

## Practical issues in relation to Accounting and Reporting in public sector

### Tbilisi, Georgia



In accordance with the Action Plan for the period 2012–2014, the Treasury Community of Practice (TCOP) of PEMPAL<sup>1</sup> conducted a three-day workshop entitled “*Practical Issues in Relation to Accounting and Reporting in the Public Sector*” from February 10–12, 2014. 50 treasury specialists from 18 TCOP-member countries took part in the workshop that was held in Tbilisi, Georgia. The workshop was supported by experts from the World Bank. Logistical support was provided by PEMPAL secretariat based at the Slovenian Centre of Excellence in Finance. The general objective of the Tbilisi event was to offer an

opportunity for TCOP members to exchange experiences in implementing and improving public sector accounting and reporting in member countries and also to identify examples of good practice in this area among member countries, and internationally, that could be of use as models for other TCOP members.

This workshop continued on from earlier work, initially in Kiev, and then deepened in Skopje, to develop an understanding and practical tools for member countries across three interrelated themes: Consolidation of Financial Reporting, Accounting Standards, and the Reporting of Assets. To this end three thematic groups were established in Kiev. The groups met for the first time in Skopje, and Tbilisi represented the second face-to-face meeting.

*Figure 1 – Three Interrelated Themes in Accounting*



The workshop was opened by an impressive delegation from the Ministry of Finance of Georgia led by the Minister **Mr Nodar Khaduri**. In addition to welcoming the TCOP, the Minister commented that Georgia valued the PEMPAL network extremely highly and that they had benefited directly from participation. Georgia was also undertaking a significant reform agenda, and they would like to share their experiences with other member countries. **Mrs Elena Nikulina**, World Bank Team Leader for the PEMPAL program, thanked the hosts and

<sup>1</sup> Public Expenditure Management Peer Assisted Learning (PEMPAL) aims to improve the efficiency, effectiveness and transparency of public expenditure in Central and Eastern Europe and Central Asia countries. The program supports activities that bring practitioners in public finance together in COPs to enhance peer learning through benchmarking performance for implementation of reforms in public finance. For more information on PEMPAL please go to [www.pempal.com](http://www.pempal.com).



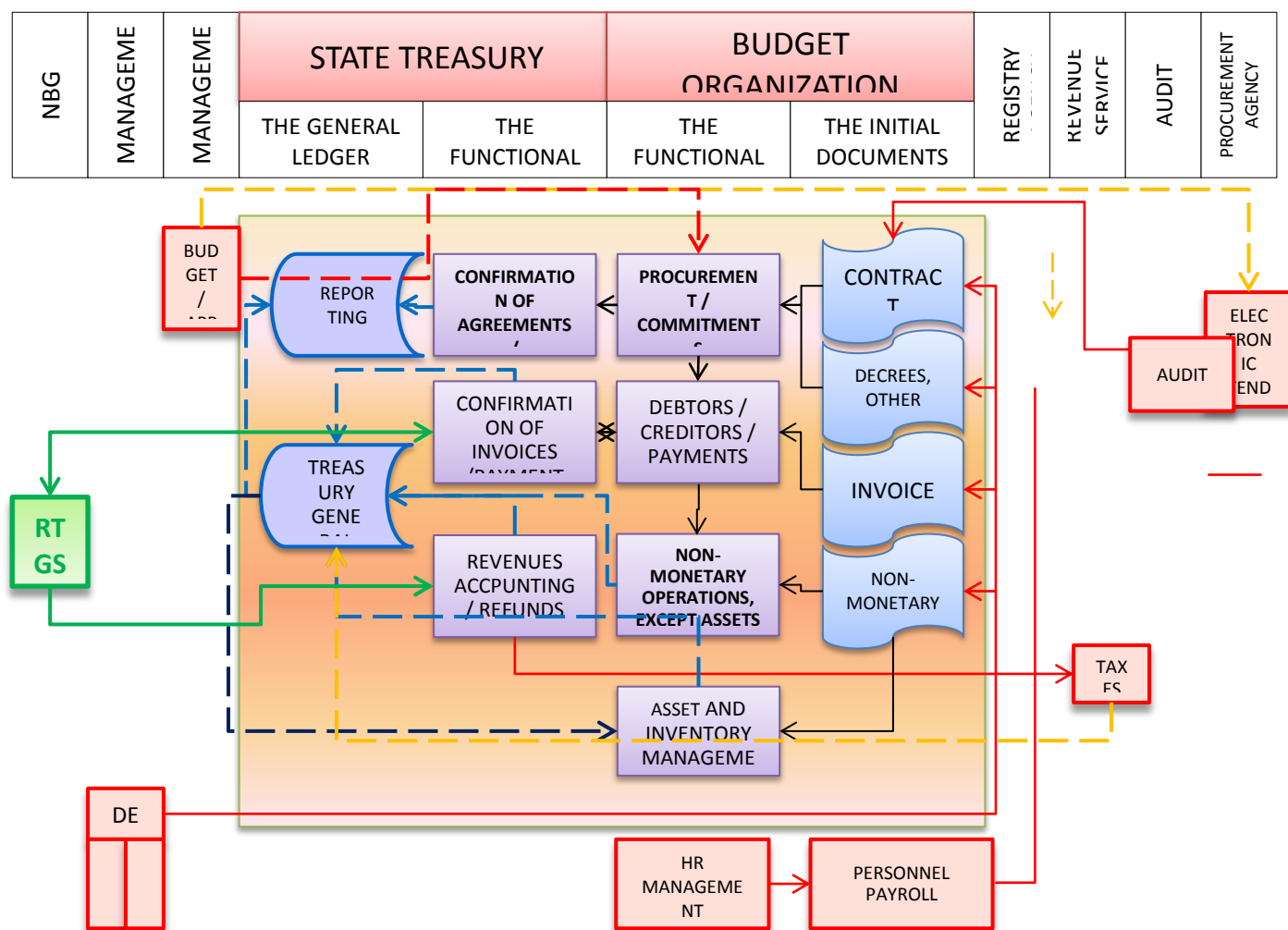
pointed out that Georgia had hosted events for all three COPS, and that this was their second event for the TCOP. Georgia was the first country to achieve both of these milestones, which shows how strongly they are supporting the PEMPAL concept. TCOP, Chairperson, **Mrs Angela Voronin**, joined the World Bank in thanking the hosts, and made the observation that this event reflected a significant shift in content for the TCOP. The agenda would largely focus on further development of discussions and practical tools for member countries along three themes (see Figure 1). This was a definite shift from the more theoretical discussions of earlier events and reflects the direction the leadership group is seeking to move the TCOP. The Head of the Georgian Treasury, **Mr Tsotne Kavlashvili** also joined in welcoming TCOP members to his country.

