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Report on the Observance of Standards and Codes in Accounting and Auditing for the Kyrgyz Republic

April 2022

KAREP

Kyrgyz Audit and Reporting Enhancement Project

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PREFACE

Reports on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A) assess financial reporting and auditing standards, institutions, and practices in participating countries. These reports form part of a joint initiative implemented by the World Bank and the International Monetary Fund to review the quality of implementation of internationally recognized standards and principles in 12 key areas (the ROSC program) with a view to promoting financial and economic stability.

This report provides an assessment of financial reporting and auditing requirements and practices within the corporate sector in the Kyrgyz Republic and sets forth areas for consideration for improving the institutional environment for accounting and auditing. The ROSC A&A uses international benchmarks of good practice governing financial reporting and auditing in the assessment, including International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). This report updates an earlier assessment which was published in 2008 and was undertaken following a formal request from the Kyrgyz Republic Government.

The report was conducted as part of the Kyrgyz Audit and Reporting Enhancement Project, under a single donor trust fund financed by Swiss State Secretariat for Economic Affairs (SECO).

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The review was conducted through a participatory process involving various in-country stakeholders, including the State Service for Regulation and Supervision of the Financial Market, Ministry of Economy and Finance, National Bank, Ministry of Education, professional accountancy organizations, International Business Council, auditing firms, academia, and other business communities. The ROSC A&A team would particularly like to thank Chairman Ulan Sarbanov and Deputy Chairman Marat Pirnazarov of State Service for Regulation and Supervision of the Financial Market and Deputy Chairman Ryskulov Kanat of State Property Management Fund for the strong leadership of this initiative within the Kyrgyz Republic Government.

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ABBREVIATIONS

AAOFI	Organization of Accounting and Auditing for Islamic Financial Institutions
ACCA	Association of Chartered Certified Accountants
AUCA	American University of Central Asia
BOD	Banking Oversight Department
CAP	Certified Accounting Practitioner
CIPA	Certified International Professional Accountant
CPD	Continuing Professional Development
CPOA	Council of Public Oversight of Audit
ECL	Expected Credit Loss
GDP	Gross Domestic Product
I&D	Investigation and Discipline
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IES	International Education Standards
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IPAA	Institute of Professional Accountants and Auditors
IPD	Initial Professional Development
ISA	International Standards on Auditing
ISQC	International Standard on Quality Control
ISQM	International Standards on Quality Management
IT	Information Technology

JSC	Joint Stock Company
KAREP	Kyrgyz Republic Audit and Financial Reporting Enhancement Project
KEU	Kyrgyz Economic University
KGS	Kyrgyz som (currency)
KNU	Kyrgyz National University
KRSU	Kyrgyz-Russian Slavic University
KSE	Kyrgyz Stock Exchange
KTU	Kyrgyz-Turkish Manas University
MAUFIB	International Academy of Management, Law, Finance, and Business
MD&A	Management Discussion and Analysis
MFI	Micro Finance Institution
MOES	Ministry of Education and Science
MOEF	Ministry of Economy and Finance
MRA	Mutual Recognition Agreement
NBKR	National Bank of the Kyrgyz Republic
MSMEs	Micro, Small and Medium-sized entities
NFCO	Non-banking Financial-credit Organizations
NFCOOD	Non-banking Financial-credit Organizations Oversight Department
PAO	Professional Accountancy Organization
PIE	Public Interest Entity
QA	Quality Assurance
SME	Small or Medium-sized Entities
SMO	Statement of Membership Obligations
SOE	State-owned Enterprise
SPMF	State Property Management Fund
SRSFM	Service for Regulation and Supervision of the Financial Market
UAA	Union of Accountants and Auditors
USD	United States dollar (currency)

Exchange rate used 1 USD = 84.8 KGS (31 December 2021)

EXECUTIVE SUMMARY

Background

The economy of the Kyrgyz Republic has significant potential to grow after decades of instability. The land-locked, lower-middle-income country has rich endowments and significant potential for expansion. After a period of instability since its independence in 1991, it adopted the presidential form of government and a new constitution in 2021. The economy is vulnerable to external shocks owing to its heavy dependence on remittances and gold exports. Revenue collection has improved slightly, non-tax revenues have increased, and government expenditure has declined.

The capital market is at an initial stage of development. The Kyrgyz Stock Exchange (KSE) is a member of the Federation of Euro-Asian Stock Exchanges. As of June 2021, there were 27 firms listed on the KSE with total capitalization of KGS 34,104 million, around 4.5 percent of GDP. The Kyrgyz Republic's financial system is dominated by banks. Banks' total loan portfolio accounted for 87.5 percent (USD 3.5 billion) of the financial system loan portfolio. The micro-finance sector in the Kyrgyz Republic is robust, representing nearly 10 percent of the banking sector. The state-owned enterprise (SOE) sector has diminished significantly but still plays a critical role in the economy. With more than 400,000 established businesses, MSMEs accounted for 20 percent of employment, 40 percent of GDP, and 35 percent of total exports and are a crucial part of the economy.

Impact of COVID-19 on the Economy and Corporate Financial Reporting

The Kyrgyz Republic's economy recovered in 2021 but adverse effects of the pandemic will likely continue, compounded by the effects of the war on Ukraine. COVID-19 had a significant effect. GDP declined by 8.6 percent in 2020, compared to growth of 4.6 percent in 2019. The poverty rate is estimated to have increased to 15 percent in 2020 from 9.7 percent in 2019. Although the economy grew by 3.6 percent in 2021, the economy has not yet recovered to pre-covid levels.¹ Prior to the commencement of the Russia-Ukraine war, the World Bank was forecasting growth of 4.5 percent in 2022-23.² However, because of the dependence of the Kyrgyz economy on developments in Russia, the fragile recovery is likely to be sharply reversed as the Russian economy is

¹ World Bank: *Kyrgyz Republic – Monthly Economic Update – January 2022*, <https://thedocs.worldbank.org/en/doc/9c3cb12bfb3189ab2241828fc4ff4b71-0080062022/original/KG-Monthly-Economic-Update-January-2022.pdf>

² *World Bank in the Kyrgyz Republic* <https://www.worldbank.org/en/country/kyrgyzrepublic/overview#3>

impacted by sanctions. The world Bank projects that the economy is likely to contract by 5 percent in 2022 and recover only gradually over the medium term.³

The aftermath of COVID-19 offers a unique opportunity to rebuild a stronger, greener, and more equitable economy and institutions while leveraging the private sector. The crisis response offers a chance to seek out new opportunities, including digital development, improvement to and expansions of local/regional supply chains, and adaptations to pandemic-induced changes in consumer demand, while creating jobs. Private sector solutions, innovative financing, and attracting international investment will be key to the recovery. The World Bank and partners propose a road map for recovery and growth through green, resilient, and inclusive development⁴. Consideration of, and alignment with, the road map has the potential to provide countries with a head start in their recovery process.

Linkage of this Report to the Kyrgyz Republic's Reform Agenda

This ROSC A&A seeks to assist with the further development of the financial reporting institutional framework in the Kyrgyz Republic. Strengthening corporate financial reporting and auditing is aligned with the Kyrgyz Republic's Medium-term Development Strategy 2021-2026 which features "governance reform" as "the core of development". The long-term Sustainable Development Strategy to 2040 emphasizes the private sector's role and accountability. The World Bank Country Partnership Framework for the Kyrgyz Republic 2019-2022 includes the objective to "enhance conditions for private investment and diversification". The Kyrgyz Republic Audit and Financial Reporting Enhancement Project (KAREP) is a World Bank technical assistance project in co-operation with the SSRSFM, the NBKR, and the State Property Management Fund aimed at enhancing the investment climate in the Kyrgyz Republic through increased availability of transparent and reliable financial information.

High quality accounting, auditing, and disclosure in publicly available financial statements enables improved transparency and accountability, which are particularly important in creating a 'level playing field' for investors. The objective of becoming an upper-middle income country and achieving the United Nations Sustainable Development Goals requires good corporate financial reporting.

³ World Bank *Europe and Central Asia Brief: The Economic Impact of the Russia-Ukraine War*, April 2022

⁴ World Bank report *Green, Resilient, and Inclusive Development*; October 2021.

The Kyrgyz Republic Report on the Observance of Standards and Codes, Accounting and Auditing 2022

This ROSC A&A report assesses the progress in the institutional framework for accounting and auditing since the previous ROSC A&A report in 2008. It analyses the accounting frameworks of listed companies, the banking and insurance sectors, SOEs, and MSMEs. The current report seeks to support the ongoing development of the financial reporting institutional framework in line with the Kyrgyz Republic's Medium-term Development Strategy 2021-2026. Improved corporate financial reporting capacity can strengthen corporate governance, improve transparency, and raise the quality of financial information and thereby encourage a more active and dynamic private sector as an engine for economic growth making the Kyrgyz Republic more attractive to investors.

This assessment was conducted at the request of the Government of the Kyrgyz Republic to provide institutional recommendations on the country's accounting reform agenda. The data and information used for the review were gathered from ROSC A&A 2.0 diagnostic questionnaires completed by stakeholders; by reviewing related documents; and through interviews with the main stakeholders from regulators, professional accountancy organizations (PAOs), auditing firms, the financial analyst community, banks, and academia. The report summarizes key findings, identifies gaps, and makes recommendations for consideration by the authorities to improve alignment with international standards and good practice. Unless otherwise specified, data and statistics quoted in this report relate to the 2020 calendar year. This reflects the data that was available and/or applicable at the time the analysis was done.

2022 Assessment - Progress since 2008 ROSC A&A Report and key recommendations

Achievements

Significant recent changes to legislation have been promulgated to strengthen the country's institutional accounting system. Operational and regulatory processes designed to give effect to the legislative changes are being established. Significant amendments were made during 2021 to the Law on Accounting (Accounting Law⁵) and a new Law on Auditing Activities⁶ was published at the end of the year (Audit Law 2021),

⁵ Law on Accounting No. 93 of August 9, 2021, which amends all the previous versions since the first version No. 76 (2002).

⁶ Law on Auditing activities No. 147 (2021). At the time of the ROSC assessment the new Audit Law was approved by the Parliament and signed by the President but was not yet in force (to be in force after 6 months from the date of official publishing).

although it will only be effective six months after the date of official publication. It is too early to evaluate the effect of the new laws in practice, and new processes take some time to bed down, but they were anticipated and considerable work has been performed on drafting attendant regulations and practice manuals.

The Accounting Law classifies entities and establishes a three-tier financial reporting requirement. Public interest (listed entities, banks and other credit institutions licensed by NBKR, insurance companies, non-state pension funds, investment funds) are separately classified. The remaining entities are classified based on three size criteria (assets, net turnover, number of employees) into large, medium, or small entities. The financial reporting requirements are:

- mandatory application of International Financial Reporting Standards (IFRS) for public interest entities (PIEs) and large entities;
- mandatory application of International Financial Reporting Standard for Small and Medium-sized entities (the IFRS for SMEs) for medium-sized entities with full IFRS allowed; and
- simplified national financial reporting requirements for small entities.

The Accounting Law establishes a Public Depository for Financial Statements. The various regulators will have extended access to the Depository. The regulator of the securities sector, the Service for Regulation and Supervision of the Financial Market (SRSFM), will maintain the Depository and is required to make public the financial statements of PIEs and large entities. The entities themselves are required to publish their audited financial statements on their corporate websites. Financial statements of medium sized entities will be submitted to the Depository but will not be made public. According to the provisions of the Audit Law 2021, PIEs and large entities are subject to mandatory audits.

The newly enacted laws require adoption of international standards through a formal process that includes official translation and publication. The laws require or permit entities and audit firms to apply IFRS, the IFRS for SMEs, International Standards on Auditing (ISA), and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants as issued by the respective international bodies, subject to mandatory disclosure in the financial statements. Audit firms are required to inform SRSFM if the original English version of ISA is applied instead of the version adopted in the Kyrgyz Republic. The Accounting Law amendments clarify the legal adoption, translation, and publication process for international standards. The

SRSFM has signed agreements with the IFRS Foundation and the International Federation of Accountants (IFAC) on the use and publication of IFRS,⁷ the IFRS for SMEs, ISAs,⁸ ethical standards, and quality control manuals,⁹ in the Russian language and for translation into the Kyrgyz language. Russian translations are published as received from the respective standard-setter bodies.

The new laws empower regulators to perform reviews of all PIEs' financial statements, including auditor reports, and highlight any inadequacies to the relevant regulatory agency. International assistance and support has been provided to develop a risk-based methodology for analyzing and monitoring financial statements. The activity will also include preparation of a monitoring report following the provisions of a methodology for a selected sample of financial statements.

The Audit Law 2021 establishes a three-tier professional qualification framework, in line with International Education Standards (IES). This approach is embedded into the Audit Law. The third and highest tier replaces the existing audit qualification certificate examinations and will be administrated by SRSFM. The first and second levels would be administered by accredited PAOs and universities. The law contains a chapter on the procedure for recognizing work, issuing an auditor's qualification certificate and recognizing international qualification certificates, which will be established by a resolution of the Cabinet of Ministers of the Kyrgyz Republic. A Public Registry of audit firms and auditors must be established and maintained by the SRSFM. All registered auditors are subject to continuing professional development (CPD) requirements according to the provisions of the Audit Law. Audit firms performing mandatory audits are required to hold professional indemnity insurance.

The Audit Law 2021 enforces quality assurance requirements in respect of mandatory audits. The Audit Law requires establishment of a Council of Public Oversight of Audit (CPOA) under the SRSFM. The CPOA is to be established as a consultative and advisory body consisting of non-practitioners' representatives of state bodies, business environment, and academia. Mandatory quality assurance inspections of PIEs' audits and audits of large entities are required at least once in three years; and at least once in six

⁷ October 2018

⁸ On July 12, 2018, SRSFM signed a license agreement and copyright waiver agreement with IFAC for official use of ISAs and translation of the international standards by the Kyrgyz Republic

⁹ On July 1, 2020, Agreement was signed with IFAC for permission to translate and publish copyrighted materials (Handbook of the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2018; Handbook of the International Code of Ethics for Professional Accountants, 2018)

years for other audits. The Law also establishes minimum selection criteria for quality assurance inspectors.

The reform of tertiary accounting education in the Kyrgyz Republic has begun; a report was finalized in June 2020 with KAREP support. Implementation of the reform is ongoing. The providers of accounting and auditing education in the Kyrgyz Republic, including university lecturers and professional trainers, were and continue to be involved in capacity-building activities under the KAREP project.

Remaining areas for improvement

Some recommendations from the 2008 ROSC A&A are not yet implemented, or only partially implemented. Whilst the changes in legislation have been significant and far-reaching, they also impose significant burdens on process and resources. In particular:

- Several bylaws and regulations will be required to provide detail around the enactment of the legislation and to provide certainty for both regulators and regulated parties. Although progress has been made in drafting this supplementary material, with guidance from various programs, a substantial amount of effort is still required. The effectiveness of the legislation will depend on the successful completion of this exercise.
- Internal manuals and procedures will need to be developed by regulators for guiding their own internal processes and practices. These are essential to govern the day-to-day operations of regulators to ensure the even-handedness of the application of the legislation and regulations, as well as the effective and efficient use of resources.
- Internal staffing and systems resources will need to be considered:
 - Regulation of financial statement compliance requires significant understanding of international standards as well as insight and comprehension of the judgments required. Whilst some of these resources are available to regulators at this point, the new legislation will require broadening of the skill set as well as accessing significant additional resources.
 - Preparation of financial statements and the auditing thereof under the legislated changes will also require training and broadening of the skills base in the private sector charged with these responsibilities. This will necessarily inhibit the impact of the quality review process until the skills exist at the preparation and audit levels.

- Reviewing quality of audit requires considerable experience in understanding the judgments made by auditors and preparers. These resources are not readily available and consideration will need to be given to how they can be accessed.
- Systems solutions, for example for the Public Depository of Financial Statements, will need to be sourced and implemented.

Evidence gathered through this ROSC report indicates that there are still substantial areas requiring improvement, including in terms of compliance with previous legal requirements:

- Public disclosure of annual financial statements by some banks, microfinance institutions (MFIs), listed companies, and insurers is not fully compliant or timely. Consideration should also be given to the implementation of Basel Accord Pillar 3 reporting for banking entities to more closely align transparency in this sector with international standards.
- Financial transparency and adequate financial disclosures should be required and enforced for wholly owned SOEs to facilitate good governance, fiscal discipline, and optimum allocation of scarce resources. SOEs play an important role in the economy, and ultimately should be subject to the same reporting requirements as other entities.
- Enforcement activities and sanctions have largely been suspended pending the publication of the new laws. It is expected that these activities will resume, albeit with a time lag to allow for resource and knowledge development. In the medium term, these activities will be critical to ensuring optimal value is obtained from the new laws.

2022 Assessment - Findings

An overall assessment of key accounting and auditing performance indicators is provided below, which confirms the remaining challenges.

Performance Indicators	Kyrgyz Republic Rating ¹⁰	Maximum Rating
------------------------	--------------------------------------	----------------

¹⁰ 1 = Minimum score; criteria for "2" rating not met
 2 = Initial steps taken towards alignment with international good practice; however, significant gaps exist
 3 = Some alignment with international good practice; however, gaps remain
 4 = Substantial alignment with international good practice

1. Financial Reporting and Auditing Standards¹¹	4	4
<i>A.1. Financial reporting standards</i>	4	4
<i>B.1. Auditing standards</i>	4	4
2. Financial Reporting and Auditing of Listed Companies	2.4	4
<i>A: Financial reporting and auditing requirements for listed companies</i>	2.7	4
<i>B: Monitoring and enforcement of the financial reporting requirements of listed companies</i>	2.0	4
3. Financial Reporting and Auditing for Banks	2.8	4
<i>A: Financial reporting and auditing requirements for banks</i>	2.7	4
<i>B: Monitoring and enforcement of the financial reporting requirements of banks</i>	3.0	4
4. Financial Reporting and Auditing for Microfinance entities	2.4	
<i>A: Financial reporting and auditing requirements for microfinance entities</i>	2.3	4
<i>B: Monitoring and enforcement of the financial reporting requirements of microfinance entities</i>	2.4	4
5. Financial Reporting and Auditing for Insurance Companies	1.9	4
<i>A: Financial reporting and auditing requirements for insurance companies</i>	2.1	4

¹¹ This performance indicator relates to the adoption of international standards, performance indicators 2 to 6 relate to implementation and application of those standards.

<i>B: Monitoring and enforcement of the financial reporting requirements of insurance companies</i>	<i>1.8</i>	<i>4</i>
6. Accountancy Profession	Partially Adopted	Adopted
<i>A: International education standards</i>	<i>Partially Adopted</i>	<i>Adopted</i>
<i>B: Code of ethics for professional accountants</i>	<i>Partially Adopted</i>	<i>Adopted</i>
<i>C: Investigative and disciplinary system</i>	<i>Not Adopted</i>	<i>Adopted</i>
7. Audit Public Oversight¹²	1.0 / 3.2	4
<i>A: Audit oversight system</i>	<i>1.0 / 3.7</i>	<i>4</i>
<i>B: Audit quality assurance</i>	<i>1.0 / 3.0</i>	<i>4</i>
<i>C: Audit quality investigations and sanctions</i>	<i>1.0 / 3.0</i>	<i>4</i>

¹² At the date of compilation of this report, the Audit law 2021, which governs audit public oversight, had been promulgated and consequently had legal force. However, the law had as yet not been operationalized. Consequently, two ratings are provided for each indicator, the first reflecting the current status of implementation, the other the legal requirements themselves.

Summary of recommended areas for consideration

Strengthen Legal Framework	Responsible	Dependencies	Deadline
1. Develop regulations, bylaws, and manuals of operation to complement the new laws.	SRSFM	Regulations and bylaws required by the amended Accounting Law and new Audit Law need to be drafted and approved by the Government.	Short term
2. Clearly distinguish general purpose financial statements from those for prudential/ regulatory reporting.	SRSFM	General purpose financial statements of PIEs and large entities should be published via Public Depository of Financial Statements by the SRSFM; however its establishment will require additional resources.	Medium term
3. Enforced financial transparency and disclosures for SOEs that are PIEs or large entities.	SPMF	Will require IFRS skilled resources.	Long term
4. Build on the three-tier reporting requirement to optimize resource allocation.	SRSFM	Legal framework exists, requirement is to adopt related bylaws and regulations and for enforcement. Enforcement will require IFRS skilled resources.	Medium term
5. Expand and apply the scope of the Code of Corporate Governance to all PIEs.	SRSFM, NBKR	Will require skilled resources.	Medium term
6. Implement and enforce the Public Depository of Financial Statements.	SRSFM	Bylaw on Public Depository functioning is drafted and is to be adopted by the Government; however, establishment will require	Medium term

Strengthen Legal Framework	Responsible	Dependencies	Deadline
		additional resources; only drafting of terms of reference (technical specifications) have KAREP support.	
7. Audit firms that audit the financial statements of PIEs should prepare transparency reports.	SRSFM	Bylaw on reporting by the audit firms to be adopted by the Government by June 2022; first presentation deadline will be June 30, 2023.	Medium term
8. Introduce sustainability reporting.	SRSFM, NBKR	Will require review of existing international frameworks and consideration of whether and to what extent these are applicable in the Kyrgyz Republic.	Long term
9. Finalize the translation process for accounting and auditing international standards.	SSRSFM	The SRSFM is required to finalize coordination process with the respective international standards-setters and publish approved translations.	Short term
10. Enhance skilled resource requirements through continuation of existing training programs and development of new programs	SRSFM, NBKR	Requires significant resources. Will require adoption of a new Corporate Financial Reporting Strategy by the Government, and consultations with development partners (by end 2022) to continue capacity building support.	Ongoing
Optimize Regulation	Responsible	Dependencies	Deadline
1. Require monitoring of financial statements to include review against	SRSFM, NBKR	Methodology on financial statements review to be finalized, adopted, and	Short term

Strengthen Legal Framework	Responsible	Dependencies	Deadline
applicable financial reporting standards.		enforced. Will require IFRS skilled resources.	
2. Continue capacity building support.	SRSFM, NBKR	Will require adoption of a new Corporate Financial Reporting Strategy by the Government, and consultations with development partners (by end 2022), to continue capacity building support.	Ongoing
3. Explicitly provide sanctions in regulations to ensure enforcement of financial reporting and auditing requirements.	SRSFM, NBKR	Regulations and bylaws need to be drafted and approved by the Government.	Medium term
4. More clearly distinguish in regulations requirements for general purpose financial statements and prudential/regulatory reporting.	SRSFM, NBKR	Regulations and bylaws need be reviewed, amendments proposed, and approved by the Government.	Long term
5. Establish systematic collaboration between regulators and external auditors.	SRSFM, NBKR	Will require enforcement of new laws and regulations, administrative decisions, and appropriate resourcing.	Medium term
6. Constitute the CPOA and operationalize its legal mandate.	SRSFM	Legal framework already in place; related bylaws are drafted and are to be adopted by the Government. Will require resources and skilled staff.	Medium term
7. Finalize regulations and bylaws to operationalize standard	SSRSFM	Related regulations and bylaws are drafted and are to be adopted by the	Short term

Strengthen Legal Framework	Responsible	Dependencies	Deadline
setting, licensing, and I&D of auditors.		Government. Will require resources and skilled staff.	
Improve the profession	Responsible	Dependencies	Deadline
1. PAOs should work towards full membership of IFAC.	SRSFM, PAOs	While support was provided under KAREP, it will require additional resources and capacity to achieve full membership of IFAC.	Long term
2. Establish MRAs with competent authorities in other countries to recognize professional qualifications.	PAOs	Legal framework already in place; related bylaws are drafted and are to be adopted by the Government (some foreign professional qualifications will be recognized following bylaw's provisions).	Long term
3. Operationalize the requirement for registered auditors to have professional indemnity insurance.	SRSFM	Legal framework is drafted; requires adoption and promulgation.	Long term
4. Continue supporting providers of accounting and auditing education to update their knowledge.	SRSFM, KAREP	Will require adoption of a new Corporate Financial Reporting Strategy by the Government, and consultations with development partners (by end 2022), to continue capacity building support.	Ongoing



I. INTRODUCTION

Country background

1. **After decades of instability, the economy of the Kyrgyz Republic has significant potential to grow.** The land-locked, lower-middle-income country has rich endowments, including minerals, forests, arable land, and pastures, and has significant potential to expand its agriculture sector, hydroelectricity production, and tourism industry. The country experienced some instability in the years following its independence in 1991, with three presidents ousted from power (in 2005, 2010, and 2020). After 10 years of a parliamentary system, the presidential form of government was reinstated and a new constitution was adopted through a referendum in April 2021, further solidifying the president's authority. The Kyrgyz economy is vulnerable to external shocks owing to its heavy dependence on remittances (25 percent of GDP) and gold production (about 10 percent of GDP and 40 percent of exports). Although the economy grew by 3.6 percent in 2021, it has not yet recovered to pre-covid levels after a decline of 8.6 percent in 2020.¹³ Prior to the commencement of the Russia-Ukraine war, the World Bank was forecasting growth of 4.5 percent in 2022-23.¹⁴ However, the Kyrgyz economy is highly dependent on developments in the Russian economy. Russia is one of its largest non-gold trading partners, and the source of almost all its remittances. A substantial portion of Foreign Direct Investment also comes from Russia. Based on the expected effect of sanctions on the Russian economy, the World Bank expects that the fragile recovery in the Kyrgyz Republic is likely to be sharply reversed. The economy is now likely to contract by 5 percent in 2022 and recover only gradually over the medium term.¹⁵ Although the Kyrgyz financial sector is not directly exposed to Russian banks or Russian capital, the longer the war lasts the more severe negative spillovers will be, adding to the stress the banking sector was already under due to deteriorated asset quality as a result of the COVID-19 pandemic. MSMEs in the Kyrgyz Republic were already facing shocks caused by the COVID-19 pandemic and are expected to be further affected by the worsening Russian economy. Strong and sustainable economic growth requires institutional strengthening

¹³ The World Bank: *Kyrgyz Republic – Monthly Economic Update – January 2022*, <https://thedocs.worldbank.org/en/doc/9c3cb12bfb3189ab2241828fc4ff4b71-0080062022/original/KG-Monthly-Economic-Update-January-2022.pdf>

¹⁴ *The World Bank in the Kyrgyz Republic*
<https://www.worldbank.org/en/country/kyrgyzrepublic/overview#3>

¹⁵ World Bank *Europe and Central Asia Brief: The Economic Impact of the Russia-Ukraine War, April 2022*

and policies to develop the private sector, increase international trade, and encourage fiscally sustainable energy production. Reservations about financial transparency can affect perceptions about investment potential and consequently impact on the economy's resilience in the face of the expected economic headwinds.

2. The capital market is at an initial stage of development. The Kyrgyz Stock Exchange commenced operations as a non-state, non-profit organization in 1995. It was transformed into a closed joint-stock company in May 2000, the same year the Stock Exchange of Kyrgyzstan was formed as a privately owned independent electronic trading platform. In 2011, the two stock exchanges merged into a single entity, KSE. KSE is a member of the Federation of Euro-Asian Stock Exchanges. As of June 2021, there were 27 firms listed on the stock exchange with total capitalization of KGS 34,108.4 million, around 4.5 percent of GDP. 66 legal entities carry out professional activities in the securities market, including 2 trade organizers, 11 independent registrars of the Central Bank, 26 brokerage firms, 3 depository firms, 22 dealers, and 2 asset management firms. Types of government securities traded in KSE include State Treasury bills, municipal securities (bonds of the Mayor's Office of Bishkek), and housing certificates. The volume of trading in securities in 2020 amounted to KGS 11,830.8 million.¹⁶

3. Revenue collection has improved slightly following political stabilization. Improved tax performance reflects increased tax revenues from imported goods—value added tax, customs duties, and excises on imports—as well as taxes from mining companies owing to higher gold prices. Non-tax revenues increased thanks to central bank profit transfers and more income from paid public services. Government expenditure declined due to savings made in the wage bill, transfers and subsidies, and pensions. Public debt declined to 66.4 percent of GDP in December 2021 from 68.1 percent at the end of December 2020.¹⁷

4. The financial system is dominated by banks, whose total loan portfolio accounted for 87.5 percent of the financial system loan portfolio.¹⁸ Total assets of the Kyrgyz banking system in 2020 equaled approximately USD 3.5 billion. As of end 2020, there were 23 commercial banks (including the Bishkek branch of the National Bank of Pakistan) and

¹⁶ Kyrgyz Stock Exchange <https://www.kse.kg/>

¹⁷ Kyrgyz Economic Outlook, The World Bank

¹⁸ National Bank of The Kyrgyz Republic, Banking Statistics <https://www.nbkr.kg/index1.jsp?item=80&lang=RUS>

312 bank branches operational in the territory of the Kyrgyz Republic. These include two fully owned state banks and 16 banks with foreign participation in the capital, including 11 banks with more than 50 percent foreign participation. All banking institutions offer universal banking services.¹⁹

5. The microfinance sector in the Kyrgyz Republic is robust, representing nearly 10 percent the market size of the banking sector.²⁰ The system of non-banking financial-credit organizations as of December 31, 2020 included: 92 credit unions, 134 microfinance organizations (including 9 microfinance companies, 87 microcredit companies, and 38 microcredit agencies), 386 exchange offices, and 2 credit bureaus.

6. The SOE sector has diminished significantly but still plays a critical role in the economy. From the 1990s to 2010, the Kyrgyz Republic privatized over 7,000 entities in all sectors of the economy, achieving the highest private sector share in GDP among Commonwealth of Independent States countries at that time. Notwithstanding its significant downsizing due to the country's transition from a planned to a market economy, the public sector in the Kyrgyz Republic still owns 136 SOEs at national level and many municipal SOEs. National level SOEs continue to operate in key economic sectors such as energy, mining, transport, and banking. In 2018, the SOE sector generated revenues equivalent to 22.6 percent of GDP while its total assets reached almost 50 percent of GDP during the same year.²¹

7. MSMEs play a crucial role in the economy. With more than 400,000 established businesses, the National Statistical Committee's 2019 report indicated that MSMEs accounted for 20 percent of employment, 40 percent of GDP, and 35 percent of total exports. MSMEs rely on personal savings and informal sources of finance to start or expand their businesses.

Impact of Covid 19 on the economy and corporate financial reporting

8. Although the economy is expected to recover further from the effects of the pandemic, the impact of the Russia-Ukraine war will likely cause a contraction in 2022 with only a gradual recovery over the medium term. The impact of COVID-19,

¹⁹ <https://www.nbkr.kg/DOC/13082021/000000000057225.pdf>

²⁰ National Bank of The Kyrgyz Republic, Non-Banking financial organization Statistics <https://www.nbkr.kg/index1.jsp?item=2265&lang=ENG>

²¹ Kyrgyz Republic Integrated State-Owned Enterprises Framework (iSOEF) Assessment, The World Bank, 2020

aggravated by internal political challenges, hit the economy severely in 2020. By the end of 2020, there was GDP reduction of 8.6 percent compared to 4.6 percent growth in 2019. The combined health and economic shocks of 2020 drove up poverty and diminished social welfare. Based on the national poverty line, the poverty rate is estimated to have increased to 25 percent in 2020 from 20 percent in 2019, and is estimated to have deteriorated further in 2021. The economy grew by 3.6 percent in 2021 with continued expansion of the non-gold economy. Although growth was forecast to increase in 2022 and 2023, assuming a reduction of new COVID-19 cases and political stability,²² these forecasts have been revised following the start of the Russia-Ukraine war. The economy is now likely to contract by 5 percent in 2022 and recover only gradually over the medium term.

9. COVID-19 impacts were not adequately reported as significant events in entities' 2020 financial statements. Despite the effects of the COVID-19 pandemic on domestic, regional, and international economies, most entities disclosed no significant events after the reporting period. Others provided only inadequate boilerplate disclosures. Financial reporting standards and good practices recommend that management should consider the potential effects of the pandemic when performing going concern assessments and making disclosures about events after the reporting period and regarding any material uncertainties about an entity's ability to continue as a going concern.

10. The aftermath of COVID-19 offers a unique opportunity to rebuild a stronger, greener, and more equitable economy and institutions while leveraging the private sector. The crisis response offers a chance to seek out new opportunities, including digital development, improvement to and expansions of local/regional supply chains, and adaptations to pandemic-induced changes in consumer demand, while creating jobs. Private sector solutions, innovative financing, and attracting international investment will be key to the recovery. The World Bank and partners propose a road map for recovery and growth through green, resilient, and inclusive development²³. Consideration of, and alignment with, the road map has the potential to provide countries with a head start in their recovery process.

Linkage of this report to the Kyrgyz Republic's reform agenda

²² Kyrgyz Economic Outlook, The World Bank, 2021

²³ World Bank report *Green, Resilient, and Inclusive Development*; October 2021.

11. This ROSC A&A seeks to assist with the further development of the financial reporting institutional framework in the Kyrgyz Republic. High quality financial reporting contributes to promoting private sector growth by allowing investors to evaluate corporate prospects and make informed investment decisions, thus contributing to attract foreign direct investment.

12. Strengthening corporate financial reporting and auditing is aligned with the Kyrgyz Republic's Medium-term Development Strategy 2021-2026 which features "governance reform" as "the core of development". One of the reform measures introduced by the Strategy is "data-oriented governance", which means authorities make their management decisions based on data analytics. Quality, transparency, and consistency of corporate financial reports is a prerequisite input for various data processing and decision making cycles, and therefore critical to the achievement of this set goal. The Strategy also sets out the objective of "formation of the environment for development", in which investment climate and financial market are key pillars, which also rely on the quality of corporate financial reporting to build investors' trust.

13. The long-term Sustainable Development Strategy to 2040 emphasizes the private sector's role and accountability. The Strategy emphasizes the need for higher growth, driven by the private sector, greater trade integration, and human capital investments. It anchors the long-term development of the country around three core objectives: (i) economic well-being of the people (including sustainable jobs, decent work, and stable incomes; exports, especially from labor-intensive sectors; and regional development); (ii) social welfare (including health and education, social equity, and cultural revival); and (iii) governance and sustainability (including public order, civil service efficiency and accountability, and environmental sustainability).

14. The World Bank Country Partnership Framework for the Kyrgyz Republic 2019-2022 included an objective to "enhance conditions for private investment and diversification", among others. Under this objective, the Framework explicitly says strengthening corporate governance at the firm and regulatory levels and corporate financial reporting will be focused in both private and SOE sectors. The Framework expects improvements will be made in corporate financial reporting and audit, accounting education, financial literacy, and use of financial information.

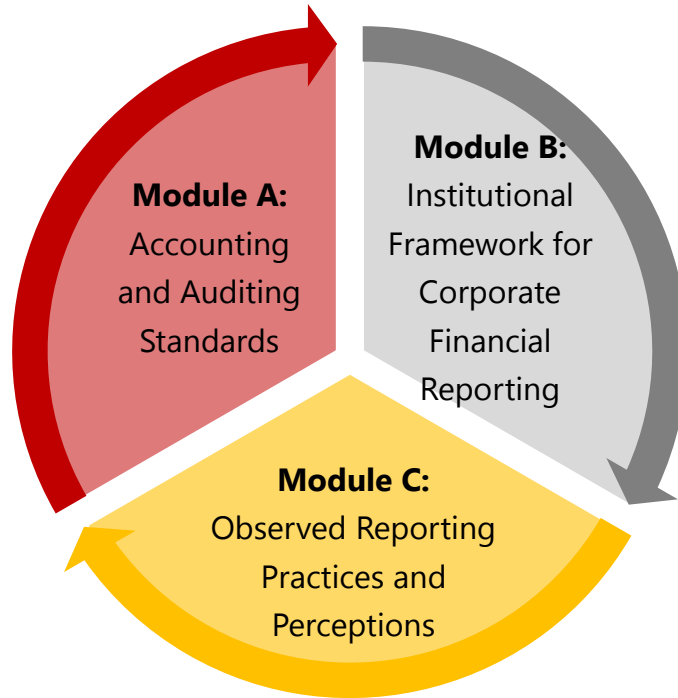
15. High quality accounting, auditing, and disclosure in publicly available financial statements enables improved transparency and accountability. These are particularly

important in creating a 'level playing field' for investors and help to foster the environment necessary for both financial sector and capital market development by attracting institutional investors. They also help to encourage enterprises to operate within the formal economy, thereby making it easier to ensure they are paying the appropriate level of taxation and contributing to improved fiscal sustainability. Publicly available high quality corporate financial reporting that is reliable, accurate, and comparable will promote increased confidence and trust by investors, lenders, and creditors.

16. The objective of becoming an upper-middle income country and achieving the United Nations Sustainable Development Goals requires good corporate financial reporting. The achievement of the Goals relies on dramatically increased public spending, which in turn needs to be funded by improved tax administration and a broader and deeper tax base. Corporate financial reporting quality and transparency help to improve corporates' access to capital and lowers the cost of capital, thus enabling the economic growth that broadens and deepens the tax base thus boosting the country's tax revenues. The increased transparency might also contribute towards strengthening the tax administration system, that could potentially reduce tax evasion.

17. This assessment was conducted at the request of the Government of the Kyrgyz Republic to provide institutional recommendations on the country's accounting reform agenda. The data and other information used for the review were gathered: (i) using the revised ROSC A&A 2.0 diagnostic (refer figure 1). Practices were then benchmarked against international standards and good practices to provide the basis for the policy recommendations included in Section IV *Key Findings and Areas for Consideration*. The recommendations are intended to assist the promotion of: (i) private sector led growth through increased regulatory and market efficiency; (ii) development of the financial and capital markets; and (iii) improved accountability and transparency (including sustainability reporting). Increasing the degree of alignment with international standards and good practices for corporate financial reporting is a key driver of improvement of the overall standard of corporate governance.

Figure 1. ROSC A&A 2.0 Assessment Methodology



II. ASSESSMENT

A. ACCOUNTING & AUDITING STANDARDS

18. **This section assesses the extent to which the national accounting and auditing standards follow international benchmarks–IFRS/the IFRS for SMEs for accounting and ISA/ISQC²⁴ for auditing.** The quality of national standards and how they are applied in practice impacts on the reliability and comparability of financial information for users, especially current or potential investors, lenders, and creditors. The national standard setting process is reviewed in Section II.B.10 *Setting Accounting and Auditing Standards*. The application of national standards is reviewed in Section II.C *Observed Financial Reporting Practices and Perceptions*.

Accounting Standards Gap

19. **Accounting standards provide the basis on which entities prepare their general-purpose financial statements.** They include both general and specific requirements that must be followed by preparers of financial statements when: (i) determining the scope and format of the financial statements; (ii) establishing and applying their entity-specific accounting policies for the different types of transactions they enter into and the circumstances and events that the reporting entity is subject to; and (iii) determining the extent of note disclosures presented in the financial statements.

20. **The Accounting Law mandates the full adoption of IFRS and the IFRS for SMEs in the country.** PIEs and large businesses are required to adopt IFRS. Medium-sized businesses are to adopt the IFRS for SMEs, with the allowed alternative to adopt IFRS given the acceptance of the authority who approved their accounting policies.²⁵ Small businesses can prepare financial statements using the simplified accounting rules established by the Government.²⁶ Small businesses can voluntarily adopt the IFRS for

²⁴ Replaced by International Standards on Quality Management 1 and 2 in December 2020, with effectiveness from December 15, 2022

²⁵ Adoption of IFRS introduced in Accounting Law 2002. Adoption of the IFRS for SMEs announced by Resolution 564 dated October 18, 2013

²⁶ Resolution No. 609 - Accounting and Reporting Regulations of Small Businesses dated November 11, 2013

SMEs given the acceptance of the authority who approved their accounting policies. The Law also provides criteria to classify businesses into public interest, large, medium-sized, or small entities. Details are provided in Section II.B.1. General Financial Reporting Requirements.

Auditing Standards Gap

21. Auditing standards provide a basis for auditors to follow when they conduct their audits and provide their audit opinions. The audit opinion confirms whether financial statements present a true and fair view of an entity’s financial position and financial performance. This requires that auditors assess and express an opinion as to whether the financial statements fully comply with the requirements of accounting/financial reporting standards in all material respects.

22. The Audit Law 2021 mandates the full adoption of ISAs and ISQMs. The Law defines that the “auditing standards”, “quality control standards”, and “related standards” to be applied in the Kyrgyz Republic are ISA, ISQM, and International Standards on Review, Assurance and Related Services as issued by IAASB. The standards are to be published by the Cabinet of Ministers in the state and official languages of the Kyrgyz Republic. Subsequent modification is subject to notification by the authorized government body. The Law requires PIEs and large businesses to have annual statutory audits. Other types of audit and audit of other entities can be conducted on a voluntary basis.

