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**ACCOUNTING AND AUDITING REFORM
IN THE NEW INDEPENDENT STATES
OF THE FORMER SOVIET UNION**

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PREFACE

The importance of accounting reform in the context of the wider economic reform programmes being undertaken throughout the New Independent States of the former Soviet Union (NIS) is widely recognised. Decision-making in a market-oriented economy depends on sound accounting practices and adequate rules on information disclosure. Fundamental changes in concepts and methods are required. All NIS countries have begun major reform programmes in the accounting field. It is important that this momentum is maintained. In particular, current energies should be concentrated on finalising the new accounting legislation and beginning work on its implementation.

Special efforts will also be required to address the specific accounting issues involved in restructuring, privatisation and the development of financial markets. The development of a valuation methodology which facilitates privatisation is a pressing issue in all NIS countries, as is the question of accounting in a climate of hyper-inflation. Accounting reforms in this transition phase must be flexible to reflect the evolutionary process of economic transformation, as well as reliable to build confidence on the part of private investors. Qualified and independent auditors are indispensable to enhance the prestige of the profession. When carrying out these reforms, it is important for countries to be aware of the diversity of accounting practices among OECD countries and to be involved in the discussion of harmonisation of accounting standards.

As a first step toward a common approach to accounting reform, eight republics represented at an international conference held in Kiev on 14-15 July 1992 agreed to establish a Co-ordinating Council on Accounting Methodology. The Council meets twice a year to exchange information and experience on accounting reforms, to promote the harmonisation of accounting standards and the development of the accounting profession and to encourage accounting research and training. The OECD Centre for Co-operation with the Economies in Transition (CCET) provides support to the Council, including the publication of its proceedings.

The present report reproduces the contributions made at the 2nd meeting of the Council held in Tashkent on 25 and 26 May 1993. It is issued under the responsibility of the Secretary-General of the OECD.

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ACCOUNTING AND REPORTING DEVELOPMENTS IN THE COMMONWEALTH OF INDEPENDENT STATES

Y.M. Itkin

The International Conference on Accounting and Reporting Reform in CIS countries was initially organised in Kiev on 14-15 July 1992 by the Ministry of Finance of Ukraine, the UN Department of Transnational Corporations and Management and the OECD Centre for Co-operation with the Economies in Transition. Eight countries participated in that Conference: Belarus, Kazakhstan, Kyrgyzstan, Moldova, the Federation of Russia, Turkmenistan, Ukraine and Uzbekistan.

The participants were convinced of the importance of accounting and reporting in the economic reform process and of the necessity of introducing a modern accounting system aimed at the effective transition to a market economy and the successful integration into the world economic community. The participants appreciated the advantages of co-operation among the new independent states in the area of accounting and decided to form the Co-ordinating Council on Accounting and Reporting Methodology in the Commonwealth of Independent States. The OECD, the Department of Transnational Corporations and Management of the UN, the Commission of European Communities and the World Bank agreed to assistance in co-ordinating the Council's work. It was also decided that the Council's recommendations should be taken into account when national standards on accounting are being developed, with each independent state establishing its own structure to carry out accounting and reporting reform. The priority tasks of the Co-ordinating Council include:

- exchanging experience and information in the area of accounting and reporting reform;
- promoting accounting and reporting standards compatibility;
- exchanging information on technical assistance in the area of accounting and reporting provided by the national and international organisations;
- promoting the establishment and development of an accounting profession;
- promoting scientific research in the areas of accounting and reporting and accounting education; and
- promoting publications on new trends and changes in the areas of accounting, reporting and auditing.

The Council will meet twice a year. The 1993 head of the Council is Uzbekistan; the Council's head in 1994 will be Belarus.

The Programme of Future Work includes the study of such aspects of privatisation as:

- 1) financial reporting and cost definition;
- 2) financial reporting and tax reporting; and
- 3) a law on accounting and reporting.

The decisions of the Kiev International Conference were well-founded, as illustrated by the first meeting of the Co-ordinating Council held in Kiev on 16-17 November 1992. The first meeting of the Council demonstrated the vitality, importance and necessity of co-operation in the area of accounting and

reporting reform. The meeting of the Co-ordinating Council was attended by officials of the Ministries of Finance of Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan, together with scientists and practitioners from the above-mentioned countries and with international experts from the UN, World Bank and the OECD.

The Council stressed the ongoing process of developing new legislation on accounting, audit and reporting in all CIS countries. The new chart of accounts has already been applied in most of those countries. This new chart was elaborated by the Ministry of Finance of the former USSR with the assistance of UN experts' work group.

The CIS countries are aware that the Soviet accountants' former knowledge cannot satisfy the conditions of a market economy, so fundamental restructuring of accounting education and retraining has begun in many of the above countries. With the development of the market-oriented economic reform programmes, creating and adopting new laws and regulations on enterprise activities using all kinds of property, including private and foreign investments, and the necessity of integrating accounting into the economic reform programme, has become vitally important. It is clear that without modern accounting methods, which are, in fact, "the language of business", it is practically impossible to arrange effective management. Moreover, the process of transition to the market economy may be jeopardised, since, without qualified accounting staff, it is impossible to establish the new banking and stock exchange system, fulfil the programme of privatisation, and attract foreign investment. In turn, creating a productive economy is unimaginable without all these things.

Special emphasis should be placed on solving the specific problem of financial market development at a time of hyperinflation. In all CIS countries, the process of privatisation is hampered not only by political forces, but also because of the lack of reliable methodology of inventory cost evaluation in conditions of hyperinflation. Accounting reform should be aimed at creating fully reliable, explicit and accessible rules to provide information to external users and to provide credibility for the accounting profession, not only among creditors and investors but also in the community as a whole. The Co-ordinating Council set the following programme of work:

- Law on Accounting and Reporting Model Development
- Accounting and Evaluation Aspects in the Privatisation Process
- The Relationship between Financial and Tax Accounting and Reporting
- Accounting and Reporting in the Conditions of Inflation
- Professional Qualification and Staff Training
- Accounting, Reporting and Statistics
- Discussion of the Modules of Audit and Accounting Laws
- Discussion of Case Studies

Accounting development in the CIS countries after the last year's November meeting has seen "the beginning of the reforms in the area of accounting as a necessary, vital part of the whole process of fundamental economic reforms". The following paragraphs review the status of accounting in CIS countries, starting with Uzbekistan as the country-organiser of the 2nd Co-ordinating Council Meeting.

The accounting system of Uzbekistan was based on the chart of accounts consisting of more than 90 separate accounting items, many of which resembled those in the market economy. The chart of accounts was accompanied by detailed instructions explaining the rules of entries.

Despite the explicitness of the chart of accounts, some modern concepts were completely omitted and there remained fundamental differences owing to the nature of economic operations. For instance, assets which had been evaluated at initial cost were rarely re-evaluated. The concept of intangible assets did not exist. Reserves for bad debts were not created because a planned economy could not admit that sales may not be paid off. Among an enterprise's liabilities, there was no provision for social security

(pension) payments because all such liabilities used to be undertaken by the State. Property evaluation and profit definition were misleading due to the misrepresentation of the actual cost of the production and availability of so-called stimulating funds, money rewarding funds and capital recuperation funds.

The new chart of accounts includes many of the internationally recognised concepts of accounting, intangible assets, accruals, etc. The new chart of accounts is able to provide information which may be used for drafting balance sheets and profit and loss accounts. Uzbekistan adopted the new chart of accounts in January 1993, but it will be difficult to implement accounting reforms without the proper retraining of accountants.

The new chart of accounts is a basis, but it will require periodic adjustments. Modernisation should be done through the legislative process under the authority of the Ministry of Finance of the Republic. This insures that experts and interested parties, particularly in the private sector, have the opportunity to participate and comment on the draft laws and regulations.

While Uzbekistan was a member of the former Soviet Union, it benefited from the initial United Nations' sponsored projects to modernise the accounting system. However, since the dissolution of the Soviet Union, it has found it increasingly difficult to access international expert advice and to keep abreast of accounting improvements taking place in the other NIS.

At present, Uzbekistan lacks sufficient technical personnel in both the public and private sectors. It needs the help of international experts to further revise its chart of accounts and draft the necessary legislation. Uzbekistan has already initiated some of the reforms. Recently, it organised a working group of leading accounting experts under the Committee of Economic Reform. This working group has been given a mandate from the President to produce the accounting reforms as soon as possible. Accordingly, the working group recently drafted an auditing law which was passed by the Parliament.

Some experts have questioned whether the sequence of the reforms is not out of phase, in that it is not clear what will be audited in the absence of a new accounting system and new financial statements. The current accounting system is based on the new chart of accounts, which embodies some internationally accepted accounting practices, and if there were trained auditors, they could immediately attest to the fact that enterprises were following these new practices. However, there are two serious problems in that chief accountants and their bookkeepers do not know how to make the transition to the new chart of accounts, and there are no trained auditors and no programmes to train either group.

The next step is to produce an accounting law, and the working group of the Committee on Economic Reform has requested the advice of international experts. The accounting law would lay down the basic principles which would guide future standard-setting. In addition, further improvements in the chart of accounts and its instructions and the development of a minimum set of accounting and auditing standards are necessary. For example, it will be necessary to produce standards on inflation accounting, foreign currency translation and accounting for financial institutions.

Regarding the last point, a distinction should be made between basic laws, such as the accounting and auditing laws, and technical standards. While it might be appropriate for Parliament to be involved in the basic framework laws, the setting of accounting standards is a continuous and highly technical process, so it would be better if Parliament delegated this function to a professional body which would be independent but responsible to Parliament.

