In accordance with the Action Plan for the period 2012–2014, the Treasury Community of Practice (TCOP) of PEMPAL\(^1\) conducted a three-day workshop entitled “Public Sector Accounting Policies and Practices” from November 6–8, 2012. Treasury heads and specialists from \(18\) TCOP-member countries, as well as representatives of the Ministry of Finance of France, took part in the workshop that was held in Baku, Azerbaijan. The workshop was also supported by experts from the World Bank, OECD, SECO and the Slovenian Centre of Excellence in Finance. This workshop continued the strong levels of participation seen at the Moscow event held in June 2012.

The general objective of the Baku event was to provide an opportunity for TCOP members to exchange experiences in implementing public sector accounting and reporting reforms. The event was designed to deepen participants’ understanding of the conceptual, institutional and operational challenges associated with the implementation of accounting reforms, particularly transition to the use of accruals and alignment with IPSAS. The event involved presentations by officials from participating countries on good practice and practical tips and traps associated with this area of reform, supplemented by input from a small number of international experts. This approach provided a useful basis for a range of group discussions by TCOP-member countries, which represented a significant portion of the total agenda. As the host country, Azerbaijan also provided detailed information on its broader economic and PFM reforms to date, along with its plans for the future.

Day one of the workshop was launched with the welcome statements of the representatives of the Parliamentary Committee for Economy and Finance and the Government of Azerbaijan. Deputy Minister of Finance, Mr Azer Bayramov, provided the workshop with an excellent insight into the recent economic success of Azerbaijan and the goal to double GDP in the next ten years. Importantly, he

\(^1\)Public Expenditure Management Peer Assisted Learning (PEMPAL) aims to improve the efficiency, effectiveness and transparency of public expenditure in Central and Eastern Europe and Central Asia countries. The program supports activities that bring practitioners in public finance together in COPs to enhance peer learning through benchmarking performance for implementation of reforms in public finance. For more information on PEMPAL please go to [www.pempal.com](http://www.pempal.com).
indicated that the pathway towards success would be through increased foreign direct investment. Such investment would only occur if Azerbaijan was able to adopt modern accounting practices, allowing potential investors greater assurance regarding the reliability and transparency of financial reporting for both private sector enterprises and the government. This was the motivation for the country’s commitment to adopting International Financial Reporting Standards (IFRS) for the private sector and government enterprises, and IPSAS for the public sector.

The remainder of the morning was devoted to presentations\(^2\) by the State Treasury Agency on reforms in automation and accounting, including:

- Mr. Abbas Salmanov, Head of State Treasury Agency
- Mr. Vugar Abdullayev, Deputy Head of STA
- Mr. Nazim Gazimzade, Head of IT Department STA

Workshop participants were impressed by the significant progress made by Azerbaijan, particularly in recent years, with the key points gleaned as follows:

- While reform commenced as early as 1994, with a TSA created in 1999, the most significant reforms have occurred more recently with the implementation of the Treasury Information Management System (TIMS);
- TIMS currently covers the operations of the central treasury in Baku and 86 regional treasury offices, with full connectivity and integration;
- Over 90% of all government operations are currently included under the TSA and TIMS, with full coverage imminent. Coverage includes all income and payments from the public budget, as well as extra-budgetary funds, loan operations guaranteed by the government, cash execution of the Nakhichevan Autonomous Republic, and local authorities (by request);
- One of the major reasons for success has been the strategy by Azerbaijan to implement SAP software as TIMS largely unchanged, adapting Azerbaijan public sector business processes to ensure compatibility with the software.

\(^2\)All presentations shown at the workshop are available on the PEMPAL Program website. Treasury Community of Practice members can find a detailed photo report on the event and all workshop materials on the wiki page of the PEMPAL TCOP - http://tcopempal.wikispaces.com/, in the section “Baku - 2012”.

• Future planned reforms include: direct connection of spending units and integration of their accounting processes into TIMS; integrated payroll management, and improved connectivity for foreign currency transactions.

The afternoon of day one focussed on complementary presentations by two experts, Mr Mark Silins and Mr Michael Parry.

