

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

**ACCOUNTING AND AUDITING
November, 2009**

Contents

EXECUTIVE SUMMARY	V
I. INTRODUCTION	1
II. THE INSTITUTIONAL FRAMEWORK FOR ACCOUNTING AND AUDITING	5
A. The Statutory Framework for Financial Reporting, Accounting and Auditing.....	5
A.1 The Statutory Framework for Financial Reporting and Accounting	6
A.2 The Statutory Framework for Auditing	10
B. The Accounting and Auditing Profession	13
C. Professional Education and Training	16
D. Setting Financial Reporting, Accounting and Auditing Standards	17
E. Enforcing Financial Reporting, Accounting and Auditing Standards.....	17
E.1 Enforcing Financial Reporting and Accounting Standards.....	17
E.2 Enforcing Auditing Standards	18
III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED	19
IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED	22
V. PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING	23
VI. POLICY RECOMMENDATIONS	23

Executive summary

This report provides an assessment of financial reporting, accounting and auditing requirements and practices within the enterprise and financial sectors in the Republic of Belarus. The report uses International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA) and the European Union (EU) law (also known as the *acquis communautaire*) as benchmarks, and draws on international experience and good practices in the field of financial reporting, accounting and audit regulation to assess the quality of financial information and to make policy recommendations. This assessment, which is the first *Accounting and Auditing Report on the Observance of Standards and Codes (A&A ROSC)*¹ in Belarus, was undertaken concurrently with the Financial Sector Assessment Program (FSAP).^{2 3}

Corporate Sector Needs are Rapidly Evolving

The regulation of corporate sector financial reporting is determined by the economic context in which it operates and the structure of the market it serves. The country had a gross national income (GNI) per capita of EUR 2,690 at the end of 2007, and an overall population of about 9.7 million, with 1.7 million living in the Belarus capital of Minsk. Since Belarus gained its independence in 1991, its economy has been undergoing constant transformation. The last few years have seen rapid reform: the banking and the insurance sectors were opened to foreign investors and owners, and privatization is continuing with the recent adoption of a plan for privatization and transformation of state-owned enterprises (SOEs) into corporate entities during 2008-2010. The Belarus economy now comprises a range of economic entities, from open and closed joint stock companies (JSCs) and banking institutions to small, privately financed enterprises. Still, the majority of entities are owned by the state, and they play a key role in the Belarus economy.

The recent legislative, institutional and structural reforms achieved certain results in improving the business environment, thus opening possibilities for private sector growth and foreign investment. As a consequence, financial reporting aligned to best international standards and practices is becoming a priority for the country.

Main Findings and Reforms in Financial Reporting, Accounting and Auditing

Much progress has been made since the FSAP of 2004. The legislative framework, including standards governing financial reporting, accounting and auditing, has recently been significantly updated. The laws governing, and institutions regulating, financial reporting need to continue this development to conform to international standards and to meet the changing demands of the market. In addition, Belarus will need to strengthen the capacity of the different stakeholders participating in the financial reporting process to implement international standards.

Until recently, the presentation of financial information in accordance with internationally recognized standards was market driven, but limited. While there is no current requirement for financial statements to comply with IFRS (IFRS-compliant statements are market driven), the banks and 30 large commercial entities will not only have to meet national accounting standards (NAS) in their financial reporting, but will also be required to prepare IFRS financial statements, starting with the financial year ending on December 31, 2008. This will require significant education and training for financial statements preparers, external auditors, civil servants and regulators.

Since, in 1998, Belarus adopted a resolution to gradually converge NAS and national

¹ For more information, please see www.worldbank.org/ifa/rosc_aa.html.

² This report was prepared on the basis of the findings of a diagnostic review carried out in Belarus by a World Bank team in September 2008. The team comprised Luc Cardinal (ECAAT), the team leader, and Andrei Busuioc (ECAAT). The review was conducted through a participatory process involving various stakeholders and was led by the Ministry of Finance (MoF).

³ The Financial Sector Assessment Program is a joint initiative launched by the World Bank and the International Monetary Fund in 1999. The program helps countries identify vulnerabilities in their financial systems and determine needed reforms.

financial reporting standards for banks (NFRSB) with IFRS, NAS and NFRSB have been revised substantially. Neither NAS nor NFRSB are complete, however, nor do they follow IFRS entirely. All entities except micro-entities are required to follow the same financial reporting and accounting rules, and there is no differentiation of entities by level of public interest in their activity. Experience in other countries has showed that an adaptation approach, as opposed to an adoption approach, has failed. Trying to adapt IFRS and ISA is not only costly and cumbersome, but counterproductive because users perceive negatively – and often rightly so – any modifications to the original standards.

IFRS have not been formally adopted and their text has not been published officially, so they do not form part of Belarus legislation. This makes it very difficult for the entities having to make the change to IFRS to actually make the conversion. The national standards on auditing (NSA) are based on ISA, but are not entirely up to date with them.

Basic enforcement mechanisms are in place, including the MoF's oversight of the auditing profession. But, because financial statements are not publicly available, there is no real market discipline. Additional efforts are required to provide reliable financial information to investors.

SOEs represent the bulk of the economy and are of strategic importance for the country's fiscal situation and economic development. Given that Belarus intends to privatize a number of these entities, there is a need for better financial reporting, accounting and auditing.

Although the accounting and auditing profession improved in the last few years, it is still limited in the context of the international financial reporting framework. In addition, associations of professional accountants and external auditors do not play a significant role in controlling the quality of financial reporting in Belarus.

Policy Recommendations

This A&A ROSC report makes recommendations to aid the financial reporting process in accordance with international experience and good practice, as well as local circumstances. This is only a first step; the major challenge is to transform such recommendations into real and effective reforms that will help to enhance the quality of corporate financial reporting and deliver for Belarus a financial reporting platform conducive to sustainable corporate sector growth, thus improving the economic situation for all Belarus citizens. Table 1 provides a summary of recommendations, along with a timetable for implementation; Section VI of this report sets out the recommendations in detail.

The key areas of reforms can be summarized as follows:

Statutory framework:

- allow entities that already apply IFRS to use them for general and statutory purposes;
- remove limitations on audit fees and investigate auditors who charge unreasonably low fees;
- revise the legislation on the appointment of external auditors of financial institutions and the basis on which regulators can access the working papers of the auditors;
- improve the criteria for enterprises to be audited and require that all SOEs of a certain size be audited annually irrespective of state inspections;
- revise the legislation to differentiate the financial reporting requirements imposed on entities according to the level of public interest in them;
- revise the legislation on responsibilities for approving financial statements;
- create legislation on the appointment of auditors of public interest entities (PIEs);
- enhance access to financial information of entities through appropriate mechanisms for making full sets of audited financial statements available to the public.

Financial reporting, accounting and auditing standards:

- incorporate the fundamental principles and purposes of financial reporting in the Accounting Law in a manner consistent with the International Accounting Standards Board (IASB) Framework for the Presentation and Preparation of Financial Statements;
- subject small and medium sized entities (SMEs) to simplified reporting requirements appropriate to their size and nature;
- establish a continuous and sustainable adoption process for IFRS;
- fully adopt ISA or establish appropriate mechanisms for aligning NSA with ISA on an ongoing basis;
- align the terminology used in the Audit Law with the terminology used in ISA and other International Federation of Accountants (IFAC) standards, as well as relevant international best practice;
- publish an auditing manual with suggested methodology to help external auditors comply with NSA.

Monitoring and enforcement:

- strengthen the securities and insurance supervisors' powers and their capacity to enforce financial reporting and accounting standards;
- strengthen the oversight system for external auditors, including subjecting PIE auditors to a more stringent quality control process.

Profession and ethics:

- align the certification requirements for external auditors to include subjects required under IFAC's International Education Standards;
- improve the certification requirements for external auditors according to IFAC's standards; evaluate international professional designations of external auditors against IFAC's International Education Standards;
- establish a public oversight system for the external audit profession;
- develop transparency requirements for external auditors who audit PIEs.

Education and training:

- implement a comprehensive capacity development program for all participants and stakeholders in corporate financial reporting;
- align university curricula with international standards of financial reporting, accounting and auditing;
- establish a program to train more lecturers in IFRS and ISA;
- align the continuing professional development (CPD) requirements of the MoF and associations of professional accountants and external auditors with IFAC's International Education Standards.

From Recommendations to Reform

To successfully implement the reforms outlined above, all the key bodies involved in the regulation of Belarus financial reporting, accounting and auditing need to work together with one common aim. Specific and measurable actions and outcomes, with clearly allocated responsibilities, need to be identified and backed up by the necessary resources, both in funding and access to national and international expertise. International development partners have a role to play in this support, but the process needs to be driven and owned by the Belarus stakeholders.

These recommendations require a holistic, multidisciplinary approach and should be implemented as soon as possible. Such implementation will require the cooperation of a wide range of stakeholder groups, including the government, regulators and the accountancy profession, and should be championed by a senior government figure. The recommendations

on education and training should be a priority to pave the way for the effective implementation of the others.

Belarus should establish a multidisciplinary national steering committee (NSC) to coordinate the financial reporting, accounting and auditing reforms. The NSC should advise policymakers and regulators on the implementation of the recommendations. Based on the successful experience of other countries, this report recommends that the NSC develop a Country Strategy (CS) and a detailed Country Action Plan (CAP) that clearly sets out the key actions and allocates responsibilities for implementing the necessary reforms. The CAP should include an itemized budget indicating the resources necessary for successful implementation. The government, policymakers and development partners should then work together to secure those resources to achieve the common goal of enhancing the quality and availability of financial information in Belarus.

Table 1: ACCOUNTING AND AUDITING ROSC POLICY RECOMMENDATIONS

	Statutory Framework	Accounting Standards	Auditing Standards	Monitoring and Enforcement	Profession and Ethics	Education and Training
SHORT TERM	<ol style="list-style-type: none"> 1. Allow entities that already use IFRS to use them for general and statutory purposes (MoF/NBRB). 2. Remove limitations on audit fees and investigate auditors who charge unreasonably low fees (MoF/profession). 3. Revise the legislation on the appointment of external auditors of financial institutions and the basis on which regulators can access their working papers (MoF/NBRB). 4. Improve the criteria for enterprises and SOEs to be audited (MoF/other ministries). 				<ol style="list-style-type: none"> 1. Align the certification requirements of external auditors with IFAC's International Education standards (MoF/NBRB/profession). 	<ol style="list-style-type: none"> 1. Implement a comprehensive capacity development program for all participants and stakeholders in the corporate financial reporting (MoF/profession).
MEDIUM TERM	<ol style="list-style-type: none"> 5. Revise the legislation to differentiate the financial reporting requirements imposed on entities according to the level of public interest (MoF). 6. Revise the legislation on the responsibilities for the approval of financial statements (MoF). 7. Create legislation on the appointment of external auditors of PIEs (MoF). 8. Enhance public access to complete financial information from entities (MoF/BCSE/NBRB). 	<ol style="list-style-type: none"> 1. Incorporate the fundamental principles and purposes of financial reporting in the Accounting Law (MoF). 2. Subject SMEs to simplified financial reporting requirements (MoF). 3. Establish a continuous and sustainable process for IFRS adoption (MoF). 	<ol style="list-style-type: none"> 1. Fully adopt ISA or better align NSA with ISA (MoF/profession). 2. Align the terminology with IFAC standards (MoF/profession). 3. Publish an auditing manual with suggested methodology to help external auditors to comply with NSA (MoF/profession). 	<ol style="list-style-type: none"> 1. Strengthen the securities and insurance supervisors' powers of enforcement (MoF/BCSE/NBRB). 2. Strengthen the oversight system of external auditors, including subjecting external auditors of PIEs to more stringent quality control process (MoF/profession/public). 	<ol style="list-style-type: none"> 2. Strengthen the certification requirements for external auditors (MoF/profession). 3. Evaluate international professional designations of external auditors according to IFAC's standards (MoF/profession). 4. Establish a public oversight system for the external audit profession. (MoF/profession). 5. Develop transparency requirements for external auditors of PIEs (MoF/profession). 	<ol style="list-style-type: none"> 2. Align the university curricula with international standards (MoF/profession/universities). 3. Establish a program to train more lecturers in IFRS and ISA (MoF/profession/universities). 4. Align continuing professional development requirements of accountants and external auditors with IFAC's standards (MoF/profession).
LONG TERM						

MAIN ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
Accounting Law	Law on Accounting and Reporting (1994)
Audit Law	Law on Auditing Activity (1994)
BCBS	Basel Committee on Banking Supervision
BCSE	Belarus Currency and Stock Exchange
CAP	Certified Accounting Practitioner (designation from CIPAEN)
CIPA	Certified International Professional Accountant (designation from CIPAEN)
CIPAEN	The CIPA Examination Network
CPD	Continuing Professional Development
ECCAA	Eurasian Council of Certified Accountants and Auditors
EU	European Union
EUR	Euro (EUR 1 = BYR 2,780)
FSAP	Financial Sector Assessment Program
GNI	Gross National Income
IAS	International Accounting Standards (included in IFRS)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards (including IAS)
ISA	International Standards on Auditing
JSC	Joint Stock Company
MoF	Ministry of Finance
NAS	National Accounting Standards
NFRSB	National Financial Reporting Standards for Banks
NBRB	National Bank of the Republic of Belarus
NSA	National Standards on Auditing
PIE	Public Interest Entity
ROSC	Reports on the Observance and Standards of Codes
SME	Small and Medium-Sized Enterprises
SMO	Statement of Membership Obligations of IFAC
SOE	State-Owned Enterprise

I. INTRODUCTION

1. This assessment of financial reporting, accounting and auditing practices (A&A ROSC) in Belarus is part of a joint initiative by the World Bank and the International Monetary Fund to prepare Reports on the Observance of Standards and Codes (ROSC). The assessment focuses on the strengths and weaknesses of the financial reporting, accounting and auditing environment that influence the quality of corporate financial reporting, and includes a review of both statutory requirements and actual practice. It uses International Financial Reporting Standards (IFRS)⁴ and International Standards on Auditing (ISA)⁵ as benchmarks, and draws on international experience and best practice. This assessment is the first A&A ROSC conducted in Belarus and it has been undertaken concurrently with the Financial Sector Assessment Program (FSAP).

