Enhancing Accounting & Reporting Practices in the Georgian Public Sector

June 6, 2023; Batumi, Georgia

Lela Pataraia





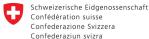




Public Sector Accounting and Reporting Program

PULSAR Program is co-funded by:





Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER State Secretariat for Economic Affairs SECO

Background



Improvement of the quality of the accounting and reporting in the public sector is one of the priorities of the Georgian PFM Reform

Improve effectiveness, efficiency and transparency of Public Finance Management process through

- Achieving full compliance with the accrual-based IPSASs;
- > Generating accrual-based accounting information via Treasury General Ledger for the whole of government as well as for each budgetary organization in real-time;
- > Preparing financial statements for the whole of government as well as for individual public sector entities according to the accrual-based IPSASs.

IPSASs Reform Quick Facts (2009)





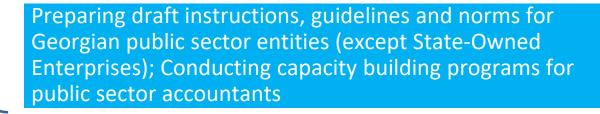


Purpose



Implementing accrual-based IPSASs in central budget entities

Mandate



Timeline



- Reform years 2009-2020
 After 2021 ongoing, with the aim of full compliance with accrual-based IPSASs

IPSASs IMPLEMENTATION STRATEGY (2009)



Phase	Activity	Year
Phase 1 – Initiation	Start-up actions to establish a legal framework, standard setting body, and resources leading to the adoption of IPSASs	2010
Phase 2 – Pilot	Preparation of pilot financial statements for selected central government agencies compliant with modified Cash Basis IPSAS	2012
Phase 3 – Modified Cash Basis IPSASs	Preparation of consolidated financial statements for central government compliant with modified Cash Basis IPSAS and also including as voluntary additional disclosure modified cash information	2015
Phase 4 – Limited Accrual	Extending Phase 3 to include some accrual-based IPSASs standards requirements	2017
Phase 5 – Full accrual IPSASs	Preparation and publishing Financial Statements compliant with all IPSASs	2020
Phase 6 - Ongoing	Georgia continues to provide IPSASs compliant financial statements with all new and amended IPSASs	From 2021 onwards

Revision of IPSASs Roadmap



 There was no reason why the accounting & reporting framework for different levels of government should be different

=> one reform should cover all public sector units — central entities, as well as autonomous republics and local self-government units

- Used a practical approach
 - Considering limited resources (time, human, material and etc.)
 - Benefits should exceed the related costs

Autonomous Republics and Local Self-government Units



- GAP Analysis between IPSASs requirements and the existing system of accounting & reporting in the autonomous republics and local self-government units (2016);
- IPSASs awareness workshops, trainings and etc. for representatives of autonomous republics and local self-government units (2016-2022);
- Memorandum of Understanding between the Treasury and the Association of Financiers of Local Self-Government Units of Georgia (2017);
- Working Group for the Support of IPSASs Implementation in Autonomous Republics and Local Self-Government Units (2018)

Autonomous Republics and Local Self-government Units (cont.)



- Detailed roadmap for implementation of IPSASs in autonomous republics and local self-government units (2018) – amendments in existing strategy:
 - ✓ Phase I Initiation (2017) define the accounting and reporting strategy for autonomous republics and local self-government units
 - ✓ Phase II Pilot (2018-2020) select pilot municipalities and training their representatives in IPSASs; 2017, 2018 and 2019 financial years` financial statements prepared by the pilot municipalities, according to the accrual-based IPSASs compliant accounting & reporting methodology
 - ✓ Phase III Full accrual (2021 and the following years) autonomous republics and local self-government units prepare annual financial statements according to the accrual-based IPSASs compliant accounting and reporting methodology

Introduced Accrual-Based IPSASs

IPSAS 1 Presentation of Financial Statements	
IPSAS 2 Cash Flow Statement	
IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	
IPSAS 4 The Effects of Changes in Foreign Exchange Rates	
IPSAS 5 Borrowing Costs	
IPSAS 9 Revenue from Exchange Transactions	
IPSAS 12 Inventories	
IPSAS 13 Leases	
IPSAS 14 Events After the Reporting Date	
IPSAS 16 Investment Property	
IPSAS 17 Property, Plant and Equipment	
IPSAS 19 Provisions. Contingent Liabilities and Contingent Assets	

Introduced Accrual-Based IPSASs (Cont.)

