Financial Management and Governance Issues in the Republic of Uzbekistan

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Prepared Under Regional Technical Assistance (RETA) 5877: Strengthening Financial Management and Governance in Selected Developing Member Countries.
Foreword

This report describes financial management and governance arrangements in Uzbekistan, identifies deficiencies in those arrangements, and presents recommendations to address those deficiencies. For the purposes of this study, financial management and governance arrangements are narrowly defined as being accounting and auditing arrangements and practices.

The report was prepared for the Asian Development Bank by Barry Reid (International Consultant) with overall guidance from Francis B. Narayan (Lead Financial Specialist, ADB) under Regional Technical Assistance (RETA) 5877 – Strengthening Financial Management and Governance in Selected Developing Member Countries. Nailya Ablieva and Dr Sobir Safaev provided excellent research assistance. The contents of the draft report were discussed and debated with representatives from the Government, the private sector, and international organizations at a workshop held in Tashkent on 10-11 July 2000. The issues and recommendations were further discussed at an international conference at ADB headquarters in Manila on 16-18 October 2000.

This report should be read in conjunction with the Summary Report, which identifies and examines selected issues in relation to financial management and governance.¹

The authors would like to offer their appreciation to the numerous officials, researchers, and agencies that gave up their valuable time and made materials available during the course of the research. In particular, we would like to thank: V. Gnanathurai (Resident Representative) and the staff at ADB Uzbekistan Resident Mission for their support; Honorable Dr Djuraev Turobjon (Deputy Minister for Finance) and Professor Yuri Itkin (President, Association of Accountants and Auditors) for chairing the Tashkent workshop; Kunio Senga (Programs Manager, Programs Department West, ADB), for moderating the Manila conference session at which this report was discussed; and Shukurov Shukhrat (Chief of Banking and Finance Section, Cabinet of Ministers) and Honorable Dr Djuraev Turobjon, again, for their involvement in the study and their representation at the Manila conference.

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Currency Equivalents  
( as at 31 October 2000 )

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>Sum</th>
</tr>
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<tbody>
<tr>
<td>SUM 100</td>
<td>$0.00326</td>
</tr>
<tr>
<td>$100</td>
<td>SUM 307.25 (Official rate)</td>
</tr>
</tbody>
</table>

Note: On 1 July 2000, the Republic of Uzbekistan moved to partial currency convertibility. As at 9 July 2000, the market rate was around $100 = SUM 782.50.

Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAA</td>
<td>Association of Accountants and Auditors</td>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>DCEEA</td>
<td>Department for Coordination of External Economic Activities</td>
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<tr>
<td>DMC</td>
<td>Developing Member Country</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EU-TACIS</td>
<td>European Union - Technical Assistance to the Commonwealth of Independent States</td>
</tr>
<tr>
<td>FSU</td>
<td>Former Soviet Union</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HDCR</td>
<td>Head Department of Control and Revision</td>
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<td>IAS</td>
<td>International Accounting Standard</td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>MMS</td>
<td>Ministry of Macroeconomics and Statistics</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>NAS</td>
<td>National Accounting Standard</td>
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<td>PCR</td>
<td>Production Cost Regulation</td>
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<tr>
<td>PIP</td>
<td>Public Investment Program</td>
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<td>RETA</td>
<td>Regional Technical Assistance</td>
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<td>RUA</td>
<td>Republican Union of Auditors</td>
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<tr>
<td>SOE</td>
<td>State-owned Enterprise</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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</table>

Notes

( i ) The financial year of all organizations, including the Government, ends on 31 December.

( ii ) In this report, $ refers to US dollars.
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Executive Summary

Background

The Republic of Uzbekistan was founded on 31 August 1991 following independence from the Soviet Union. Its capital is Tashkent. Following independence, the Government sought to prop up its Soviet-style command economy with subsidies and tight controls on production and prices. Faced with high rates of inflation, the Government began to reform in mid-1994 by introducing tighter monetary policies, expanding privatization, slightly reducing the role of the state in the economy, and improving the environment for foreign investors. Uzbekistan initially responded to the negative external conditions generated by the Asian and Russian financial crises by tightening export and currency controls within its already largely closed economy.

While Uzbekistan’s gross domestic product (GDP) fell by about 20 percent during 1991-1995, the economic contraction was not as severe as that of other Central Asian republics of the former Soviet Union (FSU). Uzbekistan resumed moderate growth in 1996 averaging 4.8 percent annually in the two years that followed. Growth has since slowed and this is attributed to persisting needs for additional structural transformation, including large-scale privatization, agricultural liberalization, and capital market development. GDP growth of 4.4 percent in 1999 was maintained, although international prices for Uzbekistan’s primary exports continued to be weak. Major structural reforms to sustain macroeconomic stability and growth are necessary, as well as policy measures to soften the short-term social effects of these reforms.2

Developments and Challenges

Accounting in the former Soviet Union (FSU), which included Uzbekistan, catered to the needs of statistical and tax authorities. It consisted of adhering to a prescribed chart of accounts that was designed to meet the requirements of the central planning system. The primary function of accounting was to record the factual data necessary to assess plan accomplishments, rather than to assess an enterprise’s financial situation. The focus of Soviet accounting was more on bookkeeping than on the process of accounting. In fact, they were

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considered the same thing. Consequently, public accounting firms and an accountancy profession were never necessary. In fact, accountancy had a very poor reputation in the FSU. One study ranked accountancy at 91st place in terms of prestige on a list of 92 professional occupations.3

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

Objectives and Responses

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

In contrast to other FSU countries, Uzbekistan realized that, for accounting reform to succeed, it would be necessary to separate financial accounting from tax accounting to prevent tax rules from distorting financial information. The Production Cost Regulation (PCR), in simple terms, guided accountants in how to prepare income statements. The PCR was a key element in the Uzbekistan accounting reforms; this has been belatedly recognized by other FSU countries, which in the past couple of years, have begun to examine Uzbekistan’s experiences in this respect.

Uzbekistan’s first professional accountancy body, the Association of Accountants and Auditors (AAA) was established in 1992 and, in 1993, the UNDP/EU-TACIS-supported Accounting Reform Project began. One of this project’s objectives was to provide accountancy and auditing training to over 100,000 ‘accountants.’ The enactment of the Accounting Law in 1996 enshrined general accounting principles, the roles and responsibilities of entities, accounting practices, and financial reporting requirements,

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EXECUTIVE SUMMARY

in law. Notably, the Accounting Law 1996 applies equally to public and private sector organizations. The first set of IAS-based National Accounting Standards (NASs) was promulgated in 1998. In 2000, the Auditing Law has tightened auditor-certification procedures and clarified the roles and responsibilities of auditors.

Accounting and Auditing in Uzbekistan

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

Asset management arrangements for public and private sector organizations are stipulated in the Accounting Law 1996 and NAS 19. The basic financial reporting requirements, in accordance with the Accounting Law 1996, Enterprise Law 1991, and the Taxation Code 1998, are as follows: (i) accounting data must be prepared with guidance from NASs, and financial reports must be based on that accounting data; (ii) the annual financial reports of enterprises and organizations must be made available to banks, stock exchanges, investors, lenders, creditors, and others; and (iii) open companies, insurance organizations, banks, stock and commodity exchanges, investment funds, and other financial agencies, must publish their audited financial reports.

The MOF estimates that Uzbekistan currently has around 400,000 to 500,000 public and private sector ‘accountants’ of whom 148,000 are chief accountants (the Accounting Law 1996 requires that every organization must have a chief accountant although chief accountants do not have to

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4 Decree of the Cabinet of Ministers (No. 54). 5 February 1999.
5 Open companies are allowed to issue shares to the general public. Closed companies are not allowed to issue shares to the general public.
be certified accountants). These ‘accountants’ are equally divided between the public and the private sectors. This surprisingly high estimate is due to: the predominance of manual-transaction processing systems; the inclusion of bookkeepers, tax inspectors, and record keepers in the estimate; and significant compliance requirements imposed on organizations by regulations and statistical reporting requirements – Uzbekistan has an abundance of regulations and decrees, many of which are accompanied by the requirement to make reports to a range of government agencies.

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

Auditing licences are currently issued by the MOF to auditing companies, which must employ at least two certified auditors. The new Auditing Law 2000 will tighten up auditor licencing. In particular, it states that audits can only be conducted by licenced audit firms (all audit firms must be registered with the Ministry of Justice); makes audit firms legally liable for the quality of their work and for the accuracy of their opinions; requires that an audit firm must employ at least two certified auditors; and requires that audit firms must meet and maintain minimum capital adequacy requirements. Article 21 of the Auditing Law 2000 states that audit licences will be issued by the MOF which will also: design and approve norms regulating audit activities including national audit standards; control compliance of auditing organizations with their licensing agreement; set qualification requirements for candidates to be qualified as auditors; approve educational programs and the framework of examinations; conduct exams; revoke and terminate audit licences and publish information in the media about suspension or termination of audit licences; issue, suspend, and revoke qualification certificates; and maintain a register of qualified individuals and licenced organizations. The new process for issuing auditing licences was approved by the Cabinet of Ministers on
The Auditing Law 2000 also provided for the establishment of the Republican Union of Auditors, which is a nongovernmental, noncommercial organization that represents auditors on a voluntary basis. The Union’s objectives are to assist in the development of, and to provide support to, professional auditors, and defend their professional interest. Its role will be to: participate in the design and approval of the curriculum and structure of the qualifying examinations, conduct the qualifying exams, and design and prepare proposals on improving audit legislation.

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

Four of the five largest international accounting firms are represented in Uzbekistan. As of June 2000, there were 517 registered auditing companies in Uzbekistan. It is estimated that 108 of these auditing companies are subsidiaries of government agencies. The Government has recognized that these arrangements undermine auditor independence and the new Auditing Law 2000 prohibits such linkages. In addition, 394 of these auditing companies have capital ranging from SUM 200 to SUM 100,000 ($0.29–$147.00). Many of these companies do not have offices and, in the opinion of some workshop attendees, do not even conduct audits. Moreover, in undertaking audits, many of these firms expose themselves to liabilities far in excess of their financial resources – i.e., they are not financially accountable for their audit conclusions (opinions). In recognition of this situation, the new Auditing Law 2000 stipulates minimal capital requirements for auditing firms.

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Professional Infrastructure

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

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

Accounting and Auditing Standards

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

The Auditing Law 2000 has only recently introduced the concept of auditing standards to Uzbekistan. Auditing standards are being developed based on International Standards on Auditing. As of June 2000, 10 out of the 24 National Auditing Standards that had been developed had been approved.
**Executive Summary**

**Education and Training**
Like other states of the Former Soviet Union (FSU), Uzbekistan has a very high literacy rate (99 percent) and high educational standards. To maintain high education levels, and to improve the effectiveness of the education system in meeting the skills requirements and societal needs in a market economy, the Government is implementing an education system reform program. This program, called the National Program for Personnel Training was approved by Parliament in 1997. ADB is providing substantial support through project loans and technical assistance.\(^7\) It should be noted that, due to the lack of differences between public sector and private sector accounting practices, public sector and private sector accountants are trained under the same programs.

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

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

\(^7\) See for instance, Loan-1594: Basic Education Textbook Development, for $20.0 million, approved on 17 December 1997.
planning systems. The Government is continuing to improve fiscal management systems and processes, particularly since 1996. In addition, a public investment planning (PIP) framework and process has been successfully established. The PIP framework covers capital budgeting and planning for the public sector. With respect to budgeting, the present Law of Budget Principles dates back to 1988. A new law on Organization of the Budget of the Republic of Uzbekistan was drafted in 1995, with USAID assistance, but was never approved. In 1999, in place of this proposed law, the Cabinet of Ministers approved a resolution on Improved Order of Budget Financing. This resolution updated revenue classifications to international standards, and adopted some of the more acceptable provisions that had been included within the proposed law.

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

**Donor Assistance**

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

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

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

9 See, for instance, TA No. 2948-UZB: Capacity Building in Education Finance, for $500,000, approved on 17 December 1997.
processes, and to strengthen the protection of investors' rights within enterprises in Uzbekistan.

- **TAs No. 2771-UZB and 3190-UZB:** Improving Aid Coordination and Management ($600,000 and $800,000). These TAs are supporting the development of a comprehensive and fully-integrated planning, budgeting and aid-management system, and a transparent procurement system.

- **TA No. 3045-UZB:** Developing Commercial Banking Skills ($1 million). This TA supported the development of training capacity within the Banking and Finance Academy.

- **TA No. 3352-UZB:** Strengthening the Banking Sector ($1 million). In addition to providing specific assistance to two commercial banks, this is supporting a comprehensive evaluation of the banking sector. The TA will also recommend measures to improve financial disclosure and corporate governance within the sector.

- **Proposed Regional TA for an Audit Training Program for Central Asian Republics.** The objective of this proposed TA, to Kazakhstan, the Kyrgyz Republic, and Uzbekistan, is to enhance government auditing capacity by introducing basic auditing concepts and techniques, and introducing basic fraud investigation techniques.

