Transfer to accrual accounting in public sector in the Republic of Kazakhstan

April, 2011
Content:

1. IFRS
2. Treasury System
3. IPSAS
4. Budget Accounting
Kazakh accounting standards (KAS) were used in Kazakhstan in the course of ten years from 1997 till 2006.

Requirements on transfer to IFRS in Kazakhstan were set for:

1. Financial sector – 2003 год;
2. Joint-stock companies – 2006;

Public interest organizations – financial organizations, joint-stock companies (except for non-profit ones), subsoil users (except for the companies extracting widespread mineral resources) and organizations with state participation in their capital, as well as state-owned companies based on the right of economic management.
## Aplication of IFRS in Kazakhstan

<table>
<thead>
<tr>
<th></th>
<th>IFRS</th>
<th>IFRS for SME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent from each other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Implemented in Kazakhstan by large companies and by public interest organizations</td>
<td>In 70 countries their implementation is allowed, required or planned</td>
</tr>
<tr>
<td><strong>Main differences</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Volume of standards (pages)</strong></td>
<td>~1 000</td>
<td>230</td>
</tr>
<tr>
<td><strong>Amended</strong></td>
<td>Annually</td>
<td>Once in 3 years</td>
</tr>
</tbody>
</table>
Accounting and financial statements in the real sector of the economy

DEPOSITARY OF FINANCIAL REPORTING

WWW.DFO.KZ

PRESENTATION BY COMPANIES OF FINANCIAL REPORTING AND AUDIT REPORTS

- 28% financial statements
- 72% audit reports

ATTENDANCE OF DEPOSITARY

- 20% visits by Kazakhstan
- 80% visits by other countries

STATISTICS

3623 PUBLIC INTEREST ORGANIZATIONS ARE REGISTERED IN THE DFR IN 2010:

- 257 INCLUDED
- 163 EXCLUDED
- 210,000 USERS REVIEWED THE DFR DATA

Visits of the depository by other countries

- Russia
- USA
- EU
- Latvia
- Sweden
- Ukraine
- UK
- Korea
- Netherlands
- China
- Czech Republic
Treasury System in the Republic of Kazakhstan

- In January 1994, Main Treasury Division was established in the Ministry of Finance;
- In 1995, the Treasury developed new budget classification of revenues and expenditures of the budgets of the Republic of Kazakhstan consistent with international practice;
- In June 1996, Single Treasury Account was opened in the National Bank;
- within the period from 1999-2004, the treasury system was modernized and included the following functional modules:
  - General Ledger;
  - Budget Receipts Management;
  - Issuance of Treasury and Financial Permissions;
  - Cash Management;
  - Commitments Management and Control;
  - Payments Management;
  - State Debt Management and Crediting of Guaranteed State Debt;
  - Interface between the treasury and payment systems.
## ACTIVITIES FOR 2010-2013:

### REFORM STAGES OF ACCOUNTING AND FINANCIAL REPORTING OF PUBLIC INSTITUTIONS

<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>With the aim of Budget Code implementation regulations on accounting and financial reporting in public institutions were developed in conformity with IPSAS and accrual method</td>
<td>Development of “Accounting in public institutions” software, training of accountants in pilot program</td>
<td>Implementation of accounting and financial reporting system in conformity with IPSAS and accrual method in pilot public institutions, training of accountants, as well as external and internal auditors</td>
<td>Implementation of accounting and financial reporting system in conformity with IPSAS and accrual method in all public institutions</td>
</tr>
</tbody>
</table>

**IMPLEMENTED**
## Differences in Transactions Reflection in Accounting Basing on Accrual and Cash Methods

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Accrual Method</th>
<th>Cash Method</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial investments, including:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments into entities of quasi-public sector</td>
<td>reflected</td>
<td>not reflected</td>
</tr>
<tr>
<td>Capitalized expenditures in construction, creation and reconstruction of long-term assets (fixed assets; intangible assets and etc.)</td>
<td>reflected</td>
<td>Partially reflected</td>
</tr>
<tr>
<td><strong>Revenues from assets management, including:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipt of part of net profit of object of investment</td>
<td>reflected</td>
<td>not reflected</td>
</tr>
<tr>
<td>Dividends of state share holdings</td>
<td>reflected</td>
<td>not reflected</td>
</tr>
<tr>
<td>Revenues from participation shares in legal entities</td>
<td>reflected</td>
<td>not reflected</td>
</tr>
<tr>
<td>Revenues from property rent</td>
<td>reflected</td>
<td>not reflected</td>
</tr>
</tbody>
</table>
Accounting and financial reporting in public institutions