The role of the Association of Accountants and Auditors of Uzbekistan should also be mentioned. The members of the Association are also members of the above working group. The Association has undertaken a number of conferences and meetings to inform its members of the changes in the new chart of accounts.

The Association of Accountants and Auditors of the Republic of Uzbekistan, Tashkent Finance Institute, and Tashkent State Economic University, with the assistance of the UN and British Council, organised the training of 30 high school teachers from Tashkent, Samarkand, Alma-Ata and Jambul. The training is carried out by professors of Nottingham University and the Association of Chartered Accountants of England (CIMA). At present, ten of the thirty are in England for two months' training and upgrading. Together with Tashkent Finance Institute, the Association of Accountants and Auditors of Uzbekistan has founded the Centre of Auditing. The Government has decreed that in order to receive a license, auditors must be trained at the Centre. The Association, Centre, and Institute have indicated on a number of occasions that they cannot carry out these tasks without the help of international experts to develop curricula and teaching materials and work with their staff during the start-up phase.

The project is aimed at creating one of the most important parts of market infrastructure: a modern accounting system, including all the necessary laws and standards. Besides, the project implies retraining of the accounting staff and upgrading the accounting and auditing professions. This project is a part of the state programme of transition to the international accounting and statistics system, and is dedicated to the key problem of economic reform aimed at creating a new system of cost accounting.

A market economy requires financial information which is both clear and comparable. Different users need such information for use in decision-making concerning resource reallocation. It applies equally to investors, creditors, managers, employees, the government and the public at large.

Special emphasis is put on the fact that market economies function most efficiently when they have reliable financial information because the government, investors and public must be sure that information on resources is reliable.

In Uzbekistan, this project is considered one of the most important initial steps of transition to a market economy. Modernisation of the current Uzbek accounting system may not be as difficult as perhaps in other NIS, since it had a well-developed accounting practice system which satisfied needs of different government bodies such as Gosplan, Goscomstat and financial institutions. However, the current system does not produce the financial information necessary for the valuation of state enterprises by market units. This project would modernise the Uzbek accounting system in line with internationally accepted accounting principles and practices so that it could provide useful financial information. It would also provide retraining to key sectors so that the reforms could be implemented and would make recommendations for strengthening the accounting profession. The UN is assisting in this reform. However, a number of steps remain to be taken in order to complete and implement the accounting reforms, including:

1. legislative reform and standard-setting;
2. the drafting of an accounting law which would lay the basic principles and practices, as well as the formats for the financial statements;
3. the drafting of instructions for both the audit and accounting laws;
4. further improvements in the chart of accounts and its instructions so that it complies more fully with internationally accepted accounting practices;
5. the setting of a minimum number of accounting standards to deal with the current situation, such as inflation accounting and foreign currency translation accounting for financial institutions;
6. the design of a standard-setting body, including its structure, functions and methods of work; ethics of the accounting and auditing professions;
7. intensive retraining of certain key groups such as chief accountants and auditors;
8. retraining would require the development of curricula and materials by the project team appropriate to the Uzbek conditions, including the new laws and standards;
9. setting up of pilot courses in a limited number of large enterprises and in the Centre for Accountants and Auditors;

10. providing manuals for a number of educational institutions;
11. software for computer programmes in accounting and auditing;
12. the strengthening of the profession, particularly the Association of Accountants and Auditors;
13. recommendations of educational guidelines for continuing education programmes;
14. policy co-ordination with government ministries; and
15. workshops or roundtables with various government officials so that they understand the accounting reforms and do not adopt policies which conflict with them.

The results of the project-laws, standards, retraining and policy co-ordination will lay the basis for an internationally accepted accounting system which would be utilised by all the users of financial information which include chief accountants, auditors, government regulators, creditors, investors and employees, as well as the general public. The target beneficiaries are all those who need corporate financial information for efficient decision-making.

One of the important problems facing the transition to a market economy is the creation of a securities market. Conditions for putting into circulation the securities in Uzbekistan's territory are defined by the Law on Securities. The issue of the following types of securities is planned: corporation stocks, internal republic and local government loans bonds, enterprises' bonds, treasury liabilities of the Republic, and deposit certificates and bills.

The Ministry of Finance is obliged to keep a Unified State Register of Securities. A juridical person to deal with the securities will be appointed and will carry out the following functions:

- mediation (financial broker)
- investment consultant
- investment company
- investment funds

The Soviet accountant has no experience in dealing with such market categories. Hence, it is necessary to work out appropriate standards and methods of securities' accounting and teach accountants to use them. It confirms once more that a change of economic development model requires a change of accounting methodology. Difficulties taking place in the course of carrying out the reform are both of subjective and objective character. For example, at the November meeting of the Co-ordinating Council in Kiev, the Republic of Uzbekistan stated in its report that the regulations on accounting and reporting in the Republic of Uzbekistan and the instruction on the expenditures on production and sales included in the cost of commodity output were prepared and about to be adopted. However, these important accounting regulations have not yet been officially confirmed and therefore are not officially valid. The Republic of Uzbekistan does not have available international standards on inventory accounting, on accounting of the things of little value, accounting of production stocks, etc. The Ministry of Finance must develop these regulations based on the international accounting standards of the Standards Committee of the International Federation of Accountants.

The Republic of Kazakhstan is also moving towards a market economy. Accounting and audit reform are taking place, and the Cabinet of Ministers of the Republic has already adopted the State Programme of the Republic of Kazakhstan on statistics and accounting restructuring based on gradual transition from domestic standards to international ones.

Beginning with the 1993 quarterly reports, accounting forms have been modernised to make the reports more compatible with international standards. The Republic's Finance Ministry is drafting the privatisation accounting methodology, but the laws on property and on land are delayed, and this adversely affects the whole accounting reform.

The Law on Audit has not yet been adopted, and the problem of the relationship between accounting and tax accounting has not yet been solved in the republic. Kazakhstan has requested the assistance of the international experts in the area of accounting and audit reforms.

The Department of Methodology, Organisation and Audit of Accounting and Reporting considers the Law on Accounting and Audit to be of the first priority. In the meantime, a certain part of the reporting information collected by Goscomstat has been strengthened.

Kazakhstan also has the problem of a lack of qualified accountants and auditors and lack of adequate training. They have proposed the drafting of curricula and methodological assistance for professional in-home training of accountants.

The Co-ordinating Council alone cannot solve all of the above problems, and assistance is expected from the accountants' professional organisation being created.

The Department of Methodology of Accounting and Reporting of the Ministry of Economy and Finance of the Republic of Kyrgyzstan is responsible for the accounting methodology and arrangement in the republic. The Regulation on Accounting and Reporting was adopted, a new chart of accounts and instruction on its application was introduced in September 1992, and the chart was accepted by all the republic's enterprises on 1 January 1993.

Beginning with the first quarter of 1993, all the enterprises of the Republic of Kyrgyzstan reported according to the new reporting forms based on the new chart of accounts.

The regulation on the contents of expenditures included in the cost of commodity output was introduced on 1 October 1992.

Beginning with the first quarter of 1993, the re-evaluation of production assets was carried out by all enterprises and organisations. The Law on Accounting and Reporting of the Republic of Kyrgyzstan is presently being drafted. In April 1993, the Association of Accountants of the Republic of Kyrgyzstan was founded.

The government adopted the decree on the transition of the Republic of Kyrgyzstan to internationally accepted accounting and statistics system. The development of the national accounts system is based on the UN CNC variant accepted by the European Community. The accounting problems of the Republic of Kyrgyzstan are seen as follows:

- accounting and reporting development in co-operatives and the agricultural sector;
- accounting methodology of currency operations;
- final revision of the new chart of accounts;
- drafting of accounting automation methodology regulations; and
- creation of accounting professionals' training system in accordance with the international practice.

In January 1993, the government of Kyrgyzstan adopted the Provisional Regulations on Audit Activities in January 1993. The Ministry of Economy and Finance of the Republic of Kyrgyzstan drafted the Regulation on the Council on Audit activities, on Chamber of Auditors, on the granting of licenses to carry out audit activities, and on the training, certification and registration of auditors. The Law on Audit Activities is being drafted.

In the Russian Federation, there have been no important changes in accounting since last year's November meeting in Kiev. The adopted programmes on accounting reform are being fulfilled. With the assistance of the international experts, the work on drafting of the Law on Accounting and Reporting of

the Russian Federation is going ahead. The broad programme on the accountants' retraining and auditors' training is being carried out. The Law on Audit has not yet been adopted.

The questions of the state and municipal property privatisation, securities' circulation, inflation processes, and the drafting and adoption of Reporting Standards are still being examined.

The Supreme Soviet of Ukraine has adopted the decree on application of bonds in the economy of Ukraine. In April 1993, the Law on Auditing Activities was adopted. The State Programme of the transition to the international system of accounting and statistics was adopted by the Decree of the Cabinet of Ministers of Ukraine #326 on 4 May 1993. The "accounting reform" module was included in the programme.

The Regulation on Accounting and Reporting arrangement in Ukraine was adopted by decree of the Cabinet of Ministers of Ukraine #250 on 3 April 1993.

According to the above decrees, an enterprise is responsible for the choice and application of alternative forms and methods of accounting, identification of the necessity of specific reserves for the future expenditures, internal accounting, reporting, and auditing system setting up, separation on separate balance of its branches, departments, etc. of any kind which are (or were) a part of the enterprise.