Following the welcome addresses, and the introduction of first-time TCOP attendees, the host country delivered a series of presentation on the three themes. **Ms Nino Tchelishvili**, Deputy Head of Treasury and member of the TCOP Leadership group, delivered the first presentation on the overall PFM reform agenda in Georgia.

The TCOP members were impressed by the scope of the agenda, the strategic framework that Georgia had developed, and the clear progress made since the previous TCOP meeting in Tbilisi in 2012.



**Figure 2 – The Georgian PFM Framework modeled on the Treasury Reference Model<sup>2</sup>**



Ms Tchelishvili indicated that the Georgian PFM reform agenda had the vision to ensure a comprehensive effective and Transparent PFM system with the following major objectives:

- provide transparent and easy to use systems to manage PFM;
- provide accurate and timely accounting and reporting;
- Implement IPSAS;
- implement a comprehensive Treasury Single Account; and
- develop an effective cash management system.

An area of great interest to the TCOP, which generated a number of questions and comments, was the decision of Georgia to close its regional treasury offices. This was made possible by the automation of payment processing through a central FMIS system, and the decentralisation of authority for these payments to MDAs. Thus regional treasury offices, which had largely been processing cells, were no longer required.

The next presenter was **Mr Davit Gamkrelidze** Head of the Reporting and Financial Analysis Division, who delivered a very interesting and interactive presentation on *Effective and Transparent Budget Reporting*, which included online access to the MoF webpage and

<sup>2</sup> [www1.worldbank.org/publicsector/pe/trm.pdf](http://www1.worldbank.org/publicsector/pe/trm.pdf)



reporting portal. Freedom of Information is very important in Georgia. The overarching principle is that all information should be publicly available unless there is a justifiable reason to restrict access. As a result, the reporting portal is being developed to allow full access to all budget execution information. Mr Gamkrelidze also highlighted that Georgia had adopted a European standard for identification of goods called the Common Procurement Vocabulary (CPV). This means that almost all goods purchased include this unique code, facilitating improved analysis and transparency. However, as yet the CPV codes had not been linked to the Chart of Accounts codes.

**Ms Lela Pataraiia**, Deputy Head of Accounting Methodology and Analysis Department, was the next presenter on *Accounting Reform in the Public Sector of Georgia*. Full accrual IPSAS are being adapted in Georgia and will be introduced by 2020. Georgia is taking a very measured and gradual approach to the introduction, to ensure all issues are fully considered and that MDAs are not left behind. Georgia has just concluded an assessment of how to record and manage non-financial assets, which it indicated it will share with the TCOP. In particular Georgia is considering issues regarding whether to centralise or decentralise assets management and the assets' register.



