



**Ministry of Finance SR**

Project: Providing advisory  
services for improving accounting  
and reporting systems of public  
finance  
Inception report



KPMG Slovensko, spol. s r.o.



PricewaterhouseCoopers Slovensko, s.r.o.

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# **1 Background**

This report ("Report") represents the output of the inception phase of the project of providing advisory services to Ministry of Finance of Slovak Republic ("MF SR") for improving accounting and reporting systems of public finance ("Project"), in compliance with the contract on service delivery of 27 February 2006 between MF SR as the client and KPMG Slovensko spol. s r.o. as the leader of the group of providers. This group of providers is hereinafter collectively named "Provider".

## **2 Executive summary**

The purpose of this Report is to provide information on key matters affecting the future course of Project, based on our findings of the Project inception phase, as discussed further.

### **2.1 Assessment of current status of MF SR readiness to migrate to accrual accounting**

We assessed MF SR readiness from both the organisational and technical aspects:

#### **2.1.1 Allocation of resources to PFMR**

Based on our initial assessment, the workload related to a successful completion of PFMR goes well above the current capacity of the Section of State Reporting. We anticipate a need for creating

- a separate department in charge of consolidation for the whole public administration, this department should process the consolidation statements of state administration and self-administration and oversee the consolidation at preceding levels, maintain the accounting and consolidation methodology, monitor quality of accounting records, reassess training needs,
- a helpdesk for responding to queries on new accrual accounting and consolidation methodology by accountants of more than 7800 reporting entities.

#### **2.1.2 Accounting methodology and consolidation methodology**

We concluded that significant progress has been made in preparing accounting and consolidation methodologies. All needed legislation has been prepared in the form of drafts. We anticipate a significant delay in this matter with impact on the timing of the whole Project, see section 2.3.1

### **2.1.3 Training**

A good progress has been achieved also in training matters, where the Conception of further education for state administration and local self-administration has been prepared that can be a basis for trainings under this Project.

### **2.1.4 Fiscal reporting**

It has been achieved that a large portion of the data required for fiscal reporting can be obtained electronically from the reporting entities trial balances. In order to process them, code mappings from the budgetary classification to rows of GFSM2001 balance and ESA95 accrual reconciliation table have been developed. However, since these data are strictly bound to budgetary classification and do not include accounting accruals, e.g. provisions to doubtful receivable and provisions to doubtful financial investments, the responsible department runs separate statistical investigation using purpose-fit return forms to obtain the information on needed accruals. Subsequently, the department combines the information into fiscal reports. The goal is to eliminate the need for separate investigation and to base the fiscal reporting on accounting data as much as possible.

### **2.1.5 IT support for new accounting and consolidation methodology**

We have been informed about 2 pilot projects aimed at parallel run of the new accounting and consolidation methodology on the existing IT platform. The small pilot was close to generating consolidated trial balance.

## **2.2 Key aspects of service delivery**

Key aspects of service delivery under this Project are described below:

### **2.2.1 Accounting methodology and consolidation methodology**

We will validate the drafted accounting and consolidation methodologies in the form of gap analysis between the drafted methodology prepared by MF SR and IPSAS. We will further prepare detailed accounting and consolidation guidance in the form of manuals for all reporting entities. We will also prepare the operational manual for the State Reporting Section of MF SR performing the public administration consolidation.

### **2.2.2 Training**

The new accounting and consolidation methodology will require a fundamental change in mindset of the reporting accountants. Due to this, we will deliver the following trainings:

- Foundation trainings for approximately 3000 trainees:

- accrual accounting essentials, explaining relationship of balance sheet, income statement, cash flow, equity movements and notes,
- detailed accounting methodology training, providing IPSAS introduction, new accounting procedures, chart of accounts, new financial statements;
- Continuation trainings:
  - consolidation reporting pack for 800 trainees involved in consolidation process,
  - consolidated financial statements for 40 trainees,
  - IPSAS for 40 trainees representing selected MF SR employees, Supreme Auditing Body (NKÚ) and users of the new financial statements.

