

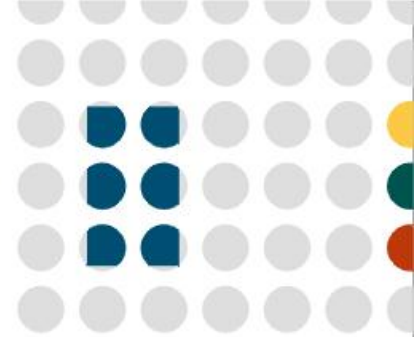
Public Sector Accounting System Reform in Lithuania: Experience, Lessons and Challenges

Ingrida Muckutė
Director of Accounting Methodology Department
Ministry of Finance

Brussels, 29-30 May 2013

Agenda

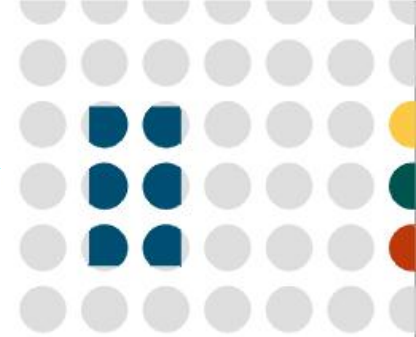
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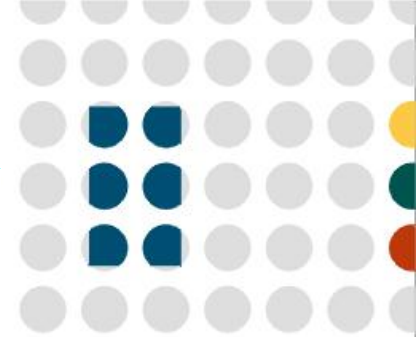
- Key Reform Drivers
- Scope of the Reform
- Proceedings of the Reform
- Critical Success Factors
- Benefits of the Reform
- Challenges Still to Face

Key Reform Drivers

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- Public Sector Accounting Reform in Lithuania:
 - ✓ Transition from the modified cash basis to full accrual accounting based on IPSAS.
 - ✓ Accounting function optimization.
- The major reasons to start the Reform:
 - ✓ A significant need for proper, complete, comparable and correct information.
 - ✓ Lack of accounting information for management decision making both on institutional and state level.
 - ✓ Lack of information presenting all major elements of the financial statements: assets, liabilities, revenue, expenses
 - ✓ Different treatment of accounting principles in public sector
- Application of the accrual basis and the National Public Sector Accounting Standards (NPSAS) were established by the Accounting Law in 2007 and came into force from 1 January 2010.

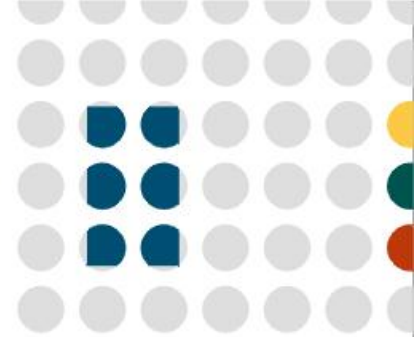


Scope of the Reform

- The MoF has chosen the **BIG BANG** approach – transition to accrual accounting on all levels from 1 January 2010:
 - ✓ Budgetary institutions (government and municipal levels)
 - ✓ Social Funds
 - ✓ State Treasury Fund
 - ✓ State Monetary Funds
 - ✓ Municipalities
 - ✓ Public institutions (hospitals, universities)
- More than 4,500 entities participated in the reform
- According to the NPSAS, every entity shall prepare separate interim (quarter) and annual financial statements and annual consolidated financial statements.

Proceedings of the Reform: I stage (2005-2008)

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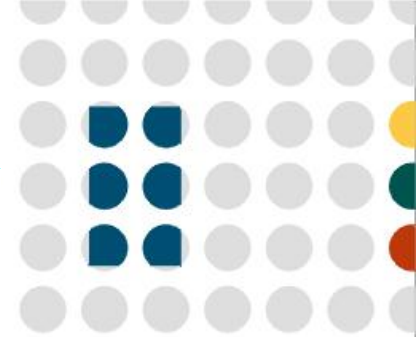


The Concept Paper of the Reform was approved in 2005:

- Related legal acts, NPSAS, instructions prepared:
 - ✓ Public Sector Accountability Law (2007)
 - ✓ 26 NPSAS based on IPSAS (Appendix 2)
 - ✓ Unified chart of accounts
 - ✓ Accounting manuals
 - ✓ Feasibility study of IT systems preparation
 - ✓ Trainings

