



International Public Sector Accounting Standards Implementation in the Russian Federation

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ABSTRACT

The purpose of this study is to ascertain the impact of International Public Sector Accounting Standard (IPSAS) on reliability, credibility and integrity of financial reporting in State Government administration in Russia. The article provides the rationale for developing Federal accounting standards for public the sector. The proposals formulated in the study may be useful in developing and perfecting the Federal accounting standards, in practical work of accounting organizations and educational process of higher educational institutions. The article provides a substantiation of the conclusions that the adoption of the program for Federal accounting standards development and subsequent formulation of the standards will facilitate the transition of domestic accounting to a totally new level.

Keywords: Federal, Accounting Standard, Public Sector

JEL Classifications: N10, P41, Z23

1. INTRODUCTION

The International Public Sector Accounting Standards Board® (IPSASB®) develops IPSAS™, accrual-based standards used for the preparation of general purpose financial statements by governments and other public sector entities (Handbook of International Public Sector Accounting Pronouncements, 2014). Through these standards, the IPSASB aims to enhance the quality, consistency, and transparency of public sector financial reporting in Russia. The IPSASB also issues guidance and facilitates the exchange of information among accountants and others who work in the public sector and promotes the acceptance of and international convergence to IPSASs. The Ministry of Finance of the Russian Federation is developing national standards based on IPSAS to ensure transparency and harmonization of financial statements. Harmonization of national standards for public sector IPSAS are a very significant part of the reforms in public administration in Russia.

The members of the IPSASB are appointed by the IFAC Board. The IPSASB comprises a total of 18 members, 15 of whom are nominated by member or organizations of the IFAC. The other three are public members and can be nominated by any individual

or organization. The countries represented on the IPSASB include: Australia, Canada, China, France, Germany, Japan, Kenya, Morocco, New Zealand, Pakistan, Romania, South Africa, United Kingdom, United States of America and Uruguay (Ernst and Young, 2012, Asian Pacific Economic Cooperation, 2013).

Several advantages may be associated with the implementation of IPSAS for public entities, including accounting harmonization, which allows better comparability of accounting systems in the world, the ability to use “preconceived” standards created by the most competent body in the field (IPSASB) rather than creating its own standards, and the possibility to consolidate financial statements. Moreover, these standards also aim to significantly improve the quality of financial information for a wide audience to improve decision-making regarding the allocation of resources, to ensure more transparency, and to increase the accountability of decision makers (Bellanca and Vandernoot, 2014). The application of these standards could also improve the functioning of budgetary surveillance, as well as governance by providing consistent, clear, and concise accounting information comparable from one country to another. In addition, IPSAS could also be useful for future developments in terms of audit in the public sector (European Commission, 2012b; European Commission, 2012a).

Developing countries are urged to adopt IPSAS by international organizations which provide financial assistance to developing countries. Other countries, regardless of their political and economic systems, are encouraged to harmonize their national standards with IPSAS. Thus, IPSAS have become de facto international benchmarks for evaluating Government accounting practices worldwide. For these reasons, IPSAS deserves the attention of accounting policy-makers, practitioners and scholars alike (KPMG, 2013).

The objective of general purpose financial statements is to provide information to meet the need of those users of financial statements who are not in position to demand reporting update to their need. The users of general purpose financial statements include taxpayers, members of parliaments, creditors, suppliers, the media and public sector employees. Financial statements prepared in accordance with IPSASs must present fairly the financial position, financial performance and cash flows of an entity. In order to meet this requirement, a public sector entity must first of all observe general qualitative characteristics of financial reporting. Such qualitative characteristics of financial reporting are fundamental principles for preparing financial statements in accordance with IPSASs. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

So IPSASs are intended to be high-quality standards which set requirements for high-quality financial information in the interest of users, that is to say financial information that is relevant, faithful, understandable, timely, comparable, verifiable and internationally consistent. Applying them means having financial reports prepared on the basis of standards acknowledged at the international level, and thus financial reports that can be understood, analysed, compared, audited anywhere on the basis of a shared international language (Brown, 2013).

It should be noted that the approach to adoption of IPSASs is varied in different jurisdictions. Some have adopted IPSASs directly. Russia are using IPSASs indirectly as a basis for national standards. A flexible approach to adopting IPSASs is then possible.

2. METHODS

In the study applied logical and systems methods, comparison, synthesis, analysis, and analogy techniques. The study used the method of comparative analysis. The purpose of the analysis was to identify differences between the international standards for public sector projects and standards in the public sector published by the Ministry of Finance. Also the aim was a systematic review of draft standards and draft resolutions of IPSAS and Russian PSAS on the basis of the information published and opinions, surveys of the Ministry of Finance and stakeholders (managers in the public sector, Accounting Lecturers). The surveys were conducted orally. Interest was the respondents' opinion about the necessity of the application of IPSAS in the Russian Federation. We evaluated the loyalty of the respondents to the prospect of using IPSAS as the basis of Russian PSAS.