Due to anticipated delay in publishing the accounting and consolidation methodologies, as discussed in section 2.3.1, the trainings will be delivered during the period of Aug. 06 - Oct. 07.

### **2.2.3 Fiscal reporting**

We will analyse the fiscal reporting process, focusing on information requirements on accounting records. We will design the process of providing accounting information satisfying these criteria, including IT aspects of this process. There should be a common database for purpose of financial and fiscal reporting which is yet to be created.

### **2.2.4 Communication**

Training and communication, both internal and external, are key elements in change management. Except for trainings mentioned above, we will facilitate the change by outbound communication popularising the change process to broader professional audience, especially in the form of articles in professional press.

### **2.2.5 Long-term strategy**

Will deliver a strategy for sustainability of Project benefits after its completion, focusing on continuous improving quality of accounting information.

## **2.3 Project risks and limitations**

Delivering the above services is critically conditioned by 3 high-significance external Project risks:

### **2.3.1 Delayed publishing of accounting methodology**

As mentioned above, the accounting and consolidation methodologies have already been drafted. Due to close election to Parliament and resulting potential government change, it is assumed that the methodology will not be published before the end of September 2006. At the same time, the project plan schedules the nation-wide launch of the accrual accounting for 1 January 2007. This gives us in the best case only 3 months to train 3000 accountants of target entities for the new accounting methodology. We believe that this would significantly hurt effectiveness of these trainings. Subsequently, the reporting accountants will not have time to arrange for upgrades of their softwares with their vendors. We will not be able to issue the supporting manuals in time and communicate the change adequately. This may eventually endanger the overall objective of this Project because improvement of financial and fiscal reporting data quality may not be achieved.

### **2.3.2 Resistance to change by accounting entities**

The new accrual accounting framework requires a change in mindset of the reporting accountants from traditional book-keeping orientated vs. modern judgementally orientated attitude. This may be only gradual change.

### **2.3.3 Low administrative capacity at MF SR to manage the change**

Additional responsibilities of the State Reporting Section in relation to migration has already been described in section 2.1.1. Smooth performance of all additional activities needs to be ensured by adequate administrative capacity.

## **2.4 Recommendations**

- We recommend to reschedule the nation-wide launch of the accrual accounting to 1 January 2008. This would enable to
  - deliver effective accounting methodology trainings supported quality training materials
  - deliver accounting, consolidation and operational manuals as an aid to the reporting accountants in the early stage of applying the accrual accounting,
  - analyse impact of the one-time change of the accounting methodology on the financial statements of the reporting entities. This is significant primarily for contribution organisations;
  - upgrade the softwares of reporting entities in the controlled manner,
  - perform the proper communication.

All related timing aspects are shown in the table in section 8.3.

- We recommend to focus on proper change management, including communication and providing helpdesk to reporting accountants.
- We recommend to ensure sufficient administrative capacity for State Reporting Section in the view of new responsibilities.
- There should be continuous effort to make consistent 2 tasks of accounting: to serve as the primary information for the budgetary process and to provide true and fair view on reporting entities' financial position and on the results of their operations and their cash flows.
- In order to be able to assess progress in delivering the Project outputs and to reassess the Project risks affecting the readiness to migration to accrual accounting on the revised term of 1 Jan. 2008, we recommend to organise a steering committee meeting on 31 March 2007.

## **3 Project definition**

### **3.1 Project objective**

Our Project represents the final stage in the Public Finance Management Reform Project ("PFMR") in Slovakia. Its overall objective is improving macroeconomic performance and fiscal transparency of public finance in Slovakia and meeting "Acquis Communautaire" requirements related to the budget of European Commission, financial relationships and accounting and public sector reporting on accrual basis. The Project builds on prior work of MF SR and cooperating consultants in this area, primarily the Adviser on public finance accounting, especially in the area of emphasising the significance of accrual accounting in public finance, migration plan and project risk analysis. We have developed our understanding of the prior work of MF SR and Adviser on public finance accounting and documented it in this Report, see section 6.