Mr Silins provided guidance on the steps required for implementation of accrual accounting, while reflecting on a range of institutional challenges for each country. He stated that each country must objectively assess its own capacity and plan implementation accordingly. For some countries, rather than full accrual, a realistic medium-term goal may be a phased implementation, moving from the simpler elements of accrual accounting through to the more complex elements. This approach would provide greater certainty of success and allow each new phase to be assessed both in terms of country preparedness but also in terms of the costs and benefits.

Mr Parry sought to address four major issues. Firstly, he indicated that standards were important because they provided explicit guidance for accounting treatment, and that ensuring compatibility with international standards allowed comparability across countries – although he acknowledged that different requirements for budget, statistical and financial reporting were presenting challenges for countries. Secondly, he explained the importance of accrual accounting as a universal and inclusive accounting model, while not underplaying the importance of cash accounting, which is in fact a core element of accrual accounting and, generally, the way funds are appropriated in most countries. Mr. Parry then went on to indicate how a country could combine cash accounting for budget reporting and treasury operations with accrual accounting in line ministries. While he highlighted a range of options, his recommended model was through an integrated chart of accounts and FMIS. He also addressed the very challenging issue of consolidated reporting, indicating that countries needed to take a pragmatic approach to this challenge and ensure they consolidated rather than aggregated their reports.

Day one closed with group discussions on the day’s presentations. The workshop agreed that the experiences reported by Azerbaijan were very useful and represented a positive success story for other countries to consider.
It was also agreed that while the general goal was to comply with international standards, each country must determine its own plan and pace for reform towards this goal if it is to be successful.

Day two commenced with a presentation by the PEMPAL Program Team Leader, Ms Elena Nikulina, on the results of the thematic survey conducted for this event. All 18 countries participating in the workshop had responded to the survey which included 39 separate questions.

Key themes emerging from the survey responses included:

- The definition and coverage of the public sector varies across countries;
- Seventeen countries record revenues on a cash basis, while at the same time most countries also record some elements of accrual for expenditures;
- Fifteen countries used accrual or modified accrual at the budget institution level
- A total of 11 countries have adapted the IPSAS for the national context, with four indicating that they have adopted full IPSAS (cash or accrual), without modification;
• There is good progress across the TCOP countries in integrating the budget classification and chart of accounts, with only three countries reporting that they do not have a mechanism to assure the respective link; however, methodological challenges in this area remain;
• A total of 14 countries produce a consolidated financial statement for government in some form; however, it was agreed that it was unlikely that any country met the requirements under IPSAS for consolidated reporting;
• Eight countries have automated the process of consolidated financial reporting; and
• A total of 11 countries have official qualifications for public sector accountants.

Ms Nikulina indicated that while the survey provided valuable information for the TCOP, it also showed that not all concepts are commonly understood and that public sector reporting and accounting reform is far from completed. As such, she suggested that an opportunity existed for TCOP members to form smaller groups to address specific issues and organize future meetings around those issues. Bilateral arrangements were also possible either between TCOP countries or through visits to other relevant countries. Ms Nikulina also encouraged members to utilize the TCOP experts Michael Parry and Mark Silins through the wiki page.

Following on from discussions of the survey results, three countries, Azerbaijan, Russia and Kazakhstan, gave presentations on their respective approaches taken for implementation of accounting standards.

The Head of the Accounting Policy Division, Mr Elkhan Jafarov, explained that Azerbaijan was undertaking a three-stage, countrywide approach to accounting reform, developing national accounting standards for both the private and public sector which accord with IFRS and IPSAS. Stage one involved updating the legislative and methodological framework for the public sector. Stage two saw the development of a culture of reporting by encouraging compliance within each agency to ensure spending units submit timely reports – this also included building the capacity of both internal and external audit. Stage three focuses on building human capacity, through the creation of qualified trainers and a programme of continuous learning for officials involved in accounting and reporting (this was further expanded on by a presenter on day three). World Bank expert, Mr Norpulat Daniyarov, who is working with Azerbaijan in support of their reforms, also explained that specific standards and adaptations were made for NGOs and other bodies where full compliance with the standards would be too onerous. Software is under development to support the entire process.

