

## Experiences with Designing and Implementing Public Sector Accounting Reforms

---

### Ljubljana, Slovenia



In accordance with the Activity Plan for 2010-2012, on April 18-19<sup>th</sup>, 2011, PEM PAL Treasury Community of Practice (TCOP) held a workshop on Experiences with Designing and Implementing Public Sector Accounting Reforms in Ljubljana, Slovenia. The closing session of the workshop was organized on April 22d, following the attendance by the workshop participants of the Annual Conference on “International trends in public sector accounting”, organized by CEF, the World Bank, and other international organizations on April 20-21st.

The topic of reforming the public sector accounting and reporting proved to be of a high interest for TCOP members, the workshop being attended by representatives of 15 member countries.

In conformity with the workshop Concept, its main objective was to allow the Treasury COP members to exchange experiences and transfer knowledge related to the implementation of reforms in public sector accounting and reporting, with an emphasis on elaboration and implementation of public sector accounting standards. To achieve these objectives, the agenda of the meeting combined presentations by leading international experts with country case presentations by representatives of TCOP member countries.

Special survey was organized in advance of the workshop to identify the list of questions of highest interest for participants that shaped the agenda of small group discussions.

Several international experts and specialists from the World Bank and other international institutions specializing in public finance were invited to facilitate the workshop.

## Day 1



The meeting was opened by **Anila Cili**, the chair of TCOP Leadership Group, who provided information on recent TCOP activities, workshop preparation process, expected results and community's plans for the future.

After the traditional introduction of the workshop participants and experts, **Elena Nikulina**, Senior Public Sector Specialist at the World Bank and PEMPAL Team Leader, presented the results of the member countries survey.



The results of the survey indicate that many PEMPAL countries are in the process of implementing public sector accounting reforms, including broader use of the elements of accrual accounting and introduction of national public sector accounting standards aligned to various degrees with IPSAS. PEMPAL member countries are at the different stages of those reforms. Some

have already introduced public sector accounting standards aligned with IPSAS, while others are planning to launch their implementation in the future. The starting conditions vary between countries. Budget institutions in some member countries use elements of accrual accounting, while in other countries the cash method is prevailing.



The agenda of the first day continued with the presentation of **Michael Parry**, international expert in public sector accounting, who introduced the main aspects of the topic and discussed issues to be

considered when designing public sector accounting reforms. The expert emphasised the main particularities of these reforms, especially in the context of broader Public Finance Management reforms. He gave an overview of the issues that need to be taken into account when considering a move to IPSAS and paid special attention to the pros and cons of accruals, problems arising when designing national public sector accounting standards, the linkages between IPSAS and statistical reporting. He also stressed the importance of proper sequencing of IPSAS implementation.

To ensure a better understanding and common interpretation of the terms by PEMPAL participants, Michael Parry has developed and presented at the workshop an initial version of thematic Glossary of basic definitions of technical terms. This document will be posted on the PEMPAL web site and updated continuously.

Two country cases illustrating the experiences in reforming public sector accounting and reporting followed.



**Nino Tchelishvili** presented the case of Georgia and summarised her country’s experience in reforming public sector accounting, main stages of ongoing reforms, problems faced in this process and Georgia’s MoF plans for further reforms in the area of public sector accounting and reporting. Following the agreed presentation structure, the representative of Georgia, as well as, subsequently, all other case

country presenters, informed workshop attendees about accounting method used in the public sector of her country, specific legislative framework, existence of approved accounting standards and their compliance with international ones, requirements for publication of audit and other types of reports, problems and deficiencies existing in the area of accounting and reporting, existence of the strategic plans for reforms in this area. The absence of an integrated financial management information system, multiple public sector entities with different accounting systems and lack of staff trained in production of financial statements, were mentioned by Georgia representative as the most important challenges for public finance sector specialists from her country in the process of reforming public sector accounting and reporting. The conclusions of the Georgia case presentation included estimated timeframe for IPSAS introduction for a 10 year time horizon.



The experience of Albania in reforming public sector accounting was presented by **Anila Cili**. She provided comprehensive information about the particularities of the accounting system existing in Albania, current situation with reforms in this area, and plans for future reforms of public sector accounting and reporting in her country.

Albanian representative described the stages of the ongoing reform and existing specific legislative framework. She also informed her TCOP colleagues about the existing FMIS in Albanian treasury. The experience of transition to IPSAS and stages of implementation of accrual accounting in Albania was described in the presentation, as well.

The final part of the first day of the meeting was devoted to the questions and answers on the presented country cases.

## Day 2

The case of Kazakhstan opened the discussions on the second day of the meeting. It was presented by **Zaifun Yernazarova** who stressed the main particularities of the reforms implemented in her country in the area of public sector accounting and reporting.



Comprehensive description of public sector accounting reform stages and related activities planned by Kazakhstan for 2010-2013 was provided. Kazakh representative presented information related to existing legislative framework and her country's international

cooperation in the area of promoting public sector accounting reforms. She informed the workshop participants about the plans for implementation in Kazakhstan of the specific software product for public sector accounting needs and the experience of her country in developing the national training center for public finance specialists, including accountants. Zaifun Yernazarova has highlighted in her presentation the main activities planned to be accomplished in the country upon formal transition to accrual accounting, as well as the activities envisaged to promote the reforms.



