



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National accounts, prices and key indicators
Task Force EPSAS

EPSAS WG 17/12
Luxembourg, 30 October 2017

EPSAS Working Group
To be held in Luxembourg
on 21-22 November 2017, starting at 09:30

Item 6 of the Agenda

**EPSAS issue paper on the national approaches to harmonisation
of chart of accounts**

*Paper by PwC on behalf of Eurostat
- for discussion*



**Member States' approaches to
harmonising charts of accounts for
national purposes with a view to
financial reporting requirements
under the future European Public
Sector Accounting Standards
(EPSAS)**

September 2017

Table of Contents

Member States' approaches to harmonising charts of accounts for national purposes with a view to financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS).....	2
1. Objectives of the issue paper	6
2. Background.....	7
3. Description of accounting guidance available in international accounting frameworks and in statistical rules.....	9
3.1. International Public Sector Accounting Standards (IPSAS)	9
3.2. European Union Accounting Rules (EAR)	13
3.3. International Financial Reporting Standards (IFRS)	14
3.4. ESA 2010 sequence of accounts	15
3.5. Alignment of IPSAS and Government Finance Statistics Reporting Guidelines	18
3.6. Budgetary and financial accounting in governments.....	21
4. Description of the main types of chart of accounts in selected EU Member States (Belgium, Portugal, Estonia).....	23
4.1. Selection of countries	23
4.2. Methodology.....	23
4.3. Belgium.....	24
4.4. Portugal	27
4.5. Estonia.....	33
4.6. Comparison of the main features of chart of accounts in selected EU Member States (Belgium, Portugal and Estonia).....	37
5. Benefits of a harmonised chart of accounts.....	42
6. Difficulties/issues when implementing a harmonised chart of accounts	43
6.1. Structure of chart of accounts (CoA)	43
6.2. Multidimensional aspect	44
6.3. Small versus large entities	45
6.4. Consistent use of the chart of accounts across reporting entities	45

6.5.	System design features	46
6.6.	Implementation timeline.....	46
7.	PwC's recommendations on the way forward.....	48

Table of Figures

Figure 1: Harmonisation across entities	8
Figure 2: Diagram of the sequence of accounts	17
Figure 3: Illustration of the categories of accounts	18
Figure 4: Management of differences between IPSASs and Government Finance Statistics Reporting Guidelines	20
Figure 5: Budgetary accounting, financial accounting, management accounting - Belgium, Federal Public Service	26
Figure 6: Multidimensional chart of accounts - Portugal.....	30
Figure 7: Budgetary accounting chart of accounts	30
Figure 8: Financial accounting chart of accounts.....	31
Figure 9: Chart of accounts and fiscal reporting	31
Figure 10: Adaptability of the harmonised chart of accounts	32
Figure 11: Best practice attributes.....	44
Figure 12: Implementation of a new chart of accounts	47

1. Objectives of the issue paper

The aim of this issue paper is to explore the approaches taken, and the opportunities and challenges faced, concerning the harmonisation of charts of accounts with a view to financial reporting requirements for national purposes in at least three Member States (MSs). The paper addresses harmonisation of charts of accounts within individual Member States, not at the EU level.

Based on the request from Eurostat, the issue paper addresses the following questions:

- The approaches taken to harmonising the chart of accounts in three MSs which have (re)designed or are looking at the (re)design of their chart of accounts. What aims or purposes are served? What is the link to the accounting standards in place?
- What are the advantages and disadvantages of the different approaches?
- At what stage of the accounting reform were the harmonised charts of accounts developed? For which types of government entities has the harmonisation taken place? How "deep" is the harmonisation of the charts of accounts and what harmonised technical guidance is given?
- How do the national harmonised charts of accounts link to cash accounting and budgeting and how can they support consolidation? Also, how the harmonised charts of accounts have been serving other and different needs, including provision of information needed to generate accrual data with a view to preparing government financial statistics based on the ESA methodology?
- To what extent has the harmonisation of charts of accounts been accompanied with harmonised accounting rules and policies across different levels and entities of government?
- How were national harmonised charts of accounts implemented in practice?
- What are the lessons learnt in the MSs (i.e. in the view of the MSs concerned) regarding national harmonised charts of accounts?
- What conclusions would PwC draw with a view to informing future national public sector accounting reforms in EU MSs with regard to harmonising their own national charts of accounts?

Based on the results of the analysis a first approach for organising the future discussion on charts of accounts in the Member States with the EPSAS stakeholders is developed.

2. Background

The Report from the Commission to the Council and the European Parliament COM/2013/0114 final “Towards implementing harmonised public sector accounting standards in Member States” assessing the suitability of IPSAS for the EU Member States, outlines with regards to the adoption of European Public Sector Accounting Standards (EPSAS) that “the development of a new chart of accounts is a key step in the adoption of accruals accounting. A well-planned chart of accounts can assist in the efficient generation of financial information for a variety of purposes.”¹

As defined in the report from the Commission to the Council and the European Parliament, a chart of accounts is a systematic coding system for the classification and coding of transactions and events within the accounting system. It determines the organisation of ledgers used within the accounting system. The types of classifications provided for by a chart of accounts may include economic, functional, administrative, and regional classifications as well as more detailed classifications for cost centres, programmes, projects, outputs, and outcomes.²

The chart of accounts is not used solely in the preparation of external financial statements. It may also be used to support the preparation of internal management reports, the preparation of regulatory information, the tracking of expenditure against budgets and the preparation of fiscal reports for the European System of Accounts (ESA) 2010. In order to eliminate the unnecessary reclassification of financial data or duplicating the entry of data, it is helpful if the chart of accounts can support a range of governmental reporting requirements.

Once established, the chart of accounts becomes a fundamental component of the processing of financial information from simple tasks like paying bills to complex activities such as financial reporting. Because it is embedded in the processing activities of the entity, it becomes costly to change. It is therefore essential that the chart of accounts is carefully designed to allow for change and growth and to meet the various reporting needs of the entity.

In a well-designed system, the chart of accounts should incorporate the budget accounts specified in the budget classification. If a government elects to report on the accruals basis of accounting, but to report budget on a cash (or modified cash) basis, a combined chart of accounts will be more complicated as it will need to be able to generate both reports on both the accruals basis and cash basis of accounting.³

Where a number of individual entities are required to provide information to a central entity for the preparation of consolidated financial statements or for other reporting purposes, a harmonised or centrally devised uniform chart of accounts may bring many benefits and allow the accounting to be better linked with other financial management data. For example, a unified chart of accounts can prove helpful in enabling GFS data to be generated in a cost-efficient manner.⁴

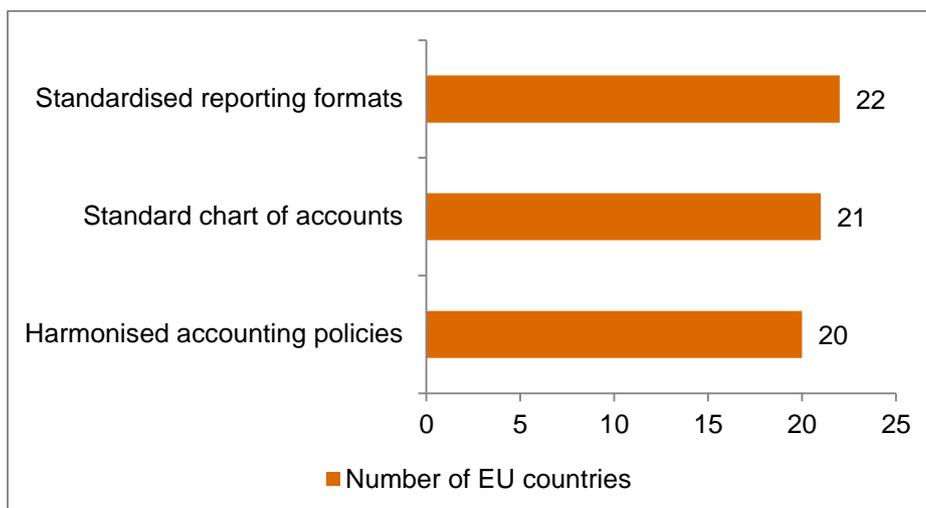
¹ See European Commission, Report from the Commission to the Council and the European Parliament, Towards implementing harmonised public sector accounting standards in Member States, The suitability of IPSAS for the Member States, COM(2013) 114 final, Brussels, 6 March 2013, p. 83-84.

² See European Commission, Report from the Commission to the Council and the European Parliament, [...], p. 83-84.

³ See European Commission, Report from the Commission to the Council and the European Parliament, [...], p. 83-84.

⁴ See PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, 2013/S 107-182395, 1 August 2014, p. 97-98.

Figure 1: Harmonisation across entities⁵



An efficient consolidation process that enables timely and reliable reporting by all entities in the consolidation scope needs to be put in place. The organisation of the consolidation process implies the setting up of standard chart of accounts, and procedures such as the elimination of intra-government transactions and balances. As shown in Figure 1: Harmonisation across entities, best practices such as the use of standardised reporting formats (22 Member States), a standard chart of accounts (21 Member States), as well as harmonised accounting policies (20 Member States) are already widely implemented.

A standard, common or harmonised chart of accounts is a single set of accounts to be used across central government for financial reporting, it is a multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of all available accounts⁶ (record-to-report process). Implementing a harmonised chart of accounts means greater consistency of reporting and easier communication of financial information between departments.⁷

There are a number of elements which can help maintain the continued efficiency and effectiveness of the record-to-report process. A well-designed chart of accounts enables clear accountability, improved transparency and comparability of results. Following the development of a new chart of accounts, it is necessary to assign responsibilities for the day-to-day management of the chart of accounts and prevent unauthorised changes. Supporting guidance and monitoring may also be required to ensure consistent use of accounts.

⁵ See PwC, Collection of information [...], p. 98.

⁶ See South Africa Government notice, Local Government: Municipal Finance Management Act, 2003: Municipal Regulations On Standard Chart Of Accounts, p. 9

⁷ <https://www.gov.uk/government/publications/common-chart-of-accounts>

3. Description of accounting guidance available in international accounting frameworks and in statistical rules

Accounts should be maintained in a way which is appropriate with respect to the nature and the scope of public sector activities and which takes into consideration the specific legal provisions applicable to them. Public sector entities must organise their accounting and reporting so that the reporting requirements applicable to them are complied with, both for the presentation of elements in the primary statements and the disclosures of certain items/information in the notes to the accounts. Within this framework, entities are authorised to freely design their own chart of accounts.

We summarise below the rules included in various accounting/reporting frameworks/rules which need to be taken into account when public sector entities reporting under these frameworks/rules design their chart of accounts:

- in international accounting standards applicable to the public sector (IPSAS) (see 3.1) and the private sector (IFRS) (see 3.3),
- in EAR (see 3.2); and
- in the statistical reporting rules applicable to European governments (ESA 2010) (see 3.4).

The alignment of IPSAS and Government Finance Statistics Reporting Guidelines is addressed in section 3.5. Since budgetary accounting is important for government entities, this dimension is also discussed (see 3.6).

3.1. International Public Sector Accounting Standards (IPSAS)

Currently, the existing IPSASs do not foresee a standard chart of accounts. IPSAS 1 'Presentation of financial statements' includes some minimal presentation requirements relating to the statement of financial position and statement of financial performance, however it does not impose how to meet these requirements via the use of specific accounts. This leaves the necessary freedom for governments to design a chart of accounts as well as reporting formats and templates, that meet local and management reporting requirements.

