



## CONCEPTUAL FRAMEWORK

### DEVELOPMENT OF IPSAS-BASED NATIONAL PUBLIC SECTOR

### ACCOUNTING AND REPORTING SYSTEM EXPERIENCE OF RUSSIA

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**PEMPAL**

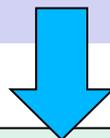
*February 2014*

## **Conceptual approaches to standardization of accounting and financial reporting in the framework of public finance management reform**

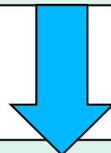
### *Methodological framework for standardization of accounting and reporting*

- *International Public Sector Accounting Standards (IPSAS)*
- *IMF Government Finance Statistics Manual (GFS)*

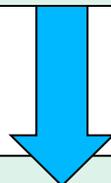
**Direction of the reform**



**Improvement of the national accounting and reporting standards system**



**Improvement the efficiency of state and municipal finance management**



**Generation and presentation of more relevant and reliable financial information**

# OBJECTIVES AND TASKS OF IPSAS ADAPTATION

## within the reform on increase of public finance efficiency and effectiveness

MAIN OBJECTIVES OF THE REFORM	TASKS OF THE REFORM
<p>ENSURING OPENNESS</p> <p>IMPROVEMENT OF ACCOUNTABILITY AND TRANSPARENCY</p> <p>INCREASE THE QUALITY OF PUBLIC FINANCE MANAGEMENT</p> <p>INCREASE CONFIDENCE OF THE SOCIETY TO THE ACTIVITY OF THE GOVERNMENT</p> <p>FACILTIATION OF INVESTMENT CLIMATE IMPROVEMENT AND INTEGRATION INTO GLOBAL ECONOMY</p>	<p>REPORTING OF PUBLIC SECTOR ENTITIES IS PLACED IN THE INTERNET TO BE USED BY UNLIMITED NUMBER OF PEOPLE.</p> <p>COMPARABLE INFORMATION IIN THE REPORTING IS PRESENTED WITH THE ANALYSIS FOR AT LEAST THE REPORTING PERIOD AND THE PREVIOUS YEAR</p> <p>REPORTING CONTAINS ANALYSIS OF SHORT-TERM AND LONG-TERM ITEMS AND KEY FACTORS CHANGING THEM</p> <p>ENSURE INTERRELATIONS OF ACCOUNTING AND REPORTING WITH BUDGET PLANNING AND FORECASTING</p> <p>REPORTING IS COMPATIBLE WITH NATIONAL PUBLIC FINANCE REPORTS AND PRESENTS INFORMATION ON GFS</p> <p>BASIS FOR IMPROVEMENT OF PUBLIC RESOURCES MANAGEMENT HAS BEEB CREATED (BOTH FINANCIAL (LIQUIDITY ACCOUNT, INCOME FROM ASSETS MANAGEMENT (PROPERTY) INCLUDING UPON CREATION AND DISTRIBUTION OF SOCIAL GOODS</p>

SERVICE USERS,  
SERVICE SUPPLIERS, INVESTORS, FINANCIAL  
ANALYSTS, MASS MEDIA, STATISTICS,  
GOVERNMENT, LINE MINISTRIES

DISCLOSES  
INFORMATION FOR  
THE PERSONS NOT  
ENTITLED TO  
REQUIRE REPORTING  
PRESENTATION

USERS OF SERVICES  
AND SOCIAL  
GUARANTIES

AS WELL AS  
PROVIDERS OF  
SERVICES AND  
GUARANTIES

GENERAL  
PURPOSE

SPECIAL PURPOSE  
REPORTS

REPORTS

DISCLOSES SPECIAL PURPOSE INFORMATION AT  
THE DEMAND OF THE OWNER, HIS  
REPRESENTATIVE :  
GOVERNMENT, FOUNDER, FINANCIAL CONTROL  
BODY, AUDITOR, INVESTORS (DONORS)

