sought.

## **4. Tajikistan**

### **a. Background**

125. At the inception of the project the ARAMD had developed a new chart of accounts but no further guidance documents on implementing IFRS. In initial interviews the head of ARAMD expressed his opinion that he was the only person capable of drafting commentaries on individual IFRS, conversion guidelines, and new forms of journals and registers. He does not read English and was using an outdated Russian language translation of IFRS (2001) as his reference. He questioned whether or not the domestic consultant could assist him in developing the guidance documents. He had not issued a plan for which documents would be developed or when they would be issued.

### **b. Approach and Results**

126. The project team facilitated access to the text of the most recent IFRS in English for use by the domestic consultant in assisting the head of ARAMD in developing guidance documents. Electronic subscription to IFRS from the IASCF was not appropriate because of the slow Internet connections available to the project team in Tajikistan.

127. The head of ARAMD did not share the schedule for developing MOF-TAJ IFRS conversion guidance with the project team but he did rely on the domestic consultant to assist him on an ad hoc basis. Some of the tasks were outside the scope of the project, but in the interests of cooperation, the domestic consultant assisted in these tasks as well. None took more than a few days to a week of effort.

128. ARAMD benefited from exchange of information by the accounting and methodology departments in other countries participating in the project. Prior to inception of the project, in 2003, a study group from Tajikistan visited Kyrgyzstan to learn about implementation of IFRS there. The head of the ARAMD used information obtained during that visit to develop a new chart of accounts compatible with IFRS accounting treatments. As a result, he was eager to obtain guidance documents in Russian from the other countries. The project team facilitated sharing of both soft and hard copies of the 20 methodological recommendations for individual IAS previously developed in Kyrgyz Republic. Although these recommendations were out of date since they were based on IAS at 2001, they still contained information useful to ARAMD in drafting their own. In late January 2005, AAMD Kazakhstan sent to ARAMD guidance commentaries on 11 IFRS that had just been approved by the Expert Council in Kazakhstan, as agreed at the regional workshop in October 2004. Prior to obtaining the commentaries from Kazakhstan, the head of ARAMD had stated his intention that no methodological commentaries on individual IFRS would be issued before the official Russian translation of IFRS was published. Upon receiving the commentaries from Kazakhstan, the head of ARAMD asked for assistance from the domestic consultant to adapt nine of the commentaries to the Tajikistan situation, compliant with Tajik laws and regulations. Using the model for reviewing commentaries used by AAMD in Kazakhstan, ARAMD asked auditors from two Tajik auditing firms to review and comment on before the commentaries were issued. The domestic consultant facilitated the review process. The list of the IFRS commentaries subsequently issued by MOF-TAJ is included in Appendix 33. In addition to drafting the commentaries, the domestic consultant reviewed and edited the translation of guidance materials from Russian into the Tajik language.

129. During the project, the team assisted ARAMD to develop the following guidelines for IFRS:

- (i) Instructions on completing forms for financial statements that are consistent with IFRS (not including notes or disclosures);
- (ii) Methodological recommendations for how to develop enterprise accounting policy.
- (iii) Methodological recommendations for nine IFRS; and
- (iv) Methodological recommendations for simplified accounting for individual entrepreneurs and small enterprises (outside the scope of the project).

### **c. Recommendations**

130. MOF-TAJ should continue to develop and issue IFRS implementation guidance. If MOF-TAJ does not have the resources necessary to develop the guidance documents, donor assistance should be sought.

131. MOF-TAJ should establish a timetable for issuing guidance for implementing IFRS and communicate the timetable to companies required to implement IFRS.

132. MOF-TAJ should establish a plan for training ARAMD staff in IFRS. Such training will likely require donor assistance. If the education and experience of the staff is not sufficient to benefit from the training, every effort should be made to attract staff with a higher level of knowledge and experience.