IPSAS 1 includes some additional general requirements relating to presentation and disclosures, while presentation and disclosure requirements in respect of specific topics are included in other standards dealing with these specific topics. For example, presentation and disclosure requirements that are specific to items of property, plant and equipment are included in IPSAS 17 'Property, plant and equipment', disclosure requirements that are specific to inventories are included in IPSAS 12 'Inventories', etc.

We successively address below IPSAS minimal requirements relating to the presentation of items in the statement of financial position, in the statement of financial performance, in the statement of changes in net assets/equity, in the cash flow statement as well as the disclosure of items in the notes to the accounts.

3.1.1. Statement of financial position

Paragraph 88 of IPSAS 1 lists the information which should be presented on the face of the statement of financial position. As a minimum, the face of the statement of financial position shall include line items that present the following amounts:

- a) Property, plant and equipment;
- b) Investment property;
- c) Intangible assets;
- d) Financial assets (excluding amounts shown under (e), (g), (h) and (i));
- e) Investments accounted for using the equity method;
- f) Inventories;
- g) Recoverables from non-exchange transactions (taxes and transfers);
- h) Receivables from exchange transactions;
- i) Cash and cash equivalents;
- j) Taxes and transfers payable;
- k) Payables under exchange transactions;
- l) Provisions;
- m) Financial liabilities (excluding amounts shown under (j), (k) and (l));
- n) Non-controlling interest, presented within net assets/equity; and
- o) Net assets/equity attributable to owners of the controlling entity.

IPSAS 1 does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Additional line items, headings and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position (IPSAS 1 paragraph 89).

Judgment on whether additional items are presented separately is based on an assessment of (IPSAS 1 paragraph 91):

- a) The nature and liquidity of assets;
- b) The function of assets within the entity; and
- c) The amounts, nature and timing of liabilities.

As per IPSAS 1 paragraph 93-94, an entity shall disclose, either on the face of the statement of financial position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. The detail provided in sub-classifications depends on the requirements of IPSASs and on the size, nature and function of the amounts involved (e.g. items of property, plant and equipment are disaggregated into classes).

3.1.2. Statement of financial performance

Paragraphs 102-103 of IPSAS 1 list the information which should be presented on the face of the statement of financial performance. As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:

- a) Revenue;
- b) Finance costs;
- c) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;
- d) Pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
- e) Surplus or deficit.

The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:

- a) Surplus or deficit attributable to non-controlling interest; and
- b) Surplus or deficit attributable to owners of the controlling entity.

Additional line items, headings and subtotals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance (IPSAS 1 paragraph 104). When items of revenue or expense are material, their nature and amount shall be disclosed separately (IPSAS 1 paragraph 106).

3.1.3. Statement of changes in net assets/equity

Paragraphs 118 of IPSAS 1 lists the information which should be presented on the face of the statement of changes in net assets/equity:

- a) Surplus or deficit for the period;
- b) Each item of revenue and expense for the period that, as required by other standards, is recognised directly in net assets/equity, and the total of these items;
- c) Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to non-controlling interest; and
- d) For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognised in accordance with IPSAS 3.

Moreover, paragraph 119 of IPSAS 1 requires to present, either on the face of the statement of changes in net assets/equity or in the notes:

- a) The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;
- b) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and
- c) To the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.

3.1.4. Cash flow statement

IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures. The objective of IPSAS 2 is to require the provision of information about the changes in cash and cash equivalents of an entity by means of a statement that classifies cash flows during the period from operating (primarily derived from the principal cash-generating activities of the entity), investing (purchase and sale of long-term investments and property, plant and equipment), and financing activities (issuance and repurchase of the bonds/stock, dividend payments, etc.).

The cash flow from operating activities can be prepared and reported in two different ways as per IPSAS:

- the direct method which presents the cash flows associated with the actual cash transactions (cash receipts and payments are presented gross),
- the indirect method shows a reconciliation from the reported net surplus/deficit for the period to the cash provided by operations, i.e. the surplus/deficit is adjusted for non-operating and non-cash transactions and for changes in work capital.

Separate disclosure of certain types of cash flows (interest, dividends and taxation) is required.

The direct method requires information regarding gross cash flows to be available in the system of the government entity. Under the indirect method, the cash flow statement includes both cash and non-cash elements and can be built based on movements in the statement of financial position and information included in the statement of financial performance.

3.1.5. Notes

IPSAS disclosure requirements related to the disclosure notes may also affect the set-up of a harmonised chart of accounts, as certain specific accounts may have to be created for fulfilling information needs. For example, paragraph 88 of IPSAS 1 requires to present 'Property, plant and equipment' as a minimum line item on the face of the statement of financial position. However, a more detailed breakdown per class of assets should be disclosed in the notes, which requires the establishment of specific accounts in the chart of accounts.

As an illustration, paragraph 88 of IPSAS 17 stipulates that the financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:

- a) The measurement bases used for determining the gross carrying amount;
- b) The depreciation methods used;
- c) The useful lives or the depreciation rates used;
- d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- e) A reconciliation of the carrying amount at the beginning and end of the period showing:
 - i. Additions;
 - ii. Disposals;
 - iii. Acquisitions through entity combinations;
 - iv. Increases or decreases resulting from revaluations and from impairment losses (if any) recognised or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;
 - v. Impairment losses recognised in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;
 - vi. Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;
 - vii. Depreciation;
 - viii. The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
 - ix. Other changes.

3.2. European Union Accounting Rules (EAR)

EAR 1 'Financial statements' provides a list of minimum components to be presented on the face of the primary statements (statement of financial position, statement of financial performance, etc.) and in the notes. These minimal requirements are based on IPSAS 1 'Presentation of Financial Statements' and IPSAS 2 'Cash Flow Statements'. EAR 2 'Consolidation and accounting for joint arrangements and associates' section 5 'consolidation procedures' states that all consolidation procedures require first of all a harmonisation of the financial statements of each consolidated entity. The financial statements of each controlled or associated entity/joint venture should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practical to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportion of the items in the consolidated financial statements to which the different accounting policies have been applied.

Article 152 of the Financial Regulation stipulates that all Institutions and bodies referred to in article 141⁸ should apply the same accounting rules and methods, adopted by the Commission's accounting officer. In addition, the Institutions and bodies referred to in article 141 have to apply the same harmonised chart of accounts.⁹ A common consolidation chart of accounts is used for the capturing of

⁸ Article 141 refers to bodies whose accounts are required to be consolidated.

⁹ See Financial Regulation applicable to the general budget of the Union and its rules of application, p.285-286

information in the reporting package for consolidation purposes. All accounts of the consolidation chart of accounts have 6 digits.¹⁰

As per article 153 of the Financial Regulation “*the general accounts shall record, in chronological order using the double-entry method, all events and operations which affect the economic and financial situation and the assets and liabilities of the institutions and of the bodies referred to in Article 141.*”

Article 154 of the Financial Regulation specifies that the balances and movements in the general accounts shall be entered in the accounting ledgers. Further details are provided in the Article 237 of the Rules of Application stating that each institution and each body referred to in article 141 of the Financial Regulation shall keep a journal, a general ledger and at least sub-ledgers for debtors, creditors and fixed assets, unless it is not justified by cost-benefit considerations. The accounting ledgers shall consist of electronic documents which are identified by the accounting officer and offer full guarantees for use as evidence. Entries in the journal shall be transferred to the general ledger and itemised according to the harmonised chart of accounts.

In addition, as per article 238 of the Rules of Application, each institution and body referred to in Article 141 of the Financial Regulation shall establish a trial balance covering all the accounts of the general accounts, including the accounts cleared during the year, with, in each case the following information:

- a) account number;
- b) description of the account;
- c) total debits;
- d) total credits;
- e) balance (debit or credit).

3.3. International Financial Reporting Standards (IFRS)

As IPSASs and IFRSs standards are principles-based, IFRSs do not prescribe a standard chart of accounts either. Similarly to IPSAS 1, IAS 1 ‘Presentation of financial statements’ includes some minimal presentation requirements, however it does not impose how to meet these requirements via the use of specific accounts. This also leaves the necessary freedom for private companies that apply IFRS to design a chart of accounts as well as reporting formats and templates.

A common taxonomy, such as the XBRL taxonomy developed and updated by the IFRS Foundation, can be used as a starting point for the development of a government chart of accounts. To support the move towards structured electronic reporting, the IFRS Foundation indeed issues a yearly IFRS Taxonomy™, which is a translation of IFRSs into XBRL (eXtensible Business Reporting Language), and is considered as a (non-mandatory) global standard to mark up electronic IFRS financial statements.

A taxonomy is a classification system designed to accurately reflect the presentation and disclosure requirements of IFRS Standards as issued by the IASB. Its content also includes elements from the

¹⁰ See Financial Regulation applicable to the general budget of the Union and its rules of application, p.285-286

accompanying materials to IFRS Standards (Implementation Guidance and Illustrative Examples) and elements for disclosures that are not required, but that are commonly reported in practice by entities.

The IFRS Taxonomy updates occur throughout the year in line with the publication of new or amended standards issued by the IASB. Updates may also be released as a result of common practice projects or technology updates. Each year an annual compilation of all updates is produced (the Annual IFRS Taxonomy).¹¹

In analysing how financial statement data can support preparation of statistical reports, the IPSASB refers to the IFRS Taxonomy as a potential enabler: “A common taxonomy such as the XBRL taxonomy, which already exists for IFRS, might also be helpful. While the IPSASB is not in a position to develop such a taxonomy, there may be scope to consider the possibility of contributing to its development, if initiated by others”.¹²

3.4. ESA 2010 sequence of accounts

The ESA 2010 framework includes various institutional sectors. These combine institutional units with broadly similar characteristics and behaviour: households and non-profit institutions serving households (NPISHs), non-financial corporations, financial corporations, and the government. The government sector excludes public enterprises and comprises central, state (regional) and local government and social security funds (ESA 2010 2.111 to 2.117).

Government finance statistics on the general government sector (GGS) are produced by governments for the purpose of macroeconomic analysis and decision making, whereas financial statements are issued for accountability and decision making at an entity level, including the whole of government reporting entity. The European System of Accounts (hereinafter referred to as ‘ESA’) is an internationally compatible accounting framework for a systematic and detailed description of a total economy (that is, a region, country or group of countries), its components and its relations with other total economies. ESA 2010 is the latest and currently applicable version of the ESA framework.

