Structural Reform Support Service – European Commission

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

Working Visit to Portugal

Public Sector Accounting Reform

Portuguese Accounting Framework and Action Plan

Public Financial Management
Reform Unit

Lisbon, 17-19 January 2018

Agenda

1. Introduction
2. Objectives
3. Accounting Framework and Governance
4. Implementation Projects
5. Implementation Strategy
6. Conclusions

- A strong system of public financial management (PFM) is essential for the implementation of public sector policies and the achievement of intended outcomes through enforcing financial discipline, strategic allocation of resources, efficient service delivery, and accountability

- It is the system by which financial resources are planned, directed, and controlled to enable the efficient and effective delivery of public service goals in a specific jurisdiction. It spans a range of activities—including planning and budgeting, management accounting, financial reporting, financial controls, and internal and external auditing—that contribute to effective, transparent governance and strong public accountability (IFAC and CIPFA, 2013)

- Historical experience suggests that PFM reform actions should focus on three main management deliverables in the following order (Diamond, 2013):

Putting in place controls to ensure some minimal level of financial compliance (fiscal control)

↓

Establishing mechanisms to improve fiscal stability and sustainability

↓

Introducing systems to promote the efficiency and effectiveness in service delivery

PFM Instruments

- Accounting System and internal control
- Treasury Single Account
- Cash Management
- Medium Term Budget Framework
- Manage Fiscal Risks
- Management Accounting
- Performance Budgeting and Reporting

- Portugal Public Financial Management context (Cangiano, 2013):

> "Responsibilities were dispersed across a plethora of entities and levels of government enjoying administrative and financial autonomy, with weak control on spending. Past attempts at achieving the Stability and Growth Pact objectives had been largely pursued via fiscal stratagems and one-off measures that masked the country's true indebtedness, leading eventually to loss of control of the fiscal aggregates. Compliance with existing public financial management legislation was weak, sanctions were rarely applied, and regulations easily bypassed, as witnessed by the accumulation of outstanding and overdue government's payment obligations (arrears). Findings and recommendations from international as well as domestic institutions—chiefly the Court of Auditors—since the mid-1980s had remained largely unheard."

- Fragmented and outdated accounting framework
  - Based in national standards that were replaced by IFRS like standards, European regulations and accounting directive
- The Ministry of Finance (MoF) appointed in January 2013 the National Accounting Standards Commission (CNC) in order to adapt IPSAS in the Portuguese Public Sector
- Some positive features such as the adoption by most public sector entities of accrual accounting concepts and the availability of necessary IT accounting systems shall be highlighted

- Since 2013, significant progress has been made in reviewing national standards and aligning them with International Public Sector Accounting Standards (IPSAS). The MoF authorities and the Accounting Standards Commission (CNC) are also keeping abreast of the Eurostat-led project on the possible development and adoption of European Public Sector Accounting Standards (EPSAS) that are expected to use IPSAS as a reference.

Council Directive 2011/85 - Requirements for budgetary frameworks of the Member States

- Complete and reliable public accounting practices for all sub-sectors of general government are a precondition for the production of high-quality statistics that are comparable across Member States

During the financial assistance programme, that had begun in May 2011 and ended in June 2014, we benefit from the International Monetary Fund Technical Assistance Missions and the **2014 Fiscal Transparency Evaluation** that covered fiscal reporting along with other two pillars (fiscal forecasting and budgeting and fiscal risk analysis & management)

INTERNATIONAL MONETARY FUND

Fiscal Affairs Department and
Statistics Department

PORTUGAL

FISCAL TRANSPARENCY EVALUATION

Marco Cangiano, Jason Harris, Alberto Jimenez de Lucio,
Abdul Khan, Marcos Poplawski-Ribeiro, Anke Weber

September 2014

Conclusions:

The lack of a sound conceptual framework based on accrual accounting and internationally accepted standards, a central government accounting function to, among other things, account for and report items such as tax revenues, government bank accounts, and debt, and adequate accounting records constitute major deficiencies of the existing framework. This has led to significant revenues, expenses, assets, and liabilities remaining outside the official accounting system, with fiscal reports relying on combining information emanating from different sources

Recommendations:

1\The adoption of a sound framework and the regular preparation and publication of audited consolidated financial statements in accordance with IPSAS would also help address many of the specific shortcomings, including the lack of comprehensive coverage of stocks and flows in existing fiscal reports

2 MoF should implement a central government accounting function responsible for maintaining adequate books of account for items such as tax revenue and government bank accounts and implement a conceptual framework and an integrated accounting system that provide complete information for the preparation of financial statements in accordance with IPSAS. The minister of finance should be legally responsible to prepare and submit, within three months after the year end, financial statements that certify that these provide a true and fair view.

INTERNATIONAL MONETARY FUND

Fiscal Affairs Department and
Statistics Department

PORTUGAL

FISCAL TRANSPARENCY EVALUATION

Marco Cangiano, Jason Harris, Alberto Jimenez de Lucio, Abdul Khan, Marcos Poplawski-Ribeiro, Anke Weber

September 2014

Source: PwC (2014)

- Financial Reporting
- Fixed Assets
- Intangible Assets
- Inventories
- Revenues
- Accruals and Expenses
- Employee Benefits
- Provisions
- Consolidation
- Financial Instruments

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Objectives

Accounting and Reporting Reform
Objectives
Reliability and scope of public finance indicators
Transparency of public finances
Public management
Accountability
Accrual accounting as a basis for national accounts

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Public Sector Accounting Reform

1. State Accounting Entity
2. Prospective consolidated financial statements on budget documentation
3. Three accounting subsystems
4. Costs and results of public policies
5. Consolidation of accounts
6. True and fair view concept
7. Opinion of the Court of Auditors on consolidated financial statements

1. A single accounting framework for all levels of government
2. IPSAS based standards (financial accounting)
3. Double entry system for budgetary accounting
4. Models for budgetary statements
5. Models for financial statements
6. Chart of accounts with codes for national accounts purposes

New BFL
Law 151/2015

Accounting Law - SNC-AP
Decree-Law 192/2015

Accounting Framework Elements

Decree-Law n.º 192/2015, 11 September:

Annex I: Conceptual framework for financial accounting (IPSAS based)

Annex II: Accounting standards
Set of 25 financial accounting standards (IPSAS based)
Budgetary accounting standard
Management accounting standard

Annex III: Chart of Accounts

Notes to the Chart of Accounts

Ordinance n.º189/2016, from 14 July

State Accounting Entity (SAE)

Prospective Financial Statements

Consolidated Financial Statements

Simplified regime (small and micro entities)

Ordinance n.º 218/2016, from 9 August

Implementation manual (incl. transition)

Public Sector Accounting Functions

Controlling the budget appropriations approved by the legislature

Transparency of the public sector net worth, performance and reliability of fiscal statistics

Evaluating the cost sand measure outputs of public policies

Budgetary accounting

Cash based appropriations
Modified cash basis in execution (appropriations, pre-commitments, commitments, payables, payments, receivables, receipts)
Budgetary statements

Financial accounting

Full accrual
Financial statements (balance sheet, changes in net worth, income statement, cash flow statement and notes)

Management accounting

Full accrual
Management reports (link to performance budgeting project under the implementation of the new BFL)

Accounting subsystems

Portuguese Public Sector Accounting System

Budgetary Accounting Subsystem

NCP 26 (budget consolidation rules)
Any IPSAS as reference
A dedicated class of accounts (Class 0) and budget classifications
Double entry system
Receivables and accounts payables accounting (revenue and expense phases)

Financial Accounting Subsystem

Conceptual framework (IPSASB based)
25 accounting standards based on IPSAS
Chart of accounts with government finance statistics codification incorporated
Standard for small and less risky entities

