Structural Reform Support Service – European Commission

"Design of the accrual IPSAS/EPSAS based accounting reform in the Italian public administration"

Working Visit to Portugal

Treasury Single Account

Portuguese Approach

Public Financial Management
Reform Unit

Lisbon, 17-19 January 2018

Agenda

1. Introduction
2. Objectives
3. Project Scope
4. Architecture
5. Cash Management Model
6. E-invoicing
7. Accounting and Collection Document - DCC
8. Conclusions

- Non-tax revenue is not timely recorded at the central level and may also explain part of the discrepancies between forecasts and actual cash flows
- Our current revenue (receivables) accounting and colleting systems has some internal control deficiencies that must be addressed:
  - There is no automatic integration with the accounting system by recognizing a financial asset (receivables) before cash is collected
  - The absence of accounting for receivables (in most of the cases the accounting only occurs when cash is collected) hinders the management of this assets
  - The Ministry of Finance has no timely recognition of the non-tax revenue the public entities issue and collect
  - There is no use of the dates for paying payables and collect receivables to forecast cash inflows and outflows and adjust the financing accordingly, diminishing the cost of debt

Objectives

- Assure the reliability and timeliness of accounts receivables records
- Promote an active management of receivables through the accounting system (view of accounting as a primary information system for management purposes)
- Disseminate a tool for planning and financial control
- Manage cash management risks
- Have a consolidated view of the cash flows (ministry, program, central government)
- Ensuring sufficient cash funds when the payments has to be done
- Minimizing the cost of debt
- Maximizing the profitability of cash surpluses

Scope

Pillar II – Reform of Public Revenue Management
Pillar III – Budgetary and Financial Control
Pillar IV – Accounting and Public Accounts Reform
Expanded Treasury Single Account
Accounting and Collection Document
Electronic invoicing
Cash Management Model
State Accounting Entity
Discrete Implementation projects

Expanded Treasury Single Account

Requirements of the European Directive on electronic invoicing in public procurement (2014/55/EU)

Advantages

- Cost reduction (transaction costs) and more transparency of public purchases of goods and services
- Automated accounting integration with different accounting systems (ERP's)
- Processes automatization a error reduction
- Better management of the relations with suppliers
- Cash outflows forecasting

Cash Management Model that guarantees the following objectives

- Ensure that sufficient financial resources exist to settle obligations as they become due
- Adjustment of commitments to the State's financing capacity
- Ensure that recourse to funding only occurs when it is necessary
- Maximization of returns from cash available
- Efficient management of liquidity risks

- Cash management is a core element of public financial management and the establishment of a treasury single account (TSA) can lead to an optimum use of government cash resources
- The entities must implement cash forecasting tools (inflows and outflows)
- Integration of accounting processes (receivables and payables) with cash forecasting

Model components

Treasury chart of accounts	Cash inflows by source of financing Cash outflows by economic classification at a aggregate level and source of financing
Cash inflows register	Cash inflows by source of financing. The general revenues are exogenous determined (SAE). Actuals and the next 12 months
Cash outflows register	Cash outflows by economic classification and source of financing. Actuals and the next 12 months

- Introducing cash management techniques to avoid the overdue debt (arrears are a subset of the overdue debt)

- No commitment can be issued without the availability of cash for the **expected date, or dates, of payment**

Cash Management Model and budget execution cycle

Define the chart of accounts for cash management purposes aligned with budgetary accounting
Study of the best solution (centralized vs decentralized)
Define the mechanisms for automatic bank reconciliation
Design a system to assure that the cash management system is integrated with the accounting modules for receivables and payables
Define models for reporting and analytics

- It is intended that from the Accounting and Collection Document (DCC), to optimize revenue management, by improving the treatment processes, accounting measurement and treasury control.

- That the introduction of the DCC, evolution of the current DUC, contributes to an efficient treasury management, a fundamental element for the control of the budget execution.

So that the State has a revenue forecasting capacity, the DCC being one of the essential components

DCC - Features

- The inflow of funds into the State must be supported by the Accounting and Collection Document (DCC), which implies that all revenue must be properly accounted for, both at the issuing and at the collection stage, at the time those events occur and on an automated way

- The Government has information suitable for short and medium term cash inflows (the State accounts receivables)

- Simplification of the revenue process

DCC - Features

- Integration of information in the State treasury with the accounting of entities

- Better integration between the budget execution and cash management functions.

