JORDAN FISCAL REFORM II

Further Public Finance Reforms: Treasury and Public Accounts Directorates of the Jordanian Ministry of Finance

October 2010

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PART I:
ASSESSMENT OF OPERATIONAL EFFECTIVENESS OF THE TREASURY

The Treasury is one of the main participants in the Government's program of continuing public financial management reform (PFM). With respect to the GFMIS implementation (a critical PFM reform activity), the Treasury is one of two key participants – the BBD being the other key participant. This is a difficult time to perform an assessment: the GFMIS which has been designed to streamline and modernize financial management is in an advanced stage of development – indeed pilot testing is imminent. Treasury staff members have been attending training seminars that demonstrate how the new system will work and they can see the efficiencies that will be obtainable in the very near future. An assessment, after the system has been implemented, would provide more useful information on this issue.

For this reason the following discusses the operations of the MOF's Treasury Directorate and identifies further activities to enhance its scope and operation. The assumption here is that in Jordan, as everywhere else, the Treasury should <u>manage and optimize</u> the financial resources of the country. Each section provides an overview, the Jordan status, and suggestions for further reform in the area.

1. <u>Electronic Payments</u>

a. Overview

Electronic signatures have been legalized in many countries and governments make most of their payments through an electronic transfer of funds mechanism, even though the use of checks cannot be eliminated completely. Electronic settlement result in appropriate additions or subtractions of cash in a bank's correspondent account (the settlement centers are often managed by the Central Bank) and, following this settlement by bank, each bank adds to or subtracts from their clients' accounts through electronic systems.

Electronic payments take place by sending specific payment information in a specific format through a variety of safe communication networks. In addition to identifying the payer, bank and associated bank account, the bank and the bank account of the payee must be known. So, for example, when a person is paid a salary that is deposited directly to his or her bank account, the employer must know the individual's bank account number.

Electronic payments from individual accounts are generally made possible by the bank through an internet logon and a payment screen where the information for each payment can be entered by the payer and submitted. In the case of government electronic payments, individual payment screens are not used by the TSA bank. Instead, secure systems exist that handle a high volume of payments such that payment information (only for payments that are approved) is obtained from the GFMIS, converted to the specified format, and transmitted to the TSA bank for posting and further transmission to the settlement center. In this way no additional input is required to order the payment and this not only reduces errors but also saves effort. Most importantly it allows the recording of all the stages of budget execution in a single GFMIS.

This requires some planning by the TSA bank. For example, in the Republic of Macedonia which is about the same size as the Kingdom of Jordan, the central bank (National Bank of Macedonia) has made its RTGS system (MIPS) work on several networks. One of them is SWIFT, another is a private network over Macedonian telecom and the third one is direct connection. The system was designed and implemented with the assistance of the EU and World Bank.

Most of the banks in Macedonia and the Treasury (Ministry of Finance) connect over Macedonian telecom (because of cost). All use the SWIFT message standard so that payment orders can be received over MacTel and sent over SWIFT. The cost of processing electronic payments is extremely low.

This approach allows the approved payments to be processed as an extract from the GFMIS without additional entry by a person (and eliminate possibility of mistakes) and keeps all information on the GFMIS. In other words, the budget user can see the entire budget execution procedure in one place.

b. Current status of development of electronic payment

The electronic payment module to extract payment information is not yet developed in GFMIS but staff members do not anticipate difficulties. Additional information will be required to make payments, i.e., the bank and bank account of the payee, but this information can be developed gradually by implementing electronic payments gradually. What the GFMIS staff does not yet know is the format that the extract will require. Usual these formats are dictated by the Central Bank and reflect SWIFT message standards.

Unfortunately there appears to have been insufficient coordination which has caused the Central Bank to begin development of an e-payment module for payments. This seems to be the same type of system as is used for personal payments and involves an individual payment screen. This would not be a system integrated with GFMIS but a separate system where separate input would be required. The Central Bank does process multiple payments from the banks through its RTGS but does not anticipate this approach with the Treasury – unless the Treasury becomes a member of SWIFT.

If the Central Bank approach continues, it has very serious consequences. Each e-payment screen takes a long time to complete and this would require a lot of personal time and result in errors. Adopting such an approach would give a near fatal blow to GFMIS because it takes away much of the advantage of using the GFMIS. An integrated financial system records all stages of budget execution and payment is a very important stage. A separate system for payments would cause problems for cash management and also for audit.

Consequently, it is very important for GFMIS and high officials of the Ministry of Finance to negotiate this issue. At this point the Central Bank has the information about Macedonia's approach, the information on websites where most the approach has been documented. Additionally personal contact information can be provided. (Another country that does the same procedure is Latvia which is very convenient to visit, since there are direct flights between Amman and Riga. It is, however a country with a smaller population.)

c. Future considerations for electronic payments

- If the Central Bank will not change its approach, an electronic payment procedure should not be employed for regular payments. The advantage of electronic payments is that the Treasury immediately knows its payment amounts and its cash balance. With checks, this amount is not known because of the time between issuance of checks and presentation of the check to the bank so a large cash float is required. If electronic payments are allowed to be made on a separate system, it would function like the check system with the Treasury not knowing the payment amount immediately (and, consequently, not being able to compute its available cash).
- Payrolls can still be processed electronically to employees' bank accounts according to the existing procedure.
- If the Central Bank agrees to change its approach, it will require some time to develop the interface of another network to its clearing system.
- When the Central Bank is able to accommodate government electronic payments, phasing should begin in order to gradually develop bank and bank account information that will be required:

  For payments by the Government:
  1) At first electronic payments to suppliers who are awarded purchase orders (through a tender process) or who provide successful price quotes subsequent to a newspaper advertisement and obtain the order for the goods. Notification that the payment will be electronic and bank and bank account information will be required can be made a part of the tender document as well as part of the newspaper advertisement.
  2) Utility payments can convert to electronic quickly because these payments occur often and regularly and sufficient contact with the utility should make it easy to obtain the required information.
  3) The Central Bank has a procedure called "file act service" that allows for one amount to be distributed to multiple accounts in a bank. This could be used for payroll. This may not be in use currently, but apparently it does exist.
  4) Other payments could remain check-based until a sufficient comfort level is reached with the electronic payment approach. The total of these payments would not be great – and decrease as time went by.

  For payments to the Government:

  1) Electronic banking could also be implemented for taxes and fees with individuals making electronic payments through their banks. The Revenue Departments would have to develop the specifications for this. This would require that the Central Bank forward the electronic transactions to the GFMIS for input.

2. Treasury Functions

a. Overview

Government treasury organizations differ from country to country as do the functions they perform and there is no "international standard" that recommends a specific structure. The one constant that all current literature agrees on is that the Treasury is responsible for cash planning and management and manager of the Treasury Single Account (TSA). How comprehensive the cash management scope and how inclusive the TSA depend on the Government's vision for financial management, the general understanding and political support of the TSA. Comprehensiveness also depends on the existence of an integrated financial management system (IFMIS) that tracks all financial transactions in a single system, the complexity of the Central Bank and its settlement systems and the sophistication of the rest of the banking sector.
Most treasuries are not concerned with the internal business operations of the MOF, but it can provide this service. More generally these are the responsibility of the MOF administration office. The Treasury does prepare and process central government payments such as debt service payments.