### **3.2 Project purpose**

The purpose of the Project is to carry-out all the activities needed to reach the set objective, primarily:

- to provide advisory services in implementing the migration plan to accrual accounting,
- to provide advisory services in design, testing and implementing adequate accounting and fiscal reporting systems and reports, including general purpose financial statements,
- to train approximately 3000 state administration accountants and accountants of local self-administration in using the new accounting and fiscal reporting framework.

### **3.3 Project results**

The Project should provide the following results:



1. Implemented accrual basis accounting including
  - 1.1 evaluation of current public finance accounting framework,
  - 1.2 assessment, testing and implementation of migration plan for extending the accounting framework based on cash flows to accrual accounting,
  - 1.3 elaborated drafts for MF SR of primary and secondary legislation
  - 1.4 elaborated drafts for MF SR of relevant methodologies, procedures, operational guidelines, regulations and manuals
  - 1.5 trained employees of state administration and of local self-administration;
2. Updated report on existing fiscal and financial reporting framework including analysis of needs, taking into account IPSAS, ESA95, GFS and SNA standards, including evaluation of the current framework;
3. Updated designs of new fiscal and financial reporting framework and reports, including, among others
  - 3.1 competence framework,
  - 3.2 relevant requirements of state reporting, EU reporting and financial statements;
4. Tested and implemented new fiscal and financial reporting framework and reports;
5. Submitted working draft of relevant procedures of MF SR, operating guidelines and regulations for fiscal and financial reporting framework and reports;
6. Accountants of state administration and local self-administration (or other relevant governmental institutions), in the number of approximately 3000 persons, trained in using the new fiscal and financial reporting framework, and consolidation package.

### 3.4 Scope-in entities

The scope-in entities for this Project are, for accrual accounting, consolidation and fiscal reporting advisory, the accounting units maintaining accounting records per accounting procedures for budgetary organisations, contribution organisations, higher territorial units and municipalities, as defined by the current legislation, in anticipated count of 7819 entities. Analysis of the above entity counts is presented in the Appendix A. The training per section 7.6 will be delivered all these entities. The accounting and operational manual, consolidation manual and all other deliverables under this Project will be delivered to MF SR.

## 4 Project team

The Project team will be composed of representatives of MF SR and of Provider.

### 4.1 MF SR team

MF SR team members will be responsible for creating supportive environment for the Project within MF SR, providing necessary information and documentation to Provider, ensuring cooperation of the scope-in entities and validating interim and final project outputs generated by the Provider.

The MF SR team will include:

Name	MF SR function	Project role
Ing. Katarína Kaszasová	General Director of State Reporting	Project manager

Name	MF SR function	Project role
	Section	
Ing. Lucia Kašiarová	External advisor	Project coordinator
Ing. Miriam Majorová	Head of Separate Dept. of State Accounting Methodology	Contact person for accounting
Ing. Albín Kotian	State Secretary Adviser for IS and accounting	Contact person for IT systems
Ing. Peter Bulla	Director of Division for ISSP	Contact person for training
Ing. Pavol Beňo	Head of Department for Implementing Statistical Standards	Contact person for fiscal reporting

## 4.2 Provider team

Our team will be led by Mr. Karol Švitel. The team will be organised into the following workstreams:

Workstream	Leader
1. Accounting	Ivan Kupkovič
2. Consolidation	Richard Farkaš
3. Fiscal reporting	Viliam Kitta
4. Organisation	Karim Mouedden
5. IT	Viliam Kitta
6. Training	Antónia Kovalčíková
7. Communication	Richard Farkaš
8. Project Office Coordinator	Alena Šranková

The workstream leaders will be responsible for delivery of project outputs assigned to their workstreams per the project plan, presented in appendix D.

## 5 Analysis of detailed activities per the terms of reference

The below activities are based on the activities per terms of reference, with added completion status and anticipated duration.

