

Public Sector Accounting Reforms and Developments in Uzbekistan

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Abstract

Separation of public and private sector accounting systems is an ongoing process in many transition economies, who are adopting market principles and developing economy-wide public-private relations. Distinguishing procedures and principles in private sector accounting creates an extra effort to standardize the public sector accounting principles within international practices and requires ensuring the easiness with clear-cut cases at an optimal level. This article highlights the public sector accounting reform and adoption processes in Uzbekistan and examines measures of adopting the principles of International Public Sector Accounting Standards (IPSAS).

Keywords: IPSAS, public sector, accounting reform, Uzbekistan.

1.Introduction

Many countries have invested in reforming public sector accounting, often referred to as New Public Financial Management (Guthrie et al., 1999). In transition economies, public sector accounting is a uniform reform path despite the differences in cash and accrual based methods they opted. Reforms processes differentiate in the standards and core principles, bases and modes of adoption (full or partial). A diverse range of national and sub-national government entities also have projects and processes in place aimed at the adoption of IPSAS, IFRS or special accounting rules closely aligned with these international standards (PwC, 2010). Public sector accounting reforms are hugely depends on the factors and objectives of the government to establish the new accounting system. Because, one peculiarity of public sector accounting system is government's superiority in procuring resources. Many economies use tailored accounting for public sector with specific features. However, the common goal of the reform is to establish better public governance. Public sector accounting ensures stronger fiscal linkages and private-public relations by applying different financial statements for both sectors to provide transparency and accountability. Surveys found that dilemma of public sector accounting faced a dilemma of the cash and accrual accounting methods. Developing and transition economies are establishing cash accounting methods which has been separated from the business accounting principles in the core. Developed and emerging economies are increasingly adopting the accrual accounting by cancelling the cash accounting principles in public sector. It supports the observation-based conclusion that there is a link between public sector accounting practices and development level of a country.

Public sector accounting reforms are progressive in transition economies. Recently established private sector, reducing state ownership, comparatively new public-private partnership, stronger fiscal relations with businesses and individuals requires the separation of accounting systems into public sector and business accounting. Uzbekistan, a transition economy with rapid economic growth, has been adopting public sector accounting on gradual basis in consistent with international standards and the best practices. Sequenced transition policy and transformations in business environment led to rethinking the applicability of previous Soviet-inherited accounting system and showed the need for changes to modernize the outdated accounting principles. This article studies the internationally recognized public sector accounting principles, standards and methods, and proposes their relevant elements and aspects to improve the national public sector accounting practices further.

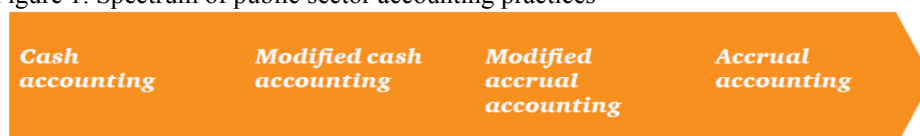
2. Literature Review

Cross-border public sector accounting studies are a not a new topic for researchers, as it attracted the governmental attention and has a system-wide importance for an economy. There are several studies dedicated to public sector accounting and accountability, which highlighted the diverse aspects of government accounting, fiscal affairs, performance of public entities and authorities to increase the accountability and transparency. Some of them were concentrated on new public sector accounting as a part of public finance reforms in developed economies, while others studied the impact of commonly accepted public sector accounting on developing economies. However, there is a limited number of research in the context of transition economies, in which public sector accounting practices are newly introduced. Bracci (2009) examined the relevance and importance of changing public sector accountability systems. Olson (2007) studied developments and spread of public sector accounting practices in the example of several developed countries, but not developing and transition. Biondi (2013) studied public sector accounting practices in Europe based on EPSAS and found that there are overarching accounting principles and models, as well as their consequences on the working and the very existence of public service activity.

3. Public Sector Accounting: Differences in International Experience and Reform Paths

In the last twenty years important reforms in accounting and reporting systems of public administrations have occurred on the international scenario, coupled with a tension towards international harmonization and the application of international accounting standards devoted to the public sector (Rossi et al., 2012). Current applications of public sector accounting differ in adoption procedures (full or partial), modes and paths (IPSAS, EPSAS, IFRS or IAS) across countries. Stance of public sector accounting is also classified into four large groups which rooted from two core modes of accounting – cash and accrual. Any country who is conducting public sector accounting along with business accounting use any of the four basic methods: cash accounting, modified cash accounting, accrual accounting, modified accrual accounting (Figure 1). Cash accounting is the primary method used and have been used in the public sector of many countries. Public sector accounting is primarily applied based on a cash basis and attempts to discipline the fiscal activities of the government from a financial viewpoint. As PwC global survey found, cash-based accounting practices are still used by approximately half of the governments (48%), while the other half (52%) follow the accrual or modified accrual basis.

