

REPUBLIKA E SHQIPËRISË
MINISTRIA E FINANCËVE DHE EKONOMISË

Implementing PFM and PSA reform in Albania: (Benefits and challenges)

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Public accounting in Albania

- Public accounting in our country is currently based on the instruction no. 8, dated 09.03.2018 "On the procedures for the preparation, presentation and reporting of the annual financial statements in the general government units", amended.
- The Directorate for Harmonization of Financial Management, Control and Accounting is responsible for preparing the methodology and rules of public accounting.
- The multi-phase project for the application of international accounting standards in the Albanian public sector has started in 2018.

Public Sector Accounting GAP Analysis

- Lack of precise determination of the number of controlled public sector units;
- The legal framework for public sector accounting and financial reporting was complex, fragmented and unclear;
- Lack of vocational education and training in the field of public sector finance and accounting;
- Lack of a code of ethics for public sector accountants;
- Confusing budget system;
- Partial functioning of the AGFIS system (Government Financial Information System), despite being used in most of the public sector;
- Lack of a consolidated asset register for the General Government Units in Albania (lack of a certain methodology for measurement and inventory of assets).

Public sector accounting reform's objectives

The Government of Albania is committed to gradual introduction of a modern system of public sector accounting based on international standards.

The main purpose of this commitment is to achieve two main objectives:

- Development of public sector accounting and financial reporting in compliance with the International Public Sector Accounting Standards (IPSAS);
- Development of professional capacities and skills in the field of accounting for the Ministry of Finance and Economy and for the public sector accountants.

Benefits of IPSAS implementation in Albania

- Greater transparency and accountability of the financial decisions made by jurisdictions for donors, citizens and investors;
- Complete information to aid better decision making;
- A complete inventory of assets and stocks, which enables entities to assess whether these are being used effectively, efficiently and economically to deliver public services;
- Internationally recognized government reporting framework is an important factor in the assessment of a country's financial stability and attractiveness for investment by supporting fairer and more accurate credit ratings and encourage foreign direct investment;
- Governance of public finances will be enhanced through greater transparency and accountability required by the disclosure of government assets and in particular liabilities.

Albania's approach to IPSAS implementation

Public accounting in Albania is currently done on a cash basis with elements of accruals regarding assets and liabilities.

Partial adoption of IPSAS: *National public sector GAAP is modified and/or new public sector GAAP is issued that is consistent with selected parts of selected IPSAS.*

There are many reasons why this is the preferred approach, including:

1. There is a list with consistencies and inconsistencies between Albanian public sector GAAP and IPSAS for each standard. Also, **not all the IPSAS standards are relevant** for the Albanian context and not all the parts of a standard are applicable in the Albanian context.
2. The current approach provides accountants with concrete, specific and clear accounting principles to ensure unambiguous understanding of requirements and avoid any inconsistencies in the application of the accounting standards. **Some of the original IPSAS are not aligned with the local country approach** and cultural expectations regarding the accounting cases.

Timeline approach

ALBANIA IPSAS IMPLEMENTATION - SUCCESSIVE STEPS PRIORITISATION OF THE IMPLEMENTATION APPROACH



Challenges

Political/Managerial challenges

- ✓ Accounting reform/asset management reform is not seen as being as politically interesting as budget, tax, debt, procurement, etc.;
- ✓ Active involvement of top management;
- ✓ The political landscape changes and top management change.

Structural/organizational challenges

- ✓ Big challenge to motivate and manage the stakeholders;
- ✓ Resistance from stakeholders as it means significant changes for them.

Capacity challenges

- ✓ Building expertise;
- ✓ Lack of the technical information needed and the lack of professional capacities;
- ✓ Increasing the CHU capacities in order to develop accounting methodologies, translate IPSAS and develop CPD.

Overcoming the Challenges and Obstacles encountered

Political/managerial/organisational

- ✓ Developing a change management strategy;
- ✓ Continuous communication and engagement, which is crucial in this process;
- ✓ Awareness raising to MoFE leadership;
- ✓ Establishing a steering committee and project management structures;
- ✓ Engagement and communication with the stakeholders;
- ✓ Important participants of stakeholders and beneficiaries in the Steering Committee; Also, had them participate in project activities.