2. This report also makes reference to European Union (EU) law (also known as the *acquis communautaire*), the relevance of which to Belarus is twofold. First, and perhaps most importantly, it represents a high-quality model for the regulation of financial reporting, accounting and auditing that can be applied to countries of differing characteristics. Second, it is important for Belarus to consider the *acquis communautaire* because a number of countries around Belarus recently became EU members: Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia.

3. Belarus is a presidential unitary democratic social state with the rule of law, which possesses supremacy and full authority on its territory, and independently carries out its domestic and foreign policy.

4. Belarus enjoyed one of the highest living standards among the Soviet republics, and had a relatively well-developed industrial base and a high education level until the mid-1980s. At that time, it was devastated by the explosion of the Chernobyl nuclear power plant in neighboring Ukraine, which contaminated about 20 percent of its territory. It became independent in 1991 and, as in the other former Soviet republics, its GDP was in free fall in the first half of the 1990s. Economic growth resumed during the second part of the 1990s, thanks in part to the re-establishment of special relations with Russia, which enabled Belarus to boost its exports. During the period 1996-2004, overall GDP growth averaged 6.6 percent per annum, driven by improvements in labor productivity, increases in capacity utilization and energy efficiency and pay raises in the public sector.

5. At the time of the review, the country had one of the highest income levels among the Commonwealth of Independent States (CIS) countries. The gross national income (GNI) per capita, according to the Atlas method, increased from EUR 1,250 in 2002 to an estimated EUR 3,100 in 2007. Overall, at the end of July 2008, the country had a population of 9.7 million, with 1.7 million people living in its capital, Minsk.

⁴ International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB), an independent accounting standard setter based in London, United Kingdom. The IASB announced in April 2001 that its accounting standards would be designated International Financial Reporting Standards (IFRS). Also in April 2001, the IASB announced that it would adopt all of the International Accounting Standards (IAS) issued by the International Accounting Standards Committee, an organization that was restructured into IASB in 2001. Within this report, the term IFRS encompasses both IFRS and IAS, as well as the related interpretations.

⁵ International Standards on Auditing (ISA) are the standards issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

6. In the early 2000s, adjustments were made to address serious distortions in the economy. Main areas of reform included the unification of the exchange rate and the phasing out of barter with Russia, stricter fiscal and monetary policies, and improved cost recovery and payment discipline in the energy and utility sector. Little progress was made, however, in changing the economic system inherited from the Soviet Union. After an initial phase of market reform in the early 1990s, the government reverted to the old statist model. Enterprises and banks were renationalized. Now, about 80 percent of all industries remain in state hands and banks are under strict government control.

7. Belarus is highly vulnerable to developments in neighboring Russia. Belarus' gas prices are expected to double in 2009 and to reach European level prices by 2011. This may reduce external competitiveness and dampen economic growth. In addition, given that Belarus mainly does business with Russia and that there is not much foreign investment from other countries, it does not have a strong incentive to adopt international financial reporting, accounting and auditing standards and practices. The situation may change, however, and foreign investments could increase in near future due to the improved business environment and recent important steps the government has taken.⁶

8. The Belarus government recently announced the launch of large-scale privatization in the banking, telecommunications and manufacturing sectors, and started to review certain social benefits. The government adopted a two-part privatization plan for 2008-2010. The first part identifies 519 enterprises that are supposed to be incorporated as joint stock companies (JSCs) within the next three years. The second part identifies 147 open joint stock companies in which shares will be sold.

Banking Sector

9. The concentration among commercial banks is relatively high. As of June 2008, the banking sector of Belarus consisted of 28 licensed commercial banks (with approximately 350 branches), of which five of the 28 were controlled by the state, seven were private banks owned by residents and 16 were foreign owned. The six largest banks, four of which were state owned, held more than 80 percent of the total banking assets.

10. Although the banking sector is dominated by banks that are partially or totally owned by the state, foreign ownership has increased in the last few years. As of January 1, 2008, government agencies and legal state-owned entities owned 86 percent of all banking assets, while non-residents owned 10 percent. As of June 2008, these percentages changed to 76 percent and 20 percent respectively.⁷

11. While the authorities do not intend to privatize the two largest banks (Belarusbank and Belagroprombank), there are plans to divest state ownership in two other banks among the big six (Belinvestbank and Belpromstroibank) in the near future. Large foreign banks from the EU are often cited as potential buyers, but apparently no final decision has been made. The remaining two large banks are owned by foreign banks; Austria's Raiffeisen International Bank Holding owns close to 80 percent of Priorbank, the second largest bank in Belarus, and Russia's Vnesheconombank has the majority ownership of Belvnesheconombank.

⁶ According to the World Bank's *Doing Business 2009* report (www.doingbusiness.org), the main areas of reform were: starting a business, dealing with construction permits, registering property, getting credit information, paying taxes, trading across borders. In the *Doing Business 2009* report, which ranked 181 countries for ease of doing business, Belarus's rank improved to 85 from 110 the year before.

⁷ In September 2008, the maximum share of foreign capital in the Belarus banking system increased from 25 percent to 50 percent of aggregate authorized funds.

12. With the exception of insurers, non-bank financial institutions are almost non-existent. There are no securities entities, nor credit cooperatives nor private pension funds. The share of leasing, which is not a licensed activity in Belarus, represented only 1.1 percent of total bank loans at the end of 2007, and around one third of the leasing entities were controlled by banks.

Insurance sector

13. The insurance sector is relatively small and is also in great part owned by the state. As of July 1, 2008, there were 24 insurers in Belarus, including four owned by the state (one of which dealt exclusively with reinsurance), four entities partially owned by the state and 16 private insurers (one of which is owned entirely by foreign investors). As at July 1, 2008, the insurers' capital was EUR 124 million, with the state owning 60 percent and foreign investors 7.6 percent. As of July 1, 2008, the largest insurer, which was state-owned, held a market share of 59.4 percent.

14. Mandatory insurance products are the most important in Belarus. In 2008, premiums of EUR 163 million were collected over the first six months of 2008, of which EUR 69 million, representing 42 percent of total premiums, were collected for non-mandatory insurance types, while premiums of EUR 94 million, representing 58 percent of total premiums, were collected for mandatory insurance products.

15. Although the level of insurance in Belarus is very low compared to other countries, premiums are growing very quickly. Over the period of 2000 to 2007, insurance premiums represented only 0.7 percent of GDP while, for the six-month period to July 1 2008, they increased to 0.8 percent. The per capita insurance premiums were EUR 11.50 over the first six months of 2007 and EUR 16.82 over the first six month of 2008. In 2007, Belarus insurers collected EUR 240.5 million in insurance and reinsurance premiums, and the insurance growth rate was 20.5 percent over 2006.

Non-financial enterprise sector

16. The 50,000 or so small enterprises in Belarus contribute 8.4 percent to GDP. Small enterprises are defined as having from 25 to 100 employees (depending on the industry) and there is no definition of medium-sized enterprises in the Belarus legislation.

17. Manufacturing constitutes the critical sector in the Belarus economy. Contributing more than 40 percent to GDP, its performance largely defines the overall economic trends in the country. It is characterized by limited availability of local energy sources and other primary resources, high industrial concentration, traditional manufacturing (such as machinery, trucks, tractors and appliances) and the predominance of state ownership. The pace of privatization of Belarus industry has been slow. The dominance of SOEs largely explains the prevailing low profit margins in the sector.

Securities market

18. The securities market is relatively small. At the beginning of 2008, the value of all securities (debt and equity) in circulation equaled around EUR 6.4 billion (18 percent of GDP). Government securities constitute the most developed segment of the securities market. Although the volume of equity trades totaled only about EUR 155 million in 2007, there were recently significant volumes of over the counter transactions through the sale of state-owned enterprise shares. With regards to private debt, there were only 59 issues of corporate bonds for about EUR 16.7 million in 2007. In Belarus, there are around 5,000 JSCs, including 3,000 closed JSCs (with fewer than 50 shareholders and share capital of EUR 1,550 to EUR 7,000),

and around 2,000 open JSCs (with more than one shareholder and share capital of more than EUR 7,000).

Financial information

19. All the key Belarus economic sectors rely on high-quality financial information, which requires high-quality financial reporting, accounting and auditing. As Belarus moves towards further reforms, liberalization and deregulation to further enhance its business environment, it is equally important to improve financial transparency and financial reporting, accounting and auditing practices, to support this process. Increased levels of both domestic and foreign direct investment demand a higher quality of financial information consistent with international standards and practices. Continuing the strengthening and development of financial reporting, accounting and auditing, and the regulatory framework that governs them, will bring lasting benefits to Belarus and its citizens. In this context, this report sets out policy recommendations to enhance the quality of corporate financial reporting and foster a financial reporting platform conducive to sustainable corporate sector growth, thus increasing access to global financial markets and other tools of the market economy.

II. THE INSTITUTIONAL FRAMEWORK FOR ACCOUNTING AND AUDITING⁸

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

20. **Historically, the Belarus legal system was shaped by the legal culture of continental Europe.** It can be attributed to Roman-German law and has a clear legislative structure and classification system. The highest legislative level is the Constitution (1994). Business activities in Belarus are mainly regulated by the country's Civil Code (1998) and the following laws: the Law On Business Societies (1992); the Entrepreneurship Law (1991); the Banking Code (2000); the Code on Investments (2001); the Law on Securities and Stock Exchanges (1992); and the President's Decree on Insurance Activity (2006). The SOEs are not regulated by any special legislation and are only required to follow the general legal provisions of the Civil Code.

21. **Belarus company legislation regulates matters related to incorporation, management, activities, reorganizations, transformations and liquidations of enterprises.** In most cases, company legislation provisions on financial reporting, accounting and auditing refer to specialized laws.

22. **According to the Law on Accounting and Financial Reporting (Accounting Law) and the Law on Business Societies (Company Law),⁹ the overall responsibility for financial reporting rests with the head¹⁰ of an organization or, in the case of a JSC, with the chair of the executive board of directors.¹¹** Individuals or firms providing accounting services are responsible to the head of the organization or the executive board of directors for the accuracy of accounting records.¹² The legislation requires that financial statements should be signed by the company's head and the chief accountant. It is, however, considered international best practice to have the executive board of directors bear collective responsibility for the financial statements.

23. **Belarus legislation has general requirements for the appointment of external auditors.** As required by the Company Law for JSCs, the appointment of external auditors and their fees are approved by the supervisory board. Usually, the head of an organization is responsible for selecting the external auditors and this selection should be confirmed by the supervisory board. The supervisory board appoints the external auditors of SOEs that are JSCs (with majority state ownership); the chief executive appoints the auditors of SOEs that are not JSCs (also called "unitary enterprises" in Belarus).

24. **For banks and insurers, the Company Law specifies that supervisory boards are responsible for appointing the external auditors and approving their fees.** Belarus does not, however, have any legislative provisions covering the termination of the external auditors of banks and insurers. The National Bank of the Republic of Belarus (NBRB) has to approve the external auditor appointment for banks and, in turn, banks must inform the NBRB when new external auditors are appointed or when the current auditors are removed. There is no provision in the legislation, however, to promptly report to the NBRB if an audit

⁸ This report outlines the legal principles applying to accounting, auditing and financial reporting, and does not attempt to give anything more than an introduction to the issues. This report is not meant to be an exhaustive rendition of the law, nor is it legal advice to those reading it.

⁹ The Company Law covers JSCs, limited liability companies, non-limited liability companies and other types of entities.

¹⁰ The Chairman of the board of directors or, if there is no board of directors, the Chief Executive Officer (CEO).

¹¹ JSCs in Belarus are required to have a two-tiered board structure: an executive board of the entity's senior managers, which reports to a supervisory board of outside directors.

¹² The Administrative Code (Art. 12.1) also contains provisions for fines in cases of violations of accounting procedures.

assignment has been terminated. Further, the MoF's insurance supervision department and the NBRB have no power to reject the appointment of external auditors that are deemed to have inadequate expertise or independence, or auditors that do not follow established professional standards. The audit firms of banks must rotate every three years.