The final presentation by the hosts was delivered by **Mr Zurab Tolordava**, Head of the Accounting Methodology and Analysis Department, on *Modified Cash Based IPSAS as a Step Forward Towards Comprehensive Transfer to Full Accrual IPSAS*. Georgia felt that simply adopting cash IPSAS would be a step backwards and thus it wanted to continue to report on key non-cash transactions too. This is a recurring theme in TCOP countries. Despite the fact that the cash based IPSAS encourages additional disclosures of accruals in the notes, the title "Cash Based" is viewed as being too restrictive. Hence adopting the Cash Basis IPSAS may be perceived as a "going backwards" to

only cash reporting<sup>3</sup>.

The final session for the day involved attendees discussing two questions regarding the Georgian presentations and experience:

---

<sup>3</sup> The cash based IPSAS does encourage voluntary disclosures on an accrual basis, and should therefore be viewed as encouraging modified accrual.

1. ***Are there any dimensions of the reforms implemented in Georgia which are particularly interesting to other countries***
2. ***Do participants see the possibility of similar reforms in their countries?***

The following summarises the key participant responses:

- *A number of participants viewed the Georgian procurement process and common procurement vocabulary (CPV) as a very interesting development. When combined with a CoA, the Georgian approach improved accounting and reporting for budget expenditures. This was of particular interest to those countries focusing on EU accession;*
- *The Georgian use of a single collection code for taxpayers has reduced the cost of paying taxes for taxpayers and simplified cash collection processes. While this was seen as a positive development, some participants were concerned about the loss of integrity regarding exactly what the taxpayer was paying. For example, which tax and whether it was the tax liability, fines, penalties or interest charges;*
- *Georgia's electronic document management system was seen as a very positive development;*
- *The decision to commence accrual accounting on a phased basis initially in the area of payroll and HRMIS was of interest as a possible model for other countries;*
- *As noted above, there was considerable interest in the shift to electronic processing and the related decision to close the regional network of Treasury offices. Some countries felt that the elimination of Treasury regional offices was possible, but for many, while it was seen as an interesting decision, it may not be replicable in their country. There was a specific remark made regarding a downside issue which is the loss of experienced Treasury staff in the regions; and*
- *The strong focus on fiscal transparency and the publishing of a range of information on the web was also interesting, but questions were raised regarding the workload implications of such an approach<sup>4</sup>.*

Day two largely focused on the work of the three thematic groups. To this end the day commenced with presentations by the two TCOP experts, **Michael Parry** and **Mark Silins**, on the results of two TCOP surveys which had been undertaken in early 2014. Mr Silins presented on the first survey results which covered issues relating to Non-Financial Assets.<sup>5</sup> The survey indicated that much work has already taken place in most of the 12 countries that responded to the survey. The survey also provided an extremely useful set of data on existing policies and processes regarding the management of assets in member countries, and will be used as the basis for the development of a framework for a country policies and procedures manual (a key output defined in the action plan of the Asset Thematic Group). In particular survey respondents highlighted a range of issues in relation to assets' management which should be addressed in any manual. Specific guidance could be developed for these problem areas to ensure the integrity of the accounting



<sup>4</sup> Although Georgia had demonstrated that much of this could be automated

<sup>5</sup> GFSM2001 terminology is used here because it is a more general term

framework. The presentation on the results of the survey can be found at [http://www.pempal.org/data/upload/files/2014/02/day-1\\_6\\_pl\\_presentation\\_assets\\_questionnaire\\_silins\\_eng.pdf](http://www.pempal.org/data/upload/files/2014/02/day-1_6_pl_presentation_assets_questionnaire_silins_eng.pdf)

Mr Parry delivered the second presentation on the results of a survey on consolidated financial reporting. As with the previous survey 12 countries provided responses. The responses also revealed that most countries are undertaking some form of consolidated reporting, although it was clear that in many cases, the definition of what the “consolidated entity” is was not consistent with the requirements of IPSAS 6. Most countries had largely focused on the GFSM2001 definition of general government, and require further work to extend this to consolidation of the public sector or for all controlled entities as required under IPSAS 6. It was also clear from the survey that the inconsistency between IPSAS and statistical reporting was causing some conceptual challenges – and that the thematic group may seek to try and address this issue at least, conceptually for TCOP countries. It also appeared that a number of the responses to the questionnaire did not accord with experience and anecdotal evidence on the status of consolidated reporting in some respondent countries. It was considered that this inconsistency reduced the value of the survey. A more detailed study of consolidated reporting in individual countries would yield more useful information. The presentation on the results of this survey can be found at [http://www.pempal.org/data/upload/files/2014/02/day-1\\_7\\_pl\\_consolidation\\_parry\\_eng.pdf](http://www.pempal.org/data/upload/files/2014/02/day-1_7_pl_consolidation_parry_eng.pdf)

