

Accrual Accounting in Korean Public Sector

April 8, 2016

Table of Contents

- I **Accrual Accounting in Korean Public Sector**
- II **Updates on Accrual Accounting in Government**
- III **Introduction to Government Finance Statistics (GFS)**
- IV **Achievements and Future Challenges**

I. Accrual Accounting in Korean Public Sector

Central Gov.	<ul style="list-style-type: none"> ✓ Introduced accrual accounting since FY09 ✓ 2-year trial period (FY09-10) ✓ Submitted CFS to National Assembly since FY11 	National Accounting Act	Ministry of Strategy and Finance
Local Gov.	<ul style="list-style-type: none"> ✓ Trial period (FY03-06) ✓ Implemented full accrual accounting since FY07 ✓ Submitted F/S to local councils with CPA review reports attached 	Local Finance Act	Ministry of the Interior
Public Institutions	<ul style="list-style-type: none"> ✓ Introduced IFRS (FY11 for public corporations, FY13 for quasi-governmental institutions) ✓ Submitted F/S to the MOSF with CPA audit opinions attached ✓ MOSF submitted CFS to National Assembly 	Act on the Management of Public Institutions	Ministry of Strategy and Finance
GFS & PSDS	<ul style="list-style-type: none"> ✓ GFS: Prepared and submitted to IMF from FY11 based on GFS Manual 2001 ✓ PSDS: Prepared and submitted to OECD from FY12 based on PSDS manual 	National Finance Act	Ministry of Strategy and Finance

II. Updates on Accrual Accounting in Government

■ Summary of Framework of Accrual Accounting System

	Central Government	Local Government
Supervising Agency	<ul style="list-style-type: none"> ✓ Ministry of Strategy and Finance 	<ul style="list-style-type: none"> ✓ Ministry of the Interior
Laws and Regulations	<ul style="list-style-type: none"> ✓ National Accounting Act 	<ul style="list-style-type: none"> ✓ Local Finance Act
Deliberative Committee	<ul style="list-style-type: none"> ✓ Deliberative Committee on National Accounting System * National Accounting Act (article 8) 	<ul style="list-style-type: none"> ✓ Deliberative Committee on Local Accounting System * Local Finance Act (article 53-3)
Supporting Organization	<ul style="list-style-type: none"> ✓ Government Accounting and Finance Statistics Center(GAFSC) * Korea Institute of Public Finance(KIPF) 	<ul style="list-style-type: none"> ✓ Local Accounting Statistics Center * Local Finance Association(LOFA)

II. Updates on Accrual Accounting in Government

■ Legal Framework of National Accounting

National Accounting Act

- Structure and composition of the Consolidated Financial Report

Enforcement Decree of National Accounting Act

- Information to be presented in Revenue and Expenditure Reports, preparation and submission of supplementary documents

National Accounting Standards

- F/S preparation (Statement of Financial Position, Statement of Financial Operations, Statement of Changes in net assets)
- Definition and measurement of assets and liabilities

Technical Releases(22)

- Technical Releases on accounting methods, such as pension, cost, lease, BTO, BTL, etc.

II. Updates on Accrual Accounting in Government

■ Reform of KNAS Framework

Prior to reform (up to 2014)

- ✓ Supplementary Standards and Technical Releases come in various and unsystematic formats such as provision, paragraph and narration.
- ✓ Scope of each Technical Release was overlapped, giving rise to multiple Releases covering the same issue.

- **National Accounting Standards**
- **5 Supplementary Standards**
- **20 Technical Releases**

After reform (from 2015)

- ✓ Technical Releases had been standardized into a paragraph format.
- ✓ Technical Releases had been reorganized by similar topics.

