



The Impact of the Organic Finance Law (LOLF 18-15) on Public Accounting Reform in Algeria: A Case Study of the Directorate General of Accounting and Treasury (DGTC)

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Abstract :

This research paper aims to shed light on the impact of the Organic Finance Law (OFL 18-15) on the public accounting profession, with a particular focus on the challenges and opportunities this sector faces in the context of financial reforms. The study adopts a dual approach: a theoretical section reviews and a practical side, a field study was conducted at the Ministry of Finance, employing both quantitative and qualitative research tools, including interviews with experts and financial executives, as well as the examination of official documents. The findings indicate that Algeria has made significant progress in modernizing its public accounting system through the issuance of the Organic Finance Law and Law 23-07. However, major challenges persist in the transition to accrual accounting, particularly regarding the need for qualified personnel, delays in issuing executive decrees, and the ongoing lag in inventorying and assessing state assets.

Key Words: Organic Finance Law 15-18, Public Accounting Law 07-23, Accrual Basis, Financial Reforms, Modernization of the Accounting System

JEL Classification : M41, H83

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Introduction:

Recent developments in public accounting at both the international and national levels reflect a fundamental shift in how financial affairs in the public sector are managed. These developments are the result of ongoing efforts by prominent international organizations and institutions, such as the World Bank, the Organisation for Economic Co-operation and Development (OECD), and the International Federation of Accountants (IFAC), which strive to issue International Public Sector Accounting Standards (IPSAS) to ensure that accounting laws align with the emerging challenges faced by the public sector.

These challenges include rising expenditures and diverse areas of spending, as evidenced by Algeria's 2023 budget, which is the largest since independence, amounting to approximately \$98 billion, alongside increased revenues and various sources of income. In response to these challenges, many countries have shifted from cash-based accounting to accrual-based accounting to achieve an objective view and produce financial reports that accurately reflect the state's financial status.



Algeria demonstrates a serious commitment to these transformations, having adopted the Financial Accounting System (FAS) in 2010, which is based on International Financial Reporting Standards (IFRS/IAS). Additionally, Algerian auditing standards (AAS) were issued in 2016, focusing on aligning with International Standards on Auditing (ISA).

Currently, a project to update the public accounting system has been revealed, which includes the formulation of the Organic Finance Law (LOLF) in 2018, the adoption of 17 international accounting standards specific to the public sector, and the recent enactment of Law 23-07 regarding public accounting and financial management. These reforms reflect Algeria's commitment to improving its accounting system with the aim of achieving multiple objectives, including enhancing transparency and accountability in managing public financial resources, increasing efficiency in government expenditure and revenue management, and providing a clearer view of financial performance to ensure the integrity of public spending and foster sustainable development

Based on the aforementioned points, the research question of this work might be phrased as follows: **What effect has the Organic Finance Law (LOLF 18-15) had on Algeria's public accounting industry?**

The following theories have been put out in an attempt to respond to this query:

- First, the Organic Finance Law 18-15 has an impact on public accounting in Algeria.
- Second, the modernization of public accounting, derived from international standards, contributes to achieving compatibility with the Algerian context.

To achieve the objectives set forth in the proposed research question, this study adopts a dual research methodology. The theoretical aspect reviews the trajectory of accounting modernization through an analysis of the legal framework and regulatory reforms. On the practical side, a field study was conducted at the Ministry of Finance, utilizing a range of quantitative and qualitative research tools, including interviews with experts and financial staff, as well as an analysis of official documents related to the new laws and accounting standards.