Figure 1. Spectrum of public sector accounting practices

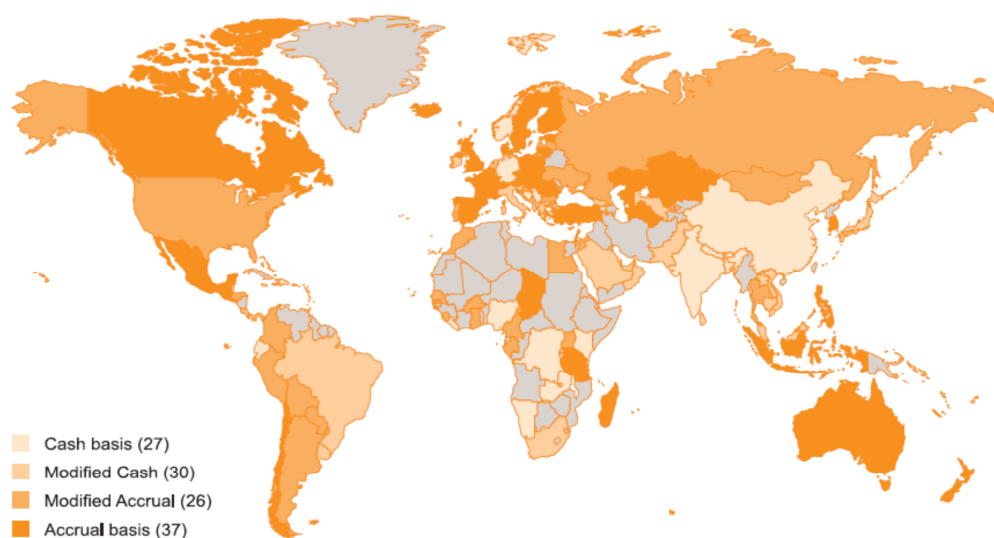


Source: PwC, 2013.

The growing trend in public sector accounting developments are going towards the accrual method which is being globally used. IFRS/IAS-rooted IPSAS framework is often recommended to governments to adopt and apply in order to benefits from wide international recognition and acceptance. It also enhances the credibility of government financial statements by providing a comprehensive view of government assets and liabilities and an economic measure of government performance (PwC, 2013).

Christiaens, Reyniers and Rolle found that despite differences in accounting methods, there are similarities and common preferences of individual economies (Figure 2). Australia, France, Lithuania, the Netherlands, New Zealand, Norway, Sweden Switzerland, the United Kingdom fully converged towards IPSAS. Portugal, Spain, Denmark and Finland have introduced accrual accounting methods in their own pathways away from IPSAS or IFRS paths.

Figure 2. Public sector accounting landscape



Source: PwC Global Survey, 2014.

As shown in Figure 2, developing and transition economies are still stepping towards accrual accounting method. Developed economies are advancing the public sector transparency and accountability measures by recognizing adopting the international standards with modern methods of accounting.

4. Perspectives for Public Sector Accounting in Uzbekistan

Since 1991 Uzbekistan has been conducting development-led reforms to fully merge the aspects of free market economy. Appropriate socio-economic and political condition and gradual development of transition to market economy are provided in a short period of time. Acceleration of economic reforms in Uzbekistan and its merging to the global economic system requires regular improvement of existing legislative basis and in consistent with international best practices. One of the main focus areas of large scale economic reforms was public finance and accounting system which were prerequisites for adopting the market principles and ownership diversity. Decentralization of public ownership and creation of private sector required the establishment of two diverse system of accounting for both sector: business accounting specified for private sector enterprises and public sector accounting for public entities and recipients of funds from public budget. Therefore, the government has been taking action for improving the budget system and has been conducting prudent legislations and their introduction and enforcement such as Accounting Act No. 279-I declared on August 30, 1996 and Budget Code declared on December 26, 2013. Establishing the unique legal basis for public sector in state budget execution process, creating and coordinating the localization mechanism of IPSAS for improving the accounting and reporting methodologies, strengthening the existing legal bases and investigating the driving factors scientifically are seen as the main targets and tasks for advancing. Improving the national budget accounting system and providing its full compliance with international standards involve empirical and theoretical investigations in manipulation and adoption of international standards for sophisticating the accounting and reporting methodologies in public organizations.

In Uzbekistan accounting and reporting in treasury execution of state budget are enforced in the unique order in consistent with all legal requirements. Nowadays, legislations on organization and conduct of accounting in budget organizations and their introduction, optimization of accounting of execution of estimate of expenditures and their reporting methods in budget organizations and improving the treasury execution of state budget in accordance with international standards are main issues.

5. Conclusion

Comparison and studies of successful paths of foreign countries in public sector accounting system have resulted in several lessons and observation-based proposals. In order to improve the budget accounting methodologies in accordance with international standards in budget organizations, following factors should be given top priority in

terms of importance:

1. Considering the accounting policy formation methodology in optimizing the public sector accounting in public sector entities;
2. Based on the attributes of international standards, creating the unique plan of the state budget treasury execution accounting and its accounts according to the classification of state budget revenues and expenditures;
3. Creating and enforcing the sound and complete national public sector accounting standards which can respond to all requirements and conditions of international standards;
4. Based on international standards introducing the single accounts system of treasury execution accounting of public budget in accordance with the classification of public budget revenues and expenditures;

Solutions for abovementioned issues are significant for accounting in budget organizations and improving their reporting methodology. Key findings of our series of surveys and studies serves to the improvement and development in accounting and reporting methodologies in public sector entities based on international standards. Developing the accounting system in public sector entities based on IPSAS will be a great step towards further economic development in long-term as well as being a short-term forward pace for enhancing the information function of budget accounting under in the condition of treasury execution of public budget.

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