## **E. Conduct Workshops for Accountants from Major JSCs**

133. Training courses on IFRS have been conducted in CACs for years. Many accountants have been trained but few companies have actually adopted IFRS. It should be noted that compliance with IFRS means adherence to all aspects of every applicable IFRS including comparative data for previous year/s and all necessary notes and disclosures. Although the ultimate goal for major companies in CACs is full compliance with IFRS, it is not possible for most companies to achieve full compliance in the immediate future. The concept of additional notes and disclosures as required by IFRS is new to companies in the region. International audit firms in the region report that extensive assistance must be provided to client companies in order to develop required disclosures for those companies reporting in full compliance with IFRS or US GAAP (e.g. KASE “A” listed companies). For the purposes of this project “actually adopting IFRS” is interpreted to mean adopting those accounting policies and procedures that are in compliance with IFRS accounting and reporting treatments. While training in IFRS should include information on required notes and disclosures and comparative data required the initial emphasis should be on implementation of proper accounting treatments.

134. The goal of this TA was to facilitate adoption of IFRS in major JSCs. Because of the limited nature of this regional assistance project, taking the successful approach to facilitating adoption of IFRS used in Mongolia in 2003 (Footnote 2) was not feasible. That approach combined training with one-on-one assistance to enterprises by trained professionals to actually effect conversion to IFRS accounting treatments. Since it was not possible to provide the individual assistance in conversion, it was essential that the training workshops emphasize practical examples and case studies for using accounting treatments consistent with IFRS reporting and how to convert to these treatments.

135. To assist in developing practical training materials, the international consultant provided examples of training programs and IFRS conversion materials developed with ADB assistance in Mongolia (Footnote 6) and several USAID funded accounting reform projects in countries of the FSU. In addition, each domestic consultant was provided with the most recent practical guide to implementing IFRS published by the World Bank Group.<sup>9</sup> The training materials used for IFRS implementation workshops for accountants in Kyrgyzstan developed under the previous TA (Footnote 1) in the Kyrgyz Republic were also supplied to each country.

### **1. Azerbaijan**

#### **a. Background**

136. Implementation of IAS and IFRS was delayed in Azerbaijan Republic. Most companies continue to use the accounting system based on the Soviet system. There is a general lack of awareness of IFRS on the part of accountants in Azerbaijan. This lack of knowledge of IFRS and IFRS principles is exacerbated by the fact that the training on IFRS theory that has occurred in many countries of the FSU, especially in conjunction with the Russian language CIPA accounting certification program (Footnote 6), has not been conducted in Azerbaijan. In order to develop high quality training materials that meet the needs of companies that will be required to implement IFRS, more information specific to implementation of IFRS in Azerbaijan was required.

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<sup>9</sup> Van Greuning, Hennie and and Marius Koen. 2004. *International Financial Reporting Standards: a Practical Guide*. World Bank.

## **b. Approach and Results**

137. Pilot Conversion Activity. The international consultant suggested, and the head of APD agreed, that facilitating implementation of IFRS in a pilot enterprise would provide the information necessary for developing practical training materials appropriate to Azeri enterprises. The pilot conversion activities were limited in scope because of the constraints of project time and resources. The project team developed criteria for pilot company selection. (Discussion of selection criteria is included in the report on pilot conversion included in Appendix 34.) The head of APD recommended a company that fulfilled the criteria. (Review of pilot enterprise is included in Appendix 34.)

138. An agreement between the project and the selected pilot enterprise specifying the objectives, purpose, duration, and specific results expected was signed by representatives of MOF-KAZ, the project and the pilot entity. The project agreed to:

- (i) Review the accounting system;
- (ii) Assist the accounting personnel to develop:
- (iii) Accounting Policy for 2005 consistent with accounting treatments in core IFRS;
- (iv) A working chart of accounts
- (v) List of usual transactions based on the chart of accounts
- (vi) Trial balance at the end of the 1st quarter of 2005 based on accounting treatments required by core IFRS
- (vii) Assist the accounting personnel to analyze the information collected, identify specific problems in conversion to IFRS based accounting treatments and document their solution.