LEGAL FRAMEWORK

LEGISLATION

BASIS

- Chart of accounts for public institutions enacted by the Order of the Minister of Finance of June 15, 2010 No. 281, Registered in the MJ of the RK, No. 6314 as of 29.06.2010.

- Rules for drawing up by the budget programs administrators of consolidated financial reporting, enacted by the Order of the Minister of Finance of the RK, June 25, 2010 No. 303, Registered in the MJ of the RK, No. 6339 as of 19.07.2010.

- Forms and Rules of financial reporting compilation and presentation by public institutions, enacted by the Order of the Minister of Finance of the RK, July 8, 2010, No. 325, Registered in the MJ of the RK, No. 6352 as of 26.07.2010.

- Accounting rules for public institutions, enacted by the Order of the Minister of Finance of the RK, August 3, 2010, No. 393, Registered in the MJ of the RK, No. 6443 on 25.08.2010.

- Accounting policy approved by the Order of the Minister of Finance of the RK on September 7, 2010, No. 444, Registered in the MJ of the RK, No. 6505 on 22.09.2010.

- Accounting forms for public institutions, approved by the Order of the Minister of Finance of the RK on February 24, 2011, No. 95, Registered in the MJ of the RK, No. 6829 on 18.03.2011.

- Budget Code of the RK;
- Order of the Prime Minister of the Rk of  29.12.2008 No. 292-r “On measures to implement the Budget Code of the Republic of Kazakhstan”;
- Action Plan on implementation of performance budgeting (06.06.2008 No. 554);
Agreement with International Public Sector Accounting Standards Board of the International Federation of Accountants (IFAC):

- translation of IPSAS from English into Kazakh and Russian languages;
- publication of IPSAS in Kazakh and Russian languages on the website of the Ministry

The Institute of Chartered Accountants of England and Wales (ICAEW) and the Charted Institute of Public Finance and Accountancy (CIPFA):

- in the area of provision of access to Kazakh specialist to learn IPSAS and implement internationally recognized certification program in public sector accounting CertIPSFR («Certificate in International Public Sector Financial Reporting») we cooperate with the Institute of Chartered Accountants of England and Wales (ICAEW) and the Chartered Institutes of Public Finance and Accountancy (CIPFA) and plan to open their representative offices in Kazakhstan
UNIFIED SOFTWARE

ACCOUNTING IN PUBLIC INSTITUTIONS

There have been coordinated the Terms of Reference and Schedule for “Accounting in public institutions” software implementation as part of the project on development of integrated automated information system “e-MF” of the e-Government program.

This software is being developed on the basis of SAP.

Methodology has been developed with taking into consideration the experience of various countries in development of similar software.
Unified training complex

Training programs:
- Accounting in conformity with accrual IPSAS (for chief accountants, 80 hours);
- Accounting in conformity with accrual IPSAS (for accountants, 40 hours);

Practical training
- On transfer of public institutions from cash accounting to accrual accounting

Training programs, lectures, manuals, tests and exercises on regulations developed in conformity with IPSAS for public institutions accountants and specialists of external and internal control

Distance training
- On-line, Q&A blog, videoconferences with teachers
**Common features of public sector accounting**

- Consolidate budget, assets management and treasury information for each public institution, as well as reporting at the national level;

- Reflect budget execution indicators, cash flow and financial situation in public institutions;

- The system should ensure evaluation of costs of public institutions transactions;

- Should be based on commonly accepted accounting principles for public sector;

- Integration of budget and accounting systems; i.e., the same definitions, recognitions and notions should be used in both budget and accounting systems;