## SURVEY OF PUBLIC FINANCE REPORTS USERS' INFORMATION NEEDS

USER GROUP	OBJECTIVES OF THE REFORM AND USER GROUP'S INTERESTS
<p><b>GENERAL PUBLIC:</b> TAXPAYERS, SERVICE BENEFICIARIES, SUPPLIERS AND CREDITORS, INVESTORS, BORROWERS, PERSONNEL</p>	<p>1. <i>ACCOUNTING AND REPORTING SYSTEM BASED ON IPSAS PROVIDES FOR GENERAL-PURPOSE REPORTING, WHICH REVEALS INFORMATION REQUIRED BY GROUPS OF USERS</i></p>
<p><b>MANAGEMENT OF FOUNDING ENTITIES, MANAGEMENT OF ENTITIES, LEGISLATOR</b></p>	<p>2. <i>WHILE DETERMINING THE CONTENT OF THE INFORMATION REQUIRED BY RESPECTIVE GROUP MEMBERS , IF STANDARDS ARE APPLIED, IT MAY SUBSTANTIALLY CONTRIBUTE TO IMPROVEMENT OF THE QUALITY OF INFORMATION ON ASSETS, LIABILITIES, NET ASSETS, REVENUES AND EXPENDITURES AND PERFORMANCE</i></p>
<p><b>FOREIGN USERS:</b> incl. CREDITORS (LENDERS), INVESTORS, BORROWERS, INTERNATIONAL ORGANIZATIONS</p>	<p>3. <i>USE OF STANDARDS WILL ALLOW TO IMPROVE CONSIDERABLY THE QUALITY OF INFORMATION AND MAKE IT COMPARABLE FOR THE PURPOSES OF CROSS-COUNTRY ANALYSIS.</i></p> <p><i>AT THE SAME TIME, SUCH ANALYSIS IS NOT THE MAIN OBJECTIVE OF THE REFORM OF THE EXISTING NATIONAL PRACTICE</i></p>

## SURVEY OF COMPLIANCE OF THE NATIONAL ACCOUNTING SYSTEM TO IPSAS

SCORE	ANALYZED ITEMS OF THE NATIONAL SYSTEM OF ACCOUNTING AND REPORTING METHODOLOGY
<b>1. DOES NOT COMPLY</b>	<ul style="list-style-type: none"> <li>❖ BASIC PRINCIPLES (MAIN PREMISES) OF ACCOUNTING</li> </ul>
<b>2. PARTLY COMPLIES</b>	<ul style="list-style-type: none"> <li>❖ BASIC SET OF REPORTING FORMS:                             <ul style="list-style-type: none"> <li>➤ 2.1. <i>General-purpose reporting</i>;</li> <li>➤ 2.2. <i>Special-purpose reporting</i> :</li> </ul> </li> <li>✓ statistic;</li> <li>✓ accounting (financial);</li> <li>✓ special (to the Government, Legislator).</li> </ul>
<b>3. FULLY COMPLIES, (COMPLIES BY ESSENTIAL INDICATORS (REQUIREMENTS))</b>	<ul style="list-style-type: none"> <li>❖ PRINCIPLES OF ACCOUNTING</li> <li>❖ RULES OF ACCOUNTING</li> <li>❖ REQUIREMENTS TO DISCLOSURE OF REPORTED INFORMATION</li> </ul>

REFORM OPTIONS FOR THE NATIONAL ACCOUNTING SYSTEM

COMPLIANCE WITH PRINCIPLES AND SET OF FORMS	COMPLIANCE WITH PRINCIPLES, SET OF FORMS, ACCOUNTING RULES AND DISCLOSURE FOR THE PURPOSES OF THE REFORM	FULL COMPLIANCE IPSAS
<b>BENEFITS AND ADVANTAGES</b>		
Minimal expenditures	Building an accounting and reporting system based on IPSAS without any radical transformation of the existing national practice	Building an accounting and reporting system based on IPSAS Comparability with other countries using IPSAS
<i>Justified when benefits of transition to IPSAS are not obvious but rather declarative</i>	<i>Most balanced and reasonable from the cost efficiency point of view</i>	<i>Accelerated integration of national finances into the global economy</i>

## REFORM OPTIONS FOR THE NATIONAL ACCOUNTING SYSTEM

COMPLIANCE WITH PRINCIPLES AND SET OF FORMS	COMPLIANCE WITH PRINCIPLES, SET OF FORMS, ACCOUNTING RULES AND DISCLOSURE FOR THE PURPOSES OF THE REFORM	FULL COMPLIANCE IPSAS
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### MAIN DISADVANTAGES AND RISKS

<p>Does not correspond to the declared objectives of the reform (corresponds just formally). <b>Important!!!</b> It is possible to apply it as the first step – a declarative one, in order to enable facilitated transition to option 2.</p>	<p>Significant costs (compared to benefits) on the initial stages.  <b>Important!!!</b> Support from the Government Cabinet as the main user of reporting.</p>	<p>Long term and significant costs, lack of personnel resource both with the accounting entities and users of reporting.  <b>Important!!!</b> Mostly applicable in developing countries with existing accounting and financial analysis systems.</p>
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## INTERACTION BETWEEN THE NATIONAL ACCOUNTING SYSTEM AND BUDGET PLANNING

