



PULSAR

Financial Reporting Community of Practice (FINCOP)

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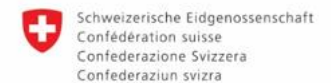
TCOP Working Group on Asset Management: Summary Report

PEMPAL
Public Expenditure Management
Peer Assisted Learning



Public Sector Accounting and Reporting Program

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Federal Department of Economic Affairs,
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September 2013 – Skopje, Macedonia:

Meeting of the Working Group on Public Sector Accounting and Reporting



2

Three interrelated subjects were identified, of particular interest for the community of practice, and then a working group was established for each of these subjects:

- **Accounting Standards**
- **Consolidation of Financial Statements**
- **Asset Management**

Working Group on Public Asset Management



3

The Participating States:

- Albania, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Tajikistan, Turkey and Ukraine
- Mr. **Mark Silins**, TCOP Advisor on Public Asset Management: Presentation of methodology recommendations, comments and consideration of individual issues

Working Group on Public Asset Management



4

During the initial process stage: To limit the working group's consideration scope to examination of the matters pertaining to management of non-financial assets (NFA) mostly covered in IPSAS 17 – PROPERTY, PLANT AND EQUIPMENT

Asset Management Scope



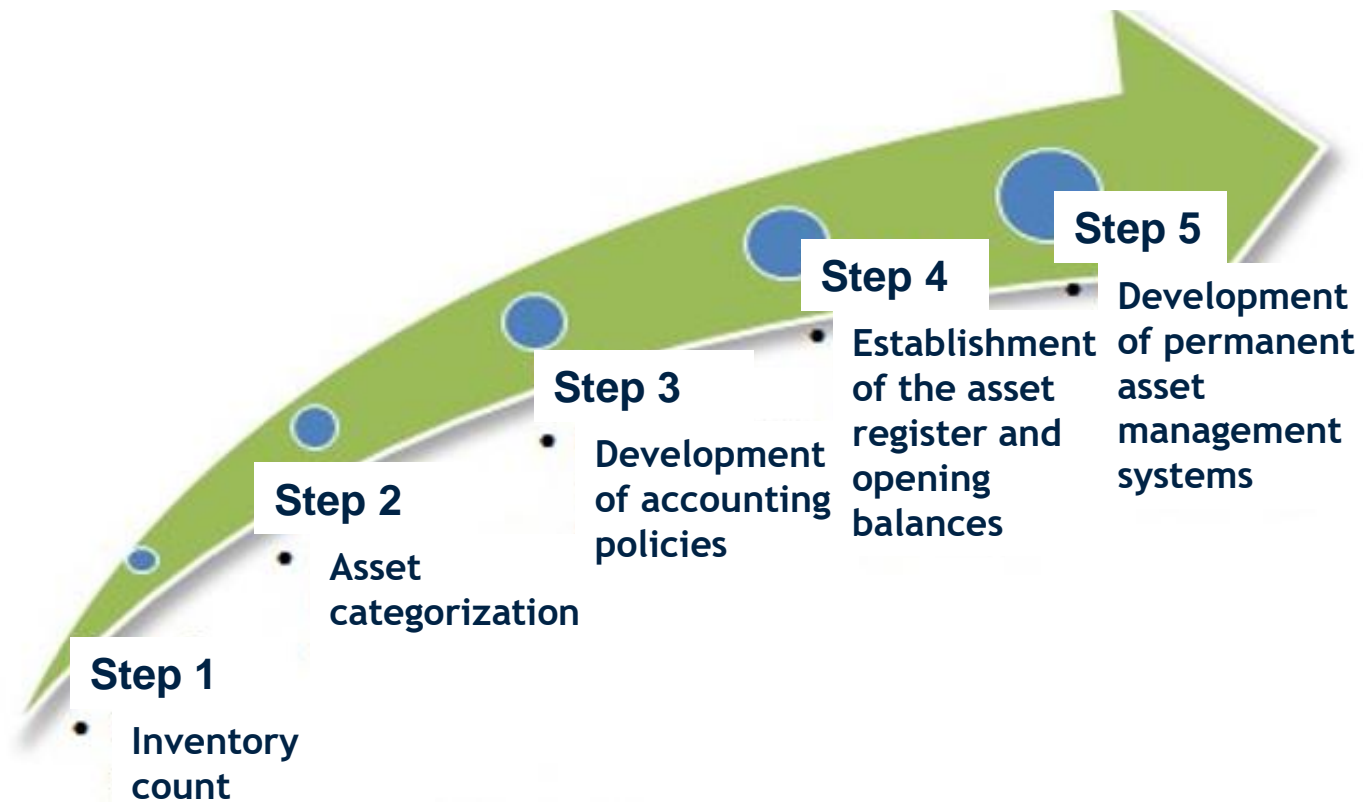
5

Non-Financial Assets (NFA)

- Inventories
- Historical assets
- Fixed assets (property, buildings and equipment)
- Infrastructural assets
- Military property
- Investment property
- Biological assets and agricultural products
- Intangible assets