In continuation of the thematic focus **Tsvetanka Chipeva**, Head of Budgetary Accounting and Payment Procedures division of the Ministry of Finance of Bulgaria, gave a presentation on Financial Reporting with a particular focus on consolidation issues. As an EU member country, Bulgaria must first ensure it complies with the requirements of ESA, however, it is also mindful of the GFSM2001 framework and IPSAS. The process of reporting in accordance with international standards has taught them some lesson for other countries to heed:



- Ensuring that the legislative framework is clear on the authority and responsibility of key delegates;
- Having a unified accounting and reporting methodology;
- Ensuring IT systems are in place to support this process;
- Data quality is essential as is training officials; and
- There is a need to go beyond presenting financial reports to undertake analytical work, particularly in relation to ensuring data integrity issues are addressed.

The final presentation of the workshop was by **Svetlana Sivets**, Deputy Head of Budget Policy and Methodology Department of the Ministry of Finance of the Russian Federation where she presented on the *Russian strategy for adopting IPSAS by 2020*. Ms Sivets is also leading the thematic group on this topic. Russia is adapting IPSAS rather than just adopting them, as it is critical that they not only meet international reporting requirements including IPSAS and



GFSM2001, but also national requirements. The Russian reform agenda also goes well beyond accounting to focus on open and transparent government and improving overall performance of the public sector. To this end treasury is transforming from just managing cash to be able to support recording and reporting accruals. Russia is also being strategic in terms of the standards it is implementing. Thus far it has completed 19 of the 32 under IPSAS, and has focused on the costs and benefits of each area in determining the priorities for implementation. One standard which Russia has developed is in relation to the CoA. There is no equivalent IPSAS.

The second part of day two, and much of day three, were devoted to meetings of the three thematic groups. Each attendee joined one of these groups with participation largely reflecting preferences determined in Skopje in September 2013. Each group had previously developed an action plan which formed part of the agenda for discussions during this meeting. Two of the groups have also undertaken videoconferences in December 2013 (the Financial Reporting Consolidation and Assets Thematic Groups). The key deliberations of the groups are summarised in the boxes below.

### **Accounting Standards Thematic Group**

**Expected outcome 1:** Available experience on analyzing differences between the current national methodology and international standards has been disseminated and summarized  
**Progress:** Experience of Russia with respect to analysis of differences has been presented and discussed

**Plans for the future:** to obtain information from other countries (Armenia, Kazakhstan, Georgia, Tajikistan), and to further explore the Russian experience

**Expected outcome 2:** Experience of the colleagues has been taken into consideration in the course of development of strategies and plans for implementation of standards in Belarus, Montenegro and Moldova

**Progress:** useful information and ideas were a product of group discussions in Tbilisi

**Plans for the future:** A meeting of the working group in fall 2014 in Minsk for the purpose of collective discussion of the draft strategies and draft implementation plans

**Expected outcome 3:** Recommendations were presented to the colleagues from Georgia concerning improvement of their implementation plan

**Progress:** Completed in Tbilisi with the following recommendations

- to unify approaches to reporting for all levels and types of funds (including extra budgetary funds of budget recipients)
- To further improve the budget classification (the segment of sources of financing)
- To complete work on the CoA and to provide for its application through the new information system
- To examine the possibility of concentrating all funds of budgetary institutions in the Treasury
- To examine the possibility of creating a centralized state resource for public payments as a

part of the treasury system

**Expected outcome 4:** The experience of countries with respect to unification of financial statements (documents) using the cash method and the accrual method has been analyzed, and to identify best practices in this area

**Progress:** Kazakhstan has presented its recently developed practical guidance on application of IPSAS (a copy was presented to PEMPAL)

**Plans for the future:** To collect and analyze existing forms of financial statements of participating countries, to disseminate among members of the working group and to study materials provided by Kazakhstan

#### **Additional Issues to be reviewed**

- Interconnection between financial statements and budget planning
- Joint discussion with the thematic group on Assets on regulation of accounting for non-financial assets (register – balance sheet)
- Discussion of the recent developments of IFAC, IPSASB (exposure drafts) on further improvement of international standards
- familiarization with European Standards (EPSAS)

