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Accounting and financial reporting in Estonia

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Topics

- 1) Estonian public sector accounting reforms in 2003-2005 and 2009-2014
- 2) Legal and regulatory framework of the Estonian public sector accounting system
- 3) Unified chart of accounts in Estonian public sector financial reporting
- 4) Financial reporting of the State of Estonia



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Estonian public sector accounting reforms in 2003-2005 and 2009-2014



Public sector accounting in 2003

- Dated accounting principles used by public sector entities
- 430 state authorities (ministries and agencies), with independent financial and personnel accounting;
- 241 local governments, but ca 900 independent accounting entities
- 500 other public sector entities with independent accounting
- 30 different accounting software solutions and 1800 separate accounting databases;
- All accounting documents and reports presented on paper;
- Poor common reporting system, no consolidated reports;
- State treasury system in use (implemented in 2003) – state budget limits checked, state budget and actuals comparison report available on-line



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Public sector accounting reform starting from 01.01.2004, prepared in 2003

- Amendments to Accounting Law in 2003
- General public sector accounting and reporting principles prepared in 2003 and enforced from the beginning of 2004 (regulation of the Minister of Finance)
 - Unified chart of accounts
 - Form and due dates for financial reporting
 - Reporting database of Ministry of Finance
 - Accounting software of reporting entities for generating automatic reports
 - Guidelines, additional explanations, examples, help desk, delivery of training for new reporting (500 pages of materials)



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Public sector accounting reform 2004-2005

First phase in 2004

- business companies were not taken along
- revaluation of the non-financial fixed assets was postponed to the second phase

Second phase in 2005

- revaluation of the non-financial fixed assets was carried through until 31.12.2005
- business companies were also consolidated line by line
- Lots of questions-answers and training courses at first stage
- Improvement and addition of guidelines



Public sector accounting in 2009

- ✓ Common consolidated reporting system for all public sector entities from the year 2004 in use; consolidated reports available monthly and quarterly;
- ✓ State treasury system from the year 2003 in use; report of fulfilment of cash-based state budget available on-line, limits of the budget checked
- ✓ Audited annual reports in accordance with IPSAS presented from the year 2004
- 250 state authorities, 200 accounting entities (some centralised accounting entities); 600 accountants in ministries and state agencies
- 226 local governments most of all with centralised accounting
- 500 other public sector entities with independent accounting
- 14 different accounting software solutions and 1000 separate accounting databases
- majority of invoices presented in pdf files (or on paper)



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Government decision at end of 2009

Accounting services consolidation project

1. All state agencies should start using common financial and personnel accounting software SAP – plan for years 2010-2014 to implement SAP in ministries and agencies
2. One service point for financial and personnel accounting services in every area of government (17 accounting entities by the end of 2014)
3. Introduce e-invoices and other electronic documents, incl self-service environment
4. Introduce e-reports for management information
5. The Ministry of Finance is responsible for the project



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Objectives of accounting services consolidation project

- Quality of services
- Competent and motivated employees
- Optimal and standardised processes
- Cost effectiveness



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State Shared Service Centre starting from 2013

Grew out of Support Services Consolidation project

Services:

- Financial accounting
- Personnel accounting and payroll

Clients of financial and personnel accounting:

Ministry of Justice,

Ministry of Finance,

Ministry of Social Affairs

Ministry of Economics and Communication

- Development and administration of common accounting and payroll information system
- Public sector accounting and reporting principles and consolidated reports

120 employees



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IT-Solutions implemented by the State Shared Service Centre

1. Common accounting system SAP
2. E-invoicing system
3. Self-Service portal
4. Web-based reporting system





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Legal and regulatory framework of Estonian public sector accounting system



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Accounting Law

Amendments in Accounting Law in 2003

- Consistent with IFRS and IPSAS
- Accrual-based accounting

Gave authority for the Minister of Finance to establish accounting principles and terms of reporting to:

- state budgetary units
- local governments
- social security funds
- non-profit institutions controlled by government sector
- business companies controlled by government sector



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General Guidelines for Public Sector accounting and financial reporting

Confirmed by Minister of Finance in December 2003

Includes:

- General accounting principles for the public sector entities (if possible refers to Estonian Generally Accepted Accounting Guidelines, special public sector issues added)
- In accordance with IPSAS
- Except Government Business Enterprises in accordance with IFRS
- Uniform chart of accounts
- Reporting form and due dates
- 500 pages of instructions
- Available in the web-site of the Ministry of Finance and State Shared Service Centre (in Estonian)