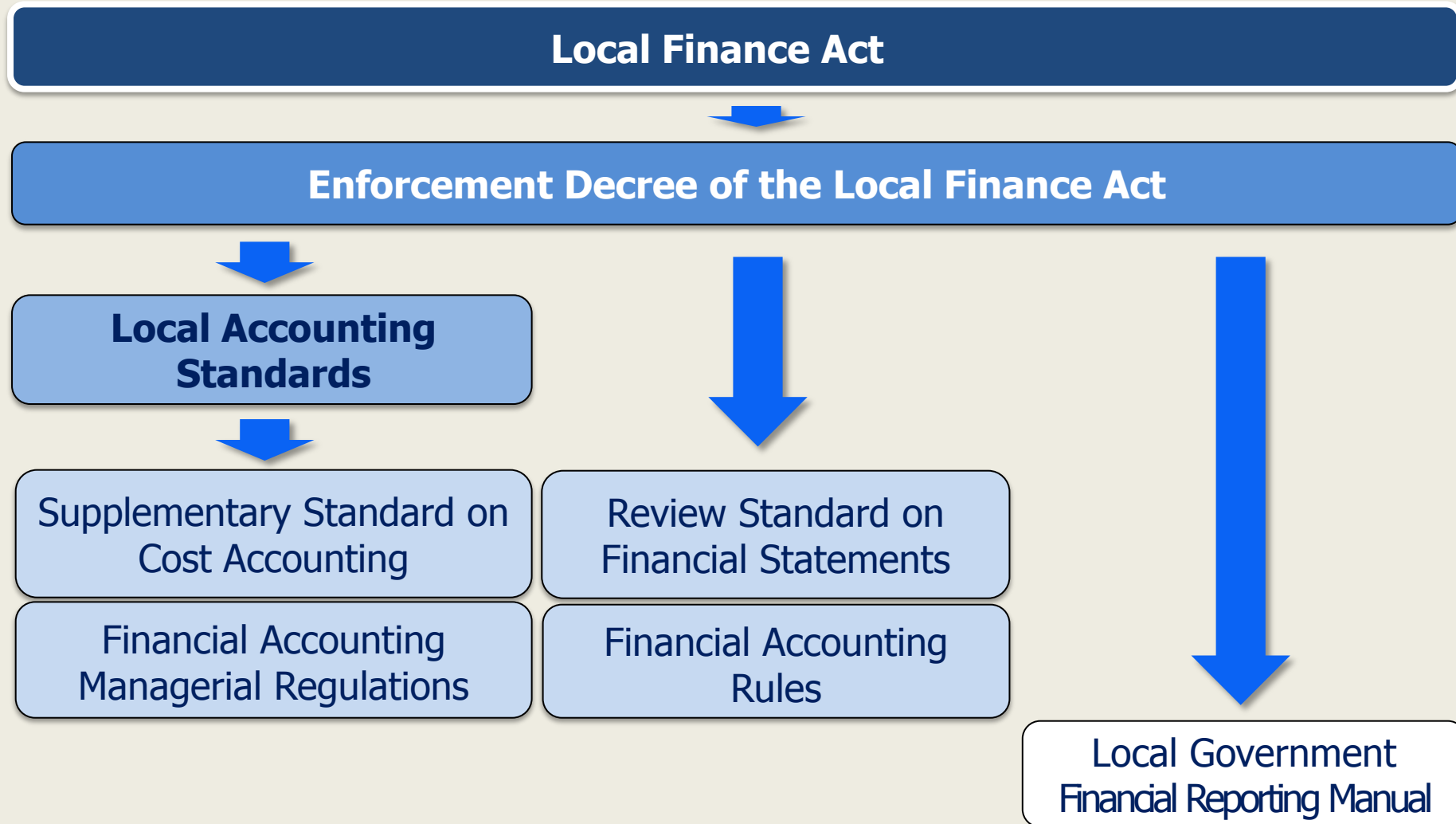
- **National Accounting Standards**
- **22 Technical Releases**



The reform will improve usability and produce financial statements comparable with those of other countries, thus enhancing overseas confidence in Korea's fiscal transparency.

