

PEMPAL TCOP Thematic Group Meeting, Podgorica, Montenegro, November 10–12 2014



The PEMPAL TCOP Activity Plan for 2014–2015 included a face to face meeting of three thematic groups – Public Assets Accounting, Accounting Standards and Consolidated Financial Reporting – active since their formation in Skopje in September 2013. Following their formation, the groups have met face-to-face on a number of occasions and participated in video conferences. The current event provided a useful opportunity for the groups to report on their progress to date, and to hear about related accounting reforms in the host country, Montenegro.

38 delegates from 13 TCOP member countries, together with experts from the World Bank, attended the event which was supported administratively by the Slovenian Centre of Excellence in Finance. IFAC also sent an observer. All documents relating to the workshop, including presentations, are available at the PEMPAL website (<http://www.pempal.org/event/eventitem/read/121/329>).

The event was opened by Mr. Miodrag Radonjić, General Director of the State Treasury for the host country. Montenegro is undertaking a significant reform agenda in the public sector accounting area, and his colleagues would like to share their experiences with other member countries. Mr. Vugar Abdullayev, Deputy Head of the State Treasury Agency of the Republic of Azerbaijan and recently appointed Chair of the TCOP thanked the hosts and also welcomed delegates to the event. Ms Elena Nikulina, PEMPAL Team Leader, made the point that the invitation to convene this event in Montenegro was timely given the significant and interesting reform agenda which is currently taking place.



The first formal presentation was given by Mr. Miodrag Radonjić on the role and function of the Montenegrin Treasury. Mr Radonjić chose to summarize his presentation which proved a useful strategy as it resulted in a very active question and answer session. The workshop was impressed by the operations of the Treasury, which is highly automated, and the extensive reform agenda in part driven by the focus on EU accession.

Ms. Marija Popović, Head of Department for Budget Accounting and Reporting of the State Treasury of the Republic of Montenegro delivered the second presentation on the proposal for Montenegro to transition to accrual accounting. The extensive planning that had been undertaken was most impressive to the group and this was reflected in the very clear manner in which Marija addressed questions on possible issues by attendees. A paper is due to be submitted to government early in 2015 in which the plan for transitioning to accrual accounting will be detailed. The paper will also seek high level commitment to this important reform agenda. The main phases of the

Accounting Reform in Montenegro are presented in the following picture.

Phases in Implementation of Accounting Reform

First Phase:

- Coordination team for implementation of Strategy;
- Classification of institutional sectors;
- Inclusion of public institutions in Consolidated Treasury Account.

Second Phase:

- Improvement of existing records of assets and liabilities.

Third Phase:

- Recording of receivables and stocks, revenues (except for tax revenues), non-financial assets and expenditures.

Fourth Phase:

- Analysis and updating of Chart of Accounts with new accounting requirements.

Fifth Phase:

- Analysis of methods for evaluation of assets.

Sixth Phase:

- Recording of all accounting transactions and financial impacts of events in line with principles of accrual accounting;
- For the first time, public sector entities will prepare general purpose reports and/or reports on their financial positions and financial performance on the requested level of detail.

Elena Nikulina commenced the proceedings for the afternoon of day 1 by commenting on the primary output from the very first thematic group of the TCOP on Chart of Accounts and Budget Classification. Mark Silins, TCOP expert, had prepared a paper on behalf of this group titled “*Good practice design in CoA in TCOP Member Countries*” (available on the PEMPAL website). Elena also introduced the plenary report on behalf of the Standards working group for Ms Svetlana Sivets, Russia, who was not able to attend this meeting as the lead of this group. The group’s goal was to provide collegial support to countries embarking on adopting accounting standards and help has been extended to Georgia already. Belarus represents a further example of a country that has expressed interest in support which is currently in the planning stages for 2015.

The next speaker on the agenda was Mr Andy Mackie, Senior Financial Management Specialist from the WB, who provided an interesting presentation on *Whole of Government Reporting in the UK*. Mr Mackie indicated that WGR in the UK has a macro-fiscal focus which aims to complement the National Accounts and provides an input to fiscal sustainability reports. His presentation drew on the National Audit Office (the UK’s SAI) and academic research to highlight challenges which have included the elimination of intra-group balances, the treatment of public corporations and differences in accounting policies between central and local government. Timeliness of the production of WGAs remains a challenge; the 2012-13 WGA took 18 months to be published, although the target is to reduce this to 9 months by 2014/15.