139. The letter of agreement is included in Appendix 34.

140. It should be noted that implementation of IFRS in the pilot company was strictly limited in scope. It did not involve the analysis of financial statements from 2004 in order to make the adjustments in recognition, measurement and valuation of the opening balance sheet that is required for full IFRS implementation. Moreover, only the accounting treatments required in ten core IFRS (IAS 1, 2, 7, 12, 16, 17, 18, 20, 40, 38) were addressed. The activity did not result in IFRS compliant financial statements, but rather a trial balance at March 31, 2005 that reflected use of accounting treatments required by IFRS for activity during that period.

141. Even with the limited scope of the pilot entity "conversion", the project team gained practical knowledge of the significant differences between current Azeri accounting practices and IFRS based accounting treatments and the practical problems that will be encountered during implementation in Azerbaijan enterprises. In addition, valuable assistance was provided to the accounting staff of the pilot entity. Letters of reference from MOF-AZE and management of the pilot company describing the conversion activities and benefits derived are included in the report on pilot conversion prepared by the project team and included in Appendix 34. The letter from MOF-AZE noted the high quality of the work and effective cooperation with MOF-KAZ in reporting the results. The lessons learned were used to develop the training program for introducing IFRS implementation to Azeri enterprise accountants in the next phase of this task. Problems encountered emphasized the importance of training enterprise accountants prior to introduction of IFRS and need for Azeri language IFRS text and guidance. (Full discussion of pilot conversion and accounting policy developed are included in the report in Appendix 34. Some of these materials are in Russian language only.)

142. Accountant Training Program. Two five-day workshops for accountants, “Basics of IFRS and Practical Steps for IFRS Conversion”, were conducted in the late spring and summer of 2005. The first workshop was in Baku and the second in Lankaran in the southeastern part of the country. 36 accountants, three consultants and one economist from 33 enterprises participated in the two workshops. MOF-AZE selected the enterprises to be invited to the workshops based on companies that are likely to be designated as PIEs, thus scheduled to be among the first enterprises required to implement IFRS. The list of potential trainees is attached as Appendix 35.

143. The training curriculum was designed to give consideration to the results of the survey conducted in Task B above and experience gained in the pilot company implementation of IFRS. Specific guidelines, implementation recommendations, model charts of accounts, and source documents for IFRS implementation have not yet been promulgated by MOF-AZE. It was, therefore, not possible to conduct trainings using these documents, although the model chart of accounts and recommendations developed in the pilot conversion activities were used as teaching aids. The workshop was conducted in Russian language. The Accounting Law and example chart of accounts and forms for financial statements were distributed to all participants in Azeri language; the rest of the training materials were in Russian.

144. Since Azeri accountants lacked knowledge of IFRS, the training workshop began with presentation of the 2004 Accounting Law and background and theory of IFRS. Six core IFRS were stressed in the training. Case studies based on examples from the pilot conversion were used so that the trainees would have practical experience in applying the standards. The training materials (in Russian language) are included in Appendix 36. The number of participants was limited to 20 and a trainer from the professional association ACAA assisted in the training to increase one-on-one instructor interaction. Involving the professional association served also to enhance sustainability since APD plans to work with ACAA in future trainings.

145. The trainees actively participated in the workshop that required them to apply the information learned in case study exercises. Questionnaires were distributed at the end of the training to assess the quality of the training as well as suggestions relating to how MOF could support transition to IFRS. The trainees gave high ratings to both the instructors and the workshop content. Comments indicated that one of the most valuable aspects of the workshop was the use of practical examples showing the differences between IFRS and the accounting system in current use. Common suggestions from participants in both workshops were:

- (i) More information in Azeri language is needed;
- (ii) Workshops should be held in Azeri language;
- (iii) MOF-AZE should hold more IFRS training events as soon as possible; and
- (iv) Need for direct hands-on assistance during transition to IFRS.

146. Many trainees indicated that they did not have sufficient experience or knowledge of IFRS to envision the problems they would encounter during transition. It should be noted that only one trainee commented on the problems that will arise with differences between financial and tax reporting. This is a common problem in transition to IFRS, however these differences have not existed in Azerbaijan prior to the current changes to the accounting and reporting rules. Rather than indicating that this problem will not occur in Azerbaijan, this lack of concern shows that accountants are unaware of the full scope of the changes required and that a dual systems for financial and tax reporting will be required.

