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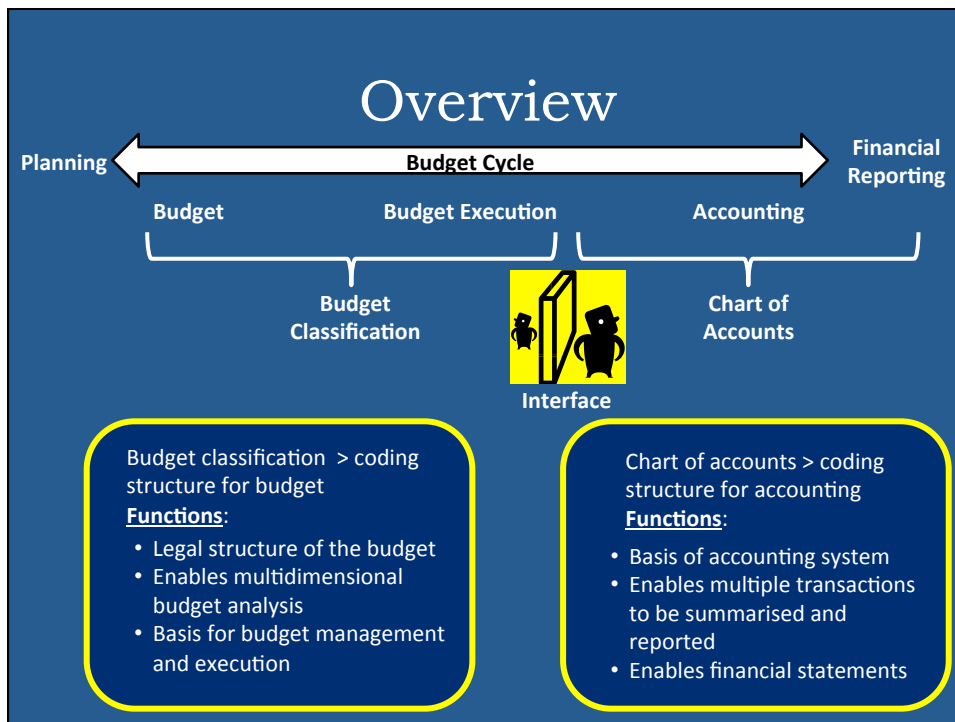
Linking Budget Classification and Chart of Accounts

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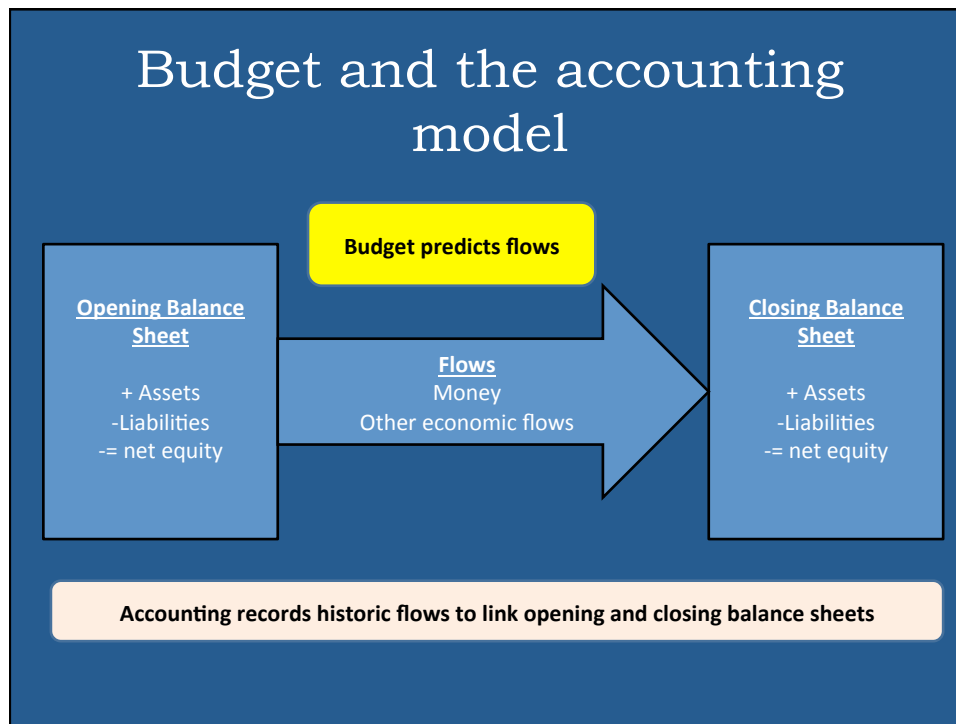
Dushanbe

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Why do BC and CoA need to interface?