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Important web-sites

The International Public Sector Accounting Standards Board (IPSASB) – IPSAS standards

<http://www.ifac.org/public-sector>

Estonian Accounting Standards Board - Estonian GAAP

<http://www.easb.ee/?lang=en>

State Shared Service Centre - Estonian Public Sector Accounting Principles

<http://www.rtk.ee/saldoandmike-kasutajad/avaliku-sektori-raamatupidamine>



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Financial reporting and consolidating system

Reports formed automatically in the accounting systems used by public sector entities

Inserted into the special IT-system of the Ministry of Finance via internet (accounting balances according to the uniform chart of accounts)

Address of the reporting database available to public:

<https://saldo.fin.ee/>

From 2004 to 2007 quarterly for all reporting entities

Since 2008:

- monthly: all units of General Government Sector
- quarterly: all other public sector entities, incl business enterprises



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Financial reporting and consolidating system

Covers all levels of the public sector (appr. 1100 accounting units in total at present)

- Central government institutions (200+ units)
- Local governments (200+ units)
- Other (social security funds; not-for-profit and other public sector organisations; 500+ units)

Reports of entities checked by State Shared Service Centre

Once a year compared with audited Annual financial statements

Consolidated reports formed automatically in the system



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Process and timeliness of the reporting

- All public sector entities have to input their financial reports into the consolidation system during **30 days** after the end of the month or quarter
- Whole of Government consolidated balance sheet and income statement available **37 days** after end of the month
- Annual Whole of Public Sector financial statements prepared by **31 May**
- Thereafter audited by the State Audit Office
- Presented to the Parliament by **30 August**



Annual reports

- Every ministry submits it's Annual Report to the Government, due date **31.May**
- Every local government submits it's Annual Report to Municipal Council, due date **31.May**
- Every other legally independent public sector entity submits it's report to the superior authority, due date **30. April**
- The Ministry of Finance submits the Annual Report of the State to the Government, the report of the National Audit Office is added, due date **31. August**
- The Government submits the Annual Report of the State to the Parliament, the report of the National Audit Office is added, the Parliament approves the report
- All reports should be **available for public in web-sites** of reporting entities



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Annual report of the Ministry

The annual report of the ministry include (starting from 2004):

- The statement about activities (incl fulfilling the development plans)
- Financial statements of the ministry (consolidated with agencies in the ministries governmental area, including
 - statement of financial position (balance sheet),
 - statement of financial performance (revenues and expenses report),
 - statement of cash-flows,
 - statement of movements in net-assets (equity),
 - statement of comparison of budget and actual amounts,
 - notes to the financial statements



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Annual report of the State

The annual report of the state include (starting from 2005):

- the statement about activities (incl fulfilling the development plans)
- financial statements of the state (consolidated)
- information about the financial statements of the local governments (consolidated)
- information about the financial statements of the whole government sector and the public sector (consolidated)
 - every set of financial statements include 4 main reports + disclosure notes
 - the financial statements of the state include the statement of comparison of budget and actual amounts



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Auditing

Audited by National Audit Office:

- Annual Financial Statements of the State (consolidated)
- Annual Financial Statements of Ministries (consolidated)

All other units are audited by private auditors according to the Accounting Law



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Ongoing projects and plans for the future

- Harmonising budgeting and accounting principles
- The methodology of accrual budgeting to complement cash-based budget limits has been worked out but implemented in few ministries and agencies yet, will be compulsory for the ministries and agencies starting using new SAP solution (2013-2014)
- The methodology of performance budgeting and accounting



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Unified Chart of Accounts in Estonian public sector financial reporting



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Chart of accounts

Chart of accounts includes:

- account codes
- trading partner codes
- activity/function codes
- source codes
- cash-flow codes

Reports consist of account combinations and their balances



Account codes

Unified Chart of Accounts used by all public sector entities

- **240** different accounts for assets
- **140** different accounts for liabilities
- **20** different accounts for net assets
- **340** different accounts for revenues
- **450** different accounts for expenses
- **80** different accounts for additional off-balance sheet information (contingent liabilities, number of employees etc)



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Trading Partner codes

Every public sector entity has its own Trading Partner code.

General codes for private sector trading partners and non-residents.

