

Report

on Completion of Condition A 3.1 of the Programme “Support to Public Finance Policy Reforms in Moldova” for the year 2017

Introduction

The Concept and the Action Plan for the development of the NPSAS was approved in 2016 by the Order N159 of the MoF Deputy Minister. In accordance with the provisions of the Concept, NPSAS will be developed in line with the International Public Sector Accounting Standards (IPSAS), in order to account for the economic transactions in the public sector in the Republic of Moldova.

According to the Concept, the NPSAS is based on the accrual accounting method, with the exception of certain revenues and expenditures, including:

- Tax and customs revenues,
- State social insurance and mandatory health insurance contributions,
- Inter-budgetary transfers.

The development of the NPSAS is planned in three stages. The first stage envisages the development of 10 NPSAS in 2017, the second of 12 NPSAS in 2018 and the third of 8 NPSAS in 2019.

The Policy Matrix of the Programme “Support to Public Finance Policy Reforms in Moldova” contained the following condition:

Condition A 3.1 Ten draft National Public Sector Accounting Standards, developed in line with the approved Concept, are published on the MoF website.

Evidence of progress achieved in meeting the above condition

During 2017 the first draft 10 NPSAS were developed with the assistance of the EU TA project. The 10 draft NPSAS were selected in line with the Concept and are:

- NPSAS Presentation of Financial Statements
- NPSAS Cash Flow Statement
- NPSAS Accounting Policies, Changes in Accounting Estimates and Errors
- NPSAS Borrowing Costs
- NPSAS Construction Contracts
- NPSAS Inventories
- NPSAS Leases
- NPSAS Property, Plant and Equipment
- NPSAS Provisions, Contingent Liabilities and Contingent Assets
- NPSAS Intangible Assets

NPSAS Presentation of Financial Statements is in line with IPSAS 1. The general principles underlying the preparation of Financial Statements are fair presentation, going concern, consistency of presentation, materiality and aggregation, offsetting and comparative information. The Financial Statements include:

1. *Statement of Financial Position*. The assets and liabilities are classified into current and non-current.
2. *Statement of Financial Performance*. The presentation of expenses on the face of the Statement of the Financial Performance is by nature.
3. *Statement of Changed in Net Assets*
4. *Cash Flow Statement*
5. Notes to the Financial Statements

Annex A to the NPSAS 1 defines the qualitative characteristics of financial reporting.

NPSAS Cash Flow Statement closely follows IPSAS 2. The cash flows are grouped into operating, investing and financing activities. The cash flows from operating activities are presented under the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed. The classification of cash flows from interest and dividends is as follows:

- Interest paid is classified as financing cash flow;
- Dividends or similar distributions paid are classified as a financing cash flow
- Interest received and dividends or similar distributions received are classified as investing cash flows

NPSAS Accounting Policies, Changes in Accounting Estimates and Errors states that the Ministry of Finance sets the accounting policies to be applied by all government organisations. The accounting policies can change if there is a new NPSAS or if the Ministry of Finance initiates the change. The accounting for changes in accounting estimates and errors closely follows the IPSAS 3 requirements.

NPSAS Borrowing Costs requires that the borrowing costs are recognised as an expense in the period in which they are incurred. This follows the benchmark treatment of IPSAS 5.

NPSAS Construction Contracts has been developed by adapting IPSAS 11 to the practices in the Moldovan government sector. All construction is being outsourced to the private sector, therefore the government organisations do not act as contractors. This draft NPSAS, however, gives enough guidance to the government organisations to understand the principles of recognition of revenues and expenses by the contractors.

NPSAS Inventories closely follows IPSAS 2 provisions.

NPSAS Leases was developed by adapting IPSAS 13 to the current lease practices in Moldova. Finance lease is not yet practiced by the government organisations. The provisions for finance lease, however, were kept in the draft NPSAS as finance lease contracts are defined in the Moldovan legislation and their future use by the government organisations is possible.

NPSAS Property, Plant and Equipment defines the *Cost Model* of IPSAS 17 for measurement after recognition. It states that the depreciation of items of property plant and equipment should be calculated using the straight-line method. Residual values and depreciation period for each type of property, plant and equipment is defined by the Government Decree.

NPSAS Provisions, Contingent Liabilities and Contingent Assets reflects the provisions of IPSAS 19.

NPSAS Intangible Assets defines the *Cost Model* of IPSAS 31 for measurement after recognition. It states that the amortisation of intangible assets should be calculated using the straight-line method. The residual value of intangible assets with finite useful life is assumed to be zero. The useful lives for each type of intangible assets are defined by the Government Decree.

The 10 draft NPSAS were examined by members of the Public Sector Accounting Standards Council and approved on December 6, 2017.

The 10 draft NPSAS were published on the MoF website on 13.12.2017. They can be found following the links:

<http://mf.gov.md/ro/trezorerie/informa%C8%9Bii-cu-caracter-metodologic/sncsp>

<http://mf.gov.md/sites/default/files/documente%20relevante/Proiectul%20I%20set%20de%20SNCSP.pdf>

Remaining steps and timeframe for finalisation of NPSAS

The MoF will continue the development of the remaining NPSAS in line with the Concept and the Action Plan. The Concept and the Action Plan can be found on MoF website following the link:

<http://mf.gov.md/en/trezorerie/informa%C8%9Bii-cu-caracter-metodologic/sncsp>

As planned, the MoF will develop the second set of NPSAS in 2018 and the third set in 2019. The issue of assistance to the development of the second set of NPSAS was discussed during the Steering Committee of the EU TA project. It was decided that the Project will assist the MoF in development of the second set of NPSAS till November 2018 when the Project comes to an end.