

TAIEX Study Visit on Design of the Accrual IPSAS/EPSAS
Based Accounting Reform in the Italian Public
Administration

Visit to Portugal | 17-19 January 2018



Unidade de Implementação
da Lei de Enquadramento Orçamental

Day 1 – 10:30-11:30

UniLEO and its Main Projects

Governance of the reform path

- ❖ Who did coordinate the reform path (institutional unit)?
- ❖ Was an ad hoc structure established in order to implement the reform?
- ❖ What position this structure hold in relation to the other main actors involved? (e.g., is it an autonomous body? Is it an entity within the Ministry of Finance? Is it outside the Ministry of Finance but directly reports to the Central Government?)

Governance of the reform path

- ❖ What are the key players in the reform path? (inside and outside, academicians, professional accountants, consulting firms, etc.)
- ❖ How do you manage the relations among the institutions involved in the governance? (roles and responsibilities)
- ❖ What is the role played by the Court of Auditors and by the National Institute of Statistics in designing the accounting rules and in management of accounts?

Governance of the reform path

- ❖ In short, what were the main stages of the path to implement accrual accounting?

Where we come from...

Date	Milestone
2013-07-30	Accounting Standards Setter issues the guidelines for the new public accounting rules
2014-08-28	Appointment of the Commission for the reform of Budget Framework Law
2015-05-26	Accounting Standards Setter approves a proposal of new public accounting rules
2015-09-11	The New Budget Framework Law (Law 151/2015) and the New Public Accounting Rules (Decree-Law 192/2015) are published in the Official Gazette
2015-11-19	Identification of the first group of pilot entities and approval of the strategy for management of such entities
2016-01-27	Accounting Standards Setter approves the proposal on the (i) explanatory notes to the accounts and (ii) simplified accounting framework

Where we come from...

Date	Milestone
2016-04-05	Circular 1381/DGO – Central Accounting and Reporting System
2016-06-28	Kick-off of the training of the pilot entities
2016-06-29	Web site for the clarification of accounting queries is made available and an Implementation Handbook is released
2016-07-14	Portaria (Act) 189/2016 with the explanatory notes to the accounts is published in the Official Gazette
2016-08-09	Portaria (Act) 218/2016 with the simplified accounting framework is published in the Official Gazette
2016-11-23	Creation of the PFM Reform Unit (Decree-Law 77/2016)

Where we come from...

Date	Milestone
2016-12-21	Postponing of the new accounting rules to January 2018 and identification of the necessity of creating a specific action plan
2017-04-05	Portaria (Act) 128/2017 with a dissemination and implementation strategy for the new accounting rules is published in the Official Gazette

... and where we are heading to

- ➔ Projects for the implementation of the new Budgetary Framework Law
- ➔ Managing the transition of the different entities to the new Public Accounting Rules

Profound reforms need:

- ❖ **Leadership of the process:** from the top to the bottom, a responsible for each project must be identifiable
- ❖ **Dedicated teams and resources:** Project activities are hardly compatible with day-to-day tasks and resources (financial and other) must be made available
- ❖ **Accountability:** Each responsible must deliver
- ❖ **Political ownership**

To sum up, profound reforms need “Change agents”

