

Republic of Uzbekistan

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APPROACHES TO IMPLEMENTATION OF INTERNATIONAL ACCOUNTING STANDARDS IN THE PUBLIC SECTOR

OUTLINE OF THE PRESENTATION:

- ✘ The current state of accounting in the public sector;
- ✘ Benefits and the need of introduction of IPSAS;
- ✘ Approaches to adjustment of IPSAS;
- ✘ Legal framework.

THE CURRENT STATUS

Accounting for execution of the State Budget includes the following:

- 1) Accounting for transactions related to execution of the State Budget by financial authorities;
- 2) Accounting for transactions related to treasury execution of the Budget by subdivisions of the Treasury;
- 3) Accounting for execution of estimate of expenses by spending units.

THE CURRENT STATUS

Accounting and reporting in the public sector are performed:

- ✘ In financial (treasury) bodies – on the basis of the cash method;
- ✘ In spending units:
 - budget accounting* – on the basis of the cash method,
 - financial accounting* – based on the accrual method with some elements of the cash method;
- ✘ At public enterprises – the accrual method.

BENEFITS OF INTRODUCTION OF IPSAS

(ON THE BASIS OF INTERNATIONAL EXPERIENCE):

- ✘ Higher quality of financial information – more possibilities for evaluation of results of operations of the public sector;
- ✘ Higher degree of integration of budget, financial accounting and statistical reporting;
- ✘ Enhancement of transparency and support for other areas of reforming the public finance management system;
- ✘ Improvement of public finance management due to better accuracy and completeness of information;
- ✘ Improvement of quality of strategic planning, public finance management and development of the economic policy (*efficient allocation of budgetary funds*);
- ✘ A possibility to compare financial statements with financial statements of other countries.

BENEFITS OF INTRODUCTION OF IPSAS

Introduction of IPSAS addresses problems related to the following:

- 1) Lack of clear basics for disclosure of information for spending units, Ministry of Finance and other bodies;
- 2) Missing procedure for maintenance of accounting of individual financial, budget and extra budgetary transactions;
- 3) Multiple Provisions related to accounting (accounting in the Treasury, in spending units, in financial authorities);
- 4) Lack of consolidation of all public finance accounts;
- 5) Lack of possibility for analyzing public finance statistics for external users.

THE NEED OF INTRODUCING STANDARDS FOR SPENDING UNITS (SEPARATELY FROM CURRENT STANDARDS)

- ✘ The need to disclosure specifics of activities of spending units (historical assets and other);
- ✘ Lack of standards in the republic that regulate generally accepted rules for accounting for income and expenditures of the budgetary system;
- ✘ Lack of financing of activities of spending units (allocation of budget funds, revenues from services and other activities)

TWO SETS OF STANDARDS:

- ✘ IPSAS for cash based accounting : Financial reporting based on the cash accounting method
- ✘ IPSAS for accrual based accounting (standard 31).

TWO APPROACHES TO ADJUSTMENT OF IPSAS:

Direct approach

1. Direct adoption of IPSAS standards

The following is required:

- ✘ Training of qualified local personnel;
- ✘ Arranging broad training on methodology of international standards and on practical issues related to their application;
- ✘ Modernization of software packages;
- ✘ Legislative changes.

Significant financial resources and organizational efforts.

Gradual approach

2. Elaboration of NPSAS on the basis of IPSAS

Allows for taking into consideration National specifics

does not require Significant costs during introduction

Is taken as a basis for adjustment of IPSAS in Uzbekistan

GRADUAL APPROACH

2013 - 2014

- ✘ Elaboration and adoption of NPSAS that comply with IPSAS based on the accrual method for :
 - *financial accounting and reporting of spending units*
 - *accounting for assets and liabilities of the State Budget, public special purpose funds.*
- ✘ Retaining the current procedure for budget accounting based on the cash method;

For the next 7 - 8 years

- ✘ Transition to full compliance of the accounting and reporting system in the public sector to accrual based IPSAS

GRADUAL APPROACH

The cash based approach remains for:

- ✘ Tax and customs revenues of the State Budget, budgets of public special purpose funds – *until cash remains the only reliable basis for measuring these revenues;*
- ✘ Expenditures and other revenues of the State Budget, budgets of public special purpose funds – *until they could be converted to the accrual method on a case by case basis.*

GRADUAL APPROACH WOULD ALLOW:

- ✘ To take into consideration specifics of the national legislation in connection with definition and regulation of certain norms and provisions (*requirements of annual revaluation of fixed assets, terms and conditions for recognition of overdue receivables and payables, etc.*);
- ✘ To arrange for training and preparation of accountants and financial specialists of the public sector on a systematic basis – to avoid the risk of unpreparedness of human resources;
- ✘ To use current software packages of automated maintenance of accounting (UzASBO) with slight changes and additions to them;

GRADUAL APPROACH

Sequence of elaboration of NPSAS taking into consideration the following :

- ✘ Benefits and advantages from adoption of specific standards;
- ✘ Difficulties related to conversion to new national standards;
- ✘ Interrelation of certain IPSAS with each other.

SEQUENCE OF ELABORATION OF NPSAS (2013 - 2014)

- × I stage - NPSAS 2 “The accounting policy in public sector”, 3 “Effect of changes in foreign currency exchange rates” and 4 “Agricultural activities in public sector”
- × II stage - NPSAS 5 “Lease”, 6 “Inventories” and 7 “Fixed Assets”
- × III stage - NPSAS 8 “Intangible Assets”, 9 “Revenues” and 11 “Accounting for borrowing costs”
- × IV stage - NPSAS 1 “Report on execution of the State Budget” and 10 “Chart of accounts and the instruction for its application”
- × V stage - NPSAS 12 “Contracts for capital construction”.

THE LEGAL BASIS FOR INTRODUCTION OF NPSAS

The Budget Code

Section VII. Budgetary accounting and reporting

Chapter 24. The procedure for maintenance of accounting and reporting.

General provisions

*Common methodology of budget accounting and budget reporting is set by the Ministry of Finance of the Republic of Uzbekistan in compliance with the present Code, **budget accounting standards**, and also in compliance with other legal acts. Budget accounting standards are approved by the Ministry of Finance of the Republic of Uzbekistan.*

LAW ON ACCOUNTING

- ✘ Article 5. Regulation of accounting and reporting (Part 3).
*Regulation of accounting and financial reporting of spending units is performed **on the basis of the budget accounting standards** approved by the Ministry of Finance*
- ✘ Article 12. Evaluation of assets and liabilities (Part 9)
*Evaluation of assets and liabilities of spending units is performed **in accordance with the budget accounting standards***
- ✘ Article 13. Accounting for revenue and expenses (Part 2).
*Revenues and expenses related to execution of the State Budget of the Republic of Uzbekistan and budgets of public special purpose funds are recorded during the period, in which they were received or were paid, **in accordance with the accounting standards.***

Thank you for attention!