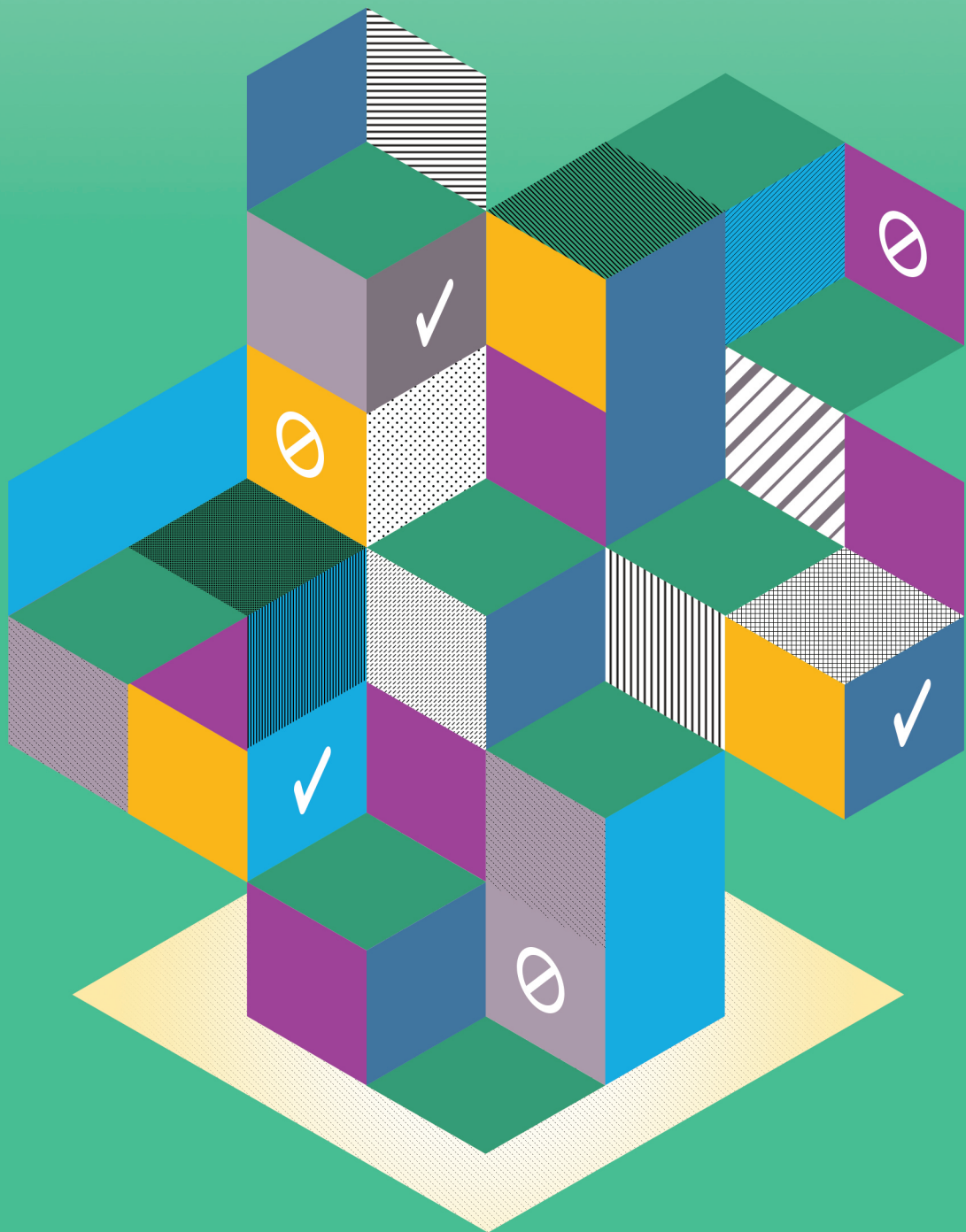


# STOCKTAKING OF PUBLIC SECTOR ACCOUNTING AND REPORTING ENVIRONMENT IN PULSAR BENEFICIARY COUNTRIES



# CFRR»

**Centre for Financial  
Reporting Reform**



**WORLD BANK GROUP**

Centre for Financial Reporting Reform (CFRR)  
Governance Global Practice, The World Bank  
Address: Praterstrasse 31, 1020 Vienna, Austria  
Web: [www.worldbank.org/cfrr](http://www.worldbank.org/cfrr)  
Email: [cfrr@worldbank.org](mailto:cfrr@worldbank.org)  
Phone: +43-1-217-0700

# PULSAR

The Public Sector Accounting and Reporting Program  
Web: [www.pulsarprogram.org](http://www.pulsarprogram.org)

In cooperation with:

Zurich University  
of Applied Sciences



**School of  
Management and Law**

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1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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## ACRONYMS AND ABBREVIATIONS

|               |  |
|---------------|--|
| <b>CFS</b>    | Consolidated Financial Statements                      |
| <b>CIPFA</b>  | Chartered Institute of Public Finance and Accountancy  |
| <b>CPD</b>    | Continuing Professional Development                    |
| <b>ESA</b>    | European System of Accounts                            |
| <b>EU</b>     | European Union   |
| <b>EDP</b>    | Excessive Budget Procedure                             |
| <b>EduCop</b> | Education Community of Practice                        |
| <b>EPSAS</b>  | European Public Sector Accounting Standards            |
| <b>FINCOP</b> | Financial Reporting Frameworks Community of Practice   |
| <b>GFS</b>    | Government Finance Statistics                          |
| <b>GGP</b>    | Governance Global Practice                             |
| <b>GFSM</b>   | Government Finance Statistics Manual                   |
| <b>IFAC</b>   | International Federation of Accountants                |
| <b>IFMIS</b>  | Integrated Financial Management Information Systems    |
| <b>IFRS</b>   | International Financial Reporting Standards            |
| <b>IMF</b>    | International Monetary Fund                            |
| <b>IPSAS</b>  | International Public Sector Accounting Standards       |
| <b>ISSAI</b>  | International Standards of Supreme Audit Institutions  |
| <b>MoF</b>    | Ministry of Finance                                    |
| <b>NGO</b>    | Non-Governmental Organizations                         |
| <b>OECD</b>   | Organization for Economic Co-operation and Development |
| <b>PAO</b>    | Professional Accountancy Organization                  |
| <b>PFM</b>    | Public Financial Management                            |
| <b>PPP</b>    | Public Private Partnership                             |
| <b>PSA</b>    | Public Sector Accounting                               |
| <b>PULSAR</b> | Public Sector Accounting and Reporting Program         |
| <b>SAI</b>    | Supreme Audit Institution                              |
| <b>SNA</b>    | System of National Accounts                            |
| <b>SoE</b>    | State owned Enterprise                                 |
| <b>USSR</b>   | Union of Soviet Socialist Republics                    |
| <b>WB</b>     | World Bank   |
| <b>ZHAW</b>   | Zurich University of Applied Sciences                  |



## ACKNOWLEDGEMENTS

This study is a knowledge product of the World Bank's Governance Global Practice (GGP), developed under the Public Sector Accounting and Reporting (PULSAR) Program's Raising Awareness component. The product benefited from direct collaboration with the Zurich University of Applied Science (ZHAW) team including Christoph Schuler, Sandro Fuchs, Andreas Bergmann, and Pascal Horni. The World Bank team was led by Antonia Ida Grafl, Financial Management Specialist, and subsequently by Iwona Warzecha, Senior Financial Management Specialist, with the guidance of Daniel Boyce, Practice Manager at the World Bank. The study was based on the survey organized by the World Bank amongst 13 beneficiary countries<sup>1</sup> of the PULSAR program. We are grateful for invaluable comments from our reviewers: Thomas Stauffer, Programme Manager, Swiss State Secretariat for Economic Affairs SECO, Peter Istjan-Hölzl, Senior Advisor, Austrian Federal Ministry of Finance, Agnes Drimmel, Advisor, Austrian Federal Ministry of Finance. The team also received useful guidance from Arman Vatyan and Abbas Hasan Kizilbash, the World Bank.

This study would have not been possible without the tremendous support and high level of response rate from all the participating countries. In particular we like to extend our thanks to: Erisa Rodhani, Specialist Expert from the Albanian Ministry of Finance and Economy; Karen Alaverdyan, Head of Public Sector Accounting Methodology and Reporting Monitoring Department, Ministry of Finance of Armenia; Elman Huseynov, Director of the Financial Science Training Centre, Ministry of the Finance of Azerbaijan; Natalia Rusakevich, Division Chief, Ministry of Finance of the Republic of Belarus; Maida Kasić,

Expert Advisor, Ministry of Finance of the Federation of Bosnia and Herzegovina; Sehija Mujkanovic, Assistant Minister for Treasury Operations, Ministry of Finance and Treasury of Bosnia and Herzegovina; Ivana Marjanović, Head of Department for Consolidation of Financial statements, Ministry of Finance of Republic of Srpska; Hana Zoričić, Head of Service, Sector for State Accounting and Non Profit Organizations Accounting, Ministry of Finance of Croatia; Lela Pataraia, Deputy Head of Reporting and Methodology Department, Treasury Service of Ministry of Finance of Georgia; Ahmet Ismaili, General Director, State Treasury, Ministry of Finance of Kosovo; Diana Grosu Axenti, Head of General Division, Center for IT in Finance Moldova; Lilia Zaharcu, Main Consultant, Ministry of Finance of Moldova; Marija Uljarević, Head of Division for Budget, Accounting and Reporting, Ministry of Finance of Montenegro; Ana Lalevic Filipovic, Professor at the Faculty of Economics University of Montenegro; Jadranka Djurkovic, Deputy Director for Training and Development, Human Resources Management Authority Montenegro; Branislav Gulev, Institute for Accountants and Certified Accountants Skopje, Republic of North Macedonia; Boban Paunov, Advisor for accounting affairs for EU IPA funds, Ministry of Finance of Republic of North Macedonia; Vera Vukcevic, Treasury Administration, Ministry of Finance of the Republic of Serbia and Svitlana Zubilevych, Head of Professional Education and Certification Committee, Ukrainian Federation of Professional Accountants and Auditors.

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<sup>1</sup> In line with the political system of Bosnia and Herzegovina, the survey was addressed to its two entities Federation of Bosnia and Herzegovina and the Republika Srpska. Therefore, the study analyzes 14 jurisdictions.



## PREFACE

The Public Sector Accounting and Reporting (PULSAR) Program, launched in 2017, is a regional and country level program in 13 beneficiary countries in Europe and Central Asia. Its objective is to support the enhancement of public sector accounting (PSA) and financial reporting frameworks, in line with international standards and in accordance with good practices, in order to improve government accountability, transparency, and performance.

The objectives and scope of the PULSAR Program are jointly determined by the PULSAR Partners – Austria, Switzerland, and the World Bank – who also provide institutional support for its implementation and mobilize the resources needed for its activities. Beneficiary countries help shape the Program through regional cooperation platforms and input to two Communities of Practice focused on financial reporting frameworks and on accounting education.

The Financial Reporting Frameworks Community of Practice (FinCoP) supports government officials in developing reform strategies & roadmaps, and helps to define and implement improved legislation, standards, IT systems, and tools. The Education Community of Practice (EduCoP) supports beneficiary countries in developing and enhancing of accountants & finance professionals in the public sector through learning events to share education, training approaches, syllabus, certification, publication of knowledge products (e.g. guides on competency framework), provision of IPSAS Training of Trainers and virtual learning events.

More information about the PULSAR program and its publications is available online at **[www.pulsarprogram.org](http://www.pulsarprogram.org)**.

## 1

# EXECUTIVE SUMMARY

This study analyzes the Public Sector Accounting (PSA) environment of thirteen beneficiary countries of the PULSAR program from the Western Balkan and Eastern Partnership countries, which include in alphabetical order Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina Republic of Srpska, Croatia, Federation of Bosnia and Herzegovina<sup>2</sup>, Georgia, Kosovo, Moldova, Montenegro, North Macedonia, Serbia, and Ukraine. The objective of the study is to take stock of the current PSA environment by identifying strengths, challenges and opportunities within the PSA framework in each of the PULSAR program countries. The data for the study was collected in the second half of 2018 through a comprehensive online survey, focusing on the current status of PSA systems and reform plans. Due to the self-assessment design of the survey, the collected data can only represent the information compiled by each jurisdiction.

