Accounting and financial reporting in Estonia

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State Shared Service Centre
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Topics

2) Legal and regulatory framework of the Estonian public sector accounting system
3) Unified chart of accounts in Estonian public sector financial reporting
4) Financial reporting of the State of Estonia
Public sector accounting in 2003

• Dated accounting principles used by public sector entities
• 430 state authorities (ministries and agencies), with independent financial and personnel accounting;
• 241 local governments, but ca 900 independent accounting entities
• 500 other public sector entities with independent accounting
• 30 different accounting software solutions and 1800 separate accounting databases;
• All accounting documents and reports presented on paper;
• Poor common reporting system, no consolidated reports;
• State treasury system in use (implemented in 2003) – state budget limits checked, state budget and actuals comparison report available on-line
Public sector accounting reform starting from 01.01.2004, prepared in 2003

- Amendments to Accounting Law in 2003
- General public sector accounting and reporting principles prepared in 2003 and enforced from the beginning of 2004 (regulation of the Minister of Finance)
  - Unified chart of accounts
  - Form and due dates for financial reporting
  - Reporting database of Ministry of Finance
  - Accounting software of reporting entities for generating automatic reports
  - Guidelines, additional explanations, examples, help desk, delivery of training for new reporting (500 pages of materials)
Public sector accounting reform 2004-2005

First phase in 2004
• business companies were not taken along
• revaluation of the non-financial fixed assets was postponed to the second phase

Second phase in 2005
• revaluation of the non-financial fixed assets was carried through until 31.12.2005
• business companies were also consolidated line by line

• Lots of questions-answers and training courses at first stage
• Improvement and addition of guidelines
Public sector accounting in 2009

- Common consolidated reporting system for all public sector entities from the year 2004 in use; consolidated reports available monthly and quarterly;
- State treasury system from the year 2003 in use; report of fulfilment of cash-based state budget available on-line, limits of the budget checked;
- Audited annual reports in accordance with IPSAS presented from the year 2004;
  - 250 state authorities, 200 accounting entities (some centralised accounting entities); 600 accountants in ministries and state agencies;
  - 226 local governments most of all with centralised accounting;
  - 500 other public sector entities with independent accounting;
  - 14 different accounting software solutions and 1000 separate accounting databases;
  - majority of invoices presented in pdf files (or on paper)
Government decision at end of 2009

Accounting services consolidation project

1. All state agencies should start using common financial and personnel accounting software SAP – plan for years 2010-2014 to implement SAP in ministries and agencies

2. One service point for financial and personnel accounting services in every area of government (17 accounting entities by the end of 2014)

3. Introduce e-invoices and other electronic documents, incl self-service environment

4. Introduce e-reports for management information

5. The Ministry of Finance is responsible for the project
Objectives of accounting services consolidation project

- Quality of services
- Competent and motivated employees
- Optimal and standardised processes
- Cost effectiveness
State Shared Service Centre starting from 2013

Grew out of Support Services Consolidation project

**Services:**

- Financial accounting
- Personnel accounting and payroll

**Clients of financial and personnel accounting:**

- Ministry of Justice,
- Ministry of Finance,
- Ministry of Social Affairs
- Ministry of Economics and Communication

- Development and administration of common accounting and payroll information system

- Public sector accounting and reporting principles and consolidated reports

120 employees
IT-Solutions implemented by the State Shared Service Centre

1. Common accounting system SAP
2. E-invoicing system
3. Self-Service portal
4. Web-based reporting system
Legal and regulatory framework of Estonian public sector accounting system
Amendments in Accounting Law in 2003

- Consistent with IFRS and IPSAS
- Accrual-based accounting

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

- state budgetary units
- local governments
- social security funds
- non-profit institutions controlled by government sector
- business companies controlled by government sector
General Guidelines for Public Sector accounting and financial reporting

Confirmed by Minister of Finance in December 2003

Includes:

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

The International Public Sector Accounting Standards Board (IPSASB) – IPSAS standards
http://www.ifac.org/public-sector

Estonian Accounting Standards Board - Estonian GAAP
http://www.easb.ee/?lang=en

State Shared Service Centre - Estonian Public Sector Accounting Principles
http://www.rtk.ee/saldoandmike-kasutajad/avaliку-sektori-raamatupidamine
Financial reporting and consolidating system