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

**USAID** has provided substantial support to improve accounting and auditing capacity and arrangements, including: (i) **Financial Sector**\(^\text{10}\) - USAID is providing support to improve bank supervision and the ability

of the Central Bank to enforce tightened financial performance and reporting requirements for commercial banks. In this respect, USAID has supported the training of accountants in commercial banks and assisted the Central Bank to develop reporting requirements for all commercial banks; (ii) Fiscal Management\textsuperscript{11} – The purpose of this project is to improve fiscal policies and fiscal management practices. In early 1998, a new tax code and a proposed Budget System Law were introduced to Parliament but neither was passed by Parliament. USAID assistance has been responsible for three budget reform seminars and one seminar in fiscal reform; and (iii) Accounting Reform\textsuperscript{12} – This project represents a continuation of the EU / UNDP efforts (see above) and was launched in late 1998. USAID advisors are working with the Ministry of Finance to introduce a new Chart of Accounts that is in accordance with IASs. Substantial training is also being provided to accountants. Since 1993, JICA (Japan) has organized training in Japan’s financial and audit system for about 20 trainees from Uzbekistan. TICA (Turkey) has provided accounting training to 106 Uzbek financiers, and has supported the development of the Banking and Finance Academy through the training of teachers and students (1997-1998). The European Bank for Reconstruction and Development supported the foundation of the Banking and Finance Academy. The British Council has been providing ongoing support for accounting training. The project began in September 1992 with the objective to assist in the process of reforming accounting and accounting education. Under the project, over 300 teachers of accounting, finance, and management from accountancy education institutions throughout Uzbekistan have been intensively retrained in the new accounting requirements of a market economy. The approach taken has been to train accounting trainers. Nottingham Business School, the project consultant, has established Accountancy Training Resource Centers in leading accounting education institutions. Each resource center has well-equipped teaching rooms, a strong organizational structure, computer and reprographic facilities, and Internet and e-mail facilities.


\textsuperscript{12} 110-S001.3: Accelerated Development and Growth of Private Enterprises. $6,200,000. 1998–.
I. Introduction

1. Study Background

The 1997 financial crisis in Asia exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, lack of transparency, and weak supervision and regulation.13

The Asian Development Bank (ADB) has been taking a number of initiatives to assist Developing Member Countries (DMCs) in overcoming these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions in the DMCs. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

Regional Technical Assistance (RETA) No. 5877 – Strengthening Financial Management and Governance in Selected DMCs – was approved by ADB for the purpose of carrying out initial studies to identify gaps and weaknesses in financial management and governance, and to recommend courses of action to overcome these problems.

2. Objectives

ADB has demonstrated its stand on the importance of good governance, through effective financial management, for sustained economic development. This RETA involved a diagnostic review of the existing accounting and auditing support and standards available in the selected DMCs. After carrying out this diagnostic review, the study assessed the need for assistance to improve the current situation. Objectives were to:

(i) assess the capability and capacity within each country to provide efficient and effective accounting and auditing support to meet international standards and best practices, and address the issue of training and capacity enhancement

( ii ) determine the existing accounting and auditing standards of each country
( iii ) assess the degree of deviation from International Accounting and Auditing Standards (IAAS) while identifying weaknesses and possible corrective options
( iv ) discuss the fieldwork findings and introduce the concepts of the international standards through workshops
( v ) develop reference materials for potential users of the IAAS, and
( vi ) determine the level and type of assistance needed by each country in order to provide acceptable accounting and auditing support to the private and public sectors.

3. Scope

The RETA involved an in-depth study of the key issues relating to accounting and auditing support in the selected DMCs, identified gaps and weaknesses that need to be addressed to improve accounting and auditing support, and developed assistance programs in collaboration with other donors to rectify the identified weaknesses. Uzbekistan was one of seven countries that participated in the RETA.

4. Country Case Studies and Workshops

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

The second part of this study disseminated the findings of the country research through in-country workshops. Each workshop provided a cross-section of views on the findings of the research and established ways to move forward to improve financial management and governance in the country. After carrying out the assessment of accounting and auditing support in Uzbekistan, the study findings and recommendations were discussed at a workshop in Tashkent on 10-11 July 2000, and at an international conference at ADB headquarters in
INTRODUCTION

Manila on 16-18 October 2000. This report incorporates feedback from the workshop and the conference.

5. The ADB Focus on Financial Governance in Uzbekistan

An interim operational strategy has guided ADB’s assistance to Uzbekistan since 1995, when it became a member. The strategy has focused on a small number of priority areas: (i) agriculture, including financial support of small and medium-size agro-industrial enterprises; (ii) infrastructure rehabilitation, especially in the road and railway sub-sectors; and (iii) education. In response to specific government requests, technical assistance activities have been conducted and programmed in the area of finance.¹⁴

6. Uzbekistan

The democratic Republic of Uzbekistan was founded on 31 August 1991 following independence from the Soviet Union. The Republic of Uzbekistan comprises 13 regions and the autonomous Republic of Karakalpakstan. Uzbekistan and Liechtenstein are the world’s only doubly landlocked countries. The country, which is situated in central and northwestern Asia, has a land area of 447,400 km². It has borders with Kazakhstan, Kyrgyz Republic, Turkmenistan and Afghanistan.

The population of over 24 million is growing at around 1.3 percent per year. Major cities are Tashkent (over 2 million), Samarkhand (365,000), Namangan (362,000), and Andijan (320,000).

Uzbekistan’s population comprises people from 100 different nationalities and ethnic groups. The largest groups are Uzbeks (75.8 percent), Russians (6 percent), and Tajiks (4.8 percent). The population is predominantly Muslim (88 percent) with an Eastern Orthodox minority (9 percent). The national language is Uzbek, spoken by 74 percent of the population. Native Russian (14 percent) speakers form a sizeable minority. Uzbekistan’s assets include abundant natural resources and a well-educated population - 99 percent of the population is literate. Uzbekistan is the world's second largest cotton exporter, a major producer of gold and natural gas, and a regionally significant producer of chemicals and machinery. Major exports include cotton, gold, natural gas, mineral fertilizers, nonferrous metals, oil and oil products, textiles, food products, and automobiles. Major imports

are machinery and parts, consumer durables, and other food. Uzbekistan’s major trading partners are Russia, Ukraine, Eastern Europe, the United States, and Western Europe.

Following independence, the Government sought to prop up its Soviet-style command economy with subsidies and tight production and price controls. Faced with high rates of inflation, the Government began to reform in mid-1994 by introducing tighter monetary policies, expanding privatization, slightly reducing the State’s role in the economy, and improving the environment for foreign investors. Uzbekistan initially responded to the negative external conditions generated by the Asian and Russian financial crises by tightening export and currency controls within its already largely closed economy.

Uzbekistan’s GDP fell by about 20 percent during 1991-1995, but this economic contraction was not as severe as that of other Central Asian republics of the FSU. Moderate growth was resumed in 1996 averaging 4.8 percent annually in the two years that followed. Growth has since slowed and this is attributed to persisting needs for additional structural transformation, including large-scale privatization, agricultural liberalization and capital market development. Uzbekistan is one of only a few transition countries that operate a segmented foreign exchange market and two exchange rates, in connection with strict controls of export and import markets. The gradual liberalization of the foreign currency regime began on 1 July 2000 when limited currency convertibility was introduced. GDP growth of 4.4 percent in 1999 was maintained, but prices for primary exports continued to be weak. Structural reforms to sustain economic stability and growth, combined with policy measures to ease short-term social effects, are necessary.

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15 Among the countries of the Baltics, Russia, and other countries of the Former Soviet Union, only Belarus and Turkmenistan apply similar foreign exchange regimes to that of the Republic of Uzbekistan.


II. Accounting and Auditing in Uzbekistan

This chapter presents an overview of accounting and auditing arrangements in Uzbekistan. It provides context for the following chapters on professional infrastructure, accounting and auditing standards, accounting and auditing training, and government budgeting and accounting arrangements. The chapter comprises 12 sections, in two parts, as follows:

Part One. Accounting
1 - Introduction
2 - Issues and Responses since 1991 - describes the issues that faced Uzbekistan in 1991 when the transition process to a market economy began. It also summarizes the actions that were taken in response to these issues.
3 - The 'Uzbekistan Accounting System' - describes accounting arrangements including: governing laws and regulations, accounting bases, asset management and internal control systems, and accounting information systems.
4 - Financial Reporting Requirements - describes financial reporting requirements and efforts to convert enterprises to international accounting standards.
5 - Bookkeepers and Accountants - describes the estimates of bookkeepers and accountants in Uzbekistan and why these estimates appear so high.

Part Two. Auditing
6 - Introduction
7 - Governing Laws and Regulations - describes the laws that govern Uzbekistan auditing practices and audit requirements.
8 - Audit Requirements - describes the requirements for organizations to be audited.
9 - Auditor Licencing - describes the process and requirements for auditor licensing.
10 - Bank Auditing - describes arrangements for auditing banks.
11 - Public Sector Auditing - identifies issues that complicate the public sector auditing process.
12 - Accounting and Auditing Firms - describes the presence of domestic and international accounting firms in Uzbekistan.
Part One. Accounting

1. Introduction

Accounting in the Soviet Union, which included Uzbekistan, catered to the needs of statistical and tax authorities. It did not provide the information required by securities markets or company managers in a market economy. Nor did it support an economically rational system of enterprise taxation, since many production costs were not deductible for tax purposes (e.g., certain payroll and interest expenses).

In common with other former Soviet Union (FSU) countries, Uzbekistan has little history or tradition of using market-based accounting concepts such as going concern, accrual basis, consistency and substance over form. In particular, the Soviet accounting system strictly applied the historical cost convention to record assets – assets that were never revalued. Moreover, provisions for doubtful debts or obsolete inventories were not estimated – doubtful accounts were written off only when they were clearly not collectable. In essence, a risk-free environment was assumed where no thought need be given to valuation of assets or determination of profit. Goods were not bought and sold in a free market and there was no risk of a decline in value. Enterprises did not answer to investors, bankers, or regulators for their performance.

Accounting consisted of adhering to a prescribed chart of accounts that was designed to meet the requirements of the central planning system. The primary function of accounting was to record the factual data necessary to assess plan accomplishments, rather than to assess an enterprise's financial situation. The focus of Soviet accounting was more on bookkeeping than on the process of accounting. In fact, they were considered the same thing. Accounting, however, involves much more than bookkeeping. Bookkeeping only entails the recording of economic events while the accounting process includes application of generally accepted accounting standards to identify, measure, record, and report those events and their effect on an enterprise. Consequently, public accounting firms and an accountancy profession were never necessary. In fact, accountancy had a very poor reputation in the FSU. One study ranked accountancy at 91st place in terms of prestige on a list of 92 professional occupations.18

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On independence from the Soviet Union in 1991, Uzbekistan took a gradual approach to market reforms. These reforms included making accounting and financial reporting practices and arrangements consistent with the needs of a market economy. However, the Soviet accounting system created a sound basis on which to build. First, the system used many concepts of modern accounting including accrual measurement and double entry bookkeeping. Second, large numbers of bookkeepers were trained in these concepts and were proficient in their application.

2. Issues and Responses since 1991

In the decade since the beginning of the transition, Uzbekistan has made gradual progress in terms of developing an accounting infrastructure suitable to the needs of a market economy. The magnitude of these accomplishments is best viewed by examining the 1991 situation. First, bookkeepers numbered in their hundreds of thousands but there were no qualified Certified Public Accountants (CPAs) let alone a professional accounting body. Second, financial information on the performance and position of organizations was not publicly available. In any case, this information did not meet international standards nor did it cater to the needs of investors or lenders. Third, the users of financial information (investors and creditors) were unfamiliar with what they should demand from organizations. Fourth, financial information was not independently verified (audited) to international standards and could not be relied upon. Fifth, the entire legal framework was geared to central planning and specified exactly what information should be produced, how it should be produced, and to whom it should be provided. Finally, the regulatory entities that generally exist in market economies to oversee financial disclosure practices, such as securities exchange commissions, did not exist.

Many FSU accountants believed that transforming accounting to a market-oriented system could be accomplished simply by modernizing the chart of accounts according to internationally accepted accounting principles. A new chart of accounts was introduced in Russia in 1992 that attempted to move the Russian system closer to internationally accepted standards by providing for use of accrual accounting, recognition of some of the costs of production as costs of the product and other costs as costs of the period, recognition of a provision for bad
debt and future warranty payments, and accounts to recognize the issuance of ownership shares.

Uzbekistan also took this route. In 1994 Uzbekistan adopted a new chart of accounts that had been developed by a United Nations international expert group and that incorporated some western accounting principles. However, it was necessary to supplement the chart of accounts by improving the accounting process that includes not only the recording of transactions but also their proper identification, measurement, and reporting. Since Uzbekistan had the tradition of enshrining bookkeeping and accounting practices in law, the Government decided to draft new regulations and laws to transform the system. It was recognized from the beginning that the implementation of these regulations and laws would require a large and intensive training program in the short run. In the long run, the accounting profession would have to be strengthened so that it could train its members and contribute to their professional development.