The case of Ukraine was presented by Natalia Sushko. Complex information about the legislative framework in the area of public finance regulation was provided, and existing accounting system was described in the presentation. The representative of Ukraine summarized the objectives of the ongoing reform, its stages

and expected results. She provided information regarding her country's plans for developing an unique organizational and information system which will include, inter alia, the introduction of a unified approach regarding the organization of accounting services within budget institutions and development of the FMIS based on the Unified Chart of Accounts and national public sector accounting standards.

Following the country case presentations, a special questions-and-answers session was organized. Whole group discussion on the presented country experiences followed the session, during which the participants who did not present their country cases had the opportunity to share their experiences.

The second part of the day was devoted to the small group discussions on the questions formulated by TCOP members in the process of preparation of the workshop. Discussions were held in three groups, for each group being allocated two questions (two groups had the same set of questions).

In the process of discussions within the small groups, supported by international experts, every participant had the opportunity to share his experience in the discussed

domain, to address his questions and to obtain from the colleagues information about the specific issues of interest.

During the closing session of the day, each group presented its report on the discussions held, conclusions reached, and questions identified for further discussions during the thematic conference on “International trends in reforming public sector accounting” that followed on April 20-21<sup>st</sup> (group report presentations are available as part of workshop materials).

Workshop participants accepted the invitation to attend the Annual Conference organized by CEF, the World Bank and other institutions, and had the opportunity to learn more about the reforms implemented around the world in the area of public sector accounting. During the conference discussions were held on the increased role of accounting in the public sector, especially in the post financial crisis era.

The experience of a number of countries in reforming the public sector accounting was presented during the conference. TCOP members took active part in the conference agenda both as presenters and discussants.

### **Workshop closing session (first part of April 22)**

The closing session of the workshop was designed to discuss the results of the meeting and share the opinions on the thematic conference attended by workshop participants. TCOP members took very active part in the session and expressed multiple opinions about both workshop and conference. Participants also formulated a number of questions proposed to be discussed within the treasury community in the future.

After the workshop closure, TCOP Leadership Group held a meeting to discuss the community’s activities for the period May-December, 2011. Participants to the meeting decided that the next TCOP plenary workshop devoted to discussions on use of FMIS in treasuries should be organized in the second part of September, 2011, in Astana, Kazakhstan. Also, TCOP Leadership Group decided to organize a small group workshop on use of treasury systems in implementing donor financed projects in November, 2011, in Tbilisi, Georgia.

### **The main conclusions of the workshop were:**

- Demonstrated high interest and active participation of TCOP members in both workshop and thematic conference confirmed the priority character of the public sector accounting reform topic for the treasury community. Considering the high complexity of this topic, TCOP members agreed to organize thematic activities on the topic on a periodic basis (at least one activity per year).
- Most PEMPAL member countries are either already reforming their public sector accounting and financial reporting systems or planning to. The scope of reforms being implemented or considered varies by country, but in many instances the reforms involve transition to a broader use of the elements of accrual accounting and the introduction of national public sector accounting standards aligned to various degrees with IPSAS. The accounting basis used differs between countries and presents one of the factors affecting the scope and design of reforms.
- Reform approaches chosen differ by country. Kazakhstan has followed the path of converting IPSAS into much more prescriptive national standards, which include detailed requirements with no discretion allowed. The IPSAS implementation is being enabled by new integrated IT systems for PFM. Georgia is following a phased approach of adopting IPSAS, first implementing the Cash Basis standard using Part II of the Standard (Encouraged Additional Disclosures) to provide modified cash information. Albania and Ukraine are following the path of adopting IPSAS.
- Some TCOP countries are more advanced in reforming public sector accounting and reporting and have accumulated useful experience in this area, which offers good opportunities for specialists from less advanced countries to benefit from this experience
- A number of methodological and legislative materials were accumulated in the process of implementing public sector accounting reforms in TCOP countries, including the Russian translation of IPSAS (available at Kazakh MoF website). PEMPAL will make an effort to collect the most important documents available in any of the PEMPAL languages (Russian, Serbian, English), and post them on PEMPAL web site, as part of PEMPAL Library.
- There is general agreement on the need to move to accrual accounting (most regional countries already have much accrual information and reporting), and that full IPSAS implementation is not feasible in the short or even medium term.

Therefore, there is a scope for developing a standard model of simplified accrual. This model could be based on IPSAS, but exclude the more difficult IPSAS. The latter would be deferred for long term implementation. Such a simplified accrual approach would also need to be consistent with GFS requirements so that a unified accounting system could generate both GFS reports and IPSAS Financial Statements.

- The draft Glossary of terms developed by Michael Parry is a good tool for ensuring a better understanding and a common interpretation of the terms used in the area of public finance management, including accounting and reporting. This document must be permanently updated.
- Workshop participants appreciated the successful combination of two events (workshop and thematic conference) devoted to the topic on public sector accounting reforms. The practice can therefore be continued in the future.
- During TCOP Leadership group meeting held in Ljubljana, community's Activity Plan for 2010-2012 was revised and preparations for activities planned for May-December, 2011, were launched. The timeframe and hosting countries for the fall events have been confirmed.