On the comprehensive side of the spectrum, a Treasury manages both financial assets (cash) and liabilities (debt). A way of looking at this is in terms of a front office, middle office and back office concept (as Debt consultants tend to do).

1) *Front Office* – borrowing and investment

- External borrowing operations to deal with external loan management.
- Internal borrowing operations to handle bonds and short term securities as well as investments.

2) *Middle Office* - cash management, planning and research, policy and portfolio strategy development, risk management, procedures and controls

- Debt policy and risk management operations unit to develop the debt strategy, track and analyze contingent liabilities, analyze and report on the debt portfolio.
- Cash management operations to prepare projections of revenues and expenditures, prepare monthly cash budget, review commitments and expenditures relative to the approved budget, and identify available cash for investment and cash flow needs to be addressed by short-term securities.
- Accounting and reports would set accounting policy and procedures for the budget institutions and issue analytical reports, maintain the chart of accounts and insure transaction registry.
- Unit to develop procedures, including legal support.

3) *Back Office* – operations

- A financial operations unit to manage *all income recording* and *central disbursement operations* for all Funds, monitor availability of budget and cash to cover all payments authorized by the institutions, process debt service payments authorized by the debt units.
- A customer service department that works with the decentralized units to ensure that their needs are met and any problems resolved, including training of their staff.

An example of such a comprehensive approach to financial assets and liability management can be found in the United States Treasury (the unit is called Financial Management Service or FMS).

Most countries do not have such comprehensive Treasuries. Often the Debt Service unit (manager of long term liabilities) is at the same organizational level as the Treasury. In some countries (e.g., England and France) the Cash Management (including Debt) is outside the Ministry and operates directly with the market. The units that most often are found within a Treasury include: 1) a management unit for administration and procedures development, 2) a cash planning unit, 3) an operations unit (a revenue-recording sub- unit and a disbursements sub-unit, sometime separated for General Revenue and other Funds), and 4) accounting unit which insures that all financial transactions are captured and oversees the system's accounting reports. If there are branch treasuries, there may be a unit that oversees the branches in order to give this activity sufficient attention. Because Treasury operations are usually computer system intensive, some have found the need to have IT personnel to provide liaison between the Treasury and the IFMIS.

With the GFMIS, the budget execution report is a standard report and the rules for budget execution are the responsibility of the Treasury. However, consolidation of financial reports for the Government Sector (central plus local governments) and the Public Sector (adding on public enterprises) is often accomplished at a unit outside the treasury.

b. Treasury Directorate in MOF

At the current time the Treasury Directorate has five divisions: Treasury Division (TSA management) added a year and a half ago, Trust Accounts Division, Expenditure Division for General Revenue, Advances Division, and Cashier (although there are also cashiers in the Trust Accounts division).

A fair amount of the Treasury responsibilities concerns the operations of MOF programs that are within the MOF budget but operate outside the ministry. The Expenditure Division is made up of Current and Project Expenditure units – project expenditures are called capital expenditures, regardless of the expenditure object. The staff prepares payment requests for the programs within the MOF budget but performed outside. They also process central government payments such as for debt service.

The Cash management/cash planning component has been added recently and it is the cornerstone unit of any treasury. The Treasury Division here has a global responsibility for cash planning and it has an excellent record of daily management of the TSA. Based on information in the financial plan, the Division sets monthly cash ceilings which start out low but are increased as payroll payments come due or large payments need processing. The ceilings are communicated to the Central Bank where they are recorded for each account. When a budget user exceeds a ceiling, the Treasury Division is notified so that it can increase the ceiling amount (and take other action as needed). There is good interaction between the Division and the Central Bank and information on ceilings and payments processed is exchanged on a daily basis. The Trusts Division oversees the project accounts funded from Trust accounts. This primarily covers donor funded projects although each major budget user has a trust account that is not connected to a specific project. The Division processes and records all payments and records all revenues.

The Advances Division approves and processes all advances, such as for travel or advance payments required by contractual obligations. Currently all advances are made from a Trust account and final settlement occurs by the end of the year.
The Cashier Division prepares and issues checks in accordance with payment requests received from the Expenditure Division.

c. Considerations for continued reform

- The Treasury may want to emphasize more its overall cash management responsibility and, where possible, services for the MOF should be identified as such. For example, if the Expenditure Division is in charge of overall expenditure procedures, then, perhaps, it should be known as the Expenditure Management division.
- Cash management is both management of cash going out and well as cash coming in. Although it has the function, there is currently no unit to monitor cash receipts within the Treasury (except for the receipt cashier in Trust accounts) and the MOF may consider concentrating the responsibility for cash in the Treasury. Information on receipts is sent to the Revenue Directorate; for example from the Financial Centers. Generally, cash deposit information is collected by the Treasury in accordance with its cash management responsibility and to insure its accurate recording in the TSA whereas budget information on the type of receipt and the payer information are collected and recorded by the Revenue Directorates[1]. In other words, the Treasury would receive all deposit slips while the Revenue Units should receive the back back-up information that identifies the payer and the purpose of the payment. This approach provides a "check and balance" on receipts and is usually considered a good internal control procedure. It also facilitates income forecasting and cash planning by the Treasury. To illustrate:
  Collection Points
  1) Monthly send payment backup (invoices, receipts) to Revenue Units. Revenue Units prepare reports of receipts by Revenue Classification and record payments to Payer records
  2) Daily give deposit information to Treasury by telephone or fax. Treasury prepares reports of cash receipts and insures their recording in the TSA.
  3) Monthly send deposit slips to Treasury.

[1] These amounts may differ by day, even by month, but should agree by the end of the year.

- The Financial Centers are, primarily, collection centers. It would seem that the operations of these Centers are most closely aligned to Treasury operations and changing their reporting to the Treasury may strengthen their contact with the Ministry of Finance and facilitate cash planning.
- Consideration should be given to centralizing the writing of checks (at least in each Ministry) to reduce the personnel cost of making payments and enabling a more isolated location. In other countries there is intensive security around check writing. There is a separate locked room where the check-writer resides, approved staff must record the check numbers for which check were printed by him, and check stock is kept in a safe.

3. The Treasury Single Account

a. *Overview*

The TSA concept has long been in effect in the OECD countries but it was not implementable in other countries because of the lack of development of the banking system and lack of computerization. Centralized IFMIS has enabled general ledgers that have as many management accounts as desired and these can track every sort of financial transaction. The need to have separate bank accounts that track budget user financial activity has been eliminated because each transaction (indeed, each stage of budget execution) is recorded in the budget user's accounts in the General Ledger. Therefore, with increasing IFMIS implementations more and more countries have implemented the TSA.