A.1 The Statutory Framework for Financial Reporting and Accounting

25. **Financial reporting and accounting requirements for the corporate sector are mainly regulated by the Accounting Law.** When addressing issues of financial reporting and accounting, other company legislation typically refers back to the Accounting Law. Although most financial reporting obligations are prescribed by the Accounting Law, there are some additional and/or more specific requirements for certain institutions such as banks, insurers and open JSCs.

26. **The Accounting Law broadly sets out the main principles of financial reporting and accounting, including the basis of their regulation and responsibilities.** The law covers corporate sector financial reporting and accounting. While the law regulates such important areas as the state regulation of financial reporting and accounting, the valuation of assets and liabilities and the responsibilities and accountability for financial reporting, it contains many detailed and prescriptive bookkeeping provisions, such as the primary source documents, the inventory counts, the ledgers for bookkeeping and the storage of documents. The law allows simplified accounting for entities falling under the simplified taxation regime, usually small businesses. The law is not applicable to individual entrepreneurs; these entities should account for revenues and expenditures according to the tax legislation.

27. **The Ministry of Finance (MoF) is responsible for developing general methodological guidance and for setting NAS, called “guidelines and instructions” in Belarus, on financial reporting and accounting.** In addition, line ministries can issue NAS on accounting for certain sectors, such as the construction or manufacturing industries, but this work should be coordinated with the MoF. The MoF is also responsible for the regulation and supervision of the insurance sector and the securities market, as well as their financial reporting, accounting and auditing. The MoF includes the Department of Accounting and Financial Reporting Methodology, and the Department of Auditing, which are responsible for issuing financial reporting, accounting and auditing standards respectively. The MoF is also empowered to enforce auditing legislation through its responsibility for “control over compliance with auditing legislation by external auditors (individual auditors and audit firms)”.¹³ To that end, the MoF's Department of Auditing makes field visits to inspect external auditors, looking at their compliance with auditing legislation, certification, licensing and auditing standards. Thus, the MoF performs control over audit quality.

28. **The NBRB has the authority to provide methodological guidance and to develop and approve financial reporting and accounting methods for both banks and non-bank credit institutions.**

29. **For SOEs, their parent governmental organization may develop additional NAS adapted to the different sectors of business.** For SOEs reporting to the Ministry of Industry (MoI), the MoI developed their NAS in line with the general framework and the regulations developed by the MoF; the NAS prescribe bookkeeping matters (such as documentation, journals, accounting entries) and also describe how enterprises should maintain cost accounting.

¹³ Excluding the enforcement of auditing legislation in banks, non-banking credit institutions, bank groups and holdings, which is performed by NBRB.

30. **The statutory process to amend the financial reporting and accounting legislation or regulations is complex.** For any change, the MoF must consult with a committee made up of the Ministry of Justice, the MoF and any other ministries and SOEs involved. This process ensures good harmonization of legislation and regulation, but it makes the convergence to IFRS very difficult.

31. **As noted above, the main person responsible for financial reporting and accounting is either the head of the enterprise or, in the case of JSCs, the head of the executive board.** According to Belarus law, an enterprise's accounting function can be maintained by dedicated staff or by the head of the enterprise, or it might be outsourced. There are also requirements that the chief accountant should have a specialized university degree or, in exceptional cases, a specialized college level degree and working experience in accounting for five years. Overall, the head of the enterprise is responsible for accounting, financial reporting and all business transactions.

32. **The law specifies that all accounting entries should be made on the basis of source documents confirming specific transactions; in most cases, these have prescribed formats approved by the MoF or other state bodies.** While this approach may be appropriate for the determination of income for tax purposes, it does not recognize that IFRS often require recognition and measurement on a basis other than actual transactions (e.g., valuation adjustments for doubtful debts or accounting estimates), where there will be no externally generated primary source documents. In practice, accounting entries necessary to ensure compliance with IFRS incorporated in NAS are often not made because they are not recognized for tax purposes. In some cases, there are significant departures from IFRS principles (e.g., revenue recognition in banks is done on cash basis due to the constraints of tax legislation). By law, entities must provide source documents to authorized state bodies on request (for example, during specific on-site inspections by state bodies).

33. **The MoF's NAS and supporting methodologies aim to provide suitable guidance for enterprises on how to perform accounting and bookkeeping.** The NAS are mainly concerned with accounting entries and bookkeeping issues rather than financial reporting and disclosure requirements. They comprise: (i) a chart of accounts and guidelines and instructions for its application; (ii) guidelines and instructions on the preparation and the presentation of financial statements; and (iii) other guidelines and instructions dealing with specific areas such as fixed assets, inventories, securities and financial instruments. These aim to comply with IFRS principles, but many mostly prescribe accounting entries and bookkeeping matters.

34. **The Accounting Law does not require or permit the application of IFRS, though new instructions require certain entities to report under IFRS starting with financial statements for the year ended in 2008.** The instructions require banks to prepare annual audited financial statements in accordance with both national financial reporting standards for banks (NFRSB) and IFRS (two sets of financial statements will be required). In addition, the new instructions require that 30 major enterprises, mostly large open JSCs and SOEs, are to prepare both NAS and IFRS financial statements. As there is no process for the official adoption and publication of IFRS as part of national legislation, however, the application of these requirements becomes rather difficult. Furthermore, in practice, either the non-official Russian translation or the English versions of IFRS published by the IASB are used, which may create some inconsistencies in the application of IFRS.

35. **Although a state program for convergence with IFRS has been in place since 1998, there are no pending proposals (new draft laws or amendments) for changes to the Accounting Law.** Overall, the existing law needs further amendments to comply with best international practices in financial reporting and accounting. Although some capacity is

already in place, it should be further developed, particularly in the area of standard setting, monitoring and enforcement.

36. Table 2 summarizes the financial reporting requirements for entities in Belarus:

Table 2: Corporate Financial Reporting Requirements

Entities	Legal Entity and Consolidated Financial Statements	Audit	Public Disclosure
Open (Public) Joint Stock Companies	NAS, and for some companies, a second set of IFRS financial statements to be produced starting with financial statements for 2008 (total of 30 entities, including open JSCs and large SOEs).	Required.	Must publish the NAS balance sheet and the income statement together with the audit report (notes to financial statements not mandatory) in national newspaper annually, not later than three months after the end of the following year.
Closed Joint Stock Companies	NAS	Required only if sales exceed EUR 600,000 for the previous year.	No publication requirements.
Large Private Limited Liability Companies	NAS	Required only if sales exceed EUR 600,000 for the previous year.	None
Small and Medium Private Limited Liability Companies	NAS (except small entities with simplified tax regime according to tax legislation having fewer than 100 employees – they have to use simplified accounting).	Required only if sales exceed EUR 600,000 for the previous year.	None
Unincorporated Businesses	Accounting for revenues and expenditures according to the tax legislation.	Required only if sales exceed EUR 600,000 for the previous year.	None
Insurers	NAS, including special requirements issued for insurers (additions to the chart of accounts specific to insurance sector).	Required	Balance sheet, income statement and the audit report in national newspapers.
Banks	NAS, and IFRS starting for financial statements for the year ended in 2008	Required for both NAS and IFRS financial statements.	Balance sheet, income statement and the audit report in national newspapers (only according to NAS).
State-Owned Enterprises	No specific reporting requirements. General rules apply and, for some SOEs, a second set of IFRS financial statements to be produced starting with financial statements for 2008 (total of 30 entities, including open JSC and large SOEs).	Not required for: (i) small entities (less than EUR 600,000 sales); (ii) entities that were audited by governmental bodies or those exempted by the President of Belarus.	None

37. **The Accounting Law states that financial statements should be presented to an enterprise's owners/shareholders and to the state authorities within 90 days after the year end, with the financial year beginning on January 1 and ending December 31 of each calendar year.** The Accounting Law requires the presentation of financial statements and the audit report (if the external audit is compulsory) within 90 days. Financial statements are submitted to the tax authorities and, in the case of SOEs, also to the parent governmental organization. There is no requirement for either entities or the state bodies regulating them to publish full sets of financial statements.

38. **Other legislation, such as company and banking law, has some provisions on accounting that are consistent with the Accounting Law.** These provisions are important, as the financial reporting and accounting of banks and non-bank credit institutions are governed by NBRB legislation, which must be consistent with the Accounting Law.

39. **Securities legislation and the rules of the Belarus Currency and Stock Exchange (BCSE) do not impose significant additional financial reporting obligations on listed entities.** Listed entities have to submit additional information to the Department of Securities Regulation mostly related to securities transactions and significant economic events influencing share prices; securities dealers and brokers have specific reporting formats.

40. **Neither the Department of Securities Regulation nor the BCSE enforce financial reporting and accounting legislation and regulations.** Substantial reliance is placed on the financial reporting and accounting requirements imposed by the general statutory framework for entities. The BCSE does, however, properly enforce the requirement that, to be listed, entities must be profitable during the prior two years.

41. **There are no statutory requirements for entities to make full sets of audited financial statements (with notes) publicly available, nor is there a central registry for financial statements that would make them accessible to the public.** Some publication requirements exist for banks, non-bank credit institutions, insurers and open JSCs, but those are limited to producing a balance sheet, income statement and audit report. It is compulsory for entities to file their financial statements with the tax authorities and, in the case of SOEs, also with their parent governmental organization; the tax authorities may not, however, disclose company financial information to the public. Public availability of financial statements is essential for a healthy corporate sector and has benefits in terms of: (i) transparency of the corporate sector; (ii) market discipline, as public disclosure forces better financial reporting; and (iii) availability of information for creditors and investors.

42. **The requirements for financial reporting and accounting by banks and non-bank financial institutions are set out in the Banking Code of 2000 (Banking Code), most recently amended in 2006.** In addition, the NBRB issued related regulations, such as regulations on financial disclosures by banks (2006) and on auditing of banks (2008). Under the Banking Code and related regulations, banks and non-bank financial institutions must file financial statements with the NBRB within three months after year end (i.e., by April 1). They must also publish quarterly their balance sheet and their income statement by the 25th of the month following the end of a quarter, and annually the balance sheet, income statement, the statement of changes in owner's equity and audit report by April 25 of the following year. Banks and non-bank financial institutions must apply the NFRSB and chart of accounts developed and approved in accordance with the Accounting Law. Financial statements should be audited. Starting from 2008, banks will also be required to prepare IFRS financial statements audited in accordance with ISA.

43. **Under the President’s Decree on Insurance Activity of 2006, the MoF is responsible for establishing rules on how insurers should record their transactions and report on their activities.** The legislation¹⁴ also requires insurers to publish within four months after the year end (no later than May 1 of the following year) audited annual financial statements, including the balance sheet, the income statement and the audit report in the country’s official newspapers. Although insurers follow the same general accounting rules as other enterprises, they also need to use the general chart of accounts for insurers approved by the MoF in 2003, and follow specific reporting formats for the balance sheet, the income statement, a statement on main financial indicators, the cash-flow statement, a solvency statement, a statement of placements of insurance reserves and explanatory notes. The same formats of financial statements are used for prudential reporting and monitoring. Insurers must also file monthly and quarterly reports with the MoF. There are no special certification and licensing requirements for external auditors of insurers.

44. **Belarus legislation defines small enterprises based on the number of their employees (25-100 employees, depending on industry), but provides no definition of medium-sized enterprises.** Small Belarus enterprises must follow the requirements of the Accounting Law and apply NAS, except that the tax legislation permits them to follow specific, simplified tax reporting rules, maintaining simplified expenditure and revenue journals. They have no financial reporting obligations. Medium-sized entities, on the other hand, are obliged to follow the same rules that apply to large enterprises; for them, compliance with general financial reporting requirements is a significant challenge. External demands for their financial information are often limited to the requirement to submit annual financial information to the tax authorities together with their tax returns. The MoF may wish to consider defining medium-sized enterprises for financial reporting purposes and issuing simplified financial reporting and accounting rules for them.

A.2 The Statutory Framework for Auditing

45. **The Audit Law defines the legal basis for auditing activities, lists the business entities that are subject to audit, establishes the rights and responsibilities of external auditors and also regulates them.** Belarus has audit “rules” that play the role of auditing standards and were developed based on ISA.

46. **Although the statutory external audit requirements take into account the level of public interest in certain entities, those requirements could be improved by aligning them with good international practice.** This could be achieved by requiring entities of public interest,¹⁵ including SOEs, to be subjected to an annual external audit. The Audit Law states that the following entities’ financial statements are subject to an obligatory annual independent audit:

- open JSCs;
- banks;
- non-bank financial institutions;
- stock exchanges;

¹⁴ Ministry of Finance decree of November 13, 2003, No. 153 (edition of September 13, 2007) “ On changes and additions to the Ministry of Finance Decree No. 89 of May 30, 2003, approval of financial statements formats and order of their fulfillment for insurance organizations”.

¹⁵ Public-interest entities are defined as listed companies, banks, insurers, pension funds and entities bearing significant importance to a country because of the nature of their business or ownership (e.g., state-owned enterprises). In addition, it includes other entities, depending on their size, as measured by the number of employees, revenues generated annually or assets (the corresponding thresholds should be defined by the country depending on the size of its economy).

- commercial organizations with foreign investment;
- insurers and insurance brokers;
- residents of the Belarus High Technology Park;
- other legal entities and owner-managed entities whose revenue for the preceding year exceeded the equivalent of EUR 600,000.

