

Ukraine Accounting Reform



Assessment Report
March 28, 1996

Price Waterhouse LLP



USAID UKRAINE ACCOUNTING REFORM PROJECT

ASSESSMENT PERIOD REPORT

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**USAID UKRAINE ACCOUNTING REFORM
PROJECT**

ASSESSMENT REPORT

INTRODUCTION

Price Waterhouse LLP
Office of Government Services

Prepared under contract with the United States Agency for International Development

UKRAINE ACCOUNTING TODAY

In Ukraine today, accounting regulations are issued by The Accounting Methodology Department of The Ministry of Finance. These regulations are based on the command economy statutory system of accounting. The chart of accounts, established by the Ministry of Statistics, is still quite similar to that established under the former Soviet system. In summary, the present system of accounting and reporting is principally responsive to the state revenue gathering authorities. Practicing bookkeepers, accountants, auditors and enterprises are preoccupied with following those regulations formulated and issued by governmental bodies.

The Government of Ukraine (GOU) has established a Self-Regulatory Organization (SRO) called the Chamber of Auditors that has issued Auditing Standards and is supported by an association of auditors called the Union of Auditors and Accountants. The Chamber of Auditors, the Union of Auditors and Accountants, and their members address issues relating to the accounting regulations issued by the government. These organizations have not yet dealt with adopting international accounting standards and principles, nor have they formed a set of generally accepted accounting principles.

The Cabinet of Ministers of Ukraine, responding to requests by donor agencies, has committed to adopt internationally accepted accounting standards. This commitment was made in 1993 by Rule 326 and confirmed by Rule 403 in 1995. Because of a lack of education of accountants and governmental authorities, and a general lack of training in their use, generally accepted international principles and standards of accounting have not yet been introduced.

Educational institutions are teaching accounting methods and procedures that comply with the statutory requirements presently in force while only superficially addressing accounting principles and practices that are generally accepted in countries having market-oriented economies. No university has a separate accounting curriculum dealing with International Accounting Standards or European Union (EU) Directives or any set of Western-style generally accepted accounting principles and standards. There are institutes teaching accounting that include a few courses pertaining to Western-style accounting but no concentrated courses of study are as yet available.

Enterprises in Ukraine, those not yet privatized, those already privatized, and newly organized private enterprises, must all account and report according to the statutory system in force. Only those enterprises having joint venture relationships with Western companies perform their accounting in accordance with generally accepted accounting principles while



maintaining a separate accounting for the Ukrainian authorities. All other enterprises account for their activities only on the statutory basis, having no understanding of the need for management, investor, or creditor oriented accounting.

The President of Ukraine has appointed Mrs. Alexandra Kuzhel' to head a special presidential commission on accounting reform in Ukraine. Mrs. Kuzhel' is a member of the legislature (Rada), a member of The Chamber of Auditors (one of 20 members), President of the Union of Auditors and Accountants, and head of her own auditing firm. She is highly regarded in the accounting profession in Ukraine. With the cooperation of the Presidential Commission, the Cabinet of Ministers, The Ministries of Finance and Statistics, and the Legislature, Ukraine accounting reform must, while focusing at the enterprise level:

1. Establish an accounting SRO for the promulgation of accounting standards and principles in support of a market economy.
2. Train and support enterprises in converting to International Accounting Standard-based accounting methods and financial reporting.
3. Establish educational opportunities and initiate education of the nation's accountants and auditors in the implementation, understanding and application of generally accepted accounting principles and practices based on International Accounting Standards and EU Directives.

It is with this goal in mind that the following SRO, Pilot Enterprise and Training Assessment Report is presented:

**USAID UKRAINE ACCOUNTING REFORM
PROJECT**

ASSESSMENT REPORT

THE SELF-REGULATORY ORGANIZATION

*Price Waterhouse LLP
Office of Government Services*

Prepared under contract with the United States Agency for International Development

I INTRODUCTION

A Background

Ukraine is in transition from its current accounting practices and financial reporting to use of the International Accounting Standards (IAS). Success in this transition depends foremost on the creation of an accounting and audit Self-Regulatory Organization (SRO). This SRO would serve several purposes, among them play a critical role in Ukraine's transition to be more in alignment with IAS, promote accounting reform, provide important support to its members in continuing education and professional development, uphold and develop guidelines to members on questions concerning ethics, independence and conflict of interest, and guide implementation of new practices and standards.

As part of an effort to create the SRO, a project was undertaken to assess existing institutions, such as the National Association of Auditors and Accountants of Ukraine "Account", International Management Institute (IMI-Kyiv), Union of Auditors of Ukraine, Center for Accounting "Balance", and other related institutions, and to develop a plan for establishment of one or more Accounting and Audit SROs in Ukraine. This report sets forth the findings of that project and includes extensive recommendations for moving forward.

B Objective and Scope

A two-person consultant team (the team) was given the mission of providing advice regarding a) establishing and maintaining an accounting/audit SRO, including formulating a mission statement and designing a strategic plan, b) establishing its legal/regulatory basis, adopting membership criteria, procedures, and by-laws, and c) developing a public relations campaign, implementing workshops and training initiatives at a practitioner level, establishing sustainable financing, and determining SRO structure.

The undertaking involved meetings with all relevant organizations in Ukraine, a review of applicable laws and charters, interviews with a wide range of representatives from government, professional organizations, accounting and auditing firms, enterprises, donor organizations, lending institutions and academia, presentation of a proposal for expansion/addition to existing organizations or establishment of an additional SRO, outlining a suggested organizational structure, and recommendations on the strategic plan and its implementation.

The team's recommendations are prioritized in a plan of action included in this report.

C Organization of the Report

The report is divided into the following sections

- Accounting profession and the role of the SRO
- Organization of the SRO
- Enforcement plan
- Plan of Action

Appendix A contains a list of persons and organizations interviewed along with minutes of meetings, Appendix B provides a bibliography of relevant publications, Appendix C presents a draft strategic plan, Appendix D presents a draft charter, and Appendix E outlines functions of each proposed committee of the SRO

II ACCOUNTING PROFESSION AND THE ROLE OF THE SRO

A regulatory method that is being used successfully in many markets is known as self-regulation. This approach relies on selective rule making, monitoring, and review by the government while depending on substantial cooperation from market participants that themselves form SROs.

There are a number of reasons the self-regulatory approach is used to assist in the regulatory process. SROs are better able to address concerns beyond those that are purely legal, SROs can and have established ethical business principles that members must follow. With SRO regulation in place, the size and cost of government (government being legislature or ministries involved in the issuance of regulations) would be less because the SRO could issue standards and regulations that the government would otherwise have to prepare. SROs can address more rapidly the business impact of a rule and take that impact into account more easily than government. Because SROs draw much of their staff from industry, they are more likely to be familiar with issues and solutions.

Thus, an SRO is defined as a private organization that, subject to governmental oversight, assumes specified regulatory functions of the government and, in doing so, supervises its members.

The main objective of the SRO would be to call on the accounting profession to respond positively to the rapidly changing environment by enhancing its ability to serve the public interest and to enhance public (both foreign and domestic) confidence in the development of new Ukrainian accounting standards and practices. The profession needs to adopt a new approach to technical and ethical standards governing the performance of accountants. In a

study done by The American Institute of Certified Public Accountants (AICPA) the following seven characteristics were identified as necessary for any profession

- 1 A body of specialized knowledge,
- 2 A formal education process,
- 3 Standards governing admission,
- 4 A code of ethics,
- 5 A recognized status indicated by a license or a special designation,
- 6 A public interest in the work that the group performs, and
- 7 Recognition by the group of a social obligation

The accounting/audit profession in the United States has all these characteristics. The certification designation of Certified Public Accountant (CPA) demonstrates that the holder has met certain education and experience requirements, has passed a comprehensive examination showing mastery of a body of knowledge, and serves as the basis for offering legally restricted services.

A profession should develop a system of regulation to achieve a higher level of competency. The accounting/audit profession's performance standards include four elements:

1. Standards of skills and competence for entering the profession and for continuing the right to practice,
2. Technical and ethical standards that serve as performance goals and norms for measuring departures,
3. Quality control policies and procedures to monitor and encourage compliance with technical and ethical standards, and
4. An effective disciplinary system to impose penalties for performance or conduct that departs from established norms.

The SRO, among other things, would emphasize maintenance of high standards for entry into the profession, assist in maintaining competence through continuing professional education, establish performance standards, i.e. technical and ethical standards that provide guidance for performing professional services and procedures for achieving compliance with those standards, and assist in implementing accounting reform.

Establishing performance standards and ensuring their relevance and effectiveness will require that the SRO play a significant role and become active in communication and coordination, both within the profession and with the public. The SRO should communicate to the public the meaning and significance of performance standards, the scope and nature of practice, and the results of its monitoring activities. It must take the lead in identifying innovative approaches to new developments in cooperation with regulatory and professional bodies as

well as with accounting and auditing firms, to achieve greater compliance with standards. The SRO must assume the role of a national accounting body in which membership represents the highest level of professional achievement. It should be perceived as a body that continually monitors and strives to improve the quality of its members' professional work. The relevance and effectiveness of performance standards are measured by whether they serve to

Recognize the paramount role that the profession plays in the financial reporting process,

Give primary emphasis and attention to assuring the implementation of the accounting reform in Ukraine,

Assure objectivity and integrity in the performance and delivery of services,

Enhance the prestige and credibility of the profession and newly established SRO,

Safeguard the public interest, and

Provide guidance for the profession

The profession and the SRO must emphasize the importance of implementing reporting standards in financial statements, and that these statements be prepared in conformity with International Accounting Standards (IAS). In reporting on financial statements, a practitioner may issue audit, review, or compilation reports. The usefulness of these reports to investors and creditors would be evident from relatively efficient capital markets operations and lending practices. Regulatory bodies use financial statements in various ways in their activities. Legislators rely on financial statements in formulating policy and in carrying out their oversight responsibilities. Owners of enterprises use financial statements in business decisions and in evaluating management. The role society has assigned to professionalism in the financial reporting process imposes a great responsibility. Thus, performance standards and practices should be established, first through education and remedial or corrective actions, but ultimately through disciplinary action. The effectiveness of standards in the private sector will depend on systematic monitoring and correction by the SRO.

III ORGANIZATION OF THE SRO AND TRAINING

A Organization

Development of its staff should be a high priority for the SRO. The agenda for the SRO proposed in this report allocates significant responsibilities to the various committees of the organization. Without a well-trained staff, these responsibilities cannot be carried out effectively. We recommended that the SRO as soon as possible establish a Board of Directors (Board) to manage and supervise activities of the SRO. The Board would consist of no less than five and no more than nine members. The Board members may include representatives from industry, academia, accounting and audit firms, and the banking sector. The Board would elect a chairperson. In addition, appointing a deputy to assist in the SRO's administration would be helpful so that the chairperson could concentrate on policy matters.

It is also important that the SRO strive over time to be financially self-supporting. Dues should be collected in connection with admission for membership and fees should be charged for training and continuing education programs. By collecting dues and fees, the SRO can finance a part of its activities and eventually support all of its operations and staff. Other sources of support include donations from the accounting/auditing profession, donor agencies, and the business community.

We recommend that the SRO be organized into the following committees:

Practices and Standards Establish practices and standards, implement transition to IAS, develop regulations, policies and standards, promote adherence and use of IAS

Training Develop formal training programs to foster professional development and a high level of skills and practices, create an examination system based on professional standards for public accountants, promote continuing professional education, distribute technical publications, journals and brochures

Membership Recruit new members, attend to specialized skills, including tax, management accounting and information technology to help raise members' understanding of these topics and assist members in practical application by improving their technical knowledge

Public Relations Represent the accounting and audit profession and advocate its point of view, promote legislation on accounting and audit reform, organize the SRO's activities, and coordinate with other domestic and international professional accounting and auditing organizations

Professional Ethics Provide guidance to members on questions concerning independence, confidential client information, and conflict of interest, enforce pronouncements on ethics issues and adherence to a Code of Professional Conduct

All of the committees should be under the supervision of the Board. In addition, the SRO should create an Advisory Board that would include representatives from various industries, other professional organizations, academia, banking and investment institutions, accounting and auditing firms, and enterprises. The Advisory Board would act as an advisor to the SRO, conduct studies on different issues concerning the profession, and evaluate various proposals, policies and regulations before passing them on to the Board for a final vote. Appendix C contains a proposed organizational chart for the SRO, both at the time of start-up and at some time three to five years in the future. The organization and the proposed committees are similar to the structure of the AICPA in the United States.

B Training

The SRO should establish a set of uniform national continuing professional education (CPE) requirements for all members. Such requirements, developed over the next two years, will ensure that all members maintain their professional competence. The obligation of certified accountants to maintain acceptable levels of competence is widely recognized. A uniform CPE requirement is the best means by which that obligation can be discharged. All SRO members, including those in industry, government, education, and other activities will be required to meet CPE requirements, set by a Training Committee and approved by the Board, in order to maintain membership in the SRO. The SRO will establish criteria for courses that qualify for credit. The Training Committee will continue to develop CPE courses suitable for SRO members, including courses suitable for members not in public practice. To accommodate the needs and availability of most members, the following recommendations should be followed by the Training Committee:

1. The continuing professional education program should be structured to allow members to select courses suited to their particular professional activities,
2. Various alternatives to fulfill the requirements should be allowed, such as self-study courses, home videos, and teleconferences. Moreover, conferences and seminars conducted by the SRO should be a regular part of the professional life of most members.

Such requirements will enhance the attractiveness of the certification in many areas and increase the value of members' skills. It will help all segments of the profession and promote wider public acceptance of members' competence and expertise.

The new and expanding scope of services and the large body of knowledge that professionals must master require that the SRO take action to ensure that the profession will have an adequate supply of entrants with a sound educational base to meet future demands. The SRO will vigorously promote a 5-year degree education program in Ukrainian universities as a basic requirement for entering the profession. Positive and direct action by the SRO will send a strong signal to the institutions of higher education concerned with developing acceptable education programs and will enable those institutions to mobilize the necessary resources to establish the required programs and to develop the required faculties for that purpose. This will certainly be a gradual process in Ukraine.

To carry out the responsibilities assigned to them, all members of the SRO's committees must receive extensive training. General training can be provided by USAID consultants. Price Waterhouse consultants will hold training programs throughout the duration of the task order and will concentrate on specific issues so that committee members can understand their responsibilities. In addition, a Price Waterhouse consultant will be assigned to work with the SRO on a full-time basis and can provide guidance on an ad hoc basis. For more details on training, see Phase I of the Training Work Plan.

