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IPSAS VS. NATIONAL GAAP*: DIFFERENCES AND CHALLENGES IN IMPLEMENTING IPSAS IN ALBANIAN PUBLIC SECTOR**

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ABSTRACT

The aim of this paper is to analyze the differences between International Public Sector Accounting Standards (IPSAS) and the Albanian Public Sector GAAP (Albanian PS GAAP). At the same time, the paper tries to emphasize the steps and the challenges of implementing IPSAS in Albanian context. The analyses are based on official information from strategic documents of the Government of Albania, as well as official reports form the international professional and financial institutions, such as: World Bank, IFAC, and OECD.

Keywords: Public Sector Accounting Standards, Transparency, Accrual Accounting, Public Finance Management.

JEL Classification: H83, M40, M4

IPSAS VS. ULUSAL GAAP: ARNAVUTLUK KAMU SEKTÖRÜ İLE UYGULANAN ULUSLARARASI KAMU SEKTÖRÜ MUHASEBE YÖNETMELİKLERİ ARASINDAKİ FARKLILIKLAR VE ZORLUKLAR

ÖZ

Bu makalenin amacı, Uluslararası Kamu Sektörü Muhasebe Standartları (IPSAS) ile Arnavutluk Kamu Sektörü GAAP (Arnavutluk PS GAAP) arasındaki farklılıkları analiz etmektir. Aynı zamanda, bu

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* GAAP is defined for the purposes of this paper as comprising the laws and sub-legal acts in regard to financial reporting that is applicable to the entire public sector.

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makale Arnavutluk şartlarında, IPSAS uygulamasının adımlarını ve zorluklarını vurgulamaya çalışmaktadır. Analizler, Arnavutluk Hükümeti'nin stratejik belgelerinin resmi bilgilerine, hem de Dünya Bankası, IFAC ve OECD gibi uluslararası mesleki ve mali kurumların resmi raporlarına dayanmaktadır.

Anahtar Kelimeler: Uluslararası Kamu Muhasebe Standartları, Şeffaflık, Tahakkuk Esaslı Muhasebe, Kamu Finans Yönetimi

JEL Sınıflandırması: H83, M40, M4

1. INTRODUCTION

The public sector accounting as the ex post recording and reporting of financial operations of government represents the fundamental management process in public sector entities. Even before, but especially in time of financial and economic crisis, countries are facing a challenge to improve the information served by public accounting for the state budgeting purpose; most often by reforming accounting principle from cash flow into accrual. The financial and economic crisis revealed that accounting based on accrual principle provides more transparent budgeting. Accrual accounting is an accounting methodology under which transactions are recognized as the underlying economic events occur, regardless of the timing of the related cash receipts and payments while the cash flow accounting recognizes the revenues and expenditures when cash is received and paid respectively. The accounting on accrual principle obtains more transparent and complete review of the business activities and property of the users of public funds then cash principle does (Jovanovic 2013). Also (Carlin 2005) states the superiority of accrual accounting and reporting compared to cash on three related themes. Firstly, the adoption of accrual accounting enhances transparency and accountability both externally and internally. Next, accrual accounting leads to greater organizational performance and outputs through improved resource allocation. And, lastly accrual accounting allows public entities to identify full costs of their activities, which is pivotal to ensure greater efficiency.

The financial and economic crisis revealed that besides private, also public sector need high quality financial information from the financial statements. The financial statements should fully disclose information, including the long-term impact of decisions taken and not just their short-term impact on cash flows and should have the clear distinction between market and non-market activities in the public sector, as well as the financial statements and statistical reports.

They should be sufficiently detailed to provide insight into past, present, and partly also in the future, which means that it must include financial information on the known future expenditure. The theory has explored and practice of financial and economic crisis confirmed that information supplied by the accrual based accounting provides transparent budgeting. The significant trend towards accruals in financial statements of public sector entities has not resulted in accrual budgeting. Many assume that the focus of good fiscal policy must be primarily on cash fiscal aggregates (OECD 2009). The others believe that the accrual accounting has often been introduced as an accounting system separate from the budgetary accounting, which remains on a commitment basis and cash or near cash basis. The pragmatic attraction of this is that the wealth of additional data provided in the accrual accounts is just that: additional data. These data do not necessary change the way that a government functions, not least because the budgets still occupy most people attention when concerned with financial matters (Jones 2007).

One important issue about the public accounting is the accounting treatment for heritage assets, because several authors are in view that the accounting for heritage assets would seem to be more problematic and is subject to different treatment by different countries and standard-setting bodies. Some of these authors do not consider the heritage assets as assets and hence they should not be capitalized. (Barton 2000), argues that heritage assets do not satisfy the concepts of assets because of their public goods nature, that is, they are for the benefits of the public and are not for sale. They are provided to the public on a non-commercial basis and are funded primarily from non-exchange revenues (e.g., taxation, fines, etc.). Moreover, they are not maintained for income generation but for other purposes such as cultural, educational, recreational and other community purposes.