23. The overall rating attributed to the Kyrgyz Republic under the performance indicator “Financial Reporting and Auditing Standards” is 4, as both sub-indicators are assessed with the highest possible score.

Performance Indicators – Financial reporting and auditing standards

Sub-indicator A: Financial Reporting Standards

A.1. Financial reporting standards		
RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for “2” rating not met.	4. Adoption of IFRS and the IFRS for SMEs is fully without modification and mandated by Law.
2	A majority of adopted standards align or converge with IFRS.	

3	Most adopted standards align or converge with IFRS.	
4	All adopted standards align with IFRS.	

Sub-indicator B: Auditing Standards

B.1. Auditing standards		
RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	4. Adoption of ISAs and ISQMs is fully without modification and mandated by Law.
2	A majority of adopted standards align or converge with ISA and ISQC.	
3	Most adopted standards align or converge with ISA and ISQC.	
4	All adopted standards align with ISA and ISQC.	

B. INSTITUTIONAL FRAMEWORK FOR CORPORATE FINANCIAL REPORTING

1. GENERAL FINANCIAL REPORTING REQUIREMENTS

24. **The accounting framework requires full adoption of IFRS and IFRS for SMEs.** This full adoption was introduced by the Accounting Law in 2002. The full adoption has remained constantly in all updated versions of the Law, with the latest version issued in 2021.

25. **Criteria for enterprises to adopt IFRS, the IFRS for SMEs, or simplified rules established by the Government of the Kyrgyz Republic are clearly defined in the Accounting Law.** Enterprises are classified into public interest, large, medium-sized, and small entities based on their volume of total assets and total revenues. An entity can be categorized as small for accounting purposes if it meets both of the following two criteria for the last two financial periods: total assets did not exceed KGS 35 million (USD 413 thousand) and total revenue did not exceed KGS 30 million (USD 354 thousand). The limits for medium-sized entities are KGS 10 billion (USD 118 million) total assets and KGS 5 billion (USD 59 million) total revenue. If either total assets or total revenues exceed these given limits in the last two financial periods, the entity will be classified as large entities for accounting purposes. However, the Kyrgyz Republic has no existing requirements for sustainability reporting, and has not adopted any international framework for any entities in the jurisdiction.

26. **PIEs are defined in the Accounting Law.** A PIE is defined as an issuer of securities listed on the stock exchange, a bank or other financial institution licensed by the NBKR, an investment fund, an insurance company, or a non-state pension fund. The concepts of “providing essential public services” or “economic significance” are not considered in this definition.

27. **PIEs and large entities are required to prepare and disclose IFRS financial statements.** The Accounting Law requires annual financial statements prepared by PIEs and large entities to be audited. The audited financial statements and auditor’s report shall be published on the entities’ website no later than June 1 of the succeeding year and retained in the domain for five years. The electronic version of those statements should also be sent to the Public Depository of Financial Statements no later than June 1. Listed companies and banks are subject to additional requirements by their regulators on the

frequency of financial reports and disclosures, as discussed in detail in the next sections of this report.

28. Medium-sized entities are required to adopt the IFRS for SMEs but can choose to adopt IFRS with the approval of the governing bodies that approve the accounting policy. The annual financial statements prepared by medium-sized entities shall be audited and submitted to the Public Depository of Financial Statements no later than June 1. Medium-sized entities are not required to publish annual financial statements.

29. Small entities maintain accounting records in accordance with simplified rules established by the Government of the Kyrgyz Republic. Those entities can choose to adopt the IFRS for SMEs with the approval of the governing bodies of SMEs that approve the accounting policy. There is no requirement on audit, or submission or publication of the financial statements prepared by small entities.

LISTED COMPANIES

Overview of the Securities and Exchange Market

30. The KSE is one of the smallest capital markets in the region. Among the 17 current stakeholders are the Istanbul Stock Exchange, the Kazakhstan Stock Exchange, the Russian-Kyrgyz Development Foundation, and the Government of the Republic of Kyrgyzstan represented by the State Property Management Fund of the Government. KSE is a member of the Federation of Euro-Asian Stock Exchanges.

31. State treasury bills have been traded on the KSE since 2007, and in 2018 the commodity and raw materials section of the KSE started operating. Additionally, municipal securities (bonds of the Mayor's Office of Bishkek) as well as housing certificates (a new financial instrument) are traded on KSE.

32. For the period between 2015 and 2019, 38 transactions with government securities in the amount of KGS 61.2 million were registered on the stock exchange, of which 30 transactions for the amount of KGS 33.9 million were in the primary market, and 8 transactions for the amount of KGS 27.3 million in the secondary market.

33. The volume of trading in securities on the securities market in 2020 amounted to KGS 11,830.8 million, which is 1.9 times more than in the previous year (KGS 6,073.9 million), which in turn was 1.6 times more than in 2018 (KGS 3,801.8 million).

34. As of June 2021, there were 27 firms listed on the KSE with total capitalization of KGS 34,108.4 million. At the end of 2020, the capitalization to GDP ratio was 4.5 percent (this had been 4.3 percent at the end of 2019 and 5.8 percent at the end of 2018).

35. In 2020, the KSE launched trading in preferred shares, and for the first time in the history of the Republic, the initial public offering was carried out in compliance with all the applicable requirements and conditions. Stocks traded at the exchange are divided into three categories (A, B, and C), while there are two categories for bonds (1 and 2).

36. As of December 31, 2020, 66 legal entities carried out professional activities in the securities market. Of those entities 2 were trade organizers; 11 independent registrars of the Central Bank, 26 carried out brokerage activities, 3 depository activities, 22 dealer activities, and 2 held investment assets. Among the 66 entities, 13 were carrying out trust management of investment assets.

Securities Market Regulation

37. The securities market in the Kyrgyz Republic is regulated by the Law on Securities Market No. 251, dated July 24, 2009 (Securities Market Law 2009), supported by Government decrees and other bylaws. Internal regulations of the KSE include the Listing Rules, approved by the KSE Board of Directors on February 27, 2014, and the Code of Corporate Governance of the Kyrgyz Republic, approved on December 30, 2020.

38. The SRSFM, under the Ministry of Economy and Commerce, is the sole regulator of the securities sector. The SRSFM performs its activities based on Resolution No. 300 of December 10, 2021, Annex 1 Regulations on the Service for Regulation and Supervision of the Financial Market under the Ministry Economy and Commerce of the Kyrgyz Republic (Resolution 300 2021). Some activities of the SRSFM are also specified in the Accounting Law.

39. As per the Securities Market Law 2009, the SRSFM implements a unified state policy on the securities market, regulates and supervises the activities of regulated entities, and protects the rights of investors. Resolution 300 2021 defines the legal and organizational basis²⁷ for the activities. The Resolution indicates the aim of the SRSFM to create conditions for sustainable economic growth of the state, improve the investment climate through the development of the non-bank financial market and the accounting

²⁷ Resolution 300 2021, Annex 1

and financial reporting system. The SRSFM implements sectoral policy and performs regulatory, coordination, control, monitoring, and support functions.

40. The tasks and the functions of the SRSFM in respect of financial reporting for, in particular, listed companies include:

- pursuing a unified state policy, determining the strategy and priorities for the development of the non-bank financial market and the accounting and financial reporting system, as well as development of a legal framework for supervision and regulation of the non-bank financial market and accounting and financial reporting.
- state regulation of the non-banking financial market, and accounting and financial reporting systems.
- supervision over subjects of the non-banking financial market for compliance with the requirements of local legislation and ensuring implementation of international financial reporting standards, international auditing standards, and the creation of a mechanism for monitoring compliance with the requirements of financial reporting and audit standards.
- developing requirements for the disclosure of information by regulated entities and exercising control over their implementation.
- developing requirements for auditors and conducting training for and certification of auditors.
- assistance in advancing corporate governance principles in the Kyrgyz Republic.

41. The SRSFM consists of a central office and a territorial subdivision.²⁸ The SRSFM is headed by the Chair, who is appointed, dismissed, and reports directly to the Chair of the Cabinet of Ministers of the Kyrgyz Republic on advice from the Minister of Economy and Commerce. One Deputy Chair assists and reports directly to the Chair, who is appointed/dismissed from office in accordance with the established procedure provided for by the legislation of the Kyrgyz Republic. The following activities fall within the powers of the Chair:

- making decisions on the issuance and revocation of the auditor's qualification certificate as proposed by heads of relevant structural divisions and the Deputy Chair.

²⁸ Resolution 300 2021

- making decisions on the issuance, suspension, renewal of licenses for the right to carry out activities in the non-banking financial market as proposed by heads of the relevant structural divisions and the Deputy Chair.

- imposing penalties, including fines, on public companies and professional participants in the non-bank financial market and their officials for violation of the provisions of the legislation of the Kyrgyz Republic governing the non-bank financial market.

42. **The SRSFM can be funded by various sources of income.**²⁹ These include the state budget, grants and assistance from international and other organizations, voluntary contributions from organizations and individuals in accordance with legislation, and other sources of funding that do not contradict the legislation of the Kyrgyz Republic. At the time of the ROSC assessment the SRSFM was funded solely from the state budget, licenses and penalties.

43. **The CPOA³⁰ is to be created as an advisory and supervisory body operating on a voluntary basis for the purpose of public monitoring of the activities of the SRSFM.**³¹

The creation of the CPOA is also specified in the Audit Law 2021. See Box 1 for more information on the CPOA.

²⁹ Resolution 300 2021

³⁰ Not established at the time of the ROSC assessment.

³¹ Resolution 300 2021

Box 1: Council of Public Oversight of Audit

The Audit Law 2021 provides for the formation of the CPOA. The CPOA will be a consultative and advisory body consisting of representatives of state bodies, business, and academia, established under the SRSFM to exercise state and public control, consider issues related to audit and external quality control, and makes decisions in the public interest.

The CPOA will consist of seven members approved by the SRSFM, including the Chair (the SRSFM Deputy Chair); (ii) Executive secretary (from among the employees of the authorized state body responsible for ensuring audit activities and external control of audit quality); (iii) Representative of the Accounts Chamber of the Kyrgyz Republic (appointed at the request of the SRSFM); and (iv) Representatives of business and academia. Members will serve a three year term of office. Members must be: a non-practitioner with (i) higher education in the economic or legal field; (ii) work experience of at least 10 years in the economic/legal fields or in the field of audit education; and (iii) experience in developing regulatory legal acts in accounting and auditing, and/or conducting an audit of financial statements for at least 3 years. Members must not have close relatives or spouses that are auditors, participants/founders, or members of the executive body of the audit organization; and have no outstanding criminal record. They may not carry out audit activities for three years after leaving the CPOA.

The powers of the CPOA will include:

- (i) making proposals on the improvement of: laws and regulations, quality control, professional qualification and continuous professional education, and accreditation of training programs;
- (ii) consideration and approval of the annual plan of the CPOA's activities, a semi-annual plan for external control of audit quality, a program for external control of audit quality, and the annual report on the activities of the CPOA.
- (iii) provision of an opinion on the results of external audit quality control.
- (iv) provision of an opinion on the disciplinary measures to auditors, audit firms, and professional audit associations.
- (v) handling complaints on audit quality control and resolution of disputes between auditors, audit firms, and professional audit associations related to their activities.

44. Current legislation does not set a deadline for the SRSFM to provide annual reporting. Previously the law required the SRSFM to submit an annual report on its activities to the Government no later than April 15 of the year following the reporting period. Also, the annual financial statements of the authorized body were subject to audits. Currently no such provision for annual reporting with a specific deadline for SRSFM

is included in the Regulation, though it indicates that the SRSFM reports to the Ministry of Economy and Commerce. The SRSFM has posted earlier annual reports on its official website. The latest publicly available report at the time of the ROSC assessment was for FY2019.³² The annual reports do not focus on listed companies' compliance with IFRS nor do they describe cooperation with external auditors.

45. The Accounting Law specifies that the SRSFM is in charge of a unified state policy introducing IFRS and exercising control over their application. The SRSFM is also responsible for: (i) translation and publication of IFRS, audit standards, quality control standards, related standards and the Code of Ethics in the state language;³³ (ii) creating and managing the Public Depository of Financial Statements (see Box 2); (iii) developing and approving legal regulations governing the organization of accounting; (iv) assisting in the development of educational programs in the field of accounting and financial reporting in accordance with IFRS; and (v) cooperating with professional PAOs and conducting regular consultations in order to improve the accounting system.

Box 2: Public Depository of Financial Statements

At the time of the ROSC assessment the Depository was not yet established. A draft concept was developed, under the KAREP project, and a Procedure drafted which awaited approval.

The Accounting Law 2021 envisages that the SRSFM, acting through the Public Depository of Financial Statements, shall:

- collect, store, and summarize financial statements and audit reports,
- ensure the safety and security of the data of the Public Depository of Financial Statements as an integral part of state information resources,
- provide entities with the necessary conditions for online submission of financial statements and an audit report,
- verify compliance with the completeness and deadlines for the submission of financial statements and audit reports,
- publish financial statements and audit reports.

³² <https://fsa.gov.kg/docs/file/actreport/447-2019-.pdf>.

At the time of ROSC assessment, the SRSFM provided the FY2020 draft report on its activities to the ROSC team.

³³ At the time of ROSC assessment, a draft government decree on approval of *the Procedure for the translation into the state language and publication of audit standards, quality control standards, related standards, the Code of Ethics, IFRS and IFRS for SME* was prepared but not yet approved.

Financial Reporting for Listed Companies

46. Accounting, financial reporting, and auditing requirements are set out in the Accounting Law and the Audit Law 2021. The new Audit Law introduces improvements in audit regulation to align it with international good practice.

47. PIEs and large business entities are required to use IFRS. The Accounting Law specifies that IFRS issued by the IASB and published in the state and official languages³⁴ in the manner prescribed by the Kyrgyz Republic government, is to be applied by PIEs³⁵ and large business entities regardless of the form of their ownership. The Law also states that the methodological basis for accounting and financial reporting in accordance with Islamic principles of banking and finance is the accounting standards for Islamic financial institutions adopted in accordance with the legislation of the Kyrgyz Republic. PIEs and large business entities can apply amendments made to IFRS prior to their publication in the state and official languages, with subsequent disclosure in the notes to the financial statements. The definitions of small, medium, and large business entities are provided in the Accounting Law. The Accounting Law also specifies that for cases provided for by IFRS the entities are required to prepare consolidated financial statements. The law indicates that financial statements and consolidated financial statements of PIEs and large business entities are subject to annual mandatory audit in accordance with the Audit Law 2021.

48. Minimum requirements for listed companies include the requirement of being a legal entity in the form of a joint stock company (JSC) or a limited liability company, as set out in Government Decree No.224, dated April 17, 2015, on Approval of Minimum Requirements to Listing of Securities in the Kyrgyz Republic, which is based on the requirements of Article 50 of the Securities Market Law 2009. The Decree also requires that the issuer prepares its financial statements in accordance with IFRS. The financial statements must be accompanied by an audit opinion issued by an independent audit company. The Securities Market Law 2009 grants the stock exchange the right to establish additional requirements for securities and their issuers.

³⁴ At the time of the ROSC assessment the 2020 version of IFRS was available in the official (Russian) language, while the translation into the state (Kyrgyz) language was in progress under the WB financed KAREP project.

³⁵ For the purposes of the Accounting Law 2021, a PIE is (i) an entity whose securities are listed on the stock exchange; or (ii) a bank or other financial institution licensed by the NBKR; or (iii) an investment fund, an insurance company, a non-state pension fund.”

49. Listed companies must prepare financial information and provide annual and interim (quarterly) reports. Government Decree No.417, dated September 4, 2018, on Approval of the Regulations on the Procedure for Submitting Reports (Information) and Disclosure³⁶ of Information by Financial Market Entities (Decree 417 2018) specifies that among other information to be submitted to the SRSFM the issuer should provide the following:

- the issuer's statement on the financial position, income statement, cash flow statement, and statement of changes in equity, containing all lines of the chart of accounts as per the Instructions on the Application of the Accounting Chart of Accounts for Financial and Economic Activities of Business Entities, Non-profit Organizations (except for budgetary institutions) as approved by Government Decree No.231 dated October 7, 2010;
- notes containing a set of significant accounting policies and other explanatory notes;
- an auditor's report on the issuer's annual financial statements; and
- a brief description of the corporate governance practices of the regulated financial market entity, including a brief description of the practices that were applied or changed during the reporting period.

Decree 417 2018 further requires that the issuer prepares annual and interim (quarterly) reports, which are provided to the SRSFM as well as to KSE. A copy of the annual/interim (quarterly) report and information on its disclosure must be submitted to the SRSFM, together with a cover letter on the official letterhead of the issuer, no later than 35 calendar days after the date of approval of the annual report (or end of the reporting period for quarterly reports). A second copy of the annual report is kept by the issuer and must be presented to the holders of the issuer's securities at their request. A third copy of the report is sent to the KSE no later than 30 calendar days after the date of approval of the annual report (or end of the reporting period for quarterly reports).

50. The Accounting Law requires that annual (consolidated) financial statements and audit reports of PIEs, large, and medium-sized entities are submitted to the SRSFM by June 1 of the year following the reporting year, in electronic form, in accordance with the requirements of the Procedure for the Creation, Management of the Public Depository of Financial Statements and the Submission of Financial Statements.

³⁶ Disclosure of information means ensuring its accessibility to all interested parties, regardless of the purpose of obtaining this information.

51. Shareholders must be provided with an annual report in advance of their general meeting. As per the Law on Joint Stock Companies No.64, dated March 27, 2003, with latest amendment No.33 of April 3, 2020 (JSC Law), the information (materials) to be provided to shareholders in preparation for the general meeting of shareholders include an annual report on the financial and economic activities of the company. The Code of Corporate Governance of the Kyrgyz Republic (approved by the Order No.264-П of the SRSFM dated December 30, 2020) specifies that the annual report must: include the financial statements of the company, information on transactions with related parties (including the final beneficial owner, beneficiary); sections about corporate governance, and environmental and social responsibility; and state the content of the company's internal policies (including dividend policy, remuneration policy, and risk management). It should also contain performance indicators (including significant factors that influenced the financial results), and also projected risks. Best practices also include the need to disclose information about risk appetite and, in general, about the company's risk management system. The annual report must be prepared and approved by the Board, and it should be posted on the company's internet resource (webpage) before the annual general meeting.

STATUTORY AUDIT AND OTHER FORMS OF INDEPENDENT ASSURANCE

52. The provisions of the new Audit Law require mandatory audit for PIEs and large entities applying international standards. The Audit Law 2021 specifies that audit standards (ISA issued by IAASB), quality control standards (ISQC issued by IAASB), and related standards (International Auditing Practice Notes, International Standard on Review Engagements, ISAE and International Standard on Related Services issued by IAASB) are published in the state and official languages in the manner established by the government of the Kyrgyz Republic. The Audit Law 2021 also specifies that the auditor is obliged to comply with the Code of Ethics³⁷ when carrying out audit activities. Resolution 470 About International Standards on Auditing Standards dated August 26, 2008, also sets out that audits are to be conducted in accordance with the ISA issued by the IAASB and specifies that the Code of Ethics for Professional Accountants and Auditors in the Kyrgyz Republic is the Code of Ethics for Professional Accountants issued by IESBA.

³⁷ The Law defines the Code of Ethics for Professional Accountants as the ethical requirements for professional accountants established by the International Ethical Standards Board for Accountants.

53. The Audit Law 2021 requires mandatory rotation of auditors of PIEs and large entities every seven years, with a cooling-off period of 3 years. The new Law also requires that to conduct statutory audit of PIEs and large entities, the audit firm must have at least 3 auditors on its permanent staff, who should have at least three years of experience in conducting audits of financial statements prepared in accordance with IFRS and/or the IFRS for SMEs.

54. The Audit Law 2021 prohibits the provision of audit services in case of conflict-of-interest. The Law also applies a conflict-of-interest restriction for non-assurance services such as: (i) bookkeeping and financial reporting; (ii) managerial, tax, and IT consulting and strategic planning; (iii) IT audits; (iv) appraisal or valuations; and (v) internal audit.

55. The SRSFM is in charge of issuing auditor's qualification and registration in the Unified State Register. All registered auditors are subject to annual CPD requirements according to the provisions of the Audit Law 2021. The validity period of the audit qualification certificate is not limited but the certificate can be revoked if the auditor fails to comply with annual CPD requirements. The Law specifies that audit firms are required to hold professional indemnity insurance. However, this provision of the law will only be applied when the relevant Civil Liability Insurance Law comes into force.³⁸

56. The company's auditor is appointed by the board of directors and the appointment is approved by the decision of the shareholders general meeting, as per the JSC Law. Article 57 of the Law states the chairman must also convene a meeting of the board of directors at the initiation of the auditor. There is no legal requirement to report the resignation/termination of the auditor to the regulator.

AUDIT COMMITTEES

57. The Accounting Law requires PIEs to have audit committees. The Law indicates that the Regulation on the Audit Committee³⁹ shall be approved by the government. The Code of Corporate Governance⁴⁰ recommends the creation of audit committees at JSCs for preliminary consideration of issues related to control over the financial and economic activities of the company. The Code further recommends that the audit committee must

³⁸ At the time of the ROSC assessment the Civil Liability Insurance Law was drafted but not approved.

³⁹ At the time of the ROSC assessment the Regulation was drafted but not approved.

⁴⁰ The application of the code is mandated for listed companies by the JSC Law.

be chaired by an independent director. Supervision of the external audit, ensuring its independence and objectivity, is one of the functions of the supervisory board and its audit committee, if it has one. This oversight includes selection, quality assessment, ensuring proper rotation of the company's auditor, and regulating non-audit services. The Code also specifies that the audit committee supervises the process of preparing the financial statements. As per the Code, best practice suggests that the board, through the audit committee, reviews the financial statements prepared in accordance with IFRS, before they are signed, in order to ensure they are true and complete and that the required external audit procedures have been followed. External auditors should attend such discussions and share their views on the audit process. The audit committee should meet with external auditors without the presence of company management, at least annually.

58. The Code recommends that the entities develop and approve regulations on their audit committees. The main functions of the committee should include:

- control over accounting and preparation of financial statements,
- control over risk management systems and internal control,
- control over independence, efficiency, and the effectiveness of the functioning of the internal audit function,
- control over external audit, and
- control over the system on possible cases of misconduct.

59. As per the Code of Corporate Governance, members of the audit committee should have appropriate experience in finance and accounting. The audit committee should be composed of board members who are not members of the executive body of the company or its controlled organizations. The majority of audit committee members should be independent directors. The committee is recommended to hold at least quarterly meetings with the head of the internal audit unit on issues related to the competence of the internal audit unit.

Filing/Publication of Financial Statements

60. On filing and publication of financial statements, the Accounting Law specifies that:

- a) PIEs, large, and medium-sized entities are required to submit (in electronic form) to the SRSFM the financial statements and consolidated financial statements (when their preparation is required in accordance with the provisions of IFRS) and an auditor's report by June 1 of the year following the reporting year in accordance with the requirements of the Procedure for the Creation, Management of the Public Depository of Financial Statements and the Submission of Financial Statements.
- b) The submission date will be the date of submission to the Public Depository of Financial Statements (once operational) where they will be filed.
- c) The financial statements and the auditor's report of a PIE or a large business entity are to be posted on the entity's official website no later than June 1 of the year following the reporting year and be publicly available.
- d) The head of the entity is obliged to ensure the preparation and submission of (consolidated) financial statements and an auditor's report in accordance with the requirements of the Accounting Law and IFRS.

61. The Public Depository of Financial Statements should allow any interested party, regardless of the purpose, access to published financial statements from June 1 of the year following the reporting year. The government is in the process of designing the Depository as well as establishing its procedures. In the meantime, arrangements for listed companies' filing and publication is regulated by Decree 417 of 2018, which specifies the list of disclosable information³⁶ including abridged annual and interim (quarterly) financial report for publication in the media or on the KSE website. The Decree also specifies requirements for the mass media/website to be used for disclosing the information on the activities of regulated securities market entities. Summary annual information is required to be published within two months after the annual meeting of shareholders, but no later than June 1 of the year following the reporting year. The summary interim (quarterly) reports are disclosed no later than 30 calendar days after the end date of the reporting quarter. The Decree also specifies the reporting and information disclosure requirements for the KSE as well as companies engaged in the security market as brokerage, dealer, investment asset trust management companies, etc.

62. Publication of the audited financial statements is also recommended by the Code of Corporate Governance, which specifies that the company must ensure timely posting on its webpage of its audited annual financial reporting prepared in accordance with IFRS.

Monitoring and Enforcement – Financial Reporting

63. The SRSFM is responsible for monitoring compliance with auditing and financial reporting requirements for listed companies. As per the Accounting Law, the SRSFM verifies completeness and compliance with deadlines for the submission of financial statements and audit reports. The Audit Law 2021 assigns the SRSFM the power of issuing and revoking audit qualification certificates, as well as exercising control over compliance with the requirements of the Audit Law by the auditor, audit firm, and audit association; audit standards; quality control standards; and the code of ethics.

64. The Audit Law 2021 introduces a mandatory requirement for auditors/audit firms to become members of an audit association.⁴¹ It also specifies that external audit quality control is carried out once every three years, on the basis of a risk-based approach, of audit organizations that audit PIEs and large businesses, and once every six years of other audit organizations.

65. A new methodology/inspection manual has been developed to enhance the SRSFM's capacity in audit quality control. Current SRSFM inspections are carried out using a checklist based on the Law on the Procedure for Conducting Inspections of Business Entities in Kyrgyzstan No.72 dated May 25, 2007 (last amendment No.39, dated March 23, 2021) and Government Decree No.56 dated January 29, 2018, on Provision on the Procedure of Conducting Inspections of Business Entities. With the support of ICAEW under the WB KAREP project, a new methodology/inspection manual has been developed as part of the bylaws for the Audit Law 2021.

66. The SRSFM does not hold regular (at least once a year as a group, and once a year individually) meetings with external auditors of listed companies, though some capacity building trainings are provided by the SRSFM in which some of the auditors participate. The auditors are not required to inform the regulator ex-ante if they do not intend to issue a 'clean' (i.e., unmodified) audit opinion. The regulator has the power to require production of any documents from the auditor.

⁴¹ The Law specifies that this requirement is effective starting January 1, 2023.

67. The Audit Law 2021 requires the auditor/audit association to submit to the regulator a report on its activities that includes information on compliance with audit quality control procedures. The Law also specifies that the auditor is required to prepare and submit a report (based on the results of the audit) to the audit committee of a PIE and/or large business entity in accordance with the forthcoming Regulation on the Audit Committee (prepared and awaiting approval by the Cabinet of Ministers at the time of the ROSC assessment). The Law also requires audit associations to report cases of members violating audit legislation to the regulator.

68. The Financial Market Supervision Department under the SRSFM is responsible for inspections and quality assurance (QA) of auditors. The Department (with five staff as of December 2021) is also responsible for drafting relevant regulations, policies, handling complaints, etc.

69. The Department on Reporting and Controlling of the Financial Market supervises listed companies' compliance with the financial reporting requirements. The Department, also under the SRSFM, had four staff as of December 2021.

70. In 2019 the government imposed a two-year moratorium on inspections until December 31, 2021.⁴² This resulted in a decrease of the number of inspectors. During the moratorium the SRSFM was not able to execute scheduled or unscheduled inspections. However, it could conduct an inspection in the case of complaints being received. If it confirmed a breach of laws/standards, a regulated entity could be fined or prosecuted.

71. The volume of financial information to be submitted to the SRSFM by listed companies is large,⁴³ **and the SRSFM has only limited resources to deal with it.** The small number of compliance monitoring staff in place, and a general scarcity of highly qualified professional staff with respective knowledge and experience in the accounting and auditing standards and procedures, limits the quality of monitoring and enforcement activities. Although the SRSFM conducts regular reviews of entities' financial statements to check compliance with statutory and prudential requirements, it does not focus on IFRS compliance, nor cover all dimensions of financial reporting including accounting policies, valuation methods, internal controls, and external audit. The SRSFM does not provide

⁴² As confirmed by the SRSFM, the moratorium has been lifted since January 1, 2022.

⁴³ At the time of the assessment, there were over 700 listed companies registered, of which only around 300 were active, which are required to submit their annual and quarterly financial reports to the regulator.

sufficient details on systemic issues impacting the quality of financial statements of listed companies nor does it communicate the results of the review to the market.

72. The Audit Law 2021 provides for the SRSFM to apply sanctions on auditors in case of violations of local audit legislation, audit standards, quality control standards or the Code of Ethics. A government decree has been developed (not yet in force at the time of the assessment) on the establishment of the CPOA within the SRSFM responsible for external audit quality control and sanctioning of auditors. Sanctions mentioned are: (1) warnings; (2) fines; and (3) exclusion from the Unified State Register. In the meantime, the local legislation provides sufficient measure and sanctions for non-compliance with the requirements of accounting, financial reporting, and auditing of listed companies as well as for breaching securities market's rules. The list of sanctions to auditors includes fines, revocation of certificate, and deregistration from the Unified State Register. If the audit report is issued in violation of the established audit standards or on the basis of unreliable or insufficient financial, accounting, management, and other information, it may be invalidated by a civil court decision. Moreover, if auditors issue a deliberately false audit opinion (report); issue it without conducting an audit; or blatantly contradict or disregard the content of documents considered by the auditor or audit organization during the audit, it entails criminal liability established by the legislation of the Kyrgyz Republic.

73. Fines can be imposed for breaching non-banking financial market regulations and for non-compliance with the requirements of audit legislation. The Code of the Kyrgyz Republic on Offenses (No. 128, dated October 28, 2021) provides specific levels of fines for breaching the requirements of non-banking financial market regulations, including for breaching the legal requirements on accounting, financial reporting, and auditing requirements. Non-compliance by listed companies and their management with the requirements of storing accounting documentation, maintaining accounting registers, meeting financial reporting requirements and time limits established by the legislation, as well as non-observance by listed companies of the IFRS risks the imposition of a fine. Similarly, the Code imposes specific fines for non-compliance of the requirements of audit legislation, including failure to comply with the requirements for mandatory audit (such as not publishing a complete set of financial statements together with an audit report).

74. Measures are specified for non-compliance with license requirements. The Law of the Kyrgyz Republic On the Licensing and Permit System in the Kyrgyz Republic (No. 125

dated October 19, 2013) provides for licensing control, and specifies the following measures in case of non-compliance with license requirements: (i) warning; (ii) fine; (iii) suspension of the license and (or) permit; and (iv) filing a claim with the judicial authorities to consider the issue of revocation of a license and (or) permit.

75. The supervision regulations do not include any specific measures to be triggered on the part of the securities market regulator if a listed company receives anything other than an unmodified audit opinion. The SRSFM can draw the entity's attention to issues reported by the auditor and require them to be addressed. Unlike the banking regulator, the SRSFM has no power in approving or dismissing the listed company's auditors.

76. Compliance supervision by the SRSFM is not yet fully enforced, but this should be improved with the establishment of the Public Depository of Financial Statements and related procedures. Although existing legislation provides sufficient measures and sanctions for non-compliance with the requirements of accounting, financial reporting, and auditing of listed companies, the general observation is that due to limited resources (in terms of capacity and quality) of the SRSFM, compliance supervision is not fully enforced,⁴⁴ particularly, in terms of enforcing the preparation and submission of IFRS compliant reporting, as well as the public availability of a complete set of IFRS financial reports. Some improvements are expected with the establishment of the Financial Statements Depository and development and enforcement of the respective Procedures. The WB KAREP project is supporting the SRSFM with this.

Corporate Governance

77. Corporate governance of joint-stock companies is regulated by the JSC Law and by the Code of Corporate Governance. The Code was developed and approved in 2020 on the basis of powers delegated to the SRSFM as provided by paragraph 3 of Article 1 of the JSC Law. The Securities Market Law specifies that a listed company must submit a copy of its Code to the SRSFM as a condition for state registration of its prospectus and the terms of its public offer. The JSC Law specifies that adoption of the Code is required for entities issuing bonds. The Code is developed considering the requirements of local

⁴⁴ The SRSFM report imposing the following sanctions in relation to non-compliance with the accounting, reporting, and auditing regulations in recent years: (i) 2018 - one audit certification revoked, (ii) 2019 - six warnings issued, (iii) 2020 - two warnings issued, and (iv) 2021 - three warnings issued and one audit certificate revoked.

legislation and recommendations of the G20/OECD Principles of Corporate Governance and OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015).⁴⁵

78. The Code of Corporate Governance is addressed to all public and (where practicable) non-public enterprises with state participation. The Code is to be applied by public companies on the principle of comply or explain. This approach is because of the high degree of heterogeneity and differences in the level of corporate governance and the specifics of the activities of various companies to which the Code is addressed and taking into account the need to avoid negative impact on companies through requirements for strict literal compliance with the Code.

79. The Code sets out the aspects of corporate governance that must be included in the annual report. These are the financial statements of the company; information on transactions with related parties (including the final beneficial owner, beneficiary); sections about corporate governance, environmental, and social responsibility. It should also include the content of the company's internal policies (including dividend policy, remuneration policy, and risk management) and contain performance indicators (including significant factors that influenced the financial results), and also projected risks. Best practices also disclose information about risk appetite and, in general, about the company's risk management system.

80. Any company adopting the Code of Corporate Governance should publicly declare its compliance. The Code specifies that when a company decides to (or as a public company must) adopt it, the General Meeting should approve a declaration of the company's compliance with the Code. The declaration of compliance must then be posted on the company's website within three days (it was observed that in practice this requirement is not consistently complied with by all listed companies). The company also must inform the SRSFM.

81. Compliance with the Code of Corporate Governance should be stated in the company's annual report. The annual report, which must be published on the company's website before the General Meeting, must provide information on the company's compliance with the principles and recommendations of this Code, and if any principles and Code recommendations are not followed, to provide detailed explanations of the

⁴⁵ https://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

reasons for this with a description (if applicable) of other methods achieving the objectives of establishing the relevant principle, or the Code recommendations that the company has followed.

82. The Code does not specify any specific measures for non-compliance by listed companies.

83. The overall rating attributed to Kyrgyzstan under the performance indicator “Financial Reporting and Auditing of Listed Companies” is 2.4 out of 4, which equals the simple mean of the rating criteria comprising sub-indicators A and B below ($2.4=(2.7+2)/2$).

Performance Indicators – Financial reporting and Auditing of Listed Companies

Sub-indicator A: Financial Reporting and Auditing Requirements for Listed Companies.

The attributed rating is 2.7, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e., $2.7 = (3+2+3)/3$).

A.1. Financial reporting requirements for listed companies	
RATING CRITERIA	KYRGYZ REPUBLIC RATING
1	Criteria for “2” rating not met.
2	Listed companies are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.
3	In addition to requirements under “2”: Listed companies are required to prepare a management report (or management discussion and analysis – MD&A). Listed companies are required to apply IFRS for consolidated annual financial statements.
4	In addition to requirements under “3”: Listed companies are required to prepare interim consolidated financial statements and to publish a statement on corporate governance.

		<p>policies (including dividend policy, remuneration policy, and risk management) and contain performance indicators (including significant factors that influenced the financial results), and also projected risks.</p> <p>A listed company's General Meeting should approve the declaration of the company's compliance with the Code. The company's declaration of compliance with the Code must be posted on the company's corporate Internet resource (website) within three days from the date of the decision to approve such a declaration. However, it was observed that in practice this requirement is not consistently complied with by the listed companies.</p>
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A.2. Audit requirements for listed companies

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	<p>2. The provisions of the new Audit Law specify the requirement for mandatory audit of PIEs and large entities.</p> <p>The law⁴⁶ specifies that the company's auditor is appointed by the board of directors and the appointment is approved by the decision of the General Meeting of shareholders.</p> <p>The auditor's report is not required to attest whether the management report (MD&A) and other financial</p>
2	<p>The legal entity and consolidated financial statements of listed companies are subject to annual statutory audits.</p> <p>Shareholders (at the annual general meeting) or board of directors (i.e., a governance body independent of management) are legally responsible for the appointment and dismissal of auditors of listed companies.</p>	
3	In addition to requirements under "2":	

⁴⁶ As per the JSC Law.

	<p>The auditor’s report is required to attest whether the management report (MD&A) and other financial information have been read for consistency with financial statements.</p> <p>Listed companies are required to form an audit committee.</p> <p>At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.</p>	<p>information have been read for consistency with financial statements.</p> <p>The Accounting Law requires PIEs (in the PIE definition the law refers to listed companies also) to have audit committees. The Code of Corporate Governance specifies that the audit committee must consist of members of the board, and the chairman of the audit committee must be an independent director. The Code also specifies that the members of the audit committee should have appropriate experience in finance and accounting. The audit committee should be composed of board members who are not members of the executive body of the company or its controlled organizations. The majority of the audit committee members should be independent directors.</p> <p>Interim consolidated financial statements of listed companies are not required to be reviewed by auditors.</p>
4	<p>In addition to requirements under “3”:</p> <p>Interim consolidated financial statements of listed companies are required to be reviewed by auditors.</p> <p>The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience.</p> <p>Auditors of listed companies are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.</p>	<p>Interim consolidated financial statements of listed companies are not required to be reviewed by auditors.</p>

A.3. Timeliness and public disclosure of financial reports for listed companies		
RATING CRITERIA	KYRGYZ REPUBLIC RATING	
1	Criteria for “2” rating not met.	3. All interested parties, regardless of purpose, should have access to published financial statement through the Public Depository of Financial Statements from June 1 of the year following the reporting year at the
2	Listed companies are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form.	

	<p>Legal requirements are such that access to financial statements is limited or costly. The deadline for publication of annual reports of listed companies is no later than 9 months after reporting date.</p>	<p>latest. The Depository was not yet established or operational at the time of the assessment. In the meantime, the arrangements for listed companies' publication are regulated by Decree 417 2018. They are considered to be disseminated broadly but there are limitations such as cost and ease of searchability. The Decree specifies the list of disclosable information,⁴⁷ which includes abridged annual and interim (quarterly) financial reports for publication in the media or on the KSE website. The Decree also specifies requirements for the mass media/website to be used for disclosing information on the activities of regulated securities market entities. The audit opinion is also made publicly available. It is expected that once the Depository is operational, the searchability and accessibility of financial statements will be improved with associated costs reduced. There are no specific requirements to publish management discussions and analysis accompanying interim financial reports.</p>
3	<p>In addition to requirements under "2": The audit opinion is also made publicly available. Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability. The deadline for publication of annual reports of listed companies is no later than 6 months after reporting date.</p>	
4	<p>Listed companies are required to make the full sets of legal entity and consolidated financial statements publicly available. The audit report is also made publicly available. Listed companies are also required to publicly disclose the interim financial statements, with accompanying management discussion and analysis. Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost. The deadline for publication of annual reports of listed companies is no later than 4 months after reporting date.</p>	

Sub-indicator B: Monitoring and Enforcement of the Financial Reporting Requirements of Listed Companies.

⁴⁷ Disclosure of information means ensuring its accessibility to all interested parties, regardless of the purpose for obtaining this information.

The attributed rating is 2, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e., $2 = (2+2+2+2)/4$).

B.1. Review of the listed company's annual financial statements

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	2. The minimum procedures set by the SRSFM include review of the audit opinion and the audit management letter. Staff are trained to understand the information included in the audit opinion and management letters. The volume of financial information to be submitted by listed companies to the SRSFM is significantly large, and the SRSFM has only limited resources to deal with it (few compliance monitoring staff and a lack of available highly qualified and experienced professional staff to recruit) which limits the quality of monitoring and enforcement activities.
2	Review of the annual financial statements by the securities market regulator has <i>significant limitations</i>	
3	Review of the annual financial statements by the securities market regulator has <i>minor limitations</i> .	
4	Review of the annual financial statements by the securities market regulator is <i>fully adequate</i> .	

B.2. Communication with external auditors of listed companies

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	2. The SRSFM does not hold regular (at least once a year as a group, and once a year individually) meetings with external auditors of listed companies, though it provides some capacity building training in which some auditors participate. Auditors are not required to inform the regulator ex-ante if they do not intend to issue a 'clean' (i.e., unmodified) audit opinion. The regulator has the power to require production of any documents from the auditor.
2	Communication between the securities market regulator and external auditors of listed companies has <i>significant limitations</i> .	
3	Communication between the securities market regulator and external auditors of listed companies has <i>minor limitations</i> .	
4	Communication between the securities market regulator and external auditors of listed companies is <i>fully adequate</i> .	