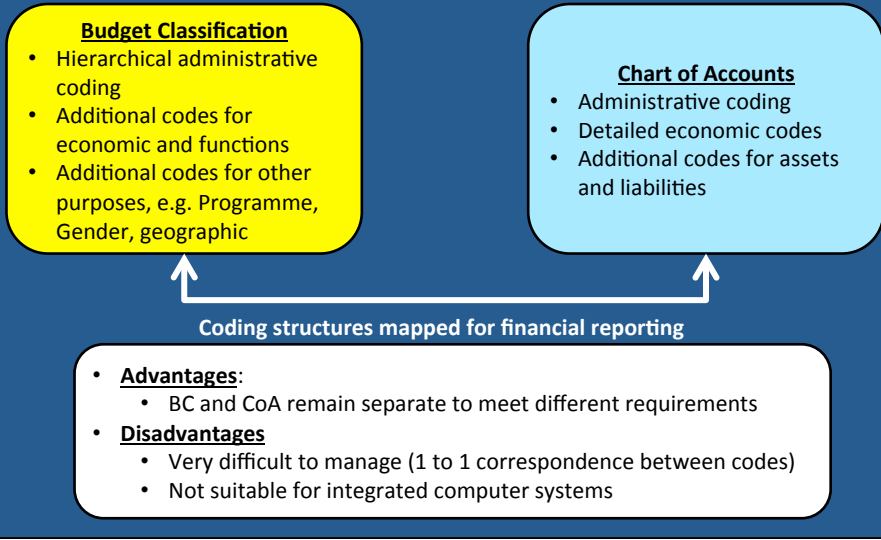


Interface

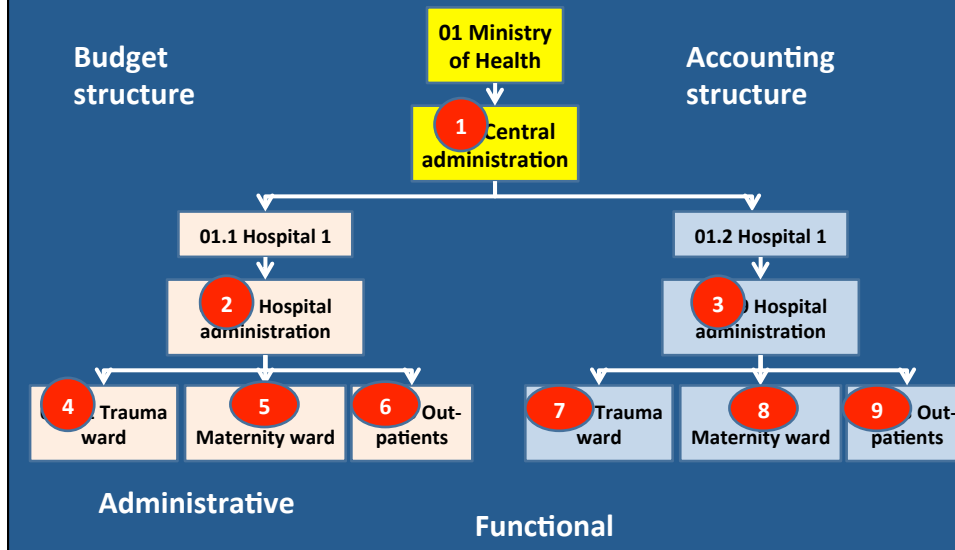
1. Fiscal management – need to manage revenues and expenditures in real time
2. Operational management – need to track commitments and expenditures as compared to budget
3. Financial reporting – IPSAS compliant financial statements must show outturn as compared to budget
4. Control – revenues raised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

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Traditional approaches to interfacing BC and CoA