- **1100** trading partner codes for public sector entities
 - **Used for automatic consolidation** in the reporting system
- **50** trading partner codes for Estonian private sector entities
- **250** trading partner codes for non-residents



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Activity / function codes

- Classification of Functions of Government (COFOG) is used
- Developed by OECD, published by the United Nations Statistical Division
- Consists of 10 broad objectives of government
- Under them more detailed groups and classes of activities



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Source codes

- Used to specify some revenues and expenses related to these revenues
- For example grant types



Cash flow codes

- Used to distinguish between cash-related and non-cash related transactions
 - For example depreciation, amortisation, revaluation, write-down, write-off, transfers in kind
 - Codes are needed for preparing of cash-flow statements, statements of movements in fixed assets, statements of movements in borrowings etc



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Accounting entry

Account combination:

- account code – compulsory
- trading partner code – compulsory or not allowed
- code of function – compulsory (with expenses) or not allowed
- source code - compulsory or not allowed
- cash-flow code - compulsory or not allowed



Examples of accounting entries

Account	Trading partner	Function	Source	Cash-flow	Debit	Credit
155900	800599	01120		01	70 000	
201000	800599					12 600
450000	014301	01120	22		100 000	

Account	Trading partner	Function	Source	Cash-flow	Debit	Credit
350000	014001	05100	22			100 000
550000	800599	05100			25 000	
611000		05100			18 400	



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Financial reporting of the State of Estonia



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Whole of Government financial statements

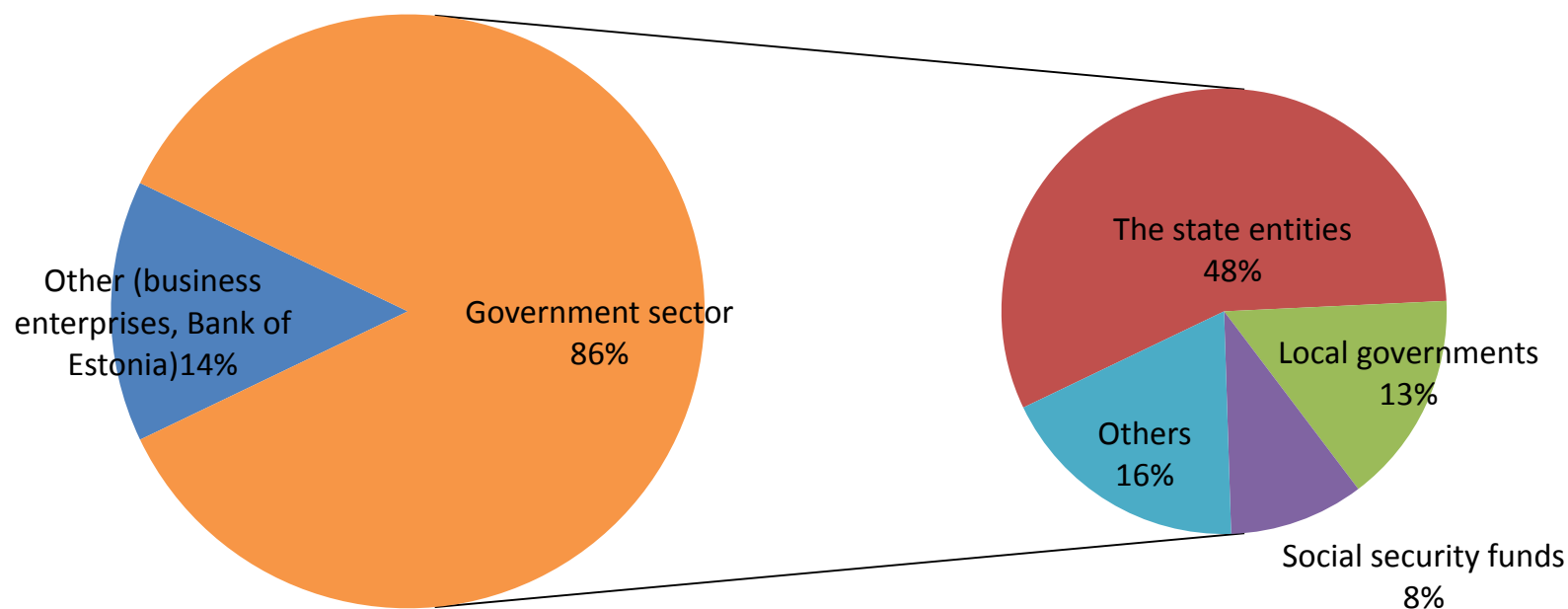
Covers all levels of the public sector (appr. 1100 accounting units in total)

