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PULSAR Community of Practice

Consolidation: Experience of Georgia and Lessons Learned

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PFM – Georgian Context

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PFM

Chain of rules, systems and processes, the strength of which is limited to that of its weakest link

Primary Ingredients:

- **Comprehensive, Effective and Transparent Tools and Processes**
- **Efficient and Safe Investment of Public Funds**

Treasury - Mission and Vision



Ensure Comprehensive, Effective and Transparent Public Financial Management



- ✓ **Provide simple, user-friendly and transparent systems for budget users to perform budget operation**
- ✓ **Accurate and timely accounting and reporting on budget and related operations**
- ✓ **Implement International Public Sector Accounting Standards**



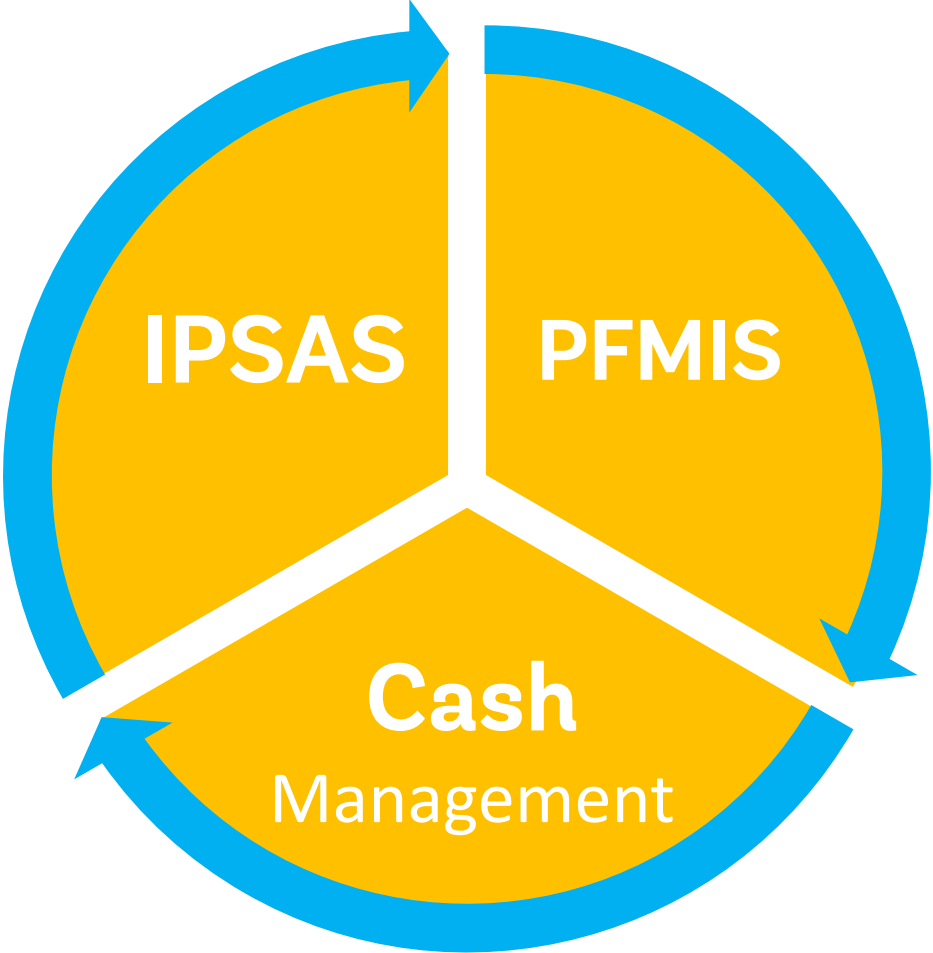
Ensure Efficient and Safe Investment of Public Funds



- ✓ **Manage and Operate Treasury Single Account**
- ✓ **Develop reliable and appropriate mechanisms and instruments for Public Cash Management**

Treasury PFM Key Areas

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International Public Sector Accounting Standards

Why IPSAS ?