47. **Also, according to the Company Law, an external audit can be demanded by any shareholder in limited liability companies.** In this case, the shareholder(s) will have to cover the costs of external audit services.

48. **The Auditing Law exempts from external audit obligations agricultural production cooperatives and individually-owned small farms.** In contrast, other legislation contains specific additional audit requirements. For example, the Code on Investments provides that, except for open JSCs, any capital contributions by foreign investors, and its amount, are required to be confirmed by the external auditors.

49. **Some legal entities with a government stake in ownership may also be exempted from a mandatory external audit.** These entities are exempted if the Departmental Control and Revision Service has conducted revisions/inspections of their financial and economic activities during the fiscal period, or if a decision of the President of Belarus mandated such an exemption.

50. **Only banks and non-bank financial institutions have to use ISA as the methodological basis for the external audits of their IFRS financial statements submitted to the NBRB. Other entities need not be audited according to ISA, although the NSA are drafted based on them.** According to the Audit Law, the MoF is responsible for issuing NSA. Associations of external auditors can issue their own audit rules as long as these do not contradict the Audit Law and are not less stringent than those of the Audit Law. Therefore, theoretically, the application of ISA is not prohibited if the ISA provisions do not contradict, and are not less stringent than, the requirements of the Audit Law. In addition to NSA, the MoF issues recommendations on the application of certain NSA (equivalent to practice statements).

51. **In addition to the external audit of financial statements and consolidated financial statements of a bank group or holding company, the legislation¹⁶ may request additional external audits,** namely audits on: (i) the accuracy of transactions recorded in ledger accounts; (ii) intended use of credits and investments; (iii) the financial status of an initiator of an investment project; (iv) the financial status of an issuer of securities; (v) authorized capital contributions, i.e., the origin of the monetary assets that the founders of an organization contributed to its capital; (vi) the validity of a tax return; (vii) the composition and value of an enterprise as a property complex; (viii) the value of fixed assets owned by an audited entity or under the economic or operating management of the audited entity; and (ix) other financial and economic performance indicators of audited entities.

52. **The Audit Law regulates the conduct of the external audits of entities.** An external audit may be performed by an individual licensed external auditor or by a licensed audit firm. Only external auditors licensed in Belarus may provide external audit services in the country. To operate, an external audit firm is required to:

- adopt a legal form;

¹⁶ Investments Code, Civil Code, Law on taxation of incomes and profits.

- ensure that at least 50 percent of its employees are permanent resident citizens of Belarus;
- ensure that, if a foreign citizen is the head of the firm, at least 75 percent of the employees must be Belarus citizens;
- ensure that the head of an external audit firm should be a certified external auditor; and
- include at least three certified external auditors among the staff of the audit firm.

53. **The Audit Law states that external auditors can perform other associated services such as:** (i) compilation of financial statements; (ii) estimation of the value of an enterprise as a property complex, as well as of other property; (iii) organization, recovery and maintenance of financial and tax accounting; (iv) preparation of income tax and property tax returns; (v) analysis of financial and economic activities; (vi) consultation on issues related to the performance of financial (economic) operations, determination of operational profits and development of accounting (financial) reports; (vii) management consulting, including issues related to organizational restructuring; (viii) information technology services; (ix) computerization of the accounting processes and introduction of information technologies; (x) assessment of entrepreneurial risks; (xi) development and analysis of investments projects and development of business plans; (xii) conducting market research; and (xiii) training of specialists in auditing-related fields.

54. **The determination of fees for external audit services is regulated and profitability is limited to 30 percent of costs.** The Ministry of Economy regulates the size of the fees for external audit services and states that their profitability cannot exceed 30 percent of costs and that all of the audit staff's time should be spent on work with clients. The profitability limitation is not applied to associated non-auditing services. No time is allowed for education, training, research, teaching and professional activities. In addition, there was until recently a limit on tax deductibility of external audit fees, and entities feel that they should not pay fees above those limits.¹⁷ Together, all of these provisions limit the development of the auditing profession and the quality of audits.

55. **The Audit Law sets out independence requirements for external auditors as follows:**

- Only services such as the compilation of financial statements and accounting and bookkeeping will be considered to be conflicting services. An entity's external auditors cannot perform these services if they are auditing financial statements for the same reporting period.
- External auditors may not perform the audit of an entity where they, or their close relatives, are founders (participants), shareholders or employees responsible for the financial reporting of the audited entity. Further, an audit may not be conducted by external auditors having any interest in the company other than that resulting from conducting the audit and providing accompanying services.

In addition, external auditors may not carry on any business activities other than audit and associated services, except for research and teaching activities.

56. **Company legislation states that an entity's external auditors are appointed by its governing body according to its incorporation charter and, for JSCs, should be confirmed by their supervisory board.** In practice, external auditors are appointed by various company bodies, depending on the entity type:

¹⁷ The limitations of the tax deductibility of external audit fees were recently removed.

- For JSCs, banks, non-bank financial institutions and insurers, management performs the selection of external auditors; the Company Law dictates that the appointment of external auditors and fees must be approved by the supervisory board.
- For other entities, the authority to appoint the external auditors belongs to the governing bodies according to their Charter of Organization.

57. **For banks, non-bank financial institutions, insurers and listed entities, the legislation contains no requirements for an audit committee.** It is considered good practice to have the annual general meeting of shareholders give the final approval for the external auditors and their fees. It is considered equally good practice for entities of major public interest to have an audit committee¹⁸ to reduce the influence of management over the selection, appointment and work of external auditors.

58. **Banking legislation contains provisions that the NBRB must approve external auditors selected by banks.** Thus, in theory, if an external auditor is dismissed during the course of an audit, the NBRB will become aware of this fact and will have to approve the new external auditor. To protect the independence of external auditors, it is essential that the supervisor is informed, on a timely basis, about any dismissal of external auditors.

59. **The Banking Code and regulations issued by the NBRB specify special requirements for external auditors and audits of individual and consolidated financial statements for banks and non-bank financial institutions.** These requirements mandate that external auditors of such entities, in addition to meeting general requirements for external audits, must receive a special license from the NBRB. The license is also issued to audit firms that have at least three auditors with an NBRB certificate, one of them being the head or deputy-head of the audit firm. The NBRB regulations also establish minimum rotation requirements of three years for external auditors of banks.

60. **While the Audit Law does not stipulate compulsory indemnity insurance for external auditors, this requirement is covered by the licensing regulation.** The Government Decree on Licensing Requirements of 2003, introduced in December 2007, includes the requirement for individual professionals or firms performing auditing activity to have professional indemnity insurance against “violation of contract for auditing services”. The minimum coverage is not prescribed by the legislation.

B. The Accounting and Auditing Profession

61. **As of January 1, 2009, 1,259 individuals hold audit qualification certificates.** Out of them, 501 auditors hold licenses as an individual auditor-entrepreneur, while 30 auditors-individual entrepreneurs hold license to audit banks. Also, 134 audit firms hold licenses for auditing activity.

62. **The MoF approves external auditors and issues general audit qualification certificates to them.** To audit banks, external auditors need to have the general audit certificate and an additional bank audit certificate issued by the NBRB. There is no separate

¹⁸ An “audit committee” is a committee of a company's board of directors that engages, compensates and oversees the work of the independent auditors, monitors activities of the internal auditing staff and intervenes in any disputes between management and the independent auditors. The functions assigned to the audit committee may be performed by the administrative or supervisory body as a whole (in cases of one-tiered board structure), provided at least that, when the chair of such a body is an executive member, he or she is not the chair of the audit committee.

certificate for insurance audits.¹⁹ Pre-requisites to become a general audit certified external auditor include a legal or economic university degree, plus corresponding professional experience of at least three years. Candidates have to pass written and oral exams on accounting, auditing, financial analysis, tax and law. To keep their certifications valid, external auditors must go through training every two years for a minimum of 40 hours based on training programs for auditors endorsed by the MoF. The training courses are very basic. On the other hand, the banking certification is much more demanding. Candidates must have at least three years of experience in the external audit of banks, and they have to pass written and oral exams on bank accounting, auditing and legislation. Then, to maintain their certification, they have to go through the same procedure of NBRB testing and examination every three years.

63. **Accountants and external auditors are members of two main associations:** the Belarus Public Association of Accountants (BPAA) and the Association of Certified Bookkeepers and Auditors (ACBA). BPAA has an active chairman and a few executive staff. Many of those members are chief accountants of SOEs. The BPAA has 5,000 members. There are no specific requirements for membership, except that they have to be chief accountants. The BPAA has its own accreditation program that includes around 100 hours of classes followed by an examination. The program is based on Belarus legislation in accounting and taxation and was passed by approximately 500 BPAA members.

64. **ACBA is a member of the Eurasian Council of Certified Accountants and Auditors (ECCAA).**²⁰ ACBA is not officially recognized by a legal decree. It was established in December 2000 and now has about 300 members; approximately half are Certified Accounting Practitioners (CAP) or Certified International Professional Accountants (CIPA), designations offered by the CIPA Examination Network (CIPAEN), a Russian-language international certification program for professional accountants.²¹ If CIPA graduates wish to maintain their designation, it is compulsory that they belong to ACBA. To become a member, candidates must pay the equivalent of EUR 27 per year and have their application approved by ACBA's board of directors. ACBA's board directors include external auditors, university professors and a representative of the NBRB. ACBA has the following working parties: the Accounting Committee, the Membership Committee, the IFRS Committee, the Education Committee and the Ethics Committee. ACBA offers some education and training activities, but these are not regular and not part of a compulsory, organized education program.

65. **ACBA's Charter states the following objectives:**

- develop the disciplines of accounting and auditing in line with international standards;
- act as a practical professional forum for the consideration of all matters relating to the practice of accounting and auditing;
- play an active role in the development of relevant national legislation;
- develop suitable ethical standards and enforce them;

¹⁹ Both the MoF and NBRB issue licenses to audit firms and individual auditors-entrepreneurs that comply with licensing requirements (as described in paragraphs 52 and 59 above).

²⁰ ECCAA is an association of 13 accounting bodies from Belarus, Moldova, Russia, Ukraine and Central Asia, and is based in Almaty. Its mandate is to unite the accounting and auditing associations in the former Soviet Union and to promote the CAP and CIPA program.

²¹ CIPAEN was founded in April 2002 to serve as the centralized independent examination administrator of the CAP and CIPA exams for ECCAA member bodies. Exams are delivered simultaneously in numerous locations throughout the countries of Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Russia (Moscow), Tajikistan, Ukraine and Uzbekistan. and CIPAEN relies on external ACCAs/CPAs and local experts in the development, quality control and grading process.

- provide members with effective professional support throughout their careers;
- provide and develop a suitable set of syllabi for training accountants and external auditors;
- represent the profession both in Belarus and internationally;
- represent their members and support and defend their interests;
- provide a forum for academic and theoretical research in the fields of accounting and auditing.

66. **There are no professional accounting and auditing bodies that are associate or full members of the International Federation of Accountants (IFAC).** Currently, ACBA does not have enough members to apply for status as an associate member, but is considering applying in the near future. IFAC requires that its members, both associate and full, make their best efforts to comply with its Statements of Membership Obligations (SMOs).²² ACBA has made some efforts to comply with the SMOs, but has not been able to meet all of them, for example, SMO 1, *Quality Assurance*, and SMO 6, *Investigation and Discipline*.

67. **The Belarus associations of professional accountants and auditors suffer from inadequate financing.** The BPAA does not have membership fees and the main sources of its financing are fees for training and some donations by individuals and entities. The ACBA has membership fees of around EUR 27 per year, but has no permanent staff and relies on the personal commitment of members, who contribute their time and effort to carrying out the necessary functions. All these factors, combined with the lack of recognition by either the state or the market, limit the further development of these associations.

68. **Although Belarus offers some organized education and training programs for accountants and external auditors, these do not sufficiently cover IFRS and ISA.** Nine individuals have designations from the Association of Chartered Certified Accountants of United Kingdom (ACCA), and it is believed that there are approximately 100 candidates for the ACCA study program at the present time. In addition, there are approximately 180 individuals with the CAP international designation, and three who passed the full CIPA examination program.

69. **Only three domestic audit firms that are members of international networks operate in Belarus.** Deloitte is the leading bank external auditor, with a staff of close to 80 people. Ernst and Young is smaller, with a staff of about 35 people. There is also a small KPMG office. There are many external auditors who work on their own or have only a few staff; this creates a potential threat to their independence, as they often have only a small number of clients.

70. **Except for the members of the associations and holders of foreign qualifications, accountants who prepare financial statements have, in many cases, received little or no training in modern, internationally recognized accounting techniques and financial reporting.** As a result, while Belarus has adopted NAS in line with IFRS, many preparers struggle to understand and implement their requirements. Bookkeeping and financial reporting are often conducted according to the tax regulations and concepts commonly used in the past. IFRS, however, are principles-based standards, which require interpretation and accounting estimates that are very different from the previous, strictly regulated, rules-based environment of Belarus. The capacity of preparers of financial

²² IFAC SMOs are designed to provide clear benchmarks to current and potential IFAC member organizations to assist them in ensuring high-quality performance by accountants worldwide. SMOs cover such issues as quality assurance, international education standards, international standards on auditing, the code of ethics, and investigation and discipline. For additional information, refer to <http://www.ifac.org/ComplianceProgram/>.

statements and the quality of financial reporting depend also, among other things, on improving their ability to understand and apply the principles and concepts put forward in NAS and IFRS. It is important to note that, in general, the situation is somewhat better in the financial sector than in the other sectors of economy.

