

**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)  
The Republic of Uzbekistan**

**ACCOUNTING AND AUDITING**

**December, 2008**

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## Executive Summary

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This report describes the results of an assessment of the accounting, financial reporting and auditing requirements and practices of the Republic of Uzbekistan's enterprise and financial sectors. The report uses, *inter alia*, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and International Standards on Auditing (ISA) as benchmarks, and draws on international experience and good practices in the field of accounting and audit regulation, to assess the quality of Uzbek financial information and make policy recommendations.<sup>1</sup>

The Uzbek economy has achieved significant growth in recent years (10% in 2007, 7% in 2006; GNI per capita was USD \$730 in 2007, USD 610 in 2006<sup>2</sup>). To sustain growth, promote further economic development, and decrease the cost of capital, however, the country's accounting and auditing need to be strengthened to produce high-quality financial information.

That process has already begun. Since 1995, the Republic of Uzbekistan has made steady progress in updating its legal and statutory framework for corporate financial reporting, gradually implementing changes in four stages. These achievements include enacting the Law on Accounting (1996), which established the Ministry of Finance (MoF) as the accounting standard setter, and the Law on Auditing (most recently amended in 2000), which created the Chamber of Auditors as a voluntary professional association for auditors. These laws were further strengthened by government decrees clarifying the general provisions of the laws. To harmonize Uzbek and global standards, national accounting and auditing standards are being developed based on IFRS and ISA. The Uzbek government is considering not only adopting IFRS and ISA but also officially translating those standards into the domestic languages.

Gradual harmonization of national with international standards has been a successful initiative in that the gap between standards and capacity – obvious and well-documented in peer countries – has been a somewhat less significant issue in Uzbekistan. The existing practice, particularly in the banking sector, of preparing financial statements compliant with national legislation that are converted to IFRS-based statements by auditors who then audit these statements does, however, raise questions about the independence of those auditors.

This report should provide assistance to the Uzbek government as it continues to reform the country's financial reporting infrastructure. The report recommends developing a specific definition for public interest entities (PIEs), which are, due to their activities, size or significance, a subject of public interest (e.g., financial institutions and major private sector enterprises). The definition of PIE should be based on quantitative criteria and all entities meeting these criteria should have to use IFRS and ISA for their financial reporting and auditing. The report also encourages further development of national accounting standards for non-public interest entities, including small to medium-sized enterprises (SMEs). The statutory audit requirement specifies categories of entities for which an audit of financial statements is required. However, this requirement does not include criteria based on size of entities and the scale of their activities, thus

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<sup>1</sup> This report was prepared based on the findings of a diagnostic review carried out in the Republic of Uzbekistan by a team from the World Bank in December 2008. The team was led by Jan Tyl (ECAAT) and comprised Andrei Busuioc (ECCAT) and Eskender Trushin (ECSPE). The review involved the participation of various stakeholders of corporate financial reporting in the country.

<sup>2</sup> World Bank national accounts data. The data from State Statistics Committee of Republic of Uzbekistan indicate the growth of 9.5% in 2007, and 7.5% in 2006; and GNI per capita of USD \$871 in 2007, and USD 653 in 2006

it may be appropriate to reconsider the Law on Auditing criteria establishing what companies are to be audited.<sup>3</sup> As well, further reform of the audit sector should include considering a more efficient approach to standard setting, strengthening the audit oversight system in place, and implementing a quality assurance review program.

As mentioned, the most significant positive finding of this report is that the cautious Uzbek approach to accounting reform does not create the difficulties encountered in jurisdictions that opted for a "big bang" approach. For this approach to achieve its objective, i.e., a modern and robust financial reporting infrastructure, however, calls for a sustained reform effort from perhaps several consecutive political administrations, which involves greater inherent risk for the successful completion of the reforms. This challenge is accompanied by the need to provide clarity as to what constitutes compliance with existing requirements, e.g., it might be useful to design forms for notes to the financial statements. It would also be helpful if the national standard-setting process were to be continued; the last national accounting standard (NAS 23 *Accounting During Reorganization*) was issued in June 2005. Finally, there is a need for greater public availability of financial information, particularly information on companies likely to be of public interest, whether due to size or significance (e.g., financial institutions and major private sector entities). Without such information, even if accounting and auditing reforms achieve their objectives, existing and potential users will not be able to access this information, reducing the overall benefits to society and the potential for corporate-sector-led economic growth.

Section VI of this report makes specific recommendations on increasing (i) the effectiveness of setting and enforcing requirements for corporate financial reporting, and (ii) boosting the capacity of those involved in the financial reporting process. Below is a brief summary of the recommendations.

## **Core Recommendations of This Report**

This report makes major recommendations in four specific areas:

### **Statutory Framework**

We recommend that the Uzbek statutory and legal framework be amended to:

- Define criteria for distinguishing between public interest entities (PIEs), small and medium-sized enterprises (SMEs), and micro entities for tailoring proportionate financial reporting requirements appropriate to the needs of the market and the entities' own information needs.
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- Strengthen the oversight system of the audit profession and create a robust audit quality assurance review program.

### **Public Availability of Financial Statements**

Measures to strengthen the enforcement of corporate financial reporting requirements include:

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<sup>3</sup> For example, the EU legislation requires that entities with limited liability should be audited. Entities of a certain size could, however, be exempted from audit if two of three criteria are not exceeded, as follows: (i) balance sheet total: EUR 4,400,000; (ii) net turnover: EUR 8,800,000; (iii) average number of employees during the financial year: 50. These limits could be adjusted to reflect the circumstances of Uzbekistan, including the size of its economy.

- Requiring all entities subject to regulation (e.g., financial institutions, insurance companies, etc.) to submit full financial statements (which would include all notes to the financial statements in compliance with NAS 1) to their appropriate regulator. Each regulatory agency should publish these financial statements in full on their websites, thus implementing the current legal requirement that company financial statements be made publicly available. Currently, companies release only a summarized balance sheet and income statement rather than a complete set of financial statements, attaching to them the audit report on full financial statements.
- Over the longer term, the Ministry of Finance (MoF) may wish to consider creating a registry<sup>4</sup> where the financial statements of all companies subject to financial statement requirements would be centrally filed and made publicly available.
- The continued validity and, where applicable, renewal of audit certificates and licenses for both audit firms and individuals should be contingent on submitting evidence of compliance with applicable legal requirements, e.g., continuing professional development, indemnity insurance, etc.. The MoF should reconsider the current requirement that auditors retake their qualification examinations every five years, which appears rather onerous.
- In addition, the MoF should explore the possibility of amending relevant legislation so that professional auditing and accounting associations hoping to establish themselves in Uzbekistan would first have to obtain an MoF license or authorization after they have met certain, specified criteria. As well, membership in a recognized association should be mandatory for auditors and audit firms. This would be the beginning of a more robust and effective audit quality control system.

### **Institutional Capacity Building**

All regulators and other institutions with responsibilities in the field of financial reporting face increasing challenges as the changing business environment creates demand for an updated accounting and auditing infrastructure. Although the cautious approach to accounting reform did not result in a critical need for institutional strengthening, there is a need for increased capacity, as evidenced by, for example, the fact that the disclosure requirements listed in NAS 1 are not enforced and that the absence of these disclosures does not always result in a modified audit opinion. This indicates a need to strengthen the capacity of both auditors and the audit quality control function. Accordingly, it is recommended that:

- The regulators receive support, including from international peer institutions, to build their capacity in terms of the number, qualification levels, and training of their staff.
- The professional organizations of accountants and auditors should receive similar support, so that they can increase their capacity to regulate their members more effectively, particularly in the area of audit quality control and ethics.

Section VI of this report outlines more detailed recommendations specific to each of the major regulators and other institutions.

### **Professional Education and Training**

While the education system appears to turn out sufficient numbers of future professionals, there is a need to strengthen the capacity of accounting and auditing education at universities and to build continuity between university and pre-professional education programs, as well as further

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<sup>4</sup> The government should consider three options for such a financial statements registry: (i) within the supervisory bodies; or (ii) within the National Statistics Committee, where all companies currently file their financial statements; or (iii) establishing a new autonomous agency that would deal with all corporate administration, from incorporation to wind-up.

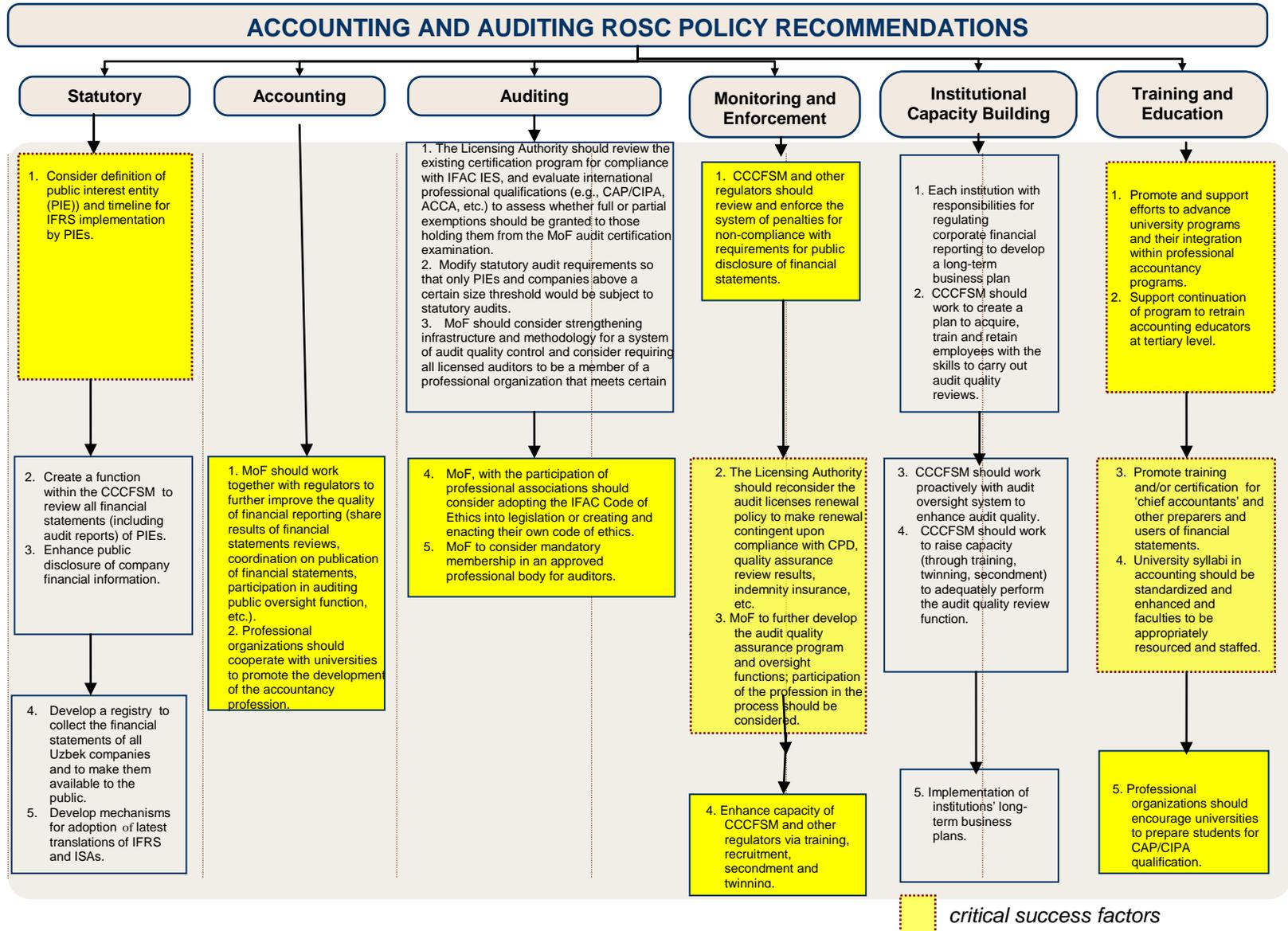
expansion of existing CPD programs. The proper understanding and application of international accounting and auditing standards and requirements requires a solid foundation of education and training for financial statement preparers, auditors, and regulators. To accomplish this, the following actions are recommended:

- To meet the increasing needs of the Uzbek economy requires greater capacity in the current providers of education and training in accountancy. This, in turn, calls for the introduction of new programs to update the skills of university professors in contemporary accounting and auditing techniques, which they can then transfer to their students. Alternatively, secondment of accounting faculty members in Uzbekistan to other universities in the region and/or bringing in professors from other former Soviet republics which have already made the necessary changes in curriculum could be considered.
- University curricula may need a comprehensive overhaul to cover, in addition to NAS, also IFRS, as well as the principles and theory of accounting underpinning both NAS and IFRS. Similar consideration should be given to auditing theory and principles underpinning NSA and ISA. Support should be provided particularly to those institutions that strive to create high-quality programs using their own resources.
- Emphasis should be placed on better integration of professional certification and licensing requirements and university programs, e.g., aligning university and CAP/CIPA courses so that university graduates are granted exemptions from certain CAP/CIPA examination requirements. The profession and education providers should also align their CPD training courses.

### **From ROSC to Reform**

The recommendations above require a holistic, multi-disciplinary approach and should be implemented gradually following the publication of this report. Their implementation will require the cooperation of a wide range of stakeholders, including the government, regulators and the accountancy profession, and should be championed by a senior government figure with sound political support. In addition, input from peer countries may present the Republic of Uzbekistan with unique insights into how similar challenges have been addressed in similar countries.

The Republic of Uzbekistan should create a working body comprised of representatives of the various stakeholder groups to advise policymakers and regulators on how to best implement the ROSC recommendations. Based on the successful experience of other countries, it seems appropriate that this group develop, with the assistance of local and international experts, a detailed Country Action Plan, which would clearly set out key reform actions, prioritized by importance, and allocate responsibilities for their implementation. The plan should include a comprehensive budget indicating the resources necessary for successful implementation. Government, stakeholders and development partners should work together to secure those resources to achieve the common goal of enhancing the quality and availability of financial information in the Republic of Uzbekistan.



<b>SUMMARY OF POLICY RECOMMENDATIONS</b>				
<b>Action</b>	<b>Responsibility</b>	<b>Timing</b>		
		<b>Short-term</b> (less than 1 year)	<b>Medium-term</b> (1 to 3 years)	<b>Long-term</b> (3 to 5 years)
<b>Statutory / legislation</b>				
1. Design plans and revise timeline for IFRS implementation to accommodate the proposed three-tier financial reporting scheme.	MoF	X		
2. Create a function to review all financial statements (including auditors' reports) of PIEs.	CBU, CCCFSM, MoF insurance department		X	
3. Enhance public disclosure of company financial information.	MoF, CBU, CCCFSM, MoF insurance department		X	
4. Establish a registry to collect the financial statements of all Uzbek companies and to make them available to the public.	MoF			X
5. Develop mechanisms for adopting latest translations of IFRS and ISAs.	MoF			X
<b>Accounting</b>				

1. MoF should work together with regulators to further improve the quality of financial reporting (share results of financial statements reviews, coordination on publication of financial statements, participation in auditing public oversight function, etc).	MoF, CBU, CCCFSM, MoF insurance department		X	
2. Professional organizations should cooperate with universities to promote the development of the accountancy profession	MoF, professional associations and universities		X	
<b>Auditing</b>				
1. Licensing Authority should review the existing certification program for compliance with IFAC IES, and evaluate international professional qualifications (e.g., CAP/CIPA, ACCA, etc.) to assess whether full or partial exemptions should be granted to those holding them from the audit certification examination.	MoF	X		
2. Modify statutory audit requirements so that only PIEs and companies above a certain size threshold would be covered.	MoF	X		
3. MoF should design an infrastructure and methodology for a system of audit quality control and consider requiring all licensed auditors to be a member of a professional organization that meets certain criteria based on IFAC SMOs.	MoF	X		
4. MoF, with the participation of professional associations, should consider incorporating the IFAC Code of Ethics into legislation or creating and enacting a domestic code of ethics.	MoF, professional associations		X	X
<b>Monitoring and Enforcement</b>				
1. Regulators should increase and implement penalties for non-compliance with requirements for public disclosure of financial statements.	MoF, CBU, CCCFSM, MoF insurance department	X		X

2. Make audit license/certificate validity contingent upon compliance with CPD, indemnity insurance, etc.	MoF		X	
3. Further develop the audit quality control and oversight functions.	MoF		X	
4. Enhance capacity of MoF and other regulators via training, recruitment, secondment and twinning.	MoF and other regulators			X
<b>Institutional Capacity Building</b>				
1. Each institution with responsibilities for regulating corporate financial reporting to develop a long-term business plan	MoF, regulators, and professional associations	X		
2. MoF should work to create a plan to acquire, train and retain employees with the skills to carry out audit quality control reviews.	MoF	X		
3. MoF should work to raise capacity (through training, twinning, secondment) to adequately perform the audit quality control function.	MoF		X	
4. Implementation of institutions' long-term business plans	MoF and professional associations			X
<b>Training and Education</b>				
1. Undertake a major program to re-tool accounting educators at tertiary level.	MoF, Ministry of Education, and universities		X	
2. Promote training for chief accountants and other preparers and users of financial statements; alternatively, promote the introduction of local accounting certification program.	MoF, professional associations		X	
3. University syllabi in accounting should be standardized and enhanced and faculties should be appropriately resourced and staffed.	MoF, Ministry of Education, and universities		X	
4. Professional organizations should encourage universities to prepare students for CAP/CIPA qualification.	Professional associations and universities			X

## MAIN ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
BCBS	Basel Committee on Banking Supervision
CAP	Certified Accounting Practitioner
CBU	Central Bank of Uzbekistan
CCCFSM	The Center on Coordination and Control over Functioning of the Securities Market
CEO	Chief Executive Officer
CIPA	Certified International Professional Accountant
COA	Chamber of Auditors
CPA	Certified Public Accountant (USA)
CPD	Continuing Professional Development
EU	European Union
GDI	Gross Domestic Income
GDP	Gross Domestic Product
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IAIS	International Association of Insurance Supervisors
IAPS	International Auditing Practice Statements
IAS	International Accounting Standards (included in IFRS)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IES	International Education Standard
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards (including IAS)
IMF	International Monetary Fund
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
JSC	Joint-stock company
LOA	Law on Accounting
LOAA	Law on Auditing Activity
LLC	Limited Liability Company
MoF	Ministry of Finance
NAAA	National Association of Accountants and Auditors
NAS	National Accounting Standards
NBFI	Non-Banking Financial Institution
NBU	National Bank of the Republic of Uzbekistan
NSA	National Standards on Auditing
NSPF	Non-State Pension Fund
PIE	Public Interest Entity
ROSC	Reports on the Observance of Standards and Codes
SME	Small and Medium-Sized Enterprise
SMO	Statement of Membership Obligations of IFAC

SOE

State Owned Enterprise

UNDP

United Nations Development Program

USAID

United States Agency for International Development

## I. INTRODUCTION

1. **This assessment of accounting and auditing practices in the Republic of Uzbekistan is part of a joint initiative of the World Bank and International Monetary Fund (IMF) to prepare Reports on the Observance of Standards and Codes (ROSC).**<sup>5</sup> The assessment focuses on the strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting in the Republic of Uzbekistan, and includes a review of both statutory requirements and actual practice. The report uses International Financial Reporting Standards (IFRS)<sup>6</sup> and International Standards on Auditing (ISA)<sup>7</sup> as benchmarks, and draws on international experience and good practice in the field of accounting and auditing regulation.

2. **Although the previous Country Financial Accountability Assessment (CFAA) undertaken in 2004<sup>8</sup> did not specifically analyze corporate financial reporting, it did have some recommendations for state-owned entities:** “(i) A legal framework should be created for the management and operations of state owned enterprises, with clear provisions for financial accountability and governance and well established governance structures; (ii) There should be requirement to use International Financial Reporting Standards for accounting and reporting of the results of the enterprises’ activities in their financial statements. Adoption of International Financial Reporting Standards could be on a phased approach, based on the size and nature of the enterprises; (iii) The Government should encourage the use of independent external auditors to conduct the annual audit of IFRS financial statements of the enterprises, using International Standards of Auditing (ISA); (iv) The Government should adopt a full translation of International Financial Reporting Standards which could be applied to public interest enterprises; which would include the major public enterprises.”<sup>9</sup> This current report builds on these earlier recommendations and suggests further reforms to strengthen corporate financial reporting and auditing in The Republic of Uzbekistan.

3. **The Republic of Uzbekistan, which is governed by an elected President,** has a total population of about 27.5 million people, with approximately three million living in Tashkent, its capital city.

4. **From 2000 to 2007, the Uzbek economy experienced significant growth, due in large part to production being concentrated in commodities that have seen healthy increases in prices over those years.** Uzbekistan is now the world's sixth-largest producer and second-largest exporter of cotton, as well as the seventh largest world producer of gold. It is also a regionally significant producer of natural gas, coal, copper, oil, silver and uranium. Agriculture employs 28% of Uzbekistan's labor force and contributes 24% of its GDP (in 2006 data). The country's 2007 macroeconomic performance was remarkable, as real GDP increased by 9.5%, the highest growth since Uzbekistan won independence in 1991. But, even though unemployment is very low, underemployment is estimated to be at least 20%.

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<sup>5</sup> For more information, please see [www.worldbank.org/ifa/rosc\\_aa.html](http://www.worldbank.org/ifa/rosc_aa.html).

<sup>6</sup> International Financial Reporting Standards are issued by the International Accounting Standards Board, an independent accounting standard-setter based in London, United Kingdom. In April 2001, the IASB announced that it would adopt all of the International Accounting Standards issued by the International Accounting Standards Committee. For simplicity's sake, the term IFRS will mean both IFRS and IAS in this report.

<sup>7</sup> International Standards on Auditing are the standards issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

<sup>8</sup> *Republic of Uzbekistan, Country Financial Accountability Assessment*, World Bank Report No. 31345,

Operations Policy and Services Unit, Europe and Central Asia Region (October 19, 2004).

<sup>9</sup> *Country Financial Accountability Assessment, op.cit.*

5. **Uzbekistan’s banking sector has developed greatly since independence.** Currently, the sector consists of 30 commercial banks. The state is the majority shareholder in the largest banks, privatization is currently underway. The Central Bank of Uzbekistan (CBU) supervises the banking sector, regulates prudential and financial reporting, sets accounting standards for banks, and licenses bank auditors (in addition to the audit licenses required by the Auditing Law and issued by the Licensing Authority). The aggregate capital of commercial banks increased by 40.6% during 2007 and exceeded 1.656 trillion som (approximately USD 1.3 billion). In the same period, assets increased by 30.9%, to a value of 11.097 trillion som (approximately USD 8.5 billion). In April 2008, international rating agency Moody’s rated several Uzbek banks for the first time. In mid-2008, loans outstanding totaled 5.949 trillion som (approximately USD 4.5 billion) and loans to SMEs increased by 41.3 % compared to the same period in 2007.<sup>10</sup>

6. **The insurance sector of the Republic of Uzbekistan is still developing.** Currently, the sector consists of 33 companies, the three largest being state-owned. Even though most (24) of the insurance companies are joint-stock companies (JSCs), they do not have to take this form of ownership. Until October 2008, when mandatory third-party car insurance was introduced, there was no mandatory insurance of any kind in Uzbekistan. Today, most policies are for crop and property insurance, although life insurance has also recently been introduced. Overall, the insurance market is growing exponentially – a 148% increase in 2008 over 2007, with property insurance growing more than 160% and life insurance more than 200%.

7. **Even though approximately 1,800 Uzbek companies have issued securities, only 19 companies are listed on the Tashkent Stock Exchange (17 are banks).** Listed companies are classified as “A” or “B” companies based on the volume of trade. Currently, most companies seeking financing opt for closed offerings (to restricted groups of investors) or bank loans. The stock exchange’s website ([www.uzse.uz](http://www.uzse.uz)) contains only summarized balance sheets and income statements of issuers.

8. **Many Uzbek companies are still fully or partially state-owned. Since 2007, the government has retained control over certain corporate functions by means of the “golden share.”** This concept is sometimes used to give the government control over those aspects of corporate activity that it considers important for successful operations; those aspects differ from case to case. Some Uzbek state-owned entities, such as banks, are currently in process of being privatized. Nevertheless, all state-owned enterprises are subject to the same reporting requirements as apply to private enterprises.

9. **Even though the Republic of Uzbekistan has made many improvements in its financial reporting infrastructure over the years, compliance challenges persist in some circumstances.** For example, the Central Bank of Uzbekistan requires that all commercial banks submit, *inter alia*, financial statements prepared in accordance with IFRS and audited in accordance with ISA. In the absence of an official translation and publication of IFRS, the banks rely on their auditors to work on producing IFRS statements with them. The practice raises the question of audit independence. Several financial donors have actively supported financial reporting reforms in Uzbekistan, specifically the World Bank, USAID and the United Nations Development Program (UNDP), and the overall results of these reforms have been positive. USAID established and, until recently, supported the CAP/CIPA professional certification program in Uzbekistan. However, it did not offer any assistance for establishing enforcement and monitoring mechanisms in the financial reporting system.

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<sup>10</sup> Source: [www.uzbanks.info](http://www.uzbanks.info).

## **II. INSTITUTIONAL FRAMEWORK FOR ACCOUNTING AND AUDITING<sup>11</sup>**

### **A. The Statutory Framework for Financial Reporting, Accounting and Auditing**

**10. The contemporary legal system of the Republic Uzbekistan can be traced back to its Romano-Germanic roots.** All of the country's laws flow from the centerpiece of the legal system, the Constitution of the Republic Uzbekistan. Constitutionally, the Republic Uzbekistan is set up as a democracy, based on the principle of separation of powers into executive, legislative and judicial branches as follows:

- Executive: This branch encompasses the President of the Republic of Uzbekistan, the Cabinet of Ministers of the Republic of Uzbekistan, the Prime Minister of the Republic of Karakalpakstan (an autonomous republic within Uzbekistan) and representatives of the country's municipal governments.
- Legislative: This is made up of Members of Parliament of the Republic of Uzbekistan (lower chamber, legislative, and upper chamber, senate), and Members of Parliament of the Republic of Karakalpakstan;
- Judicial: This includes the Constitutional Court of the Republic Uzbekistan, the Supreme Court of the Republic of Uzbekistan, the Supreme Economic Court of the Republic of Uzbekistan, the Economic Court of the Republic of Karakalpakstan, the regional, Tashkent City, district, city and economic courts, and the Supreme Military Court of the Republic Uzbekistan.

**11. The charter of commercial law – a new Civil Code – was adopted in 1995-96.** Commercial laws include: the laws on ownership (1990), land (1991), delimitation and privatization (1991), pledge (1992), lease (1991), privatization of the state housing fund (1993), enterprises (1991), the dekhans (or farmer) economy (1992), economic societies and partnerships (1992), banks and banking activity (1996), the monetary system (1994), currency regulation (1993), entrepreneurship (1991), insurance (1993), stock exchanges and stock exchange activity (1992), securities and the stock exchange (1993), audit activity (1992), taxes from enterprises, associations and organizations (1991), the limitation of monopolistic activity (1994), joint-stock societies and the defense of the rights of shareholders (1996), the mechanism for the functioning of the securities market (1996), accounting (1996) and others.<sup>12</sup>

**12. The following are the various types of companies permitted by Uzbek law and the number of companies in each category:**

- Farms – 226,019
- Joint-stock companies – 1,781
- Private companies – 100,472
- State-owned enterprises – 33,968
- Companies with foreign investment – 4,379
- Other ownership forms – 117,102

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<sup>11</sup> This report outlines the legal principles applicable to accounting, auditing and financial reporting and does not attempt to give anything more than an introduction to the issues. This report is not meant to be an exhaustive rendition of the law nor is it legal advice to those reading it.

<sup>12</sup> Source: <http://www.llrx.com/features/uzbekistan.htm#market>.

In addition to these companies, there are 26 microfinance organizations, 34 pawnbrokers and 78 credit unions. According to the data available, the state-owned sector contributed about 20.4% to Uzbekistan's GDP in 2008.<sup>13</sup>

**13. According to the Law on Accounting (LOA), a company's CEO or the board of directors is responsible for "complete and true" accounting records and the preparation of financial statements.** The legislation further imposes on the CEO the responsibility for "internal" accounting and reporting, internal controls, maintaining up-to-date accounting documents, and financial and tax reporting. Financial statements are prepared using prescribed forms and must be signed by a company's CEO and a second person nominated by the CEO, usually the chief accountant.

**14. According to Uzbek banking laws, each bank should have, in addition to a management board, a non-executive supervisory board comprising at least five members, as well as an audit committee.** The members of the supervisory board may be shareholders and/or financial experts. The supervisory board is responsible for supervising operations, appointing and dismissing management, maintaining sufficient capital, formulating the bank's policies and ensuring compliance with legislation. Banks are subject to a mandatory annual audit, to be performed by auditors licensed by the central bank (in addition to having a general audit license). Currently, there are five such licensed audit firms (two local firms in addition to three out of the Big 4). The supervisory board selects the external auditors, who are then confirmed at a shareholders' meeting.

**15. Insurance is governed by provisions of the Civil Code and by the Law on Insurance Activity.** Insurance companies are not required to operate as joint-stock companies.

**16. An annual audit is mandatory for both open (shares are issued to the public) and closed (shares are restricted to certain classes of shareholders only) joint-stock companies, banks and other credit institutions, insurance institutions, investment funds, charities, and entities with state participation.** The law states that the auditor is appointed by "the entity" and confirmed by the shareholder(s) or, where applicable, by a shareholders' meeting. In 2007, the government introduced a rotation requirement; an audit firm is allowed to audit an entity for only three consecutive years. With regard to termination of an audit assignment, the CBU requires banks to promptly inform it if an audit assignment is terminated during the course of an audit.

#### *The Statutory Framework for Accounting and Financial Reporting*

**17. Accounting and financial reporting in the Uzbek enterprise sector are primarily regulated by the Law on Accounting (LoA) (No. 279-1, 1996) and the Law on Auditing Activity (LoAA) (1992).** When addressing issues of accounting and auditing, other company legislation is typically cross-referenced to these two laws. Although the two laws spell out most of the country's financial reporting obligations, certain institutions, primarily those in the financial sector, are subject to some additional requirements.

**18. The LoA sets out the main principles and regulations governing accounting and financial reporting in the Republic of Uzbekistan, including the basis for that accounting and reporting, the responsibilities of the regulators, and the responsibilities of those involved in the financial reporting process.** The LoA is applicable to all legal entities in both the private and public sectors. The law defines financial statements as including a balance sheet,

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<sup>13</sup> According to data provided by the State Statistics Committee of Republic of Uzbekistan.

statement of financial results, statement of changes in non-current assets, cash-flow statement, statement of changes in capital and notes to the financial statements. The law also designates the Ministry of Finance (MoF) to be the standard setter and says the reporting period must be the calendar year. Companies that have subsidiaries or branches must prepare consolidated financial statements. Additional prescribed reports must be submitted to the tax authorities, shareholder(s), the state statistics department and other authorities as required by other laws (e.g., prudential reporting by banks and insurance companies). The reporting period is one quarter, on a cumulative basis.

**19. The LoA effectively, although implicitly, defines what a public interest entity (PIE) is. PIEs include open joint-stock companies, insurance companies, banks, security and commodity exchanges, investment funds and other financial institutions.** These entities are required to publish their audited financial statements by May 1 of the year following the year end. The law does not, however, say how financial statements are to be released to the public. Ordinarily, for PIEs, the domestic print media will publish a summarized balance sheet and income statement; the Tashkent Stock Exchange publishes its own summarized balance sheet and income statement on its website ([www.uzse.uz](http://www.uzse.uz)).

**20. The law specifies that all accounting entries should be backed by source documents confirming specific transactions.** The law also defines mandatory “attributes” of a source document, including name of the company issuing the document, nature of the document, its number and the location of its issuance, description and quantity of goods/services delivered/provided, and the signature of person who is responsible for completeness and veracity of the document. The LoA also mandates an annual assets and liabilities inventory. NAS 19 *Organization and Undertaking of Inventory Counts* provides further guidance on this topic. This standard also requires an annual count of inventory, biannual count of property, plant and equipment, and a regular count of cash and fuel inventories. The LoA also prescribes the use of valuation methods, as well as certain accounting treatments, such as accounting for subscribed, surplus and “reserve” capital. The content of accounting ledgers, internal reports, and other documentation is confidential.

**21. The LoA is further interpreted in national accounting standards (NAS) and regulations issued by the MoF.** Most NAS were issued in 1998, and some were updated in the period from 2003 to 2005. These were developed based on IAS/IFRS, but significant differences between NAS and IFRS remain (for more details, see Appendix 1). Regulations supporting NAS were issued during the same period to provide additional guidance, reporting formats and details on how to apply the reporting requirements, as well as guidelines on the accounting treatment of specific transactions.

**22. Both the Center on Coordination and Control Over Functioning of the Securities Market (CCCFSM) and the tax authorities are entitled to monitor compliance with legislation on financial reporting, although the tax authorities look at compliance only from the perspective of tax collection.** In reality, however, it does not appear that these institutions have the resources and capacity to effectively monitor compliance with financial reporting requirements, particularly compliance with the disclosure requirements.

**23. The activities of banks are regulated by the Law on the Central Bank of Uzbekistan (No. 154-I, 1995), as amended, by the Law on Banks and Banking Activity (LBBA) (April 25, 1996), as amended, and by other legislation.** A bank (whether domestic or foreign) must obtain a license issued by the Central Bank of Uzbekistan, which also establishes their minimum statutory capital. That statutory capital consists of monetary contributions made by founders and

shareholders. Money received as loans, pledges for loans, etc., does not qualify as statutory capital. As a rule, banks are established as joint-stock companies, and founders can be both legal and natural persons, including foreigners. State entities, charities and public funds cannot be bank shareholders, unless stipulated otherwise by other legislation. Banks are not allowed to engage in manufacturing, trade and insurance activities, except for cases foreseen by legislation.

**24. The Central Bank of Uzbekistan (CBU) is responsible for supervising the operations of banking organizations. When it comes to accounting and auditing, the CBU:**

- 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, to demand information on operations and transactions, to establish internal audit requirements for banks, to instruct a bank to improve its operations and procedures, and to specify the qualification requirements for the head and chief accountants of banks and their branches.

The LBBA requires that banks be audited annually by auditors holding CBU audit licenses. The audit should include an assessment of a bank's capital adequacy and a classification of credits, risks and liquidity. The CBU is authorized to require auditors to follow its regulations, including its procedures and methodology, and also to ask them for information on bank audit results.

**25. To obtain the certificate permitting it to perform bank audits in Uzbekistan, an audit firm must file an application with the CBU, enclosing the following documents:** (i) data confirming that the firm has at least two auditors on staff who have the qualification certificate giving them the right to perform bank audits, and (ii) a notarized copy of their MoF license. The CBU will then issue the certificate permitting the firm to audit banks.

**26. In accordance with Uzbek banking laws and CBU decrees, banks must present prudential information in a prescribed format.** These reports have to include a daily trial balance sheet; monthly balance sheet and income statement; and a quarterly balance sheet, statement of income, cash-flow statement, and changes in non-current assets and equity. NAS issued by the MoF are not applicable to banks. In accordance with Art. 41 of the LBBA, the CBU establishes regulations for accounting and financial reporting by banks according to the legislation of Republic of Uzbekistan and international standards. So far, the CBU has issued 17 regulations for accounting and financial reporting by banks that were developed on the basis of some IAS/IFRS valid at the time of the regulations' adoption and modified to reflect the requirements of country legislation. In addition, the CBU requires that annual bank financial statements be prepared in accordance with IFRS. The LBBA also requires that annual financial statements be published together with the audit report not later than May 1 of the year following the reporting year. To convert the CBU compliant financial statements to full IFRS financial statements, adjustments are required, which may be made in some cases with auditors' help. The banks publish their financial statements in the print media, releasing four statements: the income statement, balance sheet, changes in equity, and the cash-flow statement, along with an extract from the audit opinion. Only a few banks publish general purpose financial statements on their websites, again posting the same four statements and the audit opinion extract.

**27. Three specific laws regulate non-bank financial institutions (NBFI): the Law on Credit Unions (2002), the Law on Microcredit Organizations (2006), and the Law on Microfinance (2006).** NBFIs, too, are subject to CBU regulations. The Uzbek NBFI sector has been developing rapidly in recent years and now includes 78 credit unions, 26 microfinance agencies and 34 pawnbrokers. Credit unions must have a minimum starting capital of USD 50,000 if founded in

Tashkent, and USD 25,000 if founded in any community outside of Tashkent. All NBFIs are subject to a mandatory annual audit, and their financial statements are published together with the audit report no later than May 1 of the year following the reporting year. Monthly and quarterly prudential (regulatory) reports are also prepared in compliance with CBU regulations. In addition, the CBU inspects each NBFIs annually or with specific objectives in mind. The CBU has two departments focusing specifically on NBFIs. Unlike the situation with banks, auditors do not have to meet any specific, additional expertise requirements to be permitted to audit NBFIs.

28. **There are no specific financial reporting requirements for other types of entities, such as state-owned enterprises (SOEs) or investment funds.** The financial reporting requirements for SOEs are no different from those for other companies except that all companies with government participation/shares are subject to a mandatory annual audit. The financial statements of investment funds have to adhere to the same general rules that apply to JSCs.

29. **The insurance sector, although still small, is growing quickly.** In 2008, the sector overall grew by 148%, with life insurance leading with an increase of 200% over 2007 (although, previously, that part of the market comprised only 2-3% of the total market). Insurance premiums now make up 0.3% of the country's GDP. On October 21, 2008, the government introduced mandatory third-party liability car insurance, which will give a further boost to the growth of the market. The Republic of Uzbekistan currently has 30 insurance companies (one life, 28 non-life and one re-insurer). This sector, which includes 24 JCSs, is dominated by four state-owned companies; the three largest companies are SOEs and the four largest companies control 65% of the market. The Insurance Supervisory Board reports to the MoF, has a staff of nine and needs more resources. The financial reporting requirements in the insurance sector differ from other sectors, mandating specific reporting formats and a specific chart of accounts. A Government Resolution (No. 618, April 2007) established a framework for insurance market operations and called for additional laws to be enacted, a process that is still underway. From June 2008 onward, insurance companies must use sector-specific financial reporting forms and submit, quarterly, eight financial reporting forms, six solvency reporting forms and 12 insurance activity forms. They have to use NAS for their reports (with the exception of NAS 21 *Chart of Accounts and Instructions on its Application*). Further developments in financial reporting are expected in the near future.

30. **Small and medium-sized enterprises (SMEs) follow the requirements of the Law on Accounting (LoA) and apply NAS 20 Accounting and Financial Reporting by Small Business.** SME financial reporting is much simpler than that of PIEs or financial institutions. The annual financial statements of micro entities and small enterprises comprise only a balance sheet, a report on financial results and a report on accounts payable (debts and credits).

The following table summarizes the requirements applicable to different types of entities:

**Table 1: Corporate Financial Reporting Requirements**

<b>Financial statements</b> <b>Entities</b>	<b>Legal Entity and Consolidated Financial Statements</b>	<b>Audit</b>	<b>Public Disclosure</b>
<b>Open joint-stock Companies</b>	NAS	Required	Must publish annual financial statements in the print media; however, the law does not specifically require publishing or making publicly available a “full set of financial statements” together with the notes to the financial statements, as required by NAS.
<b>Closed joint-stock companies</b>	NAS	Required	None
<b>Large Private Limited Liability Companies</b>	NAS	Not Required	None
<b>Small Private Limited Liability Companies</b>	NAS and NAS 20	Not Required	None
<b>Unincorporated Businesses</b>	NAS 20	Not Required	None
<b>Insurance Companies</b>	NAS	Required	Must publish financial statements in the print media.
<b>Banks</b>	Regulations issued by CBU with conversion of financial statements to IAS/IFRS <sup>14</sup>	Required	Required to publish four specified statements and an audit report in the print media.
<b>Non-Banking Financial Institutions (NBFI) Licensed by the CBU</b>	NAS	Required	Required to publish specified statements and audit report in the print media.
<b>State-Owned Enterprises</b>	NAS	Required	Required to publish specified statements and audit report in the print media.

### *The Statutory Framework for Auditing*

31. **The Law on Auditing Activity (LoAA), similarly to equivalent laws in peer countries, does not define “audit” but, rather, “auditing activity” (i.e., regulating both audit and non-audit services).** The difference, while subtle in wording, results in significant consequences for auditors as it in fact regulates any activity performed by auditors and audit firms as opposed to regulating statutory audits only, i.e. auditors that perform audits required by law and only these

<sup>14</sup> It is important to note that reporting in accordance with IFRS in Uzbekistan means preparing accounts in accordance with NAS and having auditors convert these into IFRS.

audits. The law defines auditing activity as “for-profit (entrepreneurial) activity by audit firms when performing auditor’s review and other professional services...” These other services are then defined as “establishment and maintenance of accounting, preparation of financial statements, conversion of national financial statements to statements in accordance with international standards, analysis of financial and economic activities of the company, consulting on matters of accounting, tax, planning, management and other matters of financial and economic activity, and preparation of tax returns. Audit firms may provide other professional services envisaged by NSA.”

**32. The LoAA prescribes an annual statutory audit for the following:**

- banks and other institutions licensed by the CBU;
- insurance companies;
- all joint-stock companies;
- investment and other funds administering monetary investments of the public at large;
- charities and NGOs;
- entities where the sole or one of the shareholders is a public sector entity;
- quasi-NGOs (entities whose income is established by legislation).

In addition, entities not subject to mandatory audit may choose to arrange a voluntary audit of their financial statements. For statutory audits, there is a mandatory auditor rotation after three years on the engagement. Auditing standards applicable in Uzbekistan are National Standards on Auditing (NSA), which are theoretically based on ISA. However, it would be misleading to contend that NAS are fully aligned with ISA. Further, the “auditor’s report” is defined as a long-form report that includes prescribed analytical information, as well as discussion of internal control issues and compliance with taxation and other legislation, etc. The “auditor’s conclusion” contains information resembling that in the audit report prescribed by ISA 700. In addition, because the Uzbek accounting framework is based on attesting to compliance, Uzbek audit conclusions require wording that fits that framework.

**33. The Audit Licensing Authority, with the assistance of both the National Association of Accountants and Auditors (NAAA) and the Chamber of Auditors (CoA), has promulgated 21 NSAs.** The standards, inspired by the “old” (pre-risk-based) ISA approach, get their legal authority from the Ministry of Justice registering the standards (see details in the auditing standards gap section below).

**34. Special requirements apply to the auditors of banks, bank holding companies and affiliated legal entities.** In addition to meeting general requirements, statutory auditors of such entities must possess an additional certificate issued by the CBU upon meeting additional qualification criteria.

**35. The LoAA requirements for statutory audits appear to be broader than, and different from, those in many other countries in that small companies are subject to mandatory audit if they are joint-stock companies.** For example, the EU Fourth Company Law Directive sets maximum limits on the exemption criteria, but Member States are permitted to set lower size criteria, thereby exempting fewer companies. In this context a question arises whether any public benefit is derived from the audit of a small or inactive joint-stock company.

**36. The LoAA also regulates the conduct of the statutory audit of commercial enterprises. Only licensed audit firms employing licensed auditors are allowed to perform such audits.** There are three types of Uzbek audit licenses:

- First level license: Audit firms with these licenses may provide only voluntary audits, must employ at least two certified auditors and have statutory capital of at least 1,500 times the minimum wage (approximately USD 30,000).

- Second level license: Firms with these licenses may perform voluntary and mandatory audits except for banks and open joint-stock companies with authorized/statutory capital exceeding 500,000,000 som (USD 300,000), must employ at least four certified auditors, including one auditor with an international designation (CAP, CIPA, ACCA), and have statutory capital of at least 3,000 times the minimum wage (approx. USD 60,000).

- Third level license: Firms with these licenses may perform any audit with the exception of banks (additional license needed), must employ at least six certified auditors and two international accountants (CAP, CIPA, ACCA), and have statutory capital of at least 5,000 times the minimum wage (approx. USD 100,000).

All audit firms need to show they have liability insurance before they can obtain their audit license – auditors are liable under civil law. The minimum insurance coverage cannot be less than the total amount of audit fees a firm earns in a year. This may not be enough in instances where a negligent audit has precipitated far greater losses for users relying on the financial information. Only audit firms licensed in the Republic of Uzbekistan may provide audit services in the country. An audit license may be revoked or suspended only by a court decision. Once revoked, the license is gone forever – the firm cannot get it back.

37. **LoAA independence requirements for auditors include the following:** Auditors or audit firms are prohibited from auditing entities where they, or close relatives (parents, spouses, brothers, sisters, children; brothers, sisters, parents and children in law), are founders (participants), shareholders or employees. Further, they cannot audit entities in which they have any interest other than that resulting from conducting the audit and providing accompanying services.

