

Budget Accounting and Financial Reporting in Montenegro

Marija Popović

Podgorica 10-12 November 2014



Basis for Budget Accounting and Financial Reporting

- Budget accounting in Montenegro is done on a modified cash basis, i.e. inflows and outflows are recorded on a cash basis, while assets and liabilities are recorded on an accrual basis.
- Planning and execution of the budget is done in line with GFS classification, while budget accounting in Montenegro is done on the basis of functional, organisational, economic and programme classification. The classification is used for planning and implementation of budget of Montenegro, budgets of state insurance funds and budgets of local government units.



Budget Classifications

- **Economic classification of accounts is maintained on the following levels:**
 - – Class.....0
 - – Category.....00
 - – Group000
 - – Synthetic Account0000
 - – Analytic Account00000
 - – Sub analytic Account000000
- Inflows, outflows, assets and liabilities are recorded on the level of 9 classes:
 - Class 0 – Non financial assets,
 - Class 1 – Financial assets,



Budget Classifications

- Class 2 – Liabilities;
 - Class 3 – Capital;
 - Class 4 – Outflows;
 - Class 5 – Corrective account;
 - Class 7 – Inflows;
 - Class 9 – Corrective account.
-
- Budget plans are presented by the class, category, group and synthetic account, while budget execution is presented all through to the level of analytical and sub analytical accounts.
 - **Functional classification** comprises the following classes:
 - 01 – General public services;



Budget Classifications

- 02 – Defence;
- 03 – Public order and safety;
- 04 – Economic affairs;
- 05 – Environmental protection;
- 06 – Housing and community amenities;
- 07 – Health;
- 08 – Recreation, culture and religion;
- 09 – Education;
- 10 – Social protection.



Financial Reporting

- **Financial reporting by budget beneficiaries** – quarterly and annual, but the minister may request other interim reports from budget beneficiaries.
- Financial year ends on 31 December; budget beneficiaries may use the funds on their business accounts for outstanding international payments by end of January of the following year.
- **Forms for submission of financial reports:**
 - Cash flow statement – economic classification;
 - Cash flow statement – functional classification;
 - Statement on outstanding liabilities (arrears);



Financial Reporting

- Consolidated statement of a spending unit that has public institutions as a part of its structure;
- Statement on consolidated budget spending;
- Statement on the manner of use of funds after the expiration of fiscal year;
- Statement on the manner of use of current budget reserve funds (used for unforeseen and underfunded outflows);
- **Quarterly financial statements** – no later than 15th of the month following the end of the quarter;
- **Annual financial statements** – no later than end of February of the following year;
- **Annual budget financial statement (Final Account)** is submitted to the Government by the end of May, and to the Parliament by the end of September.



Annual Financial Statement of the Montenegro Budget (Final Account)

Annual Financial Statement of the Government Budget comprises:

- 1) opening and closing balance of the Consolidated Treasury Account;
- 2) overview of the deviation from the planned amounts;
- 3) statements on borrowing;
- 4) statement on outflows from budget reserves;
- 5) statement of guarantees issued during the fiscal year;
- 6) statement on capital projects;
- 7) statement on implementation of programme budget;
- 8) statement on sovereign debt and guarantees issued;
- 9) statement on tax and non – tax claims referred to in Article 12 of this law;
- 10) statement on inflows and outflows of the public institutions who are not included in the Consolidated Treasury Account;
- 11) statement of the state of outstanding liabilities that are not classified as loans.



Consolidated Treasury Account

- **All transactions are processed through the Consolidated Treasury Account.**
- Consolidated Treasury Account – all accounts in which Government funds are recorded.
- Since **2002** – State Treasury – all accounts of budget beneficiaries were closed and all payment transactions are processed through Consolidated account of the State Treasury opened with the Central bank- Government fiscal agent.
- Ministry of Finance is the only body authorised to open state bank accounts.
- **Budget beneficiaries cannot have accounts with business banks**, with the exception of public institutions that have a status of legal entities and accounts for international payments (transfer accounts).



Consolidated Treasury Account

- **Revenues from own activities** of public institutions are not included in the Consolidated Treasury Account, but are subject to reporting by the Ministries that have public institutions as subordinate units.
- In addition to the Consolidated Treasury Account, the Central Bank also administers **accounts for payment for public revenues**.
- **Settling commitments to suppliers** is done on the basis of requests that the budget beneficiaries submit through the General Ledger of the State Treasury.
- **Payroll calculation** is centralised, and payments are also made on the basis of budget beneficiaries requests.