Chapter 1 of the ESA 2010 methodology sets out the principles of the ESA, describes the fundamental statistical units and their groupings, and gives an overview of the sequence of accounts. The ESA 2010 system is built around a sequence of interconnected accounts. The full sequence of accounts for the institutional units and sectors is composed of current accounts, accumulation accounts and balance sheets.¹³

As explained in chapter 8 of the ESA 2010 methodology, the European sector accounts record flows and stocks in an ordered set of accounts describing the economic cycle from production and the generation of income, through its distribution and redistribution, and its use for final consumption. Finally the ESA records the use of what is left in the form of saving to provide for the accumulation of assets, both non-financial and financial.¹⁴

¹¹ See IFRS Foundation website <http://www.ifrs.org/XBRL/IFRS-Taxonomy/Pages/IFRS-Taxonomy.aspx>

¹² See IPSASs and Government Finance Statistics Reporting Guidelines, Consultation Paper October 2012, IPSASB, p.30

¹³ See European system of accounts, ESA 2010, Eurostat, chapter 1, p.18

¹⁴ See Regulation (EU) No 549/2013 of the European Parliament and of The Council of 21 May 2013 on the European system of national and regional accounts in the European Union, 26 June 2013, p.226

European sector accounts record, in principle, every transaction between economic subjects during a certain period and show as well the opening and closing stocks of financial assets and liabilities in financial balance sheets. The transactions are grouped into various categories that have a distinct economic meaning. In turn, these categories of transactions are shown in a sequence of accounts, each of which covers a specific economic process.¹⁵

As mentioned here above, the accounts are grouped in three categories:

1. Current accounts cover production and the associated generation, distribution and redistribution of income and its use in the form of final consumption. The income not directly used for final consumption is revealed in the balancing item saving, which is taken forward to the accumulation accounts as the first entry on the resources side of the capital account.
2. Accumulation accounts analyse changes in the assets and liabilities of the units and enable changes in net worth (the difference between assets and liabilities) to be recorded.
3. Balance sheets show the total assets and liabilities at the beginning and the end of the accounting period, together with the net worth. The flows for each asset and liability item recorded in the accumulation accounts are seen again in the changes in balance sheets account.¹⁶

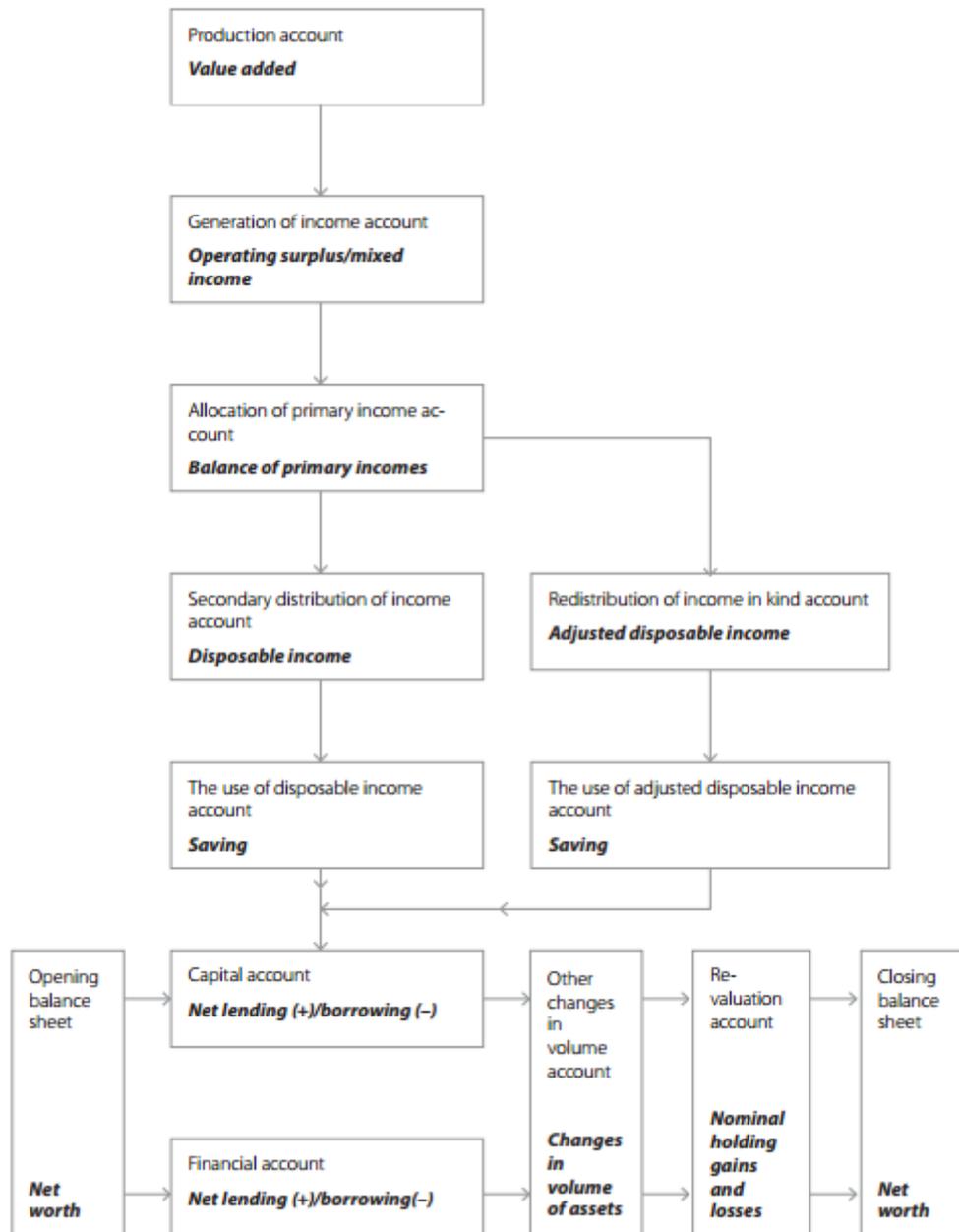
The sequence of accounts applies to institutional units, institutional sectors and subsectors, and the total economy.¹⁷

¹⁵ See European system of accounts, ESA 2010, Eurostat, chapter 8, p.193

¹⁶ See European system of accounts, ESA 2010, Eurostat, chapter 8, p.193

¹⁷ See European system of accounts, ESA 2010, Eurostat, chapter 1, p.20

Figure 2: Diagram of the sequence of accounts¹⁸



¹⁸ See European system of accounts, ESA 2010, Eurostat, chapter 8, p.20

Figure 3: Illustration of the categories of accounts¹⁹

Classification of assets, liabilities and net worth	IV.1 Opening balance sheet	III.1 and III.2 Transactions	III.3.1 Other changes in volume	III.3.2 Holding gains and losses		IV.3 Closing balance sheet
				III.3.2.1 Neutral holding gains and losses	III.3.2.2 Real holding gains and losses	
Non-cultivated biological resources	AN.213	NP1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.213
Water resources	AN.214	NP1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.214
Other natural resources	AN.215	NP1	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.215
Radio spectra	AN.2151	NP1	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.2151
Other	AN.2159	NP1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.2159
Contracts, leases and licences	AN.22	NP2	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.22
Purchases less sales of goodwill and marketing assets	AN.23	NP3	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.23
Financial assets/liabilities ²	AF	F	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF
Monetary gold and SDRs	AF.1	F.1	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.1

3.5. Alignment of IPSAS and Government Finance Statistics Reporting Guidelines

As part of an initiative launched by the IPSASB ‘*Alignment of IPSAS and Government Finance Statistics Reporting Guidelines*’, one of the four goals identified consists in developing an illustrative chart of accounts that could facilitate the compilation of reports compliant with IPSASs and statistical reporting standards, acting as a bridge between the two forms of reporting. The Consultation Paper (CP), ‘*IPSASs and Government Finance Statistics Reporting Guidelines*’ was issued in October 2012, with comments due by 31 March 2013. Following the analysis of responses by IPSASB, the IPSASB approved among others the following policy paper: ‘*Process for Considering GFS Reporting Guidelines during Development of IPSASs*’.²⁰

¹⁹ See European system of accounts, ESA 2010, Eurostat, chapter 8, p.20

²⁰ See IPSASB Project Status, Alignment of IPSAS and Government Finance Statistics Reporting Guidelines

The Consultation Paper (October 2012) issued by the IPSASB defines the Chart of Accounts as follows: “*an organisation’s Chart of Accounts (COA) usually serves multiple purposes, including both management and financial reporting. The same accrual based information system that generates data for a government’s financial statements can generate most of the data necessary for the government’s statistical reports. The term ‘Chart of Accounts’ is used here with its broad sense, i.e. a chart that encompasses all the codings used by a financial information system to produce accruals financial statements.*”

However, to do this the government’s chart of accounts needs to include the coding necessary for statistical report classifications, including²¹:

- a) Counterparty information for transactions; and
- b) Statement classifications necessary to map items into the correct statistical categories, where the main additional codes needed will distinguish between:
 - (i) Transactions and other economic flows.
 - (ii) Cash, non-cash, and (if necessary) intra-government charges. (The CoA will need to do this at a reasonably detailed line item level.)
 - (iii) Different categories of financial assets and liabilities, according to the residency of the other party to the instruments (debtors for financial assets and creditors for liabilities) and their currency of denomination (domestic or foreign).

With extra codes, such as those listed above, the chart of accounts design should be able to address²²:

- a) Classification differences e.g. statistics needs items to be classified into resident/non-resident, while IPSASs do not require that items be classified in this way;
- b) Definitional differences e.g. statistics defines certain types of defence weapons to be inventory, while the same weapons would be defined as property, plant and equipment under IPSAS;
- c) Recognition differences, where IPSASs recognise an item that statistical reporting does not recognise e.g. statistical reporting does not recognise the up-front financial impact of concessionary loans, while IPSAS financial reporting does; and
- d) Financial statement location differences e.g. Government Finance Statistics (GFS) reports include an item as an expense in the Operating Statement, while IPSAS financial statements include the same item as a distribution to owners and include it in the Statement of Movements in Net Assets/Equity. This type of difference is basically another type of classification difference.

²¹ See IPSASB Consultation Paper ‘IPSASs and Government Finance Statistics Reporting Guidelines’, October 2012, p.28

²² See IPSASB Consultation Paper ‘IPSASs and Government Finance Statistics Reporting Guidelines’, October 2012, p.28

Figure 4: Management of differences between IPSASs and Government Finance Statistics Reporting Guidelines²³

Difference	Management
1. Reporting entity boundary	<i>Chart of accounts (CoA) design:</i> include additional Government Finance Statistics (GFS) related codes to identify items included in general purpose financial reports (GPFRs) but not in general government sector (GGS) (or vice versa), so that they can be excluded from the relevant reports.
2. Recognition criteria for some assets, liabilities, revenue, and expenses: (a) Item is recognised in IPSAS financial statements and <i>not</i> recognised in GFS reports (b) Item is <i>not</i> recognised in IPSAS financial statements and recognised in GFS reports	(a) <i>CoA design:</i> include code that identifies items that are not recognised in GFS statements, so that they can be excluded from those statements and, where appropriate, included in the appropriate GFS supplementary schedule. (b) Either: (i) <i>Choice of IPSAS option:</i> where IPSAS allows a GFS aligned accounting option to be chosen for the financial statements, choosing that policy will help to ensure that the necessary data is available for GFS report use. (ii) <i>Produce additional data:</i> generate the necessary data for GFS report needs, outside of the accounting information available for the financial statements.
3. Valuation (measurement) differences for certain types of assets and liabilities	Either: (a) <i>Choice of IPSAS option:</i> wherever possible and appropriate, alignment of measurement for financial statements with that needed for GFS reporting will help to ensure that financial statement data provides a better basis for GFS data needs. (b) <i>Produce additional data:</i> carry out a separate valuation to generate values needed for GFS reporting.

