



THE WORLD BANK
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FINANCIAL REPORTING REFORM

EUROPE AND CENTRAL ASIA REGION
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JERP

Republic of Kazakhstan

JOINT ECONOMIC RESEARCH PROGRAM

Financial Reporting by Small and Medium Enterprises in Kazakhstan: Current Status and Policy Options

July 2011

MAIN ABBREVIATIONS AND ACRONYMS

CFR	Corporate Financial Reporting
CIPA	Certified International Professional Accountant
COA	Chamber of Auditors
CPD	Continuing Professional Development
CPAA	Chamber of Professional Accountants and Auditors
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoK	Government of Kazakhstan
FASB	Financial Accounting Standards Board
FSs	Financial Statements
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
JERP	Joint Economic Research Program
KNFRS	Kazakh National Financial Reporting Standards
KSA	Kazakh Standards on Auditing
MoF	Ministry of Finance
PIE	Public Interest Entity
ROSC	Reports on the Observance of Standards and Codes
SME	Small and Medium-sized Entity
SMP	Small and Medium-sized Practice
SOE	State owned enterprise

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PREFACE

This report was prepared by Andrei Busuioc, Financial Management Specialist (CFRR, ECAAT), on the basis of the work performed as part of the Joint Economic Research Program (JERP) “IFRS for SMEs potential adoption for Kazakhstan” carried out from September 2010 to June 2011. The team also included Salamat Kussainova (ECSP4). The work was conducted through a participatory process involving various in-country stakeholders with the support of the Ministry of Finance of the Republic of Kazakhstan (MoF) and the World Bank Country Management Unit (ECCU8) in Astana. Comments and suggestions were received from Henri Fortin (Head, CFRR, ECAAT), David Martinez Munoz, Operations Officer, (LCSFM), Patrick Kabuya, Sr. Financial Management Specialist, (AFTFM), Steen Byskov, Senior Financial Sector Specialist, (ECSF1) and A. Moustapha Ndiaye, Manager, Financial Management, (ECSO3). The team also benefited from the overall guidance provided by Sebnem Akkaya, Country Manager for Kazakhstan. The task team gratefully acknowledges the support received.

Furthermore, the team recognizes the valuable support and contributions of the Ministry of Finance Accounting and Auditing Methodology Department, with specific thanks to Mr. Tuleuov Arman and Mrs. Yernazarova Zaifun.

The report was cleared for publication by the Ministry of Finance on November 22, 2011.

EXECUTIVE SUMMARY

The main objective of this report is to assist the Government of Kazakhstan (GoK) in its efforts to strengthen the institutional framework underpinning corporate financial reporting in Kazakhstan, and also to offer advice on practical steps for improving small and medium-sized entities (SMEs) financial reporting in Kazakhstan. Private enterprises and especially SMEs are important for Kazakhstan's economic development. This is why the GoK emphasizes SME development through its "Roadmap of business 2020". The availability of basic financial information on SMEs' activities, especially for medium-sized entities, is a key factor in economic decision-making, especially in investment and credit decisions.

Over recent years, the international community has undertaken an unprecedented effort to develop suitable financial reporting requirements for SMEs. SME financial reporting, together with issues of Small and Medium-sized Practices (SMPs) in auditing, forms an important part of the agenda for simplifying and rationalizing financial reporting which is currently being pursued internationally. Reforms to SME financial reporting have to balance two conflicting objectives: (i) making financial reporting by SMEs more formal in order to improve SMEs access to external finance; and (ii) "keeping it simple" in order to optimize SMEs' costs of doing business associated with financial reporting obligations. For example, the European Commission is currently seeking to revise the EU Accounting Directives' requirements on small companies in order to simplify them; in particular, an option to exempt micro entities from the Accounting Directives is being considered as a way of reducing or eliminating excessive administrative burdens on the micro- firms. Another example is the recently issued Report to the Board of Trustees of the Financial Accounting Foundation (FAF, a parent organization of FASB) by the AICPA Blue-Ribbon Panel on Standard Setting for Private Companies, which states that financial reporting for private companies (a US term used for non-listed entities) needs to correspond more closely to their business requirements.

Kazakhstan has already accomplished some commendable reforms in corporate financial reporting, such as making financial statements of PIEs publicly available, and introducing a three-tier system of financial reporting requirements, as well as changing auditing regulation and gradually moving towards a system of audit oversight by the MoF-accredited professional associations. Implementing these reforms represents a number of challenges, and further steps are needed in some areas, including audit oversight and enhancing the capacity of professional bodies and enforcement institutions. SME financial reporting is part of the country's overall reform effort and there is significant commitment from the GoK and the professional community to bring corporate financial reporting in Kazakhstan up to internationally-accepted level.

There is already some differentiation of corporate financial reporting requirements between different types of entities in the current framework, but this can be developed further by limiting the definition of PIEs to the most important entities for the economy, and also by improving the definitions of SMEs and micro-entities. Requiring (properly defined) SMEs to use the IFRS for SMEs reporting standard, rather than continuing to maintain and use Kazakh National Financial Reporting Standards (KNFRS), would be a good policy option for Kazakhstan, especially as KNFRS 2 was developed on the basis of the IASB's exposure draft of IFRS for SMEs.

However, implementation of IFRS for SMEs in Kazakhstan will still be challenging. Along with proper definition of the scope of application of the standard, there are other significant challenges: local professionals, including tax inspectors have an insufficient level of knowledge of the standard; the standard is complex and principle-based, and so requires significant degree of professional judgment when applied.

There is currently only limited international experience in implementing the IFRS for SMEs standard, as the standard was issued only in July 2009. Some countries have started to implement it; while others are considering whether it is a suitable standard for their needs. Few countries with strong accountancy traditions have so far supported the adoption of the IFRS for SMEs, as they consider the standard as being too complex for small business entities. In addition, national GAAPs have a significant degree of alignment with tax rules in these countries.

Despite this, the IFRS for SMEs represents a sound policy option for Kazakhstan insofar as: (i) Kazakhstan has made a strategic choice of relying on international standards rather than attempting to develop and maintain national standards; (ii) IFRS for SMEs would be applied only by a limited number of second-tier entities, which are relatively large and are likely to seek financing on the local or international markets; (iii) The costs of setting and maintaining national standard setter and establishing a due process of developing local GAAP is high; (iv) the IFRS for SMEs is a new standard recognized internationally and gradually adopted by many countries; (v) currently Kazakhstan's corporate financial reporting system has been designed with a focus on full IFRS, which are required for PIEs, and the IFRS for SMEs are fundamentally based on full IFRS; (vi) under the proposed system, micro and small entities would continue to apply KNFRS 1, in a simplified version.

Applying the IFRS for SMEs standard will bring a range of benefits. In particular, the fact that it is an internationally recognized standard will make financial statements produced using the standard more credible and understandable. In addition, the IFRS Foundation is developing guidance, training and support materials, which will facilitate its implementation by countries such as Kazakhstan.

The process of improving the financial reporting environment for SMEs in general and, in particular, the implementation of the IFRS for SMEs reporting standard by medium-sized entities is complex and requires a comprehensive approach involving both policy actions and measures to build an adequate level of professional skills. As a result, this report proposed the following policy and capacity-building actions, which may serve as an outline for an action plan to reform SME financial reporting:

A. Policy actions

In order to create an adequate policy environment for corporate financial reporting reforms in general, and to ensure the successful implementation of the IFRS for SMEs, the following actions are suggested:

- i. Revise the accounting law to improve the system of thresholds and criteria for classification of entities and officially adopt and publish the IFRS for SMEs in local languages;
- ii. Revise the functions and responsibilities of the Advisory Committee within the Ministry of Finance so that it can take a leadership role in coordinating CFR reform efforts in a systematic manner;
- iii. Simplify KNFRS 1 and ensure further simplification and alignment with tax rules;
- iv. In the medium-to-long term, make financial statements for a larger number of entities available to the general public;
- v. In the longer term, establish a suitable institutional framework for audit quality assurance and oversight.

B. Creating capacity for compliance with the proposed policy actions

These suggested policy actions will require improved capacity on the part of preparers, auditors and enforcement agencies in order to comply with the standards and to ensure that high quality financial statements are publicly available. Actions to strengthen capacity should include:

- i. A national train-the-trainers course, followed up by training for practitioners, in the IFRS for SMEs, based on teaching material developed by the IFRS Foundation;
- ii. Including IFRS and the IFRS for SMEs in training and certification programs, as well as in university curricula; develop framework-based teaching methods;
- iii. In the medium to long term, enhance the capacity of professional associations of auditors in the area of quality assurance methodologies;
- iv. In the medium term, auditors (especially SMPs) and enforcers should receive substantial specialized training in financial reporting and auditing standards; and
- v. In the medium-term (after the study on differences between financial reporting and tax rules has been completed), assess the needs for training of tax inspectors, possibly followed by full-fledged training courses for tax inspectors.

C. Additional areas for research

In order to be able to take some policy decisions additional research and feasibility studies are needed in the following areas:

- i. Conduct a study on the interaction between tax and financial reporting requirements with a view to: (a) reducing the administrative burden for SMEs; and (b) clarifying and rationalizing the determination of taxable profit;
- ii. In the longer term, as audits represent the main “enforcement” mechanism to ensure adherence to financial reporting standards, conduct a feasibility study and propose policy actions for a suitable institutional framework for public audit quality assurance and oversight.

Table I below summarizes the proposed improved three-tier financial reporting system in Kazakhstan.

Table I

Possible financial reporting and audit requirements in Kazakhstan

Types of entities and corporate financial reporting requirements	Requirements			
	Financial reporting standards	Audit based on ISA	Public availability of financial statements	Enforcement mechanisms
PIEs¹: (i) By type: listed entities, banks, insurance companies; and (ii) Strategic industries – Hydrocarbon industry, and SOEs	IFRS	Compulsory	Compulsory	Regulatory/prudential supervision; Statutory Audits subject to quality assurance reviews; quality assurance system subject to public oversight;
Large entities: assets > 5 mln. EUR equivalent; turnover > 10 mln. EUR equivalent; number of employees > 250 Medium-sized entities: assets between 1 - 5 mln EUR equivalent; turnover – 2 - 10 mln EUR equivalent; employees – 50-250	IFRS for SMEs			Statutory Audits subject to quality assurance reviews; quality assurance system subject to public oversight
Small and micro- entities: assets <1 mln EUR equivalent; turnover < 2 mln. EUR equivalent; employees - <50.	Simplified standard, based on tax rules. Some entities may be exempted if acceptable by tax authorities.	Non-Compulsory	Non-Compulsory (possibly to request only from entities with limited liability of owners)	No specific enforcement for general purpose financial reporting; only tax enforcement is applicable;

***Note.** The above criteria and definitions are suggestions and can be refined on the basis of further analysis of statistical data of entities and other policy considerations.*

¹ Taking into account country-specific factors and consultations with relevant key stakeholders, the proposed definition for PIEs in Kazakhstan would be as follows: “a **public interest entity** is an entity with a significant importance to the public due to its area (type) of activity and its importance for the national economy such as financial institutions, investment funds, insurance companies, non-state pension funds, commercial companies listed on the stock exchange in the Republic of Kazakhstan, SOEs and entities exploiting hydrocarbon resources”.

I. INTRODUCTION

1. **The main objective of this report is to assist the Government of Kazakhstan (GoK) in its efforts to strengthen the institutional framework underpinning corporate financial reporting in Kazakhstan**, including appropriate financial reporting standards for various types of entities. Implementation of the policy measures and the actions to improve institutional capacity proposed by this report will help to: (i) improve the quality of SME accounting by providing legal backing for the application of the IFRS for SMEs reporting standard, so enhancing SMEs ability to access financing; (ii) improve the links between general purpose financial reporting and fiscal reporting; and (iii) contribute to improving the business environment by reducing the costs of compliance with financial reporting requirements for small and micro entities. This report was prepared on the basis of the work performed as part of the Joint Economic Research Program (JERP) “IFRS for SMEs potential adoption for Kazakhstan” carried out from September 2010 to June 2011. The team used the information made available by the Ministry of Finance of Kazakhstan, discussions with various stakeholders and available statistics.
2. **Private enterprises and especially small and medium-sized entities (SMEs) play an important role in Kazakhstan’s economic development.** SMEs constitute 98.9 percent of all the business entities in Kazakhstan, employ around 40 percent of employees and generate 31.7 percent of GDP². In this context, the principle “think small first” incorporated in the Small Business Act issued by the European Commission in 2008³, which mentions explicitly the need to promote an entrepreneurial culture and to create an enabling environment for SMEs, forms a useful background framework for the reforms promoted by the GoK in this area. Implementation of adequate financial reporting standards by SMEs will strengthen their role in the economy and will contribute, among other things, to an improved balance between promoting improved financial information for investment, lending and other purposes on the one hand, and reducing the regulatory burden for SMEs on the other hand. Brief information about Kazakhstan is shown in the table 1 below.

Table 1

Country brief information for Kazakhstan

Indicators	2008	2009
Population, total (millions)	15.67	15.89
Population growth (annual %)	1	1.36
GDP (current US\$) (billions)	133	115
GDP growth (annual %)	3.3	1.2
GNI per capita, Atlas method (current US\$)	6,140	6,920
Foreign direct investment, net inflows (% of GDP)	12	11.8

Source: Country information from the Kazakhstan World bank web-page [www.worldbank.org.kz](http://go.worldbank.org/KZLZ6OLGT0) (direct link: <http://go.worldbank.org/KZLZ6OLGT0>)

3. **The reforms to support SME development in Kazakhstan are one of the GoK’s national priorities.** As part of Kazakhstan’s strategic development plan till the year of 2020, a special SME program “Roadmap of business 2020” was developed and is currently being

² www.stat.kz

³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:en:PDF>

implemented by the GoK through its special entity “Entrepreneurial development fund”. The program supports new business initiatives, supports capacity building activities, improves the legal environment and supports the financing of SMEs.

4. **The Government’s efforts to reform the corporate financial reporting infrastructure offer clear and direct benefits to Kazakh businesses and the business environment.** High quality financial information is crucial for effective corporate governance. It provides current and future investors with assurance that the information on which they base their investment and credit decisions is reliable. Effective financial reporting, based on audited financial statements, can also assist the taxation system by providing a good starting point for the calculation of taxable profit. It is also a precondition for the Government to manage state-owned entities effectively.
5. **Although SMEs play a key role in Kazakhstan’s economy, they are frequently constrained by over-regulation. SME financial reporting, together with issues of Small and Medium-sized Practices (SMPs) in auditing, forms an important part of the agenda for simplifying financial reporting which is currently being pursued internationally, including by the IASB and the EU. Reforms to SME financial reporting have to balance two conflicting objectives: (i) making financial reporting by SMEs more formal in order to improve SMEs access to external finance; and (ii) “keeping it simple” in order to reduce SMEs’ costs of doing business.** SMEs require a simplified accounting and financial reporting framework, with reporting requirements appropriate for their size, the types of transactions they conduct, and their limited range of stakeholders. It is important that they not be hampered with unnecessary or unduly complex regulations, as many SMEs lack the capacity or resources to comply with them. The reporting system therefore needs to strike an appropriate balance between promoting improved financial information and reducing the regulatory burden, particularly with regard to requirements that lead to significant costs but few or no corresponding benefits.
6. **Basic financial information on SMEs’ activities is needed for economic decision-making, especially investment and credit decisions.** Financial statements prepared on the basis of internationally accepted standards enable lenders to assess an enterprise’s financial position and performance, and allow better access to credit and equity financing; they also contribute to a transparent relationship with vendors and clients, and help in formulating the information needed for taxation and statistics purposes. At the same time, as mentioned above, financial information prepared by SMEs should not be very complex, thus balancing the cost of preparing the information with benefits it may generate. This is why the IFRS Foundation developed and issued the International Financial Reporting Standard for SMEs (IFRS for SMEs), which is much less complex than the full IFRS, which were designed for complex entities with increased levels of public interest.

II. THE CORPORATE FINANCIAL REPORTING ENVIRONMENT IN KAZAKHSTAN

7. **Kazakhstan has already accomplished some reforms in corporate financial reporting, such as making financial statements for PIEs publicly available, and introducing a three-tier system of financial reporting requirements. These reforms are challenging and further reforms are needed in some areas, including audit oversight and further efforts to improve the capacity of professional bodies and enforcement institutions. Reforms to SME financial reporting are part of the country's overall reform effort and there is significant commitment from the GoK and the professional community to bring corporate financial reporting in Kazakhstan up to internationally-accepted levels. This commitment provides a good window of opportunity for upgrading Kazakhstan's system of corporate financial reporting to an international level.** The most recent Accounting and Auditing Report on the Observance of Standards and Codes (A&A ROSC) was undertaken in Kazakhstan in 2005-2006⁴ and published and disseminated in 2007⁵. The A&A ROSC report identified several weaknesses in the corporate financial reporting architecture in Kazakhstan and made a number of policy recommendations, which were positively received by the Kazakh counterparts. The assessment also pointed to some systematic issues which had resulted from previous reform activities. For example, building the profession, which was the focus of the previous donor support in Kazakhstan and the region, without making the regulatory reforms to put in place a sound enforcement and monitoring institutional infrastructure may undermine reform efforts and results. Detailed information on the work undertaken during the period 2007-2011 by CFR stakeholders in Kazakhstan in relation with A&A ROSC policy recommendations, including related comments of the World Bank team, is attached in Annex 1.
8. **While some progress was made in reforming specific areas of CFR taking into account the A&A ROSC's recommendations, such as establishing a public registry for financial statements, introducing IFRS requirements for PIEs and separate financial reporting requirements for non-PIEs, other areas will need further reform steps in the medium-to-long term.** Specifically: (i) the Government created a financial depository function under the Committee for state property and privatization and audited financial statements of public interest entities (PIEs) become available to the general public within ten months⁶ after the year-end⁷; (ii) the National Financial Reporting Standard 2 (KNFRS 2) for non-public interest entities (non-PIEs) was adopted by the standard setter, the Ministry of Finance, on the basis of the exposure draft of the IFRS for SMEs; in addition, the MoF issued a separate accounting standard (KNFRS 1) for small (i.e. micro) entities which are subject to a simplified tax regime; and (iii) changes in auditing regulation, and gradually moving towards a system of audit oversight by the MoF-accredited professional associations (Chamber of Auditors and Collegium of Auditors) both initiating audit quality assurance systems. However the current arrangements effectively represent a system of self-regulation and a system of public oversight will need to be adopted over the medium-to-long term.

⁴ These assessments of accounting and auditing practices are a part of a joint initiative of the World Bank and the International Monetary Fund (IMF) to prepare Reports on the Observance of Standards and Codes (ROSC). The assessment focuses on the strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting. International Financial Reporting Standards (IFRS) and International Standards of Auditing (ISA) have served as benchmarks for the assessment, which involved a review of both mandatory requirements and actual practice and drew on relevant international practices in the field of accounting and auditing regulation.

⁵ http://www.worldbank.org/ifa/rosca_aa_kaz_eng.pdf

⁶ Good international practice is for financial statements for entities with limited liability legal form to be made publicly available within six months after the year-end and within four months after the year-end for PIEs.

⁷ The website of the registry is: www.dfo.kz

9. **There is some differentiation of corporate financial reporting requirements between different types of entities in the current framework. However, it can be developed further to restrict the definition of PIEs to the most important entities for the economy and to improve the definitions of SMEs and micro-entities. Requiring (properly defined) SMEs to use the IFRS for SMEs reporting standard, rather than continuing to maintain and use KNFRS, would be a good policy option for Kazakhstan, especially as KNFRS 2 was developed on the basis of the IASB's exposure draft of IFRS for SMEs.** The GoK's current approach, under which different corporate financial reporting standards are required for different types of entities, is generally consistent with the World Bank's position and the recommendations of the A&A ROSC. However, the present classification of entities for financial reporting purposes may be improved to exclude from the list of Public Interest Entities (PIEs) those entities where there is little or no real public interest. Currently, PIEs are required to apply IFRS as translated and adopted in Kazakhstan. The total number of PIEs is over 4,000 and some entities in fact do not have significant public interest. Some relatively small entities are included in this group, for example small JSCs⁸, and currency exchanges. In addition, there are approximately 2,000 larger entities, which are not considered PIEs, but have to comply with the same financial reporting requirements as PIEs. Non-PIEs are required to use Kazakh National Financial Reporting Standards (KNFRS) developed on the basis of the exposure draft of IFRS for SMEs, which was available when the KNFRS were drafted. The MoF is exploring the possibility of adopting the IFRS for SMEs in Kazakhstan and abandoning KNFRS 2 and simplifying KNFRS 1. The main current priority of stakeholders is to better understand the content of the IFRS for SMEs, and the implications of introducing the standard in Kazakhstan, including potential training needs and other unintended consequences.
10. **Some reforms undertaken since 2007, such as requiring PIEs chief accountants to obtain go through a compulsory certification, although not completely consistent with the ROSC's recommendations, may be justified in the current local context.** In particular, as from 2012 all chief accountants of PIEs have to be certified by institutions accredited by the Ministry of Finance (currently twelve institutions are accredited by the MoF). The Ministry of Finance has also created a training center using the legal form of a JSC (with the MoF holding a majority shareholding) to help meet the resulting demand for training courses and certification. There are several issues arising from this approach: (i) usually this kind of certification for accountants is market-driven and the regulation/compulsory professional certification is applied only for auditors; (ii) even if the certification requirement may be justified, it should not apply to such a large number of entities; and (iii) government involvement in a corporate sector accountancy certification program, even though other accredited bodies can offer this type of certification, may not be entirely justified. These issues suggest that the list of PIEs should be revised to include only those entities that have an impact on the country's economy due to the size of their operations or are publicly accountable due to the nature of their activities (e.g. financial sector entities). In the longer term, the training center may need to focus its core activities in the area of public sector accountancy training and certification (covering accountants and both internal and external auditors in the public sector). This will also help the MoF to create sufficient capacity for IPSAS implementation in the public sector. Overall, as mentioned in the 2007 A&A ROSC, the education of accountants and auditors in Kazakhstan needs to be enhanced. The ROSC team concluded that business and economics education is not responding to the evolving needs of the economy and business and more emphasis should be given to continuing education, short-term training and certification (for details about the accountancy education environment in Kazakhstan see 2007 A&A ROSC).

⁸ The definition of PIEs in Kazakhstan includes Joint-Stock companies exceeding certain number of shareholders regardless of the fact whether the size of operation is significant for the general public or not; this creates a risk that some small entities are included in PIEs.

11. **Currently, financial reporting and audit requirements in Kazakhstan are determined by two criteria: (i) the legal form of the business entity and (ii) its size.** Public interest entities (PIEs) as well as large companies are required to apply IFRS, while limited liability companies, small and medium entities are required to apply national accounting standards. The term “public interest entity” is defined to include joint stock companies (excluding non-for profit JSCs/organizations), financial institutions (financial institutions are defined as those which offer financial services: essentially banks, insurance entities, pension funds, organizations offering financial services on the securities market), companies with state participation, self-financing public economic entities and certain extractive industry companies (mainly those exploiting hydrocarbons). The various financial reporting and audit requirements for entities in Kazakhstan are described in more detail in Annex 2.
12. **Current financial reporting requirements do not distinguish between entities with limited liability and entities with unlimited liability.** The focus of corporate financial reporting requirements should be primarily on entities with limited liability legal form, such as registered limited liability companies (LLCs) and joint-stock companies (JSCs, also called corporations), which are generally assumed to be the most commonly used legal forms (reporting requirements may also be applicable to other legal forms of businesses where there is direct or indirect limitation of the owners’ liability). Sole proprietorships or partnerships should not be subject to corporate financial reporting requirements, as these tend to be the smallest companies (generally, microenterprises) and the absence of any limit on the owners’ liability makes one of the key objectives of financial reporting and audit (protecting creditors) much less relevant. More complex arrangements may be required where unlimited liability entities are owned by limited liability entities; in such cases, financial reporting obligations might also be applied to the unlimited liability entities (this approach is in line with the principles of the EU Fourth Directive). In Kazakhstan, the issue of limitation of liability would be addressed through size thresholds, as in most cases limited liability entities would be medium or large, and small and unlimited liability entities will in most cases fall under the definition of small and micro entities.
13. **The GoK should take a decision on whether to continue to rely on a general purpose definition of size for entities given in company legislation or to define different types of entities specifically for the purpose of corporate financial reporting.** The current definitions of small, medium and large entities are set in the Law of Republic of Kazakhstan “On private entrepreneurship”; these are universal definitions used for many purposes and were not specifically defined for the purposes of financial reporting requirements. According to the provisions of the law the current classification of SMEs in small, medium, and large depends only on two criteria: (i) number of employees; and (ii) annual average value of assets. There is no definition of micro entities in the law. The definitions are summarized in Table 2 below.

Table 2

Current definition of SMEs in Kazakhstan

Sector	Definition	Source of Definition
Micro	There is no definition of micro entities	
Small	Small businesses are individual entrepreneurs (physical persons) with an annual average number of employees no more than 50 and legal entities engaged in private enterprise, with the average number of employees no more than 50 and an average annual value of assets not exceeding 60,000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets is less than 90.7 mln. KZT (aprox. US\$ 622K).	Law of Republic of Kazakhstan "On private entrepreneurship".

Medium	Medium businesses are individual entrepreneurs (physical persons) with an annual average number of employees more than fifty and legal entities engaged in private enterprise, with the average number of employees more than 50 but no more than 250 or an average annual value of assets not exceeding 325000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets is less than 491.4 mln. KZT (aprox. US\$ 3.4 mln.).	Law of Republic of Kazakhstan "On private entrepreneurship".
Large	Large sized entities are legal entities engaged in private enterprise, with the average number of employees more than 250 or an average annual value of assets exceeding 325000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets is higher than 491.4 mln. KZT (aprox. US\$ 3.4 mln.).	Law of Republic of Kazakhstan "On private entrepreneurship".

14. A general overview of current financial reporting and audit requirements is given in Table 3 below:

Table 3

Mapping of Financial reporting and audit requirements by entities in Kazakhstan

Requirements	Small	Medium	Large and PIEs
Annual financial statements	Balance sheet; Income statement; Cash flow; Statement of changes in equity and Notes. (For small/micro entities under special tax regime which follow KNFRS 1 – only balance sheet and profit and loss statement are required accompanied by notes)		
Accounting Standards	KNFRS	KNFRS	IFRS
Statutory audit	The statutory audit requirements are not related to the size of entities. Statutory audit using ISAs as translated and adopted in Kazakhstan is required for annual financial statements of: <ul style="list-style-type: none"> - JSCs; - Insurance entities and their major shareholders and shareholdings; - Pension funds and their major shareholders and shareholdings; - Entities exploiting natural resources; - Banks; - Entities with a natural monopoly, unless they are small; - Airlines, excluding airlines that provide services according to the list defined by the Government; - Grain enterprises; - Funds for guarantee of insurance payments; - Legal entities of the Republic of Kazakhstan, that have contracts for investments with preferences; - Cotton processing organizations; - Construction entities and design companies; 		
Filing and publication requirements	Entities are required to present FSs to (i) owners (associates, participants,		Only PIEs are required to submit their financial

	shareholders); (ii) the state statistics bureau; and (iii) to bodies of state control and supervision of the Republic of Kazakhstan in accordance with their competence (these are not publicly available).	statements to the Financial Statements Register (Depository), they are then made publicly available (www.dfo.kz).
The deadline for submitting annual financial statements.	By April 30, of the following year (i.e. within four months of the end of the financial year).	PIEs are required to file their FSs in the Financial Statements Register by October 30 of the following year (i.e. within 10 months of the end of the financial year)
Requirements to follow a standardized presentation in the FS.	Entities have to follow standard formats of financial statements set out by Regulation 218, June 2007.	PIEs have to follow standard formats of financial statements (except financial sector organizations) approved by the Regulation 422, August 2010.

15. **In the opinion of country practitioners, the main constraints to the implementation of principle-based standards, such as IFRS and the IFRS for SMEs in Kazakhstan, are (i) an insufficient level of professional knowledge and, as a consequence, difficulties in applying professional judgment; (ii) the influence of tax rules over approaches applied in general purpose financial reporting.** The responses from stakeholders and practitioners to a questionnaire distributed after the workshop on the IFRS for SMEs in January 2011 clearly indicated that the capacity of practitioners would need to be enhanced, and the influence of tax rules and tax enforcement over the preparation of financial statements would need to be reduced for the IFRS for SMEs to be successfully implemented in Kazakhstan. **As a result,** a program to improve the capacity of tax enforcers as well as a study on the differences between tax rules and financial reporting standards may be needed before the IFRS for SMEs can be implemented.

III. FINANCIAL REPORTING BY SMALL AND MEDIUM-SIZED ENTITIES: RECENT INTERNATIONAL EXPERIENCE

16. **There is no universal definition for small and medium enterprises (SMEs); a decision on how to define and classify small and medium entities for financial reporting purposes needs to be adopted by each jurisdiction, taking into account the size of the economy and the specifics of the country.** In many countries indicators of turnover, assets and number of employees are used as size criteria. On the other hand, definitions of medium-sized entities are frequently missing. In addition, definitions of SMEs often differ for different purposes. It is clear that business entities should prepare high quality financial statements that meet the needs of potential users of financial information. Financial reporting requirements should reflect the nature, size and financing of entities but should also reflect the costs and benefits to entities and users, as well as providing a bridge between the needs of different users. SMEs are frequently relatively small, and have a limited range of stakeholders and users of financial information. Imposing a single approach to financial reporting and audit requirements does not take into account SMEs' lower abilities to meet these requirements. Moreover, when financial reporting requirements for SMEs are too complicated, such entities will have an incentive to avoid them by moving to the informal economy. Recent World Bank research⁹ shows that many countries have simplified requirements for financial reporting, auditing, and publication (public availability of financial statements) for SMEs. However, these simplified requirements are often still complex, especially for micro-entities and many countries still require audits for relatively small entities.
17. **Since there is no internationally accepted definition for what constitutes an SME, countries use a number of different parameters and thresholds for defining these.** For example, the European Union in general terms characterizes companies with fewer than 250 employees, annual revenues of less than EUR 50 million (US\$ 65 million), and/or an annual balance sheet total not exceeding EUR 43 million (US\$ 56 million) as SMEs. The use of the definition is voluntary, although the European Commission, together with the European Investment Bank and the European Investment Fund are encouraging member states to apply these definitions as widely as possible. In Canada, SMEs are defined as having fewer than 500 employees and less than C\$50 million (US\$ 48.7 million) in annual revenues. In several countries (e.g., Argentina, Australia, China and Mexico) different thresholds apply depending on the sector of the economy in which the company operates (agriculture, services, trade, etc.). Further, many countries, including most EU member states, make a distinction between legal and statistical definitions. Thus, although the legal definition of SMEs is the one given above, for statistical purposes, most EU Member States consider only the number of persons employed¹⁰. Another example of definition of SMEs and which is used by the World Bank and IFC joint Financial and Private Sector Development Vice Presidency in its studies is: small enterprises are those having up to 50 employees, and total assets and total sales up to US\$ 3 million; medium enterprises up to 300 employees, and total assets and sales up to US\$ 15 million per annum. However, these thresholds may be too low or too high in certain jurisdictions¹¹.
18. **The EU has defined criteria of SMEs for corporate financial reporting purposes:**
- Medium-sized entities: < 35M€ (turnover)/ 17.5M€ (assets) / 250 employees;
 - Small entities: < 8,8M€ (turnover)/ 4.4M€ (assets)/ 50 employees;

⁹ Note to FM Staff: Financial Reporting and Audit Requirements of Small and Medium-Sized Enterprises. The World Bank, 2011

¹⁰ Note to FM Staff: Financial Reporting and Audit Requirements of Small and Medium-Sized Enterprises. The World Bank, 2011

¹¹ Note to FM Staff: Financial Reporting and Audit Requirements of Small and Medium-Sized Enterprises. The World Bank. 2011

- Micro entities (as a proposal): < 1.0M€ (turnover) / 0,5M€ (assets) / 10 employees

Two out of the three criteria above should exceed the threshold

Comparing these definitions to those used in Kazakhstan used as a general definition for many purposes and also applicable for financial reporting purposes:

- Medium-sized entities: < turnover– not used/ 2.4M€ (assets) / 250 employees
- Small entities: < turnover– not used / 0.4M€ (assets)/ 50 employees
- Micro-entities: not defined

Both criteria above should exceed the limit

- The International Accounting Standards Board, in its International Financial Reporting Standard for SMEs, uses a much broader definition with no quantitative criteria:** *SMEs are entities that: (a) do not have public accountability, and (b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.* Thus, if a company has debt or equity traded on a public market, or holds assets in a fiduciary capacity (e.g., banks and other financial institutions) the IASB considers it to have public accountability and does not allow it to be treated as an SME for financial reporting purposes.
- The approach to classifying entities, proposed by United Nations Conference for Trade and Development's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (UNCTAD-ISAR) in general corresponds to the recommendations in the World Bank's A&A ROSCs.** Prior to the issuance of the IFRS for SMEs, UNCTAD-ISAR had already developed a three-tiered system for financial reporting:
 - the first level** would apply to listed entities whose securities are publicly traded and those in which there is significant public interest. These entities should be required to apply the IFRS issued by the IASB, and this approach is generally used in Kazakhstan;
 - the second level** would apply to significant business entities that do not issue public securities and in which there is no significant public interest. This set of standards is likely to be superseded by the IFRS for SMEs in Kazakhstan; and
 - the third level** would apply to smaller entities that are often owner-managed and have no or few employees. The approach proposed is simplified accruals-based accounting, closely linked to cash transactions and tax requirements. The IFRS for SMEs is likely to be overly complex for these entities.
- General purpose financial reporting requirements could primarily cover entities whose owners have limited liability.** The rationale for this is that limited liability creates a need for creditors to have greater protection and for entities to be more open to the public (this approach is used in EU directives).
- The European Commission is currently seeking to revise the EU Accounting Directives' requirements on small companies in order to simplify them; in particular, an option to exempt micro entities from the Accounting Directives is being considered as a way of reducing or eliminating unnecessary administrative burdens on the smallest firms.** The proposed criteria of size for micro entities are: (i) balance sheet total of €0.5m; (ii) net turnover of €1m; and (iii) average employment of ten (two of three criteria should not exceed the thresholds). Micro firms are the smallest firms (such as a bakery, small garage or bike shop), where the owner manages the firm and has skills in business and is **not** an expert in accounting and administration.
- In conclusion, there is neither a universal definition of SMEs nor any universal classification of entities for financial reporting and audit requirements.** The main considerations to be taken into account when developing differentiated financial reporting and

audit requirements should be: (i) a country's traditions (legal, administrative, accounting, business, etc.); (ii) its degree of development of financial markets; (iii) its existing financial/corporate information infrastructure (e.g. credit bureaus); (iv) the degree of development of the accounting and auditing profession. Based on international experience, a generic model for classification of entities for financial reporting and audit requirements in Kazakhstan is summarized in table 4 below.

Table 4

A possible generic approach to corporate financial reporting requirements in Kazakhstan taking into account the current legislation

Types of entities and corporate financial reporting requirements	Requirements		
	Financial reporting standards	Audit	Public availability of financial statements
PIEs (currently ~4,000);	IFRS*	Compulsory, ISAs	Compulsory
Large entities (currently ~2,000); and Medium-sized entities (~12,000)	IFRS for SMEs	Compulsory, ISAs	Compulsory
Small and micro-entities (~170,000)	Simplified standards, based on tax legislation	Non-Compulsory	Non-Compulsory (possibly to request only from entities with limited liability of owners)

*and prudential reporting requirements for regulated entities.

More detailed proposed requirements are described in section IV.

24. **A statutory audit requirement can impose a significant financial burden on SMEs, especially on small companies, and may not produce corresponding benefits, given their limited number of stakeholders.** In the European Union, for example, the Statutory Audit Directive applies to all audits where accounts required by Community law¹² that is audits of company accounts and the accounts of certain partnerships, insurers and credit institutions; however, the entities are exempted from audits if their size is small (i.e. when their size criteria mentioned in paragraph 18 above do not exceed thresholds). However, the issue of audit exemption needs to be considered as part of the wider issue of corporate financial reporting reform. Turnover and assets value should not be the only criteria considered when deciding whether to exempt an entity from the requirement to hold an audit. Other factors, such as the existence of minority shareholders or significant unsecured creditors, should also be taken into account. In addition, the number of entities subject to a statutory audit requirement should be commensurate with the number of available qualified auditors within the country.
25. **In addition to defining applicable standards and statutory audit requirements, proper enforcement mechanisms need to be in place to ensure that entities follow the right financial reporting standards and that these standards are applied properly. The main enforcement mechanisms for ensuring high quality financial reporting are audits, a rigorous system of audit oversight, and the use of financial reporting in prudential supervision.** Over the longer term, Kazakhstan will need to implement an effective system of public oversight for statutory auditors and audit firms. There is no standard model for this. However, taking into account the experience of developed countries and good practices, a generic model can be used as a reference (see Annex 6).

¹² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:157:0087:0087:EN:PDF>

26. **A recently issued report to the Board of Trustees of the Financial Accounting Foundation (FAF, a parent organization of the US FASB) by the AICPA Blue-Ribbon Panel on Standard setting for private Companies states that financial reporting for private companies (a US term used for non-listed entities) needs to correspond more closely to their business requirements¹³.** In particular, reporting standards for private companies need to: (i) take into account what information is needed for business decisions and how this information differs from that needed in public companies; and (ii) what are the costs and benefits of applying GAAP in private company financial reporting. The Panel proposed a model where GAAP will be modified for use in private companies financial reporting. In the US there is no statutory requirement for private companies (except regulated financial institutions) to prepare GAAP-based financial statements. Financial reporting in private companies is essentially market driven and many companies prepare GAAP financial statements because these are demanded by investors or creditors. The GAAP (similarly to IFRS) are too complex for non-public companies, and there is currently no simplified alternative which private companies in the US can use. This was the main reason why the AICPA Panel was commissioned to produce its report.
27. The **UK** is planning to adopt the IFRS for SMEs for use by its private companies and, for now, to continue to allow very small private companies to use its Financial Reporting Standard for Smaller Entities (FRSSE) standards, while **Canada** has taken a “made in Canada” approach by simplifying existing Canadian GAAP and creating a standalone set of accounting standards for private enterprises.
28. **At the same time, some countries, such as France and Germany are not in favor of adopting the IFRS for SMEs.** There are several reasons why countries have decided not to adopt the IFRS for SMEs: (i) they believe that the standard is still too complex for SMEs; (ii) these countries have a long tradition of setting their own reporting standards; (iii) the national GAAPs in these countries have significant degrees of alignment with tax legislation (this is one of the reasons these countries do not use an option given by the EU legislation to allow listed or unlisted entities to prepare separate financial statements using IFRS; currently IFRS are required in the EU only for consolidated financial statements of listed entities and countries are given an option to require it for individual financial statements of listed entities, or for some unlisted entities). **These reasons should not be treated as demonstrating that Kazakhstan should not adopt the IFRS for SMEs; instead, they may serve as an indication that Kazakhstan should set the size thresholds of entities which are required to apply the IFRS for SMEs at a relatively high level, so that the entities have sufficient resources to comply with the requirement.**
29. **There is currently only limited international experience in implementing the IFRS for SMEs standard, as the standard was issued only in July 2009.** Some countries have started to implement it; while others are considering whether it is a suitable standard¹⁴. Nevertheless, the systemic issues in implementing principle-based standards can be identified based on international experience. The World Bank’s A&A ROSC program in general, and the ROSCs carried out in ECA in particular, have highlighted several potential issues which need to be taken into account before making major changes in the framework for financial reporting:

¹³ <http://www.aicpa.org/interestareas/accountingandauditing/resources/acctgfinrptg/pages/pcfrr.aspx>;
http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/PCFR/DownloadableDocuments/BlueRibbon_Panel_Report.pdf

¹⁴ According to the IFRS foundation, around 70 countries are either requiring, permitting, or are in the process of adoption of IFRS for SMEs. Some examples: South America: Argentina, Brazil, Guyana, Venezuela, Suriname; Caribbean: Dominican Republic, Barbados, Trinidad, Bahamas; Central America: Belize, Costa Rica, El Salvador, Panama, Nicaragua; Africa: South Africa, Botswana, Egypt, Namibia, Tanzania, Uganda, Ethiopia, Sierra Leone; Asia: Cambodia, Philippines, Hong Kong, Malaysia (proposal), Singapore, Sri Lanka, Fiji.