Methods of theoretical analysis were used as core in this study. The study of literature and regulations in the study area revealed

the following discussion on the use of IPSAS. Synthesis method was used when grouping the positive and negative impacts of the introduction of IPSAS as the basis for Russian accounting standards in the public sector. It is an analysis of discourse within a range of archival evidence and is based on an examination of major publications and documentary materials emanating from major professional accounting bodies (relating reporting, regulations conferences and training education).

3. RESULTS

As the basis for developing Federal standards are International financial reporting standards the public sector (Order of the Ministry of Finance of the Russian Federation, 2015), it is necessary to identify the differences of the Russian accounting standards public sector and IPSAS. According to, the public sector can be defined as that sector of the economy established and operated by the government or, its agencies, distinguished from the private sector and organized on behalf of the whole citizens. The primary motive of the public sector is to provide services to the citizens and not to maximize profit.

Result of the comparative analysis presented in the Table 1.

Only 3 main standards is presented for discussion now in Russian Public Sector Accounting Standards. The strategy for the development of Public Sector Accounting Standards approved and published. National and international standards are not fully identical. However, the basis of the standards is total (Russian PSAS, IPSAS, IFRS).

The Ministry of Finance of the Russian Federation proposed 30 new Federal accounting standards public sector (2015-2020 years). The requirement of these projects include new the rules of accounting in the public sector and contribute significantly improvement of national accounting.

By 2020, organizations the public sector will be created the system of Federal standards containing necessary rules of conduct accounting and preparation of financial reporting. The analysis of the draft regulations a number of Federal standards (2015) shows that the new accounting rules aimed at improving the realism of reporting information organizations in the public sector.

4. DISCUSSION

4.1. IPSAS as the Basis for RusIPSAS: The Current Results and Prospects

Five new Federal standards will take effect From 1 January 2017 and that establish the rules of accounting and preparation of financial reporting in the public sector. Other Federal the standards will take effect in 3 years.

In these 3 years to account for similar operations can be applied by various methods. For the revaluation of fixed assets to use fair value, but for an intangible asset will not. The rules of making one of the required standard "Presentation

Table 1: International Public Sector Accounting Standards and Russian Public Sector Accounting Standards (discussing the project). Comparative analysis

IPSAS	Standard (Handbook of International Public Sector Accounting Pronouncements, 2014)	Based on	Russian PSAS		Russian PSAS Based on
			Official Translation IPSAS	Russian PSAS (project)	
-	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities	Conceptual Framework (IFRS)	Not available	Conceptual Framework for General Purpose Financial Accounting and Reporting by Public Sector Entities	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities
-	-	-	-	Conceptual framework for the development and approval of national standards	-
-	-	-	-	Regulation (Standard) on the Methodological standards Board accounting (budgetary) accounting in the public sector// approved by the Ministry of Finance	-
IPSAS 1	Presentation of Financial Statements	IAS 1	2012	Presentation of Financial Statements	IPSAS 1
IPSAS 2	Cash Flow Statements	IAS 7	2012	Under development	IPSAS
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	2012	Under development	IPSAS
IPSAS 4	The Effects of Changes in Foreign Exchange Rate	IAS 21	2012	Under development	IPSAS
IPSAS 5	Borrowing Costs	IAS 23	2012	Under development	IPSAS
IPSAS 6 replace	Consolidated and Separated Financial Statements	IAS 27	2012	Under development	IPSAS
IPSAS 35	Financial Statements				
IPSAS 7 replace	Investments in Associates	IAS 28	2012	Under development	IPSAS
IPSAS 37					
IPSAS 8 replace	Interests in Joint Ventures	IAS 31	2012	Under development	IPSAS
IPSAS 38					
IPSAS 9	Revenue from Exchange Transactions	IAS 18	2012	Under development	IPSAS
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29	2012	Under development	IPSAS
IPSAS 11	Construction Contracts	IAS 11 IFRS 15	2012	Under development	IPSAS
IPSAS 12	Inventories	IAS 2	2012	Under development	IPSAS
IPSAS 13	Leases	IAS 17	2012	Leases	IPSAS 13
IPSAS 14	Events after the Reporting Date	IAS 10	2012	Under development	IPSAS
IPSAS 15	Financial Instrument: Disclosure and Presentation	IAS 32	2012	Under development	IPSAS
IPSAS 16	Investment Property	IAS 40	2012	Under development	IPSAS
IPSAS 17	Property, Plant and Equipment	IAS 16	2012	Fixed assets	IPSAS 17
IPSAS 18	Segment Reporting	IAS 14	2012	Under development	IPSAS
IPSAS 19	Provision, Contingent Liabilities and Contingent Assets	IAS 37	2012	Under development	IPSAS
IPSAS 20	Related Party Disclosures	IAS 24	2012	Under development	IPSAS
IPSAS 21	Impairment of Non-Cash Generating Assets	IAS 36	2012	Impairment of Assets	IPSAS 21

(Contd...)

