



PANAMÁ IPSAS ADOPTION EXPERIENCE

Introduction

The International Public Sector Accounting Standards Board® (IPSASB®) is dedicated to promoting the acceptance of and the international convergence to International Public Sector Accounting Standards™ (IPSASs™). As part of that effort, it is detailing the challenges and benefits of adopting IPSASs and accrual accounting.

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— **Rigoberto Medina**

*Ministry of
Economy and
Finance of the
Republic of
Panamá*

Background:

The Ministry of Economy and Finance of the Republic of Panamá (the Ministry) is committed to the modernization of the Public Finance Administration and, specifically, to the improvement of public accounting. The public sector needs to generate and consolidate financial information in real time; information that is reliable and of high quality. To support this initiative, the Ministry, through the National Accounting Department, designed in 2009 a new Model of Government Financial Administration (MAFG), in order to improve accountability and transparency of government financial management. The MAFG focused on the adoption of international standards, implementation of IPSASs, and compliance with the requirements of the Statistical Manual of Public Finance of the International Monetary Fund-2001.

Accounting is a cornerstone of the MAFG Project. Modern public sector accounting is designed and implemented to support the achievement of financial and operating results and to create the most efficient, effective, transparent, and accountable government.

Within the context of the MAFG, the new model of control for the public sector should focus from a global perspective on all changes that must be carried out in conditions which ensure the proper functioning of the system.

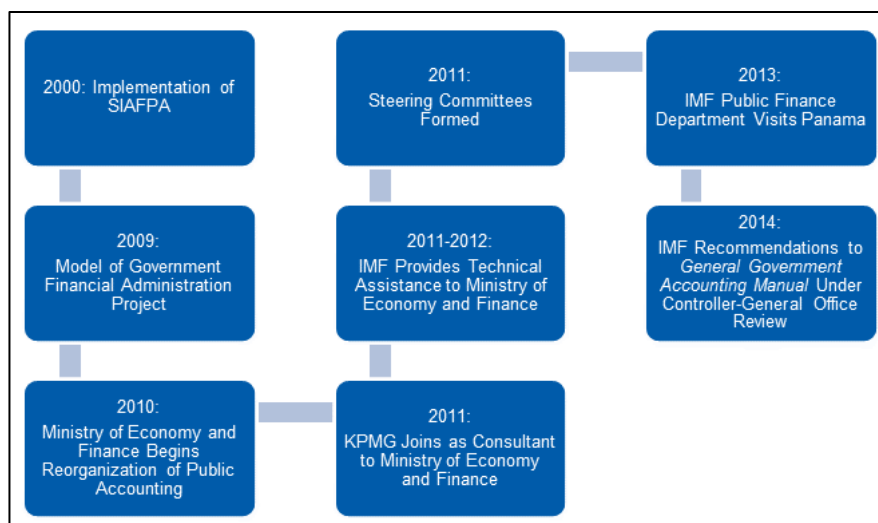
The MAFG design will result in great changes in the interest of greater efficiency and transparency of public sector activity. In addition to replacing the current Integrated Financial Management System (SIAFPA), MAFG’s implementation will involve a Government Resources Planning (GRP System) and review and renewal of the current accounting framework. To this end, the Ministry is developing a new General Government Accounting Manual, which includes a new General Accounting Plan, and it will be expected to guide and adopt IPSASs issued by the IPSASB. These standards will be implemented gradually.

The accounting system derives directly from the register of budgetary operations based on the corresponding budget classifier. However, the transactions of expenses are recorded on the accrual basis and the income on the cash basis. In addition, there is a process of review and evaluation to determine whether to adjust the accrual concept.

Some of the characteristics of the public sector accounting reforms in Panamá are:

- The integration of the budgeting and financial accounting in observance of the principles of accounting generally accepted in Panamá, the budgeting administration standards, and the updated legal disposition.
- The integration of the financial administration system, through the use of one common database, to provide information to different levels of the public administration and users.

Key Dates



Current Integrated Financial Management System

The process of the operations and transactions of the public sector is supported by SIAFPA, created by means of Decree Law No. 28 and implemented in the year 2000. The National Accounting Department is responsible for operating and maintaining this integrated accounting system, which includes defining the accounting methodology to be applied.

Responsibilities on the Execution of Public Sector Accounting

Panamá currently has two institutions sharing the functions and responsibilities regarding public sector accounting. The first is the Ministry of Economy and Finance through the National Accounting Department, which is responsible for carrying out integrated public sector accounting as well as preparing the consolidated financial statements of the whole public sector. The other is the Controller General's Office, through the Methods and Systems Accounting Department, which is in charge of prescribing accounting methods and systems of all entities of the government and issuing public sector accounting standards.

Due to the dual role of both institutions in respect to carrying out public sector accounting in Panamá, many efforts are made. Based on the International Monetary Fund (IMF) recommendation, the optimal model, according to the best international practices, would be one in which the Controller General's Office assumes jurisdiction in external control and the Ministry of Economy and Finance assumes the legislative competence development and implementation of accounting.