I. Literature Review:

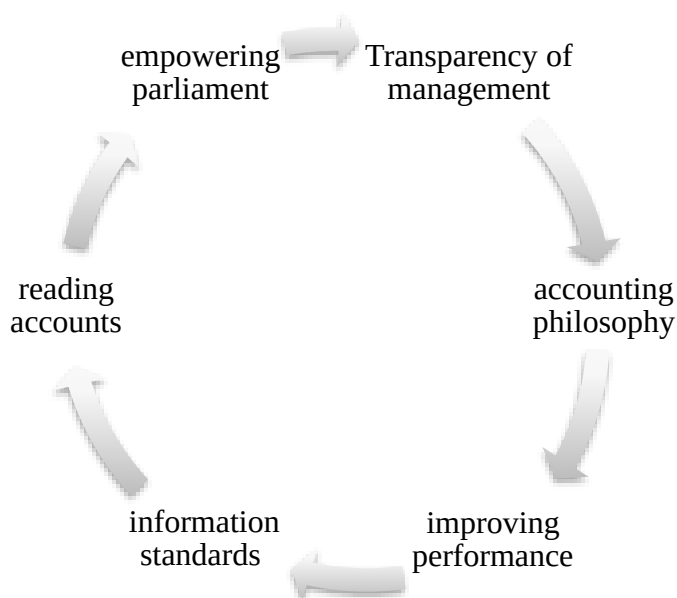
1.The first beginnings in modernizing the public accounting and public financial management system:

In light of Algeria's transition from a socialist approach to a free economy, the state must undertake radical reforms, including adopting a state accounting system in accordance with the provisions of the Organic Law (Ministry of Finance, 2018) and the new Public Accounting Law 07-23 (Ministry of Finance, 2023). This system contains arrangements that allow the conceptual and practical framework of public accounting to be brought closer to commercial accounting in economic institutions, with the aim of providing an integrated view of the assets and liabilities in the country.

2.Objectives of modernizing the state's public accounting system:

By modernizing its financial and accounting system, Algeria aims to achieve a number of goals that can be summarized in the following plan:

Fig. 1: The main objectives of modernizing the public accounting system



Source: Prepared by researchers based on (Algerian Ministry of Finance. , 2020), (Ben Bouzid, 2019, p. 50)

The goals of modernizing the state's public accounting system include a set of initiatives aimed at enhancing transparency and efficiency in the management of public funds. First, introducing greater transparency in management seeks to improve the monitoring of public funds, which contributes to achieving more effective results in their use. Secondly, adopting a new accounting philosophy derived from international standards requires adapting these standards to the Algerian business environment, which ensures their compatibility with local needs and enhances the effectiveness of their application. Furthermore, performance improvement focuses on enhancing the ability to control forecasts during the