Capacity/people

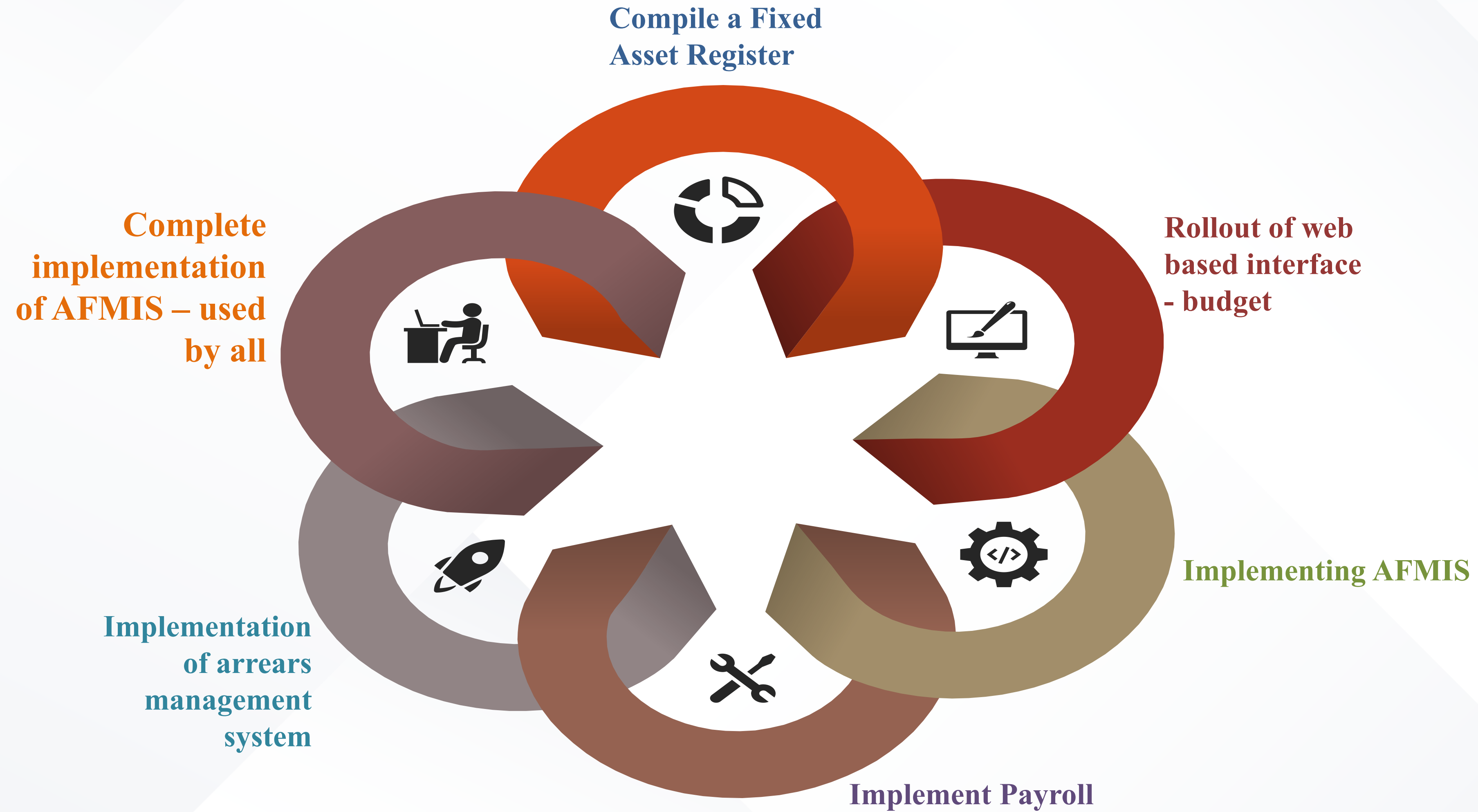
- ✓ First activities were related to increasing capacities within the project implementation team, with World Bank, ACCA (IPSAS, IFRS, PFM), CIPFA (before this project);
- ✓ Establishing a team that had the most capacity.

