

# Enhancing Accounting & Reporting Practices in the Georgian Public Sector

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**CFRR** >>  
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**PULSAR** 

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# 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)



<b>Leading Institution</b>	{	Treasury Service of the Ministry of Finance of Georgia
<b>Purpose</b>	{	Implementing accrual-based IPSASs in central budget entities
<b>Mandate</b>	{	Preparing draft instructions, guidelines and norms for Georgian public sector entities (except State-Owned Enterprises); Conducting capacity building programs for public sector accountants
<b>Timeline</b>	{	<ul style="list-style-type: none"><li>• Reform years - 2009-2020</li><li>• After 2021 - ongoing, with the aim of full compliance with accrual-based IPSASs</li></ul>

# IPSASs IMPLEMENTATION STRATEGY (2009)



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

# 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

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IPSAS 1 Presentation of Financial Statements

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IPSAS 2 Cash Flow Statement

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IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors

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IPSAS 4 The Effects of Changes in Foreign Exchange Rates

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IPSAS 5 Borrowing Costs

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IPSAS 9 Revenue from Exchange Transactions

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IPSAS 12 Inventories

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IPSAS 13 Leases

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IPSAS 14 Events After the Reporting Date

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IPSAS 16 Investment Property

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IPSAS 17 Property, Plant and Equipment

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IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets



# Introduced Accrual-Based IPSASs (Cont.)

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IPSAS 20 Related Party Disclosures

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IPSAS 21 Impairment of Non-Cash-Generating Assets

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IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)

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IPSAS 24 Presentation of Budget Information in Financial Statements

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IPSAS 26 Impairment of Cash-Generating Assets

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IPSAS 31 Intangible Assets

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IPSAS 32 Service Concession Arrangements: Grantor

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IPSAS 34 Separate Financial Statements

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IPSAS 35 Consolidated Financial Statements

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IPSAS 36 Investments in Associates and Joint Ventures

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IPSAS 37 Joint Arrangements

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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.
- ✓ Establishment 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**