II. Updates on Accrual Accounting in Government

■ Legal Framework of Local Accounting

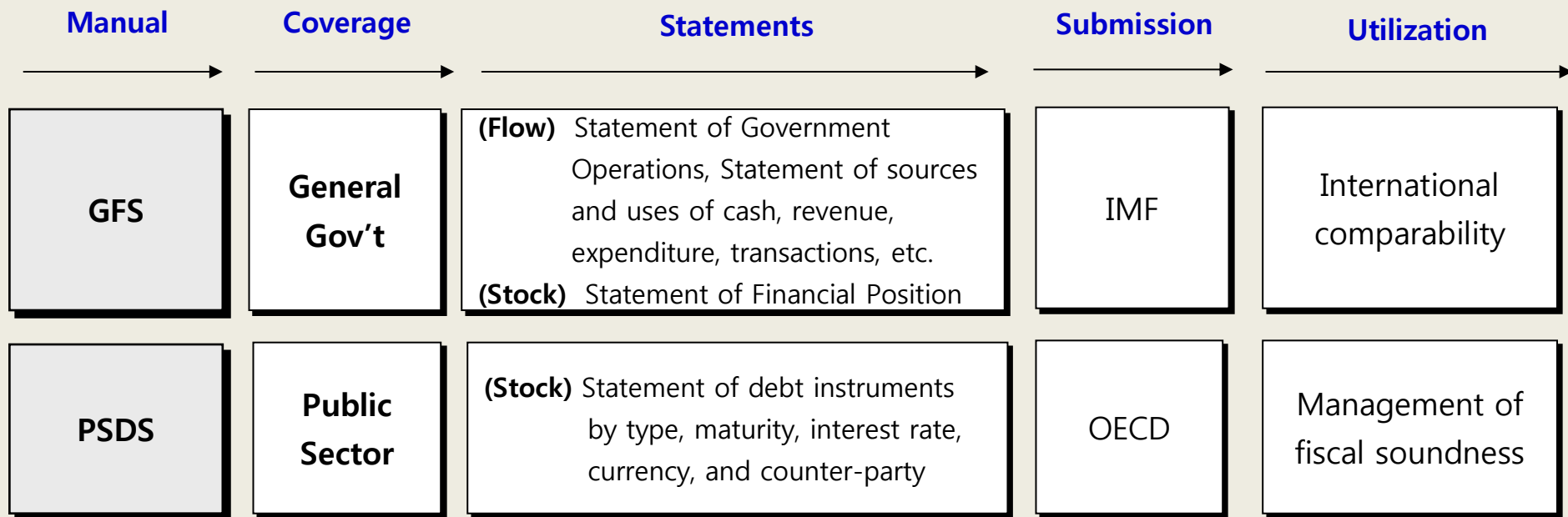


· Currently on the legislation of the Local Accounting Act

III. Introduction to GFS

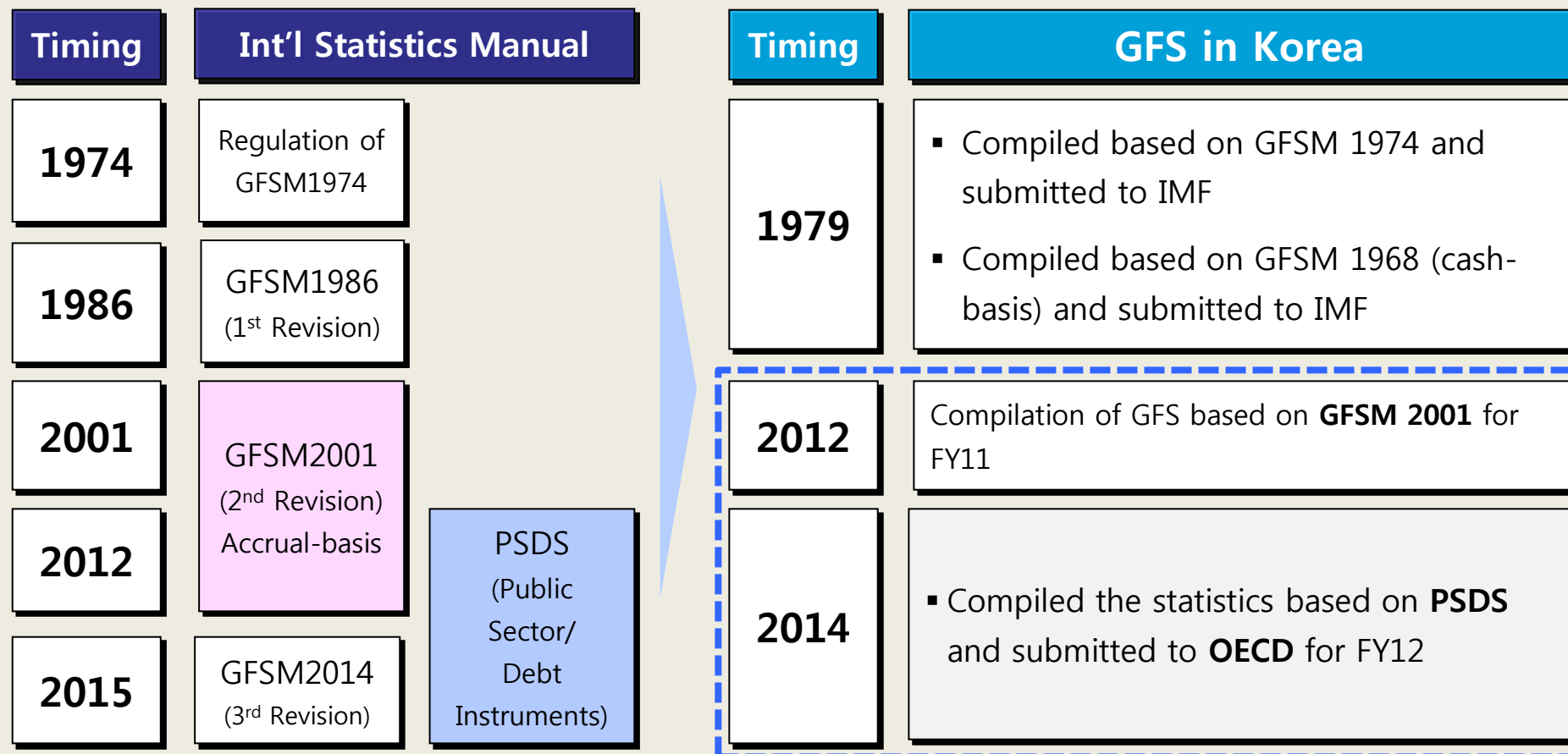
■ Filing Status of Government Finance Statistics (GFS)

- GFS(Government Finance Statistics) were prepared by IMF for the purpose of providing statistics in governments' financial operation, financial position, etc., and Korea compiles GFS annually and submits them to the IMF.
- PSDS(Public Sector Debt Statistics) are detailed guidelines for debt instruments, prepared by 9 international organizations including IMF. Korea compiles PSDS annually and submits them to the OECD.



