

## The Level of Development and the Implementation of Accounting Standards in Kosovo – Problems and Challenges

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**Abstract:** This study will show an analysis of the current development in the accounting in Kosovo and the overall financial reports. Financial reports, based on the accounting processes of the highest quality and accepted worldwide has been evaluated as comprehensive by all users of the accounting information. This will fill in all the gaps in the Kosovar financial reports, so there would be no doubt, fore mostly for the financial reports prepared and published by the Kosova business community. The financial reports with international accounting standards based on national standards that are coherent with the international ones, supplies decision makers in business with complete information, financially accurate, which results to efficient decision making on their behalf.

Such a task is of utmost importance, given that Kosovo is now at a crucial phase, given that the foundation of a new state have just been laid with all the sacrifices that have to be overcome, with all the hard and serious work that that awaits us in all fields for creating a sound economic and social basis. To achieve this we need for everyone to work hard and sacrifice, so this will reflect in an economic and social development and all other fields, among the most important ones is the development of the accounting profession, thus giving the possibility for credible and acceptable financial reports by all.

### Introduction

To study the development of accountancy in Kosovo and to see its perspectives it is needed to review the actual situation of the development of accountancy, of recognizing and accepting the accountancy standards. It

is clear that in this level the actual development and the perspective many economical, social and cultural factors have influenced. In this study work will be studied the influence of above mentioned factors; maybe this would be the objective of a special study

work. But based on the questions done by the used questionnaire used for this intention choosing a sample if interviewed persons, it is studied the level of actual development of the accountancy in Kosovo, registering problems that might occur by analyzing these answers.

So, the main aim of investigating work in this research work is to give a table of actual development of the accountancy in Kosovo, Kosovar needs for accounting information. Will be analyzed the level of application of these standards in Kosovo and new standards, need for legal discipline and different trainings about the accountancy standards and as well will be given elements that explain the actual development toward applying international / Kosovar accounting standards.

Main objectives that are foreseen in our research are registering the level of applying the regulative for accountancy and the financial reports, is it effective usage of international standards of accountancy, do you think that with applying international accounting standards will be possible to read financial statements financial reports from readers from outside, the usage of international accounting standards does affect in the transparency of financial reporting, is it needed the training of experts of the tax authorities and of private accounting experts employed with the knowledge of accountancy, is it important the financial reporting according to the international accounting standards for representing real and correct financial reports.

To realize above mentioned objectives and to get requested information was used a sample of 314 accountants, independent and employed, and were interviewed also 86 directors of small, average and big enterprises, than also bank directors, directors of post offices, and of insurance companies. The

interview method was filling questionnaires mainly through emails, filling questionnaires by sending someone to them, and in some cases also by the phone. So, were used a mixed way to get accepted costs of filling them in the appropriate level and to ensure the time and the level of requested information.

Leveling answers of the questionnaire was done in most cases in 5 levels: very well, well, not at all, no answer (NA). From the used experience in the questionnaires was evaluated that 5 levels were most appropriate for this questionnaire.

The sample has a non unique composition regarding their employment. So, expect 212 employed accountants, from them 21 in banks, 181 in production enterprises, trade and services, 4 shpk (KPS), 2 post office, 2 insurance companies, 59 chosen persons are private accountants and auditors, 35 persons are employed in the tax administration, 8 from them in the chamber of commerce, etc. This structure should be considered also the evaluation of the questions done in the filled questionnaire for this aim. Also has to be emphasized that most of the above interviewed accountants, 84 % belong to the age up to 45 years, so this predicts that their attitude toward standardized international accounting is more liberal and more open. Such a structure is approximately same also among directors of businesses where the highest percentage (59.3) belongs to director's age from 35 to 55 years, and it shows also a positive indicator about their open attitude toward standardized international accounting.

At the end we will mention the fact that answers from the questionnaire hold also a level of insecurity and non accuracy. This is connected to a range of facts as the cultural level of interviewed persons, non experience and sometimes also irresponsibility in filling

up the questionnaire, relatively limited number of interviewed persons, wrongly filling up questionnaires, etc.