Other studies develop further arguments for not inclusion of heritage assets in the financial statements, because of the different roles that heritage assets fulfill compared with normal commercial assets. (Pallot 1992) is of opinion that heritage assets should be kept separate from other assets and proposes that they be called “community assets”. She based her proposal on making distinction between public sector assets used for community purposes and commercial assets. As she believes that, the public sector assets differ in fundamental respects from commercial assets. One of these respects is related the assets ownership rights, as she classifies asset ownership rights into:

a) The right to manage;

b) The right to the benefits; and

c) The right to dispose of the property.

Of course, the government has the right to manage, but the rights to the benefits rest with the public, and the right of government to dispose of the property is not an unfettered one. In addition, Pallot distinguishes between physical assets as input into a productive process, and assets which services directly to the public. When the assets are inputs, they are used up in the productive process, except for land. This is true of commercial assets. However, when the assets provide services directly to the public, their use does not necessarily use up the asset – viewing a work of art does not damage the item. Based on the aforementioned reasons, the heritage assets differ from the commercial assets and they should be kept separate from other assets.

Albania is a middle-income country that has made enormous strides in establishing a credible, multi-party democracy and market economy over the last two and a half decades. It has generally been able to maintain positive growth rates and financial stability, despite the ongoing economic crisis. Before the global financial crisis, Albania was one of the fastest-growing economies in Europe, enjoying average annual real growth rates of 6%, accompanied by rapid reductions in poverty. However, after 2008 average growth halved and macroeconomic imbalances in the public and external sectors emerged. The pace of growth was also mirrored in poverty and unemployment: between 2002 and 2008, poverty in the country fell by half (to about 12.4 %) but in 2012 it increased again to 14.3%. Unemployment increased from 12.5% in 2008 to 17.6 % in 2014, with a slight improvement of 17.3% in 2015, while youth unemployment reaching 32.1 % in the same period. Looking toward the future, Albania is focused on supporting economic recovery and growth in a difficult external environment, broadening and sustaining the country's social gains, and reducing vulnerability to climate change. Key challenges for Albania going forward include fiscal consolidation and strengthened public expenditure management, regulatory and institutional reform, reduction of infrastructure deficits, and improvement in the effectiveness of social protection systems and key health services (World Bank Open Data, n.d.).

The Government of Albania is committed to the gradual introduction of a modern system of public sector accounting based in international standards. Public accounting in Albania is currently done on a cash basis with elements of accruals with regard to assets and liabilities. Cash based accounting and subsequent insufficient commitment control is seen as one of the factors which lead to the significant accumulation of arrears in the public sector. In accordance with Albania's PFM Strategy; approved by the Council of Ministers and published in December 2014, the Government wants to make a gradual transition to accrual accounting aligned to International Public Sector Accounting Standards (IPSAS) (Ministry of Finance and Economy, 2014). It is important to recognize that there are already significant on-going activities in Albania that will improve public sector financial reporting. These include:

- On-going compilation of comprehensive registers of property, plant and equipment across all budget spending units;
- The rollout of a web-based interface for all budget spending units and the consequent transfer of processing responsibilities from local Treasury offices to those budget spending units;
- Implementation of AFMIS;
- Implementation of a centralized payroll system under the Department of Public Administration (DOPA);
- and the activities to help better monitor arrears.

These ongoing activities, once completed, will in and of themselves considerably improve the value of public sector financial reporting and contribute to achieving this strategic objective.

2. CURRENT INSTITUTIONAL FRAMEWORK OF PUBLIC SECTOR IN ALBANIA

IPSAS are specifically designed for the public sector, but they are aligned with private sector standards. Most IPSAS have been developed from International Financial Reporting Standards (IFRS). IFRS have been designed for the private sector. IPSAS only deviate from IFRS Standards for public-sector specific reasons. IPSAS take account of the specific characteristics of the public sector. In developing IPSAS, the International Public Sector Accounting Standards Board (IPSASB) seeks to achieve convergence with the international standards for the preparation of the national accounts of the SNA, ESA, and the IMF statistics of government finances (International Federation of Accountants (IFAC), n.d.).

2.1. Composition of Public Sector

The Ministry of Finance and Economy (MoFE) is responsible for all public financial management in Albania. This includes formulating and monitoring fiscal policy, preparation and implementation of the budget, all public internal financial control, managing the internal and external public debt, as well as integrating fiscal and monetary policies in the national economy in cooperation and coordination with the Central Bank and related institutions. Line ministries have functional responsibilities and are also responsible for the maintenance of internal controls within their ministries. They prepare and submit the ministry budget proposals, execute the approved budget, make expenditure, procure goods and services and report on their performance to the MoFE and other interested parties on a regular basis. Local governments constitute the second level of government. They consist of municipalities and regions. Municipalities are the basic units of local government, performing financial management and all other duties of self-government not otherwise assigned in accordance with national government laws and regulations. They prepare budgets, execute the approved budgets, enter into contracts, and conduct procurements and all other aspects of government administration.