Most PULSAR beneficiary countries are in a transitioning process from cash to accrual accounting. Due to limitations of the current accounting systems, they are aiming to change these systems to increase the level of accrual information. Within this process, the International Public Sector Accounting Standards (IPSAS) are the dominant point of reference, although their role is diverse and ranges from adopting IPSAS directly as national standards, to considering them mainly as a reference for the development of national general accounting principles.

This study finds that the PULSAR countries can benefit from many strengths that will facilitate current and future PSA reform ambitions. In particular, there exists a broad knowledge base and technical expertise in financial planning and budget execution. The concept of accrual accounting is familiar to all jurisdictions, either because of historical developments and/or ongoing reform efforts. Also, a significant number of jurisdictions can

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<sup>2</sup> In line with the political system of Bosnia and Herzegovina, the survey was addressed to its two entities, Federation of Bosnia and Herzegovina and the Republika Srpska. Therefore, the study covers 14 jurisdictions in 13 countries.



build on comprehensive financial and non-financial data in well-maintained asset registers, to capture relevant accounting information. In this regard, the development of public sector balance sheets is progressing, and in a few jurisdictions, reaching a considerable degree of IPSAS compliance. Nonetheless, the survey reveals significant limitations of current accounting systems. Different jurisdictions still operate on cash-based accounting systems with the primary focus on producing budget execution reports. The deeply embedded culture of budget accounting and reporting presents an obstacle for expanding the role and relevance of PSA, to better govern and manage public finances.

Although there exists a solid basis of PSA knowledge for future reform endeavors, the PULSAR beneficiary countries face a heterogeneous mix of challenges. The study identifies different challenge clusters, relating to political, institutional, technical and human capacities. From a political perspective, a key challenge remains to secure support within a volatile political environment. Moreover, many jurisdictions have not been able to direct the necessary resources towards PSA reforms, due to the lack of such resources and/or limited support within the government. In terms of institutional capacities, the large number of public sector entities presents a substantial challenge for the consolidation of sound and accurate financial information. Technical capacities, such as Integrated Financial Management Information Systems (IFMIS), could facilitate and automate financial reporting systems and ensure a higher degree of reliability, traceability and transparency for financial data. However, many jurisdictions face significant challenges with their IFMIS reforms. Other challenges in terms of human capacities relate to the level of professionalization of

public sector accountants and its improvement through better education, continuous professional development or (international) certification.

The study reveals different opportunities to overcome these challenges, including peer learning and rapid feedback loops, common accounting traditions and cultural backgrounds, which facilitate developing joint solutions for common challenges. The fact that a majority of PULSAR countries have embarked on an accruals journey, bears the potential to further strengthen existing peer learning communities and to coordinate joint reform efforts. Different speed and focus of PSA reforms among the PULSAR beneficiary countries provide an opportunity to establish rapid feedback loops throughout different reform stages, in order to develop solutions for similar challenges and to adjust individual reform processes accordingly.

The current PSA environment all PULSAR beneficiary countries is in a sound state that presents multifaceted opportunities for future PSA reforms. Seizing these opportunities would be facilitated by specific capacity building activities, including education, training, certification for staff, as well as external technical expertise. In this regard, all PULSAR countries have recognized the value and importance of modern financial management IT systems and that they are a precondition for a successful PSA reform process. Moreover, based on the overall results of the survey, all PULSAR beneficiary countries have recognized that PSA reforms need to be addressed in the wider context of an integrated Public Financial Management (PFM) system including Budget, Audit or Government Finance Statistics (GFS) functions and its respective institutions within the government.

## 2

# INTRODUCTION AND OBJECTIVE OF THE STUDY

## CONTEXT

This survey is part of an exercise to take stock of the current PSA environment in the PULSAR beneficiary countries, which is being used to inform the PULSAR Program. The survey will also aid in creating awareness among the preparers, policymakers and other stakeholders on how public sector financial reporting compares with international standards, ascertain opportunities for enhancing the financial reporting environment and identify good practices which will stimulate peer-to-peer learning.

The study is a joint effort of the World Bank and the Institute of Public Management from Zurich University of Applied Sciences (ZHAW) financed under the PULSAR Program. The data for the analysis has been obtained through a qualitative online questionnaire, which has been completed by thirteen PULSAR beneficiary countries

and was complemented by local World Bank staff. Each participating country completed only one questionnaire per country as collective efforts of the respective personnel within each country. The motivation of the study was to take stock and establish a baseline of the Public Sector Accounting (PSA) environment in the PULSAR beneficiary countries.

The study focuses on the entire landscape of PSA with a view to support beneficiary countries to develop their PSA framework and practice in line with international standards and good practices, thereby increasing public sector accountability and transparency. The development of a robust PSA framework is a priority activity for many reasons including:

- a. Adopting shared and internationally recognized

reporting standards across countries makes it easier to monitor agreed fiscal goals and progress over time, while providing comparability amongst countries.

- b. The credibility provided by sound financial reporting and auditing arrangements gives citizens, parliamentarians, non-governmental organizations (NGO), and rating agencies confidence in the reliability of reporting for decision making and holding the executive to account.
- c. Modern and effective financial reporting systems aligned with budgetary, statistical, performance and

management reporting improve the soundness and scope of reporting.

- d. Improved quality financial reporting contributes to more efficient management of public funds, including maximization of revenue, rationalization of expenditures, better informed debt management, and more reliable statistical information.
- e. Relevant financial reporting can help governments monitor which activities generate the greatest returns and manage assets and liabilities more effectively.

## LIMITATIONS

The results presented in this comparative study are based on the online self-assessment survey, which has been completed by every jurisdiction to the best of their knowledge including also qualitative perception-based questions. Therefore, all the analytics that are presented are based on the information provided by each country and the study includes also interpretations and conclusions of the authors. The response rate of over 98% was highly

positive and showed the interest of each country to participate in this stock-taking exercise. Due to the nature of self-assessment survey and qualitative perception questions, the responses provided have not been subject to comprehensive validation process. Still, this is a relevant study to inform stakeholders about the baseline status of the PULSAR beneficiary countries.

## PUBLIC SECTOR ACCOUNTING AND REPORTING AS PART OF AN INTEGRATED PFM SYSTEM

The goal of this study is to deliver a significant contribution to the enhancement of the PSA environment as stated in the PULSAR Program objectives. However, in order to do so, first the PSA environment needs to be clarified and defined, which requires to widen the perspective beyond PSA and take a broader look on (integrated) public financial management (PFM) systems.

### PUBLIC FINANCIAL MANAGEMENT

Recent developments such as the 2008-09 major financial crisis, ongoing worries of excessive public debts and deficits, effects of the COVID-19 pandemic, endeavors to establish and enforce binding fiscal rules (i.e. Maastricht rules for Eurozone members) as well as

constant pressures to strengthen service delivery without corresponding increases of tax bases, have been triggering increased interest in PFM systems around the globe. PFM has emerged as a new scientific discipline at the intersection of economics, accounting, political science, public policy and law, and has attracted the interest of the international donor community. As such, the promotion of PFM reforms has been a key focus of international development efforts in recent years, especially from international development institutions such as the World Bank and the International Monetary Fund (IMF).<sup>3</sup> All these reform efforts aim to strengthen public service delivery, improve macroeconomic stability and enable efficient resource allocation through strengthening the PFM systems, processes or culture. Recent findings highlight the growing importance of public sector accounting (PSA) as a particular strand of PFM. In their in-depth study of

<sup>3</sup> Allen, 2009; Diamond, 2013; Wehner & de Renzio, 2013a; Welham et al., 2013

usage and usefulness of balance sheets, the IMF concludes not only that the analysis of public assets and liabilities enhances both accountability and transparency, but also that sound balance sheets require an accrual accounting basis.<sup>4</sup>

## TRANSPARENCY

The general paradigm is that the strengthening of governance and transparency standards reduces discretion in government operations which has been seen the most important predictor for corruption.<sup>5</sup> Other academic findings also suggest that governments with more transparent PSA systems have lower levels of perceived corruption and its level may be reduced in a country by improving accounting and auditing quality through PSA reforms.<sup>6</sup> Furthermore, there exists a broad basis of empirical findings, which support the fact that PSA innovations and fiscal transparency improvements have been an important predictor of a country's fiscal credibility and performance.<sup>7</sup> A growing body of research has been highlighting the positive relationship between the degree of fiscal transparency and measures of fiscal sustainability.<sup>8</sup> In this context, a vast body of literature discusses and acknowledges the importance of transparent economic institutions for long-run economic growth and development.<sup>9</sup> The main argument is that reforms aiming at improving fiscal transparency reduce discretion and mitigate the risk of fiscal gimmickry. In particular, certain aspects of PSA reforms support the management of two sources of fiscal risks, namely risks stemming from public-private partnership arrangements (PPP) and state-owned enterprises (SoEs).<sup>10</sup> For example, accrual-based public sector accounting standards (e.g. IPSASs) require the consolidation of state-owned enterprises or the full disclosure of assets and liabilities corresponding to PPP arrangements.<sup>11</sup> As far as reforms are concerned, it is expected that by 2023, roughly two-thirds of the national governments around the globe will report on accrual accounting principles.<sup>12</sup> Accrual accounting is

traditionally associated with three related innovations, i.e., the recognition of economic events at the time at which they occur, the recording of all stocks of assets and liabilities in balance sheets and the consolidation of all entities under government control.<sup>13</sup> Another area where accrual accounting reforms appear to have delivered desired outcomes is related to the management and maintenance of infrastructure assets.<sup>14</sup>

Considering the vast significance of PSA reforms, it is essential that governments, development partners and other stakeholders clearly understand why and how the envisaged reform can support a government's vision, policy objectives and accountability framework. In the same vein, it will be important to anticipate reform challenges and success factors as well as to learn from other countries' experience. Public sector accounting has a key position in an integrated PFM system as a tool to promote greater accountability around the use of public funds and assets and help prevent corruption by maintaining high standards of integrity. High quality financial reporting especially on accrual basis facilitates external oversight of public expenditures, boosting trust in government and improving policy outcomes. Objectified financial information based on international standards and good practice allow for the presentation of comparable and transparent financial information which can be used in monitoring and evaluation processes including internal and external audits. Comprehensive financial information allows for more informed, inclusive debates about the impacts of budget policy on the lives of civil society based on hard data.<sup>15</sup>

## ACCOUNTABILITY

This study aims to fill the need for establishing a comprehensive PSA reform baseline in a regional context. It does so by acknowledging that every PSA reform builds on a sound understanding of the current institutional framework and practices, reform challenges and future

<sup>4</sup> IMF, 2018

<sup>5</sup> Alesina et al., 1999; Brusca et al., 2018; Martí & Kasperskaya, 2015

<sup>6</sup> Malagueño et al., 2010

<sup>7</sup> e.g. Brusca et al., 2018; de Renzio, 2013

<sup>8</sup> IMF, 2018

<sup>9</sup> Heald, 2013; IMF, 2012; Wehner & de Renzio, 2013b

<sup>10</sup> International Monetary Fund, 2016a; Irwin et al., 2018; World Bank, 2017