- (i) the IFRS for SMEs is still a complex set of standards which requires significant professional judgment. As a result, there needs to be a sufficient number of well-trained professionals in order to prepare and audit financial statements prepared on the basis of the IFRS for SMEs;
- (ii) the needs of entities and users of financial information should be considered carefully; general purpose financial reporting should be required only for those entities for which there is a need to prepare financial information based on principles-based standards and where it is likely that this information will be useful, especially for investment and lending decisions. As the number of entities which carry out cross-border transactions and seek capital on the market is limited, the criteria of usefulness of information is likely to be particularly important; in addition, the capacity of entities to bear the cost of producing financial statements should be taken into account;
- (iii) sound enforcement mechanisms need to be in place in order to ensure that financial statements are duly prepared, duly audited by independent auditors, and independent auditors are duly overseen;
- (iv) the indirect effects of any change on business entities and on the state authorities should be thoroughly analyzed; this is especially relevant for tax consequences but in some cases changes in reporting standards may also lead to changes in measured financial ratios, which may affect financing contracts or views of entities' performance. When analyzing the tax consequences, it is important to bear in mind that the taxation system is likely to be uniform for different types of entities while financial reporting rules may differ across types of entities. As a result, the preparers of financial statements and the tax authorities should have sufficient understanding of both IFRS and the IFRS for SMEs;
- (v) transitional provisions should not be too short; entities themselves need at least two years before they can apply the IFRS for SMEs in full in order to be able to comply with section 35 of the IFRS for SMEs, and the analysis and considerations mentioned in (i)-(iv) also require time and preparation.

IV. RECOMMENDATIONS

A. Guiding principles for CFR reforms in Kazakhstan

30. **As international experience from the A&A ROSC program shows, corporate financial reporting reform is a challenging reform area. Although the GoK has already taken significant reform steps, a more systematic approach to reform is needed.** This includes identification of priority areas, and the development of specific actions that would improve particular aspects of the CFR infrastructure: the legal framework, financial reporting and auditing standards, monitoring and enforcement, professional capacity, etc. The stock-taking exercise presented in Annex 1 is a good starting point for defining priorities and specific actions. The GoK/MoF should also decide whether the reform of SME reporting is a separate set of actions, or whether it forms part of a wider program of CFR reforms. Reform priorities and actions should be properly defined and a results framework established, so that it is possible to measure the progress of reforms. The present outline is an attempt to indicate potential development areas and to describe the main issues that have to be taken into account. The final action plan should be extensively discussed with a broad range of stakeholders and business community.
31. **The CFR priority areas and actions should be based on a limited number of core principles. The following example of a set of core principles draws on one of the A&A ROSCs in Latin America and Caribbean region¹⁵:**
- a. ***Simplifying accounting and auditing obligations*** whenever possible, especially for SMEs, to reduce the cost of doing business for modest-sized businesses. Accounting/audit obligations should be reasonably justified in terms of public policy objectives and benefits for preparers and users of financial information;
 - b. ***Strengthening existing mechanisms*** to the extent that they are conceptually sound and sustainable, rather than seeking a complete change in existing mechanisms;
 - c. ***Consolidating the institutional framework*** in order to (i) eliminate duplication of efforts; (ii) avoid multiple requirements that may conflict with each other and cause confusion; and (iii) foster synergy between regulatory agencies for maximum and best results;
 - d. ***Adopting international standards*** whenever practicable, as opposed to developing custom-made solutions that are costly and difficult to maintain, and which do not convey the same level of confidence as international ones. Custom-made solutions can represent an added cost of doing business both for foreign investors and for domestic enterprises that are used to conducting business internationally.
32. **Reforms in the area of corporate financial reporting should be considered as a continuous process in Kazakhstan, as internationally this area is constantly evolving.** This guidance for accelerating reforms in area of financial reporting for SMEs outlines possible policy and capacity building actions for promoting and supporting a sustainable system of financial reporting in the corporate sector, in general, and for the SMEs, in particular. A matrix of suggested CFR reforms and priorities is shown in Annex 3 – these are suggestions which could be further refined. However, it should be noted that effective action on these policies will be possible only if there is broad consensus within the country and the policy actions are supported with capacity building activities. This will require a participatory process, in which all parties affected by these changes, including the general public, can contribute to their development. The main scope of this report is to identify and outline the core policy and capacity building actions.
33. **The implementation of the IFRS for SMEs in Kazakhstan is a complex task and one near-term priority should be ensuring an adequate level of professional skills.** This

¹⁵ http://www.worldbank.org/ifa/rosc_aa_pan_eng_0910.pdf

conclusion is based on the basis of feedback from participants in the January 2011 three-day workshop on the IFRS for SMEs, organized by the Bank jointly with the IFRS Foundation. Around 50 participants from the Prime-Minister's office, Ministry of Finance, State Property Commission, Financial Control Commission, tax and customs authorities, professional accounting bodies and universities attended the workshop. The overall feedback from the workshop on the possibility of adopting the IFRS for SMEs in Kazakhstan was positive, with 20 out of those 28 participants who filled in the evaluation form seeing it as feasible. However, participants also mentioned a number of issues and challenges when preparing financial statements using the IFRS for SMEs, namely: (i) a lack of competent accountants and of knowledge on the IFRS for SMEs; (ii) the need for legislative changes and adequate interpretations of standards; (iii) challenges in applying professional judgment (as, for example, in the case of discount rates, depreciation rates, impairment testing etc); (iv) translations into Russian and their availability, and accessibility of information. The issue of adequate skills was mentioned most frequently.

B. Priority reform areas: main considerations

Classification of entities for financial reporting and audit purposes and related financial reporting standards

34. **For financial reporting purposes entities should be classified using criteria based on type of business and size.** Taking into account the current legislation of Kazakhstan, a possible approach would be to classify the entities in three groups: PIEs, medium-sized entities, and small entities. There is a tendency to split the small entities further into three groups – small, micro and those exempted from financial reporting environment, but this approach could be too complicated and, as far as corporate financial reporting requirements are concerned, this should be left to tax compliance mechanisms and tax reporting. When establishing the thresholds, a very prudent approach is recommended. Inadequate thresholds can undermine the proper targeting of SMEs policies. If thresholds are too high, companies that are not SMEs will benefit from SME policies. If they are too low, medium-sized and sometimes even small companies may not qualify for much-needed relief or be able to benefit from SME development programs. These factors were considered in designing the thresholds proposed in Table 5. In addition, entities should be allowed to apply more complex financial reporting requirements if they wish. For example, entities applying the IFRS for SMEs can choose to apply full IFRS, but not vice-versa.

Table 5

Possible financial reporting and audit requirements in Kazakhstan

Types of entities and corporate financial reporting requirements	Requirements			
	Financial reporting standards	Audit based on ISA	Public availability of financial statements	Enforcement mechanisms
PIEs: By type: listed entities, banks, insurance companies; and Strategic industries – Hydrocarbon industry, and SOEs	IFRS	Compulsory	Compulsory	Regulatory/prudential supervision; Statutory Audits subject to quality assurance reviews; quality assurance system subject to public oversight;
Large entities: assets > 5 mln. EUR equivalent; turnover > 10 mln. EUR equivalent; number of employees > 250 Medium-sized entities: assets between 1 - 5 mln EUR equivalent; turnover: 2 - 10 mln EUR equivalent; employees: 50-250	IFRS for SMEs			Statutory Audits subject to quality assurance reviews; quality assurance system subject to public oversight
Small and micro- entities: assets <1 mln EUR equivalent; turnover < 2 mln. EUR equivalent; employees <50.	Simplified standard, based on tax rules. Some entities may be exempted if acceptable by tax authorities.	Non-Compulsory	Non-Compulsory (possibly to request only from entities with limited liability of owners)	No specific enforcement for general purpose financial reporting; only tax enforcement is applicable;

***Note.** The above criteria and definitions are suggestions and can be refined on the basis of further analysis of statistical data of entities and other policy considerations.*

Public Interest Entities

35. **When defining PIEs, the main criteria of type of business should be considered. PIEs under the revised definition should apply IFRS as translated and adopted in Kazakhstan (for their separate FSs or consolidated, when it is required). The revised list of PIEs should be restricted to those entities that are important for the country's economy.** According to the provisions of the legislation in force, the PIEs comprise financial organizations, joint-stock companies, organizations involved in subsoil use (hydrocarbons), entities with shares owned by the state and state-owned entities. The total number of PIEs is approximately 4,700-5,000. This is a very large number, and there is a risk that some entities that are not significant for the national economy are included in this group (for example the definition of PIEs includes joint-stock companies exceeding a certain number of shareholders, whether or not the size of operation is significant for the general public; this creates a risk that some small entities are classed as PIEs). However, there is a need to take into account those types of activities where assets of the general public are held on the basis of trust, or are important for Kazakhstan because they are involved in strategically important industries. Taking into account country-specific factors and consultations with relevant key stakeholders, the proposed definition for PIEs in Kazakhstan would be as follows: “**a public interest entity** is an entity with a significant importance to the public due to its area (type) of activity and its importance for the national economy such as financial institutions, investment funds, insurance companies, non-state pension funds, commercial companies listed on the stock exchange in the Republic of Kazakhstan, SOEs and entities exploiting hydrocarbon resources”.

Large and Medium-sized entities

36. **The definitions of large- and medium-sized entities would be similar to that currently used in Kazakh law, but the size criteria could be revised as follows:**

For large entities that are not PIEs:

(i) total assets exceeding 5 mln. EUR equivalent, (ii) annual revenues exceeding 10 mln. EUR equivalent, and (iii) number of employees exceeding 250.

For medium-sized entities:

(i) total assets between 1 and 5 mln. EUR equivalent, (ii) annual revenues between 2 and 10 mln. EUR equivalent, and (iii) number of employees are between 50 and 250.

An entity would be classified as large (medium) if it meets two of the three criteria for large (medium) entities for the last two consecutive reporting periods.

37. The IFRS for SMEs could be an optimum solution for preparation of the financial statements of large and medium-sized entities in Kazakhstan (for their separate FSs or consolidated, when it is required). The IFRS for SMEs will especially benefit companies with transnational and international business activities or companies which are part of an international group, as well as those seeking financing on local or international markets. However, these qualitative company characteristics are difficult to apply in practice when trying to define the scope of companies eligible to apply the IFRS for SMEs. As a result, the **size criteria are proposed as the main criteria**. In many cases these companies will trade internationally or will seek financing on international markets. These companies are important for the economy and their transparency is crucial for tax and statistical purposes; in addition, many of these entities have the potential to become PIEs in future.
38. **The legal requirement for financial statements and audit reports to be publicly available should cover not only PIEs, but should be extended to cover large and medium-sized entities in the medium-term.** According to the provisions of the legislation in force, PIEs are required to submit their financial statement to the financial statements depository. Expanding this requirement to large and medium-sized entities will facilitate access to information by investors, creditors and the general public. In general, good practices, such as for example requirement of EU directives is that financial statements of entities with limited liability

should be available to the general public. This enables access to information by business partners, potential and actual investors and lenders, and also various state authorities for statistics and tax compliance needs.

39. **Audit requirements. When considering the usefulness of information for various users and the level of public interest in audit, it would make sense to require audits only from those entities which prepare financial statements on the basis of IFRS or the IFRS for SMEs.** In general, good practice, such as the audit requirements of the EU directives, is that financial statements of entities with limited liability should be audited; there is also an exemption that is applicable to entities classified as small (if their size criteria is not exceeding two out of three: 8,8M€ (turnover)/ 4.4M€ (assets)/ 50 employees).

Small and micro-entities

40. **Those entities which do not exceed two of the following three criteria for the last two consecutive reporting periods would be classified as small and micro entities:** (i) total assets - 1 mln. EUR equivalent; (ii) annual revenues 2 mln. EUR equivalent, and (iii) number of employees – 50. It is expected that small entities will apply simplified version of National Financial reporting Standards, which will be based on the existing KNFRS 1. The standard will contain at least the following main provisions: (i) general rules and principles for accounting; (ii) the format of financial statements; and (iii) general rules for preparation of the financial statements and notes. The requirements of the standards should be simplified and either be consistent with or refer to the recognition and measurement principles and the rules contained in tax legislation.
41. **There is no need to request small and micro-entities to make their financial statements publicly available or to require statutory audits of their financial statements.** These entities may decide to perform an audit on a voluntary basis or to apply more complex financial reporting standards, if they think these will be helpful to their business (for example, in case they need financing). The legislation should permit this possibility and in the longer term their financial statements may be required to become publicly available for cases where the entities have limited liability legal form. The authorities may also wish to consult the Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises (SMEGA) developed by UNCTAD ISAR in 2003, when revising financial reporting standards for small entities.¹⁶

Main considerations on application of IFRS for SMEs in Kazakhstan

42. **Applying the IFRS for SMEs will bring several benefits.** Full IFRS meets the needs of capital providers and financial statement users in public capital markets, while users of financial statements of SMEs do not have those needs. Usually, they focus on assessing shorter-term cash flows, liquidity and solvency, so that many SMEs find full IFRS too complex and costly to adopt and maintain. The IASB's goals when developing the IFRS for SMEs were to (i) meet user needs, and (ii) balance costs and benefits from a preparer's perspective. Application of the IFRS for SMEs by large and medium-sized entities in Kazakhstan has the following benefits: (i) international comparability of financial statements (benefit for business partners, group accounts, comparability amongst competitors and amongst companies of the same industry); (ii) simplification for the preparation of group accounts in case when parent companies apply IFRS or IFRS for SMEs; (iii) increased transparency, and (iv) the ability to use the training modules developed by the IFRS Foundation. Moreover, currently non-PIEs are currently required to use Kazakh National Financial reporting Standards, which were developed on the basis of the exposure draft of the

¹⁶ http://www.unctad.org/en/docs/c2isarcrp5_en.pdf

IFRS for SMEs. As a result, principle-based standards are already familiar to Kazakh non-PIEs.

43. The main **advantages and disadvantages** of applying IFRS for SMEs in large and medium-sized entities in Kazakhstan are summarized in Table 6 below:

Table 6

The main advantages and disadvantages of applying IFRS for SMEs in Kazakhstan

Advantages	Disadvantages
Cost/benefit – easier accounting rules, simplified format, low ongoing cost of compliance	Initial conversion cost
Harmonization of rules with overseas entities applying IFRS or IFRS for SMEs (especially if foreign owned)	May in fact provide less information than private entities provide currently under Kazakh Accounting Standards
Will enable investors, lenders to better compare financial performance of private entities	Legal, tax and financial implications of differences
May better meet user's needs	May need training and/or dedicated technical support on IFRS implementation (in the short-term), especially in areas requiring professional judgment, estimates, etc.
Availability of training modules, developed by IFRS Foundation	Simplification does not necessary mean better; also, the principles may not be well understood by practitioners and enforcers, including the tax authorities (as in many cases tax rules refer back to accounting recognition and measurement);
"One-stop shop" of accounting requirements which is only updated every 2 to 3 years	

44. **At the country level there is a need to ensure that all required users "buy-in" to reporting using the IFRS for SMEs. The accounting staff who will apply the IFRS for SMEs at the entity level and auditors need to be well trained and have adequate professional skills.** Entities will need to take several practical considerations into account when they prepare to apply the IFRS for SMEs: (i) conducting a preliminary impact assessment in order to identify and understand the effect on the company's financial statements; (ii) setting out a clear strategy for conversion to the IFRS for SMEs; (iii) considering first-time adoption exemptions so as to facilitate a cost-effective transition to IFRS for SMEs reporting; (iv) understanding the underlying principles and objectives of the standard and how they are applied; as the standard runs to 230 pages, this approach may sometimes require a change in mindset.
45. **Therefore, a phased approach is recommended for implementation of the IFRS for SMEs at the entity level.** The main three phases are: **(1) a preliminary study** to allow the company to understand the impact of the IFRS for SMEs on key indicators and ratios, and to draw attention to key accounting issues and any other potential "surprises"; **(2) initial conversion**, which could be implemented in two steps: (i) financial statements components evaluation and issues resolution which will result in fully-informed decisions on the IFRS for SMEs accounting policies and conversion strategy, as well as on operational and systems changes, and (ii) initial financial reporting conversion. It is recommended that the first comprehensive financial statement prepared in line with the IFRS for SMEs requirements is not reported externally, so that the business and management can see itself in the new IFRS for SMEs

context for the first time. The final stage would be **(3) incorporating the change** which would enable an entity to make a smooth transition to a new way of operating, using the new IFRS for SMEs language comfortably and authoritatively. It is very important to stress that a successful transition to the IFRS for SMEs requires firms to focus on several streams (changing the information reported, changing people and processes, and adapting information systems) simultaneously in each of these phases. The priority attached to each stream will gradually change as progress is made.

