REPORT ON RECORDING AND ACCOUNTING FOR NON CURRENT ASSETS

Support to Monitoring of PFM Reforms Support Programme- Technical Assistance to the Ministry of Finance to Define a Sustainable Approach for Accounting for Non- Financial Assets.
Europe Aid 130407/C/SER/GE

Contents

1 GLOSSARY

IPSAS	International Public Sector Accounting Standards
IFRS	International Financial Reporting Standards
IFAC	International Federation of Accountants
GFS	Government Financial Statistics
GFSM	Government Financial Statistics Manual
MOESD	Ministry of Economy and Sustainable Development
LEPL	Legal Entity of Public Law
PPE	Property Plan and Equipment
NASPM	LEPL National Agency for State Property Management
SAMOF	LEPL Service Agency of the Ministry of Finance of Georgia

2 SUMMARY

1. Note that IPSAS are currently working on a revised PPE standard.
2. The report the restricted to reporting on PPE rather than "Non Financial Assets"
3. Military and Education assets were excluded from the scope of the review.
4. Accounting for PPE is generally carried out in according to (Statutes)
5. Accounting is to GFS but financial reporting is to IPSAS (Cash)
6. To move fully to IPSAS (Accruals) will require that PPE is accurately recorded and reported transparently. Therefore a PPE Register will be required.
7. Internal control was not part of the mandated of this project but the fact that unrecorded property exists suggest that control is weak and given the value of PPE this must represent a high risk area.
8. It is difficult to quantify the associated risk risk as it consists of that which is known knowns (E.g. the unrecorded property known to be unidentified by the property agency, known unknowns (E.g. property transferred with no value attached) and unknown unknowns. The extent of unrecorded property is not known but likely to be material.
9. For historical reasons property may not be recorded or records not kept accurately or lost
10. The values of property in the accounting records generally reflect the statutory calculations but this may differ radically from market value or fair value. Usually the accounting records show a lower value.
11. There is no universal system applied for recording of PPE and as a result PPE may go unrecorded. This is applicable mainly to pre-existing property rather than recently acquired property but can also be applicable to transfers at zero value..
12. Tax issues are encouraging agencies to value property at valuations greatly different from the market value as tax is payable on the value of the property
13. Agencies holding property for sale on behalf of other agencies cannot treat these as inventory and are reluctant to record them as PPE owing to the property tax implications.
14. Transfer values for transactions between agencies have no consistent valuations applied (e.g. carrying amount, zero amount, estimated value)
15. Little or no revaluations were carried out on a planned basis except when assets are sold. Thus the carrying amount of PPE will differ substantially from its realisable amount.
16. Inventories of PPE may be carried out but this varies substantially from entity to entity
17. Centrally set depreciation norms do not necessarily result in carrying amounts that bear any relation to a fair value. IPSAS based depreciation is focussed more on individual assets r groups of assets.
18. Some "Fully Depreciated Assets" were moved to off balance sheet accounts. No asset should be moved off balance sheet for this reason. If an asset has a zero carrying amount and it is still in use, the estimates of depreciation were incorrect and the resultant carrying amount is incorrect. The asset should be revalued to fair value and depreciation charged.
19. A new system is required to record PPE to ensure that the government assets are transparently properly recorded in the books of account. Many governments make this information available online to the electorate.

20. A PPE register could be implemented in two basic forms (1) Each entity keeps its own PPE register and a monthly mandated report is consolidated in Treasury (2) A common system is implemented that will be used by all entities. The second option is preferred as it provides better information and control.
21. Decisions are require on the scope of a PPE register (for custodial, accounting, or managerial information)
22. Accounting policies will require to be made for PPE. E.g. Asset Classes, recording but otherwise excluding Heritage Assets , Depreciation, Revaluation, Assets held in trust, Assets Held for sale, Leased Assets (as lessor and lessee) etc.
23. Collection of data on assets will be a large task spanning a number of years. Valuing the asset may also take much time and require the services of professional valuers.
24. Additional data will have to be collected as PPE related activities take place, so that the PPE register reflects a current record of all government PPE (Except Military, Education)
25. Impairment reviews should be undertaken each year.
26. Minimum level for asset acquisition and capitalisation (500) very low). The use of multiple levels based on risk assessment should be considered.
27. The use of national Expertise Agency for valuation is thought to be “expensive”. From Government viewpoint it may be inefficient not to make full use of this agency. An incentive may be persuasive.

3 INTRODUCTION

Main objective of this assignment is to strengthen public finance management, introduce a more efficient and transparent public accounting system and upgrade the quality of financial reporting to comply with the International Public Sector Accounting Standards (IPSASs).

For the strengthening of public finance transparency and management, it is necessary to have relevant, reliable, comparable, timely, and understandable information on public non-financial assets. The present system of budget execution and financial reporting does not provide the full extent of needed financial information, nor financial information with all of these qualities. At the same time, there are numerous problems, the solution of which determines the reform success and general sustainability of its positive results. Apart from that, it is essential to take into account specifics of the accounting policy by various segments of the public sector.

The Ministry of Finance of Georgia is gradually moving towards the application of standards fully consistent with IPSAS, for financial reporting as determined by the "The Action Plan for the introduction of International public Sector Accounting Standards" (Order of the Minister of Finance of Georgia N 701, 3 November 2009). Currently accounting and financial reporting is conducted on an IPSAS cash basis using a classification system based on GFS 2001 including classification of non-financial assets. This reflected in the CoA which permits recording according to GFS and financial reporting is in compliance with IPSAS (Cash). To move fully to IPSAS (Accruals) will require that PPE is accurately recorded and reported transparently. According to the action plan, the next upcoming phase in the reform process toward introduction the IPSASs (Accruals) refers to financial reporting on PPE (fixed assets) by the spending agencies, except the SOEs and other specific issues.

The outcomes of executing this assignment will contribute to achieving the following objectives:

1. Creating conditions to enhance the accuracy and transparency of the accounting & reporting system of the non-financial assets in the public sector;
2. Improving business processes resulting in the implementation of the public asset register system;
3. Achieving consolidation and disclosure of information about the contents and characteristics of non-financial assets in the public sector;
4. Developing practical solutions for improving public assets management and control;
5. Improving the quality of use of financial reporting and budget execution information in the public finance management process.

To address the abovementioned objectives, considering the nature of outstanding issues, in coordination with the State Treasury, a sample of 6 ministries/affiliation agencies has been selected for interviews and research, namely: Ministry of Economy and Sustainable Development of Georgia, Ministry of Regional Development and Infrastructure of Georgia, Ministry of Agriculture of Georgia, Ministry of Culture and Monument Protection of Georgia, Ministry of Environment and Natural Resources Protection of Georgia. The detailed work plan as well as minutes of the meetings held throughout the Project are set out in Annexes.

4 ACTIVITIES

4.1 REVIEW INSTITUTIONAL FRAMEWORK, ACCOUNTING AND REPORTING METHODOLOGY

Current institutional framework for public assets management comprises of two major components: the legislative base referring to state property management in general and accounting and reporting regulations as set out by the decrees of the Minister of Finance. Namely, the main legislative requirements for state property management and roles of the relevant coordinating agencies are stipulated in the Law of Georgia on State Property Management. As the law states, LEPL National Agency for State Property Management(NASPM) under the Ministry of Economy and LEPL Service Agency of Ministry of Finance of Georgia(SAMFG) are responsible for management of state immovable and movable property, respectively. The NASPM has the exclusive right to manage all types of management (განკარგვა) of the state immovable property, including privatization, “transfers of the rights of management” (for intangible property), “transfers of the rights of use” (for immovable property), realization, leases, distribution and termination of the property as stipulation by the relevant legislation. The SAMFG deals with the movable property, including the property returned (confiscated) to the state ownership.