Table 1: *Continued...*

IPSAS	Standard (Handbook of International Public Sector Accounting Pronouncements, 2014)	Based on	Russian PSAS		Russian PSAS Based on
			Official Translation IPSAS	Russian PSAS (project)	
IPSAS 22	Disclosure of Financial Information about the General Government Sector	No corresponding IFRS	2012	Under development	IPSAS
IPSAS 23	Revenue from non-Exchange Transactions (Taxes and Transfers)	No corresponding IFRS	2012	Under development	IPSAS
IPSAS 24	Presentation of Budget Information in Financial Statements	No corresponding IFRS	2012	Under development	IPSAS
IPSAS 25	Employee Benefits	IAS 19	2012	Under development	IPSAS
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36	2012	Impairment of Assets	IPSAS 26
IPSAS 27	Agriculture	IAS 41	2012	Under development	IPSAS
IPSAS 28	Financial Instruments: Presentation	IAS 32	2012	Under development	IPSAS
IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39	2012	Under development	IPSAS
IPSAS 30	Financial Instruments: Disclosures	IFRS 7	2012	Under development	IPSAS
IPSAS 31	Intangible Assets	IAS 38	2012	Under development	IPSAS
IPSAS 32	Service Concession Arrangements: Grantor	International Financial Reporting Interpretations Committee (IFRIC) 12	Not available	Under development	IPSAS
IPSAS 33	First-Time Adoption of Accrual Basis IPSASs	No corresponding IFRS	Not available	-	IPSAS
IPSAS 34	Separate Financial Statements	-	Not available	-	IPSAS
IPSAS 35	Consolidated Financial Statements	IAS 27 IFRS 10	Not available	-	IPSAS
IPSAS 36	Investments in Associates and Joint Ventures	IAS 28	Not available	-	IPSAS
IPSAS 37	Joint Arrangements	IFRS 11	Not available	-	IPSAS
IPSAS 38	Disclosure of Interests in other Entities	IFRS 12	Not available	-	IPSAS

Date of information (August 2015), IPSAS: International Public Sector Accounting Standards

of financial reportness” reporting forms - report cash will also be presented only 3 years after the entry into force of this standard. Meanwhile, as rightly observed in statement of cash flows is one of the most important forms of financial reporting. So it is advisable to postpone the application of critical standards connected to the third stage, at an earlier date. The author considers the most important standards are: “Inventory,” “Intangible assets,” “Statement of cash flows” and “Accounting Policies, Changes in Accounting Estimates and Errors.” The draft Conceptual framework for the development of national accounting standards accounting in the public sector it was noted that to accept the equivalent of IPSAS 10 “Financial Reporting in Hyperinflationary Economies” should not be, because foreign assets the public sector in the Russian Federation hyperinflationary economies is insignificant (*). The project has the opportunity to take Russian standard based on IPSAS 10 “Financial Reporting in Hyperinflationary

Economies” at the final stage of the reform of accounting and reporting public sector.

Since the Ministry of Finance provides for the reform of national accounting on the basis of international standards, the next phase of reform, it is necessary to publish the projects of the Russian analogues standards: IPSAS 34 “Separate Financial Statements,” IPSAS 35, “Consolidated Financial Statements,” IPSAS 36 “Investments in Associates and Joint Ventures,” IPSAS 37 “Joint Arrangements IPSAS 38,” “Disclosure of Interests in Other Entities.” These standards replace IPSAS 6 “Consolidated and Separated Financial Statements,” IPSAS 7 “Investments in associated” and IPSAS “Interests in Joint Ventures” (IPSASB Work Plan, 2014-2015). Should be published Russian analogues standards based on IPSAS 34-37.

The author proposes to develop the standard and to ensure full compliance with national standards basis IPSAS.