In 1992, a working group, led by the Ministry of Finance (MOF), was organized to draft the new legislation. The working group was supported by the United Nations Development Program (UNDP) and EU-TACIS (European Union – Technical Assistance to the Commonwealth of Independent States) short-term experts. The working group membership was drawn from MOF, the State Tax Committee, the Association of Accountants and Auditors (AAA), UNDP, EU-TACIS and prominent chief accountants from the main State-owned enterprises (SOEs). Work was conducted from January 1994 until December 1995. During these two years, the working group produced: a draft accounting law, including formats for financial statements; a production-cost regulation and associated materials; a revision of the 1992 chart of accounts; a draft auditing law; recommendations for a standard on foreign currency translation during periods of inflation, and preliminary recommendations for the strengthening of the accounting profession. Further developments in Uzbekistan accounting and auditing arrangements took place between 1996 and 2000. Table 1 summarizes these developments.
Table 1: Development of Uzbekistan’s Accounting Infrastructure

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>Uzbekistan receives a new Chart of Accounts from Moscow. The Republic of Uzbekistan is established following independence from the Soviet Union.</td>
</tr>
<tr>
<td>1992</td>
<td>The Ministry of Finance establishes a working group to draft accounting and auditing legislation, revise the chart of accounts, and to develop a ‘production-cost regulation’. The Association of Accountants and Auditors is established.</td>
</tr>
<tr>
<td>1993</td>
<td>The Production Cost Regulation (PCR) is promulgated which, in simple terms, guides accountants on how to prepare income statements. It also separates financing accounting from tax accounting. The UNDP / EU-TACIS supported Accounting Reform Project begins. One of its objectives is to provide accountancy and auditing training to over 100,000 ‘accountants’.</td>
</tr>
<tr>
<td>1994</td>
<td>The first Accountancy Training Resource Center is established at Tashkent State Economic University with assistance from the British Council. A new Chart of Accounts is adopted that incorporates aspects of western accounting principles.</td>
</tr>
<tr>
<td>1996</td>
<td>The Law on Accounting is approved. The law defines general accounting principles, the roles and responsibilities of entities, accounting practices and financial reporting requirements. It applies to both public and private sector organizations.</td>
</tr>
<tr>
<td>1997</td>
<td>Further Accountancy Training Resource Centers are established at the Samarkhand Cooperative Institute and at the Andijan Institute of Economics and Engineering.</td>
</tr>
<tr>
<td>1998</td>
<td>The first set of National Accounting Standards, which are based upon International Accounting Standards, is promulgated.</td>
</tr>
<tr>
<td>2000</td>
<td>The Law on Auditing is promulgated. The law tightens auditor certification procedures and clarifies the roles, responsibilities and liabilities of auditors. A revised Chart of Accounts is promulgated which is aligned with National Accounting Standards. The first set of National Auditing Standards, which are based on International Auditing Standards, is promulgated. The Law on Auditing provides for the establishment of a new professional body – the Republican Union of Auditors. The Association of Accountants and Auditors is admitted to full membership of the International Federation of Accountants (IFAC).</td>
</tr>
</tbody>
</table>

3. The ‘Uzbekistan Accounting System’

Governing Laws, Regulations, and Other Requirements
The Accounting Law 1996 governs the ‘Uzbekistan accounting system’ – it came into force on 1 January 1997. The process by which this Law was developed is described above. The Law defines the general accounting principles, the roles and responsibilities of entities, accounting practices, and financial reporting requirements. The school of key laws, regulations, and requirements that govern accounting arrangements in Uzbekistan are described in the following table.

<table>
<thead>
<tr>
<th>Title</th>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Law</td>
<td>1996</td>
<td>This Law came into effect on 1 January 1997 and was developed with EU-TACIS and UNDP assistance. It governs the accounting and financial-reporting arrangements of government agencies, other legal entities and individuals conducting entrepreneurial activities. The Law assigns most responsibility for the regulation of accounting and financial reporting, and the design and approval of accounting standards, to the Ministry of Finance. The Central Bank is responsible for the accounting and reporting practices of financial institutions. The Law makes organization chiefs responsible for accounting arrangements. It also requires that internal reporting systems, robust record-keeping procedures, external reporting systems, and systems for meeting taxation requirements, be established and maintained. It requires that financial reports contain balance sheets, results reports (income statements), fixed assets reports, fixed assets movement reports, cash flow reports, capital reports, and supporting notes, calculations and descriptions. Article 19 requires that financial reports be submitted to tax agencies, organization owners, government statistics agencies, and other agencies according to regulations.</td>
</tr>
</tbody>
</table>

The Law on Accounting was submitted to the Oliy Majilis (Parliament) in September 1995 and was passed on 30 August 1996.
### Table: Production Cost Regulation (PCR) and Chart of Accounts

- **Title**: Production Cost Regulation (PCR)
  - **Year**: 1993
  - **Description**: In contrast to other FSU countries, Uzbekistan realized that, for accounting reform to succeed, it would be necessary to separate financial accounting from tax accounting so as prevent tax rules from distorting financial information. This separation was achieved through the PCR.
  
  The PCR, also known as the ‘Regulations on the Composition of Expenses on the Production and Marketing of Goods’, was effective from 1 January 1995. The PCR contains a detailed classification of items to be included in production costs for the purposes of arriving at taxable income. In simple terms, it instructs accountants how to produce the income statement.
  
  The PCR was a key element in the Uzbekistan accounting reforms. This has been belatedly recognized by other FSU countries, which, in the past couple of years, have begun to examine Uzbekistan’s experiences in this area.

- **Title**: Chart of Accounts and Instructions
  - **Year**: 2000
  - **Description**: The Chart of Accounts and accompanying Instructions are a key part of the accounting system. As described above, the MOF introduced a new chart of accounts in 1994, reflecting international accounting practices. This chart of accounts was subject to a number of revisions over the ensuing few years – for instance, to accommodate the introduction of the PCR.
  
  In 1999, the Cabinet of Ministers decreed that the Chart of Accounts should be further updated to align with the new National Accounting Standards (NAS) that were based on IAS. The new Chart of Accounts and Instructions were developed as a coordinated effort between the Ministry of Finance and USAID consultants. They were approved, and were registered with the Ministry of Justice on 1 June 2000, as National Accounting Standard 21. Around 80 regulations must be amended before the new Chart of Accounts takes effect on 1 January 2002.

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20 Decree of the Cabinet of Ministers (No. 54), 5 February 1999.
### Financial Management and Governance Issues in Uzbekistan

<table>
<thead>
<tr>
<th>Title</th>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAS, the Ministry of Finance, together with USAID consultants, developed the new forms of financial statements, initial documentation, order-journals and books of register.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Accounting Standards (NAS)</td>
<td>1998</td>
<td>The Ministry of Finance is gradually developing a series of National Accounting Standards, based upon International Accounting Standards (IAS). The development processes, and the standards themselves, are described in chapter IV.</td>
</tr>
<tr>
<td>Law on Joint Stock Companies and Protection of Shareholder Interests</td>
<td>1996</td>
<td>This Law prescribes specific accounting and reporting arrangements for joint stock companies, including that annual report data must be independently audited before publication, and annual reports must be made available to shareholders and must be published in the media.</td>
</tr>
<tr>
<td>Law on Business Companies and Partnerships</td>
<td>1992</td>
<td>This Law prescribes specific accounting and reporting arrangements for business companies and partnerships, which include State-owned enterprises. In particular, the Law specifies that: owners have the right to receive information about company activities including bookkeeping data, financial information and other records; and that the financial reports of limited liability companies must be approved at Annual General Meetings.</td>
</tr>
</tbody>
</table>

### Accounting Bases and Principles

Article 6 of the Accounting Law 1996, which applies to both private and public sector organizations, states that the basic Uzbekistan accounting principles are: the maintenance of accounting records on the basis of the double-entry system; continuity of accounting (going concern); monetary measurement of transactions, assets and liabilities; truthfulness of accounting data; accrual measurement; prudence (conservatism); substance over form; comparability; neutrality; matching principle; and historical cost.

### Asset Management and Internal-Control Systems

The asset management arrangements for public and private sector organizations are stipulated in the Law on Accounting 1996 and NAS 19 –
Arrangements for Managing Inventories. According to Article 11 of the Accounting Law 1996, stocktakes must be conducted: (i) when property is transferred, by way of lease, purchase or sale; (ii) prior to the preparation of annual financial statements; (iii) when physical assets and valuable inventories are revalued; (iv) prior to changes in responsible persons; (v) upon the disclosure of fraud, theft or damage of valuables; (vi) in the case of events outside the control of the entity; and (vii) upon the winding up or termination of the entity. Article 7 of the Accounting Law 1996 requires organization chiefs to develop and maintain internal reporting systems, systems for controlling the economic activities of the organization, robust record-keeping procedures, and a system for ensuring that payments are made on time.

Accounting Information Systems

Domestically produced software, and adapted Russian software, is generally used for accounting, banking, payroll, and human resources. However, Oracle products are gaining a foothold in the market and the company has implemented Enterprise Resource Planning systems in many of the large government agencies, state-owned enterprises, and financial institutions. All banks, except one, are computerized.

In 1999, USAID, accounting firm KPMG and the Accountants and Auditors’ Association, organized a computer exhibition that focused on accounting information systems. The exhibition was visited by 2,500 people, the majority of whom were either enterprise heads or chief accountants (the Accounting Law 1996 requires that every organization must appoint a chief accountant). The exhibition emphasized software that was compatible with National Accounting Standards (NAS) and the new Chart of Accounts. Eighteen Uzbekistan firms participated in the exhibition. Visitors were given an opportunity to compare financial reporting software and to assess the ability of this software to meet the requirements of NAS and the new Chart of Accounts.

Inventory stocktakes must be conducted at least once every two years, library collection stocktakes must be conducted once every five years, and monetary assets and valuables must be verified monthly (NAS 5).

4. Financial Reporting Requirements

The basic financial reporting requirements, in accordance with the Accounting Law 1996, Enterprise Law 1991, and the Taxation Code 1998, are as follows: (i) accounting data must be prepared with guidance from NAS, and financial reports must be based on that accounting data; (ii) the annual financial reports of enterprises and organizations must be made available to banks, stock exchange, investors, lenders, creditors, and others; and (iii) open companies, insurance organizations, banks, stock and commodity exchanges, investment funds, and other financial agencies, must publish their audited financial reports.

Table 2 presents the external reporting requirements for private sector organizations. Enterprises with foreign investment capital need only submit annual financial reports (Forms 1–5). All financial reports must be submitted to: tax authorities, shareholders, and state statistics agencies. With the exception of externally enforced reporting requirements for government executing agencies (chapter VI refers), benchmarks, covenants, and ratios are not mandated for reporting purposes.

The USAID-funded accounting reform project has assisted 435 Uzbekistan enterprises to convert their accounting systems from the existing chart of accounts to the new IAS-based chart of accounts. Although many types of enterprises participated in this effort, medium-sized enterprises engaging in manufacturing activities were primarily selected for conversion.

5. Bookkeepers and Accountants

The MOF estimates that Uzbekistan has around 400,000 to 500,000 public and private sector ‘accountants’ of whom 148,000 are chief accountants (the Accounting Law 1996 requires every organization to have a chief accountant – they do not have to be certified accountants). These ‘accountants’ are equally divided between the public and the private sectors. This surprisingly high estimate is due to the:

- predominance of manual transaction-processing systems
- inclusion of bookkeepers, tax inspectors, and record keepers in the estimate, and

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23 Open companies are allowed to issue shares to the general public. Closed companies are not allowed to issue shares to the general public.
24 The Deputy Minister of Finance confirmed these estimates.
significant compliance requirements imposed on organizations by regulations and statistical reporting requirements (Uzbekistan has an abundance of regulations and decrees, many of which are accompanied by the requirement to reports to a range of government agencies).

Table 2: External Financial Reports of Private Sector Organizations

<table>
<thead>
<tr>
<th>Description / Details</th>
<th>Legal Requirement</th>
<th>Regularity</th>
<th>Required Timing</th>
<th>Estimated Timeliness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form 1: Balance Sheet</td>
<td></td>
<td>Quarterly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form 2: Statement of Financial Performance</td>
<td></td>
<td>Quarterly</td>
<td>As specified by the Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>Form 2a. Statement of Creditors and Liabilities</td>
<td></td>
<td>Quarterly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form 2b. Statement of Financial and Economic Condition (No. of employees, Capacity utilization, raw material sources, creditors, etc.)</td>
<td>Enterprises Law 1991, Accounting Law 1996</td>
<td>Annually</td>
<td>Up to 15 February</td>
<td>Fines and penalties reinforce the submission dates. For instance, tax payments are increased by up to 10% for late filing. As such, filings are quite timely.</td>
</tr>
<tr>
<td>Form 3. Movements in Physical Assets</td>
<td></td>
<td>Annually</td>
<td>Up to 15 February</td>
<td></td>
</tr>
<tr>
<td>Form 4. Statement of Cash flows</td>
<td></td>
<td>Semi-Annually</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form 5. Statement of Movements in Equity</td>
<td></td>
<td>Annually</td>
<td>Up to 15 February</td>
<td></td>
</tr>
</tbody>
</table>

25 All legal entities with the exception of budget agencies, insurance organizations, and banks.
Part Two. Auditing

6. Introduction

Up until 1991, auditing in the Soviet Union, which included Uzbekistan, reflected the highly prescriptive nature of the underlying accounting system. It was primarily a verification exercise, with the final accounts being compared to bookkeeping records by accountants from another enterprise within the same group. It is not surprising that a fully functioning and competent audit profession has not been created within the short timeframe of ten years.

With the exception of a few large international firms, auditing in accordance with International Standards on Auditing (ISAs) is a relatively new concept in Uzbekistan. As such, qualified audit certificates have not been issued in Uzbekistan as National Auditing Standards (which are based upon ISAs) have only been recently introduced (10 June 2000) with the Auditing Law 2000.

7. Governing Laws and Regulations

Private sector auditing requirements are prescribed by the laws on: Enterprises, Business Companies and Partnerships, Accounting, Audit, and Joint-Stock Companies. The Auditing Law 2000 was passed by Parliament on 26 May 2000 and took effect from 1 September 2000. It governs auditing activities (attest audits, performance audits, and associated services); procedures for bank auditing are the responsibility of the Central Bank. The Auditing Law 2000 was developed in response to concerns over the competency and independence of auditors. The Law clearly sets out the structure, rights, responsibilities, and duties of the auditing profession. It also prohibits government organizations and committees from conducting audits.

The Auditing Law 2000 defines two types of audit reporting as follows. First, the audit report provides detailed information on the audit inspection process, bookkeeping and accounting issues, financial reporting violations, and any other information received during the audit. The report must contain recommendations on addressing deviations and violations, and proposals for improving the operational, financial and economic performance of the entity. Where audits are conducted upon instructions from shareholders, controlling, or law-enforcement agencies, the audit report must be provided to these parties [Article 18]. Second, the audit conclusion provides an opinion on
the authenticity of the financial statements and whether they comply with legal requirements [Article 19].

8. Audit Requirements

Article 10 of the Auditing Law 2000 states that the following organizations must be audited on an annual basis; joint-stock companies, banks and other credit-issuing organizations, insurance organizations, investment funds, charities and other organizations that receive charitable donations, funds that are financed from compulsory contributions (e.g., road funds), and entities that are partially owned by the Government.

9. Auditor Licencing

Auditing licences are currently issued by the MOF to auditing companies. These companies must employ at least two certified auditors. Auditors are certified by the decision of the Special Certifying Committee, which comprises representatives from nongovernmental professional organizations, the MOF, and auditing firms.

