



REPUBLIKA E SHQIPËRISË  
MINISTRIA E FINANCËVE DHE EKONOMISË

# **Implementing PSA reform in Albania (Capacity building)**

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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



# Technical Assistance

- ✓ Review of the business processes that will enable the financial reporting based on IPSAS;
- ✓ Review of the Chart of Account;
- ✓ Evaluation of the AGFIS system functionalities to enable the financial reporting based on Accrual Accounting (IPSAS);
- ✓ Preparation of a uniform asset register format;



# Technical Assistance

- ✓ Preparation of the instructions based on accrual accounting, regarding:
  - Inventory;
  - Expenses;
  - Provisions;
  - Long-term assets
  - Employee benefits;
  - Revenue;
  - Financial instruments;
  - Reporting and presentation of FS;
  - Consolidation

# Capacity building activities

- ✓ Train the trainers program on public sector financial reporting and accounting based on IPSAS (**28 participants**).
- ✓ Pilot the first-time training of the finance and accounting staff in central government institutions on public sector accounting and financial reporting based in IPSAS. (**100 accountants from about 20 different institutions**).
- ✓ Massive trainings for accountants and financial officers regarding financial reporting and public sector accounting based on IPSAS (**400 accountants**).

# Capacity building activities

## Pilot training modules

Public finance and information systems

Financial accounting and financial reporting

Advanced financial reporting (IPSAS)

Business processes and procedures

# Selection of IPSAS for training course

Standard	Suggested ranking
IPSAS 1 Presentation of financial statements	1
IPSAS 2 Cash flow statements	1
IPSAS 3 Accounting policies, changes in accounting estimates and errors	1
IPSAS 4 The effects of changes in foreign exchange rates	3
IPSAS 5 Borrowing costs	3
IPSAS 9 Revenue from exchange transactions	2
IPSAS 10 Financial reporting in hyperinflationary economies	3
IPSAS 11 Construction contracts	3
IPSAS 12 Inventories	1
IPSAS 13 Leases	2
IPSAS 14 Events after the reporting date	1
IPSAS 16 Investment property	2
IPSAS 17 Property, plant and equipment	1
IPSAS 18 Segment reporting	3
IPSAS 19 Provisions, contingent assets, and contingent liabilities	1
IPSAS 20 Related party disclosures	2
IPSAS 21 Impairment of non-cash-generating assets	2
IPSAS 22 Disclosure of financial information about the general government sector	3
IPSAS 23 Revenue from non-exchange transactions (taxes and transfers)	1
IPSAS 24 Presentation of budget information in financial statements	3
IPSAS 26 Impairment of cash-generating assets	2
IPSAS 27 Agriculture	3
IPSAS 28 Financial instruments: Presentation	3
IPSAS 29 Financial instruments: Recognition and measurement	3
IPSAS 30 Financial instruments: Disclosures	3
IPSAS 31 Intangible assets	2
IPSAS 32 Service concession arrangements: grantor	3
IPSAS 33 First-time adoption of accrual basis IPSAS	2
IPSAS 34 Separate financial statements	3
IPSAS 35 Consolidated financial statements	3
IPSAS 36 Investments in associates and joint ventures	3
IPSAS 37 Joint arrangements	3
IPSAS 38 Disclosure of interests in other entities	3
IPSAS 39 Employee benefits	1
IPSAS 40 Public sector combinations	3
IPSAS 41 Financial instruments	3
IPSAS 42 Social benefits	2
<b>Summary</b>	
1 = essential	9
2 = important	9
3 = not currently important	19
<b>Total</b>	<b>37</b>



# Capacity building activities

- ✓ Develop a CPD program;
  - Develop a CPD policy and program for accounting and finance management staff across central and local government;
  - Design the needs assessment methodology and the tools and instruments to maintain the CPD program updated.

## Capacity building activities

- ✓ Develop an Educational Framework for development of Public Sector Accounting Professionals
  - Professional Accounting Organizations (PAO);
  - University (Bachelor/ Master level).
  
- ✓ Translation of IPSAS.