There is a degree of uncertainty regarding the precise number of public sector entities and this would need to be resolved in conjunction with any planned steps for consolidation of financial statements. Albanian Government Financial Information System (AGFIS) does not generate a precise list with all controlling entities and their respective controlled institutions (subordinate units and agencies). More specifically, the list and number of government institutions in the AGFIS appears to contain: institutions which have completed the activities for which they were established, fund codes which are not associated with institutions, subordinate units that have more than one code, and other institutions or companies which are financed by the state budget but are not government institutions. The following table presents the approximate composition of Albanian public sector entities including public sector owned companies.

Table 1. Approximate Composition of Albanian Public Sector Entities Including Public Sector Owned Companies

	Central Institutions	Subordinate Units	Autonomous agencies	Public Companies	Total
Central Government	43	1000	72*	40	1155
Local Government	73	173	31	126	403
Special Funds	3	24			27
Totals	119	1197	103	166	1585

Source: Ministry of Finance and Economy, 2017

2.2. Statutory Framework

Albania has a tradition of written law. The supreme legislation is the Constitution and the principles contained therein are elaborated in various laws, including the following on the matter of public sector financial management: the Law on Accounting and Financial Statements (2004 revised); the Law on Management of the Budgetary System (2008 revised); the Law on Financial Management and Control (2010 revised); the Law on Internal Audit (2015); and the Law on the State Supreme Audit (2014). In addition, there are separate laws on the organization of various specific public sector entities such as ministries, agencies or chambers. The principles of the laws are further specified in so-called Sublegal Acts. The main sub-legal acts relating to public sector accounting and financial reporting include: Council of Ministers decision on approval of the Public Accounting Plan (Chart of Accounts) for central and local government institutions and their subordinate units (1998 revised in 2001), which was repealed but is still being used; MOF instruction on the preparation and reporting of annual financial statements for central institutions, local government bodies and their subordinate units and project implementation units for agreements with foreign donors (2006 revised in 2007, 2008); MOF instruction on standard procedures for the budget execution (2012 revised); MOF instruction on the closing procedures for the annual accounts of the budget (each year); MOF on assets management in public sector entities (2011 revised in 2016); and MOF instruction on the use of AGFIS by Treasury and online institutions.

The legal framework for public sector financial accounting and reporting is complex, fragmented and ambiguous. Formal public sector accounting standards do not exist. In 2010, the MOF proposed and Parliament approved a Law on Financial Management and Control (2010). This legislation repealed all existing public financial accounting and reporting requirements and promised that new sub-legal acts and other guidance materials to support the law would be issued within one year. However, to date there has been very little in the way of new sub-legal acts and other guidance materials. Consequently, there is some confusion as to the current public financial accounting and reporting requirements.

2.3. Staffing

There are approximately 3,000 dedicated finance staff serving the approximately 1,300 public sector entities, meaning that there are on average just over two finance staff per central and local government unit. This is considered by many to be too few. It is believed that most economics graduates choose to enter the private rather than public sector because of a significant difference in remuneration between the two sectors. There is no precise information to hand on the difference in remuneration. However, INSTAT reports that remuneration of private sector professional and finance staff ranges from 67,386 to 94,294 ALL/month (equivalent approximately to Euro 500-700 pcm) whereas the average monthly salary in state administration varies from 42,000 to 82,825 ALL/month (equivalent approximately to Euro 300-600 pcm) (Institute of Statistics INSTAT 2016).

On the other hand, higher education in Albania is offered by 13 public universities and 46 private universities, of which over 20 offer accounting and auditing courses. All universities have several faculties. Approximately 80 percent of all students are admitted to public universities, of which by far the largest, oldest and arguably most respected is the University of Tirana with 35,000 students (Ministry of Education, Sport and Youth 2016).

In the field of accounting, the Faculty offers the following courses: a three-year undergraduate degree in Finance and Accounting; a two-year Scientific Master's Program (MSc) in Accounting and Auditing; a 1.5-year Professional Master's (MP) in accounting; a Doctoral program in Accounting and Auditing; as well as other specialized courses in accounting and finance. Universities should consider offering more detailed courses in public sector accounting and auditing in order that undergraduates may better understand the challenges of the public sector, bring with them into the public sector a basic knowledge of the subject and thereby help facilitate an improvement in public sector financial management.

There is no professional education and qualification offered in the fields of public sector finance and accounting. There is also no professional body in Albania for public sector finance staff. This situation contrasts with that of the private sector where accounting professionals may undertake a program of professional education and qualification in corporate sector financial reporting and auditing with the Institute of Authorized Chartered Auditors of Albania (IEKA). The MoFE should consider forming or sponsoring a body to not only support public sector finance staff, including establishing appropriate professional education and qualification offerings, but also to represent and help the profession develop, challenge and advocate changes to the field of public sector finance. The MoFE may also wish to consider approaching other MoFE's in the region to see if it can learn from and leverage its classroom-based as well as online IPSAS learning tools.