It is important to mention and highlight that both institutions announced and agreed to adopt and implement IPSASs across the whole public sector of the Republic of Panamá.

Although we don't have yet the legal framework or regulation stipulating that Panamá must use IPSASs, this change is in process. The Controller General's Office, as the governing body, will promote a decree or resolution stating that the Government of Panamá has considered it necessary for the modernization of governance and public financial management and start a gradual process of adopting IPSASs. The process has been slow, but very positive improvements have been made in public sector accounting, such as the development of processes, policies, and procedures focusing on the implementation of IPSASs.

IPSASs Implementation Steps

Developed Projects

The National Accounting Department of the Ministry of Economy and Finance completed the formalization on the MAFG Project, which includes the review of the main processes as well as the gradual implementation of IPSASs. According to the scope of this project, the following modules have been developed:

- MAFG
 - Design of the MAFG
 - Design of functions and responsibilities of the MAFG
 - Implementation of the MAFG
- Accounting Standards
 - Selection of the accounting standards
 - Preparation for the gradual adoption of IPSAS
 - Implementation of the policies and accounting standards on the new technology system
- Financial Technology System
 - Selection of a new Financial Technology System
 - Implementation of the Project Management Office and quality control
 - Monitoring and refining on the new financial technology system and the processes defined on the MAFG

From the beginning of the scoping study, The National Accounting Department recognized that successful implementation would require the engagement of all those affected. This would include introducing positive changes and international standards, making improvements, defining processes, setting forth

policies and procedures, and acquiring a robust financial technology system with more capacity of information. All of these measures would be helpful for the organizations and entities of the state.

From 2010 to 2013, The Ministry of Economy and Finance, through the National Accounting Department, has embarked on several internal projects that will lead to reorganizing public sector accounting in Panamá based on best practices and standards, including planning of the implementation of IPSASs. This also involved setting up high-profile committees to closely administer and monitor these projects. These were chaired by the manager of the Project's Office in coordination with the team and members of the staff of the National Accounting Department.

In this respect, we have also created a timeline which indicates the activities and completion, and end dates along with detailed tasks, forming an action plan that would permit to the National Accounting Department to achieve the proposed objectives. Indeed, as the first executed steps, these efforts and energies were beneficial and positive.

Technical Assistance—Support and Recommendation on Implementations IPSAS

The IMF, World Bank, and the Inter-American Development Bank (IADB) have been involved in supporting the Government of Panamá in setting up and modernizing institutional structures to manage public finances in accordance with best practices and international standards. As part of this work, these international agencies, and in particular, the IMF, have assisted and supported in several key ways, setting the areas/aspects to focus on to successfully make the transition to adopt and implement IPSASs.

In 2011, a Steering Committee was formed with representatives from the Ministry of Economy and Finance, Controller-General's Office, and Public Institutions of the State. The objectives of the Steering Committee were to institutionalize international accounting standards in Panamá and define the necessary rules, policies, and procedures. The Steering Committee has the responsibility to give the proper monitoring and compliance on the execution of the necessary actions and strategies according to the recommendations and plan proposed by the consultants of the IMF through the CAPTAC group.

During 2011 and 2012, The Ministry of Economy and Finance requested technical assistance from the Public Finance Department of the IMF, related to public sector accounting, in order to set forth an action plan to improve public sector accounting in Panamá, which includes the basic requisites as well as the objectives and challenges into a transition to accrual basis IPSASs.

Taking into consideration the IMF recommendations, we have drawn up a transition plan in view of the initiatives of development and strengthening of the public finances that Panamá required and the challenges of gradually implementing IPSASs. The National Accounting Department of the Ministry of Economy and Finance and the Methods and Systems Accounting Department of the Controller-General's Office are working in coordination on the improvement of some technical and conceptual aspects of public sector accounting.

In 2011, a consulting contract was signed with KPMG to assist the Ministry in the review and analysis of a New General Accounting Manual based on IPSASs for the Government of Panamá. The objective of this project was that Ministry, together with the KPMG team, would undertake joint efforts with the technical team of the Methods and Systems Accounting Department of the Controllers General Office to review the followings sections: the accounting framework; the section of the public sector and its characteristics; and the elaboration of the accounting policies based on IPSASs.

It is important to mention that one of the initiatives of the Controller-General's Office team relates to the preparation of the Strategic Implementation Plan for IPSASs, which includes, in addition to the projected timeline, human resources, technical, operational, and legal aspects to be considered and the inherent implementation process required. Therefore, as of this moment, we don't have yet a projected timeline for IPSASs implementation. Even without a revised and approved timeline, there are several major challenges Panamá faces in implementing IPSASs, and it will require step-by-step procedures.

