Unidade de Implementação
da Lei de Enquadramento Orçamental

State Accounting Entity Project

TAIEX Study Visit on Design of the accrual IPSAS/EPSAS based accounting reform in the Italian public administration

Lisbon, January 17-19, 2018

Portuguese Ministry of Finance / Italian Ministry of Economy and Finance

Two Pillars

1 - **Budget Framework Law** approved by Law No.151/2015, September 11

2 - **Accounting standards** (**SNC-AP**) approved by Decree Law No.192/2015, September 11

Three Key Elements

1. Applying the new **accounting standards** (SNC-AP)
2. Filling the gaps in the accounts through the new **State Accounting Entity** (SAE), such as debt, cash, fixed assets and tax revenues
3. Broadening the accounting coverage to **encompass all public entities**, and **consolidating** them into a central government financial statement

Public Administration Structure

BFL - Article 3 - Budgetary and accounting scope

- The **Central Administration's budget** <u>includes</u> the services and public entities (including reclassified entities) budgets as well as the **SAE budget**

- SAE supports a set of **transactions and other accounting events** of the responsibility of the **Portuguese State as a sovereign entity**, which contains, namely, tax revenues, public debt, fixed assets, …

- The management of ECE it's a **responsibility of the Minister of Finance**

ASSEMBLEIA DA REPÚBLICA

Lei n.º 151/2015

de 11 de setembro

Lei de Enquadramento Orçamental

BFL - Article 49 – SAE Budget

SAE Budget

Revenues

- General State revenues resulting from taxes, fees, fines and penalties
- Incomes from marketable securities and real estate, resulting from their ownership and sale
- State indebtedness
- Funds received from European Union

Expenses

- The financial investments of the State
- State debt interests
- State financing to the State business sector
- Transfers resulting from legal requirements and external commitments (including those to other subsectors of general government)
- Other specific budget appropriations

BFL - Article 49 – SAE Budget

- DGO is responsible for preparing the SAE budget, but other public entities have a collaboration duty

- The SAE presents a budgetary performance statement prepared according to the cash basis accounting and it shows expenses and revenues and the overall balance

- Revenue managing entities are responsible for ensuring the settlement and collection of those revenues

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BFL - Article 65 – SAE as a reporting entity

- Has a **budget** that will be executed
- Recognizes **transactions** and other events according to SNC-AP

Budgetary accounting and reporting | **Financial** accounting and Reporting

What?

The documents of accountability include:

- the management report;
- The budgetary and financial statements;
- Other documents required by law.

To Whom?

- Member of the Government responsible for the area of finance.
- Member of the Government from the line ministries.
- Court of Accounts.

When?

- Until March 31 of the following year (the accounting documents regarding the previous year).

Public Sector Structure

Several levels of consolidation can be defined (such as program, ministry, subsector).

At each level it is possible to prepare separated and consolidated budgetary and financial statements.

The call

Following an invitation issued by Eurostat aiming the modernization of public accounting systems in accordance with the principle of specialization, and the presentation of the first Balance (Opening Balance Sheet), it was submitted a project proposal that is an opportunity to:

- **Enhance accrual basis of accounting**
- **Fill accounting gaps (create the State Accounting Entity and prepare its Opening Balance Sheet)**
- **Establish the foundations for the preparation of consolidated financial statements**

Establish the foundations for the preparation of consolidated financial statements

The context

International Public Sector Accouting Standards (IPSAS) Structural needs and change in processes.	• Paradigm change in the public sector accounting • Adoption of international standards (IPSAS) • Identification of structural information needs and of the change of the Public Administration processes.
Accountability	• The focus moves away from the accounting register control • The focus shall be on transparency, financial sustainability and "accountability"
Needs of information provided by financial statements The differentiation of its stakeholders	• The scope of the "*accounting*" concept is wider than simple records of transactions • It is used as a source of information to satisfy new needs such as the support of the control management, the decision making, and the consolidation and transparency of public accounts. • Different stakeholders with different needs (budgetary and financial statements for different purpouses)

The issue

- Each entity produces financial statements for their own activities.