There is no requirement for finance and accounting staff in the public sector to undertake regular relevant continuing education. In the five years or so following the significant changes to the public sector accounting framework that were brought about in 1998, the MoFE organized various training to help staff better understand and implement those changes. The Albanian School of Public Administration (ASPA) delivers short training public financial management courses though these are not compulsory for any grade of public finance staff.

2.4. Setting Accounting Standards

As we mentioned above, the MoFE is responsible for all public finance management in Albania. The Ministry consists of a number of General Departments such as: Treasury, Budget, Public Debt, Fiscal Policy and Central Harmonization Units for Public Internal Financial Control (PIFC). Associated institutions under MoFE include the General Directors of Taxation, Customs, Money Laundering and the Institute of Social Insurance.

As discussed earlier, there are no specific public sector accounting standards for the government sector. There are no specific established procedures for the preparation and discussion of all that constitutes Albanian PS GAAP. However, all acts issued by the Minister of Finance and Economy are considered administrative acts and administrative acts which apply to all government institutions are required to be circulated officially for feedback received before a final decision is taken. The PIFC Board (established through the FMC law) discusses new elements of Albanian PS GAAP before it is approved having invited other accounting and audit professionals to their meetings.

There is no code of ethics for accountants in the public sector. However, there is a code of ethics for public sector internal auditors issued by the MoFE. In addition, there are no procedures governing regarding conflicts of interest for the PIFC Board. Accountants in the private sector, that are IEKA members follow the IEKA's code of ethics.

2.5. Government Financial System (GFS)

Statistical reporting in Albania follows the IMF's Government Finance Statistics Manual (GFSM 2014) and the EU-counterpart, the European System of Integrated Economic Accounts (ESA 2010). The MOF is responsible for compiling Government Finance Statistics (GFS) reports in accordance with GFS 2014, whereas the National Statistical Institute (NSI) is responsible for compiling reports for the EU and Eurostat, such as those reporting on the EDP as well as in accordance with ESA 2010. It is common practice for countries to use such information as is available and compiled in accordance with national PS GAAP as their main source of data for the production of fiscal statistics, and this is the practice followed in Albania. Fiscal statistics are often produced on an accrual basis even though national PS GAAP may be predominantly cash-based by making ad-hoc so-called "bridging" adjustments to the cash-based information. However, a national PS GAAP that is predominantly accruals-based helps ensure better comprehensiveness and accuracy of the accruals-based fiscal statistics.

Both statistics frameworks, GFSM 2014 and ESA 2010, record flows on an accruals basis. Albania's intention to implement accrual accounting in the public sector based on IPSAS would therefore leverage significant synergies in the production of financial information. Having such entity-level audited financial reporting data would substantially reduce the risk of systematic reporting errors in the data used for preparing GFS in Albania. As concerns the methodologies of IPSAS and GFS, considerable overlaps and broad similarities can be detected, while at the same time important conceptual differences remain. While GFS is a macro-level concept that serves the purpose of macroeconomic analysis and policy making, IPSAS as a micro-model is used for accountability and decision making at an entity level, including the entire government reporting entity. It is important to note that the different methodologies produce different sets of financial information and one accrual concept cannot replace the other but rather complements it. When the MoFE eventually produces and publishes accrual-based consolidated financial statements, it may wish to consider the preparation of a reconciliation between these financial statements and GFS reports.

2.6. Quality and Availability of Financial Reports

In our country, all financial reports prepared in accordance with Albanian PS GAAP, including the budget implementation reports, are derived from the same set of underlying accounting records and are prepared and presented for each calendar year ending December 31. Excluding the budget implementation reports, the other financial reports are specified in the Article 12 of the Law on Accounting and Financial Statements (2004), paragraph 32 of MoF Instruction 33/2015 and MoF Instruction 14/2006. They comprise the following:

- Statement of Financial Position (Balance sheet);
- Performance Statement (Expense and Revenue Statement);
- Sources and Expenses for Investments (long term assets);
- Cash Flow Statement;
- Statement on the Status and Changes in Long-term Assets;
- Statement on Amortization of the Fixed Assets;
- Statement of Movements in Net Equity (Movements of Funds);
- Statement on the Number of Employees and the Salary Fund; and
- Notes to the financial statements, containing disclosure of accounting policies, as well as other

explanatory material.

The MoFE is reluctant to publish the other financial reports because of concerns regarding data quality e.g. the MoFE has concerns regarding the consolidation process. Data quality and availability of reports should greatly improve once the AGFIS and AFMIS projects are complete.

2.7. Information Technology

There are, broadly speaking, two sets of Information Technology (IT) accounting systems: the Albanian Government Financial Information System (AGFIS), which is currently not fully functional but is used across most of the public sector; and the myriad of mostly local, IT accounting systems used in public sector entities that serve primarily to make up for the lack of full functionality of AGFIS.