On the request of the authorities of The Ministry of Economy and Finance and within the framework of technical assistance developed by the CAPTAC group in coordination with the Public Finance Department of the IMF, the mission visited Panamá in June 2013. The objective was to provide technical assistance and support on the implementation of IPSASs according to the recommendations provided in missions in June 2011 and 2012.

The following main areas/aspects were identified during the examination of documentation by the consultants, representing relevant challenges that we will have to face during the implementation of IPSASs.

Currently, specific key topics have been developed and these are the advances we have recognized as positive benefits and transition to accrual accounting.

Policies and Standards

Within the context of the revised General Government Accounting Manual, we established a Steering Committee, formed by The National Accounting Department of the Ministry of Economy and Finance and the Methods and Systems Accounting Department of the Controller-General's Office in order to update this manual. Although some recommendations established by the IMF in June 2012 have been included on the manual as of this date (May 2014), the final version is still pending approval, due to the lack of incorporation of four chapters that the team of the Controller-General's Office is still developing. These are:

- Accounting Process
 - Internal Control
 - Process of Consolidated Financial Information and Financial Statements
 - Glossary of Terms

The committee reviews and drafts accounting standards and policies, which were based on principles of accounting generally accepted, now developed from IPSASs. A separate General and Particulars Accounting Policies Manual was developed and approved by the Controller-General's Office.

The Accounting Policies Manual has been developed mainly with elements that comprise the financial statements—Expenses, Income, Assets, Liabilities, and Net Worth. The main objective of this manual is to simplify the work applying the rules on the registration of the transactions of public entities, using a familiar and simple language for the user and without altering the spirit of the rules.

The General Accounting Plan, which is an integral part of the General Government Accounting Manual, has been revised and updated. The draft prepared by the Controller General's Office is in its final stages of approval.

This General Accounting Plan addresses:

- Scope of application;
- General aspects;
- Structure of the general chart of accounts;
- Chart of accounts, e) general chart of accounts; and
- Description and dynamic of the accounts.

In regard to the General Chart of Accounts, this instrument was updated and according to the last version is quite aligned with the requirements of IPSASs.

Laws and Regulations: (Legal Framework): In addition to setting policies and standards, the Government of Panamá agreed to adopt and implement IPSASs for the entire public sector. The Controller General's Office, as the governing body, should promote the issuance of a decree or resolution for this purpose. We would like to see an accounting law based on international standards. This issue is now under way and the implementation is in its early stages while this change occurs.

Process and Technology: In order to adopt and implement IPSASs, it has been necessary to undertake an analysis of present processes and technology that will be required. Based on the analysis, we had to acquire and develop a new information technology system, because the current system, SIAFPA, is limited and is not prepared to support the new changes needed to implement international standards. We acquired a GRP/SAP system that will replace SIAFPA. This system incorporates the best international standards with a wide range of functionalities. We are working on the design of the conceptual models, BBP (Business Blue Print), defining the processes and procedures and developed with a team of the consortium and entities of the state and staff of the National Accounting Department. The purpose was to transfer these conceptual models to the new platform and to ensure that the new systems that are currently being procured operate as planned. The World Bank supported the development and implementation of this new GRP/SAP through financing and the ongoing work of consultants of the consortium.

Training of Human Resources: One of the biggest challenges has been to human resources, specifically two aspects: change management and training programs to build capacity. Therefore, it was necessary to train all applicable staff on IPSASs, and since 2011, we have implemented a program of training on IPSASs with accounting staff in the public sector, supported by the IMF. Under this program, we have the participation of members of the IPSASB and other KPMG consultants. Other seminars also have been provided, including workshops related to IPSASs. We also have attended local and international conferences, such as the Conference for Accounting and Accountability for Regional Economic Growth/Contabilidad y Responsabilidad para el Crecimiento Económico Regional (CReCER) and other important events sponsored by the Inter-American Development Bank (IADB) and World Bank to update and maintain involvement.

We know that the training of IPSASs should be permanent and constant and the staff of all public institutions should be involved in its development to allow us to be competitive in this increasingly globalized world. Capacity building is required and recruitment and training will need to be coordinated across all levels of government.

Looking back, we could have done things differently to achieve agreement at the highest political level and commitment to adopt IPSASs and to avoid revisiting decisions about the role and responsibilities between the two state entities that serve in this area.

Also, our methodology, although a little slow, has generated new knowledge and the application of these standards in public financial management. Inevitably, there is still much work to be done.

Conclusion:

Panamá has been active in attending international IPSAS conferences, where we can discuss our progress and learn from other countries. While we would like to serve as a resource, we are not serving as mentor for another government body and would be happy to consider sharing our experiences with another country.

The implementation process is a long and gradual one and we have to recognize this as a project that will impact people, processes, and government systems.

However, it has already enabled improvements in public sector financial management to be made. Further benefits will follow as the implementation proceeds. Obtaining the commitment of public servants and politicians to a change program of this scale will be vital.