38. **Statutory auditors are appointed by shareholders of the company:**

- The Law On Joint-Stock Companies (Art.65) stipulates that the general shareholders' meeting appoints the external auditors for JSCs.
- The appointment of the external auditors of banks is confirmed at the annual shareholders' meeting.

## **B. The Accounting and Auditing Professions**

39. **Uzbek accounting and auditing legislation does not formally recognize the accounting profession.** While it spells out detailed information on education requirements for auditors, no requirements or criteria have been established for the certification and competence of accountants, except the requirements for chief accountants in banks. The regulation issued by the CBU specifies the following requirements for the chief accountants of banks: specialized higher education and work experience, as well as a special certificate issued by the CBU confirming completion of the training course on IFRS. For this purpose the CBU organizes special training courses on IFRS jointly with regional banking training center under Banking and finance academy. Three professional associations serve both accountants and auditors: the National Association of Accountants and Auditors (NAAA), the Association of Teachers of Business and Finance Disciplines (ATBFD), and the Chamber of Auditors (CoA). Although the LoAA provides for existence of a Union of Auditors, the legislation does not delegate any regulatory function to professional bodies, and there is no requirement for either accountants or auditors to belong to any of them. It is not known how many Uzbek auditors are not members of a

professional body. The role of these bodies in regulating the profession is, therefore, quite limited.

40. **The NAAA (or, rather, its predecessor) was founded in 1992 and is an associate member of IFAC and a full member of the Eurasian Council of Certified Accountants and Auditors (ECCAA), as well as an ordinary member of Association of Accountants and Auditors "Sodruzhestvo" (AAAS) (CIS).** IFAC requires that its members, both associate and full, make their best efforts to comply with IFAC Statements of Membership Obligations (SMOs).<sup>15</sup> At present, the NAAA does not fully comply with these SMOs<sup>16</sup>. In 2005, NAAA has adopted the IFAC Code of Ethics. NAAA membership comprises 27 CIPAs (of the 50 currently practicing in Uzbekistan), 962 CAPs and approximately 2,500 associated members. NAAA members, which include the local member firms of international networks Deloitte & Touche, Ernst & Young and PricewaterhouseCoopers, work in both the public and private sectors. NAAA takes part in the drafting of NSA and NAS.

41. **Forty-four of the 134 audit firms in Uzbekistan are members of the CoA, including the local member firm of Deloitte & Touche, as are more than 600 auditors (of more than 1,200 in the country).** The CoA adapted the IFAC Code of Ethics in 2005 and recently has been attempting to enroll its member firms in a peer review program. The CoA participates in the development of NSA; it has not been admitted to IFAC membership yet.

42. **The ATBFD was founded in 2001 and currently comprises approximately 300 CAP and 20 CIPA qualified professionals.** It is a member of the Eurasian Council of Certified Accountants and Auditors (ECCAA) and intends to apply for IFAC membership in May 2009. ATBFD runs a certification program for trainers and is licensed to provide CPD courses. Although its ambition is to be leader in business education, ATBFD considers itself a professional accountancy body. Its programs are delivered primarily in Russian and its training materials were developed with the assistance of USAID. ATBFD has its own code of ethics, based on the IFAC Code; however, it does not award professional qualification.

43. **Although professional bodies are involved in the development of the licensing program and CPD, none of them administers or aspires to administer a professional certification program. The only accounting certification schemes available in the Republic of Uzbekistan are CAP/CIPA and ACCA.** NAAA and CoA have, however, maintained a working relationship with the MoF's licensing unit. These three bodies should work together in requiring accountants and auditors to become members of a recognized professional body. The MoF could then consider establishing a public oversight mechanism for those professional bodies, for example by delegating oversight responsibilities to the MoF licensing unit (which might be asked to further delegate certification and CPD responsibilities in the future to the professional bodies themselves). This, however, is unlikely to be achieved, given the limited resources in the Republic of Uzbekistan, unless the MoF, NAAA, ATBFD, CoA and other stakeholders work together and unite resources to get this done.

44. **Many individuals are involved in accounting functions, some of whom were trained under the previous Soviet regime.** Educating the accountants who work at the majority of Uzbek companies is key to improving the practical application of NAS and principles-based accounting. While relatively newly qualified accountants might have a better understanding of modern accounting concepts than current accounting practitioners do, established accountants

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<sup>15</sup> IFAC SMOs are designed to provide clear benchmarks to current and potential IFAC member organizations to assist them in ensuring high-quality performance by accountants worldwide. SMOs cover quality assurance, education standards, auditing standards, ethics, investigation and discipline, etc. For additional information, refer to <http://www.ifac.org/Compliance/index.php>.

<sup>16</sup> In May 2009 NAAA has submitted an application for full IFAC membership.

should also be given an opportunity to improve their theoretical and practical skills. Again, to accomplish this objective, it is important that all stakeholders be involved in the process.

### ***The Audit Profession***

45. **The audit profession is regulated by the MoF's Licensing Authority.** This Licensing Authority is responsible for maintaining an up-to-date registry of auditors and for enforcing audit rules, regulations and requirements such as:

- compliance with LOAA and NSA;
- the executive of an audit firm must be an auditor;
- valid liability insurance;
- restriction on other activities when engaged in auditing activities;
- compliance with confidentiality requirement;
- timely and quality performance of contracted audit services; and,
- auditors can perform audit activities for only one audit firm at a time.

The licensing authority employs seven staff to perform inspections to ensure compliance with the requirements. The inspectors visit each audit firm at least once in three years. Where transgression is suspected, the licensing authority forwards the case to the court. The court may order the suspension or withdrawal of a firm's audit license of firms, and revoked licenses can never be retrieved. If individual auditors breach the laws and regulations applying to them, the court can also suspend or withdraw their certificates. An auditor is permitted, however, to reapply for the revoked certificate after three years. The law also establishes the extent of information to be included in the registry of auditors.

46. **The NAAA, ATBFD and CoA have developed their own Codes of Ethics even though none of them has a disciplinary function as the MoF's licensing authority holds this responsibility.** The codes, based on the IFAC code, address, *inter alia*, the following:

- orderly conduct of business and objectivity;
- resolution of ethical conflicts;
- professional competence;
- confidentiality;
- tax practices;
- independence;
- commission and contractual fees;
- relationship with other auditors; and,
- advertising, conflict of interest, supervision, publishing of information, etc.

47. **The legislation of Uzbekistan is silent on the recognition of foreign qualifications. Candidates with a CAP qualification or those holding a certificate of international level (ACCA, CPA, etc.) are not required to take the special training course for auditors (200 hours).** If foreign auditors wish to obtain an audit certificate and license, they have to pass the same examinations as Uzbek candidates.

48. **The MoF Licensing Authority is responsible for examining, certifying and licensing auditors.** The examination consist of written and verbal parts. The Law on Audit Activity requires that all candidates have a university degree. They also have to meet certain experience requirements. Candidates with a university degree in economics must acquire three years of

relevant work experience, while candidates holding non-economics degrees must have five years of relevant experience. Relevant experience is defined as the work of chief accountant, financial and/or analytical work, etc. (there is no requirement for mandatory audit work under a licensed auditor). Other requirements include integrity, no prior court convictions, and the ability to enter into legal transactions. The certification process includes 200 hours of training provided by one of the approved providers and one exam administered by the MoF examination committee (the committee includes representatives from the MoF, Ministry of Justice, tax authorities, the securities exchange commission and professional associations). The two part exam contains five subjects (financial accounting, management accounting, taxation, business law and audit). The examination pass rate is approximately 25-30%.

**49. As in some other peer countries, there is some confusion in the Republic of Uzbekistan about the relationship between internal and external audit, and the role of internal audit in a company.** According to the regulation on internal audit issued by the Cabinet of Ministers in 2005, all entities with assets exceeding USD 1 million must have an internal audit department led by an auditor holding an external audit certificate. Internal auditors are responsible for internal controls, assessing the work of executive bodies and other corporate functions, compliance with legislation, accuracy of accounting records, safeguarding of assets and implementation of corporate governance principles. Often, the work of internal auditors is perceived as a supplement to the work of external auditors.

### **C. Professional Education and Training**

**50. There are 24 universities and 40 other institutes of higher learning in the Republic of Uzbekistan.**<sup>17</sup> The Uzbek Law on Education established a two-level system of higher education: Bachelor and Master Level. Education is multilingual; studies can be done in Uzbek, Russian, English, Karakalpak, Kazakh, Kyrgyz and Tajik languages.

**51. Progress in reforming Uzbek accounting and auditing has been coordinated with progress in professional education and training.** This approach, similarly to accounting reform efforts, has led to minimizing the disconnect between academia and the profession; nevertheless, further progress will be needed to support the reforms. The Minister of Finance issues decisions on the content of business and economics education at both baccalaureate and master levels before students move on to their pre-qualification studies. Since the audit certification program consists of only four subjects, would-be auditors need to get a great deal of their relevant education at university. But Uzbek university education is not adequate in this context. On a cursory review, for example, the prescribed academic content does not fully cover the “grey text” of International Education Standards (IES) in accounting, particularly, IES 2. IES 4 (on Ethics) is not covered at all, while IES 3 to 8 are covered to some extent. Since IESs focus on competencies, while Uzbek education content focuses on specific, formal content, any detailed comparison is difficult. In any case, the quality of Uzbek education programs was not the subject of a detailed assessment and, therefore, no comments are possible. It seems, however, that not all institutions of higher education have adapted their curricula to reflect current financial reporting requirements. Instead, they continue to teach “old” accounting with a focus on form over substance, as opposed to outputs (financial statements, including the notes). Not all university lecturers are experienced or have qualifications in NAS, NSA, IFRS and ISA-based financial reporting. Furthermore, although there have been efforts to update the skills and knowledge of university professors in the past, more current training and skills development programs are needed.

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<sup>17</sup> Source: [www.gov.uz](http://www.gov.uz).

52. **In addition to building better skills and knowledge of teaching staff, there is a need to enhance the teaching resources available.** While materials on NAS and NSA are abundant, there is a shortage of textbooks, training materials and reference sources on IFRS and ISA.

53. **The prescribed content of university education may be interpreted, positively, as an initiative to integrate professional certification and university programs because both are more or less controlled by the MoF.** Further integration would assist the development of the profession as would extending accountancy education to the universities that do not offer accounting courses in economics and/or management faculties.

54. **Current training on IFRS is not sufficient; much IFRS knowledge is obtained through self-study or from experience with local member firms of the international audit networks.** Even in the cases of banks and large companies, IFRS financial statements are prepared with the assistance of the auditors. This may undermine the objectivity of the audit process, and limit the extent to which management and boards fully understand – and take real responsibility for – their own entities’ financial statements.

55. **Candidates wishing to obtain an audit certificate must pass an examination following 200 hours of classroom study.** The exam consists of two stages (verbal and written) and includes five subjects (financial accounting, management accounting, taxation, business law and audit). The topic areas of the study are approved by the MoF and professional organizations and include (i) financial accounting – 20 hours (this is the only exemption available to candidates who successfully passed the Financial Accounting I exam under the CAP/CIPA program), (ii) management accounting, financial management and financial analysis – 70 hours, (iii) audit – 60 hours, and (iv) taxation and laws regulating business – 50 hours. Detailed syllabi are available and there are many approved providers.