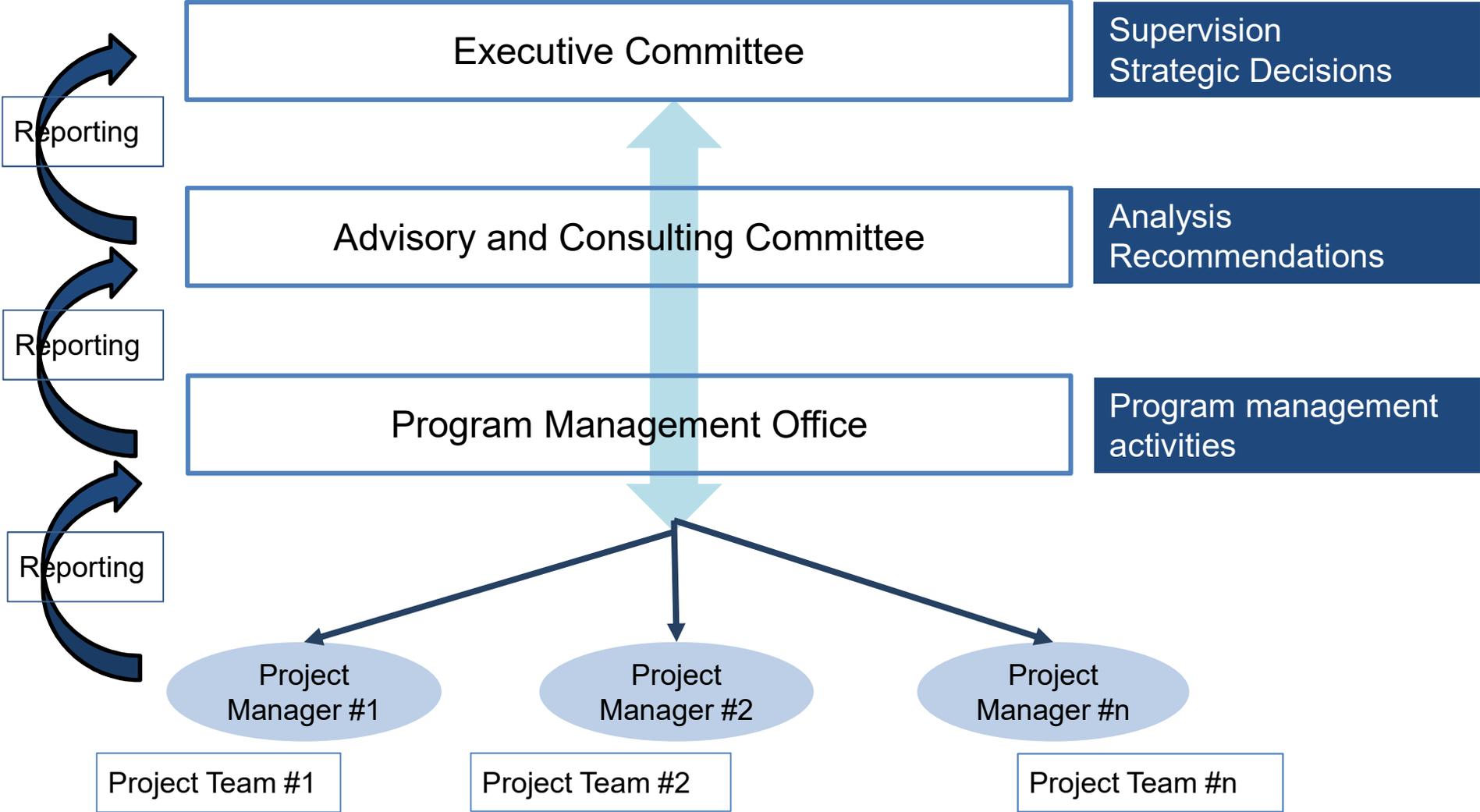


Other entities



Legal framework: creation of an ad hoc structure

- ❖ **Mission:** to implement the new BFL on all dimensions, such as business processes, change management, legal, information systems and control, assuring to the State and public entities more efficacy for public policies, in a performance management framework
- ❖ **Structure:** Executive Committee; Advisory and Consulting Committee; Program Management Office