FIVE STEPS OF ACCOUNTING FOR NFA



Asset Management - Concerns to Be Considered



7

- Determining the asset's useful life: Each country has its specific influence factors, which have to be considered when determining the useful lives for diverse asset categories
- Valuations of real estate located outside major settlements in areas where real estate transactions are typically not very frequent cannot be based on sufficient market information to determine the value of the real estate concerned reliably
- Low-value and quick-wear (LVQW) assets: Capitalization threshold values and relevant policies are required to ensure proper categorization of assets into capitalizable assets and assets which are to be expensed as incurred
- Overhauls and low-cost repair types
- Recognition of certain groups of lower value items which are material in the aggregate and thus may have to be recognized as an asset
- Componentizing of high value assets, in particular infrastructural assets
- Recognition of infrastructural, military and cultural-historical heritage assets

Experience of Individual Countries



8

- **Croatia:** The methodology for NFA recognition was implemented in 2013
- **Georgia:** A PAA meeting was held to summarize on the concerns associated with accounting for and reporting on assets
- **Kazakhstan:** This country made significant progress on the way to implementation of accrual accounting, including in NFA management
- The experience of these three countries is considered to be a valuable resource of interest for follow-up consideration

PLENARY MEETING - FEBRUARY 2014, TBILISI, GEORGIA



9

- A questionnaire was distributed to all TCOP member-states to gather NFA-related information
- The responses were received from 12 states (Bulgaria, Croatia, Georgia, Kazakhstan, Macedonia, Moldova, Montenegro, Russia, Serbia, Tajikistan, Ukraine, Uzbekistan). The questionnaire was produced in three languages – English, Russian and Bosnian – and included 23 questions.
- Mr. Mark Silins presented the key findings from the analysis of the received responses.
- The basis for the development of a prototype methodology and a procedure guidance for each state (one of the key deliverables included in the action plan of the working group on assets).
- The questionnaire respondents spoke about a number of asset management concerns, which should be adequately addressed in any manual/guidance to ensure accounting system continuity. Concerns expressed by the questionnaire respondents from (some) member-states included the following:

Questionnaire to Gather NFA-Related Information in all TCOP Member-States



10

- NFA are not appraised at their actual value for a number of reasons, which include inadequate revaluation for impairment and lacking accounting for depreciation/amortization
- Lack of comprehensive public property reporting in the financial statements of public sector entities
- Lack of a uniform information basis (register) in the public sector to account for NFA; no register has been defined for registration of the assets available for use by public sector entities
- The asset value was not specified on multiple occasions where public assets changed hands between public sector entities, making extra budget expenditures necessary to determine this value
- Certain concerns are associated with an approach to be applied for accounting for depreciation/amortization: some countries only apply the straight-line method which is not always the optimum approach

Report on the Findings of the Questionnaire Response Analysis



11

- An issue was raised regarding the reasonableness of parallel application of two different valuation methods to appraise the asset value
- The issue of identifying the asset groups to be subjected to revaluation
- There are conflicts between accounting for the asset depreciation/amortization for the duration of the asset's useful life and the standard depreciation charges that may be included in deductible expense for tax purposes. How can these conflicts be overcome?
- Another issue is segregation of overhaul/repair costs into capital expense and running expense within one project because there is typically only one budget item for repair costs

Report on the Findings of the Questionnaire Response Analysis



12

- How should a public sector entity assess economic benefits of an asset? How should revaluations be performed (e.g. in case of an intangible asset that is a web site)?
- Long-term asset revaluation methods
- Evidence substantiating re-assessed value upon asset revaluation
- Strategies for work with registration entries in a centralized general register maintained by the Treasury

Report on the Findings of the Questionnaire Response Analysis



13

- The issue of allocation of the rights to possess assets among entities at different public governance levels
- Who accounts for state-owned land in case the state is the party that enjoys economic benefits generated from that land?
- Is there a threshold value for recognition of non-financial assets?
- How should the value of intangible assets be appraised?
- Is it necessary to single out a separate asset class for accounting for military plant and equipment in the accounting records?

Report on the Findings of the Questionnaire Response Analysis: Key Recommendations and Follow-up Actions



14

- Where the states responded that they perform inventory counts on regular basis without specifying the count frequency, it would be reasonable to clarify if the inventory count is performed annually or at a different interval.
- To develop a group of standard NFA classes as a possible basis underlying the model accounting policies and procedures.
- A specialized discussion on depreciation/amortization rates and approaches may be reasonable as a follow-up action for the working group; the agenda of this action could also include Serbia's report on applying the book value write-off methodology referred to in Serbia's responses to the questionnaire.
- A way to move forward could be a request addressed to each country to develop a guidance section covering one of the directions for the NFA accounting policies and all accompanying mandatory auxiliary procedures, and then to use these sections developed by individual countries as the basis for the development of a comprehensive set of standard methods and approaches for the general guidance.