<sup>11</sup> Bergmann et al., 2015

<sup>12</sup> IFAC/CIPFA, 2018

<sup>13</sup> International Monetary Fund, 2016b

<sup>14</sup> Moretti & Youngberry, 2018

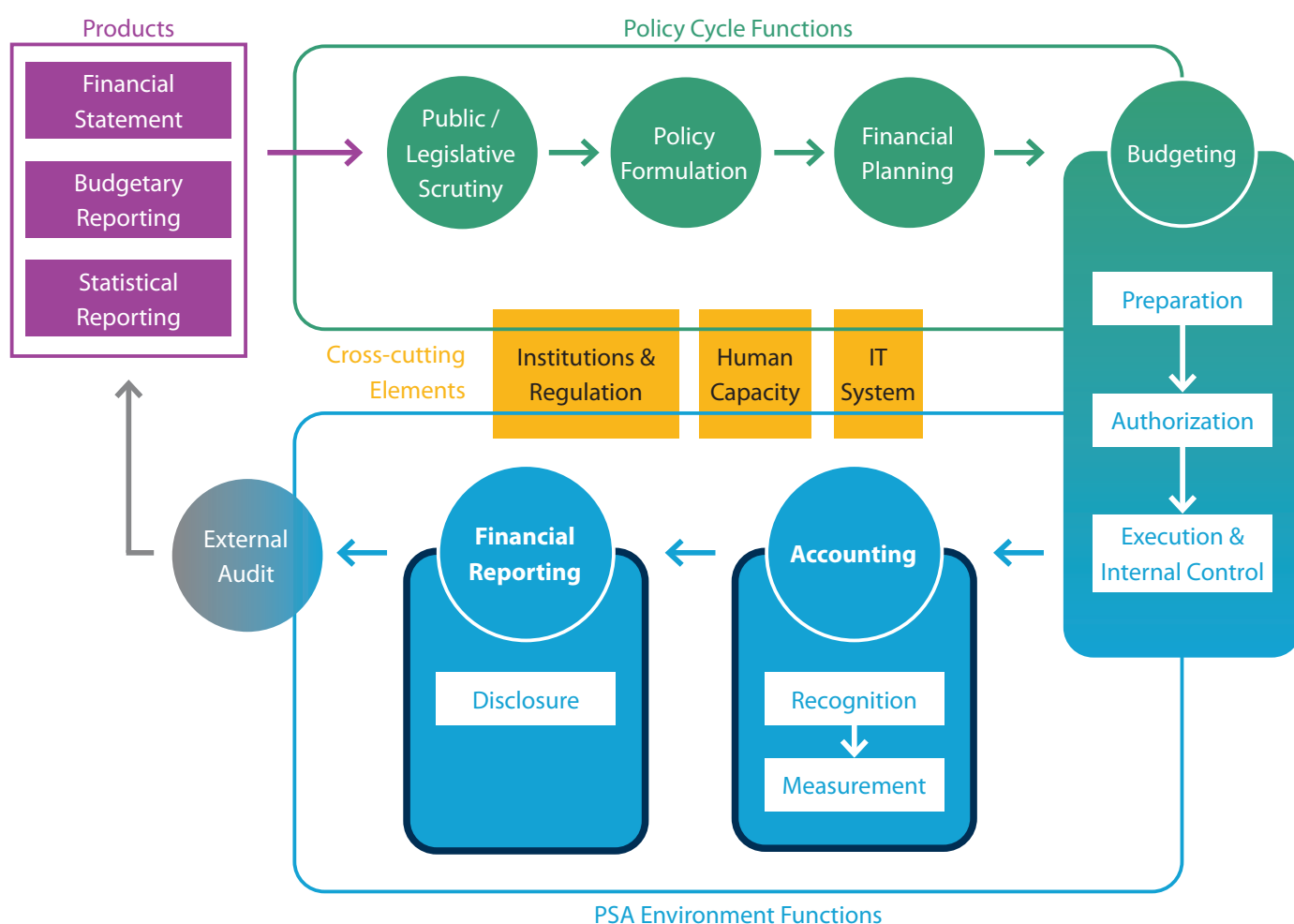
<sup>15</sup> World Bank, 2018

perspectives from countries in the same region. Many governments have embarked on transitioning towards accrual accounting systems. One element that has been shaping public sector accrual accounting reforms are the International Public Sector Accounting Standards (IPSAS). The move towards accrual basis IPSAS is considered to positively impact transparency, comparability, accountability, decision-making and the sustainability of public finances.<sup>16</sup>

Figure 1 depicts a theoretical model of an integrated PFM system. In general, it originates with the policy & financial planning cycle, which results in the budgeting process and the PSA cycle including Accounting and Financial Reporting as the central functions and also in the center of this study concerning the PSA environment.

As discussed, PFM comprises a wide set of elements ranging from budgeting, over accounting to audit and finance statistics. However, while such an integrated perspective on PFM is vital, the central role of PSA within this perspective needs to be highlighted.

**Figure 1. Public financial management cycle**



<sup>16</sup> cf. Association of Chartered Certified Accountants, 2017; Brusca et al., 2016; Christiaens et al., 2010

## OBJECTIVE OF THE STUDY

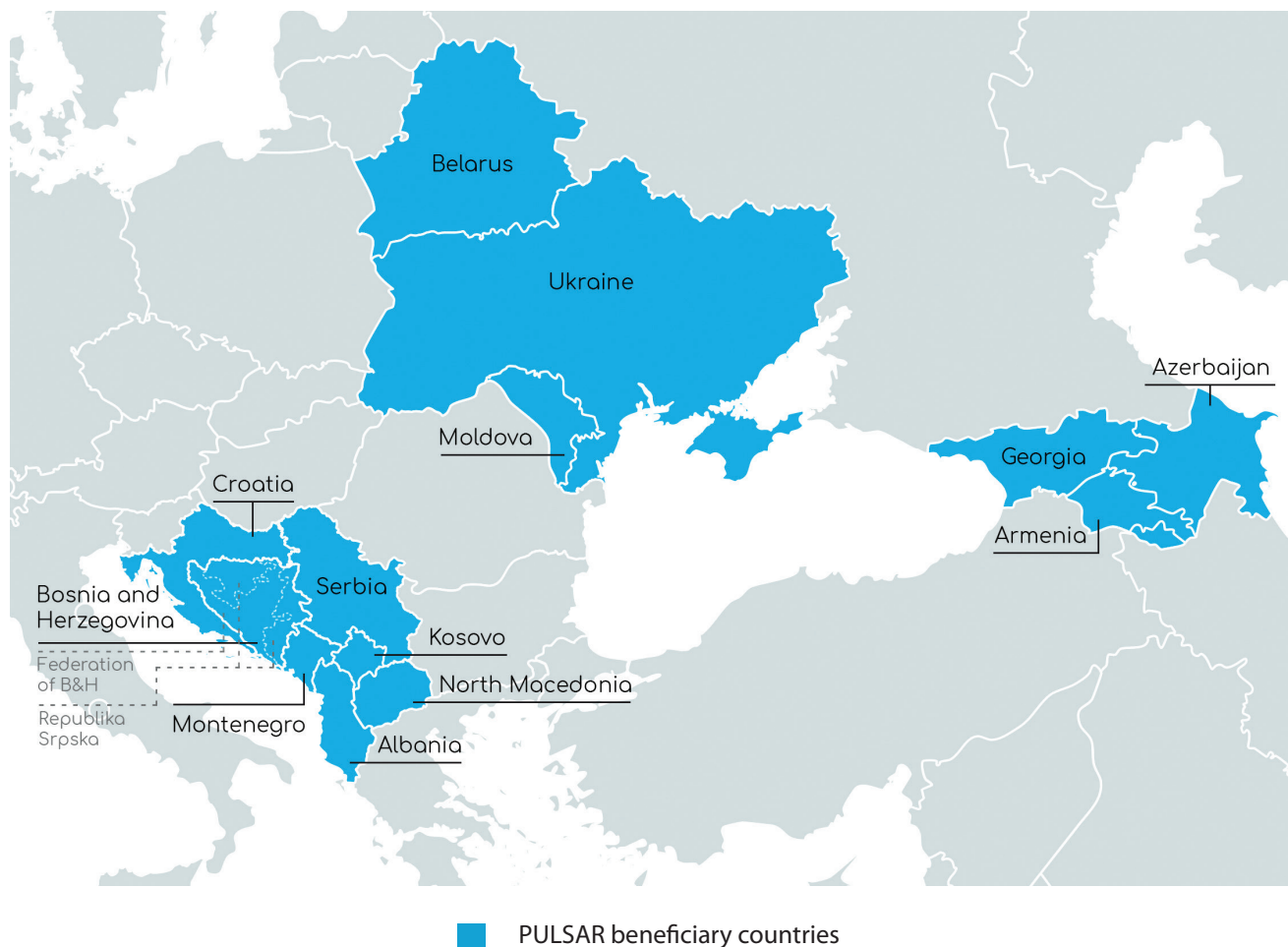
The aim of this study is to contribute to the overarching objective of the PULSAR Program which was formulated by the World Bank as the following: “The objective of the program is to support the enhancement of beneficiary countries’ PSA and financial reporting frameworks in line with international standards and in accordance with good practices, in order to improve government accountability, transparency, and performance.” In order to assist these objectives, this study emphasizes three goals:

- i. Stocktaking the status of current PSA environment, practices and reform trends in PULSAR program countries based on an integrated PFM system approach;
- ii. Drawing implications for future reform ambitions in PULSAR program countries by synthesizing results from objective I; and
- iii. Emphasizing the benefits of state-of-the-art PSA while following an integrated PFM reform approach.

The geographical scope of the study are the 13 PULSAR beneficiary countries highlighted in Figure 2 (in alphabetical order: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, North Macedonia, Georgia, Kosovo, Moldova, Montenegro, Serbia and Ukraine). In line with the political system of Bosnia and Herzegovina, the survey was addressed to its two entities Federation of Bosnia and Herzegovina and the Republika Srpska. Therefore, the survey was addressed to 14 jurisdictions which are analyzed across this study.

Each PULSAR beneficiary country was invited to fill out one online survey in August 2018, covering questions on the entire PFM environment while focusing on PSA. In order to collect responses of all PULSAR countries, the WB country offices assisted in the distribution of the survey and ensured a follow-up.

**Figure 2. PULSAR beneficiary countries**





3

## STOCK-TAKE OF CURRENT PSA ENVIRONMENT



In the following, the results of the survey will be presented. This section puts emphasis on the current situation in the PULSAR beneficiary countries and in addition, past reform efforts as well as future developments will be highlighted.

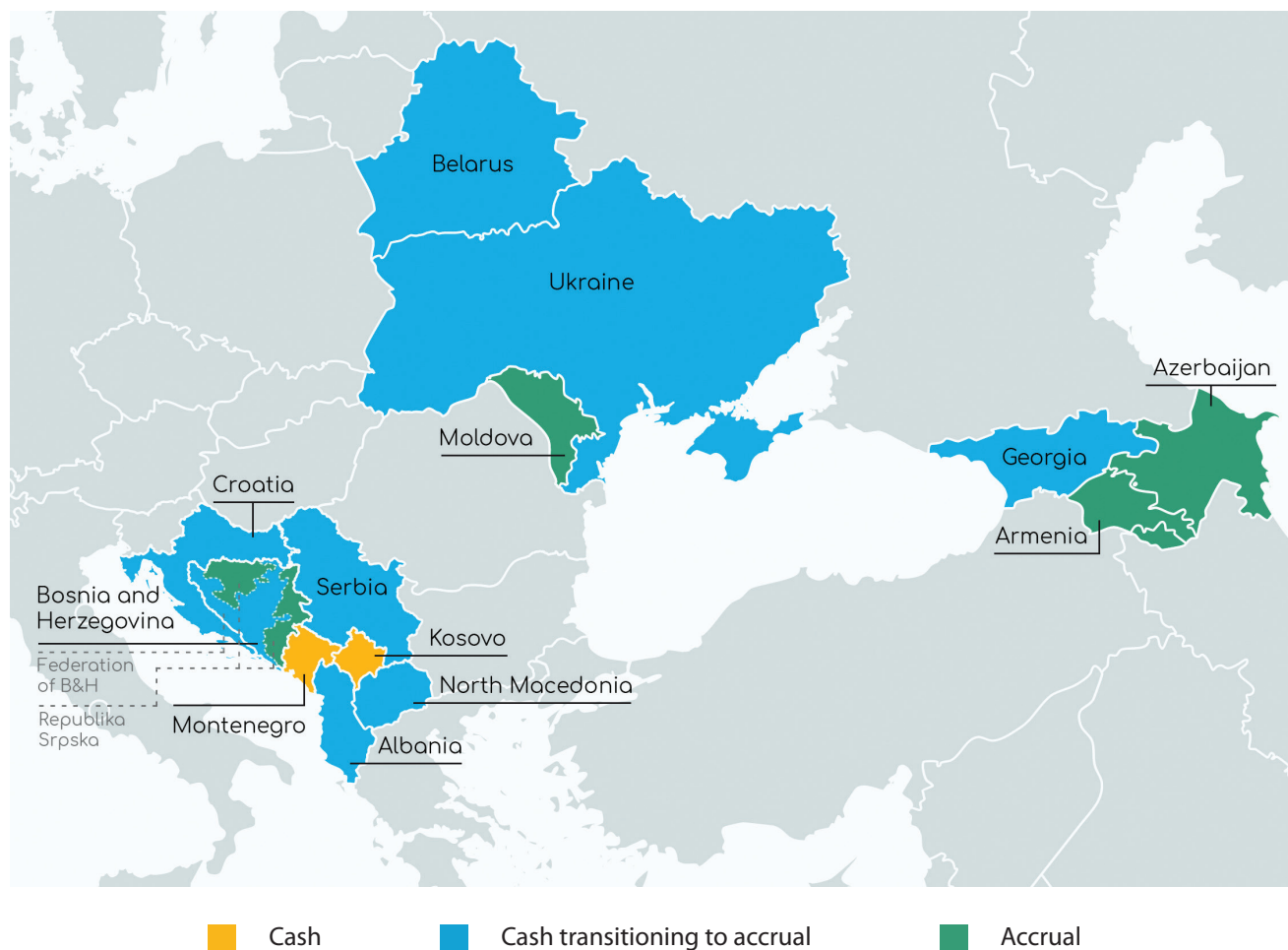
### PUBLIC SECTOR ACCOUNTING BASIS AND FINANCIAL REPORTING ENVIRONMENT

**CURRENT ACCOUNTING AND FINANCIAL REPORTING BASES IN PULSAR BENEFICIARY COUNTRIES ARE HIGHLY DIVERSE AND WERE STRONGLY AFFECTED BY PAST STATE GOVERNANCE MODELS.**

PSA is significantly affected by the legislative environment, the underlying reporting framework and the accounting basis. These elements determine further factors such as the recognition, measurement and disclosure of financial and non-financial transactions and, therefore, the quality and comprehensiveness of financial reports.