Benchmarking criteria	Reporting and accounting	Budget planning
<b>INTERESTS AND TARGETS</b>	<i>Past interconnected with present and future</i>	<i>Future, with regard to constraints of past and present</i>
<b>CHARACTER</b>	<i>Facts of economic activities</i>	<i>Evaluation data and indicators</i>
<b>CONCEPTUAL MODEL</b>	<i>Assets – Liabilities = Net Assets</i>	<i>Revenues – Expenditures = Profit/Deficit</i>
<b>ACCOUNTING SYSTEM</b>	<i>Double Entry</i>	<i>Single Entry</i>
<b>EVALUATION METHOD</b>	<i>Accrual method</i>	<i>Cash method</i>
<b>PROCESS OWNER</b>	<i>Ministry of Finance</i>	<i>Treasury Ministry of Finance</i>
<b>PERFORMANCE</b>	<i>Accounting reporting, including Cash Flow Statement and performance evaluation</i>	<i>Budget, Cash Forecast, Budget execution report, Draft budget</i>

## INTERRELATION OF THE NATIONAL ACCOUNTING SYSTEM AND BUDGETING

Comparison Criteria	Accounting and Reporting	Budgeting
<b>USERS</b>	<i>Aimed at external users and meeting the need of the Government in information</i>	<i>Aimed at internal users and meeting their need in information</i>
<b>FREQUENCY OF PREPARATION for USERS</b>	<i>Annually</i>	<i>Quarterly and more frequently, as appropriate</i>
<b>SCOPE</b>	<i>State as a whole, international financial community</i>	<i>Prepared for the state as a whole, but used mainly within the government sector</i>
<b>TIMELINE</b>	<i>Short-term (reporting period(s) last; second last)</i>	<i>Short-term, Mid-term, Long-term (forecasting timeframe)</i>

## INTERRELATION OF THE NATIONAL ACCOUNTING SYSTEM AND BUDGETING

OPTION	ADVANTAGES	DEFICIENCIES
<p><b>1. ACCOUNTING BASED ON BUDGET EXECUTION REPORTING PRINCIPLES</b></p>	<p>❖ <i>NOT IDENTIFIED FOLLOWING ANALYSIS</i></p>	<p>❖ <i>Represents a step back for the existing accounting system in Russia;</i></p> <p>❖ <i>Does not comply with the goal of the reform;</i></p> <p>❖ <i>Does not comply with IPSAS requirements</i></p>
<p><b>2. ACCRUAL-BASED BUDGETING</b></p>	<p>❖ <i>Complies with the accounting and budgeting convergence tendency in a number of countries</i></p>	<p>❖ <i>Requires significant restructuring of the budgetary process</i></p> <p>❖ <i>May not comply with the goals and interests of users, as it is less aimed at public expenditure planning and control</i></p>

INTERRALATION OF THE NATIONAL ACCOUNTING SYSTEM AND BUDGETING

OPTION	ADVANTAGES	DEFICIENCIES
<p><b>3. MAINTAINING ACCOUNTING AND REPORTING PRINCIPLES (ACCRUAL METHOD) AND BUDGETING PRINCIPLES (CASH METHOD) PROVIDED THEIR RECONCILIATION.</b></p>	<ul style="list-style-type: none"> <li>❖ <i>Allows ensuring interrelation of data without radical restructuring of the budgeting system</i></li> <li>❖ <i>Corresponds to reform goals</i></li> <li>❖ <i>Allows implementing IPSAS requirements provided benefits from advantages related to their application</i></li> </ul>	<ul style="list-style-type: none"> <li>❖ <i>Requires establishment of:</i> <ul style="list-style-type: none"> <li>➤ <i>Data reconciliation rules;</i></li> <li>➤ <i>Control system;</i></li> <li>➤ <i>Additional deviation explanation form</i></li> </ul> </li> </ul> <p><i>(translation of the cash result (of budget execution) into accounting-based result (accrual method))</i></p>

DEFINITION OF STRUCTURE and CONTENTS  
of the NATIONAL ACCOUNTING STANDARDS  
and REPORTING in the GOVERNMENT SECTOR

**MAIN GROUPS OF STANDARDS**

**IPSAS Analogs**

*Standards regulating general approach and principles of accounting and reporting*

Conceptual basis of the accounting policy;

*Standards regulating contents, the order of preparation and presentation of reporting*