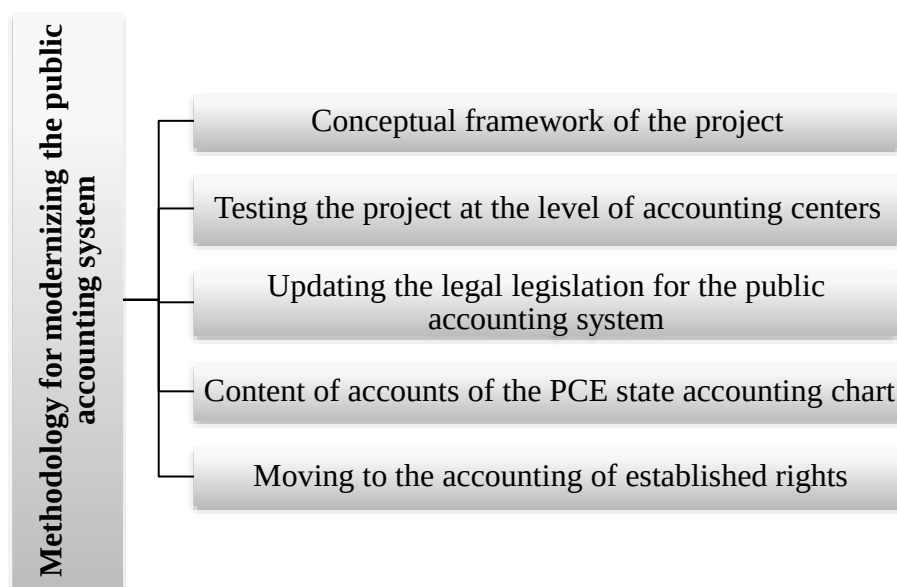


preparation and implementation of the state budget, which helps define the responsibilities of all parties involved and enhances accountability. This improvement also enhances transparency, allowing better monitoring of the mobilization and use of public funds. The new standards contribute to obtaining high-quality information, which facilitates the optimal management of debts and receivables, and ensures effective and efficient management of treasury funds. By conducting a clear reading of the state's accounts, oversight of managers is strengthened using appropriate performance indicators, which increases the effectiveness of financial oversight. Finally, these reforms contribute to enabling Parliament and its two chambers to obtain all the information necessary to evaluate and follow up on the true financial situation of the state, which enhances transparency and accountability in the management of public money. Together, these goals constitute a decisive step towards achieving a more effective and transparent public accounting system, which contributes to promoting sustainable development in Algeria.

3.Methodology for modernizing the public accounting system:

Modernization efforts at the Directorate General of Treasury and Accounting Management of State Financial Operations focused on forming a work team consisting of the Directorate's cadres, in addition to seeking French expertise and experts from the World Bank and the International Monetary Fund. A comprehensive action plan was drawn up that included various reform structures. The reform process went through several stages as follows:

Fig. 2: Methodology for modernizing the public accounting system



Source: Prepared by researchers based on (MILOUD, 2000), (Ministry of Finance, 2018), (Ministry of Finance, 2023)



The shift from cash accounting to accrual accounting is a key change in the Algerian public accounting system. This move aims to create new accounting standards that meet modern financial management needs, helping improve the efficiency and transparency of managing public funds. It also addresses challenges in the banking sector. By developing accounting rules that align with the state's accounting plan, this change establishes clear public accounting principles, improving financial processes and ensuring accurate data recording.

Before fully adopting the new system, a pilot phase at the provincial treasury level was crucial for testing its effectiveness. This phase helped identify strengths and weaknesses, leading to necessary adjustments.

The state introduced Organic Law 15-18 and Law 07-23 to provide a strong legal framework for the accounting reform. These laws help the state manage resources more effectively, especially through budgetary accounting, as mentioned in Article 65.

The new system also enables better management of investments and depreciation, thanks to the state accounting plan, which marks a shift to accrual accounting. The introduction of recognized rights accounting is a significant change in how the state manages financial entitlements, allowing for a clearer and more accurate analysis of revenues and expenses.

In conclusion, modernizing the public accounting system is a major step forward in improving financial management in Algeria. This change supports sustainable development and helps achieve economic goals by strengthening financial oversight and building trust between citizens and the state.

II. Practical Framework: A Case Study of the General Directorate of Treasury and Accounting within the Ministry of Finance:

In the context of integrating theoretical and practical aspects, we organized field training at the General Directorate of Treasury and Accounting Management of State Financial Operations from June 11 to July 31, 2023. This training focused particularly on the Directorate of Modernization and Standardization of Accounting Standards. The goal was to apply the theoretical knowledge gained. Additionally, we conducted a series of interviews with Ministry of Finance staff in Ben Aknoun, Algiers, to benefit from their field experiences and enhance the content of this research paper.

The Ministry of Finance's organizational structure was updated in 2021, which included a redistribution of roles and the introduction of new tasks aimed at strengthening efforts to modernize financial sector management. The General Directorate of Treasury and Accounting Management of State Financial Operations plays a central role in the implementation of Organic Law 18-15 related to finance laws, as well as the provisions of Law 07-23 related to public accounting and financial management.

To complete the applied aspect of this research paper, we will review the following:

- An overview of the General Directorate of Treasury and Accounting Management of State Financial Operations.



- The stages of reform and modernization of the public accounting system.
- An evaluation of the reality of accounting reforms.

1.Acomprehensive overview of the Directorate General of Treasury and Accounting:

The General Directorate of Treasury and Accounting Management of State Financial Operations consists of a central administration and external departments. The central administration is divided into three main sections as follows:

- Financial and Treasury Operations Management Section:
- This section includes two specialized directorates.
- Financial Activities Department: It consists of three directorates, each of which handles specific aspects of financial activities.