56. **Examinations are difficult, standards are high and pass rates are low (25-30%).** Those who succeed on the written examinations on day one of the examination session are invited to an oral examination on day two. The oral examination committee consists of representatives of the MoF, SEC, NAAC and CoA. Those who pass the written examination also have to prepare problems for the examination problem bank. A successful candidate is awarded a certificate; to provide audit services, however, the candidate must be employed by a licensed audit firm. Both licenses and certificates are issued by the MoF Licensing Authority.

57. **Continuing professional development is mandatory and auditors need to take 60 hours of formal training each year.**<sup>18</sup> In 2004, the MoF and CoA approved CPD syllabi, which they said consisted of updating the professional examination subjects. It is not clear, however, how often these courses are updated. The CPD content reviewed for this report does not cover either IFRS or ISA. The audit firms submit reports to the MoF on a semiannual basis, summarizing the participation of their auditors in CPD courses and attaching copies of the certificates attesting to that. The professional bodies also release this information to the public and the MoF verifies whether certified auditors have complied with CPD requirements. CPD compliance is also reviewed when auditors wish to extend the validity of their audit certificates (an audit certificate is subject to renewal after five years).

#### **D. Setting Accounting and Auditing Standards**

58. **Under the current legislation, the MoF has the responsibility for setting Uzbek accounting and auditing standards.** The Law on Accounting (LoA) and the Law on Auditing Activity (LoAA) refer to “standards,” and that reference is interpreted as NAS and NSA.

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<sup>18</sup> MoF Regulation 977 on audit certificates (2000).

59. **MoF periodically reviews NAS and NSA to identify whether changes in IFRS and ISA should be reflected in national equivalents.** The unofficial Russian translation of the 2001 edition of IAS is the inspiration for most NAS, and ISA 2001 is the inspiration for NSA. The positive fact is that the gradualist approach to reforms did not result in the massive gap between standards and practice experienced in other peer countries. This resulted in standards that may be appropriate for many entities (SMEs) but not entirely suitable for others (PIEs).

## **E. Enforcing Accounting and Auditing Standards**

### *Enforcing Accounting and Financial Reporting Standards*

60. **The LOA gives the MoF broad powers to set the standards that regulate Uzbek accounting and financial reporting for commercial entities.** The MoF does not, however, have the mandate to ensure enforcement of the application of financial reporting standards. Regulation of bank accounting and financial reporting in banks and other financial institutions has been assigned to the CBU.

61. **The statutory audit function has limited effect in ensuring compliance with financial reporting requirements, particularly as the level of assurance provided by audits is limited.** There are two reasons for this: because some entities don't have enough in-house skills for preparing financial statements, their auditors possibly help them with that process. It may be that auditors then audit the statements they have helped prepare, raising the question of auditor independence. Moreover, as noted below, audit quality varies greatly in the Republic of Uzbekistan.

62. **Similar to peer countries, the question arises about the importance of the vast SME sector's compliance with NAS.** While reliable financial information is a fundamental requirement for calculating tax, the extent of reporting required from the SME sector may deserve reconsideration. Heavy reporting requirements could constrain their growth.

### *Enforcing Auditing Standards*

63. **Enforcement of auditing standards is the responsibility of the MoF Licensing Authority.** The unit employs seven inspectors who look at the work of licensed auditors. A coordination committee approves the list of audit firms to be reviewed each year, and each firm is to be reviewed every three years. This committee also processes complaints about audit work. The Licensing Authority does not have the authority to withdraw a license on the basis of a complaint; the license withdrawal can be done only through the court. Prior to 2008 there were few court cases that did end with license revocation.

64. **The profession has made various efforts to participate in the quality assurance process, even though these were not mandated by law and were merely voluntary.** The NAAA, supported by the CoA, led the most recent effort in 2008, which asks firms to voluntarily participate in a peer review program. The project is not yet in operation as some issues, such as confidentiality, must be addressed first.

65. **The Republic of Uzbekistan imposes an obligation on audited entities to submit their audit report to tax authorities within 15 days following the day the financial statements are issued.** This requirement effectively makes the tax authorities part of the audit quality assurance process.

66. **It is difficult to evaluate the effectiveness of the quality assurance system in the Republic of Uzbekistan.** The system is controlled by the MoF and inspections are performed by

non-practitioners. While this solves the issues usually associated with peer reviews and independence, it is likely that most of these inspections consist primarily of verifying formal compliance, particularly with licensing requirements, which are relatively easy to inspect, without probing the substance of economic events and an analysis of compliance with auditing standards.

### III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

67. **The government of Uzbekistan decided to develop National Accounting Standards (NAS) inspired by IAS/IFRS.** The MoF also releases supporting regulations and guidelines that elaborate on the standards or provide detailed procedures for accounting and documentation. The MoF develops NAS gradually, and the focus is on those that best correspond to the needs of Uzbek market. Furthermore, the MoF adopts only the standards that do not contradict Uzbek civil, companies or tax legislation. As a result, there are significant differences between NAS and IFRS, leading to a standards gap.

68. **A comparative analysis of NAS and IFRS demonstrates that there are significant differences between the two sets of standards, so that financial statements prepared under NAS would be materially different from those prepared under IFRS.** Differences between NAS and IFRS are presented in detail in Appendix 1, and include the following:

- some IFRS/IAS have no NAS equivalents, for example, IAS 39, IAS 40, IAS 41, IFRS 4;
- existing NASs are not always up to date because IAS/IFRS have changed significantly during the last decade (for example, IAS 10 and IAS 37 are now covered by NAS 16 although NAS 16 is based on an older IAS 10);
- several NASs contain more detail than their IAS/IFRS equivalents and are also supplemented by the standard chart of accounts (NAS 21), standard financial reporting formats with additional forms, such as the report on fixed assets and debtors and creditors, and additional regulations and guidelines (for example, IAS 1 has several NAS equivalents for each of the prescribed financial statements; this is, to some extent, due to traditions that exist in Uzbek environment, including the history of rules-based standards).

69. **NAS are not applicable in the banking sector. CBU issues accounting and financial reporting regulations and guidelines.** In addition, the CBU requires annual financial statements to be prepared in accordance with IFRS (by way of converting statements prepared in accordance with CBU regulations and guidelines) and audited in accordance with ISA. Unfortunately, however, neither IFRS nor ISA have been formally adopted in Uzbekistan, which makes their application difficult and, effectively, restricts the bank auditing market to the Big 4 auditing firms. As a result, banks prepare two sets of financial statements, one compliant with CBU regulations and guidelines, the other (prepared in some cases with assistance from auditors) compliant with IFRS.

70. **Except for NAS 20 *Accounting and Financial Reporting by Small Businesses* and NAS 21 *Chart of Accounts*, NAS apply to the insurance sector as well, although there is no specific standard on insurance contracts.** The MoF has issued a separate regulation on the chart of accounts for the insurance sector, as well as specific reporting formats primarily addressing prudential reporting requirements. Financial reports of insurance companies have standard formats and include financial statements, solvency and reserves statements and reports on insurance activities. Insurance companies are also obliged to have a certified actuary prepare an annual actuarial assessment.

71. **As part of the ROSC assessment, a *compliance gap* analysis was carried out, which shows that the quality of the financial statements prepared by the selected enterprises needs**

**improvement.** Although the law requires certain entities to publish their financial statements, frequently, compliance with this requirement is reduced to publishing a summarized balance sheet and income statement. Because general purpose financial statements are ordinarily not publicly available, the *compliance gap* assessment covered only a sample of 10 sets of audited financial statements prepared in accordance with NAS and two sets prepared in accordance with IFRS (by way of converted NAS statements). The financial statements came from eight private sector companies, one bank and one insurance company. Results of the review can be summarized as follows:

- Only one set of NAS financial statements of a foreign-owned enterprise and two sets of IFRS financial statements from a bank and an insurance company included notes to the financial statements; these financial statements were audited by member firms of international audit networks. The remaining financial statements did not contain any notes as required by NAS and, therefore, did not fully comply with NAS requirements.

- There are differences between banking sector regulatory requirements and IFRS in the treatment of loan loss allowances, and this difference is not disclosed in IFRS financial statements.<sup>19</sup> Also, the CBU recognizes only those adjusting entries related to conversion from NAS to IFRS that do not contradict national legislation; no reference is made in the financial statements to CBU regulations, and the allowances were presented as compliant with IFRS in the financial statements. Ordinarily, where national regulations give rise to such a difference, disclosures about, and the quantification of, these differences are required.

- Financial statements submitted by insurance companies did not include cash-flow statements and notes to the financial statements; in fact, these financial statements were those required for prudential purposes only.

**72. The overall conclusion of the review of Uzbek financial statements is that there is a compliance gap between standards as designed and as practiced, particularly when it comes to the preparation of explanatory notes and public availability of general purpose financial statements.** Reasons for the gap include: (i) insufficient expertise in preparing explanatory notes among both preparers and regulators responsible for collection of financial statements results in non-compliance; (ii) few understand the significance of notes to the financial statements; (iii) poorly qualified auditors perform low-quality audits; and (iv) no effective enforcement mechanism over the financial reporting process.

#### IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

##### *The auditing standards gap*

**73. The Law on Audit Activity (1992), as amended does not define nor require the application of auditing standards.** In paragraph 21, however, the law requires the Licensing Authority to develop national auditing standards. This, in effect, makes the MoF a standard setter.

**74. NSA consist of 21 auditing standards. Because of the delay in adopting revised ISA, some NSA do not have an ISA counterpart.** Audit risk standard (NSA 9 *Materiality and Audit Risk*) has not been updated since its adoption, i.e., the NSA audit approach is not a risk-based approach. Similarly, all performance and reporting standards are based on older audit standards predating the IAASB's clarity and redrafting project (see NSA 3 *Audit Planning*, NSA 4

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<sup>19</sup> As the prudential requirements are based on different principles, the difference between loan loss provisions under prudential requirements and under IFRS is significant and, in case of the reviewed bank, approximately 35%.

*Requirements Relating to Internal Standards of Audit Firm, NSA 5 Quality Control over an Auditor's Work, NSA 6 Audit Documentation, NSA 10 Audit of Other Information, NSA 11 Audit in a Computerized Environment, NSA 12 Evaluation of the Systems of Accounting and Internal Control, NSA 13 Analytical Procedures, NSA 14 Sampling, NSA 16 Use of the Work of an Expert, NSA 24 Auditing Procedures when Financial Statements are Materially Misstated, NSA 25 Compliance with Laws and Regulations, NSA 31 Knowledge of the Business, NSA 50 Audit Evidence, NSA 55 Obtaining Audit Evidence for Related Party Transactions, NSA 56 Subsequent Events, NSA 60 Use of the Work of An Other Auditor, NSA 70 Auditor's Report and Conclusion, NSA 80 Agreed Upon Audit Procedures and NSA 90 Professional Services of Audit Firms).* In this context, it is important to note that the IAASB completed its "Clarity Project" on February 27, 2009, under which all 36 ISA and ISQC 1 were redrafted and some also revised. NSA should be revisited to reflect the changes.

**75. The CBU requires banks to have their IFRS financial statements audited in accordance with legislation and ISA.** This task is accomplished by banks preparing financial statements in compliance with the CBU regulations and guidelines, which are converted into IFRS financial statements, in some cases with the help of auditors. In such cases, the same auditor then also audits the IFRS statements and issues an ISA audit report.

