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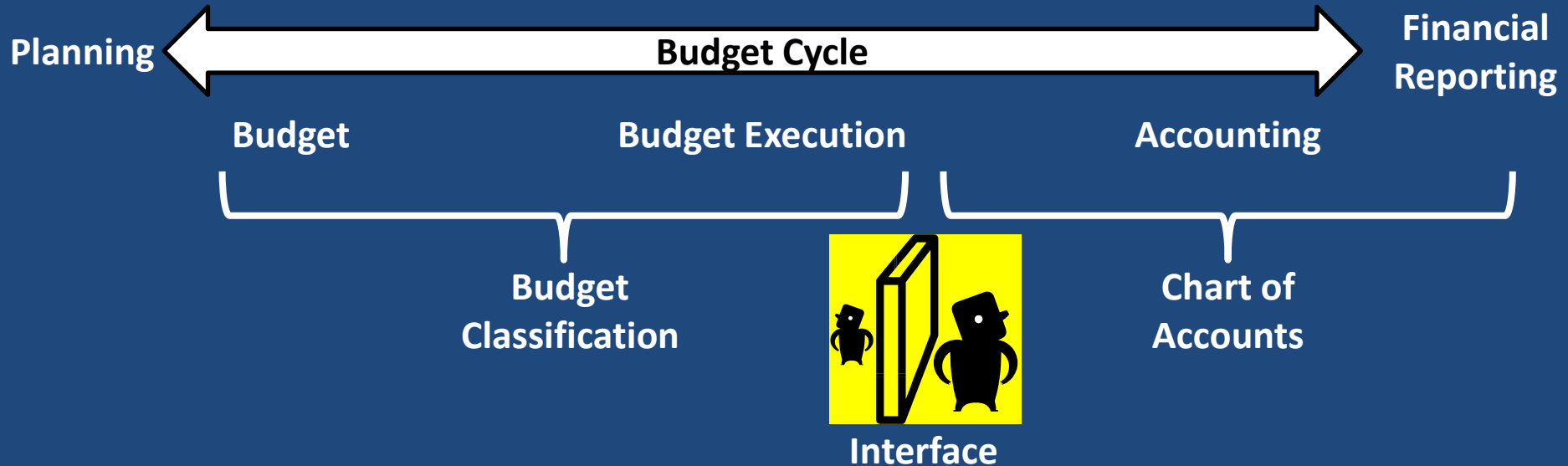
Linking Budget Classification and Chart of Accounts

PEMPAL

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Overview



Budget classification > coding structure for budget

Functions:

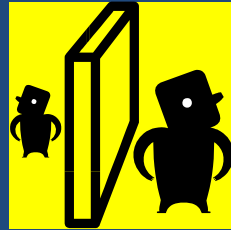
- Legal structure of the budget
- Enables multidimensional budget analysis
- Basis for budget management and execution

Chart of accounts > coding structure for accounting

Functions:

- Basis of accounting system
- Enables multiple transactions to be summarised and reported
- Enables financial statements

Why do BC and CoA need to interface?



Interface

1. **Fiscal management – need to manage revenues and expenditures in real time**
2. **Operational management – need to track commitments and expenditures as compared to budget**
3. **Financial reporting – IPSAS compliant financial statements must show outturn as compared to budget**
4. **Control – revenues raised and public money spent in accordance with budget**
5. **Transparency and accountability – compliance with budget revenue raising and expenditure allocations**

Traditional approaches to interfacing BC and CoA

Budget Classification

- Hierarchical administrative coding
- Additional codes for economic and functions
- Additional codes for other purposes, e.g. Programme, Gender, geographic

Chart of Accounts

- Administrative coding
- Detailed economic codes
- Additional codes for assets and liabilities

Coding structures mapped for financial reporting

- Advantages:
 - BC and CoA remain separate to meet different requirements
- Disadvantages
 - Very difficult to manage (1 to 1 correspondence between codes)
 - Not suitable for integrated computer systems