4.2. Accrual Bases in Public Sector (IPSAS 33): Problems and Potential

In respect of IPSAS 33 “First-time Adoption of Accrual Basis IPSASs” note that this standard was approved by the IPSASB recently: 29 January 2015 the Document will come into force on January 1, 2017 and early application is Permitted in this standard. IPSAS 33 is not applied in practice, and it should not be included in the system of Russian accounting standards in the public sector. The irrelevance of accrual accounting is a subject of debate. The political and theoretical discussion about the problems of the use of accrual accounting in the public sector is actively conducted in EU (Anessi-Pessina and Steccolini, 2007; Chan, 2008; Chan, 2010; Christiaens and Rommel, 2008; Vinnari and Nasi, 2008; Charity, 2014).

The subjects of the General government sector is defined in the Federal law “On accounting” (Law, 2011). The Federal law applies to:

- Nonprofit institutions
- The subjects of state and local government, the subjects of management of public funds.

The law obliges to use the accrual method of the second category (the subjects of state and local government, the subjects of management of public funds). Thus, accrual - basis accounting methodology and financial statements in the public sector (public sector management). The methodology is justified and rational, because it gives a complete overview about the financial position of the entities and governments and the results of their activities. Nonprofit institutions are required to apply the accrual basis of accounting and financial statements: Political parties, with foreign participation, the duty of the audit.

The ability to use the cash method is available for certain non-profit institutions to simplify accounting. However, the number of such institutions is negligible. The accumulated experience of the use of accrual accounting in the Russian entities of the public sector will allow easily use IPSAS 33. Translation and the development of a standard based on IPSAS 33 necessary and will simplify the first implementation of accrual accounting to some nonprofit institutions.

Thus, the author of this study recommends that in the final stage of the reform of accounting and reporting public sector to develop Russian equivalent of “First-time Adoption of Accrual Basis IPSASs.”

4.3. IFRS to IPSAS and Russian PSAS: Methodological Supplement

The Table 1 showed that IPSAS and not contain standards on the use of fair value, income taxes, assets held for sale non-current assets held for sale and discontinued operations. The Russian entities of the public sector have not previously used the fair value as the basis and experience difficulties in connection with the application of IPSAS and Russian PSAS. Such standards are not provided by the Ministry of Finance, the IPSASB. However, these documents would establish the most important regulation on accounting and to simplify the use of standards in practice.

The basis for the development of these standards include the International financial reporting standards: IFRS 13 “Fair value measurement,” IAS 12 “Income Taxes” and IFRS 5 “Non-current assets held for sale and discontinued operations.” Informed by the author in other articles (Legenkova, 2015) recommendations for the improvement requirements of these standards may be used. The study is the substantiation rules for the valuation of net assets of public autonomous institutions (legal aspects and the specific recognition property of public institutions).

Data on the implementation of regulations accounting regulations IFRS can also be used to create appropriate accounting standards for public sector organizations. That is, the mutual use of the materials for the approval of accounting regulations for the establishment and improvement of accounting standards may be recommended.

5. CONCLUSION

This study evaluated the impact of IPSAS on reliability, credibility and integrity of financial reporting in State Government Administration in Russia. Accounting standards are more objective and of a higher quality if they are set by an expert group independent of the organizations obliged to follow the standards. The adoption of the program for Federal accounting standards development and subsequent formulation of the standards will facilitate the transition of accounting to a totally new level. Equally, it was found that implementation of IPSAS can enhance Federal Government’s goal to significantly deliver services more effectively and efficiently.

Hence, the knowledge that weak public sector accounting, auditing and financial management can lead to economic crises is not to be overemphasized.

Thus, for the public sector approved the program of development of Federal accounting standards. For the private sector until such a program is missing. Shifting from cash to accrual accounting calls for cultural and mind-set changes; requires overcoming strong resistance to change; and demands investments in training and IT systems.

The results of the study and recommendations:

- The use of IPSAS as the basis for establishing a system of national standards of accounting and financial statements public sector is a key factor in improving the quality of accounting information;
- The use of IPSAS as the basis for establishing a system of national standards of accounting and financial statements public sector is a key factor in the unification of Russian accounts of public sector organizations;
- The use of IPSAS as the basis for establishing a system of national standards of accounting and financial statements public sector is key to understanding Russian financial statements for foreign users;
- The necessary updating of the translation of IPSAS and working systematically on the implementation of IPSAS terms in Russian projects standards in the public sector;

- Should accelerate the development of some of the most important standards (Russian PSAS);
- Accrual Basis gives a complete overview about the financial position of the entities. Thus, the author of this study recommends that in the final stage of the reform of accounting and reporting public sector to develop Russian equivalent of “First-time Adoption of Accrual Basis IPSASs.”
- The list of standards (IPSAS, Russian PSAS) should be supplemented standards on the use of fair value, income taxes, assets held for sale non-current assets held for sale and discontinued operations. The basis for the development of these standards include the International Financial Reporting Standards.

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