

The International Regional Federation of Accountants and Auditors EURASIA is an association of public organisations of accountants and auditors from the former USSR countries.

IRFAA EURASIA was established on 17 June 1999 and registered on 23 December 1999. The top priority area of the IRFAA's activities is the overall support and assistance to the national organisations of accountants and auditors in accomplishing the following tasks:

- Assist in developing national organisations up to the level required for their recognition by IFAC
- Ensure high quality accounting and audit services
- Develop the theory and practice of accounting and audit based on the international standards
- Preserve the professional independence of accountants and auditors
- Develop and strengthen professional contacts at the regional and international levels.

IRFAA EURASIA now brings together 17 professional organisations of accountants and auditors from 9 countries of the CIS. In carrying out its activities, the Federation relies on the support of governments and business community of the former USSR countries and respected international professional organisations. IRFAA seeks to gain overall recognition as the official public organisation bringing together the most respected organisations of accountants and auditors of the CIS countries and makes a significant contribution to the economic development of the Eastern European and former USSR countries.

IRFAA maintains co-operation with international, regional and national institutions of other countries, including the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC).

IRFAA is actively participating in the translation of International Accounting Standards and International Standards on Auditing.

The Federation's mission is to develop and strengthen the accounting and audit profession, promote the implementation of international professional standards and professional standards on ethics as developed by IFAC and IASC through its Member Bodies.

IRFAA Eurasia carries out its activities through a standing Secretariat and structural subdivisions and bodies: General Assembly, Council and Committees.

IRFAA Eurasia has five standing Committees:

- Professional Education and Certification Committee.
- Legal Committee.
- Membership and Professional Ethics Committee.
- Accounting Standards Committee.

- Auditing Standards Committee.

The Federation membership is open to non-profit and non-government professional accountancy and audit organisations legalised under the legislation of countries where they are registered.

In order to achieve its objectives, IRFAA Eurasia is in constant communication practically with all the CIS countries.

This information is prepared by our experts based on the data from the Federation's member bodies.

## **Azerbaijan Republic**

### **Accounting**

The adoption of the Accounting Law (24 March 1995) and a new chart of accounts (1 November 1999) brought the Azerbaijan accounting system closer to International Accounting Standards. These regulatory documents introduce new accounting objects that are characteristic of a free market economy (intangible assets, leases, financial investments, etc.); enterprises are allowed to choose options of accounting for its various assets; it is proposed to introduce a number of international accounting principles, such as accrual basis, prudence principle (it is allowed to make provisions for doubtful debts) and some other assumptions; the format of financial statements has been changed to resemble the western format.

Of course, such a large scale action as the transformation of the accounting system to western standards could not help but cause serious problems, and one of the main problems at present is the choice between English-American-Dutch and Continental (European) accounting systems.

It is important for Azerbaijan to establish a correlation between accounting and tax reporting rules. At present, accounting system in Azerbaijan is significantly dependent on the tax system. Continuous changes in the tax rules lead to changes in accounting regulations. The goal is not to change the accounting system. In this context, perhaps, financial and tax accounting will be introduced. Besides, Azerbaijan is to choose a system of accounting regulatory documents.

It should be noted that the problem of transforming the accounting system and financial statements of Azerbaijan to IAS depends not only on resolving methodological, organisational and technical accounting issues but also on the extent of the development of actual market relations in the activities of enterprises and organisations. The potential problem here is that under conditions of unstable economic ties between enterprises, many of them are forced to maintain high inventory levels, and with the current tax system many enterprises deliberately distort accounting figures that have an impact on sales, profit and, therefore, on taxes payable. The transformation of financial statements of such

enterprises to IAS becomes especially problematic.

In general, we may conclude that the full transformation to IAS has not been implemented in Azerbaijan yet, but the Accounting Law can significantly ameliorate this situation. As usual, large enterprises and banks are in the “vanguard” of the transformation to IAS.

## **Auditing**

It should be noted that basic documents governing the audit activities in Azerbaijan were adopted a long time ago: Law of Azerbaijan Republic “On Audit Service” was adopted on 16 September 1994, and Regulations “On Audit Chamber” were adopted by the Parliament on 19 September 1995.

The Audit Chamber in Azerbaijan is becoming closer to international benchmarks: 17 International Standards on Auditing have been adopted. However, as in the case with the transformation to IAS, much consideration is given to the adaptation of international experience to the local environment.

In Azerbaijan Republic, like in other transition economies, the auditing service faces some difficulties in the process of its organisation and development. However, the adoption of five Presidential Decrees related to auditing issues, a new Civil Code and other regulatory documents will be the strengthening and development of auditing activities and Azerbaijan’s economy as a whole.

## **Ukraine**

### **Accounting**

The old Ukrainian accounting system was established by Cabinet regulations of April 1993. It focused on reporting for tax purposes and did not provide relevant information to capital markets, management and creditors. In July 1999 the Rada passed and in August 1999 President Kuchma signed a new law «On Accounting and Financial Reporting in Ukraine». The law states that the financial accounting system is to be based on Ukrainian Accounting Standards (UAS), which **do not contradict** international standards.

Most of the old accounting methodology was eliminated. However, it remains unclear how the first 17 standards, and future standards planned for 2000 and 2001, will be applied in practice by both the preparers and users. Under the partially developed UAS, potential investors and creditors will find it difficult to fully embrace financial statements prepared by national enterprises. There is a risk that financial statements will fail to show economic reality. Both investors and creditors will have to translate UAS into internationally recognised accounting standards, for example either International Accounting Standards (IAS) prepared by the International Accounting Standards Committee (IASC) or the U.S. Generally Accepted Accounting Practices (GAAP). Besides, tax and financial statements are prepared separately from one another. Many enterprises thus continue to limit their resources to focus on accounting for tax purposes.