#### *The auditing standards compliance gap*

76. **As discussed in the "Accounting Standards as Designed and as Practiced" section, even PIE financial statements are not readily available.** It was interesting, however, that "clean" audit opinions were attached to statements that did not include notes thereto, irrespective of the fact that NAS 1 requires notes to financial statements. The difficulty with audit reports on bank financial statements is that the auditors also helped prepare these financial statements. The CBU may reject an audit report on a bank's financial statements.

## V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

77. **There is still relatively little demand for transparent financial statements in Uzbekistan,** partly because the development of the stock market is in its early stages and partly because there is only a modest level of foreign investment. Private investors place limited reliance on financial statements when conducting due diligence as part of their Uzbek investment projects. Instead, they request special-purpose IFRS financial statements as part of that due diligence process.

78. **For the most part, both regulators and users of financial statements find the quality of audits in Uzbekistan to be satisfactory.** In addition, the Big 4 audit firms and two local firms are licensed to perform bank audits, and this additional qualification is seen as a seal of quality. The MoF has a process in place to rank auditing firms from time to time, a unique undertaking in the international context. The ranking does not, however, attempt to address the quality of audits; rather, firms are "bundled" into groups and ranked within the groups according to purely quantitative criteria, such as the number of auditors in a firm. Without a well functioning quality assurance review system, it is difficult to evaluate whether the perception of good audit quality is substantiated. The fact that "clean" audit opinions are issued on financial statements that do not have any notes may, however, provide an indication.

79. **Much like general purpose financial statements, users tend not to find audit reports particularly useful for decision-making purposes.** Some business managers believe financial statements are useful only for tax calculations and do not base their business decisions on the statements. They also do not believe that audit reports add any credibility to the underlying financial statements. Banks often base their lending decisions on their own due diligence, as well as the collateral available, rather than looking at audited financial statements. Paradoxically, it

may be that the tax authorities are most interested readers of audit reports. This may be changing as more important enterprises are prepared for privatization and foreign investment becomes more desirable.

## VI. POLICY RECOMMENDATIONS

**80. Without attempting to provide a detailed tactical design for reforms, this report makes policy recommendations to support the implementation of accounting reform and to enhance the quality of corporate financial reporting in the Republic of Uzbekistan.**

**81. The recommendations of this ROSC are interrelated and mutually supportive.** For example, good accounting standards are jeopardized if practitioners do not understand how to translate them into journal entries; a rigorous statutory and regulatory framework is unlikely to be effective if it is not enforced. Additionally, some recommendations will not have an immediate effect but will still remain of high priority if the financial reporting environment in the Republic of Uzbekistan is to be upgraded to international standards within a reasonable timeframe. Achievement of these objectives requires continuous reorganization and improvement of the Uzbek legal framework, institutions, the accounting and auditing professions and the education system. Policies should not be developed and enacted, however, without giving due regard to a country's ability to carry them out (both in terms of capacity and resources). A relatively lenient rule that is robustly and consistently enforced is preferable to a good, rigorous one that is unenforceable, as the lenient rule can be progressively made more rigorous as the circumstances allow. The policy recommendations below, while challenging, can be carried out in the short to medium term and will support the Republic of Uzbekistan's long-term objectives. They fall into three key areas:

- Statutory Framework
- Institutional Capacity Building
- Professional Education and Training

**82. These recommendations require a holistic approach to implementation.** The Republic of Uzbekistan should establish a multidisciplinary (inter-departmental) Coordination Working Group (CWG)<sup>20</sup> to champion and coordinate the accounting and auditing reforms necessary for achieving the objectives outlined below. The CWG should advise policymakers and regulators on how to best implement the recommendations. Based on the successful experience of other countries, this report recommends that the CWG develop a Country Strategy and a detailed Country Action Plan (CAP) which clearly sets out the key actions and allocates responsibilities for implementing the necessary reforms; the CAP should include an itemized budget indicating the resources necessary for successful implementation and the government, policymakers and development partners should work together to secure those resources. To ensure that the CAP provides information on all relevant objectives, actions and required resources, as well as summary budgets and critical assumptions, its development will require the assistance of both local and international consultants.

### Statutory Framework

**83. The recommendations for improving the statutory framework for accounting include:**

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<sup>20</sup> This working group should include as members representatives of state authorities (such as the banking regulator, insurance regulator and financial market regulator), the stock exchange and professional associations. The group could also include representatives of financial donors as observers.

- The Republic of Uzbekistan should create definitions of public interest entities (PIEs), small and medium-sized enterprises (SMEs) and micro entities taking into account both the development and capacity of the Uzbek economy and the needs of users of financial information.
- A three-tiered financial reporting framework should be implemented: PIEs would be required to apply full IFRS; SMEs would apply NAS; and micro entities would report solely for tax purposes. The current framework allows for the first two tiers; the micro-entity tier will require further definition.
- The CBU, and its securities and insurance supervisory departments, should require all regulated entities to file with them full financial statements, including notes, in compliance with NAS 1/IAS 1. Each regulatory agency should publish the financial statements of the entities they regulate in full on their websites, enforcing the current legal requirement that certain financial statements be made publicly available.
- In the longer term, the Republic of Uzbekistan should ensure that the translations of the latest versions of IFRS and ISA are adopted on a timely basis, and that copies of these translations are made readily available to educators and the various preparers, users and auditors of financial statements. Donor support and technical assistance should be sought in this respect.
- Regulators should review all relevant financial statements, including the audit reports, and ask those filing deficient statements to take appropriate action to address the inadequacies identified.
- In the longer term, all companies should be required to file their financial statements with a central financial statement registry, where they would be available to the public. The authorities might consider two options for this registry: (i) creating a new function within the CCCFSM; or (ii) creating this function within the National Statistics Committee (where companies currently file statistical reports). Both options would require a revision of appropriate laws and/or regulations.
- The CBU should continue its efforts to align its regulatory bank reporting requirements with general purpose IFRS financial reporting.

**84. The recommendations for enhancing the statutory framework for auditing include:**

- The statutory audit requirement should apply only to firms above a certain size threshold. This threshold should be set at a level appropriate to the public interest in audit reporting, taking into account the capacity of the Uzbek audit profession. Such a requirement would likely cover all PIEs and could be expanded to cover other companies above that size threshold.
- The audit certification program administered by the Licensing Authority should be reviewed for compliance with IFAC's International Education Standards. The Licensing Authority could also consider adopting the CAP qualification (or equivalent) as a necessary pre-requisite for certifying auditors.
- The Licensing Authority should evaluate professional qualifications, such as CAP, CIPA, ACCA and CPA, and determine if holders of these professional qualifications might be granted exemptions for certain components of the Licensing Authority's audit certification studies and exams.
- The audit certificate and/or license should be renewed depending on auditors proving they have taken the required approved Continuous Professional Development courses (currently 60 hours per year), evidence of professional indemnity insurance, the resolution of any issues found in any audit quality inspection, and confirmation that the certificate/license holder meets all other licensing conditions.
- The quality assurance review program, as well as the relevant methodology, should be strengthened. The regime should be focused on risk assessment and its objective should be to

improve audit quality through identifying gaps in the implementation of auditing standards and encouraging training and improvements in methodology to address the gaps.

- The quality review inspection staff should receive appropriate training to ensure that the inspectors have the capacity to not only assess compliance with formal checklists but also to evaluate whether sufficient appropriate audit evidence has been obtained to support the content of a particular audit report. Donor assistance may help accomplish this objective.

- The Licensing Authority (or, if applicable, another oversight body) should, in cooperation with professional associations, initiate the process to implement the IFAC Code of Ethics and to design and implement procedures enforcing the requirements of this code, including the establishment of a disciplinary committee and procedures, an appeal process and sanctions for transgressions.

- The Licensing Authority may wish to consider requiring all licensed auditors to be members of a professional organization; such professional organizations, in turn, would have to meet certain criteria to be permitted to operate. IFAC's Statements of Membership Obligations (SMOs) contains examples of internationally agreed criteria for well-functioning professional organizations.

### **Institutional Capacity Building**

**85. With regard to the strengthening of key institutions in the field of corporate financial reporting, it is recommended that:**

- The CBU and the insurance and securities agencies should receive support to enforce high-quality financial reporting by the entities they regulate. They should have the necessary powers to ensure that regulated entities comply with the relevant financial reporting requirements and, in particular, remedy any deficiencies noted in the reviews of their financial statements. To achieve these objectives it will be necessary to hire more professionals for the regulatory bodies, provide specialized remedial training to them, establish specific investigatory processes and disciplinary measures, and provide legal backing for all of these processes and measures.

- Professional organizations of accountants and auditors should receive support from international peer organizations so that they can increase their capacity to regulate their members effectively, subject to appropriate supervision and oversight. IFAC's Statements of Membership Obligations (SMOs) contains examples of internationally agreed best practices for well-functioning professional organizations. Established professional organizations in the Republic of Uzbekistan should aspire to comply with the SMOs whether or not they currently are members of IFAC.

### **Professional Education and Training**

**86. Improvements in corporate financial reporting hinge on accountants and auditors receiving appropriate professional education and training. To that end:**

- The syllabi and teaching approaches for university courses with significant accounting and auditing components should be reviewed to ensure that they are compliant with NAS and NSA. Emphasis should be placed on better integration of professional certification and licensing requirements and university programs.

- All providers of accounting and auditing education in the Republic of Uzbekistan, including university lecturers and professional trainers, should be given the necessary support and assistance to update their knowledge and skills to acquire proficiency in NAS and NSA and, where appropriate, IFRS and ISA.
- Greater support should be given to activities aiming at standardizing and raising the quality of university accounting and auditing education programs nation-wide. Supporting these activities may help achieve many of the other recommendations set forth in this section, such as updating and enhancing university syllabi to be compliant with NAS and NSA, assisting university professors in keeping their accounting and auditing knowledge current and aligning university education programs with professional qualifications.
- The Uzbek Government should continue its efforts to unite and coordinate the provision of accounting education and training with the interests of the professional accounting community, bringing together professional organizations, university educators, relevant government ministries and leading international and local professional accounting firms to cooperate in making accounting courses more responsive to market needs. This would result in a steady supply of accountants with knowledge and experience relevant to the needs of the Uzbek market.
- The Licensing Authority and professional organizations should monitor and enforce the current requirement for licensed auditors to take a number of approved CPD hours each year.
- Any Russian language professional accounting and auditing qualifications on the market should be reviewed for their suitability for the Uzbek market. The results of this review should be utilized to influence policy making in the Republic of Uzbekistan, and also to provide valuable feedback to the providers of Russian language professional accountancy qualifications.