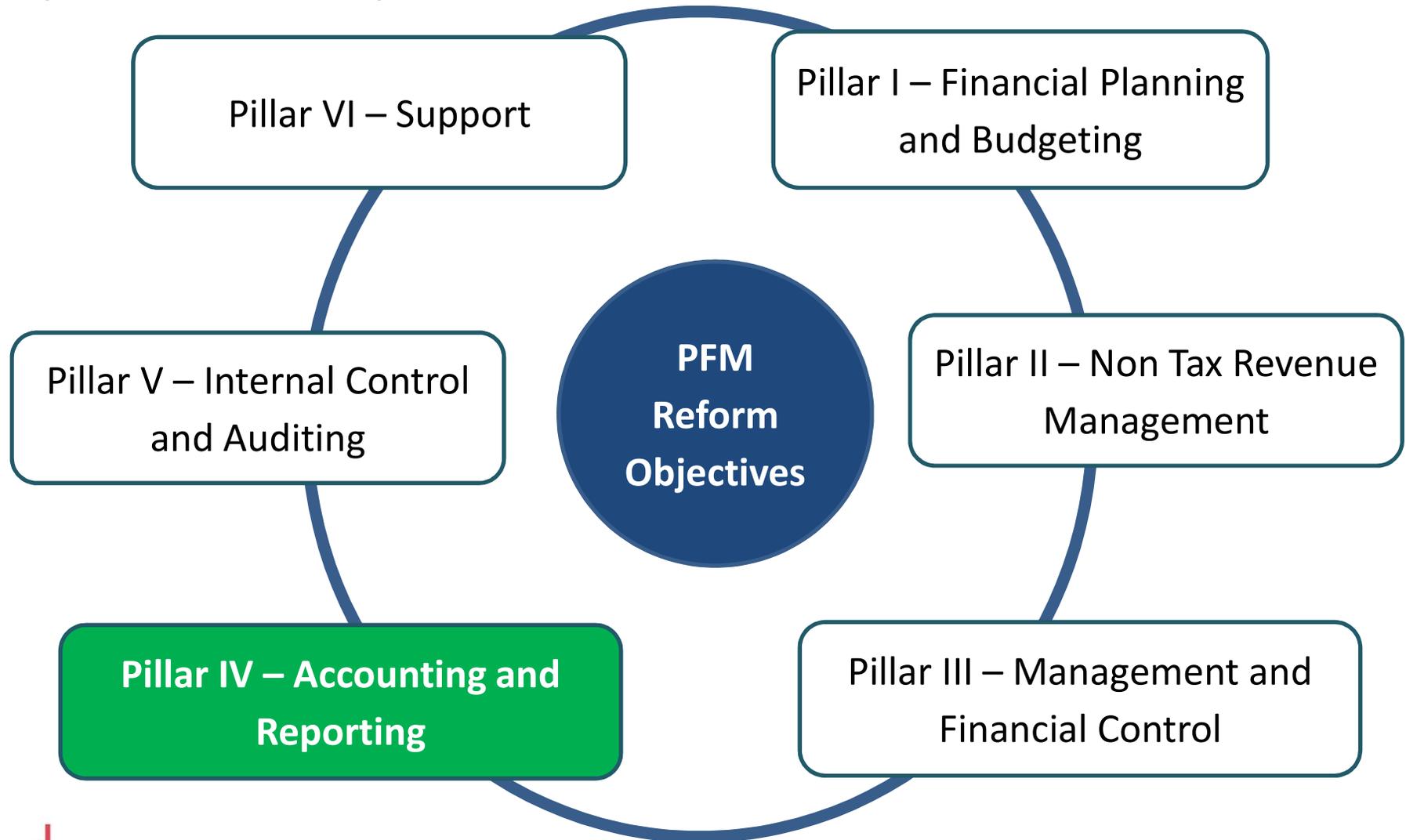


- ❖ **Drivers of the Reform:** implement the new Budget Framework Law and manage the transition to the New Public Accounting Rules
- ❖ **Implementation plan:** prepared by the PMO and thoroughly commented by the Advisory and Consulting Committee
- ❖ **Portaria (Act) 128/2017:** sets the PFM's tasks re. the implementation of the New Public Accounting Rules

Purposes of the implementation plan

- ❖ Working tool for the reform Unit
- ❖ Follow-up of the implementation projects
- ❖ Enhances transparency of the Unit's activities
- ❖ Makes the Unit accountable by the resources and results