- Central government consolidated financial statements (200+ units)
- Local governments consolidated financial statements (200+ units)
- Other (social security funds; not-for-profit and other public sector organisations; 500+ units)
- Accounting principles fully IPSAS-based
- Full sets of annual IPSAS-based consolidated financial statements (incl 4 primary statements and 200 pages of disclosure notes) prepared since 2004



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Whole of Government financial statements

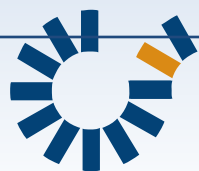




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Summarised consolidated balance sheet of Estonian public sector (EUR millions)

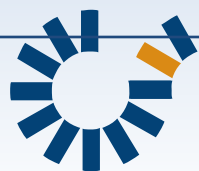
Assets	31.12.2011	31.12.2003
Cash	1 316	245
Investments in securities	1 197	721
Tax receivables	607	270
Other receivables	2 681	114
Inventories and other	306	87
Total current assets	6 107	1 437
Long-term receivables	238	110
Financial investments	570	6
Investment properties	247	91
Property, plant & equipment	10 670	1 937
Forest	761	-
Other non-current assets	208	1 696
Total non-current assets	12 694	3 840
TOTAL ASSETS	18 801	5 277



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Summarised consolidated balance sheet of Estonian public sector (EUR millions)

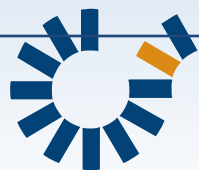
Liabilities	31.12.2011	31.12.2003
Refundable taxes	370	223
Borrowings	161	71
Accounts payable and other	3 834	237
Total current liabilities	4 365	531
Borrowings	1 917	408
Provisions	1 128	403
Other non-current liabilities	649	34
Total non-current liabilities	3 694	846
TOTAL LIABILITIES	8 059	1 377
Non-controlling interest	16	-
Reserves	862	464
Accumulated surplus	9 864	3 436
TOTAL NET ASSETS	10 742	3 900
TOTAL LIABILITIES AND NET ASSETS	18 801	5 277



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Summarised profit and loss account of Estonian public sector (EUR millions)

	2011	2004
Taxes and social contributions	5 006	2 944
Sales of goods and services	1 840	203
EU and other grants received	766	158
Other revenues	150	194
Total revenues	7 762	3 499
Social benefits and grants given	2 935	1 545
Staff costs	2 100	821
Administrative costs	1 560	565
Depreciation and amortisation	744	157
Other expenses	296	242
Total expenses	7 635	3 330
Operating result	127	169
Interest costs	(127)	(45)
Gains on investments	120	167
Net result for the year	120	291



Which number do you need?

1. Whole of Government financial statements prepared in accordance with IPSAS

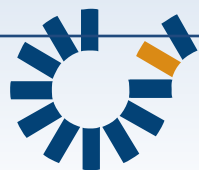
- Fully accrual based
- Used by OECD, financial institutions, rating agencies
- Hardly understood by politicians

2. Eurostat (ESA 95) based calculations

- Semi accrual based
- Used to assess Estonia against Maastricht criteria
- Monitored by politicians (to demonstrate that Estonia has strong financial discipline and is a good citizen of Europe)

3. State budget and actuals comparison report

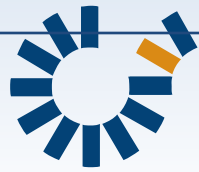
- Fully cash based
- Used by government institutions to manage cash flows



Do we have a surplus or deficit?

Estonian government sector – Profit/loss for 2011 (EUR mln)

Net deficit according to IPSAS-based WoG accounts	(84)
Depreciation, amortisation, impairment	504
Acquisition of PPE and other non-financial assets	(566)
Elimination of change in provisions	141
Timing difference in accounting for sale of CO2 quotas	149
Timing difference in recognising tax revenue	37
Other accounting differences	(15)
Net surplus measured in accordance with Eurostat	164
Surplus of government sector as a % of GDP	1.0%



Is it all worth the effort?

- Main benefits achieved so far
 - Increased transparency – better understanding of what the nation owns, what are its obligations and how well it manages its resources
 - Helps to make long-term fiscal decisions
 - Has contributed to better financial discipline in the whole public sector
 - Used as a basis for Eurostat calculations – enables to assess compliance with Maastricht criteria in a very short time frame
 - High reputation in the eyes of international organisations