Concentration of cash in the TSA is not easy without political support since ministries do not want to give up their bank accounts and, therefore, in many countries the development of the TSA is a work in progress. Increasingly, Treasuries are able to make a case for comprehensive cash planning and are reducing borrowing and borrowing costs.
The are several different types of TSAs; the two main models are 1) TSA based on centralized disbursement by the Treasury with transactions recorded in the Treasury General Ledger and 2) TSA based on decentralized disbursements where the agencies have sub-accounts within the TSA and process and make payments directly to suppliers. In both cases the Treasury sets a cash ceiling.

Often, with IFMIS, there is a transition from a type 2 to a type 1 as budget users realize that they do not need the sub-account. This is because payment transactions are recorded in the Treasury General Ledger and, as checks as presented for payment in the bank, the transaction is also recorded in the Central Bank sub-account. This is not only double recording of the same information but also the information from the General Ledger provides much better information. Under a check writing regime, the General Ledger shows all payments that have been made and the sub-account shows the result of the checks presented to the bank. With electronic payments the information will be the same in both places.

b. *Jordan's TSA*

Even without the GFMIS, the TSA works in accordance with accepted norms and is increasingly comprehensive. Currently it concentrates General Budget Revenues. The foreign currency donor funds are outside of the TSA as separate project accounts and this has long been the requirement of some donors. The Paris Declaration of 2005[2] encouraged donors to use country financial management systems and, going forward, the Treasury may wish to negotiate this. The TSA is of the decentralized type and numerous sub-accounts exist in the Central Bank for the budget users who write their own checks against these accounts. If the cash ceiling is exceeded, the Central Bank contacts the Treasury so that the ceiling can be increased. On a daily basis a transfer is made to cover checks presented for payment.

There are also zero balance accounts in the Housing Bank and its branches where Financial Center collections and their operating expenditures are processed. This arrangement was subsequent to a tender. The structure of these accounts correctly separates receipts from payments, with receipts being swept into the TSA and payments being funded from the TSA – rather than sweeping the net balance that would not provide the receipt and payments amounts.

c. Considerations for further comprehensiveness of the TSA

- Including the independent institutions is the next logical step. However, before that happens, the Independent institutions should be sorted out and only those fully funded by General Revenue and those whose operations are part of a Ministry's scope should be included in the TSA.
- The Treasury may consider a foreign currency TSA where all the projects are sub-accounts and link this TSA to the one in JD so that a TSA report will show resources of both. Each of these sub-accounts would remain in the respective foreign currency and operations would not change from the current practices. Donors should accept this since each project is visible in the chart of accounts.
- The MOF may consider creating a debt service reserve sub-account for each of the major loan currencies, if the Central Bank agrees and there is legal provision to cover this approach. These reserve accounts would provide foreign currency to the MOF for use in making debt service payments. A Debt Reserve Fund is considered to be a part of the General Funds that include General Revenue. The advantages of the Reserve Fund are that conversion commissions are eliminated and that amounts eventually needed for debt service payments are put aside gradually – and could even be invested until required. This account would grow by the following procedures:
    i. When there is a grant, payments are usually made first and then a request is made for grant funds. That is, grant fund disbursements occur to reimburse payments already made. Advances from the Trust Accounts Fund in JD are usually the source of cash to cover the payments initially, which are recorded in a shadow account in the Trust Fund.
    ii. When grant funds are received or loan funds are disbursed, the General Revenue fund can exchange the foreign currency amount for the equivalent JDs (based on the exchange rate at the time of receipt or use) and place the foreign currency amounts in the Debt Reserve Account as a partial payment of

[2] http://www.oecd.org/dataoecd/11/41/34428351.pdf and http://www.oecd.org/dac/effectiveness/parisdeclaration/members

debt service obligations. The JDs obtained in this exchange reimburse the Trust Fund. In the TSA cash should be fungible.

iii. Debt principal and interest payments are budgeted within General Revenue and are large (compared to amounts used in 1), there should not be more in the reserve accounts than needed. More likely, additional amounts will be required to make the payments.

4. <u>Cash Planning</u>

a. Overview

In 1999 cash planning and management had three main objectives[3]: "(1) to ensure that expenditures are smoothly financed during the year, so as to minimize borrowing costs; (2) to enable the initial budget policy targets, especially the surplus or deficit to be met; and (3) to contribute to the smooth implementation of both fiscal and monetary policies." In 2010[4] cash planning is in the longer term. Advanced treasuries now recognize that they have a role in ensuring a stable monetary policy that can be affected by large swings in the TSA balance. Consequently there is the goal of a stable TSA balance. In this way, the effect of the government's fiscal transactions is largely neutralized for money market and monetary policy purposes. If the Treasury does not do this, the Central Bank has to anticipate TSA balance fluctuations and quickly employ mechanism to absorb excess liquidity. This is cash planning in the longer term.

b. Cash planning by the Treasury Division

Cash planning by the Treasury Division is at a high level and the staff are very professional and motivated. The staff create daily cash flow plans that are used to provide cash ceilings to the banks, and these ceilings respond to payment activities such as payroll. The Division insures that the cash to support payroll expenditures is available by daily vigilance and updated ceilings. Central Bank staff indicated that for most days, the TSA balance here <u>is</u> stable. Exceptions are the days when large payments (payroll, project payments) are made. Since debt principal and interest payments are made through the Central Bank, they do have advance notice of these. Cash planning by the Treasury Division is performed very well, even though supplemental budgets create spending increases during the year. That is to say, cash planning in a stable budget situation is sufficiently difficult because it has to anticipate human behavior (when should I make a payment) but cash planning when the budget is not stable is even more difficult.

c. Some suggestions for longer range cash planning

- Since the Treasury has advance notice of payroll days and high value payments, this information could also be communicated in advance to the Central Bank to allow them to have more planning time.

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[3] Potter, B. H. and J. Diamond, Guidelines for Public Expenditure Management, Washington, DC. International Monetary Fund, 1999, p. 59.

[4] S. Pattanayak and I. Fainboim, *Treasury Single Account: Concept, Design, and Implementation Issue*s, IMF Working Paper, 2010.

- With GFMIS should come the ability to make longer term disbursement projections since commitments (purchase orders, etc.) should be seen and this will amplify the financial plan information.
- As seen above, a primary goal of cash management is to optimize cash resources such that costs of borrowing are reduced. It is also to optimize cash that investment return is optimized. This means that not only periods of cash <u>need</u> but also periods of cash <u>surplus</u> should be known. Thus, not only do treasuries target stable balances but also stable balances at a very low level[5]. When it is possible, cash should be invested.
- When the Treasury Division is confident of its longer term projections, the MOF should consider asking the Central Bank to make longer term investments. In a Treasury that does not include Debt operations and a longer term investment program is just beginning, it is better to ask the Central Bank to make these investments. Currently the Central Bank pays the Treasury % on balances, but longer term investments should bring better returns.