III. Introduction to GFS

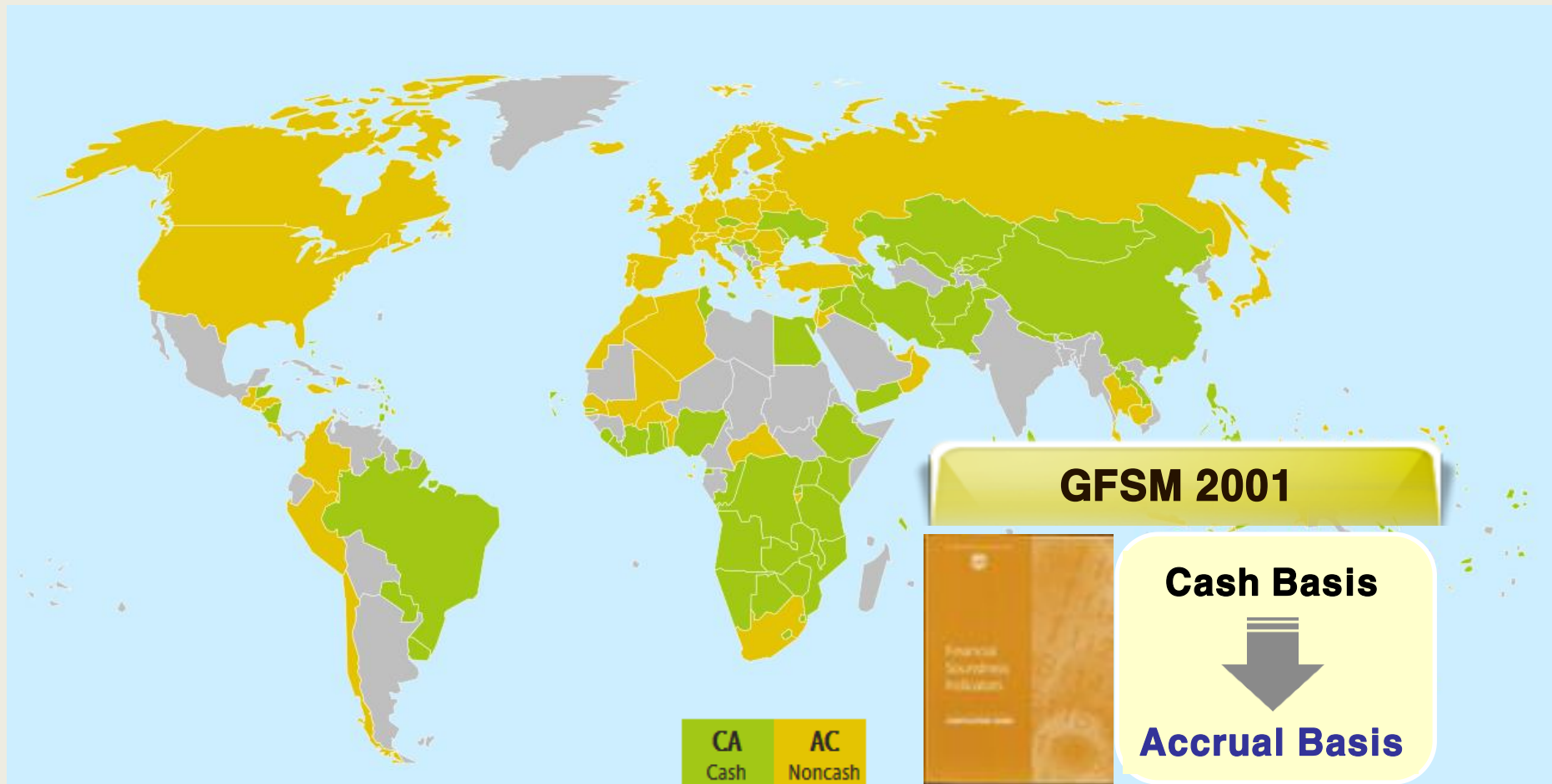
■ Changes in International Statistics Guidelines and GFS in Korea



(*) GFSM(Government Finance Statistics Manual), PSDS(Public Sector Debt Statistics)