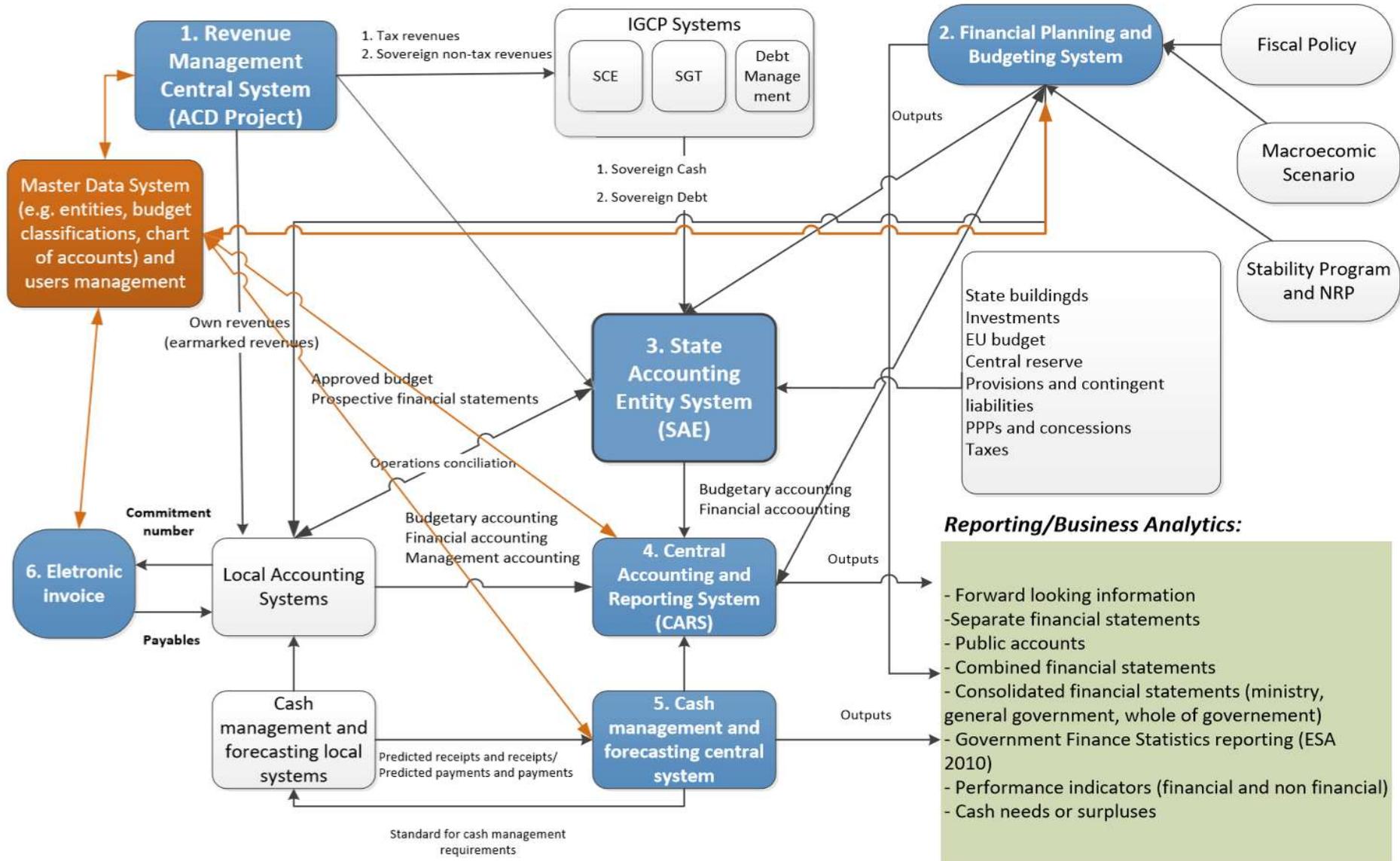
Implementation pillars



Projects overview

Integrated Public Financial Management Information System

Limited use



#1 – ACD Project + #5 Cash Management and Forecasting Central System

- ❖ Collection of non-tax revenues
- ❖ Expanded single treasury account
- ❖ Support from the SRSS

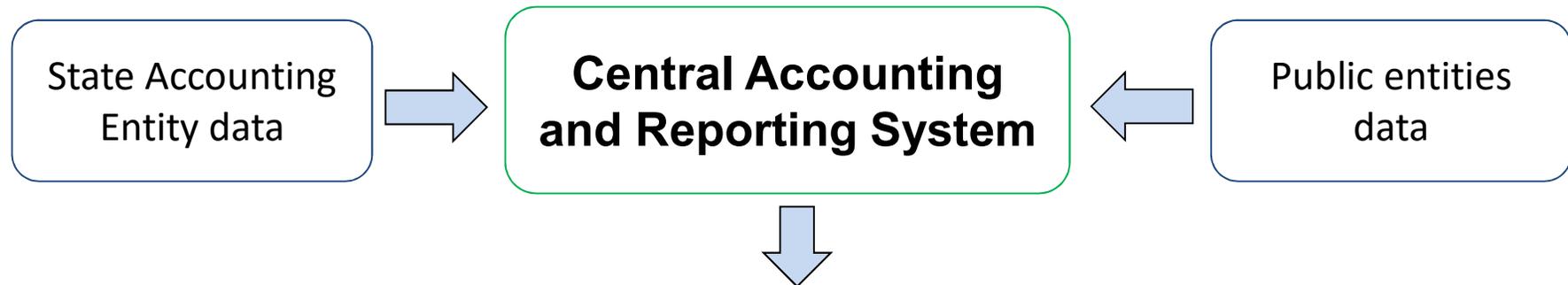
#2 – Financial Planning and Budgeting System