Since 1998, banks have been producing financial reports in accordance with the NBU regulations which are mostly based on IAS. Enterprises with foreign investments usually operate with two accounting systems, one in accordance with Ukrainian requirements and the other one in accordance with international requirements in order to meet the reporting obligations of their parent companies. This leads to considerable administrative expenses and creates complexity in the application of double taxation agreements and tax credit systems under parent companies' tax laws.

## **Auditing**

Until recently, Ukrainian audited financial statements had limited credibility for western investors. Only statutory audits performed by Ukrainian statutory auditors are compulsory. International auditing firms are not allowed to sign statutory audit reports. International Standards on Auditing, as developed by the International Federation of Accountants (IFAC), are not used by all the 2000+ certified auditors in Ukraine. However, since 1 January 1999, the Audit Chamber of Ukraine have approved 32 auditing standards and the Code of Professional Ethics for Ukrainian Auditors, which must be followed by all certified auditors.

In spite of the fact that some problems in this area of activity still need to be resolved, the accounting and auditing professions have been developing rapidly in Ukraine since 1998. For 8 years large western accounting firms have successfully been working on the Ukrainian market. Foreign assistance programmes, know-how in international accounting methods are becoming widespread available. One of the basic problems to be resolved is the implementation of accounting and auditing practices. Most tax and financial accountants have little training in the use of UAS or internationally accepted accounting standards. In addition, an effective institutional structure remains to be developed in which both the public and private sectors co-operate to implement internationally recognised accounting and auditing practice.

## **Georgia**

### **Accounting and Auditing**

As you may know, Georgia has adopted IAS without changes for future implementation. These standards are supposed to be implemented on a step-by-step basis. Beginning from 1 January 2000, only joint-stock companies should use IAS, and beginning from 1 January 2001 limited liability companies will be required to use internationally recognised standards. Pre-transformation training is conducted at these companies for the IAS implementation purposes. To assist accountants in the transformation process, IFAC has issued financial accounting manual.

At present, the Georgian translation of IAS 2000 is being prepared for print and is scheduled to be available in early November.

Although we do not possess exact statistical data on how many companies use IAS today, we may say with certainty that the implementation of IAS has been started, and there is nothing that can stop this process.

There are international standards developed for auditing activities as well as for accounting activities. Although it is early to speak about some changes. The results will probably appear after the first quarter of 2001. It will have become clear by this time how many companies use IAS and to what extent IAS are applied by auditors.

It is proposed to make some changes to the auditing regulation system. A draft law on auditing is being prepared, and this law is expected to speed up the implementation of International Standards on Auditing in this country.

## **Kazakhstan**

### **Accounting**

In December 1999, at the meeting of the Joint U.S. and Kazakhstan Commission, the Government of Kazakhstan pledged to bring the national accounting practice into full compliance with international standards. Kazakhstan businessmen, bankers, scientists, accountants, auditors, banking regulators and many others firmly recommend the Government to fulfil its promise and adopt International Accounting Standards (IAS) quickly and in full. International experts both in the CIS and other countries also support the adoption of standards that would conform to IAS.

There are many supporters of the adoption of IAS for several reasons. Companies seeking to implement the best management practices, receive loans and investments (both foreign and domestic) or acquire other companies should use a generally accepted comprehensive accounting system. The stability and security of the banking service system and provision of pensions depend on the adoption of IAS.

Transformation to IAS in Kazakhstan, like in many other countries, is inevitable; and if it is relatively easy to make this transformation now, in a couple of years this process will become more painful and will take more time. There are several reasons for that:

- More companies find ways how to evade to pay taxes using defects of the old Kazakhstan Accounting Standards (KAS),
- As world economy players enhance their interaction and their methods become more and more sophisticated, IAS become more detailed and complex because of the addition of new standards and interpretations.
- IAS are much stricter than KAS.

Kazakhstan must fulfil its promise to adopt the standards that conform to IAS. As unambiguously stated in Standard 1 and concluded by experts at the World Economic Forum, full compliance with IAS can be achieved only by adopting all IAS in full.

## **Armenia**

### **Accounting and Auditing**

Like in other CIS countries, the transformation to IAS is a top priority task for the Armenian accounting system. Concrete steps have been taken in this direction: for the last one year and a half 31 national accounting standards based on IAS have been adopted. There are significant changes in auditing as well: 35 auditing standards and Law "On Auditing in Armenia" are developed and under consideration.

In adopting new national standards, the attention is focused on preserving maximum compliance with IAS, because it is evident that IAS are much stricter than the old Soviet accounting system used by new independent states. Western investor oriented approach in attracting investment resources necessary for rebuilding and development of the national economy was the factor that pressed for the implementation of western experience in accounting and auditing, which was reflected in the fact that among the first standards adopted were such standards as "Accounting for Investments", "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", "Accounting for Investments in Associates".

Undoubtedly, a stricter tax system was one of the reasons for such a large scale implementation of IAS, because the old financial reporting system provided many opportunities for distorting the actual financial position of a company.

The implementation of a new, much stricter reporting system gives rise to many problems, one of the main of them being training and retraining of specialists. Comprehensive approach is used to resolve this problem: publication of manuals, organisation of training under the supervision of experts, expansion of co-operation with international accountancy and audit bodies. Solutions should be found for many methodological, organisational and technical accounting and auditing issues; the chosen path of market reforms do not leave doubts that these problems will be eventually resolved one way or another.

