

Development of auditing in Mongolia and further objectives

L. Dondog, PhD., Professor, President of MonICPA

It is possible to say that the history of auditing in Mongolia began in the early 1990s.

In 1993, the Law on Accounting was passed and some provisions on auditing and audit firms were included in the law. Based on this law, in 1993, the first audit firms “Dalaivan” LLC and “Mongol Onosh Audit” LLC were established. Moreover, in 1995-1996, several other firms were founded.

Governmental as well as non-governmental organizations - such as the Professional Accounting Council established under the Minister of Finance in 1993 and the Mongolian Institute of Certified Public Accountants established in 1996 – were founded for the purpose of developing and providing oversight to accounting and auditing.

The main features of this period were weak legal framework and lack of knowledge on international standards.

After the Law of Auditing was passed in 1997, many audit firms were established.

A set of rules and instructions of government and professional organizations on enforcement of the Law on Auditing was created, the International Standards on Auditing were translated into our mother tongue, and a legal framework was established.

Series of training organized for enhancing qualifications and knowledge of audit firm staff by the Ministry of Finance and Economy and the Mongolian Institute of Certified Public Accountants gave their benefits.

Capacity and professional skills of the audit firm staff have been improving and becoming more sophisticated as far as methodology is concerned. Changes and improvements have been made in the techniques of conducting audit on business entities' financial statements.

Audit firms now tend to avoid being too small and merge with each other to bring the strength together. In 2000, ten firms merged and became four. In 2002, the Ministry of Finance and Economy took actions to merge four firms and invalidate four companies' licenses.

Now, there are 43 audit firms in the entire country; out of which, 28 are based in Ulaanbaatar, 15 are based in local aimags, and 12 branches of 6 firms are operating in the local aimags. Almost 200 full-time auditors and more than 200 contract auditors are working for those firms.

Actions taken in respect to creating internal standards for audit firms and teaching international standards to 200 auditors within the framework of the technical assistance project

implemented by the Asian Development Bank between 2002 and 2003 proved to be very beneficial. As a result of these actions, work skills of audit firms improved tremendously.

The World Bank has been providing significant support to developing auditing in Mongolia. Since 2007, support has been provided to developing handbooks on internal quality assurance of audit firms and on quality assurance from MonICPA, organizing training sessions for auditors and professionals, and putting them into practice.

Audit management structure

According to the legal documents that are currently in force, the Ministry of Finance bears the responsibility to manage auditing on behalf of the Government. The Ministry of Finance manages the audit firms through issuance of licenses to conduct audits.

The Ministry of Finance takes part in the management of auditing by suspending and invalidating licenses of audit firms, which are in breach and violation of the Law on Licenses for Business Activities and the Law on Auditing.

According to the Law on Auditing, MonICPA has the following duties:

- Approve and enforce codes of conduct of CPAs and auditors;
- Organize professional training;
- Administer CPA examination and
- Provide audit firms with methodology oversight, guidance and information.

In order to implement these duties, four committees – Audit Committee, Ethics Committee, Training Committee, and Accountancy Committee – and 11 sub-committees are operating within the MonICPA's organizational structure.

These committees function in the following areas:

Certified Public Accountants

- Approve and implement CPA training and examination programs;
- Administer CPA examination;
- Extend CPA licenses and organise CPA examination;
- Continuions CPA training and
- Develop, approve and monitor observance of codes of conduct for CPAs.

Guidance and information on audit methodology

- Translate amendments of the ISA and inform auditors;
- Develop and publish guidance papers and/or handbooks on audit methodology;
- Develop methodology on audit quality assurance and carry out quality assurance and
- Coordinate operations of audit firms and contribute to improving their management;

Accounting methodology

- Support actions taken from the Ministry of Finance in the area of accounting;
- Provide methodology guidance and support to government agencies and business entities;
- Prepare a reference book of complex accounting issues for organizations that presented the request and
- For the purpose of supporting activities of the Ministry of Finance, a contract proposal on translating the International Accounting Standards and developing national standards and handbooks has been submitted to the Government. If our proposal receives an approval, a structure for developing accounting standards will be created within the institutional framework.