Many questions ensued, particularly regarding the suggestion by Azerbaijan that the differing reporting requirements imposed on entities – statistical, budgetary, financial and tax
accounting (although the latter requirement applies more to business entities) – was probably contributing to poor compliance levels. As a result, they are currently considering recommending a restructuring of ministry accounting units to better support proper compliance, along with possible sanctions for non-compliance.

A participant made the important observation that, in the past, we provided accountants with clear methodological instructions regarding exactly what they should do in every situation. The new accounting framework is less prescriptive, creating an expectation that our accountants will be able to interpret and apply the standards correctly. This is a major cultural shift which should not be underestimated.

**Ms Svetlana Sivets**, Deputy Head of the Budget Policy and Methodology Department, Ministry of Finance, Russia, delivered the second country presentation. The sheer scale of the reform agenda in Russia was mindboggling for participants with the consolidation process for the general public service involving over 24,000 budgets for more than 300,000 institutions. Russia has decided to create national standards, and also to develop specific standards for different sectors of the government, reflecting the different accounting and reporting requirements. They will be developing sector standards for real estate, health, pensions, education and for revenue collectors. Each responsible sector ministry will prepare its standards and submit these to a council for approval. This framework of standards will be in general compliance with IPSAS.

Ms Sivets emphasised that the challenge in implementing accounting reform is transitioning from theory to practice – practitioners requiring clear guidance if they are to understand how to apply the theory. She indicated that an important role for the central policy agency was to provide clear and concrete examples, such as model statements, to assist practitioners understand what is required. Ms Sivets also indicated that the major benefit in moving to accrual accounting is that it assists in providing managers with far greater information about their performance and, therefore, helps to enhance accountability. This reform, in turn, linked accounting reform to the broader reform agenda of improved management for results.

**Ms Zaifun Yernazarova**, Deputy Director, Department of Accounting and Financial Reporting Methodology, Ministry of Finance, Kazakhstan, delivered the third country presentation. While not on the same scale as Russia, Kazakhstan nevertheless has embarked on a major reform challenge with over 14,000 public institutions, and an ambitious target to implement full accrual
accounting throughout the public sector by 1 January 2014, in just five years. The programme has involved: the creation of a new legal framework for accounting, which required the interpretation of the requirements of IPSAS and the development of supporting accounting policies and rules; a thorough analysis of current gaps in knowledge, to ensure an understanding exists of the changes required from existing accounting practices to the new requirements; implementation of an enormous pilot programme across five ministries involving 500 institutions and over 1600 local budgets; the roll out of a comprehensive education programme for certification of public sector accountants across the county; and improved automation through enhanced use of accounting and consolidation software.

A number of major elements are scheduled for completion in 2013 including: harmonization of the budget classification and chart of accounts; valuation of major fixed assets; completion of a professional certification process for public sector accountants; and preparation of consolidated statements for the public sector.

Mr John Ogallo, World Bank expert for the Central Asian Region reinforced the significance of the Kazakhstan reform and the results achieved to date. He indicated that the country had developed a very effective plan, ensuring all the institutional issues which may have presented obstacles were addressed.

Mr Bernard Limal and Ms Catherine Cabioch, from the General Directorate of Public Finance in France also delivered a joint presentation on country reforms. They indicated that improvements in public accounting were a critical element for broader public sector reform, which in France has three major goals: to clarify the role of government – what the public sector should and should not do; to increase responsibility and accountability of senior public servants; and to improve the results of public policy.

France decided to create its own national standards and at the time of the workshop had developed 16 standards which largely accord with IPSAS. A core component of the reform process was the development of an integrated FMIS, CHORUS. France has also developed detailed training for its principal accountants who have very specific personal obligations under the law. Training has also been developed for secondary accountants, and both sets of officials receive this training from the National Public Finance School.