III. Introduction to GFS

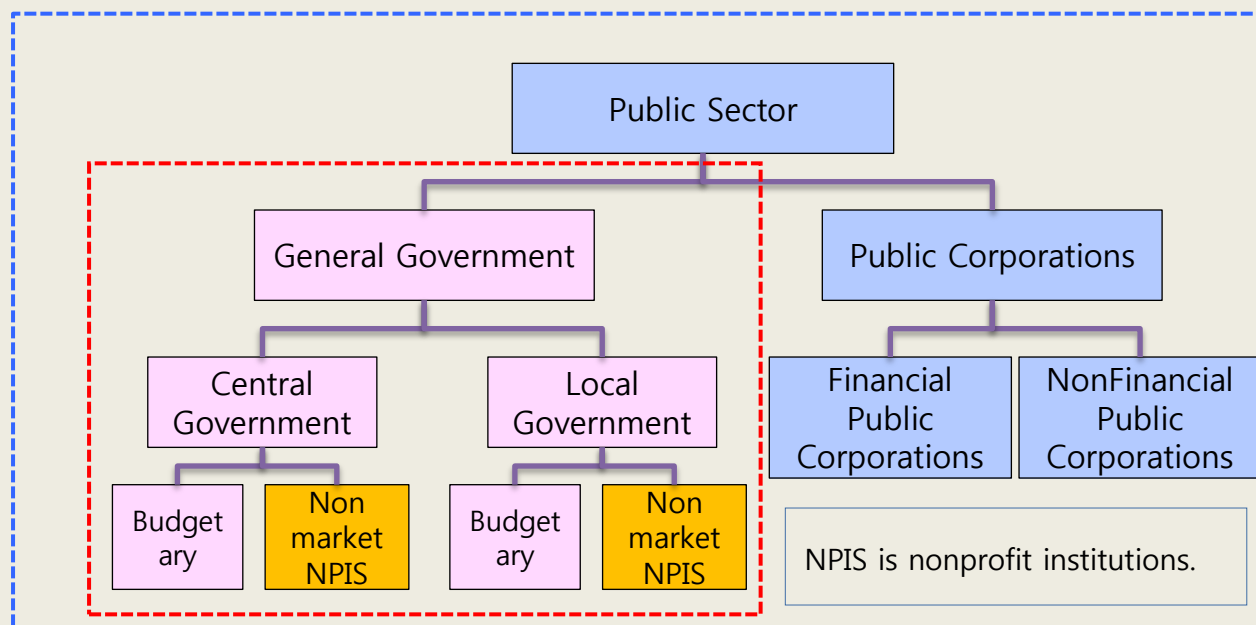
■ Change in manual



(*) A trend of changing from cash basis to accrual basis is observed.

III. Introduction to GFS

Sectors and Institutional Units in Korea



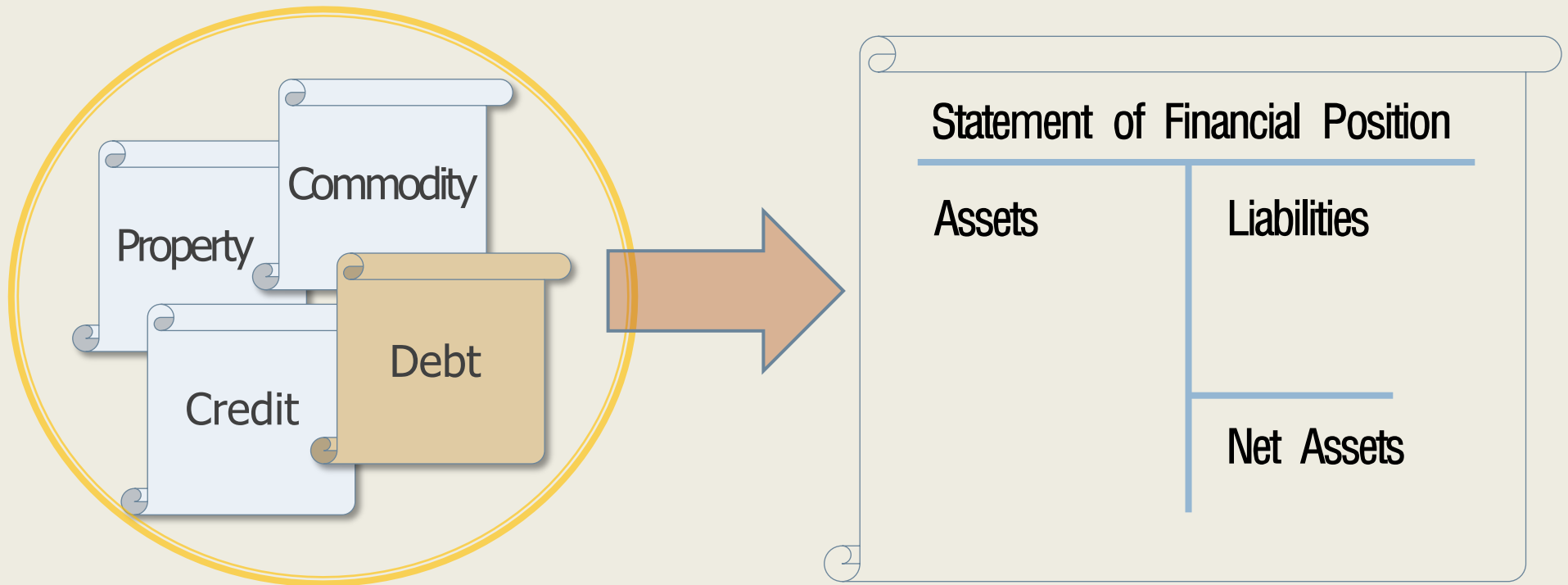
- Non-profit public organizations based on GFSM 2001 have been added to compilation.
- Based on PSDS manual, non-financial public corporations have been added to general government .

(2014 Comprehensive scope of public sector)

Classification	Non-profit org.	Non-financial public corp.	Financial public corp.	Central bank	Total
Affiliated organizations (Central)	184	121	11	-	316
Affiliated organizations (Local)	91	51	-	-	142
Other organizations	2	3	1	1	7
Total	277	175	12	1	465

IV. Achievements and Future Challenges

■ Achievements (Systematic Management)



Now it is possible to identify all assets, liabilities, & net assets by preparing accrual-based financial statements.