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

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

Address of the reporting database available to public:

https://saldo.fin.ee/

From 2004 to 2007 quarterly for all reporting entities

Since 2008:

• monthly: all units of General Government Sector
• quarterly: all other public sector entities, incl business enterprises
Financial reporting and consolidating system

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

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

Reports of entities checked by State Shared Service Centre

Once a year compared with audited Annual financial statements

Consolidated reports formed automatically in the system
Process and timeliness of the reporting

• All public sector entities have to input their financial reports into the consolidation system during **30 days** after the end of the month or quarter

• Whole of Government consolidated balance sheet and income statement available **37 days** after end of the month

• Annual Whole of Public Sector financial statements prepared by **31 May**

• Thereafter audited by the State Audit Office

• Presented to the Parliament by **30 August**
Annual reports

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

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

• The statement about activities (incl fulfilling the development plans)
• Financial statements of the ministry (consolidated with agencies in the ministries governmental area, including
  • statement of financial position (balance sheet),
  • statement of financial performance (revenues and expenses report),
  • statement of cash-flows,
  • statement of movements in net-assets (equity),
  • statement of comparison of budget and actual amounts,
  • notes to the financial statements
The annual report of the state include (starting from 2005):
• the statement about activities (incl fulfilling the development plans)
• financial statements of the state (consolidated)
• information about the financial statements of the local governments (consolidated)
• information about the financial statements of the whole government sector and the public sector (consolidated)
  • every set of financial statements include 4 main reports + disclosure notes
  • the financial statements of the state include the statement of comparison of budget and actual amounts
Auditing

Audited by National Audit Office:

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

All other units are audited by private auditors according to the Accounting Law.
Ongoing projects and plans for the future

• Harmonising budgeting and accounting principles

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

• The methodology of performance budgeting and accounting
Unified Chart of Accounts in Estonian public sector financial reporting
Chart of accounts

Chart of accounts includes:

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

Reports consist of account combinations and their balances
Account codes

Unified Chart of Accounts used by all public sector entities

- **240** different accounts for assets
- **140** different accounts for liabilities
- **20** different accounts for net assets
- **340** different accounts for revenues
- **450** different accounts for expenses
- **80** different accounts for additional off-balance sheet information (contingent liabilities, number of employees etc)
Every public sector entity has its own Trading Partner code. General codes for private sector trading partners and non-residents.

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

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

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

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

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

<table>
<thead>
<tr>
<th>Account</th>
<th>Trading partner</th>
<th>Function</th>
<th>Source</th>
<th>Cash-flow</th>
<th>Debit</th>
<th>Credit</th>
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<tr>
<td>155900</td>
<td>800599</td>
<td>01120</td>
<td>01</td>
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<tr>
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<td>800599</td>
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<td>12 600</td>
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<td>014301</td>
<td>01120</td>
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<td>100 000</td>
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</tr>
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<tbody>
<tr>
<td>350000</td>
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<td>05100</td>
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<td></td>
<td></td>
<td>100 000</td>
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<tr>
<td>611000</td>
<td>05100</td>
<td></td>
<td></td>
<td>18 400</td>
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</tbody>
</table>
Financial reporting of the State of Estonia
Whole of Government financial statements

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

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

- Accounting principles fully IPSAS-based
- Full sets of annual IPSAS-based consolidated financial statements (incl 4 primary statements and 200 pages of disclosure notes) prepared since 2004
Whole of Government financial statements