DESIGNING A NEW ACCOUNTING SYSTEM IN THE NEW INDEPENDENT STATES

PRINCIPLES AND ALTERNATIVES

W. Schruff

I. Preliminary remarks

The introduction of the concepts of market economy in the New Independent States (NIS) has made evident that the accounting systems applied by enterprises should be changed accordingly. Accounting reforms generally may be carried out in one of two ways: either step by step starting from the system currently used, or more radically by introducing a comprehensive new system. In both cases, decisions need to be made so that the new accounting system will meet the requirements of a market economy.

Ideally, the adoption of existing accounting standards seems preferable to the development of individual national accounting systems. Using a foreign accounting system, however, might cause problems of incompatibility in a different economic and legal environment. The accounting system might suffer from incompleteness or inconsistency and might cause misunderstanding of both the accounting regulations and the financial statements of an enterprise. Therefore, the aims of accounting reform will not be attained without due consideration of the specific legal and economic situation in the NIS republics.

The integration of an accounting system in the legal and economic environment should be considered first. Yet it is also necessary for the republics to develop accounting systems orientated towards accounting regulation and practices generally accepted in market economies. This would not mean neglecting the comparability of financial statements within the NIS nor world-wide. Because the environment in the NIS is changing constantly, adequate measures should be taken to synchronise accounting and other reforms.

Major efforts have been made by the European Community, the OECD, the UN and the International Accounting Standards Committee (IASC) in order to improve the international comparability of financial statements. The increasing harmonization of accounting standards is expected to have a positive effect on global economic growth and in particular on the development of capital markets. Experience has shown that the aim of harmonization of accounting standards in western industrial countries is difficult to achieve after diverging standards have been put in place. Since comparability is one of the most important issues in the field of international accounting, the NIS republics should beware of introducing divergent individual systems.

The purpose of this paper is to highlight the alternatives, criteria and interdependencies which should be considered when designing a new accounting system.

II. Accounting as an integral part of the legal and economic system

Accounting and financial reporting for businesses in market economies is a complex activity very much influenced by the legal and economic system. Accounting systems are, therefore, an integral part of the environment in which, and for which, they operate.

For the purpose of designing a new accounting system for the NIS republics, useful knowledge can be obtained from the results of the OECD Working Group on Accounting Standards and other international bodies as well as from academic research:

1. The first task in designing an accounting system is the definition of the objectives of accounting and financial statements.

This decision of general principle will be influenced by the results of numerous other legal and economic choices (e.g. how creditors should be protected by law in case of insolvency). The objectives of accounting and financial statements and the impact of other factors on their design is detailed in Section III.A. below (The functions of accounting).

2. The choice between setting accounting standards by law and/or governmental decree or by standards issued by independent standard-setting bodies, and the choice between a detailed or a more general regulation, should be made in accordance with the general structure of the legal system and the chosen objectives of the reporting system (see 1 above). The interdependencies are explained in Section III.B. below (Setting accounting standards).
3. The accounting principles which determine the content of financial statements should be orientated towards the objectives of financial statements. Although in some cases a principle-objective relationship cannot be verified, certain accounting principles and practices have proven effective in achieving certain objectives. Guidelines for the evaluation of different accounting methods are given in Section III.C. below (The content of financial reports).
4. Where financial statements are addressed to users who do not have access to the internal documents of the enterprise, the reliability of financial statements must be ensured or guaranteed by an independent party. Experience has shown that the reliability of financial statements can only be achieved by means of an examination by independent auditors. The major issues of regulation on auditing financial statements are dealt with in Section III.D. below (The audit of financial statements).
5. The availability of financial statements should be subject to the users' needs. These are often directly opposed to a business' often justifiable interest in keeping financial data secret. Information rights are described in Section III.E. below (Availability of financial statements).
6. In order to ensure that the accounting system is applied in accordance with the law, it seems necessary to introduce appropriate sanctions in case of offence. Sanctions are dealt with in Section III.F. below (Sanctions).

III. General principles: alternatives, criteria and interdependencies

A. The functions of accounting

1. *Balancing the interests of different social groups*

Individuals have different exposures to, and interests in, businesses. The following groups are identified:

- Investors (also referred to as the owners of the enterprise or actual and potential shareholders). Accounting and financial reporting hold management accountable for the resources entrusted to its stewardship by the owners and shareholders.
- Creditors (actual and potential lenders, suppliers or customers)
- Employees
- Government (or state authorities)
- Management

These different groups may have a need for information necessary for making economic decisions (whether to hold or to sell the shares or to exercise voting rights in the annual shareholders meeting). They may also have an immediate financial interest in the enterprise concerning cash flows from the enterprise on the basis of law, contract or ownership.

The need for information useful for decision making is usually referred to as a "user need". The most important interests of each group can be summarised as follows:

	User need:	Financial interest in:
Investors	Decision on purchase or sale of shares Evaluation of management's performance	Return on investment dividends Security of the investment (long-term)
Employees	Decision on entering/ quitting employment Claims on salary raises	Profit-related payment Security of employment (long-term)
Creditors	Decision on granting of credit, monitoring the ability of the enterprise to repay its debt	Maintenance of the company's assets as a guarantee for the repayment of its debt
Government	Political decisions on the tax system Estimation of future tax inflow	Receiving taxes on income

Management

Information for steering purposes

Retaining funds for reinvestment

Confidentiality of sensitive information

In practice, there are conflicts between the interests of different groups of users. For example, the information interest of outsiders, who do not have access to the enterprise's internal documents, conflicts with the management's interest in confidentiality of enterprise data. Also, the shareholder's financial interest in receiving dividends may be opposed by the creditors' interest in maintaining the enterprise's net assets high.

Accounting regulation, therefore, balances divergent interests as far as the content and level of detail of the information is concerned. Accounting regulation may also balance various financial interests. For example, the calculation of profits as shown in the profit and loss account can be linked with a regulation concerning the distribution of profits. Thus, pre-tax profit can be divided between tax authorities and shareholders. Ultimately, it is a political decision whether or not pre-tax profits which have not yet been subject to taxation may be distributed to shareholders.

In order to balance the financial interests of different groups, the minimum and the maximum amount of profits to be retained are often regulated. Distributable profits can be reduced by additional charges to the profit and loss account which -- in the interest of creditors -- results in the retention of a certain amount of profit. If these additional charges are not to be disclosed separately, the information on the enterprise's performance as shown in the profit and loss account may be misleading regardless of whether or not these additional charges are tax-deductible.

These interdependencies make it evident that regulations on accounting and financial reporting and on the basic accounting principles reflect the priorities given to the needs of various user groups. This choice is usually influenced by the economic and social order. Where the state has a predominant role in the economy and in society, the accounting system and the reporting requirements very much respond to the government's needs. This can be demonstrated in the case of those countries where a uniform general chart of accounts has to be applied, leaving less flexibility to the enterprise in the layout of financial statements. In countries where a large number of enterprises are listed on a stock exchange and many individuals invest in shares, a higher priority is often given to the information needs of investors. The priority given to the interests of creditors also depends on the system of creditor protection under bankruptcy legislation.

Economic reality as well as history may influence the priorities of different groups of users; in a growing economy, the government's steering activities are often not as strong as in a recession. Accordingly, a lower priority can be given to the government's information needs reflected in the financial statements. Experience with inflation and currency reforms also has an influence on accounting regulations and principles. Some countries have established mandatory systems of revaluation in order to eliminate the effects of inflation from the balance sheet and the profit and loss account.

2. *The accounting and reporting instruments (financial statements)*

In this context, a clear distinction has to be made between "accounting" and "bookkeeping". While bookkeeping is a system to record business transactions for documentation purposes, accounting is the art of presenting the enterprise's financial position in accordance with a system of principles. Accounting is based on financial data collected in the books, but it is not only a technical procedure. Accounting involves judgement and business knowledge.

The instruments traditionally used by businesses for accounting and financial reporting are:

- the balance sheet,
- the profit and loss account, and
- the notes thereto.

Additionally, a cash flow statement is provided by almost all listed companies throughout the OECD Member countries as a supplement to the financial statements. The financial statements are generally also accompanied by a management report providing management's comments on the enterprise's position and results.

a) The balance sheet

The balance sheet presents the enterprise's assets, liabilities and the shareholders' equity as of the balance sheet date or the financial year end. The balance sheet shows the current status of the enterprise's business in financial terms. The business transactions of the enterprise are recorded in the books by grouping them systematically according to their economic characteristics. The effects of business transactions are classified as assets or liabilities. Equity ("net assets") is defined as assets minus liabilities. It should be noted that prerequisites must be met before an asset can be recognised and recorded in the balance sheet. The recognition criteria are dependent on the objectives of the financial statements and, therefore, on the underlying priorities given to the different interests mentioned above.

b) The profit and loss account

Generally speaking, the increase or decrease of equity -- except payments of capital -- represents a profit or loss. Business transactions affecting the equity (revenue, other income and expenses) are presented in the profit and loss account grouped systematically as components of the profit or loss. The recognition criteria for revenue, other income and expenses are also dependent on user objectives as described above.

c) Notes to the financial statements

In the notes to the financial statements, additional information is given on the accounting principles applied and on major items by providing a breakdown and/or a verbal explanation. The notes are necessary to the understanding of the financial data reported in the balance sheet and the profit and loss account.

d) The cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the enterprise as they occurred during the financial year. This information is regarded as a basis to assess the ability of the enterprise to generate cash and cash equivalents and its need for cash. The cash flow statement classifies business transactions that have an effect on cash flows into three categories: operating, investing and financing activities.

e) The management report

The management report comments on the enterprise's position and its development during the period. The information given is based on management's opinion.