As for the accounting and financial reporting regulations, these include:

- Order of the Minister of Finance of Georgia N 1321, 28 December 2007, On approving the Regulation “On Accounting Rules for the Budgetary Entities”
- Order of the Ministry of Finance N 97; April 8, 2013; “On approving the rules for financial reporting under the modified cash basis of accounting for state budgetary organizations”

Other relevant legislative norms include:

- Order of the Ministry of Finance N 439; December 31, 2002; “On approving the regulation of depreciation rates for fixed assets and their financial accounting for state budgetary organizations”
- Order of the Ministry of Finance N 605; July 23, 2010; “On approving the rules for inventory takes for property, accounts receivable and accounts payable in state budgetary organizations”
- Order of the Minister of Finance of Georgia N 701, 3 November 2009, “The Action Plan for the introduction of International public Sector Accounting Standards”

4.2 ASSET MANAGEMENT POLICIES AND PRACTICES

4.2.1 STATE PROPERTY MANAGEMENT AGENCIES AND THEIR ROLES

As identified through the analysis of the institutional framework and interviews held under the project, the main issues to address to ensure effective management of state property at the aggregate level refer to the obligations and functions of LEPL National Agency for State Property Management under MOE (NASPM) and LEPL Service Agency of Ministry of Finance of Georgia (SAMFG). The division of their responsibilities is based on the classification of the state property as “movable” or “immovable” (based on the law). According to the law, State property is defined as

"Movable and immovable items under the ownership of the state, intangible property"(article 2/a). However, first, the abovementioned categories are not used /defined neither under GFS classification nor under IPSASs. Second, according to the law, immovable items are defined as "immovable property under the state ownership, land plots for agricultural purposes, forestry within the limits of the settlement areas, preserved landscapes, territories for multi-purpose use". Consequently, as the "movable items" are defined separately, any other state-owned items that don't fall under the definition of "immovable items", can/should be considered as a movable items. However, legislation does not precisely stipulate what classes of assets should be/are covered under each of these categories. The abovementioned issues may cause ambiguities for the purposes of recognition/measurement of these state-owned assets while preparing the consolidated financial statement of the government under IPSASs.

Under the IPSASs the assets held for sale or distribution in the ordinary course of operations should be accounted for as inventories and should be measured at the lower of cost and net realizable value (IPSAS 12). While the property held to earn rental or for capital appreciation e.g. land held or long-term capital appreciation or held for currently undetermined future use should be accounted for as investment property under IPSAS 16. Furthermore, while transferring the "rights of use" of the immovable property, according to the existing legislation, the transferee should register it in the Public Registry and must account for it on the face of the balance sheet. However, the essence of the transfer of "right of the use" of the property (e.g. building) is closely related to the useful life of the transferred asset and time period of the use, however, at this stage, the transaction is recorded anywhere. Furthermore, according to the existing practice, the NSAPM accounts for the net revenues from the disposal of the assets, namely commission fee as defined as the 7% of the total revenues from disposal of the assets. If the assets under governance are accounted as inventories, the revenues recognized should amount to the gross inflow from the disposal of the asset.

According to the existing practice, privatization department under the agency deals with the registry of the state property to be privatized, department of state property management deals with the transfers of the rights to use the state property to private sector as well as to and within public sector entities. As agency informed, the inventory count processes for state property (only for Tbilisi, at the pilot stage) have been started, and budget proposal of the ministry for 2014 considers increased resources for these processes (however, the state budget law for 2014 has not been approved yet, therefore, exact amount of budgetary resources to be devoted to this process has still to be determined). To effectively manage this process and to ensure the completeness of the date obtained, detailed action plan should be prepared outlining: target asset classes and geographical locations, detailed time frame for covering abovementioned targets, nature of the information/data to be collected. Considering that existing registers use the criteria that are not informative and far from sufficient for the purposes of financial reporting under IPSASs(namely: the category of the item, are of the land (specified or nonspecified), area of the building, address, Cadastral code, short description of the item, water, electricity, natural gas, internet connection, parking, problems, information on cultural heritage value), the crucial prerequisite for achieving the outlined objectives of this process is the development of the criteria for the PPE registry that will be sufficient for the purpose of financial reporting under IPSASs(proposed PPE registers are set out in Annex).

4.2.2 SPENDING AGENCIES

As for the spending agencies' level, typically main problems refer to the completeness of the fixed assets recognized on the face of the agencies' balance sheets as well as the measurement (valuation) of the assets at and after recognition. First, the application of physical verification through a formal inventory process is highly variable in application. According to the best practice, a good physical verification procedure should be risk based to ensure that high risk assets are verified more frequently. Second, problems have been identified related to the recognition/measurement of the assets transferred by the NASPM to the agencies, as well as between the agencies, by transferring "the right of use" of the property. As revealed through the interviews of the administration of the Ministry of Infrastructure and Regional development, the problem related to the accounting of PPE by the ministry refers to the transfers of the property to the state owned enterprises under the ministry by the permission of the NASPM. Namely, as the NASPM just gives the right to the Ministry to transfer the fixed assets into the equity of the state owned enterprise under the ministry, the transferred property is not reported on the face of the balance sheet of the ministry, only transferred cash amounts(through the budgetary assignations) are recognized as financial assets of the ministry.

As for PPE registers, the interviews have revealed, the accounting database of the ministries typically reflects only the fixed assets with the general and administrative purpose and the only type of register that is being run is integrated within the accounting software and the accounting department records only those types of data (related to the fixed assets) that are required by the applicable regulations and instructions approved by the superior bodies, which as a matter of fact are not sufficient for the purposes of reporting in compliance with IPSAS 17.

In addition, due to the inexistence of the information, there are problems with proper accounting of specific types of assets (e.g. heritage, biological assets, infrastructure assets), for example, for the purposes of the accounting the Land plots and the Forestry resources are not being recognized as the separate items on the balance sheet of the entities at the ministry of environment and natural resources protection, thus we can state that is not compliant with IPSAS 17 and IPSAS 27. There is similar case with the Roads Department under Ministry of Infrastructure and Regional development. Namely, the department deals with the roads of international importance as well as secondary roads, while local roads are owned by the municipalities. Infrastructure assets currently recognized on the face of the department balance sheet include roads, tunnels, bridges and other assets related to the roads infrastructure. Infrastructure assets are valued at their historical cost minus depreciation (depreciation rates are used as prescribed by the ordinance of the Ministry of Finance determining the depreciation rates for specific classes of fixed assets). Past revaluation for roads was conducted through indexation no later than 2006. All infrastructure assets related to the roads infrastructure (e.g. bridges) are included into the value of the roads. Therefore, separate values for those assets are not identified except those been constructed in recent years. The valuation of the roads does not include the impairment losses due to natural disasters or other unexpected damages. This together with the absence of clear instruction creates problems of identifying the capitalization part of those expenses devoted to the construction of new infrastructure assets. However, Separate department at the ministry is responsible for the monitoring of the technical conditions of the roads. The monitoring processes are conducted periodically across different geographical locations so that condition of each of the roads is assessed at least once a year according to the specific technical characteristics and standards). The electronic database (based on GIS system) capturing the characteristics of the roads is being currently developed (information on parameters used to assess the roads conditions will be provided).

As for measurement after recognition, revaluations of some particular items of the fixed assets during year 2013 have been reported by the representative of the LEPL National Food Agency. Considering that the entity did not revalue the whole classes of assets we can state that the incompliance with IPSAS has been identified. Revaluation of the particular items while ignoring all the other items of the same class presumably seems to be a very common error due to the facts when the item transfers are made with no values indicated which results in an unavoidable revaluation of the transferred item for the purposes of recognition on the balance sheet.

As per interviews with the LEPLs under the interviewed agencies, the basic accounting principles and methodology applied for the purposes of the fixed assets accounting is similar to those of the Ministries. However, difficulties specific to LEPLs identified refer to the two different approaches of accounting (in accordance with the relevant Instructions and regulations and the Tax Code). The difference between the depreciation rates applicable in accordance with each of regulations has been identified as the most complicating.

