



TREASURY COMMUNITY OF PRACTICE (TCOP)

Public Sector Accounting and Financial Reporting Thematic Group

*The discussion on the revised draft of the paper (knowledge product)
on optimization of the Chart of Accounts (CoA) design*

June 4, 2020 Videoconference

Members of the PEMPAL Treasury COP (TCOP) met through videoconference (VC) on June 4, 2020 to discuss the revised draft of the paper on optimization of the CoA design. The VC also provided an opportunity for participants to share how COVID-19 revenues/expenditures are tracked in their countries. 29 officials from 10 PEMPAL countries (Albania, Azerbaijan, Belarus, Croatia, Georgia, Kazakhstan, Moldova, North Macedonia, Russian Federation and Ukraine) participated in the VC, representatives of the Hungarian Treasury also joined the session. The meeting was facilitated by the World Bank resource team, including Ms. Elena Nikulina (TCOP Resource Team Leader), Ms. Yelena Slizhevskaya (TCOP Advisor), Ms. Ekaterina Zaleeva, Ms. Galina Kuznetsova (the PEMPAL Secretariat), Mr. Mark Silins and Mr. Mike Williams (TCOP thematic advisors).

Summary of discussion

Opening remarks

The videoconference was opened by Ms. Yelena Slizhevskaya, who welcomed the participants to another TCOP online event. Ms. Elena Nikulina also expressed her appreciation for the participants joining the events despite the challenging circumstances. She introduced the agenda for the VC and described the evolution of the CoA paper over the past two years including the revisions and updates made following the October 2019 thematic group meeting in Moscow. She highlighted the importance of receiving feedback from countries, particularly regarding the country examples included in the paper. Elena also briefly noted that the second major topic to be covered during this VC would be a follow up discussion from the VC held on April 29, 2020 on how countries track COVID related expenditures and revenues.

Presentation by Mark Silins

The event commenced with a presentation by the TCOP thematic advisor and principal author of the knowledge product on the CoA Mr. Mark Silins. The presentation first revisited the origins of the paper which commenced in earnest following a TCOP plenary meeting in Kiev, Ukraine in 2012. The first version of the paper, which largely focused on the economic segment and the benefits of its integration with the CoA, was completed in 2014. In 2018, at a meeting of the thematic group in Baku, Azerbaijan, it was agreed that while the 2014 paper had been useful, there was a need to develop a new knowledge product that would cover the full CoA.

Mr. Silins highlighted the major developments in the draft paper since the October 2019 meeting in Moscow and the two VCs convened earlier in 2019 which significantly influenced the development of the most recent draft. In addition to the paper being expanded to cover all major



segments of a CoA, it now also provides detailed guidance on issues such as the CoA and the budget, how the CoA interacts with an Integrated Financial Management Information System (IFMIS), and how to develop/redevelop a CoA. As illustrated by the slide below the Moscow event was particularly important for the paper, as it demonstrated that there was no one preferred approach regarding CoA design amongst PEMPAL countries despite a shared goal of improvement in reporting across public financial management (PFM) and to better support convergence/compliance with international reporting requirements such as International Public Sector Accounting Standards (IPSAS) and Government Finance Statistics Manual (GFSM). As a result, the paper now emphasizes how full integration could work, while also defining the more likely options of partial integration accompanied by mapping of certain different and key reporting requirements.



Key Outputs from October Thematic Meeting

- Nine countries presented on their current or planned CoAs reform
- It was clear that countries have a common focus on leveraging improved reporting across PFM through ICT
- However, there are many different approaches to how this is achieved in the CoA, particularly with the structure of the economic segment
- As a result a decision was taken to shift the focus of the paper to recognize the various options available in design for each country, notwithstanding that full integration is still recommended

The latest version of the paper includes six major chapters, a preface and executive summary, and has eight annexes, including newly developed annexes on an economic segment which distinguishes between cash and non-cash transactions and an outline of a CoA manual. Group members were asked to review the latest draft in detail, particularly representatives of those countries from which examples have been included. Once inputs have been received from PEMPAL officials, a further version will be circulated for peer review, including beyond PEMPAL. The end of October is the target date for completion of the paper.