Relations between MonICPA and the Ministry of Finance

- A joint panel of examiners from the Minister of Finance and MonICPA appointed by a resolution of the Minister of Finance administers CPA examination and the CPA title is awarded by a resolution of the Minister of Finance. The Minister of Finance and the President of MonICPA sign CPA certificates.
- MonICPA presents issues of imposing disciplinary penalties to CPAs to the Minister of Finance and has them resolved by the Minister of Finance.
- MonICPA submits reference letters on audit firms requesting audit licenses to the Ministry of Finance and the Minister of Finance issues the licenses.
- MonICPA submits an audit quality assurance report to the Ministry of Finance and the Minister of Finance makes the final decision in this respect.
- According to the proposal that is being discussed, MonICPA will develop accounting standards and handbooks, have them approved by the Minister of Finance and put them into practice.

Strengthening the capacity of MonICPA

In order to strengthen the current management structure, the issue of strengthening the capacity of MonICPA has become the priority.

For this purpose, the following actions are required to be taken:

1. Developing organizational structure and operational management of MonICPA to the level of an institution of a foreign developed country. In order to do this:
 - 1.1 Implement “twin-institutes” program in cooperation with a similar institute of a developed country and
 - 1.2 Hire a foreign consultant for the period of no less than one year.
2. Strengthening human resource capacity of MonICPA. In order to do this:

- 2.1 Improve English language skills of MonCPA staff to higher than advanced level within a short period of time;
 - 2.2 Enhance the level of knowledge on International Accounting Standards and International Standards on Auditing of the trainers of the institute, specialists of standards, and members of the committees, organize practical studies in foreign countries and internally, and prepare trainers and
 - 2.3 Enhance staff retention by bringing salary and social welfare benefits of the MonICPA staff up to a higher level than those of the government agencies’.
3. Strengthening the economic capacity of MonICPA. In order to do this:
- 3.1 Increase the capacity of the student practical study center, which currently accommodates 20 students and install additional equipments that would be suitable for 40-60 students;
 - 3.2 Expand practical study of the center for repeating CPA training and link it with the stock exchange;
 - 3.3 Establish distance training center for CPAs, prepare and exploit necessary equipments;
 - 3.4 Establish a small-sized printing facility;
 - 3.5 Create professional education center for practicing accountants for enhancing their qualifications and
 - 3.6 Create an open/public database of audited financial statements at MonICPA.
4. Enhancing the quality of CPA training. In order to do this:
- 4.1 Evaluate and amend, if required, examination program for issuing and extending CPA licenses;
 - 4.2 Computerize CPA examination and introduce techniques and technologies for administering distance CPA examination.
5. Providing audit methodology oversight, guidance and information, strengthening the capacity. In order to do this:
- 5.1 Hire a foreign consultant in charge of audit methodology for a period of no fewer than 12 months;
 - 5.2 Prepare user’s manual on the International Standards on Auditing and conduct training among auditors;
 - 5.3 Stabilize practical operations of audit quality assurance and
 - 5.4 Take actions i.e. training, internship and experience sharing aimed at supporting the management improvement of audit firms.

Development of legal framework

There is a necessity of making some changes and amendments to the Mongolian Law on Auditing including the following:

- Included non-audit services within the framework of audit operations.
- Audit companies shall revoke and change clients after three years.
- Agreed to have government agencies as audit clients.
- The asset criterion of more than 50 million (MNT), for requiring companies to have audits conducted by the Law, is too low.
- Auditors' liability insurance is not required by the law.
- The requirement by the Law, which is to have audit standards approved by the National Center for Standardization and Metrology, is not suitable.
- The control mechanism on establishing audit firms with foreign investment and running the business is weak.

About ROSC

We fully support and accept the ROSC and its recommendations prepared by the World Bank. I would like to address that this was an important study because it provided a realistic evaluation of our operations and properly offered further actions that are needed to be taken based on the international best practices.

It is our responsibility how to implement the actions included in the recommendations.

However, there will be challenges i.e. lack of professional experience and financing when trying to implement the actions. Therefore, in this respect, we would like to ask for assistance from the World Bank, other donor international financial organizations, and donor countries.

We hope that your attention will be caught by the areas of strengthening the audit capacity of Mongolia that have been discussed earlier.

Development of auditing in Mongolia will have its benefits on business activities i.e. making stock trading more active and economic development more rapid. Thus, we believe that support provided to the development of auditing will give its benefits to the entire population.

Thank you for your attention.