**Figure 3. Accounting basis in PULSAR beneficiary countries in 2018**



The PULSAR countries<sup>17</sup> reveal a heterogeneous mix of accounting regimes:

- 2 jurisdictions use a cash accounting basis
- 4 jurisdictions use an accrual accounting basis
- 8 jurisdictions use modified cash/accrual accounting systems

Closer analysis of the PSA environment makes evident that fundamental accounting and reporting characteristics of past governance models in PULSAR beneficiary countries (i.e. former USSR and Yugoslavia) must have affected today's accounting conventions in the region. For example, the strong focus on asset management and bookkeeping rules is still present in many countries with past central planning legacy. Hence, previous accounting traditions seem to have persisted over time, and form the basis for current PSA policies.

**THE ROLE AND RELEVANCE OF PSA AS AN ELEMENT OF AN INTEGRATED PFM SYSTEM TO BETTER GOVERN AND MANAGE PUBLIC FINANCES CAN BE ENHANCED.**

On a global level, the financial planning and budgeting functions are often the most sophisticated, when comparing different elements of PFM systems. The PULSAR beneficiary countries are no exception in this regard with a high degree of professionalization in budgeting institutions and a solid knowledge base of the budgeting process.

While strong budget institutions are fundamental for a functioning PFM system, the accounting and reporting functions are equally essential, but very often do not receive the same attention. There are different reasons for this development, first and foremost being that the budget is subject to public debate and both members of parliament and the executive branch can show their

<sup>17</sup> In line with the political system of Bosnia and Herzegovina, the survey was addressed to its two entities Federation of Bosnia and Herzegovina and the Republika Srpska. Therefore, the study covers 14 jurisdictions in 13 countries.



constituents where they set their priorities. At first glance, PSA does not entail the same level of (political) attraction; however, it provides a strong instrument to deliver ex-post accountability on how public financial resources have been used.

This significant difference in institutional and political awareness between budgeting/financial planning and PSA also affects professional education and continuous vocational training in PSA. As a result, the degree of professionalization and relevant expertise is often much stronger in the area of financial planning / budgeting (i.e. budgeting cycle or policy cycle, see Figure 1) than it is in PSA. The results of the study show that in areas such as accrual accounting or financial information management systems, the level of knowledge within the jurisdictions is not perceived as high as for the budgeting process.

Regarding accrual accounting principles, the general level of knowledge is almost split in half between more advanced users and an intermediate level of knowledge (see Figure 4). However, only few jurisdictions claim to have advanced or expert knowledge with respect to the IPSAS accrual accounting principles. These results become even more relevant since they display a self-perception and deliver a valuable estimation of current capacities.

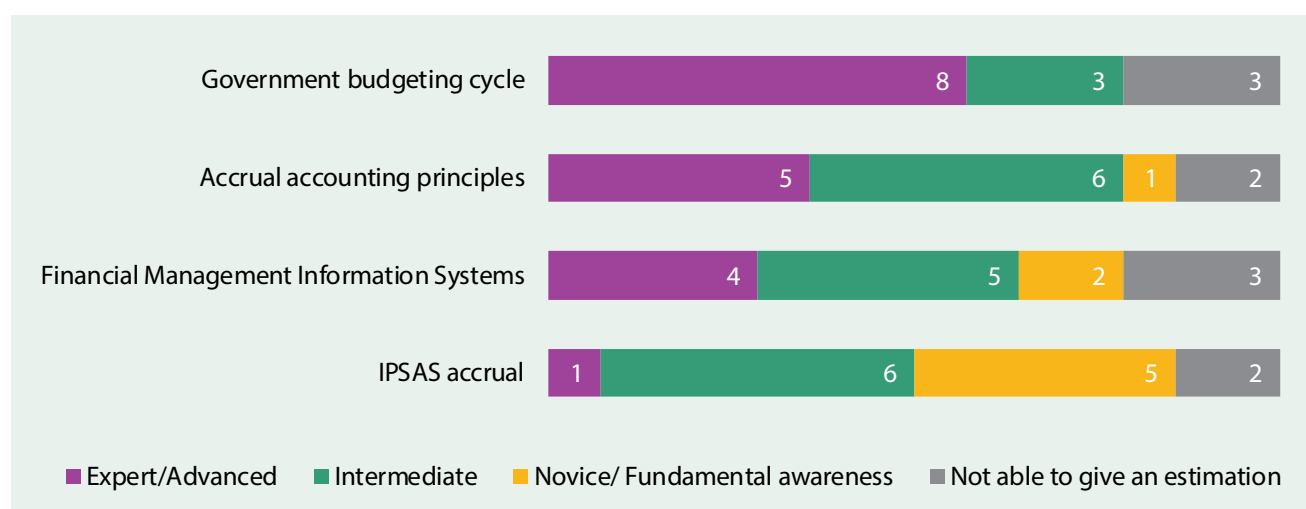
Taking the historical development and current status of PSA into account, the current capacity levels as shown in Figure 4 are not surprising. Traditional PFM models have required governments to build significant capacities in the areas of financial planning and budgeting, and to a lesser extent in PSA.

However, this historical development has not gone undetected among the PULSAR beneficiary countries and many PSA reforms are underway or in a planning phase. The trend towards accrual accounting will most certainly affect the role and relevance of the accounting function in a given jurisdiction, thereby raising questions on how to amend the traditional budget cycle (i.e., which predominantly consisted of budget preparation and budget execution activities) by stronger and integrated PSA institutions, systems and processes.

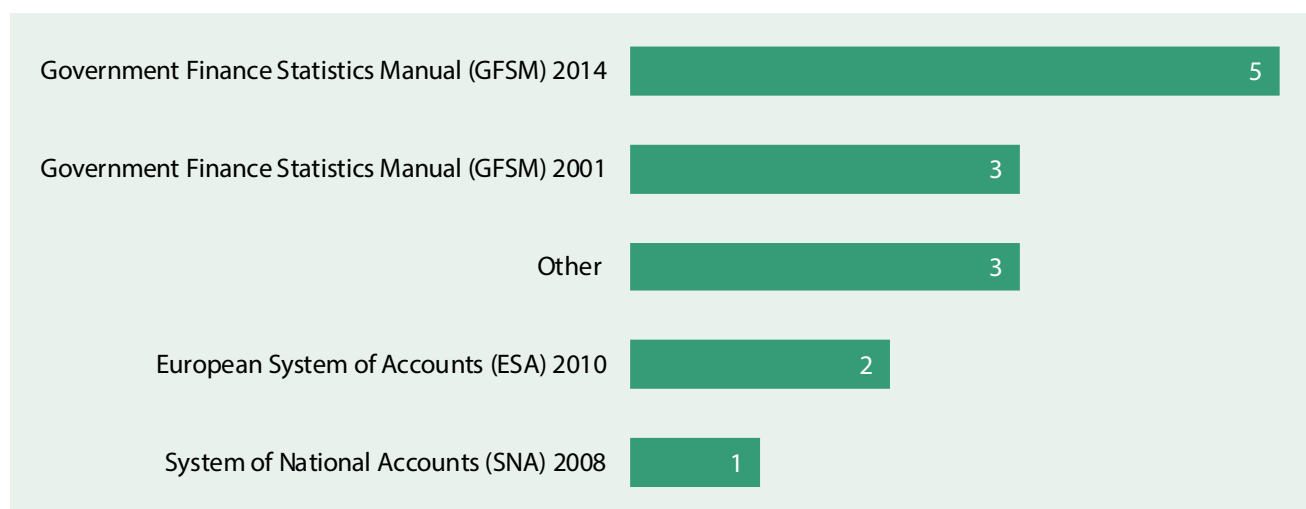
**ACKNOWLEDGING LIMITATIONS OF THE CURRENT PSA ENVIRONMENT, VARIOUS PULSAR COUNTRIES HAVE EMBARKED ON A TRANSITION PROCESS AIMING AT STRENGTHENING THE ACCOUNTING FUNCTION WITHIN THEIR JURISDICTION**

A common element in the heterogenous PSA environment in all PULSAR beneficiary countries is that many jurisdictions find themselves in a transition stage between cash and accrual accounting. While the motivation to embark on reform processes in general is very high, most countries are not able to direct significant resources towards the preparation of an accrual reform due to the lack of such resources and/or limited support within the government and its institutions. However, many positive effects that encompass PSA reforms can only materialize, if the political and institutional setting allows to embed the changes of the reform.<sup>18</sup>

**Figure 4. Self-assessment of “level of knowledge of government personnel”**



<sup>18</sup> Further Information on PSA reform process can be found in the PULSAR Product “Good Practice Template to Public Sector Accounting Reform: Roadmap”

**Figure 5. Application of International guidelines in preparing GFS**

Current PSA reform ambitions among the PULSAR beneficiary countries point towards the fact that certain limitations of traditional (cash) budget reporting are being recognized. Consequently, financial statements based on accrual accounting principles are perceived to overcome some of these limitations, which include, for example, the inability to recognize non-cash transactions or incomplete transparency on all assets and liabilities controlled by the government.

**IN ORDER TO STRENGTHEN THE PSA FUNCTION, ALIGNMENT WITH OTHER PFM ELEMENTS SUCH AS GOVERNMENT FINANCE STATISTICS AND PUBLIC SECTOR AUDIT IS CRUCIAL AND CAN BE IMPROVED.**

PSA and GFS fulfill different purposes within an integrated public financial management system. PSA is focused on recording and presenting financial information on public sector entities' financial performance and position. The compilation of Government Finance Statistics (GFS) for the purpose of international comparability and identification of the impact of policy and policy choices on the whole economy is an integral task of PFM, and it is linked to PSA on a procedural ground. Statistical reporting builds on source data from public sector accounting, which however has to be translated into the format of the relevant guidelines, i.e. GFSM2014 or ESA2010 in case of jurisdictions aiming at EU accession. Thus, reconciliation of statistical accounts and financial statements lays at the end of that process.<sup>19</sup> However, the awareness of the close linkages between GFS and PSA and the necessity

for reconciliation of accounts do not seem prevalent in all jurisdictions, as only eight<sup>20</sup> out of fourteen reported conducting such a reconciliation.

The heterogeneity within the current PFM environment also prevails when analyzing current GFS reporting practices. As shown in Figure 5, most jurisdictions produce GFS according to the latest generation of international reference frameworks such as GFSM2014, ESA2010 or SNA2008 and only three countries are still applying GFSM2001. When relating the GFS guidelines with the current PSA reform trends, none of the surveyed jurisdictions use cash or modified cash based statistical reference frameworks anymore (i.e., GFSM1986 or ESA95). The more modern statistical frameworks (especially GFSM2014) are based on accrual information. Therefore, in order to produce meaningful statistical information and reconcile it to accounting records the underlying accounting information ought to be on accrual basis.