Presentation of financial reporting  
Cash flow statements  
Consolidated and individual financial statements  
Other government (public) sector reports requiring regulation by Standards

*Standards regulating the order of reporting presentation for various types of significant information about the financial status, progress and individual transactions (events)*

Change of accounting estimates and errors;  
Financial reporting in hyper-inflation economy;  
Events after the reporting date;  
Disclosure of information on the related parties;  
Disclosure of financial information on the government sector;  
Presentation of budget information on financial reporting;  
Other relevant information, disclosure of which in the reporting of government (public) sector organizations requires regulation by Standards

DEFINITION OF STRUCTURE and CONTENTS of the NATIONAL ACCOUNTING STANDARDS and REPORTING in the GOVERNMENT SECTOR

**MAIN GROUPS OF STANDARDS**

**IPSAS Analogs**

*Standards regulating the order of accounting of separate accounting subjects and presentation of information on them in the reporting*

Borrowing costs;  
 Investments in associated subjects;  
 Participation in joint activities;  
 Receipts from exchange operations;  
 Inventory;  
 Financial instruments: disclosure and presentation;  
 Investment property;  
 Fixed assets;  
 Non-production assets;  
 Reserves, contingent liabilities and contingent assets;  
 Impairment of non-cash-generating assets;  
 Revenue from non-exchange transactions (taxes and transfers);  
 Labor remuneration;  
 Financial instruments (presentation, disclosure of information, recognition and evaluation);  
 Intangible assets;  
 Other separate accounting subjects of government sector organizations requiring regulation by Standards

## DETERMINING THE STRUCTURE AND THE COMPOSITION OF THE NATIONAL ACCOUNTING AND REPORTING STANDARDS IN THE PUBLIC SECTOR

MAIN GROUPS OF STANDARDS	Equivalents of IPSAS
<p><u><i>Standards that regulate the procedure for accounting certain operations (events) of economic activity,</i></u></p>	<p>Effect of changes in foreign exchange rates;                      Construction contracts;                      Lease;                      Agriculture;                      Concession contracts for provision of services: accounting at the concession grantor;                      Some other certain operations (events) in the public sector that require regulation by standards,</p>
<p><u><i>Chart (s) of accounts of public sector entities</i></u></p>	<p>There is no equivalent IPSAS that regulates the Chart of Accounts.</p>

## The result of comparative analysis of the Russian accounting and reporting system and IPSAS

- ❖ **Partial compliance of the Russian accounting and reporting system in the public sector on 19 out of 32 IPSAS standards;**
- ❖ **Partial non- compliance (or lack of the equivalent) on 13 IPSAS standards**

## Main differences between the national accounting and report system in public sector governing entities and и IPSAS

- ❖ *There is no legally defined term “General purpose financial reporting”,  
as reporting designed to satisfy information needs of those users that cannot require presentation of mandatory reports that would satisfy their information needs;*
- ❖ *Different scope of entities that comprise economic sectors in accordance with IPSAS and in accordance with the National Standards  
The range of entities that should prepare and present accounting reports in the public sector is determined differently*

## Analysis of differences between reporting of public sector entities and reporting in accordance with IPSAS

1. *Composition of the reporting forms;*
2. *Frequency of presentation of reporting;*
3. *Classification of assets and liabilities by their periods of maturity;*
4. *Structures of information disclosed in the reporting and consolidated information on commercial sector entities that are fully or partially in public (municipal) ownership;*
5. *Structures of the reporting items from the point of view of completeness of disclosure of information on property and liabilities, revenues and expenses, and also compliance with the accounting methods adopted in IPSAS;*
6. *Structures of reporting items from the point of view of applying accounting methods that are not envisioned by IPSAS ;*
7. *Disclosures of information in the public sector that are not envisioned by IPSAS*

## **Analysis of approaches applied in the course of forming the accounting policy of the public sector and IPSAS No. 3 “Accounting Policy, Changes in Estimates and Errors”**

- 1. Determining common accounting rules for all reporting entities of the public sector, their compliance with principles and approaches of IPSAS;*
- 2. Methods of evaluation of property, recording in the accounting policy ;*
- 3. Disclosures of information in reporting of the public sector in the part of the Accounting Policy set by a reporting entity, and its compliance with IPSAS ;*
- 4. Recording of information on identified errors in the reporting;*
- 5. Recording of information on changes of the accounting policy during the fiscal year in the reporting with indication of reasons for such changes*



***THANK YOU FOR ATTENTION!***