The main features of AGFIS include:

a. Financial statements. There is a single financial closing level for all central government institutions. Local governments (municipalities and region councils) maintain separate financial statements.

b. Cash transactions. All cash transactions are performed centrally through the Treasury Single Account (TSA) at the Central Bank. All cash transactions between the government units (local and central government units) whose accounts are administered by MOF Treasury are executed within AGFIS through accounting transactions without the movement of cash. Hence budget implementation reports which are cash-based and essentially report on financial transactions can be produced directly from AGFIS. On the other hand, a full set of financial statements prepared in accordance with Albanian PS GAAP, which also reflect non-financial transactions, require period-end journals to be entered onto AGFIS.

Currently, all budget implementation reports are produced directly from AGFIS because such reports are cash-based and all cash transactions flow through the TSA and are captured directly in AGFIS. Although by design, AGFIS is capable of producing full accruals financial statements in accordance with Albanian PS GAAP, in reality it will only be able to do directly so once AGFIS is fully functional (including addressing all the issues listed above) and is used by all government units. Until then, in order to produce a full set of financial statements in accordance with Albanian PS GAAP, period-end journal entries reflecting non-cash transactions must first be made into AGFIS. In addition, entities not included in the TSA (extra-budgetary institutions, Project Implementation units with foreign financing) must submit their budget execution reports.

Any proposals to introduce IPSAS should take into account not only the amendments that might be necessary to AGFIS but also those that might be necessary to local IT accounting systems used by public sector entities. This is because AGFIS, as currently implemented, can only produce full accruals financial statements after manual period-end journals entries have been received from these public sector entities which are derived from their own local IT accounting systems. As such, it might be advisable, at least in the early stages of IPSAS-implementation, to focus on those aspects of IPSAS that require little or no modifications to the local IT accounting systems. It might be more appropriate to implement the other aspects of IPSAS when AGFIS is at a further stage of implementation and perhaps when all entities use AGFIS as their main accounting system or when their local IT accounting systems are better integrated with AGFIS.

3. COMPARISON OF ALBANIAN PS GAAP WITH IPSAS

Albanian PS GAAP has significant elements of accruals-accounting and as such, the fundamental principles underlying Albanian PS GAAP are consistent with the fundamental principles underlying IPSAS. Examples of this include capitalization of and accounting for fixed assets, depreciation of fixed assets, and accounting for receivables and payables.

This chapter summarizes the consistencies and inconsistencies between Albanian PS GAAP as designed and IPSAS. It is not a comparison of actual practice but is rather a comparison of the prescribed requirements of Albanian PS GAAP with IPSAS (International Public Sector Accounting Standards Board 2016).

3.1. Areas of Albanian PS GAAP That Are More Consistent with IPSAS

IPSAS 1 - Presentation of Financial Statements. Albanian PS GAAP conforms to IPSAS 1 in terms of responsibilities for the preparation and presentation of financial statements, main principles, structure and content and presentation of items, as well as the basic definitions of assets and liabilities and the presentation of line items on the face of financial statements. However, Albanian PS GAAP does not require the additional disclosures of key assumptions and risks. In order to further conform to IPSAS 1, Albanian PS GAAP would need to require the additional disclosures of key assumptions and risks.

IPSAS 4 – The Effects of Changes in Foreign Exchange Rates. Albanian PS GAAP is broadly in line with IPSAS 4 in three main ways: i) initial recognition of foreign currency transactions is calculated by applying the spot exchange rate at the date of the transaction; ii) foreign currency monetary items are translated using the closing rate; and iii) non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. In addition, exchange differences arising on the settlement or on translating monetary items at rates different from those at which they were translated on initial recognition are recognized in surplus or deficit. In order to further conform to IPSAS 4, Albanian PS GAAP would need additionally to specify that the exchange rate used for non-monetary items measured at fair value in a foreign currency should be as at the date when the fair value was determined.

IPSAS 17 – Property, Plant and Equipment. Albanian PS GAAP is broadly in line with IPSAS 17 except for the following three ways: i) depreciation charge is recognized directly as a decrease in equity rather than in surplus or deficit, ii) there is no periodic review of the residual value and the useful life of an asset, and iii) the gain or loss arising from the de-recognition of an item of PPE is reflected directly as an increase or decrease in equity rather than in surplus or deficit. In order to further conform to IPSAS 17, Albanian PS GAAP would need to change to require: i) that depreciation charge is recognized in surplus or deficit for the period rather than directly as a decrease in equity, as is currently the case; ii) a periodic review of the residual value and the useful life of an asset; and iii) that the gain or loss arising from the de-recognition of an item of PPE is reflected in surplus or deficit rather than directly as an increase or decrease in equity, as is currently the case. **IPSAS 24 –** Presentation of Budget Information in Financial Statements. Consistent with IPSAS 24, Albanian PS GAAP also requires that the budget implementation report includes a comparison between the budget amounts for which it is held publicly accountable and the actual amounts. Individual public sector entities are not, however, required to make their individual approved budgets publicly available, although some make public their comparison of budget and actual amounts. All individual entities submit such information to the MOF in annual budget implementation reports. In order to further conform to IPSAS 24, Albanian PS GAAP would need to change to require individual public sector entities to make their individual approved budgets publicly available and also make public their comparison of budget and actual amounts.