### **Actual Situation In The Accountancy And Accounting Information**

When we talk about the actual accounting situation and the accounting information in Kosovo, will be recorded fact that in general, lately it is increased a base staff for financial reports. Since the financial reports and international auditing are more rigorous and complex, the requests for well done financial reports of enterprises in the financial sector in Kosovo is increased. These reports should use international standards of accounting and auditing, attracting care more and more above the international experiences and best practices for this field.

Three main axes of developing proper financial reports are: first of all knowing international standards of financial reports, then institutional reforms establishing bodies which will take care to represent the interests of the business community and deciding about usage of regulations about financial reports, and finally developing the accountancy profession in that way to make possible professional support of necessary changes.

In Kosovo, according to the regulation used now 2001/30 are planned rules about building PF for all business organizations that exceed annual flow of 100.000 € or the total wealth is more than 50.000 €, enterprises that work with public and social funds and that need to prepare and publish financial reports for general information, and during the preparation have to use national and international accounting standards.<sup>1</sup>

<sup>1</sup> Regulation 2001/30, article 4.1,4.2, 4.3

Now Kosovo started with fulfilling requests about financial report according to the accounting standards, since this has multiple importances about Kosovo, first it shows a model of high level of accounting regulations and producing the accountancy information important for decision-making from the users. This maybe the proper accounting helps a lot Kosovo in fulfilling its important interests, fulfilling the economical interests with active participation in European Union. Different interested parties about this issue were and are still interested to do a reasonable work to improve Kosovar environment of financial reports.

Such a job is increasing actually, especially through establishing main axles of the accounting profession in Kosovo - SHKÇAK-u,<sup>2</sup> about developing the accounting profession in Kosovo, and from the Body<sup>3</sup> for financial reports (BRFK), that managed to establish the framework of financial reports,

<sup>2</sup> SCAAK, as regulatory accounting body in Kosovo since it exists has played an important role in training and certifying accountants with the aim of building a frame for a stable financial report and for a successful economy. Such professional association plays a vital role in supporting the general development of the country. This is realized first of all by identifying professionals with qualifying possibilities, by determining rigorous criteria first of all about qualification and then about continuous membership and continuous professional education.

<sup>3</sup> Board for financial reports in Kosovo is established on 29<sup>th</sup> Oct 2001 with the regulation of UN - MIK 2001/30. The work and the activity of the Board had an essential role for economy of Kosovo since it established objective standards, transparent and internationally known of accounting and auditing based on which can be developed the trade economy.

which is according to the international standards of reporting, and which consists of eighteen Kosovar standards of in coherence with international accounting standards issued by the Board of international accounting standards (BIAS). So there are two packages of accounting standards, where IAS is for public enterprises and NAS are for the private sector. So, according to the actual requests that come out from the regulation 2001/30, article 4.3, business organizations report with IAS or NAS.

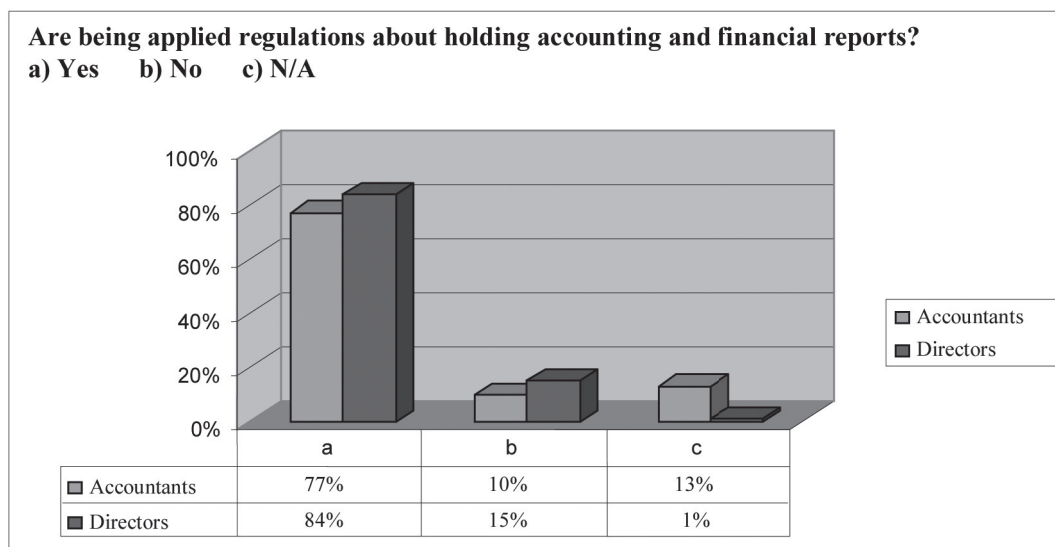
#### The level of acceptance of application of IAS/NAS in Kosovo