4.3 GAP ANALYSIS, CURRENT AND INTERNATIONAL PRACTICE

4.3.1 ACCOUNTING METHODOLOGY

The main discrepancies with the IPSAS requirements arise from the difference between the GFS and IPSAS classification as well as accounting approaches as current methodology (Order number N1321) for accounting the fixed assets is primarily derived from GFS principles.
GFS and IPSAS were designed for different purposes, GFS for economic reporting and IPSAS for financial reporting. Much effort has been expended by IFAC on trying integrate two different systems and there is an on-going working group, hosted by IFAC, addressing the issues over the last ten years.
The valuation of Non-Financial Assets and comparison of the difference between opening and closing balances is a GFS requirement to calculate “Flows” and the resulting figure is analogous with depreciation and impairment in IPSAS.
Major differences remain such as GFS recognition of assets at market value and IPSAS at cost or fair value less depreciation and impairment. Market value and cost or fair value need not be the same.
The approach adopted for this report is that Treasury have a working GFS classification system for a cash based system of recording non-financial assets so the problem is in identifying the additional data that the assets recording system requires to enable compliance with both GFS and IPSAS. The extent to which the existing system is effective is also discussed in this report. See Annex 6 for more detailed differences between IPSAS and GFS particularly at recognition

As the long term aim is to move towards IPSAS, the IPSAS model for accounting for assets is used as the benchmark in this report. The IPSAS model is:

1. Recognition
2. Measurement at Recognition
3. Measurement after Recognition

4. Depreciation
5. Impairment
6. Derecognition
7. Disclosure.

4.3.2 CLASSIFICATION OF ASSETS

The classification of assets under GFS and IPSAS differs and is sufficiently different that the PPE data base will have to maintain in some instances data for both.

Given the GFSM and IPSAS differences it will be necessary to reconcile the differences in the two approaches to ensure that the PPE Register can produce information for both. The classification system for assets will therefore be designed do this as well making use of a user defined section as to produce the reports required by management at different levels in different entities. More detail is set out in Annex 3.

The following table is a comparison of current assets GFS classification with the corresponding IPSAS Equivalent.

Classification of assets and liabilities

Current GFS Based	IPSAS EQUIVALENT (Standard no.)	Notes
1 Nonfinancial assets (61)	None	
a Fixed assets (611)	PPE 17	Differentiate investment property 16, leases 13
i Buildings and structures (6111)	PPE 17	
Dwellings (61111)	PPE 17	
Buildings other than dwellings (61112)	PPE 17	
Other structures (61113)	PPE 17	
Land improvements (61114)	PPE 17	
ii Machinery and equipment (6112)	PPE 17	
Transport equipment (61121)	PPE 17	
Other machinery and equipment (61122)	PPE 17	
Information, computer, and telecommunications equipment (ICT) (611221)	PPE 17	
Machinery and equipment not elsewhere classified (611222)	PPE 17	
iii Other fixed assets (6113)	PPE 17	
Cultivated biological resources (61131)	Agriculture 27	
Intellectual property products (61132)	Intangible Assets 31	
iv Weapons systems (6114)	PPE 17	Outside report brief
b Inventories (612)	Current assets Inventories (12)	
i Materials and supplies (61221)	Not PPE CHECK THIS	
ii Work in progress (61222)	Not PPE Current assets	Inventories

iii Finished goods (61223)	Not PPE Current assets	Inventories
iv Goods for resale (61224)	Not PPE Current assets	Inventories
v Military inventories (61225)	Not PPE Current assets	Inventories
c Valuables (613)	Not PPE	Analyse
d Non-produced assets (614)	None	
i Land (6141)	PPE 17	
ii Mineral and energy resources (6142)	Not PPE CHECK THIS	Follow IFRS treatment
iii Other naturally occurring assets (6143)	Not PPE Agriculture 27 or Other	Analysis required
iv Intangible non-produced assets (6144)	Not PPE Intangible Assets 31	
Contracts, leases, and licenses (61441)	Not PPE CHECK THIS	
Marketable operating leases (614411)	Leases 13	As Lessee
Permits to use natural resources (614412)	Not PPE Intangible Assets 31	
Permits to undertake specific activities (614413)	Not PPE Intangible Assets 31	
Entitlement to future goods and services on an exclusive basis (614414)	Not PPE Intangible Assets 31	
Goodwill and marketing assets (61442)	Not PPE Intangible Assets 31	

The table illustrates that there is a reasonable degree of correspondence at the top level but a few items have a very different treatment e.g. leased assets.

4.3.3 IPSAS Reporting

IPSAS Reporting of PPE is important as the content of the reports dictate to a significant extent, what data is collected. Typical IPSAS Reporting requirement are based on:

1) By class of asset:
    a. Measurement bases used
    b. Depreciation method used
    c. Depreciation rate used
    d. Gross carrying amount
    e. Accumulated depreciation
    f. Accumulated impairment losses at beginning and end of each period
2) By class of asset, a reconciliation of the carrying amount at beginning and end of each period
    a. Carrying amount at beginning
    b. Additions
    c. Disposals
    d. Acquisitions through equity combinations
    e. Increases and decreases resulting from revaluations and impairments
    f. Accounting treatment of revaluations and impairments
        i. recognised / reversed in equity
        ii. recognised in surplus or deficit
    g. Depreciation
    h. Net exchange differences
        i. translation of financial statements from foreign currency to presentation currency

    i. Other changes

3) By class of asset
    a. Amount of restrictions on title, including pledged assets
    b. The amount included in the carrying amount of items of PPE under construction
    c. Contractual commitments for acquisition of PPE
    d. The amount of compensation received from third parties for PPE , for items impaired, given up or lost. The amount will be included in surplus or deficit.
4) By class of asset for assets revalued
    a. Date of revaluation
    b. Details of independent valuer if used
    c. Methods and assumption applied in estimating fair values
    d. Extent to which fair values are based on market values or other techniques
    e. The revaluation surplus indicating the change in the period and any restriction of use of surplus
    f. The sum of all revaluation surpluses
    g. The sum of all revaluation deficits
5) By class of asset for assets revalued
    a. Carrying amount of temporarily idle PPE
    b. The gross carrying amount of fully depreciated assets still in use
    c. Carrying amount PPE retired from active use and held for sale.
    d. If cost model is used show the fair value of PPE where the fair value differs materially from cost.

4.4 RECOMMENDATIONS

4.4.1 IMPROVEMENTS TO EXISTING ASSET MANAGEMENT PRACTICES

The main amendments necessary to bring the fixed assets management/accounting practices to compliance with the IPSASs except those related to the general conceptual differences between GFS and IPSASs refer to the completeness, classification and valuation issues at the aggregate as well as spending agencies' levels.

Sequence of the priorities

At the aggregate level, addressing completeness issue is linked to the proper inventory count processes and preparation of the relevant asset registers to be carried out by the NASPM as already mentioned above. To effectively handle the incompleteness issue, general solution is cross-country inventory count as described. However, other activities such as mandatory property registration requirement could make this process less resource-consuming and more effective. Furthermore, to decrease risks of double-accounting and/or no recognition of the assets during the transfers between spending agencies, in order to ensure timely recognition/write offs of the underlying assets there is a need to precisely oblige specific structural unit (possibly, monitoring department under NASPM) to monitor and form the database for all the transfers of the property by the NASPM as well as between the agencies.