Proceedings of the Reform: II stage (2009-2013)

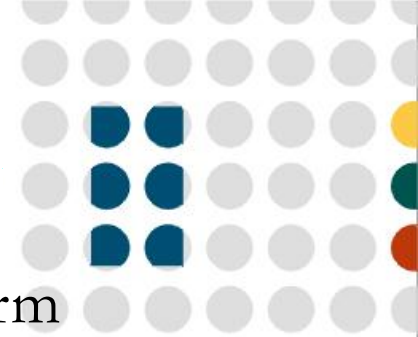
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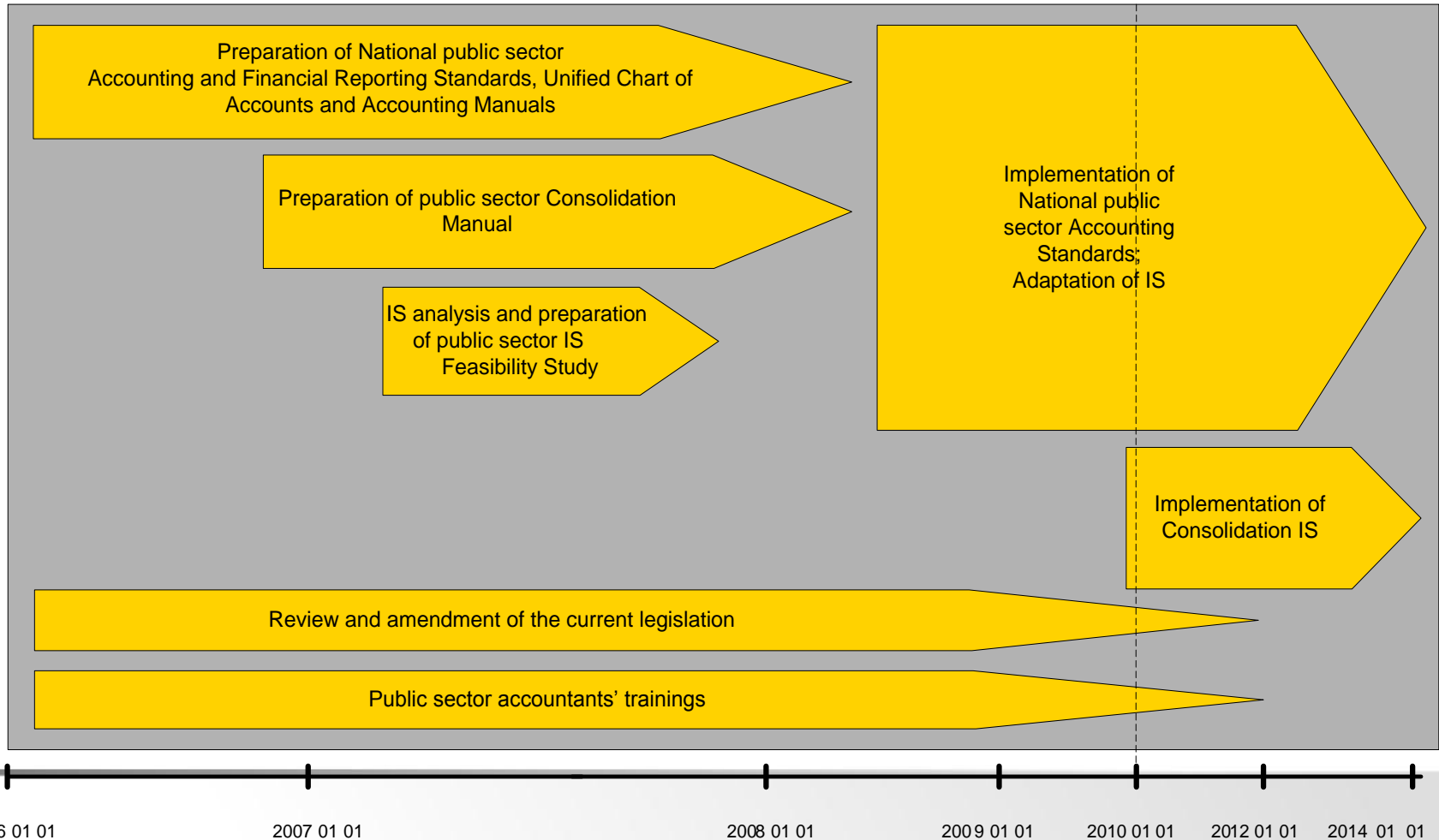
- Standardisation and consolidation:
 - ✓ standardised accounting IT system in 150 public sector entities (2009-2011)
 - ✓ centralised accounting IT system for public sector consolidation (2009-2011)
 - ✓ Help desk in the MoF (since November 2010)
 - ✓ Additional trainings, consultations, seminars for public sector accountants
 - ✓ The First State Consolidated Financial Statements for 2010 – on 1 October 2011
 - ✓ The First National Set of Financial Statements (State, municipalities, Social Funds) for 2012 – supposed on 30 June 2013 (Appendix 1)