- A number of key entities, mainly within the Ministry of Finance, are agents of the State, so the activities that they undertake on behalf of the State are not included in any financial statements.

- Transactions and balances related to government bank accounts, government debt, tax revenues, public-private partnership assets and liabilities, concessions, buildings, 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 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 State Accounting Entity (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)

Agents of State

The objetives

- Promote and assist the SAE implementation
- Give accounting expression to a material and wide range of assets, liabilities, revenues and expenses of the State, as a sovereign entity
- Provide indicators for fiscal management purposes (net debt; consolidated debt; net worth; operating results; EBITDA; taxes receivables; non-financial assets) extracted from CARS
- Provide information to support cash management and accounting reconciliation of sovereign revenue (efficiency gains in terms of cash management)
- Become a source for government finance statistics (ESA 2010)

Project axis

The project started on October 2015

This new accounting and reporting entity will have legal status on 2019

Project axis

Axis	Outputs
Axis 1 – Conceptual model and normative instruments	1. Accounting scope of SAE 2. Accounting and reporting manual for the SAE 3. Functional and technical requirements for the IT System
Axis 2 – Information system implementation and training	1. Accounting processes 2. Development of interfaces with transactional systems 3. Training
Axis 3 – Pilot implementation	1. OBS 2. Transactions recorded on OBS

Tasks - SAE conceptual model

- This document aims to gather information on the institutional model of ECE, to delimit its accounting scope, namely the transactions to be considered for the sovereign Portuguese State (budgetary and financial accounting and reporting).
- It addresses the conceptual architecture of the Information System for the SAE.
- Defines the scope of information to be provided by the agents of the Portuguese State.

Tasks - SAE conceptual model

- Nonfinancial assets
  - Tangible fixed assets – Mainly heritage assets managed by DGTF
  - Investment properties – Mainly land and buildings held for valuing capital
  - Intangible assets – For example, the permission to use an image of a public figure in stamps or coins

- Public Private Partnerships and Concessions - Some assets of SAE may have to be recognized or reclassified according to the accounting standards for service concession arrangements: Grantor

Tasks - SAE conceptual model

- Financial assets
  - Cash deposits of the SAE are composed of accounts in the IGCP
  - Loans and guarantees granted to different borrowers and investment in SOEs

- Debt and financial instruments – IGCP manages different nature of financial instruments, such as, loans, Treasury bills, Treasury bonds, retail instruments, and financial derivatives

- Tax Assets and Liabilities – Taxes are managed by Tax Authority with the support of IGCP. The accounting of income taxes on an accrual basis, is possible if there is available information to reliably measure the asset when the taxable event occurs.

Tasks – Manuals for SAE

- Accounting and reporting manual for SAE
- Regulation for the measurement and recording of transactions and other events (including the responsibilities of the agents)
- Implementation strategy for the Opening Balance Sheet
- Consolidation manual for SAE

Tasks - Functional and technical requirements for the IT System

- The requirements have been defined concerning the operational needs (recording transactions and other events of the SAE), and also the information needs of its different stakeholders.

- The SAE accounting system shall contain at least three integrated modules:
  1. Accounting module (budgetary and financial), including budget and financial reporting;
  2. Assets management module;
  3. Treasury module;

Tasks - Functional and technical requirements for the IT System

- Primary functional requirements
  - Compliance with SNC-AP and LEO;
  - Carry out SAE's budgetary and financial accounting;
  - Provide timely, reliable and complete budgetary and financial information to support management and decision-making (true and fair view);
  - Allow the reconciliation of the reports (outputs) with the transactions and other events recorded in the accounting (inputs);
  - Allow the integration of data and accounting information from other transactional systems;

Tasks - Functional and technical requirements for the IT System

- Primary functional requirements
  - There are no duplication of processing for the same record, regardless of recognition or reporting needs.
  - Processes should be monitored by security, control and audit mechanisms;
  - Promote transparency of transactions and a quickly dissemination of information;
  - Supported by technology and a relational database model that allows the necessary flexibility to be rapidly adapted to legal changes or information needs;
  - Promote good practices in the segregation of functions and control the access according to the different users profiles.