Completeness and proper classification of the assets registers are main prerequisites to address the valuation problems. As the last revaluation of the state property was carried out in 90s via price indexation, the current carrying amounts of the assets don't reflect existing market situation and thus are probably materially misstated. The above mentioned may be related to the expenses of the revaluation by the independent valuer (in Georgian case, L. Samkharauli National Expertise Agency), except the Service agency of the Ministry of Finance that has exclusive right to use its own valuation unit. Analysing this issue one might be prompted to consider this mechanism (namely, the right to value the assets under management) also appropriate for the NASPM considering the similar roles of the abovementioned agencies. However, due to the differences in sources of income, the possible perverse incentives should also be analysed. Namely, according to the existing practice, the budget of the SAMOF is defined by the Minister of Finance and is fixed amount allocated through the MOF budgetary appropriations each year, while the revenues of the NASPM are linked to the total inflows from the operations as 7% of mark-up of the sales. Therefore, the right to use own valuers for this property could lead to overstatement of the value of the property(to increase to selling price and respectively revenues from the particular sale) as well as understatement of the value of less liquid assets(to increase the total revenues based on boosting the volume of sales). On the other hand, the SAMOF has no incentives to prevent it from selling the assets at below the market price (by discounting) that would minimise the inventory costs of assets at their disposal as its budget is fixed. Therefore, best possible solution can be an introduction of full or partial exemptions for the valuation fees by the independent state-owned valuation agency (LEPL L. Samkharauli National Expertise Agency) for the two abovementioned agencies as well as other budgetary organizations or allocating specific funds from the state budget for the valuation purposes.

Another important issue related to the measurement of assets after recognition refer to the fixed depreciation rates for fixed asset items as stipulated by the decree of Minister of Finance. As the IPSASs state the depreciation of the asset should reflect the allocation of the economic benefits or service potential of the item over its useful life and therefore, is clearly linked to the purpose and intensity of the asset used, applying the similar depreciation rates assumes similar useful lives for the fixed assets ignoring the differences between the purpose of the use and nature of activities of the managing entities. Restricting the ability of the entities to properly define the useful lives of the assets may lead to the unrealistic carrying amounts of the balance sheets. Furthermore, in regards to the LEPLs, due to the factual differences between the applicable depreciation rates for the assets acquired by the LEPL own revenues and state budget financing, as stipulated by the Tax Code of Georgia and order N439 of the Minister of Finance, the carrying amounts of identical items with identical purchase price, technical characteristics and purpose/intensity of use will differ at any point of time that is inconsistent with IPSASs.

4.4.2 Design of PPE Register

Fixed asset registers, the subject of this report, record the government assets in a way equivalent to IPSAS 17 Property, Plant and Equipment. PPE is a subset of Non-financial Assets. This report therefore focuses on PPE rather than "NonFinancial Assets" which include Current Assets such as inventory.

It common to link PPE registers to more detailed records that can provide operational management with "management information" e.g. regular maintenance schedules. This aspect is not covered in this report which is focussed on accounting for PPE. This can be incorporated into the new PPE system by the use of user definable classifications and data fields in addition to those required to produce GFS and IPSAS information.

In the draft design of a PPE Register(see Annex 3), it is assumed that the initial system will have basic functionality but will be capable of extension depending on available hardware and software. For example it can be very valuable to have photographs to aid identification, documents that are relevant (invoices, leases, rental agreements etc). Bar codes or RFID tags are also used for identification as are QR codes that can be read with most smart phones with a camera. This opens up the potential to improve the efficiency and reduce the cost of inventory taking with a smart phone app. communicating directly with the PPE Register. The same is true for GIS that can be used to identify Land and Buildings based on the GPS capabilities of smartphones.

PPE Registers are generally verified periodically by physical inspection of the assets recorded. An accounting policy is required to determine how often the PPE inventory is verified. A continuous system is often employed where assets are physically verified on a say 3 year cycle (same as MTEF?) but this is done continuously so that 1/3 is verified each year.

4.4.3 Accounting Entries

This is set out in Annex 8.

4.4.4 Gap Filling

Short term activities can be undertaken in order improve PPE accounting. These are:

	Gap	Possible Action
1.	Possibility of zero recording or double recording of PPE See PPE Movements Summary below	A PPE movements summary from each agency (see below) would treasury to reconcile overall the Purchases, Sales and Transfers both on volume and value.
2.	Unrecorded Assets	Projects like the one run by the property agency to identify unrecorded assets.
3.	Assets at zero book value	Mandate a revaluation of those still on use. If not in use then re-categorise "for sale" and value at fair value
4.	Difficulties in deciding when to capitalise	Guidelines from treasury may help
5.	Disincentives for entities to recognise and record assets	It should be possible for "assets held for sale (property" to be held without incurring property tax. They are more the nature of inventory.
6.	When to account for an asset	As there is the intention to implement IPSAS, it may be a good time to clarify when and how PPE should be

	accounted for. This should be based on the concept of Control (not Ownership), where the controller accounts for the asset. Other classifications Investment Property and Property held for sale could be defined at the same time.
7.	
8.	

Example PPE Movements Summary:

	Volume	**Value**	**Volume**	**Value**
Balance at beginning of Month				
Acquisitions (individual detail)				
Disposals (individual detail)				
Balance at end of Month				

Details of: Individual Acquisitions and Disposals

This table should provide sufficient detail to match all acquisitions and disposals each month and reconcile transfers in volume and value.

ACQUISITION	**DISPOSAL**
Unique ID no.	Unique ID no.
Date of Acquisition	Date of Disposal
Description of item	Description of item
Number of items (volume)	Number of items (volume)
Type of transaction: Buy, Transfer from other gov. entitity, Donation, Grant, Legal, Hold in trust,	Type of transaction: Buy, Transfer to other gov. entity, Transfer other, Donation, Grant, Legal, Return to trustor,
Value(GEL) (including transport, installation)	Value(GEL) (including disposal costs)
Valuation Basis (Cost, carrying amount, valuation, market value, expert opinion etc.)	Valuation Basis (Cost, carrying amount, valuation, market value etc.
A	
Supplier	
Customer	
Carrying amount at disposal	
Carrying amount at recognition	
Acquiring Entity	
Disposing Entity	
Date of accounting entries	
Date of accounting entries	
Accounting Entries DR and CR	
Accounting Entries DR and CR	

5 ANNEX 1 TOR FOR THE PROJECT

TOR for the International Consultant to Define the Sustainable Approach for Accounting and Reporting of Non-financial Assets

1. BACKGROUND

The Ministry of Finance of Georgia (MOF) has endorsed the Strategic Vision for Public Financial Management Reform. This document presents a diagnosis of the challenges faced by the Georgian Government in public financial management and provides directions for implementation of this vital reform. Strengthening budgeting, accounting and reporting mechanisms and practice is one of the key elements of this Strategic Vision.

The intended outcome of Public Financial Management Reform is to gradually achieve the compliance with the IPSASs and Government Finance Statistics Manual 2001 and to implement an integrated Public Financial Management System (PFMS) which supports the functionality required by the international standards. The application of IPSASs will have several benefits including, most notably, transparency, understandability and easy public access to information on public finances. Thus, the introduction of IPSASs would lead to the production and analysis of robust financial statements on the basis of which discussions on resource allocation, economy, efficiency and effectiveness could take place. It would also help to identify areas in which better financial practices could be adopted and would increase the utility of the Government's financial statements by, for example, supporting and reflecting management's need for detailed information for decision-making purposes.

Under the Public Financial Management Reform the Ministry of Finance of Georgia has approved the "The Implementation Action Plan of the International Public Sector Accounting Standards" which defines the main stages for transition to the accrual based International Public Sector Accounting Standards (IPSASs).

According to the approved action plan, the Treasury Service of the Ministry of Finance plans to adopt IPSASs step-by-step. At present modified cash basis of accounting is adopted in the state budget organizations. Recognizing the importance of introducing changes to the Georgian public sector accounting framework and in particular of introducing an accruals-based framework in the long-term, at this stage Treasury Service intends to adopt some accrual based IPSASs related to the non-financial assets.

Under Public Finance Management Project Treasury General Ledger is developing. The concept of the Treasury General Ledger provides for integration of transactions and records related to public finances into one system; introduction of IPSAS-based unified Chart of Account (CoA) and existence of the balance of assets and liabilities of the government in real time. The basic book shall reflect all records based on principle of double entry, in the form of registration of primary document, confirming economic operation by budget organization, as well as in the form of registration of cash operation of the amount, written off from the Treasury Single Account (TSA). The aim of improvement and simplification of the existing informational system and business-processes is ensuring of transparency of payments made from the budget, increase of accountability of budget organizations, preparation of information for management for making decisions on efficient spending of financial resources and simplification and increase of efficiency of operations for the organizations, served by the Treasury.