147. Reports on the workshops, including the program, participant lists and evaluations are included as Appendixes 37-38.

### **c. Recommendations**

148. MOF-AZE should begin introductory training for accountants on requirements of the new Accounting Law and principles of IFRS as soon as possible, including conducting trainings in the regions in Azeri or Russian language as appropriate.

149. MOF-AZE should follow trainings in i. above with practical trainings in how to implement IFRS in enterprises. Training materials should be developed in cooperation with ACAA and other professional associations using the core materials developed in the project and incorporating MOF-AZE guidance documents and revised source documents as they are approved.

150. MOF-AZE should anticipate problems that will occur between financial and tax reporting when IFRS (or national accounting standards based on IFRS) are implemented by working with Ministry of Taxes to develop financial/tax reconciliation forms and procedures. Once the reconciliation mechanisms are developed, trainings of tax officials, accounting and audit consultants, and enterprise accountants should be conducted throughout the country.

151. MOF-AZE should explore providing direct consultation in implementation of IFRS in pilot PIEs. If sufficient resources are not available, donor assistance should be sought.

152. Professional associations like ACAA should be encouraged to publish a periodical accounting bulletin emphasizing IFRS conversion in order to educate and inform accountants.

## **2. Republic of Kazakhstan**

### **a. Background**

153. As mentioned in Task D. above, the primary focus of activities in Republic of Kazakhstan was on providing assistance to AAMD in developing methodological recommendations for implementing IFRS. AAMD considered promulgation of this guidance to be a necessary precursor to training on conversion to IFRS. MOF-KAZ's action plan (see Appendix 30 and Task B above) included conducting seminars for accountants in the regions without help from international donor organizations. The project team understood AAMD's urgent need for assistance with the methodological recommendations, but nevertheless saw value in conducting at least an initial training for enterprise accountants. The Director of AAMD agreed that assessing the needs of accountants in the major JSCs not already being assisted by international audit firms would assist them to delineate appropriate training for implementation of IFRS. In addition, AAMD was interested in educating government staff in both AAMD and tax departments in the issues that enterprise accountants will face in implementing IFRS.

### **b. Approach and Results**

154. One three-day training seminar was conducted in Ust'-Kamenogorsk, a city in the Eastern-Kazakhstani Region, the third most populous region after Almaty and Karanganda. Ust'-Kamenogorsk was chosen for its wide range of industrial activity. The seminar was conducted in cooperation with the professional organization CoPAA who invited accountants from major joint-stock companies in the area. 31 accountants from 24 JSCs participated in the seminar. At the request of AAMD, 11 regional tax department staff and three members of the Regional Committee on State Property and Privatization as well as two representatives of a major accounting software company were also invited. Two representatives of AAMD

participated in the seminar as resources rather than trainers. Criteria for JSC participants and the list of participants are included in the domestic consultant's report on the seminar in Appendix 39.

155. The first goal of the workshop was to train accountants from JSCs. Since most JSCs issue financial reports according to KazAS (which largely conform to older IAS) the emphasis in the training was on recent changes to IFRS and the requirements of the "Stable Platform". Topics discussed included the provisions of current IFRS that differ from KazAS, required changes in the company's accounting policy, and IFRS 1: First Time Adoption of IFRS rather than on practical examples of how to convert to IFRS. A model chart of accounts had not yet been approved; therefore AAMD did not want practical case studies included in the program. All approved IFRS methodological recommendations were distributed to the participants. The program of the seminar is included in the seminar report in Appendix 39. Full training materials in Russian language are included in Appendix 40.