²³ See IPSASB Consultation Paper 'IPSASs and Government Finance Statistics Reporting Guidelines', October 2012, p.29

<p>4. Revaluations and other value changes in some cases</p>	<p><i>CoA design:</i> include additional GFS related code to identify items that belong in (a) specific GFS statements, (b) aggregate totals, and/or (c) supplementary schedules, so that they can be included in the appropriate place for GFS reports. Where value changes are not included in GFS reports, then additional coding is needed to allow those amounts to be excluded.</p>
<p>5. Presentation</p>	<p><i>CoA design:</i> include code that allows items that belong in specific GFS statements/totals to be directed into those specific statements/totals.</p>

The development of an illustrative chart of accounts would be an important contribution to facilitate the compilation of both statistical and accounting reports in accordance with the guidance of ESA 2010 and IPSAS. The project would reassert the importance of statistical reporting as a public sector critical issue. The possibility of the IPSASB developing a Chart of Accounts has been suggested by a number of preparers and it has also been indicated that such a development might assist the adoption and implementation of IPSASs and compliance with statistical reporting guidance.

While accounting policy choice can reduce the extent to which additional data is needed, it is likely that, after further alignment has been achieved through the information system's chart of accounts design, further data will still be needed to generate GFS reports. For example, it may be necessary to carry out a separate valuation of inventory assets, because the inventory is valued at cost for the financial statements, and the GFS reporting guidelines require current market values (depending on the amount of inventory and its turnover, this measurement difference may not be material). Subject to the evaluation of the practicalities involved, the IPSASB project will develop an illustrative chart of accounts that will facilitate compilation of reports meeting both IPSASs and statistical reporting guidance.²⁴

3.6. Budgetary and financial accounting in governments

Budget planning and preparation are at the heart of good public expenditure management. The International Monetary Fund published in 2011 a technical paper highlighting the importance of the chart of accounts (CoA) as a critical element of the Public Financial Management Framework: *“the CoA, although appears to be just concerned with classifying and recording financial transactions, is critical for effective budget management, including tracking and reporting on budget execution. The structure of the budget—in particular the budget classification—and the CoA have a symbiotic relationship. As such, a mistake in designing the CoA could have a long lasting impact on the ability of the PFM system to provide required financial information for key decisions.”*²⁵

²⁴ See IPSASB Project Brief and Outline, Alignment of IPSAS and Government Finance Statistics Reporting Guidelines, 2011, p.5

²⁵ See International Monetary Fund, Fiscal Affairs Department, Chart of Accounts: A Critical Element of the Public Financial Management Framework, Julie Cooper and Sailendra Pattanayak, August 2011, p.1

Given their different objectives, some governments make a distinction between budgetary and financial accounting. Indeed, budgetary accounting may require data capture at a different level (scope difference) and at a different time (timing difference), for example with regard to the acquisition of a building. Therefore, some countries have traditionally operated separate systems for budgetary and financial accounting.²⁶

However, in spite of the apparent distinction between the two, the IMF recommends to have a common and integrated account coding structure for both budgetary and financial accounting. In most countries, it is generally considered to be good practice for the budget classifications and accounting classifications to be completely integrated. The two needs to be developed together to ensure that they are mutually consistent. For example, France has developed a common budget and accounting code—called ‘nomenclature budgetaro-comptable’—which is used for both budgetary accounting (which tracks budget execution both on commitment and cash basis) and financial accounting (which is on accrual basis).

²⁶ See International Monetary Fund, Fiscal Affairs Department, [...] p.1

4. Description of the main types of chart of accounts in selected EU Member States (Belgium, Portugal, Estonia)

4.1. Selection of countries

The following section provides an overview of the approaches taken to harmonising the chart of accounts in three EU Member States (Belgium, Portugal and Estonia) that have been selected for illustration purposes. The selection of countries was based on the following assumptions:

- **Belgium:** the central government completed in 2012 the FEDCOM project aimed at modernising government's accounting in parallel with the implementation of a new ERP system. The new accounting system manages in an integrated way financial accounting, budgetary accounting and cost/analytical accounting.
- **Portugal:** the central government is currently on its way to adopt an IPSAS-based accounting system, IPSASs standards being adapted to the context of the Portuguese public sector.
- **Estonia:** the central government got the second highest accounting maturity score in the 2014 PwC study²⁷, and is considered to have implemented best practices with regard to applying accrual accounting/IPSAS. In particular, harmonised and streamlined processes have been put in place regarding the set-up of the chart of accounts.

4.2. Methodology

To analyse the approaches taken to harmonising charts of accounts for national purposes in selected Member States, PwC led semi-structured interviews based on a questionnaire. Respondents to the questionnaire were government representatives (Belgium, Portugal and Estonia). The first series of questions addressed the structure of the respective chart of accounts used for the purpose of financial accounting, budgetary accounting and government finance statistics. The questionnaire then addressed the steps taken in order to harmonise the chart of accounts with a view to financial reporting requirements for national purposes. The last questions focused on the advantages and disadvantages of the approach taken, as well as lessons learned.

In the following pages, a summary of the results of the interviews is presented country by country.

²⁷ See European Commission, Report from the Commission to the Council and the European Parliament, Towards implementing harmonised public sector accounting standards in Member States, The suitability of IPSAS for the Member States, COM(2013) 114 final, Brussels, 6 March 2013.

4.3. Belgium

4.3.1. General

The Belgian public accounting system had been modified several times since the law of 15 May 1846 on central government accounting. At first, the public accounting system only consisted of budgetary accounting, but it then evolved towards a dual system, consisting of budgetary accounting and financial accounting.

The following laws and regulations govern central government accounting (central government excluding social security funds):

- Belgian legislation on central government accounting:
 1. Law of 15 March 1991 reforming the general and provincial accounts;
 2. Law of 22 May 2003 on the organisation of the budget and the accounts of the Federal State;
 3. Royal Decree of 10 November 2009 on the harmonised chart of accounts and the accounting principles;
 4. Royal Decree of 29 April 2012 on the notes to the financial statements.
- European legislation on the classification of national accounts according to the European System of Accounts ESA 2010 (Regulation 549/2013 of 21 May 2013 of the European Council)²⁸.

Legal Framework Governance - Key dates²⁹

1991: starting point of the reform of public sector accounting in Belgium.

1991-2003: legislative work.

2003: new public sector accounting Law - 22 May 2003.

2009: standardised Chart of Accounts published by Royal Decree.

2010: creation of the Public Sector Accounting Commission (CCP-COC).

2010-xxx: regular updates of the Law of 22 May 2003.

The harmonised chart of accounts applies to the central government entities. This does not include social security funds and state/regional governments. The harmonised chart of accounts is structured along 10 classes:

- Class 0: off balance sheet accounts;
- Classes 1 to 5: balance sheet accounts;
- Classes 6 and 7: income statement accounts;
- Classes 8 and 9: accounts for budgetary expenditures and receipts.

²⁸ The former methodological framework (ESA 95) was replaced in September 2014 with the new European system of accounts (ESA 2010).

²⁹ See Belgium's transition to accrual accounting, Marc De Spiegeleire, 16th OECD Annual Symposium – Paris 21-22 March 2016

The central government entities (CGEs), under the authority of the Federal Public Services (FPSs)³⁰, can opt to apply the harmonised Belgian chart of accounts for private corporations or the harmonised Belgian chart of accounts for non-profit organisations. This is because some of the CGEs, other than FPSs, PPSs and social security funds, already had - at the time of the roll out of the ERP system to the FPSs and PPSs - their local systems for financial accounting and statistical reporting in place and running. Consequently, interfaces were created with the ERP system allowing these CGEs to communicate their data for consolidation and statistical reporting purposes.

If a CGE chooses to keep their chart of accounts for private corporations or for non-profit organisations, they have to communicate their data by means of a mapping table linked to the harmonised chart of accounts applicable to public sector entities.

4.3.2. Implementation

In Belgium, the transition from cash to accruals in the central government financial accounting was achieved through the FEDCOM project, conducted from 2007 till 2012. The budgetary accounting, on the other hand, passed only partially from cash to accruals.

The scope of the FEDCOM project was limited to the Federal Public Services (FPSs) and Federal Public Planning Services (PPSs) at central government level, excluding other CGEs and social security funds. To support central government financial accounting on an accrual basis in the FPSs and PPSs, the Federal Accounting Department was set up within the Federal Public Service of Budget³¹ in May 2007.

In September 2007, the pilot phase of the FEDCOM project started. FPSs of the pilot phase were able to start working in the new ERP (Enterprise Resource Planning) system as of 1 January 2009. From 2009 until February 2012, the ERP system was rolled out to all FPSs and PPSs, in three waves.

Since then, the Federal Accounting Department has gradually developed its role as:

- 1) an ERP support and development centre;
- 2) a helpdesk;
- 3) a promotor of recommended accounting practices, with regard to the integrated budgetary, financial and management accounting ERP system.

Whereas the Public Sector Accounting Commission has been legally assigned to officially address any question regarding the chart of accounts submitted by one of its members as well as to provide high-level advise on the general use of this chart by all entities adopting it, it is the Federal Accounting Department that will support the different CGEs towards a correct and practical use of the chart of accounts. The same applies to the introduction of international accounting standards³². The Federal Accounting Department prepares the practical concept, develops the necessary tools or modules for the ERP system and supervises the subsequent roll-out to all participating CGEs.

³⁰ In Belgium, Ministries are called Federal Public Services (FPSs).

³¹ The Federal Public Service of Budget has in the meantime been renamed into Federal Public Service for Strategy and Support.

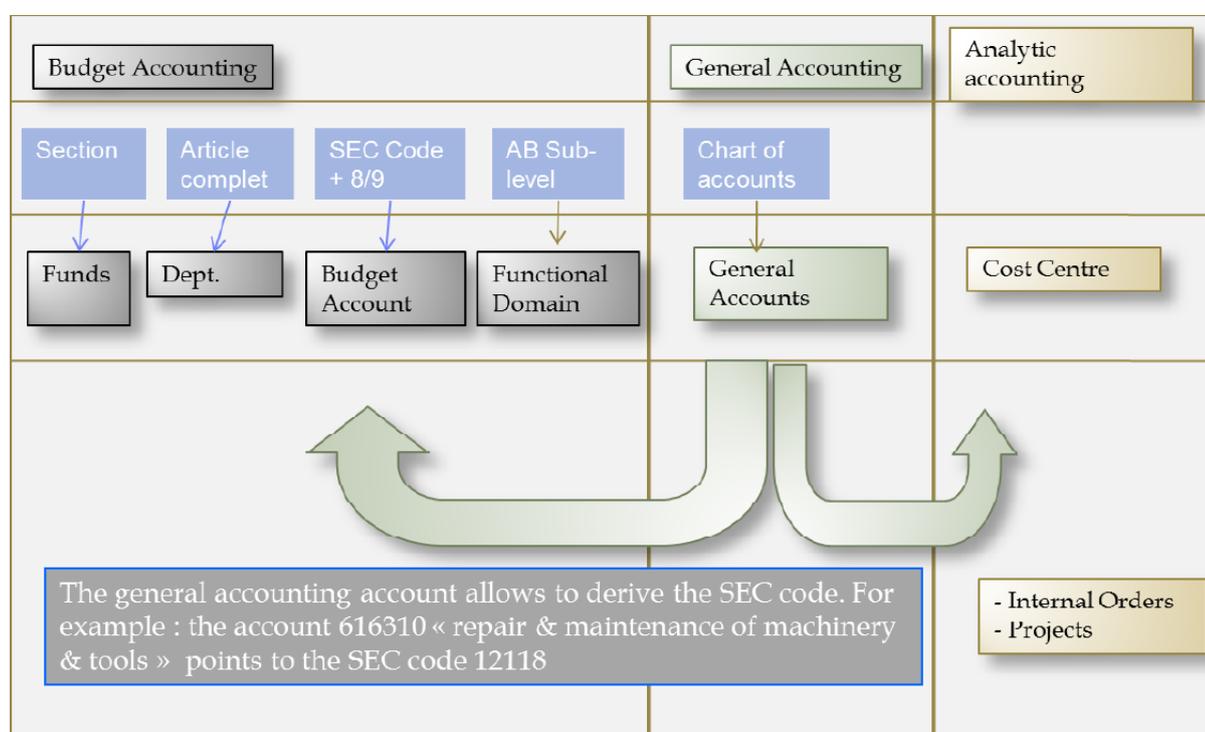
³² Or any other accounting related subjects, such as the introduction of electronic invoicing in public procurement by the European Directive 2014/55/EU.