# 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.

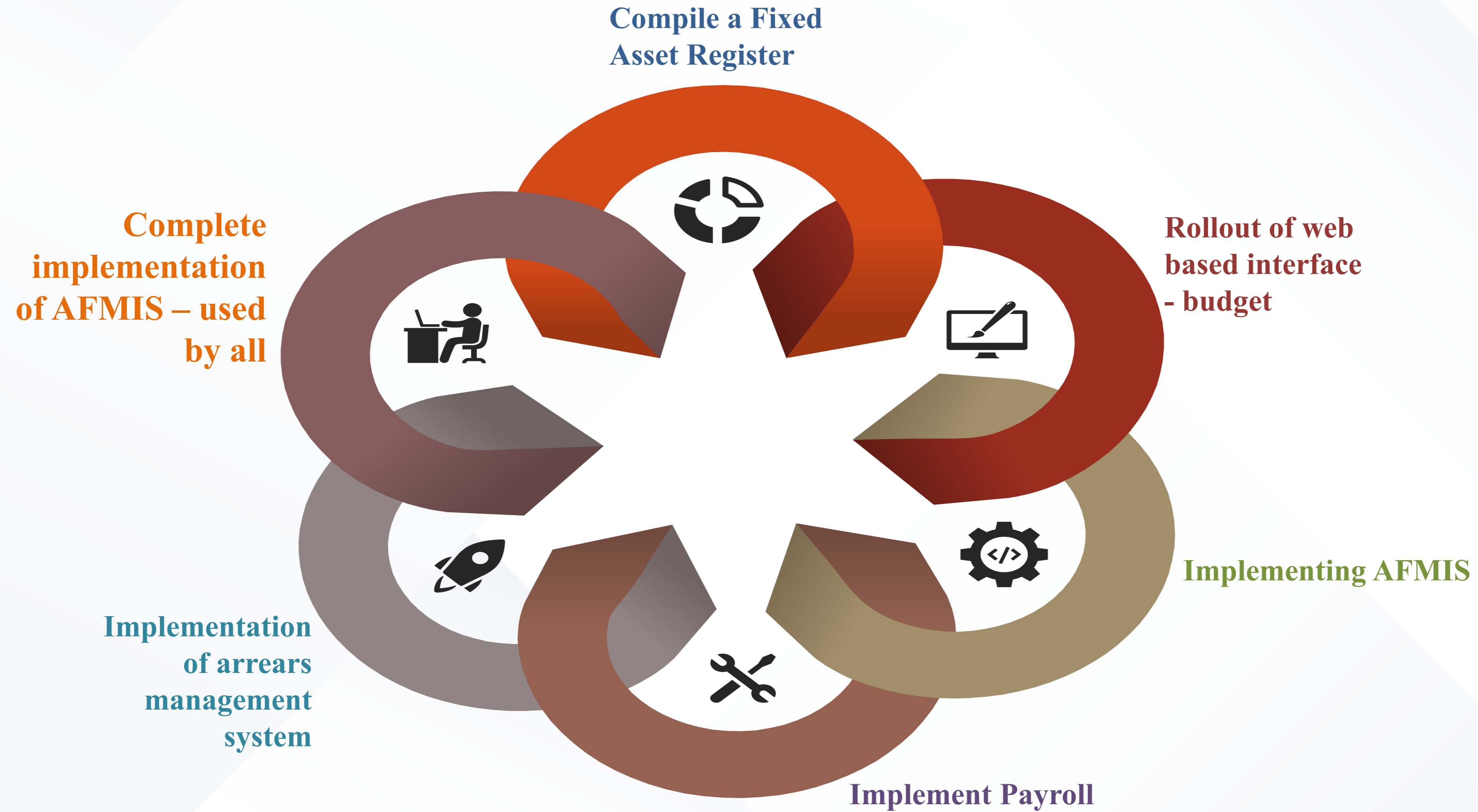


# Overcoming the Challenges and Obstacles encountered

## *External partners*

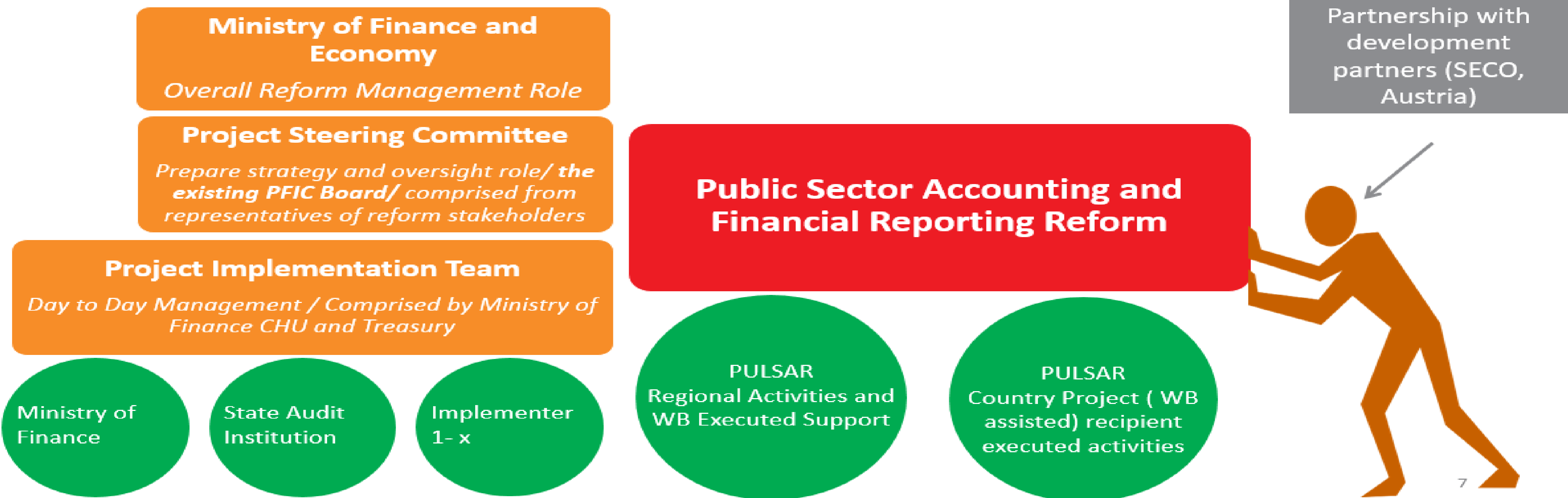
- ✓ External partner/donor support used as a driver to push the reform at political/management level and to raise awareness;
- ✓ Keep informed, engage with World Bank to support. A key senior manager has to be persistent and resilient and engaged to work closely with them;
- ✓ Involved in the Steering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

# Fit with other initiatives



# Project Stakeholders

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



# 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).



**THANK YOU!**