SAE Accounting System

The interfaces

Inbound

- PLAFIO - Approved Budget Integration
- Operating and accounting systems of business - Integration of accounting information of State transactions
- Real Estate Management System - Integration of asset information (e.g. buildings, land, infrastructures);
- Central revenue collection system - Integration of information of settled and collected revenue

Outbound

- S3CP - Export of information to the Central accounting system
- SGT - Bank transfers, treatment of returns, and bank reconciliation
- Budgetary changes system - Export of information to the central system for managing budgetary changes
- Portal - Portal available for accredited users to interact with the SAE system (*webservices*)

Tasks - Training

- A training action was promoted with the aim of training the technicians of the Public Entities in their role as State Agent, in the application of the SNC-AP.
- The focus of this action was the application of the main SNC-AP standards to the scope of transactions and other events that should be recognized and measured in the SAE financial statements.
- 7 days – 49 hours
- More than 30 trainees were involved.

Tasks - Training

- Program
  - Tangible fixed assets and investment properties.
  - Service concession agreements: grantor.
  - Investments in subsidiaries and associated companies.
  - Income from non-exchange transactions.
  - Provisions, contingent liabilities and contingent assets.
  - Financial instruments.

The idea

- Effective **centralization** of all state funds in bank accounts in the IGCP;
- Classification of funds received by the State **by sources**;
- The use of **DCC** to register all revenue settlements and resources received in the State's accounts;
- **All resources received will be accounted by SAE**, regardless of sources, details and entities holding the resources.
- SAE will use **control accounts** to manage the availability of all bank accounts, encompassing all entities accounts.

SAE role

- The general revenues of the State have to be registered by SAE and maintained as availability of this entity;
- The own revenues of other entities have to be initially registered in each entity's revenue account, but as financial availability in the SAE. In this case, a liability is registered in the SAE and an asset is registered in the entity that owns the resources;
- The own resources will be transferred to the respective entities under MF decision, or may be an immediate availability for the entities, according to MF programming.
- The funds are transferred from the Treasury account to the IGCP account indicated by the entity and the corresponding accounting entry will eliminate the assets and liabilities in both entities.

Notes:

1. The electronic invoice system issues a central commitment number
2. The Accounting and Collection Document is issued by a central system
3. We need to discuss if the cash management solution should be a web based solution managed by the Minister of Finance that gives access to the relevant entities
4. The TSA balance is the same as the SAE accounting cash balance

Relation with the entities Agents of the Portuguese State

- <u>What depends on SAE:</u>
  - Definition of SAE accounting policies according to the SNC-AP (and other manuals referred above).
  - Implementation of the SAE support system
  - Definition of the inbound Interfaces
- <u>What depends on agents</u>:
  - Evaluation of the information available in the systems of each entity
  - Adaptation of their systems according to the accounting and technical requirements (SNC-AP and interfaces with SAE System)
  - Acceptance tests
  - Pilot implementation

Relation with CARS (S3CP)

- What depends on us:
  - Register the transactions and other events that concern the Portuguese State in the SAE accounting system
  - Adaptation of the SAE information system to the requirements of CARS (UnILEO Technical Standard No.1/2017)
  - Validation tests with CARS
  - Completion of the CARS project
- What can be achieved :
  - Consolidation of the central administration perimeter (CARS)
  - Individual and consolidated budgetary and financial reporting from CARS

Relation with DCC

- <u>What depends on SAE:</u>
  - Definition of SAE accounting policies according to the SNC-AP (and other manuals referred above).
  - Implementation of the SAE support system
  - Definition of the inbound Interfaces
- <u>What can be achieved</u> :
  - Accounting for all issues of revenues and receipts in the accounting system of the SAE (general revenues and own revenues of entities)
  - Support the Treasury Single Account management model

Critical success factors

- Political commitment
- Cooperation between the different stakeholders
- Technical assistance and training
- Phased implementation approach
- Pilot implementation approach
- Human and technological resources allocation
- …

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