5. <u>Additional Comments</u>

a. Bank deposits

- One deposit slip – the document that the bank stamps and signs – should be filled out for the total amount of all checks received that day. Attached to that deposit slip should be a listing of all checks and their total. A copy of this listing should stay in the Financial Center to be used for bank reconciliation. In the Zarqa Financial Center (we assume in all Centers) each check is a separate bank deposit. This is most inefficient! It increases the Bank's workload, increases paper, increases time needed for bank reconciliation, not to mention that it does not use staff capacity to add value to the task.
- A second deposit slip should be filled out for the total amount of cash received that day and copies kept as above.
- Internal control procedures dictate that the person making out the deposit slips be different from the one making the collections. At the end of the day, before going to the bank, both totals (collection and deposit) should agree.

b. A priori audits

- There appears to be very extensive *a priori* control. Many countries have, instead, strengthened their internal audit units (to review operating and internal control) procedures and this has served to make financial transactions proceed more efficiently.

c. Financial Plans

[5] Ibid. An example cited is that "France has a daily target balance of €100 million, a relatively insignificant level when compared to the average gross intraday cash flows of over €22 billion (2006). Sweden has adopted a zero target as a matter of policy."

- Cash management is clearly the responsibility of the Treasury. Through a plan negotiated with the institutions, the Treasury strives to meet their needs as well as possible within available cash. In other words, the Treasury controls the rate of payments.
- Budget planning and monitoring of the use of budget (commitment authority) is clearly the responsibility of the General Budget Department. Through the allocation of budget (commitment authority) the Budget Planning Unit allows a budget user to obtain the results planned in the approved budget. In other words, the GBD controls the rate of commitment.
- The Financial plan is related to procurement and it requires rethinking. The budget authority could be allocated on a quarterly basis and it will not require the specificity it now has. The only monthly approval is with respect to cash ceilings for which the Treasury has responsibility. Currently the Treasury sets cash ceiling that are recorded by the Bank against the appropriate account. It would be far better if the Treasury could provide this cash ceiling as a cash budget on the GFMIS in terms of the major group of budget classifications (salaries, goods and services, etc.). Cash and budget are different and the timeframes for using the budget is not the same timeframe for making a payment. The authorities for the GBD and the Treasury should be clearly identified.

6. Next Steps

Within the constraints created by supplemental budgets and the Financial Plan, the Treasury Directorate functions very well. Next steps, but these are not critical, could be to provide exposure to Treasury operations in other countries – countries the same size or slightly larger than Jordan. The Netherlands because of sophisticated cash planning systems, Finland because of expenditure analyses strengths and Macedonia where a very centralized TSA and efficient electronic payments systems have functioned since 2004 and where good relationships with the central bank (MNB) have served to improve the strength of the monetary policy.

In summary the Treasury at the Ministry of Finance is undergoing public finance management reform and will be greatly strengthened by the implementation of the GFMIS. The Treasury Single Account is comprehensive and cash management is of good quality. Staff members are able to manage cash such as to cover payments without incurring a deficit and keep the TSA balance stable for most days of the month. With a check payment system and no within Treasury management of cash receipts, this is commendable. Electronic payment capability would bring greater capacity for cash management but this payment method must have the support of a more sophisticated settlement system at the Central Bank. Some suggestions have been made for the TSA as well as for optimizing cash but these would be easier with an implemented GFMIS as well.

PART II
ASSESSMENT OF ACCRUAL ACCOUNTING IMPLEMENTATION

One of the more common recommendations to countries engaging in public financial management reform has been the recommendation to transition to accrual accounting. The benefits that are promised are that countries will know their complete assets and liabilities and will be able to measure the full costs of an activity (e.g., depreciation and future pension costs). The issues to be explored here are 1) does only a full accrual accounting system allow compliance with international standards? 2) are there problems that the accrual approach will solve? 3) what are recommendations for further work on improving accounting procedures and furthering accrual accounting implementation/Recommendations?

1. Implementation of Accrual Accounting and Its Relationship to International Standards

a. Implementing Accrual Accounting

On the face of it, it seems that the accrual accounting-basis methodology can be very helpful in providing better financial reports than does cash-basis reporting and it does not seem that difficult. *Accrual accounting is an accounting methodology under which transactions are recognized*[6] *as the underlying economic events occur, regardless of the timing of the related cash receipts and payments. Following this methodology, revenues are recognized when income is earned, and expenses are recognized when liabilities are incurred or resources consumed. This contrasts with the cash-accounting basis under which revenues and expenditures are recognized when cash is received and paid, respectively*[7]. Reports under the accrual accounting regime can, at any time, provide information on total assets and liabilities – and also net worth which is the difference between assets and liabilities. Current financial assets are cash, accounts receivable, inventory and supplies and fixed assets are property (land, lakes, buildings, parks, roads, etc.), equipment, other assets (museum artifacts, paintings) and long-term term loans (given) and investments (over a year). Current financial liabilities are accounts payable, accrued liabilities (operational expenditures not yet paid), and taxes if these are still due. Long-term financial liabilities are bonds, loans for purchase of property, and debt service that will not be paid within the fiscal year. However, this rather simple description of accrual accounting hides the problems of implementing its methodology.

On the assets side, full accrual accounting requires the valuation of all assets - equipment, vehicles, buildings, parks, roads, etc. since this is required to complete the full costs of programs. Not only is the costing complex but so is the valuation of fixed assets. It is a very complex and time consuming task requiring judgment on valuations and requires more professional accountants than are currently employed by the Government. Even if an outside valuation service is used, there are many judgments required along the way. Moreover, there are a number of procedures to be considered in reporting expenditures under the accrual basis. IPSAS has published a number of standards to cover these procedures.

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[6] "recognized" = recorded/reported

[7] Kahn, Abdul and Stephen Mayes, "Transition to Accrual Accounting," Technical Notes and Manuals, International Monetary Fund, September 2009, p.3.

Countries have reported significant costs for this effort. For example, in the UK central government, the number of qualified accountants increased from 600 in 1989 to 2,200 in 2003 which was the period of accrual accounting implementation[8]. This is not a one-time, short-term effort since valuations must be kept current.

In the recording of receipts, the accrual approach is very helpful when the government issues invoices and these constitute a good estimate of what will be received. In countries with problems in the area of tax collection, where there is a tax avoidance, the cash-basis budget is more easily planned from information using historical collection information coupled with estimated effects of recent changes. For this reason countries have used a modified accrual approach where obligation to pay has been considered (accrual) in recording current financial liabilities but cash receipts have been considered when recording current assets (with possible exception of invoiced accounts receivable). Information on what is owed is one of the measures of the efficiency of tax collection but not of significant help to public finance managers.

One of the better articles on preparation for accrual accounting is still the one published in 2003 by Noel Hepworth[9]and it identifies the considerations that are required, especially with respect to the need for professional accounts and the task of asset valuation. In addition to guidance for moving to full accrual, there is also now published information on the results of implementing accrual accounting. It appears also that the benefits may be trivial or still considered to have potential although unrealized in six years after transition.[10] For these reasons, the recommendation that a country move to full accrual accounting is now being tempered. Many are questioning the priority of implementing full accrual, suggesting instead that improving existing procedures take priority.