Management Accounting Subsystem

NCP 27
Any IPSAS as reference
RPG 3 – Reporting Service Performance Information was considered
Link to performance budgeting and reporting

Standard Setting Process

Scope – Institutional Coverage

Sector	Entities	%
Central Administration	**1.295**	25%
Primary Education (Schools)	811	15%
Other Sectors	484	9%
Social Security Funds	**10**	0%
Local Government	**3.733**	71%
Municipalities	308	6%
Parishes	3.091	59%
Others	334	6%
Autonomous Region - Azores	**157**	3%
Autonomous Region - Madeira	**55**	1%
Total	**5.250**	100%

The Scope is the General Government Sector as defined for statistical purposes

Scope – Breakdown of the Central Administration

Central Administration	Entities	%
Primary Education (Schools)	811	63%
Internal Affairs	11	1%
Agriculture, Forestry and Rural Development	19	1%
Sea	9	1%
Environment	24	2%
Defence	23	2%
Economy	24	2%
Science, Technology and Higher Education	95	7%
Sovereign Entities	23	2%
Finance	52	4%
Justice	23	2%
External Affairs	5	0%
Prime Minister Cabinet	11	1%
Health	66	5%
Labour and Solidarity	40	3%
Planning and Infrastructure	21	2%
Culture	17	1%
Education (central entities)	21	2%
Total	**1.295**	100%

Includes 163 reclassified entities in the central administration (e.g. State Owned Enterprises)

Budget execution on expenses on the last two years	Accounting regime	Instruments	Accounting Basis
<= € 1.000.000	Micro entities	NCP 26 – Budgetary Accounting and Reporting List of assets	Modified Cash
> € 1.000.000 e <= € 5.000.000	Smaller Entities	Standard for Smaller Entities NCP 26 – Budgetary Accounting and Reporting NCP 27 – Management Accounting Multifunctional Chart of Accounts	Modified Cash for Budgetary Accounting Accrual for Financial and Management Accounting
> € 5.000.000	Full application	Conceptual framework Accounting Standards (full set) Multifunctional Chart of Accounts	Modified Cash for Budgetary Accounting Accrual for Financial and Management Accounting

Based on IPSASB 2014 Conceptual Framework

IPSASB Conceptual Framework	SNC-AP Conceptual Framework
Preface	Preface
Chapter 1: Role and Authority of the Conceptual Framework	Role and Authority of the Conceptual Framework
Chapter 2: Objectives and Users of General Purpose Financial Reporting	Objectives and Users of General Purpose Financial Reporting
Chapter 3: Qualitative Characteristics	Qualitative Characteristics
Chapter 4: Reporting Entity	Reporting Entity
Chapter 5: Elements in Financial Statements	Elements in Financial Statements
Chapter 6: Recognition in Financial Statements	Recognition in Financial Statements
Chapter 7: Measurement of assets and liabilities in Financial Statements	Measurement of assets and liabilities in Financial Statements
Chapter 8: Presentation in General Purpose Financial Reports	Not included

NCP	Name	Source
1	Presentation of Financial Statements (including FS models)	IPSAS 1, 2, 38
2	Accounting Policies, Changes in Accounting Estimates and Errors	IPSAS 3
3	Intangible Assets	IPSAS 31
4	Service Concession Arrangements: Grantor	IPSAS 32
5	Property, Plant and Equipment	IPSAS 17
6	Leases	IPSAS 13
7	Borrowing Costs	IPSAS 5
8	Investment Property	IPSAS 16
9	Impairment of Assets (Cash and Non-Cash)	IPSAS 21, 26
10	Inventories	IPSAS 12
11	Agriculture	IPSAS 27