B.3. Reporting on the review of financial reporting of listed companies

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	2. Although the SRSFM conducts regular reviews of entities' financial statements to check compliance with statutory and prudential requirements, the review does not focus on IFRS compliance, does not cover all dimensions of financial reporting including accounting policies, valuation methods, internal controls, and external audit, and does not provide sufficient details on systemic issues impacting the quality of financial statements of listed companies. The results of the review are not communicated to the market.
2	Reporting by the securities market regulator on review of the financial statements of listed companies has <i>significant limitations</i> .	
3	Reporting by the securities market regulator on review of the financial statements of listed companies has <i>minor limitations</i> .	
4	Reporting by the securities market regulator on review of the financial statements of listed companies is <i>fully adequate</i> .	

B.4. Supervisory measures and sanctions for listed companies

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	2. The legislation provides sufficient measure and sanctions for listed companies' non-compliance with the requirements of accounting, financial reporting, and auditing. However, the general observation is that SRSFM compliance supervision is not fully enforced due to limited resources in terms of capacity and quality. Notably, enforcing the preparation and submission of IFRS compliance reporting, as well as ensuring public availability of a complete set of IFRS financial reports. Another limitation on the supervisory measures was a two-year moratorium on inspections, which was effective until December 31, 2021. Currently this limitation is lifted.
2	Supervisory measures and sanctions that can be imposed by the securities market regulator have <i>significant limitations</i> .	
3	Supervisory measures and sanctions that can be imposed by the securities market regulator have <i>minor limitations</i> .	
4	Supervisory measures and sanctions that can be imposed by the securities market regulator are <i>fully adequate</i> .	

2. BANKING SECTOR

Overview of the banking sector⁴⁸

84. The banking and credit system continues growing assets, both in absolute terms and as a percentage of GDP. The total assets of banks and non-banking financial credit organizations was KGS 317.9 billion (USD 3.75 billion) as at end of 2020,⁴⁹ an increase of 15.4 percent over 2019. This represents 53.1 percent of GDP.⁵⁰ At the end of 2020, the banking and credit system consisted of 23 commercial banks (16 banks with foreign participation, 11 of those with more than 50 percent foreign participation), one specialized finance credit organization, 134 MFIs, 92 credit unions, two credit offices, and 387 exchange offices.^{51,52} The assets of commercial banks increased by 16.3 percent to KGS 289.5 billion. Five⁵³ commercial banks have stock listed on the Kyrgyz Stock Exchange, and one⁵⁴ bank has bonds listed.

85. The banking system's credit advanced to economic sectors has changed to reflect overall economic demand, but generally remains similar from year to year. 32.9 percent of the loan portfolio is dollarized. Loan growth was observed across all sectors of the economy. Outstanding loans on 31 December 2020 were KGS 162.6 billion, representing growth of 11.1 percent from KGS 146.4 billion in 2019. The growth by lending sector is set out in the table below:

⁴⁸ For the purposes of this report, the "banking sector" incorporates only the commercial banks.

⁴⁹ The Financial Sector Stability Report of the Kyrgyz Republic, 2020, Paragraph 1.2

⁵⁰ The Financial Sector Stability Report of the Kyrgyz Republic, 2020, Paragraph 1.2

⁵¹ The Financial Sector Stability Report of the Kyrgyz Republic, 2020, Table 1.2.1

⁵² The framework for MFIs and credit unions is analyzed in section II.B.6. of this report.

⁵³ <https://www.kse.kg/en/Listingeng>: Category B: Optima Bank OJSC, OJSC Capital Bank of Central Asia, Aiybank OJSC and Russian Investment Bank OJSC; Category C FinanceCreditBank OJSC

⁵⁴ <https://www.kse.kg/en/Listingeng>: Category B: CJSC Kyrgyz Investment and Credit Bank

Table 1: Lending Growth by sector

Sector	December 2020		December 2019	
	Billion KGS	% share	Billion KGS	% share
Industry	14.1	8.7	11.7	8.0
Agriculture	30.5	18.8	27.7	18.9
Trade credits	41.7	25.6	37.2	25.4
Construction	13.7	8.4	13.0	8.9
Mortgage	17.3	10.6	15.3	10.5
Consumer	17.4	10.7	17.3	11.8
Other	27.9	17.2	24.3	16.6
Total	162.6	100.0	146.4	100.0

Source: NBKR, Development trends of the banking sector (as of 31 December 2020)

86. Non-performing loans comprised 10.5 percent (KGS 17.0 billion) of total outstanding advances (2019 – 8.0 percent). Loan loss provisioning increased to 9.0 percent (KGS 14.6 billion) of total outstanding advances (2019 – 7.0 percent). The highest concentration of non-performing loans is in the trade sector, consistent with prior periods.⁵⁵

87. Banking system liabilities have increased to KGS 243.5 billion, an increase of 17.7 percent over 2019. 42 percent of liabilities are denominated in foreign currencies. Total deposits from all sources, comprising 74.3 percent of all liabilities, increased by 19.8 percent, from KGS 151.0 billion on 31 December 2019 to KGS 180.9 billion on 31 December 2020. Deposits from individuals and non-financial entities increased by 19.1 percent to KGS 168.5 billion, 69.2 percent of the total liabilities. Deposits from all sources are set out in the table below:

⁵⁵ The Financial Sector Stability Report of the Kyrgyz Republic, 2020, Paragraph 2.2.1

Table 2: Sources of Deposits

Sector	December 2020		December 2019	
	Billion KGS	% share	Billion KGS	% share
Financial credit organizations	2.8	1.5	2.1	1.4
Non-financial legal entities	60.5	33.4	47.4	31.4
Public authorities	9.2	5.1	6.9	4.6
Individuals	96.8	53.5	83.9	55.6
Non-residents	11.6	6.4	10.7	7.1
Total	180.9	100.0	151.0	100.0

Source: NBKR, Development Trends of the Banking Sector (as of 31 December 2020)

88. The banking sector's capital adequacy at the end of 2020 was 24.9 percent (2019: 24.1 percent). This compares to the statutory minimum requirement of 12.0 percent. The Financial Sector Stability report concludes that this level of capital adequacy "indicates relative stability of the banking sector to negative shocks."⁵⁶

Banking regulator

89. The Banking Oversight Department (BOD) of the NBKR is the sole regulator of the banking and financial sector in the Kyrgyz Republic.⁵⁷ Its duties are mandated by the Law on National Bank of the Kyrgyz Republic, Banks, and Banking No. 207 (2016) (Banking Law 2016). NBKR defines and conducts monetary policy, has the exclusive right to issue currency, and owns and manages all international reserves. NBKR also conducts regular economic and monetary analysis, publishes various publications, oversees the nation's payment systems, monitors the balance of payments, participates in the management of external debt claims, and protects the rights of consumers of banking services. As the supervisory authority, NBKR has the authority to oversee the banking system, including the activities of banks, non-banking financial credit organizations

⁵⁶ The Financial Sector Stability Report of the Kyrgyz Republic, 2020, Paragraph 2.2.1

⁵⁷ Banking Law 2016, article 52

(NFCOs),⁵⁸ and other entities overseen by the NBKR, issue permits, set the rules for banking transactions, act as lender of last resort to banks, and develop and issue legal acts in accordance with the banking laws.

90. The structure of the NBKR is provided by the Banking Law 2016. The NBKR is owned by the Kyrgyz Republic. It is a legal entity with an independent organizational and legal form, operating in accordance with the Law. The Kyrgyz Republic is not responsible for obligations of the NBKR, nor is the NBKR responsible for obligations of the Republic. Government interference in the legal activities of the NBKR is not permitted.⁵⁹ The NBKR is required to issue regulations that complement the banking legislation of the Kyrgyz Republic. In drafting regulations, the NBKR is explicitly permitted to consider international standards of banking supervision and regulation, including those developed by the Basel Committee.⁶⁰

91. The board of the NBKR is the highest governing body, and its chairperson is the highest executive official. The board consists of seven members; chair, three deputy chairs, and three other members.⁶¹ No member of the board can participate in political parties or religious, social, or political organizations. The chair and the members of the board are appointed for a term of seven years and may not be appointed for more than two consecutive terms. The chair of the board effectively serves as chief executive officer and is responsible for implementing policy and the day-to-day conduct of operations. The chair is nominated by the President of the Republic and appointed, replaced, and dismissed by the *Jogorku Kenesh* (Parliament).⁶² Fifteen divisions are responsible for executing the day-to-day functions of the NBKR's central banking operations. Oversight of corporate financial reporting of banks is conducted by the BOD and the Banking Supervisions Methodology and Licensing Department. A separate department is established for the oversight of NFCOs.⁶³

92. The NBKR publishes official information in an annual report on the main areas of monetary policy, and on the development of the banking sector and the payment

⁵⁸ For the purposes of this report, the microfinance sector includes microfinance companies and agencies, microcredit organizations, and credit unions. The collective is referred to hereafter as Non-banking Financial Credit Organizations (NFCOs) and the NFCO sector.

⁵⁹ Banking Law 2016, article 19

⁶⁰ Banking Law 2016, chapter 20

⁶¹ Banking Law 2016, article 70

⁶² Banking Law 2016, chapter 13

⁶³ <https://www.nbkr.kg/index1.jsp?item=4&lang=ENG>

system, including various forms and principles of bank financing.⁶⁴ It also publishes various short form reports quarterly on its website. The annual report is prepared in three languages, Kyrgyz, Russian, and English. The report discusses: (1) the macroeconomic and financial environment (including the structure of the financial sector); (2) the banking sector including risks, capital adequacy, and stress testing outcomes; (3) the NFCO sector; and (4) the payment systems. The report also provides an update on recent developments and achievements as well as a summary of recent supervision improvements. The NBKR does not include details of its IFRS compliance review activities in the report, nor does it include these findings in any other report it produces.

Financial Reporting Requirements for commercial banks

93. Banks are required to comply with IFRS for general purpose financial statements. The NBKR issued Decree no. 6/2 Regulation About Requirements to Formation of Financial Statements of Commercial Banks of the Kyrgyz Republic in 2010 (Decree 6/2 2010), subsequently updated in 2012, 2017 and 2019. The 2010 Decree replaces a previous decree approved in 2003. Decree 6/2 2010, with subsequent amendments, requires that commercial banks fully adopt IFRS for consolidated general purpose financial statements, consistent with the requirements in the 2003 Decree.

94. Banking and financing transactions carried out in terms of Islamic principles are required to be accounted for applying Accounting Standards for Islamic Financial Institutions.⁶⁵ The Banking Law 2016 requires that accounting standards for Islamic Financial Institutions be adopted in accordance with legislation of the Kyrgyz Republic. These standards are based on those issued by the Organization of Accounting and Auditing for Islamic Financial Institutions (AAOFI).⁶⁶ Currently one Islamic bank reports applying the AAOFI framework in preparing its financial statements. Two other banks have Islamic windows, but report applying IFRS only.

95. Banks and other financial institutions⁶⁷ are required to submit annual audited financial statements to NBKR and to make them available to the public.⁶⁸ A copy of

⁶⁴ Banking Law 2016, article 54

⁶⁵ Accounting Law 2002, article 1, paragraph 3.

⁶⁶ Resolution 25-2 2017

⁶⁷ Decree 6/2 2010, applies to the 'preparation and submission of financial statements by commercial banks, the State Development Bank of the Kyrgyz Republic, OJSC "Financial Company of Credit Unions", guarantee funds, and the parent company of the banking group to the NBKR (paragraph 1)

⁶⁸ Decree No 6/2 2010, Chapter 3

the financial statements of the bank, together with a copy of the audit report, must be submitted to the NBKR within 10 working days of its approval, but not later than April 15 of the year following the reporting year. Abridged financial statements, together with the auditor's report, must be published in the media after completion of the audit and approval of the financial statements, but no later than April 30 of the year following the reporting year. The bank must select media for the publication of the abridged financial report to ensure wide dissemination and accessibility to users. The publication must reference the fact that the full financial statements are available at the head office of the bank, its branches, and savings banks. The full financial statements of the bank, including all components, the notes to the financial statements, and the auditor's report, must be published in the form of a brochure. These financial statements should be available at the bank head office, its branches, and savings banks for users and access should be provided at their first request.

96. Banks are required to submit quarterly interim financial statements to NBKR and make them available to the public.⁶⁹ Quarterly statements on financial position, comprehensive income, cash flows, and changes in equity, as well as other specified information must be published on the bank's website and in the media, no later than 30 days after the month following the reporting quarter. The publication must contain a reference to the fact that the quarterly financial statements in full can be found at the head office of the bank, branches, and its savings banks. It is not clear whether these quarterly financial statements are required to be prepared in accordance with IFRS applying IAS 34 *Interim Financial Statements*. There is no requirement for audit or auditor review of quarterly financial statements.

97. Detailed requirements are set for the content of annual and interim financial statement presentation and disclosure. Decree 6/2 2010 sets general and detailed requirements for individual items of presentation and disclosure. The Decree frequently includes terms such as "unless otherwise required or permitted by IFRS". In general, the requirements appear to be consistent with those of IFRS, although some requirements may supplement those in IFRS. To the extent that requirements are aligned with IFRS, care needs to be taken when the relevant IFRSs are updated.

98. There is no explicit requirement for the publication of a management report although there are various requirements for the publication of information that

⁶⁹ Decree 6/2 2010, Chapter 4

would typically be included in a management report. Decree 6/2 2010 sets out various requirements for information that is required to be published in, or alongside, financial statements. For example, paragraph 31.1 dealing with interim reports requires information to be published, including information on material facts affecting the financial and economic activities of the bank that took place in the interim reporting period. Material facts include an event (fact) that may affect the financial and economic activities of the bank and / or the price of securities issued by the bank; one-time transactions of the bank, the value of which is 10 percent or more of the bank's assets as of the date of the transaction; and fact(s) which entailed a one-time increase or decrease in the value of the bank's assets of more than 10 percent. However, there is no similar requirement for the annual financial statements.

Statutory audit and other forms of independent assurance

99. Banks are required to have their annual financial statements audited. The Audit Law 2021⁷⁰ explicitly excludes banking activities from its remit, requiring these to be carried out in accordance with banking legislation, however it makes explicit that audits of banks must be carried out in accordance with legally established procedures and international audit standards.⁷¹ The Banking Law 2016 requires banks to submit their annual financial statements to an annual external audit and sets various requirements for the audit process.⁷² The Audit Law 2021 is supplemented by various decrees and resolutions of the board of the NBKR. The resolutions have the authority of a regulation.

100. Auditing requirements for banks and financial institutions are set by law and supplemented by NBKR regulation. The Banking Law 2016, read with the Audit Law 2021 and together with regulations set by the NBKR, requires an external audit of annual financial statements in accordance with ISA or AAOFI standards as applicable.⁷³

⁷⁰ Audit Law 2021, Article 1.3

⁷¹ Audit Law 2021 specifies in the same paragraph that "The provisions of this Law shall apply to the audit of banks and non-bank financial and credit institutions to the extent they are not inconsistent with the banking legislation of the Kyrgyz Republic." This is taken to mean that the Audit Law 2021 does apply where bank legislation is silent.

⁷² Banking Law 2016, Articles 125, 126, and 127

⁷³ Resolution 134, 2008 About International Audit Standards adopted International Audit Standards as issued by the Committee on International Auditing Practice of the International Federation of Accountants and the audit standards for Islamic financial institutions developed by the Accounting and Auditing Organization for Islamic Financial Institutions as the audit standards of the Kyrgyz Republic.

101. **The audit firm of a bank is appointed by the board of directors and approved by the general meeting of shareholders.**⁷⁴ The regulation requires that the board consider at least three audit organizations. The audit firm chosen must maintain a 'key composition' of individual auditors performing the audit, and changes to the composition need to be approved by the audit committee. The board of directors of the bank selects audit organizations and auditors for submission to the general meeting of shareholders. The bank shall notify the NBKR of the audit organization and the candidacies of auditors more than 90 days before the general meeting. The NBKR has the right to reject the audit organization and the candidacies of auditors as not meeting the established requirements for the audit of banks. Selection of the external auditor of the bank, negotiations with the audit organization regarding remuneration, terms, conditions of the external audit of the bank, and submission of the external auditor of the bank for consideration of the general meeting of shareholders of the bank is the exclusive responsibility of the board of directors of the bank.

102. **The regulations require that an external auditor be independent and competent.** The regulations explicitly require that the external auditor of the bank shall remain independent, objective, and avoid situations that give reason to believe that there is a conflict of interest. Audit organizations are required to have an appropriate license for the right to carry out audit activities of banks in the territory of the Kyrgyz Republic.⁷⁵

103. **Audit firms of banks and financial institutions are required to be rotated at least every five years.**⁷⁶ At the request of a bank to the NBKR, the rotation period may be extended if the international holding company to which the bank belongs is provided by the legislation of the country of its registration with a rotation period different from that established by this regulation.

104. **Audit firms are not allowed to provide audit services when so doing would constitute a conflict of interest.** The audit firm is required to attest that neither itself nor any of its auditors, or other employees included in the audit, have any interest in the bank, that they are independent, and are not connected by any relations with the bank and its officials. The regulations consider an audit firm participating or involved in the audit of a

⁷⁴ Resolution 25-2 2017, paragraph 10

⁷⁵ Additionally, foreign audit organizations, with the exception of audit organizations conducting audit of the National Bank of the Kyrgyz Republic, have the right to conduct audits in the Kyrgyz Republic upon establishment of appropriate audit organizations/residents of the Kyrgyz Republic.

⁷⁶ Resolution 25-2 2017, paragraph 22

bank not to be independent if they are or have been in the last two years: (i) persons who directly or indirectly have a significant participation in the capital of the bank or its affiliates; (ii) affiliated persons of the bank or its affiliated persons; (iii) persons who provide other services to the bank or its affiliates (special audits, consulting services, internal audit services); (iv) an employee of the bank or its affiliated persons; or (v) in other cases provided for by the legislation of the Kyrgyz Republic.

105. **The NBKR shall have the right to require the bank to correct the deficiencies which led to a qualified auditor's report or any other adverse opinion of the external auditor.** The external auditor is required to inform the management board, the board of directors of the bank and the NBKR of specified significant events or circumstances within one working day from the date of discovery. At the request of the NBKR, the external auditor is obliged to provide any information related to the audit. The provision of such information is not considered a disclosure of confidential information during an external audit. The NBKR has the right to require the bank, the bank holding company, or the subsidiary to correct the deficiencies which led to a qualified auditor's report or any other adverse opinion of the external auditor.

106. **Banks are required to notify the NBKR of the appointment or change of an auditor.** The regulation requires the bank to notify the NBKR on the appointment of the external auditor of the bank after the adoption of the decision by the general meeting of shareholders of the bank. It also requires notification of a change of the external auditor of the bank and its reasons, if the change occurred during the period of the external audit of the bank. In specified circumstances, the NBKR has the right not to accept the opinion of the external auditor and to require a re-audit of the bank.

107. **The external auditor of the bank has access to all materials and reports of the internal audit service of the bank.** By regulation,⁷⁷ the external auditor of the bank is required to consult with the employees of the internal audit service of the bank to obtain information on the internal control system of the bank and be informed of any problems they have identified.

⁷⁷ Resolution 25-2 2017, paragraph 6

Audit Committees

108. **Banks are required by the Banking Law 2016 to have an audit committee.**⁷⁸ The governance hierarchy of a licensed bank established by the Banking Law 2016 is: (1) general meeting of bank shareholders, (2) bank's board of directors, and (3) the bank board (executive officers). The Banking Law 2016 also makes provision for a Sharia Council charged with ensuring compliance with bank policies and contracts with Islamic standards. The bank's board of directors is responsible for establishing effective assessment, monitoring, and control systems in the bank to maintain an adequate level of capital in line with the risks in the bank's operations, and must consist of at least five members, in an odd number, at least one third of whom should be independent. Together with a risk committee, and a remuneration committee, an audit committee must be established under the board of directors.⁷⁹ The roles and responsibilities of the committees are established by regulation.⁸⁰ There are no specific requirements as to the composition of the audit committee other than that it is a subcommittee of the board.

Filing/publication of financial statements

109. **Bank and financial institutions are required to publish both annual financial statements and interim financial reports.** See section "Financial Reporting Requirements for commercial banks" above.

Monitoring and enforcement – financial reporting

110. **The BOD is ultimately responsible for reviewing the financial statements of banks.** Law and regulations require that annual and interim financial statements be submitted to the BOD at or shortly after the time they are made publicly available. The BOD places reliance on audit processes to identify shortfalls in the preparation of financial statements in addition to its own review. Resolution of the Board of the NBKR, Position on Minimum Requirements for External Audit of Banks and other Financial and Credit Organizations Licensed by the National Bank of the Kyrgyz Republic, No. 2017-P-12/25-2-(NPA) (Resolution 25-2 2017) permits the NBKR to provide information to the auditors, requires auditors to report specified information to the NBKR, imposes certain requirements in the event of a qualified or disclaimed audit report, and permits the NBKR

⁷⁸ Banking Law 2016, article 102

⁷⁹ Banking Law 2016, article 102

⁸⁰ Resolution 25-2 2017

to appoint an independent auditor to assess, among other things, compliance with IFRS.⁸¹ The NBKR has the right in specified circumstances not to accept the opinion of the external auditor. The BOD also reviews the completeness and timeliness of financial statement submission.

111. The NBKR requires banks to submit their financial statements for review prior to publication. Banks are required in practice to submit financial statements to the BOD prior to their finalization. The BOD has a dedicated review function that reviews the financial statements and has on occasion requested the submitting bank to make changes in financial statements to more fully comply with IFRS. The BOD also uses software to review indicators and other potential errors. Publication of financial statements can only occur with permission of the NBKR. The findings of these reviews are communicated to the submitting bank but are not published either internally or externally. This increased oversight is also apparent in the higher quality of financial statements in the banking sector relative to other sectors (see C: Observed Reporting Practices).

112. Enforcement of financial reporting requirements is provided for in the regulations.⁸² The NBKR has certain powers enabling it to require additional audit work be done, with the cost being borne by the bank. If the shortcomings identified during the audit are not corrected within the period of time established by the NBKR, the NBKR also has the right to apply to the bank's management, members of the board of directors, members of the audit committee of the bank, the controlling shareholders and / or to the bank itself any measures established by the banking legislation, up to the revocation of the license. The NBKR does have internal procedures for applying sanctions to banks on an escalation basis, starting with a warning. Although not publicly available, the banking sector has knowledge of the procedures, and is aware of the sanctions. In practice, the sanctions provisions in the legislation have reportedly been applied strictly (including threat of revocation of license).

113. The NBKR has no powers to perform oversight on auditors of banks and financial institutions. However, the Banking Law 2016 permits the NBKR to require an audit to be reformed at the cost of the bank. It also imposes certain requirements on the audit firms and auditors appointed to an audit and does permit the

⁸¹ Resolution 25-2 2017, paragraph 53.

⁸² Banking Law 2016, chapter 23

NBKR to require an audit firm or auditors to be dismissed.⁸³ . Together with the NBKR's own review of financial statements, this provides the BOD with insight into the performance of auditors and the ability to react to poor quality audits.

114. Law and regulations do not require NBKR to hold regular meetings with auditors. The law requires auditors to communicate to NBKR "immediately on any incidents concerning insolvency or significant risk leading to insolvency of the institution, failure to comply with applicable laws and regulations, and any existing or proposed state of affairs that may materially prejudice the institution's capacity to safeguard the interests of depositors and stakeholders". Banks are also required to provide the NBKR with copies of management reports provided by the auditors and the outcome of information technology audits. In practice, NBKR meets regularly with auditors and bank management, typically both before the commencement of the audit and after the completion of the audit.

Corporate Governance

115. There is no comprehensive formal corporate governance requirement for banks. The main areas for development of the banking system⁸⁴ identified in Resolution of the Board of the NBKR of December 27, 2017, No. 2017-P-11/54-1-(BS) include harmonization of legislation within the framework of cooperation in the Eurasian Economic Union (EAEU). This specifically includes, as a third phase, supervision and corporate governance (planned for 2022-2025). Corporate governance for banks and financial institutions is currently partially provided for in the Banking Law 2016.⁸⁵ The Law requires that bank's founding documents contain regulations on the bank's governance.⁸⁶ It also sets out the requirements and responsibilities for the bank's governing bodies, including very specific division of responsibility.⁸⁷ The NBKR has the right to request reports and information from the banking group and its members to assess its corporate governance quality.⁸⁸

⁸³ Banking Law 2016, Article 125

⁸⁴ Resolution of the Board of the NBKR of December 27, 2017 No. 2017-P-11/54-1-(BS))

⁸⁵ The Risk Management Regulation contains several requirements applicable to the bank's board of directors on the risk strategy, risk policy and risk appetite that may also be considered part of the Corporate Governance structure.

⁸⁶ Banking Law 2016, Article 80

⁸⁷ Banking Law 2016, Article 96

⁸⁸ Banking Law 2016, Article 145

116. **Corporate governance statements by banks and financial institutions have not yet been systematically prepared and disclosed.** International good practices recommend that each bank prepare an annual self-assessment of its compliance with the Code of Corporate Governance that would be submitted to the NBKR, published on its website, and included in its annual report (using a comply or explain principle). Key information in the report should include: results of the self-assessment against the implementation regulation; share ownership details; frequency of board meetings; number of internal fraud cases and how the bank handled them; number of legal claims and the bank’s settlement efforts; transactions with a conflict of interest; buy back of bank shares and/or bonds; and provision of funds for social activities and political activities with detail of the nominal value and recipients.

117. **The overall rating attributed to the Kyrgyz Republic under the performance indicator “Financial Reporting and Auditing for Banks” is 2.8 out of 4,** which equals the simple mean of the rating criteria comprising sub-indicators A and B below ($2.8 = (2.7 + 3.0)/2$).

Performance Indicators – Financial Reporting and Auditing Requirements for Banks

Sub-Indicator A. Financial Reporting and Auditing Requirements for Banks.

The attributed rating is 2.7, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e., $2.7 = (3+2+3)/3$).

A.1. Financial reporting requirements for banks	
RATING CRITERIA	KYRGYZ REPUBLIC RATING
1 Criteria for “2” rating not met.	3. Banks are required to prepare IFRS annual financial statements for both the legal and the consolidated entity. There is however no explicit requirement for the publication of a management report (MD&A), however banks are required to include narrative reporting which may otherwise have been included in MD&A.
2 Banks are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.	
3 In addition to requirements under “2”: Banks are required to prepare a management report (or MD&A).	

	Banks are required to apply IFRS for consolidated annual financial statements.	Evidence presented elsewhere in this report indicates that, the bank and microfinance sector financial statements reviewed generally appear to be significantly better presented than those of the other sectors however, all financial institutions reviewed likely did not comply with at least some aspects of IFRS in some key areas.
4	In addition to requirements under "3": Banks are required to prepare interim consolidated financial statements.	

A.2. Audit requirements for banks

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	<p>2. The Annual Financial Report is audited, but there is no requirement for the auditors to attest to a separate management report (see comment above). Banks are required to form an audit committee, however there is no guidance on the composition of the committee, other than that it is a sub-committee of the board of directors.</p> <p>There is no requirement to perform an audit review of interim financial statements.</p> <p>Auditors are required to be appointed by shareholders on recommendation from the board of directors.</p>
2	<p>The legal entity and consolidated financial statements of banks are subject to annual statutory audits.</p> <p>Shareholders (at the annual general meeting) or board of directors (i.e. a governance body independent of management) is legally responsible for the appointment and dismissal of auditors of banks.</p>	
3	<p>In addition to requirements under "2":</p> <p>The auditor's report is required to attest whether the management report (MD&A) and other financial information have been read for consistency with the financial statements.</p> <p>Banks are required to form an audit committee.</p> <p>At least one member of the audit committee is required to be an independent director. At least one</p>	

	member is required to have recent and relevant financial or auditing experience.	
4	<p>In addition to requirements under "3":</p> <p>Interim consolidated financial statements of banks are required to be reviewed by auditors.</p> <p>The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience.</p> <p>Auditors of banks are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.</p>	

A.3. Timeliness and public disclosure of financial reports for banks

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	<p>3. All banks must publish their annual financial statements, audited by an independent auditor by April 30 of the subsequent year (within 4 months). These financial statements must include an audit report.</p> <p>Banks are required to submit quarterly interim financial statements and make them available to the public, no later than 30 days after the month following the reporting quarter.</p> <p>Evidence presented elsewhere in this report indicates that, inconsistent with regulation, most publicly available</p>
2	<p>Banks are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form.</p> <p>Legal requirements are such that access to financial statements is limited or costly.</p> <p>The deadline for publication of annual reports of banks is no later than 9 months after the reporting date.</p>	
3	<p>In addition to requirements under "2":</p> <p>The audit opinion is made publicly available.</p>	

	<p>Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability.</p> <p>The deadline for publication of annual reports of banks is no later than 6 months after the reporting date.</p>	<p>financial statements do not include notes to the financial statements.</p>
4	<p>Banks are required to make the full sets of legal entity and consolidated financial statements publicly available. The audit report is also made publicly available.</p> <p>Banks are required to publicly disclose the interim financial statements, with accompanying management discussion and analysis.</p> <p>Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost.</p> <p>The deadline for publication of annual reports of banks is no later than 4 months after the reporting date.</p>	

Sub-Indicator B: Monitoring and Enforcement of the Financial Reporting Requirements of Banks.

The attributed rating is 3.0, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.5 below (i.e., $3.0 = (3+3+4+2+3)/5$).

B.1. Review of bank annual financial statements		
RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	3. The BOD is responsible for reviewing financial statements of banks and financial institutions. The BOD has a dedicated review function that reviews
2	Review of the annual financial statements by the Banking Supervisor has <i>significant limitations</i> .	

3	Review of the annual financial statements by the Banking Supervisor has <i>minor limitations</i> .	the financial statements prior to publication and has on occasion requested the submitting bank to make changes in financial statements to more fully comply with IFRS. BOD also uses meetings with auditors, audit reports, and audit opinions to review compliance with financial reporting standards and follow up with financial institutions and auditors. None-the-less, evidence presented elsewhere in this report indicates that, there are still deficiencies in Bank reporting.
4	Review of the annual financial statements by the Banking Supervisor is <i>fully adequate</i> .	

B.2. Reconciliation requirements between equity and regulatory capital of banks

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	3. A reconciliation process forms part of the internal process documents used by the NBKR.
2	Reconciliation requirements between equity and regulatory capital have <i>significant limitations</i> .	
3	Reconciliation requirements between equity and regulatory capital have <i>minor limitations</i> .	
4	Reconciliation requirements between equity and regulatory capital are <i>fully adequate</i> .	

B.3. Communication with external auditors about banks

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	4. Audit firms are required to communicate to NBKR the outcome of the engagement quality control review and also specified incidents, failures to
2	Communication between the Banking Supervisor and external auditors of banks have <i>significant limitations</i> .	

3	Communication between the Banking Supervisor and external auditors of banks have <i>minor limitations</i> .	comply, and specified existing or proposed states of affairs.
4	Communication between the Banking Supervisor and external auditors of banks is <i>fully adequate</i> .	Law and regulations do not require NBKR to hold regular meetings with auditors; although regulations provide for communication between audit firms and the NBKR. In practice, meetings do occur, typically at least before the commencement of the audit and after the completion of the audit.

B.4. Reporting on the review of financial reporting of banks

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	<p>2. NBKR prepares an annual report on its activities, published on its website. The report provides a brief summary of recent supervision activities. The quality of financial reporting and auditing of banking and financial sector is not explicitly reported in the annual report.</p> <p>The NBKR does provide confidential feedback to the individual banks involved in the review process.</p>
2	Reporting by the Banking Supervisor on review of financial statements of banks have <i>significant limitations</i> .	
3	Reporting by the Banking Supervisor on review of financial statements of banks have <i>minor limitations</i> .	
4	Reporting by the Banking Supervisor on review of financial statements of banks is <i>fully adequate</i> .	

B.5. Supervisory measures and sanctions for banks

RATING CRITERIA		KYRGYZ REPUBLIC RATING
1	Criteria for "2" rating not met.	<p>3. Enforcement of financial reporting requirements is not clearly provided in the regulations. The Banking Law 2016 provides for sanctions up to and</p>
2	Supervisory measures and sanctions that can be imposed by the Banking Supervisor have <i>significant limitations</i> .	

3	Supervisory measures and sanctions that can be imposed by the Banking Supervisor have <i>minor limitations</i> .	including revocation of the bank's license. However, the Law does not set out specific sanctions for specific transgressions.
4	Supervisory measures and sanctions that can be imposed by the Banking Supervisor are <i>fully adequate</i> .	The NBKR does have internal procedures for applying sanctions to banks on an escalation basis, generally starting with a warning. Although not publicly available, the banking sector has access to the procedures, and is aware of the sanctions. In practice, the sanctions provisions in the legislation have reportedly been applied strictly (including threat of revocation of license).

3. MICROFINANCE SECTOR

Overview of the microfinance (NFCO) sector

118. **The NFCO sector continues growing assets, both in absolute terms and as a percentage of GDP.** The total assets of the sector were KGS 28.4 billion (USD 334.9 million) as at end of 2020,⁸⁹ an increase of 7.4 percent over 2019. At the end of 2020, microfinance organizations consisted of 87 microcredit organizations, 38 microcredit agencies, and 9 microfinance companies. In addition to microfinance organizations, the NFCO sector includes 1 specialized finance credit organization and 92 credit unions.⁹⁰ Two microfinance companies have stock listed on the KSE,⁹¹ and two have bonds listed.⁹²

119. **A microfinance organization is subject to the Law on Microfinance Organizations of the Kyrgyz Republic No. 124 (2002)⁹³ (Microfinance Law).** A microfinance organization is defined as a specialized financial and credit institution established in the form of a JSC and carries out microcredit activities to legal entities and individuals and other types of operations. It also takes term deposits from individuals and legal entities. Microfinance companies are licensed and regulated by the NBKR.⁹⁴

120. **Credit unions are subject to the Law on Credit Unions of the Kyrgyz Republic No. 117 (1999)⁹⁵ (Credit Union Law).** A credit union is a financial and credit organization created in the form of a cooperative in order to assist its participants (members) by merging the personal savings of the participants and using them for mutual lending, as well as providing other financial services, including in accordance with Islamic principles of banking and financing. Credit unions are licensed and regulated by the NBKR.

121. **Lending is the key activity of the sector.** As of 31 December 2020, the loan portfolio of NFCOs increased by 4.7 percent amounting to KGS 23.1 billion. At the end of the reporting period, the number of borrowers had decreased by 1.4 percent to 433,364

⁸⁹ The Financial Sector Stability Report of the Kyrgyz Republic, 2020, Paragraph 1.2

⁹⁰ The Financial Sector Stability Report of the Kyrgyz Republic, 2020, Table 1.2.1

⁹¹ <https://www.kse.kg/en/Listingeng>: Category B: The settlements and savings company OJSC and Category C: OJSC Microcredit Company Enterprise Development Fund

⁹² <https://www.kse.kg/en/Listingeng>: Category B: JSC Microfinance Company (Salym Finance) and OJSC Microfinance Company ABN.

⁹³ Law on Microfinance Organizations in the Kyrgyz Republic, No. 124 (2002)

⁹⁴ Accounting Law 2002 classifies financial and credit institutions licensed by the NBKR as PIE

⁹⁵ Law of Credit Unions in the Kyrgyz Republic, No. 117 (1999)

borrowers. The sector remains focused on short (53.1 percent) and medium (40.6 percent) term lending.⁹⁶

122. Sector liabilities increased by 2.1 percent to KGS 12.3 billion at 31 December 2020, and capital increased by 11.9 percent to KGS 16.1 billion at 31 December 2020.⁹⁷

123. Credit quality decreased in 2020 reflecting in part the effect of COVID-19. At the end of 2020, non-performing loans in the loan portfolio constituted 6.6 percent of total outstanding loans, with a value of KGS 668.4 million (77.8 percent increase).⁹⁸

Regulator

124. The NBKR's Non-banking Financial Credit Organizations Oversight Department (NFCOOD) is the sole regulator of the NFCO sector in the Kyrgyz Republic.⁹⁹ Its duties are mandated by the Microfinance Law, the Credit Union Law, and the Banking Law. As the supervisory authority, NBKR has the authority to oversee the non-banking system, issue permits, and develop and issue legal acts in accordance with the laws.

125. The structure, board composition, and official reporting requirements of the NBKR are discussed earlier in paragraphs 89 to 92 above.

Financial reporting requirements for NFCOs

126. NFCOs that prepare financial statements are required to comply with IFRS for general purpose financial statements. The Resolution on Financial Statements for NFCOs¹⁰⁰ requires that licensed microfinance companies and other NFCOs that are licensed to accept deposits must prepare financial statements that fully comply with IFRS, applying the Decree on IFRS for Small and Medium-Sized Businesses.¹⁰¹ The Decree states that banks or other financial and credit institutions licensed by the NBKR must apply IFRS. The Resolution also sets a prescribed format for the presentation of the financial

⁹⁶ Financial Sector Stability Report, 2020, section 3.1

⁹⁷ Financial Sector Stability Report, 2020, section 3.1

⁹⁸ Financial Sector Stability Report, 2020, section 3.2

⁹⁹ Banking Law 2016, article 52

¹⁰⁰ Resolution 36/1 2003, Article 1, paragraph 1.1.

¹⁰¹ Decree 564 2013

statements of entities in the sector, although the format can be amended if that results in more reliable presentation.¹⁰²

127. Banking and financing transactions carried out in terms of Islamic principles are required to be accounted for applying AAOIFI Standards.¹⁰³ There is no specific requirement in the Credit Union Law, Microfinance Law, or Resolution 36/1 2003 for accounting for Islamic products. However, the Accounting Law¹⁰⁴ and the Banking Law 2016¹⁰⁵ require that AAOIFI Standards be adopted and applied in accordance with legislation of the Kyrgyz Republic. In practice, if the other laws are silent, the Accounting Law takes effect.

128. Microfinance and microcredit companies are required to submit audited annual financial statements to NBKR and to make them available to the public.¹⁰⁶ A copy of the financial statements of the company in a prescribed format,¹⁰⁷ together with a copy of the audit report, must be submitted to the NBKR within 30 working days from the date of submission of the report by the external auditor, but in any case, not later than 105 days from the end of the financial year. Abridged financial statements in a prescribed format together with the auditor's report must be published in the media after the completion of the audit and approval of the financial statements, but no later than April 30 of the year following the reporting year. The microfinance company must select media in which to publish the abridged financial report to ensure wide dissemination and accessibility to users.

129. Microcredit agencies can elect to prepare audited financial statements.¹⁰⁸ There is no requirement for a microcredit agency to submit audited financial statements or publish them even if they are prepared.

130. A credit union licensed to accept deposits can elect to have its financial statements audited.¹⁰⁹ If it chooses to do this, it must then publish the financial statements in a prescribed format. After completion of the audit and approval of the

¹⁰² Resolution 36/1 2003, paragraph 2.16

¹⁰³ Resolution 25-2 2017

¹⁰⁴ Accounting Law 2002, article 1, paragraph 3.

¹⁰⁵ Banking Law 2016, Article 4

¹⁰⁶ Resolution 36/1 2003, chapter 3

¹⁰⁷ Resolution 36/1 2003, chapter 2 and the appendices

¹⁰⁸ Microfinance Law 2002, article 37, paragraph 3

¹⁰⁹ Credit Union Law 1999, article 19.1

financial statements, financial reporting forms must be published in the media together with the audit report, in the state and/or official languages, no later than April 30 of the year following the reporting year. Information on publication and a copy of the published documents must be submitted to the NBKR within 3 working days of publication.¹¹⁰

131. NFCOs are required to submit quarterly abridged financial statements in a prescribed format to NBKR.¹¹¹ Quarterly statements in a prescribed format on profit or loss and the balance sheet must be provided to the NBKR, no later than 30 days after the month following the reporting quarter. A microfinance company must publish its balance sheet and corresponding notes in the media quarterly.¹¹² Aside from microfinance companies, quarterly information is not made publicly available and there is no requirement for audit or auditor review.