Treasury General Ledger

- Managing the accounting system and Treasury General Ledger comprises all transactions arising from the public spending system.
- **Treasury General Ledger** contains information on execution of the budget through recording of the following changes:
 - Records on the planned amounts;
 - Records of commitments;
 - Records of payment requests;
 - Records of amounts disbursed;
 - Records of liabilities occurring from approved spending based on planned amounts, commitments and requested spending.
- Treasury General Ledger is kept in a SAP IT system.

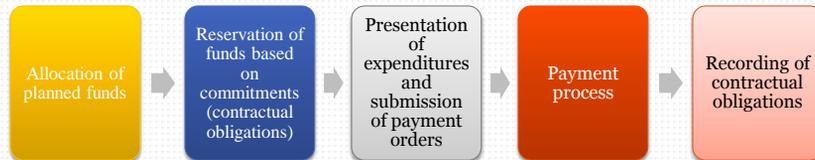


Execution of the Budget through Treasury General Ledger

- Uses revenue module for collection of revenues from institutions in charge of collection (Tax Administration, Customs Administration, Ministry of Interior).
- Funds collected into revenue accounts are transferred to the central account of the State Treasury on the following day after being identified by institutions responsible. Central account, in turn, transfers the funds belonging to the State into the Treasury Consolidated Account, while the revenues of local government and other subjects are transferred to their respective accounts.
- Before the budget execution begins, all budget beneficiaries must furnish the Ministry of Finance with their monthly spending plans. Budget beneficiaries use this document to plan the funds needed for functioning during the month. Funds are presented by economic classification.
- Payment of liabilities to suppliers is done on the basis of payment orders that budget beneficiaries send through the State Treasury General Ledger.



Treasury General Ledger



Reasons for Accounting Reform

- Existing accounting system, based on modified cash basis, only partially meets the information needs of external users, primarily international financial institutions.
- Practice has shown that the existing level of information is not sufficient for effective public sector management in modern environment, or for development of expenditure and managerial accounting, that constitute the basis of a quality information foundation for management of assets, liabilities and expenses.
- Cash accounting system does not take into account the accrued revenues and expenditures, nor can it be supported by existing information system developed for cash basis, i.e. reporting on cash flows.



Reasons for Accounting Reform

- There is no Law on Public Sector Accounting which would systematize all national accounting standards.
- There are no Balance Sheet Statement or Profit and Loss Statement for budget of Montenegro.
- Budget beneficiaries, state funds and local government units are obliged to keep records of assets and to furnish those forms to a body in charge of management of assets – Assets Directorate. However the State level does not have a Register of state assets which contains data for all agencies, as well as data about goods for general consumption and goods in general use.



First Steps Towards Accounting Reform

- In addition to recording receipts and outflows on cash basis, since 1st January 2014, Treasury General Ledger enables recording of all budget beneficiary invoices due, as a part of transition to accrual accounting.
- Currently underway is a public tender for procurement and implementation of Register of state assets.
- In order to fully capture all liabilities of budget beneficiaries, the Ministry of Finance is currently upgrading its SAP system by developing a module for recording of contracts.



Status of Accounting Capacities

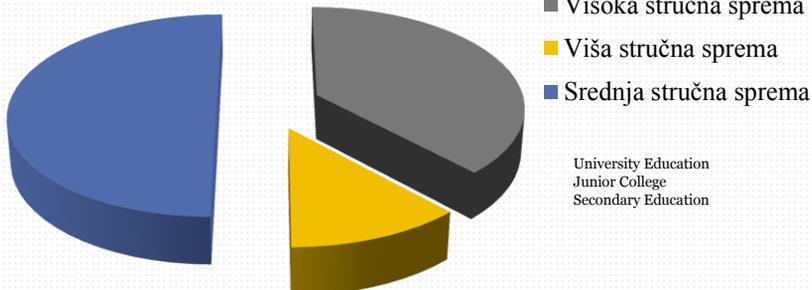
In late 2013 Ministry of Finance conducted a survey of the status of accounting capacities in budget beneficiaries.

Survey Results:

- ❖ In **32%** of the Government bodies accountants are assigned to do other work in addition to accounting;
- ❖ Out of the total number of accountants **38%** has a university degree, **12%** a junior college one, and **50%** have a secondary school degree;
- ❖ **37%** of accountants have some sort of accounting certificate;
- ❖ **57%** of budget beneficiaries have passed legislation regulating accounting procedures in more detail;
- ❖ **20%** of state bodies do not have separate organisational structures for accounting and and internal audit.