The final session of day one was round table discussions by participants on accounting reforms in Montenegro and aspects of the Montenegrin system which they found interesting. Each group included representatives from the host country who were available to further clarify key questions. A representative was nominated from each group to summarize the discussions. Some key observations included the high degree of automation and strong cash management processes in

Montenegro. Other discussion areas concerned whether the suggested timeline of the accounting reform to the accrual basis (by 2018) is realistic, especially since the strategy was not yet approved by the Government; whether the phases in the implementation of the accounting reform should be sequenced differently; whether it is better to adopt or adapt IPSAS. The participants also discussed at length the survey conducted by the MoF in 2013 on the status of accounting capacities in the budget entities, which they praised as a good initiative, and the suggested staff training programs (including the cost, providers, coverage and timing). At the same time, there was some surprise that in such a small country the Treasury did not currently cover the operations of local government.



The morning of day two opened with Ms. Marija Popović providing clarifications on the key issues discussed during the day one. In particular, she stressed that they consider the reform timeline realistic given the small size of the country and that they do not plan to complete the transfer to full accrual IPSAS by 2018, but rather have some meaningful progress achieved by that date. She also clarified that they plan to use the local trainers based on CIPFA training program, which is cost effective and eliminates the language barrier.

The day followed with presentations and discussions from the remaining two thematic groups, Assets and Consolidation. Ms. Nino Tchelishvili, Deputy Head of the State Treasury of Georgia, chaired the session on Assets and also provided a presentation on a consultancy review on accounting for fixed assets in Georgia. The review was particularly useful as it identified core issues common to many TCOP countries. Each of the issues represent important areas for developing specific policy and guidance documents. Ms. Renata Marijetic, Senior Adviser, Ministry of Finance of the Republic of Croatia, also delivered a presentation on Croatia's recent experience in implementing new policies for accounting for assets. A major issue highlighted for Croatia is that a separate state body is responsible for management of state assets, while the MoF is responsible for the accounting policy. When the two entities met it became clear that limited capacity existed to implement the required policies. Mr Silins also briefly summarized the work of the group to date, which included an extensive questionnaire and some guidance on coverage of an indicative assets policy document. Kazakhstan had also recently provided an example of such a document specially developed for the group, largely based on its current policies and guidelines. The working group wanted to publicly recognize this contribution by Kazakhstan.



The final thematic group on consolidation was chaired by Mr. Anton Dubovik, Head of Department of Budget Accounting and Reporting of the Treasury of Russia. He undertook considerable work for this group, including contributing to the development of a guidance note on Consolidated Financial Reporting, which he summarized for the plenary meeting. This highlighted some of the issues and complexities with consolidation, not least of which are the differences between the accounting and statistical frameworks. Mrs Angela Voronin, Deputy Head of the Treasury of Moldova, also delivered a presentation. The presentation provided a useful insight into the proposed consolidation framework in Moldova along with some of the issues experienced along the way. The

final presentation of this group was by Mark Silins, which described the consolidation process in the Federal Government of Australia. Australia's approach is very different to other countries and is based on its own standard, AASB1049, which focuses on consolidation for the public sector and general government sectors, but does not encompass sub-national governments in Australia. The full consolidation is undertaken by the Australian Bureau of Statistics, which has issued its own GFS manual for this purpose. All state and territory governments have also agreed to use the same statistical framework to ensure common data standards for reporting.



Michael Parry, TCOP expert provided a summary of the consolidation group's work to date and commented on the presentations. An issue highlighted was the need for common terminology across all the language groups. The work of the TCOP has become progressively more technical, and it has also become clear that on occasions, complex terms may not be consistently understood.

The afternoon of day two and morning of day three saw the workshop breakout into separate detailed meetings of the three working groups. Each group continued the more in-depth discussion of specific issues and also discussed the next steps and future meetings. Summary reports were made back to the plenary session and these are presented below.

Thematic Group of Consolidation

The group includes participants from ten countries. The main focus of the group was on the development of the guidance note for consolidated reporting. The group agreed that the structure of this note would include eleven sections as follows:

1. Purpose of the guidance note
2. Main concepts and definitions
3. Methodological basis for consolidation in the public sector
4. Consolidation concept
5. Coverage of consolidation units
6. Levels of consolidation
7. Consolidated flows and stocks
8. Exceptions to consolidation requirements
9. Consolidation methodology
10. Publication of reporting – requirements for information disclosure
11. Practical issues – differences and special circumstances relating to consolidation

The thematic group received presentations on sections of the guidance note so far developed, and made various comments and suggestions. Agreement was reached on the allocation of tasks for finalizing the Guidance Note.

