An African perspective on accounting reform in the former Soviet Union

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The author was employed by the World Bank during 1998 and involved in the preparation of a publication, *Guide to International Accounting Standards*, which was published in both English and Russian. He was invited to present a series of workshops on behalf of the World Bank in Kiev, Ukraine during March 1999, on the *Implementation issues of International Accounting Standards* in emerging economies.

The world rejoiced with the fall of the Iron Curtain. Now, they believed, the people of the Former Soviet Union (FSU) would truly be free... but are they?

My visit to Russia and Ukraine earlier this year, and what I learned from entrepreneurs as well as bankers, left me with the painful impression that, although the Soviet citizens were desperate to rid themselves of the authoritarian control over their lives of the Communist regime, they had no idea what the implications would be to accept personal responsibility of their lives.

The president of the World Bank, Mr James Wolfensohn, in a press conference in April 1999, mentioned that in Russia alone there was an enormous increase since the transition from approximately 2 million people then, to 60 million today living under $4 a day – which is the benchmark that you now use in Russia!

The following remarks about accounting reform in the FSU should be considered against the background of societies that are becoming poorer and that were brought up with the mother's milk of communism. They do not understand the mechanisms of capitalism nor do they inherently want to believe in the fact that the state is no longer responsible for looking after all of their interests.

Brief historical background

The economy of the FSU was dominated by state-owned enterprises, which were essentially production factories to fulfil the state's stipulated production quotas. The accounting system was primarily macro-orientated and designed to assist the state in economic planning and controlling the means of production. The accounting standards used by *both* commercial and industrial enterprises were rigid and uniform. The accounting system was fund-based and linked with taxation. In fact, it was a statutory requirement that each enterprise had to keep two sets of accounting records – one complying with strict instructions for determining the net profit; and another for taxation purposes! Another strange phenomenon of the Soviet accounting system was that all enterprises, whether in the private or public sector, used exactly the same chart of accounts which was designed to provide the basis for all the state's accounting information needs. This meant that throughout the FSU there was one standard list of general ledger accounts. For instance, if general ledger number 16075 was the account for fixed assets of a pharmacy in Leningrad (St. Petersburg), then exactly the same number and title would apply to a fish factory in Petropavlovsk or a clothing store in Kiev.

There has been considerable debate across the FSU-region as to whether an accounting law is required for accounting reform. Indeed, accounting reform by law or decree has been tried in several FSU countries, including Russia and Georgia. It has never worked.

The system consisted of rigid rules and directives that provided detailed instructions on accounting entries, usually applicable to relatively simple transactions. Those same directives were amazingly silent on new or transactions deemed "difficult", because it is impossible to address in an instruction all possible actual situations at the accounting entry level. In too many cases information on the treatment of a particular transaction had to be researched through numerous, and sometimes contradictory and even confusing, normative documents. In order to avoid paying taxes, banks and companies were often inclined to record transactions in a way that sometimes differed significantly from that suggested by official instructions. Thus the practice of accounting was essentially *bookkeeping in nature.*

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Most of the political conditions that shaped the accounting system have now disappeared. Where a strong, centralised government with a burdensome state-owned sector remains, there is an understanding by the people in power as well as external pressure by world institutions, for accounting reform to gain momentum. No longer do statistical offices compute the standard costs introduced in the 1930's, nor is there an actual need to continue collecting most of the same "operational" information on enterprises' activities as before. Instead enterprises have an urgent need to move away from a set of rigid, mechanically prepared financial statements towards applying a set of national generally accepted accounting standards that are built on a logical framework of principles, bases, conventions, rules and practises. The adoption of such a set of standards is a necessary measure to facilitate transparency and proper interpretation of financial statements. The significance of transparent, useful, timely and reliable financial statements and their importance to investor protection, has never been more apparent.

Accounting reform initiatives

The Government of the Russian Federation approved an accounting reform program in March 1998. The aim of this program is to bring the national (Russian) accounting system into compliance with the requirements of the market economy and International Accounting Standards (IAS). The reform program has as its objectives:

- to establish a system of accounting and reporting regulations (standards) that would enhance the provision of useful information;
- to ensure linkage between the Russian accounting reform and major standard harmonisation trends at the international level; and
- to assist economic entities in studying and implementing a reformed accounting model.

Some national standards have already been adopted by the Russian Government.

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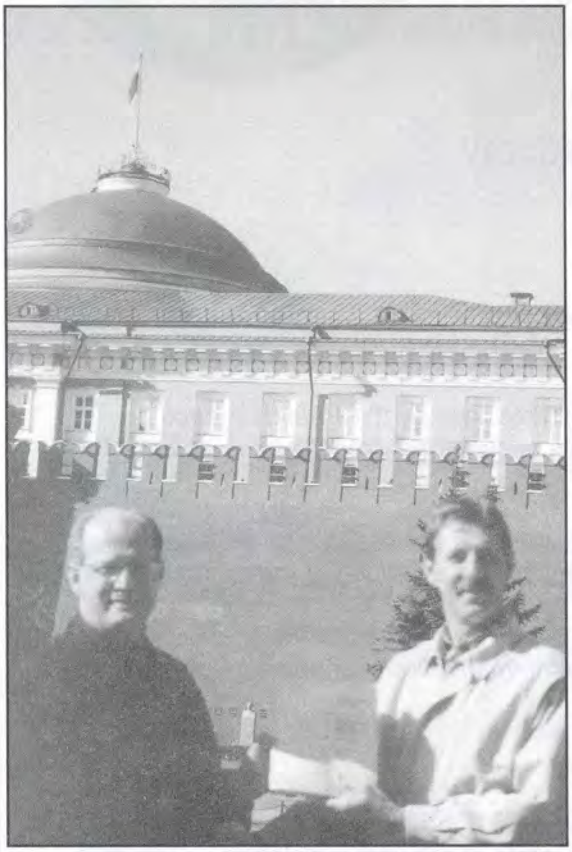
However, they do not fully comply with IAS and need further modifications. The main concern is not only the number of standards adopted by the Government, but mostly the quality of these documents.

Furthermore, there has been considerable debate across the FSU-region as to whether an accounting law is required for accounting reform. Indeed, accounting reform by law or decree has been tried in several FSU countries, including Russia and Georgia. It has never worked, because Ministers of Finance did not take implementation measures. In the only three countries where accounting reform has reached the implementation stage, Kyrgyzstan, Kazakstan and Moldova, Ministers of Finance acted under their existing authority to establish an enabling environment rather than enforcing reform by law.



Prof Marius Koen (right) and Dr Hennie van Greuning of the World Bank on the Red Square in Moscow

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Conclusion

Coming from South Africa, with its sophisticated economic environment and well developed accounting systems and standards, it is difficult to believe that accounting reform will come easily to the people of the FSU. The point is that all the changes and reforms in the FSU should be considered in the context of a society that is becoming poorer by the hour. This leaves one with the perspective that all these reforms are currently being forced on the people either through statute or through external pressure by world institutions like the World Bank and the IMF. Until the motivation and drive for change comes from within the hearts of these nations, the odds of failure will remain high. Auditing SA