Comments from participants on the paper

Moldova. Ms. Nadejda Slova, Head of the Reporting Department at the State Treasury, opened the discussion by sharing the comments on the paper, which representatives of Moldova found very interesting and useful. They particularly like the numerous examples, both theoretical and practical, including the different approaches for development of the various CoA segments. This will enable users from different countries to learn from each other and apply the new experiences in their own country. Representatives of Moldova will review the paper in more detail and share any proposals with the team. Mark had a specific suggestion for them regarding elimination of



two of the existing classes of the Moldova CoA (classes 6 and 8) and they agreed to work directly with him on this.

Russian Federation. Ms. Svetlana Sivets, Deputy Head of the Budget Methodology and Financial Reporting Department at MoF, thanked the organizers and Mark for the tremendous efforts invested in preparing the new knowledge product. She noted that it is quite important for the document to be used for broader decision making in PFM beyond treasury and accounting professionals. Ms. Sivets indicated a willingness to provide examples for the paper from Russia. Ms. Nikulina indicated that the team would welcome these contributions and invited Ms. Sivets herself to be a peer reviewer of the paper.

Kazakhstan. Ms. Alia Baigezhina, Deputy Head of the Treasury Committee, noted that the paper was very interesting and useful for their work. They are in the process of introducing changes concerning the existing CoA and therefore the paper is very timely. They were particularly interested in Annex 2 on the economic segment. Representatives of Kazakhstan will review the paper in more detail and discuss with Mark as required.

North Macedonia. Mr. Bari Iseni, Deputy Head of the Treasury Department, MoF, expressed his gratitude for the invitation to the event and for the opportunity to comment on the CoA paper. Macedonia is working on a new organic budget law which will include a new CoA along with reform in the public sector accounting framework. This will be accompanied by a new IFMIS which is expected to be functional in two-to-three years. The current CoA is effective for treasury operations, but it doesn't fully cover all public finances. Once the organic budget law is adopted the system will be implemented covering all budget users and public enterprises. They would like more time to review the paper and consider whether they can provide useful examples.

Representatives from Croatia expressed their thanks for this very comprehensive document and noted that they were glad to see examples from Croatia to be referred to in the paper, as they have been implementing PFM reforms for the last ten years including in budgetary accounting. Croatia uses a unified CoA at the state level, but only for the economic classification. Other classifications are used in the budget, but not in financial reporting. The next challenge will be to review their financial statements and the budgetary systems and try to make them more accrual based to the extent possible. They found the paper extremely useful as it helps them to look at other country experiences and take the lessons learnt to be applied/adopted in their own country. They will look at the document and annexes in more detail and get back with their views and suggestions.

Azerbaijan. Ms. Firuza Abdullaeva, Head of the Accounting Policy Department, thanked the organizers for arranging the VC. She commented that the CoA topic is very relevant to her country. Azerbaijan made recent improvements to the budget classification to bring it in line with the GFSM2001 structure but does not plan to implement a fully integrated CoA anytime soon. However, they have an accounting instruction (guidelines), which maps the economic classification items with accounts and subaccounts of the CoA for the purposes of reporting, which is very relevant to the paper. She confirmed she would send this instruction to the WB team for review for possible reference in the paper.

Albania. Ms. Mimoza Pilkati, Director of Treasury Operations Department, General Directorate of Treasury, Ministry of Finance and Economy, appreciated the opportunity to join the discussion of the TCOP thematic group on public sector accounting. She confirmed that they found the knowledge product very relevant. Albania has had a unified CoA since 2001, but still needs to improve it as the country moves towards accrual accounting and implementation of the IPSAS.