Recent articles, although not using the modified accrual term, are suggesting that transitioning to full accrual may be less of a priority and take more time than what had been the initial perception. Recognizing that cash and accrual accounting are not mutually exclusive concepts, *Going Hybrid* reports on the Dutch who use of aspects of both.[11] Another recent article is a Technical note published by the International Monetary Fund in September 2009[12] which has the primary objective "to assist technical advisors with the provision of advice to developing countries on the design, planning, and implementation of an accrual-based accounting regime." The article recognizes the continued need for both cash and accrual reports, if the budget remains on cash basis. Some preconditions are also given in the article: an acceptable cash accounting based system, political ownership, technical capacity and support from GFMIS (general ledger, accounts payable, purchases, assets management, and so forth).

Like many other publications, the Technical note recommends sequencing and suggests that a three to five year timeframe may be necessary for a full implementation for a developed country

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[8] Wynne, A. p. 121.

[9]Hepworth, Noel, *Preconditions for Successful Implementation of Accrual Accounting in Central Government, Public Money and Management, January 2003.*

[10] Wynne, A. , p. 119-120.

[11] Posted by Holger Van Eden, February 10, 2010, PFM blog: Chart of Accounts (COA)

[12] Kahn, Abdul and Stephen Mayes, p. 3.

whereas ten years is mentioned for a developing country. As an annex, the authors of the Technical note have developed sequencing guidance and that is attached to this report as Attachment 1. They suggest that the initial focus should be on financial assets and liabilities (accounts payable, accounts receivable and debts in sequence), while continuing to account for nonfinancial assets on a cash basis. Once the recording of financial assets and liabilities are in place, work can start on the nonfinancial assets. *This would seem to be the same modified accrual approach that has traditionally been used by most countries*.

b. Relationship to International Standards; the Problem with the IPSAS[13]

International donors have supported the development of the IPSAS and have used technical assistance to encourage their adoption[14]. IPSAS have found their greatest application in the developing countries since most OECD countries already have adopted standards and some (e.g., UK) , and some, e.g., the United States, have standard setting bodies of their own (Federal Accounting Standards Advisory Board (FASAB) and Government Accounting Standards Board (GASB) for State and local governments).

Countries are being urged to adopt international standards and IPSAS have become the leading international standards for governments. There are 30 standards already published that address reporting under the accrual basis and only one standard that covers cash basis reporting. Attachment 2 lists the IPSAS and it can be seen that the body of work is quite extensive and, to implement accrual accounting, these standards must be used. In the face of a strong international push, many countries have agreed to transition to the full accrual basis for accounting, but there has been little progress in this area. According to Wynne[15] as of 1994, there were four countries that had fully adopted accrual accounting for the financial reporting, as of 2008 there were only five more. Most countries have resisted the adoption of an accrual basis for their budget and this means that the accrual-based financial report would be supplemental to the cash basis report that would report budget execution. One of the more comprehensive studies in this regard is the GAO study of 2007.[16] This study concluded that the budget in cash basis provided clearer and better information.

In summary, until the IPSAS, most countries were advised to implement a modified accrual accounting system that would consider current financial assets in order to be able to give a more complete view of financial in financial statements. Because of international purchases, countries must be seen to be responsible for their payables regardless of when they occur; to appear otherwise by removing these from its accounting ledgers and financial reports at the end of the year is irresponsible. Most countries continue to use a modified accrual basis and report current financial liabilities at the end of the year, but some are also working toward implemented the other aspects of accrual accounting. . The following website shows the countries in various

[13] International Public Sector Accounting Board Standards developed by the Public Sector Committee of the International Federation of Accountants (IFAC).
[14] The exception has been DFID
[15] Wynne, A. *Accrual Accounting for the Public Sector – A fad that has had its day*?, IJGFM, 2008, p. 118.
[16] General Accounting Office (GAO), Report to the Committee on the Budget, U. S. Senate, *Budget Issues*, December 2007.

stages of adoption of IPSAS -
web.ifac.org/download/**IPSAS**B_Adoption_Governments.pdf

So, the question seems to be why the recommendations for full accrual when everyone knows that it is very costly, takes many years and value added has not been shown. It would seem that a problem has been created because of the Public Sector Committee's <u>black and white approach</u> presented by the IPSAS – *completely cash* or *fully accrual is the only standards.* Since the IPSAS did not *legitimize* the modified accrual basis [17] *as a standard* and <u>the cash basis standard does not provide complete information on the country's financial status</u>, consultants recommend the accrual basis. Initially feedback to the Public Sector Committee may have served to standardize the modified accrual approach. However, it seems that time has passed.

2. <u>The Final Account in Jordan</u>

a. Status of payables at the end of the year

One of the major effects of accrual accounting is to provide a more complete picture of the country's current liabilities since a large current liability (floating debt) may result in decreased resources for the subsequent year or a buildup of arrears. The Jordan government is very unusual in the manner that procurement is managed during the year. *Initiating procurement by starting the advertising or tender procedure is not permitted after August.* In essence, therefore, the budget for goods, services and equipment above 5,000 JD must be used up very early in the year. This issue is discussed in the last section – Recommendations.

There is plenty of time (September – December) to clear commitments and process payments. An exception to this relates only to projects funded by General Revenue that may not have advanced as far as was expected in the budget planning process. (Any country that commits to large projects, particularly construction projects, experiences occasions when contractors are not able to complete and invoice a budgeted phase of the work by the end of the year.) In those cases an official letter to the Minister of Finance may result in the cash "transferred" to the Trust Funds – a payment is processed for the remainder and a check is issued for deposit to the Trust account. In the case of projects funded through Loans or Grants, the budget is carried forward to the subsequent year, with the appropriate approval from the Minister of Finance.

Given the country's constraint on procurement, it would appear likely that, with the above exceptions of debt and general revenue-funded projects, all payables can be liquidated by the end of the year. Until the introduction of the GFMIS systems *which is an opportunity to change the current manual approach to recording all procurement actions in a single database*, there is no requirement for entry of a requisition or a purchase order in the accounting system and no easy way to see if there are problems with payables at the end of the year. All reports to Public Accounts (monthly and annual) are on cash basis.

[17] The Cash Standard recommends that asset and liability information be provided as notes but that effort is voluntary.

In summary, whereas many countries at the end of the fiscal year have outstanding obligations to suppliers that require payment in the subsequent fiscal year, Jordan has very little in the way of end-of-year obligations. In the case of external funding managed in the Trust Accounts Fund, the Minister has the flexibility to allow the budget to be carried forward, and this is one approach to managing end-of-year payables[18] if the country is on a cash basis. Consequently, there are no current financial liabilities to report.

In summary, the cash basis appears to be suitable for Jordan as long as the procurement restraint remains in place and implementing the accrual basis can proceed as resources and time permit. The asset register will allow for more information and standardization of policy related to the management of nonfinancial capital assets.

b. The effect of accrual basis on the Annual Account

i. Description of the Annual Account, is it according to IPSAS?