Working group participants have taken responsibility for finalizing one or more of the above sections in the guidance note targeting completion of the final document by March 2015. The group is also proposing to have a further videoconference before that time to discuss the document and agree on any outstanding issues.

Thematic Group on Accounting Standards

The group includes participants from seven countries, although only six were in attendance at this event. The working group meeting included updates from each country on the status of implementation of the accounting reforms, including the host country Montenegro. Discussions also focused on the issue of whether to adopt the standards or develop country standards compliant with IPSAS. Adoption of IPSAS ensures international compatibility and easy comparability, and requires less investment upfront. However, development of national standards based on IPSAS ensures greater compatibility with the country systems and thus is likely to simplify implementation. The group observed that specific features of national laws and systems which complicate IPSAS implementation should be taken into consideration. The major consideration was whether a compromise was possible – implementation of IPSAS with additional guidance, instruction, and locally adapted reporting requirements.

The working group was also impressed by how Montenegro was addressing the issue of stakeholder commitment, and felt that this was a good model for other countries to consider. Mr Mackie delivered a presentation on the preparation of gap analysis comparing local and international financial reporting standards. The presentation generated a lot of discussion on the tool and training programs/opportunities for public sector accountants.

The group agreed to the following actions going forward:

- Review the questionnaires on gap analysis provided by Mr Mackie from the World Bank in relation to differences between national and international standards (after translation into the Russian language).
- Further discuss the questionnaire with experts at the planned videoconference (March, 2015).
- Include gap analysis into Terms of Reference of the consultants and discuss these issues at the videoconference.
- Disseminate materials (PwC assessment¹ report of the impact of the accrual accounting implementation in the public sector (IPSAS), including costs).
- Disseminate accounting reform strategies of member-states.
- Convene regular videoconferences with the group to discuss progress and challenges among countries in accounting reform implementation (May–June 2015). Consider inviting experts from countries that are more advanced in the standards implementation
- Disseminate information on experience of other countries in institutional support of the reforms.
- Discussions via videoconference of the CIPFA program which is currently delivered through the Slovenian Centre of Excellence in Finance (April 2015), and then if needed, videoconferences with other countries that have strong training centers.

Thematic Group on Public Assets

The group includes participants from eleven countries, although one country was not in attendance at this event. The working group commenced with a presentation by Mark Silins on specific issues

¹ Available in English at :

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/IPSAS-study-final-PwC-report.pdf

in relation to assets in government. This presentation was developed following the last videoconference to clarify certain definitions and approaches to managing assets. Mr Silins provided a general definition of assets, examined the usual practice in government for low value assets, and also provided some background to determining fair value and recognizing service concessional arrangements, often referred to as public private partnerships (PPPs).

Discussions ensued on the thresholds applying in different countries and how assets are recognized currently, the difference between the concepts of depreciation and amortization, asset life cycle, valuation of old buildings, and valuation and assessment of land and natural resources. The group also discussed the options for the management of assets, including whether to have a unified single central assets register or to operate decentralized registers in each ministry, the need to interface these registers with the accounting system (if the register is not already an integrated module of that system), and challenges both at the political level and with general capacity in government to manage assets.

The group also discussed the document prepared and submitted by Kazakhstan on accounting for long-term public assets. The working group was very appreciative of this work by their Kazak colleagues which was seen as a very useful resource by all countries.

The group agreed to the following actions going forward:

- Translate and circulate *Instruction on Public Assets Accounting* prepared by Albania.
- Prepare preliminary structure of the document that covers the main aspects of public assets accounting.
- Each country to identify any additional issues on public assets accounting.
- Convene a videoconference in March 2015 to discuss the paper from Albania; and
- Prepare proposals for the TCOP plenary meeting in Albania (May 2015).

Following the reports by the three thematic working groups on day three, the Chair of the TCOP Mr. Vugar Abdullayev, together with WB Team Leader of PEMPAL, Ms Elena Nikulina, thanked the hosts for the well-run event and congratulated participants on the successful interaction. There are no more face-to-face meetings on accounting topic in the remaining months of the FY 2015, groups will interact through videoconferences.

Podgorica 2014