46. **When the partners of a business have confidence in the financial information being provided using the IFRS for SMEs, this can be a crucial factor in securing a new supplier, obtaining finance or reducing the cost of borrowing.** The IFRS for SMEs can strengthen Kazakh medium-sized entities' position in negotiations with banks and other credit institutions and reduce the costs of borrowing because of the positive effect it can have on credit ratings. For example, the application of IFRS often leads to a revaluation of fixed assets and therefore to an increase in the equity ratio which is an important evaluation criterion in many ratings systems. Internally too, the move to the IFRS for SMEs can make sense as the basis for group reporting for SMEs with subsidiaries outside Kazakhstan, as well as those engaged in international business. If both the parent company and subsidiaries are using the IFRS for SMEs, it removes the need for individual companies to prepare a second set of financial information for group reporting purposes. This situation would be relevant also when one of the companies (parent or subsidiary) apply IFRS instead of the IFRS for SMEs, i.e. the work needed to prepare consolidated financial statements will be reduced considerably. Internal management reporting under the IFRS for SMEs can also help to improve the quality and consistency of information that management needs in order to make effective and timely decisions for the business.
47. **As the processes of improving the financial reporting environment for SMEs, in general, and of implementing the IFRS for SMEs by medium-sized entities, in particular, are very complex, a comprehensive approach to reform is required.** The most important steps to be carried out in the process of the implementation of the IFRSs for SMEs at the country level are outlined below, while a detailed action plan which describes the activities to be undertaken, the responsible agency/body and time considerations are shown in the Annex 4:
 - a. Disseminating this report, including the outline of the action plan, to key stakeholders involved in corporate financial reporting, so that they can formally agree on the main findings and conclusions of the report;
 - b. Making the IFRS for SMEs part of national legislation. The standard will need to be officially adopted and published (in both Kazakh and Russian versions). In this context the Government should make the necessary arrangements to ensure professional and timely translation into Kazakh language (the Russian language translation is already available and the copyright waiver agreement between the MoF and the IFRS Foundation was recently amended to incorporate the IFRS for SMEs);
 - c. Performing a detailed analysis of existing legislation in the area of corporate financial reporting (e.g. Accounting Law, Audit Law) its cohesiveness with other company related laws (e.g. Banking Law, Law on Joint-Stock Companies etc.) and codes (e.g. Civil Code, Tax Code). The aim of this activity would be: (i) to identify any possible discrepancies and to eliminate them by drafting appropriate amendments; (ii) to amend all relevant laws and regulations so that the proposed classification of the entities for financial reporting purpose is incorporated into legislation; (iii) to identify the secondary legislation, that still needs to be developed to ensure proper implementation of the IFRS for SMEs (e.g. guidance describing the phased approach of the process of transition to the IFRS for SMEs for medium entities; modifying the national financial reporting standard for financial reporting for small entities);
 - d. At the same time it would be necessary to perform a detailed study on the influence of tax legislation and to identify the links and differences between fiscal and IFRS

approaches as tax rules still have a significant impact on general purpose financial statements. It is expected that this will lead to adequate incentives for businesses to apply more transparent and qualitative financial reporting standards;

- e. The next step would be focused on drafting the needed amendments to laws and regulations and/or on the development of new secondary legislation, which have been identified as result of the previous activities;
- f. Performing a detailed analysis in order to identify the number of entities, attributable to different groups for financial reporting purposes (PIEs, large, medium, small and micro) would allow determination of a number of accountants that need to be trained in the IFRS for SMEs;
- g. Selecting and training representatives of the professional bodies accredited by the Ministry of Finance to perform professional certification for accountants and auditors. They will then provide further training at the national level for accountants on the IFRS for SMEs. It is recommended that a decision is made on the need to translate the training materials for the IFRS for SMEs, issued by the IFRS Foundation into Kazakh. It is expected that official translation of the training materials into Russian will be released by the IFRS Foundation, so that Government should make all the needed arrangements in order to ensure their availability within the country;
- h. Skills building workshops at national level (performed by selected trainers) based on training materials for the IFRS for SMEs, issued by the IFRS foundation. The activities related to the training on the IFRS for SMEs are described in details in the paragraphs 53-56 below;
- i. Carrying out pilot projects on implementing the IFRS for SMEs in various industries could be considered as an additional option. The first set of financial statements, prepared in accordance with the IFRS for SMEs for the entities involved in the pilot-project could be made publicly available (even if this is not required by law), moreover these entities could be required to organize “open-doors days”, so that other interested entities could learn in the field on how to implement the IFRS for SMEs and what are the main challenges;
- j. Drawing on experience gained in the performed training courses and/or implementation of the pilot project, a list of frequently asked questions on implementation of the IFRS for SMEs in Kazakhstan will be collected, summarized and published.
- k. Implementation of the IFRS for SMEs should be considered in the context of the comprehensive corporate financial reporting reform within the country and not as a separate activity.

48. **Revise the functions and responsibilities of the Advisory Committee within the Ministry of Finance so that it can take a leadership role in coordinating CFR reform efforts in a systematic manner, based on A&A ROSC recommendations and the reforms implemented to-date. As a result, the Advisory Committee may effectively play the role of a National Steering Committee for corporate financial reporting reforms.** In 2007 the Ministry of Finance of the Republic of Kazakhstan established the Advisory Committee whose main tasks are: (i) analysis of the Kazakh legislation in area of corporate financial reporting in order to identify discrepancies between local legislation and IFRS or ISAs, if any and to propose relevant amendments; (ii) participation in the development of laws and regulations in the area of accounting and audit. Taking into account the fact that Ministry of Finance has expressed its strong commitment to adopt and implement the IFRS for SMEs for medium-sized entities and that some concrete steps in this direction have already been undertaken, there is a need to revise the functions of the Committee, perhaps giving it the function of coordinating the process of corporate financial reporting reforms. The composition of the body and its financing may also need to be reviewed. Once the IFRS for SMEs standard has been

implemented, the role of this Committee may evolve to include representing the Republic of Kazakhstan on the IFRS Foundation.

Differences between tax rules and the IFRS for SMEs

49. **Tax implications could have a significant influence on the decision whether to apply the IFRS for SMEs.** It is obvious that when tax legislation is largely based on cash methods and usually contains strict rules, while standards are based on principles and usually require professional judgment, some differences may occur which could affect the size of taxable profit. To a large extent there are two main issues which should be analyzed in detail: (i) the influence of tax rules over general purpose financial reporting; and (ii) whether the two sets of rules are so different that two sets of financial statements are required.
50. **There is a need for the greatest possible alignment of tax reporting rules and financial reporting rules in order to create adequate incentives for businesses to apply more transparent and qualitative financial reporting standards.** The influence of tax legislation, as well as the need to identify links and differences between tax and IFRS approaches, is still on the agenda. As mentioned in the A&A ROSC, there is a need to develop a tax bridge to remove barriers to reform created by the Tax Code. The GoK will need to consider to what extent, if at all, the principle that taxation should be based on accounting definitions is an appropriate policy objective in itself. The advantages are clarity and consistency of financial reporting (which we take to be the meaning of "transparency" in this context) and a reduced compliance burden (i.e. enterprises not being obliged to produce separate sets of accounts for financial reporting and tax purposes). However, experience suggests that it is risky to treat this principle as sacrosanct. An accounting system and a tax system each have their own sets of priorities and basic principles, and those sets may well bear an uneasy relationship to one another, or even be incompatible.
51. **The authorities may need to establish a tax reconciliation process addressing the potential problems arising in situations where some taxpayers will apply IFRS as the starting point for calculating taxable profit, others will apply the IFRS for SMEs or simplified national accounting standards.** This will include outlining how the tax authorities will ensure that the accounting-tax reconciliation process results in the same taxable profit, irrespective of whether the starting point is IFRS, the IFRS for SMEs or any other national accounting standard. This issue needs further analysis and a study would help in identifying the optimal solution for Kazakhstan.

Audit oversight

52. **Improving the quality of financial statements requires the quality of audits to be improved.** As the A&A ROSC report concluded, there is a need to establish and implement external quality assurance of the audit profession and its disciplinary systems and to subject these to public oversight. The recent amendments to the Audit Law require professional associations to implement quality control procedures but do not introduce public oversight of these schemes. The professional organizations should be supervised by a public oversight system consisting of a majority of non-practitioners in order to ensure that the audit profession does indeed serve the public interest. Such an oversight body would also be responsible for: (a) ensuring that the quality assurance system for the audit profession is, in both reality and appearance, an exercise with sufficient public integrity and (b) promoting public confidence in the profession. Quality assurance for the audit profession is also fundamental for ensuring good audit quality, which adds credibility to published financial information and protects shareholders, investors, creditors and other stakeholders. The results of the external quality assurance system should feed into the Continuing Professional Development program and/or the disciplinary system, as appropriate. It was noted that some work on quality control is carried out by the Chamber of Auditors and the Collegium of Auditors. However, this kind of

oversight is not required by law (the law merely allows these bodies to carry out this work), and the current system is effectively one of self-regulation, without an effective system of public oversight. Additional work should be undertaken in the medium to long term to decide on the institutional arrangements for public oversight and then to build the capacity of the respective institutions.

Capacity development

53. **The IFRS for SMEs is a principle-based standard and professional judgment is required in many cases when applying it; in this context training and education of preparers of financial statements, auditors and regulators is one of the most important priorities to be implemented.** The training program should cover the content of the IFRS for SMEs standard and should be based on the training materials issued by the IFRS Foundation. The training materials should include: (i) notes and examples explaining each requirement of the IFRS for SMEs; (ii) a comparison of the requirements of the IFRS for SMEs with the related requirements of full IFRSs; (iii) multiple choice questions to test understanding; and (iv) case studies to illustrate how the principles are applied in practice. Annex 5 of this report describes a suggested training program on IFRS for SMEs, containing topics, the proposed number of hours for each topic and related learning objectives.
54. **The capacity of the organizations accredited by the Ministry of Finance for professional certification as well as professional organizations of auditors and the selected trainers should be strengthened in order to allow them to offer training in the IFRS for SMEs for practitioners.** At the first stage, the efforts should be focused on identifying and training the trainers who will provide subsequent training in the IFRS for SMEs for practitioners in various locations of the country. The representatives of the IFRS Foundation and the World Bank (CFRR) could be involved in the training of trainers. Upon the completion of all sections (at least 40 hours) it is expected that the participants will take a rigorous test, which will help to identify future trainers.
55. **It is expected that the target audience will comprise preparers of financial statements from medium-sized entities (e.g. chief accountant, accountant and financial director).** In addition auditors, representatives of the tax authority, depositary and other relevant stakeholders could be involved. It is expected that a total of about of 25,000 accountants and auditors would need training in the IFRS for SMEs. The groups of trainees participating in the seminars will consist of 25 persons. It is recommended that all trainees should take a rigorous test and only those participants who accumulate at least 50 out of 100 marks will receive a certificate. For more details see table 7 below.

Table 7

The expected number of trainees in IFRS for SMEs

	Indicators	
1	Number of accountants from large and medium-sized entities (estimated 8,000 entities by 3 representatives)	24,000
2	Auditors	500
3	Representatives of the Tax Authority	100
4	Representatives of the Public Depositary	100
5	Others	300
	Total number of expected trainees	25,000
	Number of participants per training class	25
	Number of groups	1,000
	Number of trainings per week	20

	Number of weeks to complete the training program	50
	Number of trainers involved simultaneously	40

56. **Training of educators within universities would have a crucial role and framework-based teaching should be used as a basis.** To a large extent, financial statements prepared in accordance with IFRS requirements (or the IFRS for SMEs) are based on estimates, judgments and models rather than exact depictions, as the aim is to provide information that is useful in economic decisions. However, IFRS (and the IFRS for SMEs) is based on an underlying conceptual framework, which provides a basis for the use of professional judgment in resolving accounting issues. Using framework-based teaching methods in universities will enhance the ability of individuals to exercise the judgments that are necessary to apply IFRSs and the IFRS for SMEs.

C. Outline for an action plan to reform the SME financial reporting environment in Kazakhstan

1. Policy actions

57. In order to create an adequate policy environment for corporate financial reporting reforms in general, and for the implementation of the IFRS for SMEs, in particular, the following actions are suggested:
- i. Revise the accounting law to: (a) improve the system of thresholds and criteria for classification of entities and adjust financial reporting and auditing requirements to reflect the importance and size of entities; this review should include a public consultation with various stakeholders and entities themselves in order to secure broad agreement for eventual proposals; (b) officially adopt and publish the IFRS for SMEs in local languages; the standard should become part of legislation and KNFRS 2 will be abandoned;
 - ii. As the SME financial reporting is part of overall CFR reforms, revise the functions and responsibilities of the Advisory Committee within the Ministry of Finance so that it can take a leadership role in coordinating CFR reform efforts in a systematic manner, based on A&A ROSC recommendations and the reforms implemented to-date. As a result, the Advisory Committee may effectively play the role of a National Steering Committee for corporate financial reporting reforms;
 - iii. Simplify KNFRS 1 to ensure that its implementation does not represent an excessive burden and satisfies the needs of small and micro entities; the standards should be aligned with tax rules to the maximum extent;
 - iv. In the medium-to-long term, make financial statements for a larger number of entities available to the general public, based on the principle that if financial statements are prepared and audited – these are useful for users and should be available to the public;
 - v. In the longer term, as audits represent the main “enforcement” mechanism to ensure adherence to financial reporting standards, consider establishing a suitable institutional framework for audit quality assurance and oversight.

2. Creating capacity for compliance with the proposed policy actions

58. These suggested policy actions will require improved capacity on the part of preparers, auditors and enforcement agencies in order to comply with the standards and to ensure that high quality financial statements are publicly available. Actions to strengthen capacity should include:

- i. A national train-the-trainers courses, followed up by training for practitioners, in the IFRS for SMEs, based on teaching material developed by the IFRS Foundation;
- ii. Including IFRS and the IFRS for SMEs in training and certification programs; include IFRS, the IFRS for SMEs and ISAs in university curricula for accounting courses and develop framework-based teaching methods;
- iii. In the medium to long term, enhance the capacity of professional associations of auditors in the area of quality assurance methodologies. This could possibly be carried out through a pilot quality assurance review program, initially on a voluntary basis, targeting especially small and medium audit firms/practices. It could also be combined with a training program for auditors on modern approaches to auditing using clarified ISAs;
- iv. In the medium term, auditors (especially SMPs) and enforcers should receive substantial specialized training in financial reporting and auditing standards; and
- v. In the medium-term (after the study on differences between financial reporting and tax rules has been completed), assess the needs for training of tax inspectors, possibly followed by full-fledged training courses for tax inspectors.

3. Additional areas for research

59. In order to be able to take some policy decisions additional research and feasibility studies are needed in the following areas:
- i. Conduct a study on the interaction between tax and financial reporting requirements with a view to: (a) reducing the administrative burden for SMEs; and (b) clarifying and rationalizing the determination of taxable profit;
 - ii. In the longer term, as audits represent the main “enforcement” mechanism to ensure adherence to financial reporting standards, conduct a feasibility study and propose policy actions for a suitable institutional framework for public audit quality assurance and oversight.

List of Annexes:

- 1 Detailed information on the work done during the period of 2007-2011 by governmental and professional bodies relating to the ROSC policy recommendations**
- 2 SMEs reporting questionnaire for Kazakhstan**
- 3 Matrix of CFRR reforms and priorities**
- 4 Action plan for implementation of the FRS for SMEs**
- 5 Tentative training program on the IFRS for SMEs (based on IFRS foundation materials)**
- 6 Audit Quality Assurance and Oversight: Possible model**

Annex 1

**Detailed information on the work done during the period of 2007-2011 by governmental and professional bodies relating to
The World Bank Report on the Observance of Standards and Codes, Accounting and Auditing (A&A ROSC) policy recommendations**
(Note. The highlighted areas are those directly or indirectly related to SME financial reporting)

	ROSC Recommendations	FEEDBACK BY AUTHORITIES AND PROFESSIONAL COMMUNITY	COMMENTS BY WORLD BANK
	GENERAL RECOMMENDATIONS, CTP VIII-X, EXECUTIVE SUMMARY		
1	<ul style="list-style-type: none"> • Require public interest entities to adopt IFRS (short term): IFRS represents a comprehensive, high-quality financial reporting framework that is internationally recognized and promotes greater reliability and comparability of financial information. Because of their importance to the economy and to society, <i>public interest entities</i> should be required to prepare their financial statements in compliance with IFRS. Three criteria could be used to define such entities: (a) having securities listed; (b) the nature of the business (for example, banks and insurance companies); and (c) the size of the business (exceeds thresholds regarding total assets, annual sales or number of people employed). The recent amendments to the Accounting Law enacted in 2007 address this. 	Pursuant to paragraph 7 of Article 1 of the Law of the Republic of Kazakhstan <i>On Accounting and Financial Reporting</i> of 28 Feb, 2007 No. 234, entities that qualify as public interest entities shall include financial institutions, corporations (other than non-profit ones), organisations authorised to exploit mineral resources (other than organisations that mine non-critical minerals) and organisations in which the government holds an interest, as well as state-owned enterprises established as sustainable businesses. Such organisations, as well as large businesses (as defined by the Free Enterprise Act) shall report under IFRS.	The present list fails to fully embrace the criteria of public interest. Effectively, a large number of entities fall under this category. It may be advisable to revisit such eligibility criteria (with reference to the provisions of IFRS for SMEs dealing with public accountability, the IFAC Code of Ethics, and relevant EU Directives); size-of-business criteria should also be introduced to prevent the inclusion of small entities.
2	<ul style="list-style-type: none"> • Require that audited financial statements be available to the public (medium term): Requiring the public availability of the full set of financial statements, including notes, is important for several reasons. First, public availability of financial statements protects third parties (including creditors, suppliers, employees, etc.), as it reduces the asymmetry 	In order to promote access to and transparency of the financial accounts of public interest entities and monitor conversion to IFRS, a Depositary of Financial Accounts has been set up, as approved by Resolution of the Government of the Republic of Kazakhstan of 23.12.08 No. 1228. Under paragraph 5 of the Order of the Ministry of Finance of the Republic of Kazakhstan approving the Rules of Filing Financial Accounts with the Depositary of 18.12.2008 No. 586, organisations subject to	The establishment of a depositary represents a major break-through. A follow-up review of its performance and results may be required, and eligibility criteria may need to be expanded in the future. Limited liability of shareholders may act as the basis for granting access to financial accounts.

	<p>of information between firms and third parties. Second, it helps to protect the public from potential negative economic impact; this would be the relevant, for example, in the case of economically significant companies, where their actions and/or demise could have a significant negative impact on the local economy. Finally, it promotes improved allocative efficiency both within firms and in the economy, as managers and investors would be better able to distinguish between good and bad investment opportunities and business operations. The requirement in the proposed amendments to the Accounting Law for PIEs to file their financial statements with the public depositary will increase the availability of financial statements to the public.</p>	<p>statutory audit under the laws of the Republic of Kazakhstan, shall also file an audit report with the Depositary; financial accounts to be filed with the Depositary shall include: a balance sheet, a profit and loss account, a cash flow statement, a statement of changes in equity, and notes thereto.</p>	
3	<ul style="list-style-type: none"> • Require audits only when there is public interest and capacity allows (short term): The number of entities subject to a statutory audit requirement should be commensurate with the number of available qualified auditors. Policymakers should phase in statutory audit requirements with a view to ensure that they do not crowd out Kazakhstan's audit capacity. 	<p>The drafting of the Law on Amending and Supplementing Certain Legislative Acts of the Republic of Kazakhstan that Govern Auditing Activities in 2009 was preceded by a comprehensive review of auditing activities, furthermore, the drafting of the same built on an in-depth analysis of global trends with due regard to the economic potential of Kazakhstan's market for auditing services.</p>	<p>It may appear expedient to reconcile the eligibility criteria of statutory audit with levels of public interest and grant exemptions from statutory audit to small enterprises. When formulating requirements, due consideration should be given to limitations of shareholder liability and size of business. It may be necessary also to conduct a quantitative analysis to reconcile the number of statutory audits with the number of auditors available in the market.</p>
4	<ul style="list-style-type: none"> • Establish and implement external quality assurance of the audit profession and disciplinary systems, subject to public oversight (medium to long term): The recent amendments to the Audit Law require professional associations to implement quality control procedures but do not introduce public oversight of these schemes. 	<p>Article 11 of Kazakhstan's Auditing Act envisages that <i>Professional Organisations</i> shall be entitled to provide external quality assurance of auditing services and shall abide by the laws of the Republic of Kazakhstan governing auditing activities, auditing standards, the Code of Ethics and shall promote auditing, contribute to raising its efficiency, facilitate organisation and coordination among individual auditors and enforce compliance by auditors and audit firms with auditing</p>	<p>To the best of our knowledge, certain quality assurance is provided by the Chamber of Auditors and the College of Auditors. Such oversight, however, is not mandatory (the Law only grants the right). Furthermore, such oversight does not represent public oversight. Possibly, in the short- to long-term more work should be done on it. WB stands ready to</p>

	<p>The professional organizations should be supervised by a public oversight system consisting of a majority of non-practitioners to ensure that the audit profession does indeed serve the public interest. Such an oversight body would also be responsible for: (a) ensuring that the quality assurance system for the audit profession is, in fact and appearance, an exercise with sufficient public integrity and (b) promoting public confidence in the profession. Quality assurance for the audit profession is also fundamental for ensuring good audit quality, which adds credibility to published financial information and protects shareholders, investors, creditors and other stakeholders. The results of the external quality assurance system should feed into the Continuing Professional Development program and/or the disciplinary system, as appropriate. Successful implementation of quality assurance by the professional organizations is key to audit quality in Kazakhstan.</p>	<p>standards and the Code of Ethics.</p> <p>At present, there exist two Professional Auditing Organisations – the Chamber of Auditors of the Republic of Kazakhstan and the College of Auditors.</p>	<p>facilitate this work.</p>
5	<ul style="list-style-type: none"> • Establish a help desk, standard audit methodology and audit manual for ISA (medium term): If the above services could be offered by the COA, this would promote improvements to the profession's capacity overall, particularly for local audit firms. This, in turn, would promote healthy competition in the audit sector, with positive effects for the Kazakh economy. 	<p>Since accreditation with the Ministry of Finance of the Republic of Kazakhstan, the College of Auditors has set itself as a priority the task of designing guidelines and manuals to help audit firms develop internal standards and methodologies for auditing financial statements.</p> <p>It is noteworthy that such methodologies <u>have not been developed</u> before in the Republic of Kazakhstan.</p> <ol style="list-style-type: none"> 1) In 2007, the College issued and disseminated a Preliminary Audit Planning Guide and a Audit Planning Guide featuring recommendations for processes, procedures and working papers as part of preliminary audit planning and audit planning respectively. 2) In 2007, the College of Auditors issued a book entitled <i>International Standards on Auditing: from Theory to Practice</i> 	<p>The availability of a standard methodology is to be welcomed. This methodology should be made available to all auditors and kept updated as auditing standards evolve. A possible solution would be the acquisition of a computer programme to be shared among auditors. Such programmes normally come with regular updates.</p>