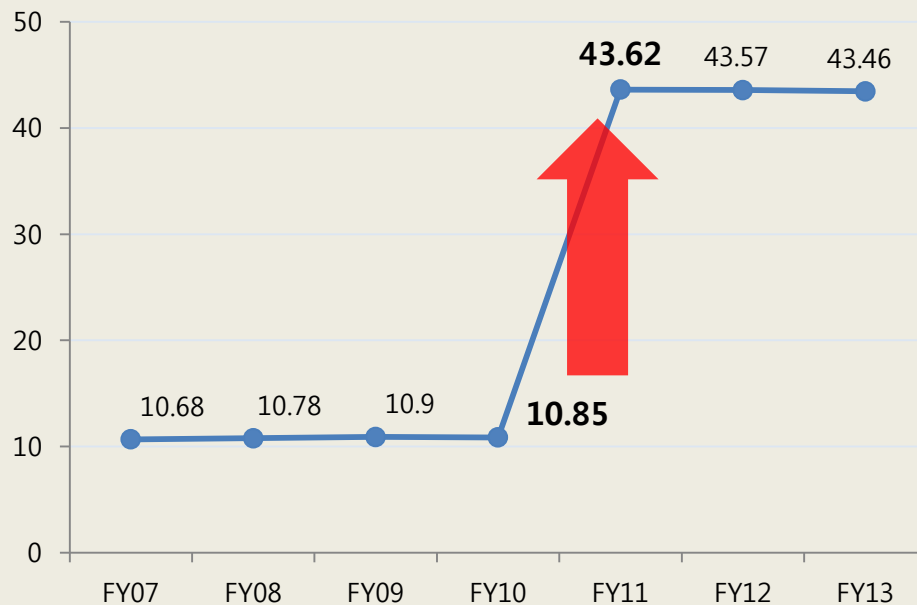
IV. Achievements and Future Challenges

Achievements (Assets)

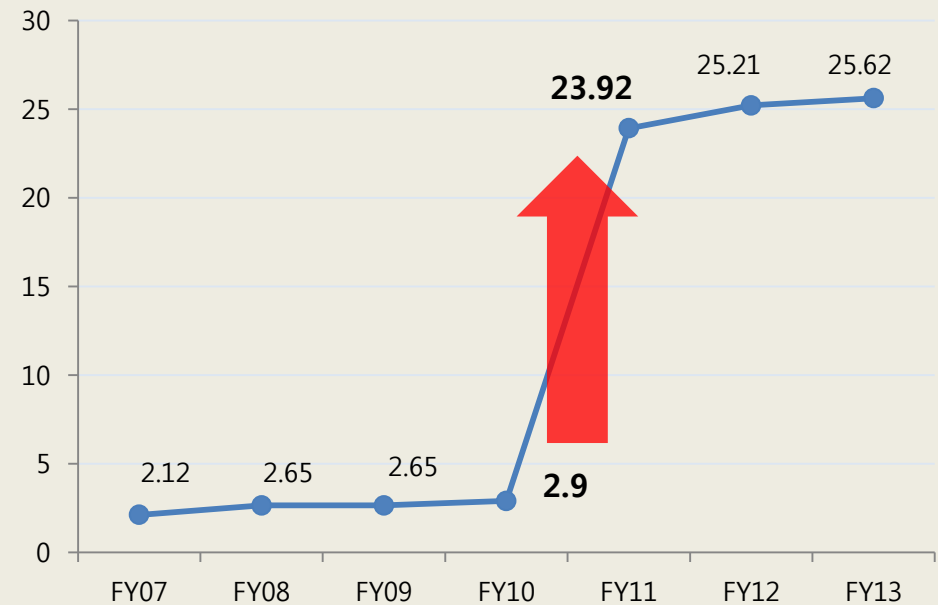
Infrastructure Assets

- Identified the omitted SOC in the course of due diligences

Changes in Land (in trillions of won)



Changes in Structures (in trillions of won)