- Implementation and application of accrual principle for accounting expenditures and non-tax resources. The main principles of accrual accounting include conformity with IPSAS, except for tax resources that are accounted on the basis of cash method. The reason is difficulties in defining the exact tax event and its accurate assessment.
**Best international practice of transfer to budget accounting**

“If administrative and territorial unit plans to change its budgeting method by accrual method, this change can be planned for one or two period after implementation of accrual method for financial reporting”

(“Transfer to accrual method: guidelines for governments and public institutions”, International Federation of Accountants (IFAC), New York, USA)

**4 types of implementation**

<table>
<thead>
<tr>
<th>Big Bang</th>
<th>Stage-by-stage implementation</th>
<th>Gradual Implementation</th>
<th>Partial Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>UK, New Zealand</td>
<td>Argentine</td>
<td>France</td>
</tr>
</tbody>
</table>
### Proposed activities after successful implementation of accrual accounting

**First component**
Research and analysis of budget reform with the help of international experts

**Second component**
Making political decision on transfer to accrual method at the legislative level

**Third component**
Development of regulations on transfer to accrual method in budget system

#### Activities:

<table>
<thead>
<tr>
<th>First component</th>
<th>Second component</th>
<th>Third component</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activities:</strong></td>
<td><strong>Activities:</strong></td>
<td><strong>Activities:</strong></td>
</tr>
<tr>
<td>1) Assessment of development level of the treasury system;</td>
<td>1) Amendments and additions to the Budget Code and Decision of the Government of the RK on adoption of the Action Plan on budget accounting improvement;</td>
<td>1) Consultations with international experts on:</td>
</tr>
<tr>
<td>2) Studying international experience in implementation of accrual method in budget system;</td>
<td>2) Decision of the Government of the RK on budget financing and/or attraction of foreign credits, grants for the project implementation.</td>
<td>- Accrual accounting of revenues;</td>
</tr>
<tr>
<td>3) Improvement of treasury information system given transfer to accrual budget accounting.</td>
<td></td>
<td>- Accounting of assets;</td>
</tr>
</tbody>
</table>

#### Expected results and completion forms:

<table>
<thead>
<tr>
<th>First component</th>
<th>Second component</th>
<th>Third component</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expected results and completion forms:</strong></td>
<td><strong>Expected results and completion forms:</strong></td>
<td><strong>Expected results and completion forms:</strong></td>
</tr>
<tr>
<td>- Findings of international consultants and recommendations on implementation of accrual method in budget system.</td>
<td>- enactment of amendments and additions to the Budget Code;</td>
<td>- Development of methodological basis on transfer to accrual accounting in budget system with consideration of international experience;</td>
</tr>
<tr>
<td></td>
<td>- adoption of the Decision of the RK Government;</td>
<td>- Improvement of Treasury information system with the aim of accrual method implementation.</td>
</tr>
</tbody>
</table>
Activities necessary to support implementation of accrual system in the public sector of the Republic of Kazakhstan

1. Further cooperation with international organizations;

2. Studying international experience by means of trainings of the MF specialists in the countries that have already transferred to accrual method in public sector;

3. Organization of seminars and trainings by international specialists, IPSAS authors and developers of respective software.
Contact information:

1. **Ministry of Finance of the Republic of Kazakhstan, Astana, Kazakhstan, pr. Pobedy 11, House of Ministry** [www.minfin.kz];

2. **IFRS in Kazakh and Russian languages, annually updated are presented on the website of the Ministry of Finance of the Republic of Kazakhstan in the section “International financial reporting standards”;**

3. **IPSAS in Russian are presented on the website of the Ministry of Finance of the Republic of Kazakhstan in the section “International Public Sector Accounting Standards”;**

4. **Joint-stock company “Center of training and upgrading skills in finance”, Astana, Kazakhstan, Left Bank, Syganak str, 10, “NOMAD” Business-Center, 10 floor.** [www.ecmf.kz];

5. **Depositary of Financial Reporting, [www.dfo.kz].**
Спасибо за внимание!