NCP	Name	Source
12	Construction Contracts	IPSAS 11
13	Revenue from Exchange Transactions	IPSAS 9
14	Revenue from Non-Exchange Transactions	IPSAS 23
15	Provisions, Contingent Liabilities and Contingent Assets	IPSAS 19
16	The Effects of Changes in Foreign Exchange Rates	IPSAS 4
17	Events After the Reporting Date	IPSAS 14
18	Financial Instruments	SNC (simplified)
19	Employee Benefits	IAS 19 (new)
20	Related Party Disclosures	IPSAS 20
21	Separate Financial Statements	IPSAS 34
22	Consolidated Financial Statements	IPSAS 35

NCP	Name	Source
23	Investments in Associates and Joint Ventures	IPSAS 36
24	Joint Arrangements	IPSAS 37
25	Segment Reporting	IPSAS 18

NCP	Name	Source
26	Budgetary Accounting and Reporting	-

NCP	Name	Source
27	Management Accounting	RPG 3, Local

The requirements for first time adoption are set on the decree-law that approves the public sector accounting framework and on the implementation manual (IPSAS 33 was considered)

The search of requirements for transactions, other events and activities is as follows:

First order source	SNC-AP
Second order source	IPSAS
Third order source	Private Sector Standards
Fourth order source	IFRS endorsed by European Union
Fifth order source	IFRS issued by the IASB

Examples:

- Public Sector Combinations (IPSAS 40)
- Income Taxes (NCRF 25)
- Interim Financial Reporting (IAS 34)

State Accounting Entity

Cash to accrual

First balance sheet (transitional IPSAS financial statements)
Requirements of IPSAS 33 and Eurostat First Time Implementation Guidance

Other Reporting Entities

Accrual to accrual

Adjustments to previous balance sheet SNC-AP compliant financial position as of 1 January 2018 (local government as of 1 January 2019)

Other Reporting Entities

Reconciliation Table

		Adjustments for compliance with SNC-AP financial accounting standards						
Heading	**Previous standards (31.12.2017)**	**Recognition**	**Derecognition**	**Measurement Basis**	**Impairments/reversals**	**Errors**	**Reclassifications**	**SNC-AP carrying amounts (01.01.2018)**
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]=∑[2]:[8]

Fixed assets

Investment property

Intangible assets

Loans payable

(…)

Source: Implementation Manual (CNC, 2017, pp. 38-39)

- Characteristics (based on IPSAS 17 and 31)
- If recognition criteria as an asset are met, recognition is mandatory
- For recognized heritage, the entity shall disclose
  - Measurement basis
  - Depreciation method, if any
  - Gross carrying amount
  - Accumulated depreciation, if any
  - A reconciliation of the carrying amount at the beginning and end of the period
- Inventory

Consultation Paper
April 2017
Comments due: September 30, 2017

IPSAS

Financial Reporting for
Heritage in the Public Sector

IPSASB International Public Sector Accounting Standards Board

- Management Report

- Tables for Notes (Implementation Manual, 2017, pp. 293-331)

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Major accounting and reporting implementation projects

A chart of accounts is a systematic coding system for the classification and coding of transactions and events within the accounting, budgeting and management systems.

The chart of accounts should include codes for the budgetary process, along with budget classifications (these may include economic, functional, administrative, programme and regional classifications), for financial reporting (assets, liabilities, net worth, revenues and expenses) and for management reporting (cost centres, types of costs, projects and outputs)

A well-planned chart of accounts can assist in the efficient generation of budgetary, financial, fiscal and management information for a variety of purposes.

Multidimensional Chart of Accounts

Budgetary accounting	Class 0 + Budget classifications Approved budget Budget modifications Budget execution	Budgetary reporting
Financial accounting	Classes 1 to 8 Assets Liabilities Net worth Revenues Expenses	Financial reporting
Management accounting	Class 9 Direct and indirect costs Costing activities Costing products and services	Management reporting

Chart of Accounts Codes	ESA 2010 Codes
434 - Machinery and equipment	AN 113 – Machinery and equipment
251 – Loans	AF 4 – Loans
604 – Capital transfers granted	D.9p – Capital transfers, payable
701 – Direct taxes	D 51 – Taxes on income
(…)	(…)