Department of Accounting Management for Financial Operations of the Public Treasury: It includes three directorates, including the Directorate of Modernization and Standardization of Accounting Standards, which was the site of the training.

This directorate is in turn divided into three sub-directories:

- the Sub-Directorate for Modernization and Standardization of State Accounting Standards.
- Sub-Directorate for Modernization and Standardization of Administrative Groups and Public Institutions of an Administrative Nature.

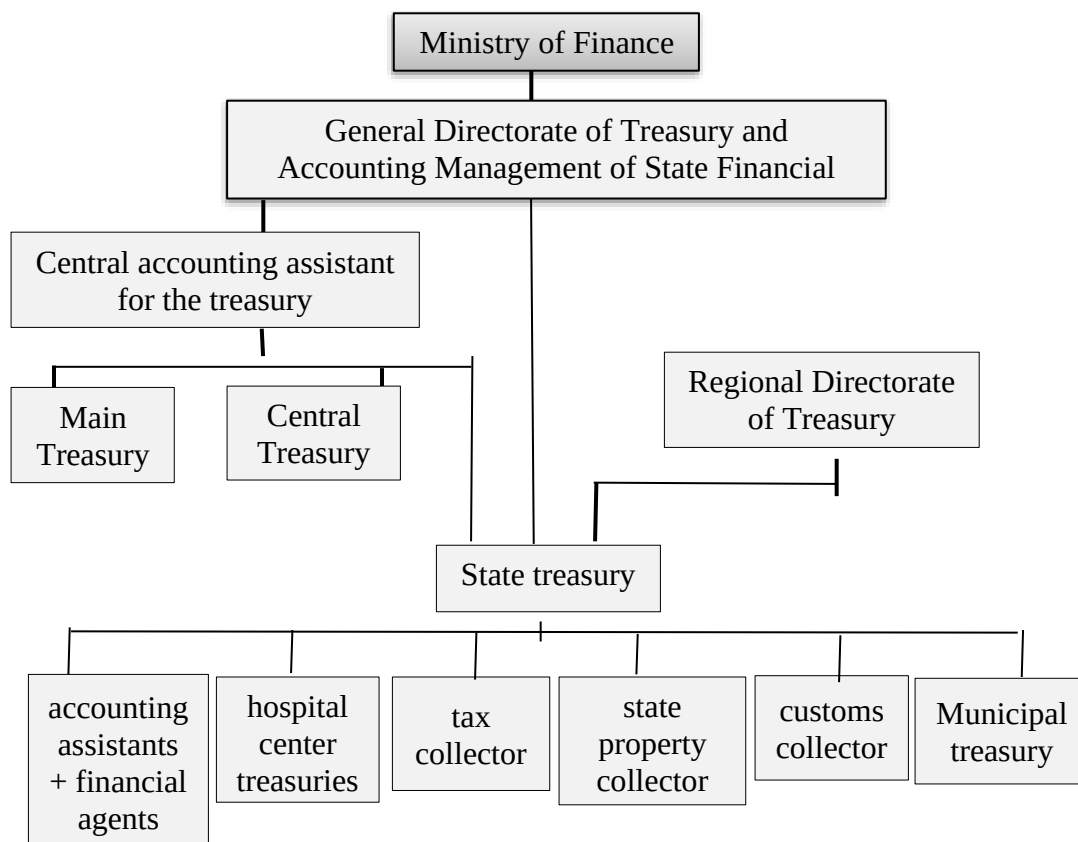
Sub-Directorate for Modernization and Standardization of Commercial Accounting.

As for the external interests of the General Directorate, they include:

- the central accounting agency for the treasury.
- Central treasury. Main treasury.
- 13 Regional Directorate of Treasury.
- 58 state treasury.
- Municipal safes.
- Lockers for university hospital centers, public hospital institutions, and public neighborhood health institutions.