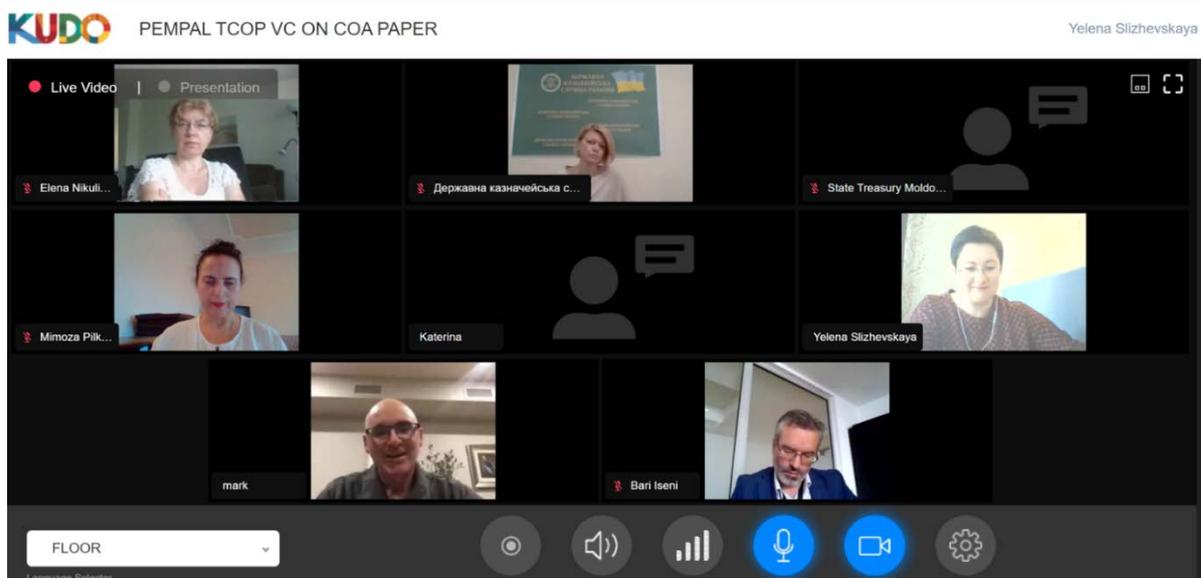


In accordance with the organic budget law, they have a cash-based budget system, accrual-based expenditures and cash-based revenues, so they have a modified cash-based system at present. There is still work needed to implement IPSAS, so it is useful for Albania to be involved in these discussions and benefit from this knowledge product. Ms. Pilkati noted it was particularly interesting to see the breakdown of CoA elements including the examples from other countries. She indicated that Albania will provide additional examples of transactions for inclusion in Annex VII of the paper.

Georgia. Mr. Levan Todua, the Head of State Loans and Deposit Operations Department of the State Treasury, shared that in Georgia they have approved the new regulations including the new CoA this year which aligns with international accounting standards and GFSM2014. It takes a lot of time and effort to move this work forward. They have not achieved complete integration but are working on it. Mr. Zurab Tolordava, who is a member of the thematic group on public sector accounting, will get back to the team with specific comments on the paper.

Ukraine. Ms. Natalia Botsman, Head of Department of Accounting Methodology and Reporting on Budget Execution, State Treasury Service, also shared the appreciation for the paper, which representatives of Ukraine found to be a very rich and powerful document. They have just started reviewing the paper, so will be able to provide detailed comments later. Ukraine just completed one of key stages of public sector accounting reform in January 2020, when Treasury moved to unified CoA and rolled it out across the country. They also introduced unified financial accounting forms for the aggregation of financial reporting data. The next stage to consider is the move towards accrual-based budgeting and they found the experience of Australia (Annex II) quite interesting and relevant.

Hungary. Mr. Tamas Pal Torok, Head of Division of the Hungarian State Treasury, reminded the participants that Hungary had presented details on their PFM and IFMIS system and the plans for reform during the TCOP event in Budapest a year ago. They are now in the middle of the implementation process for the new IFMIS. At the moment, they are testing the data warehouse, the appropriation management system, and improvements to the internal banking (payments) system. Regarding the paper, they agree with other countries that the paper is very useful. As Hungary was not part of the original working group, they offered to share their relevant examples. The WB team welcomed this offer.