Follow that, for decision-making and assurance of better control over public sector activities, a promptly updated information database on all public non-financial assets is needed. Recognizing the significance of introducing changes to the Georgian public sector accounting framework, such as implementation of the International Public Sector Accounting Standards (IPSASs) and Treasury General Ledger, the Treasury Service of the Ministry of Finance plans to prepare methodological guidelines and norms and formulate appropriate recommendations in order to develop sound practices in the field of public non-financial assets accounting and reporting.

2. OBJECTIVES OF THE ASSIGNMENT

Main objective of this assignment is to strengthen public finance management, introduce a more efficient and transparent public accounting system and upgrade the quality of financial reporting to comply with the International Public Sector Accounting Standards (IPSASs).

For the strengthening of public finance transparency and management, it is necessary to have relevant, reliable, comparable, timely, and understandable information on public non-financial assets. The present system of budget execution and financial reporting does not provide the full extent of needed financial information, nor financial information with all of these qualities. At the same time, there are numerous problems, the solution of which determines the reform success and general sustainability of its positive results. Apart from that, it is essential to take into account specifics of the accounting policy by various segments of the public sector. Therefore, it is expected that the Consultant will investigate the weaknesses of the present system of public assets management and designing a road map for the introduction of accrual basis accounting & reporting system for non-financial assets in the public sector.

The Consultant will propose a design of the asset management system in the public sector. The Consultant will work with the Accounting Methodology Division and Financial-Analytical Service staffs in order to develop actionable, time-bound and agreed solutions for this task.

The outcomes of executing this assignment will contribute to achieving the following objectives:

1. Creating conditions to enhance the accuracy and transparency of the accounting & reporting system of the non-financial assets in the public sector;
2. Improving business processes resulting in the implementation of the public asset register system;
3. Achieving consolidation and disclosure of information about the contents and characteristics of non-financial assets in the public sector;
4. Developing practical solutions for improving public assets management and control;
5. Improving the quality of use of financial reporting and budget execution information in the public finance management process.

3. SCOPE OF THE WORK

The overall scope of this assignment is to carry out a range of activities to develop design of public assets register database which will be used to simplify recording, controlling and managing of public assets. The database design should be prepared to make available as a ready reference for matters concerning the control of public assets and to set forth the rules that govern the transactions and reporting of assets values. Also should include the procedures for disposing of excess surplus and damaged assets and for reporting assets that is stolen or missing.

The Consultant will be required to commence with a review of public sector assets accounting and reporting methodology during his first week in Georgia. A briefing session will be arranged with the Accounting Methodology Division and Financial-Analytical Service staffs to report on his initial findings and to agree on the work plan of significant tasks to be undertaken to change business processes related to the accounting and reporting of the non-financial assets. This is expected to be a combination of review of specific aspects of the current methods in the field leading to recommendations for future follow-up action and development of a new methodology in accordance with the internationally recognized best practices.

4. EXPECTED OUTPUTS

Main goals of the assignment are:

- Design the database structure for public non-financial assets register and define linkage between synthetic and analytical accounting entries into the Treasury General Ledger;
- Propose prototype non-financial assets register populated with different asset classes;
- Propose methodology and guidelines for making entries into this system to take into account the specific characteristics of the Georgian public sector;

- Provide the training to the Accounting Methodology Division of the Treasury Service and to the Financial-Analytical Service of the Ministry of Finance of Georgia on the use of the new proposed public assets register system.

The Consultant should prepare a comprehensive report describing design the public non-financial assets register database and proposing methodology for making entries into this system to take into account the specific characteristics of the public sector. Comprehensive report should include the details of the changes required to the business processes and recommendations for future work and development in the area of public sector assets management.

Training on the use of the new proposed public assets register system to the Accounting Methodology Division of the Treasury Service and to the Financial-Analytical Service of the Ministry of Finance of Georgia will be conducted in 5 sessions (1 group) having approximately 10 participants in the group. Each session will take three hours a day. All Presentations should be made using electronic LCD power point, overhead projector and flip charts.

5. REPORTING REQUIREMENTS & SUBMISSION ISSUES

The total input for this assignment will be for approximately 30 working days. Inputs will be made from one international consultant.

The Consultant will report to the Head of the Treasury Service of the Ministry of Finance of Georgia.

The report should be prepared in English and translated to Georgian by the professional translator. It is expected that the report will be stylistically checked and proofread. Draft report shall be presented for consideration to the Accounting Methodology Division staff of the Treasury Service and to the Financial-Analytical Service of the Ministry of Finance of Georgia. After revision in accordance with the comments provided by the involved parties in this process the draft report should be updated, to be considered during a series of round tables organized by the Consultant.

The Consultant should present 2 hard copies and one electronic version of finalized report. The electronic version shall be in PDF as well as MS Office formats. Report should be case-bound and meet the design standards. During preparation of the report the Consultant should follow the following criteria: conciseness, clarity, possibility of dissemination of the information contained in the Report, adequate description of processes and functions, simplicity and usefulness for the Treasury Service of the Ministry of Finance of Georgia with respect of the implementation of the IPSASs. To avoid misinterpretations, graphs and drawings should be presented in color in all copies of the presented documents.

6. OTHER ISSUES

The Treasury Service of the Ministry of Finance of Georgia will provide office space, use of personal computer and general office supplies. The Consultant will be required to maintain a copy of all documentation, analyses, correspondence and reports used as materials in formulating the reports and to provide a copy of the same to the main stakeholders both upon request and in its entirety on CD-ROM at the end of the assignment.

6 ANNEX 2 WORK PLAN

	Activities (activities in bold correspond with TOR) (LC=Local IC=International)	LC/ IC	Outputs	Start	End
1	**Review the national legal / regulatory / institutional framework regulating the public assets treatment and management at the different levels of budget system (competences, responsibilities, rights and constrains).**	LC	List of sections inconsistent with IPSAS 17	11.09	30.09
2	***Review of public sector Accounting and Reporting Methodology in Georgia: a review of public sector assets accounting and reporting in Georgia including Business Processes***	*IC*	Report to Accounting Methodology		
3	**Develop gap analysis between the existing assets accounting regulations and practices and those in international standards.**	LC	Gap analysis	11.09	07.10
4	Analysis of existing assets classification from Laws and Regulations				22.10
5	Analysis of assets classification from GFS and IPSAS				
6	Reconciliation of GFS and IPSAS requirements		List of Top levels of suggested NFA Classifcation consistent with GFS and IPSAS for top level data collection		
7	Workshop on IPSAS 17 covering Recognition, Initial Measurement, Subsequent Measurement, Depreciation and Impairment.		Raising Awareness of problems and gaining feedback on next steps		
8	**Review policies and practices related to the public asset management, accounting and reporting on the level of line ministries to consider the area specific factors in the overall policy.**	LC	Analytical review	12.09	14.10
9	Meet with ministries (Agriculture, Culture,Environmental Protection, Economy, Infrastucture and Regional Development				
10	Determine existing systems and processes (Classifications, Acquisitions, Depreciation, Disposals, List of NFA, Volumes, Values, Leased Assets, Investment Property, Inventory , Off Balance Sheet, Fully Depreciated, Reported, Unreported, Obsolete, Held for Sale) and assess the causes of inventory fragmentation and not-inclusiveness		This will allow an initial assessment of existing systems and give an indication of major problem areas such as identification		
11	**Review all processes for updating asset information (new assets, maintenance, repairs, upgrades, costs, condition, useful lives, enhancements, etc.)**	LC	Process record with weakness analysis	12.09	21.10
12	Determine what are the requirement of Ministry at all levels in relation to NFA reporting		Knowing reporting required determines the data that must be collected, other than for IPSAS and GFS		