132. Regulations set out detailed requirements for the content of annual and interim financial statements' presentation and disclosure.¹¹³ The regulations regularly include terms such as 'unless otherwise required or permitted by IFRS'. The regulations also impose a prescribed format for the financial statements. In general, the requirements appear to be consistent with those of IFRS, although some requirements may supplement those in IFRS. To the extent that requirements are aligned with IFRS, care needs to be taken when the relevant IFRSs are updated.

133. There is no explicit requirement for the publication of a management report although there are various requirements for the publication of information that would typically be included in a management report.

Statutory audit and other forms of independent assurance

134. Microfinance and microcredit companies are required to have annual financial statements audited.¹¹⁴ The audit must be conducted annually by external, independent auditors. A copy of the audit report must be submitted to the NBKR, along with a letter to the management and the financial statements, within 30 days from the

¹¹⁰ Resolution 36/1 2003, paragraph 3.3

¹¹¹ Resolution 36/1 2003, paragraph 4.2

¹¹² Microfinance Law 2002, article 37, paragraph 2 and 3

¹¹³ Resolution 36/1 2003, chapters 5 to 9

¹¹⁴ Microfinance Law 2002, Article 37

date of submission of the report by the external auditor, but in any case, not later than April 30 of the year following the reporting year.

135. **Microcredit agencies can elect to have an annual audit.**¹¹⁵ Even if the agency chooses to have an external audit, there is no explicit requirement to submit a copy of the audit report to the NBKR.

136. **Credit unions can elect to have an annual audit.**¹¹⁶ If the credit union chooses to have an external audit, it must be conducted within 60 days from the end of the financial year. The auditor shall submit the auditor's report, as well as any recommendations to the board of the credit union and the audit commission, which are obliged to bring it to the attention of the participants of the credit union at the annual general meeting. However, there is no explicit requirement to submit the report to the NBKR.

137. **Auditing requirements for NFCOs are set by the Audit Law 2021.** This sets the basis for external audits but defers to the Banking Law 2016 for the determination of when audits are required and how auditors are selected. The Audit Law 2021 requires the application of ISA.¹¹⁷

138. **The audit firm of a microfinance entity is appointed by the board of directors and approved by the general meeting of shareholders.**¹¹⁸ The regulation requires that the entity consider at least three audit organizations. The audit firm chosen must maintain a 'key composition' of auditors performing the audit, and changes to the composition need to be approved by the audit committee. The board of directors of the entity selects audit organizations and auditors for submission to the general meeting of shareholders. The entity shall notify the NBKR of the audit organization and the candidacies of auditors more than 90 days before the general meeting. The NBKR has the right to reject the audit organization and the candidacies of auditors as not meeting the established requirements for the audit of microfinance entities. Selection of the external auditor of the entity, negotiations with the audit organization regarding remuneration, terms, conditions of the external audit of the entity, and submission of the external auditor of the microfinance

¹¹⁵ Microfinance Law 2002, Article 37, paragraph 3

¹¹⁶ Law of Credit Unions, No. 117 (1999), Article 19

¹¹⁷ Resolution 134, 2008

¹¹⁸ Resolution 25-2 2017, paragraph 10.

entity for consideration of the general meeting of shareholders is the exclusive competence of the board of directors.

139. **Resolution 25-2 2017¹¹⁹ requires that an external auditor be independent and competent.** The regulations explicitly require that the external auditor of the microfinance entity shall remain independent, objective, and avoid situations that give reason to believe that there is a conflict of interest. Audit organizations are required by the Audit Law 2021 to be registered for the right to carry out audit activities of microfinance entities in the territory of the Kyrgyz Republic.

140. **Audit firms of financial institutions are required to be rotated at least every five years.**¹²⁰ At the request of the microfinance entity to the NBKR to change the rotation period of the group, the rotation period may be extended if the international holding company to which the entity belongs is provided by the legislation of the country of registration for the rotation period of the external auditor other than that established by regulation.¹²¹

141. **Audit firms are not allowed to provide audit services in case of conflict of interest.**¹²² The audit firm is required to attest that neither itself nor any of its auditors, or other employee included in the audit, have any interest in the microfinance entity, that they are independent, and are not connected by any relations with the entity and its officials. The regulation considers the audit firm participating or involved in the audit of the entity not to be independent if they are or have been for the last two years: (i) persons who directly or indirectly have a significant participation in the capital of the entity or its affiliates; (ii) affiliated persons of the entity or its affiliated persons; (iii) persons who provide other services to the entity or its affiliates (conducting special audits, consulting services, internal audit services); (iv) an employee of the entity or its affiliated persons; or (v) in other cases provided for by the legislation of the Kyrgyz Republic.

142. **The NBKR has the right to require the microfinance entity to correct the deficiencies which led to a qualified auditor's report or any other adverse opinion of the external auditor.**¹²³ The external auditor is required to inform the management

¹¹⁹ Resolution 25-2 2017, paragraphs 16-20

¹²⁰ Resolution 25-2 2017, paragraph 22

¹²¹ Resolution 25-2 2017

¹²² Resolution 25-2 2017, paragraphs 17 and 18

¹²³ Resolution 25-2 2017, paragraph 45

board, the board of directors of the microfinance entity, and the NBKR of specified significant events or circumstances within one working day from the date of discovery. At the request of the NBKR, the external auditor is obliged to provide any information related to the audit. The provision of such information is not considered a disclosure of confidential information during an external audit. The NBKR has the right to require the microfinance entity, its holding company, or the subsidiary to correct the deficiencies which led to a qualified auditor's report or any other adverse opinion of the external auditor.

143. Microfinance entities are required to notify the NBKR of the appointment or change of an auditor. Resolution 25-2 2017 requires the microfinance entity to notify the NBKR on the appointment of the external auditor of the entity after the adoption of the decision by the general meeting of shareholders.¹²⁴ It also requires notification of a change of the external auditor of the entity and its reasons, if the change of the external auditor occurred during the period of the external audit. In specified circumstances, the NBKR has the right not to accept the opinion of the external auditor and to require a re-audit of the entity.

Audit committees

144. Microfinance entities are required to have an audit committee.¹²⁵ The governance hierarchy of a licensed microfinance entity is established by the Banking Law 2016: (1) the general meeting of shareholders, (2) the entity's board of directors, and (3) the entity board (executive officers). The Banking Law also makes provision for a Sharia Council charged with ensuring compliance with the entity's policies and contracts with Islamic standards. The entity's board of directors is responsible for establishing effective assessment, monitoring, and control systems in the entity to maintain an adequate level of capital in line with the risks to the entity's operations. The board must consist of at least five members, in an odd number, at least one third of whom should be independent. Together with a risk committee, and a remuneration committee, an audit committee must be established under the board of directors.¹²⁶ The roles and responsibilities of the

¹²⁴ Resolution 25-2 2017, paragraph 13

¹²⁵ Banking Law 2016, article 102

¹²⁶ Banking Law 2016, article 102

committees are established by regulation.¹²⁷ There are no specific requirements as to the composition of the audit committee other than that it is a subcommittee of the board.

145. **Credit unions are required to elect an audit commission from among their members.**¹²⁸ Membership of the audit commission is governed by minimum requirements set out in the Credit Union Law. The Law also dictates certain prescribed activities of the audit commission. External auditors may be appointed to perform the function of the audit commission by decision of a general meeting of members of the credit union.

Filing/publication of financial statements

146. **Microfinance and microcredit companies are required to file and to publish their financial statements. Microcredit agencies and credit unions are not required to file or publish financial statements.** See section "Financial reporting requirements for NFCOs" above.

Monitoring and enforcement – financial reporting

147. **The NFCOOD of the NBKR is ultimately responsible for reviewing financial statements of NFCOs.** Law and regulations require that annual and interim financial statements of certain NFCOs be submitted to the NBKR at or shortly after the time they are made publicly available. The NBKR places reliance on audit processes to identify shortfalls in the preparation of financial statements. Regulations permit the NBKR to provide information to the auditors, requires auditors to report specified information to the NBKR, imposes certain requirements in the event of a qualified or disclaimed audit report, and permits the NBKR to appoint an independent auditor to assess among other things compliance with IFRS.¹²⁹ The NBKR has the right in specified circumstances not to accept the opinion of the external auditor. The NBKR also reviews the completeness and timeliness of financial statement submission.

148. **Enforcement of financial reporting requirements is provided in the regulations.** The NBKR has certain powers enabling it to require additional audit work to

¹²⁷ Resolution 25-2 2017.

¹²⁸ Law on Credit Unions, article 18.

¹²⁹ Resolution 25-2-2017, paragraph 54

be done, with the cost being borne by the NFCO. The NBKR has no powers to perform oversight on auditors of NFCOs.

149. **Law and regulations do not require NBKR to hold regular meetings with auditors.** Resolution 25-2¹³⁰ requires auditors to communicate to NBKR “immediately on any incidents concerning insolvency or significant risk leading to insolvency of the institution, failure to comply with applicable laws and regulations, and any existing or proposed state of affairs that may materially prejudice the institution’s capacity to safeguard the interests of depositors and stakeholders”. Microfinance entities are also required to provide the NBKR with copies of management reports provided by the auditors and the outcome of information technology audits.

Corporate governance

150. **There is no formal corporate governance requirement for NFCOs.** The main areas for development of the banking system identified by the NBKR,¹³¹ include harmonization of legislation within the framework of integration cooperation in the EAEU. This specifically includes supervision and corporate governance as a third phase (planned for 2022-2025).

151. **The overall rating attributed under the performance indicator “Financial Reporting and Auditing for NFCOs” is 2.4 out of 4,** which equals the simple mean of the rating criteria comprising sub-indicators A and B below ($2.4 = (2.3 + 2.4) / 2$). The existing legal requirements impose different conditions for NFCOs depending on their level of public accountability. For the purpose of the analysis below the focus was on microfinance companies and microcredit companies, that have more onerous requirements.

Performance Indicators – Financial Reporting and Auditing for NFCOs

Sub-Indicator A. Financial Reporting and Auditing Requirements for NFCOs.

The attributed rating is 2.3, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e., $2.3 = (2 + 2 + 3) / 3$).

¹³⁰ Resolution 25-2 2017, paragraph 47

¹³¹ Resolution 54-1 2017

A.1. Financial reporting requirements for NFCOs ¹³²

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>2. Specified NFCOs are required to prepare IFRS Annual Financial Statements for both the legal and the consolidated entity. There is however no explicit requirement for the publication of a management report (MD&A).</p> <p>Specified NFCOs are required to prepare interim financial reports. The interim reporting requirement includes certain narrative information that would usually be included in MD&A.</p> <p>Evidence presented elsewhere in this report indicates that, the bank and microfinance sector financial statements reviewed generally appear to be significantly better presented than those of the other sectors however, all financial institutions reviewed likely did not comply with at least some aspects of IFRS in some key areas.</p>
2	NFCOs are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.	
3	In addition to requirements under "2": NFCOs are required to prepare a management report (or MD&A). NFCOs are required to apply IFRS for consolidated annual financial statements.	
4	In addition to requirements under "3": NFCOs are required to prepare interim consolidated financial statements.	

A.2. Audit requirements for NFCOs

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>2. The Annual Financial Report is audited, but there is no requirement for the auditors to attest to a separate management report (see comment above).</p>
2	The legal entity and consolidated financial statements of NFCOs are subject to annual statutory audits. Shareholders (at the annual general meeting) or board of directors (i.e. a	

¹³² Focused on microfinance companies and microcredit companies.

	<p>governance body independent of management) is legally responsible for the appointment and dismissal of auditors of NFCOs.</p>	<p>There is no requirement to perform an audit review of interim financial statements.</p>
<p>3</p>	<p>In addition to requirements under "2":</p> <p>The auditor's report is required to attest whether the management report (MD&A) and other financial information have been read for consistency with the financial statements.</p> <p>NFCOs are required to form an audit committee.</p> <p>At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.</p>	
<p>4</p>	<p>In addition to requirements under "3":</p> <p>Interim consolidated financial statements of NFCOs are required to be reviewed by auditors.</p> <p>The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience.</p> <p>Auditors of NFCOs are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.</p>	

A.3. Timeliness and public disclosure of financial reports for NFCOs

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>3. Specified NFCOs must publish their annual financial statements, audited by independent auditor by April 30 of the subsequent year (within 4 months). These financial statements must include an audit report.</p> <p>Evidence presented elsewhere in this report indicates that, inconsistent with regulation, most publicly available financial statements do not include notes to the financial statements.</p>
2	<p>NFCOs are required to make legal entity and consolidated financial statements publicly available, although this may be in an abridged or incomplete form.</p> <p>Legal requirements are such that access to financial statements is limited or costly.</p> <p>The deadline for publication of annual reports of NFCOs is no later than 9 months after the reporting date.</p>	
3	<p>In addition to requirements under "2":</p> <p>The audit opinion is made publicly available.</p> <p>Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability.</p> <p>The deadline for publication of annual reports of NFCOs is no later than 6 months after the reporting date.</p>	
4	<p>NFCOs are required to make the full sets of legal entity and consolidated financial statements publicly available. The audit report is also made publicly available.</p> <p>NFCOs are required to publicly disclose the interim financial statements, with accompanying management discussion and analysis.</p>	

<p>Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost.</p> <p>The deadline for publication of annual reports of NFCOs is no later than 4 months after the reporting date.</p>	
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Sub-Indicator B: Monitoring and Enforcement of the Financial Reporting Requirements of NFCOs.

The attributed rating is 2.4, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.5 below (i.e., $2.4 = (3+2+2+2+3)/5$).

B.1. Review of NFCO annual financial statements	
RATING CRITERIA	KYRGYZ RATING
1 Criteria for "2" rating not met.	3. The NFCOOD is responsible for reviewing financial statements of NFCOs. The NFCOOD has a dedicated function that reviews the financial statements prior to publication and has on occasion requested the submitting entity to make changes in financial statements to more fully comply with IFRS. The BOD also uses meetings with auditors, audit reports and audit opinions to review the compliance with financial reporting standards and follow up with financial institutions and auditors. None-the-less, evidence presented elsewhere in this report indicates that, there are still deficiencies in reporting.
2 Review of the annual financial statements by the Supervisor has <i>significant limitations</i> .	
3 Review of the annual financial statements by the Supervisor has <i>minor limitations</i> .	
4 Review of the annual financial statements by the Supervisor is <i>fully adequate</i> .	

B.2. Reconciliation requirements between equity and regulatory capital of NFCOs	
RATING CRITERIA	KYRGYZ RATING
1 Criteria for "2" rating not met.	2. Limited reconciliations do occur.

2	Reconciliation requirements between equity and regulatory capital have <i>significant limitations</i> .	There is no legal requirement for a reconciliation.
3	Reconciliation requirements between equity and regulatory capital have <i>minor limitations</i> .	
4	Reconciliation requirements between equity and regulatory capital are <i>fully adequate</i> .	

B.3. Communication with external auditors about NFCOs

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>2. Law and regulations do not require NBKR to hold regular meetings with auditors; although regulations do require communication of audit management reports, specified significant findings and a preview of the final audit report.</p> <p>In practice, meetings do not typically occur.</p>
2	Communication between the Supervisor and external auditors of NFCOs have <i>significant limitations</i> .	
3	Communication between the Supervisor and external auditors of NFCOs have <i>minor limitations</i> .	
4	Communication between the Supervisor and external auditors of NFCOs is <i>fully adequate</i> .	

B.4. Reporting on the review of financial reporting of NFCOs

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>2. NBKR prepares an annual report on its activities, published on its website. The report provides a brief summary of recent supervision activities. The quality of financial reporting and auditing of banking and financial</p>
2	Reporting by the Supervisor on review of financial statements of NFCOs have <i>significant limitations</i> .	
3	Reporting by the Supervisor on review of financial statements of NFCOs have <i>minor limitations</i> .	

4	Reporting by the Supervisor on review of financial statements of NFCOs is <i>fully adequate</i> .	sector is not distinctly reported in the annual report. The NBKR does provide confidential feedback to the individual entities involved in the review process.
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B.5. Supervisory measures and sanctions for NFCOs

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>3. Enforcement of financial reporting requirements is not clearly provided in the regulations. The law provides for sanctions up to an including revocation of the NFCOs license. However, the law does not set out specific sanctions for specific transgressions.</p> <p>The NBKR does have internal procedures for applying sanctions on an escalation basis, generally starting with a warning. Although not publicly available, the sector has access to the procedures, and is aware of the sanctions. In practice, the sanctions provisions in the legislation have reportedly been applied strictly (including threat of revocation of license).</p>
2	Supervisory measures and sanctions that can be imposed by the Supervisor have <i>significant limitations</i> .	
3	Supervisory measures and sanctions that can be imposed by the Supervisor have <i>minor limitations</i> .	
4	Supervisory measures and sanctions that can be imposed by the Supervisor are <i>fully adequate</i> .	

4. INSURANCE SECTOR

Overview of the insurance sector

152. **The Kyrgyz Republic's insurance sector is relatively small but continues to grow liabilities and assets, both in absolute terms and relative to GDP.**¹³³ On December 31, 2020, there were 16 insurance and reinsurance organizations active in the Kyrgyz Republic (17 in 2019), 5 of which are non-resident owned organizations. One, the State Insurance Company, is wholly state owned. The total liabilities of all insurance companies were KGS 1.43 billion (USD 16.9 million) as at end of 2020, up from KGS 1.18 billion in 2019. Assets in the sector have increased to KGS 5 billion (USD 59.0 million) from KGS 4.9 billion in 2019. Insurance premiums remained static at KGS 1.334 billion (KGS 1.332 billion in 2019). No insurance organizations have stock listed on the KSE.¹³⁴

153. **The sector is dominated by short term insurance products.**¹³⁵ Of total premium income of KGS 1.334 billion (KGS 1.332 billion in 2019), property insurance accounted for 69 percent, dominating the sector offering. Compulsory insurance (13 percent of premium income), personal insurance (11 percent) and liability insurance (7 percent) are the other big offerings. Life insurance at less than 0.01 percent of insurance premium is a niche offering. Insurance claims in 2020 amounted to KGS 184.2 million with property insurance accounting for 45.4 percent of the total, compulsory insurance 10.4 percent, personal insurance 38.2 percent, and liability insurance 6.1 percent. There were no life insurance claims in 2019 and 2020.

154. **The recent growth in insurance activities is a consequence of the development of a legislative framework designed to promote the development of the industry.**¹³⁶ Laws on compulsory types of insurance have been developed and adopted. These include insurance for the civil liability of employers, insurance of residential premises against fire and natural disasters, and certain auto liability insurance. However, compulsory motor vehicle insurance is only being introduced progressively from July 2021. To facilitate the provision of insurance cover in the compulsory insurance market, the Government created the wholly state-owned State Insurance Company. The State Insurance Company provides compulsory insurance, voluntary property insurance

¹³³ Data sheet prepared by the World Bank

¹³⁴ <https://www.kse.kg/en/ListingengC>

¹³⁵ Data sheet prepared by the World Bank

¹³⁶ Data sheet prepared by the World Bank

and personal insurance, as well as some reinsurance coverage. The Government views the continuing growth in the industry as fundamental to the objective of improving economic stability, reducing social tensions, and creating conditions conducive to attracting investment.

155. The sector remains reliant on international reinsurers for most reinsurance coverage.¹³⁷ Premiums of KGS 787.7 million were ceded for reinsurance in 2020, 59.0 percent of earned premium. Of that amount, 91.8 percent was placed with foreign reinsurers and 8.2 percent with domestic reinsurers.

156. Insurance organizations have limited asset investment choices.¹³⁸ Limited availability, liquidity, and profitability of securities of domestic companies, together with a lack of long-term financial instruments, restrict investment choices. As a consequence, insurance reserves are typically invested in short-term investments. Insurance organizations place the main share of insurance reserves in deposits with commercial banks (65 – 70 percent), government securities (25 – 27 percent), and securities of domestic companies (3 – 5 percent).

157. In common with other emerging economies, there is weak demand for insurance services.¹³⁹ Weak demand for insurance services is driven by low levels of insurance culture in the population, high unemployment, low-income levels, an unstable economic environment, a low investment culture, and low confidence in domestic insurance organizations. This is common to most emerging markets where insurance and the benefits it provides are unfamiliar.

Insurance regulator

158. The SRSFM is the sole regulator of the insurance sector in the Kyrgyz Republic.¹⁴⁰ The duties and responsibilities of the SRSFM were previously mandated by the Law on the Authorized State Body for the Financial Market Supervision and Regulation (Financial Market Supervision Law). This Law was retracted in 2019 and has not been replaced. The supervisory activities it previously mandated are now addressed by Resolution 300 2021. The Resolution provides that SRSFM is responsible for state

¹³⁷ Data sheet prepared by the World Bank

¹³⁸ Data sheet prepared by the World Bank

¹³⁹ Data sheet prepared by the World Bank

¹⁴⁰ Resolution 300 2021

regulation of the non-banking financial market.¹⁴¹ As the regulator of the non-bank financial market, the main responsibility of the SRSFM is development of the financial market through supervision of the activities of regulated entities. The authorized body is obliged to improve the regulatory framework for regulation and supervision of the non-bank financial market as well as for audit and accounting and financial reporting.

159. **The SRSFM has extensive authority and rights to fulfil its mandate for regulating insurance entities.**¹⁴² The SRSFM has the authority to oversee the insurance sector, issue permits or licenses, conduct inspections, and consider applications and complaints among other responsibilities. The SRSFM also has the right to draft regulatory legal acts, establish the conditions for professional activities (such as auditing) for the insurance sector, establish risk management requirements, and monitor compliance (including by conducting inspections) with the requirements of regulations. In the event of non-compliance, the SRSFM has the right to send instructions or warnings to the offending organization, demand the elimination of the violations, and involve judicial authorities.

160. **The structure of the SRSFM is provided by Resolution 300 2021.** This requires the SRSFM to act independently. However, if necessary, it provides for the SRSFM to carry out its activities in cooperation with other organizations.

161. **The chair is the highest executive official of the SRSFM.**¹⁴³ The chair is appointed, dismissed, and reports directly to the Chair of the Cabinet of Ministers of the Kyrgyz Republic on advice from the Minister of Economy and Commerce. One Deputy Chair assists and reports directly to the Chair.

162. **The SRSFM's operation is funded by various sources of income.**¹⁴⁴ In addition to funding from the State budget, the SRSFM collects revenue from license fees and penalties, can accept voluntary contributions from individuals and companies, and can receive grants or assistance, for example from international financial institutions.

163. **There is currently no specific requirement for the SRSFM to submit an annual report on its activities.** The Financial Market Supervision Law previously specified that

¹⁴¹ Resolution 300 2021

¹⁴² Resolution 300 2021

¹⁴³ Resolution 300 2021

¹⁴⁴ Resolution 300 2021

the SRSFM annually submit a report on its activities to the Government no later than April 15 of the year following the reporting period. The law was retracted in 2019 and has not been replaced. The SRSFM posts an annual report on its activities on its website, but this report does not include feedback on compliance with IFRS or other financial reporting requirements by insurance entities.

Financial reporting requirements for insurance organizations

164. Insurance organizations are required to comply with IFRS for general purpose financial statements.¹⁴⁵ The Accounting Law requires that PIEs apply IFRS as issued by the IASB. PIEs have the right to apply changes, if any, made to IFRS before their publication in the Kyrgyz Republic. The Law defines PIEs to include all insurance organizations, irrespective of size.¹⁴⁶

165. Transactions carried out in terms of Islamic principles are required to be accounted for by applying Accounting Standards for Islamic Financial Institutions.¹⁴⁷ The accounting requirements set out in the Accounting Law must be applied other than to the extent that they are regulated by accounting standards for Islamic financial institutions. Further, the law specifies that for transactions carried out in accordance with the Islamic principles of banking and financing, the basis for accounting and financial reporting are the accounting standards for Islamic financial institutions adopted in accordance with the legislation of the Kyrgyz Republic.¹⁴⁸ These standards are based on those issued by the AAOFI.

166. Insurance organizations are required to prepare annual financial statements and to publish abridged financial statements. An insurance entity is required to prepare financial statements, including consolidated financial statements where applicable, in accordance with IFRS.¹⁴⁹ Annual financial statements and consolidated financial statements of insurance entities must be submitted to founders and or participants.¹⁵⁰ Insurance entities must submit financial statements and consolidated financial statements together with an audit report for inclusion in the public repository

¹⁴⁵ Accounting Law 2002, Article 1, paragraph 2

¹⁴⁶ Accounting Law 2002, Article 1, paragraph 2

¹⁴⁷ Accounting Law 2002, Article 5, paragraph 1.1.

¹⁴⁸ Accounting Law 2002, Article 1, paragraph 3

¹⁴⁹ Accounting Law 2002, Article 10, paragraph 1 and 3, read with article 1, paragraph 2

¹⁵⁰ Accounting Law 2002, Article 12, paragraph 2

before June 1 of the year following the reporting year.¹⁵¹ The financial statements must also be posted on the official website of the reporting entity no later than June 1 of the year following the reporting year and remain in the public domain for five years.¹⁵² An insurance organization must publish an abridged annual report in the press, including a balance sheet and a report on profits and losses, in a form and time set by the Government.¹⁵³ There is no requirement for insurance organizations to submit interim reports. However, almost all insurance organizations are public companies,¹⁵⁴ and as such are required to submit quarterly reports to SRSFM.¹⁵⁵

167. There is no explicit requirement in law or regulations for the publication of a management report.

Statutory audit and other forms of independent assurance

168. Insurance organizations are required to have annual financial statements audited.¹⁵⁶ The financial statements of insurance companies are subject to annual audit by external auditors. The external auditor is required to meet minimum criteria for auditing an insurance organization set by the Audit Law 2021.¹⁵⁷ The Law require an annual external audit in accordance with IAS.¹⁵⁸

169. There are no explicit requirements for the appointment process of auditors of insurance organization, only that the external auditor be independent and competent.¹⁵⁹ Unlike the explicit requirements for banks, there are no specific regulations governing the process of appointing auditors, and no regulations permitting the regulator to formally approve the choice. The Audit Law 2021 sets minimum requirements for the competency and independence of auditors and audit firms.

¹⁵¹ Accounting Law 2002, Article 12, paragraph 4

¹⁵² Accounting Law 2002, Article 12, paragraph 7

¹⁵³ Law on Insurance, No. 96 (1998), Article 24

¹⁵⁴ Securities Market Law 251 2009, Article 3, definition of Public Company

¹⁵⁵ Decree 417 2018, Paragraph 15.

¹⁵⁶ Accounting Law 2002, Article 12, paragraph 1, Law on Insurance No. 96 (1998), article 23, and Audit Law 2021, Article 3, paragraph 3

¹⁵⁷ Audit Law 2021, Article 7, paragraph 3 and 6, and Article 22 to Article 26

¹⁵⁸ Resolution 470 (2008) About International Standards on Auditing Standards

¹⁵⁹ Audit Law 2021

170. **Mandatory rotation of auditors of PIEs is required every seven years, with a cooling-off period of three years.**¹⁶⁰ To conduct a statutory audit of PIEs and large entities, the audit firm must have at least three auditors on its permanent staff, who should have at least three years of experience in conducting audits of financial statements prepared in accordance with IFRS and/or the IFRS for SMEs.¹⁶¹ The SRSFM is in charge of certifying and registering auditors. The Audit Law 2021 requires that the SRSFM establishes and maintains a Public Registry of audit firms and auditors.¹⁶² The Law prohibits provision of audit services in case of conflict-of-interest.¹⁶³ The conflict-of-interest restriction is also applied for non-assurance services such as: (i) bookkeeping and financial reporting; (ii) managerial, tax, and IT consulting, and strategic planning; (iii) IT audits; (iv) appraisal or valuations; and (v) internal audit. The Audit Law 2021 also requires auditors to establish an internal audit quality function, to annually evaluate the effectiveness of the audit process and to keep records of that assessment process. The function must provide an annual report to the regulator.¹⁶⁴

Audit committees

171. **PIEs are required by the Accounting Law to have an audit committee.**¹⁶⁵ This is a recent change to the Accounting Law. There are no further requirements under the Law on Insurance No. 86 of 1998 or associated regulations.

Filing/publication of financial statements

172. **Insurance entities are required to publish annual financial statements.** See section "Financial reporting requirements for insurance organizations" above.

Monitoring and enforcement – financial reporting

173. **The SRSFM is ultimately responsible for reviewing financial statements of insurance organizations.** The Accounting Law requires that annual and other reporting be submitted to the SRSFM at or shortly after the time they are made publicly available. The SRSFM places a great deal of reliance on audit processes to identify shortfalls in the

¹⁶⁰ Audit Law 2021, Article 5, paragraph 3

¹⁶¹ Audit Law 2021, Article 7, paragraph 3(1) and 3(2)

¹⁶² Audit Law 2021, Article 22 to Article 26

¹⁶³ Audit Law 2021, Article 8

¹⁶⁴ Audit Law 2021, Article 7, paragraphs 10 to 15

¹⁶⁵ Accounting Law 2002, Article 1, paragraph 2

preparation of financial statements. The SRSFM also reviews the completeness and timeliness of financial statement submission.

174. **Enforcement of financial reporting requirements is not clearly provided in the regulations.** The SRSFM has certain powers enabling it to require additional audit work be done, with the cost being borne by the subject entity. The SRSFM also has the right to conduct inspections and to otherwise monitor compliance, and to require an entity to correct any shortcomings identified. The SRSFM has the right to impose sanctions including revocation of licenses.

175. **Specialist resources are needed to review IFRS financial statements for compliance.** The use of IFRS requires specialist understanding. The review of financial statements for compliance with IFRS requires an additional layer of specialization. The SRSFM currently relies to a significant extent on the audit process to identify and rectify technical non-compliance with IFRS. While this audit process does add value to the compliance review process, experience (including from within the Kyrgyz Republic) indicates that significant additional value is added through independent oversight. There is considerable guidance publicly available for the internal and external development of staff resources, and on risk-based approaches to compliance reviews to better utilize existing staff.

176. **Law and regulations do not require SRSFM to hold regular meetings with auditors.**

Corporate governance

177. **There is no formal corporate governance requirement for insurers.**

178. **The overall rating attributed to the Kyrgyz Republic under the performance indicator “Financial reporting and auditing for insurance companies” is 1.9 out of 4,** which equals the simple mean of the rating criteria comprising sub-indicators A and B below (i.e., $1.9 = (2 + 1.8/2)$).

Performance Indicators – Financial reporting and auditing for insurance companies

Sub-Indicator A. Financial reporting and auditing requirements for insurance companies.

The attributed rating is 2, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.3 below (i.e., $2 = (2 + 2 + 2)/3$).

A.1. Financial reporting requirements for insurance companies

RATING CRITERIA	KYRGYZ RATING
1 Criteria for "2" rating not met.	<p>2. Insurance companies prepare IFRS consolidated annual financial statements.</p> <p>There is no requirement to prepare interim financial statements.</p> <p>There is no requirement to prepare MD&A.</p>
2 Insurance companies are required to prepare legal entity financial statements on an annual basis, in accordance with prescribed financial reporting standards.	
3 In addition to requirements under "2": Insurance companies are required to prepare a management report (or MD&A). Insurance companies are required to apply IFRS for consolidated annual financial statements.	
4 In addition to requirements under "3": Insurance companies are required to prepare interim consolidated financial statements.	

A.2. Audit requirements for insurance companies

RATING CRITERIA	KYRGYZ RATING
1 Criteria for "2" rating not met.	<p>2. The consolidated annual financial statements are audited, and auditors attest to accompanying material, but there is no requirement for them to attest to the separate management report. Insurance companies are required to form an audit committee, but there are no specified requirements for the membership of the committee.</p> <p>Refer to comment A.1. above, there is no requirement to submit interim</p>
2 The legal entity and consolidated financial statements of insurance companies are subject to annual statutory audits. Shareholders (at the annual general meeting) or board of directors (i.e., a governance body independent of management) is legally responsible for the appointment and dismissal of auditors of insurance companies.	
3 In addition to requirements under "2":	

	<p>The auditor’s report is required to attest whether the management report (or MD&A) and other financial information in the annual report have been read for consistency with the financial statements.</p> <p>Insurance companies are required to form an audit committee.</p> <p>At least one member of the audit committee is required to be an independent director. At least one member is required to have recent and relevant financial or auditing experience.</p>	<p>financials and therefore no audit review.</p> <p>There are no specific requirements for the appointment of auditors.</p>
<p>4</p>	<p>In addition to requirements under “3”:</p> <p>Interim consolidated financial statements of insurance companies are required to be reviewed by the auditors.</p> <p>The audit committee comprises only independent directors. At least one member is required to have recent and relevant financial reporting or auditing experience.</p> <p>Auditors of insurance companies are required to be appointed by shareholders at the AGM (if applicable) or by the board of directors on the recommendation of the audit committee.</p>	

A.3. Timeliness and public disclosure of financial reports for insurance companies

RATING CRITERIA		KYRGYZ RATING
1	Criteria for “2” rating not met.	<p>2. All insurers must publish their annual financial statements, audited by an independent auditor, by June 1 of the</p>
2	Insurance companies are required to make legal entity and consolidated	

	<p>financial statements publicly available, although this may be in an abridged or incomplete form.</p> <p>Legal requirements are such that access to financial statements is limited or costly.</p> <p>The deadline for publication of annual reports of insurance companies is no later than 9 months after the reporting date.</p>	<p>subsequent year (within 5 months). These financial statements must include an audit report. Abridged financial statements must be published in the press.</p> <p>Insurers are required to publish their financial statements on their own websites, and to submit the financial statements to a central depository.</p>
3	<p>In addition to requirements under "2":</p> <p>The audit opinion is also made publicly available.</p> <p>Legal requirements are such that financial statements are disseminated broadly, but there are limitations such as cost and ease of searchability.</p> <p>The deadline for publication of annual reports of insurance companies is no later than 6 months after the reporting date.</p>	<p>There is no requirement to publish a management report, and no requirement to publish any interim reports.</p> <p>Evidence presented elsewhere in this report indicates that, inconsistent with regulation, most publicly available financial statements do not include notes to the financial statements.</p>
4	<p>Insurance companies are required to make the full sets of legal entity and consolidated financial statements publicly available. The auditor's report is also made publicly available.</p> <p>Insurance companies are also required to publicly disclose the interim financial statements, with accompanying management discussion and analysis.</p> <p>Legal requirements are such that financial statements are readily searchable and accessible, at low or no cost.</p>	

	The deadline for publication of annual reports of insurance companies is no later than 4 months after the reporting date.	
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Sub-Indicator B: Monitoring and enforcement of the financial reporting requirements of insurance companies.

The attributed rating is 1.8, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e., $1.8 = (2+2+1+2)/4$).

B.1. Review of the insurance company’s annual financial statements

RATING CRITERIA		KYRGYZ RATING
1	Criteria for “2” rating not met.	<p>2. There is a dedicated function to review financial statements. However, financial statements are reviewed for prudential information content, but not necessarily for IFRS compliance.</p> <p>SRSFM does not currently have the technical resources necessary to perform a full IFRS compliance review.</p>
2	Review of the annual financial statements by the insurance supervisor has <i>significant limitations</i> .	
3	Review of the annual financial statements by the insurance supervisor has <i>minor limitations</i> .	
4	Review of the annual financial statements by the insurance supervisor is <i>fully adequate</i> .	

B.2. Communication with external auditors on insurance companies

RATING CRITERIA		KYRGYZ RATING
1	Criteria for “2” rating not met.	<p>2. Auditors are required and protected by law to report in their audit report, in certain circumstances directly to the regulator on significant issues. There is a general rotation system for auditors, enforced via the regulator.</p>
2	Communication between the insurance supervisor and external auditors of insurance companies have <i>significant limitations</i> .	
3	Communication between the insurance supervisor and external auditors of	

	insurance companies have <i>minor limitations</i> .	The regulator has the right to raise questions with auditors. However, there are no regular meetings required.
4	Communication between the insurance supervisor and external auditors of insurance companies is <i>fully adequate</i> .	

B.3. Reporting on the review of financial reporting of insurance companies

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	1. The supervisor is required to prepare a report on its activities which is published on its website. This report does not include feedback on compliance with IFRS or other financial reporting requirements.
2	Reporting by the insurance supervisor on the review of financial statements of insurance companies has <i>significant limitations</i> .	
3	Reporting by the insurance supervisor on the review of financial statements of insurance companies has <i>minor limitations</i> .	
4	Reporting by the insurance supervisor on the review of financial statements of insurance companies is <i>fully adequate</i> .	

B.4. Supervisory measures and sanctions

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	2. Supervisory measures or sanctions can be imposed by the insurance supervisor for various elements of financial reporting. The supervisor can apply various measures on companies and/or directors for financial reporting.
2	Supervisory measures and sanctions that can be imposed by the insurance supervisor have <i>significant limitations</i> .	
3	Supervisory measures and sanctions that can be imposed by the insurance supervisor have <i>minor limitations</i> .	

4	Supervisory measures and sanctions that can be imposed by the insurance supervisor are <i>fully adequate</i> .	Evidence presented elsewhere in this report indicates that insurance companies reviewed likely did not comply with at least some aspects of IFRS in some key areas.
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5. STATE-OWNED ENTERPRISES

Overview of SOEs

179. **The significant SOE sector is being restructured.** From the 1990s to 2010, the Kyrgyz Republic privatized over 7,000 entities in all sectors of the economy, achieving the highest private sector share in GDP among Commonwealth of Independent States countries at that time. Over the past five years, the Interdepartmental Commission for Optimization of the State-Owned Enterprises implemented an SOE consolidation exercise, under which 46 state enterprises (un-corporatized SOEs) were reorganized by mergers, another 90 transformed into state institutions, and 10 were liquidated. However, by mid 2020, 104 state enterprises were still to be reformed, reorganized, or liquidated.

180. **SOEs still play a key role in the economy.** Notwithstanding significant downsizing as the country transitioned from a planned to a market economy, the public sector still owns 136 SOEs at national level and many municipal SOEs. National level SOEs continue to operate in key economic sectors such as energy, mining, transport, and banking. In 2018, the SOE sector generated revenues equivalent to 22.6 percent of GDP while its total assets reached almost 50 percent of GDP during the same year.

181. **SOEs operate under different legal forms, reflecting the legislative history and ongoing evolution to a market economy.** National SOEs can be grouped into two main categories according to their legal status: 32 are JSCs and 104 are state enterprises. The SOE national level portfolio is outlined in **Figure 2** below.

Figure 2: National level SOEs sorted by legal status and economic sector (2018)

Sectors	JSCs	State enterprises	Total SOEs
Agriculture, forestry, and fishing	-	33	33
Mining	3	7	10
Manufacturing	2	5	7
Energy & Energy Construction	13	1	14
Transportation	2	7	9
Information and Communication	2	7	9
Financial	7	0	7
Other	3	44	47
Total	32	104	136

Source: State Property Management Fund (2019).

182. **Most SOE revenues and assets are concentrated in a few firms (mostly JSCs) that provide essential goods and services in key economic sectors.** According to 2018 data reported by the State Property Management Fund, the largest 15 SOEs (by assets) accounted for 93.9 percent of total SOE-sector revenues and represented 92.6 percent of total SOE-sector assets. These 15 SOEs are all JSCs except for one state enterprise, the national railway company Kyrgyz Temir Zholu. These large-scale SOEs operate in key strategic and economically important sectors, including mining, energy, transportation, and financial intermediation (see Table 1: Largest SOEs in Kyrgyz Republic (sorted by total assets, thousands of KGS, 2018).

Table 1: Largest SOEs in Kyrgyz Republic (sorted by total assets, thousands of KGS, 2018)

SOE Name	Legal Status	Sector	Total Assets	Total Employees
Electric Power Plants	JSC	Energy	55,934,423	4,600
National Transmission Co.	JSC	Energy	38,684,145	2,500
Ayil Bank	JSC	Financial	29,253,248	1,500
Kyrgyzaltyn (Gold Mine)	JSC	Mining	28,593,988	1,700
RSK Bank	JSC	Financial	20,530,462	1,300
Severelectro	JSC	Energy	14,067,814	3,000
International Airport Manas	JSC	Transport	10,899,461	2,400
Alfa Telecom	JSC	Telecom	7,310,489	1,100
Kyrgyz Temir Zholu (Railways)	SE	Transport	5,780,031	4,700
Kyrgyzneftegas (Oil& Gas)	JSC	Mining	5,102,140	2,300
Rosinbank	JSC	Financial	5,007,478	no data
Oshelectro	JSC	Energy	4,594,689	2,000
Gosipoteka (State Mortgage Institution)	JSC	Financial	4,314,592	45
Kyrgyztelecom	JSC	Telecom	3,806,856	2,700
Bishkekteploset	JSC	Energy	2,635,414	950

Source: State Property Management Fund (2019).