The new Auditing Law 2000 will tighten up auditor licencing. In particular, it states that audits can only be conducted by licenced audit firms. All audit firms must be registered with the Ministry of Justice. The Law makes audit firms legally liable for the quality of their work and for the accuracy of their opinions, requires that an audit firm must employ at least two certified auditors, and requires that audit firms must meet and maintain minimum capital adequacy requirements.

Article 21 of the Auditing Law 2000 states that audit licences will be issued by a specially authorized state agency which will also: (i) design and approve norms regulating audit activities including national audit standards; (ii) control compliance of auditing organizations with their licensing agreement; (iii) set qualification requirements for candidates to be qualified as auditors; (iv) approve educational programs and the framework of examinations; (v) conduct exams; (vi) revoke and terminate audit licences and publish information in the media about suspension or termination of audit licences; (vii) issue, suspend, and revoke qualification certificates; and (viii) maintain a register of qualified individuals and licenced organizations.
The process for issuing auditing licences was approved by the Cabinet of Ministers on 22 September 2000. The Auditing Law 2000 also provided for the establishment of the Republican Union of Auditors, which is a nongovernmental, noncommercial organization that represents auditors on a voluntary basis. The Union’s objectives are to assist in the development of, and to provide support to, professional auditors, and to defend their professional interest. Its role will be to: participate in the design and approval of the curriculum and structure of the qualifying examinations, conduct the qualifying exams, and design and prepare proposals on improving audit legislation.

10. Bank Auditing

The Central Bank is responsible for supervising the operations of banking organizations. In relation to accounting and auditing, the Central Bank:

- establishes rules for the conduct of banking operations, bookkeeping, bank statistical reporting, and annual reporting, and
- has the right to: receive and inspect reports and other bank documents, and to demand information on operations and transactions; establish internal audit requirements for banks; instruct a bank to improve its operations and procedures; specify the qualification requirements for the head and chief accountants of banks and their branches.

Inspections of banking organizations, owned partly or wholly by the Government, are carried out by authorized representatives of the Central Bank and by auditors appointed by the Central Bank. Private banks on the other hand have the right to select and appoint their own auditors. The Central Bank is authorized to require auditors to follow the Central Bank’s legislation, including its procedures and methodology, and also to directly receive information related to bank audits.

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11. Public Sector Auditing

Uzbekistan does not have a Supreme Audit Institution (SAI). The Head Department of Control and Revision (HDCR), a division of the MOF, is the organization that is closest in concept to an SAI.

Figure 1: Organizational Arrangements of HDCR

The HDCR monitors financial activities, using a transaction-based approach (i.e., examination of financial transactions, identification of financial discrepancies, and fraud investigation). HDCR’s auditors have little experience in conducting value-for-money audits and reviewing internal-control systems. Moreover, compliance audits focus on compliance with budget rules and regulations. Reviews do not involve the attestation of financial statements.

As a division of the MOF, the HDCR would not appear to be independent from the Executive. However, the Government contends that the HDCR is independent as the Minister of Finance submits its reports directly to the Parliament.

12. Accounting and Auditing Firms

Four of the ‘big five’ international accounting firms are represented in Uzbekistan: Arthur Andersen, Ernst & Young, KPMG, and PriceWaterhouseCoopers. As of June 2000, there were 517 registered auditing companies in Uzbekistan - 108 of these companies are subsidiaries of government agencies. The Government has recognized...
that these arrangements undermine auditor independence and the new Auditing Law 2000 prohibits such linkages. Concerningly, 394 of these auditing companies have equity capital levels ranging from SUM 200 to SUM 100,000 ($0.29–$147). Many of these companies do not have offices and, in the opinion of some workshop attendees, do not even conduct audits. Moreover, in undertaking audits, many of these firms expose themselves to liabilities far in excess of their financial resources, i.e., they are not financially accountable for their audit conclusions (opinions). The new Auditing Law 2000 recognizes this and stipulates minimal capital requirements for auditing firms.
III. Professional Infrastructure

This chapter describes the professional accountancy infrastructure in Uzbekistan which comprises the Association of Accountants and Auditors (AAA), the Republican Union of Auditors (RUA), and their respective members. The chapter is structured as follows:

1. Introduction
2. Association of Accountants and Auditors (AAA) – describes the objectives, organization status and structure, and membership requirements of the AAA.
3. Republican Union of Auditors (RUA) – describes the status and objectives of the RUA.

1. Introduction

As described in the previous chapter, neither professional accountants nor an accountancy profession were required under the Soviet accounting system. However, Uzbekistan’s move to a market economy, following independence in 1991 did require that an accountancy profession be established.

Uzbekistan’s first professional accountancy organization, the Association of Accountants and Auditors (AAA), was formally established as a nongovernmental organization in March 1992 and currently has around 4,000 members. The approval of the Auditing Law, in May 2000, provided for the establishment of a state organization that would license auditors and audit firms (the ‘Statutory Auditor Agency’ or SAA), and the Republican Union of Auditors (RUA) that would act as a professional body for auditors. The process for issuing auditing licences was approved by the Cabinet of Ministers on 22 September 2000. The MOF will fill the role of the Statutory Auditor Agency.

Five bodies are involved in the regulation and organization of Uzbekistan’s accountancy profession; the MOF, the ‘Statutory Auditor Agency,’ the RUA, the AAA, and the Ministry of Justice. The MOF takes a coordinating role with respect to the accountancy profession. Table 3 depicts the roles and responsibilities of the other four organizations.

---

### Table 3: Organizational Roles and Responsibilities

<table>
<thead>
<tr>
<th>Roles and Functions</th>
<th>Statutory Auditor Agency (MOF)</th>
<th>Republican Union of Auditors (RUA)</th>
<th>Association of Accountants and Auditors (AAA)</th>
<th>Ministry of Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organization type:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government agency</td>
<td>✓</td>
<td>..</td>
<td>..</td>
<td>✓</td>
</tr>
<tr>
<td>Membership-based</td>
<td>..</td>
<td>✓</td>
<td>✓</td>
<td>..</td>
</tr>
<tr>
<td><strong>Auditor Registration:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualification criteria</td>
<td>✓</td>
<td>Advises</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Curriculum determination</td>
<td>✓</td>
<td>Advises</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Examination preparation</td>
<td>✓</td>
<td>✓</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Examination administration</td>
<td>✓</td>
<td>✓</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Examination grading</td>
<td>✓</td>
<td>✓</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Reviews licence applications</td>
<td>✓</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Issues licences</td>
<td>..</td>
<td>✓</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Registers audit firms</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td><strong>Public Accountants:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training courses</td>
<td>..</td>
<td>..</td>
<td>✓</td>
<td>..</td>
</tr>
<tr>
<td>Grants Accountant titles</td>
<td>..</td>
<td>..</td>
<td>✓</td>
<td>..</td>
</tr>
</tbody>
</table>

### 2. Association of Accountants and Auditors (AAA)

Introduction
The AAA was set up during a founding conference in 1992 and was registered with the Ministry of Justice as a nongovernmental organization (NGO) in March 1992. The Association’s 4,000 members include individuals and incorporated organizations. The AAA’s head office is in Tashkent. Regional offices are in Urgench, Bukhara, Nukhs, Karshi, Samarkhand, Gulistan, Andjan, and Ferghana. Its objectives are to: provide training and education on accounting and auditing issues; certify accountants; respond to government requests for input on the development of accounting and auditing standards and regulations; and provide consulting services and advice.

The Association became a member of the International Federation of Accountants (IFAC) in May 2000. It is also a member of the Confederation of Professional Organizations of Eurasia (COPOE) – the Association hosted the annual COPOE conference in November 2000.

Organizational Status and Structure

The Association has no legal status, other than as an NGO. It has a board whose main functions are to: determine strategy and monitor its implementation, receive and review reports from the President, and receive and review reports from committees (Figure 2 refers).

Figure 2: Structure of the Association of Accountants and Auditors

Committees are formed on an ad hoc basis to deal with issues as they arise. There are, however, four permanent committees as follows: the education committee, the membership committee, the marketing
committee, and the International Accounting and Auditing Standards implementation committee.

The AAA is financially self-sufficient – membership fees comprise 25 percent of revenue and are supplemented by revenue from publishing, exhibitions, seminars, conferences, and training programs with international agencies (e.g. USAID, EU-TACIS, and Soros Foundation).

Membership Categories and Requirements

The Association has two membership categories: associate member and full member. There are currently around 3,000 associate members and 1,000 full members. The membership requirements for each category are described in the following table. Membership can be attained on the basis of qualifications from either a technical college or a university:

<table>
<thead>
<tr>
<th>Stage</th>
<th>University Graduate</th>
<th>Technical College Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic qualifications</td>
<td>Bachelor’s degree or equivalent in any area (four years)</td>
<td>Course at technical college</td>
</tr>
<tr>
<td>Practical experience</td>
<td>• Three years experience.</td>
<td>• Ten years experience.</td>
</tr>
<tr>
<td></td>
<td>• Must be employed as an accountant or auditor (either in the Government or private sector). Relevant teaching experience is acceptable.</td>
<td>• Must be employed as an accountant or auditor (either in the Government or private sector). Relevant teaching experience is acceptable.</td>
</tr>
<tr>
<td>Level I Professional Exams</td>
<td>Attend courses, sit and pass exams for AAA membership</td>
<td>Same</td>
</tr>
<tr>
<td>Membership I</td>
<td>Associate Member</td>
<td>Associate Member</td>
</tr>
</tbody>
</table>
### Professional Infrastructure

<table>
<thead>
<tr>
<th>Stage</th>
<th>University Graduate</th>
<th>Technical College Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level II Professional Exams</td>
<td>Attend courses, sit and pass exams for advanced AAA membership. These courses have usually been designed, delivered and graded with international assistance (particularly USAID).</td>
<td>Same</td>
</tr>
</tbody>
</table>

| Membership II | Full Member | Full Member |

The Republic of Uzbekistan has sector-neutral accounting and auditing standards and a unified accounting profession. As such, officials do not consider it necessary to establish a separate membership category for public sector members.

**Continuing Professional Education (CPE)**
Continuing professional education is voluntary but highly recommended. The AAA provides advice and input to universities and technical colleges in terms of developing accounting and auditing courses.

**3. Republican Union of Auditors (RUA)**

On 7 August 2000, the RUA was registered with the Ministry of Justice under Article 27 of the Auditing Law 2000. RUA is a nongovernmental, noncommercial organization that represents auditors on a voluntary basis. The Union’s objectives are to assist in the development and support of professional auditors, and to defend their professional interest. The Union’s activities, which are prescribed in the Auditing 2000, are to:
- participate in the design and approval of the curriculum and structure of the qualifying auditor examinations
- conduct the qualifying auditor exams, and
- design and prepare proposals on improving audit legislation.

The Auditing Law 2000 provided for the establishment of the RUA in response to concerns about the availability, and the quality, of
accounting training in non-urban areas. RUA expects to establish divisions in each of the nine Uzbekistan regions - subdivisions have already been established in the Namaghhan and Surkhandaria regions - and to provide training in both the Uzbek and the Russian languages (in five regions).
IV. Accounting and Auditing Standards

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

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

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

Part One. Accounting Standards
1. Introduction

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

One of the main aspects of accounting reform in Uzbekistan is the development of a series of National Accounting Standards (NASs) that are based upon International Accounting Standards (IASs). Nineteen NASs were drafted towards the end of 1997 and, by the end of 1998, 16
had been approved by the MOF and registered by the Ministry of Justice. An additional NAS, relating to the new Chart of Accounts, was approved in June 2000.

2. Accounting Standard Setting Responsibilities

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

3. Uzbekistan Accounting Standards

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

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

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

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

Table 4: Variations Between IASs and NASs

<table>
<thead>
<tr>
<th>IAS</th>
<th>Variations Compared with NAS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IAS 1</strong></td>
<td><strong>Presentation of Financial Statements</strong></td>
</tr>
<tr>
<td></td>
<td><strong>NAS 1 Accounting Policies and Financial Reporting</strong></td>
</tr>
<tr>
<td></td>
<td>• A report on physical asset movements must be included in the financial statements.</td>
</tr>
<tr>
<td></td>
<td>• The deadline for submitting financial reports is 15 February.</td>
</tr>
<tr>
<td></td>
<td>• Banks, budget organizations, and insurance organizations do not have to comply with NAS No. 1</td>
</tr>
<tr>
<td></td>
<td>• Double-entry bookkeeping must be applied.</td>
</tr>
<tr>
<td></td>
<td>• The reporting period must be the calendar year.</td>
</tr>
<tr>
<td></td>
<td>• The financial report must disclose the recipients of the financial statements.</td>
</tr>
<tr>
<td><strong>IAS 4</strong></td>
<td><strong>Depreciation Accounting</strong></td>
</tr>
<tr>
<td><strong>IAS 16</strong></td>
<td><strong>Property, Plant, and Equipment</strong></td>
</tr>
<tr>
<td></td>
<td><strong>NAS 5 Fixed Assets</strong></td>
</tr>
<tr>
<td></td>
<td>• Decrees determine revaluation ratios (the most recent revaluation decree was issued in 1995).</td>
</tr>
<tr>
<td></td>
<td>• These ratios apply uniformly across the country but differ between asset types.</td>
</tr>
<tr>
<td></td>
<td>• Accumulated depreciation is not required to be written back on revaluation.</td>
</tr>
<tr>
<td></td>
<td>• Different depreciation rates are applied to different classes of assets.</td>
</tr>
<tr>
<td></td>
<td>• NAS require that, at least once every two years, there must be a stock take of physical assets.</td>
</tr>
<tr>
<td><strong>IAS 17</strong></td>
<td><strong>Leases</strong></td>
</tr>
<tr>
<td></td>
<td><strong>NAS 4 Leases</strong></td>
</tr>
<tr>
<td></td>
<td>• Validity of lease agreement is the signing date.</td>
</tr>
<tr>
<td></td>
<td>• Operating leases are classified as those with a period of less than one year.</td>
</tr>
</tbody>
</table>
IAS Variations Compared with NAS

<table>
<thead>
<tr>
<th>IAS</th>
<th>Inventories</th>
<th>NAS</th>
<th>Inventories</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 2</td>
<td>• Stipulates that tools and inventories have a life of less than one year.&lt;br&gt;• Prohibits usage of the Last-in-First-out (LIFO) method&lt;br&gt;• Prescribes annual stocktaking procedures.</td>
<td>NAS 4</td>
<td></td>
</tr>
</tbody>
</table>

5. Public Sector Accounting Standards

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

Part Two. Auditing Standards

6. Introduction

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

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

7. Development and Promulgation

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

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V. Accounting and Auditing Training

This chapter describes accounting and auditing education and training. It is structured as follows:

1. Introduction
2. Educational Responsibilities and Coordination - describes responsibilities for the management and coordination of accountancy education.
3. Higher Education - examines higher accountancy education arrangements.
4. USAID Accounting Training Initiatives - describes the extensive training activities that have been undertaken by USAID.
6. United Nations (UNDP) Accounting Reform Project - describes the joint UNDP / EU-TACIS accounting training project that preceded the USAID efforts.
7. Other Accounting Training Initiatives - reviews other ongoing training initiatives.