IPSAS 35 – Consolidated Financial Statements. Consistent with IPSAS 35, government controlling entities are required to present consolidated financial statements to the same calendar year-end reporting date. However, there are some omissions in terms of definitions and the express requirement that consolidated government entities use uniform accounting policies. In order to further conform to IPSAS 35, Albanian PS GAAP would need to expand its definitions and also expressly require that consolidated government entities use uniform accounting policies.

3.2. Areas of Albanian PS GAAP That Are Least Consistent with IPSAS

IPSAS 2 - Cash Flow Statements. The classification of transactions within the cash flow statement required by Albanian PS GAAP is substantially different from that required by IPSAS 2. In addition, there is no disclosure of investing and financing transactions that do not require the use of cash or cash equivalents. There is also no disclosure of the components of cash and cash equivalents nor any presentation of a reconciliation of the amounts in the cash flow statement, with the equivalent items reported in the statement of financial position. In order to conform to IPSAS 2, Albanian PS GAAP would need to change the classification of transactions within the cash flow statement and this would likely require a change to the manner in which AGFIS compiles the Cash Flow Statement.

IPSAS 5 – Borrowing Costs. Albanian PS GAAP is not consistent with IPSAS 5 in that borrowing costs are recognized as an expense on the date of payment rather than in the period in which they are incurred or even in the period in which they are incurred, except to the extent that they are capitalized as part of the acquisition, construction or production cost of a qualifying asset. In order to conform to IPSAS 5, Albanian PS GAAP would need to require borrowing costs to be recognized as an expense in the period in which they are incurred except to the extent that they are capitalized as part of the acquisition, construction or production cost of a qualifying asset.

IPSAS 9 – Revenue from Exchange Transactions. Albanian PS GAAP is not consistent with IPSAS 9 in that revenues are measured on a cash basis rather than by: reference to stage of completion of services; or transfer of the significant risks and rewards of ownership, control and economic benefit or service potential of goods. In order to conform to IPSAS 9, Albanian PS GAAP would need to require revenues to be measured by reference to stage of completion of services, or transfer of the significant risks and rewards of ownership, control and economic benefit or service potential of goods.

IPSAS 12 – Inventories. Albanian PS GAAP is in line with IPSAS 12 in the following four ways: i) terms of definition of inventories; ii) measurement of inventories acquired through non-exchange transactions; iii) recognition of the carrying amount as an expense in the period when those inventories are sold or exchanged; and iv) recognition of write downs or losses during the period in which they occur. However, Albanian PS GAAP differs from IPSAS 12 in that it does not require the following: i) inventory to be measured at lower of cost and current replacement costs where inventory is held for distribution or sale at no or nominal charge; and ii) inventory acquired through exchange transactions and not for distribution at no charge or nominal charge to be measured at the lower of cost and net realizable value. In order to conform to IPSAS 12, Albanian PS GAAP would need to require: i) inventory to be measured at lower of cost and current replacement costs where inventory is held for distribution or sale at no or nominal charge; and ii) inventory acquired through exchange transactions and not for distribution at no charge or nominal charge to be measured at the lower of cost and net realizable value.

IPSAS 14 – Events after the Reporting Date. Albanian PS GAAP differs considerably from IPSAS 14 in the following way: it does not address adjusting and non-adjusting events regarding those that occur between the reporting date and the date when the financial statements are authorized for issue, except for events which occur during the one-month so-called "supplementary period" immediately following the end of the reporting period. In order to conform to IPSAS 14, Albanian PS GAAP would need to require that public sector entities specifically consider adjusting and non-adjusting events regarding those that occur between the reporting date and the date when the financial statements are authorized.

IPSAS 22 – Disclosure of Information about the General Government Sector (GGS). Although Albanian PS GAAP requires disclosure of financial information about the GGS that is consistent with IPSAS 22, there is no requirement for these disclosures to be reconciled to the consolidated financial statements of the government, showing separately the amount of the adjustment to each equivalent item in those financial statements. In order to conform to IPSAS 22, Albanian PS GAAP would need to require GGS disclosures to be reconciled to the consolidated financial statements of the government, showing separately the amount of the adjustment to each equivalent item in those financial statements.

IPSAS 31 – Intangible Assets. Albanian PS GAAP is consistent with IPSAS 31 in many respects. However, its basic definition as an expense incurred for the creation or acquisition of assets such as development studies, preparatory studies, patents, copyright, intellectual rights and software is inconsistent with IPSAS 31. This would require intangible assets to be defined in terms of whether they are separately identifiable, whether the entity exerts control, and the future economic benefits. In addition, gains or losses from de-recognition are included directly in equity (in the Financial Position Statement) rather than in surplus or deficit for the period, as required by IPSAS 31. Finally, there are only very limited disclosures. In order to conform to IPSAS 31, Albanian PS GAAP would need to revise its definition of an intangible asset significantly and also require that gains or losses from de-recognition are included in surplus or deficit for the period. In addition, the chart of accounts and AGFIS might need to be revised to allow for the separate accounting and reporting of intangible assets.