183. **The Government has implemented many initiatives to improve the transparency and accountability of SOEs in recent years.** These include (i) National Program for 2018-2022 named “Unity-Trust-Creation” which puts significant emphasis on improving the management of state assets to increase effectiveness of SOEs via enhanced management models and streamlined personnel policies and to enhance accountability and transparency requirements, and (ii) joining the Open Government Partnership in 2018 which aims to achieve a greater level of economic transparency. Successful implementation of these initiatives is expected to have a substantial impact on the transparency and accountability of SOEs.

SOE regulations

184. **SOEs are governed by various branches of law.** Primary laws governing SOEs include the National Constitution and the Civil Code, and more specific legislation such as the JSC Law and the Bankruptcy Law 1997. In addition, there are many normative acts of secondary legislation—Presidential resolutions, government regulations, internal acts of ministries and agencies, etc.— which also regulate specific issues related to SOEs’ establishment and operation.

185. **The Civil Code is a foundational legislative framework for all types of legal entities, including SOEs.** The Civil Code defines different types of legal entities, commercial and non-profit. It sets out rights and obligations of their participants, including the procedure for their establishment and management. The Civil Code is the only legal instrument that explicitly defines state property rights and state enterprises.

186. **SOE institutional arrangements are strengthened by Government Decree.** The Decree on Improving State Assets Management 2015 outlined the main principles of SOE management, oversight, and governance. The Decree took stock of existing arrangements for SOE governance, and set the course for reforms in key areas, including: (i) the main principles of effective SOE ownership; (ii) transition to a more centralized state ownership function; (iii) implementation of strategic planning and stronger corporate governance practices; (iv) introduction of proper incentives for SOEs’ management; (v) strengthening of accountability mechanisms; and (vi) improving disclosure and public access to SOEs’ information.

Financial reporting, independent audit, and corporate governance requirements for SOEs

187. **SOEs with legal status of state enterprises are subject to reduced corporate governance and disclosure requirements.** There are 104 state enterprises under central government ownership. State enterprises are not subject to corporate governance requirements, except internal audit. State enterprises are typically managed by their general directors, who are responsible for day-to-day operations and do not have similar levels of scrutiny or oversight to their counterparts organized as JSCs. State enterprises' financial statements are not subject to independent audit or public disclosures. State enterprises are normally small-sized entities.

188. **SOEs with legal status of JSC are subject to the same requirements on financial reporting, audit, and corporate governance as other types of enterprises.** SOEs which are JSCs can be categorized as entities with public interest, including banks and other financial institutions, large entities, medium sized entities, and small entities. Requirements for financial reporting and audit by each type are detailed in the relevant section of this report.

189. **The Accounting Law requires SOEs to adopt IFRS or the IFRS for SMEs depending on entity size, as for all other enterprises.** SOEs with public interest and large SOEs as defined by the Law are required to adopt IFRS. Medium-sized SOEs are required to adopt the IFRS for SMEs. Small-sized SOEs can choose between the IFRS for SMEs or simplified accounting rules established by the Government of the Kyrgyz Republic.

190. **The frequency of financial reports to be published and additional management information to be disclosed depends on the type of SOEs.** SOEs with public interest or state-owned banks are subject to the same requirements as public/listed companies and banks. For a non-public large company, its annual audited financial statements are submitted to the authorized state body and publicly disclosed on its website and by the state body through the Public Depository of Financial Statements no later than June 1 of the succeeding year. For a non-public medium-sized company, it is also required to submit annual audited financial statements to the relevant state body but there is no legal requirement for disclosure of financial statements. Small-sized companies have no requirement to submit or disclose financial statements.

191. **SOEs with public interest, large SOEs, and medium-sized SOEs are required by the Accounting Law to have annual financial statements audited.** Small-sized SOEs are not subject to mandatory annual audit. Beside the general audit requirements, audit of public SOEs and state-owned banks is subject to additional oversight of their sector regulators. The Audit Law 2021 requires that all audits comply fully with ISAs.

192. **For SOEs which are JSCs, the board of directors is responsible for auditors' selection.** The auditor is selected by the board of directors of the JSC company and approved by the decision of the general meeting of shareholders. If the auditor is not approved at the general meeting of shareholders, the board of directors shall re-select the auditor and submit it for consideration to an extraordinary meeting of shareholders no later than 45 days from the date of the general meeting of shareholders.

193. **Regulation requires auditors of public interest SOEs and large SOEs to be rotated every seven years but not the individual audit partners.** Firm rotation is required by Audit Law 2021. This is applied to all type of entities including SOEs. The Law and other regulations are, however, silent on rotation of individual audit partners. Similarly, a three year cooling-off period is required for audit firms but there is no cooling-off period for audit partners and quality review partners.

194. **The auditor is not allowed to fill certain critical positions in the audited entity within one year after the audit.** These positions are: (i) a member of management, (ii) a member of the audit committee in accordance with legislation, or (iii) a member of the audit commission in accordance with JSC regulations.

195. **Audit firms and individual auditors are not allowed to provide audit services in case of conflict of interest.** Direct or indirect conflicts of interest between the auditor and audited entity as defined by the Audit Law 2021 include the audit firm's manager, auditor, and other involved official and of the audited entity, the founder, chief executive or equivalent, chief accountant, or any other official involved with accounting or preparation of financial statements, and their close relatives or spouse. The conflict-of-interest restriction is also applied for non-assurance services. From the beginning of the audited period until submission of the audit report, the audit firm and individual auditors of SOEs with public interest and large SOEs are not allowed to provide the following services to the audited entity: (i) bookkeeping; (ii) management consulting, strategic planning, consulting related to financial and economic activities; (iii) appraisal or valuation; (iv) consulting in the field of information technology, or on automation of

accounting and auditing; (v) internal audit; (vi) audit of information systems related to financial and economic activities; or (vii) tax consultation. The Law does not specifically prevent provision of these services by those auditing medium-sized entities. Nor does the Law mention any cooling-off period in case the audit firm/auditors have already provided these non-audit services. Furthermore, the Law does not explicitly mention a potential conflict of interest between the group auditor and non-audit advisory services at subsidiaries.

196. **Audit committees are legally required for SOEs with JSC legal form.** Accounting Law stipulated that SOEs that are PIEs are required to establish an audit committee. JSC Law 2003 states that an audit committee shall be elected by the general meeting of shareholders. The requirement on audit committees of listed SOEs and state-owned banks is detailed in related sections of this report. For SOEs which are non-listed JSC, members of the audit committee shall be elected from the shareholders of the company, unless otherwise established by the charter of the company. For JSCs in which the government owns more than 50 percent of the shares, a person shall not be elected for 3 times consecutively. The audit committee reports on work carried out to the board of directors at least quarterly and to shareholders at the annual general meeting. There is no specific regulation on the number of members of the audit committee or their qualifications. The JSC Law says the competences of members of the audit committee shall be determined by the company charter.

197. **SOEs which are JSCs shall apply the Code of Corporate Governance 2020.** The Code is addressed to all public and (where practicable) non-public enterprises with state participation. The Code is to be applied by public companies on the principle of comply or explain. Compliance status should be disclosed in the public companies' annual report. Non-public SOEs apply this Code on a voluntary basis and no disclosure is required. The JSC Law regulates JSC corporate governance and application of the Code.

6. THE ACCOUNTANCY PROFESSION

198. **In the Kyrgyz Republic, professional activity in the field of accounting and financial reporting is not subject to licensing and certification by the national state bodies, and only auditors are regulated at the state level.** There is no legal requirement for accountants to be a member of a local PAO. This is done on a voluntary basis. Prior to adoption of the Audit Law 2021,¹⁶⁶ there was no requirement for auditors to be members of PAOs, but the new Law specifies that the auditor/audit firm is required to be a member of an audit association.¹⁶⁷

199. **There is no minimum initial professional development (IPD) requirement for accountants (neither exams nor practical experience requirement) specified in the legislation.** PAOs set their own requirements for their members. They expect their members to have completed higher education and require a minimum period of relevant work experience (accounting, financial reporting, economics, etc.) that is assessed and monitored by the PAOs as well as set their own professional qualification exams for local two-level accountancy qualifications (CAP/CIPA¹⁶⁸). There are not yet any mutual recognition agreements (MRAs) with PAOs in other countries to recognize professional qualifications.

200. **In order to obtain the professional qualification of an auditor, the Audit Law 2021 requires auditors:** (i) to have higher education; (ii) to have passed all three exams of the new 3-level local professional qualification for accountants;¹⁶⁹ (iii) to have no outstanding conviction for serious crimes, including economic crimes; and (iv) not to have been deprived of the right to hold a certain position or engage in certain activities. It also requires at least three years of work experience in the area of audit and/or accounting, with at least one year of work experience in positions related to the implementation of

¹⁶⁶ Audit Law 2021. At the time of the ROSC assessment the new Audit law was approved by the Parliament and signed by the President but was not yet in force (to be in force after 6 months from the date of official publishing).

¹⁶⁷ The law specifies that this requirement is effective starting January 1, 2023.

¹⁶⁸ CAP/CIPA is a Russian language two-level professional qualification for accountants, developed by USAID in the 1990s, and which is generally available regionally across Russian-speaking countries. First level is Certified Accounting Practitioner (CAP), the second level is Certified International (Professional Accountant (CIPA).

¹⁶⁹ The third level exam to be organized by the SRSFM. At the time of the ROSC assessment the 3-level local qualification was not operational.

audit activities. The practical experience requirement for auditors is monitored by the SRSFM.

201. **PAOs have no statutory power in the jurisdiction.** They have the right to revoke PAO membership status, although in practice this is not applied by the PAOs. They are not involved in, for example, standard setting, issuing auditor licenses, monitoring, or investigation and discipline of members. The statutory power of standard setting, licensing, and investigation and discipline of auditors is assigned to the SRSFM. Entities that provide practical experience are not required to be accredited.

Professional Accountancy Organizations

202. **The Union of Accountants and Auditors (UAA) is the largest PAO in the Kyrgyz Republic and the only one that is an associate member of IFAC.**¹⁷⁰ The UAA was formed in 2019 in a merger¹⁷¹ of the Chamber of Accountants and Auditors¹⁷² and the Union of Accountants and Auditors¹⁷³. Membership is open to individuals holding the CAP or CIPA designations, which it offers. The UAA is an IFAC associate member.¹⁷⁴ It participates in the Expert Council of the SRSFM and is consulted periodically on relevant issues facing the profession. It is also a member of the Eurasian Council of Certified Accountants and Auditors and Eurasian Institute of Public Certified Accountants. Most members are accountants with local CAP/CIPA certification (only 57 had the second level CIPA certification) and 59 were licensed auditors.

¹⁷⁰ At the time of the ROSC assessment there was no full IFAC member PAO in Kyrgyz Republic.

¹⁷¹ The merger was supported by the Strengthening the Capacity of the Accountancy Profession in the Kyrgyz Republic (2016-2020) project implemented by the ICAEW under the United Kingdom-funded IFAC Professional Accountancy Organization Capacity Building Program.

¹⁷² The Chamber of Accountants and Auditors was established in 2001 in a merger of four previously existing PAOs: The Chamber of Auditors, the Association of Accountants and Auditors, the Union of Accountants, and the Institute of Professional Accountants. In 2019 CAA membership comprised 590 individuals as full, honorary, and candidate members.

¹⁷³ The Union of Accountants and Auditors was founded in 1999 with the support of USAID/Pragma Corporation for accounting technicians, junior accountants, preparers of financial statements, chief accountants, and auditors.

¹⁷⁴ IFAC membership requirements includes compliance with its SMOs, adoption and implementation of international standards, as well as the establishment of quality assurance and I&D systems. The UAA is not yet in full compliance with IFAC's SMO requirements on its code of ethics, I&D, and quality assurance, and therefore does not qualify to become a full member.

Table 3: UAA Membership

UAA membership breakdown as of December 2021			
Member Category	Male	Female	Total
Full members	84	506	590
Associate members	10	23	33
TOTAL	94	529	623
Registered members in public practice (licensed auditors)	13	46	59
New members in last three years	14	61	75

Source: UAA

203. **The Institute of Professional Accountants and Auditors of Kyrgyzstan (IPAA)** was established in 2015. Its main activity is providing CAP and CIPA training and professional development programs. At the time of the assessment, it also had around 600 members the vast majority of which were accountants, 343 with the first level CAP certification and 23 with the second level CIPA certification. IPAA had 52 licensed auditors, as well as 206 associate members, and 6 honorary members. The IPAA is a member to the Eurasian Council of Certified Accountants and Auditors. At the time of the assessment the IPAA was in the process of preparing its application for IFAC associate membership.

204. **The Association Guild of Auditors of the Kyrgyz Republic** was established in 2014. It had about 50 local audit organization-members of the association. It provides professional training for its members and other auditors and accountants. For several consecutive years, they conducted courses for auditors according to the SRSFM approved CPD program.

205. **The Board for Financial Reporting** was established in 2015. Its membership comprises eleven local audit organizations. The Board provides advisory services to its members in the field of accounting and auditing.

206. **The Audit Law 2021 specifies that the CPD program for auditors is developed annually by a professional audit association in accordance with auditor training procedures.** This provision of the Law was not yet implemented at the time of the ROSC assessment (the Law was adopted but not in force). It should also be noted that the Law assigns the implementation of this provision to a professional audit association,¹⁷⁵ but most existing PAOs represent both accountants and auditors. During the assessment, PAOs indicated that either the law needs to be amended or the membership requirements¹⁷⁶ for the associations to be revisited, or some PAOs may have to choose not to have accountant members (only auditor members).

International Education Standards

207. **Educational requirements for auditors are set in law and are implemented by the government and universities, while the accounting profession educational requirements are not regulated at the state level.** The SRSFM is responsible for monitoring the IPD and CPD requirements for auditors, but there is no such statutory monitoring mechanism in place for accountants. Some PAOs participate in working groups led by the Ministry of Education and Science (MoES) to establish universities' education standards. Some PAOs collaborate with the SRSFM in the provision of CPD training for auditors.

208. **The UAA is working with SRSFM to have the new three-level qualification for professional accountants recognized and to establish the necessary governance arrangements and infrastructure required for effective administering of the qualification.** The learning materials for voluntary certification schemes for the CAP/CIPA qualification, offered locally since late 1990s, are not fully aligned with the requirements of the latest IES.¹⁷⁷ The planned new three-level qualification for professional accountants

¹⁷⁵ The law provides 12-month period for audit associations to be registered in the Unified State Register.

¹⁷⁶ Currently the law specifies that the founders of a professional audit association must be persons having auditor's qualification certificate and/or audit organizations, and the members of a professional audit association must be audit organizations and/or persons holding auditor's qualification certificate.

¹⁷⁷ International Education Standards issued by International Accounting Education Standards Board (IAESB).

(currently to be administered by the UAA¹⁷⁸) and learning materials¹⁷⁹ were developed in line with the 2019 IES. However, the CPD policy still needs to be aligned with IES7. While it is expected that local universities could integrate the first two levels of the new curriculum into their undergraduate degree programs, allowing graduating students to be granted exemptions, this was not done at the time of the ROSC assessment. The third level would be used for audit certification and exams to be administered by the SRSFM.

209. **The UAA continues raising awareness of, and assisting all stakeholders with, aligning the national accountancy education program with the requirements of the IES.** In particular, the UAA focus is on ensuring that the national educational standards are in line with international best practices formulated in IES and that the universities incorporate the requirements of the new syllabus into their programs. The technical capacity of the UAA to administer the qualification effectively and efficiently also needs to be strengthened.

Code of Ethics for Professional Accountants

210. **The Audit Law 2021 requires auditors to adhere to the IESBA Code of Ethics, but there is no similar legal requirement for accountants.** The Law indicates that the Code is to be published in the state and official languages,¹⁸⁰ in accordance with the procedure established by the Cabinet of Ministers of the Kyrgyz Republic. Although there is no legal requirement for accountants, the UAA has, since 2008, required its members to follow the Code.¹⁸¹ IFAC recommended that adherence to the Code be explicitly required for UAA members.

211. **There is no mechanism to monitor compliance with the Code.** IFAC recommends that the UAA should establish mechanisms for monitoring compliance with the Code and link those with its investigation and discipline practices, including

¹⁷⁸ Other PAOs can also apply for accreditation and consequently can administer level I and level II for their potential members.

¹⁷⁹ All 12 sets of learning materials were developed under IFAC/DFID project with ICAEW support. Each module includes a Study text, Question Bank and mock exams. The Level 3 learning materials were in the scope of the contract signed with IFAC, SRSFM and ICAEW, while Levels 1 and 2 under the scope of contract with IFAC, UAA and ICAEW. Consequently, the rights (use, reproduction etc.) to the learning materials in the Kyrgyz Republic rest to the contract signatories, SRSFM and UAA respectively.

¹⁸⁰ With the support of the WB KAREP project, at the time of the ROSC assessment, the SRSFM completed the translation of the 2018 International Code of Ethics into the Kyrgyz language.

¹⁸¹ The 2010 version of which was adopted by the UAA in 2014. The UAA plans to adopt the latest Russian language IESBA Code, once the translation is officially available.

conducting targeted seminars/training, establishing a hotline, etc. These ethical matters underpin all modules of the new three-level local qualification.

Investigative and Disciplinary System

212. **There is no state regulation relating to I&D of accountants who are not PAO members.** The UAA established an I&D system for its members in 2009. However, the I&D systems/procedures are not fully in line with the IFAC's Statements of Membership Obligations (SMO) 6 requirements.

213. **The SRSFM is responsible for I&D procedures of auditors.** Some recent steps have been made to establish effective I&D procedures for auditors. The Audit Law 2021 envisions mandatory membership of auditors in an audit association which will be required to have specific provisions related to I&D in its Charter. The Law also requires the establishment of designated audit quality assurance and disciplinary committees at professional audit associations and a Public Audit Oversight Council at the SRSFM. The Law obliges the professional audit association to report the results of audit quality control to the regulator, who is ultimately responsible for disciplining and imposing sanctions.¹⁸² It should also be noted that most existing PAOs represent both accountants and auditors, while the law assigns the above to professional audit associations¹⁸³, with specific membership requirements¹⁸⁴ for the associations. Given this issue, it may be the case that some PAOs face a choice to exclude accountant members (i.e., only have auditor members) to become audit associations due to current membership requirements for professional audit associations as defined in the new Audit law. Alternatively, the law needs to be amended with the membership requirements for the associations revisited.

214. **The UAA should develop processes, procedures, and governance structures to establish and implement an I&D system** for its members that is aligned with SMO 6 requirements as also recommended by IFAC.

215. The overall rating attributed to the Kyrgyz Republic under the performance indicator "Accountancy Profession" is Partially Adopted.

¹⁸² The necessary bylaws were being drafted as of the date of the ROSC assessment.

¹⁸³ The law provides 12-month period for audit associations to be registered in the Unified State Register

¹⁸⁴ Currently the law specifies that the founders of a professional audit association must be persons having auditor's qualification certificate and/or audit organizations, and the members of a professional audit association must be audit organizations and/or persons holding auditor's qualification certificate.

Performance Indicators – Accountancy Profession¹⁸⁵

International Education Standards

Rating criteria		Rating
Adopted	The requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for all aspiring professional accountants and professional accountants as defined in the jurisdiction.	Partially Adopted Educational requirements for the audit profession are set in law and are implemented by the government and universities, while the accounting profession educational requirements are not regulated at the state level. Some of the PAOs participate in the working groups set by the MoES, which establishes the profession's education standards for the universities. The learning materials for voluntary certification schemes for CAP/CIPA qualification offered locally since late 1990s are not fully aligned with the requirements of the latest IESs. The ICAEW has supported development of a syllabus for a new
Partially Adopted	Requirements from an earlier version of IES have been adopted. <i>or</i> Some of the requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for professional accountants. <i>or</i> The requirements of the IES in their entirety in effect as of the time of the assessment have been adopted for a segment of the profession.	

¹⁸⁵ The performance indicator ratings for the Accountancy Profession section of the ROSC assessment are based on the ratings of the professional assessment of IFAC, most notably that of their Member Compliance Program. There are seven benchmarks used for the ratings as set forth under IFAC SMOs of which only three are used for ROSC: (1) SMO 2 - International Education Standards for Professional Accountants; (2) SMO 4 - Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA); and (3) SMO 6 - Investigation and Discipline.

<p>Not Adopted</p>	<p>The requirements of the IES have not been adopted.</p>	<p>three-level qualification for professional accountants (currently to be administered by the UAA) along with learning materials in line with the 2019 IES. However, the CPD policy still needs to be aligned with IES7. While it is expected that local universities could integrate the first and second level curriculum into their undergraduate degree program, and allow graduating students to be granted exemptions, at the time of the assessment this was not done.</p>
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Code of Ethics for Professional Accountants

<p>Rating criteria</p>		<p>Rating</p>
<p>Adopted</p>	<p>The Code of Ethics for Professional Accountants in effect as of the time of the assessment has been adopted for all professional accountants.</p>	<p>Partially Adopted</p> <p>Accounting activities are not regulated at state level. Auditors' activities are regulated by the state. The Audit Law 2021 requires auditors to abide by the IESBA Code of Ethics adopted by the SRSFM. Since 2008, the UAA requires its members to follow the Code.</p> <p>The IFAC recommends that the UAA establishes mechanisms for monitoring the compliance with the Code and to link those with its I&D practices.</p>
<p>Partially Adopted</p>	<p>An earlier (2009 or later) version of the Code of Ethics for Professional Accountants has been adopted for all professional accountants.</p> <p><i>or</i></p> <p>Some requirements of the Code of Ethics for Professional Accountants in effect as of the time of the assessment have been adopted.</p> <p><i>or</i></p> <p>The Code of Ethics for Professional Accountants has been adopted for a segment of the profession.</p>	

Not Adopted	<p>The Code of Ethics for Professional Accountants has not been adopted.</p> <p><i>or</i></p> <p>A pre-2009 version of the Code of Ethics for Professional Accountants has been adopted.</p>	
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Investigative and Disciplinary System

Rating criteria		Rating
Adopted	<p>An investigation & disciplinary system (I&D) system, incorporating all of the requirements of SMO 6, has been established and is operational for all professional accountants.</p>	<p>Not Adopted</p> <p>There is no state regulation relating to I&D for accountants. The UAA established an I&D system for its members in 2009 but the I&D systems/procedures are not fully in line with the IFAC's SMO 6 requirements.</p> <p>The SRSFM is responsible for I&D procedures of auditors. Some recent steps have been made to design effective I&D procedures for auditors, such as the adoption of the Audit Law 2021. Necessary bylaws are being drafted.</p>
Partially Adopted	<p>An I&D system, incorporating all of the requirements of SMO 6, has been adopted and is operational for a segment of the profession.</p> <p><i>or</i></p> <p>An I&D system for all professional accountants has been established and is operational but only incorporates some of the requirements of SMO 6.</p>	
Not Adopted	<p>I&D system is not established</p> <p><i>or</i></p> <p>An I&D system, incorporating all of the requirements of SMO 6, has been established but is not yet operational.</p>	

7. AUDIT REGULATION, QUALITY ASSURANCE, AND PUBLIC OVERSIGHT

Overview of regulation

216. **Statutory auditors and audit firms in Kyrgyz are regulated by the Audit Law 2021.** This Law establishes the licensing requirements, rights and obligations, and other rules governing the provision of audit and other services. It includes minimum size and experience requirements, ownership requirements, and reporting requirements.¹⁸⁶ An auditor and/or an audit organization is required to be registered in the Unified State Register in order to practice as an external auditor. Registration is subject to specified conditions and can be withdrawn.¹⁸⁷ An audit firm is prohibited from being established as either a JSC or as a state enterprise.¹⁸⁸

217. **There were 125 audit firms and 36 sole practitioners registered at December 31, 2019.**¹⁸⁹ Auditors either work in audit firms or practice as sole practitioners. 470 individual auditors are registered to practice. Most of the largest international firms have representation in the Kyrgyz Republic.¹⁹⁰ In 2018, 796 entities were subject to audits, of which 352 were mandatory audits, and 444 were elective audits. However, only 49 percent of entities subject to a mandatory audit requirement had an audit carried out.¹⁹¹

218. **Transparency reports are required from audit firms of PIEs.**¹⁹² The Audit Law 2021 creates a legislative requirement for audit firms of PIEs to prepare an annual transparency report. All audit organizations are required to submit a report on their activities to the SRSFM. That report should include information on compliance with the procedures for monitoring the quality of the audit. In addition, an audit organization that audits PIEs and large business entities must provide the SRSFM with a transparency report. The procedure for compiling and submitting a report on the activities of the audit organization and the transparency report is still to be determined.

¹⁸⁶ Audit Law 2021, article 7

¹⁸⁷ Audit Law 2021, articles 23 to 26

¹⁸⁸ Audit Law 2021, article 7, paragraph 3

¹⁸⁹ Report on the activities of the State Service for Regulation and Supervision of the Financial Market under the Government of the Kyrgyz Republic for 2019 (*2020 report not available*)

¹⁹⁰ Deloitte, PwC, Ernst & Young, KPMG, Grant Thornton, BDO, RSM, and Baker Tilley among the top ten.

¹⁹¹ In 2018, 51.4 percent of audit firm revenue was derived from audits, 6.9 percent from audit related services, and 41.7 percent was derived from other services.

¹⁹² Audit Law 2021, article 7, paragraph 15

219. **The Kyrgyz Republic allows foreign certified auditors to apply to be registered.**¹⁹³ A foreign audit organization is defined as an organization that has the right to carry out audit activities in a state that is not a member state of the EAEU and is confirmed by the competent body of that state to operate.¹⁹⁴ Foreign audit organizations have the right to participate in the authorized capital of audit organizations, limited to 51 percent.¹⁹⁵ Registered foreign audit organizations, have the right to conduct any audit in the Kyrgyz Republic other than for the audit of the NBKR.

220. **Audit organizations are required to have professional indemnity insurance.** The Audit Law 2021 requires that an audit organization have insurance for civil liabilities. The manner and conditions will be established by law.¹⁹⁶

221. **Provision of non-audit services and other possible conflicts of interest are regulated by the Audit Law 2021.**¹⁹⁷ An audit organization is required to take measures to ensure independence and objectivity. Auditors and audit organizations are prohibited from actions that create a conflict of interest or create a threat of such a conflict. Auditors must not conduct auditing services for any enterprises that had accounting services provided by the auditors during the preceding three years. The Law also prohibits auditors from conducting audit services for enterprises in which they have direct or indirect interests or management rights through their spouse, relatives (including relatives by marriage), up to three degrees of consanguinity.

Quality assurance and audit oversight system

222. **The Audit Law 2021 establishes the SRSFM as the regulatory authority for oversight of audit professionals, firms, and their professional bodies.**¹⁹⁸ Its functions include: (1) determination of state policy for auditing; (2) translation and publication of auditing standards, quality control standards, any other related standards, and the code of ethics; (3) development of associated regulations, including for assignment of professional qualifications, CPD and accreditation of training programs; and (4) oversight of compliance with the law and regulations. It is also responsible for identifying violations

¹⁹³ Audit Law 2021, article 7

¹⁹⁴ Audit Law 2021, article 2, paragraph 1 (11)

¹⁹⁵ Audit Law 2021, article 1, paragraph 1 (3)

¹⁹⁶ Audit Law 2021, article 11

¹⁹⁷ Audit Law 2021, article 8, paragraph 4 and 6

¹⁹⁸ Audit Law 2021, article 19, paragraph 2

by auditors or audit organizations of the various laws and regulations and has the right in exercising this function to request necessary documents and or information.¹⁹⁹

223. **The Audit Law 2021 mandates adherence to a Code of Ethics.**²⁰⁰ The Law sets out five principles of professional ethics that are to be applied in accordance with the Code of Ethics. An auditor and an audit organization are required to comply with the Code of Ethics for Professional Accountants, as published by the IESBA.²⁰¹ An audit organization is required to take measures to ensure independence and objectivity. Auditors and audit organizations are prohibited from actions that create a conflict of interest or create a perception of such a conflict.²⁰²

224. **The Audit Law 2021 provides for the formation of the CPOA.**²⁰³ See Box 1 on page 29 for more details on the CPOA.

225. **The CPOA is not yet constituted, so has not yet considered international memberships.** The Audit Law 2021 defines state regulation of audit activities as including interaction with the bodies of the member states of the EAEU, as well as cooperation with the bodies of other foreign states authorized to carry out the functions of regulation and control over audit activities.²⁰⁴

Quality assurance review procedures, approach, and communication of findings

226. **The CPOA has responsibility for "conducting external quality control of the audit and consideration of its results".**²⁰⁵ Establishment of facts of violations by the auditor and/or audit organization of audit standards, quality control standards, requirements of the Code of Ethics, or legislation of the Kyrgyz Republic in the field of audit is the exclusive competence of the CPOA. The CPOA, in the exercise of its functions, has the right to request from audit organizations, auditors, or professional audit associations any necessary documents or information related to audit activities or activities of a professional audit association.

¹⁹⁹ Audit Law 2021, article 19

²⁰⁰ Audit Law 2021, article 7, paragraph 6 (3)

²⁰¹ Audit Law 2021, article 2, paragraph 1 (13)

²⁰² Audit Law 2021, article 8

²⁰³ Audit Law 2021, article 27

²⁰⁴ Audit Law 2021, article 4, paragraph 1.11

²⁰⁵ Audit Law 2021, article 19

227. **The CPOA is expected to face some challenges in conducting quality assurance in terms of getting access to information.** This critical element cannot yet be tested because the legislation is still in the process of being operationalized.

228. **The Audit Law 2021 adopts a mixed-approach to selecting audit organizations for review, which is a combination of risk-based and cyclical approach.**²⁰⁶ Quality control audit is carried out on the basis of a risk-based selection approach, but with a frequency of selection of at least every three years for audit organizations conducting audits on PIEs and large businesses, and once every six years for other audit organizations. Unscheduled external quality control of the audit can be carried out. The objective of external quality control is to manage the audit quality assurance system, as well as to assess the audit quality control policies and procedures of the audit organization.

229. **To conduct external quality control of the audit, the SRSFM has the right to involve consultants.**²⁰⁷ Consultants hired to carry out external quality control of the audit must be suitably qualified but non-practicing individuals. They may not carry out auditor activities for three years after the completion of the consultancy.

230. **The Law also provides for sanctions on auditors or audit firms.**²⁰⁸ The SRSFM is authorized to apply a warning, fine, or exclusion from the Unified State Register to an audit organization not compliant with requirements, depending on the severity of non-compliance.

231. **Once established, the CPOA is expected to develop a quality assurance manual with support from donors and professional bodies.** Based on international practice, the manual should include self-assessment questionnaires to be completed by auditors and review checklists to be completed by inspectors. The process should involve interviews with key staff, review of auditors' working papers, and review of the auditors' manuals and guidelines. The inspection methodology should focus on the responsibility of statutory auditors and audit firms in terms of implementation of standards and legal

²⁰⁶ Audit Law 2021, article 28

²⁰⁷ Audit Law 2021, article 28

²⁰⁸ Audit Law 2021, article 28, paragraph 7

requirements in conducting an audit. This review procedure will be in line with international standards (ISAs and ISQC1).²⁰⁹

232. **Review results are expected to be disseminated directly to the audit firms.** Upon completion of an inspection, a closing meeting will be held with the reviewed firm to discuss preliminary findings. The draft inspection report and action plan will be prepared and sent to the reviewed firm. The reviewed firm will be required to comment and confirm the action plan. Upon confirmation, the final report is issued by CPOA.

233. **The CPOA will not engage with audit committees or other bodies charged with governance within audit clients to discuss review findings.** The CPOA will discuss the review findings with inspected audit firms only. There is no legal basis for engagement with audit committees or other bodies charged with governance within audit clients. The CPOA may consider performing outreach to audit committees in the future to help raise awareness of the valuable information available to them because of audit oversight and quality assurance.

Quality Assurance Inspectors

234. **Recruiting qualified experienced reviewers and consultants is expected to be a challenge.** The CPOA will outsource inspection activities. All reviewers are required to meet specified and strict criteria, including as regards conflicts of interest. The inspectors' remuneration will be determined and paid by CPOA applying government procurement rules. Inspectors will be outsourced and paid as consultants based on the time provided.

235. **The CPOA will be required to ensure that inspectors are independent of the profession.** To ensure the independence of inspectors and/or manage conflicts of interest, all inspectors/reviewers will be required to meet specified conditions, including not being practicing auditors.

236. **Existing training of regulators and other professional accountants is progressing well.**²¹⁰ Training initiatives under the current KAREP program and with the assistance of the ICAEW are making significant progress in upskilling existing staff resources, in developing new resources, and in enhancing the education sector. Materials

²⁰⁹ Replaced by International Standards on Quality Management 1 and 2 in December 2020, with effectiveness from December 15, 2022

²¹⁰ KAREP draft report 2020

and guidance on IFRS, much of it available online, together with the growing representation of international audit firms in the Republic, represent a further knowledge pool that will be available to the education process. Nonetheless, resource shortages are still likely to be an ongoing challenge in the foreseeable future.

237. As the audit industry further develops, efforts should be made to ensure progress is inclusive of all auditors. Consideration may need to be given to rolling out pilot programs to familiarize audit firms with the requirements and the process before sanctions begin to be imposed. Given the expected greater focus on quality of audit, consideration may also need to be given to the time periods available for completion of audits.

Investigations and sanctions

238. Auditors, audit organizations, professional audit associations, and audit organizations must be registered in the Unified State Register.²¹¹ The SRSFM can refuse registration if there is non-compliance by the applicant with the Audit Law 2021 and regulations, or if inaccurate or incomplete information has been provided. The applicant has the right to reapply if the reason for refusal has been addressed and has the right to appeal.²¹² Registrants are obliged to notify SRSFM if there are changes after registration to the information provided for registration. Registrants are required to re-register if there has been a reorganization or change of name of the organization.²¹³ A registration can be withdrawn in the event of repeated violation of law or regulation, failure to conduct an audit for two years, or a court decision.²¹⁴ In the case of individual auditors, registration can also be withdrawn if they fail to complete the requisite CPD. The withdrawal of registration suspends the right of the registrant to carry out audit or audit related activities. A registrant whose registration has been withdrawn has the right to submit an application one year after exclusion (if their withdrawal results from violations of law), or immediately after completing the required CPD.

239. The overall rating attributed to the Kyrgyz Republic under the performance indicator “Audit Public Oversight”, based on the new legal requirements, is 3.2 out of 4, which equals the simple mean of the rating criteria comprising sub-indicators A and

²¹¹ Audit Law 2021, article 23

²¹² Audit Law 2021, article 25

²¹³ Audit Law 2021, article 24

²¹⁴ Audit Law 2021, article 26

B below ($3.2 = (3.7+3.0+3.0)/3$). At the date of compilation of this report, the Audit law 2021, which governs audit public oversight, had been promulgated and consequently had legal force. However, the law had as yet not been operationalized. Consequently, two ratings are provided below for each indicator, one reflecting the current status of implementation, the other the legal requirements themselves. The rating attributable based on the current status of implementation is 1.

Performance Indicators – Audit Public Oversight

Sub-indicator A: Audit Oversight System.

The attributed rating based on the legal requirements is 3.7, which equals the simple mean of the rating criteria comprising sub-indicators A.1-A.4 below (i.e., $3.7 = (4+4+3+4)/4$). **The attributable rating based on the current status of implementation is 1 as CPOA is only “to be established”**

A.1. Membership of the audit oversight authority governing body	
RATING CRITERIA	KYRGYZ RATING
1	Criteria for '2' rating not met.
2	Membership comprises representatives of the profession or the majority (more than 50%) are practitioners.
3	Membership comprises a majority (more than 50%) of non-practitioners and a minority of practitioners.
4	Membership comprises only non-practitioners, who are independent from the profession, according to IFIAR Core Principle 2.
	<p>1. At the date of compilation of this report, no members had been appointed to the CPOA.</p> <p>4. The CPOA, working with the SRSFM, is the regulatory authority for the audit profession. When constituted, the CPOA will consist of seven members, including a chair and an executive secretary. The membership will comprise individuals from various regulators but will not include active practitioners. All members will be approved by the SRSFM and serve for a three-year period. Members will be restricted from working within the audit profession for a period of three years after the end of their term.</p>

A.2. Scope of the audit oversight system	
RATING CRITERIA	KYRGYZ RATING

1	Criteria for '2' rating not met.	<p>1. At the date of compilation of this report, the CPOA had not yet commenced operations. The process still needs to be bedded down, and there is concern about the availability of resources to assist in this process and the preparedness of the audit industry for the change.</p> <p>4. Approval of auditors and audit firms will be monitored by the CPOA. The CPOA will have the authority to oversee compliance. Audit firms are required to complete their own audit quality reviews which are annually submitted to the SRSFM. The CPOA will conduct audit firm quality reviews on a rotational basis using both risk based and cyclical methods to select audit organizations for review. The objective of the reviews is to oversee compliance with auditing standards and professional ethics, and the firm's own quality assurance system. The CPOA has the powers to sanction firms or individuals who are non-compliant.</p>
2	The audit oversight authority has oversight of: (i) the approval and registration of auditors and audit firms; (ii) the adoption of standards on professional ethics and internal quality control of audit firms and auditors; and (iii) continuing professional education.	
3	In addition to requirements under "2": The audit oversight authority oversees the quality assurance system.	
4	In addition to requirements under "3": The audit oversight authority oversees the investigative and administrative disciplinary systems.	

A.3. Funding of the audit oversight system

RATING CRITERIA		KYRGYZ RATING
1	Criteria for '2' rating not met.	<p>1. At the date of compilation of this report, the CPOA had not yet commenced operations.</p> <p>3. The CPOA will be funded by the government. The various education initiatives are expected to be funded by a mix of donor funding, government</p>
2	Current funding levels are not sufficient to cover the audit oversight authority's core activities.	
3	Current funding levels are sufficient to cover the audit oversight authority's core activities, but concerns exist as to sustainability.	

4	Current funding levels are sufficient to cover the audit oversight authority's core activities and are sustainable. Funding is secured and free from undue influence by auditors.	funding, and contributions from members of the profession. There will be pressure on funding due to resource shortages.
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A.4. Reporting by audit oversight authority

RATING CRITERIA		KYRGYZ RATING
1	Criteria for '2' rating not met.	<p>1. At the date of compilation of this report, as a consequence of the CPOA not yet commencing operations, no reports have been prepared.</p> <p>4. The CPOA will be required to publicly report annually on its activities. Findings from the review of each audit firm will be sent to the firm directly. The report is to contain information on inspection activities, findings from inspections along with recommendations, and the CPOA plan for the upcoming year.</p>
2	There are no legal obligations to publish annual work plans, activity reports, or outcome of inspections at the aggregate level or on a firm by firm basis.	
3	Legal requirements are in place to prepare and publish annual work plans and summary reports of annual activities within a specified timeframe.	
4	Annual work plans, activity reports, and the outcome of inspections (at the aggregate level or on a firm by firm basis) are published annually in accordance with legal requirements and following IFIAR Core Principle 3.	

Sub-indicator B: Audit Quality Assurance.

The attributed rating based on the legal requirement is 3.0, which equals the simple mean of the rating criteria comprising sub-indicators B.1-B.4 below (i.e., $3.0 = (4+3+3+2)/4$). The attributable rating based on the current status of implementation is 1.

B.1. Legal mandate for audit quality assurance inspections

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>1. At the date of compilation of this report, the CPOA had not yet commenced operations. Consequently no inspections have been conducted.</p> <p>4. The CPOA has a legal mandate as the regulatory authority for oversight of</p>
2	There is a requirement for the work of auditors to be subject to inspection for adherence to quality standards.	
3	Inspections for adherence to quality standards by auditors are required to be	

	performed by a separate body which acts in the public interest.	audit professions, firms, and their professional bodies.
4	Inspections for adherence to quality standards by auditors of PIEs are performed by a body independent from the accountancy profession with the legal mandate and authority to perform this oversight role.	

B.2 Requirements for audit quality assurance inspectors

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>1. At the date of compilation of this report, the CPOA had not yet appointed QA inspectors.</p> <p>3. Quality assurance inspection is required to be performed under the supervision of the CPOA. The law provides for CPOA to appoint independent consultants. It is not clear however whether there will be sufficient independent consultants available to accomplish the mandate.</p>
2	QA inspectors are required to have professional experience in auditing and financial reporting.	
3	QA inspectors are required to be independent of the auditor under review and free of conflict of interest.	
4	Inspectors of auditors of PIEs are required to undertake continuing professional development and specialized training on quality assurance and in other relevant areas based on the nature and complexity of PIEs in the jurisdiction, including industry specialized knowledge.	