Report on the Findings of the Questionnaire Response Analysis: Key Recommendations and Future Actions



15

- The discussion could be continued regarding the threshold asset values to decide if it is possible to work out some common methodology or a common approach for the manual development.
- It would be useful to continue the discussion regarding the maintenance of asset registers, including the existing processes for asset management and introduction of adjustments to the accounting data in the register for financial reporting purposes as well as tangible asset classes and types not included in the register. It would also be interesting to check to what extent financial transactions are reported in the register or linked to the general ledger in the accounting system. Ideally the asset register should be an auxiliary register to the general ledger in the accounting system.
- It would be reasonable to check in case of the countries mentioning in their responses double registers – at a centralized level and in the relevant line ministries – if these registers are fully separate and whether they are used to record the same information or to control different asset types (e.g. where land and buildings are recorded in the central register and operational assets are recorded in the registers maintained by the relevant line ministries).

Report on the Findings of the Questionnaire Response Analysis: Key Recommendations and Future Actions



16

- It would be reasonable to examine examples of the methods that make use of threshold asset values and the procedures for inclusion in a standard methodology guidance.
- To develop a case study on actual application of an asset revaluation method (and a review for signs of depreciation/impairment)

Standard List of Asset Classes (*based on the responses to the asset questionnaire*)



17

- Land
- Residential buildings
- *Non-residential buildings*
- Structures
- Transport equipment
- Other plant and equipment
- Subsoil assets
- Natural cultivated assets
- Other natural assets
- Warehouse stocks
- Intangible fixed assets
- Intangible non-produced assets
- Tangible assets
- Cultural and historical heritage items

Approximate structure of the Guidance on Asset Accounting Policies



18

- Legal and regulatory framework: references to the relevant legal acts and standards, including GFSM2001/2014.
- Statement as to whether these methodologies or guidelines or a combination thereof are mandatory (e.g. whether it is permitted to make decisions locally where a certain methodology or procedure does not cover a specific unique situation. Who you should address your questions to where you are not certain how you must proceed in a particular situation (e.g. Audito General's Department, Accounting Policies Department)
- Definition of non-financial assets (it can also be provided in a more IPSAS-typical format, such as: PP&E, Intangible Assets).
- The asset range covered by this guidance (the chart of accounts can be a good starting point). Some countries may decide not to include certain assets into the transition period arrangements or to apply a specific treatment methodology for such assets (e.g. land, subsoil assets).
- NFA management: This issue is of particular relevance where some assets (e.g. land and buildings) are managed centrally and some other asset types by relevant line ministries. This chapter should also clarify which government agency/authority manages and accounts for which assets.
- Instructions on maintenance of asset register(s) and determination of opening balances:
 - a. New additions

Approximate structure of the Guidance on Asset Accounting Policies



19

- Acquisitions
- Construction projects, including treatment of construction in progress at the close of the reporting period
- Transfers, including valuation of the transferred assets that are not new
- b. Details to be included in the asset register
- c. Depreciation/amortization (a table will be included on the proposed depreciation/amortization method and useful lives for diverse asset classes/subclasses)
- d. Revaluation
 - *General instructions*
 - *Revaluation of assets: What happens when the standard depreciation/amortization rate comes in conflict with the useful life terms?*
- e. Permanent impairment of value
- f. Disposal
 - *Sale*
 - *Transfer*
 - *Writing-off (expensing) of assets with expired useful life or of fully impaired assets*

Approximate structure of the Guidance on Asset Accounting Policies



VIII.	Annual inventory count <ul style="list-style-type: none">a. Inventory count instructionsb. Frequency (may be different depending on the asset type)c. Matters to be reflected in the report (systemic issues, impairment of the entire asset class, losses, cases of fraud and/or misuse)
IX.	Threshold values for recognition of non-financial assets <ul style="list-style-type: none">a. Why are the threshold values needed? Accounting and budgetary consequences of expensing certain asset typesb. New assetsc. State-created assetsd. Overhaulse. Grouping of assets (with a consequence that they can become tangible assets)
X.	Revaluation policies
XI.	Value write-off policies
XII.	Componentizing policies
XIII.	Write-offs and losses to be reflected in the report and independently reviewed for existence of systemic problems or breach of duty
XIV.	Intangible assets
XV.	Military equipment
XVI.	Warehouse stocks

Working Group Deliverables



21

- Report on the outcome and findings of the questionnaire response analysis

<http://www.pempal.org/event/eventitem/read/106/430>

- Table with an approximate standard list of asset classes

- User guidance plan

- Guidance developed in Kazakhstan

http://www.pempal.org/data/upload/files/2014/11/paa_draft-guidance-on-publicassets_rus.pdf

- PAA Report on Georgia

http://www.pempal.org/data/upload/files/2014/11/paa_report-support-to-monitoring-of-pfm-reforms-support-programme-georgia_rus.pdf

- Model documents (OECD member-states: Australia and Canada) on asset accounting policies:

<http://www.finance.gov.au/publications/finance-ministers-orders/> <http://www.tbs-sct.gc.ca/pol/index-eng.aspx>



THANK YOU FOR THE ATTENTION!

Ms. ANGELA VORONIN, Director of State Treasury, Ministry of Finance of the Republic of Moldova; PEMPAL TCOP Chair