The multidimensional chart of accounts as a correspondence between the two codes

We need to define the reporting statements for national accounts purposes (Cavanagh et al., 2016)

- Balance sheet
- Statement of government operations
- Statement of other economic flows

Chart of Accounts - Decree-Law		
1 - Responsibility: Standard Setter		
Code	**Description**	**Type**
27.8.9	Others	M

Central Chart of Accounts - Ministry of Finance		
2 - Responsibility: Reform Unit (UniLEO)		
Code	**Description**	**Type**
27.8.9	Others	A
27.8.9.1	Others Debtors	A
27.8.9.1.1	State Accounting Entity	M
27.8.9.1.9	Others	M

Central Chart of Accounts - Local Goverment		
3 - Responsibility: Local Government General Directorate		
Code	**Description**	**Type**
27.8.9	Others	A
27.8.9.1	Other Debtors	A
27.8.9.1.1	Other Debtors- SAE	M
27.8.9.1.9	Others	A
27.8.9.1.9.1	Estado	M
27.8.9.1.9.2	Serviços e Fundos Autónomos	A
27.8.9.1.9.2.1	FAM - Fundo de Apoio Municipal	M
27.8.9.1.9.2.9	Outros	M
27.8.9.1.9.3	Administração Autárquica	A
27.8.9.1.9.3.1	Associações de Municípios	M
27.8.9.1.9.3.2	Municípios	M
27.8.9.1.9.3.3	Serviços Municipalizados	M
27.8.9.1.9.3.4	Associações de Freguesias	M
27.8.9.1.9.3.5	Freguesias	M
27.8.9.1.9.3.6	Empresas Municipais e Intermunicipais	M
27.8.9.1.9.4	Administração Regional	A
27.8.9.1.9.4.1	RAA	M
27.8.9.1.9.4.2	RAM	M
27.8.9.1.9.5	Segurança Social	M
27.8.9.1.9.9	Outras entidades	M

The issue

- Each entity produces financial statements for their own activities
- A number of key entities, primarily within the Ministry of Finance, are treated as agents of the State, so the activities that they undertake on behalf of the State are not included in any financial statements, despite there is information on these kind of activities
- Transactions and balances related to government bank accounts, government debt, tax revenues, public-private partnership assets and liabilities, concessions, buildings and investments are not recorded in, or reported from, the government's official accounting records (on a double entry and accrual system)

The issue

- The relevant information for these transactions is maintained by public entities that act as an agent of the state
- If all of the public entities financial statements were consolidated, it would only provide a partial picture of the financial position and performance of the public sector

This issue is being addressed by the creation of a SAE under the new Budget Framework Law, whose role will be to complete the accounting scope of the public sector financial statements (filling the gaps)

Alignment of accounting policies for the consolidated financial statements with the requirements of ESA 2010

Consolidated Financial Statements and National Accounts

Workstream 1 → Normative instruments and functional and technical requirements for consolidation package

Activities	Outputs
1.1. Functional and technical requirements for consolidation package	1. Government Finance Statistics (Nacional Accounts) Reporting Model 2. Functional and technical requirements for consolidation package
1.2. Normative instruments	Internal control Manual for consolidation processes

Workstream 2 → Building capacity and information system (IS) implementation

Activities	Outputs
2.1. Training on public sector group accounting (IPSAS 34, 35, 36, 37, 38 and 40)	Training sessions and manuals
2.2. Training on the similarities and differences between financial accounting (IPSAS based) and national accounts	Training sessions and manuals
2.3. Developing the IS solution	IS solution

Workstream 3 → Pilot implementation

Activities	Outputs
3.1. Dry run (pilot) consolidated financial statements	Consolidated financial statements
3.2. Dry run (pilot) national accounting reports adjusted from consolidated financial statements	National accounting statements (pilot)