A range of practical questions were directed at the four countries. In addition, participants formed four smaller groups and were tasked with discussing the following statement, particularly in the context of the earlier country presentations.
What are the problems faced by countries in moving towards modern international practices in public sector accounting and financial reporting? What are the practical solutions to those problems which have been implemented or are proposed by countries?

The following points summarize the responses from the four groups.

- Should a country adopt IPSAS or adapt them to the country context? Most countries agreed that adaptation was the best course of action.
- The recent paper issued by the IPSAS Board that initiated international discussion on the issue of consistency between IPSAS, GFS & ESA95 is under discussion and perhaps will provide a solution for the inconsistency problem. The EU is also working on the issue on reconciliation of IPSAS, ESA95 and GFS.
- Given the potential high cost of implementing accrual accounting, the question of whether it is justified was raised. Political support is critical for implementing standards and accounting reform in general.
- Proper commitment control was highlighted as being an important early step for successful implementation of accrual accounting.
- We need to have clearly defined responsibility for setting methodological norms in the area of accounting and financial reporting in the country.
- Management and the valuation of fixed assets were identified as the biggest challenge in moving to accrual accounting.
- The question was raised as to whether a country should implement a central fixed assets register or devolve this to ministries or even institutions. Given the scale of this undertaking it was considered that devolved implementation was most feasible.
- Implementation of a TSA was an important element in moving to accrual accounting.
- A uniform chart of accounts for the whole public sector is important and simplifies processes significantly.
- There is inconsistency in technical advice provided on some complex and controversial issues by international organizations and various external advisors (could result in creation of parallel systems).
- The task of training all relevant officials is enormous. It was important to sensitize and educate all stakeholders both within and external to government.
• Incentives should be provided to staff to learn the new skills that are required, through bonuses, promotion and scholarships for students.
• A challenge exists to integrate the accounting software used by budget entities for accounting purposes with the treasury information system.
• Better utilization of IT was critical to reduce workloads and streamline processes.
• The software supplier supporting the reform was important and should be carefully selected.
• Pilots, such as in Kazakhstan, were a sensible approach to learn what works and what does not.

Experts also provided additional comments.

• Implement reforms for the benefit of your country rather than for the benefit of external organizations – if you move to either adopt or adapt standards it should be because it will benefit your country.
• Use IPSAS as a set of founding principles and as a template – the latter will allow easy updating of national standards as international standards are updated.
• View statistical reporting requirements as a subset of your broader reporting requirements. None of the differences between reporting requirements should present countries with a major compatibility problem.
• Fair and market value – for practical purposes this can be treated as one and the same thing. Also, do not ignore the fact that acquisition cost less depreciation is probably a perfectly adequate method for valuing assets.
• For every euro spent on software, spend at least the same on training.
• Do not reinvent. Use training material, curriculum, certification processes and resources from PEMPAL countries. Standardized processes across the region would have major benefits.
• Countries understand their systems better than development partners, so you should take ownership.
• Undertake an analysis of what the gaps are now, and then decide on whether closing those gaps is a good investment – take small steps to commence reforms.
• A major strategic decision is made when you buy software – accept that you probably need to change your business processes rather than seek modifications to that software.
On day three the TCOP was very interested to hear from Mr Fuad Nasirov, Director, PMU Corporate and Public Sector Accounting Project, who indicated that like France, Russia and Kazakhstan, Azerbaijan had developed a comprehensive education programme for public sector accountants (in parallel with a program for private sector accountants). The program has three distinct phases: basic, which includes four modules of study; intermediate, a further three modules; and the third phase involving a further three modules of study, leading to a professional accounting certificate. Completion of the three phases, along with at least three years’ experience as an accountant, leads to membership of the Azerbaijan Professional Accountants’ Association. A less demanding course is also available to other officials involved in public financial management who are not formal accountants.

In keeping with the focus on peer-assisted learning, the final major event of the workshop was a third group discussion.

Two sets of questions were used for the discussions, with two of the four groups assigned to each set.

Questions for the first two groups

Is proper public sector accounting and financial reporting possible without officially approved standards? Is there justification for the need to introduce or adopt standards?