We recommend that after receiving general training through seminars and workshops select groups of SRO members be sent to other similar SROs within the NIS or Eastern Europe to work with their counterparts in those SROs. These trips would take place after the SRO has demonstrated its effectiveness. Potential destinations for such visits include Hungary and the Czech Republic, especially because these countries have recently undergone accounting reform. We will provide USAID with specific places and dates at a later time.

We also recommend that the SRO develop close ties with international accounting organizations, including American Management Accountants (AMA), and the International Accounting Association (IAA), both headquartered in New York.

IV ENFORCEMENT

Perhaps the most important recommendation regarding the accounting profession is that the standards that are adopted must be enforced. Promulgation of accounting principles and auditing standards, as well as licensing requirements for professionals, is useless if the standards and requirements are not applied. This can best be accomplished by having SRO staff work closely with licensed accounting and auditing firms in Ukraine to formulate disciplinary procedures and meaningful sanctions.

The creation of an effective enforcement program will need to accommodate certain unique features of the Ukrainian regulatory environment. Two of these features are particularly significant and require further attention:

- a. The SRO must work closely with the existing infrastructure of accounting and auditing institutions.
- b. The Ukrainian court system does not possess the financial sophistication necessary to resolve accounting/auditing disputes.

At present there are several governmental agencies claiming authority over various segments of the capital market processes, including areas affecting the accounting/audit profession. The fact that regulatory power is widely dispersed complicates the mission of the SRO, particularly with regards to enforcement. The SRO should initially concentrate on those areas regulated by one legislative body, such as the Rada. In the future the SRO could expand to address areas regulated by other agencies.

Because the court system does not possess financial sophistication, the SRO must develop its own internal disciplinary and enforcement system to maintain the integrity of standards of the accounting profession. The system should include, at a minimum, the following:

- A clear set of rules of professional conduct,
- A requirement that all members of the profession accept the SRO's right to impose disciplinary measures on them,
- A clear set of procedures for conducting disciplinary inquiries and hearings, including the selection of a hearing board consisting of 3 to 5 peer members, and rules for gathering evidence of wrongdoing and conducting hearings, and
- An appeal process that allows a member who has received sanctions to appeal to the Board, then possibly to the Ukrainian SEC or the courts.

Finally, some accountants and auditors will choose not to become members of the SRO. This situation will pose a challenge for maintaining industry standards through self-discipline because such persons will fall outside the jurisdiction of an SRO and its enforcement mechanisms. Therefore, an accounting/audit SRO will want to press the government to take prosecutorial actions against non-members who a) falsely imply that they are members of the SRO, or b) make substantial misrepresentations, commit serious errors in the performance of their work, or commit fraud. As a final measure, an accounting/audit SRO may eventually want to press the government to acknowledge the SRO as the sole representative of the

profession and require that all persons acting as accountants or auditors become members
This step will allow for effective self-discipline over the entire profession

V PLAN OF ACTION

This report sets forth many recommendations for establishment of the accounting and audit SRO in the Ukraine. The purpose of this section is to establish priorities for implementation of the principal recommendations.

We recommend that the following actions be taken:

- Adopt the organization plan as presented in Organization,
- Adopt Charter as presented in Appendix D,
- Select Board of Directors,
- Elect Chairperson,
- Schedule Board and SRO meetings,
- Adopt a strategic plan as presented in Appendix C,
- Begin implementation of the strategic plan,
- Appoint Directors of the Committees,
- Implement training programs as recommended in Training ,
- Implement an enforcement plan



**USAID UKRAINE ACCOUNTING REFORM
PROJECT**

ASSESSMENT REPORT

THE PILOT ENTERPRISES

Price Waterhouse LLP
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I. INTRODUCTION

A Background

Ukraine is in transition from a command economy to a market economy. This transition requires an understanding of the importance of creating an economic environment that attracts and retains investors. Furthermore, it requires improved information to allow managers and owners to operate efficiently, optimize performance, and enhance the value of their enterprises. In order to accomplish this, the existing accounting framework must be changed. Ukraine needs an accounting structure that generates financial statements acceptable to global financial markets and understandable by foreign investors. This structure must also provide for the application of best management practices while still complying with Ukraine's tax and governmental reporting requirements.

The USAID Ukraine Accounting Reform Project advocates the use of the International Accounting Standards (IAS) as promulgated by the International Accounting Standards Committee (IASC). The use of IAS requires the development of new accounting systems and training in their application. Enterprises need assistance in developing and applying these IAS-based systems, as well as intensive practical training in their use. This training requirement includes local professional accountants and auditors as well as enterprise accountants, managers, and owners.

B Objective and Scope

The objectives of the Ukraine Accounting Reform Project that pertain directly to the pilot enterprises are

1. Train the appropriate representatives of the pilot enterprises in understanding and applying IAS
2. Implement methodologies and tools required in utilizing IAS at the pilot enterprises
3. Increase the experience and capacity of Ukrainian accountants and auditors in working with IAS
4. Promote, implement, and sustain accounting reform at the enterprise level
5. Provide professional assistance to the private sector in financial management areas

Five Kiev-based enterprises were selected as pilots. The reasoning behind this number and geography was based primarily upon our assessment of the amount and nature of effort required to achieve the objectives, balanced against the resource constraints of the project. Resource constraints include the Kiev-based technical, training and managerial support staff. If enterprises were selected from outside Kiev, support would be less available to them. If more than five enterprises were selected, the quality of the technical, training and managerial support would be stretched too thin. The concentration on the five Kiev-based pilots will have a positive influence with respect to IAS implementation in their industries and the economy as a whole. By the end of the project, the management group and accounting staff of these pilots will (a) develop a better understanding of the IAS-based financial and managerial accounting information and reporting, (b) be introduced to the monthly financial statements in accordance with the IAS, (c) gain an appreciation for the benefits of managerial and financial accounting, and (d) become familiar with the concept of internal accounting controls for an enterprise. The pilot team will include representatives of local auditing firms. Ukrainian accountants and selected staff from the pilot enterprises will carry out the work on accounting systems at the enterprises. The first reports will be the basic financial statements for the quarter ended March 31, 1996.

Coincidental with this, the capabilities of Ukrainian accountants and auditors will be increased through training and direct application on the pilot implementation. Additionally, sustained accounting reform will be promoted at the pilot enterprises. The pilots will be on the leading edge of the transition from the command economy to the market economy.

C Organization of the Report

The remainder of the Assessment Report for the Pilot Selection Phase of the Ukraine Accounting Reform Project is divided into the following sections:

II. METHODS USED TO ATTRACT PILOT ENTERPRISES

III. SELECTION CRITERIA FOR PILOT ENTERPRISES

IV. INFORMATION ON PILOT ENTERPRISES

V. PLAN OF ACTION

Appendix F contains a copy of the Kiev News advertisement seeking pilot enterprises.

Appendix G contains memoranda of the formal interviews with the enterprises.



II. METHODS USED TO ATTRACT PILOT ENTERPRISES

To identify prospective pilot enterprises, Price Waterhouse (PW) representatives called and/or visited accounting and auditing firms, banks, lending institutions, investment funds, legal firms, academicians, government representatives, and donor organizations. PW also ran an advertisement on March 14 in the Kiev News seeking pilot enterprise candidates. A copy of this advertisement is included in Appendix F.

In an attempt to add to the reach and impact of the pilot implementations, PW pursued the following leveraging strategies. The first approach centered on the possibility of having investment funds participate in the pilot implementation from the perspective of their investment portfolio. For a variety of reasons, the investment funds contacted were not interested. The second strategy involved the possibility of attracting several enterprises in the same industry. One such enterprise cluster in the apparel manufacturing industry was identified. When contacted, two of these firms, apparel manufacturers Zhelan and Voronin, demonstrated interest, and they were selected as pilot enterprises. These two firms share some of the same ownership. Even these two enterprises represent different parts of the apparel industry, as Zhelan creates ready-made suits, while Voronin creates custom-tailored suits. As a result of the previous command economy, there are still few clusters of enterprises in any industry in Kiev.

Thirty-two (32) enterprises were contacted. PW staff gave an introductory presentation, including an overview of the project, and interviewed each candidate. Through this process it was determined that the enterprises were either privatized or new entrants. The approximate size and scope of the operations were also determined.

As these formal interviews were conducted, the following criteria were used as a foundation for presentations, questions, and responses and as a gauge for determining whether the enterprise should be considered as a pilot enterprise.

III. SELECTION CRITERIA FOR PILOT ENTERPRISES

The formal interviews with the enterprises included two or three members of the Price Waterhouse staff. The enterprises were generally represented by the chief accountant, another key manager and, on some occasions, the owner. Appendix G contains memoranda of the formal interviews with the pilot enterprises. The goal of the interviews was to achieve an openness so that the enterprise could assess its interest, considering the full scope of its commitment and required efforts. The goal for these interviews was to ascertain the extent to which the enterprises satisfied the following criteria, listed in order of their importance.

COMMITMENT⇒ The motivation of the enterprise's stakeholders to implement the new accounting structure (IAS)

We consider this criterion to be the most important. The pilot enterprise must be willing to persevere in the challenges ahead, and to commit its resources, time, energies and cooperation.

CAPITAL⇒ An acute need of additional capital

To persevere through the project, the pilot enterprise needs sustained motivation. The requirement for capital is a primary motivator. The financial markets are becoming increasingly global. There is substantial competition for this capital. The participants in these markets are seeking financial information that complies with the IAS. If there is a need for capital, there is a need for these IAS-based financial statements.

CONTROL⇒ Recognition by owners and managers of the need for adequate management control

The owners and managers must be keenly aware of the need for optimum control over their enterprises. They must be aggressively seeking ways to accomplish this. IAS implementation will contribute to their success. The information generated by the system and the training that they will receive will empower them to be better investors and managers.

COMPETITION⇒ Commitment strengthened by competition

Another motivator is competition. Significant competition exists in the product and capital markets. The information provided by the pilot implementation will assist management in such areas as product pricing, cost optimization, profit planning, and the determination of capital requirements. This kind of information will allow decision-makers to take the actions necessary to compete successfully for customers and capital.

IV. INFORMATION ON PILOT ENTERPRISES

Three pilot enterprises were selected after the formal interviews. Appendix G contains the minutes of the formal interviews with these enterprises. The following are the selected pilot enterprises:

1 Zhelan

- Designs, manufactures, and sells ready-made men's suits
- 570 employees producing sales over \$2 million
- Most sales are domestic
- Ownership by Michael Voronin (10%), an Austrian investor (50%), employees (35%), and others (5%)
- Privatized in 1991
- Profitable per local reporting
- Michael Voronin providing working capital

2 Michael Voronin

- Designs, manufactures, and sells custom-tailored men's suits and topcoats
- 70 employees producing annual sales of \$250,000
- All sales are domestic
- Ownership by Michael Voronin and two other employees (35%) and an Austrian investor (65%)
- Profitable per local reporting
- New entrant

3. DAX

- Designs, manufactures and sells roof cover repair machines, provides roof repair services, sells, as a dealer, roof cover materials
- 31 employees producing annual sales of \$500,000
- All sales are domestic
- Ownership by a private construction company (45%), a company that provided part of the start-up capital (25%), and a Russian company that markets the DAX technology in Russia (30%)
- Capital includes 5-year loan from European Bank for Reconstruction and Development (EBRD) through Gradobank
- Profitable per local reporting
- New entrant

The Ukrainian government counterparts will nominate the fourth and fifth pilots as part of their participation in the SRO

V PLAN OF ACTION

This report sets forth the list of prospective pilot enterprises and the criteria used in selecting them. The goals of the pilot phase of the project are to implement the IAS in the pilot enterprises and to increase the experience and capacity of the indigenous accounting and audit professionals. The purpose of this section is to delineate the activities necessary to accomplish these goals.

- Select the remaining two pilot enterprises
- Form and train the pilot implementation teams
- Implement effective accounting systems based on the IAS
- Compile management reports and IAS-based financial statements
- Train management and ownership in the use of financial information
- Analyze the information from the IAS-based system with management
- Conduct project completion and evaluation seminars

**USAID UKRAINE ACCOUNTING REFORM
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ASSESSMENT REPORT

THE TRAINING PROGRAM

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I. INTRODUCTION

A Background

Accounting reform is a key element in increasing the competitiveness of enterprises operating in an emerging market economy. The development of financial information and its application to the decision-making processes of managers, lenders, investors, and regulators depends on a clear understanding of how financial information is collected, analyzed, and reported. The objective of the training component of this project, therefore, is to provide practical tools for both producers and users of financial information and to enhance their ability to use this information in their roles as decision-makers.

B Objective and Scope

Ultimately, training will support the broader goals of the project, which include the adoption and implementation of International Accounting Standards in several pilot enterprises. To this end, Price Waterhouse will employ a training strategy that will address both the common and the unique needs of key stakeholders in this project, among them:

- Producers of accounting information, including
 - a subcontracted individuals and firms assisting the contractor
 - b enterprise accounting staff
- Users of accounting information, including
 - a managers, owners, and other stakeholders
 - b investors and lenders
- Oversight and regulatory bodies, including
 - a Securities Commission
 - b Ministry of Finance
 - c Academia

Our technical and pedagogical approach to the training component of this project will emphasize the necessity for participants to understand first how financial information is used outside the offices of regulatory and tax authorities. As the private sector continues to develop in Ukraine, managers, lenders, and investors will rely more heavily on accurate and detailed financial information to develop strategies to compete in a rapidly changing environment. Regulators, likewise, will depend on better financial data in making policy decisions which promote economic growth. Participants, therefore, must come to understand and ultimately leverage the power of financial information in their decision-making processes.

To that end, the training program will begin with an introduction to the conceptual framework underlying the International Accounting Standards and their goals. Discussions and ultimately the implementation of key accounting principles will follow. In addition, participants will be introduced to basic elements of managerial and tax accounting.

II PROGRAM CONTENT AND TRAINING DESIGN

In order to accomplish these training objectives, Price Waterhouse will employ a three-phase training program. This approach will allow PW to address simultaneously the common and the unique needs of various participants in the project. The first phase of training will be general in nature and focus primarily on building awareness of the key objectives of accounting reform. This training will address representatives of each target audience, including owners and other shareholders, investors and lenders, academics, local professionals, individuals and accounting firms, assisting the PW in implementation, managers and chief accountants of pilot enterprises. Training in this phase will include short, periodic workshops.