4.3.3. Multidimensional chart of accounts

As part of the FEDCOM project, an integrated chart of accounts was developed at central government level. The extended accounting system includes automated links between accrual accounting, budgetary accounting as well as analytical management accounting, as the general accounting allows to derive the budget accounting codes as well as the ESA 2010 codes.

The harmonised chart of accounts was an essential feature in the FEDCOM project roll-out. The implemented ERP system integrates budgetary, financial and management accounting, through derivation of general ledger accounts to statistical reporting and budget codes.

Figure 5: Budgetary accounting, financial accounting, management accounting - Belgium, Federal Public Service³³



As highlighted in Figure 5: Budgetary accounting, financial accounting, management accounting - Belgium, Federal Public Service, the accounting system allows to derive the statistical reporting codes. For example, the general ledger account 616310 “Repairs and maintenance of machinery and tools” points to statistical reporting code 12118.

4.3.4. Benefits

A harmonised chart of accounts improves comparability and increases possibilities to share best practices between consolidated entities. It allows for better consistency of accounting practices. In addition, it facilitates the consolidation process as everyone speaks the same language.

³³ See Belgium’s transition to accrual accounting, Marc De Spiegeleire, 16th OECD Annual Symposium - Paris 21-22 March 2016

4.3.5. Recommendations

Based on the recent and ongoing implementation experience, the Belgian Federal Public Service for Strategy and Support strongly advises to find a good balance between the information needs and the number of general ledger accounts created, when defining a harmonised chart of accounts. In addition, it is of uttermost importance to allow for proper maintenance of the general ledger (GL) accounts, regulate control of new GL accounts creation and periodically check for unused GL accounts.

4.4. Portugal

4.4.1. General

The Ministry of Finance (MoF) appointed in January 2013 the National Accounting Standards Commission (CNC) in order to adopt IPSAS-based financial accounting standards in the Portuguese public sector. Since then, Portugal has also adopted a harmonised chart of accounts as part of its accrual accounting reform. The financial, budgetary and management accounting standards, as well as the structure of the chart of accounts, are covered by Decree-Law n°192/2015, 11 September, which stipulates the creation of the new Accounting Standards for Public Administrations SNC-AP applicable to all public entities. For financial accounting, SNC-AP is based on IPSAS and the national standards in force for the private sector - SNC.

The objective of the accounting framework SNC-AP is the financial, budgetary and management accounting and reporting of all the entities of the public sector (except public corporations if not reclassified in the General Government). The SNC-AP is a modified cash and accrual accounting basis system, comprising 27 standards of public accounting and reporting (NCP's), 25 of which are IPSAS-based, 1 standard on Budgetary Accounting and Reporting and 1 standard on management accounting.

Together with the Conceptual Framework and the Multidimensional Accounting Plan (PCM), the NCP's standards form the basis to prepare public sector entities' financial reporting, which is expected to include four main financial statements in addition to the Notes: Balance Sheet, Operating Statement (by nature), Cash Flow Statement, and Statement of Changes in Equity. SNC-AP considers each public entity as a reporting entity, however it foresees a simplified regime for smaller and less risky ones. The SNC-AP comprises 3 accounting sub-systems: budgetary, financial and management accounting subsystems. The objective is to fully implement the accrual basis of accounting to the general government, linking it with the current modified cash basis used in the budget sub-system.

The harmonised chart of accounts applies to all levels of government (central, regional and local). All entities included in the whole-of government accounts should use the standard chart of accounts. Local entities can adapt their local chart of account but it should be mapped to the harmonised central chart of accounts for consolidation purposes.

The content of balance sheet items and statement of financial performance items is defined in the accounting legislation, namely, in the notes to the chart of accounts (Ordinance n° 189/2016, from 14 July) and in the Manual for the Implementation of the Accounting Standardisation System for Public

Administrations. As regards the financial accounts, a total of 38 accounts for the balance sheet and 22 accounts for the income statement have been created.

4.4.2. Implementation

The implementation of the new accrual accounting standards started in 2013, when pilot entities of the central government were scheduled to implement the new standards by 2016 and 2017. As from 1 January 2018, all entities within the scope of the general government should have adopted the new standards.

The objective is to publish whole-of-governments accounts (as in the United Kingdom), including all entities across government levels (central, regional and local) in the scope of consolidation, which represents a total amount of more than 5,000 reported entities. It should be noted that the government is currently investigating the selection of a consolidation software, capable of including all entities in one consolidation system.

The Accounting Standards Committee (CNC) had a central role in the reform process, as it triggered the development of the Accounting Standards for Public Administrations - SNC-AP, the new accounting system applicable to all public entities that would be based on the International Public Sector Accounting Standards (IPSAS) and the national legislation in force in this field for the private sector - SNC.

More recently, the Public Financial Management (PFM) Reform Unit (UniLEO) was created at the Ministry of Finance with the responsibility to implement the accounting and reporting reform as well as broader public finance reforms associated with the new budget framework law.

The accounting reform has been combined with the reform of the information systems in place in the public sector entities in order to respond to the new information needs and to the establishment of additional internal control mechanisms that allow the monitoring of the accounting process and the flow of operations which guarantees the transparency and reliability of the system.

As this reform is a public sector wide reform which also considers the budgetary and statistical aspects of government reporting, other relevant public sector stakeholders, such as the national statistical authority (INE) and the Court of Auditors have been involved to provide relevant inputs to the process.

4.4.3. Multidimensional chart of accounts

The harmonised chart of accounts which was adopted is multidimensional. It is considered as an instrument to address different information needs and contributes to the efficient generation of budgetary, financial, fiscal and management information for a variety of purposes. Therefore, the chart of accounts includes 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), although codes are optional for reporting entities when it comes to management accounting.

The multidimensional chart of accounts (PCM) is an essential instrument for public accounting and for the new Accounting Standards System for Public Administrations (SNC-AP) because it can address different information needs, namely the classification, recording and reporting of transactions and events in a standardized, systematic and consistent way. It provides budgetary, financial and management accounting information.

The PCM comprises:

- A summary table of accounts of classes 1 to 8 intended to record transactions and events in financial accounting.
- A coded list of accounts (chart of accounts) of classes 1 to 8.
- A correlation table between the chart of accounts and the main accounts of the ESA.
- An entity classifier (complementary classifier 1).
- A classifier for the purpose of the inventory and useful lifetime period from tangible and intangible assets and investment assets (complementary classifier 2).

The main objective of PCM is to help support the classification, registration and presentation of comparable, reliable and relevant data for the following purposes:

- Elaboration of general purpose financial statements, through the subsystem of financial accounting.
- Elaboration of the inventory of assets and rights of public administrations and calculation of the corresponding depreciation and amortisation.
- Support for the preparation of the management report accompanying the individual and consolidated accounts.
- Support for the preparation of ESA national accounts (statistical aggregates).

Budgetary accounting and financial accounting are managed in parallel. Budgetary accounting runs autonomously and independently (class zero). It is applicable only to payable and receivable accounts, and to payments and receipts. The statistical report shall be obtained from the financial accounts for assets, liabilities, net worth, revenues and expenses. It is intended that any adjustments that may be necessary will be made automatically in the central information system.

The chart of accounts incorporates the disaggregation of some of the accounts required to provide the necessary content of the balance sheet and income statement items, as well as for the purpose of disclosing relevant information. Instructions recently issued by the PFM Reform Unit establishes the correspondence of each movement account with the balance sheet or profit and loss account for which its balance should be considered, as well as the positive or negative effect on the value of the item.³⁴

When structuring their own chart of accounts, the entities must ensure that:

- The structure of the chart of accounts contained in the above mentioned instructions must be complied with.
- Any disaggregation on the accounts must respect the nature of the higher grade account, and its connection with the balance sheet and income statement items.

³⁴ Instructions are available from: <https://www.unileo.gov.pt/unileo/normas>

- The suspension points incorporated in the chart of accounts contained in Annex III of the Decree-Law 192/2015 may only give rise to new account codes by means of a proposal submitted to and accepted by the CNC. These new codes will be included in a new version of the chart of accounts standardised by the PFM Reform Unit, which also prepares the necessary framework note for harmonisation of its use by all entities applying SNC-AP.

Figure 6: Multidimensional chart of accounts - Portugal³⁵

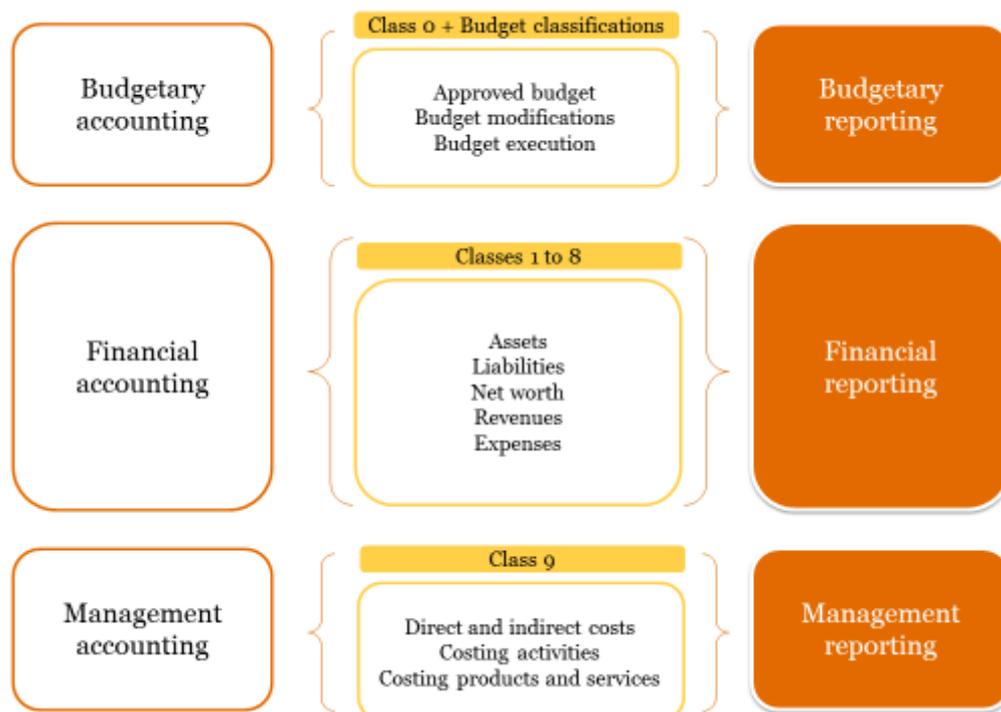


Figure 7: Budgetary accounting chart of accounts³⁶

Chart of accounts code	Reporting item on budgetary statements
0261	Commitments
0271	Obligations
0281/0282	Payments
0171/0172	Revenue collected
(...)	(...)