Traditionally, two separate types of accounting takes place and both use the financial accounting system: *budget accounting* which identifies what budget (commitment authority) has been used and how much is still available (in terms of revenues budget accounting tracks how the revenue plan has been implemented) and *financial reporting* which identifies how much cash has been collected, what has been paid and what is the cash balance. Budget accounting supports the *planning function* by recording how much and for what budget authority has been used and how much remains whereas financial reporting is a *retrospective* look on what has been spent, at what cost, and what have been the receipts. Often there are two separate reports: Budget Execution and Financial Statements.

The Public Accounts Directorate currently prepares a single report which is the "Annual Account". The Annual Account is both a summary of budget accounting and also a financial report. The Cash IPSAS has the following definition of financial statements:

> "*The general purpose financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a)(i) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognized as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the general purpose financial statements may include a comparison of budget and actual amounts as an additional financial statement.*"[19]

The annual account includes the IPSAS recommended financial information – and more. Below is a listing of the Annexes:

Summary of expenses and receivables

[18] Please see the section on Recommendations for a further discussion of end-of year procedures under the cash basis.
[19] IFAC. Public Sector Committee. Cash Basis IPSAS, Financial Reporting Under the Cash Basis of Accounting, 2006.

Summary of general budget for 2009
Summary of the actual revenues, expenditures and financing 2009
Final account for 2009
Budget flow & deficit account until the end of 2009
Cash position statement for public treasury in 31/12/2009
Details of miscellaneous advances
Table of cash balances for revenues and trusts in 31/12/2009
Consolidated treasury account in 31/12/2009
Public revenues and Financing 2004-2009
Table of comparing the current expenditures for six years (2004-2009)
Tables of comparing the capital expenditures, loans, refunds 2004-2009
Actual revenues& expenditures and financing resources (2000-2009)

According to the IPSAS, the Annual Accounts should meet the requirements of a general purpose financial statement[20].

> General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately <u>or within another public document such as an annual report</u>.

In summary the Public Accounts Directorate prepares the Annual Account under cash basis but provides accrual-basis reports for debt obligations, as suggested by the IPSAS 1. Thus, the Annual Account meets the IPSAS Cash Standard. Clear and relevant information is provided in the Annual Account and this information is required to report on budget execution. If the accrual accounting basis were to be fully implemented, there would have to be a supplemental Annual Financial Statement.

ii. Does the Current Financial By-Law require changes to accommodate the accrual basis of accounting?

The Financial By-Law specifies an Annual Account on Cash Basis. As it stands, the Financial By-Law hints at the modified accrual basis in its *cash position* definition. This week some additional ambiguity has been introduced with the requirement for asset registers and implementation of depreciation procedures. To review,

- Nonfinancial assets are mentioned in the *Records* Section, Part IX, Article (47) of the By-Law it states that the Department shall maintain records….periodical reports thereon: a) Fixed assets, b) Projects, c) Cash, d) Advances, ..." Also, under Part X of the 1995 Instructions, *Financial Reports*, Article (142) states "The Ministry of Finance shall prepare the Sates closing account comprising all the statements that reflect its actual revenues and expenditures as well as the *cash position* which shows the State's <u>assets</u> and <u>liabilitie</u>s."

[20] IFAC, IPSAS 1, Scope.

- Financial assets and liabilities are mentioned in the definitions of the *Cash position*. It was defined in the 1994 By-Law as "A statement of the Government's cash position at the end of the fiscal year. The assets side of this statement includes what is owned by the Department as well as its rights towards third parties. The liabilities side includes whatever rights and liabilities required from the Department according to the basis and standards which are adopted in this By-law, laws, and regulations in force."

This week the Minister of Finance announced (published) in the newspaper an amendment to Article 45 of The Financial By-Law for year 1994. It is called "The Amended Financial By-Law for year 2010."

a. *The Ministry shall undertake the designing, printing and supplying of financial papers and records to the Departments. However, the Department may keep additional sub-records that suit its activities for statistical and analytical purposes.*
b. *The Department shall keep books and cards of the fixed assets and projects which include the particulars specified by the Minister.*

By adding the following:

c. *The Department shall keep fixed assets register for all movable assets which include purchase value, additions, improvements and annual depreciation.*
d. *The Minister of Finance shall issue instructions that determine depreciation rates of the moveable fixed assets.*

In summary, the current legal basis of accounting is cash, however, there are references to the financial assets and liabilities as well as to the nonfinancial assets in the *Records section*. Since the By-Law specifies that the Annual Account should use a Cash Basis, a full accrual basis of accounting will require additional amendment of the By-Law. The Minister's recent announcement that an asset register be developed and annual valuations be implemented clarifies the *Records* section and more precisely introduces an accrual aspect to accounting procedures. However, the announced changes do not change the basis of accounting, even though an asset register can be said to be a first step for developing nonfinancial asset value for accrual accounting purposes. The Recommendations section deals with the benefits of an asset register.

3. Recommendations regarding future activities to implement accrual based accounting

a) Training

If a full accrual approach is planned, a training program should be initiated for MOF, spending unit and future public sector accountants. This program should begin to acquaint the accountants with the IPSAS, one by one. This is a long-term endeavor to acquaint current and future public accountants with the IPSAS content. Training should probably be by external trainers (at least initially) so that operational work is not impeded. Several countries have used external aid for this purpose.

b) GFMIS module for Procurement

It is very important that the Public Accounts Directorate work very closely with the GFMIS staff to implement the Procurement Module. As the Directorate in charge of accounting for the financial use of budget funds should have a strong voice in procurement actions.

Currently the procurement constraint requires long range planning on the part of the spending ministries but it probably is not much appreciated. It requires that expenditures to use the budget be made early and needs that arise later cannot be considered. Although long range planning should not be discouraged, there is the possibility that budget resources are being used to fund procurements that are not necessarily of a high priority. It is often not possible to plan this far ahead. For this reason, countries that encourage early procurement (those that have onerous procurement regimes) establish a threshold but allow some flexibility. For example, a 10% deviation from the submitted procurement schedule. Or, 80% of the submitted procurements to be initiated by August. Even this relatively little flexibility may be sufficient to improve the use of resources.

Care should be taken in implementing the GFMIS procurement module because it introduces new steps. The Supplies Act (32) defines a purchasing requisition but it does not specifically define a purchase order, unless for high-value goods and services, so there does not appear to be a document <u>that is used consistently</u> to place an order for goods and services at all levels of expenditure. An expenditure contract is mentioned in the Financial By-Law more prominently but this does not seem to serve the same function as the purchase order. The Public Accounts Directorate should review the implementation rules.

c) Development of the Asset Register

Many countries, irrespective of the basis of accounting, have or are developing computerized asset registers and these are connected to their IFMIS such that when a payment is recorded, the asset is automatically entered in the asset register. These asset registers are useful for managing equipment and for asset information. Occasionally they have also been used to develop a capital appropriation. The asset register provides information on the date and price of acquisition, its location and management actions can be recorded. To be able to set a value for the asset additional elements exist where improvement (in terms of expanding its function), depreciation and current value can be recorded. Asset registers are among the module generally implemented with the GFMIS, but at a later date when the financial management processes have been fully implemented and are operational.