3.3. Areas of Albanian PS GAAP That Are Entirely Silent with IPSAS

Albanian PS GAAP is silent in respect of the matters addressed by the following IPSAS. As such, Albanian PS GAAP would need to adopt wholesale the requirements of IPSAS 13, 16, 18, 19, 20, 21, 27, 28, 29, 30, 32, 34, 36, 37, 38, 39. In addition, the chart of accounts and AGFIS might need to be revised to allow for the separate accounting and reporting of the relevant types of transactions.

IPSAS 13 – Leases. Albanian PS GAAP does not address the issue of leases per IPSAS 13 as leases are a fairly recent innovation in Albania.

IPSAS 16 – Investment Property. Albanian PS GAAP does not address the issue of investment property per IPSAS 16 and specifically makes no distinction of assets held as investment property from other assets.

IPSAS 18 – Segment Reporting. Albanian PS GAAP does not address the issue of segment reporting per IPSAS 18.

IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets. Albanian PS GAAP does not address provisions, contingent liabilities and contingent assets per IPSAS 19 in that it makes no recognition or disclosure of such matters.

IPSAS 20 – Related Party Disclosures. Albanian PS GAAP does not address the issue of related party disclosures per IPSAS 20.

IPSAS 21 – Impairment of Non-Cash Generating Assets. Albanian PS GAAP does not address the issue of non-cash generating assets per IPSAS 21.

IPSAS 27 – Agriculture. Albanian PS GAAP does not address the issue of agriculture per IPSAS 27.

IPSAS 28 – Financial Instruments: Presentation. Albanian PS GAAP does not address the issue of financial instruments: presentation per IPSAS 28.

IPSAS 29 – Financial Instruments: Recognition and Measurement. Albanian PS GAAP does not address the issue of financial instruments: recognition and measurement per IPSAS 29.

IPSAS 30 – Financial Instruments: Disclosure. Albanian PS GAAP does not address the issue of financial instruments: disclosure per IPSAS 30.

IPSAS 32 – Service Concession Arrangements. Albanian PS GAAP does not address the issue of Service Concession Arrangements: Grantor per IPSAS 32.

IPSAS 34 – Separate Financial Statements. Albanian PS GAAP does not address the issue of Separate Financial Statements per IPSAS 34.

IPSAS 36 – Investments in Associates and Joint Ventures. Albanian PS GAAP does not address the issue of Investments in Associates and Joint Ventures per IPSAS 36.

IPSAS 37 – Joint Arrangements. Albanian PS GAAP does not address the issue of Joint Arrangements per IPSAS 37.

IPSAS 38 – Disclosure of Interests in Other Entities. Albanian PS GAAP does not address the issue of Disclosure of Interests in Other Entities per IPSAS 38.

IPSAS 39 – Employee Benefits. Albanian PS GAAP does not address the issue of Employee Benefits per IPSAS 39.

3.4. Benefits of The Implementation of IPSAS.

Traditionally public administrations have set their own standards for accounting and financial reporting. As we explained above, accounting by general government institutions in Albania is currently done on a cash basis, but with some accrual elements relating to receivables and payables. The financial reporting to parliament is focused on the execution of the budget. International standards for public sector accounting and reporting are, however emerging. The standards, which are set by the International Public Sector Accounting Standards (IPSAS) Board, aiming to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability. The implementation of these standards will lead these benefits for our country:

- The public entities will access to high quality financial information, comprehensive budgeting which also takes into account value-fir-money considerations and proper evaluations of whether monies spent have achieved the objectives set.
- Accrual accounting gives a far more comprehensive picture of a country's assets and liabilities than cash-based accounting does. It provides information about the income which needs to be raised for known commitments or expected future outcomes.
- Access to accurate and reliable financial information will help our government take decisions on public spending and future planning that are important for the long-term success of Albania and creating the right environment for growth of our country.
- Better public sector accounting will raise the international investor confidence and global comparability.
- Empowering citizens and their elected representatives to scrutinise public sector finances can help establish a culture of democratic accountability, based on a shared understanding of a country's assets and liabilities as well as the risks and responsibilities faced by governments.

According to these benefits, our country has foreseen some outcome indicator, provided in the Public Finance Management Strategy (2014-2020), as follow:

- Presentation of financial statements as per IPSAS framework. Reporting actual versus budget in a comparative basis.
- The number of standards implemented.
- National guide, the related arrangements and the long term action plan for transition from the existing modified accounting basis to the accrual basis of accounting.
- Daily desegregation of accounting data through Interface between AGFIS and Tax IT system.
- General Government institutions accessing AGFIS directly shall be able to execute their budget and perform financial reporting.
- Financial capacities increased and financial officers well trained.