Financial statements, by their nature, must refer to a past period. Their predictive quality is therefore limited and they cannot provide all the information users might wish to receive for their decisions. The balance sheet and the profit and loss account have sometimes been criticised for not perfectly meeting

the needs of all users and, in practice, represent a compromise serving most of the needs of a wide range of users.

f) Consolidated financial statements

Where an enterprise controls the business of a subsidiary (i.e. by means of owning the majority of voting rights in the subsidiary) or the enterprise itself is controlled by another enterprise, the financial statements of the separate legal entity present only parts of the business as a whole. Additionally, line items may be influenced by intragroup transactions. It has become evident that for a group of enterprises, consolidated financial statements are necessary to provide relevant information.

Consolidated financial statements usually are a summary on a line-by-line basis of the individual financial statements of the parent entity and its subsidiaries. Consolidation procedures need to be established in order to eliminate intragroup transactions, such as:

- revenue from intragroup supply and service;
- profits and losses from intragroup supply and service;
- intragroup receivables and liabilities and related interest; and
- the parent entity's investment in shares of the subsidiary and the related part of the subsidiary's equity.

3. *The objectives of financial statements*

The objectives of financial statements should be determined according to the priorities given to the interest of the different user groups. Accounting may be designed as a single-purpose system or a multipurpose system.

As a single-purpose system, accounting may focus on the investors' information needs, on the calculation of taxable income or on management's needs. In this case, several accounting systems will be needed to serve other needs.

Alternatively, different systems/purposes may be combined, i.e. information on performance, calculation of taxable income and distributable profits. The combination of different purposes, however, usually gives rise to conflicts which have to be solved by regulation in accordance with the priorities given to the user groups.

In OECD Member countries, the objectives of financial statements are to provide information to a wide range of users and calculate the distributable income to shareholders under the condition that equity is maintained. In most OECD countries, priority is given to the information needs of investors, and accounting for taxation purposes is separated. The predominant objective can, therefore, be described as the clear presentation of enterprise performance.

In other countries, however, financial statements form the basis for calculating taxable income. This is the case in France and Germany. In Germany, a high priority is given to the protection of creditors by restricting the recognition of income and requiring provisions for risks. Thus, taxable and distributable income are restricted. In these countries, the objectives of financial statements can be described as the prudent calculation of distributable profit in order to protect creditors.

In almost all countries, where financial accounting also serves taxation purposes, accounting data serves as the basis for calculating taxable income. The calculation of taxable income may, however, require several modifications according to the tax law. Thus, tax accounting follows financial accounting and is not allowed to impair the "true and fair view" of the financial statement.

If, on the contrary, the same priority were given to the purpose of tax accounting as to information purposes, information value would be reduced. If tax law allows accelerated depreciation, then figures in the balance sheet and the profit and loss account might be misleading. This kind of tax incentive usually leads to the creation of hidden reserves and reduced profits in earlier periods. While this effect is deemed to be in the interest of creditors, the information on the actual position of the enterprise and on performance is distorted, in particular because hidden reserves may disappear and may smooth profit figures. Therefore, additional information would have to be disclosed as to the effects of accounting methods applied for tax purposes. This reconciliation of items might cause additional work and expense.

In addition, in some countries the tax law is frequently changed. If accounting methods are applied for tax purposes, the consistency of financial statements would be reduced. In summary, it would be preferable to separate tax accounting from financial accounting. Tax incentives should affect taxable income only.

B. Setting accounting standards

Among OECD Member countries, two different approaches to accounting can be identified: the legalistic approach and the non-legalistic approach. These correspond to the code law system and the common law system. In the code law countries, accounting is to a large extent governed by legal rules.

In the common law countries, the law states basic requirements, and accounting practices are determined mainly by an independent accounting standards setting body. The standard setting body has historically been part of the accounting profession and today also includes preparers and users. Accounting standards usually refer to specific accounting issues and/or to specific categories of businesses (i.e. banks, insurance companies).

C. The contents of financial reporting

1. The financial statements

a) Basic principles

The contents of financial statements depend on the criteria for recognition of assets, liabilities, income and expenses and on valuation principles. These accounting principles should, therefore, correspond to the objectives of financial statements.

-- Accrual basis

Financial statements must be prepared on the accrual basis rather than on a cash basis. Following the accruals concept, the effects of business transactions are recognised in the period in which they have occurred and to which they relate regardless of whether or not cash has been received or paid. Thus, financial statements include the effects of obligations to pay cash in future periods as well as the claims on cash to be received.

-- Going concern concept

The valuation of balance sheet items is normally carried out under the assumption that the enterprise is a going concern. Under this concept, it is assumed that the enterprise will continue to operate in the future unless it is intended or becomes necessary to close the enterprise down. According to the

going concern concept, assets are to be stated at cost less depreciation rather than net realisable value as for liquidation purposes.

-- *Completeness and materiality*

The basic principles of completeness and materiality are to be applied. Completeness, however, must be read in the context of recognition criteria as discussed below. Materiality does not require reporting of items which have no impact on a prudent user's decisions. This involves judgement and provides the enterprise with flexibility.

-- *Substance over form*

Financial statements should reflect economic realities. Therefore, business transactions should be recorded and presented in accordance with their economic substance rather than their legal form. For example, if the enterprise is not the legal owner of an asset, but is in the position to use the asset in a way that the future economic benefit will be realised by the enterprise (e.g. in the case of long-term leases), the asset should be recorded in the balance sheet. The principle of substance over form clearly involves judgement.

b) *Elements of the balance sheet*

The elements of the balance sheet (in accordance with the IASC Framework) are:

-- *Assets*

An asset can be defined as a resource controlled by the enterprise which is a result of past events and from which future economic benefits are expected to flow to the enterprise.

-- *Liabilities*

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

-- *Equity*

Equity is the residual interest ("net assets") in the assets of the enterprise after deducting all its liabilities.

The elements of the profit and loss account (the income statement) are:

-- *Income*

Increases of economic benefits during the periods in the form of inflows or enhancements of assets or decreases of liabilities that result in increases of equity.

-- *Expense*

Expenses are decreases in economic benefits during the period in the form of outflow or depletions of assets or incurrences of liabilities that result in decreases in equity.

The interrelationships between these elements can be summarised as follows:

According to the double-entry system, any item recognised in the balance sheet as an asset automatically requires recognition of a liability or income or a disposal of another asset. If the item does not meet the recognition criteria, it must not be recognised as an asset and the amount has to be expensed to the profit and loss account. Thus, recognition criteria determine the presentation of the enterprise's financial position and performance.

c) *Recognition criteria*

Before assets, liabilities, income and expenses are recognised in the financial statements, additional criteria need to be met.

General requirements for assets and liabilities recognition:

Assets and liabilities should be recognised if:

- there is a probability of future economic benefits associated with the item flowing to or from the enterprise; and
- the item has a value that can be measured with reliability.

Additional criteria depend on the priorities of different user groups. If, for example, priority is given to the interest of investors, the required degree of probability and reliability of measurement may be equal for both assets and liabilities, as well as income and expense.

The prudence concept

If, on the other hand, a significant priority would be given to the protection of creditors, the criteria for the recognition of assets and liabilities, income and expense should be more restrictive in accordance with the prudence concept. Thus, compared with liabilities, a higher degree of certainty should be required for the recognition of assets. For example, internally created intangible assets should not be recognised because of the uncertainty of future economic benefits. Intangible assets which have been purchased from a third party for a compensation should be recognised. Liabilities should be recognised if it is probable that resources will flow from the enterprise to settle an obligation.

Obligations arising from unfulfilled contracts on both sides generally are not recognised as liabilities. It is expected that the outflow of resources resulting from the settlement will be balanced by the inflow of resources. Depending on the objectives of financial statements, it may be required that a provision for expected losses from contracts will be recognised as soon as it seems unlikely that the outflow will be balanced by the inflow from the contract. The anticipation of negative effects expected from contracts is a means of protection for creditors because it reduces the distributable profit.

-- *The recognition of income and expenses: the realisation principle*

The recognition of income is ruled primarily by the realisation principle stating that any increase in assets or decrease in liability should not be recognised before it is realised. In OECD countries, the criteria for realisation vary. Realisation requirements can be established in order to ensure that profits are distributed (and taxable) without impairing the position of creditors. Where priority is given to the presentation of the enterprise's performance, requirements can be less restrictive and may permit the recognition of income as soon as it is realisable (in a liquid market), although not yet realised.

-- The recognition of income and expenses: the matching principle

Expenses related to revenue from the sales of goods or services should be recognised in the same period as revenue is recognised according to the matching principle. When the link with income can only be indirectly determined, expenses should be recognised on a systematic basis. For example, if an asset is used for production purposes and benefits will flow to the company for a period of several years, expense is referred to as a depreciation and is recognised in the profit and loss account as a part of cost of goods sold. In the case where expenditure does not qualify as an asset it should be recognised immediately in the profit and loss account. The same procedure is applied if a liability arises without the recognition of an asset, as, for example, in the case of a compensation claimed by third parties.

Conflicts may arise between the realisation principle and the matching principle on the one hand and the prudence concept on the other hand. Therefore, a hierarchy should be established in accordance with the objectives of financial statements. If priority is given to the protection of creditors by means of restricting profits, priority also should be given to the concept of prudence. This would be reflected in restrictive interpretations and applications of the realisation principle. The matching principle would be restricted by the required anticipation of expected losses as soon as they become likely to occur even if they are not realised. If the prudence concept is given priority, enterprise net assets and profits can be understated. If priority is given to the interests of investors, the prudence concept will rule on how to deal with uncertainty. Therefore, it should be subordinated to the realisation principle and the matching principle.

d) *Measurement of assets and liabilities*

-- Historical cost

Items recognised in the balance sheet are usually measured at historical cost: Assets are recorded at the cost incurred at acquisition or production; liabilities are recorded at the amount necessary for the settlement.