Educational Background of Accountants in State Administration Bodies





Strategy for Transition of Public Sector to Accrual Accounting

- **Accounting reform requires:**
- Changes of existing chart of accounts for budget users;
- Changes in financial reporting requirements for budget beneficiaries, on both the central and local level (different models, forms and content of financial reports that are fit for accrual accounting);
- Education and building capacities of the accounting staff for reform of accounting system, with the focus on practical issues;
- Ongoing monitoring and evaluation of the process of transition to the new system.



Prerequisites for Successful Accounting Reform

- Consent of the Government of Montenegro for transitioning to accrual accounting, so that it becomes a part of a broader public finance reform;
- Recognising that the adoption of accrual accounting is an integral part of the process of comprehensive reform of public finance;
- Professional and academic support to development of accounting standards, legal basis and executive support;
- Readiness of public sector employees to embrace the change (motivation, trainings and education);
- Coordination and consultations;
- Identify the costs of adoption for the entire period of implementation, as precisely as possible;
- Involvement of the responsible public sector bodies in dealing with specific accounting issues (identification and valuation of assets, registration of assets, financial reporting...);
- Information technology capabilities;
- International financial and consultancy support.



Required Improvements

- Legislation;
- Information system;
- State asset registry;
- Staff training.



Legislation

National accounting standards must define:

- Key accrual principles;
- General accounting policies;
- Structure and content of financial reports and reporting processes with deadlines for submission;
- Chart of Accounts;
- Detailed guidelines for accounting recording of transactions;
- Reporting subjects.



Legislation

Law on Public Sector Accounting should contain:

- General definitions (subjects covered by legislation, accrual basis and basics of reporting methodology);
- Assets (definition, criteria for identification of assets, manner of recording and valuation);
- Liabilities (definition, criteria for identification of liabilities, manner of recording and valuation);
- Revenues (definition, criteria for identification of revenues and manner of recording);
- Expenditures (definition, criteria for identification of expenditures, manner of recording);
- Equity/net assets (composition);
- Principles of consolidation.



Information System

- Customisation of information system started on 1st January 2014;
- Module for monitoring of commitments;
- Module for recording of public debt;
- Register of public assets/fixed assets ledger;
- Upgrading of the IT system of local governments;
- Centralised accounting system for all budget beneficiaries that will be able to generate data and process transactions for all budget beneficiaries, and to collect, consolidate and archive financial reports of the beneficiaries.



Register of State Assets

Steps in compilation of the Register:

- Documenting of all types of assets;
- Identification of exact opening balance for each category (identification, implementation of the definition of assets and measuring) and development of methods for collection of historical data on costs and methods for valuation in case there is no information on historical costs;
- Assessment of correctness and completeness of existing data;
- Identification of categories of assets to be used in Chart of Accounts and financial reports;
- Setting accounting policies for each of the categories in accordance with relevant IPSAS standards and ESA requirements, as follows:



Register of State Assets

Fixed assets ledger:

- Opening value (accounting value);
- Depreciation, if applicable (accumulated depreciation, depreciation for the period, depreciation periods must be set based on the needs of beneficiaries);
- Correction of value of fixed assets, if applicable (correction of value for the period);
- Valuation (revaluation reserves, losses, profits and other effects).



Staff Trainings

- The Chartered Institute for Public Finance and Accountancy from United Kingdom (CIPFA);
- First round of trainings for accountants in local government bodies and legal entities controlled by the Government (in line with IPSAS categorisation of Sectors) and first level spending units;
- Adequate training – understanding of necessity of transition to accrual accounting;

In addition to training of accountants, adequate trainings must be organised for the following groups:

- Internal auditors;
- Auditors from the State Audit Institution;
- Staff in Property Directorate;
- Staff in charge of public procurement;
- Operators in state administration bodies.



Phases in Implementation of Accounting Reform

First Phase:

- Coordination team for implementation of Strategy;
- Classification of institutional sectors;
- Inclusion of public institutions in Consolidated Treasury Account.

Second Phase:

- Improvement of existing records of assets and liabilities.

Third Phase:

- Recording of receivables and stocks, revenues (except for tax revenues), non-financial assets and expenditures.



Phases in Implementation of Accounting Reform

Fourth Phase:

- Analysis and updating of Chart of Accounts with new accounting requirements.

Fifth Phase:

- Analysis of methods for evaluation of assets.

Sixth Phase:

- Recording of all accounting transactions and financial impacts of events in line with principles of accrual accounting;
- For the first time, public sector entities will prepare general purpose reports and/or reports on their financial positions and financial performance on the requested level of detail.



Budget Accounting and Financial Reporting in Montenegro

Thank you for your attention!

marija.popovic@mif.gov.me