IPSAS 20 Related Party Disclosures	
IPSAS 21 Impairment of Non-Cash-Generating Assets	
IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)	
IPSAS 24 Presentation of Budget Information in Financial Statements	
IPSAS 26 Impairment of Cash-Generating Assets	
IPSAS 31 Intangible Assets	
IPSAS 32 Service Concession Arrangements: Grantor	
IPSAS 34 Separate Financial Statements	
IPSAS 35 Consolidated Financial Statements	
IPSAS 36 Investments in Associates and Joint Ventures	
IPSAS 37 Joint Arrangements	
IPSAS 39 Employee Benefits	

RESULTS ACHIEVED



- Before 2020- indirect adoption through incorporation of some IPSAS into local public sector accounting/reporting guidelines
- ✓ After 2020 direct adoption of 24 accrual-based IPSASs with some exceptions



- ✓ Before 2021- local accounting/reporting guidelines based on GFSM 2001 and budget classifications
- ✓ After 2021 direct adoption of 24 accrual-based IPSASs with some exceptions

Progress made:

- developed harmonized accounting & reporting methodology for public sector entities that works in practice;
- developed a unified CoA linked with statistical frameworks for public sector entities;
- developed standardized templates of financial statements;
- prepared financial statements by central budget entities, autonomous republics, municipalities and their subordinating units;
- increased accountability and transparency of autonomous republics, municipalities and their subordinating units;
- trained public sector accountants in accrual-based IPSASs

Main Challenges



- > The consolidated financial statements, mostly, do not cover administered items assets, liabilities, revenues and expenses on behalf of government;
- There is not a single, unified and complete registry of public sector assets;
- > Full consolidation is not achieved because Treasury General Ledger in the PFM system is not fully developed;
- Capacity shortage

Future Plans



- ✓ Increased coordination and collaboration with multiple stakeholders:
 - ✓ SAO;
 - ✓ Line ministries;
 - ✓ Donor Community/Development Partners
- ✓ Trainings and capacity building programs in IPSASs for public sector accountants to facilitate IPSASs implementation in the public sector;
- ✓ Established **public asset register system** for accounting & reporting purposes fully integrated with the Treasury General Ledger;
- ✓ Development of unified electronic formats for preparation and submission of financial statements.

Future Plans (Cont.)



- Further improvement of accounting & reporting methodology in the public sector in accordance with already introduced IPSAS standards;
- ✓ Introduction of additional accrual-based IPSAS standards relevant to Georgian public sector and making corresponding changes in the current accounting & reporting regulations;
- ✓ Treasury General Ledger fully developed in PFM system
- ✓ General Government Consolidated Financial Statements, prepared in accordance with accrual-based IPSASs, audited and published on Treasury`s web-site;

Lessons Learned



- ✓ Political support and engagement of main stakeholders;
- ✓ Development of IPSASs implementation strategy with detailed implementation plan to achieve full compliance with accrual-based IPSASs;
- ✓ Adequate resources (human, financial and etc.);
- ✓ Improvement of legal framework relationship of the new standards to existing legislation and the avoidance of conflicts between them.
- ✓ Estableshment of robust and sound PFM system;
- ✓ Participation in regional or country-level networking programs;
- ✓ Need to change not only culture and practices in the public sector, but also public financial management system as a whole;
- ✓ A long and continuing journey.

THANK YOU