The recognition of an increase or decrease in value in comparison with historical cost can be ruled differently according to the objectives of financial statements. If priority is given to the prudence principle, an increase in value of an asset or a decrease in value of a liability is not recognised unless realised by means of sale or settlement. Thus, holding gains are not recognised. This restriction refers to the uncertainty associated with an increase in the value before confirmation is received by sale to a third party. When priority is given to the presentation of the enterprise's performance rather than to the protection of creditors, an increase in the value of an asset may be recognised if at the balance sheet date the asset could be easily transformed into cash or cash equivalents, thereby realising the gain. This would require that the asset is marketable, that a market value exists and that the market is liquid. If, however, it is not intended to sell the asset, then the recognition of the increase in value would not be appropriate. The historical cost principle is considered inappropriate where significant inflation occurs. In this case, historical cost would not fairly represent the financial position of an enterprise, and profits calculated on the historical cost basis might be misleading, since expenses may not reflect the amount necessary for reinvestment.

-- Lower of cost or market and net realisable value

A decrease in value of an asset or increase in value of a liability is usually recognised according to the lower of cost or market principle. Assets are therefore written down to the net realisable value and the decrease is recognised as an expense. An increase in the value of a liability should be recognised accordingly.

Fixed assets that can be used over a number of periods (e.g. plant and machinery) are depreciated in order to charge the profits of the respective periods with the cost attributable to the utilisation of the asset

as well as the expected decrease in the value of the asset. Depreciation should be recorded on a systematic basis over the expected useful life of an asset.

e) *Capital maintenance*

There are different concepts of capital maintenance applicable to financial statements. Capital maintenance can be measured by two different concepts:

-- *Financial capital maintenance*

A profit is earned only if net assets at the end of the period exceed the amount at the beginning of the period, excluding contributions from and distributions to the owners. The concept of financial capital maintenance can be applied on the basis of nominal monetary units (neglecting inflation) or units of constant purchasing power.

-- *Physical capital maintenance*

This concept refers to the physical productive capacity of an enterprise. A profit is earned only if the physical capacity of the enterprise at the end of the period exceeds the capacity at the beginning of the period, excluding contributions from and distributions to shareholders.

Except for the concept of nominal financial capital maintenance, changes of prices are not regarded as profits. An increase in net assets is treated as a capital maintenance adjustment to equity if the increase results from price changes.

The concepts of physical capital maintenance and financial capital maintenance applied on the basis of constant purchasing power require a revaluation of assets at each balance sheet date. In this context, the concept of financial capital maintenance on the basis of constant purchasing power seems to be preferable, because a revaluation of individual assets could not be carried out reliably within a reasonable amount of time. It would also involve judgement and subjectivity in the revaluation. The concept of financial capital maintenance can be applied by using an index of purchasing power and therefore contributes to comparability of financial statements.

2. *The notes to the financial statements*

The notes to the financial statements form an integral part of financial reporting. The notes provide additional information necessary for the interpretation and understanding of financial statements. The notes usually provide information on:

- a) the accounting principles applied, including details of valuation methods, options exercised, foreign currency translation and explanations for comparability purposes;
- b) the material items of the financial statements, such as a breakdown of sales by different lines of business;
- c) contingent liabilities, if not recognised in the balance sheet;
- d) the number of employees; and
- e) the members of the board of directors or the managing board or a supervisory board.

The requirements can be extended in order to serve the needs of a particular group of users. As a general principle, smaller enterprises are granted exemptions, and companies listed at a stock exchange are required to provide more detailed information.

3. *The management report*

The management report comments on the enterprise's position and its development during the period. Usually, a description of the major business activities is provided in the context of recent economic and market developments. Important events which have occurred after the balance sheet date are included in the management report. Expectations on future developments and activities in the field of research and development are disclosed. Other non-financial information includes information on employees, the safety of production processes as well as environmental protection. The non-financial information given in the management report is based on the management's own opinion and is less objective than information provided by financial statements. However, the comments on the enterprise's position and its developments should correspond with the presentation given by the financial statements.

D. The audit of financial statements

Where users do not have access to the internal documents of the enterprise, they have to rely on the information provided by financial statements. In order to ensure the reliability of statements drawn up by management, an independent audit is required. The independent audit balances diverging interests. It serves as a warranty to users that the financial statements are prepared in accordance with the law and/or generally accepted accounting principles and/or the enterprise's statutes. At the same time, the independent auditor is obliged to keep all other financial data which comes to his notice during the course of the audit as a professional secret.

The independent auditor expresses an opinion on whether the statements give a "true and fair view" of the financial position and the results. The principal activities of an audit are to obtain evidence to support the information presented in, or underlying, the financial statement. The audit of financial statements usually does not deal with the quality of management's performance nor the creditworthiness of the enterprise.

The audit of a management report is limited since the information contains non-financial information which cannot be measured and examined objectively. Therefore, the independent auditor can only express an opinion on whether or not the management report provides the information required and corresponds in all material aspects with the financial statements.

The auditor is usually appointed by the board of directors or elected by the shareholders. In special cases, the auditor may be appointed by a court. The audit of financial statements is restricted to individuals or firms holding a licence to carry out statutory audits. The licence may be granted by a government authority or a professional body in accordance with legislative requirements on the examination of professional skills. For the EEC-countries, the prerequisites are stated in the 8th EEC-Directive.

In most of the EEC and the other OECD countries, independent auditors form a significant part of the accounting profession and must maintain membership in a professional body. The professional body acts as a supervisory body and establishes auditing standards. The professional body is typically self-governing and stands under the supervision of a government authority.

E. Availability of financial statements

Financial statements must be made available to the users on a timely basis. That means that after the audit is finalised they are, without undue delay, to be distributed to shareholders before the annual shareholders meeting. In some countries, the law or stock exchange regulation states the limit.

After the annual shareholders meeting the financial statements are filed with a registrar of companies or other data-collecting authority. There, the financial statements are made available to the public. Financial statements may be required to be published in an official journal. Companies listed on a stock exchange may also be required to file with a supervisory authority (stock exchange commission) which may establish additional information requirements and/or regulations concerning the format of reports. Creditors may have a legal or contractual right to receive copies.

F. Sanctions

Sanctions refer to responsibilities. As regards accounting and financial reporting, a clear distinction should be made between responsibilities of management and those of auditors.

It is the management's responsibility to draw up the financial statements in accordance with relevant regulations and to make the statements available to users. Therefore, management is liable to the enterprise and to entitled users for failure to meet regulatory requirements.

The auditor's responsibility is to audit the financial statements and the accounting system and to give an opinion on whether or not they are in line with relevant regulations. This may include an opinion on whether or not the financial statements give a "true and fair view" of the enterprise's financial position. Auditors are, therefore, responsible for carrying out audit procedures in accordance with regulations and professional standards. They are responsible for the reliability of their opinion. Auditors may be made liable for any damage to the enterprise or users caused by neglecting their professional duties.

IV. Summary and issues for further consideration

Summarising the choices and decisions to be made in the context of designing a new accounting system:

- A. The system of accounting and financial reporting should be designed with due regard to the structure of the economy. The relevant characteristics are:
 - 1) the level of development of capital markets,
 - 2) the level of distribution of shares,
 - 3) the influence of banks and other institutional investors in the businesses, and
 - 4) the influence of government on business.

- B. The function of accounting and financial reporting should be determined accordingly. The alternatives are:
 - 1) Accounting and financial reporting is designed to serve information purposes only,
 - 2) Accounting and financial reporting is designed to serve
 - a) information purposes, but also to serve
 - b) the financial interests of investors,
 - c) the protection of creditors by means of restricting profits distributable to shareholders, and to serve
 - d) as a basis for the calculation of taxable income.

As a general rule, the higher the priority given to the needs of the capital markets, the more priority should be given to the information purposes of accounting and reporting, provided the protection of creditors and taxation are dealt with sufficiently by means of separate legislation.

- C. A hierarchy of priorities given to the interests of different groups should be established because of conflicting interests.
- D. The objectives of accounting and financial reporting should be determined. The alternatives are:
 - 1) The objectives are to provide information on the enterprise's financial position and performance which is useful for a variety of users, but orientated primarily to the needs of investors.
 - 2) The objectives are to provide information and to prudently calculate profits which are distributable to shareholders without interfering with the interests of creditors and/or to serve as a basis for the calculation of taxable income.
- E. The accounting principles should be determined in accordance with the objectives of accounting and financial reporting. While the basic principles are independent from the priorities given to the different purposes, the principles concerning recognition criteria and the valuation of balance sheet items directly relate to the objectives.

The basic principles are:

- 1) the accruals concept,
- 2) the going-concern concept,
- 3) completeness,
- 4) consistency, and
- 5) materiality.

Where the priority is given to information purposes, the principle of substance-over-form should dominate. It is of less importance where financial accounting serves as a basis for tax purposes.

The recognition criteria are ruled by the realisation principle and the matching principle. The interpretation and application of these principles is influenced by the prudence principle. The prudence principle dominates where priority is given to the protection of creditors. This leads to more restrictive realisation requirements and to the anticipation of expected future losses, as well as to the valuation at the lower of cost or market value.

Issues for further consideration

The format of the balance sheet and the profit and loss account as well as disclosure requirements should be considered.

The 4th EEC-Directive on the financial statements of corporate enterprises provides a number of alternative formats that can be used as a basis for discussion.

Further decisions should be taken on disclosure requirements concerning the notes to financial statements and the management report.

The concepts for a cash flow statements should be discussed.