Before I present the analysis of data I want to emphasize that successful application

of international accounting standards and of Kosovar accounting standards created in coherence with international accounting standards, bring a "cultural revolution" in the accounting field in Kosovo. Kosovo shouldn't be avoided from such a tendency of time and from its perspective for integration in Europe and abroad.

Regarding the issue related to the fact do these regulations about accounting apply based on the survey here are the results: 77% of interviewed accountants positively answered for considering these regulations; 10% of them thought that these regulations are not applied, and 13% didn't answer at all. Among directors 84% answered positively about applying regulations, 15% no and 1% didn't answer (see diagram in 1).

Diagram 1



If we compare answers about the idea if the accounting regulations are applied in building financial reports with answers about not applying these regulations by the accountants, then the fact results that

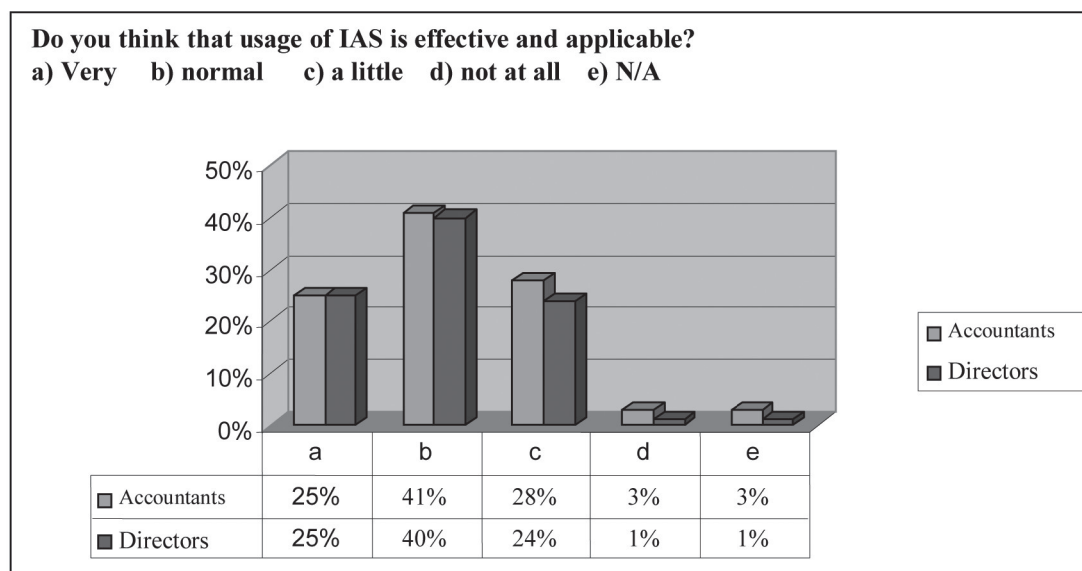
actually we have a broad usage of base rules about accounting and building financial reports, trying always to fill up eventual emptiness. Such a situation exists and comparing to the answers from directors of companies,

84% from them think that are applied base accounting regulations for accountancy.

From above mentioned, maybe stated for usage of actual regulations of accountancy, we moved on with the question how many of them think that usage of international accounting regulations is effective and used. In this case 66% of accountants think that usage of international accounting standards is effective

and it is possible more to use them, whereas 28% from them answered less effective and less usage possibility. Among directors also we have a positive comparison of given answers regarding the effect of applying the international accounting standards, since 65% think about the affectivity and possibility of usage, 24% of them hesitated in the effect that could come from application (see diagram 2).