B.3 Frequency of audit quality assurance inspections

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>1. At the date of compilation of this report, the CPOA had not yet conducted any inspections.</p>
2	Auditors are selected for inspection according to a minimum cycle of at least once every 6 years.	

3	The minimum cycle for inspection of auditors of PIEs is at least once every 3 years.	<p>3. The CPOA will conduct audit firm quality reviews on a rotational basis using both risk based and cyclical methods to select audit organizations for review. Reviews will be carried out at least every three years for audit firms engaged in the audit of PIEs and large businesses, and every six years for other audit firms.</p> <p>See comments above, there are some concerns about the availability of resources to accomplish this objective.</p>
4	The QA body also takes into consideration risk-based criteria when determining which auditors to select for inspection.	

B.4 Audit quality assurance inspection procedures and findings

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>1. At the date of compilation of this report, the CPOA had not yet finalized any procedures.</p> <p>2. A manual has not yet been developed for implementation of quality reviews. This will be a necessary step to ensure consistency and comparability of inspections conducted by external consultants. A pilot project will likely be necessary to familiarize industry with the new processes and allow time for industry systems to be upgraded.</p> <p>Review results are expected to be communicated to audit firms and a closing meeting is expected to be held with the reviewed firms. The reviewed audit firms will be required to comment and confirm the action plan.</p>
2	<p>QA inspection procedures are performed according to a defined methodology. Inspection procedures include on-site review of firm-wide procedures for compliance with legal, ethical, and professional standards.</p> <p>QA inspection findings are shared with the auditor in a written report.</p>	
3	<p>In addition to requirements under "2":</p> <p>QA activities also include on-site inspection of selected audit files and working papers, for compliance with legal, ethical, and professional standards.</p> <p>QA reporting procedures include circulation of a draft inspection report to the auditor for comment and action</p>	

	plans to address the findings prior to issuance of a final report.	
4	In addition to requirements under "3": QA inspection procedures and outcomes of reviews are also subject to internal quality control within the QA body to promote high quality and consistency in performing inspections. QA reporting procedures includes follow up on the status of remediation of the findings that the auditor has committed to address.	

Sub-indicator C: Investigations and Sanctions.

The attributable rating based on the legal requirements is 3. The attributable rating based on the current status of implementation is 1.

C.1. Audit quality investigations and sanctions

RATING CRITERIA		KYRGYZ RATING
1	Criteria for "2" rating not met.	<p>1. To date, the process has not been operationalized. To initiate the review process, CPOA may reasonably conclude that a pilot period is necessary, to familiarize both inspectors and the audit industry with the requirements. This may mean that there would be no sanctions if the outcome of review is not satisfactory.</p> <p>3. CPOA has authority to require a firm to take corrective action on findings of non-compliance. The report may require a firm to take corrective action on the finding, undertake specific CPD training, or may suspend or revoke its license.</p>
2	Some investigations and sanctions exist but these are not effective and rarely applied in practice.	
3	Investigation systems target non-compliance, but sanctions are not commensurate with the severity of non-compliance.	
4	Effective systems of investigation and sanctioning are in place and sanctions are commensurate with the severity of non-compliance. Mechanisms to receive information anonymously (including from the public) regarding non-compliant actions taken	

	by auditors of PIEs are in place. Such information can trigger an investigation.	
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8. PROFESSIONAL EDUCATION AND TRAINING

240. **Twenty-two of the 73 universities/tertiary-level institutions in the Kyrgyz Republic offer degree programs in accounting and auditing.** At the time of the ROSC assessment there were 33 state and 40 private institutions, of which 15 state and 7 private offered degree programs in accounting and auditing. Some of the others offered accounting within degrees in other disciplines (for example, economics). In general, the accountancy profession is taught in the Russian language, with a few programs taught in foreign languages.

241. **The curricula for accountancy/economics degrees and programs are developed according to the national educational standards approved by the Order of the MoES.** Individual universities/tertiary-level institutions have autonomy in developing curricula for the elective part of their programs. The curricula are reviewed internally annually. Despite the universities' proactive efforts, there is little consultation with potential employers or market surveys in curriculum development, as many potential employers do not express interest in such consultations.

242. **Kyrgyz Economic University (KEU) has been offering degree programs in accountancy for around 20 years.** Admission to the university is on a competitive basis, based on the results of the Republican Testing Exam. Each year about 100 students are enrolled from about 300 applicants. KEU offers an undergraduate 4-year full-time program in accounting, analysis, and audit. KEU also offers a postgraduate 2-year accounting, analysis, and audit master's evening program. The university has part time and distance learning courses in accounting. The majority of the students and applicants are female. The courses are taught in the Russian language. The textbooks and learning materials are mostly available in the Russian language with some in the Kyrgyz language. At the time of the ROSC assessment there were 15 teaching staff for the full-time program and another 5 staff for the part-time program. The majority of the graduates are employed by SMEs, followed by the financial sector and local audit and assurance companies. None of KEU's courses are accredited for exemption from any course that forms part of a PAO's professional accountancy qualification.

243. **Kyrgyz-Russian Slavic University (KRSU) has been offering degree programs in accountancy since 2005.** Admission is on a competitive basis, based on the results of the Republican Testing Exam and the results of the Unified State Exam. KRSU offers an undergraduate 4-year full-time program in accounting, analysis, and audit. It also offers a

postgraduate 2-year master's program in accounting, analysis, and audit in the financial and banking sector of the economics discipline. KRSU also offers distance learning courses in accounting. About 50 students were admitted to KRSU's accountancy programs in 2021. The majority of the applicants and students enrolled are female. The courses are taught in the Russian language. Textbooks and learning materials are mostly in the Russian language with some in the Kyrgyz language. At the time of the assessment, 10 teaching staff were assigned to the full-time program. The majority of graduates are employed by SMEs, followed by the financial sector and local audit and assurance companies. None of KRSU's courses are accredited for exemption from any course that forms part of a PAO's professional accountancy qualification.

244. **Osh State University, founded in 1951, is a non-profit public higher education institution located in the large town of Osh.** Its Faculty of Business and Management was opened in 1996 as part of a joint project between Osh State University and the University of Portland (United States). The Faculty, comprising six specialized departments, offers bachelor's degree in accounting and audit. In total, around 5,000 students are enrolled with the Faculty, with annual admission of 360 students, of which 180 are accounting and audit students.

245. **The International Academy of Management, Law, Finance, and Business (MAUFIB), established in 1998, is a private higher education institution.** It offers courses and programs leading to officially recognized higher education degrees in several areas of study. The Accounting, Analysis, and Audit Department was established in 2000, and has become one of the leading departments of the Academy. Only a small number of students are admitted to programs in accounting, analysis, and audit each year, 50 for the bachelor's and 15 for the master's.

246. **The Business Administration program (bachelor and masters) offered by the American University of Central Asia (AUCA) is one of the few accountancy programs taught in a foreign language (English).** The program contains accounting, audit, and finance courses. Around 100 students are admitted to AUCA's Business Administration programs each year. The curriculum and courses in the accountancy program cover all relevant areas of technical competence specified in IES 2.

247. **The Kyrgyz European Faculty (KEF) within the Kyrgyz National University (KNU) offers a program in Economics and Management.** KNU was founded in 1933. The KEF was created within the framework of the Tempus project (1995-1998) of the

European Commission. KEF offers a program in Economics and Management based on a similar program offered by the University of Grenoble, France, with which KNU has a cooperation agreement. Both undergraduate and master's programs are offered, and a combined total of around 200 students are admitted into these programs each year.

248. **The Department of Management of the Kyrgyz-Turkish Manas University (KTU) offer accounting, audit, and finance courses (at bachelor level).** Established in 1995, KTU awards its graduates diplomas officially recognized in both the Kyrgyz Republic and the Republic of Turkey. The Faculty of Economics and Management at KTU began its educational activities in 1997, with the department of economics, the department of management, the department of finance and banking, and the department of international relations.

249. **University education is relatively expensive.** Although the level of tuition fees in the Kyrgyz Republic is much lower than in many countries internationally, affordability is still a problem for many students. Some students work to finance their studies; therefore, they choose part-time or evening programs.

250. **University teaching, in general, needs more investment to improve the quality of learning materials and instructors' knowledge.** Salaries of lecturers in most universities/tertiary-level institutions in the Republic are non-competitive, particularly in state universities. Lecturers do not always keep up to date with developments in the profession and changes in international standards.

251. **Graduates of Kyrgyz universities can apply for Association of Chartered Certified Accountants (ACCA) exceptions.** KEU and KRSU cooperated with IFAC/ICAEW on a 3-level qualification scheme to bring their curricula and syllabi in line with local qualification requirements and enable graduates to apply for exemption from ACCA level 1 exams. Currently ACCA provides exemptions to AUCA, KEU and KRSU graduates subject to completion of certain accountancy courses that form part of the ACCA qualification.

252. **The World Bank KAREP project provides support to universities.** This included an assessment in 2020 of the compliance of the accounting, analysis, and audit undergraduate curricula in Kyrgyz universities²¹⁵ with the IES. The assessment identified that:

²¹⁵ KEU, KRSU, AUCA, KNU, KTU, MAUFIB and Osh State University.

- Only one institution had fully implemented a competency-based approach incorporating intended learning outcomes with different levels of competence.
- Only one institution reported achieving ACCA exemptions/credits for graduating students.
- Only one institution reports having fully implemented the European Qualifications Framework, and only half the European Credit Transfer System.
- EQUIS/EFMD²¹⁶ accreditation is either being actively pursued, or is an intended goal of most institutions, but only one institution has achieved these accreditations.

253. **Accounting education reform has been proposed, to support students achieve the necessary skills and competencies.** Recommendations were provided as a result of the KAREP assessment. It is expected that the reform of accounting education in Kyrgyz universities will enable students studying for a bachelor's degree in accounting and audit to obtain, at least, the skills and competencies required for the first level of the local professional qualification. It is expected that by end of June 2022 a strategy and country action plan on the reform of higher accounting education in the Kyrgyz Republic will be drafted, formalizing priorities of university education for the next three to five years.

²¹⁶ European Foundation for Management Development - <https://www.efmdglobal.org/accreditations/business-schools/equis/>

9. SETTING ACCOUNTING AND AUDITING STANDARDS

254. **The Accounting Law and Audit Law 2021 mandate the function of the standard setting authority to fully adopt international standards.** The Accounting Law refers to the standard setting body as a “public authority” and mandates it to “pursue the unified state policy on the introduction of IFRS, the IFRS for SMEs, and IPSAS in the country and exercise control over the application thereof.” The state body is also required by the Law to organize the translation of standards into the state language and publish them in the official and state languages (Russian and Kyrgyz, respectively). Similarly, the Audit Law 2021 requires the “public authority” to organize the translation and publication of international standards, without modification.

255. **The SRSFM has been delegated by the Government to approve and publish accounting and auditing standards.** SRSFM is responsible for both policy making and regulatory functions of the accounting and auditing profession, securities market, and non-banking financial market. The organization has 11 departments, including the Department of Accounting, Financial Reporting, and Auditing Development, and a southern branch.

256. **The SRSFM has limited human resources for its accounting and auditing functions.** The Department of Accounting, Financial Reporting, and Auditing Development has only 4 staff. The southern branch does not have any staff working on accounting and auditing. The SRSFM requires the Head of the Accounting, Financial Reporting and Auditing Development Department to have higher education in economics and management, 3 years of public service experience and 5 years of work experience in the relevant professional field. The same level of education is required for Chief Specialist and Lead Specialist, with less working experience. Professional qualifications, such as CPA, or an education background in accounting and auditing is preferred but is not a prerequisite.

257. **The SRSFM’s operation is funded mostly by Government budget.** The annual expenditure for its operational activities is around USD 250 thousand, while revenue from licensing, registration, and administrative fines is only around USD 5 thousand. Government budget finances the deficit. Additional activities such as translation of accounting and auditing standards, organizing CPA exams, or assessment of universities’ curriculum for accreditation require a supplemental budget. In accordance with current

regulation,²¹⁷ SRSFM's eligible sources of income include Government budget, grants from international and other organizations, voluntary contributions of organizations and individuals in accordance with the legislation of the Kyrgyz Republic, and other sources of financing that do not contradict the legislation of the Kyrgyz Republic.

258. The SRSFM is responsible for translation and publication of international standards in accordance with IFAC's translation policy. Translators are either professional translators or accountants/auditors. The translated version is then reviewed by the Review Committee, which is led by SRSFM and includes representatives from the National Commission of Official Language, professional accounting organizations, and other experts. The number of members of the Committee must be at least 5 and must be an odd number. The translators and the Committee's members are not allowed to modify or supplement the contents of the standards, and must ensure the completeness of translation, unity of terminology, and precedence of the country's traditional terminology over imported terminology. The SRSFM is also required to ensure the timeliness of the translation, i.e., translation of international standards within a reasonable time after their adoption by the relevant authorities, and relevance of the translation, including regular updating of the translation of international standards in accordance with the changes made to their original text.

259. Russian versions of IFRS and IFRS for SMEs have been published, and translation of IFRS, the IFRS for SMEs, and ISAs into the Kyrgyz language is ongoing. The SRSFM published the Russian version of IFRS and the IFRS for SMEs on its website after receiving the license from IASB in 2018. Permission to translate and reproduce copyright materials into the Kyrgyz language has also been obtained from IFAC and IASB for IFRS, the IFRS for SMEs, and ISAs. The translation process has been completed, and the translated standards are being reviewed by the Review Committee. A draft solution on accounting and auditing standards translation procedures in accordance with the IFAC translation policy has been developed and is expected to become effective by July 2022.

260. The SRSFM has not yet been actively involved in international standard setting processes. The SRSFM does not participate in the IASB or IAASB Annual Conferences or working groups, nor has it joined public consultations of those organizations.

²¹⁷ Resolution 300 2021

C. OBSERVED FINANCIAL REPORTING PRACTICES AND PERCEPTIONS

261. **The observed financial reporting practices suggest that significant gaps exist between the applicable legislative requirements and practice across all sectors reviewed.** The banking and microfinance sector financial statements reviewed generally appear to be significantly better presented than those of the other sectors reviewed, i.e., insurers and SOEs. Non-compliance with applicable financial reporting standards and filing requirements were identified, ultimately leading to limited availability of financial information in the market to support economic decision making and to hold management to account for its decisions and actions. The compliance gap is an indication that further capacity strengthening is needed for institutions responsible for audit oversight and for enforcement of financial reporting practices.

262. **The ROSC A&A process included reviews of financial statements and regulators' reports and discussions with stakeholders.** The objectives of this section are to: (a) corroborate the findings from the assessments of accounting and auditing standards (Section II.A) and the institutional framework for corporate financial reporting (Section II.B) with reference to financial statements issued and reports from the regulators, where they are available; and (b) gather perceptions on the demand for and quality of financial information from users of financial statements. Reports prepared by the SRSFM and NBKR on reviews of financial statements are not published. Therefore, this section is largely based on compliance reviews of financial statements performed as part of this ROSC A&A, results of perception surveys, and discussions held with users of financial statements and auditors. Similarly, the SRSFM does not publish the detailed reports on compliance with applicable auditing standards by auditors. This limited the information available on systemic issues in audit quality for ROSC A&A review.

FINANCIAL STATEMENTS REVIEW

263. **Limited reviews of financial statements were performed to assess the compliance gap and the quality of financial information available in the market.** The ROSC A&A team reviewed a sample of financial statements to assess the extent to which they complied with the financial reporting framework they purport to be prepared

in compliance with IFRS. Inconsistently with regulation,²¹⁸ most publicly available financial statements located do not include notes to the financial statements and consequently were excluded from the sample of financial statements reviewed. Conclusions should be treated with a degree of caution, given the limited sample size of financial statements made available to the reviewer and problems inherent in examining the compliance gap. In particular, the reviewer of financial statements cannot be certain that everything that should have been accounted for or disclosed, or both, has indeed been so done. Furthermore, financial statements of entities in similar economic sectors could reasonably be expected to have similar formats and disclosures and therefore it is relatively easy for those preparing financial statements to make them appear to comply simply by conforming to a typical format without regard to the entity's unique underlying financial transactions, circumstances, and other events.

264. The reviews suggest improvement is needed in the application of IFRS all sectors reviewed, and more so in the insurance and SOE sectors. For the reason outlined above, and particularly due the unavailability of complete sets of financial statements for review, this report provides only anecdotal evidence, most of which indicates strongly that the quality of IFRS financial reporting in the Kyrgyz Republic is in need of much improvement, especially in the SOE and insurance sectors.

265. A total of 12 sets of annual financial statements prepared in accordance with IFRS were reviewed. The sectors and types of entities were selected based on their importance to the national economy. The sample entities comprised five SOEs; three banks; two MFIs; and two insurance companies. Four of the sample entities took the form of open JSC;²¹⁹ six were closed JSC;²²⁰ and two were state-owned.²²¹

²¹⁸ For example, Decree No 6/2 2010, approval of the Regulation *About requirements to formation of financial statements of commercial banks of the Kyrgyz Republic*, Chapter 3 (as described in paragraph 95 of Section B3 of this report).

²¹⁹ A JSC whose shareholders may alienate their shares without the consent of other shareholders of this company (Article 2 of JSC Law).

²²⁰ A JSC whose shares are placed and circulated only among its participants or other predetermined circle of persons (Article 2 JSC Law).

²²¹ SOEs created by the Government under Article 158 of the Civil Code of the Kyrgyz Republic N.15, dated May 8, 1996 and Article 1 of the Regulation on State Enterprises N.468, dated September 11, 2019. The property and profit of the SOEs is the property of the state and is assigned to the SOEs for the implementation of entrepreneurial activities.

266. **Likely areas of non-compliance were observed.** Although the banking and microfinance sector financial statements reviewed generally appear to be significantly better presented than those of insurers and SOEs, financial institution financial statements are also found to be in need of improvement in respect of some pervasive likely non-compliance issues observed across all sectors (for example, questionable non-financial asset depreciation policies, questionable assertions in measuring fair value, insufficient disclosures about income taxes and key estimation uncertainties and, in particular, inadequate disclosure of financial risk management and exposures) as well as some issues that are particularly relevant to financial institutions as elaborated under the heading 'Financial Institutions: banks and microfinance' below.

267. **Ten of the twelve sets of annual financial statements reviewed were audited.** From the IFRS reporting framework perspective, the two sets of unaudited financial statements appear obviously incomplete and fundamentally deficient. Although the audited financial statements reviewed appear to be significantly better presented than the unaudited financial statements, they are also found to be in need of significant improvement. The profile of auditors covered in the sample of ten sets of audited financial statements can be described as:

- two 'big 4' firms (auditing one set each);
- three 'mid-tier' firms (auditing four sets); and
- smaller firms (auditing four sets).

Pervasive Issues Across All Sectors

268. **There were some examples of good practice, but the overall quality of financial reporting needs improvement due to likely non-compliance with IFRS identified in several areas.** Half of the audit reports on the audited financial statements reviewed were qualified,²²² indicating significant financial reporting non-compliance issues thus indicating the provision of unreliable information for decision making and accountability of those charged with governance. Unqualified audit reports could suggest the attainment of at least the minimum level of compliance with the standards, assuming that audits were adequately performed. The review of the sample of financial statements from all sectors and across all ownership structures revealed some pervasive and some

²²² All three sets of audited SOE financial statements reviewed (the other two sets of SOE financial statements reviewed were unaudited) and one of the two sets of insurance company financial statements reviewed were accompanied by qualified audit reports.

sector specific instances of questionable financial reporting practices, and some cases of probable non-compliance with IFRS. The issues identified impact on the quality of financial information presented and disclosures, ultimately leading to less reliable information being available for decision making and accountability of those charged with governance.

269. **Pervasive IFRS compliance issues observed in all industries included:**

- **Financial statement presentation:**²²³ Most entities that made their financial statements publicly available limited the information in the public domain to the primary financial statements (excluding notes) and consequently were excluded from the sample of financial statements reviewed. Although all of the financial statements reviewed included notes, some are incomplete in other respects. In particular, one company omitted the cash flow statement from its financial statements and some other companies omitted multiple significant note disclosures, for example, information about significant judgments, key estimation uncertainties and unexplained adjustments. The organization and flow of more complete financial statements were sometimes found to be illogical²²⁴ and difficult to follow, with redundant, immaterial, or irrelevant information²²⁵ disclosed, along with boilerplate disclosures. Omissions and cluttering both deny external resource providers the entity-specific information that IFRS specifies disclosure of, consequently inhibiting their abilities to make their own projections of the reporting entity's future cash flows and to assess the stewardship of management.

- **Disclosure of significant judgments made in applying accounting policies:**²²⁶ Some entities omitted these disclosures in their entirety. Other entities identified seemingly insignificant judgments while omitting seemingly significant judgments. Some entities disclosed boilerplate information about the significant judgments they identified, thus denying external resource providers the entity-specific information about significant judgments they need to inform their resource allocation decisions and to hold management to account.

- **Disclosure of key measurement assumptions:**²²⁷ Some entities omitted these disclosures in their entirety. Other entities appear to have omitted some key measurement

²²³ IAS 1 *Financial Statement Presentation*

²²⁴ For example, including unrecognised assets and asset impairment deficiencies included in contingent liabilities.

²²⁵ For example, reference to the accounting treatment of non-financial asset impairments under the revaluation model by an entity that does not use the revaluation model.

²²⁶ paragraphs 122-124 of IAS 1

²²⁷ paragraphs 125-129 of IAS 1

assumptions from these disclosures.²²⁸ Where key measurement assumption disclosures were made, boilerplate information was typically provided rather than quantified entity-specific explanations of the assumptions made and information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes, and changes made to past assumptions during the year. Consequently, external resource providers are denied the fuller understanding of management's key measurement assumptions that are required to inform their resource allocation decisions and to hold management to account.

- **Disclosure of events after the reporting period:**²²⁹ Despite the heightened uncertainties from the evolving domestic political crisis²³⁰ and the COVID-19 pandemic effects on domestic, regional, and international economies, most entities disclosed no significant events after the reporting period. Two sets of financial statements are neither dated nor signed. Consequently, the date on which these financial statements were authorized for issue, if any, is not apparent from reviewing the financial statements. These financial statements have no post-balance sheet event disclosures. Another set of financial statements is dated but not signed. Most other entities generally provided only boilerplate disclosures. Moreover, some appear to consider only adjusting events while others appear to consider only non-adjusting events. Consequently, external resource providers are potentially denied the entity-specific decision-useful information that is required about the nature and the effects of material post-balance sheet events.
- **Depreciation/amortization:**²³¹ The boilerplate depreciation policies disclosed for property, plant, and equipment and intangible assets are likely inconsistent with the depreciation principle of reflecting the consumption of a depreciable items' service potential.²³² Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions.
- **Income taxes:**²³³ There were insufficient disclosures about the estimates and other judgments made in recognizing and measuring uncertain tax positions and the

²²⁸ For example, some items identified by the external auditors as key audit matters because of the inherent significant estimation uncertainty.

²²⁹ IAS 10 *Events After the Reporting Period*

²³⁰ As identified from the disclosures in some domestic companies' 31/12/2020 financial statements. For example, 'political crisis in the Kyrgyz Republic, which began in October 2020 and continues to the present,' (FinanceCreditBank, p13)

²³¹ IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, and IAS 40 *Investment Property*

²³² For example: (i) likely inconsistency with the IFRS depreciation principle, most financial statements reviewed disclosed significant in-use fully depreciated property, plant, and equipment; (ii) some entities reviewed described depreciation commencement policies that are likely inconsistent with IFRS; and (iii) other entities specify depreciation rates too broadly to be meaningful.

²³³ IAS 12 *Income Taxes*

recoverability of tax losses.²³⁴ Also, some entities omitted tax rate reconciliations from their note disclosures. Other entities typically inadequately disclosed boilerplate tax rate reconciliations. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions.

- **Fair value measurement:**²³⁵ Shortfalls observed included: (i) not remeasuring to fair value items accounted for using a fair value-based model;²³⁶ (ii) omitting disclosure of fair values of financial instruments; (iii) likely inappropriately concluding that fair value approximates carrying amount for all of the entity's financial instruments;²³⁷ (iv) likely inappropriately classifying level 3 inputs at level 2;²³⁸ and misclassifying level 2 inputs at level 1;²³⁹ and (v) inadequate disclosures, including not identifying the level of the fair value measurement hierarchy. Deficient fair value measurement and incomplete fair value measurement disclosures potentially detract from users' abilities to make informed resource allocation decisions and to hold management to account.

- **Liquidity risk disclosures:**²⁴⁰ In the current environment liquidity disclosures have heightened importance. Nonetheless, some SOEs omitted entirely these disclosures from their financial statements. An insurance company omitted all quantitative liquidity risk disclosures, stating only that 'The Company believes that it is not exposed to significant risk of loss of liquidity.' Some financial institutions made only partial quantitative disclosures, typically omitting some liabilities or some 'off-balance sheet' exposures from their analysis and not allocating liabilities to the earliest time band in which the entity can be required to pay.²⁴¹ Most financial statements reviewed provide boilerplate disclosures about how liquidity risk is managed and the nature and extent of the liquidity risk to which the entities are exposed. Improvements could be made by: (i) being more entity-specific in explaining how liquidity risk is managed; (ii) using more appropriate time bands; (iii) including all off-balance sheet items; (iv) preparing maturity analysis using undiscounted cash flows; and (v) allocating liabilities to the earliest period in which the entity can be

²³⁴ The external audit report of one SOEs financial statements was qualified with regard to the recognition of deferred tax assets.

²³⁵ IFRS 13 *Fair Value Measurement*

²³⁶ For example, the two SOEs reviewed that purport to use the revaluation model likely do not revalue items with sufficient regularity.

²³⁷ IFRS 13 and IFRS 7 *Financial Instruments: Disclosures*

²³⁸ For example, inconsistently with the level 3 classification determined by their competitors, some financial institutions classify their domestic retail loan portfolios at level 2. One bank disclosed level 2 for all its financial instruments.

²³⁹ For example, inconsistently with the level 2 classification determined by their competitors, some financial institutions classify funds with NBKR, NBKR notes, and some denominated current accounts in commercial banks at level 1.

²⁴⁰ IFRS 7

²⁴¹ For example, not using the earliest time band for individuals' term-deposits despite Kyrgyz legislation reportedly specifying that such deposits can be withdrawn on demand.

required to pay. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions about exposure to and the management of liquidity risk.

- **Market risk disclosures:**²⁴² Some entities omitted these disclosures in their entirety. Most entities provided only boilerplate disclosures about how they managed market risk. There was much variation in the range identified by different entities as representing the limit of the reasonably possible change in currency exchange rates for 2021. Some entities disclosed reasonable possible change for currency exchange rates to which they appear to have no exposure while omitting disclosure for currencies to which they appear to have significant exposure. Consequently, external resource providers are denied access to entity-specific information relevant to informing their investing and lending decisions about exposure to and the management of market risk.

- **Related party disclosures:**²⁴³ Some companies appear to have omitted all related party disclosures from their financial statements. The companies that made disclosures about their material related party relationships generally provided insufficient information to explain the nature of the relationships, how the risk exposures were managed,²⁴⁴ and whether and to what extent transactions were at arms-length.²⁴⁵ One company's management identified that significant judgment is involved in its determination that its related party transactions were conducted on market terms. However, it provided little disclosure to help users of its financial statements understand the judgments made. External resource providers are denied a fuller understanding of the risks and obligations the entity assumes. This is particularly the case for related party transactions where considerations other than commercial may drive the decision-making processes. An understanding of the risks and obligations the entity assumes is required to inform resource allocation decisions and to hold management to account.

- **Asset impairment testing:** Despite the effects of the pandemic and increased jurisdictional political uncertainties, some entities appear not to have performed impairment testing. Likely non-compliance with aspects of the reporting of asset impairment testing was observed across all sectors and across the range of applicable asset impairment models as elaborated on separately for each sector below.²⁴⁶

²⁴² IFRS 7

²⁴³ IAS 24 *Related Party Disclosures*

²⁴⁴ IFRS 7 does not specify exceptions to financial instruments risk reporting for related party transactions.

²⁴⁵ Paragraph 17 of IAS 24 requires the disclosure of the nature of related party relationships.

²⁴⁶ For example, for financial asset impairment testing: (i) the financial institutions reviewed use IFRS 9 *Financial Instruments*; (ii) there was no evidence of financial asset impairment testing in one insurance company's financial statements; (iii) the other insurance company reviewed incurs an audit qualification for applying IFRS 9 only to the financial assets of its banking subsidiary and a further audit qualification

State-owned Enterprises - IFRS compliance issues

270. **All SOE annual financial statements reviewed likely did not comply with at least some significant aspects of IFRS in some key areas**, even if the non-compliance presented itself in different ways.

271. **Basis of preparation.** The two SOEs that provided unaudited financial statements did not specify the financial reporting framework used in preparing their financial statements. From the IFRS reporting framework perspective, these financial statements were obviously incomplete and fundamentally deficient. Another SOE reported its financial statements are prepared in compliance with 'IFRS as amended by the IFRS Council' rather than IFRS as issued by the IASB. This IFRS compliance review was performed on the basis of IFRS as issued by the IASB.

272. **Two SOEs' financial statements were not audited.** Both sets of unaudited financial statements appear to be significantly more poorly presented than the sets of audited financial statements reviewed. In particular, the unaudited financial statements reviewed appear mostly to take the form of a standardized template including immaterial, even nil value, information and omitting much relevant information. The notes to the unaudited financial statements appear to be particularly deficient being significantly incomplete and what is presented is mostly difficult to reconcile with the requirements of IFRS.

273. **The three sets of audited SOE annual financial statements reviewed were also found to be deficient.** In particular, the external auditors of all three sets of audited SOE financial statements reviewed, expressed a qualified audit opinion, on up to five separate issues in each set of financial statements. Furthermore, the reviewer identified other likely areas of non-compliance with IFRS. Areas of likely non-compliance with IFRS that are pervasive across all sectors are set out above.

274. **Additional areas of likely non-compliance with IFRS that were commonly observed** in the SOE annual financial statements reviewed, that likely detract from users'

for not recognizing any impairment loss in respect of particular past due loans of the insurance parent (it did not disclose the impairment test applied, if any, to these past due assets); and (iv) the SOEs reviewed generally use the alternative methods under IFRS 9 that are not available to financial institutions.

ability to use that financial information as inputs to inform resource allocation decisions and to hold management to account, include:

- **Going concern assessment disclosures.** The two unaudited SOE financial statements reviewed made no going concern disclosures. The three sets of audited SOE financial statements reviewed likely provided inadequate disclosures about material going concern uncertainties potentially denying users a proper understanding of the entity-specific risks associated with SOEs' abilities to continue as a going concern.²⁴⁷ The external auditor's report on one of the financial statements reviewed is qualified in respect of unverifiable evidence the management of the SOE cites in support of the SOE's ability to continue as a going concern. Management of some other SOEs made similar claims in support of their abilities to continue as a going concern. These disclosures are currently particularly relevant because of the effects of the COVID-19 pandemic on the Kyrgyz economy and the wider regional economy.
- **Unverifiable recognized assets:**²⁴⁸ The external auditors of two SOEs qualified the audit report with respect to unverified non-financial infrastructure assets. Possible misstatement of the balance sheet denies external resource providers information about the entity's resources and obligations (and the related income and expenses) that they need to inform their resource allocation decisions and to hold management to account.
- **Inadequate impairment testing of non-financial assets²⁴⁹ likely impacting financial position and incomplete disclosures of non-financial asset impairment testing denying users a proper understanding of the key measurement assumptions and sensitivities to impairment.**²⁵⁰ No evidence of impairment testing was found in the two SOEs' financial statements reviewed that were not audited. Furthermore, the external auditors' reports on two of the three audited financial statements reviewed are qualified in respect of deficiencies in non-financial asset impairment testing. In particular, the external auditors report that the SOEs did not estimate the recoverable amount of infrastructure assets despite the existence of indications of impairment. Moreover, despite being identified by management as involving key measurement assumptions, inadequate disclosures and likely inconsistencies with the underlying economics are observed. Possible misstatement of the balance sheet and inadequate disclosures deny external resource providers information about the entity's resources and obligations (and the related income and expenses) and associated risk exposures that they need to inform their resource allocation decisions and to hold management to account.

²⁴⁷ IAS 1 and IAS 10

²⁴⁸ Typically infrastructure assets under IAS 16

²⁴⁹ IAS 36 *Impairment of Assets*

²⁵⁰ IAS 1 and IAS 36

- **Likely deficient financial asset impairment testing²⁵¹ possibly impacting financial position and incomplete credit risk disclosures potentially denying users a proper understanding of credit risk exposures and how credit risk is managed.²⁵²** No evidence of impairment testing was found in the two SOEs' financial statements reviewed that were not audited. Furthermore, some of the audited financial statements reviewed appeared to ignore the expected credit losses (ECLs) potentially present in financial assets other than trade receivables. Some SOEs also appeared to significantly underapply the simplified ECL model to their trade receivables, and make inadequate provision for ECLs, despite management identifying ECLs as involving key measurement assumptions and disclosing significant trade receivables being long past due (and inconsistently with ECLs being identified as a key audit matter by the entity's external auditors). Moreover, all entities reviewed provided insufficient entity-specific disclosures about their application of the ECL model and some entities inappropriately claimed to have no significant concentrations of credit risk. Possible misstatement of the balance sheet and inadequate disclosures deny external resource providers information about the entity's resources and obligations (and the related income and expenses) and associated risk exposures that they need to inform their resource allocation decisions and to hold management to account.

275. **Other IFRS non-compliance issues observed for SOE financial statements** that likely detract from users' ability to use that financial information as inputs to inform resource allocation decisions and to hold management to account, include:

- **Upfronting revenue from contracts with customers.²⁵³** One SOE's external auditor qualified their audit report on the SOE's financial statements for, amongst other matters, recognizing revenue before satisfying the IFRS revenue recognition criteria.

- **Deferred income on granted non-financial assets.²⁵⁴** The SOEs reviewed receive ownership and control over fixed assets (typically infrastructure assets) free of charge from the state and various organizations. Incomplete accounting policy disclosures about such grants are presented in the two SOEs' financial statements reviewed that were not audited. Furthermore, the external auditor of another SOE qualified their audit opinion because they were unable to 'verify the correct accounting for the recognition of deferred income, depreciation and outstanding balance presented in the financial statements that related to granted fixed assets as the Company does not keep appropriate accounting records in these regards. Due to the lack of a full register, the Company was not able to prepare the movement of granted received fixed assets on a full basis.'

²⁵¹ IFRS 9

²⁵² IFRS 7 and IAS 1

²⁵³ IFRS 15 *Revenue from Contracts with Customers*

²⁵⁴ IAS 16 and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

- **Misapplication of the revaluation model.** Inconsistently with IFRS, the two SOEs reviewed that purport to use the revaluation model do not revalue their affected assets with sufficient regularity to comply with IFRS.²⁵⁵ The external audit reports on these SOEs' financial statements are qualified in this respect.
- **Unrecognized assets and unrecognized liabilities:**²⁵⁶ Some SOEs appear to have not recognized in their balance sheets some present rights and obligations that likely satisfy the relevant recognition criteria. Omitting items from the balance sheet denies external resource providers information about the entity's resources and obligations that they need to inform their resource allocation decisions and to hold management to account. The audit report of one SOE's financial statements is qualified in respect of the likely non-recognition of granted assets and includes a key audit matter regarding the possible non-recognition of liabilities for late payment penalties.
- **Questionable classifications:** Insufficient disclosures supporting some prior period adjustments deny external resource providers information about the nature of the changes which could affect their resource allocation decisions and could be useful in holding management to account. For example, judgments in: differentiating between changes in accounting estimates, changes in accounting policies, reclassifications and the correction of prior period errors.²⁵⁷

Financial Institutions: banks and microfinance - IFRS compliance issues

276. **The bank and microfinance sector financial statements reviewed generally appeared to be significantly better presented than those of the other sectors reviewed** (i.e., insurers and SOEs). However, all financial institutions reviewed likely did not comply with at least some aspects of IFRS in some key areas, even if the non-compliance presented itself in different ways.

277. **Areas of likely non-compliance with IFRS that are pervasive across all industries are set out above.** For example, financial institution financial statements are found to be in need of improvement in respect of questionable non-financial asset depreciation policies, questionable assertions in measuring fair value, insufficient

²⁵⁵ IAS 16 requires remeasurement to fair value whenever reporting-date carrying amount is significantly different from reporting-date fair value.

²⁵⁶ IAS 16 and IAS 20

²⁵⁷ In some cases this leaves the reader wondering if particular adjustments are: (i) corrections of prior period errors; (ii) changes in accounting estimate; (iii) changes in presentation or classification following a significant change in the nature of the entity's operations or a review of its financial statements; (iv) or something else.

disclosures about income taxes and key estimation uncertainties, and, in particular, inadequate disclosure of financial risk management and exposures.

278. **Additional areas of likely non-compliance with IFRS observed that are particularly relevant to financial institutions**, because of the nature of their business and much of the IFRS accounting for financial instruments being predicated on the reporting entity's business model, include:

- **Deficiencies in disclosures about financial instrument risk management.**²⁵⁸

Financial institutions have significant exposure to financial assets and financial liabilities and typically are exposed to and manage credit risk, market risk, and liquidity risk. Disjointed and boilerplate disclosures were observed in the financial institution financial statements reviewed that likely insufficiently reflect the reporting entities' actions, estimates, and other judgments in applying their financial risk management policies on which much of IFRS 9's financial instrument accounting is predicated. Such deficiencies deny external resource providers the required entity specific information needed as inputs to their resource allocation decisions and to hold management to account.

- **Possible deficiencies in loan loss provisioning**²⁵⁹ **that could impact users' understanding of the financial institutions' loan losses and credit risk exposures.**

In common with the findings of others reviewing the initial application of IFRS 9 (albeit in other jurisdictions),²⁶⁰ the review identified likely deviations from IFRS 9's ECL model that, without access to management for clarification, are difficult to reconcile with the requirements of IFRS 9. For example: (i) inconsistently with competitor financial institutions making no provision for ECLs in respect of particular financial assets;²⁶¹ (ii) making opaque adjustment, if any, for forward looking information, including macro-economic variables; (iii) seemingly following Kyrgyz Republic regulatory guidance in a manner that is possibly inconsistent with IFRS 9; (iv) disclosing that ECLs are accounted for in respect of loan commitments but appearing to measure the ECL in respect of loan commitments at nil; and (v) inappropriately including in contingent liability note significant financial asset impairment issues (possibly indicating inadequate asset impairment testing).

²⁵⁸ IFRS 7

²⁵⁹ IFRS 9

²⁶⁰ See, for example: (i) ESMA Report Enforcement and regulatory activities of European enforcers in 2019 (https://www.esma.europa.eu/sites/default/files/library/esma32-63-846_2019_activity_report.pdf); and (ii) JSE's Final Findings Of Our Thematic Review For Compliance With IFRS 9 and 15

(<https://www.jse.co.za/content/JSEStatementsReviewsandReportsItems/IFRS%209%2015%20Thematic%20Report%202019.pdf>)

²⁶¹ Some banks and microfinance companies raised no provision for ECLs on NBRK notes and Kyrgyz Republic MoEF treasury bills and obligations.

- **Incomplete credit risk disclosures could impact users’ understanding of the financial institution’s exposure to and the management of credit risk.** In common with the findings of others reviewing the initial application of IFRS 9 (albeit in other jurisdictions), the review identified likely deviations from IFRS 7’s credit risk disclosures. For example: (i) cluttering—boilerplate and disjointed disclosures possibly concealing non-compliance with IFRS’s ECL model;²⁶² and (ii) inadequate disclosures of material assumptions—for example, the range above which an increase in probability of default is considered to be significant, information about changes in the assumptions made from those used previously, the quality and nature of collateral held and quantitative information about collateral held in respect of credit-impaired financial assets, and entity-specific information about significant judgments and sources of estimation uncertainty related to the ECL model.

Insurance Companies - IFRS compliance issues

279. **Both insurance companies reviewed likely did not comply with at least some aspects of IFRS in some key areas**, even if the non-compliance presented itself in different ways. The external auditor’s report of one insurer’s financial statements was qualified in respect of three matters. The reviewer found the other insurance company’s financial statements to be incomplete and particularly poorly presented.