Proceeding of the Reform

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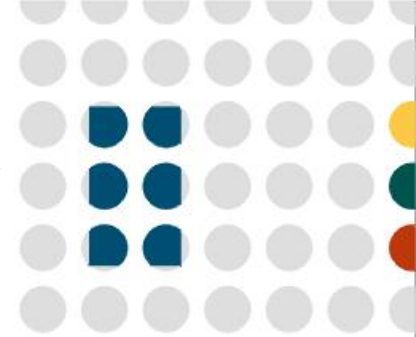


Consolidation is the final step of the Accounting Reform



Critical Success Factors

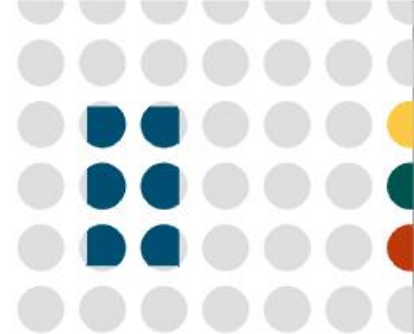
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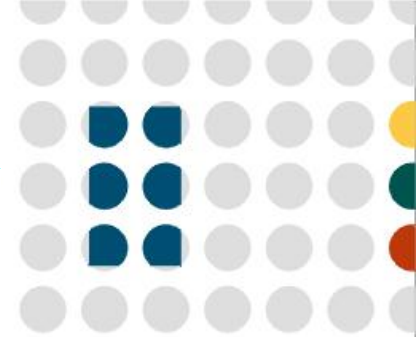
- Early support of politicians
- Clear vision of the Reform
- Timely preparation of regulations and instructions
- Well organised pilot projects
- Timely implementation of IT systems
- Precise coordination of the process
- Precise and clear communication of the process to all the stakeholders of the Reform

Challenges Already Faced

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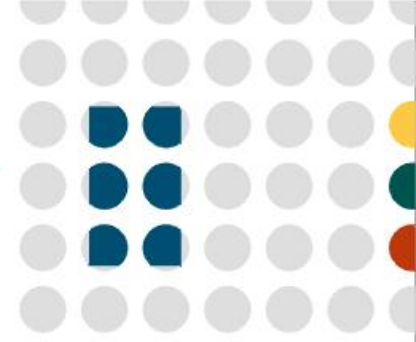


- Lack of understanding of the reasons for the accrual based accounting
- Resistance to changes
- Low competence of public sector accountants
- Financing of the Reform
- Information dissemination
- Setting rules for transition period
- Preparatory work control
- Different accounting basis: financial accounting (accrual based) vs. budgetary accounting (cash based)
- Transition period data quality



Benefits of the Reform

- Transparency, understandability, reliability and comparability of information
- Improved control through financial data and its reconciliation
- Ability to evaluate short-term and long-term assets and liabilities on both – institutional and national levels
- Improved competence of the public sector accountants
- Improved automation of accounting and financial reporting process (decreased level of paper documents related to accounting)

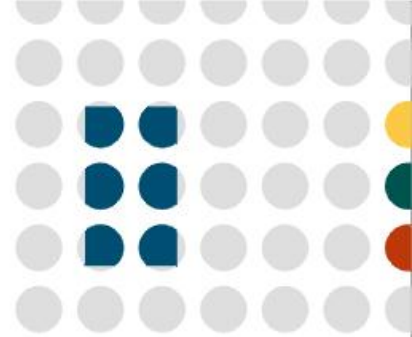


Challenges Still to Face

- Optimization of accounting and financial reporting function
- Establishment of competence centers
- Encouraging the use of financial statements amongst management of public sector entities
- Analysis of financial statements information
- Interrelation to budget execution and statistical reporting
- Long-term fiscal sustainability planning

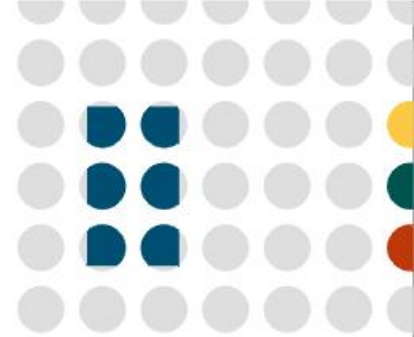
**Accounting Reform in Lithuania:
Experience, Lessons and Challenges**
May 2013

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Questions?