		<p>that has been recommended, in particular, for training candidate auditors. At present, the book is being reissued to meet growing demand.</p> <p>3) To assist audit firms with the implementation of a sound quality assurance framework, the College of Auditors (with consent from IFAC) has translated the Quality Assurance Guidebook for Small and Medium-Sized Audit Practices.</p> <p>4) In 2010, the College of Auditors issued a CD with guidance for members of the College covering audits ordered by judicial or investigative authorities; guidance for internal quality assurance of audit; rules of and a programme for internal controls at audit firms that are members of the College of Auditors regarding law application in the area of countering legalisation (laundering) of illegal incomes and financing of terrorism, etc. It is noteworthy that the College of Auditors is the only professional organisation that has issued recommendations on law application in the area of countering legalisation (laundering) of illegal incomes and financing of terrorism.</p> <p>The Chamber of Auditors of the Republic of Kazakhstan has completed a translation of International Standards on Auditing for small and medium-sized enterprises with official consent from IFAC, freely accessible on the website of the Chamber of Auditors at www.audit.kz</p>	
6	<p>Organize a secondment and twinning program with a view to enhance the capacity of supervisory authorities (short and medium term): The supervisory agencies (AFS, NBK, Ministry of Finance, etc.) should second key operational staff to similar agencies abroad for “on the job training” on best international practices regarding monitoring and supervision in respective areas, as well as IFRS. The supervisory agencies should also enter into twinning programs to bring experienced regulators from peer institutions abroad to Kazakhstan to work with</p>	<p>AFS: Pursuant to Law №2155 dated 30.05.1995r. "On the National Bank of the Republic of Kazakhstan" (hereinafter – NBK). NBK oversees compliance by financial institutions with requirements of Kazakh accounting and financial reporting legislation AFS closely cooperates with NBK in this particular area has its staff routinely trained by NBK in practical application of IFRS. In 2010, NBK trained 56 individuals in IFRS. On top of that, 7 employees of the Agency attended a training seminar hosted by KPMG, 1 employee attended a seminar held by Agency for regulation of Regional Financial Centre of Almaty. A total of 65 members of Agency staff took IFRS training in 2010.</p>	<p>The fact that a large number of employees have attended training is a very positive one. Internship opportunities could be explored in the medium to long-run, in particular, with WB assistance.</p>

	selected staff in the AFS, NBK, KASE, etc.	Apart from that, USAID's international consultant Barbara Kaminski contributes to AFS as a trainer in best practices of monitoring and supervision in relevant areas, including practical application of IFRS. In particular, a course has been organised for Department of control and supervision staff on supervision of conglomerates.	
	METHODOLOGY RECOMMENDATIONS, PAGES 25-32		
7	<p>77. Accordingly, with regard to the Statutory Framework we recommend the introduction of:</p> <p>A requirement for legal entity and/or consolidated financial statements to be audited only when there is a public interest for such an audit irrespective of the entity's legal form. However, should these requirements still result in a situation where the number of audits required by law is excessive as compared to the availability of qualified auditors in the market, policymakers should phase in these requirements with a view to ensure that statutory audit requirements do not crowd out Kazakhstan's audit capacity.</p>	<p>Article 5 of the Republic of Kazakhstan <i>Auditing Act</i> provides a list of activities, subject to statutory audit.</p> <p>The Draft Law <i>On Amending and Supplementing Certain Legislative Acts of the Republic of Kazakhstan on Auditing</i> of 2009 was preceded by a comprehensive review of auditing practices; furthermore, the drafting of the same built on in-depth analysis of global trends having due regard to the economic potential of the Kazakh market for auditing services.</p>	Annual audit requirements may need to be relaxed. As a possible criterion, type of proprietorship and limitation of shareholder liability could be used. Company size should also be considered, however, to ensure that small enterprises are exempt from statutory audit (the law partially achieves that as it refers to <i>large</i> entities). It may be expedient to take stock of the number of audits and availability of auditors in the market.
8	An option to adopt the "ISA Plus" model, whereby—while ISAs are adopted in full—additional standards and audit procedures may be imposed if they follow from specific requirements relating to the scope of the statutory audit (e.g., an additional requirement for bank audits to contribute to the AFS's prudential supervisory process).	<p>Article 18-1 of Kazakhstan's <i>Auditing Act</i> outlines the scope of auditing a financial institution.</p> <p>AFS: With a view to securing an independent review of completeness of compliance by second-level banks with requirements, as imposed by a competent authority, applicable to risk management and internal control systems, in 2005, the Agency approved requirements whereby second-level banks shall file with a competent authority a report of compliance with</p>	This issue warrants in-depth examination by experts in financial reporting and auditing in the financial sector. Cooperation between regulators and auditors is highly relevant for public oversight of auditors, to the extent that financial regulators must play an important part in such oversight. Further steps may be pursued in this area in the medium- to long-

		<p>requirements to risk management and internal control systems, as imposed by such competent authority (self-assessment), along with an audit report evaluating such banks' risk management systems to the standards prescribed by the competent authority, consistent with ISA 920 <i>Engagements to Perform Agreed-upon Procedures Regarding Financial Information</i>.</p> <p>At the same time, such audit reports fail to fully embrace the procedures performed by banks as part of implementation of risk management systems, in that they do not contain an audit opinion while boiling down to statements of facts lacking in judgement re risk management systems of banks.</p> <p>Nor did such audit reports feature specific recommendations to remedy deficiencies, in particular, those affecting compliance with criteria hitherto unmet.</p> <p>Furthermore, the Instruction requires banks to file a self-assessment of compliance therewith which is to be duplicated in an audit report.</p> <p>In this connection, the Board of the Agency issued Resolution No. 235 dated 29.12.2008 <i>On Amending Resolution No. 359 of 30 September, 2005 of the Board of the Agency for Financial Supervision of the Republic of Kazakhstan On Approving the Instruction regarding Requirements to Availability of Risk Management and Internal Control Systems at Second-Level Banks</i>, to exempt second-level banks from filing an audit report featuring an evaluation of their risk management systems.</p> <p>On top of that, it should be pointed out that risk management systems establish requirements whereby external audit opinions recommending improvements to internal controls and risk management systems are to be reviewed by relevant banks' Board of Directors.</p> <p>Furthermore, the <i>Banks and Banking Act</i> (hereinafter – the Law) , Article 57 used to contain a provision requiring an audit of miscellaneous information, in particular, an audit of banks' compliance with prudential limits and requirements with respect to classification of assets and contingent liabilities. This</p>	term.
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		<p>provision was removed from the Law in 2008, however, to bring it in consistency with Law No. 72-IV of 23.10.2008.</p> <p>Importantly, under Article 14 of Kazakhstan's <i>Government Regulation and Oversight of the Financial Market and Financial Institutions Act</i>, AFS is entitled to obtain <i>free-of-charge information from physical persons, legal entities and government agencies as part of discharging its supervisory functions, with such information not being subject to disclosure</i>. Consequently, AFS, in pursuance of this provision, may, where necessary, request additional information from audit firms, as part of exercise by AFS of statutory control, e.g. auditor's management letter. Empowered by this provision, supervision departments maintain close cooperation with audit firms, which, when denied, gives rise to complaints on the part of AFS, as filed with the Chamber of Auditors for follow-up.</p> <p>At the same time, auditors tend to relate factual information in their reports rather than express an independent judgement regarding the activities of financial institutions, e.g. assessment of capital, liquidity, risks, etc. exposing the low quality of additionally requested data.</p>	
9	An amendment to the mandate of the COA to include serving the public interest, in particular with regard to the audit profession's public, which consists of clients, credit grantors, governments, employers, employees, investors, the business and financial community, and others who rely on the objectivity and integrity of auditors.	Article 11 of Kazakhstan's Auditing Act empowers professional organisations to perform quality assurance within the audit profession while abiding by Kazakh auditing legislation, standards on auditing and Code of Ethics, to promote the audit profession, improve its performance, organisation and coordination among auditors and audit firms, and enforce compliance by auditors and audit firms with standards on auditing, the Code of Ethics.	This area may need to be further explored. This recommendation is closely linked to that referring to the public oversight framework embracing individual auditors and audit firms. The statutory provisions empowering professional organisations to conduct quality assurance are insufficient.
10	The establishment of a public oversight system for the Chamber of Auditors, ensuring that the audit profession does indeed serve the public interest.	Article 21 of Kazakhstan's <i>Accounting and Financial Reporting Act</i> envisages the establishment of an advisory body in the form of a consultative body composed of the representatives of government agencies, nonprofit organizations, private entrepreneurs and organizations with a share of public interest and public enterprises. In addition, Kazakhstan's <i>Accounting and Financial Reporting Act</i> establishes an accreditation procedure - a formal recognition of powers of Professional audit organizations by a competent authority.	Creating a system of public oversight for auditors is quite difficult. The presence of an advisory body does not solve it since the concept of public oversight provides for a so-called "final" responsibility of the public oversight system. A lot of work needs to be done in this area.

11	<p>A requirement for <i>public interest entities</i> to make their audited legal entity (and consolidated) financial statements, including the notes to the financial statements, readily available to the public¹⁹ within a reasonable period after the balance sheet date.</p>	<p>Article 5 of the Kazakhstan's <i>Accounting and Financial Reporting Act</i> establishes that the organizations where audit is mandatory and which publish their annual financial statements in periodicals in accordance with the laws of the Republic of Kazakhstan are required to publish the audit report along with the annual financial statements.</p> <p>In accordance with the Rules of the financial reporting to the depository approved by the Order of the Minister of Finance of the Republic of Kazakhstan on December 18, 2008, #586, annually not later than October 30 of the year following the reporting period, the organizations shall submit their annual financial statements prepared in accordance with the laws of the Republic of Kazakhstan on accounting and financial reporting to the organization in charge of the depository.</p>	<p>This recommendation was made in the context when the financial reporting depository was absent. Currently, however, public access to business reporting is provided by the FR depository.</p>
12	<p>With regard to Accounting Standards we recommend that:</p> <p>The existing translation process be enhanced in order to achieve a sustainable translation process in Russian and/or Kazakh language whereby the official translation of IFRS is readily available and affordable across the country. This translation process should also be leveraged in the context of the translation of International Public Sector Accounting Standards (IPSAS) and ISA (e.g., pooling resources, using a common software, etc).</p>	<p>In October 2009, the Ministry of Finance of the Republic of Kazakhstan and the IFRS Foundation concluded an open-ended contract that gives the Ministry the right to translate and publish IFRS in the official language, as well as another contract concluded in January 2011, which gives the Ministry the right to publish IFRS in Russian. The payment under the contracts shall be performed before October 2015. In accordance with the agreements, the standards are translated into the official language annually and publicly posted on the website of the Ministry of Finance.</p> <p>Public procurement of services is organized as a part of Kazakhstan's legislative requirements dealing with public services.</p>	<p>It might make sense to work towards the coordination and use of the opportunities and resources for the translation of all types of standards. Such an approach could help to effectively deal with translations and make them of a high quality (e.g., using translation software, terminology, translators with experience in this area, etc.).</p>
13	<p>An Accounting Standards Committee or an Advisory Council made up of a wide constituency of representatives of preparers and users of financial statements be established to agree on a simplified financial reporting system for</p>	<p>In 2007, the Ministry of Finance of the Republic of Kazakhstan established an advisory body with the following objectives:</p> <ul style="list-style-type: none"> - Analysis of discrepancies in the Kazakhstan's accounting and financial reporting legislation compared to the requirements of 	<p>Perhaps, this body can coordinate the whole process of reform in accounting and auditing. It is also possible to analyze the composition of this body and its effectiveness. Often, our experience shows that such committees do not</p>

	<p>application in entities that do not meet the definition of a <i>public interest entity</i>.</p> <p>The current Kazakh Accounting standards could form the basis of a simplified financial reporting regime for SMEs subject to a program of review and revision of the standards. Alternatively, Kazakhstan could review the ongoing project of the International Accounting Standards Board (IASB) on “Accounting Standards for SMEs.”</p>	<p>international financial reporting standards and making proposals to state regulatory bodies in the field of accounting and financial reporting and auditing;</p> <p>- Participation in the development of normative legal acts of the Republic of Kazakhstan on accounting and financial reporting and auditing.</p> <p>The Ministry of Finance of the Republic of Kazakhstan jointly with the World Bank started reviewing the possibility using IFRS for SMEs in Kazakhstan under the TORs - <i>Technical assistance in the application of International Financial Reporting Standards for SMEs in the Republic of Kazakhstan</i>.</p> <p>On 11 - 13 January 2011, the Government of the Republic of Kazakhstan and the World Bank held a seminar on <i>Application of IFRS for small and medium businesses in Kazakhstan</i> under the Joint Economic Research Program (JERP). The speakers were the Educational Initiative Director of the International Financial Reporting Standards Committee (London, UK), Michael Wells and a representative of the World Bank's Europe and Central Asia Andrew Busuioc (Vienna, Austria). The seminar brought together representatives of government agencies, professional audit firms and accounting organizations, public associations, nonprofit organizations and professional publications on accounting and financial reporting and auditing. Michael Wells and Andrew Busuioc informed the participants about the content and the main provisions of IFRS for SMEs, as well as the differences in IFRS for SMEs. In turn, the participants exchanged professional views and expressed high interest in the comprehensive study of the IFRS for SMEs and appreciated the opportunity of their application in the Republic of Kazakhstan in the long term.</p>	<p>have the necessary resources for developing standards. In the event when IFRS will be implemented for SMEs - the role of this body might be somewhat different, including the representation of country's interests in the IFRS Foundation.</p>
14	<p>Policymakers and regulators revisit the relationship between prudential and general</p>	<p>NB: In accordance with Kazakhstan's legislative requirements, the banks shall submit balance information concerning their</p>	<p>The approach, when the regulator requires additional disclosures is often used and</p>

	<p>purpose financial reporting in the financial sector. The introduction of IFRS is often a source of concern to supervisory authorities, notably because of fears that these standards could jeopardize the criteria that “regulatory own funds” have to fulfill, namely that they be (i) permanent, (ii) readily available for absorbing losses, and (iii) reliable as to their amounts. There are also some concerns that IFRS could introduce volatility into financial institutions’ financial statements and, more particularly, into regulatory own funds, in ways which might not reflect the economic substance of institutions’ financial positions. The NBK and the AFS should develop prudential filters for regulatory capital with a view to adjust regulatory own funds for changes appearing in the accounting equity of financial institutions applying IFRS. In this context, the NBK and the AFS could draw on the work conducted under the auspices of the Basel Committee on Banking Supervision and the Committee of European Banking Supervisors. This approach would make clear the distinction between prudential and general-purpose financial reporting. However, since the regulators would have a keen interest in ensuring that the IFRS-based financial statements are correct—since their reports would be built on that foundation—this would mobilize them to assist in the enforcement of shareholder- or stakeholder-oriented financial statements as well.</p>	<p>balance and off-balance accounts (700 - H Form) to the Kazakhstan’s Agency for Regulation and Supervision of Financial Market and Financial Institutions (hereinafter - the AFS) on a daily basis. In this case, due to the fact that the requirements of the Agency to establish provisions are different from those of IFRS, this form differs from the information provided by the banks in the IFRS financial statements (general statements).</p> <p>The position of the National Bank as a regulator in the field of accounting and financial reporting suggests that the IFRS requirements should be met not only at the level of financial reporting and directly in the accounting systems. However, the users of financial statements need to have information about the reserves amount required by the Agency in making economic decisions in order to ensure their financial stability.</p> <p>Thus, taking also into account the impact of the recent mortgage crisis, which resulted in criticism of the "incurred loss" model applied by IFRS in respect of impairment of financial assets, as creating provisions "too late and too little", in 2009, the National Bank suggested the following approach to accounting provisions, created by the banks.</p> <p>The approach is to reflect the difference between the requirements of the Agency and IFRS in the special account under the capital section at the expense of net profits in order to use the costs of automated accounting systems set up by the banks to create reserves (provisions) exclusively in the volumes complying with IFRS. This approach was developed taking into account the views of the IMF representatives, IFRS Board and auditing companies of the "big four". In this case, applying the above model will help meeting both the IFRS requirements and the requirements of the regulator regarding the adequacy of provisions.</p>	<p>perhaps, at this stage, this is the best way. It should be noted that currently we are working on convergence of IFRS and regulatory requirements and the requirements of IFRS are likely to be revised to estimate future losses, similar to the prudential requirements.</p>
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¹⁷ Resolution of the Board of the National Bank of Kazakhstan of January 31, 2011 # 3, *On approval of the Standard Plan of Accounting Accounts in second-level banks, mortgage companies and JSC Kazakhstan Development Bank.*

- Resolution of the Board of the National Bank of Kazakhstan of January 31, 2011 # 4 *On changes and amendments to the NBK's Resolution of 24 December, 2007, #152, On approval of the Accounting Instruction for second-level banks and JSC Kazakhstan Development Bank.*

		and Financial Market Development Council (hereinafter - FSC) of December 10, 2010 (minutes #7), a phased transition to Basel-3 standards is planned since 2013, including the transition to the formation of special provisions (in the regulatory reporting) under IFRS, and the AFS will revise requirements for the general provisions. At the same time, establishment of additional requirements in the assessment of expected losses under Basel - 2 is provided including recommendations of the Bank concerning international settlements to assess and manage credit risk.	
15	<p>79. With regard to Auditing Standards we recommend that:</p> <ul style="list-style-type: none"> • The existing translation process be enhanced in order to achieve a sustainable translation process into Kazakh and/or Russian language whereby the official translation of ISA is readily available and affordable across the country. This translation process should also be leveraged in the context of the translation of International Public Sector Accounting Standards (IPSAS) and IFRS (e.g., pooling resources, using a common software, etc). 	<p>According to paragraph 2 of Article 4 of Kazakhstan's <i>Auditing Act</i>, audit is performed in accordance with this Law and international auditing standards (hereinafter - the auditing standards) in line with the legislation of the Republic of Kazakhstan, published in Kazakh and Russian languages, by the organization having a written authorization to official publication of the above in the Republic of Kazakhstan from the Committee on International Auditing Practices of the International Federation of Accountants. The Ministry of Finance signed a contract with the International Federation of Accountants (IFAC) (New York, USA), allowing the Chamber of Auditors to translate ISA, and the Ministry of Finance to reproduce, publish and distribute the translation of ISA in the state and Russian languages respectively. According to the agreement, ISA translations should be placed on the website of the Ministry of Finance for public use.</p> <p>To date, translation of the ISA in the official and Russian languages has been implemented. The Chamber of Auditors of the Republic of Kazakhstan is negotiating with IFAC to obtain permission for posting them on the website.</p>	No comments.
16	<ul style="list-style-type: none"> • The CoA develop a standard audit methodology and audit manual for those audit practices that need support. This would allow the audit 	<i>PJSC the Chamber of Auditors of the Republic of Kazakhstan</i> has prepared a standard audit methodology, which also includes instructions for sampling, risk assessment, calculating the level of	The fact that there is a standard methodology is very positive. It is necessary to ensure the availability of methodology for all auditors, as