156. The second goal of the workshop was to provide an opportunity for accountants to have access to AAMD and tax department staff in order to ask questions and get information on plans for IFRS implementation as well as for AAMD staff to learn what is happening in the field. The participants, especially those from JSCs, actively engaged in the training and asked many questions. Questions were solicited at the beginning of the seminar and at the end of each day as well as during the sessions. The project team and AAMD representatives devoted the time necessary to provide comprehensive answers to each question. Some questions relating to tax issues could not be answered because decisions had not yet been made regarding some of the tax issues relating to IFRS implementation. Participants' remarks made clear that they placed high value on the opportunity for direct and open communication with MOF-KAZ staff.

157. The third goal of the workshop was to provide information to AAMD to use in designing specifications for regional trainings financed by MOF-KAZ to be held later in the year. This information was collected as part of the evaluation forms distributed at the end of the training. (A discussion of the evaluation form and responses is included in the seminar report in Appendix 39.) The accountants were asked to indicate preferred format, duration, and topics for MOF-KAZ IFRS conversion accountant training. This feedback was used by AAMD in the tender offer for the upcoming trainings.

158. Responding to questions on the evaluation form, accountants specified the following ways that MOF-KAZ could act to facilitate transition to IFRS:

- (i) Hasten publication of methodological recommendations for IFRS.
- (ii) Make available Russian translation of current IFRS.
- (iii) Increase communication with the public. (Example: MOF-KAZ does not report which guidance documents are in process or when they will be issued.)
- (iv) Harmonize tax and financial reporting. (This is a frequent request by former Soviet accountants but is rarely practicable.)
- (v) Establish a web site for information and questions.
- (vi) Provide a detailed case example of transition from KAZAS to IFRS.

159. Major obstacles to implementation of IFRS noted either during the sessions or in the questionnaires included:

- (i) Need for more guidance from AAMD, especially in terms of a suggested chart of accounts;
- (ii) Need for a knowledgeable official body to field questions on IFRS and transition issues; lack of high quality training on current IFRS;

- (iii) Lack of availability of Russian translation of IFRS;
- (iv) Onerous requirement for parallel accounting during implementation;
- (v) Changes needed to accounting software or cost of new software;
- (vi) Contradictions between current Kazakhstani legislation and IFRS;
- (vii) Lack of qualified auditors and consultants; and
- (viii) Lack of support from shareholders for the transition.

### **c. Recommendations**

160. MOF-KAZ should make the process of IFRS conversion guidance more transparent to the accounting community by publishing clear information on what specific IFRS guidance will be issued and targeted release dates as well as IFRS reporting deadlines. The schedule could be published on the MOF-KAZ website. Without information on what guidance will be issued when, enterprise accountants tend to postpone implementation of IFRS.

161. In order to facilitate prompt transition to IFRS, MOF-KAZ should begin practical training in how to implement IFRS for enterprise accountants in the regions of Kazakhstan as soon as possible. The training schedule should be planned so that it does not conflict with existing reporting deadlines for JSC accountants.

162. After the initial training workshops recommended above, MOF-KAZ should facilitate roundtables for enterprise accountants and auditors during the period of transition. The roundtables could be modeled after the roundtables conducted in Kyrgyz Republic in TA 3997 (Footnote 1).

## **3. Kyrgyz Republic**

### **a. Background**

163. The previous TA 3779 (Footnote 1) sponsored training events for accountants from large JSCs in the Bishkek area of the Kyrgyz Republic. The training emphasis was on IAS/IFRS implementation rather than theory. Separate workshops were conducted for companies that were still using the old Soviet based system for accounting and reporting and for companies that had implemented KgzAS based on IAS. In addition, a roundtable was held several months after the initial training events for accountants from companies in Bishkek and Chuy oblast converting to IFRS, auditors, the staff of SCFAA, representatives from the tax authority, regulators and other government officials to discuss the issues encountered during transition to IFRS. The roundtable underscored the need for practical training workshops to educate accountants on IFRS and how to effect implementation. This need was greatest for companies located in the southern region of the Kyrgyz Republic who have not had access to training and information exchange available to accountants in the capital city and adjacent regions. The Deputy Director of SCFAA expressed his desire that the primary focus for the TA should be on this activity—providing training in practical aspects of IFRS adoption in the southern regions of the country.