- Government sector: 86%
- The state entities: 48%
- Local governments: 13%
- Others: 16%
- Social security funds: 8%
- Other (business enterprises, Bank of Estonia): 14%
### Summarised consolidated balance sheet of Estonian public sector (EUR millions)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Cash</td>
<td>1 316</td>
<td>245</td>
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<tr>
<td>Investments in securities</td>
<td>1 197</td>
<td>721</td>
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<tr>
<td>Tax receivables</td>
<td>607</td>
<td>270</td>
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<tr>
<td>Other receivables</td>
<td>2 681</td>
<td>114</td>
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<tr>
<td>Inventories and other</td>
<td>306</td>
<td>87</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>6 107</strong></td>
<td><strong>1 437</strong></td>
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<tr>
<td>Long-term receivables</td>
<td>238</td>
<td>110</td>
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<tr>
<td>Financial investments</td>
<td>570</td>
<td>6</td>
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<tr>
<td>Investment properties</td>
<td>247</td>
<td>91</td>
</tr>
<tr>
<td>Property, plant &amp; equipment</td>
<td>10 670</td>
<td>1 937</td>
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<tr>
<td>Forest</td>
<td>761</td>
<td>-</td>
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<tr>
<td>Other non-current assets</td>
<td>208</td>
<td>1 696</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>12 694</strong></td>
<td><strong>3 840</strong></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>18 801</strong></td>
<td><strong>5 277</strong></td>
</tr>
</tbody>
</table>
## Summarised consolidated balance sheet of Estonian public sector (EUR millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Refundable taxes</td>
<td>370</td>
<td>223</td>
</tr>
<tr>
<td>Borrowings</td>
<td>161</td>
<td>71</td>
</tr>
<tr>
<td>Accounts payable and other</td>
<td>3 834</td>
<td>237</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>4 365</strong></td>
<td><strong>531</strong></td>
</tr>
<tr>
<td>Borrowings</td>
<td>1 917</td>
<td>408</td>
</tr>
<tr>
<td>Provisions</td>
<td>1 128</td>
<td>403</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>649</td>
<td>34</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td><strong>3 694</strong></td>
<td><strong>846</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>8 059</strong></td>
<td><strong>1 377</strong></td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Reserves</td>
<td>862</td>
<td>464</td>
</tr>
<tr>
<td>Accumulated surplus</td>
<td>9 864</td>
<td>3 436</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS</strong></td>
<td><strong>10 742</strong></td>
<td><strong>3 900</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td><strong>18 801</strong></td>
<td><strong>5 277</strong></td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2004</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Taxes and social contributions</td>
<td>5 006</td>
<td>2 944</td>
</tr>
<tr>
<td>Sales of goods and services</td>
<td>1 840</td>
<td>203</td>
</tr>
<tr>
<td>EU and other grants received</td>
<td>766</td>
<td>158</td>
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<tr>
<td>Other revenues</td>
<td>150</td>
<td>194</td>
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<tr>
<td><strong>Total revenues</strong></td>
<td><strong>7 762</strong></td>
<td><strong>3 499</strong></td>
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<tr>
<td>Social benefits and grants given</td>
<td>2 935</td>
<td>1 545</td>
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<tr>
<td>Staff costs</td>
<td>2 100</td>
<td>821</td>
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<tr>
<td>Administrative costs</td>
<td>1 560</td>
<td>565</td>
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<tr>
<td>Depreciation and amortisation</td>
<td>744</td>
<td>157</td>
</tr>
<tr>
<td>Other expenses</td>
<td>296</td>
<td>242</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>7 635</strong></td>
<td><strong>3 330</strong></td>
</tr>
<tr>
<td><strong>Operating result</strong></td>
<td><strong>127</strong></td>
<td><strong>169</strong></td>
</tr>
<tr>
<td>Interest costs</td>
<td>(127)</td>
<td>(45)</td>
</tr>
<tr>
<td>Gains on investments</td>
<td>120</td>
<td>167</td>
</tr>
<tr>
<td><strong>Net result for the year</strong></td>
<td><strong>120</strong></td>
<td><strong>291</strong></td>
</tr>
</tbody>
</table>
Which number do you need?

1. Whole of Government financial statements prepared in accordance with IPSAS
   - Fully accrual based
   - Used by OECD, financial institutions, rating agencies
   - Hardly understood by politicians

2. Eurostat (ESA 95) based calculations
   - Semi accrual based
   - Used to assess Estonia against Maastricht criteria
   - Monitored by politicians (to demonstrate that Estonia has strong financial discipline and is a good citizen of Europe)

3. State budget and actuals comparison report
   - Fully cash based
   - Used by government institutions to manage cash flows
**Do we have a surplus or deficit?**

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

**Net deficit according to IPSAS-based WoG accounts** (84)

- Depreciation, amortisation, impairment 504
- Acquisition of PPE and other non-financial assets (566)
- Elimination of change in provisions 141
- Timing difference in accounting for sale of CO2 quotas 149
- Timing difference in recognising tax revenue 37
- Other accounting differences (15)

**Net surplus measured in accordance with Eurostat** 164

**Surplus of government sector as a % of GDP** 1.0%
Is it all worth the effort?

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