Thank you for your attention



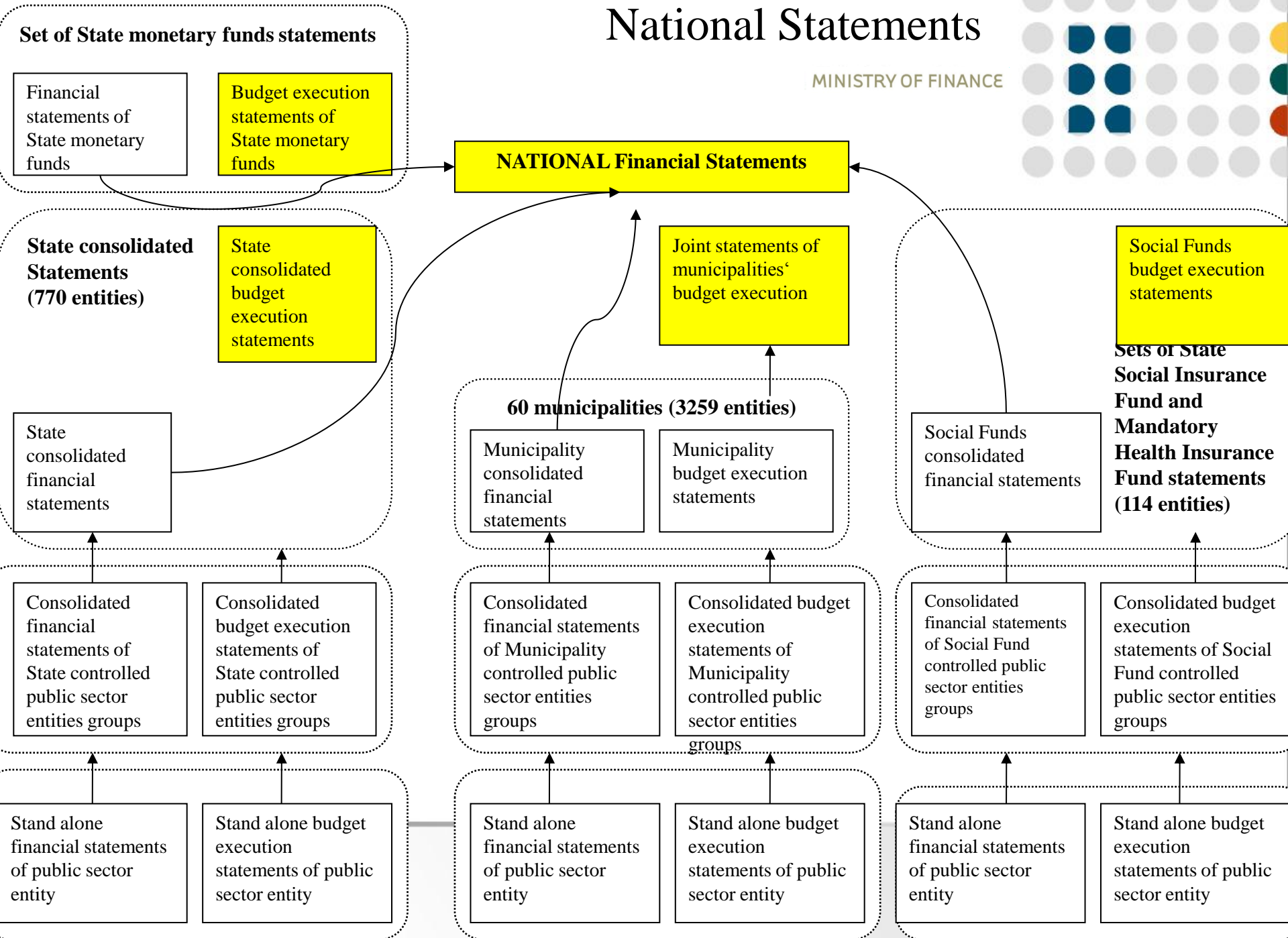
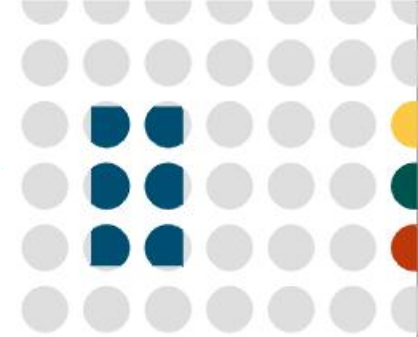
Public Sector Accounting System Reform in Lithuania: Experience, Lessons and Challenges (Appendix 1)