- ❖ From a pure cash basis system to a cash+financial system
- ❖ Alignment of historical information / forecasts / execution

#3 – State Accounting Entity

- ❖ Recognition of the States assets and liabilities
- ❖ Nature and management of the SAE
- ❖ Eurostat support

#4 – Central Accounting and Reporting System



Outputs

Individual budget and financial statements (SAE, other public entities)

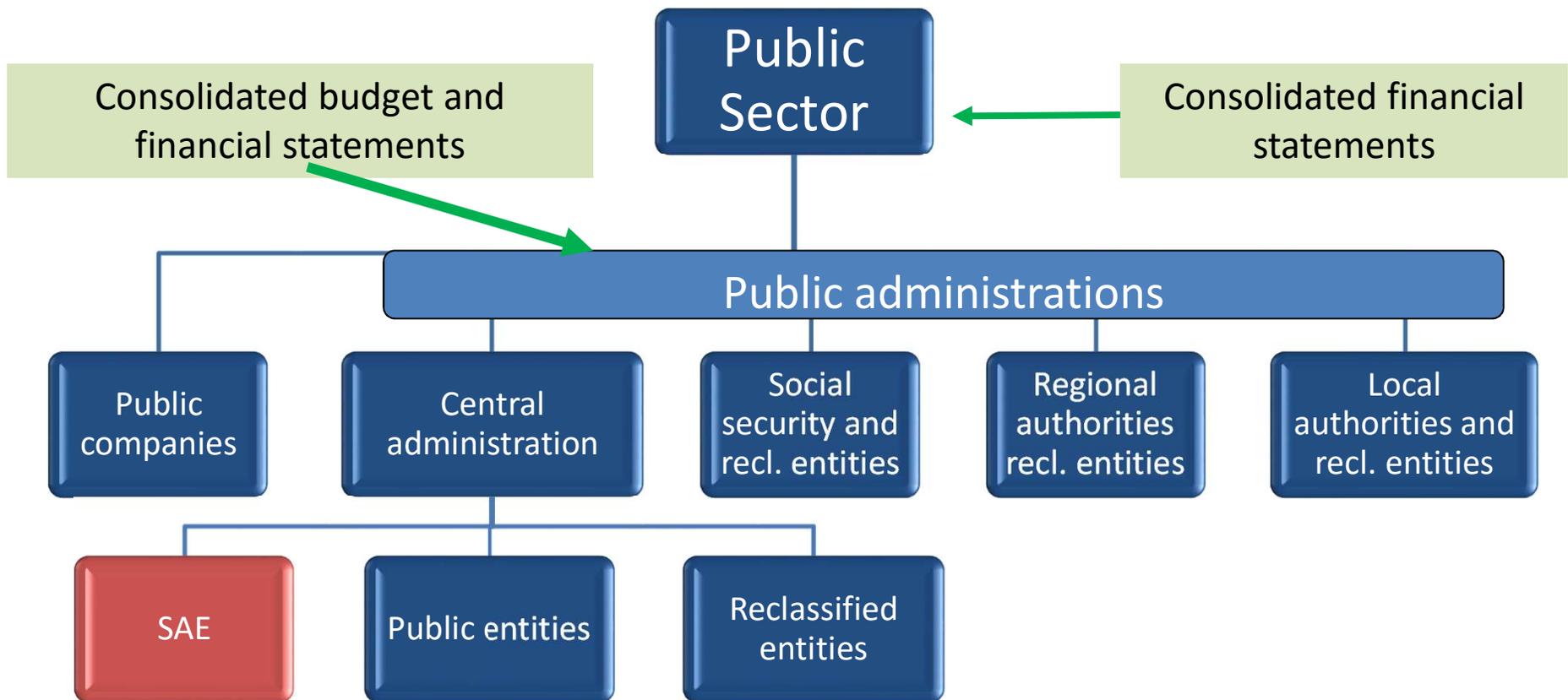
Consolidated budget and financial statements (Ministry, Budget Program, Public Sector(s))