Workstream	Q1	Q2	Q3	Q4	Q5	Q6
1. Normative instruments and functional and technical requirements for consolidation package						
2. Building capacity and information system (IS) implementation						
3. Pilot implementation						

Analysis of fiscal policy

Transparency of fiscal policy

Alignment between budgets, financial statements and statistical reports

Prospective (forecasted) consolidated financial statements

Proposal

At EU level prospective consolidated financial statements should be included in budget documentation and in medium term budget frameworks (stability programmes)

Net worth

Debt measured in accordance with international standards

Consolidated net debt

Consolidated EBITDA

Liquidity

We want to see “The Whole Elephant” (Irwin, 2015)*

Proposal → Introduction of accounting based fiscal indicators (forward looking and backward looking) on fiscal surveillance at national and EU level

* Irwin, T. (2015) “The Whole Elephant: A Proposal for Integrating Cash, Accrual, and Sustainability-Gap Accounts” *IMF Working Paper*, WP/15/261

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Critical Success Factors

- Knowledge share and dissemination
- Identify areas of the accounting framework that need to be adjusted/clarified
- Identify training needs

350
300
250
200
150
100
50
0
312
293
13
6
Qestions Submitted
Questions answered
Pending questions
Cancelled questions

Structure

Chapter 1	Glossary
Chapter 2	Transition Procedures
Chapter 3	Simplified Regime
Chapter 4	Accounting Standards
Chapter 5	Guidance for Notes

Sistema de Normalização Contabilística para as Administrações Públicas (SNC-AP)

MANUAL DE IMPLEMENTAÇÃO

Versão 2

Junho 2017

CNC Comissão de Normalização Contabilística

Monitoring Committee

- All relevant stakeholders (central administration, local government, accounting and auditing profession, Court of Accounts, software houses, standard setter, Bank of Portugal, National Statistics Institute, General Inspection)
- Monthly meetings (four meetings up today)
- Monitoring the transition and implementation process

"Evolutionary Survey"

- Performing accounting functions for specified types of transactions and balances, including maintenance of the general ledger in the government accounting system for
  - Tax, transfers and other non-exchange revenue
  - Government bank accounts and deposit accounts, including those managed by cash and debt management agency
  - Debt (including treasury bills and bonds)
  - Investments (including shares in SOEs)
  - Public private partnerships and concessions
  - Financial instruments, including derivatives
  - Any other transactions and balances (e.g. heritage)

Design of accounting systems

- Specification of conceptual design of the overall accounting systems and processes
- Specification of system configuration requirements to meet accounting and reporting needs
- Specification of information requirements for interfaces between other financial systems and government accounting system
- Overseeing the implementation of the accounting system

- Development of accounting rules, policies and manuals in accordance with accounting standards and legislation
  - Participation in the public sector accounting standards setter and in development of accounting standards
  - Participate in international meetings and organizations associated with public sector accounting and reporting
  - Ensuring that approved accounting standards are implemented across the public sector
  - Development of accounting policies and manuals, including for consolidation purposes
  - Development and control of the central chart of accounts

Production of consolidated financial statements

- Management of the consolidation processes and system
- Preparation of annual and other in-year consolidated financial statements, including notes
- Providing responses to the Court of Auditors' queries on the the consolidated financial statements
- Prepare information for surveillance and management functions
- Provide accrual based information to the statistical authority, fiscal council and other stakeholders

Management of the accounting reform

- Providing project management team leadership for the reform
- Development and implementation of a training and communication strategy for government accounting
- Providing support to the steering committee, comprising members of government accounting stakeholders

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Conclusions

- Accounting and reporting is a fundamental pillar of the PFM reform (basics first)
- EU enhanced fiscal surveillance needs harmonized accounting standards (EPSAS/IPSAS)
- Strengthening of the accounting functions in Ministry of Finance and Line Ministries
- Change management
- Do not loose too much time on detailed planning. Start doing and adapt to circumstances without loosing the strategic focus and objectives (Scrum methodologies)

Thank you!

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