1. Introduction

Like other states of the Former Soviet Union (FSU), Uzbekistan has a very high literacy rate (99 percent) and high educational standards. Historically, the basic education curriculum followed the FSU model, which differed substantially from a western curriculum. To maintain high education levels, and to improve the effectiveness of the education system in meeting the skills requirements and societal needs of a market economy, the Government is implementing an education reform program. This program, called the National Program for Personnel Training, was approved by Parliament in 1997. ADB is providing substantial support through project loans and technical assistance.29

With regards to accounting and auditing education, a significant component of accounting skills are developed through on-the-job practical training and work experience. That aside, educational standards, particularly at the undergraduate level, determine the basic

level of knowledge that new entrants to the accounting market have. The higher this level is, the faster those skills will be developed.

Because public sector and private sector accounting practices are largely the same, public sector and private sector accountants are trained under the same programs. As described in Chapter II, Uzbekistan has very high numbers of ‘accountants’. This must be taken into consideration when designing training programs (for instance, the objective of the UNDP-sponsored training program, which is described below, was to train over 100,000 accountants and tax inspectors).

2. Educational Responsibilities and Coordination

The Education and Labor Department of the Cabinet of Ministers, an executive body responsible to the Prime Minister, is responsible for broad education sector policy formulation and reform. Management of education is divided between the Ministry of Public Education (MOPE), which is responsible for preschool, basic, and vocational education; and the Ministry of Higher Education, which is responsible for specialized secondary and higher education. The Republican Education Center, which is attached to the MOPE, has a professional staff of about 250 persons and is responsible for drafting standards, preparing curricula, assisting with textbook writing, and developing examinations for basic education.

3. Higher Education

Twelve state institutions offer undergraduate and postgraduate programs in accountancy. The Accountants and Auditors Association (AAA) provides advice and input to universities and technical colleges on the development of accounting and auditing courses. Their advice reflects input from private sector representatives. In addition, both USAID and the British Council have supported curriculum development. First, Carana Corporation, a USAID consultant, has provided substantial support and training in the development of accounting and auditing curricula and delivery of courses over the past three years. Second, as described below, the British Council’s Accountancy Training of Trainers Project provided substantial input to the development of the accountancy curriculum. Nottingham Business School, the project consultant, prepared a series of teaching manuals in response to
curriculum reforms for the training of students and the retraining of practitioners. The accountancy curricula of tertiary institutions include courses on management accounting, financial accounting, societal accounting, international accounting, audit, finance, and taxation.

Sector-specific and industry-specific courses are also offered, for instance, in transportation accounting. Of the 12 institutions, the following have been delegated auditor-training responsibilities: Tashkent State Economics University, Banking and Finance Academy, Tashkent Finance Institution, and Samarkhand Cooperative Institute. Further details on these organizations are provided in the following table:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number of Students (June 2000)</th>
</tr>
</thead>
</table>
| Tashkent State Economics University | • Bachelors – 4-year course – 397 students  
• Masters – 2-year course – 17 students  
• Doctorate / PhD – 3-year course – 4 candidates |
| Banking and Finance Academy  | • Finance school – 30 students  
• Taxation school – 20 students  
• Banking school – 40 students |
| Tashkent Finance Institution | • Accounting and auditing – 850 students                                                          |

The Banking and Finance Academy is an elite institution under MOF auspices. The Academy was established with funding from the EBRD, ADB, TICA, and JICA (Chapter VII refers). The Academy has many foreign guest lecturers. To be admitted to the Academy, students must already have a higher degree in a relevant discipline along with at least two years’ work experience – they must then sit entry examinations that include foreign language interviews. The Academy provides high-level training in banking and finance, including specialist topics such as auditing financial institutions.
4. **USAID Accounting Training Initiatives**

USAID has provided a great deal of support in terms of accounting and auditing training. Specific activities include:

- **Training the trainers:** 
  Training Methods on International Accounting Standards (IAsS)
  
  The objective of this course was to establish a network of trainers throughout Uzbekistan. Thirty-nine trainers and teachers from universities as well as from the AAA attended the four-week course in February 1999. Although the course covered the new accounting standards and an early copy of the new Chart of Accounts, the main emphasis was on methods of teaching IAS-based accounting. The USAID project hired eight participants as trainers, financial analysts and regional coordinators based upon their results in the examination at the end of the course. An additional two participants were hired to train MOF employees in IAS-based accounting.

- **Training Courses for Chief Accountants and Auditors**

  Up until June 2000, 1,580 chief accountants attended three-week programs on NAS and the new Chart of Accounts. Of these participants, 1,164 individuals attempted the corresponding financial accounting examination – 650 passed the exam. The objective of these training courses was to train enterprise chief accountants. The chief accountants were given the chance to learn NAS and new Chart of Accounts. These courses were conducted in every region in Uzbek and Russian, according to regional needs. All participants were provided with training materials including practical training workbooks, NAS, the new Chart of Accounts and associated instructions.
ACCOUNTING AND AUDITING TRAINING

- **Training Courses for Tax Inspectors**
  
  Around 1,560 tax inspectors from the State Tax Committee and its regional offices attended this training in the period to September 2000. The course was taught as a program of five-day seminars (Financial accounting for tax inspectors), which covered general concepts, and methods of accounting.

- **Training for the Head Department of Control and Revision (HDCR) of the Ministry of Finance**
  
  Three training sessions on NASs and IASs for 122 HDCR employees were conducted. The training had a particular focus on changes in financial reporting requirements, as well as how these changes will affect accounting practices within enterprises and government organizations.

- **Training Course for Accountancy Professors and Teaching Staff**
  
  The objective of this course, which was attended by 26 professors, was to deepen their knowledge of IASs and to improve the quality of accountancy teaching. Teachers from Samarkhand Cooperative Institute, Tashkent State Economic University, and the Andijan Engineering-and-Economic Institute attended the training.

5. **British Council Accountancy Training of Trainers Project**

The British Council has been providing ongoing support for accounting training. The project began in September 1992. Its objective was to support accounting and accounting education reforms. Under the project, over 300 accounting, finance, and management teachers from accountancy education institutions throughout Uzbekistan were intensively retrained in the new accounting requirements of a market economy.

The approach taken was to train accounting trainers. Nottingham Business School, the project consultant, established Accountancy Training Resource Centers in three leading accounting education institutions. Each resource center has well-equipped teaching rooms, a strong organizational structure, computer and reprographic facilities, and Internet and e-mail facilities. In addition to core courses for accounting training and ad hoc seminars and conferences throughout the year, the Accountancy Training Resource Centers offer a range of educational and professional services, including; Accounting for
Beginners, Accounting and Audit, Computing for Beginners, Accountancy Software, English for Beginners, Advanced English, and Internet usage. The Accountancy Training Resource Centers are at:

- **Tashkent State Economic University** This center was established in 1994 and is attached to the Auditing Department. Courses are taught by teachers from within the auditing department and from other faculties.

- **Samarkand Cooperative Institute** This center was established in 1997 and is attached to the Samarkand branch of the Association of Accountants and Auditors. Courses are taught by teachers from the accounting and auditing departments of the Cooperative Institute.

- **Andijan Institute of Economics and Engineering** This center was established in 1997. Courses are taught by teachers from many different faculties.

The Project also supported the development of a series of books and manuals for use in tertiary institutions, including:


### 6. United Nations (UNDP) Accounting Reform Project

This project was initiated in 1993 as a joint initiative between the MOF, the UN and the European Union (chapter VII refers). As part of the project, a large training program was designed and implemented to support the introduction of the Production Cost Regulation. The Project’s training objectives and results are summarized in the following table:
ACCOUNTING AND AUDITING TRAINING

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training:</td>
<td>Training:</td>
</tr>
<tr>
<td>b. Generation Two: 6,000 accountants.</td>
<td></td>
</tr>
<tr>
<td>Training: Generation Three: 100,000 accountants and tax inspectors.</td>
<td>In the absence of hard numbers, anecdotal evidence suggested that large numbers of accountants attended this training.</td>
</tr>
</tbody>
</table>

7. Other Accounting Training Initiatives

The AAA offers a range of courses to various participants (e.g., finance directors, general managers, and accounting clerks) and produces a variety of training materials. The AAA President states that a key mission of the AAA is improving the quality of professional accounting training. At present, the AAA is developing new programs to improve auditors' skills. The new 250-hour training program includes the following topics: principles of legal regulation of property relations, accounts and reports, taxation, finances of enterprises, and auditing.

There are significant variances in the level of support provided for accounting training in the private sector. Some companies provide significant support. They pay course fees and give paid time-off to attend courses. At the other end of the scale, particularly for smaller companies, no support is forthcoming.

Four higher-education institutions are allowed to conduct auditor training. The Government's intention, as part of the overall accounting and auditing reforms, is to extend this right to nongovernmental organizations and higher education institutions to broaden the regional provision of training.

---

30 Generation One accountants attended a one-week course. These accountants then trained the Generation Two and Generation Three groups.
VI. Government Budgeting and Accounting

This chapter describes government budgeting and accounting arrangements. For the purposes of this report, government is defined as central and local government organizations - state-owned enterprises are covered elsewhere along with private sector organizations. The chapter is structured as follows:

1 - Introduction
2 - Legal Framework for Budgeting and Reporting
3 - Budgeting Roles and Responsibilities
4 - Budget Composition
5 - The Budget Process
6 - Public Investment Program
7 - Accounting Bases and Asset Management
8 - Financial Reporting
9 - Benchmarks, Ratios, and Covenants
10 - Accounting Information Systems
11 - Anti-Corruption Measures

1. Introduction

In line with other reforms, Uzbekistan has taken a gradual approach to reforming public sector budgeting, accounting and reporting arrangements. These arrangements represent a continuation of pre-transition central planning systems and are based on the Soviet model of accounting that dictates prescriptive rules and requirements. The information provided meets the needs of central planning but does not provide the necessary information to support transparent, accountable or efficient government operations. The Government is continuing to improve fiscal management systems and processes – particularly since 1996. In addition, a public investment planning (PIP) framework and process has been successfully established. The PIP framework covers capital budgeting and planning for the public sector.
2. Legal Framework for Budgeting and Reporting

The provisions of the Accounting Law 1996 (Chapter II refers) apply equally to private sector and public sector accounting arrangements and practices.

With respect to budgeting, the present Law of Budget Principles dates back to 1988. A new law on Organization of the Budget of the Republic of Uzbekistan was drafted in 1995, with USAID assistance, but was never approved. In 1999, in place of this proposed law, the Cabinet of Ministers approved a resolution on Improved Order of Budget Financing. This resolution updated revenue classifications to international standards and adopted some of the more acceptable provisions that had been included within the proposed law.

3. Budgeting Roles and Responsibilities

The MOF, together with its subsidiary organizations at the local government level, prepares the Republican (national) budget as well as final accounts. The MOF is also responsible for implementing and monitoring budget plans. The Ministry of Macroeconomics and Statistics (MMS) has prime responsibility for macroeconomic forecasting. It also prepares the public investment plan (PIP), which is then integrated into the Republican budget.

4. Budget Composition

General government operations comprise the Republican budget, extra-budgetary funds, and local budgets. The major Republican extra-budgetary funds are the Social Insurance Fund, the Road Fund, the Employment Fund, the State Fund (privatization), and the Raw Materials Fund. The revenues of those funds are, respectively, social security contributions, road tax, employment tax, privatization revenues, and natural resource taxes. The 269 local governments have the right to create extra-budgetary funds. Local budgets make up about 43 percent of the total state budget. Local budgets are funded by shared taxes between Republican and local budgets, subsidies from the Republican budget, and taxes and fees imposed and collected at the

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31 The 269 local governments comprise 12 oblasts, the city of Tashkent, the autonomous Republic of Karakalpakstan, and 255 rayons.
local level. The revenue distribution between the Central Government and local governments is unclear and has varied over time.