Management reports for budgetary and financial control

Reporting – new State General Account

Government finance statistics reporting (ESA 2010)

Consolidation process - perimeters



Objectives

- ❖ Reliability and scope of public finance indicators
- ❖ Transparency of public finances
- ❖ Public management
- ❖ Accountability
- ❖ Accrual accounting as a basis of statistics

New set of indicators: The accounting and reporting reform should lead to production of a new set of financial indicators

- ❖ Consolidated financial results
- ❖ Net worth
- ❖ Debt measured in accordance with international standards
- ❖ Consolidated net debt
- ❖ Consolidated EBITDA

Public entities must be economically and financially balanced

Other Projects

- ❖ Medium term budget framework
- ❖ Performance budgeting
- ❖ New audit framework
- ❖ Revision of legal provisions

We may divide the dissemination and implementation strategy for the New Public Accounting Rules in three main tasks

- ❖ Setting the technical requirements
- ❖ Training
- ❖ Monitoring the transition

Setting the technical requirements – NT 1/2017

- ❖ Functional and technical requirements that software houses must comply with
- ❖ Definition of a central chart of accounts (budgetary accounting and financial accounting)
- ❖ Cross validations between the trial balance, budget statements, financial statements and notes (more than 200 technical and accounting rules for integration into the CARS)

Setting the technical requirements – NT 1/2017

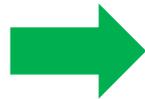
- ❖ Webservices for direct communication between the local systems and the CARS
- ❖ Requirements for consolidation purposes (trial balance identifies intra-group transactions and balances and type of movements)

Training

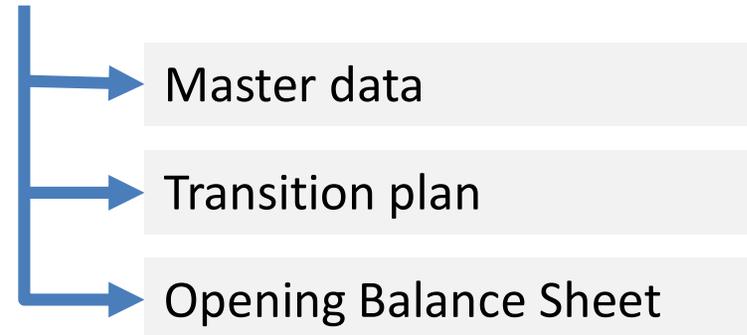
- ❖ Training, at all levels, is a condition precedent to the reform
- ❖ Different training programs to meet different needs (local authorities, small entities)
- ❖ Cooperation with the associations representative of the local authorities
- ❖ E-learning

Monitoring the transition

Tool



Dynamic questionnaire (transition guidelines)



- ❖ Monthly updates & Results to be shared and discussed between stakeholders – effective action, if necessary
- ❖ Basis for the transition report to be delivered by the entities

Risks

- ❖ Lack of permanent political leadership
- ❖ Lack of communication of the benefits of the reform to the stakeholders
- ❖ Lack of pilot phases
- ❖ Lack of coordination between technical teams (IT systems) and functional teams (accounting requirements)
- ❖ Fragility of local IT systems & Poor training at different levels

- ❖ New dedicated PFM reform unit
- ❖ The importance of a fully dedicated team with strong accounting and reporting experience and expertise
- ❖ Management of the relations with consultants (program management approach with quality management)
- ❖ Accounting and reporting is a fundamental pillar of the reform (basics first)
- ❖ Accrual accounting as a means to a new generation of fiscal rules Accounting as a strong foundation for sound fiscal policies

- ❖ EU enhanced fiscal surveillance needs harmonized accounting standards (EPSAS/IPSAS)
- ❖ Cooperation between the different stakeholders
- ❖ Strengthening of the accounting functions in Ministry of Finance and Line Ministries
- ❖ Change management and proactive discussions between accountants and economists



Thank you for your attention.

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