### **b. Approach and Results**

164. Four 10-day workshops were held for accountants using or transitioning from the old Soviet based system of accounting. Three were held in the southern region of the country (two in Osh, one in Djalalabat) and one workshop was conducted in Tokmak, in Chuy oblast. In total 142 accountants from 134 JSCs were trained. In addition, 16 tax inspectors, one auditor, two

company managers, two university professors and four SCFAA staff participated in the trainings. (Lists of participants appear in the workshop reports included as Appendixes 41-43.)

165. The original plan for this task was to conduct two workshops for accountants using the old system and one short workshop for accountants from companies using KgzAS. During the course of the project, the Deputy Director of SCFAA determined that the most urgent need was for training accountants from companies that were still using the old Soviet system for accounting and reporting. After the first workshop, the Deputy Director requested that three additional workshops be conducted, all of them for accountants using or transitioning from the old Soviet system. Because of the urgent need for training accountants from the JSCs in the regions, the decision was made to accommodate the extra workshops. The domestic consultant's contract was extended for an additional 3.5 months in order to provide the time necessary for organizing and conducting four workshops in regions outside of Bishkek in addition to other tasks above.

166. As in TA 3779-KGZ (Footnote 1), SCFAA chose the JSCs to participate in the training with the assistance of the domestic consultant. The workshop locations and JSCs were selected based on those companies required to convert to IFRS during 2004-2006 according to the IFRS implementation timetable (see Appendix 6). During the first workshop there were a number of questions about tax vs. IFRS accounting treatments. As a result, SCFAA invited tax inspectors from the regions in which the companies were located to participate in workshops 2-4.

167. The Kyrgyz Republic experienced political unrest beginning in March 2005. As a result of a change in the government, the Chairman of the SCFAA was replaced in early May. The upheaval caused workshops to be delayed and made scheduling workshops and selecting participants challenging. The domestic consultant provided considerable assistance to SCFAA in scheduling the workshops and identifying and inviting participants. The original training plan included involving senior level SCFAA in the workshops thus providing an additional resource to the trainees and promoting sustainability by transferring IFRS knowledge and training skills to SCFAA personnel. The Deputy Chief of the Monitoring Department of SCFAA assisted with the first workshop. Under the new SCFAA management the plan was changed. A different junior level staff person represented the SCFAA at each of the workshops 2-4. Although this provided needed training in IFRS to the junior staff, it deprived trainees of an important resource and did not support SCFAA's ability to provide training in the immediate future.

168. The training curriculum for the workshops was designed to provide:

- (i) Introduction to IFRS;
- (ii) Comparative analysis of old Soviet accounting system and IFRS compliant system;
- (iii) Explanation of how to develop the balance sheet at the date of conversion; and
- (iv) Information on the changes made to IFRS (improvements project and "stable platform). This information included the newly issued IFRS 6 for Workshops 2-4.

169. The materials used in TA 3779 (Footnote 1) were revised based on the information obtained in Task B above and also to include information on current changes to IFRS. Recommendations made by participants in the workshops were incorporated in subsequent workshops when feasible. After the first workshop, the materials were further revised to include IFRS 6, which was issued in December 2004. Since there is no Russian translation of current IFRS, it was particularly important to give trainees information on the changes and new standards. The training sessions emphasized practical examples and exercises and included several case studies. Participants were encouraged to discuss their "real life" questions and

problems with each other, with the SCFAA representatives, and with the tax inspectors. Several of the accountants had already implemented IFRS. They were able to provide advice to other participants and also learn how to correct mistakes made in conversion.

170. A full list of the materials provided to the trainees is listed in the reports in Appendixes 41-43. These materials included examples of a company accounting policy, conversion case study, and new standard forms for financial reporting. At the final workshop held in Tokmak many of the materials were distributed in soft as well as hard copy to facilitate their use in conversion activities at the enterprises. The complete training materials in Russian language are provided as Appendix 44.