5. The Budget Process

The budget process is as follows:

- Around July-August, the MMS produces the macroeconomic forecast for the next fiscal year. The MOF prepares a fiscal forecast based on the macroeconomic forecast. Fiscal forecasting is carried out through cooperation of the Main Budget Department, the Tax Forecasting Division (revenues), the Division of Consolidated Budget Preparation (expenditures), and the Department of Macroeconomic Policy.
- The budget timetable is articulated in a Cabinet Resolution in late-August / early-September. The timetable indicates two key dates: the date for the submission of demands by spending ministries and committees to the MOF, and the date for the MOF to present the budget draft to the Cabinet.
- Around the same time of the Cabinet Resolution, the MOF circulates instructions on preparing draft budgets.
- Spending ministries draw together the demands of spending units, and submit these to the MOF by the date indicated in the Cabinet Resolution (usually mid-September).
- Sectoral departments in the MOF review the draft budgets of spending ministries. The sectoral departments prepare and present a summary to the Main Budget Department.
- The Public Investment Plan is prepared by the MMS and presented to the MOF.
- The MOF prepares the draft Republican Budget for submission to the Cabinet by the beginning of October.
- The Cabinet reviews and amends the draft Budget over a period of around a month. It makes a resolution on the Budget and the final draft is submitted to Parliament.
- Parliamentary committees study the draft and submit it for approval to the Parliamentary session.
- Parliament approves the Republican Budget at the end of December.
6. Public Investment Programming Process

Uzbekistan’s Public Investment Programming (PIP), or capital budgeting, process was developed by the MMS with support from TeamWork International Consultants.\(^{32}\) The first PIP was presented for the 1999–2001 period. The PIP includes a list of high priority projects that are designed to meet the Government’s strategies and objectives. The PIP process is as follows:

- Around January to March, line ministries collate and screen new projects that have been submitted to them.
- During March to May, line ministries formulate new projects for the next PIP and sectoral ceilings are set for each ministry.
- In May, line ministries prioritize and select project proposals for submission to the MMS.
- In June to July, the MMS collates all project information in the PIP database for appraisal.
- In August, the MMS prioritizes projects in line with government objectives and other selection criteria.
- In September, the draft PIP is produced and presented to the Cabinet of Ministers.
- During September-October, the draft PIP is amended and the PIP for the next year’s budget is submitted to the MOF.
- In December, the Cabinet of Ministers approves the PIP.

7. Accounting Bases and Asset Management

Uzbekistan uses sector-neutral accounting standards, that is, with few exceptions, accounting standards, regulations, and procedures apply equally to public sector organizations and to private sector organizations. Budget organizations account and report in accordance with the Accounting Law 1996, NASs, Accounting Instructions for Budget Organizations and state budget classifications.

Government accounting is primarily undertaken in the banking system. The Budget Department’s Accounting Unit mainly deals with approved expenditure authorizations, summarizing reports presented to the MOF, and keeping reconciled financial records with the banking system. In this way, government accounting relies heavily on the

\(^{32}\) TA No. 2771-UZB: Improving Aid Coordination and Management, for $600,000 approved on 18 March 1997.
reporting from the banking system, which is carried out in cash terms, and reflects the distribution of budgetary funds rather than actual spending. Detailed accounting of actual spending is made available to the MOF from ministries’ reports on a quarterly basis. However, there is a time lag of up to eight weeks. Accounting is based on the budget classification and thus is oriented mostly to the recording data, but not to providing information for fiscal management.

A dual cash-accrual basis is used for budget preparation. The initial emphasis is on cash information – accrual information is prepared later. Budget monitoring is also on a cash-accrual basis. For enterprises that have been converted from fully to partly state-owned enterprises, only private sector accounting practices apply. Assets registers are maintained for public sector organizations as for private sector organizations. Information includes asset class, description, purchase date and cost, and location. Working papers support depreciation calculations.

8. Financial Reporting

The Accounting Law 1996 and the Resolution of the Cabinet of Ministers on Improved Order of Budget Financing 1999 governs the financial reporting of government organizations. Table 5 describes the external reports that government organizations must prepare.

Table 5: External Reports Prepared by State Organizations

<table>
<thead>
<tr>
<th>Description / Details</th>
<th>Legal Requirement</th>
<th>Regularity</th>
<th>Required Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form 1-OX. Monthly report on budget execution compared to the Estimates.</td>
<td></td>
<td>Monthly</td>
<td>By the 5th day following the end of the reporting month.</td>
</tr>
<tr>
<td>Form 2. Quarterly report on budget execution compared to the Estimates.</td>
<td>Accounting Law 1996, Resolution of the Cabinet of Ministers on Improved Order of Budget Financing 1999</td>
<td>Quarterly</td>
<td>By the 10th day following the end of the reporting quarter.</td>
</tr>
<tr>
<td>Form 2- RJ. Report on the inflow and utilization of development funds.</td>
<td></td>
<td>Quarterly</td>
<td>As specified by the Ministry of Finance.</td>
</tr>
<tr>
<td>Balance Form on the Implementation of the Estimates.</td>
<td></td>
<td>Quarterly</td>
<td></td>
</tr>
</tbody>
</table>
As the financial reporting requirements for the private and public sectors are the same, the staged introduction of National Accounting Standards, based on International Accounting Standards, will improve public sector reporting.

9. **Benchmarks, Ratios, and Covenants**

There are no standard performance ratios or covenants for project or enterprise performance. Each project is considered on an individual basis and social and financial covenants are applied as a benchmark usually acting on advice of the donor in the case of donor-funded projects.

10. **Accounting Information Systems**

The accounting systems used by central and local government organizations are predominantly manual. Some state-owned enterprises have computerized financial information systems. There is no modern central information management information system – significant reliance is placed on information from banks and on spreadsheets for central collation of data.

Reviews were conducted on the Ministry of Finance’s debt and cash management processes, with the assistance of the UNDP and the World Bank (1998-1999). Consequently, the UNCTAD system was implemented in 1999. The system has not been used operationally due to Ministry of Finance concerns over functionality.

11. **Anti-Corruption Measures**

One would expect opportunities for corruption in the Republic of Uzbekistan given the:

- systems of administrative controls and licensing, particularly in the foreign exchange and trade regime
- lack of transparent norms and procedures in public contracting and procurement, and
- pursuit of an activist industrial policy supported by the discretionary award of tax and market concessions.
A recent study of governance, that included measures of corruption, ranked only 14 countries (of the 155 for this measure) as having a higher level of corruption than the Republic of Uzbekistan.\textsuperscript{33}

There are, however, difficult methodological issues involved with the measurement of corruption. In Uzbekistan’s case, the foreign exchange regime combined with the high level of regulation, are likely to skew these results. The Government’s strategy for tackling corruption has three parts:\textsuperscript{34} (i) further economic liberalization to reduce the opportunities for corruption; (ii) strengthening the legal and judicial system to ensure the rule of law and protection of individual rights; and (iii) moral and public education of the evils of corruption.

In the past two years, a number of measures have been taken to prevent unauthorized interference of the Government and controlling agencies into business activities. In particular, a helpline service has been established at the Cabinet of Ministers and in the regions. Businesspeople can report violations to the helpline.

ADB has supported in-country workshops on anti-corruption, procurement, and disbursement procedures to familiarize government officials with best practices in transparent and efficient project implementation. In addition, the recent ADB TA on public investment programming provided some initial assistance in establishing procurement and contracting procedures for construction. The UNDP is also providing support on anti-corruption initiatives.

The factors that the President outlined to address corruption are consistent with standard anti-corruption prescriptions. Indeed, the recent liberalization of the foreign exchange regime (1 July 2000) represents a partial step forward in this direction. ADB’s recent initial assistance to develop transparent and contestable procurement procedures is also a positive measure. In respect of anti-corruption measures, the Government should consider building on the initial assistance from ADB by developing and adopting a national


procurement law and set of regulations that provide an institutional framework for competitive procurement and contracting.
VII. Donor Assistance

This chapter describes donor coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

1 – Overview
2 – Coordination Mechanisms
3 – Asian Development Bank
4 – International Monetary Fund (IMF)
5 – The World Bank
6 – United Nations (UNDP)
7 – European Union (EU-TACIS)
8 – United States (USAID)
9 – Japan (JICA)
10 – Turkey (TICA)
11 – European Bank for Reconstruction and Development
12 – British Council Know-how Fund

1. Overview

Uzbekistan receives the second lowest per capita level of external assistance of the seven countries participating in RETA-5877 (Table 6 refers).

Table 6: Official Development Assistance

<table>
<thead>
<tr>
<th></th>
<th>People’s Republic of China</th>
<th>Mongolia</th>
<th>Pakistan</th>
<th>Papua New Guinea</th>
<th>Uzbekistan</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars per capita</td>
<td>36</td>
<td>2</td>
<td>99</td>
<td>5</td>
<td>78</td>
<td>6</td>
</tr>
<tr>
<td>Percentage of GNP</td>
<td>12.1</td>
<td>0.2</td>
<td>26.7</td>
<td>10</td>
<td>7.8</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Table 7: Overall External Assistance to Uzbekistan

<table>
<thead>
<tr>
<th>External Source (US$ million)</th>
<th>1995 – 1998 (Cumulative Commitments)</th>
<th>1999 Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan/Credit</td>
<td>TA</td>
</tr>
<tr>
<td><strong>Multilateral</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>210.0</td>
<td>10.7</td>
</tr>
<tr>
<td>IBRD</td>
<td>413.0</td>
<td>..</td>
</tr>
<tr>
<td>IFC</td>
<td>96.6</td>
<td>..</td>
</tr>
<tr>
<td>EBRD</td>
<td>272.9</td>
<td>..</td>
</tr>
<tr>
<td>EU-TACIS</td>
<td>..</td>
<td>40.1</td>
</tr>
<tr>
<td>UNDP</td>
<td>..</td>
<td>13.0</td>
</tr>
<tr>
<td><strong>Bilateral</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>76.8</td>
<td>9.5</td>
</tr>
<tr>
<td>Japan / OECF</td>
<td>312.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Others</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

2. Coordination Mechanisms

The Cabinet of Minister’s Department for Coordination of External Economic Activities (DCEEA) is primarily responsible for coordinating external assistance. In this respect, the DCEEA publishes information on donor-financed activities and expenditures in the Foreign Aid Report and the Development Partner Profiles Report. The financial details of projects and loans are also included in the annual Public Investment Program.

In addition to government coordination efforts, the United Nations hosts a quarterly meeting of the Development Partners Cooperation Group. Several Technical Assistance Groups have been established – each group is responsible for coordinating activities in their sectors and reporting to the quarterly meeting. While financial management matters are the responsibility of the group chaired by the World Bank, this group is not particularly active, at least in a formal sense.

3. Asian Development Bank

ADB has only recently commenced operations in Uzbekistan, the first Technical Assistance was approved on 9 July 1996 and the first loan on 17...
By December 1999, ADB had approved five project loans for $210 million and 25 TA grants for $14.38 million. As of 31 December 1999, audited accounts were due, and had been received, for one loan.

Loan Projects
ADB has provided loans to support transport sector rehabilitation, textbook development, and rural enterprise development. Technical assistance has been provided along with these loans to support the development of financial management capacity within executing agencies.

Technical Assistance
Along with the assistance provided to executing agencies to strengthen their financial management capacity, assistance has been provided to coordinating agencies to improve their loan administration and accounting procedures (in relation to ADB projects). The major initiatives that ADB has supported, or is supporting, in direct relation to financial management and governance are as follows:

TA on Corporate Governance
The objective of this TA for $700,000 is to enhance transparency and disclosure in decision-making processes, and to strengthen the protection of investors' rights within enterprises in Uzbekistan. This will be achieved by: (i) critically assessing the state of corporate governance practices in enterprises and associations and, on the basis of this assessment, preparing a framework and implementation guidelines on corporate governance, in line with internationally accepted standards, that Uzbek enterprises can adopt; (ii) supporting the

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41 See, for instance, TA No. 2948-UZB: Capacity Building in Education Finance, for $500,000, approved on 17 December 1997.
42 See, for instance, TA No. 2607-UZB: Seminars on Bank Operational Policies and Procedures, for $100,000, approved on 9 July 1996.
Government's ongoing work to formulate the trustee governance system as the Government embarks on a process of gradual separation of associations from managing and representing enterprises; and (iii) training in corporate governance and restructuring.

TAs No. 2771-UZB and 3190-UZB: Improving Aid Coordination and Management
These TAs for $600,000 approved on 18 March 1997, and for $800,000 approved on 4 May 1999, respectively, are supporting the development of a comprehensive and fully integrated planning, budgeting and aid management system, and a transparent procurement system.

TA No. 3045-UZB: Developing Commercial Banking Skills
This TA for $1,000,000 which was approved on 10 July 1998, supported the development of training capacity within the Banking and Finance Academy.

TA No. 3352-UZB: Strengthening the Banking Sector
In addition to providing specific assistance to two commercial banks, this TA for $1,000,000 which was approved on 20 December 1999, is supporting a comprehensive evaluation of the banking sector. The TA will also recommend measures to improve financial disclosure and corporate governance within the sector.

Proposed TA for Audit Training for Central Asian Republics
The objective of this proposed regional technical assistance (RETA), to Kazakhstan, the Kyrgyz Republic and Uzbekistan, is to enhance government auditing capacity through the introduction of basic auditing concepts and techniques, and to introduce basic fraud investigation techniques.

4. International Monetary Fund (IMF)

The IMF program has been suspended since December 1996, due to the Government’s introduction of restrictions on the trade and foreign exchange regimes. Furthermore, the IMF removed its Treasury Advisor from the Ministry of Finance in late 1998.
5. **The World Bank**

While the World Bank has taken a lead role in the banking and finance sector, direct assistance has not been provided for upgrading accounting and auditing.

6. **United Nations (UNDP)**

Accounting Reform Project (UZB/93/003)\(^{43}\)

This project initially had three strands: developing the Accounting Law, developing the Production Cost Regulation, and developing an Auditing Law. The project’s goals were tightened in mid-1994 when the development of the new Accounting and Auditing Laws was put on hold. The project was initiated in 1993 as a joint initiative between the MOF, the UN and the European Union. The UNDP committed $282,000 to the project and worked jointly with EU-TACIS from 1993 to 1996.

