



TREASURY SERVICE
MINISTRY OF FINANCE OF GEORGIA

Accounting Reform and IPSAS Implementation in Georgia

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Summary of presentation

1. Project Resources
2. Context
3. Specific issues and constraints
4. Implementation plan and Phasing
5. Challenges
6. Conclusion



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Project Resources

- Accounting Methodology and Analysis Department was established in the Treasury Service of the Ministry of Finance to lead the IPSAS implementation project
- Reform supported by the Development Partners (World Bank, DFID, SIDA, Government of Netherland) through the Public Sector Financial Management Reform Support Project



The context – Georgia

- Most Easterly country in Europe
- Population 4.3 million
- Independence from Soviet Union in 1991
- In 2003 actions initiated to modernise Georgia politically and economically
- Public financial management a part of modernisation
- In 2009 decision in principle was taken to publish IPSAS compliant financial statements for central and sub-national levels of government by 2020



Specific issues

- At present no published financial statements for government
 - Reporting to Parliament and IMF GFS reports but not financial statements
- No single information system embracing all government financial flows
- Much government business conducted by Legal Entities of Public Law (LEPLs)



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Issue - LEPLs

- Some 3,200 LEPLs
- Range of functions, e.g.
 - Schools and some hospitals are LEPLs
 - Some quasi commercial activities are LEPLs, e.g. land registration
 - Sometimes difficult to distinguish LEPLs from Government Business Enterprises (GBEs)
- Each LEPL is a legal entity responsible for its own accounting
- LEPLs have a considerable degree of managerial independence
 - Control own revenues



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Issue - accounting base

- Georgia government budget and GFS reporting on cash basis
- Government Treasury Single Account (Treasury General Ledger) records cash based
- All central and sub-national government entities accrual based
- All Government Business Enterprises (GBEs) accrual based



Constraints

Absence of integrated Financial Management Information System

– Developing is underway

Multiple public sector entities with different accounting systems and accounting

– Considerable efforts are directed to design the unified chart of accounts for cash and accrual basis accounting

- Lack of staff trained in production of financial statements



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Overview of six phase

Phase	Action	Target
1 Initiation	Strategy agreed; Georgian Public Sector Accounting Standards Board formed; translation IPSAS initiated	2010
2 Pilot	Pilot financial statements under modified cash basis IPSAS	2012
3 Modified Cash IPSAS	Gov't consolidated financial statements (excluding GBEs) under modified cash IPSAS (cash IPSAS + additional information)	2015
4 Some accrual	Simple accrual information provided under modified cash IPSAS Part II (GBEs not consolidated)	2017
5 Accrual IPSAS	Financial statements in full compliance accrual IPSAS	2020
6 Ongoing	Programme for ongoing adoption of new IPSAS	Ongoing



