Accounting Reform and IPSAS Implementation in Georgia

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Summary of presentation

1. Project Resources
2. Context
3. Specific issues and constraints
4. Implementation plan and Phasing
5. Challenges
6. Conclusion
Project Resources

• Accounting Methodology and Analysis Department was established in the Treasury Service of the Ministry of Finance to lead the IPSAS implementation project

• Reform supported by the Development Partners (World Bank, DFID, SIDA, Government of Netherlands) through the Public Sector Financial Management Reform Support Project
The context – Georgia

• Most Easterly country in Europe
• Population 4.3 million
• Independence from Soviet Union in 1991
• In 2003 actions initiated to modernise Georgia politically and economically
• Public financial management a part of modernisation
• In 2009 decision in principle was taken to publish IPSAS compliant financial statements for central and sub-national levels of government by 2020
Specific issues

- At present no published financial statements for government
  - Reporting to Parliament and IMF GFS reports but not financial statements
- No single information system embracing all government financial flows
- Much government business conducted by Legal Entities of Public Law (LEPLs)
Issue - LEPLs

• Some 3,200 LEPLs

• Range of functions, e.g.
  – Schools and some hospitals are LEPLs
  – Some quasi commercial activities are LEPLs, e.g. land registration
  – Sometimes difficult to distinguish LEPLs from Government Business Enterprises (GBEs)

• Each LEPL is a legal entity responsible for its own accounting

• LEPLs have a considerable degree of managerial independence
  – Control own revenues
Issue - accounting base

• Georgia government budget and GFS reporting on cash basis

• Government Treasury Single Account (Treasury General Ledger) records cash based

• All central and sub-national government entities accrual based

• All Government Business Enterprises (GBEs) accrual based
Constraints

Absence of integrated Financial Management Information System
   – Developing is underway

Multiple public sector entities with different accounting systems and accounting
   – Considerable efforts are directed to design the unified chart of accounts for cash and accrual basis accounting

• Lack of staff trained in production of financial statements
## Overview of six phase implementation strategy

<table>
<thead>
<tr>
<th>Phase</th>
<th>Action</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Initiation</strong></td>
<td>Strategy agreed; Georgian Public Sector Accounting Standards Board formed; translation IPSAS initiated</td>
<td>2010</td>
</tr>
<tr>
<td><strong>2 Pilot</strong></td>
<td>Pilot financial statements under modified cash basis IPSAS</td>
<td>2012</td>
</tr>
<tr>
<td><strong>3 Modified Cash IPSAS</strong></td>
<td>Gov’t consolidated financial statements (excluding GBEs) under modified cash IPSAS (cash IPSAS + additional information)</td>
<td>2015</td>
</tr>
<tr>
<td><strong>4 Some accrual</strong></td>
<td>Simple accrual information provided under modified cash IPSAS Part II (GBEs not consolidated)</td>
<td>2017</td>
</tr>
<tr>
<td><strong>5 Accrual IPSAS</strong></td>
<td>Financial statements in full compliance accrual IPSAS</td>
<td>2020</td>
</tr>
<tr>
<td><strong>6 Ongoing</strong></td>
<td>Programme for ongoing adoption of new IPSAS</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
Actions to implement Phase1 through 3

• Establish legal basis for Standards – Georgian Public Sector Accounting Standards Board
  – Adopt (not adapt) IPSAS with phased implementation
• Establish data sources
• Translate IPSAS into Georgian
• Define consolidation entity for central government
  – Includes LEPLs but not GBEs
• Initiate training programme
Identifying the data sources

- **Opening balance**
- **Closing balance**
- **Analysed receipts & payments**

**Central Government Information**

**Government Ministries**

- **Treasury Single Account**
  - Advances, deposits, unpaid liabilities
  - Domestic loans & other financial assets & liabilities
- **Foreign currency loans**
- **Bank accounts in foreign currency**
- **Direct payments by third parties (donors)**

**LEPLS consolidated by supervising Ministry**

- **Bank accounts & other financial assets & liabilities**

**Each LEPL must provide sufficient information for consolidation**
- Flows
- Balances
- Transactions other entities within Gov’t
The General Government Sector (GFS/SNA)

Central Government

LEPLs

Sub-national Governments

LEPLs

The Public Sector

Government Business Enterprises

Central Gov’t IPSAS Entity

Sub-national IPSAS entities
IPSAS Consolidation

Requirements Phases 1 - 4

• Consolidated financial statements will include central government plus LEPLs
  – Same information required from LEPLs as for central government
  – Additional information so that any money flows between LEPLs or between LEPLs and central government can be eliminated to avoid double counting

• GBEs not consolidated – notes must include
  – Reason for GBEs not being consolidated
  – List of major GBEs
Why GBEs are not consolidated in Phases 1 - 4

- Not meaningful to consolidate accrual GBEs with modified cash based government information
- GBE financial statements not yet fully IFRS compliant, delayed and inadequate information available for consolidation
- Limited resources make consolidation infeasible
LEPLs

• Need to decide which LEPLs within consolidated government entity:
  – Exclude LEPLs which are GBEs
    • should prepare own financial statements under IFRS
  – Exclude LEPLs not under control of central government
    • Should prepare own financial statements under IPSAS

• Legislative issue: standardise reporting rules for different classes of LEPLs
Basis of accounting

• Not feasible to move directly to full accrual
• But cash basis reporting very limiting when more information available
  – Information on financial assets and liabilities
  – Use Modified Cash Basis IPSAS Part II to make additional disclosure
• Option under Modified Cash Basis to use IPSAS 2 format for cash flow statement
  – Instead of receipts and payments
IPSAS Modified Cash Basis – Georgia application

PART I Mandatory

• Cash flows and balances
• Cash flow statement in accordance IPSAS 2 (optional)
• Comparison with budget
• Notes and accounting policies

PART II ENCOURAGED

• Information on financial assets & liabilities & related flows
Phase 4 – Initial accrual IPSAS

- Objective – to implement basic elements accrual accounting
- Accrual statements presented as Additional Disclosures under Part II of Modified Cash IPSAS
- IPSAS adopted likely to include:
  - 1 through 6 (IPSAS 6 needed for LEPL consolidation)
  - 9, 12, 17, 19, 24
  - 28 through 30 (needed to identify financial assets and liabilities)
Phase 5 – Full accrual IPSAS

• Intention to adopt and implement all accrual IPSAS

• BUT some may cause problems. e.g.
  – IPSAS 20 Related Party Disclosures – the number of related parties may be too large to be feasible for disclosure
  – IPSAS 25 Employee Benefits may be too complex to be feasible
Phase 6 - ongoing compliance

- IPSAS continue to issued, amended and replaced
- Hence need for ongoing activity to maintain compliance
- Each change to an IPSAS requires:
  - Translation
  - Identification of issues for implementation
  - Possible software and/or regulatory changes
  - New instructions and procedures
Questions for Consideration

- Identify Coverage and Reporting Entity
- Design unified chart of account accommodating GFS budget classification and IPSAS requirements
Conclusions

1. IPSAS implementation needs to be phased over a decade or longer

2. Fully implementing the Cash Basis IPSAS at national government level is not feasible for any country
   - Infeasible to consolidate accrual GBEs
   - Data requirements on transactions with donors

3. A country is not compliant with accrual IPSAS until all implemented
   - Not feasible except in very long term
Thank you