

PEMPAL Treasury Community of Practice (TCOP) thematic meeting on public sector accounting and reporting

Skopje, Macedonia



The TCOP Activity Plan for 2014 - 2015 envisages creation within the Treasury Community of Practice, thematic groups to address various issues related to public sector accounting and reporting reforms on a more systematic basis. The launch of the thematic groups took place on September 27-28th, 2013 in Skopje, the capital of Macedonia. Some 34 delegates from 15 TCOP member countries, plus experts from the World Bank, attended the launch. The Slovenian Centre of Excellence in Finance supported the workshop.

Mr. Ardian Xheladini, Deputy Minister of Finance of Macedonia, opened Day 1 of the workshop. He explained the ongoing programme of reforms to Public Financial Management (PFM) in Macedonia, and specifically accounting. These started in 2003 and were initially based on the IMF Government Finance Statistics Manual (GFSM) 1986. Subsequently the cash basis International Public Sector Accounting Standard (IPSAS) was adopted, a programme of training supported by CEF and the UK Chartered Institute of Public Financial Management and Accounting (CIPFA) initiated, and a memorandum of understanding signed with the Central Bank and the Statistical Service based on ESA 95.



Ms Elena Nikulina of the World Bank welcomed participants and explained the format and objective of the workshop to launch the TCOP extended thematic groups on public sector accounting and reporting. These would build on the successful experience of a pilot thematic group formed in November 2012 on the methodological aspects of integration of budget classifications and chart of accounts. This thematic group conducted several activities, including the review of the approaches used to integrate the budget classification and chart of accounts in the participating countries and peer advice to colleagues from Ukraine on designing the link between its newly developed chart of accounts and the existing budget classification. The group had operated primarily through video conferences but also had face-to-face meetings in Tallinn in February and in Kiev in April of the current year. A paper summarising the

results of the work of the group on budget classification and chart of accounts is under preparation. Considering the positive experience of this thematic group, and taking into account the results of the survey conducted among TCoP members during the April 2013 plenary meeting in Kiev, it had been decided to expand the approach to cover a broader range of thematic issues related to public sector accounting and reporting reforms and thus serve the interests of a bigger number of TCoP countries.



TCoP members identified the following priority sub-topics to focus the activities of the extended thematic groups:

1. Public sector accounting standards (*Moldova, Georgia, Russia, Belarus, Tajikistan, Turkey*);
2. Accounting of public assets (*Albania, Bosnia and Herzegovina, Moldova, Croatia, Montenegro, Georgia, Kazakhstan, Serbia, Macedonia, Tajikistan, Turkey, Ukraine*).
3. Consolidation of financial reporting (*Bulgaria, Croatia, Tajikistan, Azerbaijan, Serbia, Bosnia and Herzegovina, Ukraine*).

Working groups would be formed for each of the above areas. During the workshop participants would develop the working plan for November 2013 – December 2014 for each working group. Participants would at the same time have an opportunity to continue the exchange of experiences on implementing public sector accounting and reporting reforms in their countries.

The format of the workshop was a series of presentations on the experiences of member countries on the above areas, plus short presentation by the experts. The workshop also included a presentation on the pilot thematic group and on the study visit to London that took place immediately prior to the Skopje workshop.



TCoP Chairperson Ms **Angela Voronin** of Moldova also welcomed participants and went on to make a presentation on the study visit by the leadership group to London on September 23 -25. Eight key features of the UK PFM system were identified:

- a. The very high level of decentralization to Departments (Ministries), with each

Department accountable to Parliament

- b. The use of accrual for budget and budget execution across the whole of government
- c. The fact that the UK Treasury (which acts as a Ministry of Finance) formulates budgets at highly aggregated levels and also consolidates detailed forecasts of Departmental expenditure
- d. That there is no programme classification as understood by TCOP member countries
- e. The use of IFRS rather than IPSAS as the basis for financial reporting
- f. The existence of an independent Office of Budget Responsibility with a very long term fiscal focus (up to 60 years for some purposes)
- g. The focus on advanced training through the Finance Professional Transformation programme
- h. The UK prepares a consolidated whole of government financial statement despite the absence of a unified chart of accounts.

It was concluded that despite the sophistication of many aspects of the PFM within the UK, it was facing similar challenges and problems as TCOP member countries. It was agreed that representatives of HM treasury would be invited to participate in future TCOP events.

The results of the first thematic group on Chart of Accounts (CoA) and Budget Classification was then presented by Ms **Natalia Sushko** of the Ukraine. She explained that the Group had worked through face-to-face meetings at TCOP events, video conferences and through written questions on thematic issues. The group was supported by expert Mark Silins. Natalia commented on the value of video conferencing and the expert overview. The thematic group had learnt from the experience of others within the group (especially Moldova and the Russian Federation), taken account of the expert recommendations and used these to enable practical applications.



The conclusions of the thematic group would be presented in a report. Key lessons learned included the need for a unified CoA, to decide on appropriate segments for

reporting taking account of organisational and accountability structures and the issues of centralisation/decentralisation. Natalia indicated that Ukraine had used the conclusions of the thematic group to review and redesign the Ukraine CoA.