MAIN ELEMENTS OF AN AUDIT LAW

Jim McKinven

Introduction

An audit law is the foundation of the audit profession and the basis of its future development. A profession does not develop because a law has been passed -- it will evolve over time, although the direction of that development will be set in the audit law.

If the audit law is not written with a view to the long-term development of the profession, the profession that actually evolves may not be the profession desired. The audit law should not therefore be prepared as a short-term solution to a short-term problem, but as a basis for the future.

The definition of audit and its purposes

This is the most critical part of the audit law, as until this is clear the rest of the law cannot sensibly be determined.

There are many definitions of audit, although it is generally accepted that an audit is an independent examination of financial statements and related financial information with a view to preparing a report.

The main question is, What is the auditor reporting and for what purpose?

At one extreme, the audit may be seen as an extension of the state regulatory services, such as the taxation services, for example. If this is deemed to be the purpose of an audit, then an audit law will be unnecessary. It is far more efficient for the state regulatory services to provide their own resources to determine regulatory compliance. It is unnecessary to create a profession that works for the state, and it is inefficient to do so as the state bodies can determine more readily than a professional body their recruitment, training and staff development requirements.

At the other end of this spectrum is the audit serving the needs of users such as shareholders, creditors, banks, etc. This is more usual in a market economy where the need for credible and believable financial information about companies increases. The audit provides that credibility, providing the audit is credible. This will require an independent audit conducted by professionals that have credibility.

It is often supposed that an audit can actually meet all needs, that an independent professional body can fully meet the needs of users as well as regulatory authorities. Practice elsewhere has not shown this to be the case.

Financial statements may not meet the needs of regulatory bodies and users, particularly if tax accounting and financial reporting have been separated. If the financial statements do not meet all needs

then neither can the audit.

There are countries where the financial statements do meet all needs, such as in Germany, where there is no difference between the tax accounts and the financial reports. However, even in these cases the audit is not deemed to be able to meet all needs. In Germany there is the independent audit profession that conducts audits for the benefit of users, and a state taxation audit function which is significant in size, very active, and exists for the benefit of the state.

Also, experience has shown that in a market-oriented economy there can be pressures on management to inflate profits. This pressure can arise from the need to show good results for current investors, potential lenders, potential investors or employees (for example, if employee benefits are linked to performance). As a result, the audits are often concerned to identify those areas where profits are being inflated.

From the perspective of the tax bodies, the major concern is the understatement of profits, as this will reduce the tax collections. A tax audit will therefore be focused on those areas liable to lead to understatement of profits.

These objectives are sufficiently incompatible for it to be difficult for an audit to fully meet all needs. A decision will therefore have to be made as to the purpose of the audit. If the audit is deemed to be for regulatory needs, then the need for an audit law must be questioned. If the audit is for the purpose of users such as shareholders, then the law should be clear in this respect and the law should not attempt to serve all needs, as this may not be possible.

Who is the auditee?

Another significant issue to resolve is who should be audited. This will affect the demands placed upon the profession and how it develops. For example, should the auditee include:

- all enterprises that produce financial statements, or are potential taxpayers
- all companies
- only publicly quoted companies
- budget-funded institutions

Consideration should also be given to a size criteria (below which an audit is not necessary), activity criteria (some activities, such as banking, should always be audited) and the legal forms which may or may not require audit. This issue will significantly affect the number of auditors required and the size of the support structures required (training, examinations, administration, etc.).

A key question is the purpose of the audit and the value provided by the audit in comparison to cost.

Who can be an auditor?

This has to address regulatory (licensing) issues such as:

- test of knowledge and its application (examinations),
- experience required before licensing, and
- other requirements such as the fitness of the person for the profession.

A high-quality, skilled profession will require rigorous entrance requirements and appropriate

practical experience. This takes time, and provisional arrangements may be required to "grandfather" in individuals.

Entrance requirements that are too easy to meet will degrade the profession in the short and long term. A profession that is deemed to be easy to enter will not be a prestigious profession. This will deter the better people from entering such a profession, which will maintain the poor quality. There are examples where audit laws have been passed with low entrance requirements and these problems have emerged.

Pressure exists on introducing the audit law to ensure that a sufficient number of auditors will exist in the short term. This pressure should be resisted. This can be assisted by the definition of which companies must be audited. As the profession grows, the number of companies to be audited can be increased.

Another issue is that of special licences (for banks and insurance companies, for example). Specialist skills will be required, but should there be the need for the general licence first, or will parallel professions be developed?

A key question to ask is how many banks or insurance companies are there to be audited. It is unlikely that the number will justify a separate profession.

Also, once the number of specialist auditors required is reached, barriers will be created to stop others from entering that specialisation. This will be necessary for those auditors who do not have a general audit licence, as the only source of their income is from a small client base. This is not to the benefit of the profession as a whole and will not promote the maintenance of standards.

Again, experience elsewhere suggests that one profession is preferable, with additional licensing requirements for specialist audits.

Audit firms

It is probable that the audit marketplace will be dominated by audit companies rather than individuals. However, at the same time it is the individuals who will be tested for competency in examinations and will be considered for acceptance into the profession, and it will be the skills of the individuals and their integrity, honesty and professionalism which will determine the credibility and status of the profession.

The audit law will therefore have to consider the relationships between the company and individual auditors, and the relationships between the company and the companies being audited.

The issues to consider will include the following:

- Who should be allowed to own the audit firm, or have a majority of voting rights? Given that the nature of audit and the profession depends on the skills and attributes of the individual auditor, it may be preferable that it is auditors who have a majority of the voting rights. In this way, the auditors can ensure that the company remains focused on being professional, competent and credible. Non-auditors may find it difficult to understand the professional obligations of the auditor and therefore may not make sufficient provision to assist the auditor to meet those obligations.
- Who should manage the audit firm? This is related to the ownership issue in that it may be desirable that day-to-day management also be in the hands of auditors, or at least that auditors be sufficiently represented on the management board of the company, for the same reasons

that auditors should have a majority of voting rights in the company.

- What activities can the audit firm or auditor engage in? The skills of the auditor can be used in services other than just auditing. For example, tax, legal and accounting consulting, systems design, investigations and bookkeeping would all be valid assignments as they draw upon the knowledge base and practical experience of the auditor; they are all within the auditor's professional competence. However, other operations such as manufacturing, retailing or intermediary operations could not be argued as within the sphere of the auditor's professional competence. Engaging in such activities diverts the auditor and audit firm from exercising and maintaining their professional skills. If the individual or company wishes to engage in such activities, then they should not also attempt to run a professional practice.
- Who is appointed as auditor, the firm or the individual who will have responsibility for that audit? This is also related to the question of who should sign the audit report: the auditor responsible, the audit firm, or both. In many respects this is related to the liability of the auditor. It may not be appropriate that an individual can accept a contract and sign the report without the company's authority, but the company retains the liability. However, it is also important that the audit company cannot override the judgement of the auditor when preparing the audit report. A possible solution to this which has been adopted in some other countries is that the firm is appointed, but that the auditor and the audit company have to sign the audit report.

Independence

A critical component of a credible audit is that it is independent. This means that the audit firm and those working on the audit must be, in fact and in appearance, independent of the company being audited.

Independence is, in fact, a state of mind of the individual. However, auditors are individuals and are prone to the usual human weaknesses. Also, it is important that auditors are seen to be independent as well as actually being independent. For these reasons, guidance on independence and some rules will be required.

It will not be possible for an audit law to cover every possibility where independence will be or could be compromised. As a result, the minimum required in the law is a statement of the basic principle of independence. Guidelines can then be issued by a professional or other body which will have the force of law, but can be changed and adapted as required more easily than a law. However, the law can also provide a basic set of rules which will avoid the most obvious independence issues, such as:

- avoiding independence conflicts between the audit staff and the auditee from personal or close family links with the auditee (from property interests or management links, for example); and
- avoiding the audit of a company in which the audit firm or its executives have economic or management links.

Since the audit firm will probably offer a range of services, a question to be addressed is which other services would compromise the auditor's independence. For example, if the auditor has been maintaining the company's books and records, it would be difficult for the auditor to be independent if he were auditing himself. In this case, the question relates to the individuals, but the same question has to be asked as regards the audit company as a whole.

Appointment of auditors

The question here is, Who should appoint the auditors? If it is the management, then are the interests of either the state or the owners being protected? It may be in the interests of the management to employ incompetent or compliant auditors as they are likely to discover less and challenge the management less. If the state appoints the auditors, then even if everyone else's interests were being served, it is unlikely that this would be believed.

It is preferable that the owners appoint the auditors. This can present a number of practical problems, and it is therefore common that it is actually management who chooses the auditor, but they have to get the owner's agreement before a contract can be signed. This system at least allows the owners to veto the management's choice if the owners cannot, for practical reasons, be more closely involved in the original selection of auditors.

Once appointed, the next question to resolve is for how long the auditor is appointed. One option is that under a civil law contract, the period of the contract will be defined. The auditor will therefore only be the auditor for a limited period of time. This can give rise to some problems. For example, the principles of independence and confidentiality may be compromised if the auditor will only be bound by the rules for a short period of time.

Another option is that the appointment will run from one general meeting of the owners to the next. However, this may also give rise to problems unless there are rules to terminate the audit contract early. It may not be practicable to hold a general meeting more than once a year, and the company could therefore be held to ransom by an unscrupulous auditor if a report by the auditor is required during the period of the appointment.

In general, it is desirable that the audit appointment be for the period between annual general meetings. However, there must then be rules for terminating the contract early. This must allow the management to terminate the contract and appoint a new auditor. However, in these circumstances there must be a mechanism to protect the owners from a management which wishes to replace the owners for poor reasons. One such mechanism might be the requirement that the management has to provide written reasons for the termination, and the fired auditor has the right to address the owners (either in writing or at the general meeting).