Mr. Silins thanked the participants for their positive feedback and contributions, both in terms of comments today, and contributions to improve the next version of the paper. He noted that the paper was not supposed to be an academic one, but a practical toolkit for use in PEMPAL countries and beyond. Indeed, the 2014 paper had been used both within PEMPAL and beyond as a reference. Thus, the commitment from countries to provide further relevant examples was most welcome. Mr. Silins particularly welcomed the proposed contributions from Russia. He noted that the original paper developed in 2014 relied heavily on the approach taken by the Russian Federation to redevelopment of the economic segment of its budget classification.

The next topic of the VC agenda was dedicated to the discussion about tracking revenues and expenditures related to COVID-19.

In her presentation, Ms. Mimoza Pilkati (Director of Treasury Operations Department, General Directorate of Treasury of **Albania**) explained in detail how transactions are captured and processed in Albanian Government Financial Information System (AGFIS) and how specific information on COVID-19 related transactions is distinguished from other transactions. Provision has been made in the economic segment of the CoA to record specific financial assistance payments including payments to non-public employees (for example, special account 6062300) working in small business. In addition, other types of COVID-19 related expenditures are also identified in the description field for transactions. While such textual descriptors may not be 100% accurate, they do provide significant further reporting capabilities. The Treasury ensures that the description field contains the required reference to allow transactions to be tracked and reports to be extracted from AGFIS. Revenues from COVID-19 contributions (for example, grants from development partners) are paid into specific accounts and can be tracked on a daily basis. Designated zero balance accounts are held in commercial banks on behalf of the government and the deposits are transferred to the Treasury Single Account in the Central Bank each day. Electronic banking data is uploaded electronically to reconcile COVID-19 (and other revenues) in AGFIS each day. For example, the account 7207014-Voluntary contributions to COVID-19 is a bank sub-account in the CoA which was added specifically for COVID-19. Ms. Nikulina thanked Mimosa for her very interesting presentation and noted that it should be used as an example in the CoA paper.

Representatives from **Ukraine** shared that they used a different approach compared to Albania. They had not introduced any specific codes to the existing classification but added a special marker (identifier) to the payment orders register. The treasury staff assigns such COVID-19 identifiers for respective payment orders when they are first entered into the information system. Currently revenues are not separately classified as COVID/Non-COVID.

Representatives of **Moldova** shared that they use the source of funds segment to separately record revenues and expenditures related to COVID-19. Moldova has an Intervention Fund (used to respond to natural emergencies, pandemics and similar), and COVID-19 revenues and expenditures can be traced through this fund's operations. This can be done by tracing the Government's order to spend COVID-19 funds.

Representatives of **Croatia** shared that in their country the existing budget classification is used to track COVID-19 related expenditures through the inclusion of special COVID-19 related activities in the program segment (a significant share of such expenditures relates to transfers from the state to employers to support the retention of existing staff).



Participants from **Hungary** indicated that a special fund was created in response to COVID-19 challenges in their country and appropriations were centralized there. It was noted that Hungary records all the COVID-19 related revenues and commitments. Dedicated bank accounts were established for that purpose, but contrary to approach of Albania no special accounting procedures were introduced.

Mr, Silins noted that each country example highlights the importance of government being able to track and report specific inflows and outflows for designated purposes such as COVID-19. Most CoAs are set up to capture specific information on an ongoing basis, usually as part of the formal policy framework in the budget. However, it has become increasingly important to also build flexibility into the CoA structure to enable one-off or special purpose reporting. The draft CoA paper noted this and suggested that each country develops the capability for unique reporting when developing/redeveloping the CoA. Mark also agreed that the examples on how the countries are tracking COVID-19 revenues and expenditures provide a useful practical element that can be integrated into the final version of the paper, perhaps as an additional box in the text or as an appendix (or both).

Next steps and closure. Elena Nikulina wrapped up the meeting by noting that many participants commented that they needed more time for the detailed review of the paper, so the resource team is ready to extend the deadline for comments until the end of June 2020. At the same time, those who already have materials ready are encouraged to send them to the resource team as soon as possible. Once the comments and examples are submitted and incorporated by Mark, the updated version of the paper will be subject to the final review with involvement of external peer reviewers. Dissemination of the knowledge product is planned for the fall.