## APPENDIX 1

### Summary of Differences between IFRS and Uzbek National Accounting Standards (NAS)

<b>IFRS/IAS</b>	<b>NAS</b>	<b>Comments</b>
<i>Framework for the Preparation and Presentation of Financial Statements</i> (Framework)	<i>Framework for the Preparation and Presentation of Financial Statements</i> , approved by the MoF in 1998	In general, the national framework follows the principles of the international framework. The objectives and users of financial statements are described almost identically, although there are some differences. There is no difference between underlying assumptions and qualitative characteristics, in the national framework; all are described as principles. There is no section on “Concepts of Capital and Capital Maintenance” in the national framework.
IAS 1 <i>Presentation of Financial Statements</i>	NAS 1 <i>Accounting Policy and Financial Reporting</i> , approved by the MoF in 1998	Because NAS 1 is based on an older version of IAS 1, it focuses primarily on accounting policies, less on financial reporting. Other differences include: (i) required financial statements include the report on movements of fixed assets; (ii) financial statements must be completed by using prescribed forms (approved by a separate regulation); the calendar year is the required reporting period; and financial statements should be prepared no later than February 15 of the following year; (iii) NAS 1 is not applicable to banks and insurance undertakings; and (iv) NAS 1 establishes that the users of financial statements are relevant state bodies and owners, not the general public.
	NAS 3 <i>Report on Financial Results</i> , approved by the MoF in 1998	NAS 3 describes the income statement in detail. While the concepts are generally in line with IAS 1, there are some differences, for example, NAS 1 recognizes extraordinary items, whereas IFRS/IAS do not mention

		them.
	NAS 15 <i>Balance Sheet</i> , approved by the MoF in 2003	NAS 15 contains additional descriptions related to the balance sheet, such as current and non-current assets, equity and liabilities, etc.
	NAS 14 <i>Statement of Owner's Equity</i> , approved by the MoF in 2004	NAS 14 contains additional descriptions for the statement of changes in equity and specific disclosures.
IAS 2 <i>Inventories</i>	NAS 4 <i>Inventories</i> , approved by the MoF in 2006	Current NAS 4 replaced an old version approved in 1998.  Principles copy those used in IAS 2, although there are some differences in approaches: (i) concepts of the low-value and short-life assets exist (adopted from previous accounting practices); lower-value items are expensed when transferred for use, but higher-value items can be capitalized and amortized over their useful lives; and (ii) includes detailed prescriptions of how the cost on inventory is determined.
IAS 7 <i>Cash Flow Statement</i>	NAS 9 <i>Cash Flow Statement</i> , approved by the MoF in 1998	Although NAS 9 is generally in line with IAS 7, some of its provisions are not up to date, for example: (i) NAS 9 still refers to the concept of extraordinary cash flows; and (ii) NAS 9 does not contain provisions for investments in subsidiaries, associates and joint ventures.
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	NAS 1 <i>Accounting Policy and Financial Reporting</i> , MoF approved in 1998; and  NAS 3 <i>Report on Financial Results</i> , MoF approved 1998	See also the description for IAS 1. NAS 1 covers only accounting policies; errors and changes in estimates are not addressed.  NAS 3 addresses issues related to changes in accounting policies, accounting estimates and errors.

IAS 10 <i>Events After the Balance Sheet Date</i>	NAS 16 <i>Contingencies and Post Balance Sheet Date Events</i> , MoF approved in 1998	NAS 16 is based on the previous version of IAS 10 (subsequently, contingencies were taken out of IAS 10 and covered by IAS 37). The main principles related to post balance sheet events are broadly in line with IAS 10; however, NAS 16 contains fewer details on adjusting and non-adjusting events, recognition and measurement, as well as disclosure requirements.
IAS 11 <i>Construction Contracts</i>	NAS 17 <i>Contracts for Capital Construction</i> , MoF approved in 1998	The provisions of NAS 17 are in line with those set in IAS 11 and the same principles are applicable for revenue and expense recognition.
IAS 12 <i>Income Taxes</i>	No equivalent NAS.	N/A
IAS 16 <i>Property, Plant, and Equipment (PPE)</i>	NAS 5 <i>Fixed Assets</i> , MoF approved in 2003 (effective from 2004) (replacing an old NAS approved in 1998)	In general, NAS 5 is based on IAS 16 and modified to address national circumstances. There are several differences, including: (i) revaluations being performed according to government decrees and based on indexes differing among asset types; and (ii) the NAS is more prescriptive on valuations, asset counts, etc.
IAS 17 <i>Leases</i>	NAS 6 <i>Accounting for Leases</i> , MoF approved in 2004 (replacing old NAS 6 approved in 1998)	NAS 6 was developed based on IAS 17; the main IAS 17 principles were followed, but modified to address local circumstances. Major differences are as follows: (i) leases are classified as finance, long-term and short-term. In essence, short-term leases (less than 12 months) are considered operational leases and principles similar

IAS 18 <i>Revenue</i>	NAS 2 <i>Revenues from Basic Economic Activities</i> , MoF approved in 1998	to those in IAS 17 would apply; and (ii) NAS 6 is less principles-based and more prescriptive. For example, it does not use the term "transfer substantially all the risks" but gives more precise indicators for assessing when a lease should be considered a finance lease and not an operational lease (e.g., the lease term is 80% of the asset's useful life, or the total amount of lease payments are more than 90% of the asset's value).  NAS 2 is based on IAS 18 and the text is a close, although not complete, translation from IAS 18.
IAS 19 <i>Employee Benefits</i>	No equivalent NAS	N/A
IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	NAS 10 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> , MoF approved in 1998	NAS 10 is in line with IAS 20 and uses the same concepts and principles. The only difference is that it allows recognition of extraordinary revenues in line with NAS 3.
IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	NAS 22 <i>Accounting for Assets and Liabilities Expressed in Foreign Currency</i> , MoF approved in 2004	NAS 22 is based on IAS 21, but modified to comply with Uzbek legislation and other NAS. Some important differences exist, however, including the following: (i) exchange differences can be recognized when they arise or they can be deferred until disposition (e.g., settlement of a liability over several periods); (ii) exchange differences are recorded as results of financing activities; (iii) NAS 22 is less complex in relation to foreign operations; and (iv) NAS 22 has less complex disclosure requirements.
IAS 23 <i>Borrowing Costs</i>	No equivalent NAS	N/A
IAS 24 <i>Related Party Disclosures</i> IAS 27 <i>Consolidated Financial Statements</i>	No equivalent NAS	N/A NAS 8 follows the same principles as IAS 27, but: (i) is

<i>and Accounting for Investments in Subsidiaries</i>	NAS 8 <i>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</i> , MoF approved in 1998	not up to date; (ii) is less complex; and (iii) requires fewer disclosures.
IAS 28 <i>Accounting for Investments in Associates</i>	NAS 12 <i>Accounting for Financial Investments</i> , MoF approved in 1998	NAS 12 is not in line with IAS 28 and deals mostly with classifying investments as short or long term, their valuation and disclosures. This NAS does not describe investments in associates and methods of accounting for these investments.
IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>	No equivalent NAS	N/A
IAS 31 <i>Financial Reporting of Interests in Joint Ventures</i>	No equivalent NAS	N/A
IAS 32 <i>Financial Instruments: Presentation</i>	No equivalent NAS	N/A
IAS 33 <i>Earnings Per Share</i>	No equivalent NAS	N/A
IAS 34 <i>Interim Financial Reporting</i>	No equivalent NAS	N/A
IAS 36 <i>Impairment of Assets</i>	No equivalent NAS	N/A
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	NAS 16 <i>Contingencies and Post Balance Sheet Date Events</i> , MoF approved in 1998	Only contingencies are covered in NAS 16 based on the previous version of IAS 10. NAS 16 is less explicit on provisions and disclosure requirements are less demanding (see also IAS 10 above).
IAS 38 <i>Intangible Assets</i>	NAS 7 <i>Intangible Assets</i> , MoF approved in 2005; and NAS 11 <i>Research and Development Costs</i> , MoF approved in 1998	NAS 7 and NAS 11 are based on the same principles as IAS 38. However, NAS are not up to date compared to IAS 38 and, therefore, do not contain new definitions and descriptions, for example, acquisition of intangible

assets as part of a business combination or by way of a government grant.

IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	No equivalent NAS	N/A
IAS 40 <i>Investment Property</i>	No equivalent NAS	N/A
IAS 41 <i>Agriculture</i>	No equivalent NAS	N/A
IFRS 1 <i>First Time Adoption of IFRS</i>	No equivalent NAS	N/A
IFRS 2 <i>Share-based Payment</i>	No equivalent NAS	N/A
IFRS 3 <i>Business Combinations</i>	NAS 23 <i>Reporting on Reorganizations</i> , approved by the MoF in 2005	NAS 23 is not based on IFRS 3 (previously IAS 22). NAS 23 addresses accounting and reporting for reorganizations. The standard provides detailed guidance for mergers and acquisitions, delimitations, etc., and its primary focus is on the issues of valuation; it does not address the purchase method and associated accounting treatment.
IFRS 4 <i>Insurance Contracts</i>	No equivalent NAS	N/A
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	No equivalent NAS	N/A
IFRS 6 <i>Exploration for, and Evaluation of, Mineral Resources</i>	No equivalent NAS	N/A
IFRS 7 <i>Financial Instruments Disclosure</i>	No equivalent NAS	N/A
IFRS 8 <i>Operating Segments</i>	No equivalent NAS	N/A

No equivalent IAS/IFRS	NAS 21 <i>Chart of Accounts and Instructions on Its Application</i> , MoF approved in 2002	This standard contains required account codes and names, as well as descriptions on how the accounts should be used, together with examples of accounting entries for specific transactions.
No equivalent IAS/IFRS	NAS 20 <i>Accounting and Financial Reporting by Small Businesses</i> , MoF approved in 1999	Small businesses are defined in terms of number of employees, depending on types of businesses, from 10 to 100 employees. The standard contains simplified accounting guidelines for small entities, including examples of accounting registers. Financial statement requirements are reduced to the balance sheet, income statement and debtors and creditors form.
No equivalent IAS/IFRS	NAS 19 <i>Organization and Undertaking of inventory counts</i> , MoF approved in 1999	NAS 19 contains requirements for counts of various assets and liabilities, and provides sample forms of documents which entities are to use for these inventories.
<b>Additional regulations that are not standards issued by MoF:</b>		
No equivalent IAS/IFRS	Regulation on writing-off of fixed assets, 2004	Details documentation and accounting entries for de-recognition of fixed assets.
No equivalent IAS/IFRS	Regulation on writing-off of intangible assets, 2005	Details documentation and accounting entries for de-recognition of intangible assets.
No equivalent IAS/IFRS	Regulation on documents and documents flow, 2003	Prescribes responsibilities for documentation, flow of documents, storage, etc.
No equivalent IAS/IFRS	Rules on filling-in financial statements, 2002	Provides guidance on completion of the required reporting forms.
No equivalent IAS/IFRS	Regulations on terms for presentation of financial statements	For most companies, the filing deadline is February 15 of the year following the reporting year.

No equivalent IAS/IFRS	Regulation on accounting and taxation for surpluses and shortages identified during inventory counts, 2004	Provides guidance on accounting for, and taxation of, surpluses and shortages of assets and liabilities, including procedures for recovering damages from employees in case of losses caused by their negligence or misuse.
No equivalent IAS/IFRS	Regulation on accounting for leases, 2004	Provides guidance on accounting entries for lease transactions.
No equivalent IAS/IFRS	Regulation on reflecting foreign currency transactions in accounting, statistical and other reports, 2004	Provides guidance, with example, on accounting entries for foreign currency transactions.
No equivalent IAS/IFRS	Regulation on annual revaluation of fixed assets, 2002	Provides guidance on revaluation requirements; revaluations should be performed once a year as of January 1, reflecting valuation changes to reserves. Enterprises can use prescribed indices issued by statistics authorities every year, or use independent valuers. Land and natural resources are not subject to revaluation. Depreciation is also indexed and reflected in reserves along with the main valuation differences.