- It is possible to have accounting without standards – this is the experience of post-soviet countries that have a legal framework and methodological normatives which, in part, substitute as standards. However, modern standards allow for international comparison and consistency.
- The implementation of standards is generally related to broader reform – e.g. in Azerbaijan, Kazakhstan, Russia and France it is part of broader performance improvement reforms.
Standards also improve the quality of information for managers in the country.
There is a need to harmonize national standards with international standards, particularly to ensure reliability of financial information to attract foreign investment.
The main general arguments in favour of standards used in many countries are enhancement of the quality and completeness of financial information; and strengthening of transparency and accountability, ensured by adaption to internationally accepted standards, which in turn improves the attractiveness of a country for investment.
The issue of whether to adopt IPSAS or adapt them was discussed further – again consensus was that most countries will choose to adapt IPSAS for the national context.

Questions for the second two groups

How can we ensure quality and timely financial information for stakeholders?

- Quality requires a common methodology and unique CoA for the public sector.
- Clear accounting procedures and methodologies must be in place together with continuous monitoring of the implementation of the rules.
- Need to define what we are consolidating – what is in and what is out and consolidate information and do not aggregate.
- Timeliness – automation is required to provide timely consolidated reports.
- Need qualified and professional specialiststo achieve timeliness – this is the role of training centres.
- We need to train accountants but also users of the reports – we need to be mindful not only of internal users but also external users and this requires a professional presentation of the information.
- We need to ensure that the information presented is reliable and this is achieved through accounting procedures and methodologies.
- Internal auditors can play a role for quality assurance but they also need to be trained.

What is the role of accounting in improving PFM?

- It assists in ensuring that accounting reports are used for decision making – if this is to occur we need to ensure reports are targeted for specific users.
- Decision-makers and users of financial reports need to understand how to interpret the information.
- If well-designed, it can help integrate budgeting and accounting systems to ensure proper analysis and understanding.
- Ensures reliability and comparability of reports, particularly for investors.
Officials at the workshop actively participated in both the plenary and group sessions. As indicated during Ms Nikulina’s presentation, it is clear that accounting and reporting reform is far from complete in PEMPAL countries. It was also clear that countries are at various stages of reform, providing an excellent opportunity for those countries which are further advanced in this area to provide support and guidance to other TCOP countries that are embarking on a similar agenda. The following is a brief summary of the main findings of the workshop:

- Countries are most likely to benefit from adapting IPSAS rather than adopting them, ensuring specific national requirements are accommodated without losing the benefits of more modern international accounting practices;
- Accounting and reporting reform will be a significant undertaking – it requires careful planning and an incremental approach to reform;
- Budget, financial and statistical reporting have largely converged – accommodating the differences should be possible through a well-designed single CoA. This is, however, a continuing challenge for many countries which should be addressed;
- If countries wish to be internationally competitive, they must implement internationally comparable methods of private and public sector accounting. There is a strong case for adoption of national standards which are in line with IPSAS as it provides a framework for accounting practices and also for the production of internationally accepted financial statements;
- Accounting and reporting reforms must first focus on the benefits to a country rather than externally driven agendas. Country ownership and political support are key if reforms are to be successful;
- Accounting reform is part of a broader reform agenda for improvement in the performance of the public sector. Managers need to go beyond just understanding to applying the information to ensure the best use of financial information; and
- For transition economics, accounting reform represents a paradigm shift from centrally-driven compliance to devolved decision making and accountability. This will require officials with vastly different skills in the future.

Three new initiatives were discussed as possible areas for further work by TCOP member countries:

1. Development of a PEMPAL response to the current IPSAS draft paper “IPSASs and Government Finance Statistics Reporting Guidelines”, through which PEMPAL would make a case for improved convergence of the two reporting frameworks to better support developing country requirements;
2. Development of a thematic group for consideration of issues for countries who are seeking or required to meet ESA 95;
3. Development of a concept paper on the design of a single CoA to support budget, financial and statistical reporting.

The next PEMPAL workshop is scheduled for April 2013 in Kiev, Ukraine, for which the theme will be “Internal Control and the Role of the Treasury”.

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