Diagram 2



When we compare answers of above categories, then remains to understand that approximately are harmonized views of employed accountants and directors of these businesses. From that comes conclusion is that in general accountants and directors of companies are aware about the benefit and effect that comes financial reports according to the international standards. This is justified with percentages elaborated above but remains to increase in general the awareness about the effect that has usage of standards, financial reports in unified accounting language. As main starting point that justifies

the effect that comes from usage of standards is the possibility of proper presentation of financial reports, and 'proper presentation' is considered presenting accurate effects of transactions, events and other conditions according to determinations and criteria of knowing the wealth, burdens, incomes and expenses. So, almost in all occasions a right presentation is achieved through compatibility with international accounting standards being used.

Results of the above diagram seem a little strange is considered the economical and cultural situation in Kosovo. In general the

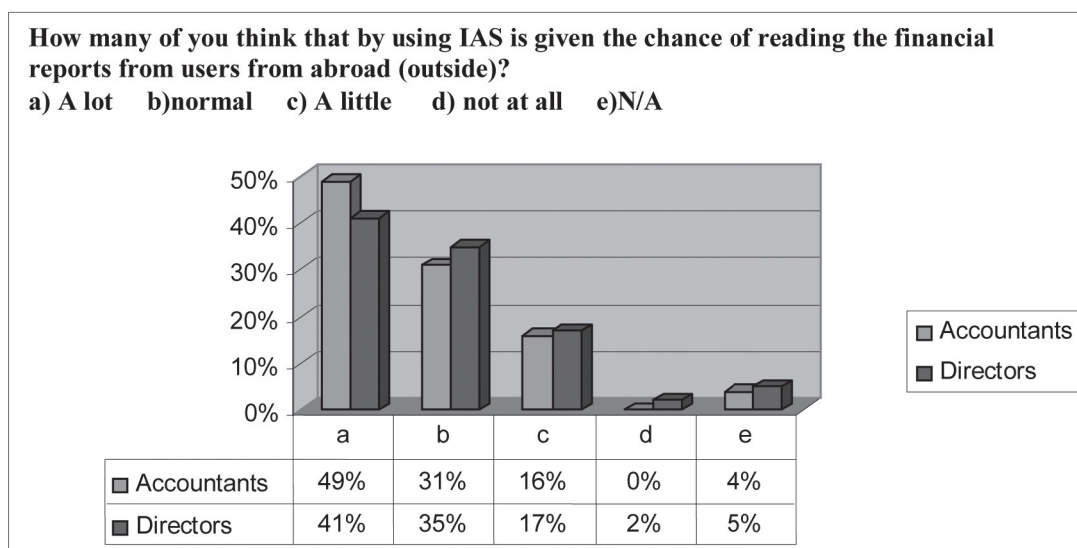
experience showed that in countries in the level like Kosovo the level of accepting international accounting standards wasn't initially very high. This because of many reasons, especially because of the low knowledge of international accounting standards, because of the lack of appropriate market for usage of international accounting standards, because of accounting culture and heritage, etc. Received answers as above in Kosovo I think come from desire of Kosovars in general to come close to western countries and to go away from the painful past as evaluated by them. I think the last one is the answer to this question.

Also, the effect coming from viability of international accounting standards is seen in the possibility of understanding the financial reports from wide range users of financial information here and abroad. This is fulfilled also by the following question how much do you think that using international accounting

standards will be given the chance of reading the financial reports to users from abroad.

This is showed in figures that follow: 80% of interview accountants emphasize that it is given such a chance, whereas 16% of them think that less chances are given for those abroad (outside). Comparison of answers of accountants for this issue makes us understand a positive opinion from their point of view (80%) for full awareness about the effect that comes from financial reporting conform international standards, which effect is seen especially in the attitude of users from outside toward our financial reports. The directors of the businesses have also a positive opinion toward those that think for poor access of abroad users in financial reports build according to the standards. This is proved with the fact that 76% of them stated for a possibility of reading and understanding them (see diagram 3).