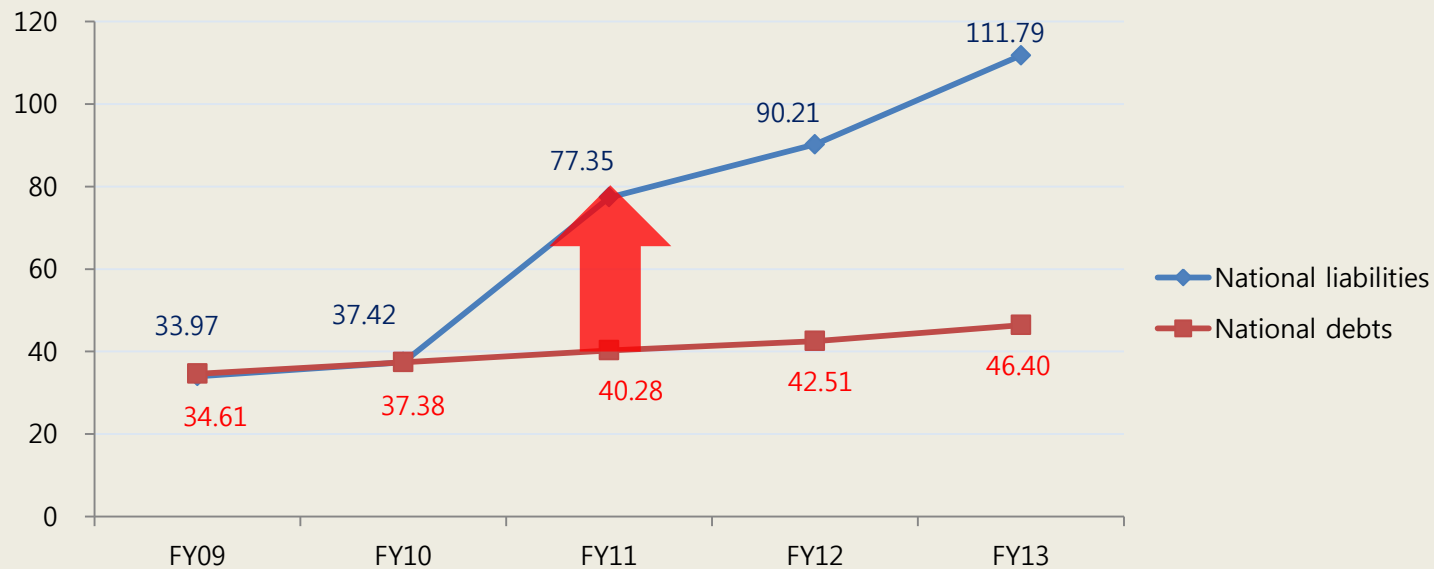
IV. Achievements and Future Challenges

Achievements (Liabilities)

Pension Liabilities

- As pension liabilities are recognized for public officials and soldiers, the needs for pension reforms have been triggered.

Changes in Liabilities & Debts (in trillions of won)



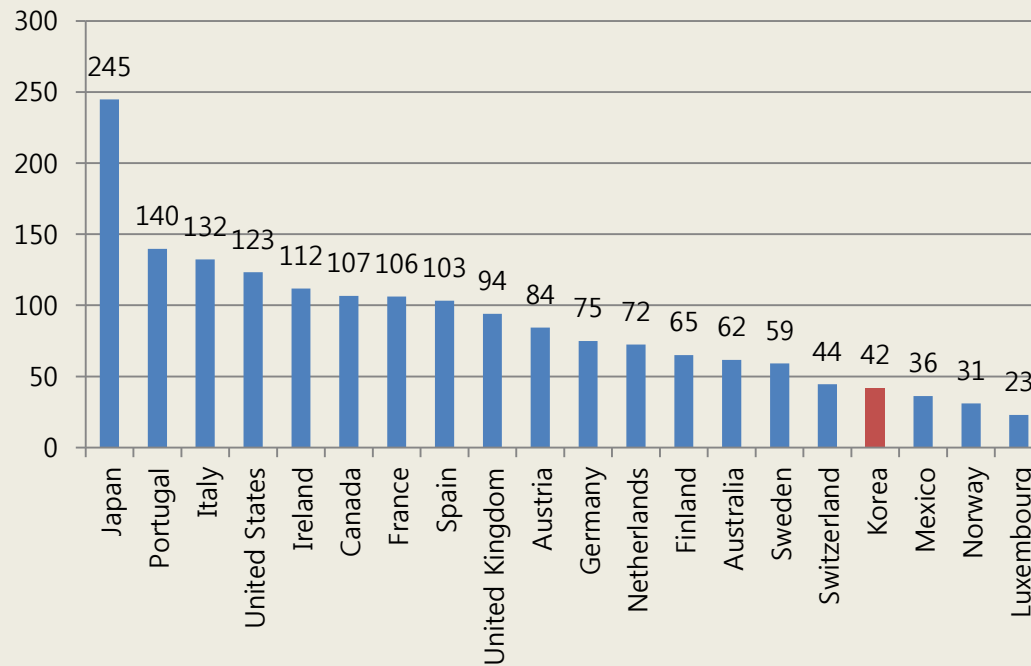
IV. Achievements and Future Challenges

Achievements (GFS & PSDS)