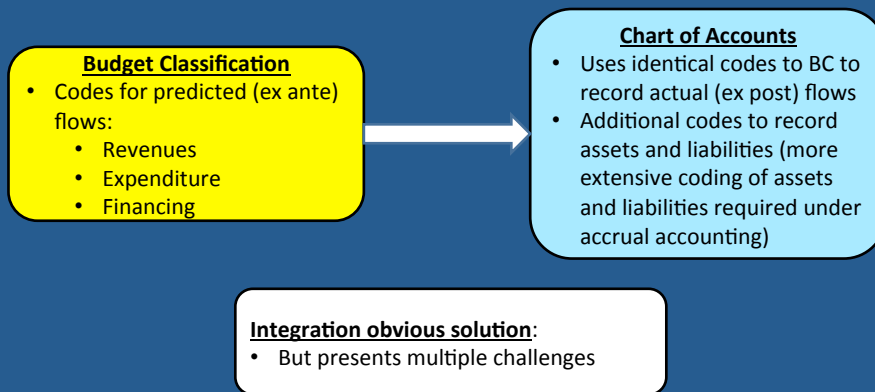


Independent CoA – functional and organisational



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Modern approach – integrated BC and CoA



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

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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

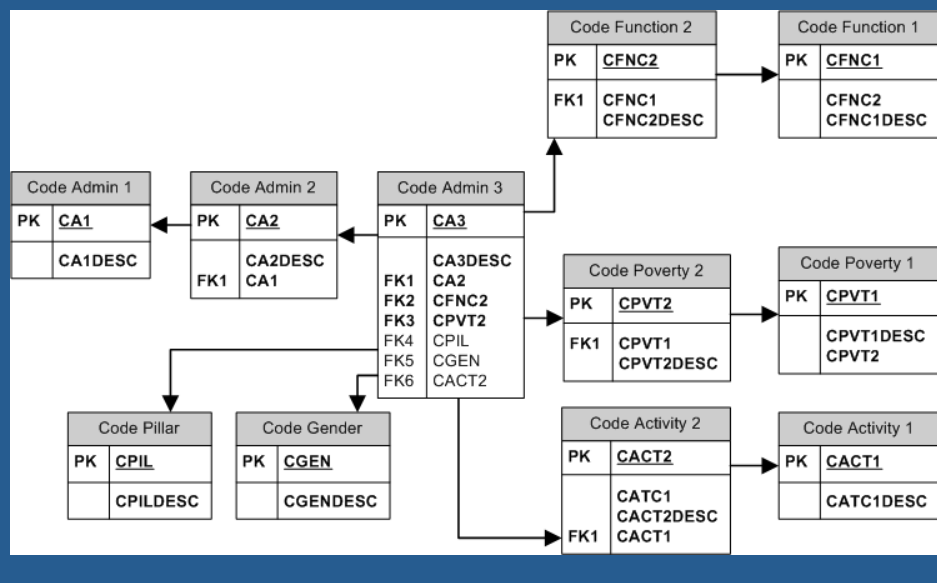
Category	Revenue	Expenditure	Assets & liabilities	Net equity
1 Economic	GFS revenue	GFS expenditure	GFS codes	Derived from GFS codes
2 Function	Classification of Functions of Government (COFOG)			
3 Gov't organisation	Codes specific to organisation of budget entities in Tajikistan			
4 Geographic	Oblasts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

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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

Nepal Database Structure



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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

Budget Division



Responsible BC

Treasury



Responsible CoA

Integrated BC and CoA

Budget Division

Treasury



Coordinating arrangements to enable joint responsibility for integrated BC/CoA

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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

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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	Phased – by geography or by type of budget organisations
<ul style="list-style-type: none">• Advantages<ul style="list-style-type: none">– Organisationally simple– Only one BC/CoA in operation at any time• Disadvantages<ul style="list-style-type: none">– High risk– Huge task or preparation at every organisation– Every budget organisations must have new systems, procedures and trained staff at the same time	<ul style="list-style-type: none">• Advantages<ul style="list-style-type: none">– Reduces risk– Can learn from first phase implementation– New systems, procedures & training can be phased• Disadvantages<ul style="list-style-type: none">– 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