With the approval of the Production Cost Regulation in 1995, emphasis shifted to the development of the new Accounting and Auditing Laws. In addition, a large training program was designed and implemented to support the introduction of the Production Cost Regulation. The project’s objectives and results are summarized in the following table:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Revise Chart of Accounts (COA) and prepare accompanying instructions.</td>
<td>Revised COA accepted in 1995.</td>
</tr>
<tr>
<td>3. Develop proposal for minimum accounting and auditing standards.</td>
<td>Proposed that International Accounting and Auditing Standards be adopted as a minimum.</td>
</tr>
<tr>
<td>4. Prepare new Production Cost Regulation (PCR) that applies to all enterprises to form the basis for financial and income tax reporting.</td>
<td>Became effective on 1 January 1995.</td>
</tr>
</tbody>
</table>

### Objectives

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>Prepare detailed commentary and training materials on the new Production Cost Regulation (PCR).</td>
</tr>
<tr>
<td></td>
<td>Completed and issued in July 1995.</td>
</tr>
<tr>
<td>6.</td>
<td>Training:</td>
</tr>
<tr>
<td></td>
<td>b. Generation Two: 6,000 accountants.</td>
</tr>
<tr>
<td></td>
<td>Training:</td>
</tr>
<tr>
<td></td>
<td>Generation One: 246 accountants and tax inspectors.</td>
</tr>
<tr>
<td></td>
<td>Generation Two: 1,557 accountants.</td>
</tr>
<tr>
<td>7.</td>
<td>Training: Generation Three: 100,000 accountants and tax inspectors.</td>
</tr>
<tr>
<td></td>
<td>In the absence of hard numbers, anecdotal evidence suggested that large numbers of accountants attended this training.</td>
</tr>
</tbody>
</table>

### European Union (EU-TACIS)

The EU and the UNDP worked together on the Accounting Reform Project from 1993 to 1996 with these efforts being carried forward by USAID from that point. Most recently, the EU has supported the provision of management training for small and medium-scale enterprise specialists and managers - the training includes financial management components.

### United States (USAID)

USAID has provided substantial support to improve accounting and auditing capacity and arrangements, including:

- **Financial Sector**
  
  USAID is providing support to improve bank supervision and the ability of the Central Bank to enforce tightened financial performance and reporting requirements for commercial banks. In this respect, USAID has supported the training of accountants in commercial banks and has assisted

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44 Generation One accountants attended a one-week course. These accountants then trained the Generation Two and Generation Three groups.

the Central Bank to develop reporting requirements for all commercial banks.

- **Fiscal Management**\(^{46}\) – The purpose of this project is to improve fiscal policies and fiscal management practices. In early 1998, a new tax code and a proposed Budget System Law were introduced to Parliament but neither were passed. USAID assistance has supported three budget reform seminars and one seminar on fiscal reform.

- **Accounting Reform**\(^{47}\) – This project represents a continuation of the EU / UNDP efforts and was launched in late 1998. USAID advisors are working with the MOF to introduce a new chart of accounts that accords with IAS. Substantial training is being provided to accountants.

9. **Japan (JICA)**

Since 1993, JICA has organized training on Japan’s financial and audit system for about Uzbek 20 trainees.

10. **Turkey (TICA)**

From 1996 to 1998, 106 Uzbek financiers received accounting training in Turkey. In addition, TICA supported the development of the Banking and Finance Academy through the training of teachers and students (1997–1998).

11. **European Bank for Reconstruction and Development**

In February 1994, the Banking and Finance Academy was founded in Tashkent by 30 banks and training institutions from Kyrgyz Republic, Tajikistan, Turkey, Uzbekistan, and the European Bank for Reconstruction and Development (EBRD). The EBRD, the European Union, Japan, and Turkey financed this regional project jointly.

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\(^{47}\) 110-S001.3: Accelerated Development and Growth of Private Enterprises. $6,200,000. 1998–.
12. British Council Know-how Fund

The British Council has been providing ongoing support for accounting training. The project began in September 1992. Its objective was to support accounting and accounting education reforms. Under the project, over 300 teachers of accounting, finance, and management from accountancy education institutions throughout Uzbekistan have been intensively retrained in the new accounting requirements of a market economy. The approach taken has been to train accounting trainers. Nottingham Business School, the project consultant, has established Accountancy Training Resource Centers in leading accounting education institutions. Each resource center has well-equipped teaching rooms, a strong organizational structure, computer and reprographic facilities, and Internet and e-mail facilities.
VIII. Issues and Recommendations

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

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

**Part One. Where Donor Assistance Might be Appropriate**

1. **Strengthening the Accounting and Auditing Profession**

The new Auditing Law 2000, in combination with Cabinet resolutions, assigns auditor-certification and audit-standard setting responsibilities to the Ministry of Finance (MOF) and the Republican Union of Auditors (RUA). The establishment of the RUA is in response to concerns over the quality of auditors and auditing firms, and the coverage of their services throughout Uzbekistan.

Audit licences will be issued by the MOF which will also: design and approve norms regulating audit activities including national audit standards, control compliance of auditing organizations with their licensing agreement, set qualification requirements for candidates to be qualified as auditors, approve educational programs and the framework of examinations, conduct exams, revoke and terminate audit licences and publish information in the media about suspension or termination of audit licences, issue, suspend and revoke qualification certificates, and maintain a register of qualified individuals and licenced organizations.

The RUA’s objectives are to assist in the development of, and to provide support to, professional auditors, and defend their professional interest. Its role will be to: participate in the design and approval of the curriculum and structure of the qualifying examinations, conduct the qualifying exams, and design and prepare proposals on improving audit legislation.
Development of Auditor Certification Procedures

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

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

- investigating design options for examination systems
- establishing a database of examination questions
- developing a grading system
- examining the feasibility of, and options for, developing an online examination system
- developing suitable examination software, and
- designing and implementing management procedures.

Professional Supervision of Accounting and Auditing Firms

The new Auditing Law 2000 was enacted with the objective of improving the quality of audit services. The measures that the new law will introduce, such as better qualifications and minimum capital requirements will, no doubt, have a positive impact on the competence of auditing firms. In addition, improved supervision can have significant impacts on the quality and availability of professional services.

There are a variety of options available for strengthening professional supervision, which include supervision teams, development of reporting systems, and peer review regimes.

It is recommended that a project to improve professional supervision be undertaken. The project would involve:

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

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

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

2. Strategic Development Plan for Accounting Profession

The establishment of the Statutory Audit Agency (MOF) and the RUA represents a new phase in the development of Uzbekistan’s accounting and auditing arrangements. A medium to long-term strategic plan, for the development of the accounting and auditing profession would guide efforts and provide a basis against which to measure progress. Such a plan would encompass professional supervision, professional development, and administrative structures and systems.

It is recommended that a project to develop a strategic plan for the development of accounting and auditing profession be developed. The project would involve:

- researching the present situation of the Uzbek accounting and auditing profession
- analyzing existing problems
- examining and drawing useful lessons from international experience in terms of the development of the accounting and auditing profession, and
- using this information and the associated analyses to formulate a medium to long-term development plan for the Ministry of Finance, RUA and the accounting and auditing profession.

3. Establishment of Internal Auditing Profession

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

4. Development of Accounting Standards

The speed at which accounting standards are developed is severely constrained by the Ministry of Finance’s capacity in this area. The accounting division only has seven staff.

It is recommended that the Government request for technical assistance to assist in the development of the remaining National Accounting Standards.

5. Development of Auditing Standards

The resources available to the Statutory Audit Agency and the RUA will determine the speed at which auditing standards are developed.

It is recommended that the Government request for technical assistance to assist in the development of the remaining 14 National Auditing Standards.

6. Development of Educational and Training Materials

The AAA and tertiary institutions have developed a range of training materials in the past 10 years. However, the rapidly changing environment and the need to provide materials in the Uzbek language are major challenges. For instance, there is no textbook on budgeting and management accounting available in Uzbek. Multimedia and Internet-based technologies present options to prepare effective interactive training materials that are easily redeveloped to reflect the changing environment, and which can easily be distributed to outlying regions.
It is recommended that a project to improve training materials for continuing professional education of accountants and auditors be developed. The project would involve:

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

7. Public Budgeting and Finance Issues

Public sector reporting classifications do not meet international standards. In addition, the consolidated budget entity is very narrowly defined and a significant amount of government activities are excluded from budget classifications and government balances. These include:

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

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

- the Government reporting entity should be redefined in accordance with international norms
- all Government transactions and balances should be included in the consolidated budget
- the amount of information provided with the Budget should be more detailed, and
- a new report that analyses financial information in accordance with Government Finance Statistics (GFS) classifications should be developed and introduced.
These recommendations are consistent with the International Monetary Fund’s Guidelines on Fiscal Transparency and previous World Bank recommendations.

8. Training for Accounting Lecturers and Professors

In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practices and trends. The quality of undergraduate teachers is a key factor in developing competent accountants (Figure 3 refers). The training that accountancy tutors and professors received in 1996-1997 was well received and highly regarded. However, that was a one-off initiative and has not been repeated.

Figure 3: Developing Competent Accountants

It is recommended that:

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

- a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.

9. Establish an Independent Supreme Audit Institution

Along with the absence of an independent statistics function (statistical information is collected and published by the Ministry of Macroeconomics and Statistics), the absence of an independent Supreme Audit Institution (SAI) severely undermines public sector transparency and accountability.
Furthermore, the Head Department of Control and Revision (HDCR), which is a division of the Ministry of Finance, is the organization that is closest in concept to an SAI monitors financial activities, using a transaction-based approach (i.e., examination of financial transactions, identification of financial discrepancies, and fraud investigation). HDCR's auditors have little experience in conducting value-for-money audits and reviewing internal control systems. Moreover, compliance audits focus on compliance with budget rules and regulations. Reviews do not involve the attestation of financial statements.

It is recommended that the Government consider establishing an independent, competent Supreme Audit Institution in line with best international practice. This would require the following steps:

- Defining and agreeing suitable organizational objectives and responsibilities for the SAI
- Designing and agreeing a legislative and organizational framework that afforded the SAI a suitable level of independence and the necessary powers to discharge its responsibilities, and identified funding arrangements that would support independence while encouraging operational efficiency
- Identifying staffing and structural needs
- Developing a strategic plan for the establishment of the SAI which would include professional development and training arrangements for personnel
- Establishing the SAI based on the foregoing actions.

Part Two. Where External Assistance is Not Required

1. AAA Membership Categories

The AAA has two membership categories; associate member and full member. The membership criteria for associate members (Bachelor's degree plus three years' practical experience) are reasonably high. The membership of the new Republican Union of Auditors (RUA) will be comprised solely of certified auditors and audit firms. It is common international practice for professional bodies to have a range of membership categories with differing qualification criteria (e.g., Accounting Technician).
The establishment of additional membership categories within the AAA would provide transitional routes for aspiring accountants and a professional body for lower-level accountants. Furthermore, a separate membership category for lesser-qualified public sector accountants would provide public sector accountants with a professional organization, improve their societal status, and improve their knowledge and competence. It would also increase the AAA’s membership and revenue base, and further unify the accountancy profession.

It is recommended that the AAA consider:
- establishing additional membership categories - at least for accounting technicians, and
- establishing a new category of membership for public sector accountants and developing appropriate entry criteria.

2. Independence of Auditing Firms from Government

The most important element among the fundamental ethical principles accepted by the international accounting profession is independence. It is estimated that 108 of Uzbekistan’s 517 auditing companies are subsidiaries of government agencies. The new Auditing Law 2000 prohibits such linkages.

As required by the Auditing Law 2000, it is recommended that the Government separate auditing firms from government agencies as a matter of priority.

3. Independent Accounting Standard-Setting Body

The issue of whether accounting standard-setting should be a government or private sector function is a common one for many countries. Uzbekistan has taken the former option. The assignment of this role is influenced by country-specific factors including the:
- role that the Central Government plays in the economy\(^{49}\)
- status of the legal system – in European countries, where the status of the legal system is considered to be of the utmost importance

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

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

In Uzbekistan, many commentators agreed that accounting standard setting should be a government function on the basis that only the Government has the required authority to enforce the implementation and monitoring of accounting standards.

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

4. Regulatory Compliance Requirements

Uzbekistan has a highly regulated economy. The level of regulation is accompanied by a stringent reporting regime to government agencies. Accountants bear the brunt of this regime as they are the ones who have to prepare and provide information. This impedes their ability to improve internal and external, management and financial reporting practices, and to contribute to improved financial management within their organizations. During the Tashkent workshop, one participant commented on this issue as follows:

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

It is recommended that the Government consider the impacts of the regulatory regime on the accountancy profession.
IX. Main Deficiencies and Action Plan

Uzbekistan has made sound progress in reforming accounting and auditing arrangements to meet the needs of a mixed-market economy. Given the scale of this task, it is not surprising that this study has identified gaps and weaknesses that may be categorized as follows:

- Those deficiencies that are better able to be resolved with external assistance.
- Those deficiencies that are able to be resolved without the need for external assistance.

