



THE TREASURY COMMUNITY OF PRACTICE

Videoconference of the Thematic Group on Public Sector Accounting and Financial Reporting

February 9, 2022

On February 9, 2022, members of the PEMPAL Treasury Community of Practice (TCOP) met via videoconference (VC) to learn about the results of Russia's piloting a new federal accounting and reporting model, key findings from the pilot, and related plans for the future. The VC was attended by 48 participants from 12 PEMPAL countries (Albania, Azerbaijan, Belarus, Croatia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Montenegro, Tajikistan and Uzbekistan). The VC was organized by the World Bank Resource Team, comprising Elena Nikulina (TCOP Resource Team leader), Elena Slizhevskaya (TCOP consultant), Galina Kuznetsova (TCOP Resource Team member), Ekaterina Zaleeva (PEMPAL Secretariat), Mark Silins (TCOP thematic consultant) and Dmitri Gourfinkel (Senior Financial Management Specialist, World Bank).

Discussion Summary

Opening Session

Ludmila Gurianova, Deputy Head of the State Treasury of the Republic of Belarus and the TCOP Executive Committee Chair, welcomed the participants on behalf of the TCOP leadership. During the COVID-19 pandemic, only online meetings are possible, but despite the difficulties, they are of particular value. She thanked Mr. Dubovik for agreeing to continue sharing the experience of the Russian Federation, which was first presented in Moscow in 2019, noting that it is of interest to many, and that in the Republic of Belarus the work in this area is just beginning.

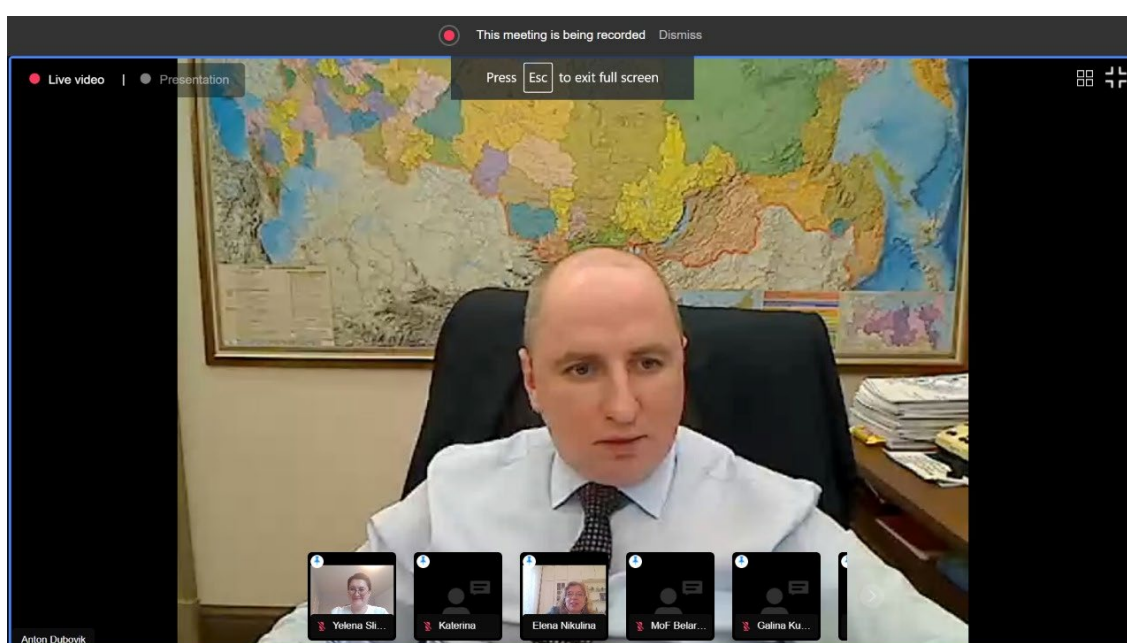
Elena Nikulina, TCOP Resource Team Leader, also welcomed everyone and recalled that during the June 2021 plenary meeting Mr. Artyukhin, the Head of the Federal Treasury, mentioned the progress made by the Federal Treasury in improving the organizational and functional model of public sector accounting. This information aroused great interest among TCOP members, which prompted a new meeting of the Thematic Group on Accounting and Financial Reporting. Although this working group has not met since the plenary, work has continued, and the Resource Team has just distributed the final version of a note, summarizing the experience of TCOP countries in accounting for the COVID-19 pandemic-related expenditures, which has been widely discussed during a number of TCOP events over the past two years. Elena Nikulina expressed her hope that everyone would find the document useful and urged participants to review it carefully.