Diagram 3

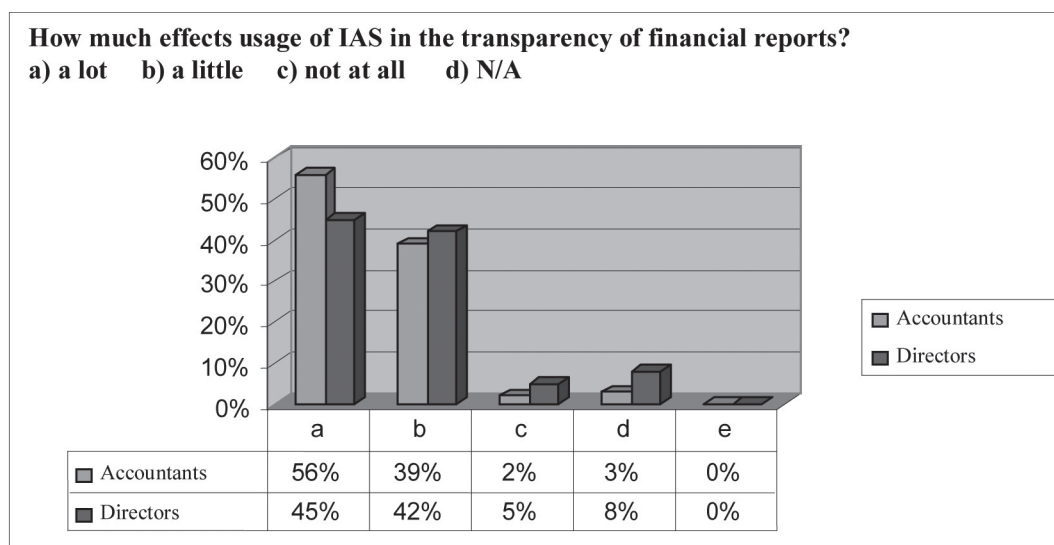


If we compare results of two interviewed categories than of course accountants are in advantage and such a fact is more clear since they are directly involved in the way of building financial reports conform standards and are totally aware about the possibility of clarity, comparison and the possibility of reading them by all users of the information that comes from them. Both parties are aware that by implementing international standards is generalized the format of financial reports and the financial reports are compared in the global level, and with this is created the common reporting language. With reading our financial reports by users from outside is possible attraction of investments from abroad, creditors, banks, etc.

Except this, usage of international standards affects that financial reports produce transparency, which is seen by the following question: how much effect does usage of international standards of accounting in the transparency of financial reports.

56% of accountants give evidence of transparency that provide financial reporting harmonized with international standards, whereas, 39% of them are more skeptic emphasizing that there is less transparency but not as no transparency at all. Also 45% of businesses directors have positive opinion concerning transparency of financial reports developed according to standards, whereas 42% of them consider that there is less transparency in this direction (see the diagram 4).

Diagram 4



If I compare responds of two parties, we will find that they are aware that financial reporting based on international standards, of course provide complete transparency, therefore stabilizing the financial system in general. The survey of both categories concerning

the issue of transparent reporting, indicates that the higher percentage of responses is for very transparency comparing with those of little transparency. However, it has to be analyzed the rationality of this result, why the abovementioned categories ( 39% and 42%)

are declared for less transparency that provide financial reporting in line with international accountability standards? Considering previous responses in this questionnaire, it is expected to have massive responds that financial reporting based on international standards of accountability will increase the level of transparency.