	<p>profession of Kazakhstan as a whole to improve the quality of the auditing function, which would in turn lead to an increase in public confidence in the reliability of the information contained in financial statements.</p>	<p>significance. Also, the Committee on methodological support to auditing of <i>PJSC the Chamber of Auditors the Republic of Kazakhstan</i> established an audit file.</p> <p>Realizing the importance of audit development, the College of Auditors has translated the IFAC discussion paper <i>Audit quality: Point of view IAASB</i>. The document is distributed through the College website www.kz-adviser.kz</p>	<p>well as update it to reflect changes in auditing standards. One way of solving the problem may also be buying software which can be given to auditors. Most of these programs have update function.</p>
17	<p>80. With regard to the Monitoring and Enforcement of Accounting and Auditing Standards we recommend that:</p> <ul style="list-style-type: none"> • KASE strengthens its oversight over the process of disclosing information received from listed companies on its website. The oversight unit should ensure that information received is disclosed on the KASE website in a timely and accurate manner, and all facts of non-compliance should be reported to the AFS for investigation. 	<p>AFS: In accordance with Article 85 of the Kazakhstan's Law <i>On Securities Market</i> of July 2, 2003, #461, the Rules of auction organizer are developed by its executive body and agreed with the competent authority and approved by the Board of Directors of the auction organizer.</p> <p>At the same time these rules define the duties and responsibilities of the issuers whose securities are listed at the stock exchange (including disclosure).</p> <p>Also, the FSC has a Monitoring Division, which monitors the timeliness of financial reporting by issuers and accuracy of this information.</p> <p>For non-compliance of disclosure requirements established by the Listing Rules and the Listing Agreement, the initiator of admission may be subject to sanctions in the form of lump-sum monetary penalties (forfeit) and / or delisting of securities.</p> <p>In addition, according to the decision of the Agency's Board of May 26, 2008, #77 <i>On the requirements for issuers and their securities, admitted (authorized) to trading on the Stock Exchange, as well as to individual categories of the Stock Exchange list</i> (hereinafter - Regulation #77), disclosure by issuers of information is carried at the official websites of the respective stock exchanges and in accordance with the disclosure contract, signed by the Stock Exchange and the initiator or the admission or the issuer.</p> <p>However, representatives of AFS are a part of the listing commission and the FSC Exchange Board, and if the information</p>	<p>This description shows progress. Perhaps at some point a more detailed analysis of how KASE oversees and enforces financial reporting will be needed.</p>

		<p>about violations of the disclosure requirements by the issuers is considered under those authorities, correspondingly AFS has all the information about these violations.</p> <p>Article 199 of the Kazakhstan's <i>Code on Administrative Offences</i> (hereinafter - the CAO) establishes liability of the issuer for publication in the media of incomplete or inaccurate information about the activities in the securities market, to be published in accordance with the laws of the Republic of Kazakhstan.</p> <p>At the same time, changes and additions to some legislative acts of Kazakhstan, designed to implement the activities of the Program - <i>Roadmap for the development of an accruing pension system and securities market of the Republic of Kazakhstan</i>, approved by the Minutes #3 of the meeting of the Government of the Republic of Kazakhstan on January 25, 2011 (hereinafter - changes in the Road Map framework) amend Article 199 of the CAO, under which the issuer of the securities bears responsibility for non-compliance to the procedure and conditions of disclosure of his activities, established by the legislation of the Republic of Kazakhstan and (or) internal rules of the Stock Exchange, as well as a representation by the issuer of incomplete or inaccurate information on his activities.</p> <p>However, the above amendments to the Road Map provide that the joint-stock company whose securities are listed in the stock exchange, provides for posting of financial statements on depository's website, determined in accordance with the laws of the Republic of Kazakhstan on accounting and financial reporting and quarterly financial reporting and provides them to the Stock Exchange, in the manner prescribed by its internal documents for publishing information on all corporate events and quarterly financial statements on the official website of the stock exchange in the Internet.</p> <p>Besides, it is provided that the issuer whose securities are listed at the Stock Exchange, in addition to the information required under the laws of the Republic of Kazakhstan, shall provide for</p>	
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		posting of financial statements on the website of depository and the Stock Exchange, which has the issued securities listed, annual and quarterly financial statements, the issuer's audit reports and information determined by paragraph 2 of Article 102 of the Law of the Republic of Kazakhstan <i>On securities market</i> under the procedure and terms established by the regulations of the competent authority.	
18	<ul style="list-style-type: none"> The AFS adopt internationally accepted principles of accounting standard enforcement. This report has regard to Standard No. 1, <i>Enforcement of Standards on Financial Information in Europe</i>, set forth by the Committee of European Securities Regulators (CESR) as a possible reference for the AFS. Adoption of these principles would lead to the AFS developing monitoring and enforcement procedures to ensure that the financial markets and the general public could access relevant and reliable financial information. Enforcement actions should not be confused with civil or criminal sanction, although these clearly have a role to play, and should focus on ensuring that all the required information is both materially correct and available to the market so as to promote capital market efficiency. The AFS should establish its enforcement actions so as to ensure that when there is a material error in the published financial statements corrected information is made available to the public. 	<p>AFS: AFS website constantly publishes all kinds of reports that do not contain confidential information, as well as combined forms of financial and regulatory reporting. Also it has information about the sanctions applied by AFS, including those relating to the submission of statements to AFS or other data featuring errors.</p> <p>In accordance with subparagraph 2) of paragraph 4, Regulation #77 for the shares of the issuer to be included and present in the "action" sector under the first (highest) category of the official stock exchange list, these securities and their issuer must comply with the requirement concerning that the issuer develops his financial statements in accordance with the International Financial Reporting Standards - IFRS or the US General Accepted Accounting Principles - GAAP.</p> <p>However, regarding the question of errors in the published financial statements, we consider it necessary to note that FSC has a Monitoring Section, which monitors the timeliness of financial reporting by issuers and accuracy of this information.</p> <p>In the case when the staff of this section detects errors in financial reporting such information is not posted on the FSC website until the issuer removes all the errors. Also, if the information was still published with errors, then this information is corrected, as the FSC reports it by publishing the news on their website.</p>	Perhaps, at a later stage, we need to check if this recommendation is implemented.
19	<ul style="list-style-type: none"> The supervisory agencies (AFS, NBK, Ministry of Finance, etc.) second key operational staff to 	NB: In order to clarify the issues of IFRS application, annually, the National Bank holds training seminars for employees of	Perhaps, this is the area where you can work together in the framework of the future

	<p>similar agencies abroad for “on the job training” on best international practices regarding monitoring and supervision in respective areas as well as IFRS. Also, the supervisory agencies may be able to enter into twinning programs to bring experienced regulators from peer institutions to Kazakhstan to actually work with and provide on-the-job training to the best of the existing staff in the AFS, NBK, KASE, etc.</p>	<p>financial institutions and the Agency. Thus, at least 3 accounting workshops a year are held for the Agency staff in accordance with IFRS.</p> <p>Also, the National Bank employees themselves took an active part in training sessions, seminars and professional development courses, in particular:</p> <p>A USAID seminar on 9 - 17 July, 2007 on <i>Accounting Of Financial Instruments</i>;</p> <ul style="list-style-type: none"> □ A seminar held by the International Banking and Financial Institute under the Central Bank of France on 22 - 26 September, 2008, on <i>International standards for accounting and financial transparency</i>; □ A workshop held on May 25, 2010, by KPMG Audit LLC on <i>Recent developments in IFRS</i>; □ Conferences organized by the European Central Bank during the period of 27 - 28 October, 2008, and 7 - 8 June, 2010, on <i>Accounting, financial reporting and corporate governance</i>; □ A seminar, held on December 10, by KPMG Audit LLC on <i>The impairment of financial assets</i>. <p>However, given the importance of the issue, we consider this recommendation of the World Bank relevant and ask to examine the possibility of organizing training and bilateral cooperation programs with the World Bank.</p> <p>AFS is interested in joining the programs of bilateral cooperation regarding internships and training of AFS staff in international best practice in terms of monitoring and surveillance in their respective fields, including the scope of IFRS application. Here we believe that AFS 93 specialists need to study the best international practices in the IFRS application.</p> <p>AFS also expressed interest in establishing bilateral cooperation to provide practical "on-the-job" guidance in the following areas:</p> <ul style="list-style-type: none"> - The application of IFRS in regulation and supervision of 	<p>research program.</p>
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		<p>financial institutions;</p> <ul style="list-style-type: none"> - Improving the system of risk management; - Improving the system of internal control in financial institutions; - Regulation of transactions with derivative financial instruments; - Implementation of Basel-2 recommendations; - Implementation of Solvency recommendations; <p>- Introduction of risk-based supervision in the securities market, accrued pension system, insurance and banking.</p>	
20	<p>• The AFS increases its human resources by employing more staff who are familiar with IFRS. In order to fulfill its role as an accounting standard enforcement agency, the AFS should recruit additional staff with extensive knowledge and experience of IFRS. In any event, the AFS will need to develop a network and procedures to ensure that it keeps fully up to date with IFRS as it evolves.</p>	<p>NB: In accordance with subparagraph 7) of paragraph 1, Article 9 of the Law of the Republic of Kazakhstan <i>On state regulation and supervision of financial market and financial institutions</i>, the Agency monitors compliance of the financial institutions with the legislation of the Republic of Kazakhstan on accounting and financial reporting and accounting standards except for as provided by the legislative acts of the Republic of Kazakhstan.</p> <p>Besides, to implement the above rules, the Agency also participates in inspections of financial institutions.</p> <p>It should be noted that at present, in order to improve the quality of the audits of financial institutions on the issue, the National Bank experts take an active part in these inspections.</p>	<p>Perhaps, in future we can assist in IFRS training for personnel, including with international partners.</p>
21	<p>• The AFS should seek to strengthen its relationship with statutory auditors to mutual advantage. While the objectives of supervisors and auditors are different, there are many areas where the work of the supervisors and of the external auditor can be useful to each other. The following are examples of types of other matters that may come to the attention of the auditor and may require urgent action by the supervisors:</p> <ul style="list-style-type: none"> o a serious conflict within the decision-making bodies or the unexpected departure of a manager in a key function; 	<p>AFS: With a view to securing an independent review of completeness of compliance by second-level banks with requirements, as imposed by a competent authority, applicable to risk management and internal control systems, in 2005, the Agency approved requirements whereby second-level banks shall file with a competent authority a report of compliance with requirements to risk management and internal control systems, as imposed by such competent authority (self-assessment), along with an audit report evaluating such banks' risk management systems to the standards prescribed by the competent authority, consistent with ISA 920 <i>Engagements to Perform Agreed-upon. Procedures Regarding Financial Information</i>.</p>	<p>The comment is given above in the general recommendations part.</p>

<p>o the intention of the auditor to resign or the removal of the auditor from office; and</p> <p>o material adverse changes in the risks of the bank's or insurance undertaking's business and possible risks going forward.</p> <p>Also, the AFS may contemplate requiring the statutory auditor to carry out specific assignments or issue special reports to assist the supervisors in discharging their supervisory functions (e.g., reporting upon whether the systems for maintaining accounting and other records and the systems of internal control are adequate; the method used by the bank or insurance undertaking to prepare reports for the supervisors is adequate and the information included in these reports, which may include specified ratios of assets to liabilities and other prudential requirements, is accurate; etc.). In establishing such systems, supervisors will have regard to internationally accepted guidance such as the guidance issued jointly by the Basel Committee on Banking Supervision and the International Auditing Practices Committee of IFAC in January 2002, on the "relationship between banking supervisors and banks' external auditors." The effectiveness of this action hinges upon organizing the relationship in law to expressly waive the auditor's duty of confidentiality in his or her relationship with the supervisors. It also hinges upon ensuring that only duly qualified auditors are authorized to audit banks, insurance undertakings, and listed enterprises.</p>	<p>At the same tie, such reports prepared by an audit organization fail to fully embrace the procedures performed by banks as part of implementation of risk management systems, do not contain personal opinions of auditors, and their formal conclusions are confined to statement of facts and lack their own judgement of risk management systems of banks.</p> <p>Nor did such audit reports feature specific recommendations to remedy the deficiencies, in particular those affecting compliance with the criteria hitherto unmet.</p> <p>Furthermore, the Instruction requires banks to file a self-assessment of compliance therewith which is to be duplicated in an audit report.</p> <p>In this connection, the Board of the Agency issued Resolution No. 235 dated 29.12.2008 <i>On Amending Resolution No. 359 of 30 September, 2005 of the Board of the Agency for Financial Supervision of the Republic of Kazakhstan On Approving the Instruction regarding Requirements to Availability of Risk Management and Internal Control Systems at Second-Level Banks</i>, to exempt second-level banks from filing an audit report featuring an evaluation of their risk management systems.</p> <p>On top of that, it should be pointed out that risk management systems establish requirements whereby external audit opinions recommending improvements to internal controls and risk management systems are to be reviewed by relevant banks' Board of Directors.</p> <p>Furthermore, the <i>Banks and Banking Act</i> (hereinafter – the Law) ,Article 57 used to contain a provision requiring an audit of miscellaneous information, in particular, an audit of banks' compliance with prudential limits and requirements with respect to classification of assets and contingent liabilities. This provision was removed from the Law in 2008, however, to bring it in consistency with Law No. 72-IV of 23.10.2008.</p> <p>Importantly, under Article 14 of Kazakhstan's <i>Government Regulation and Oversight of the Financial Market and Financial Institutions Act</i>, AFS is entitled to obtain <i>free-of-</i></p>	
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		<p><i>charge information from physical persons, legal entities and government agencies as part of discharging its supervisory functions, with such information not being subject to disclosure.</i></p> <p>Consequently, AFS, in pursuance of this provision, may, where necessary, request additional information from audit firms, as part of exercise by AFS of statutory control, e.g. auditor's management letter. Empowered by this provision, supervision departments maintain close cooperation with audit firms, which, when denied, gives rise to complaints on the part of AFS, as filed with the Chamber of Auditors for follow-up.</p> <p>At the same time, auditors tend to relate factual information in their reports rather than express an independent judgement regarding the activities of financial institutions, e.g. assessment of capital, liquidity, risks, etc. exposing the low quality of additionally requested data.</p>	
22	<p>• The system of quality assurance of all statutory auditors and audit firms should be successfully implemented by the COA as required by the Audit Law. In addition, the system of quality assurance should be subject to public oversight. Quality assurance for the statutory audit is fundamental for ensuring good audit quality, which adds credibility to published financial information and adding value and protection to shareholders, investors, creditors and other stakeholders. The system may draw upon existing practices in EU Members States, especially countries, which joined the EU on May 1, 2004, which have had to implement quality such systems in circumstances similar, albeit not identical, to Kazakhstan's. Also, IFAC SMO 1, Quality Assurance is a useful guideline in this regard. The results of the external quality assurance system should feed into the licensing of auditors, the Continuing Professional Development program and/or the disciplinary system, as appropriate.</p>	<p>Article 11 of Kazakhstan's Auditing Act empowers professional organisations to:</p> <ul style="list-style-type: none"> perform peer review of audit firms quality; exclude persons that violate standards on auditing and Code of Ethics from the professional organization in accordance with the results of the peer review of quality. For example, AO "Kazakhstan Stock Exchange" (KASE) and Regional Financial Centre of the city of Almaty (STP RFCA) allow only audit firms that underwent peer review of quality to perform mandatory audit at the special trading platform. 	<p>This issue shall be examined as part of the public oversight system. In addition this should be not a right but an obligation of professional organizations in order for the process of self-regulation of auditors to be efficient. Perhaps this will require work in the longer term.</p>

23	<ul style="list-style-type: none"> • Kazakhstan should establish an effective system of investigations and sanctions to detect, correct and prevent inadequate execution of the statutory audit. The system may provide effective, proportionate and dissuasive civil, administrative or criminal penalties in respect of statutory auditors and audit firms, where statutory audits are not carried out in conformity with the Audit Law, ISAs, and/or the Code of Ethics for Professional Accountants. Also, measures taken or sanctions imposed on statutory auditors and audit firms should be appropriately disclosed to the public. 	<p>According to Article 23 of Kazakhstan’s Auditing Act, auditors and audit firms bear responsibility in accordance with laws of the Republic of Kazakhstan for violation of the legislation of the Republic of Kazakhstan on audit and for violation of contract conditions.</p> <p>For example, the Administrative Code of the Republic of Kazakhstan contains Articles 184 “Preparation of unreliable audit report by an auditor or audit firm” and 184-1 “Violation of audit legislation of the Republic of Kazakhstan”.</p> <p>These articles provide the following types of administrative punishment: for auditors – fine, deprivation of qualification certificate, for audit firms – fine, suspension or deprivation of audit license.</p> <p>According to Article 7 of the Republic of Kazakhstan’s Auditing Act, the competent authority in the field of audit shall: publish information about issuing, suspension, deprivation and termination of audit licenses in periodical printed media in the state and Russian language. Control and implementation functions in the field of audit, accounting and financial reporting are transferred to the Committee of Financial Control of the Ministry of Finances.</p>	The description pertains to the legislation. However the recommendation should be seen as creation of the efficient system of disciplinary actions and sanctions both from professional bodies and from public oversight.
	81. With regard to the Development of the Accounting and Auditing Profession we recommend that:		
24	<ul style="list-style-type: none"> • Kazakhstan recognizes high quality qualifications from abroad such as ACCA (UK) and CPA (US) for the purpose of awarding the auditor qualification. The fact that the qualifications of auditors from other countries cannot be recognized in Kazakhstan does not compare well with examples of best practice in other countries. The ROSC team believes that it serves no purpose to require complete re-examination when the necessary expertise already has been proved. 	In accordance with clause 5 of Article 22 of the Law, professional accountant qualification certificates issued by foreign institutions which are full members of the International Federation of Accountants (IFAC) are recognized equally with the certificates issued by the certification organization (according to information published at the web site www.ifac.org , organizations that perform certification of ACCA (The Association of Chartered Certified Accountants, UK) and CPA (American Institute of Certified Public Accountants, USA) are members of IFAC).	Recognition of certificates issued by IFAC member organizations is a very progressive fact.

25	<ul style="list-style-type: none"> • Kazakhstan simplifies visa and work permit requirements for suitably qualified foreign specialists, who may fill the current capacity gap in the accounting, auditing, insurance, banking and other professions. 	<p>Rules of certification of candidates for auditors approved by the decree of the Minister of Finances of the Republic of Kazakhstan of July 26, 2006 No. 273 envisage that the candidates for auditors that have such international certificates in the field of audit and accounting as Associate Chartered Accountant (ACA), Certified Accountants (CA), Chartered Institute of Management Accountants (CIMA), Certified International Professional Accountant (CIPA), Certified Public Accountant (CPA), Institute of Financial Accountants (IFA), The Association of Chartered Certified Accountants (ACCA), shall take examinations in the following subjects: taxes and taxation, civil law, banking, insurance and pension legislation.</p> <p>In addition, the Rules envisage the following</p> <p>Only persons that have higher education and work experience of no less than 3 (three) years in the economy, finances, auditing or legal field, or in the field of scientific and academic activity in accounting and audit in higher education institutions shall be allowed to undergo the certification.</p> <p>In order to conduct the examinations, the Commissions shall prepare module tasks in the state and Russian language, organize conducting of examinations, check and assess examination works of the candidates for auditors.</p>	Recognition of certificates issued by IFAC member organizations is a very progressive fact.
26	<ul style="list-style-type: none"> • The COA should establish a public electronic register of statutory auditors and audit firms so that interested parties can determine rapidly whether a statutory auditor or an audit firm has been approved, etc. This will be facilitated through registration in a public electronic register. Availability of the public register in foreign language would greatly increase its usefulness especially in the context of foreign direct or portfolio investment. 	<p>Article 7 of the Republic of Kazakhstan's Auditing Act establishes that the competent authority in the field of audit shall prepare and approve qualification requirements for audit firms that are allowed to conduct mandatory audit, and shall do so in coordination with the competent government body responsible for regulation and monitoring of the financial market and financial organizations in regard to the mandatory audit of financial organizations; it shall also perform licensing of auditing activities and maintain the register of audit firms.</p> <p>Subject of mandatory audit shall be governed by the qualification requirements for audit firms on conducting of mandatory audit approved by the decree of the Minister of Finances of the Republic of Kazakhstan of 3.11.2006 No. 434.</p> <p>Lists of audit firms that comply with the current legislation of the Republic of Kazakhstan are available for public use at the</p>	This work should be an integral part of the work on the system of public oversight over auditors.