Obligations of the parties

The audit law must deal with the obligations of the auditee, the auditor and third parties.

The obligations of the auditor are likely to relate to the need to maintain confidentiality as regards information obtained as a result of the audit and other services, the need for professional behaviour, the need for independence, etc.

The obligations of the auditee are likely to relate to facilitating the audit -- such as access to all information required for the audit, all explanations required of management and staff, proper facilities to conduct the audit, etc.

A particular issue is the requirements of third parties to provide information for the purposes of the audit, as it is common that auditors have the need to obtain information from third parties to verify the auditees financial statements. However, there is usually no contractual or other relationship between the auditor and the third party, and it can therefore be very difficult in practice to enforce a requirement that obliges a third party to provide information.

Experience has shown that it is usually more successful for the auditee to obtain information on behalf of the auditor, and the law can therefore place the obligation on the auditee, which is likely to be more successful although cannot be a guarantee of the co-operation of the third party.

Audit report

The audit report is the summary conclusions of the work of the auditor and is therefore an important issue to be dealt with in the law. This is the report that users will rely upon.

To assist users of audit reports, guidance should be given on the content of audit reports, their purpose, to whom they should be addressed and to whom they can be disclosed. It is not usually desirable to be too prescriptive in the law as to the form of the audit report, as needs will change over time. Guidance from a professional body will be preferable. The standardisation of an audit report, and qualifications, will make it easier for users to understand the audit report, as style and language would vary from auditor to auditor and thus reduce comparability, clarity and understanding.

There may be cases where the auditor should not wait until an audit report is issued before reporting significant issues. For example, if the auditor becomes aware of situations that could, or have, caused significant losses to the enterprise, or circumstances that threaten the existence of the enterprise, then it may be desirable for the auditor to report to the owners immediately.

A more difficult question to address is the matter of public interest when an auditor discovers actions of the auditee (such as fraud or serious breaches of legislation). It is not simply a matter of requiring the auditor to report such matters to the regulatory authorities, as this is in direct contradiction to the principle of confidentiality. Clearly, there is a question of the public interest, but it can be very hard to define those events which are so serious that the auditor should report to the authorities.

Liability and insurance

The auditor's report will be the means by which users will judge the reliability of financial statements. Audit reports that are wrong in their conclusions will mislead the users, which can lead to incorrect decisions being made, which in turn can lead to losses (for example, investing in a company or lending to a company which appears to be in a sound financial position).

The auditor is expected to be a highly skilled professional (entry to the profession is controlled by tests of competence, for example). Users will therefore expect to be able to place more reliance on their conclusions than the conclusions of someone who was not a member of the profession.

It is therefore appropriate that auditors accept responsibility for the work they perform and the damage they may cause. However, a question to be answered is the extent of that liability.

The main issues to resolve are:

- Does responsibility extend to everyone who uses the financial statements, or just to a defined group (such as owners)? This may appear reasonable, but financial statements cannot meet the needs of everyone. It is therefore possible that losses are caused not just because of the faulty audit opinion but also because financial statements were being used for the wrong purpose. It may be difficult to determine the real cause of losses.
- Should auditors be responsible only for the losses they caused directly? For example, if there is fraud in the company and the auditor does not find it, should the auditor be responsible for

the losses not recovered from those who committed the fraud, or should it be the responsibility of the management who failed to implement controls?

- Should there be a limit on the auditor's liability regardless of the amount of the loss? This is generally not international practice, although it is the case in Germany. A limit may be more attractive in the early years of the profession to avoid the risks of entering the profession being too high to attract people. If a limit were to be set it should not be so low that it encourages poor quality work, but should not be so high that the purpose of a limit is defeated.

Related to the issue of liability is indemnity insurance. Insurance will effectively provide additional funds to those of the auditor. This improves the protection of the users of financial statements, but also provides some protection for the auditor. Compulsory insurance for auditors is a common international practice.

The issue of insurance is not, however, easy in the CIS, where the insurance market is still developing and there is little information available to calculate premiums. With an undeveloped market and little information, it is possible that compulsory insurance could lead to undesirably high insurance premiums. If compulsory insurance is not immediately viable, this should at least remain an objective for the future.

Regulatory/Supervisory body

An audit law cannot deal with all areas which must be addressed in the development of a profession. Also, as circumstances change, so must the profession, although this is made more difficult if the changes need to be actioned by law.

There are also many tasks which need to be performed in running the profession. These include the preparation of audit guidelines and standards, setting and operating attestation and licensing procedures, developing and monitoring training standards, and general regulation of the activities of the profession. Such tasks will need to be performed by a body with these responsibilities.

The need for such a regulatory or supervisory body is clear. However, an issue to resolve is the extent to which such a body is independent of state bodies. At one extreme, the supervisory body will be a state body (such as the Ministry of Finance), and at the other extreme is a fully independent organisation.

If the audit profession exists for other than regulatory purposes, then supervision by a state body is not in the interests of the profession and will not assist in its development. In such circumstances, it is more likely that the profession would be guided increasingly towards regulatory activities and away from the fundamental purpose for which the profession was created.

However, it is also inappropriate that the supervisory body be completely independent from the state, as the state has a valid interest in the activities of the profession due to the public interest aspects of audit. This may be achieved by representation of the appropriate state bodies in the supervisory body, without that representation being dominant.

Summary

An audit law should be written for the long term and not as a short-term solution to immediate problems. This will probably mean that the law as written cannot, for practical reasons, be implemented immediately.

However, this should not cause the law to be abandoned as a long-term measure. Transitional measures can be introduced when the law is enabled so that certain aspects of the law are introduced over time rather than immediately. This can solve the problem of the short term without rendering the law relevant to only the near future.

Of the many elements required in an audit law, a clear and understood purpose of audit is the most fundamental. Until this is clear, no other aspects of the law can be sensibly determined as this will be the ultimate guide for the rest of the law.

Annex 1

**CO-ORDINATING COUNCIL ON ACCOUNTING METHODOLOGY
IN THE NEWLY INDEPENDENT STATES**

Terms of Reference

Resolution of 15 July 1992

The International Conference on Accounting Reform in the New Independent States held in Kiev, 14-15 July 1992 by the Ukrainian Ministry of Finance, the United Nations Transnational Corporations and Management Division and the Organisation for Economic Co-operation and Development with the participants of eight New Independent States (Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan).

- Appreciating the contributions of the Organisation for Economic Co-operation and Development and United Nations Transnational Corporations and Management Division and national and international experts to the organisation of the conference;
- Recalling the importance of accounting in the process of economic reform as a whole;
- Realising the necessity of modernising the accounting system for the effective transition of the New Independent States to a market economy;
- Aware of the advantages of co-operation among accounting experts from government, academia and the accounting profession in the Newly Independent States;
- Taking into account the work of the former United Nations International Task Force on Improvements in Accounting which produced the Revised Chart of Accounts;

Hereby resolves the following:

1. Participants of the Conference from eight New Independent States recommend the creation of a Co-ordinating Council on Accounting Methodology in the New Independent States which will

- exchange information and experience on accounting reforms;
- promote the harmonisation of accounting standards;
- exchange information on technical assistance in accounting provided by national and international bodies;
- promote the development and organisation of the accounting profession and encourage accounting research and training;
- encourage publications on accounting and auditing trends and developments

2. The international Conference invited the international organisations present, the Organisation for Economic Co-operation and Development, the United Nations Transnational Corporation and Management Division, the Commission of the European Communities and the World Bank to provide support for the work on the Co-ordinating Council.
3. The Ukraine will host, before the end of the year, an organisational meeting composed of government officials, accounting associations and international organisations to determine the organisation and procedures of the co-ordinating Council.
4. The recommendations of the Co-ordinating Council should be used by the New Independent States as appropriate when formulating national accounting standards.
5. Each of the New Independent States is encouraged to develop the appropriate structures for accounting reforms.

Annex 2

CO-ORDINATING COUNCIL ON ACCOUNTING METHODOLOGY

Organisation and Procedures

Programme of Work

The first step towards a co-ordinated approach to accounting reform in the NIS was taken at the Conference on Accounting Reform in the New Independent States which was held in Kiev on 14-15 July 1992. The Conference was hosted by the Ukrainian Ministry of Finance and jointly sponsored by the OECD Centre for Co-operation with the Economies in Transition and the United Nations Transnational Corporation and Management Division with support from the World Bank, the International Accounting Standards Committee (IASC) and the European Federation of Accountants (FEE). Eight republics were represented (Belarus, Kazakhstan, Kyrgyzstan, Moldavia, Russia, Turkmenistan, Ukraine and Uzbekistan), by officials from finance ministries, academics, and the accounting profession.

The meeting ended with a resolution by the countries represented to create a Co-ordinating Council of Accounting Methodology (CCAM) which provides a forum where the member countries can co-ordinate their efforts in the field of accounting reform. Additionally, it will facilitate the involvement of international experts in the reform effort. At its first meeting held in Kiev on 16-17 November 1992 the Council agreed on its organisation and the programme of work.

A. Objectives of the Co-ordinating Council

The Co-ordinating Council on Accounting Methodology will review measures of accounting reform underway in member countries and issue recommendations with the objective of modernising accounting practices on a harmonised basis among the eight republics.

In particular, the Council will:

- exchange information and experience on accounting reforms;
- promote the harmonisation of accounting standards;
- exchange information on technical assistance in accounting provided by national and international bodies;
- promote the development and organisation of the accounting profession and encourage accounting research and training; and
- encourage publications on accounting and auditing trends and developments.