Presentation by the Treasury of Russia

Anton Dubovik, the Deputy Head of the Federal Treasury, updated the status on the centralization of the accounting and reporting function in general government in Russia along with the centralization of accounting data for public sector institutions. This updated the TCOP on the developments in this area since the October 2019 Moscow meeting of this thematic group where the Russian Treasury presented on the pilot results of this transformation process.





During the period 2019-2021, the accounting and financial reporting of all agencies managed by the Russian Government was transferred to the Federal Treasury (this covered 50 agencies, 2,135 budget holders, 410,000 employees, and over 50 IT solutions). This institutionalized the Federal Treasury as the "single accountant" for these institutions. Anton Dubovik noted that the main prerequisites for the successful centralization of the functions include digitalization of the processes, which increased from about 40 to 90 percent, and establishing a common financial information space.





Given the benefits of the reform, it was decided to extend this experience to the regional (municipal) level and to the extra-budgetary institutions (such as hospitals, schools, etc.) – this would increase the coverage to 85 regions, 22 thousand municipalities, over 100,000 budget holders, more than 10 million employees and over 100 IT solutions. It was clear that full centralization would not be a viable solution give the scale and scope of institutions and arrangements in place. The Ministry of Finance of Russia therefore proposed a blend of approaches, ranging from centralization of accounting data right through to full centralization of the functions as occurred with federal institutions in the first three years of the reform.

The following slide illustrates a matrix of approaches for how the accounting and reporting functions could be organized depending on the type of institution and the level of regional (municipal) government. What is common to all approaches is technological integration that is, the receipt by the Federal Treasury of the data itself, although at different levels of aggregation.



			 Technology integration	 Functions and technology integration
 Authorities	Federal level	Standard		✓
		Special	✓	
	Regional (municipal) level			✓
 Institutions	Federal level	Standard*		✓
		Special	✓	
	Regional (municipal) level*			✓

 Mandated
  Service on demand
 * - mostly social sector

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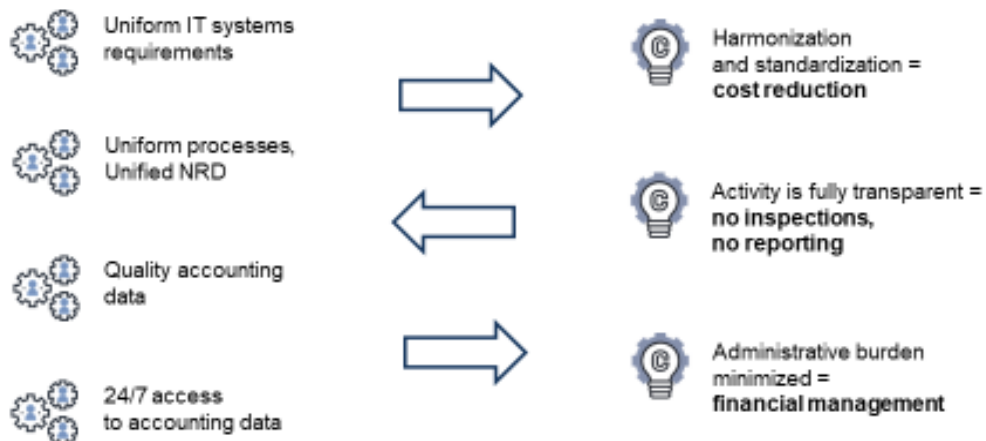
Mr. Dubovik noted that technological integration is based on unified methodologies including a common Chart of Accounts, and unified technologies which allow integration of the accounting data of all spending units. This includes information systems requirements, the composition of data that must be disclosed in the systems, procedures for obtaining and processing data, and for generation of periodic reports based on the data that must be disclosed in information systems.

Further transformation and consolidation of the accounting and reporting function will be carried out through a series of pilot projects to be implemented until 2027. It is expected that by 2027 a single information system will be in place which will make it possible to promptly obtain information for any budget level, any budget holder and any spending unit. The first stage of the pilot (2021-2022) includes 5 spending units under the Ministry of Science and Education and the Ministry of Health, 12 federal executive bodies supervised by the President of the Russian Federation, as well as the government bodies and institutions of the Republic of Mordovia.

The new accounting and reporting model is expected, among other things, to:

- reduce the cost of the accounting function to the state as a whole;
- provide full transparency of institutional financial activities;
- enable online audits of agencies;
- support budget holders in compliance and avoid violations;
- reduce the administrative burden of conducting inspections, both for the staff of the institutions and for the staff of the inspection bodies; and
- allow a shifting of the focus of work from operational (transactional) issues to financial management issues.





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Q&A Session

Lyudmila Guryanova (Belarus) and Ekhtiram Isabalaev (Azerbaijan) asked for clarification on how payroll function is distributed between departments and the Treasury, the methodology to estimate the staff reduction for the payroll function by 50%, and whether there was a movement of staff from line departments to the Treasury.