		<p>web site of the Ministry of Finances.</p> <p>At the same time Article 11 of the Republic of Kazakhstan's Auditing Act envisages that professional organizations shall have the right to conduct rating assessments of audit firms and publish their results in periodical printed media.</p> <p>Presently the aforementioned decree is being reviewed and amended, in particular the issue of creation of the public electronic register of audit firms conducting mandatory audit is being considered.</p>	
27	<ul style="list-style-type: none"> • The capacity of the COA should be increased so as to enable it to make a more effective contribution to the audit profession in Kazakhstan. In particular it should be resourced so as it could <ul style="list-style-type: none"> o Operate a technical advice help desk for members; o Produce and distribute an audit manual for small audit firms; and o Develop a standard audit methodology and audit program pack for small audit firms. 	<p>Article 11 of the Republic of Kazakhstan's Auditing Act establishes the broadened list of rights and duties of professional organizations.</p> <p>For example, professional organizations shall have the right to: prepare, publish and distribute educational literature, methodological recommendations, periodical printed publications in the field of auditing activities; give recommendations on audit standards and other issues of auditing activities; develop and approve educational programs for improvement of qualification of auditors.</p> <p>Professional organizations shall provide regulatory legal acts of the Republic of Kazakhstan in the field of auditing activities to their members;</p>	This issue should also be examined from the point of view of public oversight and the role of professional organizations in this process.
28	<ul style="list-style-type: none"> • A detailed review of required activities of the COA and a twinning arrangement with a respected professional body should be considered. 	<p>Article 21 of the Law of the Republic of Kazakhstan <i>On Accounting and Financial Reporting</i> envisages that the consultative body shall be created in the form of consultative and advisory body. The consultative body shall include representatives of government bodies, non-commercial organizations, private entrepreneurship entities, organizations with government participation, government organizations.</p> <p>The consultative body shall analyse the legislation of the Republic of Kazakhstan on accounting and financial reporting for contradictions with requirements of international standards and make appropriate proposals to the competent authority; participate in development of regulatory legal acts of the Republic of Kazakhstan on the issues of accounting and financial reporting.</p> <p>The decree of the Minister of Finances of the Republic of</p>	As far as we know, the chamber works together with the Scottish institute ICAS. This is a positive fact and it would possibly be expedient to establish long-term cooperation programs as part of creation of the public oversight system and determination of the role of professional organization(s).

		Kazakhstan of May 28, 2009 No. 226 <i>On Approval of the Composition of the Consultative Body</i> with amendments and additions establishes that representatives of both PAOs shall be included in the composition of the consultative body: the professional audit organization “Chamber ob Auditors” and the professional audit organization “College of auditors”.	
29	<ul style="list-style-type: none"> • Kazakhstan adopts a sequential approach to the qualification of accountants and auditors, instead of the present parallel approach. The first step should be to intensify cooperation in the assessment of CAP/CIPA modules for the separate qualifications of accountants and auditors. The ideal would be mutual recognition of the results. The second step would be the design and implementation of a sequential system as follows. The present CIPA qualification could become the entrance requirement for the auditor qualification. This would mean that potential auditors who qualified as CIPA have already passed all the CIPA examinations and have three years of relevant practical experience. To become an auditor two additional requirements would have to be fulfilled: <ul style="list-style-type: none"> o passing of an auditor examination under responsibility of the QC; and o Acquiring two additional years of practical experience in an audit environment. The auditor examination could either be modular or integral. The final proof of professional competence should only be taken after the period of additional practical experience. 	<p>Rules of certification of candidates for auditors approved by the decree of the Minister of Finances of the Republic of Kazakhstan of July 26, 2006 No. 273 envisage that the candidates for auditors that have such international certificates in the field of audit and accounting as Associate Chartered Accountant (ACA), Certified Accountants (CA), Chartered Institute of Management Accountants (CIMA), Certified International Professional Accountant (CIPA), Certified Public Accountant (CPA), Institute of Financial Accountants (IFA), The Association of Chartered Certified Accountants (ACCA), shall take examinations in the following subjects: taxes and taxation, civil law, banking, insurance and pension legislation.</p> <p>In addition, the Rules envisage the following</p> <p>Only persons that have higher education and work experience of no less than 3 (three) years in the economy, finances, auditing or legal field, or in the field of scientific and academic activity in accounting and audit in higher education institutions shall be allowed to undergo the certification.</p> <p>In order to conduct the examinations, the Commissions shall prepare module tasks in the state and Russian language, organize conducting of examinations, check and assess examination works of the candidates for auditors.</p>	The fact of recognition of the certificates is a very progressive step. As for CAP/CIPA, perhaps it is expedient to examine whether holders of these certificates possess sufficient knowledge in order to fully or partially recognize such certificates.
30	<ul style="list-style-type: none"> • Practical Experience should be brought in line with IFAC requirements. Mentorship and supervision have to be promoted. It is necessary to review the present Kazakh requirements for Practical Experience and to bring them in line 	According to Article 13 of the Republic of Kazakhstan’s Auditing Act, only persons that have higher education and work experience of no less than 3 (three) years in the economy, finances, auditing or legal field, or in the field of scientific and academic activity in accounting and audit in higher education	This is also a part of the issue of public oversight over audit.

	with IES 5.	<p>institutions shall be allowed to undergo the certification.</p> <p>PAO "College of auditors" constantly improves qualification of auditors and employees of audit firms that are members of the PAO "College of auditors".</p> <p>The regulations on improvement of qualification of members of the PAO "College of auditors" are prepared with due account for international practices and IES requirements. All members of the PAO "College of auditor" shall comply with the requirements of the aforesaid regulations.</p>	
31	<p>82. With regard to Education and Training we recommend that:</p> <ul style="list-style-type: none"> Starting from the present situation, emphasis should be given to developing an educational continuum from university through to the continuing professional development of accounting and auditing professionals encompassing the requirements of the IFAC IESs. 	<p>According to the Action Plan for Transition to IFRS for 2007-2009 approved by the Resolution of the Government of the Republic of Kazakhstan of 29.08.07 No. 760, national standards for specialties "Accounting and audit" and "Finances" with due account for IFRS and ISA have been developed and approved by the decree of the MES of the Republic of Kazakhstan of 28.10.2007 No.514 <i>On approval of national mandatory standard of higher and post-graduate education</i>. Introduction of new subjects in accordance with IFRS was envisaged in development of the aforementioned standards. In addition, leading scientists and specialists of higher education institutions have prepared textbooks and educational materials on the subjects "Financial accounting", "Accounting", "Management accounting", "Financial management", "Audit", "Analysis" and others in Kazakh and Russian with due account for IFRS.</p>	<p>Education is a long-term work, and perhaps this work should be continued, in particular in partnership with international organizations.</p>
32	<ul style="list-style-type: none"> The further development of the university curriculum should include more emphasis on IFRS financial reporting and the organizational and business knowledge component of IES 2. CAP/CIPA program materials have already been made available and some teachers have been trained. This probably is not enough, as universities face a shortage of expertise in certain areas and more teaching and learning material in Russian or Kazakh is needed. The university 	<p>In accordance with the Rules of certification of professional organizations of accountants and organizations of professional certification of accountants, approved by the decree of the minister of finances of the Republic of Kazakhstan of May 22, 2007 certification organizations shall have approved certification programs of the full-time training of candidates that include the following subjects:</p> <p>"Accounting in accordance with the international financial reporting standards",</p> <p>"Taxes and taxation",</p>	<p>Education is a long-term work, and perhaps this work should be continued, in particular in partnership with international organizations.</p>

	<p>curriculum will need to include economics, business environment, corporate governance, business ethics, financial markets, quantitative methods, organizational behavior, management and strategic decision making, etc. Universities will need to work closely with the professional bodies and the accounting profession to develop degree programs appropriate to the developing needs of the business community. Examples of necessary external support that were mentioned included benchmarking of existing material against best examples of literature in the English language, continuing support of training for teachers and assistance with translations.</p>	<p>"Civil law".</p> <p>National standards for specialties "Accounting and audit" and "Finances" with due account for IFRS and ISA have been developed and approved by the decree of the MES of the Republic of Kazakhstan of 28.10.2007 No.514 <i>On approval of national mandatory standard of higher and post-graduate education</i>. Introduction of new subjects in accordance with IFRS was envisaged in development of the aforementioned standards.</p>	
33	<p>• The existing CAP/CIPA examination should be retained as the basis for qualification as a professional accountant and membership of CPAA. However, this examination should be augmented by structured practical experience as required by IES 5. Full membership of CPAA should not be conferred on candidates until such time as they have fulfilled the practical experience requirements.</p>	<p>Decree of the Minister of Finances of the Republic of Kazakhstan <i>On approval of qualification requirements for professional accountants</i> No.455 of December 13, 2007 requires work experience of no less than 5 years от 13 декабря 2007года предусмотрено наличие опыта работы не менее 5 лет по соответствующей специализации. Считаем данное требование достаточным для обеспечения практического опыта, приобретаемого кандидатами.</p>	<p>This recommendations pertains more to registration of practical experience, i.e. systematic tracking of the experience obtained by a given candidate and whether this experience is diversified enough to become a qualified accountant or auditor.</p>
34	<p>• The COA should also ensure that candidates for the audit qualification receive sufficient and relevant practical experience prior to the award of the qualification. Therefore, the COA should establish an associate membership for candidates for the audit examination so that practical experience can be both structured and monitored in line with both IES 8 and IES 5.</p>	<p>According to Article 13 of the Republic of Kazakhstan's Auditing Act, only persons that have higher education and work experience of no less than 3 (three) years in the economy, finances, auditing or legal field, or in the field of scientific and academic activity in accounting and audit in higher education institutions shall be allowed to undergo the certification, which complies with IES requirements.</p> <p>There is no need to establish the status of PAO associated member because experience and qualification of candidates are confirmed during the registration for the qualification examinations.</p> <p>In order for auditors and candidates for auditors to better understand the requirements of the College of Auditors and IFAC</p>	<p>This is about systematic oversight and registration of practical experience while a candidate takes examinations. Just years of experience are not enough; it is necessary to track what experience exactly the candidates possess and whether it includes main competences.</p>

		related to improvement of qualification and certification of auditors, the College has translated the «Framework for International Education Standards» (IES conceptual framework) into Russian.	
35	<ul style="list-style-type: none"> Having established a robust basis for qualification, it is essential that continued membership of both the CPAA and the COA is dependent on completing a minimum level of CPD. Such CPD needs to be monitored by the professional bodies to ensure that all members remain up to date with the developments in accounting and auditing standards and practices. It is important in this respect that the professional bodies develop and promote appropriate CPD courses and materials. 	<p>Rules of organization and conducting of qualification improvement courses were developed in the PAO “Chamber of auditors of the Republic of Kazakhstan” in accordance with legislation of the Republic of Kazakhstan, Regulations on obligations of SMO members and International educational standards. In accordance with IES 7 the requirement of constant professional development as a necessary condition for continuation of the Chamber of auditors’ membership has been introduced. The Chamber of auditors uses the integrated method that combines methods based on incoming and outgoing data with total amount of 120 hours in three years. The Chamber constantly offers courses and workshops for improvement of qualification of its members.</p> <p>Since its creation the PAO “College of auditors” regularly organizes qualification improvement courses and keeps accounting of qualification improvement of auditors in other training centres.</p> <p>Professional association Federation of accountants : We constantly work on improvement of qualification and develop corresponding courses and training materials.</p> <p>The overwhelming majority of members of our organization regularly (monthly) take qualification improvement courses.</p> <p>Regulations on qualification improvement are developed in accordance with IFAC requirements and with due account for practices existing in Kazakhstan.</p>	The fact of tracking of qualification improvement by professional organization is positive.
36	<ul style="list-style-type: none"> Kazakhstan should also establish a mechanism to educate accountants and auditors who are in situ at Kazakh companies to improve practical application of modern accounting and auditing. Leveraging the practical experience of established accountants and auditors is of paramount importance, which calls for the adoption of 	<p>Attraction of well-known established accountants and auditors with their practical experience is a very important recommendation, implementation of which requires taking stimulation actions that would motivate them to further improve their understanding of IFRS and ISA and their application in practical work in the field of financial reporting in Kazakhstan.</p> <p>Article 11 of the Republic of Kazakhstan’s Auditing Act</p>	Much work is done, but perhaps in the long run the issues of stimulation can be examined in more detail.

	<p>incentives to give them the opportunity to improve their understanding of IFRS and ISA and their application to their work within the financial reporting framework in Kazakhstan. On the demand side, policymakers could incentivize company management to invest in such retooling through a combination of positive (e.g., education tax credits) and deterrent incentives (e.g., liability for the probity of financial statements). In the context of SOEs, the State, acting as a shareholder, could take the lead and ensure that accountants in SOEs enroll in “retooling” programs.</p> <p>On the supply side, private sector accountancy education centers could also be incentivized to open in Kazakhstan through specific measures. Their offering should however be tailored to the needs of Kazakh companies. In most Kazakh companies, much of the finer detail of IFRS will be irrelevant. The core concepts, such as the accrual basis, the separation of tax and financial reporting, and the interaction of financial statements, management accounting and cash flow accounting, should be central to the education of the profession.</p>	<p>envisage that professional organizations have the right to conduct qualification improvement courses for auditors, issue certificates of completion of the courses in accordance with the procedure established by the competent authority; analyse, summarize and distribute working experience of auditors and audit organizations; develop and approve training programs of qualification improvement of auditors.</p> <p>In addition, Article 3 of this Law stipulates that audit organizations may provide the following services in accordance with the profile of their activities besides the audit: training in accounting and financial reporting, taxation, audit and analysis of financial and economic activity and financial planning.</p> <p>In order to maintain high level of competence and professionalism of specialists of government bodies AO “Centre of training, retraining and qualification improvement for specialists of financial system bodies” was created under the jurisdiction of the Ministry of Finances in 2007. The centre conducts IFRS courses both for employees of organizations with government participation and for government bodies.</p> <p>In accordance with part 2 of Article 9 of the Law of the Republic of Kazakhstan <i>On Accounting and Financial Reporting</i> of February 28, 2007 No. 234, a professional accountant shall be hired as the chief accountant of a public interest organization. In order to implement this article which comes into force since January 1, 2012, 12 organizations that engage in professional certification of accountants have been accredited in the Republic of Kazakhstan as of 31.12.2010. These organizations conduct their activities in accordance with the Law <i>On Accounting and Financial Reporting</i> and the decree of the Minister of Finances of the Republic of Kazakhstan of May 22, 2007 No. 183 <i>On approval of the Rules of certification of professional organizations of accountants and organizations of professional certification of accountants</i>.</p> <p>In 2008 the Eurasian Council of Certified Accountants and Auditors together with ICAS and IASC Foundation organized</p>	
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		and held the workshop on IFRS implementation where ICAS executive director Anton Colella, IASB member Bob Garnett, ICAS executive director of education Mark Allison shared their experience. PAO “Chamber of Auditors of the Republic of Kazakhstan” annually conducts trainings on ISA and IFRS (amendments) where leading auditors and accountants of the Republic of Kazakhstan give lectures.	
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SMEs reporting questionnaire for Kazakhstan

The purpose of this study is to gain a better understanding of the accounting, audit and reporting requirements applicable to different types of companies, particularly small and medium-sized enterprises (SMEs), in countries where a ROSC Accounting and Auditing (ROSC A&A) has been carried out.

Please fill out all relevant sections of the questionnaire. The ROSC A&A for the country should provide much of the information requested. Additional research may be required; if so, please cite the source(s) of non-ROSC information.

If you have any questions, please contact Andrei Busuioc at abusuioc1@worldbank.org or +43 1 2170-716.

Name of preparer	Ministry of Finance of the Republic of Kazakhstan
Title	Director
Unit	Department of Accounting Methodology and Audit Activity
Date	March 01, 2011

1. Name of country:

Republic of Kazakhstan

2. Which of the following factors affect a company's accounting, audit, and financial reporting obligations in your country? (select all that apply)

Yes	Legal form of entity (i.e., corporation, limited liability company, partnership, etc.). Please answer question 3.
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Yes	Size of entity (annual revenues, number of employees, total balance sheet, etc.). Please answer question 4.
No	Level of indebtedness (please explain)
	Other (please explain)

All questions pertain to a company's LEGAL ENTITY financial statements. Please provide information relating to requirements for consolidated financial statements under question 7.

Question 3 applies to countries in which the legal form of a company (ex. Joint-stock, limited liability company, etc.) affects its accounting, auditing and financial reporting obligations. If this is not the case in your country, please skip. If more space is needed, please attach a separate sheet. Please remember to include the source of all non-ROSC information.

3.	Legal form: JSC (public interest entities are defined to include joint stock companies (excluding non-for profit JSCs/organizations), financial institutions (financial institutions are defined as those which offer financial services: essentially banks, insurance entities, pension funds, organizations offering financial services at securities market), companies with state participation, self-financing public economic entities and certain extractive industry companies (mainly those exploiting hydro carbonates).	Legal form: LLC (except for entities listed in the previous column and large sized entities)	Legal form: Individual entrepreneurs (physical persons) defined in accordance with the Law of Republic of Kazakhstan "On private entrepreneurship".
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	<i>Hereafter, unless otherwise stated, the source of information is the Law of the Republic of Kazakhstan "On Accounting and Financial Reporting".</i>		
a. Required to prepare annual financial statements? If yes, what do the financial statements comprise? (balance sheet, income statement, cash flow statement, etc.)	Yes. 1. Balance Sheet 2. Income Statement 3. Cash flow 4. Statement of changes in equity 5. Notes		
b. What accounting standards must be followed (if any)? (ex. National GAAP, IFRS, etc.)	IFRS	KNFRS	KNFRS
c. Must the financial statements be audited by an independent auditor?	According to the provisions of the Auditing Law, statutory audit is required for annual financial statements of: <ul style="list-style-type: none"> - JSCs; - Insurance entities and their major shareholders and shareholdings; - Pension funds and their major shareholders and shareholdings; - Entities exploiting natural resources; - Banks; - Entities of natural monopoly, excluding small; - Airlines, excluding airlines, that provide services according to the list defined by the Government; - Grain enterprises; - Funds for guarantee of insurance payments; - Legal entities of the Republic of Kazakhstan, that have contracts for investments 		

	<p>with preferences;</p> <ul style="list-style-type: none"> - Cotton processing organizations; - Construction entities and design companies. 		
d. Required to submit their financial statements to a public body (e.g., companies registry, taxation department)? If yes, please provide the name of this public body.	<p>Entities are required to submit their Financial Statements to: (i) owners (associates, participants, shareholders); (ii) state statistics bureau; and (iii) to bodies of state control and supervision of the Republic of Kazakhstan in accordance with their competence (these are not publicly available). Only PIEs are required to submit their financial statements to Financial statements Depository, where they are publicly available.</p>		
e. What is the deadline for submitting annual financial statements?	<p>Entities are required to submit their Financial Statements by April 30, of the following year (i.e. within the four-month period after the end of the financial year).</p> <p>PIEs are required to file their FSs in financial statements depository by October 30 of the following year (i.e. within 10 months after the end of financial year).</p> <p>Corporate income tax payers are required to submit the Declaration of corporate income tax, including Financial Statements by March 31 of the following year to the Tax Authority.</p>		
f. Are the financial statements required to be published (e.g., publication in official gazette, internet, newspaper)? Please explain.	<p>PIEs (other than financial institutions) are required to publish their annual Financial Statements in the newspapers in accordance with the list and forms, approved by the local authorities.</p> <p>Financial institutions publish their annual Financial Statements in accordance with the provisions of the laws of the</p>		

	Republic of Kazakhstan.		
g. Are the financial statements required to follow a specific presentation (e.g., standardized format, chart of accounts)	The list and the standardized format of the annual Financial Statements of the PIEs (other than financial institutions) are approved by the Ministry of Finance (Decree No. 422, signed by the Minister of Finance in August, 2010).		The list and the standardized format of the annual Financial Statements of the PIEs (other than financial institutions) are approved by the Ministry of Finance (Decree No. 218, signed by the Minister of Finance in June, 2007).
h. Capital requirements: Are there minimum/maximum capital requirements?	The total annual value of assets exceeds 325000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets requirement is higher than 491.4 mln. KZT.	The average annual value of assets is less than 325000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets requirement is less than 491.4 mln. KZT.	The total annual value of assets is less than 60000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets requirement is less than 90.72 mln. KZT.
i. Shareholders: is there a minimum/maximum number of shareholders?	No	No	No
j. How many of this type of company operate in your country? (includes domestic, foreign companies and branches on foreign entities)	As of January 01, 2011 there are 3623 PIEs, registered within Public Registry.		