The second phase of training will focus on building skills among the subcontracted individuals and accounting firms involved in delivering the technical assistance to the pilot enterprises. This training will include an intensive workshop at the beginning of the project to build an understanding of, and skills necessary to implement, key international accounting principles. This will be followed by periodic workshops to address ongoing implementation issues. As a supplement to the technical training, local subcontractors also will attend train-the-trainer seminars, which will build participants' skills as trainers and introduce them to practical training methodologies, including case studies, role plays, and the development and use of practice sets.

The final phase of training will target accountants in the pilot enterprises. This training will supplement the technical assistance and will consist of weekly hands-on working sessions addressing topics directly related to the implementation of the International Accounting Standards. This training will be delivered by both Price Waterhouse staff and the local subcontractors.

An underlying goal of this training program is to build a basic curriculum which can be adapted and offered on an ongoing basis by the Self-Regulatory Organization (SRO) created under this project. In addition, Price Waterhouse will seek commitments from subcontractors and academics who complete the training courses to provide ongoing delivery of the training programs through the SRO.

III TRAINING PLAN

Phase 1

Target Audience:

Government and other regulatory officials, investors and lenders, academia, local subcontractors, and owners, shareholders, managers and chief accountants of pilot enterprises

Training Program

Series of short workshops addressing the following topics

- Workshop 1 Role of Financial Information in a Market Economy (2 days)
Overview of Ukrainian Accounting Reform Project
Introduction to International Accounting Standards
Users of Financial Information and Their Expectations
Overview of Basic Financial Statements
- Workshop 2 Role of Accounting Reform and Standard-Setting Bodies (2 days)
Comparison of National Accounting Models
Regulating and Standard-Setting Bodies and Professional Associations
Overview of Standard-Setting Process
Managing Change and Change Integration
- Workshop 3 Theories and Applications of Managerial Accounting (1 day)
Approach to Managerial Accounting
Introduction to Cost Accounting
The Treasury Function
Basics of Corporate Finance
- Workshop 4 Theories and Applications of Tax Accounting (1 day)
Review of Current Corporate Tax Law in Ukraine
Approach to Western Tax Accounting (uses and implications)
Choices and Implications of Future Tax Reform in Ukraine
- Workshop 5 Understanding the Audit Function (1 day)
Role and Responsibility of the Independent Auditor
Degrees of Review and Impact of Auditor's Decision
Internal Control Framework

*Phase 2***Target Audience:**

Local subcontractors and select representatives of the SRO

Training Program

Intensive introductory course followed by a series of short workshops covering ongoing implementation issues

Introductory Course (3 weeks)

Overview of IAS and Their Goals

Introduction to Basic Financial Statements

Balance Sheet

Income Statement

Cash Flow Statement

Key Users of Financial Information

Managers

Owners

Investors

Bankers

Regulators

Tax Authorities

The IAS Framework

Objective of Financial Statements

Underlying Assumptions

Qualitative Characteristics of Financial Statements

Elements of Financial Statements

Recognition of Elements of Financial Statements

Measurements of Elements of Financial Statements

Concepts of Capital and Capital Maintenance

Key Accounting Principles

Accrual vs Cash

Matching Principle and Revenue Recognition

Going Concern

Prudence

Reliability

Relevance

Fairness

Consistency
Comparability
Building a Chart of Accounts and General Ledger
Financial Statement Presentation and Disclosure (per IAS)
Treatment of Current Assets
Inventory Valuation and Costing
Treatment of Fixed Assets
Valuation and Depreciation
Accounting for Leases
Treatment of Current Liabilities
Capitalization of Borrowing Costs
Treatment of Long-Term Liabilities
Treatment of Equity
Application of the Matching Principle and Revenue
Recognition - booking revenues and expenses
Constructing the Cash Flow Statement
Preparing Financial Information for Managers
Ratio Analysis
Working Capital
Pro Formas and Cash Flow Projections

This intensive training course will be supplemented with ongoing seminars to address implementation issues related to the above topics. In addition, supplemental workshops will be provided to address additional technical topics and to develop the training capabilities of the local counterparts and subcontractors. These workshops will include

Train-the-Trainer Workshops

Building Strong Presentation and Training Skills (1 day)
Introduction to the Case Method (1 day)
Case Research Methods*
Ongoing Case Writing Seminars *

* If pilot enterprises agree, local subcontractors will work with PW staff to develop case studies during the program to document the challenges and ultimate results of implementing IAS in Ukrainian enterprises

Workshop 1 Supporting Managerial Decision-Making (2 days)
Investment Decision Support (break-even, pay back, ROI, IRR)
Capital Budgeting

- Workshop 2 Raising Capital and Financial Disclosure Requirements (2 days)
Debt Financing--Basic Credit Analysis
Equity Financing--Preparing a Prospectus
Private Placement--Due Diligence
Financial Disclosure to Shareholders
- Workshop 3 Introduction to Tax Accounting (1 day)
Overview of Current Corporate Tax Regulations
Key Differences for Ukrainian Tax Accounting
 Depreciation
 Inventory Valuation
 Revenue Recognition and Profitability
- Workshop 4 Enterprise Valuation Techniques (1 day)
 Asset-Based
 Earnings-Based
- Workshop 5 Accounting in an Inflationary Environment (1 day)
 Financial Reporting in Hyper-Inflationary Economies
 Effects of Changes in Foreign Exchange Rates

Phase 3

Target Audience:

Chief accountants and accounting staff of pilot enterprises

Training program

An introductory seminar will be conducted to outline the work plan of technical assistance and training and provide an overview of the IAS framework and its goals. This will be followed by weekly in-company working sessions which provide hands-on practice in implementing international accounting principles. These workshops will address specific topics in tandem with the implementation of the technical assistance (i.e. a seminar on developing a chart of accounts will be delivered when the enterprise is developing its new chart of accounts). Most of the in-company training will be delivered by PW's local subcontractors and counterparts in conjunction with and under the supervision of PW staff.

- Workshop 1 Introduction to IAS (3 days)
 Outline of Work Plan for Technical Assistance and Training
 The IAS Framework

Objective of Financial Statements
Underlying Assumptions
Qualitative Characteristics of Financial Statements
Elements of Financial Statements
Recognition of Elements of Financial Statements
Measurements of Elements of Financial Statements
Concepts of Capital and Capital Maintenance
Introduction to Basic Financial Statements
 Balance Sheet
 Income Statement
 Cash Flow Statement
Key Users of Financial Information
 Managers
 Owners
 Investors
 Bankers
 Regulators
 Tax Authorities

Following this introductory workshop, local counterparts, in cooperation with PW staff, will deliver weekly (afternoon) working seminars on specific topics outlined under Phase II of this training plan. These seminars will address issues in the following categories:

Implementing Key Accounting Principles
Developing a Chart of Accounts
Presentation and Disclosure of Financial Statements
Preparing Financial Reports for Managerial Decision-Making
Tax Accounting
Raising Capital and Financial Disclosure Requirements

Other topics of interest to participants may be added upon request.

All training will be conducted in Ukrainian or Russian (per the choice of the target audience). Introductory workshops and train-the-trainer workshops will be delivered by senior Price Waterhouse training and technical assistance staff and will rely upon simultaneous interpretation. All other training, including the three-week intensive course for local subcontractors and counterparts and in-company training for pilot enterprises, will be delivered in the local language without interpretation.

This general approach to training and the training delivery plan are provided as a basis for comment and review. Upon refinement and approval of the general approach and training plan, Price Waterhouse will develop a detailed training delivery schedule.

**USAID UKRAINE ACCOUNTING REFORM
PROJECT**

ASSESSMENT REPORT

APPENDICES

*Price Waterhouse LLP
Office of Government Services*

Prepared under contract with the United States Agency for International Development

APPENDIX A

ORGANIZATIONS AND INDIVIDUALS INTERVIEWED

Accounting/Audit Firms and Organizations

National Association of Auditors and Accountants Account, Prof Pelipenko, Head of the Association

Ukrainian Union of Auditors, Ms Alexandra Kuzhel, President

Arthur Andersen (Kyiv), Mr Bill Senkiw, Managing Partner

Ernst & Young Ukraine, Mr David Telepak, Managing Partner

Deloitte & Touche, Mr Maurice Downey, Managing Partner

PACT, Mr Alexander Redko, President

Center of Accounting Services Balance, Ms Alla Savchenko

Mazars Ukraine, Mr Herve Caroff

IMI-Kyiv, Prof Sergey F Golov

Ukrainian Finance and Banking School, Mr Georg Mozgovoy

Accounting Tuition Center, Ms Evie Bowyer, Ms Jackie Spurling

Banks, Lending Institutions, and Investment Funds

Gradobank, Ms Yatsenko, Head of the Project Finance Department

Investment Company TEKT, Mr Vadim Grib, General Director

Investment Company Intar-Invest, Mr Valentin Kostyuk, President

Universal Business Systems (financed by Western NIS fund), Ms Meg Small, President

Donor Organizations

EU TACIS, Mr Michel Arguillere

EBRD, Ms Lesia L Haliv

Legal Firms

Frishberg & Partners, Mr Markian Silecky, Managing Partner

Minutes of Meeting

Meeting with the National Association of Auditors and Accountants of Ukraine "ACCOUNT"

Date February 27, 1996

Present Olha Holoyda - USAID/Kiev
Helen Crevonis- Price Waterhouse
Jim Jones - Price Waterhouse
Garold Kornienko - V P National Association of Auditors and
Accountants of Ukraine
Prof Pelipenko - Head of National Association of Auditors and
Accountants of Ukraine

Discussion

The meeting took place on February 27, 1996. The discussion revolved around the structure and activities of the National Association and the possibility of future cooperation between the project and the Association.

Prof Pelipenko described the structure of the board of the Association that consists of twenty members and operates under the license of the Ministry of Statistics of Ukraine. The Association has national and regional offices. In addition to the national office in Kiev, the Association also has five satellite offices in Charkiv, Nikolaev, Chernigiv, Sumi, and Odessa.

At present on the Association's agenda is (1) to present and have approved by the Rada the amendments to the 1993 Auditing law to be more in line with International Standards, (2) to continue the training program to train a new cadre of auditors in the use of International Auditing Standards, and (3) to create a set of Auditing Standards for Ukraine based on International Auditing Standards.

With respect to the first item of their agenda, the association is currently working on amendments to the 1993 audit law with the Rada. They will implement the second item of their agenda when they begin training auditors with the program they have already developed. The association has begun the third item of their agenda in that they have already adapted and adopted international auditing standards 1,2,4, and 13.

Prof Pelipenko explained that at this time there are two types of professional certification. One is type "A" for certified professionals to practice audits in all industries with the exception of banking, and the second is type "A & B" for all industries, including audits for banks.

They have shown us the training facilities of the organization that are very impressive. In turn, we have discussed our goals and objectives for the project.

We concluded our meeting on a very positive note with both representatives of the Association pledging their interest and support of our project.

MINUTES OF MEETING

ALEXANDRA KUZHEL, PRESIDENT, UNION OF AUDITORS,
PRESIDENTIAL APPOINTEE TO THE COMMISSION ON ACCOUNTING

Date March 21, 1996

Present Alexandra Kuzhel
James L. Jones - PW
Tamara - PW translator
Yulia Futoranskaya - Ms. Kuzhel's Deputy

Discussion

Ms. Kuzhel started the meeting by welcoming us and asking us to provide some background on the USAID project. Mr. Jones then explained the main points of the project.

Ms. Kuzhel stated that if we can work in partnership with her and her staff, including Yulia Futoranskaya and Alla Savchenko, she felt she could have an SRO in accounting established in the next six months. She would like to use the accounting clubs that are presently formed and meeting in 13 different oblasts and are comprised of some 2,500 accountants and auditors. Mr. Jones agreed that this seemed to be a good foundation for the association.

There was some discussion of the proposed accounting law now before parliament. Ms. Kuzhel concluded this discussion with the comment that she would like to pass the legislation without change as change could delay passage.

Ms. Kuzhel emphasized her belief that the real need of Ukraine at this point is education. She would like to establish an accounting training center in Kiev for training in the new accounting law and then for continuing education. It's a matter to take under advisement as we proceed with the task order development.

Mr. Jones gave her a copy of the task order for her review and comments, which she promised would be forthcoming this next week.

Ms. Kuzhel asked that we begin by having a meeting with Alla and Yulia on Wednesday of this week. She would like to be consulted only on the most important of issues, Alla and Yulia will keep her informed as to our progress.

The meeting was concluded with mutual agreement to work together as project partners. She would like to select two pilot participants and be aware of the monies available for the SRO and education portions of the project.

James L. Jones

Minutes of Meeting
with Arthur Andersen (Kyiv)

Date March 11, 1996

Present William Senkiw - Managing Partner, Arthur Andersen (Kyiv)
 Helen Crevonis - Price Waterhouse
 James Jones - Price Waterhouse
 Marina Sletten - Price Waterhouse

Discussion

Mr Senkiw has worked in Kyiv for the past four years and has particularly valuable insight into the existing economic situation in the Ukraine. He believes that accounting reform is crucial to the success of ongoing market reforms. In his opinion, foreign direct investment is not taking off in part because of the lack of any kind of relevant and reliable financial information. The local regulatory authorities, such as the Ministry of Finance, have not made any efforts to promote change in the area of accounting and financial reporting and will not do so unless pressured by the international donor agencies. Mr Senkiw believes that the only way to change the existing situation is for international donor agencies, such as EBRD, USAID, and IFC to force the Ukrainian government to adopt international accounting standards outright by threatening to withdraw financial assistance.

Mr Senkiw and PW consultants discussed the scope of the accounting reform project, including the establishment of a professional SRO and the accounts conversion pilot project. Mr Senkiw mentioned that Arthur Andersen (Kyiv) had attempted to implement a similar accounts conversion project for an EBRD investee (a garment factory located in Odessa). At first, the management seemed to be supportive, however, once they fully understood the scope of the project, they stopped cooperating.

Mr Senkiw also had a couple of comments on the Head of the Ukrainian Union of Accountants, Alexandra Kuzhel. He never met her personally, however, he believes that Ms Kuzhel might not be willing to fully cooperate with PW in promoting international accounting standards because her true goal is to keep foreign competition (i.e., the Big Six accounting firms) out of the country.