171. The participants took active part in the training, asking many questions and discussing problems encountered or anticipated in their own companies. Some of the questions and issues discussed indicate the lack of knowledge and illustrate the challenges to implementation of IFRS (e.g. the difference between cash and accrual basis). A number of specific questions are included in the workshop reports in Appendixes 41-43. Contact information relating to SCFAA was distributed to participants and both SCFAA staff and the domestic consultant continued to support implementation by corresponding with trainees by both email and telephone to help solve problems that arose during conversion.

172. Evaluation questionnaires were distributed at the end of the workshop. Participants gave high ratings for content, materials and instruction. Several of the participants remarked that they were grateful that accountants from the southern regions were finally receiving attention from the government and ADB.

173. The following suggestions or observations were made by the participants or the domestic consultant:

- (i) Tax inspectors need to learn about IFRS and to be invited to the workshops;
- (ii) The guidance documents were much easier to use than the text of IFRS. More guidance should be published by SCFAA;
- (iii) There is a need for materials and instruction in the Kyrgyz language;
- (iv) There is a need for a website or help line devoted to IFRS and conversion, particularly during the period December 2005 – February 2006 when many companies will be effecting conversion;
- (v) There is a need for follow-up seminars and roundtables to assist in solving problems encountered during conversion and to address particular or specialized topics (e.g. accounting for construction contracts, valuation of assets, etc.);
- (vi) There is a need for knowledgeable consultants to assist in conversion. In many cases local audit firms do not have sufficient expertise in IFRS to assist their clients;
- (vii) Some larger companies with many subsidiaries need in-house training for their accounting staff. If such training could be provided by SCFAA, the companies could the majority of the costs; and
- (viii) Some companies are changing the forms of their reports to the IFRS financial statement format without making the changes in accounting policies and accounting treatments consistent with IFRS. It is a change in form, not substance.

174. Both SCFAA and donor groups who continue to assist in implementation of IFRS should seriously consider these suggestions when planning future activities.

### **c. Recommendations**

175. SCFAA should continue to provide workshops like those provided by the project in other regions of Kyrgyz Republic using lessons learned, training curriculum and materials developed in Task E, updating them when necessary for changes to IFRS. The workshops may need to be offered in Kyrgyz language as well as Russian. If SCFAA does not have adequate resources to provide this training, donor assistance should be sought.

176. SCFAA should conduct follow-up roundtables for accountants from companies after those companies begin the process of implementing IFRS. These workshops would provide needed guidance to ensure that IFRS accounting treatments are applied correctly to promote transparency in reporting under IFRS. If SCFAA does not have adequate resources to provide this training, donor assistance should be sought.

177. SCFAA should establish a website or call in center to answer questions from companies during the transition period. Ideally this service would be coordinated with associations of accounting and auditing. This is made more difficult because there are a number of professional organizations supported by different donor organizations and there is no obvious partner organization for SCFAA.

178. Once JSC accountants begin to use IFRS based accounting treatments they need practical training in management accounting in order to correctly account for costs of providing goods and services. This is especially true for those companies transitioning from the old Soviet based system of accounting. Accurate accumulation and reporting of costs of production, sales and services lead to better management and enhance sustained use of IFRS. SCFAA will not be able to provide this training. Cooperation with professional organizations and donor assistance is required. The training could be based on the successful management accounting training conducted in Mongolia in TA 3913-MON (Footnote 2).

## **4. Republic of Tajikistan**

### **a. Background**

179. ARAMD requested that training activities focus on the 29 pilot enterprises selected by MOF-TAJ for initial implementation of IFRS. These companies are comprised of approximately 130 subsidiaries. It was anticipated that most of these companies would require considerable assistance to implement IFRS. The survey of pilot enterprises in Task B above indicated that more than 60% of the accountants in these companies have not been trained in IFRS. In addition, training in practical application of IFRS had not been conducted in Tajikistan.