Activities (activities in bold correspond with TOR) (LC=Local IC=International)		LC/ IC	Outputs	Start	End
13	Determine any other significant issues in the initial identification of NFA e.g. geographical constraints		This will provide an indication of main problem areas for identification		
14	**Assess the current mechanisms of public assets inventory and management: assess the causes of inventory fragmentation and not-inclusiveness**	LC			
15	***Training on the use of the new proposed public assets register system***	IC+LC	This is not practical at such an early stage. Workshop on project findings and recommendations will be run		
16	Report to Treasury and Workshop to present Report findings:				
17	**What are the major problems, dysfunctions and needs of the public assets management function in Georgia?**	LC			
18	**Are there missing assets that are supposed to be included in the financial records but which are not on the balance sheets?**	LC			
19	**What improvements in the national legislation and municipal regulative framework are required in order to improve the efficiency of public assets management in Georgia?**	LC			
20	**What are the discrepancies and a work plan of significant tasks to be undertaken to change business processes related to the public assets accounting and reporting?**	LC			
21	**What should be the stages and optimal timeframe for the process of public assets management function improvement in the short and long period?**	LC			
22	***Describe the design of the public non-financial assets register database***	*IC*			
23	***Propose methodology for making entries into the assets register taking into account the specific characteristics of the public sector.***	*IC*	Workbook detailing accounting transactions under IPAS. Awaiting feedback.	Drafted	
24	***Details of the changes required to the business processes and recommendations for future work and development in the area of public sector assets management.***	*IC*			

	Activities (activities in bold correspond with TOR) (LC=Local IC=International)	LC/ IC	Outputs	Start	End
25	**Recommend policy actions to solve the gaps and/or alternative asset management processes and applications that may be more efficient and effective.**	LC			

7 ANNEX 5 LIST OF PEOPLE MET

Ministry of Economy and Sustainable Development of Georgia
Sofio Magraqvelidze - Head of Finance Division
LEPL National Agency for State Property Management
Ioseb Javakhishvili - Head of Finance Division
Mirian Chachava – Head of Property Management Department

Ministry of Infrastructure and Regional Development of Georgia
Givi Tetrashvili - Chief accountant at the Roads departments
Batu Gurdjidze – Head of the finance and budgeting division
Nugzar Gasviani- First Deputy Chairman of the Roads Department
Giorgi Basiashvili – Head of the Informational Database Division
Keti Giorgadze – Chief accountant
LEPL Municipal Development Fund
Tamar Avakimova – Chief accountant
Koba Dzadzamia – Financial Consultant

Ministry of Culture and Monument Protection
Mariam Karsimashvili – Head of Finance and Accounting Department
Giorgi Michitashvili – Head of administrative department
Devi Devidze – Head of Finance and Economic Department

Ministry of Environment and Natural Resource Protection
Mirza Sulkhanishvili - Head of the Finance Division
Neli Broladze - Chief accountant
Department of Environmental Supervision
Lasha Kakauridze - Head of the Economy Division
Irma Khutsishvili – Chief Accountant
LEPL Agency of Protected Areas
Vakhtang Tukvadze - Head of the Economy Division
Irakli Lekishvili - Accountant
LEPL National Environmental Agency
Goga Dolidze - Head of the Economy Division
Qetevan Nasuashvili – Finance Specialist
LEPL National Forestry Agency
Irakli Goduadze - Head of the Economy Division
LEPL Basic Sapling Forestry
Madona Vefkhviashvili – Chief Accountant
Tamar Tchkadua – Finance Specialist
LEPL Center for Environmental Education and Information
Sophio Tchitchinadze – Head of the Administration Department
Nona Mtchedlishvili - Accountant

Ministry of Agriculture
Otar Shamugia – Head of Finance-Economic Department
Nana Uridia - Head of the Budgeting and Finance Division

8 ANNEX 4 CURRENT IPSAS

To date, the IPSASB has issued the following final IPSAS:
Accrual basis standards

- **IPSAS 1, Presentation of Financial Statements**, sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.
- **IPSAS 2, Cash Flow Statements**, requires the provision of information about the changes in cash and cash equivalents during the period from operating, investing and financing activities.
- **IPSAS 3, Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies**, specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors, defines extraordinary items and requires the separate disclosure of certain items in the financial statements.
- **IPSAS 4, The Effects of Changes in Foreign Exchange Rates**, deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for determining which exchange rate to use for the recognition of certain transactions and balances and how to recognise in the financial statements the financial effect of changes in exchange rates.
- **IPSAS 5, Borrowing Costs**, prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- **IPSAS 6, Consolidated Financial Statements and Accounting for Controlled Entities**, requires all controlling entities to prepare consolidated financial statements which consolidate all controlled entities on a line by line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.
- **IPSAS 7, Accounting for Investments in Associates**, requires all investments in associate to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.
- **IPSAS 8, Financial Reporting of Interests in Joint Ventures**, requires proportionate consolidation to be adopted as the benchmark treatment for accounting for such joint venturers entered into by public sector entities. However, IPSAS 8 also permits - as an allowed alternative - joint ventures to be accounted for using the equity method of accounting.
- **IPSAS 9, Revenue from Exchange Transactions**, establishes requirements for the accounting treatment of revenue from exchange transactions. Non-exchange revenue, such as taxation,

is not addressed in this standard. Non-exchange revenue is to be dealt with as a separate project.

- **IPSAS 10, Financial Reporting in Hyperinflationary Economies**, describes characteristics of an economy that indicate whether it is experiencing a period of hyperinflation and provides guidance on restating the financial statements in a hyperinflationary environment to ensure useful information is provided.
- **IPSAS 11, Construction Contracts**, deals with both commercial and non-commercial contracts and provides guidance on the allocation of contract costs and, where applicable, contract revenue to the reporting periods in which construction work is performed.
- **IPSAS 12, Inventories**, establishes the accounting treatment of inventories held by public sector entities and deals with inventories held for sale in an exchange transaction and certain inventories held for distribution at no or nominal charge. The IPSAS excludes from its scope work-in progress of services to be provided at no or nominal charge from recipients because they are not dealt with by IAS 2 Inventories and because they involve public sector specific issues which require further consideration.
- **IPSAS 13, Leases.** This IPSAS is based on IAS 17 *Leases*. The IPSAS establishes requirements for financial reporting of leases and sale and leaseback transactions by public sector entities, whether as lessee or lessor. The PSC decided that because the IPSAS on Leases and the proposed IPSAS on Property, Plant and Equipment are closely related, it was preferable that the two IPSASs be released at the same time. Accordingly, the release of this IPSAS has been deferred to later in 2001. (See the section on Work in Progress below for a report on progress on the IPSAS on Property, Plant and Equipment.)
- **IPSAS 14, Events After the Reporting Date.** The IPSAS is based on IAS 10, Events After the Balance Sheet Date (revised 1999) but has been amended where necessary to reflect the public sector operating environment. The Standard establishes criteria for deciding whether the financial statements should be adjusted for an event occurring after the reporting date. It distinguishes between adjustable events (those that provide evidence of conditions that existed at the reporting date) and non-adjustable events (those that are indicative of conditions that arose after the reporting date.
- **IPSAS 15, Financial Instruments: Disclosure and Presentation.** The IPSAS is based on IAS 32 *Financial Instruments: Disclosure and Presentation* (Revised 1998). The Standard includes requirements for disclosures about both on-balance sheet and off-balance sheet (statement of financial position) instruments, and the classification of financial instruments as financial assets, liabilities or equity. Some respondents noted that the IPSAS would have only limited application for public sector entities which did not hold financial assets, liabilities or equity. The PSC has included as an appendix to the IPSAS a guide to assist entities in identifying the requirements of the Standard that will apply to them.
- **IPSAS 16, Investment Property.** IPSAS 16 Investment Property is based on IAS 40 *Investment Property*(issued 2000) and provides guidance on identifying investment properties in the public sector. The Standard:
    - requires that investment property initially be recognised at cost and explains that where an asset is acquired at no or nominal cost, its cost is its fair value as at the date it is first recognised in the financial statements;
    - requires that subsequent to initial recognition investment property be measured consistent with either the fair value model or the cost model; and

- includes transitional provisions for the initial adoption of the IPSAS.

