TCOP Chart of Accounts (CoA) Working Group Meeting

27 April 2013, Kiev, Ukraine

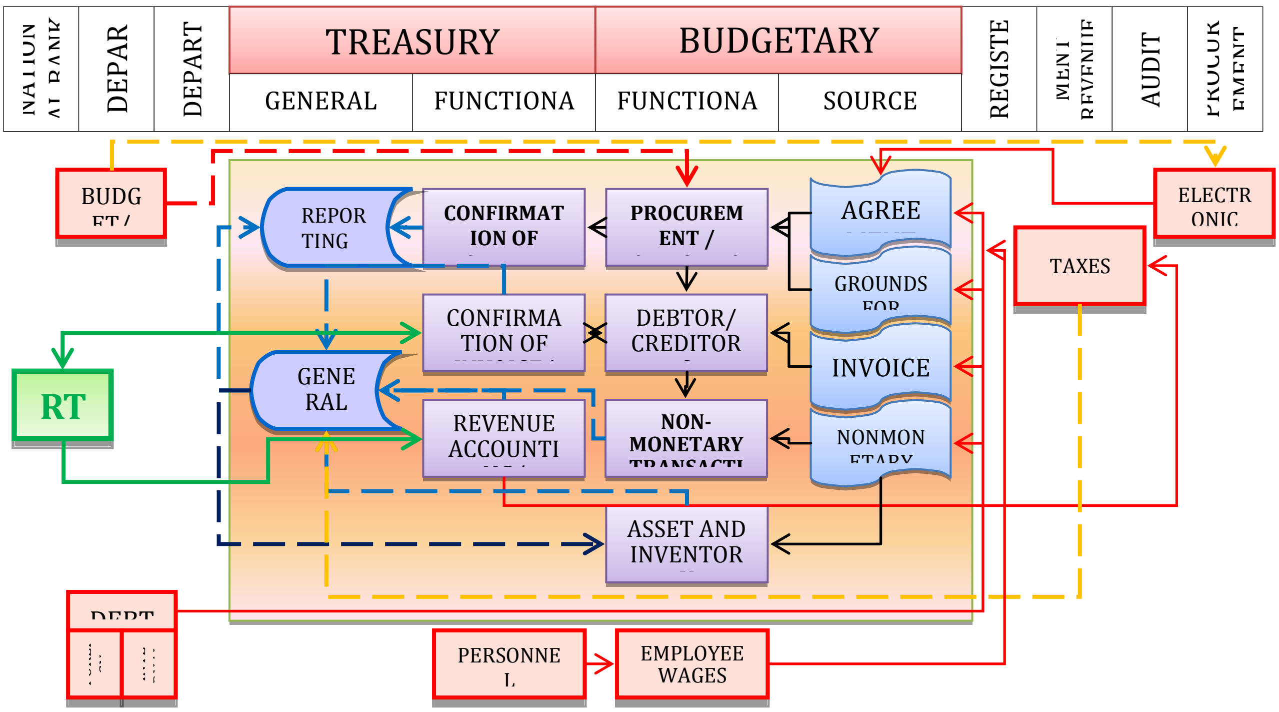
The meeting commenced at 9 am on Saturday and was chaired by Natalia Sushko, Ukraine. In attendance were participants from the three original countries from the working group, Ukraine (3), Azerbaijan (1) and Georgia (3). Moldova (2) and Russia (1) also participated, and a representative from Kazakhstan attended the first two hours of the meeting. The meeting was also attended by the World Bank resource team working with TCOP, including, Elena Nikulina, (TCOP lead facilitator), Ion Chicu (TCOP advisor) and Mark Silins (lead thematic resource expert for TCOP). The agenda for the meeting is at appendix A.

The primary purpose of the meeting was to continue discussions on CoA issues and, to this end, each participating country prepared a presentation on the structure of their CoA, emphasizing arrangements regarding the economic segment. Presentations focused primarily on the overall design of the CoA (schematic), and the approach each country has taken in relation to integration of the budget classification (BC) and CoA. A brief overview of each presentation follows.