³⁵ See Chart of Accounts: An Instrument to Address Different Information Needs, International Conference Accrual and Standards: the future of the EU MSs public accounting, Luís Viana, 21 November 2016

³⁶ See Chart of Accounts: An Instrument to Address Different Information Needs, International Conference Accrual and Standards: the future of the EU MSs public accounting, Luís Viana, 21 November 2016

Figure 8: Financial accounting chart of accounts³⁷

Chart of accounts codes	Reporting item on financial statements
43+453+450+4553-4590-4593-45953	Fixed assets
20422+25	Non-current borrowings
653+657-7623-7627	Impairments
70	Taxes and fees
(...)	(...)

The table below illustrates how the financial chart of accounts has been automatically linked to the ESA 2010 codes. As such a first draft of the national accounts following ESA 2010 can be directly derived from the financial statements. After the automated transposition of the financial statements manual adjustments are required to reflect the differences in scope and measurement basis between the accrual accounting and the ESA 2010 reporting. Indeed, the criteria for consolidation for IPSAS and ESA 2010 are not the same. Manual adjustment entries will be necessary to adjust for the consolidation perimeter.

In terms of measurement, certain transactions such as the accounting for provisions are not considered under ESA 2010 and need to be eliminated.

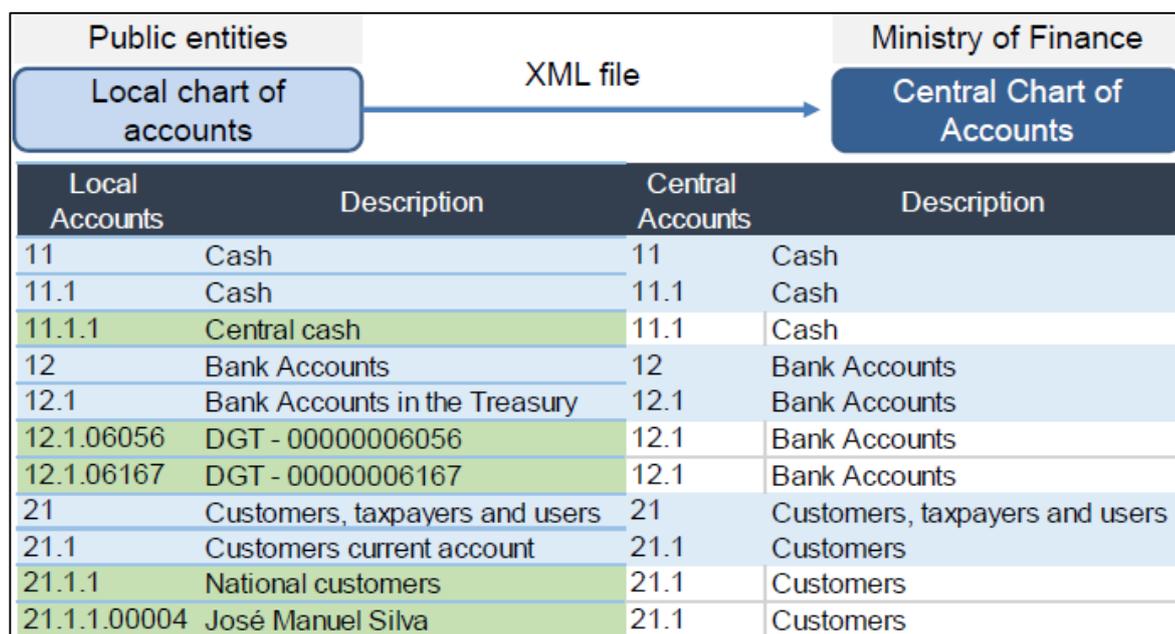
Figure 9: Chart of accounts and fiscal reporting³⁸

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
(...)	(...)

Entities have the flexibility to adjust the plan to their specific needs and can create lower-level sub-accounts and mapping them to the central chart of accounts. In addition, cross validations between the trial balance, budget statements, financial statements and notes have been set up.

³⁷ See Chart of Accounts [...], Luís Viana, 21 November 2016

³⁸ See Chart of Accounts [...], Luís Viana, 21 November 2016

Figure 10: Adaptability of the harmonised chart of accounts³⁹

4.4.4. Benefits and challenges

Completeness: the chart of accounts is comprehensive and enables to capture all the budgetary, financial, patrimonial (i.e. balance sheet), economic and statistical information which is required. It facilitates a comprehensive view of the public sector.

Multidimensional set up: the accounts and subaccounts of the chart of accounts are set so as not to generate overlaps. This means that the same information must not be obtained from different accounts or sub-accounts to avoid redundancy. For example, classes 1 to 8 provide information for financial purposes and for ESA national accounts. Class 0 stands for budgetary accounting purposes, alongside budget classifications. The aggregation of revenue and expenditure is ensured by a correlation table between the aggregated lines of budgetary revenue and expenditure and the economic classification for budgetary accounting established in a specific decree-law for budget classifications. Another table ensures the correspondence between the PCM and the main codifications of the European System of National and Regional Accounts (ESA). Budgetary accounting is recorded in parallel with the financial accounting (when applicable), but it runs autonomously and independently.

Segmentation: the accounts and sub-accounts of the chart of accounts were designed to meet the information needs of government data users at different levels, as well as other relevant stakeholders (e.g. parliament, auditors, the press, citizens in general). The management of the chart of accounts is done centrally.

4.4.5. Recommendations

³⁹ See Chart of Accounts [...], Luís Viana, 21 November 2016

Based on the recent and ongoing implementation experience, the Portuguese government strongly advises to keep the structure of the budgetary and financial CoA strictly separate if the budgetary basis of accounting is cash or modified cash. As both the purpose and the measurement basis of budgetary and financial accounting differ a separate structure is required to meet both purposes.

Further, it is recommended to keep the management of the chart of accounts centralised and properly define the use of each account in a manual of accounting for ensuring information consistency across public sector entities.

4.5. Estonia

4.5.1. General

In December 2003, the Minister of Finance approved the General Rules for Public Sector Accounting which came into force on 1 January 2004; public sector accounting rules were then brought in line with IPSASs. In addition, the requirements for a compilation of consolidated statements were laid down as well as the adoption of common accounting principles and rules for submitting statements to the Ministry of Finance (from the year 2013 to the State Shared Service Centre (SSSC)) based on a common chart of accounts. SSSC is the government agency established in 1 January 2013 which provides human resources, payroll accounting services and financial services (including accounting and financial reporting services) to the government.

The General Rules for Public Sector Accounting include:

- General accounting principles for the public sector entities.
- A uniform chart of accounts, obligatory for the reporting by public sector institutions (in practice all units of the central and local governments use the same chart of accounts as well as many other public sector institutions); if an institution doesn't use the uniform chart on accounts, it should put in place a correlation table between its chart of accounts and the unified chart of accounts for reporting purposes).
- Reporting form and due dates about the reports, inserted via internet monthly (all institutions belonging to the government sector according to statistical rules (ESA 2010)) or quarterly (other public sector institutions not included in the government sector) in the public sector financial statements database (below named also as a consolidation software).

In Estonia, a standard chart of accounts is used by all public sector entities, including all units belonging to the government sector (central government, local government, social funds). It should be noted that the State/regional government level does not exist in Estonia.

According to the General Rules for Public Sector Accounting, all public sector accounting entities insert their financial reports into a public sector financial statements database. The reports are based on the harmonised chart of accounts and are inserted into the database in the form of a special unified report. This special unified report consists of balance sheet accounts, revenue, and expenses

accounts as well as off-balance sheet information. The latter is presented once a year after the end of the financial year.⁴⁰

SSSC is in charge of the management of the public sector financial statements database. Consolidated financial reports are created on the same software within a very limited timeframe. All public sector entities have to input their financial information into the consolidation system within 25 days after the end of the month or quarter. The consolidated financial reports are available at the end of that month (government sector and its sub-sectors) or quarter (public sector and its sub-sectors) after some controlling procedures carried out by SSSC, including comparison of intra-group balances and adding extra reports for proper consolidation purposes. The summarised whole-of-government accounts (with limited notes) are prepared on a quarterly basis, and the annual whole-of-government financial statements are prepared by 30 April. Thereafter, they are audited by the State Audit Office and presented to the Parliament by 30 August.

4.5.2. Implementation

The unified chart of accounts for national purposes was established in 2003 and negotiated then with all public sector entities. It was set as compulsory as from 2004 by regulation of the Minister of Finance. All IT-systems were prepared for the new chart of accounts and explanatory guidelines for the chart of accounts were distributed, describing every account and explaining when and how to use each account, including examples of accounting entries. The unified chart of accounts was implemented during the accrual accounting reform. Many training sessions were organised and a communication programme took place.

4.5.3. Multidimensional chart of accounts

As mentioned here above, all government sector accounting units use the same chart of accounts and the content of balance sheet and financial performance items is defined in the accounting legislation. In addition, the same integrated chart of accounts is used for financial accounting, budgetary accounting and government finance statistics.

The current lists of codes included in the chart of accounts are available under the heading “Klassifikaatorid” (Classification) on the dedicated web-site⁴¹. The uniform chart of accounts includes⁴² the following information:

1. List of accounts.
2. List of counterpart codes.
3. List of codes of function (similar to the classification of the functions of government [COFOG]).
4. List of source codes (used to identify EU funds and other foreign aid).
5. List of cash-flow codes.

⁴⁰ State Shared Service Center website (Riigi Tugiteenuste Keskus).

⁴¹ <https://saldo.fin.ee/reportManagement.action>

⁴² Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA 2010, Estonia, July 2015, p.23

The list of accounts is hierarchical and presents 6 levels, each account has a 6-digit code. Accounts can be grouped together to sub-groups, groups, sets, classes and types. There are altogether eight account types which are identified based on the first digit of the account:

1. Assets.
2. Liabilities.
3. Revenues.
4. Benefits and grants provided.
5. Operating costs.
6. Other expenditures.
7. Net financing from the state budget.
8. Additional information for compilation of financial statements.

The last two types are used only as additional information for the compilation of consolidated financial statements of the central government.

4.5.4. Benefits

A harmonised chart of accounts facilitates the production of consolidated public sector financial reports. Accounting units within the public sector speak the same language, which enhances the communication between entities, and comprehensive guidelines and instructions are made available to all entities. In addition, budgeting, cost accounting, financial accounting and statistical reporting are integrated within the same chart of accounts, which makes it easier to meet information needs of users of government reports.