Questions 4-6 apply to countries in which the size of a company (ex. small, medium, large.) affects its accounting, auditing and financial reporting obligations. If this is not the case in your country, please skip. If more space is needed, please attach a separate sheet.

4. Does the statutory framework differentiate between different sizes of companies? If yes, please describe how micro, small, medium, and large companies are defined and the source of the definitions.

Sector	Definition (ex. maximum number of employees, annual revenues, etc.)	Source of Definition (law, code, regulation, etc.)
Micro	There is no definition of micro entities	
Small	Small businesses are individual entrepreneurs (physical persons) with an annual average number of employees no more than 50 and legal entities engaged in private enterprise, with the average number of employees no more than 50 and an average annual value of assets not exceeding 60,000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets is less than 90.7 mln. KZT (aprox. US\$ 622K).	Law of Republic of Kazakhstan "On private entrepreneurship".
Medium	Medium sized entities are individual entrepreneurs (physical persons) with an annual average number of employees more than fifty and legal entities engaged in private enterprise, with the average number of employees more than 50 but no more than 250 or an average annual value of assets not exceeding 325000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets is less than 491.4 mln. KZT (aprox. US\$ 3.4 mln.).	Law of Republic of Kazakhstan "On private entrepreneurship".
Large	Large sized entities are legal entities engaged in private enterprise, with the average number of employees more than 250 or an average annual value of assets exceeding 325000 conventional units. Currently the conventional unit is set at 1512 KZT, i.e. the value of assets is higher than 491.4 mln. KZT (aprox. US\$ 3.4 mln.).	Law of Republic of Kazakhstan "On private entrepreneurship".

Please fill out the following information as it relates to **NON-LISTED, NON-FINANCIAL** companies (i.e., companies that do not issue debt or equity, and that are not banks, insurance companies, pension funds, savings and loans, or other types of financial institutions). Please remember to include the source of all non-ROSC information.

5.	Small	Medium	Large
a. Required to prepare annual financial statements? If yes, what do the financial statements comprise? (balance sheet, income statement, cash flow statement, etc.)	<p>Yes.</p> <ol style="list-style-type: none"> 1. Balance Sheet 2. Income Statement 3. Cash flow 4. Statement of changes in equity 5. Notes 		
b. What accounting standards must be followed (if any)? (ex. National GAAP, IFRS, etc.)	KNFRS	KNFRS	IFRS
c. Must the financial statements be audited by an independent auditor?	<p>According to the provisions of the Auditing Law, statutory audit is required for annual financial statements of:</p> <ul style="list-style-type: none"> - JSCs; - Insurance entities and their major shareholders and shareholdings; - Pension funds and their major shareholders and shareholdings; - Entities exploiting natural resources; - Banks; - Entities of natural monopoly, excluding small; - Airlines, excluding airlines, that provide services according to the list defined by the Government; 		

	<ul style="list-style-type: none"> - Grain enterprises; - Funds for guarantee of insurance payments; - Legal entities of the Republic of Kazakhstan, that have contracts for investments with preferences; - Cotton processing organizations; - Construction entities and design companies.
d. Required to submit their financial statements to a public body (e.g., companies registry, taxation department)? If yes, please provide the name of this public body.	<p>Entities are required to submit their Financial Statements to: (i) owners (associates, participants, shareholders); (ii) state statistics bureau; and (iii) to bodies of state control and supervision of the Republic of Kazakhstan in accordance with their competence (these are not publicly available).</p> <p>Only PIEs are required to submit their financial statements to Financial statements Depository, where they are publicly available.</p>
e. What is the deadline for submitting annual financial statements?	<p>Entities are required to submit their Financial Statements by April 30, of the following year (i.e. within the four-month period after the end of the financial year).</p> <p>PIEs are required to file their FSs in financial statements depository by October 30 of the following year (i.e. within 10 months after the end of financial year).</p> <p>Corporate income tax payers are required to submit the Declaration of corporate income tax, including Financial Statements by March 31 of the following year to the Tax Authority.</p>
f. Are the financial statements required to be published (e.g., publication in official gazette, internet, newspaper)? Please explain.	<p>PIEs (other than financial institutions) are required to publish their annual Financial Statements in the newspapers in accordance with the list and forms, approved by the local authorities.</p> <p>Financial institutions publish their annual Financial Statements in accordance with the provisions of the laws of the Republic of Kazakhstan.</p>
g. Are the financial statements required to	Yes, excepting financial institutions. (Decree No. 422, signed by the Minister of Finance

follow a specific presentation (e.g., standardized format, chart of accounts)	on August 20, 2010).		
h. Are companies required by statute to be established under a specific legal form? (e.g., large companies must be joint-stock, etc.)	No.	No.	No.
i. In practice, what are the most common legal forms taken by small/medium/large companies?			
j. How many of this type of company operate in your country? (includes domestic, foreign companies and branches on foreign entities)	162 579 (www.stat.kz)	11 932 (www.stat.kz)	2 206 (www.stat.kz)

6. Please describe any other requirements relating to accounting, audit, publication or corporate governance requirements applicable to SMEs.

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7. Please feel free to comment and/or expand on your answers in the space below. Also, please use this space to provide information pertaining to requirements on consolidated financial statements (e.g., whether or not groups are required to prepare consolidated financial statements, whether small groups are exempted from such a requirements, etc.)

Small entities, defined in accordance with the Law of Republic of Kazakhstan "On private entrepreneurship" and which are subject of the special tax treatment for farmers and legal entities - producers of agricultural products, as well as on the basis of a simplified tax declaration have to prepare their financial statements in accordance with KNFRS 1.

Small and medium sized entities, defined in accordance with the Law of Republic of Kazakhstan "On private entrepreneurship" , nonprofit organizations, branches and representative offices of the foreign legal entities registered in the Republic of Kazakhstan in accordance with the local legislation; self-financing state-owned enterprises, based on the operational management have to prepare their financial statements in

accordance with KNFRS 2.

Large sized entities and PIEs must prepare their Financial Statements in accordance with IFRSs.

Individual entrepreneurs, who are under the special tax regime based on a single pass or a patent in accordance with fiscal legislation, may not maintain accounts and prepare Financial Statements.

Entities that have subsidiaries (parent) are required to prepare and submit their own financial statements as well as consolidated financial statements.

Matrix of CFR reforms and priorities

	Activity	Responsibly agency/body	2011	2012	2013	2014	2015
I.	Accounting and Auditing Standards						
	Improve the system of differentiated requirements for reporting and auditing depending on importance and size of entities	MoF					
	Official adoption of the IFRS for SMEs and official publication in local languages (allowing at least three years before the standard enters in force)	MoF					
	Implementation of the clarified ISAs						
	Develop and implement accounting standards and regulations for the small and micro entities	MoF					
II.	Statutory Framework						
	Create adequate legislative environment for application of the IFRS for SMEs	MoF					
	Create adequate legal framework for audit oversight and quality assurance	MoF					
	Perform a detailed study on influence of tax legislation and identifying the links and differences between fiscal and IFRS approaches	MoF					
III.	Monitoring and Enforcement						
	Improve the quality of financial statements by improving the quality of audits, and creating a system of public oversight and quality assurance for statutory auditors	MoF, Chamber of auditors and Collegium of Auditors					
	Establish external quality assurance of the audit profession and disciplinary systems subject to public oversight.						
	Training of enforcement agencies and auditors in ISAs and use of IFRS in prudential supervision						
IV.	Education and Training						
	Training for practitioners in IFRS for SMEs	MoF, and Accredited prof. organizations					
	Include IFRS and the IFRS for SMEs in training and certification programs						
	Include IFRS, the IFRS for SMEs and ISAs in the university curricula						

Action plan for implementation of the IFRS for SMEs

	Description of activity	Responsible Agency	2011						2012												2013												2014	
			7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		
	Dissemination of the Report including the outline of the action plan to the key stakeholders within the country, which are involved in corporate financial reporting.	MoF																																
	Reaching of the formal agreement between the Government and key stakeholders on the main findings and conclusions of the Report.	MoF																																
	Official adoption of the IFRS for SMEs and official publication (in both Kazakh and Russian versions) – the standard should become part of legislation.	MoF																																
	Performing a detailed study on influence of tax legislation and identifying the links and differences between tax and IFRS approaches	MoF																																
	Drafting the needed amendments to the laws and regulations and/or the development of new secondary legislation, which have been identified as result of the previous activities, including (i) simplified version of the national accounting standard for financial reporting for small entities and (ii) accounting norms for the micro entities, based on the simple entry accounting system.	MoF																																
	Translation of the training modules, issued by IFRS Foundation into Kazakh	MoF																																
	Performing a detailed analysis in order to identify the number of entities, attributable to different groups for financial reporting purposes (PIEs, large, medium, small and micro).	MoF / Stat. Com																																
	Selection and training people and/or representatives																																	

Tentative training program on the IFRS for SMEs (based on IFRS foundation materials)

	Topic	Hours	Learning objective
I.	Introduction, scope and concept (sec 1, 2)	3,5	Upon completion of this module participants should know the classification of entities for financial reporting purposes in Kazakhstan, the characteristics of SMEs as defined by the IASB in the <i>IFRS for SMEs</i> and which entities must not assert compliance with the <i>IFRS for SMEs</i> . Furthermore, the participants should be familiar with possible fiscal differences, which may appear when principles based standards are applied.
1.1	Classification of entities for financial reporting purposes and applied Financial Reporting Standards	0,5	
1.2	Overview of IFRS for SMEs and area of applicability in Kazakhstan	0,5	
1.3	Small and Medium-sized Entities	0,5	
1.4	Concepts and Pervasive Principles	0,5	
1.5	Fiscal and principles based standards approaches	0,5	
	<i>Quiz, Case study and discussion</i>	1	
II.	Financial statements presentation (sec 3-8, 10, 30, 32, 33)	8	Upon completion of this module participants should know the general requirements for the presentation of financial statements in accordance with the <i>IFRS for SMEs</i> in particular they should (i) know the components of a complete set of financial statements and understand how those components are identified and distinguished from other information presented in the same published document; (ii) understand the general requirements for financial statements to present fairly an entity's financial position, financial performance and cash flows; (iii) know how to assess an entity's ability to continue as a going concern and to understand the accounting and financial reporting required when material uncertainties; (iv) be able to demonstrate an understanding of the significant judgments that are required in presenting financial statements, including judgments in assessing materiality and going concern; (v) be able to classify assets and liabilities as current or non-current; (vi) be able to make distinguish between the following: a change in accounting estimate, the correction of a prior period error and a change in accounting policy, as well as to account and to disclose them and to (vii) demonstrate an understanding of the significant
2.1	Financial Statements presentation	1	
2.2	Statement of Financial Position	1	
2.3	Statement of Comprehensive Income and Income Statement	1	
2.4	Statement of Changes in Equity and Statement of Income and Retained Earnings	0,5	
2.5	Notes to the Financial Statements	1	
2.6	Accounting Policies, Estimates and Errors	0,5	
2.7	Events After the End of the Reporting Period	0,5	
2.8	Related Party Disclosures	0,5	
2.9	Foreign Currency Translation (part of sec 30, i.e. functional currency and presentation currency)	0,5	
	<i>Quiz, Case study and discussion</i>	1,5	

			judgments that are required in making estimates and in determining and applying accounting policies; (viii) know the financial reporting requirements for events that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Furthermore, through the completion of case studies that simulate aspects of the real world application of that knowledge, they should have enhanced their competence to present financial statements and notes in accordance with the <i>IFRS for SMEs</i> .
III.	Revenue (sec 23)	2,5	Upon completion of this section participants should know the financial reporting requirements for revenue in accordance with the <i>IFRS for SMEs</i> . Furthermore, through the completion of case studies they should have enhanced their ability to account for revenue in accordance with the <i>IFRS for SMEs</i> . In particular they should, in the context of the <i>IFRS for SMEs</i> , be able to: (i) identify when revenue arising from specific transactions and events qualifies for recognition in financial statements in accordance with Section 23; (ii) to measure revenue arising from the sale of goods, the rendering of services, the exchange of goods or services and the use by others of entity assets yielding interest, royalties or dividends; (iii) to account for revenues and costs associated with construction contracts and to present and disclose revenue and construction contracts in financial statements; (iv) to demonstrate an understanding of the significant judgments that are required in accounting for revenue and construction contracts.
3.1	Revenue	1,5	
	<i>Quiz, Case study and discussion</i>	1	
IV.	Financial instruments (sec 11, 12, 22, 30)	5	Upon completion of this section participants should know the financial reporting requirements for financial instruments in accordance with the <i>IFRS for SMEs</i> and to demonstrate an understanding of the significant judgments that are required in accounting of financial instruments and related foreign currency hedging. Also participants should understand the principles for classifying financial instruments as either liabilities or equity and accounting for equity instruments issued to individuals or other parties acting in their capacity as investors in equity instruments (i.e. in their capacity as owners).
4.1	Basic Financial Instruments	1	
4.2	Financial Instruments	1	
4.3	Liabilities and Equity	1	
4.4	Foreign Currency Translation (part of sec 30 dealing with foreign currency hedging)	1	
	<i>Quiz, Case study and discussion</i>	1	
V.	Assets (sec 13-18, 27)	9	Upon completion of this chapter participants should know the financial

5.1	Inventories	1	reporting requirements for assets in accordance with the <i>IFRS for SMEs</i> and to demonstrate an understanding of the significant judgments that are required in accounting of assets. Furthermore, through the completion of case studies they should have enhanced their competence to: (i) distinguish items of inventories, PPE, intangible assets and investment property from other assets of an entity and to identify when such items qualify for recognition in financial statements; (ii) to measure items of inventories, PPE, intangible assets and investment property on initial recognition and subsequently and to identify when an item of inventory is to be recognized as an expense; (iii) to present and disclose inventories, PPE, intangible assets and investment property in financial statements; (iii) to identify when an item of PPE, investment property or an intangible asset is to be derecognized or transferred to another classification of asset, and account for that de-recognition or transfer. In addition, upon completion of this section participants should be familiar with the financial reporting requirements for investments in joint ventures and for investments in associates in accordance with the <i>IFRS for SMEs</i> and to demonstrate an understanding of the significant judgments that are required. In particular they should, in the context of the <i>IFRS for SMEs</i> , be able to: (i) identify when an entity has joint control over a venture (i.e. when a joint venture exists) and to differentiate among joint ventures taking the form of jointly controlled operations, jointly controlled assets and jointly controlled entities; (ii) to determine assets, liabilities, income and expenses to be recognized in financial statements in respect of interests in jointly controlled operations and jointly controlled assets; (iii) to measure investments in jointly controlled entities and investments in associates on initial recognition and subsequently; (iv) to present and disclose investments in joint ventures and investments in associates in financial statements; (v) to identify when an entity has significant influence over another entity.
5.2	Property Plant and Equipment (PPE)	1	
5.3	Intangible Assets, other than goodwill	1	
5.4	Investment property	1	
5.5	Impairment of Assets	1	
5.6	Associates	1	
5.7	Joint Ventures	1	
	<i>Quiz, Case study and discussion</i>	2	
VI.	Liabilities (sec 20, 21, 28, 29)	3	Upon completion of this module participants should know the financial reporting requirements for provisions and contingencies, employee benefits, leases and income tax in accordance with the <i>IFRS for SMEs</i> and
6.1	Provisions and Contingencies	0,5	
6.2	Employee Benefits	0,5	

6.3	Leases	0,5	to demonstrate an understanding of the significant judgments that are required in their accounting. Furthermore, through the completion of case studies they should have enhanced their ability to: (i) distinguish provisions from other liabilities of an entity and determine which provisions should be accounted for in accordance with Section 21 and to identify when provisions should be recognized in financial statements; (ii) measure provisions on initial recognition and subsequently and employee benefits; (iii) identify four types of employee benefits accounted for in accordance with Section 28 and to identify when and how to recognize the cost of employee benefits; (iv) identify lease arrangements that qualify for recognition under this standard, to distinguish between finance leases and operating leases and to recognize and measure for the rights and obligations that arise from finance leases at the inception of the lease in the financial statements of the lessee and those of the lessor; (v) to determine whether a tax is an income tax and to recognize and measure any current tax assets and liabilities; (vi) identify the assets and liabilities that would be expected to affect taxable profit if they were recovered or settled for their present carrying amounts; (vii) determine the tax basis of assets, liabilities and other items that have a tax basis although they are not recognized as assets or liabilities and to identify and compute temporary differences, unused tax losses and unused tax credits; (viii) recognize and measure deferred tax assets and liabilities; (ix) to present and disclose provisions, employee benefits and income tax in financial statements; (x) present and disclose leases in the financial statements of the lessee and those of the lessor.
6.4	Income tax	1	
6.4	<i>Quiz, Case study and discussion</i>	0,5	
VII.	Other issues (sec 9, 19, 24 -26, 30, 32)	4	Upon completion of this module participants should know the financial reporting requirements for consolidation, business combination, foreign operations, government grants, borrowing costs and share-based payments in accordance with the <i>IFRS for SMEs</i> and to demonstrate an understanding of the significant judgments that are required in their accounting. Furthermore, participants should gain relevant knowledge on financial reporting requirements for SMEs involved in three types of specialized activities, i.e. agriculture, extractive activities, and service concessions.
7.1	Consolidation	0,5	
7.2	Business Combinations	0,5	
7.3	Foreign Currency Translation (Part of Sec 30 i.e. foreign operations)	0,5	
7.4	Government Grants	0,5	
7.5	Borrowing costs	0,5	
7.6	Share-based Payment	0,25	
7.7	Specialised Industries	0,25	

	<i>Quiz, Case study and discussion</i>	1	
VIII.	Transition to the IFRS for SMES (sec 35)	5	Through the completion of case studies that simulate aspects of the real-world application of that knowledge, participants should have enhanced their competence to account for the transition to the <i>IFRS for SMEs</i> and to demonstrate an understanding of significant judgments that are required in accounting for the transition to the <i>IFRS for SMEs</i> . In particular they should be able to: (i) distinguish when an entity is a first-time adopter of the <i>IFRS for SMEs</i> , to identify the date of transition to the <i>IFRS for SMEs</i> and to understand what is required, what is permitted, and what is prohibited when selecting an entity's initial accounting policies in accordance with the <i>IFRS for SMEs</i> ; (ii) prepare an opening statement of financial position; (iii) demonstrate an understanding of the mandatory exceptions and optional exemptions to retrospective application of the <i>IFRS for SME</i> on first time adoption provided within Section 35; and (iv) provide the disclosures required for a first-time adopter of the <i>IFRS for SMEs</i> .
8.1	Transition	1	
	<i>Case study based on real accounting data of local entity</i>	4	
	Total	40	

AUDIT QUALITY ASSURANCE AND OVERSIGHT: POSSIBLE MODEL