



საქართველოს ფინანსთა სამინისტრო  
სახელმწიფო ხაზინა



Assets accounting in Georgia – Current Practice, Flaws and Weaknesses,  
Plan to comply with IPSAS17

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Accounting Reform in Public Sector



Final goal:

- ❖ Introduce accrual basis International Public Sector Accounting Standards (IPSAS) by 2020

Current project:

- ❖ Elaboration of sustainable method of accounting and reporting of non-financial assets taking into consideration best practices and elaboration of recommendations for the purpose of enhancing of international standards for accounting of non-financial assets

Informational support:

- ❖ Development of assets management module based on the data of public finance management integrated information system



## Elaboration of Sustainable Method of Accounting of Non-financial Assets



**Implementing agency:**

The State Treasury

**Donor:**

European Union

**Project team:**

International and local consultants

**Project objective:**

Introduction of IPSAS standards on accrual basis accounting of non-financial assets and improvement of non-financial assets management in the public sector through bringing it in compliance with best international practices

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## Elaboration of Sustainable Method of Accounting of Non-financial Assets



**Measures planned within the framework of the project:**

- Examination of local practices in the sphere of accounting and reporting of nonfinancial assets
  - Examination of relevant regulatory acts
  - Examination of practices established in budgetary organizations
- Elaboration of recommendations for promotion of bringing current practices of accounting and reporting of non-financial assets with international standards
- Elaboration of key criteria for maintaining of registry of nonfinancial assets in accordance with international standards

**Deliverables:**

- Report dwelling on prospects of introduction of accrual standards complying with IPSAS, identified drawbacks and recommendations for promotion of introduction of best practices
- Outline of nonfinancial assets registry
- Conducting of workshops for representatives of budgetary organizations for the purpose of sharing with drawbacks in the sphere of nonfinancial assets accounting, provision of information on international standards of accounting of nonfinancial assets and presentation of recommendations



## Elaboration of Sustainable Method of Accounting of Non-financial Assets



### **Activities of the team:**

- Examination of current legislative framework
- Interviews with representatives of the Ministries and agencies in their subordination on the subject of:
  - Current practices of accounting of assets
  - Main challenges for respondents
- Assessment of current situation:
  - Common challenges
  - Differences from IPSAS requirement
- Elaboration of recommendations taking into consideration best international practices
  - Key criteria to be taken into consideration in regard to maintaining of nonfinancial assets registry
  - Ways of improvement of current practices and ensure compliance with IPSAS



## Accounting and Reporting of Non-financial Assets



### IPSAS model:

- Recognition;
- Valuation of assets in the process of recognition;
- Valuation of assets after recognition;
- Depreciation (in case of fixed assets);
- Impairment;
- Write off;
- Explanatory comments.



## Findings of the Project



- ❖ Regulation of accounting and reporting of fixed assets in compliance with normative acts regulating the public sector
- ❖ Basis for grouping of assets into accounts –classification provided by GFSM 2001 methodology
- ❖ Depreciation norms for individual assets without taking into consideration their useful service life
- ❖ Unavailability of universal system of accounting and related risks (including incorrect or incomplete accounting, incorrect valuation and etc)
- ❖ Reflecting of cultural/historical/environmental heritage assets in the registry for the purpose of their maintenance and protection of monuments and not for the purpose of financial accounting
- ❖ Rules of accounting differ from requirements of IPSAS standards (e.g. accounting in the reference article only when fixed asset is fully depreciated, although still operational and etc)



## Findings of the Project



- ❖ Unavailability of unified system of nonfinancial assets management
- ❖ The practice of revaluation is rarely used
- ❖ Incomplete information on state-owned nonfinancial assets
- ❖ Insufficiency of parameters reflected in available registries
- ❖ Unavailability of comprehensive policy in regard to transfer of assets between budgetary entities (e.g. book value, zero value, revaluated value and etc)
- ❖ Unavailability of practice of recognition of fixed assets, designated for selling by the authorized agency as stock of materials
- ❖ Rare application of accounting of impairment



## Recommendations



- ✓ **Maintaining of effective registry of fixed assets**, which shall ensure precise and transparent accounting of state-owned assets. Ensure publicity of information in accordance with international practices

There are internationally acknowledged two models:

- **Centralized** - when only one entity is responsible for management
  - **Decentralized** – when each entity independently maintains registry of assets, owned by it
- ✓ **Definition of policy of accounting of nonfinancial assets** – such information, as classes of assets, recognition and valuation, depreciation of fixed assets, impairment of assets, assets to be alienated, leased assets and etc (in accordance with IPSAS requirements)



## Recommendations



- ✓ **Valuation of assets** – this is a complicated task and it requires substantial time, material and workforce resource
  - ❖ **Alternative 1:** in the process of valuation services of relevant state body in charge of valuation can be used (national bureau of experts), which shall be less costly
  - ❖ **Alternative 2:** Budgetary entities can conduct valuation of their assets independently, through hiring of professional valuations, which is quite costly
- ✓ **Introduction of effective system of internal control over assets** – such control, along with other mechanisms shall also imply frequency of physical examination of assets taking into consideration related risks. Periodic physical examination of assets is important part of internal control



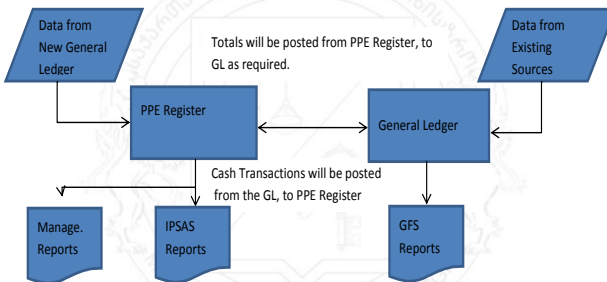
## Nonfinancial Assets Classification



	At Cost	Depreciation	Impairment	Revaluation
Land				
Buildings				
Investment Properties				
Infrastructure				
Plant and Equipment				
Major				
Portable				
Heritage and Cultural				
Libraries and Reference Collections				
Self-Generating and Regenerating Assets				
Intangible Assets				



## PPE REGISTER SYSTEM Concept





## Transaction Types



### Acquisition

1. Buy
  - Lease
2. Transfer in
  - Donation
  - Legal Process
  - Transfer Intra Government

### Update Record

1. Read in file
2. Data - Add/Edit /Complete
3. Journal Entry for Error correction and amendment



## Transaction Types



### Maintain

1. Add new asset classification
2. Amend fixed data (e.g. depreciation rates)
3. Add new item to drop down selections
4. End of accounting period procedures

### Disposal

1. Sell (including . Lease)
2. Transfer out
3. Non Operational
4. Scrap

### Other

1. Send To/From CSV, Excel, Email etc.



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Thank you for your attention!