Georgia. To date, Georgia has developed a fully-integrated approach to accounting for salaries. Specific codes in the salary system are automatically mapped to the Georgian BC for overall budget control and reporting, and also to a GFSM 2001-compliant accounting segment on an accrual basis. Transactions are automatically recorded against each segment allowing detailed reporting and analytical information to be produced. Reversals of the original transactions are also possible and this reverses all of the transaction for both the budget classification cash information and the accrual accounts. While this process is automatic, and the majority of transactions are posted at the time the payroll is executed, the system also has a facility for manual journals to be recorded where unusual transactions are required. When asked who posts the unusual transactions, indicating concern about control over these transactions, Georgia indicated that it was the relevant line ministry, rather than the Treasury, that was responsible. Mr Silins pointed out that as the great majority of transactions are automatically generated, it should be a relatively simple task for the Treasury to monitor and review any manual transactions for accuracy. This could be done as an ex-post review function.

A very impressive aspect of the Georgian presentation is the diagram which shows the conceptual design of the PFM framework. As the following figure from the presentation demonstrates, Georgia is seeking a fully integrated approach to PFM, and, as a result, the CoA design is also being developed in an integrated and comprehensive manner.

Figure 1 – Georgian PFM Framework



Azerbaijan. A very detailed presentation was prepared by the authorities providing an excellent guide as to how their CoA works and, particularly, how the BC and CoA are integrated. The segment code structure was broken down giving the group a clear understanding of how Azerbaijan meets its budget and financial reporting requirements. The code is also compatible with GFS, and while this has created some coding problems for them, the classification has been formally approved by a decree of the Cabinet of Ministers. The result is that the budget code cannot be easily changed, creating less flexibility from one year to the next than would be desirable in a budget code. Mr Silins stated how impressed he was by the structural design of the economic segment, indicating that it was a good model to promote. A case study paper, for example, would be useful for other TCOP members, but would also be useful for a wider audience as the basis for future design of an integrated CoA and BC.

The box below provides an example of the careful design used in the coding of the segment, where the authorities have the ability to report against budgeted cash flows while also impacting on the stocks of assets and liabilities.

Box 1 – Approach in Azerbaijan in relation to Assets and Liabilities

The difference between the proposed approach to account numbering and the GFS classification is that 3* transaction accounts are not highlighted. All transactions in non-financial assets, financial assets and liabilities are recorded directly in 6* accounts, i.e., these accounts record not only opening and closing balances, but all transactions. Accordingly, 4* and 5* accounts are not a part of stock accounts, but are profit and loss accounts that are closed at the end of the period on net worth accounts. Profit and loss from transactions for the period (3* accounts according to GFS) can be obtained by calculations as a sum of transactions in 6* accounts for the period and the result from other economic flows (4* and 5* accounts).

Moldova. While Moldova redeveloped its CoA back in 2006-8, the new structure is yet to be implemented due to delays in upgrading the government accounting system. This means that Moldova still has six separate CoAs and a separate budget classification. For the new structure, there will be a single integrated BC/CoA. Moldova also presented its overall CoA schematic, which has five hierarchal segments: organization, programmes, functions, source of funds and economic. This breakdown is an excellent example of how a country can present its overall CoA structure, and would be a useful diagram for inclusion in any CoA user manual. In addition, Moldova has a geographical register which it sees as being outside the CoA[1]. Moldova also indicated that there continue to be some issues in relation to integrations of the two Funds, as they had already adopted their own CoA and are reporting on a full accrual basis.

[1] Mr Silins indicated that as this is used for reporting it would be better to view it as part of the CoA. Geographic segments are a common structure in many countries CoA.