Minutes of Meeting
with Ernst & Young Ukraina

Date March 12, 1996

Present David Telepak - Managing Partner, Ernst & Young Ukraina
 Makram Abboud - Price Waterhouse
 Marina Sletten - Price Waterhouse

Discussion

Accounting Law and Chart of Accounts In 1994-1995, Ernst & Young (E&Y) consultants provided technical assistance to the Ukrainian working group of accounting professionals who were in charge of drafting the country's new accounting law. This project was funded by EU TACIS. Its main objective was drafting a truly international-style accounting law based on the 4th EU Directive.

The Ukrainian working group was initially headed by the Chief of the Ministry of Finance's methodology department, Mr. Parchomenko, however, in the course of the project Ms. Kuzhel took over from Mr. Parchomenko. The working group included the following members: Prof. Efimenko, Prof. Kuzminski, and Prof. Sapko. In addition to working on the accounting law, the group put together a draft of a new uniform chart of accounts, however, E&Y did not get any updates on the current status of this chart of accounts.

Mr. Alistair Wilson, who works out of London, headed E&Y's consulting team on the accounting law project. The last revised draft of the law was received and reviewed by the team in July, 1995. E&Y consultants submitted their comments to Ms. Kuzhel, however, they have not received any feedback. They made numerous unsuccessful attempts to obtain the latest draft of the law and are still very interested in reviewing the final draft of the proposed law. Mr. Telepak promised to provide PW consultants with the July version of the law. He would also like to get a copy of the revised draft of the accounting law from PW if they ever get it from Ms. Kuzhel.

According to Mr. Telepak, the last version of the accounting law reviewed by E&Y consultants was still very far from ideal. However, should the Rada pass the law, it would set the necessary legal foundation for the Ukraine accounting reform.

Training E&Y consultants believe that the next meaningful step of the accounting reform would be a comprehensive training program for local professionals. They also think that it would be beneficial to develop a methodology for reconciling financial accounting and reporting to tax reporting in order to appease the local tax inspectorate.

Mr. Telepak is aware of the following training efforts undertaken by foreign experts: (1) KPMG-sponsored training in international accounting standards, (2) Financial Services Volunteer Corps (Coopers & Lybrand) is in the process of organizing a USAID-sponsored banking accounting symposium in the spring. C&L consultants have recently met with Ms.

Kuzhel regarding this matter. The person in charge of the training program is Allison Lynch (tel 220-4865)

Current Status of the Audit Law The audit law will be revised by the Rada next month. One of the revisions concerns the relaxation of the compulsory audit requirements for certain legal entities.

Prospects of Cooperating with Ms Kuzhel Mr Telepak believes that Ms Kuzhel genuinely wants to promote the use of international accounting standards in Ukraine. He also mentioned her interest in starting a local accounting standards setting body. However, Mr Telepak's own experience with Ms Kuzhel was not always positive as demonstrated by her lack of cooperation when drafting the Ukrainian accounting law.

Separately, Mr Telepak believes that Ms Kuzhel has her own audit firm and might want her firm to be PW's subcontractor on the project. He could not suggest any other possible subcontractors nor any potential pilot candidates, however, he thought that talking to the local Chamber of Auditors might be helpful. Mr Telepak asked PW consultants to send him a brief outline of the accounting reform project's scope of work so that he could try to gather additional information by circulating the description around the E&Y commercial office.

Public education Mr Telepak briefly mentioned the TV show called Accounting Today (or Audit) that invited E&Y to participate in a panel discussion on the accounting law and the Big 6's position on this law (the invitation was declined). There is also an accounting publication titled "Everything about Accounting", edited by Ludmila Aleksandrovna Yarovaya (phone # 446-4311, 443-7240).

MINUTES OF MEETING

DELOITTE & TOUCHE

Date March 14, 1996

Present Maurice Downey - Managing Partner
 Olha Holoyda - USAID
 James L Jones - PW

Discussion

The purpose of this meeting was to explain to Deloitte and Touche the task order for accounting reform in Ukraine and to request assistance from Maurice with respect to audit firms and possible pilots

Maurice said that he would provide names of audit firms that might be worthwhile to talk to and he would consider our request on pilot representatives

The meeting was quite cordial but brief

James L Jones

MINUTES OF MEETING
Private Audit Firm - PACT

Date March 7, 1996

Present Alexander Y Redko
 Helen Crevonis
 James L Jones

Discussion

Ms Crevonis began the discussion explaining the purpose and scope of the accounting reform project. She explained that part of the project called for the assistance of an audit firm in supplying auditors for training.

Mr Redko felt the project was interesting and he would like to have some of his people involved but they were quite busy making a living at audits and he wasn't sure he could become involved.

Mr Redko took our suggestions and offer under advisement and said that he would get back to us at a later date.

James L Jones

Minutes of Meeting

Date March 21, 1996

Present Alla Savchenko - Chairman, Center of Accounting Services Balance
Yulia Futoranskaya - Deputy Head of the National Audit Committee
Jim Jones - Price Waterhouse
Marina Sletten - Price Waterhouse

Discussion

AICPA, FASB On request of Ms Savchenko, Price Waterhouse consultants briefly talked about the history and structure of AICPA, FASB, and GASB Ukrainian counterparts were especially interested in how these organizations enforced accounting and auditing standards, what was their relationship to the US government, and how they financed their operations There were also questions on accounting/commercial legislation in different countries and on the relationship between financial and tax accounting in the US and other western countries Price Waterhouse consultants promised to put together a short overview of legislative/standard setting/SRO practices in several foreign countries (e g , Canada, Germany, Japan, Belgium, etc)

The participants of the meeting briefly discussed the new Ukrainian accounting law that will be submitted to the Parliament in the near future Ms Futoranskaya is a member of the law working group where she represents Ms Kuzhel Both Ms Savchenko and Ms Futoranskaya understand that the law is not perfect but they would like to pass it as soon as possible in order to start the reform process Ms Futoranskaya invited Price Waterhouse consultants to attend a working group session that will take place sometime in April She also volunteered the names of the other working group members Ms Kuzhel, Mr Sopko (Academia), Mr Parchomenko (MoF), Mr Gutsaluk (President of the audit firm Orientir), Mr Efimenko (Academia), Ms Guzhvenko (Supreme Soviet - in charge of accounting, auditing, and tax issues), Mr Sinyavski (President of the audit firm Lviv Expert Audit), Mr Petuhov (tax lawyer)

All the sessions of the accounting law working group are open to the public The group published several drafts of the law and received numerous comments They encourage all interested parties to express their opinion and contribute to the development and passage of the law

There was a short discussion of the goals and powers of the National Council on Accounting Standards that will be established by the accounting law All the standards and pronouncements that will be passed by the Council will be seen as legislative acts The information will be disseminated through MoF, other Ministries, and via publications

Task Order-Related Discussion The Ukrainian counterparts informed PW consultants that they would like to take a week in order to study the task order and present their comments, suggestions, and a preliminary work plan

One of Ms Futoranskaya's important concerns was the question on the feasibility of forming a separate accounting and audit SRO. She mentioned that Ukrainian auditors have been leaders in initiating and implementing change while local accountants have been content with the follower's role. The meeting participants agreed to return to this topic at the following meetings. The next meeting will take place on Wednesday, March 27, 1996.

**Minutes of meeting
with Mazars Ukraine**

Date March 11, 1996

Present Herve Caroff - Mazars Ukraine
 Makram Abboud - Price Waterhouse

Discussion

Mazar is the 7th biggest accounting firm in France and has offices in all major European cities and in some Eastern European countries

Mazar has been in Ukraine since 1993 involved in accounting formation/training programs financed by EU/TACIS Their counterpart in this program was the International Science and Technology Institute These training programs trained accounting professors and accountants from Kiev and Donetsk by organizing seminars in Kiev and study tours across Western Europe Mainly EU accounting directives (e g 4th) have been covered in the training seminars The training project ended in September, 1995

Under EU/Tacis funding, Mazar and the Institute of C A of Scotland started a new project in January, 1996 to assist the Ukrainian Union of Auditors to strengthen its regulations and procedures Their main counterpart for this program is Ms Kuzhel Within the context of this program they are currently developing the following Audit Norms

Auditors' Responsibilities
Audit Evidence
Internal Control

In addition, Mr Caroff informed me that E&Y has been working on the accounting law being developed by the Ukrainian government

Mr Caroff asked that we meet again when Mr Muszynski (Director of Mazar's Accounting project) is in town, he is expected back on the 9th of March

Minutes of Meeting
with Sergey F Golov

Date March 1, 1995

Present Helen Crevonis - Price Waterhouse
Jim Jones - Price Waterhouse
Tamara Sherachidze - Price Waterhouse
Marina Sletten - Price Waterhouse

About Mr Golov Mr Golov is a well-known Ukrainian professor who chairs the Accounting Department at the International Management Institute (IMI-Kyiv). He was trained in international accounting standards and practices in both Europe and the US. Mr Golov is one of the very few Ukrainian professionals who is proficient in both local and international accounting and reporting requirements. In addition to his teaching activities, he provides consulting services on the accounts conversion to foreign firms interested in investing in local enterprises.

Mr Golov is a passionate advocate of promoting international accounting standards in Ukraine. His main interest lies in providing training to young and progressive local accountants. Mr Golov is convinced that the development of the capital markets will bring the need for financial accounting and reporting that is completely different from the existing tax accounting requirements.

Discussion

The following issues were raised and discussed during the meeting:

Mr Golov has been involved in the creation of the new *international accounting association* called the Ukrainian-British Association of Accounting Professors. The co-founders of the new SRO are Ukrainian and British professors; its primary objective is to train local accountants in international accounting standards. The association has not been registered due to delays in the paperwork by the British counterpart sponsored by the Know-How Fund. Mr Golov suggested that it would be faster to register the SRO as a Ukrainian body; however, the British side has already shipped equipment and the local co-founders feel that they should wait until the British are ready to complete the registration process.

Mr Golov mentioned that he would be able to line up local or foreign financing for the operations of the new SRO if the British counterpart was not successful in securing the European financing. When asked why he needed additional financing, Mr Golov replied that such an SRO could not be self-sustaining due to the low income levels in the country. Membership dues and professional fees could not support the organization's training activities.

The structure of the new SRO would include two co-presidents, a vice-president, and a Council responsible for the membership, conferences, and other activities. The Charter that

outlines this structure is being reviewed by the local lawyers and will probably have to be revised because the SRO appears to have one body (i.e., the Council) that combines both legislative and executive powers

Mr Golov expects to have 25 members as soon as the SRO is registered. The members would come from academia, the accounting and audit professions, and enterprises and would include both physical persons and legal entities

The activities of the prospective SRO to date have included a founders' conference and a professional conference organized by the SRO and sponsored by a local audit firm. The professional conference was dedicated to accounting and auditing issues and was very successful. One of the influential speakers at the conference was Ms Kuzhel, head of the Ukrainian Union of Accountants

Per Price Waterhouse consultants' request, Mr Golov gave a short overview of the self-regulatory organizations of auditors that are presently active in Ukraine

Chamber of Auditors The Chamber of Auditors passed the audit law and issued three audit regulations. It is in charge of administering audit examinations, certifying, and licensing Ukrainian auditors. Currently, there are more than 500 licensed audit firms, however, there is a shortage of auditors due to the legal requirements of yearly compliance audits for the overwhelming majority of the enterprises that conduct their operations in Ukrainian territory

Mr Golov stressed that the Ukrainian auditors perform tax audits. The notion of financial audits is foreign to the local auditors since the entire accounting and reporting system is based on the tax requirements

The Institute of Audit and Statistics, headed by Garold Kornienko, is one of the two SROs that give training courses to the audit exam candidates. The other SRO that provides the same type of services is the *Union of Auditors*, headed by Ms Kuzhel. Mr Golov did not think highly of either of the above-mentioned training programs

Mr Golov mentioned the following *accounting publications* that are popular in Ukraine: Accounting and Auditing and Everything about Accounting. Accounting and Auditing is a magazine that has exclusive rights to publish documents approved by the Chamber of Auditors. Mr Golov, as well as many other professors and practitioners, writes for this magazine. The founders of the Ukrainian-British Association of Accounting Professors are planning to publish the SRO's printed materials in this magazine until they can afford to publish their own newsletter

Everything about Accounting is a daily newspaper whose main advantage lies in its ability to supply up-to-date information. Its main flaw is the low quality of the printed materials

Mr Golov briefly talked about the Department of Accounting and Reporting (DAR) at the Ministry of Finance, which issues accounting regulations in Ukraine, and about the Ministry of Statistics, which is in charge of developing the new national Chart of Accounts. In his

opinion, the DAR is interested in retaining its power by keeping in place the existing accounting system. There has been no progress made on the new Chart of Accounts (Ukraine is still using the old Soviet Chart of Accounts developed in the 1980s)

Minutes of Meeting
with Ukrainian Finance and Banking School

Date March 20, 1996

Present Dr Georg Mozgovoy, Ukrainian Finance and Banking School
 Makram Abboud, Price Waterhouse
 Chuck Sheridan, Price Waterhouse

Discussion

Makram Abboud and Chuck Sheridan met with Dr Mozgovoy to gain an understanding of the Ukrainian Finance and Banking School (UFBS) He told us that the school was created in 1994 under the auspices of the EU/TACIS program of Bank and Insurance Training in Ukraine The UFBS uses space in the Kiev State University of Economics Dr Mozgovoy explained that the curriculum is directed solely at the banking industry The students are generally sent by banks seeking training support In some cases, the students are not sponsored by banks

He reviewed the course offerings with us and went through a brief explanation of the curriculum He volunteered his personal opinion that the mission should be expanded to include more business finance However, this had not been done He pointed out that a master's degree program in banking had begun It was in its second year He pointed out the wisdom of locating at the Kiev Economic University The faculty from the university were able to teach part-time at the UFBS and other independent institutions located at the University It was beneficial for both the faculty and the institution He also pointed out that there was another program that competed with the UFBS Apparently, KPMG is involved with it and it is also supported by the National Bank of the Ukraine He volunteered his disregard for such competing ventures when there is such a shortage of students in the banking area and there is such a need in so many other areas

Dr Mozgovoy pointed out that the UFBS director, Michael Savluk, was in Germany seeking funding and opportunities Dr Mozgovoy will be leaving the program in April Although the school will remain with the university, the program will cease at the end of 1996

Dr Mozgovoy gave us a tour of the facility It includes four classrooms, a PC lab with about a dozen workstations, a library, and administrative offices The facilities occupy all of the eighth floor of a building at the university We obtained a brochure on the UFBS, which is filed with our project reports

Minutes of Meeting
with Accountancy Tuition Centers

Date March 20, 1996

Present Evie Bowyer - ATC
 Jackie Spurling - ATC
 Chuck Sheridan - PW
 Makram Abboud - PW

Discussion

The primary objective of the meeting was for PW to gain an understanding of the current accounting training programs held in Kiev

ATC is one of the leading providers of financial training in Central and Eastern Europe, their main area of expertise has been to train and educate students for the ACCA examination (CPA equivalent for UK) ATC has been accredited by the ACCA to conduct these courses and examinations They have organized ACCA courses and examinations, which included students from each one of the Big 6, in most major Eastern European cities PW has been one of their biggest clients in Moscow, Toliatti and St Petersburg

They currently have ACCA classes and examinations being held in Kiev in which employees from most of the Big 6 are participating (except PW & KPMG)

The ACCA Examination includes the following 6 modules & 14 subjects

- | | |
|---|---|
| • Module A
Accountancy Framework
Legal Framework | * Module B
Management Information
Organizational Framework |
| • Module C
Information Analysis
Audit Framework | * Module D
Tax Framework
Managerial Finance |
| • Module E
Information for Control and Decision Making
Accounting & Audit Practice
Tax Planning | * Module F
Management & Strategy
Financial Reporting Env
Financial Strategy |

Each subject has about 9 days worth of class time and the rest is directed homestudy At the end of each module the student will have to take an exam, and, if passed, will be able to move to next module It takes approximately 3 years and \$10,000/student to finish all the modules and exams Although an accounting background would help, it is not mandatory

In addition to the ACCA examination courses, ATC provide any financial training that their clients might need. For example, in Kiev they are providing basic accounting and financial management training to UTEL employees (Ukrainian phone service provider, partially owned by AT&T)

Lastly, ATC currently has an accounting reform project in Bulgaria in which they are setting up an SRO and accounting training center. The project manager will be in Kiev shortly and meet with us to possibly coordinate our activities, especially in setting up an accounting training center in Kiev.