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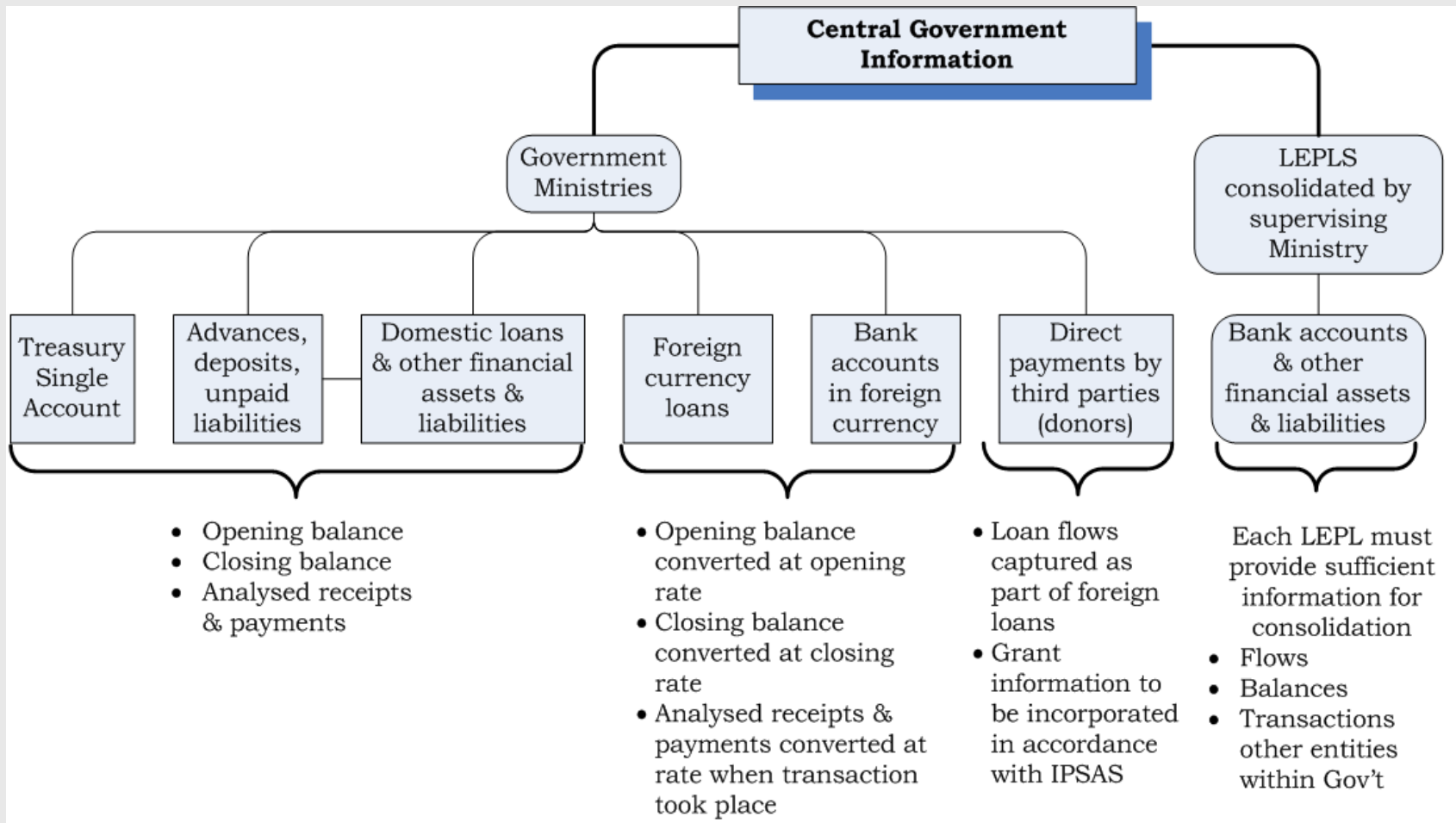
Actions to implement Phase 1 through 3

- Establish legal basis for Standards – Georgian Public Sector Accounting Standards Board
 - Adopt (**not adapt**) IPSAS with phased implementation
- Establish data sources
- Translate IPSAS into Georgian
- Define consolidation entity for central government
 - Includes LEPLs but not GBEs
- Initiate training programme



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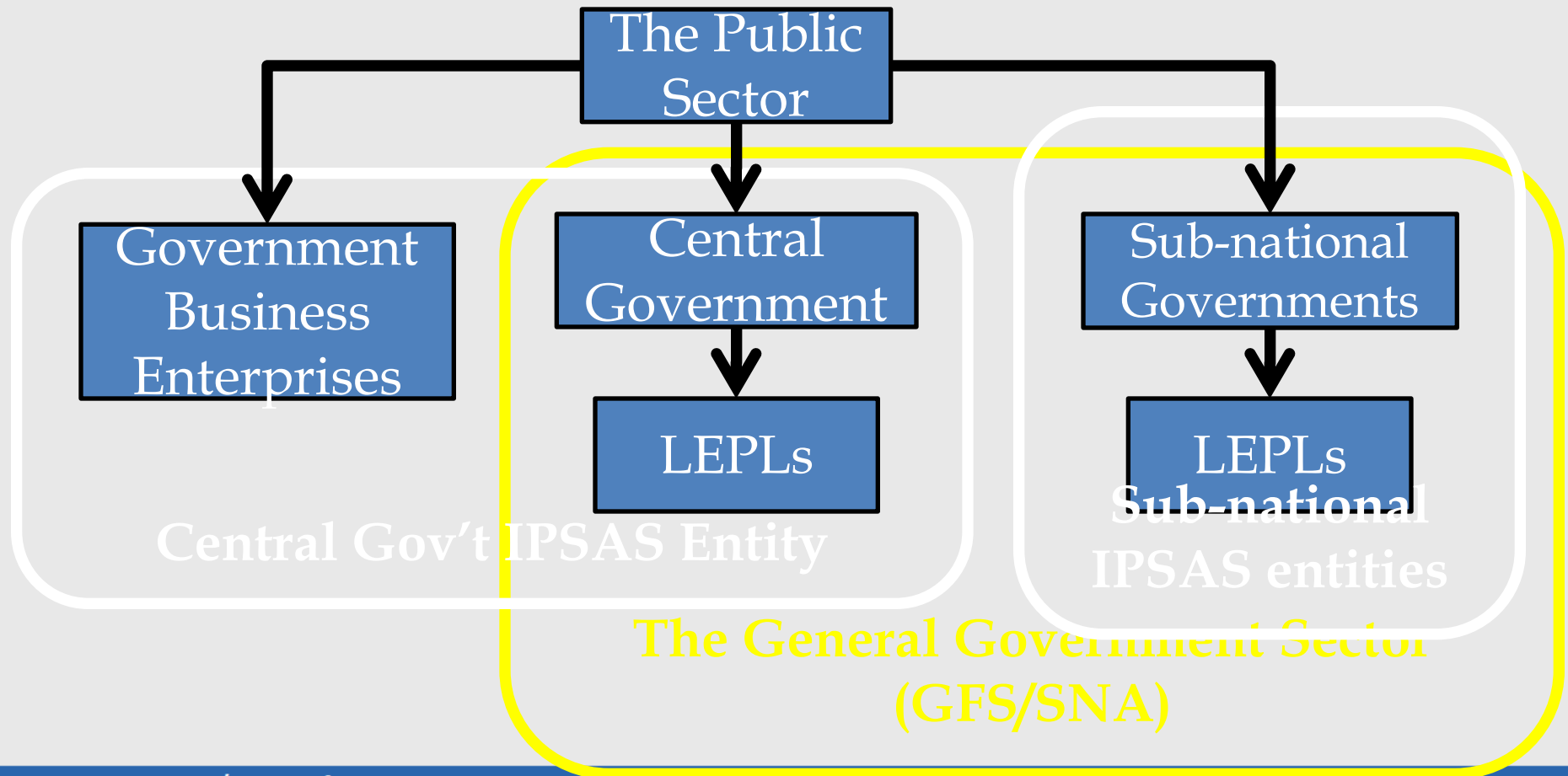
Identifying the data sources