Table 1- Moldovan CoA Schematic

<table>
<tr><th>Segment</th><th>Current</th><th>Length</th><th>New</th><th>Length</th></tr>
<tr><td rowspan="3">Organizational</td><td>Main spending unit</td><td>3</td><td>Main spending unit</td><td>4</td></tr>
<tr><td>Agency</td><td>4</td><td>Agency</td><td>5</td></tr>
<tr><td>Type of agency</td><td>3</td><td>Type of agency</td><td>3</td></tr>
<tr><td rowspan="3">Functional</td><td>Main group</td><td>2</td><td>Main group</td><td>2</td></tr>
<tr><td rowspan="2">Group</td><td rowspan="2">2</td><td>Group</td><td>1</td></tr>
<tr><td>Subgroup</td><td>1</td></tr>
<tr><td rowspan="3">Programs</td><td>Program</td><td>3</td><td>Program</td><td>2</td></tr>
<tr><td rowspan="2">Subprogram</td><td rowspan="2">1</td><td>Subprogram</td><td>2</td></tr>
<tr><td>Activity</td><td>3</td></tr>
<tr><td rowspan="6">Economic</td><td rowspan="2">Paragraph/ subparagraph</td><td rowspan="2">3</td><td>Type</td><td>1</td></tr>
<tr><td>Category</td><td>1</td></tr>
<tr><td rowspan="4">Item/ subitem</td><td rowspan="4">2</td><td>Section</td><td>1</td></tr>
<tr><td>Item</td><td>1</td></tr>
<tr><td>Subitem</td><td>1</td></tr>
<tr><td>Element</td><td>1</td></tr>
<tr><td rowspan="7">Sources</td><td>Type of fund</td><td>1</td><td>Budget level</td><td>1</td></tr>
<tr><td rowspan="5">Funds register</td><td rowspan="5">3</td><td>Budget sublevel</td><td>1</td></tr>
<tr><td>Component</td><td>1</td></tr>
<tr><td>Subcomponent</td><td>2</td></tr>
<tr><td>Origin of the source</td><td>1</td></tr>
<tr><td>Category of special funds</td><td>1</td><td>Donor</td><td>3</td></tr>
<tr><td colspan="2">Total</td><td>28</td><td></td><td>38</td></tr>
</table>

Ukraine. Ukraine presented on its current BC and CoA. Like Moldova, Ukraine has a number of CoAs and a separate budget classification. The intention is to create a single integrated structure. The existing structure has a strong focus on providing information on each reporting entity's balance, and this is seen as a major requirement for the new integrated structure too.

Russia. Ms Sivets commenced her presentation by suggesting that the BC and CoA have two quite different analytical purposes, and, as such, she does not agree with the proposition that they should be a single integrated structure[2]. Furthermore, the budget is managed on a cash basis, while the CoA in Russia presents accrual information. Below is an extract from the presentation showing the general structure of the CoA. It very cleverly shows how information for both the budget and accrual accounting are created through a single transaction flow. Russia is very similar to Azerbaijan, in that it has highly engineered hierarchical structures which provide for a range of analytical reporting options. Russia is also currently embarking on further reforms in budgeting which will require more than just cash reporting. This will include a reliable presentation of the fiscal balance, including the financing sources for the entire budget, and will also be tracked using the existing classification system.

Table 2 – Russian Chart of Accounts Structure

ACCOUNT NUMBER according to the General Ledger								
Department	Functional	Target			Type of expenditures	Account NUMBER		Econom.
		program	Sub- program	area		synthetic	analyt.	kosgu
XXX	XX XX	XX	X	XXXX	XXX	XXX	XX	XXX