World Bank expert **Mark Silins** further expanded on the thematic group and approaches to CoA and budget classification. He indicated that for many countries the traditional CoA was too narrowly focused. The requirements of IPSAS and statistical reporting had driven an integrated view of budget and financial reporting. Also the development of automation and integrated systems presented a need and an opportunity for reform.



The first step in reform was a properly designed PFM system - Georgia provided an example. The second stage was to identify the reporting and analytic requirements. In Moldova these formed five groups:

1. Organisational
2. Functional
3. Programme
4. Economic
5. Source of funding

In general the five key reporting requirements could be identified:

1. Budget reporting
2. Financial reporting
3. Macro fiscal reporting
4. Statistical reporting
5. Management reporting and control

GFSM and Generally Accepted Accounting Principles (GAAP) should be used to design the economic code structure of the CoA correctly. Finally, Mark Silins indicated the group conclusion that, as TCOP member countries proved, it is possible to have a COA that can simultaneously capture information on a cash basis for budget reporting and control, and still record modified or full accrual transactions.

Ms **Aleksandra Dimovska** gave a presentation on the PFM reforms in Macedonia. These included the move to present financial statements since 2005 in accordance with the cash basis IPSAS. Budget organisations were required to prepare financial



statements compliant with the cash basis IPSAS but there was no legal requirement for consolidation of budget organisation financial statements. Since Treasury had its own cash based records there was no Treasury requirement for consolidated financial statements. The budget classification was in compliance with GFSM 1986. Key challenges for the future included reporting in accordance with ESA 95 and the transition to accrual IPSAS.

Ms. **Zhaifun Yernazarova** gave a summary of current issues in Kazakhstan (since a full presentation of the situation had been made in previous TCOP workshops). Full accrual accounting based on IPSAS is being introduced in Kazakhstan so as to provide more comprehensive information. Consolidation will be introduced based on accrual accounting. Because there are many issues it was considered the IPSAS Board conceptual framework was very important to guide decisions. Kazakhstan is very interested in issues relating to assets - definition, developing an assets register and valuation. The importance of human resources as identified in UK was also regarded as a critical issue. There is currently an ongoing programme in Kazakhstan of training accountants and managers



The two World Bank experts **Michael Parry** and **Mark Silins** then gave presentations summarising the key issues in relation to each of the three topics identified for discussion and the formation of thematic groups: Michael Parry identified issues in relation to public sector accounting standards as including:

1. Whether to implement standards?
2. Cash or accrual IPSAS?
3. Adapt or adopt IPSAS?
4. Legal framework?
5. Implementation sequence?

Mark Silins considered issues relating to accounting for public assets. He identified five steps in accounting for non-financial assets:

- Step 1 Stock take
- Step 2 Determine the categories of assets
- Step 3 Develop accounting policies
- Step 4 Establish Assets' Register and opening balances
- Step 5 Develop on-going systems for management of assets

Specific issues and challenges included:

- Defining the useful Life of Assets
- Property valuation outside the major population centres
- Low Value Assets – capitalisation thresholds
- Capital repairs verses low value repairs
- Grouping certain assets which are material
- Componentisation

Michael Parry then identified the issues in relation consolidation and financial reporting as:

1. Whether to consolidate?
2. Definition of consolidation entities?
3. The consolidation hierarchy
4. Consolidation requirements
5. Presenting consolidated information

After these expert presentations the workshops divided into the three thematic groups. Each of the groups followed the following similar working pattern:

1. All the countries that had expressed interest to join the respective sub-groups made short slide presentations on the issues in relation to the topics within their country.
2. Reasons why the subject of the thematic group was important to each country were then identified
3. Practical issues in relation to the thematic groups were identified
4. Results expected from the group were summarised.

The three thematic working groups composition and summarised conclusions in relation to the above areas are presented below.

Public sector accounting standards

This working group included representatives of Belarus, Georgia, Moldova, Russia, Tajikistan and Turkey.



Support was provided by Ms Elena Nikulina and Ms Galina Kuznetsova of the resource team. The Activity Plan of this Working Group is summarised in the matrix below.

Theme/name of the event	Goals / expected outcomes	Format	Tentative date and location, duration
Situation analysis	Distribute and summarize the available experience in analysing the discrepancies between the national methodology and international standards	Series of videoconferences (VC)	Week of 20-24 January 2014 Analysis to be submitted by November 14 2013 VC presentations by December 15 2013
Thematic group meeting	Results of the discussions from the VC. Recommendations	Thematic meeting	February 10-15, 2014
Plenary group meeting - presentation from Georgia	Experts' feedback on the Georgia's implementation plan for IPSAS transition	Plenary group meeting - presentation from Georgia	February 10-15, 2014
Peer review of the Belarus action plan	To incorporate the feedback into the national strategy	Working group meeting	September 2014 in Minsk (but dependent on when Belarus is ready)
	Analysis of the audit trail documents to support accrual accounting. Unification of the documents. Transformation tables between cash and accruals. Experts' opinions	Plenary	February 10-15, 2014
		Documents and information exchange	Ongoing, on demand (Wiki page)

Theme/name of the event	Goals / expected outcomes	Format	Tentative date and location, duration
	(possibly including the UK?).		