71. **Educating the chief accountants who work at the majority of Belarus entities is key to improving the practical application of NAS and IFRS.** While the level of understanding of modern accounting concepts of newly qualified accountants may be higher than that of current accounting practitioners, the established accountants should be also given an opportunity to improve their theoretical and practical skills.

72. **The public and state perception of the role and quality of audits is not always adequate.** First, some state authorities believe that the role of external auditors is only to protect the state and ensure that entities fully meet their tax liabilities. Second, it is believed that external audit quality is low and that, although some external auditors charge high fees, they do not perform adequate audits. Instead, all they do is perform verification for tax purposes. Third, some external auditors charge very low audit fees to win clients from others.

73. **Individual external auditors are allowed to audit insurers and large enterprises.** This may create a problem of independence, as these individuals may have only one or a few clients and rely on the income from these limited sources. There should be more stringent performance and quality control requirements for external auditors of PIEs.

C. Professional Education and Training

74. **All participants in the corporate financial reporting process need better professional education and training in financial reporting, accounting and auditing.** Different levels and types of competence are required by different participants: preparers of financial statements need a good working knowledge of NAS and IFRS; bookkeepers need a basic knowledge of accounting; external auditors need knowledge of auditing standards and techniques in addition to accounting standards; regulators need specific knowledge of the law and regulations relating to financial reporting and accounting in their field; and taxation officers need to know both the tax regulations and the interaction between the tax regulations and the accounting principles used to prepare financial statements.

75. **The syllabus for financial reporting and accounting specialties is uniform in all universities.** This is ensured by a special committee under the Ministry of Education responsible for accounting syllabi. Nevertheless, the capacity of education and training in financial reporting, accounting and auditing is insufficient to meet the needs of the Belarus economy effectively. There are around 10 state universities and a few private universities offering accounting education. The uniform syllabus includes basic accounting subjects, different industry-related accounting subjects and auditing, all based on local legislation and practice. Only two of these subjects cover basic IFRS and ISA. Universities mostly teach local financial reporting, accounting and auditing legislation. At present, professional courses are scarce and have little or no market recognition. There is a need for the adoption and recognition of training that meets appropriate international educational standards. Measures are also needed to stimulate and improve the provision of Russian language accounting education and training.

76. **Belarus has no qualification scheme to help preparers and regulators achieve a minimum level of financial reporting, accounting and auditing skills.** Participants in the financial reporting process need to be encouraged to gain the education and training they need to meet the demands made of them in their role. This covers preparers in all sizes of entity, regulators, external auditors and even taxation officers; in almost all cases, this means

updating their skills to at least a basic level of modern accounting. The Belarus government, regulators, professional bodies and education providers should work together to decide on appropriate target educational standards and qualifications suitable for rapidly expanding Belarus' financial reporting, accounting and auditing needs.

77. **Certain representatives of the banking and corporate sectors recognize that the number of adequately IFRS educated accountants in Belarus is not sufficient.** As a result, when an entity prepares IFRS financial statements, it is usually the external auditors who do the work as the entity itself might have only a limited understanding of their content.

D. Setting Financial Reporting, Accounting and Auditing Standards

78. **The MoF issues NAS, usually based on the available Russian translation of IFRS.** NAS are actually developed by the MoF Department of Accounting and Financial Reporting Methodology, which has issued 22 NAS to date. The process of issuing NAS may include consultation with a methodological council consisting of professionals and academics, which provides opinions on certain NAS drafts. Draft NAS are not exposed to the public for comment.

79. **The MoF also issues NSA, again based on the available Russian translation of ISA.** In a majority of cases, any changes to ISA are made to comply with local legislation and legislative traditions. NSA are developed by the MoF Department of Auditing, which consists of 13 permanent working staff. The department has issued 38 NSA and a majority of them were revised in 2007-2008 to align with the available unofficial translation of ISA. The process of issuing NSA may include consultation with a methodological council including professionals and academics, which provides opinions on certain NSA drafts. Draft NSA are not distributed to the general public for comments.

80. **The MoF and the NBRB plan to have large entities and banks move towards using IFRS; the country has not, however, officially adopted IFRS, and entities now have to prepare two sets of financial statements, under NAS and IFRS, which significantly adds to costs of preparing financial information.** The government issued a state program in 1998 that mandated the transition to IFRS. Also, the MoF required 30 enterprises to prepare IFRS financial statements for their 2008 reporting periods. The same requirement applies to banks, as per NBRB decree. These efforts dictate that bank IFRS financial statements should be audited along with the NAS financial statements; this is not required, however, for the other entities.

E. Enforcing Financial Reporting, Accounting and Auditing Standards

E.1 Enforcing Financial Reporting and Accounting Standards

81. **Financial reporting and accounting standards are mainly enforced through the external auditing process and by controlling bodies such as the MoF Department of Audit and others, and by the tax authorities.** Existing enforcement activities are primarily focused on protecting state interests (mostly related to taxes), rather than on providing adequate financial information to the market. Also, as financial reporting and accounting requirements are tax driven, tax rules generally prevail over NAS. The regulators (except regulators of banks and insurers) do little enforcing of financial reporting and accounting standards; instead, they rely on existing legislation and mechanisms, and accept copies of audited financial statements already submitted to tax authorities. For their part, the insurance and banking sector regulators do make on-site visits and inspections, and perform additional enforcement work.

E.2 Enforcing Auditing Standards

82. **The MoF does oversee the quality of the work of the external audit profession.** It regularly inspects external auditors to review their compliance with licensing legislation, individual quality of their audit work and the appropriateness of their training. The associations of professional accountants and auditors have no enforcement or quality control powers, and there is no public oversight system of external auditors, but rather oversight by the state. The MoF has an external audit methodology council, with some professional external auditors serving as members, and its mandate is to review and advise the MoF and draft NSA and other proposed amendments to legislation. For example, in 2007, the MoF approved a code of ethics based on IFAC's Code of Ethics for Professional Accountants. The MoF will have to update the Belarus code of ethics to reflect the upcoming changes to IFAC's Code of Ethics, when these changes will be issued by IFAC.²³

83. **The MoF discharges its responsibility for the quality assurance of external audit work through its Department of Audit.** Each six months, the Department of Audit prepares an inspections plan that provides details on what the quality control inspection visits to external auditors should cover. On average, the department undertakes 50 quality control visits per year. During 2007 and the first half of 2008, the field visits led to the withdrawal of seven licenses (four from individual external auditors and three from audit firms) and the issuing warnings to 49 external auditors and audit firms. Typical field visit findings include inadequate working papers and absence of evidence that the audit opinion was based on sufficient audit work. The Department of Audit does not have a comprehensive NSA compliance checklist or any other comprehensive tool/program to enable inspectors to perform consistent and detailed reviews of compliance with all applicable NSA provisions. Also, there is a limited number of staff dedicated to this work, making it difficult to achieve good annual coverage of external auditors. The inspections cover auditor compliance with auditing legislation, licensing requirements, ethics requirements and NSA. It appears that the staff knows its subject matter.

²³ The International Ethics Standards Board for Accountants (IESBA) issued the revised Code of Ethics for Professional Accountants in July 2009.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

84. **This section provides a high-level overview of the significant differences between NAS and IFRS (the standards gap) and, given that enterprises are only required to prepare NAS financial statements, the compliance of financial statements with NAS (the compliance gap), to identify any systemic non-compliance issues.** The potential adverse impact of both gaps on the reliability of NAS-compliant financial statements is also analyzed.

The financial reporting and accounting standards gap

85. **There are major differences between NAS and IFRS and there is no systematic update of NAS to reflect regular changes in IFRS.** Appendix 1 summarizes the main differences between IFRS and NAS. Of the 22 NAS, some were developed based on IFRS principles, and some based on state needs and prescriptive accounting/bookkeeping traditions. NAS focus mostly on bookkeeping and journal entries issues, rather than on recognition and measurement principles and disclosure requirements. In addition some NAS are outdated or do not correspond to IFRS. NAS were issued during 2000-2007, with some based on IFRS available in translation at the time. In the meantime, the International Accounting Standards Committee (IASC) and its successor, the International Accounting Standards Board (IASB), have issued many new IFRS, and updated or repealed a number of others. Further, although they are integral components of IFRS, none of the interpretations issued by the International Financial Reporting Interpretations Committee have been incorporated into NAS, and only a few contain detailed comments and examples to provide guidance on how they should be used in specific circumstances.

86. **Because there are no NAS for some important matters that can involve material amounts, and because the level of disclosure under NAS is less demanding than under IFRS, NAS-based financial information tends to be incomplete, and even inaccurate, in certain cases.** Taking into consideration the complexity of transactions by enterprises in Belarus, NAS appear to be particularly needed for: (i) Framework for the Preparation and Presentation of Financial Statements (Framework); (ii) IAS 11 – Construction Contracts; (iii) IAS 12 – Income Taxes; (iv) IAS 40 – Investment Property; (v) IAS 41 – Agriculture; and (vi) IFRS 4 – Insurance Contracts. Furthermore, issued NAS and regulations are often less demanding than their counterpart IFRS, especially in terms of disclosure but also of recognition and measurement.

87. **The MoF has developed specific NAS for small enterprises and individual sole traders that have a special tax regime and use simplified accounting, which is useful for the micro-enterprise sector of the economy.** There is, however, no definition of medium-sized entities in the legislation and there are no simplified financial reporting and accounting rules for these enterprises. Normally, small and medium-sized enterprise (SME) requirements for financial information, both internal and external, are limited to reflecting simple business transactions, taxation and providing information to creditors and banks.

88. **Tax legislation is one of the biggest influences on financial reporting and accounting practices, despite the increase of demand for financial statements from other sources** (e.g., demand from banks and other finance providers, shareholders, potential investors). For example, tax rules prescribe expenditure limits, which influence financial accounting practices. Furthermore, tax legislation does not regulate revenues, and entities, including banks, use the cash method for revenue recognition to avoid the taxation of

unrealized profits.²⁴ Tax legislation permits compliance with NAS, but also requires some specific financial reporting rules for corporate income tax purposes.

89. **Because of the strong influence of taxation over financial reporting, preparers of financial statements struggle to understand the key differences between general purpose financial reporting under NAS or IFRS and financial reporting for tax purposes.** Often, the “tax numbers” are simply inserted into a standard chart of accounts to produce the general purpose financial statements. One reason for this is that entities are required to present their financial statements while submitting annual tax returns, and many believe that, if the information in the financial statements differs from that in the tax return, the tax authorities would consider this as suspicious or even illegal.

90. **As in many peer countries, Belarus practicing accountants are confused about financial reporting.** They view financial reporting for tax as the primary purpose for preparing financial statements and often lack a clear understanding of the differences between NAS or IFRS requirements and taxation regulations. Proper application of NAS or IFRS requires a shift in thinking, which takes time and needs to be assisted by adequate training.

91. **The NBRB issued 18 NFRSB for the banks and non-bank financial institutions that it regulates.** A comparison between NFRSB and IFRS is set out in Appendix 2. The most important IFRS for banks and non-bank credit institutions have their NFRSB equivalents. There are, however, important differences between NFRSB and IFRS that can make NFRSB financial information inconsistent with IFRS. These differences can be summarized as follows: (i) revenue recognition is based on the cash method for taxation reasons;²⁵ (ii) the provisions of IFRS 39 on fair value apply partially to assets and liabilities (for example to securities), while amortized cost based on effective interest rates is not used for the determination of fair value of loans and receivables, and nominal interest and values are used according to NFRSB; and (iii) the methodology for determining loan loss provisions for prudential purposes according to national legislation differs from IFRS principles (see below).

92. **The NBRB has issued specific regulations on loan loss provisioning by banks and non-bank financial institutions for statutory purposes, following an approach that differs from the one recommended by IFRS.** The regulation issued in 2006 requires that banks and non-bank financial institutions measure impairment losses on loans using four risk groups having variable provision rates depending on the condition of loans and receivables: (i) first risk group with non-overdue assets or extension of due date not more than once – no provisions are required; (ii) second risk group with extension of due date for two or more times – 10-30% provision is required; (iii) third risk group with overdue receivables for more than 30-90 days depending on types of receivables – a provision of 30-50% is required; and (iv) fourth risk group - a 100% provision is required. This approach, which is often followed by banking supervisors for regulatory financial reporting and is generally considered suitable for prudential purposes, is not consistent with IAS 39, which specifies that impairment losses should be estimated on the basis of the present value of expected future cash flows.²⁶ General purpose financial statements of banks and non-bank credit institutions (i.e., financial statements issued to shareholders and users other than the regulator) should be free of influence of prudential approaches. The best solution would be to adopt IAS 39 along with other IFRS (or at least the provisions of IAS 39 that deal with loan impairment) and, possibly,

²⁴ Starting from January 1, 2010, according to NBRB’s decision 125 of July 29, 2009, banks are obliged to use the accrual method for revenue and expenditure recognition.

²⁵ The accrual method will be introduced starting from 2010.