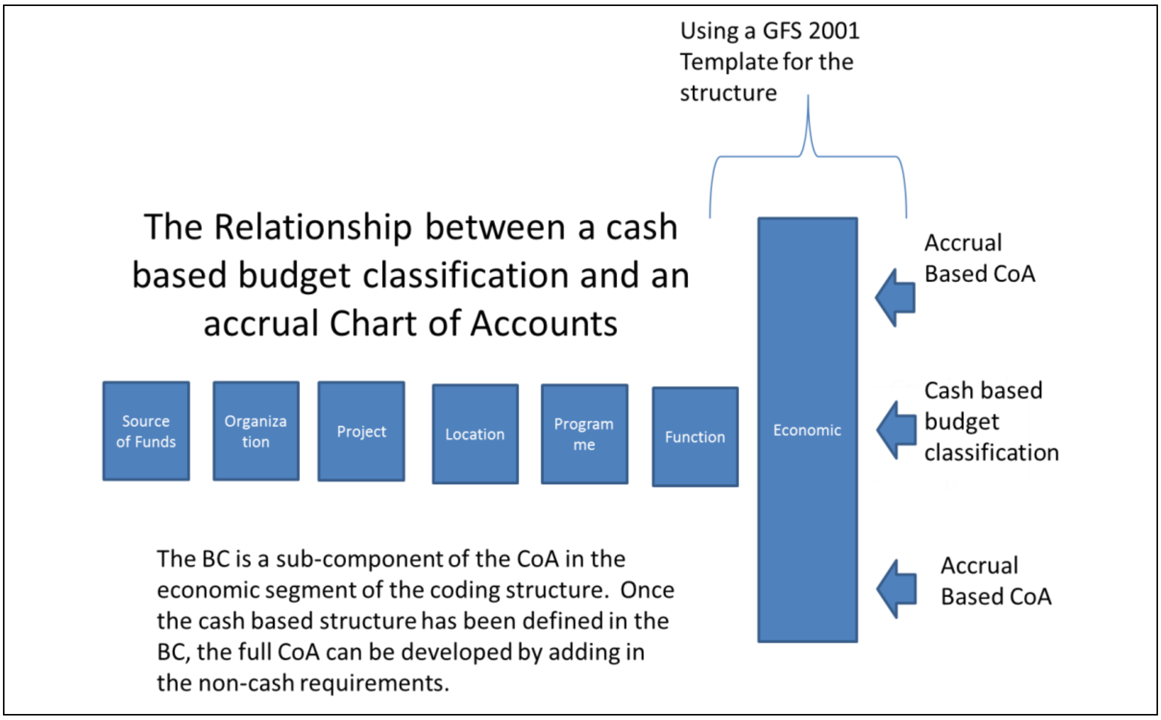
Summary of Key Points

In Mr Silins summary of the key points raised by the presentations, he firstly indicated how useful each was as a guide for other countries that might be considering integrating their BC/CoA, and for how to support cash reporting for budget control alongside accrual reporting. The main points raised were:

- Countries need to meet a range of different reporting requirements: **budget reporting** – for all countries includes (cash) appropriation control; **macrofiscal reporting** – the most important report being the fiscal balance report to see how a country is tracking against is deficit or surplus targets; **financial reporting** – for all countries this is at least modified accrual reporting, even where the cash based IPSAS are adopted, as every country also reports its debt (for some countries, this will be full accrual); and **statistical reporting** – reporting on the government sector consistently with the requirements for the national accounts;
- **The advent of modern accounting systems and relational databases now means we can capture financial information just once, but report for each of the above requirements.** In fact, if the CoA is well designed we can report for a wide range of stakeholder requirements beyond these four primary reports. This is the key to CoA design – ensuring that the full CoA meets all of the reporting requirements of government. This is what is meant by an integrated CoA structure and design, and should be the objective of any country;

[2] It was clear from the working group discussions that each country continues to retain its own definition of a BC and a COA, and in many cases this definition was narrower than the concept presented by Mr Silins, which is very broad and inclusive to maximise the coverage of the general ledger and accounting system for stakeholder reporting. A risk here is that certain reporting requirements in some countries will be excluded from the accounting system and general ledger, reducing the effectiveness and coverage of the automated accounting and reporting framework.

Figure 2 – Integration of the BC and CoA



- It is also important to recognize that while budget accounting may have a major focus on cash, and financial reporting may be primarily focused on modified or full accrual accounting, these should not be seen as separate or mutually exclusive requirements. Budgeting is becoming increasingly focused on accrual elements, and proper accounting also needs to have a strong focus on cash. For example, budget reporting must take account of debt and the financing of that debt; while liquidity management, being able to report and forecast the cash balance, is an important focus for a modern treasury. As active cash management [3] is emerging as a core function of a modern treasury, a well-designed PFM system and CoA should support integrated cash and accrual reporting;
- Mr Silins also applauded the fact that the economic segments of each country's CoA were largely structured according to GFSM 2001. Using GFSM as a template ensures that countries adhere to a standard accounting structure in this segment, creating a unique structure which is a representation of generally accepted accounting concepts.[4] He emphasised that the end goal here is to have a structure that meets the specific requirements of budget and other reporting, which includes some national requirements[5], rather than simply mirroring GFSM.
- He also reminded countries of a principle in good CoA design – each segment should focus on a single objective, i.e, it should be mutually exclusive. Thus, the economic segment should not include elements that define sources of financing, organisations, activities etc. These elements should be defined in other CoA segments. At present, both the Ukraine draft CoA and the Moldovan approved CoA include classes and account descriptions which are not purely economic, and may negate an optimal design.