- **IPSAS 17, Property, Plant and Equipment.** IPSAS 17 Property, Plant and Equipment, establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation. It does not require or prohibit the recognition of heritage assets.
- **IPSAS 18, Segment Reporting.** Establishes principles for reporting financial information about distinguishable activities of a government or other public sector entity appropriate for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.
- **IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.** This Standard defines provisions, contingent liabilities and contingent assets; and identifies the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing, and amount.
- **IPSAS 20, Related Party Disclosures.** IPSAS 20 requires the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are identifying which parties control or significantly influence the reporting entity and determining what information should be disclosed about transactions with those parties.
- **IPSAS 21, Impairment of Non-Cash-Generating Assets** IPSAS 20 prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognised. The standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.
- **IPSAS 22, Disclosure of Financial Information about the General Government Sector** IPSAS 22 establishes requirements for governments that choose to disclose information about the general government sector and that prepare their financial statements under the accrual basis of accounting.
- IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers). IPSAS 23 addresses:
  - Recognition and measurement of revenue from taxes
  - Recognition of revenue from transfers, which include grants from other governments and international organisations, gifts and donations
  - How conditions and restrictions on the use of transferred resources are to be reflected in the financial statements
- **IPSAS 24, Presentation of Budget Information in Financial Statements**. IPSAS 24 applies to entities that adopt the accrual basis of financial reporting. It identifies disclosures to be made by governments and other public sector entities that make their approved budgets publicly available. Also, it requires public sector entities to include a comparison of budget and actual amounts in the financial reports and an explanation of any material differences between budget and actual amounts.

- **IPSAS 25 Employee Benefits**. IPSAS 25 sets out the reporting requirements for the four categories of employee benefits dealt with in the IASB's IAS 19 *Employee Benefits*. These are short-term employee benefits, such as wages and social security contributions; post-employment benefits, including pensions and other retirement benefits; other long-term employee benefits; and termination benefits. The new IPSAS also deals with specific issues for the public sector, including the discount rate related to post-employment benefits, treatment of post-employment benefits provided through composite social security programs, and long-term disability benefits. IPSAS 25 is effective for reporting periods beginning on or after 1 January 2011.
- **IPSAS 26 Impairment of Cash-Generating Assets**. Some public sector entities (other than government business enterprises, which would already be using full IFRSs) may operate assets with the main purpose of generating a commercial return (rather than providing a public service). IPSAS 26, which is based on IAS 36 *Impairment of Assets*, applies to such assets. It sets out the procedures for a public sector entity to determine whether a cash-generating asset has lost future economic benefit or service potential and to ensure that impairment losses are recognised in its financial reports. Non cash-generating assets, those used primarily for service delivery, are addressed separately in IPSAS 21 Impairment of Non-Cash-Generating Assets. IPSAS 26 is effective for reporting periods beginning on or after 1 April 2009.
- **IPSAS 27 Agriculture**. IPSAS 27 prescribes the accounting treatment and disclosures related to agricultural activity, a matter not covered in other standards. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, or for distribution at no charge or for a nominal charge or for conversion into agricultural produce or into additional biological assets. IPSAS 27 is primarily drawn from the IASB's IAS 41 *Agriculture*, with limited changes dealing with public sector-specific issues. For example, IPSAS 27 addresses biological assets held for transfer or distribution at no charge or for a nominal charge to other public sector bodies or to not-for-profit organisations. IPSAS 27 also includes disclosure requirements that are aimed at enhancing consistency with the statistical basis of accounting that governs the Government Finance Statistics Manual. IPSAS 27 is effective for annual financial statements covering periods beginning on or after 1 April 2011, with earlier application encouraged.
- **IPSAS 28 Financial Instruments: Presentation**. IPSAS 28 draws primarily on IAS 32 and establishes principles for presenting financial instruments as liabilities or equity, and for offsetting financial assets and financial liabilities.
- **IPSAS 29 Financial Instruments: Recognition and Measurement**. IPSAS 29 draws primarily on IAS 39, establishing principles for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items.
- **IPSAS 30 Financial Instruments: Disclosures**. IPSAS 30 draws on IFRS 7 and requires disclosures for the types of loans described in IPSAS 29. It enables users to evaluate: the significance of the financial instruments in the entity's financial position and performance; the nature and extent of risks arising from financial instruments to which the entity is exposed; and how those risks are managed.
- **IPSAS 31 Intangible Assets**. IPSAS 31 covers the accounting for and disclosure of intangible assets. It is primarily drawn from IAS 38 *Intangible Assets*. It also contains extracts from the SIC 32 *Intangible Assets-Web Site Costs*, adding application guidance and illustrations that

have not yet been incorporated into the IAS. At this point, IPSAS 31 does not deal with uniquely public sector issues, such as powers and rights conferred by legislation, a constitution, or by equivalent means; the IPSASB will reconsider the applicability of the standard to these powers and rights in the context of its conceptual framework project, which is currently in progress.

- **IPSAS 32 Service Concession Arrangements: Grantor**. IPSAS 32 provides for the recognition, measurement, and disclosure of service concession assets and related liabilities, revenues, and expenses by the grantor. The criteria in IFRIC 12 *Service Concession Arrangements* for determining whether the operator controlled the asset used in a service concession arrangement are also used in IPSAS 32 to assess whether the grantor controlled the asset. IPSAS 32 also creates symmetry with IFRIC 12 on relevant accounting issues (i.e. liabilities, revenues, and expenses) from the grantor's point of view. In addition, IPSAS 32 is consistent with SIC-29 *Service Concession Arrangements: Disclosures*.

9 ANNEX 5 GFS / IPSAS DIFFERENCES

GFSM Suggested classification for Non Financial Assets				IPSAS Position / Standard	GFS Initial Recognition	IPSAS Initial Recognition
61 Nonfinancial assets					When ownership rights are established and enforced regardless of who receives the benefits.	The entity controls the asset as a result of past events; (b) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and (c) The fair value or cost of the asset can be measured reliably.
	611 Fixed assets			Non-Current Assets IPSAS 16	Current Market Value.	Cost or Fair Value for non-exchange.
		6111 Buildings and structures		Non-Current Assets IPSAS 16	If no current price then estimates are used	
			61111 Dwellings	Non-Current Assets IPSAS 16		
			61112 Buildings other than dwellings	Non-Current Assets IPSAS 16		
			61113 Other structures	Non-Current Assets IPSAS 16		
			61114 Land improvements	No details given in GFSM??		
		6112 Machinery and		Non-Current Assets		

GFSM Suggested classification for Non Financial Assets				IPSAS Position / Standard	GFS Initial Recognition	IPSAS Initial Recognition
		equipment		IPSAS 16		
			61121 Transport equipment	Non-Current Assets IPSAS 16		
			61122 Machinery and equipment other than transport equipment	Non-Current Assets IPSAS 16		
		6113 Other fixed assets		Non-Current Assets IPSAS 16	May require analysis	
			61131 Cultivated biological resources	Non-Current Assets Biological Assets IPSAS 27 Inc. Crops at the point of harvest	Current Market Value. This may be the same as Fair Value.	A biological asset shall be measured on initial recognition and at each reporting date at its fair value less costs to sell, except for the case described in paragraph 34 where the fair value cannot be measured reliably.
			61132 Intellectual property products (Inc. Mineral exploration + intangible Assets)	Intangible Assets IPSAS 31 Mineral Exploration IFRS 6		An intangible asset shall be measured initially at cost including attributable expenses
		6114 Weapons systems	Temporarily excluded	Non-Financial Assets IPSAS 16		
	612 Inventories	6121 Strategic Stocks		Current Asset IPSAS12		Inventories shall be measured at the lower of cost and