It should be highlighted that Estonia moved to an accrual-based state budget in 2017, which places it among the most innovative countries in terms of budgetary accounting. *“Accrual-based budget enables using the taxpayers’ money in a more efficient and transparent manner than the current cash-based budget,”* said the Minister of Finance Sven Sester. Accrual-based budgeting includes profits and losses that are planned for the budget period irrespective of when the profits accrue or payments are charged. Unlike a cash-based budget, an accrual-based budget also includes costs that are not accompanied by cash outflow, for example depreciation of fixed assets.

In this context, setting up a uniform chart of accounts for financial accounting and budgetary accounting proves even more useful. The majority of international fiscal and financial statistics, including data regarding budget surplus and deficit, must be prepared on the basis of accrual-based data. Thus, as cash-based budgeting is discontinued, accrual-based budgeting allows the state to reduce work because reporting and preparing basic data becomes easier and less labour intensive.⁴³

4.5.5. Recommendations

The Estonian government recommends the setting up of a uniform chart of accounts for financial accounting, budgetary accounting and government finance statistics, as it enhances the reporting process and enables the preparers of government reports to better meet information needs of the

⁴³ “Estonia will adopt an accrual-based state budget”, Press release by the Ministry of Finance, 25 January 2016 <http://www.fin.ee/estonia-will-adopt-an-accrual-based-state-budget/>

primary and secondary users both in terms of quality and timeliness. When it comes to change management, the Estonian government strongly advises the development of thorough guidelines, as well as good communication and a robust training programme.

4.6. Comparison of the main features of chart of accounts in selected EU Member States (Belgium, Portugal and Estonia)

The following table presents a comparison of the main features of chart of accounts in selected EU Member States (Belgium, Portugal and Estonia) and summarises their respective approach to harmonising their chart of accounts.

	Belgium	Portugal	Estonia
<i>Approach taken to the implementation</i>	FEDCOM is a project conducted in Belgium from 2007 till 2012 by the central government, which allowed the transition from the cash basis to the accrual basis of accounting. As part of the FEDCOM project, an integrated chart of accounts was developed at central government level. Accounting reforms at other government levels are conducted independently (Belgium is a federal country). The structure and content of the chart of accounts is however similar for all levels.	The Accounting Standards Committee (CNC) initiated the development of the Accounting Standards for Public Administrations - SNC-AP, the new accounting framework applicable to all public entities based on IPSAS and the national legislation applicable in the private sector - SNC. A harmonised chart of accounts for all government entities has been developed. The project started in 2013 and by 2019 all government entities will need to comply with the new rules.	The unified chart of accounts was implemented during the accrual accounting reform in 2003 and was made compulsory in 2004 to all government entities. Communication of detailed guidance and training sessions were organised to support proper application of the newly harmonised chart of accounts.

<p><i>Level of harmonisation of the chart of accounts</i></p>	<p>The harmonised chart of accounts applies to the central government for the first three digits only.</p>	<p>The harmonised chart of accounts applies to all levels of government (central, regional and local). All entities included in the whole-of government accounts should use it. Local entities can adapt their local chart of accounts but it should be mapped to the harmonised chart of accounts.</p>	<p>All government sector accounting units use the same chart of accounts and the content of balance sheet and financial performance items is defined in the accounting legislation.</p>
<p><i>Multi-dimensional chart of accounts</i></p>	<p>The extended accounting system includes automated links between accrual accounting, budgetary accounting as well as analytical management accounting. In addition, the general accounting system allows to derive the ESA 2010 codes in order to produce the ESA 2010 reporting.</p>	<p>Budgetary (modified) cash accounting is kept in parallel with the financial accounting (when applicable), it runs autonomously and independently (class zero). Statistical reporting is obtained from the financial accounts and any required adjustments are made automatically in the central IT system. The chart of accounts also includes codes for the management reporting.</p>	<p>One integrated chart of accounts is used for financial accounting, budgetary accounting (note: budgets and accounts are both prepared on an accrual basis) and government finance statistics.</p>

<p><i>Structure of the chart of accounts</i></p>	<p>Financial accounts are split into 9 different classes and each account has a 6-digit code. Each account class can be identified based on the first digit of the account (ex.: revenue, expenses, etc.). Whenever a transaction is booked in the financial accounts, an additional 12-digits has to be filled in which enables the link with the budgetary and ESA 2010 records.</p>	<p>The Multidimensional Accounting Plan (PCM) comprises a coded list of accounts (chart of accounts) of Classes 1 to 8. The system also allows to classify the operations by nature in the budget accounts and a comparison of these with budget. A correlation table between the chart of accounts and the main ESA 2010 accounts also exists.</p>	<p>The list of accounts is hierarchical and presents 6 levels, each account has a 6-digit code. There are altogether eight account classes which are identified based on the first digit of the account (e.g. assets, liabilities, etc.).</p>
<p><i>Advantages (as reported by the government)</i></p>	<ul style="list-style-type: none"> - Improved comparability and better knowledge sharing between consolidated entities. - Better consistency of accounting practices. 	<ul style="list-style-type: none"> - Better harmonisation achieved through centralising the management of the chart of accounts and better sharing of know how. - Enhanced collaboration between stakeholders in order to identify user needs and define solutions. 	<ul style="list-style-type: none"> - Greater consistency in booking of transactions and consequent high quality consolidated public sector financial reports. - The set-up of a uniform chart of accounts for financial accounting, budgetary accounting and government finance statistics reduces the workload, as reporting and preparing data became easier and less labour intensive.

<p><i>Disadvantages (as reported by the government)</i></p>	<ul style="list-style-type: none"> - The level of granularity of the harmonised chart of accounts may be considered as too detailed by certain public sector entities (not all accounts are applicable to each entity). - Lack of flexibility when it comes to maintaining the chart of accounts over time, as the full set of accounts was embedded as such in the legal documents. 	<ul style="list-style-type: none"> - None. 	<ul style="list-style-type: none"> - None.
<p><i>Main lessons learnt and tips (as reported by the government)</i></p>	<ul style="list-style-type: none"> - Find the right balance between the information needs and the number of accounts created when defining the chart of accounts. - Organise a proper maintenance of the chart of accounts (e.g. new accounts creation, monitoring of inactive accounts, etc.). 	<ul style="list-style-type: none"> - Centralise management of the chart of accounts (CoA): determine the entity responsible for the accounting harmonisation and the introduction of new accounts in the CoA, define the exact use of each account, and keep a separate CoA for budgetary and financial accounts. 	<ul style="list-style-type: none"> - Develop and share thorough guidelines concerning the use of the chart of accounts, ensure good communication and deploy a robust training programme.

The comparative table above highlights some of the advantages/disadvantages in the approach/solution taken by the three selected governments as reported by the governments themselves, as well as some tips drawn from their own experience in relation to the development of a harmonised chart of accounts.

It should also be noted that the approach/solutions implemented may vary depending on the political/constitutional landscape (federal country or not) and on some strategic and/or political decisions taken (for example budgetary accounting aligned to general accounting or not).

5. Benefits of a harmonised chart of accounts

Developing an approach to harmonising the chart of accounts at the national level can bring significant benefits to Member States, as evidenced by experiences in Belgium, Portugal and Estonia.

The key benefits of a harmonised and well-designed chart of accounts include:

- Improved comparability and increased possibilities to share best practices: consistency of accounting practices, and possibility to develop harmonised accounting guidance and manuals.
- Reduced complexity as 'everyone speaks the same language', government entities can communicate more easily with each other, through common terminology.
- Reduced maintenance and administration costs: simplified processes and decrease in the workload. Additional benefits can also be sought through the setting up of a finance shared services centre (e.g. as in Estonia).
- Improved control over data integrity: delivery of accurate, comparable and consistent information across entities creates a favourable control environment, positively impacts the reliability of the reporting and allows for a more efficient audit process.
- Reduced closure time through enhanced and streamlined reporting processes.
- Facilitated consolidation process, with financial aggregation of Ministries and other government entities' numbers and eliminations in consolidation being performed more easily.
- Enhanced analysis of management and other reporting information, with the Ministry of Finance, or other central reporting and/or budgeting units, being able to interpret and analyse financial information more easily, to support consolidation, budgeting and other economic analyses.

6. Difficulties/issues when implementing a harmonised chart of accounts

The main challenges encountered when developing the chart of accounts can be summarised as follows:

6.1. Structure of chart of accounts (CoA)

As already mentioned, the IPSAS framework does not prescribe any minimum chart of accounts. Public sector entities just need to organise their accounting and reporting so that IPSAS reporting requirements are complied with, both for the presentation of elements in the primary statements and the disclosures of certain items/information in the notes to the accounts. Accounts should be maintained in a way which is appropriate with respect to the nature and the scope of public sector activities, and which take into consideration the specific legal provisions applicable to them.

The organisation of the whole accounting and reporting chain requires the setting up of a structure of chart of accounts in order to capture the transactions when they occur and report them according to the requirements of the applicable accounting framework. All operations should be entered without delay and accurately in either a single general journal/ledger (GL) or in a number of specific journals/ledgers (record-to-report process: see Figure 11).

In practice, the structure of the chart of accounts developed for governments at the national level may be influenced by the structure of the chart of accounts that is applicable to private companies under the local accounting rules. Alternatively, a common taxonomy, such as the XBRL taxonomy developed and updated by the IFRS Foundation, can be used as a starting point for the development of a government chart of accounts.

Whatever the source of inspiration, the following key elements should be taken into consideration when designing the structure of a standard chart of accounts:

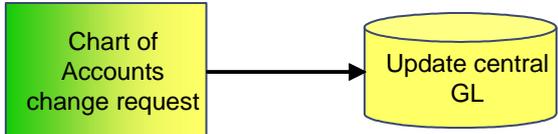
- Identification of captions, sub-captions, accounts and account codes.
- Number of digits for each account.

A common chart of accounts structure should be put in place identifying specific codes to be used for making the link to the various financial statement components (see Figure 11 CoA best practice attributes). The right balance should be found regarding the number of accounts to be created (see Figure 11 CoA best practice attributes). A greater number of accounts may be created to achieve greater granularity in the information provided by the accounting system. However if too many accounts are created, there is a greater risk that the accounts might not be used consistently, therefore putting at risk the harmonisation objective.

The number of digits for each account should also be determined. Best practice is to use the first digits of each account to achieve harmonisation between reporting entities. The same accounts and account numbering provide a direct and consistent link to the reporting requirements. The last digits can then be used to meet the specific characteristics or additional information needs of each entity.

The harmonised chart of accounts should also be set up in a way which permits easy maintenance of the master data (see Figure 11 CoA best practice attributes). Figure 11 presents best practice attributes related to the setting up of harmonised chart of accounts and related maintenance.

Figure 11: Best practice attributes

Record-to-Report Master data	CoA best practice attributes
<p><i>CoA maintenance and new accounts creation</i></p>  <pre> graph LR A[Chart of Accounts change request] --> B[(Update central GL)] </pre>	<ol style="list-style-type: none"> 1. Establish a common chart of accounts across the reporting entities. 2. Minimise the number of accounts to meet information needs. 3. Regulate control of new accounts creation. 4. Periodically check for inactive accounts. 5. Communicate new account codes to all users (local finance, purchasing and all staff able to order).

In order to maintain control over new accounts creation at a centralised level (central general ledger), new accounts creation can be allowed via the creation by users of chart of accounts change requests. New account codes should be timely communicated to all users (including local finance, purchasing and staff able to order). In addition, inactive accounts should be regularly monitored to conclude if they are still relevant to the reporting entity.

