



Line Items

Implementing International Accounting Standards (IAS) Implementation in Mongolia

By: L. Dondog, Ph.D., CPA

From the early 1920s until the 1990s, friendly relations were established between Mongolia and Russia, with Mongolia inheriting the economic and political policies of a centrally planned economy. This Asian country, wedged between China and Russia, began moving toward a market economy in the early 1990s. I visited the United States to learn the best accounting practices at this time, and my intention—along with my colleagues—was to implement International Accounting Standards (IAS) in Mongolia. This following describes our achievements over the last 10 years.

While Mongolia was shifting to a market economy, the country was withstanding a deep economic crisis and accounting practices were suffering as well. Some universities even closed their accounting departments with the idea that accounting would no longer be needed in a market economy.

Nevertheless, instituting and enforcing accounting rules became important to the Parliament, which passed the Accounting Law in 1993. The law requires businesses to comply with IAS; defines the requirements for CPAs and audit firms; and outlines the roles and responsibility of the Professional Accounting Council, which provides CPA certification to eligible candidates. The law also states that CPAs can establish audit firms to provide financial and performance audits, attest to financial reporting and engage in performance auditing.

But after the Accounting Law was passed, many obstacles remained, including:

- Instructions and regulations pursued required in the centrally planned economy were repealed, but the nation's lack of knowledge of IAS resulted in its inability to develop new instructions, forms and regulations.
- Training at universities and colleges was delayed.

To help with the transition, Mongolia received invaluable help from international financial organizations. For example, the World Bank started a training project, as did the Asian Development Bank. A regular training program was supplemented with support from the implementation of IAS in the country's three largest companies.

As a result of this help, faculty members and accounting professionals gained knowledge of IAS, training at universities and colleges continued, IAS manuals and textbooks were published and professionals began preparing for the CPA examination.

Achievements have been realized in the ensuing years. In March of 1996, the National Assembly of Accountants agreed to establish the Mongolian Institute of CPAs, which issued a retraining program for accountants and also approved the Code of Ethics for CPAs. A team of lecturers and professors from the United States and the Philippines conducted intensive training for CPAs. Of 40 accountants, 18 earned the CPA certification.

In addition, the Ministry of Finance and Economics (MOFE) issued accounting procedures in line with IAS, and the curriculum at universities was revised. Five audit firms were licensed for public accounting practice. The Law on Auditing was approved, and the IAS and the ISA were translated in 1995 and 1996, respectively.

The government took training seriously, and with the help of universities and professional associations, IAS was implemented with the strong support of the national professional staff. However, when implementation was reviewed in 2001, the rate of IAS adoption was 27.5 percent in the private sector. About 40 percent of enterprises were not preparing financial statements.

Three actions were taken to combat the poor rate of implementation:

- The Accounting Law was reviewed;
- A Government Program on Development of Accounting Framework was developed, covering 2002-2004; and
- 2002 was specified as the year for developing accounting practices.

These actions attracted the attention of professionals at all management levels. Accountants became more enthusiastic about the new practices, and the government and professional organizations passed more quickly.

Now 70 percent of government enterprises have adopted IAS, including all state enterprises and shareholding companies. Among small enterprises, however, 15 percent still do not issue financial statements.

Pressure mounted to establish a system that was compatible with the private and public sectors. Due to different recommendations, implementation of International Public Sector Accounting Standards (IPSAS) was delayed for two years. For example:

- ADB recommended using the accrual basis for reporting, citing the practice in New Zealand and Australia;
- IMF recommended using the cash basis; and
- The World Bank recommended using the modified accrual basis.

In 2002, we agreed with the World Bank to use modified accrual basis of accounting.

ADB has implemented the project on Public Sector Reform. Under this project, a new law on Public Sector Management and Finance was drafted and approved in 2002. The law requires using the accrual basis of accounting in the government sector, using output-based budgeting, and following state audit activities.

The World Bank Institutional Development Fund (IDF) provided a grant to strengthen the state audit capacity and the capability of the accountants working in the public sector. These two projects are closely related and were implemented in two government agencies. Under this project, we have translated ISA and IPSAS into our native language. The next job is to develop application manuals and to train accountants and auditors. To do this, we will hire international consultants.

In the first stage, we implemented accrual accounting at the level of budget enterprises and government financial operations. The second stage involves implementation at the treasury level. In 2002, we provided comprehensive education for public sector accountants using trained instructors. Initially, these instructors provided training to local governments. Within a short time, 90 percent of public sector accountants were involved in this training.

The implementation of IPSAS was slow at the beginning of 2003, but most budget entities have issued financial statements based on the new accounting procedures.

However, consolidated financial statements are not possible yet. We introduced modified accrual accounting at the treasury level and follow the accrual basis at the budget entity level. These different bases of accounting and our lack of an information system means that consolidated financial statements are down the road.

To meet this goal, we:

- Have conducted a state property count throughout the country and revalued fixed assets.
- Developed instructions for estimating depreciation of fixed assets.
- Are implementing Government Financial Management Information Systems (GFMIS), which started in 2003.
- Installed a customized information system.
- Prepared a uniform master Chart of Accounts based on an economic classification of Government Financial Statements, and also developed a common manual for each level of government.

All these actions are supported by the FreeBalance information system. The system has a rational relational database and provides budget control. The system requires the use of accrual budgeting, which has been a challenge. So far, we are facing difficulties in preparing and formulating a budget on the accrual basis. We project that the FreeBalance system will be implemented in Treasury by the end of 2005, and then at the budget entities.

The experience shows the applicability of International Financial Reporting Standards and IPSAS. The transition process should start at the same time throughout the country covering all sectors and IAS should be implemented with a specific program announcing the year for developing accounting practices.

Our experience in the amount of time and resources it took to translate the IAS leads us to propose the establishment of a translation center funded by financial organizations or member countries to produce the IASs and IPSASs in Russian, German, Spanish and Chinese.

L. Dondog, Ph.D., CPA, is a professor and general director of the Department of Accounting Policy and Methodology of Ministry of Finance and Economy, and is president of Mongolian Institute of Certified Public Accountants. This article was developed from Dr. Dondog's presentation to the International Consortium on Governmental Financial Management's annual conference in Miami, FL.