Fig. 3: The General Directorate of Treasury and Accounting Management of the State's Financial Operations' organizational structure



Source: Prepared by the researchers based on Ministry of Finance documents

2.Diagnosis of the Public Accounting System

Efforts to restructure the procedures for executing public expenditures began in 2007, when the French consulting group GIP-ADTETEF was assigned to prepare and oversee studies in this area. The group carried out a diagnostic and analytical study of the current accounting reality, focusing on three main areas:

- **Organizational Aspect:** This dealt with the network of public accountants, financial engineering, and the organizational structure of the public treasury.
- **Technical Aspect:** This focused on studying the Treasury Accounts Code.
- **Analysis of the Failure of the 2006 Accounting Plan:** This examined the reasons behind the project's lack of success.

The efforts of GIP-ADTETEF resulted in a series of reports and studies that laid the organizational and technical foundations for a new accounting framework for the state. This framework aims to shift from cash accounting to accrual accounting, enhancing the concept of recognized rights related to revenues, expenditures, and tangible and intangible assets. This transition provides authorities with a



comprehensive and integrated view of the state's financial position at any given time, in line with International Public Sector Accounting Standards (IPSAS).

The following outcomes were achieved:

- Development of a new approach for managing public expenditure processes.
- Preparation of a guiding plan to adapt the state's accounting standards to the Algerian context.
- Creation of a national training plan for public accountants on new accounting principles.
- Establishment of the state accounting plan project.
- Reorganization of the Ministry of Finance and spending ministries by merging the General Directorate of Accounting and the General Directorate of Treasury into the General Directorate of Treasury and Accounting Management for State Financial Operations, which includes the General Directorate of Accounting and the General Directorate of Treasury.

3.Public Accounting System Diagnosis :

This reform was divided into six main stages based on the new ideas and guidelines for public accounting:

- **Phase One:** The main objective of this phase was to create an accounting management information system. A conversion table was developed, pairing each NCT account with a corresponding account to facilitate the transition from the Treasury Accounts Code to the new accounting framework. This system enables the extraction of financial figures such as the balance sheet, operating balances table, final cost table, and treasury flow table. These financial accounts have been enhanced by adding accounting data on accrued rights from the General Directorate of Taxes and data on state assets from the General Directorate of State Properties. This aims to present a true financial picture of the state, incorporating not only cash flows but also other financial elements recorded by public treasury.

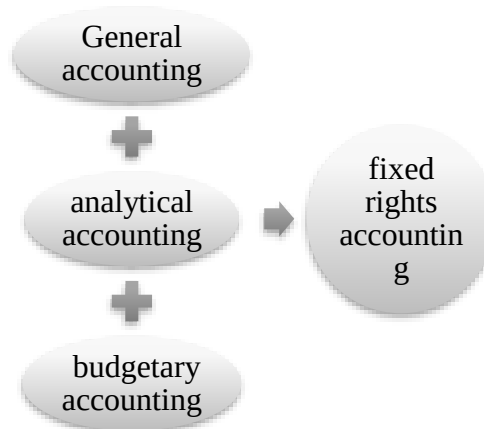
Additionally, a specialized committee was formed to create a "Reference Guide for Accounting Standards» in alignment with Algeria's financial accounting system.

- **Phase Two:** This phase aimed to adopt the new accounting framework following the completion of several crucial tasks:
 - Completing the inventory of the state's tangible assets with the General Directorate of State Properties, so they could be included in the new accounting system in line with IPSAS Standard 17 for investments.
 - Integrating real-time accounting of accumulated revenue rights following IPSAS Standard 23 for sovereign revenues (taxes, duties, and fees), in collaboration with the General Directorate of Taxes.
 - Conducting training sessions for various public accounting stakeholders, including budget controllers from different ministries, authorizing officers, and public accountants.
- **Phase Three:** In this phase, Organic Law 18-15, concerning financial legislation, was enacted. This law had a significant impact on public



accounting. According to Article 65 of Organic Law 18-15, the state maintains three types of accounting records: budgetary accounting, which is further divided into cash accounting and commitment accounting, and general or commercial accounting, which serves as a data repository for analytical accounting.