The OECD will provide information and advice to the Council in the implementation of these objectives. Other international organisations participating in this effort include the United Nations

Transnational Corporation and Management Division, the Commission of the European Communities, the World Bank, the International Accounting Standards Committee (IASC) and the European Federation of Accountants (FEE).

B. Organisation and procedures of the Co-ordinating Council

1. *The CCAM Bureau*

The chairmanship of the Council will rotate among the participating countries. For 1993, the chairmanship will be assumed by Uzbekistan. In 1994, the Council will be chaired by Belarus. There will be two vice-chairmen representing the countries chairing the preceding and the following year's meeting. The Bureau will meet in conjunction with the regular meeting of the Council in order to:

- a) set the agenda for the following CCAM meeting;
- b) decide on the time and place of future meetings;
- c) propose the future work of the CCAM; and
- d) oversee publication of proceedings.

The OECD will assist the CCAM Bureau in preparing the Council's sessions and organising the exchange of information between the participating countries.

2. *Time and place of meetings*

The CCAM should meet twice a year for two to three working days. It should meet at member country locations on a rotating basis.

3. *Participation*

Membership in the CCAM is open to all NIS countries and to the CIS Association of Accountants and Auditors. The number of participants in each Delegation should be limited and participation should be as stable as possible. Each country should nominate a delegation of three members: one government official responsible for accounting reform, a representative of the accounting profession, and an academic in the field of accounting. Each delegation should designate one contact point; a network of contacts will thus be established between accounting officials and the OECD Secretariat. The organisers (OECD and the host country) can invite experts to attend meetings on an ad hoc basis.

4. *Costs*

The host country will be responsible for providing facilities for the meetings (meeting room, simultaneous translation) and arranging the accommodation. Each member country will meet the travel costs of its delegates. The OECD will meet the costs of any experts which it agrees to provide and will also meet the costs of publishing the proceedings of the conference.

5. *Structure of CCAM work*

The CCAM will structure its meetings into two broad sections. The first will comprise a review of the reform efforts undertaken by members since the last meeting of the Council. The second will comprise a consideration of a substantive topic of accounting reform as identified by the CCAM Bureau. The review will be based on a report submitted by each of the member countries.

C. **Programme of Work**

The immediate priority in the area of accounting reform is the elaboration and implementation of accounting and auditing laws. Therefore the first meetings will concentrate on the issues involved in drafting a framework accounting and auditing law and supplementary standards or regulations. Subsequent meetings will look at more technical issues of standard setting as the reform process unfolds.

At the first meeting of the Co-ordinating Council, the following issues were identified for future work:

Development of Elements for an Accounting Law

Accounting and Valuation Aspects of Privatisation

The Relationship between Financial and Tax Accounting

Accounting in a Hyper-Inflationary Environment

Professional Qualifications and Training

Relationship between Accounting and Statistics

Measures to Facilitate the Transition to a New Accounting System

Discussion of Elements of an Auditing Law

Discussion of Case Studies

CO-ORDINATING COUNCIL ON ACCOUNTING REFORM

Conclusions of the Second Meeting

The second meeting of the Council on Accounting Methodology, which was organised by the OECD Centre for Co-operation with the Economies in Transition in July 1992, was held in Tashkent on 25-26 May 1993 and hosted by the Government of Uzbekistan. Chairmen were Professor Yuri Itkin, President of the Auditors and Accountants Association of Uzbekistan and Mr. Rainer Geiger, Deputy Director, OECD Directorate for Financial, Fiscal and Enterprise Affairs. The Council brings together representatives of finance ministries, academics and the accounting profession from eight NIS republics (Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Ukraine and Uzbekistan) as well as the Association of Accountants and Auditors of the CIS. The Council includes also experts from OECD Member countries and international organisations (World Bank and the United Nations.)

Participants discussed the elements of a new accounting system for the NIS, the main principles of auditing legislation, as well as specific valuation and privatisation issues.

The Council agreed that each republic is responsible for developing its own accounting legislation, but that a document setting out the main elements of an accounting law and the assistance and advice of western experts would be highly desirable. There is a need to centralise and disseminate information on accounting and auditing legislation, as well as to share experience in the drafting of such legislation. Each republic will designate a national contact point and communicate information on its accounting and auditing rules and standards, including proposed legislation, to Prof. Itkin, Chairman of the Co-ordinating Council. Prof. Itkin was also mandated to contact other Republics not represented on the Council and to explore with them their interest in joining the Council.

The Co-ordinating Council requested international organisations to provide it with the texts of international standards and with comparative studies on accounting in market economies and to sponsor translations of the relevant material into Russian.

To assist the republics in their consideration of appropriate accounting and auditing legislation, the OECD will prepare for the next meeting an analytical document on the main elements to be included in an accounting law, including issues concerning accounting standards, with particular relevance to the situation of the NIS countries. A special paper will cover questions concerning auditing law. The next Council meeting will also focus on the specific problem of inflation accounting and will propose practical methods for dealing with inflation accounting in the NIS.

Recognising the fundamental role played by accounting education and training in the development of the accounting profession, the international experts agreed to exchange proposals for suitable technical assistance co-operation with these republics. It was also proposed that international organisations should consider pooling their resources for joint activities in the field of accounting training.

In accordance with the Council's agreed programme of work, the next meeting will be held in Tashkent, Uzbekistan, in the first week of November 1993. In 1994 the meetings of the Co-ordinating Council will be held in Minsk under the chairmanship of Belarus.

Annex 4

**CO-ORDINATING COUNCIL ON ACCOUNTING METHODOLOGY
IN THE NEW INDEPENDENT STATES**

2nd Meeting

Tashkent 25-26 May 1993

List of Members and Participants

Belarus

Mr. V.E. Vankevich	Head of Division of Accounting Methodology and Accountancy, Ministry of Finance
Mr. V.I. Strajev	President of the Accountants' Association
Mr. I.A. Makaed	First Vice-President of the Audit Chamber of the Council of Ministers of the Republic of Belarus

Kazakhstan

Mrs. S.J. Erjanova	Director of the Directorate of Methodology, Organisation and Control of Accountancy, Ministry of Finance
Mr. S.S. Satubaldin	President of Kazakhstan Accountants Association
Mrs. R.M. Rahimbekova	Deputy Director of the Directorate of Methodology, Organisation and Control of Accountancy, Ministry of Finance

Participants:

Mrs. L.D. Aythojina	Deputy Director of the Directorate of Methodology Organisation and Control of Accountancy, Ministry of Finance
Mrs. N.D. Ussenova	Head of Methodology Division, Directorate of Methodology, Organisation and Control of Accountancy, Ministry of Finance

Kyrgyzstan

Mrs. A.N. Duyheeva	Head of Division of Methodology and Organisation of the Accountancy, Ministry of Economics and Finance
Mrs. T.I. Volhova	Head of sub-division on Accountance of the Economic Sectors, Ministry of Economy and Finance
Mr. B.I. Ishenov	Dean of the Faculty of Accountancy of the Kyrgyzstan State University

Moldova

Mr. I.M. Gintyu	Head of Division of Methodology of Accountancy, Ministry of Economy and Finance
Mr. M.I. Karaus	Dean of the Faculty of Accountancy and Data-Processing of the Moldova Economics Academy
Mr. V.V. Antonuk	Senior Accountant, Aroma Wine and Alcohol Producing Company

Russian Federation

Mr. U.A. Danilevskii	Director of the Directorate for Control and Inventory, Ministry of Finance
Mr. L.Z. Shneidman	Consultant of the Directorate of Methodology of Accountancy, Ministry of Finance
Mr. V.F. Palii	President of "Soyuz Audit", Professor of the Moscow State University

Participants:

Mr. N.P. Kondrakov	
Mr. V.I. Ryabkin	Vice-President of the Association
Mrs. A.N. Zvonova	Director, <i>Financi i Statistika</i> publishing house
Mrs. O.V. Soloveva	Lecturer, Professorship of Accountancy and Auditing, Moscow State University
Mr. A.V. Raskasov	Deputy Editor, <i>Financi i Statistika</i> publishing house
Mr. O.M. Askeri	Publisher

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- Mrs. O.B. Targuieva Head of Division for Implementation of the System of National Accounts and Accountancy, Ministry of Economics and Finance
- Mrs. Z. Djanaeva Leading Research Worker, Institute of Economics of the Council of Ministers
- Mr. A. Anaorasov Head of professorship of Accountancy, Institute of Economics of Turkmenistan, President of the Accountants Association

Ukraine

- Mr. V.N. Parhomenko Director of Directorate of Methodology of Accountancy, Minister of Finance
- Mr. N.T. Beluha President of the Accountants and Auditors Association of Ukraine
- Mr. V.V. Sopko Head of Professorship of the Kiev State University of Economics

Participant:

- Mr. A.N. Kuzminskii Head of Professorship of the Kiev State University of Economics

Uzbekistan

- Mr. Y.M. Itkin President of the Auditors and Accountants Association
- Mr. B.B. Bababecov Head of Division of Methodology of Accounting, Ministry of Finance
- Mrs. V.V. Fomina Senior Accountant of the Tashkent Aircraft Producing Company

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- Mrs. I.L. Ivonina Deputy Director, "New Forms of Economic Activity" Directorate, Ministry of Finance
- Mrs. I.H. Golisheva Head of Division, "New Forms of Economic Activity", Ministry of Finance

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President of the Association, Professor of the Moscow State University

Mr. N.N. Laptev

Vice-President of the Association

N.D. Vryblevskii

Editor of the magazine *Buhgalterski uchet*

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