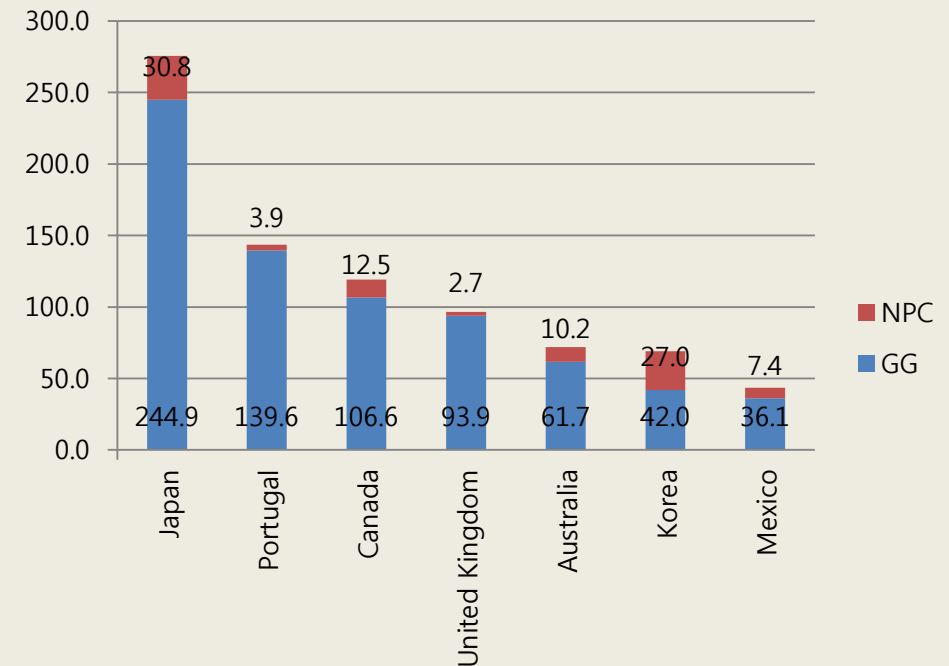
International comparability

Improvement of international comparability, and active utilization of the statistics as indicators for financial crisis and fiscal soundness

General government debt(% of GDP)

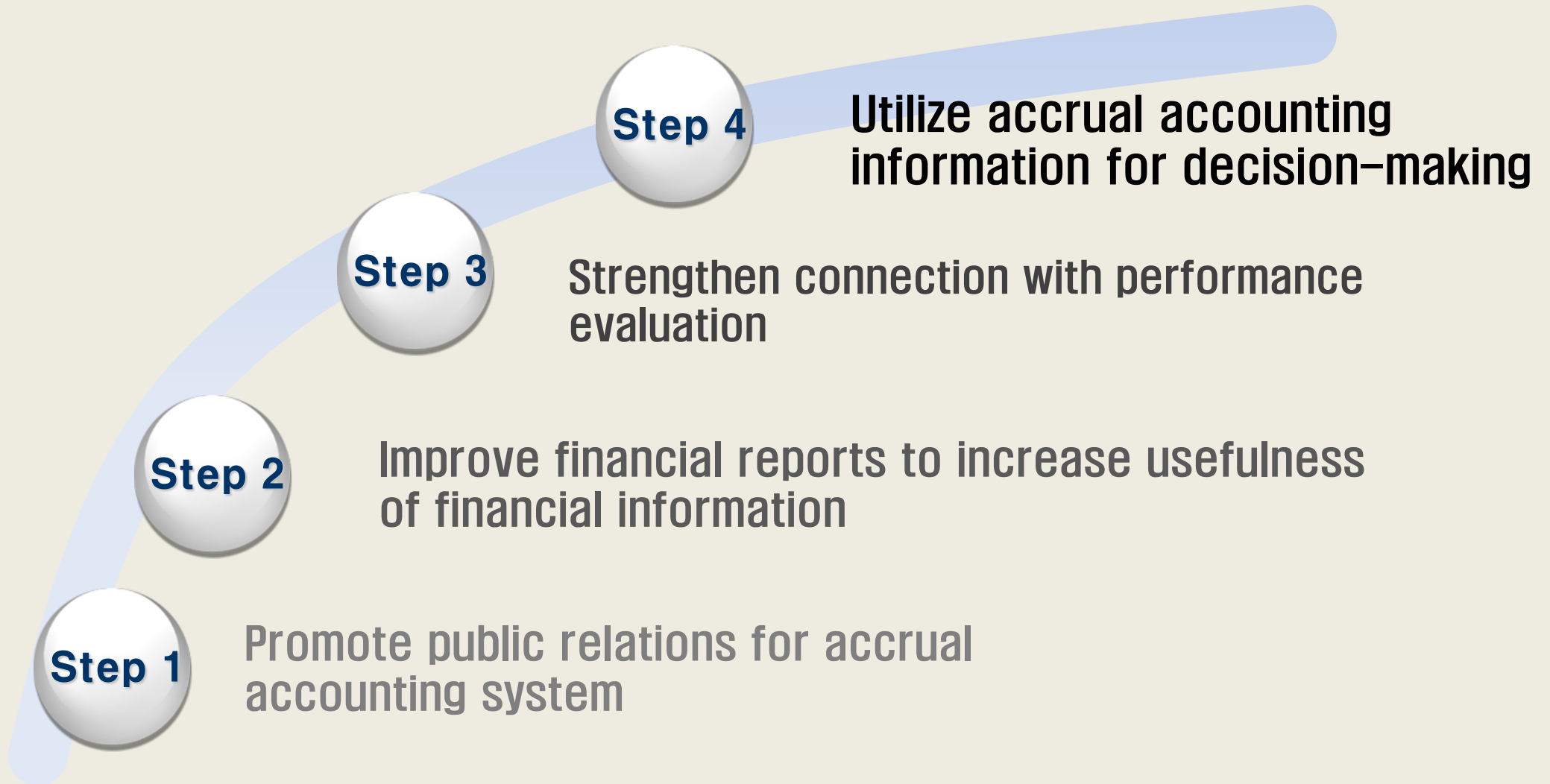


Public sector debt(% of GDP)



IV. Achievements and Future Challenges

■ Future Challenges



Thank
You