It is considered that the problem is first on the translation of international standards of accountability that are not completely translated into Albanian language. In this case, this issue inhibits transparency, due to different level of the use of English language. Therefore, except this, their statement for less transparency always based on the information that I have from survey, influenced also not publication of financial statement. If financial statement is not being published, there is a doubt if they are developed according to certain standards and how this alignment provides transparency for users of information that provide. Therefore, I consider that the fact of not publishing financial statement is not the result of not applying the international standard of accountability, but not application of international standard request nb.1 for publication of financial statement. It is remained to analyze which categories from accountants increased percentage for non transparency, where we could find if the problem is publication and providing opportunities to the public for having access to financial reports that business entity offers. Considering the employed accountants in big businesses and public ones, since they apply standards and their reports are published, 61% of them responded with yes to transparency, where 37% of them where declared for less transparency. From accountants employed in tax

administration, 71% think about transparency, since their statement that are submitted to administration are the same ones that are being published for general purposes, compared to 29% that were for less transparency. Independent accountants responded with yes to transparency 58%, whereas 38% with less transparency. At the end, employed accountants in small and medium enterprises 54% are for full transparency and 39% for less transparency. As it is shown, the higher percentage includes employed accountants in small and medium enterprises. According to information, a number of independent accountants are the same ones that work in the small enterprises, since they represent higher percentage in the business community, therefore, at this group it is evident relative higher percentage for less transparency. I think that the presented problem is result of not publication of financial statements mainly of private sector, and of course this fact helps the problem of not transparency, since they do not preserve integrity of public. These statements are only submitted to business registration office and to the Ministry of Economy and Finance, and in those statements access to public is not available. Not having access to this document results on not having opportunities for decision making from the stakeholders, that effect on their opinion for non transparency. However, I emphasize again that non publication has nothing to do with the level of transparency that are under the international standards of accountability. This issue is seen also at the big business directors, where the diagram indicate that 42% of them were responded for less transparency, and if we analyze internally this percentage, result on the fact that directors of big businesses and those of public institutions

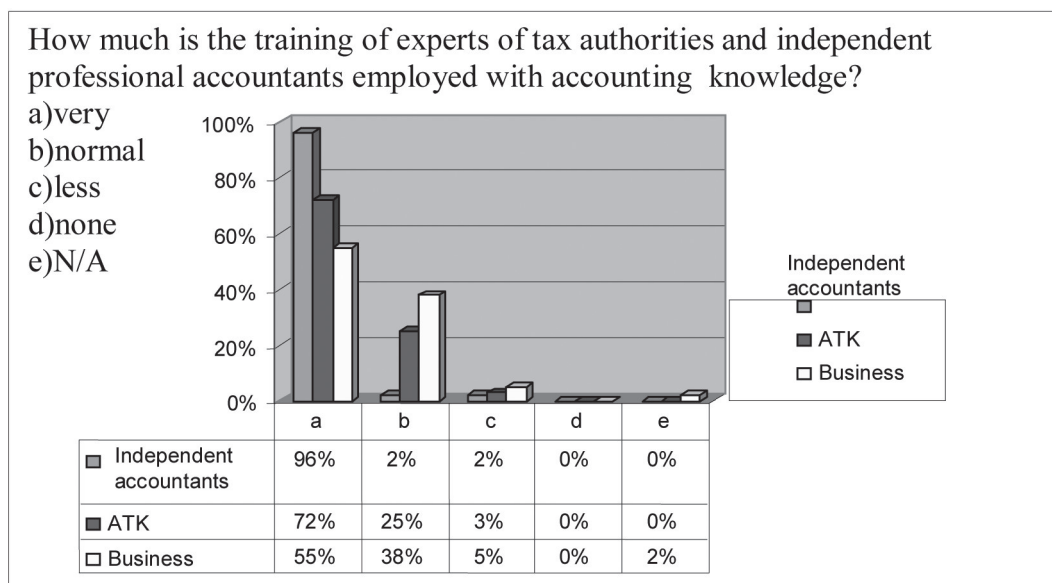


just 24% were declared for less transparency compared 59% that were responded for transparency, whereas directors of small and medium enterprises 49% are declared for less transparency. For this issue I will recommend extension of business registration office, providing possibilities for controlling submitted financial reports, as well as by providing relevant information for public interest, but it is recommended to increase market request for these information, since only then the willingness of the responsible actors for development of financial statements will increase concerning quality, transparency and their publication. In this case, the authorities will be aware of considering the access of public towards financial reports. Therefore, financial reports will be available for interested stakeholders, and then the insurance and alignment of financial reports of entities with legislation, considering the fact that financial transparency is one of essential components for having success in the free global market.