As far as public sector audit is concerned, all jurisdictions have a Supreme Audit Institution (SAI) or its equivalent in place, and all but one jurisdiction conduct some type of financial audit. However, in almost all PULSAR beneficiary countries, the mandate of the SAI goes beyond audit of financial statements and encompasses both compliance and performance audits which are envisaged in the International Standard of Supreme Audit Institutions. Figure 6 summarizes whether the SAIs of the surveyed jurisdictions provide an audit opinion on the financial statements and if so, whether they are drafted based on international or national standards.

<sup>19</sup> More Information on the interplay between GFS and PSA can be found in the PULSAR Product: "Benchmarking Guide: Integrating Public Sector Accounting and Government Finance Statistics".

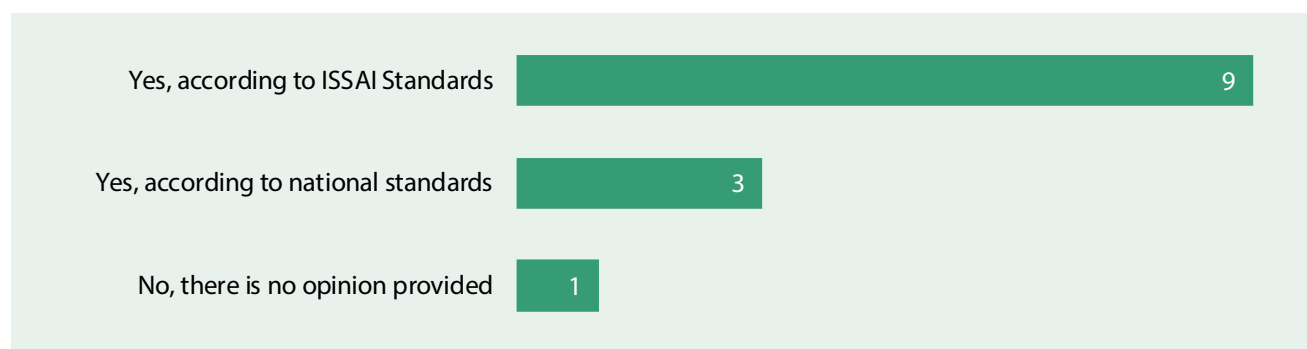
<sup>20</sup> Jurisdictions to report a reconciliation between financial statements and statistical accounts are (in alphabetical order): Albania, Azerbaijan, Belarus, Croatia, Federation of Bosnia and Herzegovina, Kosovo, Moldova and Montenegro.

The stock-take also included aspects regarding the familiarity of SAI personnel with PSA. In particular, it was observed, if external Auditors had expertise in national public sector accounting standards. As Figure 7 points out, half of all PULSAR beneficiary countries have external auditing staff with public sector accounting expertise.

International experience in PSA reforms show that the existence of a solid knowledge base of the national accounting standards within the SAI, results in less

discrepancies between the institutions involved, and thus a more efficient implementation process.<sup>21</sup> In every PSA reform, at some point, the national SAI needs to be involved, since it provides an opinion on whether the financial statements are credible or not, which also shapes the public opinion regarding PSA. Thus, a proactive involvement of the audit function and a resulting common understanding of how and why a PSA reform leads to certain technical and institutional changes, will likely facilitate the transition process.<sup>22</sup>

**Figure 6. SAI opinion provided on financial statements<sup>23</sup>**



**Figure 7. Expertise of auditors in public sector accounting standards**



<sup>21</sup> International Monetary Fund, 2016b; OECD, 2018

<sup>22</sup> More Information on the importance of the active involvement of all relevant stakeholders can be found in the PULSAR Product: "Good Practice Template to Public Sector Accounting Reform: Roadmap".

<sup>23</sup> Data on the Federation of BiH not available.

## CURRENT RECOGNITION AND MEASUREMENT OF TRANSACTIONS

**THE PRIMARY FOCUS REMAINS ON CASH TRANSACTIONS WITHIN A BUDGETARY CENTRAL GOVERNMENT, WHICH ARE COMPLEMENTED SELECTIVELY BY CONTEXT-DRIVEN ACCRUAL INFORMATION.**

The accounting basis, being it cash, accrual or somewhere in between, has a direct effect on how assets and liabilities are reported. Under a strict cash accounting regime, a balance sheet is developed, containing only very limited information on the financial position, while full accrual accounting systems give rise to comprehensive balance sheet information thereby distinguishing financial and non-financial assets, liabilities and – as a residual value – net assets/equity. Development of full accrual balance sheet can be phased and can start with gradual enhancement of pure cash information with complimentary accrual elements (i.e. financial assets, financial debt) by recognizing and measuring non-cash transactions.

All PULSAR countries have been asked to provide information regarding the type of assets and liabilities they recognize. Based on these results, an exemplary balance sheet for jurisdictions in a transitioning process towards an accrual accounting regime is presented in Table 1.

On the asset side of the balance sheet, “Land & Buildings”, “Infrastructure”, “Defense” assets and “Financial instruments” represent the major part of specific public sector assets. These categories are common for jurisdictions moving from cash towards accrual accounting as they represent past (cash) investments which ought to be made transparent as assets of the public sector. On the liability side, financial debt in terms of “financial instruments” is usually the most prominent position.

As highlighted earlier, the majority of PULSAR countries are in the transitioning process towards accrual accounting and only very few countries are already following a full accrual accounting regime. Such a system produces more information as it requires more assets to be recognized and measured, which results in a more comprehensive balance sheet. As shown in Table 2 (exemplary template), additional steps would be to include the following information:

- both *assets and liabilities that form part of Public-Private Partnerships (PPP)*.<sup>24</sup>
- on the asset side, “*Depreciation*”<sup>25</sup> and “*Tax receivables*,”<sup>26</sup> to provide full information independently of cash flows.
- on the liability side, “*Provisions*,”<sup>27</sup> to take note of future cash outflows and
- “*Public sector employee pensions*,” which usually represent a substantial share of the total amount of liabilities.<sup>28</sup>

**Table 1. Balance sheet information reported by jurisdictions transitioning to accrual accounting**

| Assets                               | Liabilities           |
|--------------------------------------|-----------------------|
| Financial instruments                | Financial instruments |
| Land & buildings                     |                       |
| Infrastructure assets excluding PPPs |                       |
| Defense assets and inventories       |                       |

**Table 2. Balance sheet information reported by jurisdictions under full accrual accounting**

| Assets                               | Liabilities                     |
|--------------------------------------|---------------------------------|
| Land & buildings                     | Financial instruments           |
| Infrastructure assets excluding PPPs | PPP liabilities                 |
| Defense assets and inventories       | Provisions                      |
| Financial instruments                | Public sector employee pensions |
| PPP assets                           |                                 |
| Depreciation (accumulated)           |                                 |
| Tax receivables                      |                                 |

<sup>24</sup> Preferably in line with IPSAS 32: Service Concession Arrangements: Grantor.

<sup>25</sup> Preferably in line with the relevant IPSAS standard, depending on the asset type (i.e. IPSAS 17: Property, Plant and Equipment).

<sup>26</sup> Preferably in line with IPSAS 23: Revenue from Non-Exchange Transactions.

<sup>27</sup> Preferably in line with IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets.

<sup>28</sup> Preferably in line with IPSAS 39: Employee Benefits.

The survey shows that the two jurisdictions following a traditional cash regime prepare a balance sheet with only very limited information. However, out of the 12 remaining jurisdictions, almost all provide a basic balance sheet as displayed in Table 1 (transitioning). When comparing the information provided with the comprehensive balance sheet, the results are heterogeneous. Some jurisdictions reporting to be on a full accrual basis do not include all accrual elements as shown in Table 2, while other jurisdictions in the transitioning process report that they already prepare a balance sheet including all the elements listed in Table 2. These results highlight that while many countries are on a transitioning process towards accrual accounting, both the priorities and speed of such reforms vary substantially.

While a comprehensive balance sheet as presented in Table 2 above is a crucial step towards full accrual accounting, explanatory information through note disclosure is equally important. Only through the provision of detailed notes, a balance sheet can be comprehensive and transparent and thus provide useful information. Regarding the disclosure through explanatory notes, overall, only a third of those jurisdictions preparing balance sheets reported to disclose any notes on their assets. Moreover, jurisdictions following an accrual accounting regime only selectively prepare notes.

**CONTEXT-DRIVEN AND INDIVIDUAL SELECTION OF ACCRUAL ACCOUNTING ELEMENTS LEADS TO LIMITED COMPARABILITY BETWEEN THE PULSAR BENEFICIARY COUNTRIES.**

The fact that most jurisdictions are in a transition from cash to accrual accounting also affects the composition of their balance sheets. As highlighted in Tables 1 and 2, balance sheets take different forms and are amended according to the priorities set in the reform agenda. International experience has highlighted that through the transitioning process from cash to accrual, the balance sheet is continuously changing, becoming more comprehensive through the extension of its scope and the additional information provided by an accrual regime.<sup>29</sup>

Development of the comprehensive balance sheet through gradual additions of accrual elements is preferable from a country perspective and in line with current findings regarding PSA reforms. While local context has often been neglected, yet it is an essential factor for a successful reform process and implementation.<sup>30</sup> However, the heterogeneous composition of balance sheets resulting from such a procedure adversely affects the comparability between the PULSAR countries. Only if both assets and liabilities are composed using the same type of items, a comparison among countries can deliver sensible information on their relative financial position. In this sense, all countries transitioning from cash to accrual face two conflicting goals: international comparability on one side and autonomy of their accounting system on the other. Comparability will be achieved through adjusting the accounting system and thus the balance sheet in accordance with an international framework such as IPSAS, but autonomy gradually decreases the stricter a country's accounting framework adheres to international standards.

**CONSOLIDATION SCOPE IS LIMITED AMONG PULSAR BENEFICIARY COUNTRIES DUE TO TECHNICAL DIFFICULTIES AND THE LARGE NUMBER OF CONTROLLED ENTITIES.**

Accrual accounting is traditionally associated with three related innovations, i.e., the recognition of economic events at the time at which they occur, the recording of all stocks of assets and liabilities in balance sheets and the consolidation of all entities under government control.<sup>31</sup> While the first two innovations are central elements of every PSA reform, the topic of consolidated financial statements (CFS) was often not highly prioritized.<sup>32</sup>

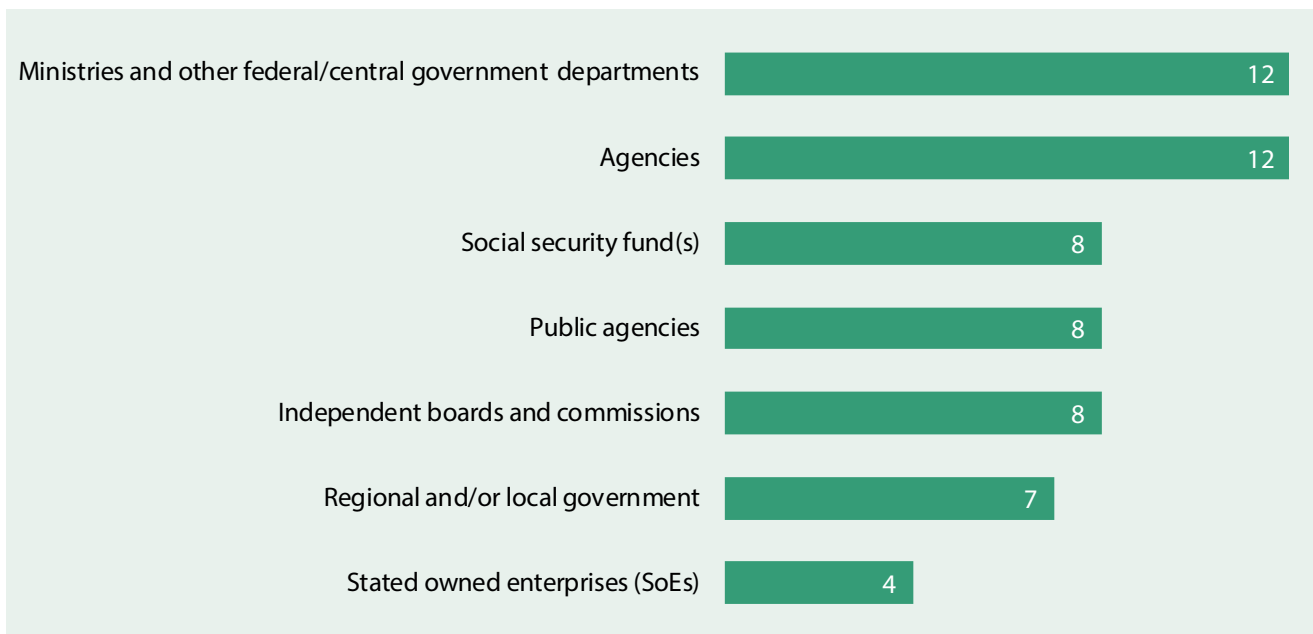
In order to prepare CFS, first the scope of entities to be included has to be defined, i.e. the consolidation scope. PULSAR countries have been asked to provide information on the type of entities/organizations that are included in their CFS. While two jurisdictions could not provide information on CFS, the remaining ones include different types of entities in their consolidation scope as highlighted in Figure 8 below, showing how many jurisdictions have included what type of entity.