Have an anticipate view of the budget revenue execution (receipts) and adjust the cash limits to the budget entities, integrating with the treasury management model (management of a treasury budget)

Consolidated Revenue for Central Administration

Aggregates	Economic Classification	2016 (min €)	% Total	Aggregates % Total (Bilions)
Tax Revenue	Direct taxes	17.772,2	31,5%	81%
	Indirect taxes	23.323,7	41,4%	
	Contribuitions for social security	4.695,6	8,3%	
Sub-total		**45.791,5**		
Non-tax revenue	Taxes, fines and other penalties	2.838,7	5,0%	19%
	Property income	785,6	1,4%	
	Transfers	3.441,9	6,1%	
	Sale of current goods and services	2.055,2	3,6%	
	Sale of investment goods	200,5	0,4%	
	Other revenue	1.242,2	2,2%	
Sub-total		**10.564,1**		
	Total	**56.355,6**		

IN SHORT

- There is no centralized knowledge of all revenue issued and probable dates of receipt, which makes it possible to control revenue at all stages.

- There is an incentive for a bias in favor of own revenue. When there is a revenue breakdown (eg fees, fines) between the services and the State, there is a risk that the State portion will not be fully delivered, since there are no automatic controls implemented in the system.

- When State revenue is delivered through the finance treasury, the State (eg, Ministry of Finance) is unaware of who made the delivery, appearing in its systems as the Tax and Customs Authority (TA), which means a loss of information relevant to the management of the treasury.

- When cash inflows are made through transfers to the IGCP bank identification numbers associated with economic classifications of budget revenue, it is not known in the systems of the Ministry of Finance about which entities have made such deliveries, losing - information that is critical to the budget revenue management process, since the entity that delivered the receipt is no longer known

- State revenue administrators have the power to decide on when to convert the financial resources already deposited into their homebanking accounts (counter 112) into the state's general revenue, which may hamper efficient cash management, because it is up to the entity to decide when it is the moment of issue of the document in the SGR, paying it, materializing the transfer to the counter 032, where the general revenue of the State is domiciled.

Objective

- Underlying the DCC and its articulation with a single account type in the treasury, as well as integration with accounting, is the optimization of the management of public funds through the development of existing instruments and developments at the system level.

- The central objective is to use the accounting processes associated with the ECE and other public entities' accounts receivable, obtaining a centralized and consolidated view of the cash flow forecasts, which is essential for the programming of payments and cash management, including issuance of direct government debt.

Accounting and collection document - Principles

Principles

All inflows of funds in the State and central government entities must be supported by the DCC (any "source of funding")

Integration of IGCP and DCC information systems with accounting systems.

.Efficiency of public treasury management

The State Accounting Entity will record the DCCs at all stages

The issuance of the DCC, its collection, rectifications (debit or credit notes) or cancellations will have repercussions on the budgetary accounting (at the level of revenue, receipts and funds intermediation) and financial accounting (at the level of assets, revenues, receipts and funds intermediation), always with recourse to the method of double entry bookkeeping

Accounting and collection document - Rules

All revenues of the State and entities integrated in the central administration must be titled by the DCC, and should also consist of the accounting support document. The proceeds from the collection of the DCC will be channeled to IGCP under the SCE already existing for the DUC

Rules

As the DCC has accounting integration, it must contain information that allows accounting distribution, at the time of issuance, and financial, when the revenue is collected.

Each entity shall record in the information system - revenue-sharing platform - the total identification of the type of revenue it collects, namely the nature (economic classification), the percentage breakdown and the underlying legal basis. Revenue can only be issued on the types of revenue already loaded in the system (revenue type catalog).

Accounting and collection document - Elements

Technical requirements

1. Integration of information systems (DGO, IGCP and entities with own systems that emit DUC);
2. Web services for the communication of data between systems, when necessary;
3. Automatic integration between accounting and treasury systems, allowing automatic bank reconciliations;
4. Creation of a platform where DCCs can be issued;
5. Integration of the central system of control of collections of State revenue with the treasury and accounting systems of the entities;
6. Internal control mechanisms that allow for the accounting tracking of DCC issued and paid;
7. Integration of the settlement and collection systems of Tax Authority (AT) with the Central Public Revenue System and the State Accounting Entity;
8. User management and access profiles

Conclusions

A modern treasury requires

- Funds centralization in a way that all the government resources remains available under the Treasury order, for cash management purposes
- Temporary use of the available funds by the Treasury, regardless of the holding entities or spending purposes (earmarked resources)
- Use of short-term financial instruments to smooth the cash flow
- The establishment of liquidity reserves
- Intensive cash flow forecasting and monitoring

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