Considering that our country is still in the development phase of standards implementation, then the presented level of responses is normal, whereas in the future as much as the level of standard implementation increases, it will indicate on transparency of financial statements, and these on awareness of accountants, directors and business community for the positive effects that has unification of financial reporting.

All problems related to the level of capacity building and application of SNK/SKK, are related with the opportunities that are provided to experts of tax authorities and professionals of accounting for different training concerning necessary accounting knowledge. Besides, in the question related with that on is it necessary training of tax employees and independent accountants with accounting knowledge, we have these data: From independent accountants 98% are declared for necessity of the training, tax employees 97%, businesses 93% (see the diagram5).

Diagram 5



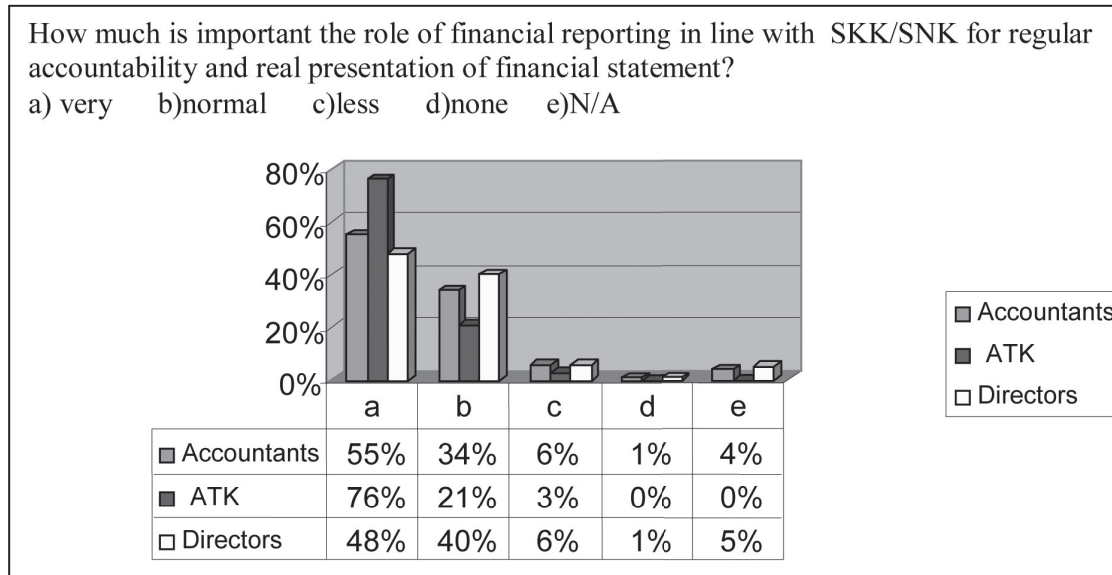
As we can see the training are needed for exercising the accountability profession, not only for those that are having this profession, but also for existed professionals. In this relation I would like to emphasize the fact that one of the request is *asquis communautaire*<sup>4</sup>, that should be implemented in Kosovo as well, and which is justified from the data on the diagram, that shows continuity of developing further profession, that will ensure protection and gaining new theoretical knowledge, professional capacities and their values. There is no doubt that trainings of this nature are necessity and welcomed any time.

Further, in the question how much is important the role of financial reporting in line with international standards for regular

accounting and real presentation of financial statements, we have these data from the abovementioned categories: accountants, including here independent and those employed in businesses 89% declared that such reporting plays an important role and effect the real presentation of financial statements, where only 6% of them emphasize that such role is smaller. Also 97% from tax employees have positive opinion and 88% from the directors of companies believe in this fact (see the diagram 6).

If we compare the abovementioned data between the accountants, tax employees and directors, it is shown that all of them have positive opinions and approximate percentage of responds that financial reporting that

Diagram 6



<sup>4</sup> Asquis communautaire – are all laws of Eu. This term is used more from the countries that attempt to join the EU. They should approve, implement and empower all parts of Asquis in order to be accepted for being part of EU.

is developing actually in our country should be in line with international standards, and will help the real presentation of financial statements.