<sup>29</sup> IMF, 2018

<sup>30</sup> e.g. Andrews, 2013

<sup>31</sup> International Monetary Fund, 2016b

<sup>32</sup> Bergmann et al., 2015

**Figure 8. Consolidation Scope of PULSAR countries**

While the core entities such as ministries, departments and agencies are within the consolidation scope in all jurisdictions, regional and local government or state-owned enterprises (SoEs) are only included in the CFS of fewer jurisdictions.<sup>33</sup> This reflects the strong focus on budget and financial planning among all PULSAR beneficiary countries, since entities traditionally included in the government's budget are also part of the consolidation scope, while those entities which come into focus from an accrual perspective (i.e. SoEs) are often outside the scope of CFS. SoEs, however, often present substantial financial and fiscal risks, particularly in times of crisis. In fact, they are one specific risk category identified by the latest fiscal risk analysis from the IMF, stating that the bailout of troubled SoEs had globally led to costs equal to 3% of GDP for governments.<sup>34</sup> Thus, the inclusion of all types of entities under direct and indirect control of the government would lead to a transparent and comprehensive display of all assets and liabilities.<sup>35</sup>

The preparation of consolidated financial statements is a challenge for all national governments worldwide and becomes even more complex, the wider the consolidation scope is, because the data has to be aggregated from an increasing number of sources/entities. In advancing to consolidated financial statements, the support of IT systems could better enable a country to manage the increasing complexity of the task, up to full automation. Also, some of the controlled entities operate in a very specific business environment and therefore require industry-specific IT systems for their operation (e.g. airlines, banks, insurance companies). When asked about the IT systems, which are used to compose the CFS, over two-thirds of jurisdictions<sup>36</sup> reported to apply manual consolidation by using Microsoft Excel or similar programs (see Figure 9). While this approach is very common when introducing CFS, it is prone to errors due to a lack of coordinated oversight and poses a substantial risk to data integrity and transparency.

<sup>33</sup> The jurisdictions which reported the consolidate both regional and/or local government as well as SoEs include (in alphabetical order): Albania, North Macedonia and Ukraine. All three countries are transitioning towards accrual accounting.

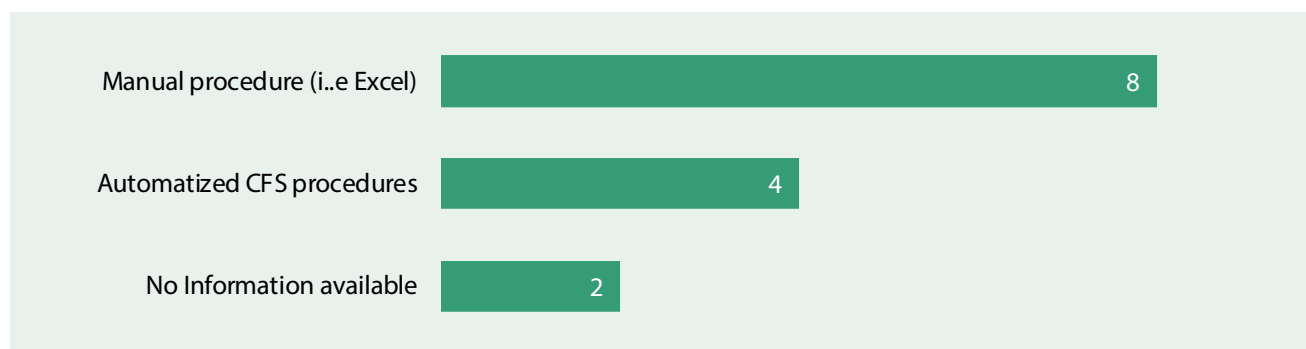
<sup>34</sup> IMF, 2016

<sup>35</sup> The accounting perspective (following IPSAS) and the finance statistics perspective (following GFMS2014) differ regarding their consolidation boundaries. Thus, depending on the perspective, whether or not an entity is under (direct or indirect) control of the government produces a different result. (for more details see the PULSAR Product "Benchmarking Guide: Integrating Public Sector Accounting and Government Finance Statistics").

<sup>36</sup> Jurisdictions reported to apply manual consolidation by using Microsoft Excel or similar programs (in alphabetical order): Azerbaijan, Croatia, Georgia, Kosovo, Moldova, Montenegro, Republika Srpska and Serbia. This group of jurisdictions includes both, those transitioning towards accrual accounting and those already applying it.



Figure 9. IT systems used for consolidation



Regarding IT Governance standards in general, the jurisdictions have been asked if IT governance standards are in place that determine minimum criteria for IT systems deployed by entities performing accounting tasks. Only half of the jurisdictions reported to have minimum guidelines for the deployment of IT standards. Such standards could ensure that data delivered from sub-national entities to the national government is reliable, traceable and transparent. Thus, the design and implementation of IT governance standards presents an opportunity to increase transparency and data integrity in general, while also providing the basis to compose meaningful and reliable CFS.

Problems and errors in data collection strongly correlate with the number of entities that are subject to consolidation.<sup>37</sup> In this regard, the territorial organization of some jurisdictions presents an additional source for limitations. The inclusion of all governmental levels as well as public corporations, state-owned enterprises, social security or pension funds leads to an abundance of controlled entities. In certain countries, the number of entities reaches as high as several thousand, which poses a severe obstacle for consolidation of accurate accounting data, including issues concerning transparency, accountability, comprehensiveness and comparability.<sup>38</sup> Therefore, depending on the organization of different level of government, territorial reforms can significantly improve chances for a successful PSA transformation, simply through the reduction of complexity.

## REFORM PLANS AND STRATEGIES IN PULSAR BENEFICIARY COUNTRIES

**IPSAS IS THE DOMINANT INTERNATIONAL ACCRUAL ACCOUNTING FRAMEWORK AMONG THE PULSAR BENEFICIARY COUNTRIES AND ITS IMPLEMENTATION RAISES CERTAIN EXPECTATIONS ON HOW IT CAN FACILITATE CHANGE.**

The CIPFA Accountability Now Index<sup>39</sup> shows a worldwide trend that the move towards accrual accounting regimes runs in parallel with the implementation of IPSASs. Although IPSAS is an important reference framework in governing accounting reforms, globally, various countries choose to facilitate change within the umbrella of national standards. The PULSAR beneficiary countries are no

exception in this regard, hence, the role of IPSAS within accounting reforms is diverse and ranges from adopting IPSAS directly, to considering them mainly as a reference for the development of national general accounting principles.

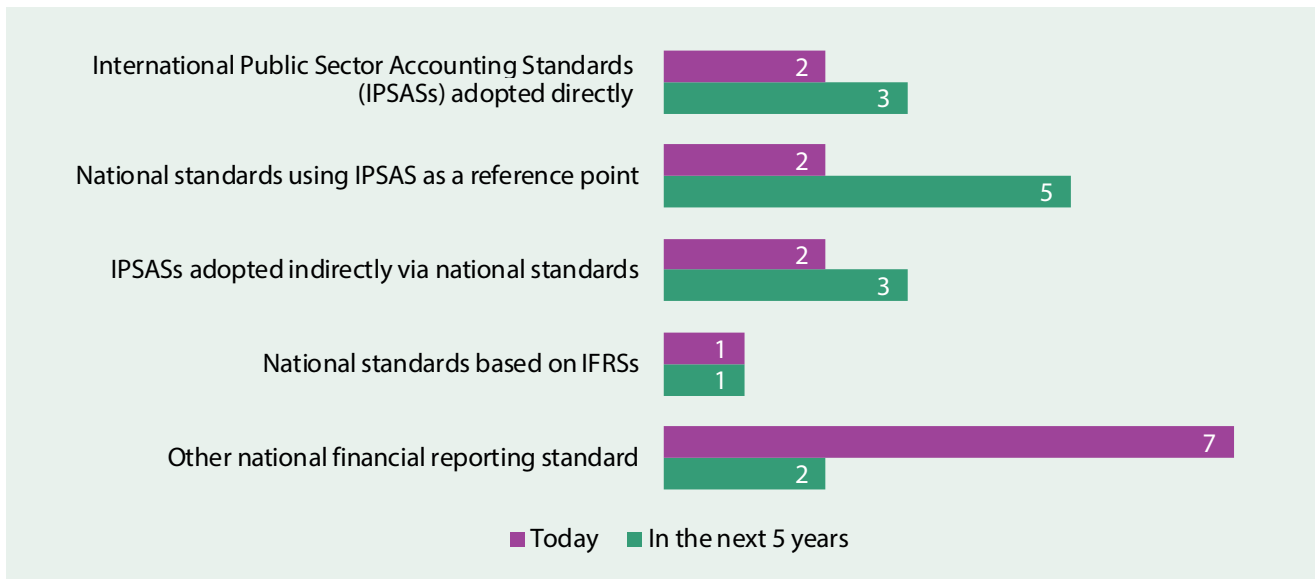
Figure 10 reveals, that today<sup>40</sup> one half of the PULSAR countries has their own national financial reporting standards in place, which have no specific reference to an international framework. The other half of the group uses mainly IPSAS through direct or indirect adoption or as a reference point and only one jurisdiction reports to use IFRS as a reference framework. In terms of international

<sup>37</sup> Bergmann et al., 2015

<sup>38</sup> OECD, 2018

<sup>39</sup> IFAC/CIPFA, 2018

<sup>40</sup> The data was collected between July 2018 and November 2018.

**Figure 10. Overview of Financial Reporting Standards**

accounting frameworks, IPSAS is clearly the dominant point of reference and as such, will gain importance in the future.

When looking at the reform projects envisaged in PULSAR beneficiary countries for the next 5 years, there is a significant shift away from national accounting standards towards using IPSAS as direct or indirect reference point for the national accounting standards. Thus, there appears

to be a gradual move towards the adoption of IPSAS. In order to shed more light on the status of IPSAS among the PULSAR beneficiary countries, the stock-take also entailed a section where the jurisdictions were able to provide an opinion on the benefits of introducing IPSAS, independent of a direct or indirect application. Figure 11 presents the summary of possible advantages that are associated with the application of IPSAS:

**Figure 11. Possible reasons in favor of applying IPSASs**



The results of the survey show that all but one jurisdiction associate IPSAS directly with improvements in accountability. From a normative standpoint, this association makes sense, since IPSAS 1 states that the purpose of financial statements prepared according to IPSAS is “[...] to demonstrate the accountability of the entity for the resources entrusted to it [...]” (IPSAS 1.15). However, empirical studies have shown that improvements in terms of accountability can only be achieved through comprehensive implementation of the standards.<sup>41</sup> Better comparability of financial information and alignment with other countries and organizations was also perceived to be one of the major benefits that come with an IPSAS implementation. The structuration of financial information that is required by IPSAS most certainly improves comparability, again, if the standards are applied comprehensively. While many benefits of an IPSAS implementation are recognized, almost half of all jurisdictions perceive their current accounting systems to deliver sufficient information. Thus, the need to deliver more and/or more detailed financial information, which is often required to achieve comparability, is not directly recognized.

What is less associated with the application of IPSAS are advantages regarding standard setting. Intuitively, this could be linked with a possible loss of independence

and sovereignty of each jurisdiction. However, as Figure 12 points out, the fear of losing the standard setting authority is hardly perceived as a reason to opt against an application of IPSAS.