#### **Additional expected outcome**

- Development of a document that would summarize the recommended practice for elaboration, approval and implementation of the national standards on the basis of IPSAS (based on the results of the meeting in Minsk)

### **Assets Accounting Thematic Group**

#### **The group focused on the following during its meeting:**

- Discussion on Georgian Experience – The group discussed specific issues with Georgian colleagues which had arisen following the presentations by Georgia on day 1;
- Presentation on specific issues based on Australian and other international experience. The group resource person, Mark Silins, gave a presentation on specific issues that had been raised by participants during the December videoconference in relation to the management of non-financial assets. He also highlighted that Australia has largely adapted IFRS (the government implementation of accrual predates IPSAS) and has also developed its own GFSM framework which underpins GFSM2001 but reflects the Australian context
- General discussion on how to develop a policy guideline
- Updating of the action Plan

In relation to the development of a policy guideline the group identified the following important resources which it will review prior to developing the accounting policy framework:

- Kazakhstan guide – a hard copy of this guide was presented to PEMPAL during the meeting. This is a practical guide on issues for public accounting and reporting on an accrual basis in Kazakhstan including:



- A Conceptual framework
- Explanations and guidance for the use of the CoA including differences between cash and accrual
- Practical case studies of two accounting entities
- For each standard, the guide also includes practical examples to show how the accounting should be applied (implemented all 32 standards)
- The group was hopeful this guide could be provided electronically
- Russian Standards will also be useful for the group to review, in particular the creation of a list of common terms and definitions
- Georgia – has recently completed a report on how to account for non-financial assets
- Croatia has recently completed a number of policy guidelines for MDAs which it will share
- Survey – the results from 12 TCOP countries provides a useful baseline for common accounting policy issues and also development of set of generic classes of assets. This survey will be further analysed and a report provided to the TCOP; and
- Study 14 for the IPSASB, *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*.

### **Future Plans**

- Finalise analysis of the questionnaire
- Review country material
- Prepare a brief outline (skeleton) on a generic policy document for TCOP countries including sending table of classes to countries for review
- Video Conference in April to discuss
- Turkey study tour to be rescheduled

## **Financial Reporting Consolidation Thematic Group**

The thematic group affirmed that its main goal was to elaborate the Practical Guidance Notes on consolidation of financial statements. It has targeted completion of this output by the end of 2014.

The structure of the guidance note agreed on by the Thematic Group follows:

1. Key concepts
2. The purpose of consolidation and guidance
  - Purpose of consolidation
  - Purpose of guidance
  - Practical guidance
  - Compliance
  - Governance
3. Standards
  - GFS
  - ESA
  - IPSAS
  - National standards
4. Consolidation entity options
  - GGS
  - Control

- 5. Consolidation structure and sub-entities
- 6. Exceptions to consolidation requirements
  - Investment entities
  - Temporary control
  - Partial ownership
  - Valuation of entities controlled not consolidated
- 7. Methodology of consolidation
  - Flows and stocks
  - Eliminating intra entity flows, assets and liabilities
  - Chart of accounts
  - Accounting policies
  - FMIS
  - Audit of financial statements
- 8. Publication of statements
  - Information requirements
- 9. Practical issues
  - Differences and special situations

The workshop closed late on the afternoon of 12 February after presentations by each thematic group. Closing remarks were made by the hosts, and by the leadership group and World Bank. The consensus was that this event represented the transformation of TCOP to a more active role for participants, including beyond the leadership group, and that the focus of the thematic groups had also been reoriented to more practical issues. It was also clear that some common themes were emerging from country experiences with implementation of accrual accounting.

1. Countries were adapting not adopting international accounting standards
2. The problems caused by the lack of consistency between international reporting standards. In particular the inconsistency between IPSAS and the statistical systems of GFS and ESA.
3. For a number of countries the EU accession and/or membership requirements were a significant driver of PFM reform.

These themes present a role for TCOP to engage with other international bodies to seek greater clarification on the above issues, and to shift the dialogue beyond the current OECD centric focus. Finally, it was also clear that for those countries further down the path of accrual accounting, this was part of a broader reform program, aimed at improved performance, which to be effective must be accompanied by enhanced transparency and accountability.

Full set of the workshop materials is available on PEMPAL website at the following link : <http://www.pempal.org/event/read/106>

The next thematic TCOP<sup>6</sup> event on the issues of public sector accounting and reporting is tentatively planned to be held in Minsk in the fall of 2014.

---

<sup>6</sup> A major PEMPAL plenary meeting of all three COPs is also planned for May 2014 in Moscow.