6.2. Multidimensional aspect

As previously reported, the chart of accounts can be used for multiple purposes. It is used for the preparation of external financial statements but it can also be used to support the preparation of the ESA 2010 reporting, the preparation of internal management reporting and the tracking of expenditures and receipts against budget.

The challenge consists for each reporting entity in identifying its needs and in determining the extent to which the design of the chart of accounts can help satisfy those needs.

All government entities must consider the EPSAS requirements in the design of their chart of accounts, and think about the link with the ESA 2010 reporting. Information needs for management purposes may also partially be addressed by further tailoring the chart of accounts.

On the budgetary accounting side, the strength of the link/interaction with the chart of accounts used for the financial reporting in practice highly depends on the level of consistency between the accounting/financial reporting rules and the budgetary accounting rules. If budget is prepared on an accrual basis, the link between budgetary accounts and financial accounts is facilitated.

6.3. Small versus large entities

The question arises on whether a simplified chart of accounts should be foreseen for smaller entities.

The approach for designing a harmonised chart of accounts should a priori not be impacted by this question. A minimum standardisation should be achieved to address the reporting requirements, i.e. the first digits of each account may be set up in common, while the last digits may be used to address the specificities of each entity. Smaller entities may choose not to use the last digits if this does not provide them with additional relevant and useful information. In addition, not all accounts should be used by all entities as a number of accounts might not be useful to smaller entities.

As mentioned in the section related to the analysis of the approach taken in Belgium, the harmonised chart of accounts applies to the central government and the State/regional government levels for the first 3 digits only. The next 3 digits are further defined by the federal entities and the State/regional government entities so that they address their own requirements. In this case however, a balance should be maintained between the information needs and the number of accounts created when defining the chart of accounts. As mentioned in the analysis of the Belgian approach to harmonising the chart of accounts, an important number of distinct accounts have been created, which adds further complexity to the use and maintenance of the chart of accounts.

6.4. Consistent use of the chart of accounts across reporting entities

In order to achieve comparability in financial reporting, transactions should be reported using the appropriate classification by all entities in the scope of reporting. This can only be achieved if the day-to-day transactions are recorded in the appropriate accounts.

Measures which can be taken to meet this objective include:

- Finding the right balance in the number of accounts to create. Enough accounts need to be created to meet the information needs as defined by the reporting entity, but too many accounts increase the risk of error in the posting of transactions.
- Documenting the proper use of each of the accounts included in the standard chart of accounts. Useful guidelines include the definition of the content for each account and illustrative examples with postings (debit-credit) for the most common and most complex transactions.
- Providing training to the users to ensure they acquire the necessary knowledge to exercise their day-to-day activities.
- Automating the posting of booking entries where possible.
- Finding the right balance between centralisation and decentralisation of the accounting function, with the possible creation of share service centres to allow expert knowledge to be built within a core team.
- Having a proper process in place for the maintenance of the chart of accounts, including to validate the changes to the chart of accounts (elimination of unused accounts, control over the creation of new accounts, communication of changes to the users).

In addition, the use of intercompany accounts facilitates eliminations in consolidation and makes the consolidation process more efficient.

6.5. System design features

A well-defined chart of accounts, with proper consideration to thin versus thick ledger, supports financial information for better analysis and decision making. A decision about implementing thin versus thick ledger directly affects the design of the chart of accounts. With a 'thin ledger' approach, minimum information is stored within general ledger, and information included in specialised sub ledgers / data warehouse can provide the full picture, as and when needed. Following a 'thick ledger' approach, most of the information is stored in the general ledger.

The main features of the two approaches are presented below:

	Thin ledger	Thick ledger
Hub	Data warehouse is the information hub	General ledger is the information hub
General ledger data entry	Faster and less prone to errors	Slower and prone to errors
Reconciliation	Requires robust reconciliation mechanisms	Easier reconciliation
Performance	Faster general ledger system performance	Relatively slower performance

In addition, the chart of accounts system features should include the following possibilities:

- Provide on-line, real time access to the single core general ledger.
- Provide efficient copy and editing facilities.
- Ensure fast processing of transactions and easy production of reports.
- Ensure strong user access security and controls.

When it comes to security, it is recommended to build manual and automated controls around the chart of accounts. Examples of controls that can be considered around chart of accounts include:

- User access to accounts: designing of a user access matrix listing the set of accounts available / unavailable to specific set of users or a group of users (e.g. users of a local agency are not allowed to access accounts that are related to transactions that can be only entered into by the central treasury team).
- Control accounts: definition of balance sheet controls accounts to aid reconciliation of sub ledgers with general ledger (e.g. suppliers and debtors control accounts).

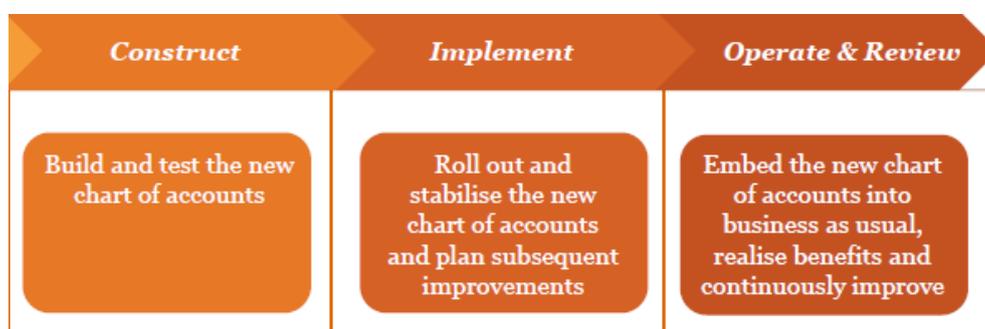
6.6. Implementation timeline

The initial implementation phase consists in designing the key considerations and key principles for the new chart of accounts. Typical challenges arising during the design phase consist in ensuring all requirements have been considered and the design is fit for purpose. Best practice is to finalise the chart of accounts when conceptual analyses regarding the accrual accounting information needs are done in order to take all relevant input from these conceptual analyses into account. Information

needs so determined include information needed to satisfy accounting policies and presentation and disclosure requirements in a harmonised way across reporting entities, as well as any additional information needed for other purposes (multidimensional aspect of the chart of accounts).

Subsequently, the mapping phase consists of mapping the new chart accounts values to the old chart of accounts values for the purpose of migration of financial information from the old chart of accounts to the new. Challenges which may arise during the mapping phase include managing changes to the chart of accounts identified during the mapping process, as well as managing the process when multiple teams are working simultaneously on it. As soon as the mapping is validated, the configuration of chart of accounts and associated system components in the general ledger can take place following the sequence described in Figure 12: Implementation of a new chart of accounts.

Figure 12: Implementation of a new chart of accounts



Building accounting integration and interface with other feeder/consumer systems, as well as testing of chart of accounts and system components are crucial steps. After roll out to all reporting entities, the identification of potential issues enables to plan subsequent improvements to the harmonised chart of accounts (continuous improvement process). Finally, a process for managing the routine changes to the chart of accounts, such as addition of new accounts, should be foreseen after initial implementation.

In practice, the timeline for designing the chart of accounts may have to be adapted depending on constraints linked to the overall project timeline. For example, the timeline for designing a chart of accounts may be impacted by other major changes such as the implementation of a new IT system or the development of a shared service centre.

7. PwC's recommendations on the way forward

The use of a standard chart of accounts is not an objective in itself but a tool in the whole accounting and reporting value chain. In practice, developing a uniform chart of accounts is a very good means, not to say a necessary means, to achieve harmonisation among reporting entities. Comparability in presentation is indeed greatly facilitated by the use of a standard chart of accounts by all public sector entities in the scope of reporting. In addition, governments may use the chart of accounts for other purposes than just financial reporting.

Conversely, the lack of consistency in accounting categories and terms used by different government entities may cause:

- inefficiencies in the reporting process and consequential significant administration costs; and
- an inability to aggregate and compare financial data for any purposes, such as for example public policy development, benchmarking of performance and indications of financial effectiveness.

The purpose of this issue paper is only to address harmonisation of charts of accounts at the national level, i.e. within individual Member States, not at the EU level.

At the national level, the following aspects should be specifically considered when developing/redesigning a chart of accounts:

- Setting up one harmonised/common chart of accounts should take into account user needs, properly addressing the various dimensions of the reporting value chain (EPSAS reporting, ESA 2010 reporting, budgetary reporting, management reporting).

Consideration of user needs is an important aspect and may vary from country to country. For example, the government of Estonia recently decided to adopt accrual-based budgeting, therefore harmonising budgetary and general accounting rules. As a consequence, a uniform and integrated chart of accounts has been developed. On the contrary, Portugal still uses (modified) cash budgeting while moving to IPSAS-based accrual accounting and therefore decided to keep budgetary accounting and general accounting separate.

In terms of management reporting, the system developed by the Belgian central government integrates budget accounting, general accounting and analytical accounting. Management accounting is also considered in the accounting system set up in Portugal.

Automated or semi-automated links between the financial accounts and ESA 2010 codes accounts are organised in the three countries analysed: Belgium, Portugal and Estonia.

- Developing integrated IT systems solutions may further facilitate the set-up of a uniform and integrated chart of accounts. In Belgium for example, the FEDCOM project involved the development of an integrated accounting system and chart of accounts by the central government and the implementation of a new ERP system across central government entities.
- Harmonisation of the chart of accounts is recommended for all government entities within the country. This facilitates both the consolidation at a specified government level (central, state

and local) and consolidation at the national level. In Estonia and Portugal, the accounting reform has been organised as such. Belgium is a federal country and different legislations apply. Accounting reforms are conducted independently by the various governments but the laws that have been passed implementing the chart of accounts at the central level, at the state/regional level and at the local level foresee similar minimum requirements in respect of the structure and contents of the chart of accounts.

- Putting in place a plan for data migration will help to minimise the risks inherent in a data migration project. A clear methodology is an essential part of a successful data migration and should include among others mapping rules, a recovery plan (recovery options for each stage of the migration) and a go live plan (actions required to go live).
- A rigorous and consistent application throughout reporting entities, including through development of comprehensive and easy-to-use guidelines on the chart of accounts and delivery of in-depth training programme to the users. For example, this has proved to be a key success factor in the implementation of IPSAS-based accrual accounting policies by the government of Estonia.
- Organising a proper maintenance of the chart of accounts and appropriate governance around changes. Centralising the maintenance of the chart of accounts (as for example in Portugal) and putting in place a good governance (e.g. responsibilities in terms of new accounts creation, monitoring of inactive accounts) enables to achieve the required level of controls over the chart of accounts, as well as the flexibility needed to meet the preparers of government reports' needs over time. The right balance should be found regarding the number of accounts to be created (users may wish to open many accounts to meet their own needs but too many accounts increase maintenance costs and the probability of errors in the bookings).
- Amending the underlying legislation as appropriate as the new requirements should be supported by legal texts. In Belgium, Portugal and Estonia for example, the use of a harmonised chart of accounts by public sector entities in scope is explicitly referred to in the national legislation. The level of details included/language used in the legislation should enable the flexibility required when maintaining the chart of accounts over time.