²⁶ The fact that the two approaches differ is confirmed by the difference in the evaluation of provisions on loans for statutory purposes and under IAS 39, which the ROSC noted by comparing the two sets of financial statements of two large banks. In one case in particular, the amount of provision estimated under IAS 39 as of December 31, 2007 was 50% lower than the amount recorded for statutory purposes.

to require banks and non-bank financial institutions to provide additional disclosures in general purpose financial statements and to reconcile the provisions determined using the two approaches so that the regulator can monitor the adequacy of the levels of loan-loss provisions from a regulatory perspective.

93. **The bank financial statements prepared under NFRSB and IFRS showed material differences for the years ended in 2006 and 2007.** The IFRS financial statements showed diminutions of capital and assets for certain banks of as much as 30 percent and 40 percent, respectively. If banks had been required to report under IFRS in 2007, two banks would have been required to increase their capital. These differences result mostly from the accounting for state-subsidized non-interest or low interest loans. NBRB is looking into this and is in discussion with banks and their external auditors to find the real causes so that it can remedy this difficulty. Although the move was not related to the financial crisis that just started at the time, the government had a plan to recapitalize state-owned banks by injecting as much as EUR 8 million per year over the next five years to correct the situation.

The compliance gap

94. **The financial statements of five banks (including two banks preparing both NFRSB and IFRS financial statements), five insurers, four JSCs and one SOE (with NAS and IFRS financial statements) were reviewed.**

95. **The review of bank IFRS financial statements did not reveal apparent material departures from IFRS.** Due to the current nature of banking activities, banks carry out relatively straightforward lending and investment transactions, resulting in relatively simple financial statements. Although the NBRB requires the preparation of consolidated financial statements for banks that have subsidiaries, very few banks had them.

96. **The audited financial statements of non-banking financial institutions that were reviewed showed some non-compliance with NAS.** The sample cannot be considered as representative because financial statements were not easily available. In all cases, the prescribed formats for the balance sheet, the income statement and the cash-flow statement were closely followed, but explanatory notes did not contain all the disclosure notes and accounting policies. This contradicts the Belarus Instruction No. 62 of 2002 on Accounting Policy of Organizations. Instruction No. 19 on Formats of Financial Statements and Guidelines on Preparation and Presentation of Financial Statements describes the content of disclosure notes, but does not refer to accounting policies and other important disclosures to be made according to IFRS. Instead, it requires some general information about the financial analysis and events about an entity's activities during the financial year. In the absence of complete information and sufficient details necessary to the analysis and understanding of the company's financial position, performance and cash flows, as well as contingencies and commitments, the financial statements do not provide a useful tool for shareholders, investors and lenders to make adequately informed corporate, investment or credit decisions.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

The auditing standards gap

97. **NSA are not totally in line with ISA.** The analysis of NSA compared to ISA is presented in Appendix 3. The majority of ISA were well covered by NSA, probably because Russian translations were available. NSA were adapted to local circumstances, legislation and terminology, which creates some differences. A few ISA had no NSA equivalents, for example, ISA 402 – Audit Considerations Relating to Entities Using Service Organizations, ISA 545 – Auditing Fair Value Measurements and Disclosures and ISA 710 – Comparatives. Further, not all the most recent ISA updates were reflected in NSA. As well, the IAASB, which sets and publishes ISA, completed its “Clarity Project” in March 2009, which resulted in significant changes to many ISA. With the implementation of IFRS for financial reporting, the missing ISA should be covered by NSA as soon as possible and existing ones updated to reflect the recent ISA changes.

The auditing standards compliance gap

98. **Except for one of the banks, all the NFRSB financial statements contained unqualified audit reports and the wording of the reports complied with the NSA required format, which is also in line with ISA.** The one bank’s qualified audit opinion related to its IFRS financial statements, where certain state subsidies were not recognized as equity.

99. **External auditors are very much concerned with taxation rules and not with making sure that financial statements are free from material misstatements.** Some discussions revealed the fact that entities believe that an external audit ensures that financial statements will be acceptable to the tax authorities and that they will not have to pay additional taxes or be fined for errors.

100. **Some external auditors have to develop their own methodology for audit work.** There is a need for an auditing manual with suggested methodology to help external auditors comply with NSA. Discussions with external auditors revealed that, under the existing constraints, it is difficult to comply with all the NSA and develop detailed methodologies. Presumably, therefore, external audits do not always comply with NSA. This was also confirmed by the results of the MoF’s quality control reviews, as described earlier. This is particularly important for smaller audit firms that do not have the capacity and resources to develop their own methodology. Methodological guidelines on auditing, developed by the MoF’s auditing department and approved by the MoF’s auditing methodological council, provide some practical help to audit firms. However, these recommendations do not substitute for a comprehensive auditing methodology that would enable full compliance with NSA.

101. **Some SOEs are not audited by external auditors.** As stated before, if SOEs have had an inspection from a ministerial departmental control/inspection body during a particular year, they are exempt from the external audit requirement, either entirely or for certain parts that were inspected. For Ministry of Industry reporting SOEs, about 80 percent are audited annually by independent external auditors and 20 percent by state bodies.

V. PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING

102. **Demand for transparent financial statements is still relatively low, due to the early stage of development of the stock market and the modest level of foreign investment.** Private investors place limited reliance on financial statements when conducting due diligence as part of their investment projects in Belarus. Instead, they request a separate set of IFRS-based financial statements.

103. **Meetings with bank credit departments revealed that lenders have a high level of confidence in the financial information provided by potential borrowers.** Most of the financial information is derived from tax reports, which bankers consider to be more conservative. In addition, they believe that the accuracy of financial information is due in large part to the high control culture of Belarus. Some bankers have special software to convert NAS financial statements into IFRS financial statements to show a better corporate picture.

104. **Institutional investors acknowledge the achievements in the early 2000s of developing an IFRS-based financial reporting framework and the improvement it brought.** They also noted that the banking sector is generally viewed as producing better quality financial information than the corporate sector. Enterprise reluctance to disclose information and the focus on the tax consequences of accounting are widely seen as obstacles to increasing transparency and enhancing the quality of financial reporting.

105. **Institutional investors also pointed to the state-owned sector as an area where information is rarely available and, when it is, it lacks transparency.** Further, given that the state owns a majority of enterprises and that the stock market is not well developed, other than for the banking sector, there are no financial analysts who review industries and produce market analyses.

VI. POLICY RECOMMENDATIONS

106. **The principal aim of this A&A ROSC assessment is to assist the authorities and other stakeholders in strengthening corporate financial reporting in Belarus** so that it will support the country's economic growth objectives. These objectives include:

- enhancing the Belarus business climate and bolstering domestic and foreign direct and portfolio investment;
- strengthening the stability and competitiveness of the banking and non-banking financial sectors and mitigating the risk of crises due to loan collection problems or a weak capital base;
- encouraging greater transparency in both state and privately owned enterprises, allowing shareholders and the public to assess management performance and influence its behavior;
- aligning the legal framework of financial reporting, accounting and auditing with best international practices;
- facilitating SME access to credit by encouraging a shift from collateral-based lending decisions to lending decisions based on the financial performance of the prospective borrower, thereby supporting growth in the SME sector; and
- helping to ensure that the financial reporting, accounting and auditing rules applicable to different types and sizes of entity are appropriate to the needs of those entities and the users of their financial statements.

107. **This report sketches the policy recommendations to support the implementation of accounting and auditing reform and ultimately enhance the quality of corporate financial reporting.** The recommendations of this ROSC are interrelated and mutually supportive, designed to collectively improve the financial reporting, accounting and auditing environment. For example, good financial reporting and accounting standards are jeopardized if practitioners do not understand how to translate them into journal entries; a rigorous statutory framework is unlikely to be effective if it is not enforced. Additionally, some recommendations will not have an immediate effect but will still remain of high priority if the financial reporting environment is to be upgraded to international standards within a reasonable timeframe.

108. **The policy recommendations outlined in this report are based on the assumption that long-term country objectives include thorough modernization of the accounting and auditing profession and the development of a business environment conducive to the preparation of transparent financial information compliant with international standards.** As set forth in this report, achievement of these objectives will require a shift in the business culture of Belarus, supported by an ongoing commitment to a program of continuous improvement in the country's legal framework, institutions, accounting and auditing profession and education system. Policies should not be developed and enacted, however, without giving due regard to the country's ability, both in terms of capacity and resources, to carry them out. The MoF and the professional associations should work together to ensure that qualification and education efforts are complimentary, not competitive, in the development phase. The policy recommendations, while challenging, can be carried out in the short to medium term and will lead to the achievement of the long-term objectives of financial reporting reforms. The recommendations fall into the following key areas:

- statutory framework;
- financial reporting and accounting standards;
- auditing standards;
- monitoring and enforcement;
- profession and ethics;
- education and training.

109. **These recommendations require a holistic approach to implementation.** The MoF should establish a multidisciplinary National Steering Committee (NSC) to champion and coordinate the financial reporting, accounting and auditing reforms. The NSC should advise policymakers and regulators on the implementation of the recommendations. Based on the successful experience of other countries, this report recommends that the NSC develop a Country Strategy and a detailed Country Action Plan that clearly sets out the key actions and allocates responsibilities for implementing the necessary reforms. The Country Action Plan should include a itemized budget indicating the resources necessary for successful implementation. The government, policymakers and development partners should then work together to secure those resources to achieve the common goal of enhancing the quality and availability of financial information.

Statutory Framework

110. **Allow entities that already prepare IFRS financial statements for their shareholders or lenders to file those financial statements for general and statutory purposes.** This would reduce the cost of the financial reporting process, avoid duplication in

accounting methodologies and create the opportunity for other potential users to benefit from IFRS-based financial information.

111. **Introduce a principles-based and flexible system to regulate external audit fees.** External auditors who charge unreasonably low fees should be investigated and should justify the fees charged. This will encourage better audit work quality and allow auditors to be remunerated at a level sufficient to improve their education and training.

112. **Revise the legislation on the appointment of external auditors of financial institutions.** Existing laws should be amended so that the regulators are given the power to veto the appointment of external auditors of insurers, banks and non-bank financial institutions. A due process needs to be established for determining if auditors have adequate expertise or independence, or follow established professional standards. Further, the regulators should have the power to enquire about the capacity of the auditors that will carry out particular engagements to ensure they meet established standards of practice (e.g., technical competence, independence from the client, etc.). The legislation should also give regulators the authority to access external auditor working papers. This will create a sound framework for fully leveraging the work of registered auditors.

113. **Establish better criteria for determining which enterprises should be audited and require that all SOEs of a certain size be audited annually irrespective of state inspections.** The size criteria appear to be low in the context of the Belarus market and should consider not only revenues, but also other elements, such as the number of employees, total assets or total borrowings.²⁷ Also, SOEs meeting the specified criteria should be audited annually, regardless of whether they have been inspected by state control/inspection bodies.

114. **Revise the legislation to differentiate the financial reporting requirements imposed on entities according to the level of public interest.** Public Interest Entities (PIEs) should be required to fully apply IFRS for financial reporting. In this case, certain provisions of the national accounting framework will have to be waived for entities applying IFRS, such as, for example, certain prescribed bookkeeping requirements.

115. **Revise the legislation on responsibilities for the approval of financial statements.** Senior management of an enterprise should be made responsible for approving financial statements, and that approval should be evidenced by their signature on the financial statements. The chief accountant should be responsible to senior management for performing the accounting, bookkeeping, compilation of financial statements and complying with applicable legislation.

116. **Improve legislation for the appointment of external auditors of PIEs.** Decisions on the appointment of external auditors of PIEs should be made at the general meeting of shareholders. Over the longer term, a requirement could be put in place to have an audit committee responsible for the auditing process. Members of the audit committee would have to be independent directors, that is, members of the board of directors who do not also serve as corporate officers or have other relationships with the company that might impair independence. An audit committee is normally created under the supervisory board and, as a matter of good practice, should include independent directors who are financial reporting experts. In addition to recommending external auditors for appointment by the shareholders, audit committees should also take on the following key roles:

²⁷ The EU legislation requires that entities with limited liability should be audited. Entities of a certain size could, however, be exempted from audit if two of three criteria are not exceeded, as follows: (i) balance sheet total: EUR 4,400,000; (ii) net turnover: EUR 8,800,000; (iii) average number of employees during the financial year: 50. These limits could be adjusted to reflect the circumstances of Belarus, including the size of its economy.

- monitoring the financial reporting process;
- monitoring the effectiveness of the company's internal control, internal audit where applicable and risk management systems;
- monitoring the audit of the annual and consolidated financial statements; and
- reviewing and monitoring the independence of the external auditors and, in particular, the provision of additional services to the audited entity.

117. **Enhance access to financial information of entities through appropriate mechanisms for making full sets of audited financial statements (including the disclosure notes and the audit report) available to the public.** This could be done in stages over the next five years. Initially, only PIEs would have to publish their financial statements; at a later stage, all entities with limited liability would do so. The financial statements would be filed with a single registry. Companies could also file their financial statements on their websites. Any interested party (authorities, creditors, suppliers, banks, and any third party) could then access the financial statements in the registry or entity website, or request a hard copy, which would be made available for a limited fee.