We are aiming at

- **Strengthening Public Financial Management Structure**
- **Improving Transparency and Accountability**
- **Building trust and credibility towards the Public Finance**

Through

- **Improving Quality and Reliability of Accounting Data**
- **Ensuring Continuity and Comparability of the Financial Statements;**
- **Enhancing Macroeconomic Analysis and Forecasting abilities**



IPSAS implementation in Georgia – Brief Summary

- IPSAS Implementation Strategy Developed and Approved (2009)
- Georgia Public Sector Accounting Standards Board established
- Treasury Staff trained as trainers
- IPSAS translated in Georgian. The official Georgian Edition of IPSAS was published upon IFAC's endorsement

Initiation

- Requirements of the cash based IPSAS standards were reflected in the accounting and reporting instructions
- Financial statements were prepared by the pre-selected pilot organizations in accordance with this methodology

Piloting

Modified cash-based methodology was adopted across central budget funded organizations

Transition 1

Limited accrual method requirements were reflected in accounting/reporting regulations

Transition 2

Since 2020, 24 accrual based IPSASs have been adopted (taking into consideration the relevance of these standards in the Georgian context).

Adoption

Legislative Base - General

- Instruction on Accounting and Reporting of Budgetary Organizations
- Instruction on Chart of Accounts and its Implementation
- Instruction on Preparation and Presentation of Financial Statements by Budgetary Units
- Instruction on Depreciation/Amortization and their Reflection in Accounting and Financial Reporting

Legislative Base - Internal

- Internal methodological guidelines and rules for accounting and reporting in the form of an internal accounting policies
- Detailed Chart of Accounts
- Forms of documents reflecting economic events together with relevant mechanisms and procedures
- Terms for processing accounting information
- Internal procedures for preparation and submission of financial statements
- Internal control system that ensures the effectiveness of the entity's activities

The stages of preparation of consolidated financial statements

- Lower-level consolidation is carried out by Spending institutions
- Spending institutions submit consolidated financial statements to the State Treasury by April 1 of the year following the reporting year
- At the Higher-level consolidation, State Treasury prepares the consolidated financial statements of the government and publishes it within six months after the end of the reporting year
- Approved financial statements are sent to the state audit

Technical aspects of preparation of consolidated financial statements

- The preparation of financial statements is mandatory according to the basic principles of the IASB
- Transactions between entities subject to consolidation are eliminated during the preparation of financial statements, and the statements are prepared as if these transactions were not implemented in the reporting period
- In case accounting policies differ, the controlling entity must make appropriate adjustments when preparing the consolidated financial statements
- The head of the unit is responsible for the proper presentation of financial statements

Forms of financial reporting

- Statement of financial position
- Statement of financial results
- Statement of changes in net assets/equity
- Cash flow statement
- Statement of comparison of budget and actual amounts

Coverage of Financial Consolidation

- **Included:**
Central Budget organizations (e.g. Ministries) and their subordinated institutions
- **Attached as an addendum (not consolidated):**
Municipalities and Autonomies
- **Not Included:**
State-owned Enterprises

Primary Challenges

➤ **Consolidation is not complete**

» Fully operationalizing general ledger functionality will ensure full consolidation across all levels and budgets

➤ **Manual vs Automation**

» Module in the General Ledger will ensure automation of financial accounting and reporting

➤ **Human & Time Capacity**

» Resource scarcity in the field of public sector accounting remains a challenge. In this part, important role is assigned to consistent collaboration with donors and development agencies

Lessons Learned - Benefits

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- Clear picture on service potential and resource availability
- Better quality data for budget planners
- Potential to improve asset management
- Potential to increase revenues in the budget
- Improved debt management
- Positive impact on increasing the “sense of public accountability” of managers in the public sector

Lessons Learned – Needs

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- Separate consolidation module
- Staff Training
- Internal accounting policies
- Benchmarking and learning from peers
- Cooperation with international institutions
- Expanding the TSA coverage further

Thank you for your Attention !

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