Minutes of Meeting
with Gradobank

Date March 11, 1996

Present Iryna Yatsenko - Chief of the Project Finance Department
Alexander Kopylenko - Deputy Manager, Project Finance Department
Makram Abboud - Price Waterhouse
Jim Jones - Price Waterhouse
Marina Sletten - Price Waterhouse

Discussion

Both Ms Yatsenko and Mr Kopylenko expressed their sincere interest in the accounting reform project. They understand the need for change in accounting and audit areas so that creditors and investors can have access to financial information that can be used in financial analysis and investment monitoring. However, currently banks have no legal right to demand from their investees financial statements prepared in accordance with IAS.

Gradobank is one of the few Ukrainian banks that qualified for disbursement of EBRD-backed loans. Gradobank's Project Finance Department employees received some EBRD-sponsored training in credit and financial analysis. However, their financial analysts, as well as their accountants, are in need of further training. Ms Yatsenko was very interested in learning more about the training program that will be conducted by PW consultants over the next six months. PW representatives promised to keep Gradobank informed of future training plans.

Mr Jones briefly described the accounting reform project and explained that the purpose of the visit was to acquire names of organizations that PW could interview for the pilot project.

Ms Yatsenko offered to provide names of some organizations that might qualify as pilots and promised to fax them to PW office on the 12th of March, 1996.

Minutes of Meeting
with Investment Company TEKT

Date March 4, 1996

Present Vadim V Grib - TEKT, General Director
Svetlana Vladimirova - TEKT, Deputy Director, Finance & Economics
Greg Hemphill - USAID
Olha Holoyda - USAID
Helen Crevonis - Price Waterhouse
Jim Jones - Price Waterhouse
Tamara Shachrinadze - Price Waterhouse
Marina Sletten - Price Waterhouse

Discussion

The investment company TEKT was founded at the end of 1995 by a group of young entrepreneurs who were previously involved in investment activities in Russia. The charter fund of the company amounts to \$550,000 and the founders are in the process of issuing investment certificates valued at 800 billion karbovanets (over \$4 million). TEKT will exchange these investment certificates for both cash and privatization certificates. Presently, the company has made only three investments. It holds a 1.5% stake in Dneprozot, a 5% stake in Rovnopharmatsia, and possibly a 30% stake in a local trucking company whose core business is the transportation of refrigerated goods. TEKT put in a bid for this last investment at a recent auction and is believed to have purchased the shares.

MUTUAL FUND The mutual fund TEKT is an integral part of the investment company (see the organization chart). It is a closed-end fund that is expected to become an open-end fund in about three years from now. TEKT's managers are planning to create a diversified portfolio by allocating its resources in the following manner: 50% long-term strategic investments, 20% low-risk high-liquidity assets (Ukrainian T-bills and bank CDs), and 30% speculative investments (20% equity securities and 10% real estate). The fund will attempt to acquire a significant interest in its strategic investees by purchasing at least 25% of the investees' shares. The significant influence will be exercised through a strong representation on the investees' Boards of Directors.

CONSULTING SERVICES TEKT is providing consulting/private placement services to local enterprises that are being privatized. In addition, it accumulates and processes information on Ukrainian industries and enterprises for foreign investors interested in investing in Ukraine. TEKT mails industry and enterprise surveys to 20 foreign institutional investors.

According to Mr. Grib, foreign investors are primarily interested in the market share of the potential investees. They pay very little attention to the financial information provided to them. Mr. Grib did not think that there were any problems with the local financial reporting. He mentioned that on the rare occasions when foreign investors request western-style financials, his staff provides the accounts conversion services.

STRATEGIC PLANS TEKT's management is planning to diversify the company's activities by creating a holding company that would control not only the existing mutual fund but also a bank, a pharmaceutical company, a pension fund, and a medical insurance company. The strategic investees of the mutual fund would be required to use the services of the other financial subsidiaries of the parent.

AUDIT FUNCTION Once the mutual fund makes several large investments, TEKT is planning to create an internal audit function that would audit the investees. Mr. Grib will send about five auditors to Moscow to attend EBRD-sponsored audit training courses. After that, the auditors will have hands-on training working as interns for large Russian investment funds.

PILOT PROJECT Mr. Grib believes that the accounts conversion pilot project is somewhat premature because the management of privatized enterprises is not interested in releasing the financial information to the shareholders and, therefore, will not cooperate with PW consultants.

TEKT'S TRAINING NEEDS Mr. Grib mentioned his dissatisfaction with the skills of TEKT's financial analysts, who can compile the information but are not able to analyze it. He believes that the company needs to invest resources in training its financial analysts, however, TEKT does not have any immediate training plans.

Minutes of Meeting
with Investment Company Intar-Invest

Date March 4, 1996

Present Valentin V Kostyuk - Intar-Invest , General Director
 Vladimir V Korneev - Intar-Invest , Director of the Mutual Fund
 Helen Crevonis - Price Waterhouse
 Jim Jones - Price Waterhouse
 Marina Sletten - Price Waterhouse

Discussion

The investment company Intar-Invest was founded in 1994 by three legal entities and six individuals. Its charter fund amounts to \$50,000. The company invests in equity securities and Ukrainian T-bills. The fund is currently accumulating privatization coupons that they hope to invest in privatizing enterprises. Currently Intar-Invest has very few investments. Its biggest investment is a one percent stake in a Kiev rubber items manufacturer called Kievresina (most of the shares are owned by the management and employees). The fund purchased its share in Kievresina in the secondary market.

Intar-Invest is planning to invest in Ukrainian consumer goods manufacturers, breweries, and apparel manufacturers. They do not plan to acquire a controlling share in any of the potential investees nor do they anticipate any serious involvement in their management.

The Intar-Invest managers understand the need for the improved financial reporting in Ukraine. They believe that it is nearly impossible to perform serious financial analysis of the information currently provided by the enterprises. They have expressed their hope that the newly formed Ukrainian SEC will influence the reporting practices of publicly-held Ukrainian firms.

Intar-Invest representatives suggested that Price Waterhouse contact Kievresina regarding the pilot project, however, they were not sure that the company would be interested in the project.

Minutes of meeting
with Universal Business Systems

Date March 16, 1996

Participants Meg Small - Universal Business Systems (UBS)
 Greg Hemphill - USAID
 Olha Holoyda - USAID
 Jim Jones - Price Waterhouse
 Makram Abboud - Price Waterhouse

Discussion

Initially, Ms Small gave us an overview of the activities of UBS and its clients (see attached)

Most of the meeting covered the implementation of accounting systems in Ukrainian enterprises. Currently UBS is implementing a dual accounting system for a manufacturing company in Lviv, with annual sales of approximately \$1 million. The system they are implementing is a Scala system that maintains 2 general ledgers, one adapted to Ukrainian accounting standards and the other to GAAP. The system makes the appropriate conversions at the transaction level on a continuous basis, as soon as the transactions are entered. This system will cost between \$40,000 and \$70,000 for software only and another \$100,000 to \$140,000 for consultancy fees. The cost of system is financed by the Western NIS fund, as they are taking up equity in the Lviv enterprise.

Due to the high costs of the Scala or any other similar system, Mr Hemphill suggested that PW use for their implementation Quick Books Pro (or similar low cost packages) for GAAP accounting and local accounting packages (i.e. Fat Gans) for Ukrainian accounting, for a total cost of approximately \$500 for software.

Ms Small mentioned that a local software company "PARUS" has developed a local accounting system with a GAAP module, for which the final price is still not clear.

**Minutes of meeting
with EU TACIS**

Date March 17, 1996

Participants Michel Arguillere - EU TACIS
 Jim Jones - Price Waterhouse
 Makram Abboud - Price Waterhouse

Discussion

The meeting was very short (20 minutes), due to Mr Arguillere having to attend another meeting

We started by introducing our task order and our various activities in Ukraine to Mr Arguillere

Mr Arguillere then gave us an overview of Ernst & Young's EU/TACIS accounting project, which mainly has been commenting on the accounting laws being drafted by the Ukrainian government He stressed that E&Y was not involved in drafting the law but limited to commenting on it because he strongly believes that the only way such a law would get implemented would be for the Ukrainian government to have invested time into it and hence have ownership over it Mr Arguillere added that the above mentioned law included a provision for the establishment of a Self-Regulatory Organization which would set the accounting policies and standards for each industry He promised he would send us a copy of the proposed law which is currently being debated in Parliament

MINUTES OF MEETING
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

Date March 25, 1996

Present Leslie L Haliv - Deputy Resident Representative
 Olha Holoyda - USAID
 Makram Abboud - PW
 James L Jones - PW

Discussion

This discussion held at the National bank offices of EBRD at the request of Olha Holoyda was for the purpose of introducing the project to EBRD and enlisting their assistance in requiring western-style financial statements when enterprises submit loan requests for approval

Ms Haliv said that one type of loan they make is through the National Bank and guaranteed by the National bank, so their risk is non-existent. The loans EBRD makes directly require IAS-compliant financials.

Ms Haliv was negative about the possibility of making great change in Ukraine and Mr Jones recounted the positive responses we have been having with the enterprises. She wished us all the best and offered to help in any way she could.

James L Jones

Minutes of Meeting
with Frishberg & Partners

Date March 11, 1996

Present Markian B Silecky - Managing Partner
 Helen Crevonis - Price Waterhouse
 Marina Sletten - Price Waterhouse

Discussion

For the past four years, Mr Silecky has been practicing commercial and tax law in Ukraine. Per PW consultants' request, he briefly described the existing legal and business situation in the country. He also talked about his own background (he is an American-educated lawyer with substantial experience in both US and international law) and his company's plans for the future.

Ms Crevonis explained the scope of the accounting reform project and mentioned that PW might need legal assistance when registering the new SRO. Mr Silecky was very interested in providing legal services to the SRO, should the need arise. He also offered to review the SRO's charter and by-laws once they are drafted by PW lawyers and their Ukrainian counterparts.

PW consultants and Mr Silecky exchanged business cards and agreed to get in touch in the future as the need for professional legal services arises.

SK

APPENDIX B

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AICPA, Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment, Report of the Special Committee on the Standards of Professional Conduct for Certified Public Accountants, 1986

Price Waterhouse, "Building a Securities Market Regulator in an Emerging Market", Draft report for USAID

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APPENDIX C

DRAFT STRATEGIC PLAN

Self-regulatory Organization of Accountants and Auditors in Ukraine

Strategic Plan





Vision

The Organization will seek to be recognized as the authoritative



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Critical Success Factors

- Support from key members of the accounting and audit profession

- Ability to provide the

-





Environmental Assessment

Trends

- Privatization continues
- Foreign Investment expands
- Sensitivity to environmental issues increases
- Environmental standards improve



Environmental Assessment (cont'd)

Opportunities

- Increasing demand by investors for objective and comparable financial information
- Donor Agencies are Increasing their focus
 - Bank loans
 - Infrastructure investment
 - Afforestation





Mission Statement

The Organization will work toward the reestablishment of accounting

standards and the establishment of a new accounting system

that will be more effective and efficient than the current system



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Mission Statement Components

Committee	Current	Medium-Term (3-5 Years)
Standards and Practices	<ul style="list-style-type: none"> • Adoption of International Accounting Standards (IAS) practices in various industries • Adoption of International Standards for Audit (ISA) practices in various countries 	<ul style="list-style-type: none"> • Evaluate performance of committees • Review professional standards • Conduct special studies • Examine regulatory issues effecting members • Develop management accounting guidelines
Professional Education	<ul style="list-style-type: none"> • Develop basic financial management courses • Hold introductory seminars and conferences 	Develop: <ul style="list-style-type: none"> • Group study courses • Self-study courses • Seminars • Conferences • Technical publications and professional periodicals • Library services



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Mission Statement Components (cont'd)

Committee	Current	Medium-Term (3-5 Years)
Professional Ethics	<ul style="list-style-type: none"> Establish rules of ethical behavior on such matters as maintaining independence, use of confidential client information, and conflicts of interest 	<ul style="list-style-type: none"> Establish a means to provide organization members with guidance on questions involving professional ethics
Public Relations	<ul style="list-style-type: none"> Representation of the accounting and audit profession to the media 	<ul style="list-style-type: none"> Manage media relations in an effort to promote the interest of the profession Tax information campaign
Membership	<ul style="list-style-type: none"> Establish enrollment criteria 	<ul style="list-style-type: none"> Ensure that members comply with membership criteria Ensure that members develop and maintain talented staffs





Responsibilities of the SRO

- Promulgate, establish, and interpret accounting practices and standards
- Develop formal classroom and on-the-job training programs for members to foster professional development and lifelong learning and competence
- Monitor and improve the quality of the profession
- Educate the public about the profession
-
-
-