### **b. Approach and Results**

180. Two IFRS training workshops were held in Tajikistan in between April and June 2005. One was in Dushanbe and one in the northern part of the country in Khujand. Both were scheduled to occur after annual reports for 2004 had been submitted. As a result of the success of the first two workshops, the head of ARAMD requested a third workshop to be held in Khujand. The domestic consultant's contract was extended an extra month (from seven to eight months) to accommodate a third training event. Members of two professional associations assisted in the development of training materials that incorporated examples and casework appropriate to the Tajik setting. They also assisted in conducting the workshops, which allowed more one-on-one assistance to the participants and enhanced sustainability of the training

program. A member of the Public Institute of Professional Accountants and Auditors of the Republic of Tajikistan assisted in the Dushanbe workshop and a member of the National Association of Accounting Teachers assisted in the two workshops held in Khujand.

181. 87 accountants, many of whom were chief or deputy chief accountants in their companies, from 45 companies from 19 of the 29 pilot enterprises were trained in the three workshops. In addition, the chief accountants from the Ministries of Industry and Transportation and Department of Railways, two accountants from the Dept. of Railways and chief accountant of a development fund also participated. (Lists of participants are included in the workshop reports in Appendixes 45-47.) Although staff of ARAMD was encouraged to participate in the workshop in Dushanbe, they attended only a few sessions.

182. The workshop curriculum was developed giving consideration to the results of the survey in Task B, which indicated that most of the pilot companies were using the old Soviet based accounting systems. The course was designed to include a more comprehensive introduction to IFRS than in countries where IAS-based national standards were being used. Each workshop was conducted over a 15-day period in the afternoons so that accountants could attend while being available for work during the first half of the day.

183. Training topics included:

- (i) Introduction to IFRS and the underlying bases for IFRS accounting treatments;
- (ii) Discussion of individual IAS/IFRS;
- (iii) Introduction of new chart of accountants and other materials issued by MOF-TAJ;
- (iv) Comparative analysis of current accounting system and IFRS;
- (v) Explanation of step-by-step process for transition to IFRS including development of accounting policy; and
- (vi) Case work on conversion to IFRS.

184. Full training materials in Russian language are attached as Appendix 48.

185. A list of the training materials provided to the participants is included in the workshop reports in Appendix 45-47. The materials included a training manual on introduction of IFRS and conversion and handouts and examples for each IFRS covered in the workshop. Two case study examples of conversion at two different enterprises were included.

186. Participants actively participated in the workshop. They were especially active in the training sessions devoted to conversion to IFRS based accounting treatments. The instructors were knowledgeable in the new Tajik tax code and could respond to questions relating to differences between IFRS and tax reporting.

187. At the end of the workshop participants responded to an evaluation questionnaire. They indicated that the workshop exceeded their expectations, especially in terms of the training materials and the ability of the instructors to discuss and answer questions relating to the practical problems encountered in implementing IFRS.

188. The following were suggestions made by participants for ways MOF-TAJ could advance accounting reform and implementation of IFRS in Tajikistan:

- (i) Continue conversion workshops including follow-up workshops for attendees;
- (ii) Invite representatives of the regional tax authority to the workshops;

- (iii) Issue more commentaries on how to implement IFRS, including mapping of account from the old chart of accounts to the newly implemented chart of accounts;
- (iv) Provide individual consulting services to pilot enterprises to effect conversion to IFRS; and
- (v) Create consulting center or web site devoted to IFRS conversion. The web site would be enhanced by offering an on-line advisory service on specific problems of implementation.

**c. Recommendations**

189. MOF-TAJ should cooperate with professional accounting associations to provide training workshops for accountants in pilot enterprises, especially for enterprises in the areas not included in the Dushanbe and Khujand workshops. The schedule for workshops should include both introductory workshops modeled after the workshops offered in this project and a second round of workshops and roundtable discussions. Whenever feasible, representatives of the tax authority should be invited to participate in either the workshops or roundtables. Since it is unlikely that MOF-TAJ will have sufficient resources to sponsor further training workshops, donor assistance should be sought.

190. Professional accounting associations should be encouraged to establish web sites to provide on-line information on IFRS and advisory services to accountants in close cooperation with MOF-TAJ. If the associations do not have sufficient resources to establish and maintain such a web site, donor support should be sought.