280. **Areas of likely non-compliance with IFRS that are pervasive across all industries are set out above.** Of those, the following are particularly relevant to insurance entities in the sample:

- **Financial statement presentation and disclosure:**²⁶³ both sets of insurance companies’ financial statements reviewed are significantly deficient—obviously incomplete, omitting comparative information and fundamentally important accounting policy and other disclosures. For example, one set of financial statements reviewed omitted numerous comparative figures and significant note disclosures. The external auditor qualified their audit report on the other entity’s financial statements for multiple reasons, including failing to specify and use consistent accounting policies for financial instrument accounting.

²⁶² For example, despite generic disclosures about how they incorporate forward-looking information into their significant increase in credit risk (SICR) test and the measurement of ECLs, little, if any, evidence in their financial statements of the effect that ‘forward-looking information has in the company’s SICR test or ECLs measurement. When identifying macroeconomic variables used, few disclose the relative weightings assigned to the multiple scenarios used, if any.

²⁶³ IAS 1

- **Financial instrument risk management disclosures:**²⁶⁴ Insurance companies had significant exposure to financial assets and typically were exposed to manage at least credit risk, market risk, and liquidity risk. However, one company made only rudimentary risk management disclosures and appears not to have tested its financial assets for impairment.²⁶⁵ This company provided substantially incomplete insight into concentration risks²⁶⁶ (for example, 94 percent of its assets are invested with one counterparty) and omitted substantially all liquidity risk and market risk exposure disclosures. The other company's external auditor qualified their audit report for multiple reasons, including the company's transgression of IFRS in failing to account for the impairment of particular long past due financial assets. The reviewer observes that contrary to its accounting policy and unlike other financial institutions one insurer also did not recognize credit losses on its investment in NBKR notes and deposits and Kyrgyz MoEF treasury bills. This company also omitted most IFRS liquidity risk disclosures from its financial statements, providing instead some regulatory information. Lastly, neither company appears to have provided adequately for credit losses on their financial assets.

- **Disclosure of key measurement assumptions:** Measurement of insurance liabilities are subject to significant estimation risks, particularly with regards to claims experience and persistency. This estimation risk increases as the potential duration of the contract extends. This is particularly the case in emerging markets and underdeveloped insurance markets where there is little historical data to draw on. One company's external auditor qualified their audit report for multiple reasons, including the unverifiability of the company's insurance liabilities. Although this company identified the sufficiency of insurance liabilities as involving key measurement assumption it did not provide the relevant disclosures. The other company did not identify any key measurement assumptions. Consequently, users of both companies' financial statements are denied the quantified entity-specific explanations of the assumptions made and information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes, and changes made to past assumptions during the year.²⁶⁷

281. Issues with disclosures and application of IFRS appeared likely in some key areas particularly relevant for the insurance industry,²⁶⁸ including information about

²⁶⁴ IFRS 7

²⁶⁵ For credit risk management, the company disclosed only that "The company manages such risk by working only with those parties who are considered creditworthy."

²⁶⁶ IFRS 7, paragraph 35B

²⁶⁷ IAS 1, IFRS 4 *Insurance Contracts* and IFRS 7

²⁶⁸ IFRS 4 applies to insurance contracts issued by companies. It does not generally impose requirements for the other activities of companies that issue such contracts, and companies that do not consider themselves insurance companies may nonetheless issue insurance contracts as defined, and consequently have to apply either IFRS 4 or IFRS 17. The companies included in this sample all issue insurance contracts as part of their principal business.

insurance risk, credit risk,²⁶⁹ liquidity risk, and fair value measurement. The compliance issues arose in different ways. For example, insurance risk management disclosures generally excluded descriptions of product specific information, sources of economic and insurance data, and comparisons of actual versus expected claims.²⁷⁰ One company reviewed made no disclosures about how it manages insurance risk. The other company's external auditor qualified their audit report for multiple reasons, including the unverifiability of the company's insurance liabilities. Incomplete disclosures about an entity's exposure to and management of insurance risks potentially detract from users' abilities to make informed resource allocation decisions and to hold management to account.

Compliance with Auditing Standards

282. **All of the audited financial statements reviewed were in need of improvement.** Ten of the twelve sets of financial statements reviewed were audited.²⁷¹ Qualified audit opinions are expressed on four (or 40 percent)²⁷² of the ten sets of audited financial statements reviewed. Unqualified audit reports would suggest the attainment of at least a minimum level of compliance with IFRS. Nonetheless, all of the audited financial statements reviewed are in need of improvement. During the review of the financial statements, audit reports are also assessed for anecdotal evidence on the extent to which they complied, in practice, with applicable auditing standards. The same limitations apply in analyzing a relatively small sample of audit reports,²⁷³ and the review comprises only

²⁶⁹ Credit risk is a significant risk for insurance companies arising from their investment portfolios, reinsurance exposures, and policyholders.

²⁷⁰ IFRS 4, paragraphs 38 to 39A require very specific disclosures of insurance risk, including comparisons between previously estimated amounts and actual outcomes.

²⁷¹ Two of the five sets of SOE financial statements reviewed are not audited.

²⁷² All three sets of audited SOE financial statements and one set of insurance (and banking) company financial statements reviewed are qualified.

²⁷³ The review is not akin to a formal audit review and is based only on the evidence included in the financial statements. The reviewer does not examine underlying evidence on the practical application of auditing standards, audit quality, or general challenges facing the audit profession and does not have access to auditors.

an analysis of the extent to which reports prepared are in compliance with ISA 700²⁷⁴ and ISA 701²⁷⁵ and general perceptions drawn from the financial statements themselves.²⁷⁶

- **Compliance with IFRS.** Based on the review of audit reports, it can be concluded that standards relevant to audit reporting were generally being complied with. Forty percent of the audit reports reviewed were qualified, typically for multiple matters,²⁷⁷ indicating independent assessment by auditors. However, the issues of compliance with IFRS referred to above suggest that there may have been further issues with compliance with auditing standards by auditors. This is particularly, but not only, the case for:

- Presentation and disclosure issues, including the use of templates and boilerplate language and the omission of entity-specific information about the entity's most significant judgments, key sources of estimation uncertainties, and with regard to risk management; and

- Recognition and measurement, including use (or apparent use) of accounting policies that are inconsistent with the requirements of IFRS.

- **Audit reports:** On the basis of the review of the external auditor reports on the sample of 10 audited financial statements reviewed:

- Key audit matters were reported by the auditors of all four open JSC and one of the closed JSC (i.e., the auditors of five of the six closed JSC did not present key audit matters).

- Deficiencies observed in reported key audit matters included likely omission of some key audit matters (e.g., at least some of the most significant judgments and key measurement assumptions disclosed in the financial statements²⁷⁸ that were not identified as key audit matters). Improvements could generally also be made to the overall quality of the key audit matters, for example, increasing their relevance by using less boilerplate language and, in particular, by relating the matter more directly to the specific circumstances of the entity.

²⁷⁴ ISA 700 Forming an Opinion and Reporting on Financial Statements

²⁷⁵ ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report

²⁷⁶ It is worth noting that given the 'standard' format of audit reports, it is reasonably easy for preparers of audit reports to make them appear good simply by conforming to the format, regardless of the entity's underlying financial transactions and position.

²⁷⁷ The audit opinions on the three audited sets of SOE financial statements reviewed are each qualified on up to five separate matters; and the audit opinion on the insurance and banking group financial statements is qualified on three separate matters. (Mean = 3 separate qualification matters per set of financial statements carrying a qualified audit opinion.)

²⁷⁸ In accordance with paragraphs 122 and 125 of IAS 1

PERCEPTIONS

283. **Stakeholders recognized considerable progress in Kyrgyz Republic corporate financial reporting, but they acknowledge that there remains much room for improvement in significant areas.** Group discussions with stakeholders generally confirmed recent improvements in domestic corporate financial reporting but remaining concerns about public accessibility and the quality of financial statements prepared by entities, especially those that are not regulated by the NBKR. The stakeholders included lenders, entrepreneurs, audit firms, and academia. In addition to the discussion groups, perception surveys were conducted.

284. **The demand for good quality, publicly available financial statements is inconsistent with the limited public accessibility to complete sets of financial statements.** Stakeholders expressed concern about the lack of access to company financial statements. Very few entities published their full financial statements on their corporate websites. Other entities, including listed companies and financial institutions, published incomplete financial statements (typically excluding the notes to the financial statements) and without an audit report. Other entities did not make publicly available any financial information. Stakeholders seek financial statements for a range of purposes: investment, lending, borrowing, partnership, doing business, research, and study.

285. **In addition to company financial statements and audit reports, stakeholders seek management discussion and analysis.** Management discussion and analysis is perceived to be critical to users' decision-making. However, such information is currently inadequately publicly available, if at all.

286. **The quality of financial statements prepared by banks is perceived to be much higher than the financial statements of other entities.** Consequently, less reliance is placed on corporate financial reporting of large non-listed entities, SMEs, and SOEs. Some stakeholders were skeptical about the quality of the audits of SMEs.

287. **Stakeholders recommended authorized bodies strengthen the monitoring and enforcement of accounting and auditing by entities.** The Government authorized bodies should raise awareness among CEOs and business owners about the importance of financial reporting disciplines as well as the usefulness of financial statements in the resources allocation decision making process. Capacity building should be provided to the preparers of IFRS and the IFRS for SMEs financial statements, to enable them to

prepare financial statements and thus reduce their reliance on auditors to assist them in preparing financial statements.

III. MAIN CHANGES SINCE THE PREVIOUS ROSC A&A ASSESSMENT

288. **The main finding of the 2008 ROSC A&A²⁷⁹ was that enhancements in accounting and auditing legislation have often not been carried through to improvements in practice in the Kyrgyz Republic.** Consequently, it was recommended that much needs to be done to enable and enforce compliance with the appropriate version of IFRS and ISAs and to ensure greater public availability of general purpose financial statements.

289. **Since then, the Kyrgyz Republic has made progress** in modernizing its statutory framework for accounting and auditing by issuing new laws. In particular, the 2021 amendments to the Accounting Law²⁸⁰ make substantive improvements to the statutory framework for corporate reporting and, if implemented fully, the new Audit Law²⁸¹ has the potential to make substantive improvements to the statutory framework for auditing. Training initiatives under the KAREP program²⁸² or as part of the IFAC parallel project²⁸³ are making significant progress in upskilling existing staff resources, in developing new resources and in upskilling the education sector.

290. **However, resource shortages are ongoing.** Full implementation of the 2021 amendments to the Accounting Law and new Audit Law require more time and significant investment to over time build the institutional infrastructure and capacity to in time lead to improved compliance with the standards in practice.

291. **This section summarizes the main changes since the 2008 ROSC A&A.** More detailed information about the status of implementation progress on 2008 recommendations is provided in Annex A.

²⁷⁹ ENG: <https://documents1.worldbank.org/curated/en/675371468047938817/pdf/465330ESW0P10810Kyrgyz0ROSCFinal0aa.pdf>
RU: <http://documents1.worldbank.org/curated/en/234351468278088623/pdf/465330RUSSIAN01BLIC10Kyrgyz0ROSC0aa.pdf>

²⁸⁰ Accounting Law 2021

²⁸¹ Law on Audit 2021

²⁸² See <https://cfr.worldbank.org/programs/karep>

²⁸³ In close collaboration with the KAREP program IFAC implemented a parallel project to support PAO development in the Kyrgyz Republic. IFAC's project was implemented by the ICAEW under the United Kingdom-funded IFAC Professional Accountancy Organization Capacity Building Program (www.ifac.org/about-ifac/membership/country/kyrgyz-republic).

Statutory Framework

292. **The 2021 amendments to the Accounting Law²⁸⁴ make substantive improvements to the statutory framework for corporate reporting** in the Kyrgyz Republic. The Law mandates proportionate differential corporate reporting requirements—IFRS for both PIEs and large entities and the IFRS for SMEs for medium-sized entities—in a manner that is designed to enable application of those standards as issued by the IASB. It also permits medium-sized entities to elect to use IFRS and permits small entities to elect to use the IFRS for SMEs. Moreover, the 2021 amendments to the Accounting Law clearly define PIEs in an exclusive list—an issuer of securities listed on the stock exchange, a bank or other financial credit institution licensed by the NBKR, an investment fund, an insurance company, or a non-state pension fund—and defines large, medium, and small entities with reference to thresholds specified on the basis of the quantum of total assets or total revenues, or both. The 2021 amendments to the Accounting Law also specify when to apply the accounting standards for Islamic financial institutions adopted in accordance with the legislation of the Kyrgyz Republic.

293. **Under license from the IASB, the SRSFM hosts Russian-language translations of IFRS and the IFRS for SMEs on its website.**²⁸⁵ Permission to translate and reproduce copyright materials in the Kyrgyz language has been obtained from IFAC for ISAs and from the IASB for IFRS and the IFRS for SMEs. At the time of the ROSC assessment the Kyrgyz language translations of these standards were being reviewed by the Review Committee.

294. **The 2021 amendments to the Accounting Law introduce electronic filing requirements in a Public Depository of Financial Statements²⁸⁶** for (consolidated) annual financial statements and audit reports of PIEs, large, and medium-sized entities. If implemented well, financial statements (including notes) and accompanying audit reports

²⁸⁴ Accounting Law 2021

²⁸⁵ Russian translations are published as received from the IFRS Foundation. (Russian translation is not performed by Kyrgyz Republic authorities.)

²⁸⁶ At the time of the ROSC assessment a draft Concept on the Public Depository of Audited Financial Statements was developed under the KAREP project. However, the Depository was not established and the Procedure was drafted but not yet approved.

of PIEs and large entities will be publicly available from the Public Depository and the entity's official website and kept in the public domain for five years.²⁸⁷

295. **The new Audit Law²⁸⁸ makes substantive improvements to the statutory framework for auditing in the Kyrgyz Republic.** However, at the time of the ROSC assessment although the new Audit Law was approved by the Parliament and signed by the President, it was not yet in force (to be in force after 6 months from the date of official publishing). Moreover, some of the respective bylaws necessary to give effect to the new Audit Law were still at the drafting stage or had been developed and were currently under consideration by the Cabinet of Ministers.

296. **It remains to be seen if the new legislation will bring the hope for improvements in practice.** Because the new Audit Law will be implemented after this ROSC assessment, it is important to acknowledge that it remains to be seen whether the enhancements in auditing legislation will be carried through to improvements in auditing practices in the Kyrgyz Republic.

Institutional Capacity Building

297. **Capacity building of regulators is progressing well in general.²⁸⁹** However, progress is uneven. In particular, the increased oversight the NBKR exerts over banks is apparent in the higher quality of financial statements in the banking sector relative to other sectors. Further support to NBKR and the SRSFM, including from international peer institutions continues to be provided.

298. **More generally, ongoing training initiatives are making significant progress in upskilling existing staff resources, in developing new resources and in upskilling the education sector.** Significant materials and guidance for IFRS, much of it available online, together with the growing representation of international audit firms in the Kyrgyz Republic, represent a further knowledge pool that will be available to the education process. PAOs selected to receive additional support under KAREP by end April 2022 are

²⁸⁷ As evidenced by the team's experience in conducting this ROSC A&A, currently it remains very difficult to get access to many complete sets of general purpose financial statements in the Kyrgyz Republic because most publicly available financial statements are incomplete particularly as they typically do not include the notes to the financial statements.

²⁸⁸ Audit Law 2021

²⁸⁹ KAREP draft report 2020

UAA and IPAA. Nonetheless, resource shortages are still likely to be an ongoing challenge in the foreseeable future.

Professional Education and Training

299. **Efforts continue to increase the supply of accountants with knowledge and experience commensurate with the needs of the Kyrgyz Republic market.** For example: (i) in accordance with the Audit Law 2021, auditors are to be regulated at the state level and are subject to mandatory CPD requirements; (ii) the providers of accounting and auditing education in the Kyrgyz Republic, including university lecturers and professional trainers continue to be involved in capacity-building activities under, or in close collaboration with, the KAREP project. Progress is evidenced by the increase in exemptions from exams granted by, for example, the ACCA in respect of some universities' programs (KEU and KRSU) and the preparation for submitting applications for IFAC membership (UAA for full membership and IPAA for associated membership).

300. **In accordance with the Audit Law 2021, auditors are to be regulated at the state level.** To be certified as an auditor, the new Audit Law requires auditors, amongst other things, to have: (i) higher education; and (ii) passed all three exams of the new 3-level local Professional Auditor Qualification Program. It is envisaged that the first and second levels will be administered by accredited PAOs and universities²⁹⁰ and the third level exam is to be organized by the SRSFM.²⁹¹ However, at the time of the ROSC assessment the 3-level local qualification framework is not operational. While it is expected that the local universities could integrate the first two levels of curriculum into their undergraduate degree programs, this was not done at the time of the ROSC assessment. Moreover, the IFAC notes that the technical capacity of the UAA to administer

²⁹⁰ The learning materials for voluntary certification schemes for CAP/CIPA qualification offered locally since late 1990s are not fully aligned with the requirements of the latest IES. During 2016-2020 the ICAEW supported the development of a syllabus for a new three-level qualification for professional accountants along with learning materials in line with the 2019 IES. All 12 sets of learning materials were developed under the IFAC/UK project. Each include a Study Text, Question Bank and Mock Exams. The Level 3 learning materials were in the scope of the contract signed with IFAC, SRSFM and ICAEW, while Levels 1 and 2 under the scope of contract with IFAC, UAA and ICAEW. Consequently, the rights (use, reproduction etc.) to the learning materials in the Kyrgyz Republic rest to the contract signatories, SRSFM and UAA respectively. For example, currently the Level I and the Level II learning materials are sold by the UAA to other parties. However, the CPD policy still needs to be aligned with the IES7.

²⁹¹ The third level of the new qualification would be used for audit certification and exams to be administered by the SRSFM.

the qualification effectively and efficiently needs to be strengthened. To maintain their registration auditors are required, amongst other things, to comply with the IESBA Code of Ethics and to undertake CPD in accordance with the provisions of the Audit Law 2021.

301. **PAOs that are not also an audit association are not subject to licensing and certification by the national state bodies.** Consequently, outside audit associations, the accounting profession is united only on a voluntary basis through memberships in local PAOs and regional and international accountancy bodies. For example, IFAC imposes membership obligations on PAOs that seek to become members or associate members. In particular, the IFAC requires members to support the adoption and implementation of international standards (such as IFRS, ISA, IES, etc.) as well as the establishment of quality assurance and I&D systems. At the time of the ROSC assessment, no PAOs were IFAC members and the only domestic IFAC associate member was the UAA. Because the UAA did not yet fully comply with IFAC's SMO 1-7 requirements on its code of ethics, I&D, and quality assurance, it did not qualify to become a full member. The IPAA was in the process of IFAC associate membership application preparation.

IV. KEY FINDINGS AND AREAS FOR CONSIDERATION

302. **This section makes a series of policy and institutional recommendations to help improve the corporate financial reporting framework in the Kyrgyz Republic.**

303. **Significant recent changes to legislation have been promulgated to strengthen the country's institutional accounting system.** Significant amendments were made to the Accounting Law in August 2021.²⁹² A new Audit Law was promulgated in December 2021,²⁹³ although this will only be effective six months after the date of official publication. While it is too early to evaluate the effect of the new laws on practice, the laws have been anticipated by regulators and industry and considerable work has been performed on preparing attendant regulations and internal practice manuals. The regulatory and operational processes and upskilling designed to give effect to the legislative changes are also still in various stages of being established. It is also normal that the new processes will take some time to bed down.

304. **KAREP technical assistance has supported improvements in the financial reporting framework.** KAREP is a World Bank technical assistance project in cooperation with the SSRSFM, the NBKR, and the State Property Management Fund. The project is aimed at enhancing the investment climate in the Kyrgyz Republic through increased availability of transparent and reliable financial information. To achieve this, the project targets building sound institutional framework for corporate financial reporting and auditing, compliant with the relevant international standards and good international practices, and building capacity for teaching, applying, monitoring, and using sound financial information. The adoption of the accounting and auditing legislation referred to above is an outcome aimed at improved accounting and audit frameworks. The current closing date of the project is April 30, 2022 (for the World Bank executed activities), with all the recipient executed activities already completed in February 2022.

305. **The following paragraphs identify areas for further strengthening.**

²⁹² Law on Accounting, No. 76 (2002) as amended by Laws of the Kyrgyz Republic No. 231 (2008), No. 216 (2009), No. 56 (2012), No. 61 (2013), No. 178 (2013), No. 115 (2015), No. 2 (2016), No. 201(6) (2017) and No. 93 (2021).

²⁹³ Law on Auditing Activities, no. 147 (2021)

Regulatory and Institutional Framework

306. **The development of regulations, bylaws, and internal manuals of operation to complement the new laws should be completed** to ensure effective, efficient, and even-handed regulation, and to promote compliance. The new legal environment establishes a solid foundation for significant improvements to the regulatory and institutional framework. However, the implementation and operationalization of the new laws will require the introduction of new procedures and processes and the reskilling or up skilling of staff for both regulators and those subject to regulation. Regulations and bylaws will promote transparency of supervisory operations. This transparency will assist regulators in designing their internal processes and will assist those subject to regulation to better orient their systems and processes to comply with the regulatory requirements. Internal manuals of operation for regulators are an essential element to achieve even-handed regulation by multiple teams, and to identify skills and other resource gaps. Processes are already underway to develop regulations, bylaws, and manuals of operation.

307. **Financial transparency and adequate financial disclosures should be enforced for SOEs.** The SOE sector plays a key role in the economy of the Kyrgyz Republic. Under the previous accounting requirements, SOEs with legal status of JSC²⁹⁴ were subject to the same requirements on financial reporting, audit, and corporate governance as other types of enterprises. However, reviews of their financial statements, where available, indicate poor compliance with those requirements. Under the new accounting legislation, SOEs that are either PIEs or large entities will be required to apply IFRS and be audited, with their financial statements published via the Public Depository of Financial Statements. Medium-sized SOEs will have to apply the IFRS for SMEs and lodge financial statements with the Depository. This financial transparency will facilitate good governance, fiscal discipline, and optimum allocation of scarce resources (if, and to the extent, enforced). Given the role of the SOE sector, it is appropriate that these entities be subject to the same reporting requirements enforcement activities as entities operating in the private sector.

308. **The progress made in defining PIEs and three-tier reporting requirement should be built on to optimize resource allocation.** The 2021 amendments to the Accounting Law specify three tiers of financial reporting requirements, IFRS for PIEs and

²⁹⁴ SOEs which are JSCs can be categorized as entities with public interests including banks and other financial institutions, large entities, medium sized entities and small entities.

large businesses; the IFRS for SMEs for medium sized entities; and simplified national rules for small entities. An entity can elect a higher tier, but only with approval from the SRSFM. The general quality of financial reporting is dependent on applying skilled IFRS resources to those entities that most benefit from the transparency and comparability of IFRS financial statements. The changes to the law need to be operationalized, and given known capacity constraints, elections to higher tiers should be minimized. By better using available resources, this should contribute to more rigorous application of accounting and auditing standards and consequently to an improvement in the quality of financial statements.

309. The scope of the Code of Corporate Governance should be expanded and applied to all PIEs. Regulations on corporate governance in the Kyrgyz Republic are currently fragmented in different by-laws and regulations issued by various regulators. The Code should be amended, if necessary, and the legal framework amended to ensure it is applied consistently, with monitoring of compliance and consequences for non-compliance. International good practices recommend that PIEs, such as banks, financial institutions, insurance companies, and entities having stocks or bonds issued to the public, must prepare and publish an annual self-assessment of their compliance with the Code, normally as part of their annual report. This should include: results of the self-assessment against the implementation regulation; share ownership details; frequency of board meetings; number of internal fraud cases and how the entity handled them; number of legal claims and the entity's settlement efforts; transactions with a conflict of interest; buy back of shares and/or bonds; and provision of funds for social activities and political activities with details of the nominal value and recipients. The Code of Corporate Governance should not require or encourage any different financial reporting or audit practices.

310. The Public Depository of Financial Statements introduced by the new amendment to the Accounting Law should be fully implemented and enforced. The Accounting Law introduces a specific legal requirement for PIEs and large entities to file financial statements and for that financial information to be made available to the public. It also provides for other entities to file information, although this will not be made publicly available. The Depository should be fully implemented and procedures put in place to ensure the requirements are being complied with. Once that is operating, consideration should be given to expanding the scope of entities required to file information and of

information made available to the public. Only entities that are not required to prepare general purpose financial statements should be exempt from the requirement.

311. **Transparency reports should be required at least annually from audit firms that audit the financial statements of PIEs.** There is currently a draft bylaw requiring audit firms of PIEs to prepare an annual transparency report. Good practices recommend audit firms that carry out statutory audits of PIEs to make public an annual transparency report, at the latest four months after the end of financial year, which should remain available on the audit firm's website for at least five years from the day of its publication.

312. **Sustainability reporting should be introduced to meet the increasing demand from investors and institutions for insights into the sustainability effects of new and existing projects and activities.** Internationally, the development and quality of sustainability reporting is becoming the preemptive area of focus for both PIEs and governments. The Kyrgyz Republic currently has no framework or legal requirement for sustainability reporting. Adopting or establishing a framework for sustainability reporting in the Kyrgyz Republic as a new early objective will allow stakeholders to become familiar with the requirements of sustainability reporting, and where appropriate to amend behavior before this becomes a generally accepted reporting requirement.

313. **The process for translating accounting and auditing international standards should be finalized and processes should be established for ongoing translation activities.** The new and amended laws specify the legal adoption process for international accounting and auditing standards including requiring the public authority to translate them into the state (Kyrgyz) language and officially publish them in the State (Kyrgyz) and official (Russian) languages. Permission to translate and reproduce copyright materials in the Kyrgyz language has been obtained from IFAC for ISAs and from the IASB for IFRS and the IFRS for SMEs. The SRSFM will also make available Russian language translations from IFRS and the IFRS for SMEs as received from the IASB. These standards will have to be updated in the Kyrgyz language. A draft bylaw on translation of accounting and auditing standards is expected to be effective later in the year.

Monitoring and Enforcement of Financial Reporting

314. **Regulators' monitoring of general purpose annual financial statements should include reviewing them against applicable financial reporting standards.** The legal and regulatory framework for financial reporting applying international standards

has been in place for a number of years, although as noted above it has recently been significantly improved. The non-compliance with previous requirements, as identified elsewhere in this report, suggests that regulators should be performing a more detailed review of IFRS financial statements submitted/published by entities. This non-compliance has been driven in part by inspection moratoriums, by the extent of anticipated legal and regulatory changes, and by other jurisdictional and global factors. Lack of capacity at both regulator and industry level is also a factor. Non-compliance undermines the significant effort that has been made to improve frameworks. It also risks tainting the reporting of those entities that are compliant. With the introduction of the new legislation, existing efforts to build monitoring processes should be supplemented by transparent enforcement and sanction mechanisms and these should be operationalized as soon as is practically and fairly possible.

315. **Capacity building support provided to the NBKR and the SRSFM under the KAREP project should continue.** Although existing capacity building of regulators is progressing well, progress has been uneven. Training initiatives under the current program and with the assistance of the ICAEW are making significant progress in upskilling existing staff resources and in developing new resources. Nonetheless, resource shortages are still likely to be an ongoing challenge in the foreseeable future.

316. **Regulations should explicitly provide sanctions to ensure enforcement of financial reporting and auditing requirements.** Laws and regulations authorize regulators to review entities' annual financial statements including auditor reports. The regulations also provide for circumstances where regulators can approach the entities and auditors to conduct further investigations on exceptions found. Regulations also contain general sanctions that can be imposed for non-compliance. The regulations do not, however, contain detailed sanctions and enforcement procedures for non-compliance with financial reporting and auditing standards. Any CPOA findings that occur from on-site and off-site quality assurance with audit firms will lack a legal basis to ensure enforcement. Findings and recommendations should be enforced by specific provisions in relevant laws and regulations to improve the quality of financial reporting and auditing and protect the public interest.

317. **General purpose financial statements and prudential/regulatory reporting should be distinguished more clearly in the regulations.** Accounting and auditing standards for the preparation and auditing of financial statements for public use are

currently in line with IFRS, the IFRS for SMEs, ISA, AAOIFI, and the IESBA Code of Ethics. Regulations in issue for both banking and other regulated industries include guidance and requirements on financial reporting that can be different from the general purpose standards. Existing regulations may supplement, enhance, explain, or potentially override the adopted international requirements. Regulations should more clearly distinguish what the purpose of the regulation is, whether information is intended only to supplement existing financial reporting requirements, and/or whether information is intended only for prudential reporting purposes. Variances between different reporting regimes may oblige entities to prepare multiple reports or duplicate information and disclose reconciliation of the differences. Consideration should be given to adopting the prudential disclosure requirements for banks in line with the Pillar 3 requirements of the Basel Accord to more fully align bank sector transparency with international practices.

318. **Systematic collaboration between sector regulators and external auditors should be established.** Under the current legal framework, regulators are empowered to contact auditors and request clarifications and or additional information. Audit firms have a responsibility to report to regulators their findings in certain circumstances, and regulators can require additional work to be done. Client confidentiality requirements are waived for audit firms when providing this information to regulators. However, there are no requirements or protocols for periodic meetings or intervention in audit planning. International good practices recommend that regulators should establish a system of collaboration with auditors. Such collaboration should include regular exchanges of information and meetings with responsible audit firms, audit committees, and boards of directors.

Audit Oversight and Quality Assurance

319. **The newly authorized CPOA needs to be constituted and its legal mandate needs to be operationalized.** The Audit Law 2021 provides for the establishment of an independent body (the CPOA) with responsibility to provide external oversight and quality assurance for the audit profession. The CPOA will also be expected to make proposals for improving laws and regulations governing audit and audit quality, including requirements for admission to and education of the profession. The CPOA will consist of seven persons, including a chair, and has the right to contract with independent experts and consultants. The Law includes a mechanism by which its findings can be legally enforced. To ensure the success of the CPOA, it will need a sustainable financing

mechanism, a comprehensive plan for operations, and adequate resources to fulfill its functions. A draft bylaw governing the function of the CPOA has been developed with KAREP support. Transparency of process, requirements, and findings will be essential elements to ensure the CPOA operates effectively, efficiently, and fairly within its mandate.

320. Regulations and bylaws to operationalize the power of standard setting, licensing, and I&D of auditors should be finalized. The Audit Law 2021 introduces a requirement for an auditor/audit firm to be a member of an audit association and requires auditors to meet certain criteria to be certified. The Law also sets requirements for work experience and establishes a three-tier local qualification framework. However, the framework is not yet operational. To give effect to the legislation, technical capacity needs to be strengthened, and various bylaws need to be finalized.

Accountancy profession

321. The SRSFM should work with PAOs towards full membership of IFAC by encouraging full compliance with IFAC's requirements. PAOs that are not also an audit association are not subject to registration by the national state bodies in the Kyrgyz Republic. Consequently, outside of audit associations, the accounting profession is united only on a voluntary basis through memberships in local PAOs and regional and international accountancy bodies. At the time of the ROSC assessment no PAOs were IFAC members, the only domestic IFAC associate member was the UAA, although the IPAA was in the process of preparing an IFAC associate membership application. The SRSFM should work with the UAA and IPAA by encouraging full compliance with IFAC's SMO 1-7 requirements on its code of ethics, I&D, and quality assurance.

322. Upon achieving full IFAC membership, the Kyrgyz Republic should establish MRAs with other countries to recognize professional qualifications. The MRAs will allow professional accountants to practice in these countries without going through the process of re-accreditation. The practice will help to reduce costs, increase efficiency and competitiveness, and add more value to the Kyrgyz Republic's qualifications.

323. Registered auditors should be legally required to have professional indemnity insurance. Under the Audit Law 2021, audit organizations are required to have professional indemnity insurance. However, at the time of the ROSC assessment the manner and conditions were being established. The draft Law on Liability Insurance of an

Audit Organization needs to be promulgated, and the processes and procedures need to be developed to implement and enforce the requirements.

Accounting Education

324. **Providers of accounting and auditing education should continue to be given the necessary support to update their knowledge and skills to include the latest international best practice in accounting and auditing.** Educational providers are involved in capacity-building activities and training initiatives under, or in close collaboration with, the KAREP project. This continues to support alignment of university education with improved corporate financial reporting and auditing requirements. At the time of this ROSC assessment, extensive support is being provided to two universities to implement competency-based accounting education to achieve exemptions/recognition in the professional qualification scheme established by SRSFM and by a reputable PAO. Ongoing targeted assistance is being provided to both universities. It is expected that a concept (strategy) and country action plan on the reform of higher accounting education will be drafted in the first half of 2022. It is imperative for the development of the profession, for capacity building, and ultimately for the improvement of the quality of financial reporting that this support continue to completion.

ANNEX A: PROGRESS ON ROSC 2008 RECOMMENDATIONS

Recommendations	Status of implementation as of 28 February 2022
A. Statutory Framework	
Statutory framework for accounting	
<p>The Kyrgyz Republic should create definitions of PIEs, SMEs, and Micro-Entities which take into account the development and capacity of the Kyrgyz economy, and the needs of users of financial information.</p>	<p>Completed</p> <p>The 2021 amendments to the Accounting Law define:</p> <p>PIEs in an exclusive list—an issuer of securities listed on the stock exchange, a bank or other financial credit institution licensed by the NBKR, an investment fund, an insurance company or a non-state pension fund.</p> <p>Large entity—either total assets exceed KGS 10 billion (USD 118 million) or total revenues exceed KGS 5 billion (USD 59 million).</p> <p>Medium-sized entity— neither total assets exceed KGS 10 billion (USD 118 million) nor total revenues exceed KGS 5 billion (USD 59 million).</p> <p>Small entity—neither total assets exceed KGS 35 million (USD 413 thousand) nor total revenues exceed KGS 30 million (USD 354 thousand).</p> <p>Generally, an entity ceases to qualify for a particular level (large, medium-sized, or small) only when it no longer satisfies the qualifying criteria in consecutive financial years (i.e., the last two financial periods).</p>
<p>A three-tier financial reporting requirement should be implemented where PIEs are required to apply full IFRS, SMEs are required to apply NAS for SMEs (when developed and given sufficient time for successful implementation) and micro entities are required to report solely for tax purposes. The current</p>	<p>In progress</p> <p>The 2021 amendments to the Accounting Law specify three tiers of financial reporting requirements:</p> <p>IFRS must be used by PIEs and large business entities.</p> <p>The IFRS for SMEs must be used by medium-sized entities. However, they can</p>

Recommendations	Status of implementation as of 28 February 2022
<p>framework allows for the first two tiers; the micro-entity tier will require further definition.</p>	<p>choose to use IFRS provided approval to do so is obtained from the governing bodies that approve the accounting policy; and small entities must maintain accounting records under simplified rules established by the Kyrgyz Government. They can choose to use the IFRS for SMEs provided approval to do so is obtained from the governing bodies that approve the accounting policy.</p> <p>They also specify:</p> <p>In accordance with the Islamic principles of banking and financing, the methodological basis for accounting and financial reporting are accounting standards for Islamic financial institutions adopted in accordance with the legislation of the Kyrgyz Republic. Requirements for accounting and financial reporting of the NBKR, commercial banks, and financial and credit institutions licensed by the NBKR are determined by the regulatory legal acts of the NBKR and the Accounting Law. In case of discrepancy between the norms regulating accounting issues contained in other laws and the norms of the Accounting Law, the Accounting Law shall apply.</p> <p>As evidenced by the findings of this ROSC assessment, more needs to be done to strengthen capacity to apply accounting standards more rigorously in practice.</p>
<p>The standard forms for financial reporting issued by the SRSFM should be expanded to include provision for notes to the financial statements, since such footnote disclosures form an integral part of IFRS</p>	<p>Being superseded</p> <p>It remains very difficult to get access to complete sets of general purpose financial statements. Most publicly available financial statements are</p>

Recommendations	Status of implementation as of 28 February 2022
<p>financial statements as defined in IAS 1, "Presentation of Financial Statements".</p>	<p>incomplete, particularly as they typically do not include the notes to the financial statements.</p> <p>If implemented well, the 2021 amendments to the Accounting Law would largely supersede this issue. In particular, it introduces electronic filing requirements for (consolidated) annual financial statements and audit reports of PIEs, large, and medium-sized entities. When fully implemented, complete sets of financial statements (including notes) and accompanying audit reports of PIEs and large entities will be publicly available from the Public Depository of Financial Statements.</p> <p>The Accounting Law amendments also require PIEs and large business entities to post on their official website their IFRS financial statements and accompanying auditor's report and keep it in the public domain for five years.</p> <p>At the time of the ROSC assessment the Public Depository of Financial Statements was not established. A draft Concept on the Depository of Financial Statements was developed, and the Procedure was drafted but not yet approved.</p>
<p>The National Bank, and the securities and insurance supervisory departments within the SRSFM, should require that all regulated entities submit to them full</p>	<p>In progress</p> <p>Contrary to the requirements,²⁹⁵ it remains very difficult in reality to get access to many complete sets of general</p>

²⁹⁵ For example, under Decree No 6/2 2010, *About requirements to formation of financial statements of commercial banks of the Kyrgyz Republic*, banks and other financial institutions are required to submit annual audited financial statements to NBKR and to make the full financial statements, including the notes to the financial statements available at the bank head office, its branches and savings banks for users and should be provided at their first request for access.

Recommendations	Status of implementation as of 28 February 2022
<p>financial statements, including notes, in compliance with IFRS. Each regulatory agency should publish the financial statements of entities they regulate in full on their websites, thus enforcing the current legal requirement that PIEs' financial statements be publicly available. The regulators should also ensure that a copy of the full financial statements together with the audit report is sent to Division for the Development of Accounting and Financial Reporting within the SRSFM</p>	<p>purpose financial statements in the Kyrgyz Republic. Most publicly available financial statements are incomplete as they typically do not include the notes to the financial statements.</p> <p>If implemented well, the Accounting Law amendments will go a long way to addressing this issue. In particular, it introduces electronic filing requirements for (consolidated) annual financial statements and audit reports of PIEs, large and medium-sized entities. When fully implemented financial statements and accompanying audit reports of PIEs and large entities will be publicly available from the Public Depository of Financial Statements.</p> <p>Accounting Law also requires PIEs and large business entities to post on their official website their IFRS financial statements and accompanying auditor's report and keep it in the public domain for five years.</p> <p>At the time of the ROSC assessment a draft Concept on the Public Depository of Financial Statements was developed. However, the Depository was not established, while the Procedure was drafted but not yet approved.</p>
<p>In the short term, the SRSFM should modify the prescribed wording of the audit report to include reference to "International Financial Reporting standards as adopted by the Kyrgyz Republic" and "International Standards on Auditing as adopted by the Kyrgyz Republic." This would inform the reader that the IFRS and ISA applied in the</p>	<p>Completed</p> <p>The Accounting Law 2021 amendments explicitly permit application of changes made by the IASB to IFRS and the IFRS for SMEs before their publication in the manner prescribed by the Cabinet of Ministers of the Kyrgyz Republic, subject to disclosure in the notes to the financial statements. In effect, this new law enables</p>

Recommendations	Status of implementation as of 28 February 2022
<p>Kyrgyz Republic are not the latest IFRS and ISA approved by the IASB and AASB.</p>	<p>application of IFRS and the IFRS for SMEs as issued by the IASB. Similarly, the new Audit Law 2021 specifies that the auditing standards, quality control standards, and related standards²⁹⁶ are published in the state and official languages in the manner established by the government of the Kyrgyz Republic; and explicitly permits audit firms to apply changes made to those standards by the international standard setter, before their publication in the Kyrgyz Republic in the prescribed manner, subject to mandatory disclosure of the early application to the relevant authorized state body. In effect, this new law enables application of ISAs as issued by the IAASB.</p>
<p>In the longer term, the Kyrgyz Republic should ensure that the translations of the latest versions of IFRS and ISA are adopted into law on a timely basis, and that copies of these translations are made readily available to educators and the various preparers, users and auditors of financial statements. The standards could be made available on the SRSFM website, on a free CD (possibly with donor support to cover the costs), and/or in a printed version, although it is unlikely the printed version would be available at no cost unless significant donor support could be secured for this purpose.</p>	<p>In progress and partially completed. The Accounting Law and the Audit Law 2021 specify the legal adoption process for particular standards including requiring the public authority to translate and officially publish particular international accounting and international auditing standards in the official language of the Kyrgyz Republic. Under license from the IASB, the SRSFM hosts Russian-language translations of IFRS and IFRS for SMEs on its website.²⁹⁷ Permission to translate and reproduce copyright materials in the Kyrgyz language has been obtained from IFAC</p>

²⁹⁶ The law defines those standards as follows: (i) the audit standards as the ISA issued by IAASB, (ii) quality control standards as the international standard on quality control issued by IAASB; and (iii) related standards as International Auditing Practice Notes, ISRE, ISAE and ISRS issued by IAASB.