Financial reporting and accounting standards

118. **Incorporate the fundamental principles and purposes of financial reporting in the Accounting Law in a manner consistent with the IASB Framework for the Presentation and Preparation of Financial Statements.** The law should also explicitly mandate the use of either NAS or IFRS for statutory reporting purposes under relevant corporate, banking and insurance legislation, and provide legal backing for the adoption and use of IFRS for statutory purposes. Detailed forms and requirements should be dealt with in secondary regulations. Currently, the accounting framework deals mostly with bookkeeping issues and less with principles of financial reporting for general purposes.

119. **Subject SMEs to simplified reporting requirements appropriate to their size and nature.** SMEs should be permitted, but not required, to apply IFRS for financial reporting. NAS should be further aligned with IFRS. Also, the IFRS for SMEs should be monitored – these may be useful for NAS development.

120. **Establish a continuous and sustainable process for IFRS adoption.** Appropriate mechanisms should be created to reflect changes in IFRS on a timely basis. Updates that reflect these changes should be disseminated on a regular and timely basis to accountants, external auditors, civil servants and regulators.

Auditing standards

121. **Fully adopt ISA or put in place appropriate mechanisms to ensure ongoing alignment between NSA and ISA.** Although the majority of ISA are fully incorporated in NSA, NSA have not been fully updated to reflect most the most recent changes to ISA. Either the Russian translation of ISA should be adopted in full or a mechanism should be put in place to ensure ongoing alignment of NSA with ISA. Updates reflecting periodic changes to ISA should be disseminated on a regular and timely basis to accountants, external auditors, civil servants and regulators.

122. **Align the terminology used in the Audit Law with terminology used in ISA and other relevant IFAC standards as well as relevant international best practice.** The terminology used in the law is not always in line with international practice. For example the use of the terms “inspection/examination” when referring to the external audit and the fact that the audit includes the “detection of violations of legislation” contribute to the overall

perception that the external audit is an additional state inspection function, protecting the interests of the state rather than the interests of the shareholders/owners.

123. Publish an auditing manual with suggested methodology to help external auditors comply with NSA.

Monitoring and enforcement

124. Strengthen the powers of securities and insurance supervisors and their capacity to enforce financial reporting and accounting standards.

125. Strengthen the oversight system for external auditors, including subjecting external auditors of PIEs to a more stringent quality control process. Oversight should be improved by transforming the existing state oversight into a more broadly based public oversight system that builds on the current model. The costs of a public oversight system are normally covered by the government and may be shared with the profession. An area of focus in the oversight system should be to ensure that the external auditors who audit PIEs have adequate resources to discharge their responsibilities appropriately.

Profession and ethics

126. Strengthen certification requirements for external auditors by including in their education programs subjects specified by IFAC's International Education Standards. The MoF needs to ensure that candidates have a professional accounting education that covers:

- financial accounting and reporting; management accounting and control; taxation; business and commercial law; audit and assurance; finance and financial management; and professional values and ethics;
- economics; business environment; corporate governance; business ethics; financial markets; quantitative methods; organizational behavior; management and strategic decision making; marketing; and international business and globalization; and
- general knowledge of information technology (IT); IT control knowledge; IT control competencies; IT user competencies; and one of, or a mixture of, the competencies of the roles of manager, evaluator or designer of information systems.

127. Certification requirements for external auditors should also include an adequate knowledge of IFRS and ISA evaluated using internationally accepted knowledge testing. The certification requirements for statutory external auditors should also allow the partial or total recognition of international certificates that comply with IFAC requirements. At the present time, the certification process for external auditors does not cover knowledge of ISA and IFRS, and holders of certificates issued by full IFAC members are required to pass all examinations for obtaining an audit certificate. Belarus also requires an oral examination, which in certain circumstances, can be subjective and is not considered to be best practice. Improving the certification process by introducing only written tests and partially or totally recognizing international certificates will contribute to improving the overall quality of external auditors.

128. Evaluate international professional designations of external auditors against IFAC's International Education Standards. This will allow the MoF and the NBRB to assess whether full or partial exemptions from domestic examinations should be granted to external auditors holding international professional designations.

129. **Establish a public oversight system for the external audit profession.** This public oversight system would need to rely fully or partially on the procedures and mechanisms of the professional associations, provided these are acceptable to the oversight body.

130. **Develop transparency requirements for external auditors that audit PIEs.** The external auditors of PIEs have greater accountability to the general public and, therefore, should be more transparent to the public. The transparency requirements for these external auditors should include publishing annual transparency reports that would include information about the firms and their activities, such as their ownership and governance structures, a list of PIEs audited, internal quality control systems, information about the results of the most recent external quality control reviews, practices that ensure independence, continuing education practices, and total revenue divided into fees for external audit services and fees charged for other assurance services, tax advisory services and other non-audit services, as well as the basis for partners' remuneration

Education and training

131. **Implement a comprehensive capacity development program for all participants and stakeholders in the corporate financial reporting process.** This would include training for preparers, external auditors, chief accountants, civil servants and regulators on a more frequent basis. It will allow all participants in the financial reporting process to keep up to date with frequent changes in IFRS and ISA.

132. **Align university curricula with international standards of financial reporting, accounting and auditing.** The curricula should at least include the fundamental principles of IFRS and ISA, IFAC's Code of Ethics and the OECD principles of good corporate governance. The most modern training materials should be acquired and renewed on a regular basis to provide students with an up-to-date education.

133. **Establish a program to train more lecturers in IFRS and ISA.** As noted by university representatives and practitioners, there is a need to increase the number of adequately trained lecturers to expand access to high-quality training on IFRS and ISA.

134. **Align the continuing professional development (CPD) requirements of the MoF and associations of professional accountants and external auditors with IFAC's International Education Standards.** The MoF and associations of accountants and external auditors should require all professional accountants and external auditors to develop and maintain competencies relevant and appropriate to their work and professional responsibilities. As a minimum, accountants and external auditors should be required to: (i) complete at least 120 hours of equivalent learning units of relevant professional development activity in each rolling three-year period, of which 60 hours or equivalent learning units should be verifiable; (ii) complete a least 20 hours of equivalent learning units in each year; and (iii) track and measure learning activities to meet the above requirements.

APPENDIX 1

Summary of differences between IFRS and NAS

IFRS	NAS	Comments
Framework for the Preparation and Presentation of Financial Statements (Framework)	No equivalent NAS	N/A
IAS 1 – Presentation of Financial Statements	Guideline No. 19 on formats of financial statements and guidelines on preparation and presentation of financial statements	Prescribed formats and description on each line item. The formats are in line with IAS 1, but not all provisions of IAS 1 are included; for example, there are no requirements to disclose significant accounting policies, except cases when there are significant changes in opening balances due to changes in accounting policies.
IAS 2 – Inventories	Guideline No. 114 on accounting of materials	Detailed prescribed methodology for initial valuation, documentation, and bookkeeping. There are some substantial differences with IAS 2, for example: LIFO method is allowed, while FIFO is not; there is no provision for valuation in the balance sheet on the basis of lowest value between cost and net realizable value and there are no disclosure requirements.
IAS 7 – Cash-Flow Statement	No equivalent guideline or instruction	N/A
IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	Guideline No. 62 of 2002 on accounting policy of organization, and Guideline No. 83 of 2005 on changes in cases of errors	Accounting policy – broadly in line with IAS 8, and requires disclosure of methods and principles used in accounting, i.e. accounting policies. However, no requirement to restate comparative information from previous year in case of changes. Also, the accounting estimates are not covered by this guideline. Errors – changes are made in current period, no requirements to restate comparative prior period data. Also, there are no disclosure requirements.
IAS 10 – Events After the Balance Sheet Date	Guideline No. 121 of 2001 on events after the reporting date	The same principles are used as in IAS 10 but there is no requirement to disclose the date of authorization for issue of the financial statements
IAS 11 – Construction Contracts	No equivalent guideline or instruction	N/A
IAS 12 – Income Taxes	No equivalent guideline or instruction	N/A

APPENDIX 1 (continued)

Summary of differences between IFRS and NAS

IFRS	NAS	Comments
IAS 16 – Property, Plant, and Equipment (PPE)	Guideline No. 118 of 2001 on accounting for fixed assets and intangible assets	For fixed assets – principles are based on IAS 16, however: (i) no requirement for impairments tests; (ii) depreciation is included in separate guideline; (iii) revaluations are made in accordance with other legislation that is very prescriptive and does not necessarily lead to reliable estimates of values.
	Guidelines No. 187/110/96/18 of 2001 on depreciation for fixed assets and intangible assets (by the Ministry of Economy, the MoF, the Ministry of statistics, and the Ministry of Architecture)	IAS 4 was withdrawn from 1999 and replaced by IAS 16, 22 and 38, while in Republic of Belarus it still exists. The same four methods are provided as in IFRS, but the guidelines are very prescriptive on, for instance, amortization norms and classification of assets.
IAS 17 – Leases	Guideline No. 75 of 2004 on accounting for leasing operations	The national guideline departs significantly from IAS 17. There is no clear distinction between finance and operating lease in the guideline. According to legislation, the finance lease is recognized only if the leased asset is purchased by the lessee at the end of the lease, otherwise it is considered an operating lease and the object is not reflected in the balance sheet of lessee.
IAS 18 – Revenue	Guideline No. 181 of 2003 on accounting for revenues.	The guideline is incomplete compared to IAS 18. Although the Accounting Law provides only accrual method for revenue recognition, the guideline also describes cash methods in case it is used. Also, the guideline primarily deals with accounting entries and less with principles and disclosure requirements.
IAS 19 – Employee Benefits	No equivalent guideline or instruction	N/A
IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance	Guideline No. 17 of 2007 on grant receipts, and Guideline No. 108 on state help for juridical persons	The principles of IAS on revenue recognition are used in the guidelines. The guidelines are prescriptive in terms of accounting entries, less detailed in terms of possible complex transactions and disclosures are focused on specific reporting form that is submitted by entities receiving Government grants, amounts and purpose of state financing.
IAS 21 – The Effects of Changes in Foreign Exchange Rates	Guideline No. 78 of 2000 on accounting for assets and liabilities expressed in foreign currency	Foreign exchange differences are not recognized as revenues and expenditures of the period they occur but rather as prepaid expenses and differed revenues. Subsequently, these are recorded directly to equity (profit or loss and/or reserves). Detailed rules are prescribed when these transactions are recorded depending on what type of transaction caused the exchange difference. There are no disclosure requirements.
IAS 23 – Borrowing Costs	No equivalent guideline or instruction	N/A
IAS 24 – Related Party Disclosures	Instruction No. 161 of 2006 on accounting for disclosures of information on affiliated parties	The instruction refers to law on business societies on determination of related parties and the list does not comply fully with IAS 24, in particular, there is no concept of control in the law. Also, SOEs are not mentioned. The list of disclosures appears to be in line with IAS 24.

APPENDIX 1 (continued)**Summary of differences between IFRS and NAS**

IFRS	NAS	Comments
IAS 27 – Consolidated Financial Statements and Accounting for Investments in Subsidiaries	No equivalent guideline or instruction	N/A
IAS 28 – Accounting for Investments in Associates	Guideline No. 161 of 2006 on investments in dependent entities	Although the guideline was drafted based on IAS 28, it does not contain fundamental provisions, such as disclosures, definition of an associate and description of cases when the cost method can be applied (for example investor is itself a wholly owned subsidiary).
IAS 29 – Financial Reporting in Hyperinflationary Economies	No equivalent guideline or instruction	N/A
IAS 31 – Financial Reporting of Interests in Joint Ventures	Guideline No. 161 of 2006 on investments in dependent entities	The guideline is based on IAS 31, provides for recognition of interest in a jointly controlled entity using either proportionate consolidation or the equity method, and there are disclosure requirements. Still, this document prescribes accounting entries and how to use the chart of accounts and is less focused on disclosures.
IAS 32 – Financial Instruments: Presentation	Guideline No. 164 of 2006 on disclosures and presentation in financial statements of financial instruments	Based on older version of IAS 32 and contains both disclosure and presentation requirements. Also, the guideline is less detailed and does not describe such transactions as, for example, interest, dividends, losses and gains relating to a financial liability be recognized as income or expense in profit or loss, as well as possibilities for offsetting of assets and liabilities.
IAS 33 – Earnings Per Share	Guideline No. 198 of 2004 on earnings per share	The guideline is based on IAS 33 (older version) and uses the same principles. However, the guideline is applicable to all commercial entities and not only to publicly traded, which is an excessive requirement.
IAS 34 – Interim Financial Reporting	Instruction No. 88 of 2005 on accounting and reporting "Interim accounting reporting"	The NAS was not available to the team.
IAS 36 – Impairment of Assets	No equivalent guideline or instruction	N/A
IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	Guideline No. 168 of 2005 on Provisions, Contingent Liabilities and Contingent Assets	The guideline is largely compliant with IAS 37.