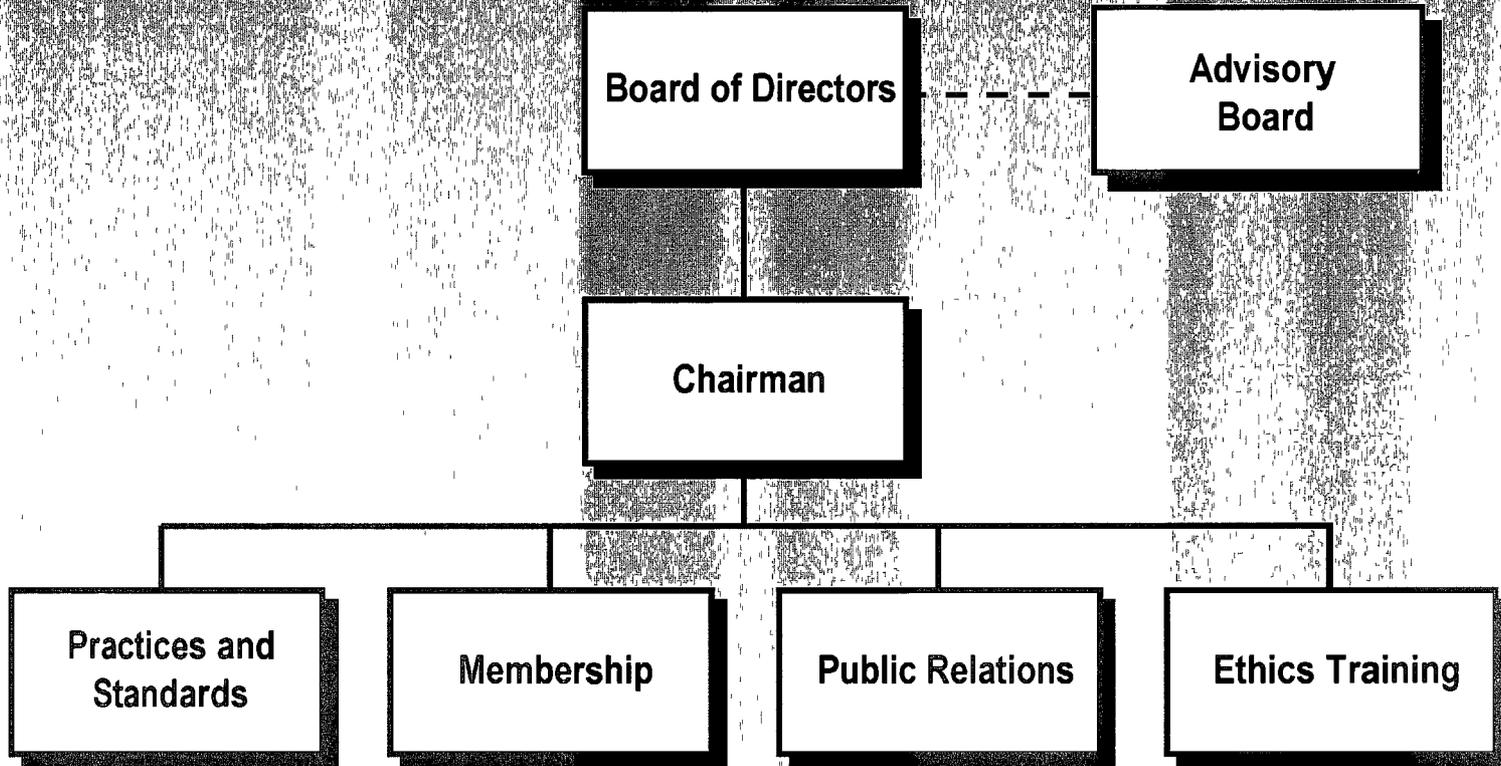
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Responsibilities of the SRO (cont'd)

- Promote and enforce uniform and consistent practices and standards in the industry
- Supply technical publications and other materials such as journals, brochures, and e-track to educate members and provide them with the most current information on the latest technical developments in the industry
- Develop and maintain a database of members and their contact information

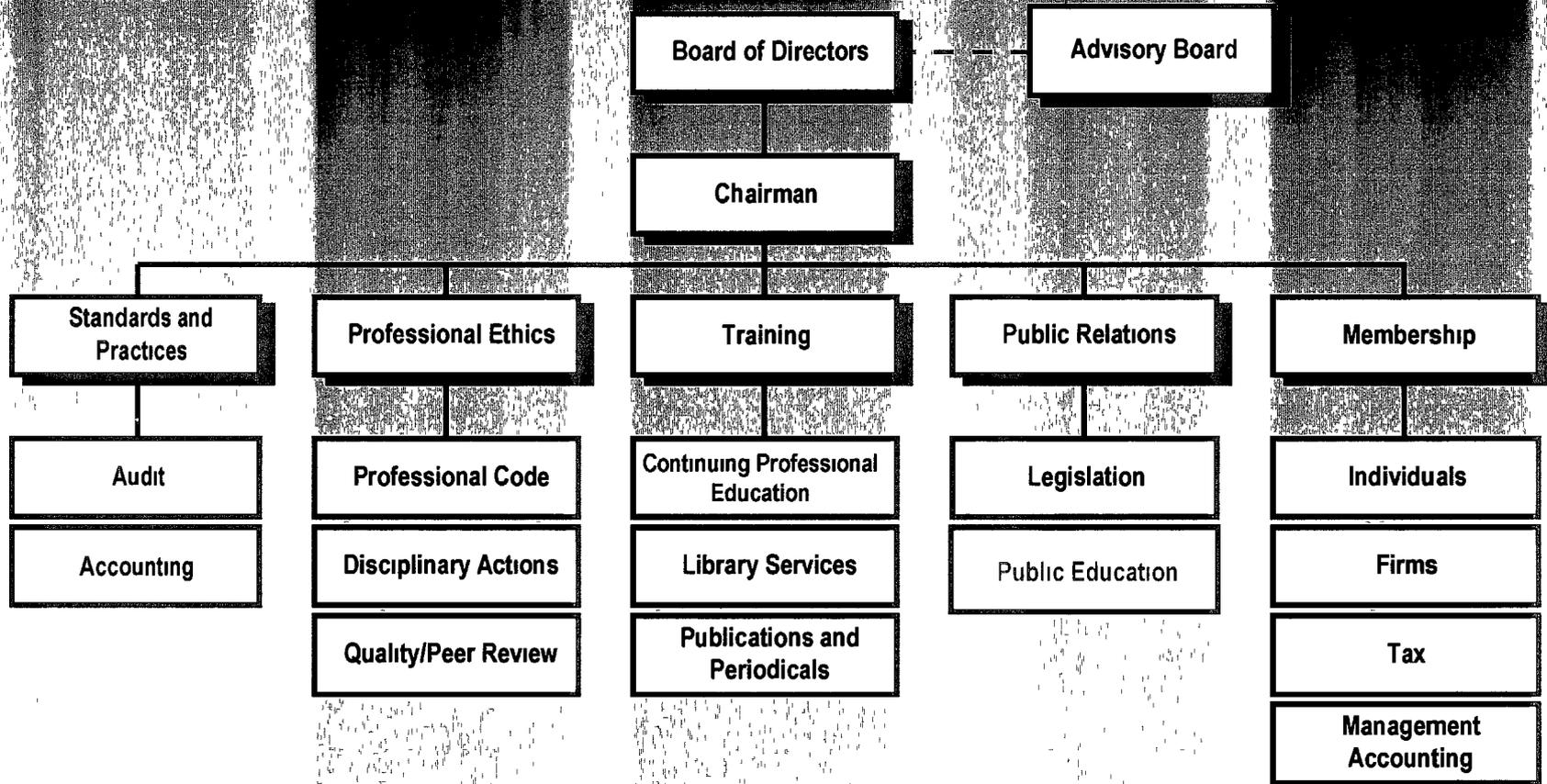


Current Organizational Chart



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Future Organizational Chart



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APPENDIX D

DRAFT CHARTER FOR THE NATIONAL ASSOCIATION OF ACCOUNTANTS AND AUDITORS IN UKRAINE

SECTION I STATEMENT OF PURPOSE

The National Association of Accountants and Auditors in Ukraine ("the Association") exists pursuant to Ukraine Law and is a licensed Self-Regulatory Organization (SRO) It is formed to work in cooperation with the Government of Ukraine and Rada to establish accounting standards and practices, professional education and code of ethics, public relations and membership requirements, and protect the financial interests of all investors To that end, the Association's members pledge to conduct themselves according to the highest standards of commercial conduct in accordance with the rules of the Association and to submit to the binding authority of the Association or any of its committees when it takes disciplinary action

SECTION II OBJECTIVES

The Association's objectives are to

- Promulgate, establish, and interpret accounting practices and standards
- Promote and enforce uniform and consistent practices and standards in the industry
- Develop and promote policies, technical standards, and guidance capabilities to strengthen the operating practices and ethics of the profession
- Develop and enforce a Code of Professional Ethics
- Promote legislation on accounting and audit reform
- Represent the accounting and audit profession and advocate its interests
- Establish membership requirements for both basic education required to enter the profession and continuing education to remain a member of the profession
- Develop a membership entrance exam
- Provide guidance to practitioners on making judgments regarding the scope and nature of services and adherence to professional standards
- Develop formal classroom and on-the-job training programs for members to foster professional development and a high level of skills and practices
- Supply technical publications and other materials such as journals, brochures, and extracts to educate members and overcome the constraints posed by accountants with limited technical skills
- Conduct initial accounting reform at the enterprise level
- Coordinate with other domestic and international professional accounting and audit organizations
- Register with the Governments as a SRO, and
- Transact business and to purchase, hold, own, lease, mortgage, sell and convey any and

all property necessary for the purposes of the Association

SECTION III FORM AND STRUCTURE OF THE ORGANIZATION

1 3 1 The Association is a membership corporation and shall have no capital stock The Association is not organized and shall not be conducted for profit and no part of its net revenues or earnings shall inure to the benefit of any member

1 3 2 The Board of Directors

1 3 2 1 The Board of Directors ("the Board") shall be the governing body of the Association and except as otherwise provided by this charter shall be vested with all powers necessary for the management of the affairs of the Association and the promotion of the Association's welfare, objects and purposes

1 3 2 2 The Board will consist of no less than five and no more than nine persons, including a Chairperson, Vice-Chairman, Secretary and Treasurer, elected by a majority vote of the members of the Association A board member will serve a term of two years until his successor is elected or until the Board member's death, resignation or removal

1 3 2 3 The Chairman of the Association will have the right fill a vacancy on the Board by appointing a member of the Association to complete the unexpired term

1 3 2 4 The Board will have the authority upon notice and an opportunity for a hearing to cancel or suspend the membership of any member for failure to file or to submit on request any report, document or other information required to be filed with or requested by the Association

1 3 2 5 The Board will have the authority to hire employees as necessary

1 3 2 6 The Board will have the authority to establish committees and appoint committee members as necessary

1 3 2 7 The board will meet at such times and places, upon such notice, and in accordance with such procedures as it may determine A quorum of the Board will consist of a majority of its members, and any action taken by a majority vote at any meeting at which a quorum is present will constitute the action of the Board No member of the Board shall vote by proxy at any meeting of the Board

1 3 3. Committees

1 3 3 1 Standards and Practices Committee is designated

- to adopt International Accounting Standards (IAS) in various industries,
- to evaluate performance of committees,
- to review professional standards,
- to conduct special studies,
- to examine regulatory issues effecting members,
- to develop management accounting guidelines

1 3 3 2 Professional Ethics Committee is designated

- to establish rules of ethical behavior on such matters as maintaining independence, use of confidential client information, and conflicts of interest,
- to establish means to provide organization members with guidance on questions involving

professional ethics

1 3 3 3 Membership Committee is designated

- to establish enrollment criteria,
- to ensure that members comply with membership criteria,
- to ensure that members develop and maintain talented staffs

1 3 3 4 Professional Education Committee is designated

- to develop basic financial management courses,
- to hold introductory seminars and conferences,

1 3 3 5 Public Relations Committee is designated

- to represent the accounting and audit profession to the media,
- to manage media relations in an effort to promote the interest of the profession,
- to tax information campaign

SECTION IV QUALIFICATIONS OF MEMBERS

1 4.1 Any qualified accountant or auditor or entity licensed to transact business in accounting and auditing services in Ukraine shall be eligible for membership in the Association

1.4 2 The Board of directors of the Association shall have the authority to adopt rules and regulations applicable to applicants for membership with respect to training, experience, competence, financial responsibility, operational capability and such other qualifications as the Board of Directors finds desirable

1 4 3 No person or entity shall be admitted to membership in the Association or be permitted to remain a member of the Association if the person or entity fails to meet the qualification criteria determined by the Board

SECTION V MEMBERSHIP

1.5 1. An application for membership shall be made to the Membership Committee of the Association, properly signed by the applicant, and shall contain (i) an agreement to abide by and comply with all of the rules and regulations of the Association, (ii) an agreement to pay such dues, charges and assessments as are determined by the Board of Directors, and (iii) any other reasonable information about the applicant as the Board of Directors may determine

1 5 2 The Membership Committee will accept or reject applicants after a majority vote Any member rejected for membership will be given a clear explanation of why his application was rejected and will be permitted to reapply for membership or appeal to Board of Directors

1 5 3 The Secretary of the Association will keep an accurate membership roll containing the name and address of each member

SECTION VI
DUES, ASSESSMENTS AND OTHER CHARGES

The Board of Directors shall prepare an estimate of the funds necessary to defray the reasonable expenses of administration in carrying on the work of the Association each fiscal year, and on the basis of such estimate, shall fix and levy the amount of the admission fees, dues assessments and other charges to be paid by members of the corporation and any others persons using any facility or system which the association operates or controls Fees, dues, assessments or other charges shall be due and payable as determined by the Board of Directors from time to time

SECTION VII
RULES OF FAIR PRACTICE

The Rules of Fair Practice of the National Association of Accountants and Auditors will apply to all members and persons associated with a member Persons associated with a member shall have the same duties and obligations as a member under the Rules of Fair Practice

SECTION VIII
DISCIPLINARY PROCEEDINGS

1 8 1 In any disciplinary proceeding before the Association, any member or person associated with a member shall be given the opportunity to have a hearing at which he shall be entitled to be heard in person or through counsel Such persons may present any relevant material In such proceedings,

- (a) specific charges shall be brought,
- (b) such member or person associated with a member shall be notified of and be given an opportunity to defend against such charges,
- (c) a record shall be kept,
- (d) any determination shall include a statement setting forth
 - (i) any act or practice, in which such member may be found to have engaged or which such member may be found to have omitted,
 - (ii) the rule, regulation or statutory provision of which any such act or practice, or omission to act, is deemed to be in violation,
 - (iii) the basis upon which any findings are made, and
 - (iv) the penalty imposed

SECTION IX
POWER OF THE BOARD OF DIRECTORS TO IMPOSE SANCTIONS

The Board of Directors will have the power to impose sanctions following any disciplinary proceeding These sanctions may include private censure, public censure, a fine commensurate with the offense, or expulsion from the Association

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SECTION X
AUTHORITY OF BOARD TO ADOPT A UNIFORM PRACTICE CODE

The Board of Directors is hereby authorized to adopt a Uniform practice Code and amendments, interpretations and explanations thereto, designed to make uniform, where practicable, custom, practice, and usage of accounting techniques

SECTION XI
PROCEDURE FOR ADOPTING AMENDMENTS TO BY-LAWS

Any member of the Board of Directors by resolution or any member of the Association by petition signed by at least 25% of members in good standing may propose amendments to the Association's by-laws. Every proposed amendment to the by-laws shall be presented in writing to the Board of Directors and a record shall be kept thereof. The Board of Directors may adopt any proposed amendment to the by-laws by the affirmative vote of a majority of those Directors then in office. If the proposed amendment is thus approved by a majority vote of those members present, it will become immediately effective.