Fig. 4: The three-dimensional accounting system



Source: Prepared by the researchers based on (Ministry of Finance, 2018)

Within the scope of public accounting reforms, the introduction of the three-dimensional accounting system represents a significant change. This new system integrates three primary forms of accounting: financial, budgetary, and cost accounting. This comprehensive approach will improve the management of the state's financial operations and ensure more transparent and efficient use of public resources.

Financial accounting, based on the recognition of rights and duties, records all actions performed by approving officers during budget implementation. It provides long-term financial forecasts and accurate information about the assets of public institutions, which helps decision-makers better anticipate future events. This accounting covers treasury activities, transactions involving special accounts, and the recording of state assets.

Budgetary accounting is based on the cash accounting principle, which records financial activities related to revenue collection and expenditure disbursement within a specific fiscal year. This accounting provides the necessary information to manage financial appropriations effectively and monitor financial results that may extend beyond a single fiscal year. It also helps track the implementation of the budget as approved by Parliament, contributing to better long-term financial planning.

Cost accounting complements general accounting by offering a detailed analysis of government activity costs in relation to goals and programs. It provides decision-makers, particularly in Parliament, with precise details about the true costs of government policies and activities. By clearly distinguishing between expenses

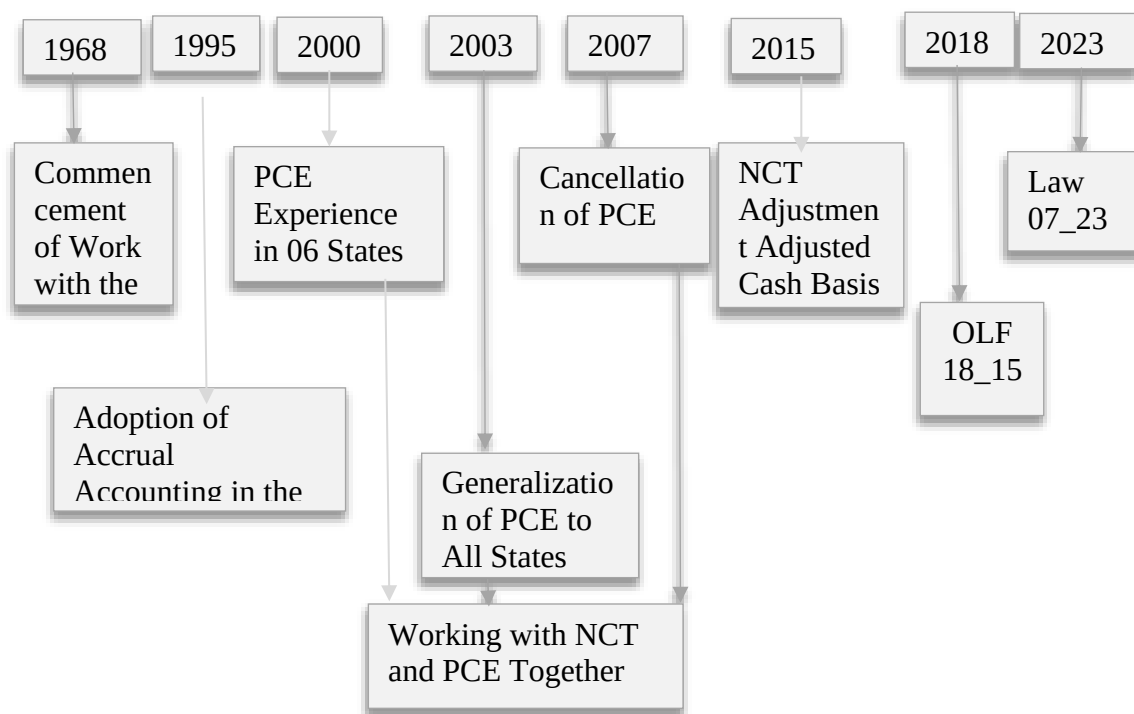


and resources, this system optimizes public policies and ensures greater transparency.