Prior planning by the country is very important for developing a useful asset register. An asset register when fully complete allows for the recording of nonfinancial asset values in financial statements and enables the country to fully cost out their programs. However, an asset register is also very helpful before the full accrual stage is reached because it can be used for asset management (ascertaining its purchase, its placement, its maintenance, its disposal). Asset registers can be started with current purchases and then expanded by ad ding previous years' information as time permits. Although the GFMIS module will, in all probability, provide the standard elements and processes, the register will not function well unless some preconditions are met.

1) An inventory system must be determined that would assign an identification number to the asset. In the case of equipment or a vehicle, this is often a bar code placed on the equipment.
2) With a GFMIS and good planning, the country must assure connectivity between the asset register, the procurement module, and the general ledger. When a capital item is purchased and recorded on the general ledger, the item must automatically be booked to the Asset register with the appropriate elements completed.
3) The assets recorded in the register must relate to a specific class of assets (group on the chart of accounts) that will be used in the financial statements.
4) An accounting policy must be developed for each class which includes depreciation policies.
5) Valuation and capitalization issues using the asset register have not been addressed in this report since these are far into the future.
6) Valuation and capitalization issues using the asset register have not been addressed in this report since these are far into the future.

Valuation and capitalization issues using the asset register have not been addressed in this report since these are far into the future.

d) *The budget classification to support an asset register*

The budget classification for capital objects as it currently exists is not usable. It is disorganized, it is not hierarchical, it does not have groups or classes of assets under which individual related assets can be recorded, and it is not GFS (as most of the rest of the classification attempts). Attachment 3 provides an example of the current classification and a quickly-transformed classification that meets the needs of an assets register (and also GFS). This is a quick example, not a final product. A project should be undertaken to change the classification together with the GBD using the principle in the example. This project should consider the needs of the budget users and insure that the classes and items within class are comprehensive. The current sample is not comprehensive.

4. Other comments on accounting procedures to improve transparency

a. Regarding end-of-Year accounting procedures

If the accounting remains on cash basis, there are two often-used techniques to introduce transparency to end-of-year transactions. All probably require by-law sanction. These are 1) briefly delaying the closing of books for a fiscal year and 2) carry-over of budget, and 3) planning the subsequent year's budget to include an amount for items whose settlement is carried over to the next fiscal year.

- To cope with delays in processing transactions, the end-of-year closing of accounts can be delayed for a time into the new fiscal year, e.g. 20 days, to allow for payments to clear and the transactions would be recorded against the previous year's accounts. This would mean that transactions would be posting to two accounting periods at the same time, but only for a short time. This period would only apply to goods, services, and other items that were in received at December 31 and sufficient budget existed to cover the expenditures (as well as cash for payment). It would not apply to purchases initiated after December 31.

- A second approach, under cash-basis accounting, is the carry-over of budget. Carry-over is the right to use an unspent appropriation beyond the time period for which it was originally granted. Under this approach, a Ministry can use a specified amount of the previous years' appropriations in addition to the current year's budget allocation. Carry-over items are general capital projects for which a one-time appropriation was obtained and the project expenditures cannot be assumed in the new budget. The carry-over amount is an amendment to the approved budget and the cash to cover the carry-over budget is, likewise, carried over.
- In this case the Budget for the Subsequent year contains a line item for unsettled claims from the previous year. In other words, in planning the budget, an amount is anticipated at a specific level for this purpose. Because the amount is constrained, there are very specific conditions and not everybody would be able to obtain the entire budget requested. Usually this approach is used for capital items only. It is assumed that, in the case of supplies the need to carry over budget from year to year would be similar so, usually, no carry over for goods and services is allowed.

b. Regarding multi-year projects

The handling of multi-year projects generally reflects the two approaches, below. There are a few countries that use obligation based budgeting. In these countries, the entire amount required for the project is budgeted/ obligated in the initial project approval year. Otherwise,

- Some countries grant a *multi-annual appropriation.* This multi-annual appropriation is included in each of the affected annual budgets, but identified as a multi-annual appropriation. This approach is used most often when legislative approval of the loan funding the project must be obtained. Thus, by approving the loan, the legislature is approving the multi-year budget required to implement the project.
- More often, however, the MOF approves multi-year projects and insures that a budget for the annual segment of the project is included in the budget plan.

5. <u>Next Steps</u>

a. Do not commit to a quick implementation.

Most countries acknowledge that they are in process, but do not offer a date of completion. As noted above, the implementation of accrual accounting as the accounting basis is a complex process that requires significant resources and time, neither of which is abundant in government operations that are not for profit. For this reason, care should be taken in committing the country to the implementation in terms of time.

b. After the implementation of the GFMIS modules that are currently developed, review all cash accounting policies to insure their transparency and effectiveness.

Procedures will change once the GFMIS is implemented and only then can a complete review of procedures be undertaken. Effective cash basis accounting must exist prior to considering implementing the complex accrual procedures.

c. Develop a training program that covers each of the IPSAS as soon as possible, begin training courses on the IPSAS.

In order to seriously begin the process of transition, a core of knowledgeable cadre of staff is required. It will be necessary to find external funding to bring in external trainers; contacting the IFAC office (see Stephanie Cox at the IFAC – PSCSB website).

d. Quickly initiate, or at least participate, with GFMIS staff to plan the Asset Register.

This effort may be assisted by an external consultant. The description of the asset register, above, indicates a number of concerns. Most important is a development of a public schedule for inclusion of assets such that current purchases of movable assets are entered into the database first, followed by previous years' purchases. A review of existing registers (even if manual) is necessary to simplify the process of gathering complete asset information. Asset policies by class of asset will need to be developed, initially these will be management policies but later on the policies will have to be broadened to include valuation requirements.

Only when the movable assets are recorded and management and valuation policies are operating should the effort to collect information and determine value on buildings, land, lakes, bridges and roads be initiated.

Attachment 1: Stages for Implementing Accrual Accounting

ILLUSTRATIVE GUIDANCE ON THE SEQUENCING OF ACCRUAL ACCOUNTING REFORMS

A. Key Implementation Activities

While detailed implementation strategies and sequences may vary to suit the circumstances of each government, the following key implementation steps, in the sequence suggested, should be considered when developing an implementation plan.

- development and dissemination of an overarching philosophy of change, including a clear exposition of the drivers for change and the objectives and deliverables of the reform process;
- undertaking of a detailed scoping study to determine the nature of required change, the structure, speed, context and sequencing of change, the impact on staff and systems, and resources required;
- establishment of implementation steering committee (SC).
- the SC should plan and establish the project governance structures: technical advisors and focus groups, consultative groups, project manager, team leaders and team personnel, project quality assurance and audit.
- establishment of communication and training program;
- adoption of accounting policies consistent with international or national accounting standards;
- drafting and passage of requisite financial legislation;
- selection of a systems solution to meet the accrual accounting requirements, including conceptual design, functional and technical requirements, development of request for proposal (RFP), evaluation of proposals, and selection and contracting of vendor(s) and implementation consultants;
- determination of the sequencing of accrual business areas to be implemented, and for each business area, a full implementation plan (see below); and
- development of an opening balance sheet.