4. CONCLUSIONS

Based on the findings above, it is very important to provide e suggested roadmap to strengthen Albanian PS GAAP, in accordance with IPSAS. This roadmap described in this paper is for the short- to medium-term. This is because international experience shows that the time-period for reform is long, and it is difficult to predict with accuracy or even keep track of the incremental costs of the reform. It will not take the Albanian public sector accounting all the way through from where it is now to fully implemented IPSAS. The emphasis here is to start with small steps in the right direction with a focus on creating an appropriate enabling environment.

Create demand for reform of public sector accounting

Experience in other countries has also shown the importance of commitment from senior management and politicians as well as the participation of key stakeholders to create demand for reform of public sector accounting. There are a number of key activities that could help create awareness of, and demand for, public sector accounting reform, including:

- Establish Project Implementation Team of key stakeholders including Treasury and Budget Departments, the SAI and users.

- Organize study visits to selected EU countries that apply either IPSAS or national standards based on IPSAS;
- Conduct high-level policy setting workshops for senior officials and stakeholders;
- Develop and deliver training on IPSAS and its standard-setting process for the regulators and other stakeholders to enhance practical knowledge and understanding of those standards; and
- Conduct workshops to develop reform action.

Address institutional framework

Following from this paper analysis of the institutional framework, there are a number of issues with the framework that could be addressed:

- Resolve the uncertainty regarding the number of public sector entities. Significant work has been done by Treasury and the NSI but further work is required to identify the entities and also establish procedures for maintaining an up-to-date list of such entities;
- Resolve the complex and ambiguous legal framework for public sector financial accounting and reporting. More specifically, all public financial accounting and reporting requirements that were repealed because they were specified as such by the Law on Financial Management and Control (2010) should be reinstated to the extent that public sector entities continue to be required to comply with them, except where and until such time as new sub-legal acts and other guidance materials have been issued;
- Make plans to address the shortage of accounting and finance staff, including identifying the number and grade of staff required across the public sector. In conjunction with this activity, it might also be useful to consider the appropriateness of the entity-level internal organization of the finance function and, more specifically, to consider whether the processes may be better allocated between relevant departments and units;
- Develop a comprehensive change management strategy to foresee and proactively address challenges, build on opportunities and ensure effective communication among all stakeholders and users in order to imbed the reform into the institutional culture;

- Consider how to require or otherwise encourage universities to offer more detailed courses in public sector accounting and auditing in order that undergraduates may better understand the challenges of the public sector, bring a basic knowledge of the subject with them into the public sector and thereby help facilitate an improvement in public sector financial management;

- Form or sponsor a body not only designed to support public sector finance staff, including establishing appropriate professional education and qualification offerings, but also to represent and help the profession develop, challenge and advocate changes to the field of public sector finance;

- Establish the requirement as well as the means for finance and accounting staff in the public sector to undertake regular relevant continuing education;

- Establish a code of ethics for finance and accounting staff in the public sector, perhaps based on that established for public sector internal auditors.

- Translate relevant IPSAS into Albanian.

5. PLANNING-MILESTONES

According to the current situation of the institutional framework of the public sector in Albania and in the comparison of the Albanian PS GAAP with IPSAS, the government has identified some specific objectives, aligned with the Albania PFM Strategy (2014-2020), to be achieved in the near future:

1. Development of public sector accounting and financial reporting in line with IPSAS.

- Assessment of the current situation on public accounting and development of public accounting legal and regulatory framework, by conducting a gap analysis comparing national accounting standards against IPSAS. The results of this gap analysis will incorporate a roadmap for the further development of national accounting legislation and guidance, taking account of the Albania. This topic encompasses the following activities: i) translation of IPSAS into Albanian, ii) development and enactment of national accounting legislation, and iii) national level implementation guidance.

- Review and amendment of the national chart of accounts. This topic will include: i) the review, and ii) if needed, the amendment of the national chart of accounts in order to be fully in line with accrual accounting/ budgeting and statistical needs.

2. Development of MoFE capacities and of professional accounting skills for public accounting practitioners.

- Technical capacity building of the Financial Reporting Unit and Central Harmonization Unit (CHU) at the MoFE. This activity includes: i) defining institutional responsibilities, and ii) setting up a work plan for the newly created Financial Reporting Unit (Treasury) and the CHU.

- Development of professional accounting skills and a sustainable public sector accounting training mechanism. In order to improve the professional accounting skills and develop local training capacities, the following activities are foreseen under this topic: i) training of a selected number of financial officers to obtain an internationally recognized professional qualification certificate, ii) training of a sufficient number of trainers through the train of trainers approach, and iii) institutionalization of a local training and certification program at a local institution to ensure the sustainability of the development of public accounting skills in the long-run. The training foresees a two year training of one cohort (25 students in English) to obtain a professional qualification in IPSAS. Out of this cohort, a maximum of 15 candidates will be selected to receive additional methodological training to become trainers and be able to deliver the training afterwards. A continuous training and certification mechanism will be established and institutionalized at a local institution. A dedicated working group, comprising all relevant stakeholders, will be established to define the content of the training and prepare the relevant legal framework to regulate training for public accountants in Albania.

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