Modern approach – integrated BC and CoA

Budget Classification

- Codes for predicted (ex ante) flows:
 - Revenues
 - Expenditure
 - Financing



Chart of Accounts

- Uses identical codes to BC to record actual (ex post) flows
- Additional codes to record assets and liabilities (more extensive coding of assets and liabilities required under accrual accounting)

Obvious solution:

- But presents multiple challenges

Challenges of integrated BC and CoA

- Designing the integrated BC/CoA
- Cash based budget with accrual or modified accrual accounting
- Institutional issues
- Systems to handle new structure
- Change management

Designing the integrated BC/CoA

- IMF GFS Manual Annex 4 provides:
 - coding structure for functional (COFOG) and economic classification under accrual accounting
- But additional codes required for:
 - Country specific administrative structure
 - More detailed economic analysis
 - Special requirements, e.g. Programme codes, gender budgeting
 - Accounting purposes, e.g. to identify individual loans

Example of integrated structure - Tajikistan

Category	Revenue	Expenditure	Assets & liabilities	Net equity
1 Economic	GFS revenue	GFS expenditure	GFS codes	Derived from GFS codes
2 Function		Classification of Functions of Government (COFOG)		
3 Gov't organisation		Codes specific to organisation of budget entities in Tajikistan		
4 Geographic		Oblasts and Rayons		
5 Fund		Gov't or donor		
6 Programme		Determined by Gov't		

Problems of integrated structure

- Complex – many digits
 - Involves multiple decisions by staff coding transactions
 - Not feasible to implement with manual systems
- Using derived codes may reduce manual workload
 - E.g. Functional codes derived from administrative structure
 - **But** IMF recommends independent codes

Cash based budget with accrual or modified accrual accounting

Budget - cash based

- Flows predicted on cash basis
- No coding for non-cash flows, e.g. Depreciation
- Capital items expensed when cash paid

Accounting – accrual (full or modified)

- Flows recorded on accrual basis
- Non-cash flows coded
- Capital item expensed over useful life

Issues:

- Requirement to present financial statements comparing budget and actual on same basis (IPSAS 24) – most accounting packages cannot provide required information
- Codes for flows in budget not used in accounting and vice versa
- Monitoring and control made difficult, e.g. should commitments be recorded on cash or accrual basis?

Institutional issues

Traditional structure



Integrated BC and CoA



Systems to handle integrated BC/CoA (1)

- Typically regional countries
 - Use spreadsheet or relational database systems for budget preparation
 - Bespoke (custom developed) systems for accounting
- Not normally economically viable to modify existing IT systems for integrated BC/CoA
- **Hence** implementation integrated BC/CoA linked to new IT software

Systems for an integrated BC/CoA (2)



- **Bespoke (custom developed) systems**
- Feasible to develop database systems for an integrated BC/CoA
- **But** requires good understanding of financial requirements
- many arguments against bespoke systems



Commercial Off The Shelf Systems (COTS)

- Most commercial accounting packages will not handle complexities of integrated BC/CoA
- Requires sophisticated (= expensive) packages
- Even with sophisticated packages implementation problems

Change management (1)

- Implementing an integrated BC/CoA – major change management challenge
- Requires:
 - Training
 - Systems
 - Procedures
 - Documentation
 - A change plan

Options for implementing BC/CoA

“Big bang” - simultaneous all budget organisations

- Advantages
 - Organisationally simple
 - Only one BC/CoA in operation at any time
- Disadvantages
 - High risk
 - Huge task or preparation at every organisation
 - Every budget organisations must have new systems, procedures and trained staff at the same time

Phased – by geography or by type of budget organisations

- Advantages
 - Reduces risk
 - Can learn from first phase implementation
 - New systems, procedures & training can be phased
- Disadvantages
 - Complex to manage
 - Two separate budget/CoA (with related systems & procedures) operating in parallel

Conclusions

- It is essential that BC and CoA interface
- Complete integration of BC and CoA the logical solution
- But presents many problems of design and implementation
- There are no “quick fixes” – each issue requires careful consideration and time to resolve