Overcoming the Challenges and Obstacles encountered

External partners

- ✓ External partner/donor support used as a driver to push the reform at political/management level and to raise awareness;
- ✓ Keep informed, engage with World Bank to support. A key senior manager has to be persistent and resilient and engaged to work closely with them;
- ✓ Involved in the Steering Committee and project activities;
- ✓ Active communication, formal and informal;
- ✓ A useful document was the communication strategy.

Fit with other initiatives

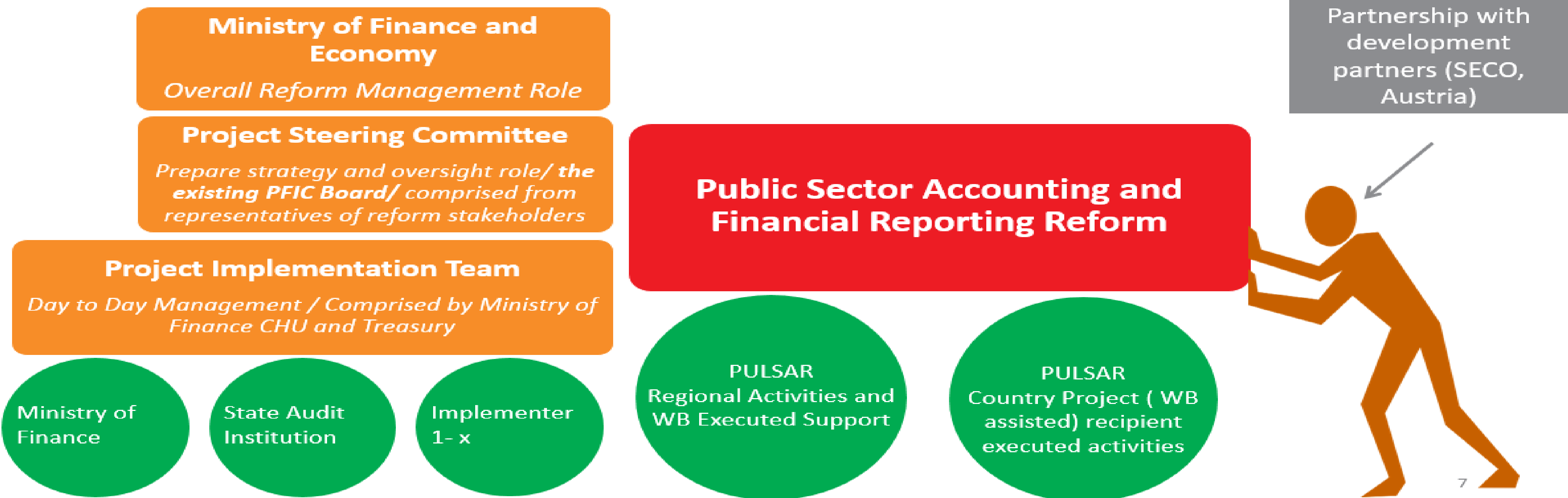


Expected results/outcomes

- Presentation of financial statements in accordance with selected IPSAS standards.
- Improved quality of accounting, statistical and financial reporting
- Improved technical capacity of the Financial Reporting Unit of the MoF (in charge of Public Accounting rules implementation) and Central Harmonization Unit (in charge of Public Accounting methodology) in improving the quality of public sector financial reporting in compliance with international standards.
- Development of a sustainable public sector accounting qualification compatible with international good practices; and improved understanding and application of relevant accounting standards by practitioners and public sector auditors.
- Greater awareness of the benefits of improved public sector accounting and financial reporting by stakeholders (government officials, politicians, media and civil society organizations).

Project Stakeholders

The principal project stakeholders are the Ministry of Finance and Economy, prioritized users of public funds, INSTAT and the State Audit Institution



THANK YOU!