Therefore, from all this, I would like to emphasize that international accounting standardization today is necessity of global economic development, that will increase effectiveness of decision making by raising transparency and security of investments for information taken from the financial reporting. Standardization of accounting in Kosovo is an immediate need and request due to objectives of the Republic of Kosovo for joining European Union and NATO. New requests of accounting in Kosovo are and will be excellent step towards development of one modern financial system.

### Conclusions

Economic and political development of Kosovo during the last ten years, that recorded also the transfer into an independent trade economy is associated with generation of new phenomenon's and situations that require solution of issues related to legal regulation of economic, political, aspects and also changes of mentality and culture. Within all these factors for economic development of Kosovo, it is important stimulation of direct foreign investments as well as economic development of the country. In this direction, it is necessary the qualitative and confident financial reporting. For this reason it is necessary regulation of accounting and financial reporting based on the SNK and SKK

Challenges for successfully application of these changes are great and need to be tackled by accountants, institutions that develop account policies, as well as by Kosovar businesses that will implant these regulations of accounting and financial reporting. In the survey it has been shown that the majority of interviewers from the businesses, accounting,

administration employees were positively responded the question for necessity of application of international accounting standards in Kosovo and coherence of Kosovo standards with international ones. This is considered positive fact toward facing this challenge concerning regulations for accounting. I consider that problems and challenges related to implementation of international standards of accounting are not small, and cannot be treated completely in a single research, but acceptance of realizing these standards for Kosovo presents positive step in appropriate period of time. Taking into consideration that many countries opened their doors towards foreign investments and considering that businesses are getting larger beyond the border, the private and public sector in Kosovo are seeing advantages of having framework of financial reports that is understood for all, based on the accounting standards of high quality and globally accepted. These standards are critical points for development of capital market, for returning and increasing credibility on financial reporting.

Besides, the evident of responsibilities for not accepting or not implementing international accounting standards that resulted from the questionnaire, raise the issue if we should always work in the direction of acknowledgment and full application of international and Kosovar standards of accounting in the future, in order to fulfill the gaps in the Kosovar financial reporting, first of all to develop confidentiality of financial statements prepared and published by business community in Kosovo. The level of not application of standards continuously should be reduced, particularly there where their application is possible.

The level of applying accounting standards is very much related to accomplishment of public interests, and this result on public approach into financial statements to protect interest of third parties including here creditors, suppliers, employees etc. This is because the asymmetry between the companies and third parties is being supported on protection of public from the negative possible effects and definitely investors will be more capable to differentiate best and worst possibilities of their investments and their business activities. Particularly at the economic units of public interest, should be taken more direct actions of maintaining the implementation of accounting standards, taking into consideration that financial reporting with international standards will equip policy stakeholders with complete and accurate financial information.

Therefore, we think that in the future we should make more efforts in direction of strengthening status capacities that will direct accounting and financial reporting,

strengthen the developing structures of quality standards of accounting, placing of monitoring mechanisms for continuing further with implementation of standards, increase the number of capable accountants for preparation of quality financial statement etc.

It will be of great interest if there is the particular law for accounting and financial statements that will determine better main direction related to accounting regulation for creating financial statements. Also it should be developed particular regulation related to accounting professions: certified accountants and auditors with the aim of setting right balance between maintenance of these professions by public authorities with the level of their self regulation.

However, it can be concluded that the steps that Kosovo started to undertake towards adoption of international accounting standards are essential for continuous economic development considering the stability of the country and the global economy in general.

#### ABBREVIATIONS:

1. **IAS (SNK)** – International Accounting Standards
2. **KAS(SKK)** – Kosovo Accounting Standards
3. **BIAS (BSNK)** – Board of International Accounting Standards
4. **BFRK (BRFK)** – Board of Financial Reporting in Kosovo
5. **ACAAK(SHKÇAK)** – Association of Certified Accountants and Auditors of Kosovo
6. **TAK (ATK)** – Tax Administration of Kosovo
7. **SME (NMV)** – Small and medium enterprises

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