While there is a general trend towards IPSAS implementation, many countries still refrain from adopting the standards. The stock-take shows that besides the lack of experience – which is self-explanatory to a certain degree – the predominant factor is the lack of technical skills regarding an IPSAS implementation. Applying and implementing the ever-growing set of IPSAS standards is no mean feat. Many advanced economies and OECD countries still face challenges with this reform.<sup>42</sup> While, these challenges admittedly present some major obstacles, they can be overcome through a clear strategy including the designation of the appropriate resources and political support.

Reforming public sector accounting and reporting, through the implementation of IPSAS in some form, often triggers certain expectations regarding the benefits of such a reform. Seldom will all of these benefits materialize in full and when they do, it is often only after many years of ongoing reform efforts and as part of larger governmental reform processes.<sup>43</sup> Thus, IPSAS is no silver bullet to resolve all structural PFM difficulties a country may face.

**Figure 12. Possible reasons for not applying IPSASs**



<sup>41</sup> e.g. Grossi & Steccolini, 2015

<sup>42</sup> IFAC/CIPFA, 2018

<sup>43</sup> OECD, 2018

## PERCEIVED CAPACITY LEVELS FOR REFORM PLANS AND STRATEGIES

**IN PULSAR BENEFICIARY COUNTRIES, ACCOUNTING REFORM AGENDAS ARE OFTEN DRIVEN BY THE MINISTRY OF FINANCE, AND MAINTAINING SUSTAINABLE POLITICAL SUPPORT REMAINS CHALLENGING.**

The study reveals that most PSA reform initiatives are initiated and/or supported by the Ministry of Finance. All jurisdictions unanimously stated that the Ministry of Finance is the financial reporting standard setter for federal/central government and only one country mentioned to have a specific public sector accounting commission. While support within the executive branch is high, the legislative part of the government, i.e. the parliament, has been less involved in PSA reform activities and thus support from the parliament is often a challenge. However, full support from both executive and legislative bodies would increase positive reform outcomes as well as a sustainable reform implementation.<sup>44</sup>

In order to gain an overview as to which institutions tend to support PSA reforms, the stock-take included questions regarding the main sponsors of both the changes in the accounting basis and the reporting standard. Figure 13 shows that the ministry of finance is by

far the most relevant sponsor for both elements, followed by the government in general and the legislative body.

Certainly, without support from the MoF, no PSA reform will take form. Similarly, support from the parliament as the legislative body is essential to foster acceptance and concurrent implementation of any PSA reform. Involving members of the parliament in the reform process is highly beneficial for reform success and in addition, it increases financial literacy among legislators. The goal of any PSA reform should be to produce relevant financial information. However, information from financial statements within an accrual accounting regime can only be relevant if the recipients know how to use it to achieve expected objectives and outcomes.

**IN ORDER TO CREATE, ACCEPT AND BENEFIT FROM A STRENGTHENED ACCOUNTING FUNCTION, TRADITIONAL BUDGET-FOCUSED FINANCIAL MANAGEMENT MECHANISMS REQUIRE SUBSTANTIAL CHANGES.**

All jurisdictions show a strong expertise and substantial knowledge in financial planning and the budget process, which is also manifested in the relevant legal frameworks.<sup>45</sup>

**Figure 13. Accounting basis and reporting standard reform sponsors**



<sup>44</sup> OECD, 2018

<sup>45</sup> The strong focus on financial planning and budgeting is also highlighted in the recently published book "Public Sector Accounting, Auditing and Control in South Eastern Europe", which overlaps the scope of countries to a large degree (Vašiček & Roje, 2019).

This is on one hand a strong suit, however, on the other hand it can limit the perspective when it comes to PSA. Thus, it is crucial to keep in mind that all PFM reforms in PULSAR beneficiary countries, including PSA, start from a budget perspective, i.e. building on what has been established regarding the budget. However, the development and implementation of a PSA reform by amending and adjusting current budget practices, laws and regulations can result in a problematic amalgamation of the two PFM functions (budget and PSA). The stock-take has shown that while there is a strong motivation to embark on the transitioning process towards accrual accounting, the fundamental distinctions between accounting and budgeting are still sometimes unclear or neglected.

Considering the interplay between financial planning and PSA, the survey results show that the majority of jurisdictions perceive their budget execution sheets to be comparable with financial reports. Half of the jurisdictions present their budget execution sheets separate from the financial statements, while the other half includes them within the financial statements as a comparison of budget and actual amounts. While these results point towards a certain level of integration of the two PFM functions, none of the jurisdictions prepares a reconciliation between the budget execution sheet and the financial statement. This would be advisable, particularly for those countries presenting the budget execution sheet outside of the financial statement, because such a reconciliation would allow for a detailed distinction of the values recognized between the former and the latter and whether significant differences exist. As a result, the question can be raised if the distinction between a traditional budget execution sheet and a financial statement based on accrual principles is fully recognized.

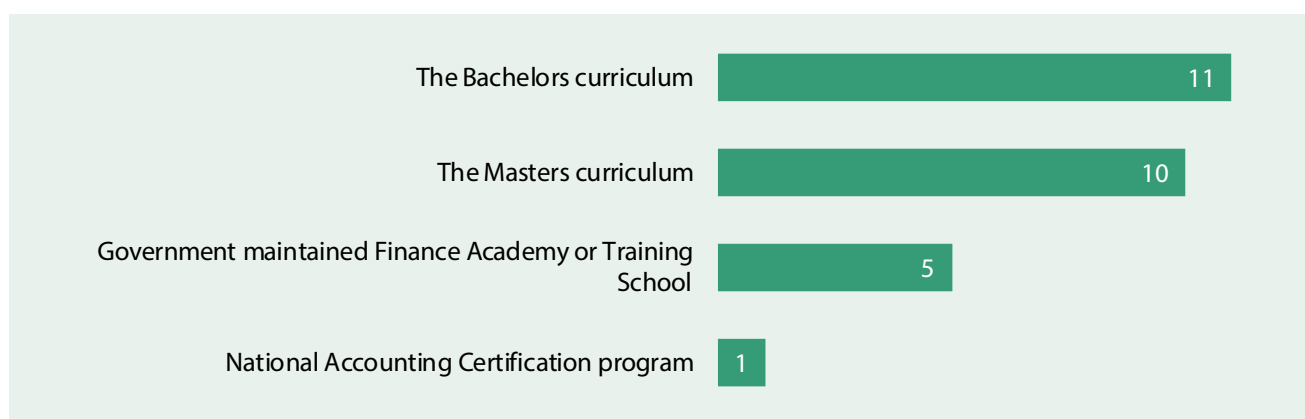
#### DIFFERENT GOVERNMENTS FACE CHALLENGES TO ESTABLISH SUSTAINABLE HUMAN CAPACITY BUILDING MODELS.

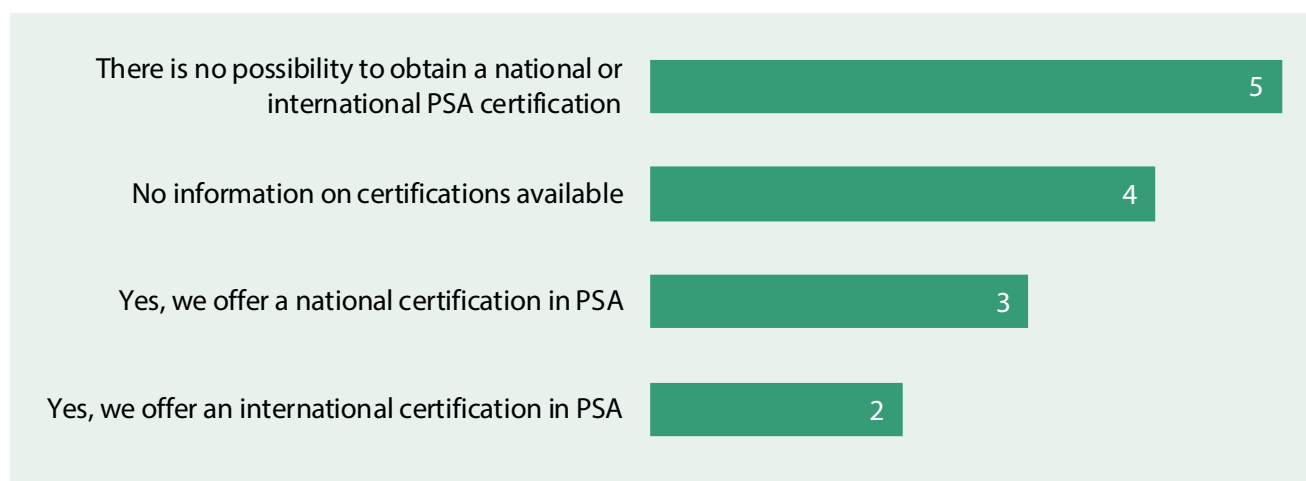
Any advancement in PSA requires an appropriately skilled workforce. In many countries, knowledgeable personnel, particularly in the area of public sector accounting, has transferred from the private to the public sector and many employees have received private sector training. Therefore, the stock-take focused also on the interaction between the public and private sector organizations such as professional accountancy organization (PAO). Furthermore, it was important to distinguish between basic education and continuing professional development (CPD) - including training that allows public sector officials to receive information on current and future developments in PSA.

However, before professional training can take place the foundations of PSA must be laid. Many jurisdictions do so, by including PSA as subjects in their bachelor and master programs of the respective university degrees (Figure 14).

As highlighted in Figure 14, all but a few jurisdictions include PSA courses in both their bachelor and master programs. However, less jurisdictions have specific schools or academies dedicated particularly to the training of public sector accountants and only one country offers a national accounting certification program. In this regard, the stock-take included an inquiry regarding the possibility to obtain national or international certifications in PSA.

**Figure 14. Education programs including PSA courses**

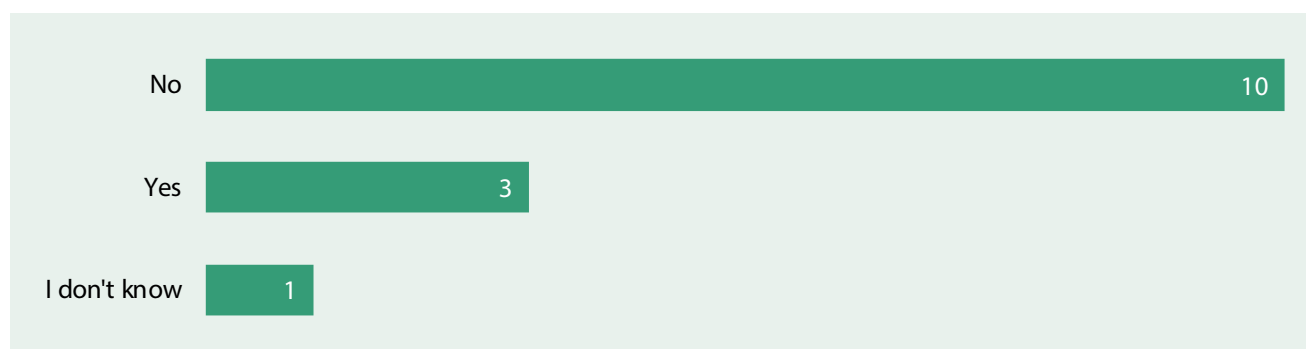


**Figure 15. Options to obtain national and international PSA certification**

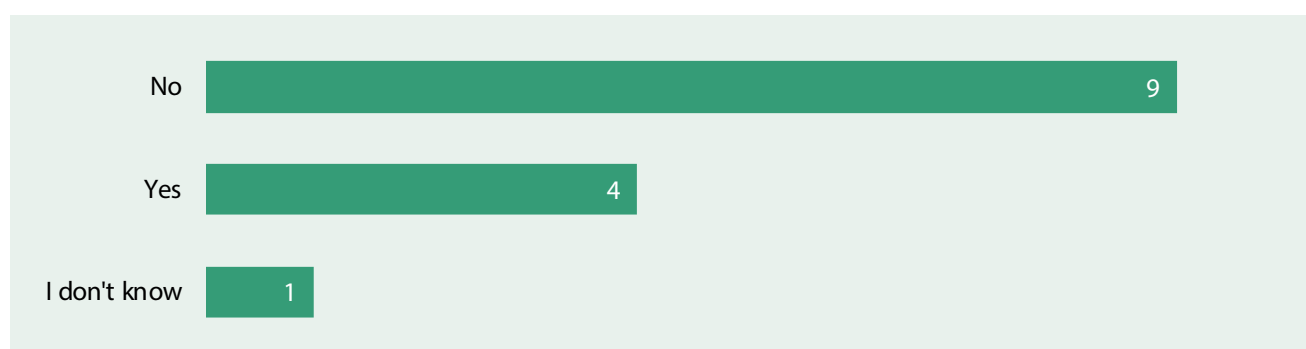
While there is only one national PSA certification program among the PULSAR beneficiary countries as shown in Figure 14, five jurisdictions offer the option to obtain either a national or an international certification in PSA (Figure 15). In general there are still possibilities for improvement regarding the professionalization of PSA personnel, since the results show that a majority of countries do not offer an option to obtain such a certification or do not have any information on such a possibility.

