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

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Brussels, 29-30 May 2013
Agenda

• 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

• 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.

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

- 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

Consolidation is the final step of the Accounting Reform

3. IS analysis and preparation of public sector IS Feasibility Study
4. Review and amendment of the current legislation
5. Public sector accountants’ trainings
6. Implementation of National public sector Accounting Standards
7. Adaptation of IS
8. Implementation of Consolidation IS

Timeline:
- 2006 01 01: Beginning of PSAFRS implementation
- 2009 01 01: Implementation of National public sector Accounting Standards
- 2014 01 01: Implementation of Consolidation IS
Critical Success Factors

- 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

- 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

Questions?

Thank you for your attention
Public Sector Accounting System Reform in Lithuania: Experience, Lessons and Challenges (Appendix 1)

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Appendix 2: Comparison between IPSAS and NPSAS

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<table>
<thead>
<tr>
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<th>IPSAS</th>
<th>No.</th>
<th>NPSAS</th>
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<td>1</td>
<td>Presentation of Financial Statements</td>
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<td>NPSAS establishes detailed format of financial statements for different type of public sector entity (PSE)</td>
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<td>Statement of Financial Position</td>
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<td>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)</td>
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For more detail questions please communicate Ministry of Finance of the Republic of Lithuania: apskaitosreforma@finmin.lt or finmin@finmin.lt