ACCOUNTING AND AUDITING

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ACCOUNTINGS AND FINANCIAL REPORTINGS REFORM
IN THE GEORGIAN PUBLIC SECTOR

Abstract. The paper includes a retrospective review of the reformation of accounting and financial reporting of the public sector of Georgia. The modern state of regulation of this particular field is analyzed and existing disadvantages are emphasized. Also, based on the analysis, proposals in regards to perfecting the accounting and the financial reporting in the public sector are developed.

Keywords: public sector, accounting, financial reporting, international standards, reformation, accounting policy

Introduction:
At the end of the last century, after changing the political and economic formation in Georgia, carrying out reforms in every field of social life became an important task. The constant growth of state costs increased the interest in utilizing these costs more efficiently. The economic reform was partly directed to the commercialization of the state sector, which later developed accounting. Accounting became close to the public sector as it adopted its methodology and standards of accounting. In modern conditions, this created specific challenges and required the reformation of the accounting system.

Research Results:
Provision of the methodology of public sector accounting and reporting belongs to the competence of the Ministry of Finance of Georgia [1]. During the planned economy, this function was performed by the Ministry of Finance of the
USSR. Given this fact, Georgia didn’t have any independent experience of accounting and reporting while transforming to the market economy.

The first normative act, which started regulating the public sector accounting in independent Georgia was “Instruction of Accounting in Budget Organizations” [2] issued by the Ministry of Finance of Georgia. By this, the organizational issues of accounting, the plan of reports of accounting, the rules of accounting the budget resources, and the operations of special revenues were determined. It should be noted that the signs of the planned economy were still characterizing it according to such precincts like “special revenues”, “funding for capital costs”, “funding from pension fund”, “material incentive fund”, “production improvement fund”, “costs from the special revenues”, etc. There was a separate accounting system for Legal Entities of Public Law (LEPL) approved by the Ministry of Finance [3]. Later, these two normative acts were united by the instruction of accounting of budget organizations and legal entities of public law [4], and from 2008, its requirements included the budget organizations and legal entities of public law of self-governing units. Also, given that the Legal Entities of Public law (LEPL), unlike the budget organizations, are engaged in economic activities, we consider it expedient to distinguish their accounting rules, making the activities of the subjects even more transparent. Moreover, it is preferable in the Legal Entities of Public law to separate the operations associated with economic activities from the funds obtained from the budget using a plan of separate reports, which could make the incurred expenses and the obtained revenues even more clear. This will help to fulfill the tax liabilities and controlling the utilization of other state resources.

From 2010, the implementation of relevant institutional changes in the system of accounting and financial reporting of the public sector of Georgia under the international standards (IPSAS) became an important task. The main result of the reform should’ve been supporting efficient, transparent, and responsible management of the public finances. In this direction, the experience of Georgia can be presented like this:

To achieve this particular goal, the Ministry of Finances of Georgia approved the “action plan of implementation of International Public Sector Accounting
Standards (IPSAS)” [5], which defined the main phases of carrying out the reform, in particular:

The first phase – Initiation (2010): determining the legal framework, creating the developer body of standards and relevant resources, selecting test organizations to utilize the modified cash-based methodology of IPSAS; to help the implementation of the reform in the set timeframe, based on the resolution of Government of Georgia, a permanent deliberative body “the board of public sector accounting standards of Georgia” [6] was created, which was tasked to print, approve and help to be implemented the International Public Sector Accounting Standards (IPSAS) in the Georgian language. Therefore, within the reform, with the support of the EU, following the memorandum signed with the International Federation of Accountants, the official Georgian translation of the International Public Sector Accounting Standards (IPSAS) was published.

Second Phase – Test (2011): preparing test financial reports for state government bodies and Legal Entities of Public Law; preparing instructions of implementation of the modified cash-based methodology of IPSAS in the whole state sector.

Third Phase – The Modified Cash-based Method (2012-2014): preparing consolidated financial reports for the state government bodies and Legal Entities of Public Law using the modified cash-based method (except for the companies created with participation stake of the state).

Fourth Phase – The Limited Accrual Method (2015-2018) – expanding the third phase until it includes main assets but doesn’t include the companies created with participation stake of the state and other specific topics.

Fifth Phase – The Completed Accrual Method of International Public Sector Accounting Standards (IPSAS) (2019): preparing reports following the International Public Sector Accounting Standards, including the consolidation of companies created with participation stake of the state.

Sixth phase – Continuity (2020 and later years): developing the program as a guarantee that the public sector of Georgia continues preparing the financial reports following the International Public Sector Accounting Standards.
From 2020, the plan of accounting reports developed on the basis of the international standards and its instruction [7] was put into action, which represents the main guideline document for public sector accounting. Also, developing the “rule of preparation and presentation of financial reports of budget organizations” and putting it into action was of similar importance, which determined the basic principles of preparing financial reports: fair presentation, accordance with IPSAS; functioning unit, etc.

Within the reform, preparation and retraining of accountants are held periodically. As for the self-governed units, there, based on the studies, the IPSAS reform is being implemented from 2016 complying with the predefined periodicity and timeframe.

Conclusion:

An in-depth analysis of the results of the reform shows that the proposed innovations also contain some shortcomings. The main positive aspect of the reform can be considered that the accounting and financial reporting in the public sector of Georgia will mainly be following the international standards. In addition, the full implementation of its practice requires the efforts of both local and international organizations. As far as full implementation and auditing of international accounting standards, the publication of consolidated financial statements is of interest to both the public and investors.

References:
