

Accounting Change Crucial for Progress

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March 23, 2011

The  **Moscow Times**

Leaders of the accounting profession are in agreement about the goals of change, including the full implementation of International Financial Reporting Standards, but arguments rage over how to make this a reality.

"It's not a question of where we should go," Deputy Finance Minister Sergei Shatalov said at an industry conference Wednesday, "but of how [we should get there] and at what pace."

Last week, President Dmitry Medvedev announced that IFRS will come into force for publicly listed companies on Jan. 1, 2012.

The move is a key part of the drive to make Moscow a center of international finance.

"It [IFRS] will allow us to participate better in the formation of a global financial system and, of course, guide our economy to a position of greater openness and predictability," Medvedev said.

But there are a number of stumbling blocks in place before this goal can be achieved.

Not least of them is the fact that, less than nine months before IFRS becomes compulsory, there is still no official Russian translation.

Elucidation from the government about the methodology of the process is also unobtainable at present.

"There is need for official guidance, official policy and official understanding for the public," Kirill Altukhov, a partner at audit and advisory firm KPMG in Russia and the CIS, told The Moscow Times.

But the actual impact of the mandatory use of IFRS will only be significant for the minority of publicly listed companies — most already use the system voluntarily.

One company that will be affected is Surgutneftegas, an oil and gas giant valued at \$33.6 billion, which last reported its accounts under U.S. generally accepted accounting principles in 2001.

Ildar Davletshin, an analyst at Renaissance Capital, said IFRS may bring more transparency to the company, particularly with regard to treasury shares.

The as yet undefined official interpretation of IFRS, however, might provide a loophole for Surgutneftegas. "It's impossible to know what's in the minds of the politicians," Davletshin said.

A further obstacle to reform of the accounting system is a lack of trained professionals, as many higher education institutions do not meet quality standards, and misunderstandings persist among professors and teachers, Altukhov said.

Shatalov described the need to raise professional standards as "a very serious problem."

The move to IFRS and other changes to the Russian accountancy system are not simply administrative, however. They need to be fully integrated into how a company works and accompanied by a shift away from a focus on bookkeeping.

Bookkeeping — the reporting of transactions — took precedence over accounting, the presentation of financial statements, in the Soviet accounting system, where the state was the only user.

"Finding a pragmatic way forward that builds a strong and efficient accounting environment is a crucial part of creating an attractive investment climate in Russia," said Andrew Cranston, senior partner at KPMG in Russia and the CIS.

"It's not just a theoretical debate," he added.

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