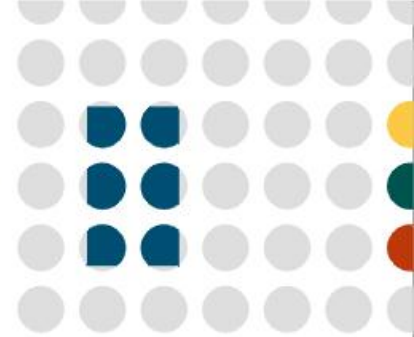
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National Statements

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Public Sector Accounting System Reform in Lithuania: Experience, Lessons and Challenges

Appendix 2: Comparison between IPSAS and NPSAS

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Director of Accounting Methodology Department
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No.	IPSAS	No.	NPSAS	Notes
1	Presentation of Financial Statements	1	Presentation of Financial Statements	NPSAS establishes detailed format of financial statements for different type of public sector entity (PSE)
		2	Statement of Financial Position	
		3	Statement of Financial Performance	
		4	Statement of Changes in Net Assets	
		6	Explanatory Notes to Financial Statements	
2	Cash Flow Statements	5	Cash Flow Statements	NPSAS establishes detailed format of cash flow statement for different type of public sector entity (PSE)
3	Net Surplus or Deficit for the Period - Fundamental Errors and Changing in Accounting Policies	7	Changing in Accounting policies and Accounting Estimates and Correction of Errors	
4	The Effects of changes in Foreign Exchange Rates	21	Foreign Currency Transactions	
5	Borrowing Costs		-	
6	Consolidated Financial Statements – Accounting for Controlled Entities	15	Consolidated Financial Statements and Investments in Controlled Entities	Consolidation procedures are applied only for controlled PSE. Controlled non PSE and associated non PSE are accounted for and reported in consolidated financial statements using the equity method.
7	Accounting for Investments in Associates	14	Entity Combinations and Investments in Associated Entities	Provisions on accounting of combinations. In separate financial statements investments in associated non PSE are accounted for using an equity method
8	Financial Reporting of Interests in Joint Ventures		-	
9	Revenue from Exchange Transactions	10	Other Revenue	

No.	IPSAS	No.	NPSAS	Notes
10	Financial Reporting in Hyperinflationary Economies		-	
11	Construction Contracts		-	
12	Inventories	8	Inventories	
13	Leases	19	Leases, Finance Lease and other Asset Transfer Agreements	
14	Events after the Reporting Date	18	Provisions, Contingent Liabilities, Contingent Assets and Events after Reporting Date	
19	Provisions, Contingent Liabilities, Contingent Assets			
15	Financial Instruments: Disclosure and Presentation	17	Financial Assets and Financial Liabilities	
16	Investment Property	12	Property, Plant and Equipment	
17	Property, Plant and Equipment			
18	Segment Reporting	25	Segment Reporting	
20	Related Party Disclosures			
21	Impairment of Non-cash-generating Assets	22	Impairment of Assets	
26	Impairment of Cash-Generating Assets			
22	Disclosure of Financial Information About the General Government Sector		-	
23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	9	Revenue from Taxation and Social Contributions	

No.	IPSAS	No.	NPSAS	Notes
24	Presentation of Budget Information in Financial Statements		-	
25	Employee Benefits	24	Employee Benefits	
27	Agriculture	16	Biological Assets and Mineral Resources	
28	Financial instrument: Presentation	17	Financial Assets and Financial Liabilities	
29	Financial instrument: Recognition and Measurement			
30	Financial instrument: Disclosures			
31	Intangible Assets	13	Intangible Assets	
32	Service Concession Arrangements: Grantor	27	Concessions and Public and Private Partnership Contracts	
		11	Expenses	Describes accounting for PSE expenses
		20	Appropriations and other financing	Defines recognition of financial amounts, financial revenue and financial expenses and disclosure in financial statements
		23	Interim Financial Reporting	PSE must prepare separate quarter statement on financial position, statement of financial performance and abridged notes to financial statements
		26	Recourse Funds: Accounting and Financial Reporting	Defines accounting and reporting of resource funds (including monetary funds), which are established by law on special purpose and are independent from state or municipal budgets (for example, state treasury, municipal treasury, Privatisation fund)

For more detail questions please communicate Ministry of Finance of the Republic of Lithuania: apskaitosreforma@finmin.lt or finmin@finmin.lt