²⁹⁷ Russian translations are published as received from the IFRS Foundation. (Russian translation is not performed by Kyrgyz Republic authorities.)

Recommendations	Status of implementation as of 28 February 2022
	<p>for ISAs and from the IASB for IFRS and the IFRS for SMEs. At the time of the ROSC assessment the translated standards were being reviewed by the Review Committee.</p> <p>A draft solution on accounting and auditing standards translation procedures in accordance with IFAC translation policy has been developed and is expected to become effective by July 2022.</p>
<p>The Divisions for the Development of Accounting and Financial Reporting and for the Development of Auditing within the SRSFM should perform reviews of all PIEs' financial statements, including the auditors' reports, and highlight any inadequacies to the relevant regulatory agency i.e., the National Bank, and the insurance, securities and audit supervisory functions within the SRSFM.</p>	<p>In early stages of progress</p> <p>The minimal procedures performed by the SRSFM include review of the audit opinion and the audit management letter. The SRSFM has insufficient compliance monitoring resources to effectively review the volume of financial information submitted to it by listed companies and insurance companies. Consequently, SRSFM compliance reviews:</p> <ul style="list-style-type: none"> do not focus on IFRS compliance; do not cover all dimensions of financial reporting including accounting policies, valuation methods, internal controls, and external audit; and do not provide sufficient details on systemic issues impacting on the quality of financial statements. <p>The SRSFM does not communicate the result of its reviews to the market. Ongoing support under, or in close collaboration with²⁹⁸, the KAREP program, include:</p> <ul style="list-style-type: none"> assistance and support to the SRSFM to develop a risk-based methodology for analyzing and monitoring the financial

²⁹⁸ For example, the IFAC parallel project to support PAO development in the Kyrgyz Republic.

Recommendations	Status of implementation as of 28 February 2022
	<p>information, as provided by both IFRS and the IFRS for SMEs based financial statements. The activity will also include preparation of a monitoring report, following the provisions of draft methodology for a selected sample of financial statements and it is expected that the activity will be finalized by end April 2022;</p> <p>training for NBKR and exchange experience webinar with the National Bank of Ukraine delivered (https://cfr.worldbank.org/news/karep-continues-provide-access-improved-knowledge-and-tools-supervisory-staff-national-bank); .and technical assistance to the NBKR on developing risk-based methodology for analysis of banks' IFRS-based financial statements (including links to prudential reporting) and it is expected that the activity will be finalized by end April 2022.</p>
<p>In the longer term, all companies should be required to file their financial statements with a central financial statement register, where they would be available to the public. Two options for the register could be considered by the authorities, including: (i) creating a new function within SRSFM; or (ii) creating this function within National Statistics Committee (where companies currently file statistical reports). Both options would require a revision of appropriate laws and/or regulations.</p>	<p>In progress</p> <p>If implemented well, the Accounting Law 2021 amendments will go a long way to addressing this issue. In particular, it introduces electronic filing requirements for (consolidated) annual financial statements and audit reports of PIEs, large and medium-sized entities. When fully implemented financial statements and accompanying audit reports of PIEs and large entities will be publicly available from the Public Depository of Financial Statements.</p> <p>However, further steps might be needed because the Accounting Law 2021 amendments do not appear to extend</p>

Recommendations	Status of implementation as of 28 February 2022
	<p>public availability to filings by medium-sized entities using the IFRS for SMEs.²⁹⁹ At the time of the ROSC assessment a draft Concept on Public Depository of Financial Statements was developed, however the Depository was not established, while the Procedure was drafted but not yet approved.</p>
<p>The National Bank should continue its efforts to align the requirements for general purpose financial reporting by commercial banks in accordance with IFRS and regulatory reporting requirements set by the National Bank.</p>	<p>In progress</p> <p>Decree no. 6/2 of 2010 sets detailed requirements for individual items of presentation and disclosure in annual and interim financial statements. The decree frequently includes terms such as ‘unless otherwise required or permitted by IFRS’. In general, the requirements appear to be consistent with those of IFRS, although some requirements may supplement those in IFRS. To the extent that requirements are aligned with IFRS, care needs to be taken when the relevant IFRSs are updated.</p> <p>The Accounting Law 2021 amendments appear to address this potential conflict issue, because they:</p> <ul style="list-style-type: none"> specify IFRS as the basis of preparation for PIE financial statements; and provide that Accounting Law prevails in the event of discrepancy between that Law and other norms regulating accounting issues contained in other laws. <p>The NBKR continues to receive technical support and benefit of capacity building activities under KAREP project.</p>
<p>Statutory framework for audit</p>	

²⁹⁹ Article 12 paragraphs 4-7

Recommendations	Status of implementation as of 28 February 2022
<p>The statutory audit requirement should be set at a level appropriate to the public interest in audit reporting; this should take into account the capacity of the audit profession in the Kyrgyz Republic. The requirement is likely to cover all PIEs and could also be expanded to cover other companies above a certain size threshold.</p>	<p>Substantially completed</p> <p>The Accounting Law 2021 amendments specify that the IFRS financial statements of PIEs and large business entities are subject to annual mandatory audit in accordance with the Audit Law 2021. The Audit Law 2021 specifies mandatory audit for PIEs and large entities.</p>
<p>The audit certification program administered by the SRSFM, should continue to be reviewed for compliance with the International Education Standards issued by the International Federation of Accountants (IFAC). The SRSFM could also consider adopting the CAP qualification (or equivalent) as a necessary pre-qualification for the auditing certification.</p>	<p>In progress</p> <p>The statutory power of standard setting, licensing and investigation and discipline of auditors is assigned to the SRSFM. The new Audit Law 2021 introduces the requirement for an auditor/audit firm to be a member of an audit association.³⁰⁰ Moreover, to be certified as an auditor, the new Audit Law 2021 requires auditors to have higher education and have passed all three exams of the new 3-level local Professional Auditor Qualification Program.³⁰¹ The first and second levels are envisaged to be administered by accredited PAOs and universities.³⁰² The third level exam is to be organized by the SRSFM.³⁰³</p> <p>In addition, it requires auditors to have no outstanding convictions for serious</p>

³⁰⁰ The law specifies that this requirement is effective starting January 1, 2023.

³⁰¹ However, at the time of the ROSC assessment the 3-level local qualification framework is not operational.

³⁰² The learning materials for voluntary certification schemes for CAP/CIPA qualification offered locally since late 1990s are not fully aligned with the requirements of the latest International Education Standards (IES). During 2016-2020 the ICAEW supported the development of a syllabus for a new three-level qualification for professional accountants (to be administered by the UAA) along with learning materials in line with the 2019 IES. However, the Continuing Professional Development (CPD) policy still needs to be aligned with the IES7.

³⁰³ The third level of the new qualification would be used for audit certification and exams to be administered by the SRSFM.

Recommendations	Status of implementation as of 28 February 2022
	<p>crimes, including economic crimes; and not to have been deprived of the right to hold a certain position or engage in certain activities.</p> <p>It requires at least three years of work experience in the area of audit and/or accounting, while having at least one year of work experience in positions related to the implementation of audit activities. The practical experience requirement for auditors is monitored by the SRSFM. However, at the time of the ROSC assessment the 3-level local qualification framework is not operational. While it is expected that local universities could integrate the first two levels of curriculum into their undergraduate degree programs, this was not done at the time of the ROSC assessment. Moreover, the IFAC notes that the technical capacity of the UAA to administer the qualification effectively and efficiently needs to be strengthened.</p> <p>To support implementation of the 3-level local qualification framework, several bylaws were drafted under, or in close collaboration with,³⁰⁴ the KAREP program, including:</p> <p><i>Procedure for conducting exams, recognizing work experience in the field of accounting and auditing, issuing an auditor's qualification certificate and recognizing internationally recognized qualification certificates in the field of accounting and auditing;</i></p>

³⁰⁴ For example, the IFAC parallel project to support PAO development in the Kyrgyz Republic.

Recommendations	Status of implementation as of 28 February 2022
	<p><i>Procedure for accreditation of training programs of professional audit associations; and</i></p> <p><i>Regulation on the Unified State Register of Auditors, Audit organizations, and Professional audit associations.</i></p>
<p>The SRSFM should evaluate professional qualifications, such as the CAP, CIPA, ACCA and CPA qualifications, and determine if exemptions for certain relevant components of the SRSFM’s audit certification can be awarded to holders of these professional qualifications.</p>	<p>In progress</p> <p>The Audit Law 2021 specifies that the auditor/audit firm is required to be a member of an audit association.³⁰⁵</p> <p>In accordance with Article 7 of the Audit Law 2021 foreign audit organizations,³⁰⁶ with the exception of audit organizations conducting audit of the NBKR, have the right to conduct audit in the Kyrgyz Republic upon establishment of appropriate audit organizations/residents of the Kyrgyz Republic in accordance with the Audit Law 2021. In effect Article 7 provides a mechanism for accrediting qualifying foreign audit organizations. Under the Audit Law 2021 the first and second levels of the new 3-level local Professional Auditor Qualification Program are expected to be administered by accredited PAOs and universities. However, at the time of the ROSC assessment the 3-level local qualification framework is not operational. While it is expected that the local universities could integrate the first two levels of curriculum into their undergraduate degree programs, as a result of which graduating students could be granted exemptions,</p>

³⁰⁵ The law specifies that this requirement is effective starting January 1, 2023.

³⁰⁶ Defined as “an organization that has acquired the right to carry out audit activities in a state that is not a member state of the Eurasian Economic Union, with a status confirmed by the competent authority of such a state.”

Recommendations	Status of implementation as of 28 February 2022
	<p>this was not done at the time of the ROSC assessment. Moreover, the IFAC notes that the technical capacity of the UAA to administer the qualification effectively and efficiently needs to be strengthened. To support implementation of the Audit Law 2021, several bylaws were drafted, including <i>Procedure for conducting exams, recognizing work experience in the field of accounting and auditing, issuing an auditor's qualification certificate and recognizing internationally recognized qualification certificates in the field of accounting and auditing.</i></p>
<p>The audit license for both firms and individuals should be valid only for a set period, e.g., one, two or three years. The renewal of the license should be made dependent on the provision of evidence of approved Continuous Professional Development (as per the current common in many countries 40-hour per year requirement), evidence of Professional Indemnity Insurance (where available), the resolution of any issues found in any audit quality inspection, and confirmation that the license holder meets all other licensing conditions. However, license renewal should not be unreasonably withheld.</p>	<p>Reconsidered recommendation in progress</p> <p>The recommendation was reconsidered in the light of recent international developments.</p> <p>All registered auditors are subject to CPD requirements in accordance with the provisions of the Audit Law 2021 because it specifies that auditor/audit firm is required to be a member of a professional audit association³⁰⁷ and Article 12 specifies requirements for a professional audit association including mandatory CPD. Moreover:</p> <p>Article 5 specifies that during each calendar year, starting from the year following the year of receiving the auditor's qualification certificate, the auditor is required to undergo training under the CPD Program for auditors, except for a period of suspension of</p>

³⁰⁷ The law specifies that this requirement is effective starting January 1, 2023.

Recommendations	Status of implementation as of 28 February 2022
	<p>activities in accordance with part 5 of this article.</p> <p>Article 6 specifies minimum requirements for the CPD Program for auditors.</p> <p>Article 21 specifies that failure to complete training under the CPD Program for auditors for 3 years are grounds for revocation of an auditor’s qualification certificate.</p> <p>Article 26 specifies that auditors, audit organizations and audit organizations admitted to the audit of public interest entities or large business entities are excluded from the Unified State Register of auditors for failure to complete annual training under the CPD Program for auditors (with the exception of the period of suspension of activities in accordance with part 5 of Article 5).</p> <p>An auditor whose qualification certificate was revoked has the right to appeal this decision by filing an administrative complaint with an authorized state body and if dissatisfied with the decision, has the right to appeal this decision in court.</p> <p>Audit organizations are required to have professional indemnity insurance. The Audit Law 2021 requires that an audit organization have insurance for civil liabilities. However, at the time of the ROSC assessment the manner and conditions were being established by law. In particular, the draft <i>Law on Liability Insurance of an Audit Organization</i> had been developed and was being coordinated with ministries and departments.</p>

Recommendations	Status of implementation as of 28 February 2022
<p>A quality assurance review program should be introduced once the methodology for such a regime has been agreed by interested stakeholders. The focus and objective of the regime should be to improve audit quality through identifying gaps in the implementation of auditing standards and encouraging training and improvements in methodology to address the gaps.</p>	<p>In progress</p> <p>The Audit Law 2021 specifies State regulation of audit activities and quality assurance be carried out by the SRSFM (as the authorized state body).³⁰⁸ Article 2 of the Audit Law 2021 specifies that quality assurance means “checking the quality of audit and the effectiveness of internal quality control of procedures to ensure compliance with audit standards, quality control standards, and the Code of Ethics for Professional Accountants, as well as the legislation of the Kyrgyz Republic in the area of audit carried out by an authorized state body”. Article 28 of the Audit Law 2021 specifies that the authorized state body undertakes:</p> <p>Scheduled quality assurance of audit is carried out once every three years on the basis of a risk-based approach to audit firms auditing public interest entities, large businesses, and once every six years to the other audit firms.</p> <p>Unscheduled assurance of audit quality is carried out according to applications received by the authorized state body. Article 27 of the Audit Law 2021 specifies establishment of the CPOA, a collegial consultative and advisory body of non-practicing persons³⁰⁹ consisting of representatives of state bodies, the</p>

³⁰⁸ Law on Audit 2021, Article 19, paragraph 2

³⁰⁹ non-practicing person means “an individual who, during his/her activity in the CPOA or as a consultant for quality assurance and three (3) years prior to his/her appointment as a member of CPOA, or as a consultant for quality assurance audit, was not a participant/founder, member of the council, executive or supervisory body of an audit organization, did not carry out activities in an audit organization and was not an employee who participated in audits conducted by an audit organization.” Article 2

Recommendations	Status of implementation as of 28 February 2022
	<p>business environment and the academic environment, under the SRSFM, where final oversight responsibility rests with SRSFM. The authorities of the CPOA includes making proposals for improving the laws and regulations governing audit, external control of audit quality, assignment of professional qualifications of an auditor and continuing professional education of auditors, accreditation of educational programs of higher educational institutions and professional audit associations for programs of professional qualifications of an auditor and continuing professional education of auditors.</p> <p>To support implementation of the Audit Law 2021, the quality assurance methodology was amended and will be applied once Audit Law 2021 is in force and when the SRSFM has contracted quality assurance inspectors in line with the new legal provisions; and SRSFM staff were trained on how to apply the improved methodology.</p>
<p>The system of external audit quality review should be implemented by the audit licensing authority, currently the SRSFM, which should accept responsibility for oversight of the auditing profession, reporting to a public oversight board which would be established to receive the results of audit quality assurance reviews and to consider the appropriate measures to be taken. It will include representatives of the regulatory agency, professional organizations and</p>	<p>In progress</p> <p>Article 27 of the Audit Law 2021 specifies establishment of the CPOA, a collegial consultative and advisory body of non-practicing persons consisting of representatives of state bodies, the business environment and the academic environment, under the SRSFM, where final oversight responsibility rests with SRSFM.</p> <p>The authorities of the CPOA include:</p>

Recommendations	Status of implementation as of 28 February 2022
<p>leading firms and representatives of other relevant regulators, such as the National Bank, the academic and business communities. It would be so constituted that no one interest group would have sole control of the Committee.</p>	<p>consideration and approval of a semi-annual plan for external control of audit quality, a program for external control of audit quality, an annual report on the activities of the CPOA; provision of an opinion on the results of external audit quality control; provision of an opinion on the application of measures of influence to auditors, audit organizations, professional audit associations; consideration of complaints on audit quality control and resolution of disputes between auditors, audit organizations and professional audit associations related to their activities. The CPOA will consist of seven persons, including the Chair, members and the Executive Secretary. The CPOA has the right to involve independent experts, scientific and other consultants who have no conflict of interest on the issues under consideration, to provide expert and advisory assistance to the Council and make recommendations. However, at the time of the ROSC assessment the Council is not yet constituted, so has not yet considered international memberships. The Audit Law 2021 defines state regulation of audit activities as including interaction with the bodies of the member states of the EAEU, as well as cooperation with the bodies of other foreign states authorized to carry out the functions of regulation and control over audit activities.³¹⁰</p>

³¹⁰ Law on Audit 2021, article 4, paragraph 1.11

Recommendations	Status of implementation as of 28 February 2022
	<p>The draft bylaw on CPOA functioning was developed - <i>Regulation on the Public Audit Oversight Council</i>.</p>
<p>The reviews should be carried out by either dedicated full-time inspection staff or through a system of peer review, even though either may be difficult given the limited capacity of the audit profession currently. In the initial stages, the quality assurance review program would benefit from direct support and input from individuals or agencies with established experience in such audit quality control; this would also answer concerns of the perceived independence of the program in the early stages. Donor assistance would be invaluable to provide this international support.</p>	<p>In progress</p> <p>Article 28 of the Audit Law 2021 specifies that the authorized state body undertakes: (i) scheduled quality assurance of audit is carried out once every three years on the basis of a risk-based approach to audit firms auditing public interest entities, large businesses, and once every six years to the other audit firms; and (ii) unscheduled assurance of audit quality is carried out according to applications received by the authorized state body.</p> <p>Enshrines the authorized state body's right to contract consultants for audit quality assurance on a competitive basis in accordance with the Public Procurement Law of the Kyrgyz Republic. Establishes criteria for selecting consultants for audit quality assurance which include: (i) availability of an auditor's qualification certificate and at least five years of experience in auditing financial statements; (ii) experience in the area of preparing financial statements in accordance with the IFRS and/or the IFRS for SMEs for at least five years; and (iii) experience in the analysis and application of it in the process of external audit quality control.</p> <p>The authorized state body is expected to face some challenges in conducting quality assurance in terms of getting access to information. This critical element cannot yet be tested because the</p>

Recommendations	Status of implementation as of 28 February 2022
	<p>legislation is still in the process of being operationalized. It may also face challenges in recruiting qualified experienced reviewers and consultants and in developing a quality assurance manual (although it will receive support from donors and professional bodies). Based on international practice, the manual should include self-assessment questionnaires to be completed by auditors and review checklists to be completed by inspectors. The process should involve interviews with key staff, review of auditors' working papers, and review of the auditors' manuals and guidelines. The inspection methodology should focus on the responsibility of statutory auditors and audit firms in terms of implementation of standards and legal requirements in conducting an audit. This review procedure will be in line with international standards (ISAs and ISQC-1).³¹¹</p>
<p>The SRSFM should, in cooperation with professional associations, initiate the process to implement the IFAC Code of Ethics and to design and implement procedures enforcing the requirements of the Code, including the establishment of a disciplinary committee and procedures, including the appeal process, and sanctions for transgressions.</p>	<p>In progress</p> <p>The new Audit Law 2021 requires an auditor and an audit organization to comply with the IESBA Code of Ethics when carrying out audit activities. The Audit Law 2021 indicates that the Code is to be published in the state and official languages³¹² in accordance with the procedure established by the Cabinet of Ministers of the Kyrgyz Republic and establishes the right to apply</p>

³¹¹ Replaced by International Standards on Quality Management 1 and 2 in December 2020, with effectiveness from December 15, 2022

³¹² With the support of the WB KAREP project, at the time of the ROSC assessment, the SRSFM completed the translation of the 2018 International Code of Ethics into the Kyrgyz language.

Recommendations	Status of implementation as of 28 February 2022
	<p>amendments made by the IESBA to the Code before publication thereof by the State. In effect, enabling application of the Code as issued by the IESBA.</p> <p>The new Audit Law 2021 also: requires a professional audit association to agree with the authorized state body and the Council for Public Oversight of Audit on the program and plan for quality assurance of audit conducted by members of a professional audit association (Article 12);</p> <p>assigns responsibility for enforcement of the Code to the authorized state body's quality assurance function (Article 19);</p> <p>specifies the frequency of scheduled audit quality assurance assessments and the circumstances that trigger unscheduled audit quality assurance assessments (Article 28);</p> <p>and specifies the measures that the authorized state body applies to auditors, audit organizations and professional audit associations for violation of the legislation of the Kyrgyz Republic in the area of audit, audit standards, quality control standards and the Code of Ethics: (i) warning; (ii) fine; (iii) exclusion from the Unified State Register in response to triple violation of the legislation of the Kyrgyz Republic in the area of audit, audit standards, quality control standards and the Code of Ethics within three years. (Articles 26 and 28).</p> <p>To support implementation of the Audit Law 2021, the quality assurance methodology was amended including covering monitoring compliance with the</p>

Recommendations	Status of implementation as of 28 February 2022
	<p>Code of Ethics and will be applied once the Audit Law 2021 is in force and when the SRSFM has contracted quality assurance inspectors in line with the new legal provisions; and SRSFM staff was trained on how to apply the improved methodology. However, more needs to be done. In particular, the new Audit Law 2021 needs to be fully implemented and capacity needs to be built to apply it rigorously. Furthermore, the IFAC recommends that the UAA ensures that the adherence to the Code of Ethics is explicitly required for its members. Despite there being no explicit legal requirement for accountants other than auditors and audit organizations to comply with the IESBA Code of Ethics, the UAA has, since 2008, required its members to follow the Code.³¹³ The IFAC also recommends that the UAA should establish mechanisms for monitoring the compliance with the Code and link those with its I&D practices, including conducting targeted seminars/trainings, establishing a hotline, etc. These I&D practices, to be in line with SMO 6 requirements, are yet to be established. Nonetheless, ethical matters underpin all modules of the new three-level local qualification.</p>
<p>The SRSFM may wish to consider requiring all certified auditors to be members of a professional organization, where such professional organizations</p>	<p>In progress The new Audit Law 2021 specifies that all auditors (Article 5) and all audit organizations (Article 7) must be</p>

³¹³ The 2010 version of which was adopted by the UAA in 2014. The UAA plans to adopt the latest Russian language IESBA Code, once the translation is officially available.

Recommendations	Status of implementation as of 28 February 2022
<p>would be required to meet certain criteria. Examples of internationally agreed criteria for well functioning professional organizations are contained in the Statements of Membership Obligations (SMOs) of IFAC.</p>	<p>members of a PAO that meets the requirements of the new Audit Law 2021 and is registered in the Unified State Register.</p> <p>A PAO must, among other things, (Articles 12, 16 and 17):</p> <ul style="list-style-type: none"> • include in its requirements for membership: (i) education; (ii) CPD; (iii) compliance with the Code of Ethics; and (iv) ensuring the quality of audit. • create a board of auditors and form committees to ensure the quality of audit, adherence to the Code of Ethics, improve the qualifications of auditors, conduct investigations, and apply disciplinary measures. • determine the procedures for: (i) quality control of the audit of its members included in the Unified State Register; and (ii) conducting investigations and the application of disciplinary measures. • agree with the authorized state body and the Council for Public Oversight of Audit on the program and plan for quality assurance of audit conducted by members of a professional audit association. • ensure that violations of the established requirements by its members are detected and control the quality of audit conducted by members. • report to the authorized state body any identified violations of the legislation in the area of audit by its members included in the Unified State Register.

Recommendations	Status of implementation as of 28 February 2022
	<p>At the time of the ROSC assessment: the necessary respective bylaws were in the drafting stage; and the procedure for audit organizations to follow in compiling and submitting to the SRSFM a report on the activities of the audit organization and the transparency report were drafted as part of the bylaws. Criteria for PAA establishment as specified in the new Audit Law 2021 are broadly aligned with IFAC’s SMOs. PAOs continue to receive support under, or in close collaboration with, the KAREP program to improve their capacity to comply with IFAC requirements. For example: ICAEW is providing targeted assistance to selected PAOs to build their capacity in support of their aim to apply for IFAC membership (UAA for full membership, and IPAA for associated membership). Both PAOs will have to comply with IFAC requirements, as well as requirements of the Audit Law 2021. It is anticipated that the application for IFAC membership will be submitted by PAOs after the closing date of the project, tentatively by end December 2022. ICAEW is also supporting both PAOs in their preparations to comply with the Audit Law 2021 once relevant bylaws are adopted. i.e., to be ready to apply for registration in the Unified State Register.</p>
<p>As the insurance market grows and professional indemnity insurance becomes more readily available for auditors, the Kyrgyz Republic should consider gradually phasing out the</p>	<p>In progress Audit organizations are required to have professional indemnity insurance. The Audit Law 2021 specifies:</p>

Recommendations	Status of implementation as of 28 February 2022
<p>current practice of limiting auditor liability to double the amount of the audit fee and properly enforcing the requirement that auditors maintain indemnity insurance.</p>	<p>Civil liability of an audit organization is subject to insurance in the manner and on the conditions determined by the legislation of the Kyrgyz Republic on insurance (Article 11). Although other provisions of Audit Law 2021 shall become effective upon expiration of six months from the date of official publication, by way of exception, Article 11 shall become effective from the date of effectiveness of the relevant law on civil liability insurance of an audit organization (Article 29). However, at the time of the ROSC assessment the manner and conditions were being established by law. In particular, the draft Law on Liability Insurance of an Audit Organization had been developed and was being coordinated with ministries and departments.</p>
<p>B. Institutional Capacity Building</p>	
<p>The Divisions for the Development of Accounting and Financial Reporting, Monitoring and Analysis of IFRS Implementation, and Development of Auditing within the SRSFM should receive significant support, including from international peer institutions, to build their capacity in terms of the number, qualification levels and training of its staff. Also, the possibility of merging these divisions into a single regulatory body should be considered. This will be necessary if the SRSFM is to carry out effectively its increased role in the</p>	<p>Ongoing Existing training of regulators is progressing well.³¹⁴ Training initiatives under the current KAREP program and with the assistance of the ICAEW are making significant progress in upskilling existing staff resources and in developing new resources. For example, to enhance the SRSFM’s capacity in audit quality control, with the support of ICAEW a new methodology/inspection manual was developed as part of Audit Law 2021 bylaws.</p>

³¹⁴ KAREP draft report 2020

Recommendations	Status of implementation as of 28 February 2022
<p>enforcement and monitoring of the quality of corporate financial reporting and auditing and to be relied on by other regulators.</p>	<p>Nonetheless, resource shortages are still likely to be an ongoing challenge in the medium to short term.</p>
<p>The National Bank and the insurance and securities agencies within the SRSFM should receive support to enforce high quality financial reporting by entities which they regulate. They should have the necessary powers to require compliance by regulated entities with the relevant financial reporting requirements and, in particular, to remedy any deficiencies noted in the reviews of financial statements performed by Division for the Development of Accounting and Financial Reporting within the SRSFM.</p>	<p>Ongoing Existing training of regulators is progressing well.³¹⁵ Support to NBKR and the SRSFM, including from international peer institutions continue to be provided. The BOD has a dedicated financial statement review function that actively reviews the financial statements of banks. The BOD places reliance on audit processes to identify shortfalls in the preparation of financial statements in addition to its own review. In practice, banks are required to submit financial statements to the BOD before their finalization. The BOD has on occasion requested the submitting bank to make changes in financial statements to more fully comply with IFRS. The BOD also uses software to review indicators and other potential errors. Publication of financial statements can only occur with permission of the NBKR. This increased oversight is also apparent in the higher quality of financial statements in the banking sector relative to other sectors. Although enforcement of financial reporting requirements is not clearly provided in the regulations, the NBKR has particular powers in specified circumstances and has internal procedures for applying sanctions to banks on an escalation basis, starting with</p>

³¹⁵ KAREP draft report 2020

Recommendations	Status of implementation as of 28 February 2022
	<p>a warning. Although not publicly available, the banking sector has knowledge of the procedures, and is aware of the sanctions. In practice, the sanctions provisions in the legislation have reportedly been applied strictly (including threat of revocation of license). The NFCOO is ultimately responsible for reviewing financial statements of NFCOs. Law and regulations require that annual and interim financial statements of certain NFCOs be submitted to the NFCOO at or shortly after the time they are made publicly available. The NFCOO places reliance on audit processes to identify shortfalls in the preparation of financial statements. The NFCOO also reviews the completeness and timeliness of financial statement submission. Although enforcement of financial reporting requirements is not clearly provided in the regulations, the NBKR has certain powers enabling it to require additional audit work to be done, with the cost being borne by the NFCO.</p> <p>The SRSFM is responsible for reviewing financial statements of insurance organizations and listed companies. However, the volume of the financial information to be submitted to the SRSFM is significantly large³¹⁶ relative to the capacity of the few SRSFM compliance monitoring staff. Consequently, although the SRSFM conducts regular reviews of financial</p>

³¹⁶ For example, at the time of the assessment, there were over 700 listed companies registered, of which only around 300 were active, which are required to submit their annual and quarterly financial reports to the regulator.

Recommendations	Status of implementation as of 28 February 2022
	statements to check the compliance with statutory and prudential requirements, the review conducted does not yet focus on IFRS compliance, does not yet cover all dimensions of financial reporting including accounting policies, valuation methods, internal controls, and external audit, and does not yet provide sufficient details on systemic issues impacting on the quality of financial statements.
<p>The professional organizations of accountants and auditors should receive support from international peer organizations and should increase their capacity to regulate their members effectively, subject to appropriate supervision and oversight by the SRSFM. Examples of internationally agreed best practices for well-functioning professional organizations are contained in the Statements of Membership Obligations (SMOs) of IFAC; established professional organizations in the Kyrgyz Republic should aspire to comply with the SMOs whether or not they are members of IFAC currently</p>	<p>Ongoing Existing training of professional accountants is progressing well.³¹⁷ Training initiatives under the current KAREP program and with the assistance of the ICAEW are making significant progress in upskilling existing staff resources. PAOs selected to receive additional support during 2021 are UAA and IPAA.</p>
C. Professional Education and Training	
<p>The syllabi and teaching approaches for university courses with significant accounting and auditing components should be reviewed to ensure that they are compliant with the latest versions of IFRS, ISA and current legislation in the Kyrgyz Republic. Emphasis should be placed on better integration of</p>	<p>Completed. <i>Tertiary accounting education reform in the Kyrgyz Republic Report</i> was finalized in June 2020.</p>

³¹⁷ KAREP draft report 2020

Recommendations	Status of implementation as of 28 February 2022
<p>professional certification and licensing requirements and university programs.</p>	
<p>The providers of accounting and auditing education in the Kyrgyz Republic, including university lecturers and professional trainers, should be given the necessary support and assistance to update their knowledge and skills to include the latest international best practice in accounting and auditing, including IFRS and ISA. This may involve a major program of re-tooling accounting lecturers at universities, particularly in the state sector and could also involve some tuition in the English language, in which much relevant technical material is published.</p>	<p>In progress</p> <p>The providers of accounting and auditing education in the Kyrgyz Republic, including university lecturers and professional trainers continue to be involved in capacity-building activities. For example:</p> <p>During 2016-2020 the ICAEW supported the development of a syllabus for a new three-level qualification for professional accountants along with learning materials in line with the 2019 IES. All 12 sets of learning materials were developed under the IFAC/DFID project. Each include a Study Text, Question Bank and Mock Exams. The Level 3 learning materials were in the scope of the contract signed with IFAC, SRSFM and ICAEW, while Levels 1 and 2 under the scope of contract with IFAC, UAA and ICAEW. Consequently, the rights (use, reproduction, etc.) to the learning materials in the Kyrgyz Republic rest to the contract signatories, SRSFM and UAA respectively. For example, currently the Level I and the Level II learning materials are made available by the UAA contra cost. However, the CPD policy still needs to be aligned with the IES7.</p> <p>5-day training to the professional accounting and auditing exam markers on marking exams (including representatives of SRSFM, relevant PAOs and universities) is expected to be conducted by ICAEW in March 2022.</p>

Recommendations	Status of implementation as of 28 February 2022
<p>Greater support should be given to activities aiming to standardize and raise the quality of university accounting and auditing education programs nation-wide. Supporting these activities may help achieve many of the other recommendations set forth in this section such as updating and enhancing university syllabi to be compliant with the most recent IFRS and ISA, assisting university professors in keeping their accounting and auditing knowledge current and in aligning university education programs with professional qualifications.</p>	<p>Ongoing</p> <p>This recommendation is partially addressed by the analysis provided in <i>Tertiary accounting education reform in the Kyrgyz Republic Report</i>. The KAREP project provided support to universities. Particularly, an assessment of compliance of the curricula for "Accounting, analysis and audit" undergraduate course in Kyrgyz universities³¹⁸ with the IES was conducted in 2020. The assessment identified that: Only one institution has fully implemented a competency-based approach incorporating intended learning outcomes with different levels of competence. Only one institution reported achieving ACCA exemptions/credits for graduating students. Only one institution reports having fully implemented the European Qualifications Framework, and only half the European Credit Transfer System. EQUIS/EFMD³¹⁹ accreditation is either being actively pursued, or is an intended goal of most institutions, but only one institution has achieved these accreditations. Ongoing training initiatives under, or in close collaboration with, the current KAREP program continue to support alignment of university education with improved corporate financial reporting and auditing requirements. At the time of</p>

³¹⁸ KEU, KRSU, AUCA, KNU, KTU, MAUFIB and OSH.

³¹⁹ European Foundation for Management Development - <https://www.efmdglobal.org/accreditations/business-schools/equis/>

Recommendations	Status of implementation as of 28 February 2022
	<p>this ROSC assessment, extensive support is being provided to two universities, namely the KEU and the KRSU to implement competency-based accounting education to achieve exemptions/recognition in the professional qualification scheme established by the SRSFM and by a reputable PAO. ACCA have granted four exemptions to both KEU and KRSU. Ongoing targeted assistance is being provided to both universities with the aim of preparing an action plan to apply for Level I recognition by the SRSFM at the earliest opportunity and for Level II in one year later. This recognition should allow these universities to teach subjects under the three-level audit qualification regulated by the SRSFM.</p> <p>Priorities on university education for the next 3-5 years are expected to be formalized in a strategy. With ICAEW support it is expected that a concept (strategy) and country action plan on the reform of higher accounting education in the Kyrgyz Republic on the basis of the <i>Tertiary Accounting Education Reform Report</i> will be drafted in the first half of 2022. It is anticipated that the strategy document: (i) will deliver immediately measurable results in the form of recognition; (ii) will be outcome focused and will involve experts and expert organizations external to the university sector who can assess and advise on current quality level and the actions and areas where improvements are needed; (iii) will encourage universities to apply for</p>

Recommendations	Status of implementation as of 28 February 2022
	<p>recognition; the process of becoming ready to make an application for recognition is in itself a motivator for positive reform driving higher quality; and (iv) will enable improved teaching at universities through the use of learning materials recently developed to align with international standards and which are available at little or no cost.</p>
<p>The Kyrgyz Government should continue its efforts to unite and coordinate provision of accounting education and training with the interests of the professional accounting community, bringing together professional organizations, university educators, relevant Government ministries and leading international and local professional accounting companies to increase the market orientation of accounting courses. This would result in a steady supply of accountants with knowledge and experience relevant to the needs of the Kyrgyz market.</p>	<p>Ongoing</p> <p>This recommendation is partially addressed by the analysis provided in <i>Tertiary accounting education reform in the Kyrgyz Republic Report</i>. PAOs are not subject to licensing and certification by the national state bodies in the Kyrgyz Republic. However, the accounting profession is united on a voluntary basis through memberships in local PAOs.</p> <p>Only auditors are regulated at the state level. In particular, the Audit Law 2021 introduces the requirement for an auditor/audit firm to be a member of an audit association.³²⁰ Moreover, to be certified as an auditor, Audit Law 2021 requires auditors, amongst other things: (i) have higher education; and (ii) have passed all three exams of the new 3-level local Professional Auditor Qualification Program. It is envisaged that the first and second levels will be administered by accredited PAOs and universities³²¹ and</p>

³²⁰ The law specifies that this requirement is effective starting January 1, 2023.

³²¹ The learning materials for voluntary certification schemes for CAP/CIPA qualification offered locally since late 1990s are not fully aligned with the requirements of the latest IES. During 2016-2020 the ICAEW supported the development of a syllabus for a new three-level qualification for professional accountants

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	<p>the third level exam is to be organized by the SRSFM.³²² However, at the time of the ROSC assessment the 3-level local qualification framework is not operational.</p> <p>While it is expected that the local universities could integrate the first two levels of curriculum into their undergraduate degree programs, this was not done at the time of the ROSC assessment. Moreover, the IFAC notes that the technical capacity of the UAA to administer the qualification effectively and efficiently needs to be strengthened. Ongoing initiatives under, or in close collaboration with, the KAREP program continue to support efforts to unite and coordinate provision of accounting education and training with the interests of the professional accounting community. Priorities on university education for the next 3-5 years are expected to be formalized in a strategy. With ICAEW support it is expected that a concept (strategy) and country action plan on the reform of higher accounting education in the Kyrgyz Republic on the basis of the <i>Tertiary Accounting Education Reform Report</i> will be drafted in the first half of 2022. It is anticipated that the strategy document: (i) will deliver immediately measurable results in the form of recognition; (ii) will be outcome focused and will involve experts and</p>

(to be administered by the UAA) along with learning materials in line with the 2019 IES. However, the Continuing Professional Development (CPD) policy still needs to be aligned with the IES7.

³²² The third level of the new qualification would be used for audit certification and exams to be administered by the SRSFM.

Recommendations	Status of implementation as of 28 February 2022
	<p>expert organizations external to the university sector who can assess and advise on current quality level and the actions and areas where improvements are needed; (iii) will encourage universities to apply for recognition; the process of becoming ready to make an application for recognition is in itself a motivator for positive reform driving higher quality; and (iv) will enable improved teaching at universities through the use of learning materials recently developed to align with international standards and which are available at little or no cost.</p>
<p>The SRSFM and professional organizations should monitor and enforce the current requirement for certified and practicing auditors to undertake a number of approved hours of Continuous Professional Development (CPD) each year. This could be achieved through the re-licensing process.</p>	<p>Reconsidered recommendation in progress</p> <p>The recommendation was reconsidered in the light of recent international developments.</p> <p>All registered auditors are subject to CPD requirements in accordance with the provisions of the Audit Law 2021 because it specifies that auditor/audit firm is required to be a member of a professional audit association³²³ and Article 12 specifies requirements for a professional audit association including mandatory CPD—at least 80 hours during two consecutive years, with minimum 20 hours in the first year (Article 6).</p> <p>Moreover:</p> <p>Article 5 specifies that during each calendar year, starting from the year following the year of receiving the auditor’s qualification certificate, the</p>

³²³ The law specifies that this requirement is effective starting January 1, 2023.

Recommendations	Status of implementation as of 28 February 2022
	<p>auditor is required to undergo training under the CPD Program for auditors, except for a period of suspension of activities in accordance with part 5 of this article.</p> <p>Article 6 specifies minimum requirements for the CPD Program for auditors.</p> <p>Article 21 specifies that failure to complete training under the CPD Program for auditors for 3 years are grounds for revocation of an auditor’s qualification certificate.</p> <p>Article 26 specifies that auditors, audit organizations and audit organizations admitted to the audit of public interest entities or large business entities are excluded from the Unified State Register of auditors for failure to complete annual training under the CPD Program for auditors (with the exception of the period of suspension of activities in accordance with part 5 of Article 5).</p> <p>An auditor whose qualification certificate was revoked has the right to appeal this decision by filing an administrative complaint with an authorized state body and if dissatisfied with the decision, has the right to appeal this decision in court.</p>
<p>A review should be undertaken of the quality and suitability for the Kyrgyz market of currently available Russian language professional accounting and auditing qualifications. The results of this review should be utilized to influence policy making in the Kyrgyz Republic, and also to provide valuable feedback to the providers of Russian language professional accountancy qualification.</p>	<p>Review completed</p> <p>In general, the accountancy profession is taught in the Russian language, with a few programs taught in foreign languages.</p> <p>All relevant professional accounting and auditing qualifications available in the Kyrgyz Republic were analyzed as part of <i>Tertiary accounting education reform in the Kyrgyz Republic Report</i>.</p>