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<td>Assisting in the preparation of a strategic plan to develop the</td>
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<td>accounting profession</td>
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<td>program for accounting professors and lecturers to be developed and</td>
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<td>implemented</td>
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<td>competent Supreme Audit Institution in line with best international</td>
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<td>practice</td>
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<td>are prohibited under the new Auditing Law)</td>
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<td>Assisting the establishment of a professional institute of internal auditors, the development of internal auditing standards, and training in those standards</td>
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<td>✓</td>
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<tr>
<td>Assisting the development and implementation of the new auditor examination and certification system</td>
<td>Medium</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Assisting the development and implementation of a professional supervision system</td>
<td>Medium</td>
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<tr>
<td>Assisting the development and implementation of the remaining 14 auditing standards</td>
<td>Medium</td>
<td>✓</td>
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<tr>
<td>Assisting the development and publication of educational and training materials for accountancy training and continuing professional education</td>
<td>Medium</td>
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<td>✓</td>
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<tr>
<td>Assisting in a comprehensive review of government budgeting and reporting practices</td>
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<tr>
<td>The absence of membership categories in AAA for accounting technicians and public sector accountants</td>
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<td>The lack of independence of accounting standard-setting responsibilities from the Government</td>
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<tr>
<td>The impact of the regulatory regime on the accountancy profession</td>
<td>Low</td>
<td>X</td>
<td>✓</td>
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<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Organization</th>
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<tbody>
<tr>
<td>Dr Djuraev Turobjon Ikramovich</td>
<td>Deputy Minister for Finance</td>
<td>Government of Uzbekistan</td>
</tr>
<tr>
<td>V. N. Gnanathurai</td>
<td>Resident Representative</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>Professor Yuri Itkin</td>
<td>President</td>
<td>Association of Accountants and Auditors</td>
</tr>
<tr>
<td>Dilshod Gozibekov</td>
<td>Deputy Rector</td>
<td>Banking and Finance Academy</td>
</tr>
<tr>
<td>Associate Professor Bakhodir Khasanov</td>
<td>Head of Accounting</td>
<td>Banking and Finance Academy, Control and Audit Department</td>
</tr>
<tr>
<td>Benjamin Ryan</td>
<td>Vice President / Country Manager - Uzbekistan</td>
<td>Central Asian-American Enterprise Fund</td>
</tr>
<tr>
<td>Dr Sobir Safaev</td>
<td>Director</td>
<td>CIAR Consulting Group</td>
</tr>
<tr>
<td>Dr Christoph B. Rosenberg</td>
<td>Resident Representative</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>Dr Akhmedjanov</td>
<td>Audit Lecturer</td>
<td>Tashkent State Economic University</td>
</tr>
<tr>
<td>Dr Arazekulov</td>
<td>Audit Lecturer</td>
<td>Tashkent State Economic University</td>
</tr>
<tr>
<td>Professor Durbek Akhmedov</td>
<td>Vice Rector</td>
<td>Tashkent State Economic University</td>
</tr>
<tr>
<td>Professor Ishbaev</td>
<td>Deputy Dean - Accounting School</td>
<td>Tashkent State Economic University</td>
</tr>
<tr>
<td>Professor Wahidov</td>
<td>Chief of Accounting School</td>
<td>Tashkent State Economic University</td>
</tr>
<tr>
<td>Name</td>
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<tr>
<td>Professor Dulakhodjaeva</td>
<td>Chief of Audit / Executive</td>
<td>Tashkent State Economic University / Association of Accountants</td>
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<td></td>
<td>Director</td>
<td>and Auditors</td>
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<tr>
<td>Bakhadir Burkhanov</td>
<td>Program Officer</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>Florida Perevertailo</td>
<td>Chief, Program Section</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>Lara Rio</td>
<td>Program Officer</td>
<td>United Nations Development Program</td>
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<tr>
<td>Anthony Gioffre</td>
<td>Chief of Party</td>
<td>USAID Accounting Project, Carana Corporation</td>
</tr>
<tr>
<td>John Lindberg</td>
<td>Accounting Advisor</td>
<td>USAID Accounting Project, Carana Corporation</td>
</tr>
<tr>
<td>Bakhtiyor Abdullaev</td>
<td>Operations Officer / Economist</td>
<td>World Bank</td>
</tr>
<tr>
<td>David Pearce</td>
<td>Resident Representative</td>
<td>World Bank</td>
</tr>
<tr>
<td>Gerhard Botha</td>
<td>Financial Sector Specialist</td>
<td>World Bank</td>
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<tr>
<td>Tunc Uyanik</td>
<td>Senior Financial Sector</td>
<td>World Bank</td>
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<td>Specialist</td>
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<tr>
<td>Susan Rutledge</td>
<td>Private Sector Development</td>
<td>World Bank</td>
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<td></td>
<td>Specialist</td>
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Appendix 2. RETA-5877 (Regional Study) Information

1. Study Phases

The study had four broad phases as follows:

Phase I – Uzbekistan Case Study on Accounting and Auditing
Support and Structures

Phase II – Tashkent Workshop (10-11 July 2000)

Phase III – Development of Reference Materials

Phase IV – Formulation of Action Plan

2. Phase I: Case Study On Accounting and Auditing

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

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

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

The fieldwork for the study was conducted by Barry Reid, with the assistance of Nailya Ablieva and Dr Sobir Safaev, from 13 June to 11 July 2000. Financial management and governance arrangements were discussed with representatives from: the Ministry of Finance, other government organizations, cabinet ministers, professional accounting
and auditing bodies, private sector businesses, tertiary institutions, bilateral donors, and multilateral financing institutions. A list of interviewees is attached as Appendix 1.

3. Phase II: Tashkent Workshop

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

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

4. Phase III: Development of Reference Materials

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

5. Phase IV: Formulation of Action Plan

Phase IV assessed the roles that ADB and other funding agencies played in improving the current situation in the selected DMCs. The roles included policy intervention, projects and program assistance, and mobilization of cofinancing resources to address the identified
problems and weaknesses. This activity was undertaken in close consultation with the Government, regulatory authorities, representatives of the accounting and auditing professions, and other local interest groups and funding agencies. At this stage of the RETA, the commitment in principle of each selected country to implement the findings and recommendations of the study was agreed. The findings of the RETA were disseminated and debated at a conference in Manila on 16-18 October 2000 and the developed action plan was finalized for implementation.

6. Consultation and Acknowledgements

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

- Nematulla Karimov, Republican Union of Auditors.
- Susan Rutledge, Private Sector Development Specialist, World Bank.
Appendix 3. Administrative and Institutional Arrangements

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

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

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

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

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

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

Ministry of Finance
The Minister and five deputies head the MOF. It has around 380 staff and is structured into 24 departments (Figure 4 refers). Four
organizations are attached to the MOF including the Banking and Finance Academy. The MOF also has local finance departments that are accountable to both the MOF and to the local government.

Figure 4: Structure and Responsibilities of the Ministry of Finance

Minister of Finance
- Dept of Macro Policy
- Personnel Dept
- Legal Division
- Price Information Center

First Deputy Minister
Departments:
- Main Budget
- Foreign Exchange
- External Credits and Foreign Relations

Deputy Minister
Departments:
- Local Finances
- Financing Construction, Housing and Communal Services
- Financing Services
- Press Center

Deputy Minister
Departments:
- Tax Policy
- Securities Markets
- Credit Policy and Money Circulation
- Anti-monopoly and Competition
- Computerization
- New Economic Forms and Accounting Methodology

Deputy Minister
Departments for Financing of:
- Agriculture
- Social Development
- Administrative Expenditure

Deputy Minister
Departments:
- Financing Basic Industry and Energy Sector
- Chief Control and Auditing
- Financing Security and Defense
- Administration

Organizations Attached to the MOF:
- Research Institute of Finance and Prices
- State Insurance Company
- Committee of Precious Metals and Stones
- College of Finance

4. Banking Sector

The Central Bank of Uzbekistan (CBU) heads the banking system. There are 35 commercial banks active in Uzbekistan with assets of SUM 952 million ($ 8.6 billion) at the end of 1999. The State-owned National Bank for Foreign Economic Activity (NBU) accounts for more than 90 percent of all foreign banking transactions. While 13 foreign banks maintain offices in Uzbekistan, none of them have opened branch operations.

Substantial efforts are underway with regards to privatization of the banking sector and, in November 1999, the Government issued a decree on Privatization of Entities and Attracting Foreign Investors During 2000-2001.
The CBU is working closely with EBRD, ADB, and International Finance Corporation (IFC) to privatize local banks; preference is being given to foreign investors.

5. **Stock Exchange and Securities Markets**

The Uzbek Stock Exchange was established in accordance with the Securities and Stock Exchange Law 1993. Decisions on listing and de-listing are taken on the recommendation of the Listing Commission. Official listings include securities (private shares and State-issued shares) of resident organizations, which have been registered and examined by the Listing Commission, as well as listings of nonresident organizations in accordance with current regulations. Listed securities are classified into three groups; each group must follow certain requirements. Classifications into these groups is determined with reference to the following criteria: duration of enterprise activity, amount of paid-up capital, amount of additional issuance of securities, amount of gross assets, number of shareholders, and duration of non-loss-making period.
Appendix 4. Regulatory and Legal Framework

1. Introduction

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

2. Legislative Process

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

3. Law on Accounting 1996

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

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

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

- establish accounting practices and procedures within the organization with the employment of a head accountant or through a contracted accountant
- delegate bookkeeping duties to an accounting firm or to an internal accounting department.
The organization chief is obliged to develop and maintain:

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

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

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

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

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

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

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

4. **Law on Auditing 2000**

This law was developed with USAID assistance and was passed on 26 May 2000 and governs auditing activities (attest audits, performance audits, and associated services); procedures for bank auditing are the
responsibility of the Central Bank. The law prohibits government organizations and committees from conducting audits. An auditor is an individual who has qualified and been certified as an auditor. A person can conduct audit activity if they are a staff member or contractor of an audit organization. Auditing organizations are legally liable for the quality of their work and the accuracy of their opinions (Article 3).

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

Article 6 sets out the following auditor rights and powers:
- to access information
- to receive explanations as necessary
- to receive information from third parties, and
- to withdraw from the audit if requested information is not provided.

Article 7 sets out the following auditor obligations:
- to retain confidentiality
- to provide adequate feedback on findings and recommendations, and
- to report irregularities to the head of the organization being audited.

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

Article 10 states that the following organizations must be audited on an annual basis:
- Joint-stock companies
- Banks and other credit-issuing organizations
- Insurance organizations
- Investment funds
- Charities and other organizations that receive charitable donations
- Funds that are financed from compulsory contributions (e.g. earthquake funds)
- Entities that are partially owned by the Government
Entities are responsible for audit fees. Shareholders are responsible for selecting the audit organization. Organizations are prohibited from pressuring or interfering with the audit organization, or from any actions that compromise the independence of the audit (Article 14).

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

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

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

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

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

- designs and approves norms regulating audit activities including national audit standards
- controls compliance of auditing organizations with their licensing agreement
- sets qualification requirements for candidates to be qualified as auditors
- approves educational programs and the framework of examinations
- conducts exams
- revoke, terminates audit licenses, and publishes information in the media about suspension or termination of audit licenses
- issues, suspends, and revokes qualification certificate, and
• maintains a register of qualified individuals and licensed organizations.
The process for issuing auditing licenses is subject to the approval by the Cabinet of Ministers. Articles 22-26 set out procedures for suspending and terminating audit licenses and qualifications.

Article 27 provides for the establishment of the Republican Public Union of Auditors, which is to be a nongovernment, noncommercial organization that unifies auditors on a voluntary basis. The objective of the Union is to assist in the development and support of professional auditors, defend their professional interest.
The Union of Auditors:
• participates in the design and approval of the curriculum, and structure of the qualifying examinations
• conducts the qualifying exams, and
• designs and prepares proposals on improving audit legislation.

5. Other Relevant Legislation
The Constitution of the Republic of Uzbekistan 1992
The Constitution sets out the following rules in relation to financial management and governance:
• The Republic of Uzbekistan has its own financial and monetary credit system. The State Budget of the Republic of Uzbekistan includes the Republican budget, the Budget of the Republic of Karakalpakstam, and local budgets [Chapter 25, Article 122].
• There is only one taxation system in the Republic of Uzbekistan. The right to establish taxes belongs to the Parliament of the Republic of Uzbekistan [Chapter 25, Article 123].
• The banking system is headed by the Central Bank of the Republic of Uzbekistan [Chapter 25, Article 124].

Law on the Central Bank 1995
The legal status, objectives, functions, authorities, organizational and operational principles, of the Central Bank are determined by the Constitution together with this law and other relevant laws. This law defines the Central Bank as a self-sufficient and independent organization, and as a legal entity wholly owned by the Government.
Law of Budget Principles 1988

The present Law of Budget Principles dates back to 1988. A new law “On Organization of the Budget of the Republic of Uzbekistan” was drafted in 1995 but was not approved by the Government or the Parliament. With the exception of revenue classifications, which have been largely updated to international standards, the budget classifications currently used represent a modification of the classifications used when Uzbekistan was part of the Soviet Union.

Taxation and Customs Legislation

Taxation and customs legislation includes:

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

Law on Banks and Banking Activity 1996

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

Law on Enterprises 1991

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

The law states that the officials of the enterprise are responsible for financial record-keeping and are subject to civil or criminal liability in cases of distortion (Article 33). The law also contains auditing provisions, e.g., audits can be conducted at the initiative of the
enterprise’s owners with audit expenses being borne by the enterprise (Article 36).

Law on Business Companies and Partnerships 1992
This Law sets out the organization and functioning of business companies and partnerships (including State enterprises). The following articles and provisions are particularly relevant to financial management and governance:

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

Law on Bankruptcy 1998
This law governs the process of bankruptcy of legal and natural entities. It does not apply to state enterprises, budgetary organisations, or budgetary funds.

Law on Nongovernmental and Noncommercial Organizations 1999
This law regulates the activities of nongovernmental and noncommercial organizations, including international organizations, representatives, and subsidiaries of overseas organizations.

Law on Joint Stock Companies and Protection of Shareholder Interests 1996
This Law governs the creation, activities, and liquidation of joint-stock companies. It includes provisions on the protection of shareholders rights. The law specifies treatment of the creation and legal position of joint-stock companies in the agricultural, banking, investment, and insurance sectors. It also specifies privatization arrangements for State enterprises.

Under the law, joint-stock companies can either be open or closed. Open companies are allowed to issue shares to the public. When selling
their shares, the shareholders of open companies are not required to first offer their shares to existing owners. The duties of Accounting Commissions involve voting issues (e.g., vote counting - Article 73).

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

Other Laws

Other laws that are relevant to financial management and governance include:
- Law on Leases 1991
- Law on Stock Exchange and Its Activities 1992
- Law on Securities and Stock Exchange 1993
- Law on the Mechanisms and Functioning of the Securities Market 1996
- Law on Entrepreneurship and Guarantees of the Entrepreneurs Activities 1999
- Law on Insurance 1993