SECTION XII
ANNUAL FINANCIAL STATEMENTS

As soon as practicable after the end of each fiscal year, the Board of Directors will send to each member of the Association a reasonably itemized statement of receipts and expenditures of the Association for the preceding fiscal year.

APPENDIX E

SRO COMMITTEES

Practices and Standards Committee

The Board of Directors of the Accounting and Audit Self-Regulatory Organization ("SRO") will establish a Practices and Standards Committee ("Standards Committee" or "Committee"), which is described below

- I The proposed members of the Standards Committee would include representatives of
 - a the Chamber of Auditors,
 - b an enterprise,
 - c accounting/audit firms (2),
 - d academia

There will be a Chairman of the Standards Committee Approval of accounting standards and practices will require a simple majority vote of the Standards Committee

In addition, the president of the Ukrainian Chamber of Auditors and representatives from Price Waterhouse and EU/Tacis, among possibly others, will participate in meetings and advise the Standards Committee, but will not vote

II Objectives and Work of the Standards Committee

The immediate primary objectives of the Standards Committee are to promote and implement in Ukraine financial accounting practices, policies and standards that are consistent with International Accounting Standards (IAS) The Standards Committee will also seek to foster understanding and adherence to IAS among auditors, enterprises, investment funds and others in Ukraine In so doing, the Standards Committee (and the SRO as a whole) will champion and support the transition in Ukraine from the current accounting practices to IAS

In the future, the Standards Committee will seek to assist Ukraine in adopting IAS that are consistent with existing Ukrainian legislative, market and economic realities To achieve this objective, the Standards Committee will identify those sections of existing regulations and instructions that correspond to IAS, and those that are different or inconsistent From there, the Standards Committee will develop and adopt regulations and policies that build upon and improve existing Ukrainian regulations so that they are compatible with IAS

The Standards Committee will also review IAS and existing regulations to gain a more complete understand of the underlying conceptual framework This framework consists of

- accounting principles and fundamental accounting concepts, and
- methods or bases of valuation and measurement

The Standards Committee will further consider and review additional fundamental elements, including

financial statements presentation, and

disclosure issues

The purpose of reviewing these principles, concepts and methods is for the Committee to gain an understanding of the strengths and weaknesses of existing Ukrainian accounting regulations and their compatibility with international standards. Based on this understanding, the Committee may in the future prepare internal drafts of proposed accounting standards. The Committee's ability to prepare such drafts - and the period when the Committee begins this work - is directly related to the nature and extent of its understanding of IAS and generally accepted international accounting principles.

If the Committee prepares such drafts, it may also issue Preliminary View documents to inform practitioners of its position and to solicit comments regarding proposed draft accounting standards. Because most countries around the world generally accept IAS, the Committee will probably not issue very many such documents.

Based on the Committee's review and research, its discussions and analysis, and comments regarding Preliminary View documents, if any, the Standards Committee may prepare internal drafts of proposed standards. The Committee may issue the final draft of any such accounting standard as an Exposure Draft, which will be distributed to Ukrainian and international professionals (to be identified) for further review and comment. A simple majority vote by the Standards Committee will be required to approve any distribution of an Exposure Draft.

The Committee will consider any comments to the Exposure Draft and prepare the final version of the proposed accounting standard for submission to the Board of the SRO for its consideration and vote. Approval of the proposed standard by the Board of the SRO will require a simple majority vote. The positions of any dissenting opinions by Board members will be presented in the Ukrainian Accounting Standard in the discussion section that describes alternative approaches considered but rejected by the SRO's Board.

The Standards Committee will also prepare Interpretations of any accounting standards that it issues on an as-needed basis. The purpose of these Interpretations will be to clarify the Standards or to explain their application in specific circumstances. Approval and issuance of Interpretations will require a simple majority vote of the Board of the SRO.

International Accounting Standards

The Standards Committee of the SRO will review the following proposed list of international accounting standards. This list segregates the standards by topic and by order of importance within each topic.

GROUP I -- FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE

- IAS 1 Disclosure of Accounting Policies
- IAS 5 Information to be Disclosed in Financial Statements
- IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- IAS 13 Presentation of Current Assets and Liabilities
- IAS 7 Cash Flow Statements

GROUP II -- FIXED ASSETS

- IAS 16 Accounting for Property, Plant and Equipment
- IAS 4 Depreciation Accounting
- IAS 17 Accounting for Leases
- IAS 23 Capitalization of Borrowing Costs

GROUP III -- SPECIFIC ACCOUNTS

- IAS 2 Valuation and Presentation of Inventories in the Context of the Historical Cost System
- IAS 18 Revenue Recognition
- IAS 11 Accounting for Construction Costs

GROUP IV -- INVESTMENTS AND CONSOLIDATIONS

- IAS 25 Accounting for Investments
- IAS 28 Accounting for Investments in Associates (Supersedes IAS 3)
- IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

GROUP V -- OTHER REPORTING AND DISCLOSURE ISSUES

- IAS 24 Related Party Disclosures

Note This proposed list is tentative and may vary as the project progresses

Training Committee

The Board of Directors of the Accounting and Audit Self-Regulatory Organization ("SRO") will establish a Training Committee ("Training Committee" or "Training"), which is described below

- I The proposed members of the Training Committee would include representatives of
 - a accounting/audit firms (2)
 - b academia

There will be a Chairman of the Training Committee. In addition, the president of the Ukrainian Chamber of Auditors and representatives from Price Waterhouse and EU/Tacis, among others, will participate in meetings and advise the Training Committee, but will not vote.

II Objectives and Work of the Training Committee

The primary objective of the Training Committee is to support a group of highly skilled personnel (SRO members or affiliates) who will uphold accounting and auditing standards. The committee will oversee training which will promote Ukrainian financial accounting practices, policies and standards that are consistent with IAS. Training includes:

- Standardized accounting exams for accreditation by the SRO, similar to the Certified Public Accountancy (CPA) exam in the US,
- Accounting and auditing educational programs through books, videotapes, and other media forms,
- Basic organizational skills seminars, for example language, computer, and operational procedures,
- Managerial/leadership seminars to promote shared professional and management knowledge amongst the SRO's members, and
- Distribution of technical publications including journals and brochures in order to update members on the latest developments in the legal and regulatory framework as well as the latest accounting techniques.

The principal sources for training programs are those courses and seminars currently offered by the local universities or associations, training programs specially organized for the regulator with local universities, through management consulting services, vendors or as a series of lectures or seminars conducted by local or foreign subject experts and training programs offered at training institutions overseas. However, since local Ukrainian universities lack the appropriate accounting and audit courses, the Training Committee will work with academia to develop a curriculum and enhance the quality of accounting education in order to attract quality students to the profession in the long term. In the short term, the focus of the Committee will be on facilitating members access to training courses organized by international CPA firms.

Using this strategy, the SRO will assist Ukrainian accounting/audit professionals in complying with international standards quickly and efficiently. Delivery methods should include a combination of classroom instruction, direct exposure, "how to" training (on-the job training workshop), and coaching (involving one-on-one technical assistance where the most detailed level of tasks are identified).

Membership Committee

The Board of Directors of the Accounting and Audit SRO will establish a Membership Committee ("Membership Committee" or "Membership"), which is described below.

- I The proposed members of the Membership Committee would include representatives of
- a enterprises
 - b accounting/auditing firms
 - c academia
 - d banks

There will be a Chairman of the Membership Committee. In addition, the president of the Ukrainian Chamber of Auditors and representatives from Price Waterhouse and EU/Tacis, among possibly others, will participate in meetings and advise the Membership Committee, but will not vote.

II Objectives and Work of the Membership Committee

The Membership Committee will have an overall responsibility for recruiting new members, providing guidance to all members in public practice, industry, government, and education, and all other matters related to SRO membership.

Membership in the SRO is voluntary. By accepting membership, an accounting/auditing professional assumes an obligation of self-discipline above and beyond the requirements of laws and regulations. Members are required to

- Serve the public interest,
- Maintain integrity,
- Maintain objectivity,
- Observe the profession's performance standards, and
- Observe the profession's conduct standards

The Committee will set membership requirements such as professional examinations, continuing education, and fees and dues. The Committee will develop new Rules of Conduct as required as well as enforce the existing rules. Members currently not in public practice will be required to observe the requirements of any new standards set by the SRO.

Another objective of the Membership Committee would be to help raise the members' understanding of management and tax accounting. The Committee will market training courses which would improve the application of the different types of accounting practices by assisting members in public practice, industry, education and government. The Membership Committee, for example, would offer members specialized tax and cost accounting methodologies which would allow enterprises/individuals to enjoy greater tax benefits and profits. Significant projects could include a best practices benchmark study of finance to provide comprehensive performance analysis, defining the vision of management accounting in the year 2000 and beyond, and a multi-discipline, international conference on accounting and capital budgeting for environmental costs.

In the long run, if the SRO should offer members services in tax, personal financial planning, management consulting, and information technology, the Committee would oversee these efforts.

Each of these sections would offer members a variety of benefits, including special publications, newsletters, specialized group-buying programs and conferences

Public Relations Committee

The Board of Directors of the SRO will establish a Public Relations Committee, which is described below

- I. The proposed members of the Public Relations Committee would include representatives of
 - a public relations firms
 - b Rada
 - c accounting/audit firms
 - d enterprise (1)
 - e bank

There will be a Chairman of the Public Relations Committee. In addition, the president of the Ukrainian Chamber of Auditors and representatives from Price Waterhouse and EU/Tacis, among possibly others, will participate in meetings and advise the Training Committee, but will not vote

II Objectives and Work of the Public Relations Committee

The Public Relations Committee will provide public information and encourage broad participation in developing Ukrainian accounting and auditing methods to meet international standards. One method in achieving this objective is through the development of relationships with other Ukrainian accounting/auditing SROs as well as other international SROs. The Public Relations Committee would disseminate information to SRO members and affiliates about benefits of improved accounting standards through seminars, conferences and other types of information sharing forums. Another way to ensure the profession's commitment to the SRO's standards is the granting of licenses. The Committee will develop a licensing exam in order to provide members of the SRO certification which is distinguishable and recognized by the profession.

The Committee would inform members of all changes and updates to Ukrainian generally accepted accounting rules as well as changes in the IAS. In addition, the Committee would follow modifications to the legal and regulatory framework for securities and investments that involve accounting principles and practices. The purpose of following such changes would be two-fold: informing members and affiliates and creating a lobby which would exert influence on future trends in accounting and auditing rules and practices. The Public Relations Committee will also follow changes in tax regulations, a strategic area and a major concern for the SRO members and affiliates.

The Public Relations Committee will represent the organization in different forums of related professions, such as finance, investment, and securities. It would promote relations within the accounting and auditing profession between firms and between individual members resulting in the overall improvement of professional standards and ethics. Moreover, the Committee's mandate will be to increase the number of firms in the SRO while upholding the SRO as the national accounting body.

Ethics Committee

The Board of Directors of the Accounting and Audit Self-Regulatory Organization (SRO) will establish an Ethics Committee which is described below.

- I The proposed members of the Ethics Committee would include representatives from the following areas
 - a accounting/audit firms
 - b academia
 - c industry

There will be a Chairman of the Ethics Committee. In addition, the president of the Chamber of Auditors and representatives of Price Waterhouse and EU/Tacis, among others, will participate in meetings to advise the Ethics Committee, but will not vote.

II Objectives and Work of the Ethics Committee

The primary objective of the Ethics Committee is to provide guidance to members on questions concerning independence, confidential client information and conflict of interest. In addition, the Ethics Committee will be responsible for enforcing adherence to a Code of Professional Ethics. Thus, the Ethics Committee will carry out two distinct functions: drafting, interpreting and rendering opinions on ethical issues, and performing an enforcement role. Because the Ethics Committee will draft and interpret rules of ethics, as well as enforce these rules, it is important that the rules be consistently applied and that members have a means for appealing disciplinary decisions of the Board of Directors, possibly to the SEC or the civil courts.

A Drafting and Interpreting Rules and Rendering Opinions

The Ethics Committee will be responsible for drafting and interpreting ethics rules and rendering opinions involving ethical questions. In order to draft ethics rules, the committee should look to the IAS and other accounting/audit organizations such as the AICPA for guidance in defining independence, confidential client information, and conflicts of interest. The Ethics Committee should also take into account unique factors arising in Ukraine's transitional economy. In drafting ethics rules, the committee should rely heavily on the experience of practitioners with input from academia and outside advisers. The Ethics Committee may want to draft a set of rules initially, then circulate these preliminary rules among members of the SRO and the larger community of accountants and auditors for responses and comments. All comments should be carefully

evaluated and, where appropriate, incorporated into the rules

The SRO should also render opinions to its members concerning these rules. In order to provide this service, the Ethics Committee should establish a standard procedure for receiving inquiries and rendering opinions, possibly by offering an address and telephone number where members can solicit opinions. For more frequently asked questions or questions involving critical matters, the Ethics Committee should consider issuing written opinions and making these opinions easily available to all members. Finally, the Ethics Committee should always strive for consistency in issuing any opinion in order to provide clear, unambiguous guidance to SRO members.

