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Accounting Reform in Azerbaijan on the basis of IFRS: initial results



- ❑ **Dynamic integration of Azerbaijan into global economy, strengthening of economic positions of foreign investors in the domestic market and, hence, establishment and development of economic links between national businessmen and primarily European companies necessitated development of unified rules for drawing up financial reporting that are understandable for external users, the majority of whom are represented by investors from economically developed countries.**
- ❑ **In essence, this preconditioned the need for new national accounting concept, as well as the need for its reform in conformity with the International Financial Reporting Standards (IFRS).**
- ❑ **The main purposes of the reform:**
 - **organization of complete transfer of public and corporate reporting to IFRS;**
 - **Ensuring complete transparency of companies activity and facilitation of its entrance to the international market;**
 - **Establishment of principally new institutional foundations for accountancy and audit development, as well as for implementation of regulatory functions by the state.**

Accounting reform in Azerbaijan envisions the following stages :

First stage – Adoption of a set of legislative acts that regulate preparation and presentation of financial reporting in conformity with international standards

Second stage- Development and carrying out of activities reflected in respective legal acts on presentation by accounting subjects of new financial reporting within the terms envisioned in the legislation of Azerbaijan

Third stage – Continuous training with the aim of acquiring necessary skills to prepare new financial reporting, conducting of external and internal audit of qualitative and timely presentation of this reporting

Legal framework development

- **On September 2, 2004 the Law on Accounting was adopted, and it served as the basis for development of bylaws regulating new financial reporting application.**

Starting from January 1, 2008, in conformity with the Law, all commercial organizations that are equivalent to the structures of public interest are obliged to apply International Financial Reporting Standards, while other commercial companies, except for small businesses shall apply the National Accounting Standards on the basis of IFRS. At the same time, starting from January 1, 2009, municipal bodies, budget institutions and off-budget state funds shall apply National Accounting Standards consistent with International Public Sector Accounting Standards (IPSAS).

- **The Decree of the President of the Azerbaijan Republic as of February 7, 2005 authorized the Ministry of Finance to regulate accounting activity.**

The main purpose of the aforementioned regulation is development of activities with the aim of ensuring coordinated activities on provision of more transparent and qualitative new financial reporting prepared in conformity with international requirements.

- **Starting from 2004, i.e. starting from adoption in Azerbaijan of the Law on Accounting (drafted with participation of the World Bank), which envisions compulsory transfer to accounting and reporting in conformity with International Financial Reporting Standards (IFRS) the reform in Azerbaijan is implemented at very high speed.**
- **Transfer to IFRS is implemented under the leadership of the Ministry of Finance of Azerbaijan with active participation and financial support of the World Bank. In particular, “Corporate and Public Sector Accountability Project” was recently launched. It is financed by the Government of Azerbaijan jointly with the World Bank and with participation of Secretariat of Switzerland and the Government of Japan**

The following results were achieved during the period of 2005-2008 that were envisioned at the first stage of the reforms

- Organization of translation of IFRS 2006 into Azerbaijani language, as well as recognition of these translations as official ones in the International Accounting Standards Committee;
- 37 National Accounting Standards for commercial organizations were developed on the basis of IFRS, 2006, as well as comments and recommendation on implementation of the approved standards for commercial organizations were developed and approved;
- 24 National Accounting Standards for budget institutions and off-budget state funds, as well as 1 National Standard for non-profit organizations were developed in conformity with IPSAS;
- The program for transfer to IFRS for public interest entities was developed and approved.
- Rules for financial reporting presentation were developed and approved, as well as reporting period for commercial, budget, non-government and municipal organizations was adopted.

Conclusions

Thus, as a result of the first stage of the reforms, the legal, regulatory and methodological framework for reporting in conformity with IFRS and IPSAS was completely developed. This created preconditions for transfer to the second stage.

In addition, there were created necessary conditions and infrastructure for translation and adoption of new IFRS and IPSAS, as well as amendments to already existing standards. Currently, we complete the activity on adoption of IFRS and IPSAS 2010.

Activities implemented at the second stage of the reforms

- In conformity with the Law on Accounting, presentation of annual reporting from commercial organizations (except for small businesses) was organized in 2009, and from non-profit organizations (budget and non-government organizations, off-budget funds) in 2010. Currently, all credit organizations, insurance companies, public interest entities, budget, non-government and municipal organizations draw up their reporting in conformity with IFRS, IPSAS, as well as the National Standards based on them.
- In conformity with legislation, system of penalties was introduced for those organizations that do not present their reporting within the specified period of time or do not draw up reporting in conformity with the standards, which served as an effective incentive.
- Software for maintaining accounting in conformity with the National Accounting Standards was developed and disseminated free of charge to all budget institutions. Thus, reporting preparation process in budget institutions was completely automated.
- Technical assistance from international organizations was provided with the aim of improving reporting preparation in commercial and non-profit organizations, as well as ensuring maximum transparency of reporting and strengthening institutional basis of reporting and audit.

Conclusions

Thus, as a result of the second stage of the reforms, necessary conditions and institutional framework was developed for enabling the companies to prepare reporting on the basis of international standards.

At the same time, introduction of the standards has revealed a whole numbers of problems that require immediate solution. First of all, it is lack of qualified staff in the area of accounting and audit. In its turn, this directly affects the quality of the reporting and eventually the results of the reform.

In case of massive transfer to the на IFRS the “educational” component is the crucial part of the reform. Taking this into consideration, a whole number of activities were launched starting from 2009-2010.

Activities implemented at the third stage of reform

- **Trainings on reporting preparation were organized for accountants of budget and non-government organizations.**
- **Jointly with the Ministry of Education retraining of all teaching staff was organized in all educational institutions of Azerbaijan that train specialists in accounting and audit.**
- **Starting from 2010, the whole educational process in Azerbaijan in the area of accounting and audit was organized in conformity with international and national accounting standards.**
- **Together with the World Bank, the process of Training Certification Center establishment was launched. This Center will organize continuous training and upgrading skills of all accountants and auditors, as well as their further compulsory certification.**

Primary tasks of the current reform stage

- **Improvement of the current legal framework and strengthening of institutional basis of accounting and audit in public and corporate sectors.**

The improved legal framework should cover the following elements

- a) Accounting and audit standards and requirements;**
- b) Adoption of standards;**
- c) Control and observance of standards and requirements;**
- d) Licensing (ordinary accountants and auditors);**
- e) Professional training (of accountants, auditors, staff of regulatory bodies and other stakeholders);**
- f) Corporate governance;**
- g) Ethical standards (professional accountants and auditors);**
- h) Inspections and disciplinary measures;**
- i) Quality control mechanisms, as well as responsibility and accountability of auditors.**

Primary tasks of the current reform stage

- **Strengthening of educational component of the reform and development of comprehensive training and retraining system for accountants and auditors.**

Education component will include:

- ❑ **General education (specialized secondary and university education);**
- ❑ **Professional education of auditors and accountants (compilers of reporting);**
- ❑ **Training of trainers;**
- ❑ **Education of junior accountants;**
- ❑ **Specific training in specialized areas, such as accounting, audit, accounting in public institutions, internal control and disclosure of information related with financial instruments, financial companies, efficient management and requirements to listed companies;**
- ❑ **Training of other participants of the system, including the staff of regulatory bodies and analytical centers.**