[3] The IMF Paper *Government Cash Management: Its Interaction with Other Financial Policies* by Mike Williams is a good reference document for how countries can move from passive to active cash management. http://blog-pfm.imf.org/pfmblog/fad-technical-notes-and-manuals-on-public-financial-management.html.
[4] Revenues, expenses, assets, liabilities and equity
[5] GFSM 2001 provides a sound basic structure for the economic segment but most countries will not require every tax revenue code (GFSM provides for a large range of tax revenue even those which normally would be seen as alternative options for any one country), and in goods and services, GFSM has just one code 22 – most countries will expand on this to provide more detail for these expenses e.g. utilities, travel etc.

At the request of the Ukraine its new draft CoA structure was discussed. Natalia gave a brief overview of the structure and specifically requested feedback from the group on a number of issues.

- What are the accounting procedures for depreciation of fixed assets and intangible assets?
- Are accounting records for land and natural resources and their register maintained by a single public sector entity or different entities?
- What are the procedures for accounting for corporate rights and financial investments by the public sector entities?
- What is the international experience for accounting for non-financial (financial) assets by sources of funds?
- Is the financial result of the current financial year and the financial result of previous years recognized as separate items?
- It there a necessity to include in the public sector Chart of Accounts (CoA) individual groups of balance sheet accounts for revenues from exchange or non-exchange transactions and expenses on exchange or non-exchange transactions, given that IPSAS provide for such grouping of revenues and expenses?

She also indicated that the country presentations and ensuing discussion had already provided her with some insight into problems with their CoA. She recognized, for example, that the source of funds descriptions in the economic segment were an issue.

Discussion ensued with Ms Sivets providing the following comments/answers:

- Following problems in Russia with determining fair value of different types of assets they decided to use the replacement value for certain non-financial assets.
- Given the scale of the task of accounting for non-financial assets Russia has given priority to valuation of tradable land (land where an opportunity cost exists regarding its use which requires more urgent decisions).
- The persons who should account for different assets are those who, on behalf of the state, perform activities in relation to those objects, which is akin to the control concept which is required under IPSAS.
- In 2009 all public corporations in Russia commenced reporting according to IFRS.
- Under Section eight of the Ukrainian CoA, where goods are being produced for sale, this should be classified as an inventory (non-financial asset) and not as an expense.

Mr Silins also provided some brief comments and indicated he will respond in more detail to each issue in writing:

- Classes 3 and 4 in the new Ukrainian CoA may not be optimally designed and perhaps the focus of reports for these segments would be better supported using a separate segment;
- It is important for a country to be able to distinguish between exchange and non-exchange revenues. This is a requirement of IPSAS. The distinction is made clear if you use a structure that largely aligns with GFSM, e.g. tax revenues and grants are non-exchange revenues. IPSAS do not, however, require this distinction for expenses. If the general structure of GFSM for expenses is used, such a distinction would also be possible, as most non-exchange expenses are subsidies, grants and social benefits[6], sometimes collectively referred to as transfers by countries.

Ukraine indicated that it would provide Mr Silins with the full draft economic segment and requested he provide more specific feedback on it.