B Enforcement Action

The Ethics Committee should also establish a set of procedures for taking enforcement actions against members who violated the organization's rules. The procedures should include rules for investigations, inquiries and hearings, as well as a schedule of penalties. Investigations and hearings should be carried out by small panels consisting of 3 to 5 people. These people should be members of the profession or academia who serve on the panels on a volunteer basis. Panel members should make preliminary decisions based on the SRO's ethics rules, then pass their decisions on to the full Ethics Committee for review. After reviewing the panel's findings, the Ethics Committee should deliver an opinion with a corresponding penalty, where appropriate. These opinions should be in writing and released to all members of the SRO to serve as a guideline for future conduct and to discourage similar violations in the future. Finally, the enforcement procedures should contain an appeals process to ensure fairness. Members should be given the opportunity to appeal decisions of the Ethics Committee to the full Board of Directors, and possibly to the SEC or the civil courts.

APPENDIX F

KIEV NEWS ADVERTISEMENT FOR PILOT ENTERPRISES



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консольные	NM N4	2.4-480		1.5-61.5
мощностные	I IR	0.15-0.60		2.5-40
высверные	MXH	1-13		11-54
для бассейнов	MPC	3-108		3-37.5
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ТА ПРИБУТКОВІ ПІДПРИЄМСТВА**



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 - 2 Обучение местных бухгалтеров международным стандартам бухучета и требованиям к отчетности,
 - 3 Развитие/усиление управленческой отчетности, основанной на международной практике
- Отбор будет производиться в соответствии со следующими критериями.
- Целеустремленность кандидата внедрить международную практику бухучета
 - Степень мотивации к внедрению такой практики, обусловленная конкурентной средой
 - Потребность кандидата в капитале, как немедленная, так и среднесрочная
 - Мотивация руководства поддержать осуществление проекта

Отбор будет производиться с 15 по 30 марта 1996г. Письма от заинтересованных компаний просим отправлять по адресу: 252033, Киев-33, ул.Саксаганского 24, кв. 21, Прайс Уотерхаус Лтд.

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- (1) - название и адрес компании, телефон и ФИО контактного лица,
- (2) - форма собственности,
- (3) - объем реализации за последние 3 года,
- (4) - общая сумма активов на 1995 год,
- (5) - количество сотрудников,
- (6) - потребность в капитале на 2 последующих года

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APPENDIX G

MEMORANDA OF MEETINGS WITH PILOT ENTERPRISES

Minutes of Meetings
with Joint-Stock Company "Zhelan"

Meeting # 1

Date March 5, 1996

Present Larissa I Liashko - Deputy Director
Nina V Lavrenchuk - Chief Accountant
Nadiezha G Pleshko - Deputy Chief Accountant
Nina I Polovko - Economist
Liudmila E Jouravleva - Chief Labor Economist
Helen Crevonis - Price Waterhouse
James Jones - Price Waterhouse
Marina Sletten - Price Waterhouse

Discussion

"Zhelan" was built in 1987 by a French contractor. Its \$35 million cost was financed by the Soviet Government. Zhelan manufactures men's suits. In 1991, the enterprise was privatized. The controlling shareholder that owns 60% of the stock is the firm "Michael Voronin Vienna-Paris" which is 93% owned by the Ukrainian menswear designer Michael Voronin. The rest of Zhelan's shares are owned by employees (35%) and miscellaneous third parties (5%).

Zhelan used to export around 20% of its goods to the Czech Republic, however, currently exports represent a negligible portion of the enterprise's business. Its main market is the internal Ukrainian market. The remaining export operations are based on barter (raw materials for finished goods swap) transactions. Zhelan has a three-employees sales department. It is experiencing major problems in marketing its merchandise. The inventory turnover is very low and the enterprise's warehouse is overstocked. The factory closed for a week in the beginning of March due to a substantial inventory buildup. In addition, the factory normally works only four days a week due to the same problems.

Zhelan produces 117,000 suits a year and has 570 employees. In 1995, sales revenue amounted to 417 billion karbovanets while the cost of production was 536 billion karbovanets.

Zhelan has been experiencing acute working capital problems. In 1995, all of its working capital needs were financed by its parent. One of the reasons for the low short-term liquidity is a weak collection function. The company sells all of its merchandise on credit. Its accounts receivable are collected within two to three months. Its accounts payable are paid on average within three to four months. The delays in A/P payment results in damaged relationships with important fabrics suppliers.

Accounting Function The accounting department of the enterprise is not computerized. It has nine accountants. Both the Chief Accountant and her Deputy are in their fifties. The Chief

Accountant seems anxious to cooperate with Price Waterhouse. She mentioned that, in her opinion, Ukraine will adopt international accounting standards by 1998 and she'd like to see her enterprise in the forefront of the change.

According to the statutory Ukrainian accounting books, Zhelan is a profitable company. However, the enterprise has severe cash flow problems. The Chief Accountant understands the need for supplying understandable, relevant, and timely information to Zhelan's parent and its majority shareholder, Mr. Voronin.

Meeting # 2

Date March 6, 1996

Present Michael Voronin - Majority Shareholder of the Parent Company
 Stanislav Vlasov - Director
 Larissa Liashko - Deputy Director
 Helen Crevonis - Price Waterhouse
 James Jones - Price Waterhouse
 Marina Sletten - Price Waterhouse

Discussion

Zhelan was one of the very first enterprises to be privatized in the Ukraine. Its management insisted on the creation of an open joint-stock company in order to attract outside investment. Zhelan found an interested investor, the firm "Michael Voronin Vienna-Paris", that acquired 60% of its shares and has been financing Zhelan's operations for the past year. Since the date of purchase, the parent invested around \$1 million in its subsidiary.

Mr. Voronin, the parent's majority shareholder who is actively involved in Zhelan's strategic management, believes that Zhelan's low profitability is caused by the following factors:

- Weak design capabilities. This problem is being solved via vertical integration with Mr. Voronin's design firm (the parent). The new models that were designed by Voronin's firms and mass-produced by Zhelan in 1995 have been sold. The inventory buildup is due to the old models that are not very popular in the local market.
- Slow response to changing market conditions and unsatisfactory quality. Mr. Voronin is working on improving the quality of Zhelan's products by purchasing new equipment and inviting foreign specialists to train the line managers and production workers. Once Zhelan starts producing top-quality items, it will be able to compete with foreign producers by offering comparable quality at much lower price both in the local and world markets. Zhelan management is also redesigning its operations to reduce the time span of the "new models to market" cycle.
- Underdeveloped marketing capabilities. Mr. Voronin has just entered into agreement

with a young marketing specialist who had created a firm in order to market Zhelan's products. Eventually, Zhelan would like to outsource the marketing function completely by selling 100% of its goods to this marketing firm.

- Old thinking of Zhelan's employees is a barrier to increased profitability. It is very difficult to change the Soviet mentality, and Human Resources is a major area of concern for any privatized enterprise. Zhelan's management is in the process of training and/or replacing its employees.
- Soviet-style manual accounting function. Managers and the owner cannot obtain the financial information that would allow them to manage the enterprise efficiently. The tax accounting does not present a truthful picture of Zhelan's financial condition and operations.

In Mr. Voronin's opinion, Zhelan's strengths are as follows:

- High-tech equipment allows Zhelan to quickly and significantly improve the quality of production.
- High production capacity. Working at full capacity, Zhelan can saturate the Ukrainian market, where it does not have local competitors, and export fifty percent of its production.
- Competitive cost structure. Zhelan can produce a suit at a cost of \$15 while Italian producers' costs amount to \$34 per suit. The cost of suits manufactured in the US is over \$40 per item. Mr. Voronin mentioned that he was negotiating with American buyers who would be willing to purchase Zhelan's suits, however, they are asking for generous (4-5 months) credit terms. Zhelan simply cannot tie up its working capital for the next six months (an average length of the operating cycle).
- Strong management and supervision on the part of the majority shareholder. Mr. Voronin is a well-traveled businessman who is extremely interested in western ways of doing business and believes in the value of the financial information presented in accordance with the international accounting standards. He is planning to travel to the US at the end of March. While in the US, Mr. Voronin will visit several US apparel manufacturers to get more information on their operations.

Mr. Voronin believes that Zhelan will become very profitable in the near future and has recently offered employees-shareholders to tender their shares for 1 million karbovanets per share.

Both Mr. Voronin and Mr. Vlasov, Zhelan's Director, expressed the desire to cooperate with Price Waterhouse consultants in the implementation of the pilot project. They believe that Zhelan employees are ready to invest the necessary time and energy to make the project successful. Mr. Voronin also asked Price Waterhouse to consider working with Zhelan's parent "Michael Voronin Vienna-Paris". It is a much smaller but profitable private company.

that is 93% owned by Mr Voronin The firm has 70 employees and operates as a high-fashion designer for individual clients Its clients are local government officials and wealthy businessmen who pay an average price of \$200 per suit Currently, the company produces 500 items (coats, suits, etc) plus 500 pairs of pants annually Eventually, Mr Voronin is also planning to open a fashion center where he would organize fashion shows, as well as sell Ukrainian and imported menswear

At the end of the meeting, both Zhelan managers and PW consultants expressed satisfaction with the results of the discussion PW consultants were invited to visit Zhelan's facilities the week of March 10, 1996

Minutes of Meeting
with Joint Venture "Michael Voronin Vienna-Paris"

Date March 18, 1996

Present Michael Voronin - President
Olga Kochergyna - Chief Accountant
Jim Jones - Price Waterhouse
Marina Sletten - Price Waterhouse

Discussion

Ownership Structure The firm is a Ukrainian-Austrian Joint Venture that was formed by Mr Voronin and his brother, who lives in Austria. The Austrian partner owns 65% of the company while Mr Voronin and two of his employees own the remaining 35% of shares. As a joint venture, the firm enjoys a five-year tax holiday.

"Michael Voronin Vienna-Paris" owns 50% of Zhelan's shares while Mr Voronin himself owns another 10% of Zhelan (the rest of the shares is owned by Zhelan's employees).

Operations PW consultants visited the company's facilities and watched a promotional video. Mr Voronin talked about the role that Zhelan is expected to play in increasing the future profitability of the parent company. Mr Voronin anticipates that Zhelan will become profitable as early as June of this year. However, he is concerned with Zhelan's ability to produce financial information relevant to decision-making. Mr Voronin's main concern seems to be inflationary distortions of financial data, as well as foreign exchange losses that are not deductible for tax purposes.

Accounting Function The Chief Accountant, Ms Kochergyna, gave PW consultants a brief overview of the firm's manual accounting function. There are three full-time equivalent accountants working for the firm: one payroll clerk (part-time), one materials and depreciation accountant (part-time), a deputy chief accountant, and the chief accountant who is responsible for managing the department and preparing numerous tax reports. The company files its financial statements with the Tax Inspectorate once a year.

Ms Kochergyna is not familiar with international accounting principles. However, she believes that the local tax accounting is unacceptable since it does not reflect the true financial position and results of operations of Ukrainian businesses.

There is only one managerial report prepared for Mr Voronin: daily cash receipts and disbursements. According to Mr Voronin, the accounting for his firm's operations should be simplified as much as possible. An example of such simplification is the averaging of costs of fabrics used by the designer.

Professional Publications Recommended by the Chief Accountant

“Everything about Accounting”,
“Galitsky Contracts” (basic bookkeeping),
“Vestnic Nalogovoy Sluzhby” (Tax Inspectorate News),
“Business” - highly recommended, publishes latest accounting and tax-related documents, commentaries, interpretations),
“Plus +/- Minus”

Minutes of Meeting
with Joint Stock Company DAX

Date March 13, 1996

Present Vladimir Vıpiraylo - President, DAX
 Helen Crevonis- Price Waterhouse
 Jim Jones - Price Waterhouse
 Marina Sletten - Price Waterhouse

Discussion

Background Information DAX is a young private firm that has three corporate shareholders (1) SVS - a private construction company that owns 45% of the shares, (2) "TS" - a private company that owns 25% of DAX's shares and provided part of its start-up capital, (3) the rest of the shares are owned by "BrokStar", a Russian private firm based in Samara that has recently started marketing DAX's technology in Russia

DAX has 31 employees and annual sales of \$500,000 It manufactures and sells equipment ("AIF" machines) for roof cover repairs using the technology patented by DAX employees In addition, the company provides roof cover repair services using its new technology DAX also works with the American company Swepeco that manufactures high-quality mastic roof cover materials DAX acts as a dealer of Swepeco in Ukraine It also uses Swepeco's materials when providing repair services

DAX services industrial construction sites, office buildings, and apartment buildings It has a very competitive cost structure due to the new technology used in repairs Traditionally, roof covers are repaired by adding additional layers of insulating materials DAX's new technology allows it to repair covers more effectively through dehumidification DAX faces fierce competition, however, the President has no doubt about DAX's ability to compete due to the superior quality of its services and a very competitive cost structure Most of the firm's competitors do not offer any warranty, while DAX routinely offers a three-year warranty If the client decides to use Swepeco's materials, DAX gives an 8 to 20-year warranty depending on the category of materials used in repairs

DAX's extremely competitive cost structure (37,000 karbovanets per square meter on basic repairs) is due to the fact that the AIF technology allows for a minimal use of direct materials The going price for repairing one square meter of a roof cover is 2 million karbovanets DAX can offer a price of 600,000 karbovanets, which would include a three-year warranty

Accounting Function and Capital Structure DAX has one accountant who is proficient in local tax accounting and used to work in the public sector The accounting function is not automated, however, DAX's staff includes one programmer

In addition to equity capital, DAX's capital structure comprises a \$500,000 five-year EBRD loan disbursed by Gradobank. The loan proceeds were used for capital investment purposes. DAX has already started repaying the loan.

DAX's Asset Base DAX owns a manufacturing facility, a warehouse, a garage, and a brand new office space.

DAX's Commitment to the Project When asked why he contacted Price Waterhouse, DAX's President, Mr. Vipiraylo, gave a very convincing speech on his company's need for managerial accounting. The accounting information he receives now is outdated, tells him nothing about his costs and does not help in pricing DAX's services. DAX's management is very eager to participate in the project and is willing to meet the requirements that PW consultants talked about during the meeting.

PW consultants will contact DAX in the near future in order to visit the company's manufacturing facilities.