GFSM Suggested classification for Non Financial Assets				IPSAS Position / Standard	GFS Initial Recognition	IPSAS Initial Recognition
						net realizable value, Exclusions: Work-in-progress under construction contracts, (b) Financial instruments (c) Biological assets (d) Work-in-progress of services to be provided for no or nominal consideration.
		6122 Other Inventories		Current Asset IPSAS12		
	613 Valuables	Precious stones, metals and jewellery if not classified under 61122	61122 is used if valuables are used as income producing.	Current Asset IPSAS12 if expected to be realised < 12 months. Otherwise Non-Current Assets IPSAS 16		
	614 Non-produced assets					
		6141 Land		Non-Current Assets IPSAS 16		
		6142 Mineral and energy resources				
		6143 Other naturally occurring assets				
			61431 Non-cultivated biological	Non Current Assets		

GFSM Suggested classification for Non Financial Assets				IPSAS Position / Standard	GFS Initial Recognition	IPSAS Initial Recognition
			resources	Biological Assets IPSAS 27 Inc. Crops at the point of harvest		
			61432 Water resources			
			61433 Other natural resources			
		6144 Intangible non-produced assets	This would need to be analysed and posted to IPSAS	Intangible Assets IPSAS 31. No differentiation in IPSAS between produced and non-produced.		
		61441 Contracts, leases, and licenses	This would need to be analysed and posted to IPSAS			
		61442 Goodwill and marketing assets		Intangible Assets IPSAS 31, IPSAS6 Consolidation, Internal goodwill is not allowed in IPSAS		

10 ANNEX 6 DESIGN OF PPE REGISTER

See Separate Document

11 ANNEX 7 PLAN TO EFFECT CHANGE

To introduce a PPE register the main components of change are:

1) **People** who will use the new PPE system for control and to produce information
    a. Organisational Structure – changes require, new jobs, altered responsibilities and
    b. reporting lines
    c. Individual competencies which may be require different from those currently existing
2) **Processes** that the people follow to create a positive outcome. These will include the procedures and processes required within the constraints imposed by new software
    a. Modifications will be required to existing ways of working to accommodate the requirements of the PPE Register
    b. New ways of working that will be introduced
    c. Old ways of working that will become redundant.
3) **Tools** used by the people in performing their function such as new software and reports
    a. The main tools in the short term will be the new PPE register which will require supporting business workflows and processes different from those currently in place. Business workflows and processes will need reflect the PPE Register and the constraints that it imposes. Processes are made up from the constituents:
        i. Policies
        ii. Methodologies, procedures, workflows and documentation
        iii. Internal controls
    b. Hardware
        i. Computer hardware is not within the scope of this report.
    c. Software
        i. The decision to move from new PPE Register software will require user training for inputs and outputs.
4) **External factors**
    a. Legal and regulatory environment which is reviewed in this Report
    b. Factors that may encourage or constrain the development and application of the PPE Register (The economy, political factors, self interest)

11.1.1 PPE Register Change Plan

No.		Activity	Timing (months)	
	Initial Steps			
1.	Agree vision	The vision is the first concept of what the functions PPE Register perform and why it is necessary. Establish estimates of Costs and Benefits. Appoint a Project Manager and a working group of potential users	1	1
2.	Scope of PPE Register	The scope of the PPE register must be determined at an early stage by consultation with potential users. Treasury require financial reports (GFS and IPSAS compliant) and other users may require other reports on operations (e.g. Warranty details, Condition Report Scheduling). The PPE register replace the register of Heritage assets held by the Ministry of Culture improving functionality and lowering cost. These assets may be controlled or controlled and valued using the PPE Register	1	3
3.	Extend Scope	Many "Extras" can be built in to the PPE Register that will improve efficiency (e.g. Photographs, GIS data and maps, Smart phone access for inventory, Bar coding, QR Taggging, RFID tagging), links to scanned documents (leases, invoices, condition reports) each of which have costs and benefits that need to be evaluated.	1	3
4.	Determine Accounting Policies applicable	The accounting policies likely to be applied should also be decided at an early stage as this will define functions in the software. E.g. Will depreciation continue to be based on the existing "uniform rates" or will it be moved to IPSAS or a combination of the two? Accounting policies will be required data collectors to clarify which values should be used	2	3
5.	Post Recognition Accounting Policies	Accounting policies are also required covering: Subsequent Value Depreciation Impairment Fair value Revaluation Disposal Transfer In / Out Assets in Trust Heritage Assets	2	4
6.	Initial Recognition and Data Collection	Initial recognition and Data collection is likely to pose the greatest difficulty as historical data may not be available and will require to be collected directly rather than from records. The volume of the assets in Government ownership also increases the complexity of data collection. The extent of	3	48

No.		Activity	Timing (months)	
		the difficulties is not known but limited piloting should be carried out to clarify the difficulties. Initial Recognition and Data Collection can begin at any time even in advance of software development, provided that the detailed functional specification clearly sets out which data is to be collected. Data Collectors will require to be trained to achieve consistency in the approach.	2	3
7.	Test feasibility of data collection	Initiate limited data collection on a test basis to establish data collection difficulties.	3	5
	Value at initial Recognition	IPSAS 17 PPE, mandates a cost value at initial recognition but details of this may not be available for many assets so policies will have to be established to guide the data collectors.	2	3
	People			
8.	Who require change	The populations subject to change are (1) Data Processors After the initial set up of the PPE Register personnel are required to update and maintain it and they will require training., (2) Report Users: Also training may be required for report users so that they understand the reporting possibilities offered by the system and how to use them		
9.	What change is required	(1) Data Processors: Understanding the initial recognition and valuation process for data entry. This cannot take place until the software is in beta form. (2) Report Users: Require to know and understand how reports are generated and how they can be used in their own entity.	Beta Software Release Software	Beta Software +1 Release Software +1
10.	Informing	It is a recorded fact that most change that runs in to difficulties or fails is a result of not informing and involving the staff affected. This effect can be mitigated by appointing a working group of potential users who have a dual role in specifying their requirements and in disseminating information on progress. A working group may also be a source of trainers.	1	48
	Business Processes			
11.	Develop required output (reports)	Treasury requirement for GFS and IPSAS reporting and other reports defined by working group members	4	5
12.	Design detailed business processes	1. The business process will be designed to collect the data necessary to produce the reports defined by the working group and to produce the reports themselves and disseminate the information they contain. 2. Timing of inputs 3. Volume of data	5	6

No.		Activity	Timing (months)	
		4. Process flows and documents 5. Input Format – paper, file, fax etc. 6. Reliability (accuracy, timing, validation checks, fault rate) 7. Internal Controls 8. Approvals required 9. Interim Processing (manual, computer based) 10. Format Outputs – paper, file, fax , smart phone etc. reports (statutory, non-statutory, control) 11. Volume of output 12. Use to which output is put. Eliminate redundancy6w9 13. Distribution of reports 14. Plan B arrangements		
13.	Develop full functional specification	This can only be done after initial decisions have been made on scope and policies. For the programmers to write the PPE Register software the analyst will take the reports and business processes and convert them to a full functional specification from which programmers can work. This will include “look and feel” and will be agreed by the working group. The specification will be developed by the IT department and the working group. The full functional specification can be used as the basis for drafting manuals which also should be signed off by the working group and MoF	5	6
	Tools			
14.	Manuals	Manuals will be required covering both data input and report generation and processes	7	8
15.	PPE software	Initial design, creation, testing acceptance, each stage will be signed off by working group and MoF	6	12
	External factors			
16.	Legal and regulatory environment	These are reviewed in this Report and will require to be changed as indicated, to accommodate the PPE Register and the changes to underlying accounting as set out in the accounting policies selected.	2	12
17.	Factors that may encourage or constrain	Early in any change process it is prudent to identify where proposals may be supported or resisted so that early steps can be taken to elicit support or to mitigate resistance.)	1	48

12 ANNEX 8 ACCOUNTING ENTRIES

See Separate Document