It was also agreed:

1. The Experts would be asked to prepare the gap analysis between IPSAS and IFRS.
2. Working group session would be held on the margins of TCOP plenary meeting in Tbilisi.

Accounting for public assets

This working group included representatives of Albania, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Macedonia, Moldova, Montenegro, Tajikistan, Turkey and Ukraine.



Support was provided by Ms. Angela Voronin (Moldova) and Mr. Mark Silins (Expert). The Activity Plan of this Working Group is summarised in the matrix below.

Activity topic / title	Objectives / expected results	Format	Participating countries / lead countries	Tentative dates, location, duration
Develop appropriate policies for the recognition, valuation and revaluation of assets	Final Output - Analytical Note summarising the findings of the working group, which can be a template for good practice	Video conference to discuss international experience Survey of Participating Countries Georgia and other countries to present on current situation at a meeting to coincide with the Feb conference. To agree on next steps and activities	Ukraine (lead), Albania, Montenegro, Kazakhstan, Moldova, Macedonia, Tajikistan, Georgia	Dec2013 Dec 2013 Feb 2014

Activity topic / title	Objectives / expected results	Format	Participating countries / lead countries	Tentative dates, location, duration
Developing a control framework to manage and account for assets	Final Output – Development of a template for a country accounting and operations manual for the management of assets	Survey of participating countries Georgia to present its practice in relation to this area Study tour visit to Turkey (3 days) where agreement will be also reached on future activities. The purpose is to look at the automated system in operation in Turkey along with other controls and to discuss other international practice	Turkey (lead) Albania, Croatia, Bosnia and Herzegovina, Tajikistan	Feb 2014 Feb 2014 April 2014

Consolidation of financial reporting

This working group included representatives of Azerbaijan, Bosnia and Hercegovina, Bulgaria, Croatia, Russia, Tajikistan and Ukraine.



Support was provided by Mr. Ion Chicu (Resource Team) and Mr. Michael Parry (Expert). The Activity Plan of this Working Group is summarised in the matrix below.

Event Topic / Name		Goals / Expected Outcomes	Format	Participating / Leading Countries	Approximate Dates and Place, Duration
Thematic Area	Topic of Event				
Identification of consolidation scope	Statistical and accounting approach Approaches to legal	“Financial Reporting Consolidation. Practical Implementation	Video conference (preliminary survey)	All/Bulgaria (possibly others)	Early December 2013
			Thematic meeting within the Georgia	All/all	Early February

PEMPAL TCoP - thematic workshop Skopje September 2013

Event Topic / Name		Goals / Expected Outcomes	Format	Participating / Leading Countries	Approximate Dates and Place, Duration
Thematic Area	Topic of Event				
	regulation of the consolidation scope	Issues” Manual – Part 1	workshop		2014
			Approval of the final version of the corresponding section of the Manual	All	By End March 2014
Consolidation procedures hierarchy and report publication	Definition of consolidation hierarchy Publication and audit of financial reports	“Consolidation of Financial Reporting. Practical Implementation Issues” Manual – Part 2	Thematic Meeting within the workshop in Georgia (preliminary survey)	All/all	Early February 2014
			Approval of the final version of the corresponding section of the Manual	All	By End April 2014
Methodological standardization	Types of consolidation flows and stocks	“Consolidation of Financial Reporting. Practical Implementation Issues” Manual – Part 3	Thematic meeting within PEMPAL Plenary Session in Moscow (preliminary survey)	All/Russia	End May 2014
			Approval of the final version of the corresponding section of the Manual	All	By End June 2014
General requirements to the Chart of Accounts and the format of reporting for consolidation procedures	Identification of accounting objects subject to consolidation	“Financial Reporting Consolidation. Practical Implementation Issues” Manual – Part 4	Thematic meeting within PEMPAL Plenary Session in Moscow (preliminary survey)	All/Russia	End May 2014
	Disclosure of information about consolidation flows and stocks in financial reporting		Approval of the final version of the corresponding section of the Manual	All	By End July 2014
					By End August 2014
Information systems	Advantages and disadvantages of centralized and decentralized information systems General requirements to information	“Financial Reporting Consolidation. Practical Implementation Issues” Manual – Part 5	Video conference	All/Azerbaijan	Mid September 2014
			Approval of the final version of the corresponding section of the Manual	All	By 15 October 2014

Event Topic / Name		Goals / Expected Outcomes	Format	Participating / Leading Countries	Approximate Dates and Place, Duration
Thematic Area	Topic of Event				
	systems to ensure consolidation	“Financial Reporting Consolidation. Practical Implementation Issues” Manual	Thematic meeting in (PLACE TO BE DECIDED LATER) for final approval of the entire document	All	October 2014

Concluding sessions

Each of the thematic working groups presented their work plans as summarised above. Thanks were expressed to Macedonia as the hosts by the Chairperson Ms Angela Voronin.