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Government entity – IPSAS vs GFS/SNA definition





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IPSAS Consolidation Requirements Phases 1 - 4

- Consolidated financial statements will include central government plus LEPLs
 - Same information required from LEPLs as for central government
 - Additional information so that any money flows between LEPLs or between LEPLs and central government can be eliminated to avoid double counting
- GBEs not consolidated – notes must include
 - Reason for GBEs not being consolidated
 - List of major GBEs



Why GBEs are not

consolidated in Phases 1 - 4

- Not meaningful to consolidate accrual GBEs with modified cash based government information
- GBE financial statements not yet fully IFRS compliant, delayed and inadequate information available for consolidation
- Limited resources make consolidation infeasible



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LEPLs

- Need to decide which LEPLs within consolidated government entity:
 - Exclude LEPLs which are GBEs
 - should prepare own financial statements under IFRS
 - Exclude LEPLs not under control of central government
 - Should prepare own financial statements under IPSAS
- Legislative issue: standardise reporting rules for different classes of LEPLs



Basis of accounting

- Not feasible to move directly to full accrual
- But cash basis reporting very limiting when more information available
 - Information on financial assets and liabilities
 - Use Modified Cash Basis IPSAS Part II to make additional disclosure
- Option under Modified Cash Basis to use IPSAS 2 format for cash flow statement
 - Instead of receipts and payments



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IPSAS Modified Cash Basis – Georgia application

PART I Mandatory

- Cash flows and balances
- Cash flow statement in accordance IPSAS 2 (**optional**)
- Comparison with budget
- Notes and accounting policies

PART II ENCOURAGED

- Information on financial assets & liabilities & related flows



Phase 4 – Initial accrual IPSAS

- Objective – to implement basic elements accrual accounting
- Accrual statements presented as Additional Disclosures under Part II of Modified Cash IPSAS
- IPSAS adopted likely to include:
 - 1 through 6 (IPSAS 6 needed for LEPL consolidation)
 - 9, 12, 17, 19, 24
 - 28 through 30 (needed to identify financial assets and liabilities)



Phase 5 – Full accrual IPSAS

- Intention to adopt and implement all accrual IPSAS
- BUT some may cause problems. e.g.
 - IPSAS 20 Related Party Disclosures – the number of related parties may be too large to be feasible for disclosure
 - IPSAS 25 Employee Benefits may be too complex to be feasible



Phase 6 - ongoing compliance

- IPSAS continue to issued, amended and replaced
- Hence need for ongoing activity to maintain compliance
- Each change to an IPSAS requires:
 - Translation
 - Identification of issues for implementation
 - Possible software and/or regulatory changes
 - New instructions and procedures



Questions for Consideration

- Identify Coverage and Reporting Entity
- Design unified chart of account accommodating GFS budget classification and IPSAS requirements



Conclusions

1. IPSAS implementation needs to be phased over a decade or longer
2. Fully implementing the Cash Basis IPSAS at national government level is not feasible for any country
 - Infeasible to consolidate accrual GBEs
 - Data requirements on transactions with donors
3. A country is not compliant with accrual IPSAS until all implemented
 - Not feasible except in very long term



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Thank you