B. Business Area Implementation Staging

The implementation of accrual accounting can be staged across different business areas of governments to address the more pressing requirements first, and also to defer the implementation of the more complex area, e.g., nonfinancial assets until the required technical skills have been built up. A possible staging across business areas is suggested below.

Stage one implementation (Years 1-3)

- General ledger—management of the government's central financial data repository, including COA, ledger structure, and journal structure
- Purchasing—management of the full procurement cycle, including commitment management
- Payments and accounts payable—management of all supplier and grantee payments, including management of accounts payable (arrears)
- Revenue—management of all invoicing and related processes (excluding taxation revenue—this will be managed by the central tax agency)
- Receipts and accounts receivable—management of receipts and receivables functions (excluding taxation revenue—this will be managed by the central tax agency)

- Banking management—including management of banking deposits, bank transfers, bank accounts, and bank reconciliation.
- Cash management—including management of cash budgeting, cash forecasting, cash accounting, and cash reporting
- Fund management—including accounting for and reporting all transactions and balances of trust accounts, extrabudgetary accounts, special accounts, hypothecated funds, etc.
- Data collection and consolidation—including automated elimination of intrasector transactions and balances. Note that data collection may not be required if the accounting function is centralized.
- Financial reporting—including production of full range of management reports, GAAP financial reports, *GFSM 2001* reports, SNA reports, ESA reports, etc.
- Management of estimates, projections and budgets (if the government has decided that these should be integrated with the accounting functions)

Stage two implementation (Years 3-4)

- Investment management (if applicable)
- Debt management (if applicable)

Stage three implementation (Years 3-10)

- Fixed asset management—including registration, revaluation, depreciation management, maintenance, etc.
- Inventory management (if applicable) —including recording, valuation, maintenance, stocktaking etc.

In addition to the above core elements of an accrual accounting system, other system initiatives may be undertaken to improve overall management. Thus management cost accounting systems may be implemented to facilitate more systematic costing of government services, programs, and products. Similarly human resource and payroll management may be improved through implementation of relevant systems. An Executive Information System can also facilitate the extraction and reporting of data in a user-friendly format.

For each of the business areas to be implemented, the following implementation steps are suggested:

- confirmation of business requirements;
- development of full business area design, including detailed system technical design, business process design, data migration plan, and training plan;
- configuration and modification of application software, including development of reports and interfaces;
- rigorous documentation of the business area policies, procedures and system processes;
- planning, design, and delivery of training programs;
- identification, valuation, and recording of opening balances of assets, liabilities, and equity elements;
- commencement of accrual accounting in a "live" environment; and
- post-implementation review after six months.

Attachment 2: Current IPSAS

IPSAS 1 Presentation of Financial Statements PDF

IPSAS 2 Cash Flow Statements PDF

IPSAS 3 Net Surplus or Deficit for the Period - Fundamental Errors and Changing in Accounting Policies PDF

IPSAS 4 The Effects of changes in Foreign Exchange Rates PDF
IPSAS 4 prescribes how to include foreign currency transactions and foreign operations in the financial statements, as well as how to translate financial statements into a presentation currency. The technical updates to IPSAS 4 clarify the requirements for public sector entities to convert foreign currency transactions and balances into their reporting currency.
Published April 2008

IPSAS 5 Borrowing Costs PDF

IPSAS 6 Consolidated Financial Statements – Accounting for Controlled Entities PDF

IPSAS 7 Accounting for Investments in Associates PDF

IPSAS 8 Financial Reporting of Interests in Joint Ventures PDF

IPSAS 9 Revenue from Exchange Transactions PDF

IPSAS 10 Financial Reporting in Hyperinflationary Economies PDF

IPSAS 11 Construction Contracts PDF

IPSAS 12 Inventories PDF

IPSAS 13 Leases PDF

IPSAS 14 Events after the Reporting Date PDF

IPSAS 15 Financial Instruments: Disclosure and Presentation PDF

IPSAS 16 Investment Property PDF

IPSAS 17 Property, Plant and Equipment PDF

IPSAS 18 Segment Reporting PDF

IPSAS 19 Provisions, Contingent Liabilities, Contingent Assets PDF

IPSAS 20 Related Party Disclosures PDF

IPSAS 21 Impairment of Non-cash-generating Assets PDF
Published December 2004

IPSAS 22 Disclosure of Financial Information About the General Government Sector PDF
The objective of this Standard is to prescribe disclosure requirements for governments which elect to present information about the general government sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market activities of the government and between financial statements and statistical bases of financial reporting.
Published December 2006

IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) PDF
The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity

Attachment 3: Budget Classification Example

Current classification and coding, compared to a hierarchical by class classification with GFS coding

Current Class Code	Current Classification Description	Classification by Class and Hierarchical	GFS Coding
3112506	Vehicle and Heavy Duty Machines	**Transport Equipment**	**3112 100 000**
3112506001	Sedans	**Land Transport Equipment**	**3112 110 000**
3112506002	Field Cars	**Purchase of cars**	**3112 111 001**
3112506003	Pick up Cars	Field cars	3112 111 001
3112506004	Buses	Pickup Cars ???	3112 111 002
3112506005	Medium-size buses	**Purchase of Vans and Buses**	**3112 112 000**
3112506006	Mini vans	Mini Vans	3112 112 001
3112506007	Tankers	Vans (Small buses)	3112 112 002
3112506008	Tractors	Buses	3112 112 003
3112506009	Seeding Machine	**Purchase of Trucks and Tankers**	**3112 113 000**
3112506010	Motor-cycles	Trucks	3112 113 001
3112506011	Trucks	Tankers	3112 113 002
3112506012	Ambulances	Tankers to carry toxic substances	3112 113 003
3112506013	Boats	**Purchase of specialized vehicles**	**3112 114 000**
3112506014	Heavy Machinery	Ambulances	3112 114 001
3112506015	Forklifts	Fire Trucks	3112 114 002
3112506016	Lord truck	Other Specialized vehicles	3112 114 003
3112506017	Vehicles for carrying toxic substances	**Purchase of other motor vehicles**	**3112 119 000**
3112506018	Truck master ladens	Motorcycles	3112 119 001
3112506019	Winches	**Water Transport Equipment**	**3112 120 000**
3112506020	Mechanism of dielectrics cleaning	Water Patrol Boats	3112 121 001
3112506999	Miscellaneous	**Air Transport Equipment**	**3112 130 000**
3113	Other Fixed Assets	Military Airplanes	3112 131 001
		Purchase of Other Machinery and Motorized Equipment	**3112 200 000**
		Agricultural Machinery	**3112 201 000**
		Seeding Machines	*3112 201 001*
		Other Agricultural Machinery	3112 201 009
		Construction Heavy Equipment (motorized)	**3112 202 000**
		Forklifts	*3112 202 001*
		Cranes	3112 202 002
		Winches	3112 202 003
		Other Construction Equipment	3112 202 009
		Other Heavy Machinery	**3112 209 000**

LIST OF CONTACTS

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