The adoption of the three-dimensional accounting system is a major step toward enhancing financial transparency and improving the efficiency of public resource management.

- **Phase Four:** The design, adoption, and publication of the provisions of Law No. 23-07, concerning financial management and public accounting, were completed and published in the Official Gazette of the People's Democratic Republic of Algeria. This law serves as the legislative and regulatory framework governing public accounting in Algeria.
- **Phase Five:** The publication of Law No. 23-07 marks a critical advancement in the organization and development of financial management and public accounting.
- **Phase Six:** The State Chart of Accounts, consisting of eight categories, has been finalized and submitted to the General Secretariat of the Government. It is expected to be published in the Official Gazette shortly. The following is an outline of key milestones in Algeria's public accounting modernization, from the country's independence to the present day.

Fig.5: Stages of development of modernization of public accounting in Algeria from independence to now



Source: (Abdelfettah, 2023, p. 34)



The Ministry of Finance launched the public accounting reform initiative, based on International Public Sector Accounting Standards (IPSAS), to transform the concept into reality as part of its efforts to overhaul the public accounting system. The ministry provided the necessary resources and labor to ensure the project's success and effective implementation.

In the first phase of the project, public accountants were trained to establish automated processes using information technology programs. The project was then tested in two stages, in 2000 and 2003, with participation from all provincial treasuries. Oversight and monitoring committees were set up to ensure the proper implementation of the project.

Subsequently, technical documentation and legal texts related to accounting were drafted. However, the experiment ended in 2007 when the General Directorate of Accounting issued a directive freezing the use of the State Chart of Accounts without explanation. This decision followed 12 years of work, starting in 1995 with the initiation of the accounting reform project.

The executive decrees for Articles 13, 14, 16, 22, 42, 44, 60, 68, 77, 103, and 113 were drafted and sent to the General Secretariat of the Government, awaiting discussion in the National People's Assembly and publication in the Official Gazette. Ultimately, Law 23-07 on public accounting and state financial management was passed.

Conclusion:

An analysis was carried out to evaluate the status of public accounting reform in Algeria following the collection of data and the examination of documents from multiple sources, including Treasury data. The following outcomes were attained:

Testing Theories and Findings:

- ✓ **Hypothesis 1:** "Organic Law 15-18 affects the public accounting system" is confirmed. This law has impacted the work of public accountants, budget controllers, and even managers like governors and mayors by introducing new accounting categories such as cost analysis accounting, commercial accounting, and budgetary accounting.
- ✓ **Hypothesis 2:** "Modernizing public accounting in line with international standards while considering Algeria's environment" has not been demonstrated. Despite its adoption, the state accounting plan has not been adequately adapted to Algeria's business environment and largely follows the French general accounting plan. The reports for the project were sent to France for review, which made the plan less distinctly Algerian. As a result, the strategy relies heavily on French expertise and lacks an Algerian identity.

The plan's reliance on an accumulated rights accounting system, which changes how public spending and revenue are reported, was a major obstacle. Unlike the previous approach, which required long communication chains between ministries, this system allowed the central Treasury accountant to determine the state's assets and revenues at any time.

Additionally, the new accounting model allowed for recording depreciation through Class 2, which is dedicated to state investments. However, since the full



inventory of public assets, which began in 1992, has not yet been completed, these accounts remained inactive.

Suggestions :

- Quickly put into action the national strategy for public accounting training and qualifying individuals, such as managers, accountants, and financial controllers.
- Expedite the release of executive orders pertaining to Law 23-07 and guarantee their practical application.
- In order to make the compilation of the opening budget easier, expedite the listing and inventory of the state's financial, moveable, and real estate assets.
- Take into consideration the suggestions made in the Court of Auditors' 2018 report about the modernization project.

These suggestions seek to fortify Algeria's public accounting reform and guarantee the accounting plan's effective execution in compliance with both domestic laws and global norms.

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