Once basic education of PSA is completed and the personnel is on the job, PAOs provide both basic vocational training as well as continuous professional development

for the accounting profession. All PULSAR countries have some form of a national PAO. The crucial difference, however, is if and to what extent these organizations collaborate with the public sector, i.e. if they have specific training for public sector accountants. Participation of public sector accountants in the local PAO would foster the exchange of information as well as professional development. PULSAR countries have been asked if public sector accountants are members of the local PAO, thus would be able to actively participate in these organizations (Figure 16). Only a minority reported to facilitate such membership, while in most countries these organizations are exclusively used by private sector employees.

**Figure 16. PAO membership of government accountants**

**Figure 17. Support from PAO for government accountants**



Vocational training and continuous professional development are the foundation for a highly professional workforce and a high level of professionalization is a critical precondition for PSA reforms. From the survey results (Figure 17) it becomes evident that only a few jurisdictions provide professional training and continuing education opportunities for public accountants. The lack of such development opportunities from the professional body such as the PAO does not necessarily mean that no training is provided.

However, if no other provider exists, the responsibility remains with government to provide appropriate training opportunities, which would result in allocating additional resources for such trainings where in many cases, resources are already stretched thin. Thus, a lack of exchange and provision of training opportunities from the local PAO can result in additional financial burdens for the government.

While initial professional education in most countries is ensured through universities, the availability of continuous professional education programs is sometimes lagging behind, with less than half of the countries offering training through government training centers or as a part of the national accounting certification program. This could imply that after graduation from university, public sector accountants in half of all PULSAR countries might face difficulties in accessing training, especially as PAOs are also mostly not covering PSA in their CPD programs. Thus, even if accountants are members of the local PAO, they would not be able to receive PSA training either from a government institution, or the PAO.

**ALTHOUGH A WIDE RANGE OF FINANCIAL MANAGEMENT INFORMATION SYSTEMS ARE IN PLACE, LIMITED INTEGRATION OF THOSE PRESENTS A CHALLENGE FOR ACCOUNTING REFORMS.**

All PULSAR countries have recognized the value and importance of modern financial management IT systems and that they are a precondition for a successful PSA reform process. The results of the stock-take show that the majority of jurisdictions have some of the key FMIS elements in place (Figure 18).

The results show that information systems exist in key PFM areas, however it has to be recognized that a purchase of a state-of-the-art FMIS does not automatically lead to improved public sector accounting practices. Skilled personnel and ongoing software training are essential in order get the added value out of new financial management systems. Once the systems are in place, it is necessary to ensure interfaces are established between the different systems in order to guarantee the flow of information, which in the end would come closer to what is understood by an integrated financial management information system (IFMIS). Without such an integration, information flows e.g., for the preparation of a consolidated financial statement or feedback loops to inform the new budget based on the previous financial statement cannot be established, which adversely affects the objectives of establishing an accountable, transparent and comprehensive PSA practices.<sup>46</sup>

<sup>46</sup> e.g. OECD, 2018

**Figure 18. FMIS elements in place**

The level of integration of a FMIS has not only a technical dimension, but also an organizational and capacity one. PULSAR countries have been asked if those entities entrusted with budget execution maintain their own IT Systems to compile their financial information or if they report directly to the central government or its treasury. The result is almost equally distributed, where

approximately half of the jurisdictions reported the former and the other half the latter. In the case of decentralized IT systems, i.e. those entrusted with budget execution on lower government levels, the issue of well-functioning interfaces becomes even more relevant, as they are fundamental to ensure a constant and secure flow of financial information.



## 4

# CONCLUSIONS AND OUTLOOK



Overall, it can be summarized that a majority of PULSAR jurisdictions are moving from a strict cash accounting regime towards accrual accounting, however at different speeds and with different priorities. Figure 19 emphasizes current reform efforts or plans in PULSAR beneficiary countries. Among various types of reform strategies, many countries highlighted ongoing or planned PSA reform programs. There seems to exist a general agreement that a move towards accrual accounting will include considering IPSAS as a direct or indirect reference framework, while the application of IFRS will play a minor role (see Figure 10: Overview of Financial Reporting Standards). More concretely, eight jurisdictions plan to change both the

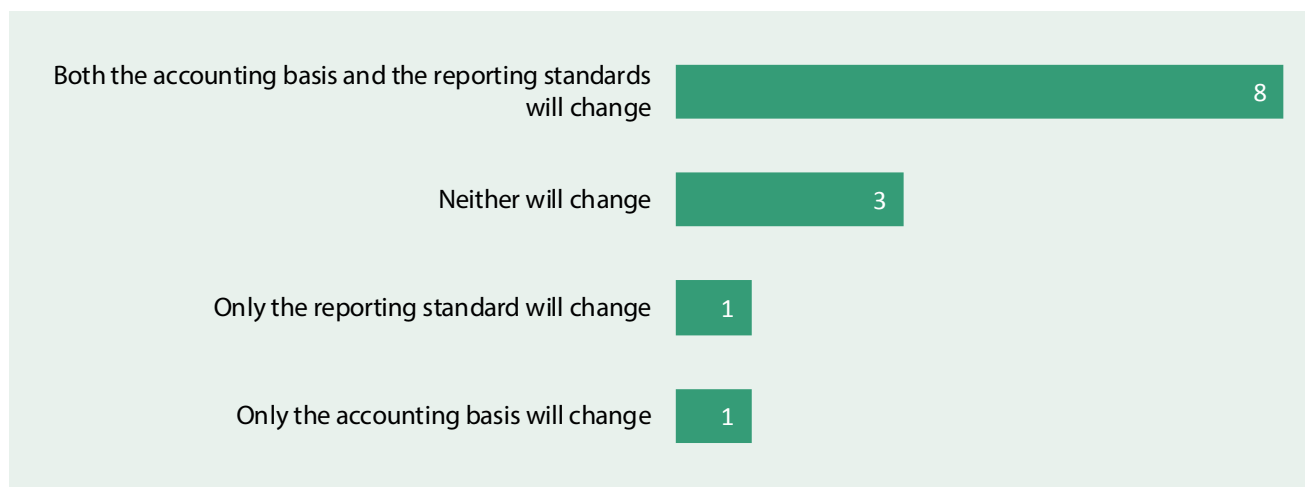
accounting basis and reporting standards within the next five years, with the latter being IPSAS in most cases. Only three jurisdictions report to have no reform ambitions, but this can be explained through the fact that two of these entities already have reached a high degree of IPSAS compliance.<sup>47</sup>

In the face of these reform ambitions, this study identifies different strengths, challenges and opportunities for PULSAR beneficiary countries, which are summarized below.

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<sup>47</sup> These three countries with no reform plans include: Armenia, Republika Srpska and Moldova. Armenia and Republika Srpska both apply accrual accounting and present already high levels of IPSAS compliance according to the survey.

Figure 19. PSA reform agenda of PULSAR countries<sup>48</sup>



## STRENGTHS

**ALL PULSAR BENEFICIARY COUNTRIES ENJOY THE BENEFIT TO BUILD UPON MANY STRENGTHS THAT PREPARE ALL JURISDICTIONS FOR FUTURE PSA REFORMS; THESE ARE SUMMARIZED BELOW:**

- All jurisdictions reveal a sound knowledge base and technical expertise in financial planning and a high degree of professionalization in the budgeting process.
- A majority of jurisdictions are familiar with the concept of accrual accounting, through historical developments and/or ongoing reform efforts.
- Different jurisdictions can build on comprehensive financial and non-financial data (e.g., asset registers) to gather relevant accounting information, i.e., to prepare balance sheets and/or facilitate consolidation.
- The development of public sector balance sheets is advancing in several jurisdictions using IPSAS as a reference, yet there is a room for further improvement.
- All jurisdictions have reached the conclusion that PSA reforms need to be addressed in the wider context of an integrated PFM system including Budget, Audit or GFS functions and its respective institutions within the government.
- Some jurisdictions have strong and supportive SAs with experienced professionals in public sector accounting standards such as IPSAS.
- All PULSAR countries have recognized the value and importance of modern financial management IT systems and that they are a precondition for a successful PSA reform process.

<sup>48</sup> Data on Croatia not available.



## CHALLENGES

**ALTHOUGH THERE IS A SOLID BASE TO BUILD UPON, PULSAR BENEFICIARY COUNTRIES ALSO FACE CERTAIN CHALLENGES, WHICH DIFFER FROM JURISDICTION TO JURISDICTION. THEREFORE, NOT ALL OF THE FOLLOWING CHALLENGES MIGHT BE RELEVANT FOR EACH INDIVIDUAL JURISDICTION.**

- Overcoming the traditional focus on budgetary accounting by demonstrating the value added of an expanded accounting function.
- The need to deliver more detailed financial information, required by IPSAS, poses practical challenges. While many benefits of an IPSAS implementation are recognized, almost half of all jurisdictions perceive their current accounting systems to deliver sufficient information indicating that additional information might not be fully used.
- The comparability between the budget execution report and the financial statement is limited (e.g. no country is conducting a reconciliation), which presents a challenge for aligning the two functions in order to work towards an integrated PFM system.
- Creating and/or establishing a new accounting function due to the lack of technical expertise and experience in international accounting standards, particularly IPSAS.
- Considering “the right reform questions at the right time” through an adequate and comprehensive reform strategy, which ensures sufficient time and resources to develop political and institutional stability as well as support, before addressing more technical developments.
- Most countries are not able to direct significant resources towards the preparation of an accrual reform due to the lack of such resources and/or limited support within the government and its institutions.
- Engaging and ensuring the support of broader stakeholder groups outside of the MoF. This becomes particularly relevant in the context of volatile political environments and reform sponsors.
- Large numbers of entities present a big challenge for the compilation of financial information and the preparation of consolidated financial statements.
- The lack of integration of all entities under government control can lead to blind spots in terms of fiscal risks such as SoEs.
- Developing overarching IT governance standards to ensure that financial data is reliable, traceable and transparent.
- To ensure a workforce, which has the training and expertise to support PSA reforms, the level of professionalization of public sector accountants can still be improved, e.g. through better education, continuous professional development (CPD) or certification.



## OPPORTUNITIES

**FINALLY, WHEN ENVISAGING PSA REFORMS IN THE FUTURE, THE STUDY REVEALED MANY OPPORTUNITIES, WHICH SUPPORT THE JURISDICTIONS ON THEIR PATH TOWARDS ACCRUAL ACCOUNTING, AS LISTED BELOW.**

- The fact that a large majority of PULSAR jurisdictions have embarked on some form of PSA reform towards accrual accounting bears the potential to further strengthen the current learning community and to coordinate joint reform efforts.
- The heterogeneity in speed and focus of individual PSA reforms provide an opportunity to provide feedback and learning loops throughout different reform stages and to develop solutions for joint challenges and to adjust own reform processes accordingly.
- Many jurisdictions share the same historical and cultural background, thus there is a certain common ground on how institutions have emerged, which simplifies the understanding of how and why certain processes work or not in certain jurisdictions.
- There is a general trend among all jurisdictions to change their financial reporting standards from national accounting principles towards using IPSAS as direct or indirect reference point for the national accounting standards, thereby increasing comparability among the PULSAR beneficiary countries.
- All PULSAR countries offer university degrees, which include public sector accounting modules on undergraduate or graduate level.
- The current PSA environment in all PULSAR beneficiary countries provides support in form of a strong PFM knowledge base but requires specific capacity building activities (e.g. education, training, certification for staff) and external technical expertise, particularly regarding the integration of existing financial management systems.



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## THE PULSAR PROGRAM IS

MANAGED BY:




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CO-FUNDED BY:

 **Federal Ministry  
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Finance**

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