Mr. Dubovik explained that the human resources (HR) function is retained by clients (ministries and departments). HR services continue to manage personnel (hiring, dismissals, etc.). Regarding the reduction of personnel, it was noted that one accountant from the Treasury processed information on 300 employees of the client agency where data is processed manually. This doubled to 600 employees where automatic entry and programmed algorithms were used. This was the approach used to calculate the 50% savings. There was no transfer of accountants from line ministries to the Treasury: the employees were available to be reallocated to perform other functions.

Elena Nikulina congratulated colleagues from the Federal Treasury on the outstanding results. When the original model was first introduced in 2019, it seemed very ambitious. The new variants of the approach that emerged during this phase and presented today are even more interesting from a practical point of view for many PEMPAL countries. In this context it would be useful to understand how and who will certify ICT solutions. Elena also asked whether an existing or newly developed ICT product was used.

Mr. Dubovik indicated the first question is still under consideration. The regulator will be the Ministry of Finance; accordingly, it will set the requirements for certification. The certificates may be issued by the Treasury, but this is not decided yet. 1C (domestic software which is widely employed in both for-profit and public sector) served as a basis for the new solution, though it has undergone some customization. The system is administered by the Treasury through a separate centralized accounting department.

Arman Vatyán (World Bank) asked for clarification as to whether agencies can receive reports directly, or if they need to request these from the Treasury, and whether the Treasury provides government financial statistics reports, budget execution reports, and performance reports. He also asked for clarification on the extent to which the system is integrated with the procurement system.



Mr. Dubovik explained that the Treasury generates three types of reports: (1) budget execution reports, (2) financial statements (uniform reporting forms that the Treasury generates and signs), and (3) analytical reports. Performance reports are not generated by the Treasury since this is part of agency-specific management reporting. Agencies may request these reports from the Treasury or directly obtain the necessary information from the system.

All typical transactions (payroll, procurement, treasury support) are fully interoperable. Non-typical transactions (income, receivables) are not integrated. There is some interoperability with the Federal Tax Service - the Treasury can access the total tax arrears, but without individual taxpayer breakdown.

Mimoza Pilkati (Albania) asked to clarify the methodology of accounting and reporting (whether it is based on cash method, accrual method, IPSAS).

Mr. Dubovik clarified that the Ministry of Finance is finalizing national standards based on IPSAS. In general, accounting is done on an accrual basis, while the budget is prepared on a cash basis. There is a full balance sheet, which includes not only cash and receivables, but also buildings, facilities, etc.

The Treasury of the Republic of Belarus sought clarification on the accounting information that is included in the "data lake" mentioned by the speaker in his presentation and how detailed this information is.

Mr. Dubovik indicated that turnover of accounts, analytics on debtors /creditors, fixed assets (at the inventory card level), and analytics on salaries are transferred. Reference information is not transferred, because it is already integrated in the system.

Ainura Bakabayeva (Uzbekistan) raised the issue of human resource capacity. There are international and national qualifications of accountants, what is the approach of Russia?

Mr. Dubovik replied that there were more than 7,000 accountants working for the Treasury in Russia. Training and certification of that number of employees would be very expensive. There are currently no such plans; instead, Russia has a law on civil service, which contains requirements for education, work experience, etc., as well as requirements for continuous professional development.

Dmitri Gourfinkel (World Bank) asked about the impact of COVID-19 on the reform.

Mr. Dubovik noted that, of course, the pandemic accelerated the process of digital transformation, and now the paper-based workflow is less than 1%. In addition, the pandemic has helped with psychological adaptation to the fact that accountants can work remotely.

Conclusion

Dmitry Gourfinkel noted that there were different types of accounting and reporting reforms in the world. The reform presented today by the Russian Treasury represents one of the most complex and ambitious, reflecting the main trends in accounting and reporting sector reforms internationally. At the same time their experience is somewhat unique, as most countries have implemented decentralized accounting reforms. The experiences and lessons presented today are of interest to many countries in the region and beyond, and we would like to follow the next steps of this reform.



In her concluding remarks Elena Nikulina thanked Mr. Dubovik and the members of the working group for their active participation. After the presentation of the early stages of the reform in 2019, many participants had some skepticism about the feasibility of adopting a similar approach in their countries because of the resources needed. Today it was shown that the concept of centralization is transforming, that other variations of the approach that allow for different levels of integration are possible, and this is extremely interesting for participants from other countries. Elena congratulated the staff of the Federal Treasury for the success achieved and expressed her hope for further events to learn from the Russian experience, for example, on IT solutions that support integration with the procurement system.