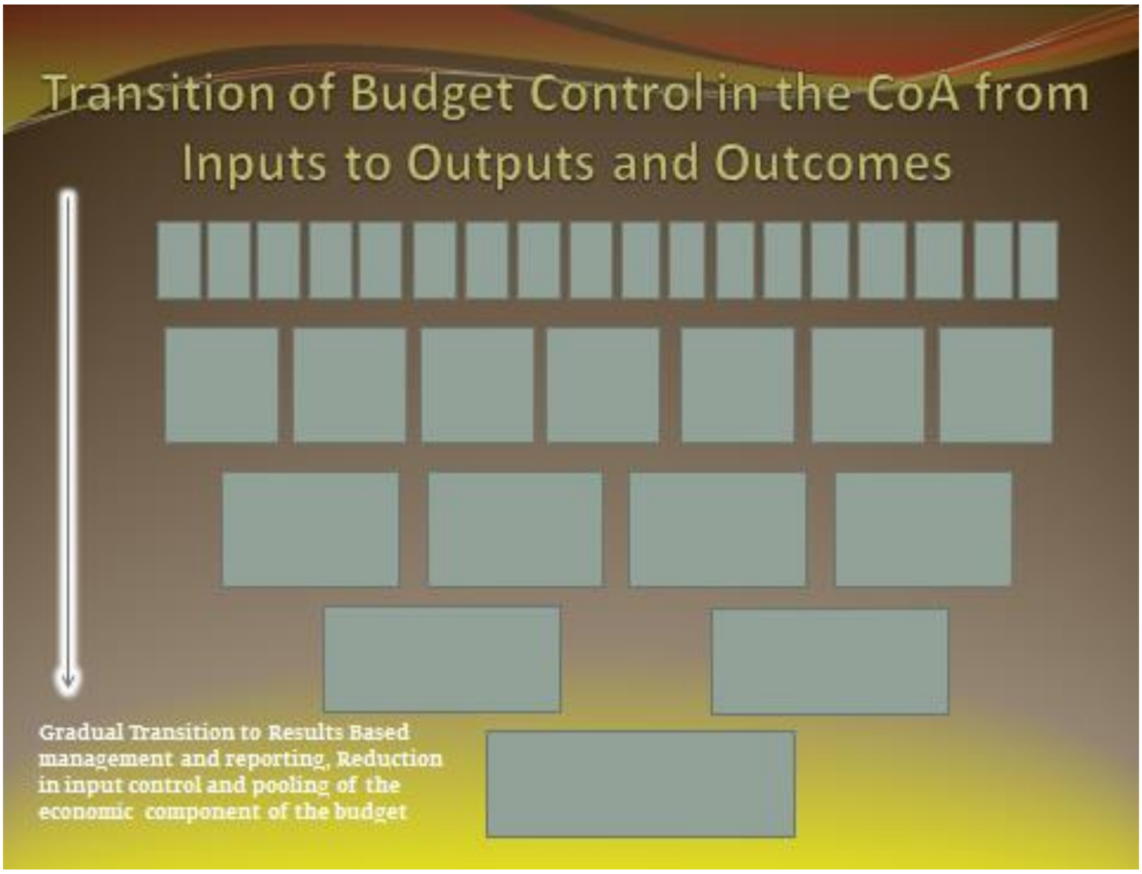
General discussions ensued about managing non-financial assets. Mr Silins provided some international examples which demonstrated the potential complexity of management and reporting in this area. He indicated

[6] Transfers to NGOs and scholarships provide two further examples, which in GFSM 2001 are classified under code 28 - Other Expenses.

that the management and reporting of non-financial assets was generally the last element for inclusion in a country's financial reporting in the move to full accrual accounting.[7]

Moldova also posed a specific question regarding how a country might present a budget without an economic classification. Mr Silins indicated that every country has some element of an economic presentation in the budget, even if this is highly aggregated, e.g. a split between recurrent and capital spending. Countries that have shifted to a results-oriented budget may also use a programme or results classification. He mentioned that in Australia programme budgeting was implemented over a period of time, which saw a gradual reduction in input controls (economic items used for budget control) in the budget over a number of years. This was an effective way to ensure that line ministries gradually assumed more authority and responsibility for input control.

Figure 3 – Incremental transition from an Input based budget to a Results focus



Due to time constraints, the working group proposed that the items relating to the responses by Mr Silins to supplementary questions would be dealt with individually by attendees with any further issues to be addressed remotely via email.

The final item of discussion was the next steps for the working group. It was agreed that:

- Ukraine will receive formal written feedback on their CoA by end May (once the full electronic version is received and translated);
- The group will be transformed into a new non-financial assets working group, where any broader issues relating to the CoA could still be addressed.
- Mr Silins will prepare a draft paper based on country examples from this working group meeting, as a practical guide to designing an integrated CoA and BC. The draft paper is to be reviewed by the group before it is released.
- Mr Silins will respond to further questions put forward by the Ukraine and other countries remotely.

The meeting closed at 1600 hrs.

[7] The expert presentations in Azerbaijan included guidance on the sequencing of accrual accounting in countries.