APPENDIX 1 (continued)**Summary of differences between IFRS and NAS**

IFRS	NAS	Comments
IAS 38 – Intangible Assets	Guideline No. 118 of 2001 on accounting for fixed assets and intangible assets	The guideline is based on the same principles as IAS 38. However, it is incomplete with respect to certain provisions, such as treatment of goodwill and impairment testing.
	Guideline No. 187/110/96/18 of 2001 on depreciation for fixed assets and intangible assets (by the Ministry of Economy, the MoF, the Ministry of statistics, and the Ministry of Architecture)	The IAS 4 was withdrawn from 1999 and replaced by IAS 16, 22 and 38, while in Republic of Belarus it still exists. The same four methods are provided as in IFRS, but the guideline is very prescriptive on, for instance, amortization norms and classification of assets.
IAS 39 – Financial Instruments: Recognition and Measurement	Guideline No. 164 of 2006 on accounting for securities	The guideline deals only with securities and simple types of transactions and, therefore, is substantially incomplete and does not contain all the provisions of IAS 39 with respect to financial instruments and their recognition and measurement and disclosure.
IAS 40 – Investment Property	No equivalent guideline or instruction	N/A
IAS 41 – Agriculture	No equivalent guideline or instruction	N/A
IFRS 1 – First Time Adoption of IFRS	No equivalent guideline or instruction	N/A
IFRS 2 – Share-based Payment	No equivalent guideline or instruction	N/A
IFRS 3 – Business Combinations	Instructions No. 184 of 2004 on financial reporting	The instructions are based on IAS 22, now superseded, and does not reflect all the subsequent changes made in IFRS 3, particularly on fair values and goodwill. Also, the instructions are prescriptive on accounting records.
IFRS 4 – Insurance Contracts	No equivalent guideline or instruction	N/A
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Instructions No. 183 of 2004 on “Discontinuing operations”	The instructions are based on IAS 35, now superseded, and deals only with discontinuing operations (and not with assets held for sale).
IFRS 6 – Exploration for, and Evaluation of, Mineral Resources	No equivalent guideline or instruction	N/A
IFRS 7 – Financial Instruments Disclosure	No equivalent guideline or instruction	N/A
IFRS 8 – Operating Segments	No equivalent guideline or instruction	N/A

APPENDIX 2

Summary of Differences between IFRS and NFRSB

IFRS/IAS	NFRSB	Comments
Framework for the Preparation and Presentation of Financial Statements (Framework)	No equivalent NFRSB	N/A
IAS 1 – Presentation of Financial Statements	NFRSB 1 – Presentation of Financial Statements	Largely in line with IAS 1. However, accrual basis is used if there are no other provisions in other legislation. In absence of NFRSB on revenue, currently banks recognize revenues on cash basis following taxation rules.
IAS 2 – Inventories	No equivalent NFRSB	N/A
IAS 7 – Cash Flow Statement	NFRSB 7 – Cash Flow Statement	In line with provisions of IAS 7.
IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	NFRSB 8 – Accounting Policies, Changes in Accounting Estimates and Errors	In line with provisions of IAS 8.
IAS 10 – Events After the Balance Sheet Date	NFRSB 10 – Events After the Balance Sheet Date	In line with provisions of IAS 10.
IAS 11 – Construction Contracts	No equivalent NFRSB	N/A
IAS 12 – Income Taxes	No equivalent NFRSB	N/A
IAS 16 – Property, Plant, and Equipment (PPE)	No equivalent NFRSB	N/A
IAS 17 – Leases	No equivalent NFRSB	N/A
IAS 18 – Revenue	No equivalent NFRSB	N/A
IAS 19 – Employee Benefits	No equivalent NFRSB	N/A
IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance	No equivalent NFRSB	N/A
IAS 21 – The Effects of Changes in Foreign Exchange Rates	NFRSB 21 – The Effects of Changes in Foreign Exchange Rates	In line with provisions of IAS 21.
IAS 23 – Borrowing Costs	No equivalent NFRSB	N/A
IAS 24 – Related Party Disclosures	NFRSB 24 – Related Party Disclosures	No significant departures from IAS 24.
IAS 27 – Consolidated and Individual Financial Statements	NFRSB 27 – Consolidated and Individual Financial Reporting	No significant departures from IAS 27.
IAS 28 – Accounting for Investments in Associates	NFRSB 28 – Accounting for Investments in Associates	No significant departures from IAS 28.

APPENDIX 2 (continued)

Summary of Differences between IFRS and NFRSB

IFRS/IAS	NFRSB	Comments
IAS 29 – Financial Reporting in Hyperinflationary Economies	NFRSB 29 – Financial Reporting in Hyperinflationary Economies	Broadly in line with IAS 29.
IAS 31 – Financial Reporting of Interests in Joint Ventures	NFRSB 31 – Interests in Joint Ventures	In line with provisions of IAS 31.
IAS 32 – Financial Instruments: Presentation	NFRSB 32 – Financial Instruments: Presentation	No significant departures from IAS 32.
IAS 33 – Earnings Per Share	NFRSB 33 – Earnings Per Share	No significant departures from IAS 33. In addition, an annex to the NFRSB with examples of calculations is provided.
IAS 34 – Interim Financial Reporting	NFRSB 34 – Interim Financial Reporting	In line with provisions of IAS 34.
IAS 36 – Impairment of Assets	No equivalent NFRSB	N/A
IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	NFRSB 37 – Provisions, Contingent Liabilities and Contingent Assets	Largely in line with IAS 37. One deviation - NFRSB do not include provision for use of the discount rate that should be the pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability [IAS 37.47].
IAS 38 – Intangible Assets	No equivalent NFRSB	N/A
IAS 39 – Financial Instruments: Recognition and Measurement	NFRSB 39 – Financial Instruments: Recognition and Measurement	Not entirely in line with IAS 39. NFRSB 39 fair value provisions apply partially to assets and liabilities (for example for securities), but for determination of fair value of loans and receivables - the amortized costs based on effective interest rates is not used and nominal interest and values are used according to NFRSB.
IAS 40 – Investment Property	No equivalent NFRSB	N/A
IAS 41 – Agriculture	No equivalent NFRSB	N/A
IFRS 1 – First Time Adoption of IFRS	No equivalent NFRSB	N/A
IFRS 2 – Share-based Payment	No equivalent NFRSB	N/A
IFRS 3 – Business Combinations	NFRSB 3-F – Combinations of juridical persons	In line with provisions of IFRS 3.
IFRS 4 – Insurance Contracts	No equivalent NFRSB	N/A
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	NFRSB 5-F – Non-current Assets Held for Sale and Discontinued Operations	In line with provisions of IFRS 5.
IFRS 6 – Exploration for, and Evaluation of, Mineral Resources	No equivalent NFRSB	N/A
IFRS 7 – Financial Instruments Disclosure	NFRSB 7-F – Financial Instruments Disclosure	Largely in line with provisions of IFRS 7, except departures from IAS 39 as described above.
IFRS 8 – Operating Segments	No equivalent NFRSB	N/A

APPENDIX 3

Mapping of ISA with NSA

ISA	NSA	Comments
ISA 200 – Objective and General Principles Governing an Audit of Financial Statements	Rules for auditing activity “Objective and General Principles Governing an Audit of Financial Statements” (MoF decree 114 of 2000)	
ISA 210 – Terms of Audit Engagements	Rules for auditing activity “Conditions for auditing services contracts” (MoF decree 106 of 2001)	
ISA 220 – Quality Control for Audits of Historical Financial Information	Rules for auditing activity “Internal quality control for audits” (MoF decree 8 of 2002)	
ISA 230 – Documentation	Rules for auditing activity “Working documentation of an external auditor” (MoF decree 81 of 2000)	
ISA 240 – The Auditor’s Responsibility To Consider Fraud in an Audit of Financial Statements	Rules for auditing activity “Actions of external auditor’s organization in case of inaccuracies in financial statements and of non-compliance with legislation” (MoF Decree 33 of 2006)	
ISA 250 – Considerations of Laws and Regulations in an Audit of Financial Statements	No equivalent NSA, but the content is included in Rules for auditing activity “Actions of external auditor’s organization in case of inaccuracies in financial statements and in non-compliance with legislation” (MoF Decree 33 of 2006)	
ISA 260 – Communications of Audit Matters with those Charged with Governance	Rules for auditing activity “Communication with management of audited entity” (MoF Decree 124 of 2002) Rules for auditing activity “Report of audit firm on auditing results” (MoF decree 128 of 2003)	
ISA 300 – Planning an Audit of Financial Statements	Rules for auditing activity “Audit planning” (MoF Decree 81 of 2000)	
ISA 315 – Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement	Rules of auditing activity “Understanding of internal control systems of audited entity and risk assessment of material misstatements in financial statements”(MoF decree 203 or 29.12.2008)	
ISA 320 – Audit Materiality	Rules for auditing activity “Materiality and audit risk” (MoF decree 24 of 2001)	
ISA 330 – The Auditor’s Procedures in Response to Assessed Risks	No equivalent NSA	

APPENDIX 3 (continued)**Mapping of ISA with NSA**

ISA	NSA	Comments
ISA 402 – Audit Considerations Relating to Entities Using Service Organizations	No equivalent NSA	
ISA 500 – Audit Evidence	Rules for auditing activity “Audit evidence” (MoF decree 114 of 2000)	
ISA 501 – Audit Evidence – Additional Consideration for Specific Items	Rules for auditing activity “Audit evidence in some specific cases” (MoF decree 115 of 2005)	
ISA 505 – External Confirmations	Rules for auditing activity “Confirmation of information from external sources” (MoF decree 165 of 2005)	
ISA 510 – Initial Engagements – Opening Balances	Rules for auditing activity “Opening and comparative balances in financial statements” (MoF decree 124 of 2002)	
ISA 520 – Analytical Procedures	Rules for auditing activity “Analytical procedures” (MoF decree 9 of 2001)	
ISA 530 – Audit Sampling and Other Selective Testing Procedures	Rules for auditing activity “Audit sampling” (MoF decree 77 of 2001)	
ISA 540 – Audit of Accounting Estimates	Rules for auditing activity “Audit of Accounting Estimates” (MoF decree 86 of 2002)	
ISA 545 – Auditing Fair Value Measurements and Disclosures	No equivalent NSA	
ISA 550 – Related Parties	Rules for auditing activity “Audit of transactions with related parties” (MoF decree 35 of 2002)	
ISA 560 – Subsequent Events	Rules for auditing activity “Reflecting in audit conclusion of events occurred after reporting date” (MoF decree 100 of 2003)	
ISA 570 – Going Concern	Rules for auditing activity “Going concern in activity of audited entity” (MoF decree 45 of 2003)	
ISA 580 – Management Representations	Rules for auditing activity “Explanations by management of audited entity” (MoF decree 35 of 2002)	

APPENDIX 3 (continued)

Mapping of ISA with NSA

ISA	NSA	Comments
ISA 600 – Using the Work of Another Auditor	Rules for auditing activity “Using of results of work of another external auditor” (MoF decree 106 of 2001)	
ISA 610 – Considering the Work of Internal Audit	Rules for auditing activity “Using results of work of internal auditor” (MoF decree 9 of 2001)	
ISA 620 – Using the Work of an Expert	Rules for auditing activity “Using results of the work of an expert” (MoF decree 123 of 2001, as amended in 2007)	
ISA 700 – The Auditor’s Report on Financial Statements	Rules for auditing activity “Audit conclusion on financial statements” (MoF decree 128 of 2003)	
ISA 701 – Modifications to the independent auditor’s report	Rules for auditing activity “Audit conclusion on financial statements” (MoF decree 128 of 2003)	In the NSA system the requirements of ISA 700 and 701 are merged
ISA 710 – Comparatives	Rules for auditing activity “Opening and comparative balances in financial statements” (MoF decree 124 of 2002)	In the NSA system the requirements of ISA 510 and 710 are merged
ISA 720 – Other Information in Documents Containing Audited Financial Statements	Rules for auditing activity “Other Information in Documents Containing Audited Financial Statements” (MoF decree 133 of 2002)	
ISA 800 - The Independent Auditor’s Report on Special Purpose Audit Engagements	Rules for auditing activity “Report (audit opinion) on special audit engagement” (MoF decree 8 of 2002)	
No equivalent ISA	Rules for auditing activity “Environmental issues in audit of financial statements” (MoF decree 142 of 2004)	In the ISA framework, this issue was covered in practice statement 1010, but withdrawn in 2004.
No equivalent ISA	Rules for auditing activity “Auditor’s education” (MoF decree 45 of 2003)	This topic is not covered in ISA.

APPENDIX 3 (continued)**Mapping of ISA with NSA**

ISA	NSA	Comments
No equivalent ISA	Rules for auditing activity "Requirements and rules on auditing activity for audit organizations and individual auditors-entrepreneurs" (MoF decree 4 of 2003)	
No equivalent ISA	Rules for auditing activity "Audit under conditions of computer processing of information" (MoF decree 163 of 2002)	In the ISA framework, this issue was covered in practice statement 1005, but currently these practice statements are withdrawn.
No equivalent ISA	Rules for auditing activity "Risk assessment and control under in conditions of computer processing of information" (MoF decree 38 of 2004)	In the ISA framework, this issue was covered in practice statement 1001-1003, but currently these practice statements are withdrawn.
No equivalent ISA	Rules for auditing activity "Analysis of forecasts of financial information" (MoF decree 165 of 2003)	
No equivalent ISA	Rules for auditing activity "Audit-related services" (MoF decree 100 of 2003)	
No equivalent ISA	Rules for auditing activity "Report (audit opinion) on special auditing engagement" (MoF decree 8 of 2002)	