Activity	Status	Duration
1. Familiarize with existing migration strategy to accrual accounting and updating it, if needed, according to progress and results of other PFMR projects;	completed	until 3 Apr. 06
2. Prepare report on significant deviations from approved strategy and proposing necessary changes to migration plan;	completed, this report, section 8.2	until 3 Apr. 06
3. Familiarize with existing primary and secondary accounting legislation including the legislation in the process of preparation;	in progress	Mar. 06 - Aug. 06
3a Validate the new accounting methodology by Provider;	in progress	Mar. 06 - Aug. 06

Activity	Status	Duration
4. Prepare report on significant deviations from approved strategy of legislation changes and proposing necessary changes in the new accounting legislation;	completed, this report, section 8.2	until 3 Apr. 06
4a Prepare wording of Act on Accounting amendment for IPSAS consolidation;	to be done	Apr. 06 - Aug. 06
5. Familiarize with all other relevant reports of PFMR project;	completed, this report, section 6 e,f	until 3 Apr. 06
6. Familiarize with existing fiscal and financial reporting systems focusing on preparing reports in compliance with Slovak accounting standards for public sector, ESA95 and GFS2001, where it is necessary to ensure that all institutions and units involved in this process be included for assessment;	completed, this report, section 3.4	until 3 Apr. 06
7. Prepare draft report on identified strengths and weaknesses of existing systems, where it is necessary to take into account application of Slovak public sector accounting standards, ESA95, GFS2001 and all existing methodological problems, existing competence framework and existing support by information systems;	to be done	Aug. 06
8. Prepare the design of new financial and fiscal reporting systems focusing on preparing reports in compliance with new accounting legislation, ESA95 and GFS2001, where the design must be fully consistent with and linked to the overall PFMR project and it should include: <ul style="list-style-type: none"> <li>- description of all sub processes necessary for preparing statements,</li> <li>- competence framework (specification of all entities involved into statements preparation,</li> <li>- proposed changes to methodology application,</li> <li>- proposed changes in the information systems support,</li> <li>- time-schedule of implementing the proposed fiscal and financial reporting systems focusing on preparing statements in compliance with national accounting procedures, ESA95 and GFS2001;</li> </ul>	to be done	Sep. 06 - Jun. 07
8a Validation of new consolidation methodology	to be done	Oct. 06 - Jun. 07
9. Testing and assistance with implementing new fiscal and financial reporting systems per approved design, focusing on preparing statements in compliance with new Slovak accounting legislation, ESA95 and GFS2001, including the following: <ul style="list-style-type: none"> <li>- assistance with coordinating activities needed to prepare statements for 2006 and 2007 (identification of data submitted by each public sector entity for reporting needs, data-submission time-schedule, data collection system),</li> <li>- assistance with preparing statements for 2006 and 2007 in compliance with new Slovak public sector accounting legislation (general purpose financial statements), ESA95, GFS2001;</li> </ul>	<p>to be done Precondition for the following activities is publishing new consolidation methodology as an accounting legislation.</p> <p>to be done</p> <p>to be done As discussed in the section 8.2, the nation wide launch of accrual accounting should be postponed to 1 Jan. 08. Thus we will be able to provide assistance only on fiscal reports.</p>	<p>Oct. 06 - Oct. 07</p> <p>Oct. 06 - Oct. 07</p> <p>Oct. 06 - Oct. 07</p>
10. Prepare reports on findings identified during testing and implementation process, design changes in proposed processes, competencies, methodologies and system support;	to be done Findings will be included in regular quarterly progress reports.	Oct. 06 - Oct. 07

Activity	Status	Duration
11. Design of operating manuals for systems of fiscal and financial statements focused on statements for the year 2006 in compliance with new Slovak accounting legislation, ESA95 and GFS2001 consisting of: <ul style="list-style-type: none"> <li>- reporting data submission rules for all public sector entities (data types, submission time-schedule, submission form, etc.),</li> <li>- roles and responsibilities of all public sector entities and professional units responsible for preparing statements,</li> <li>- summary of procedures to be carried-out in the process of statements preparation (data aggregation, elimination, statements adjustments, statements submission, etc.);</li> </ul>	to be done Assistance in respect of financial reporting may be limited due to postponing nation-wide launch of accrual accounting.	Oct. 06 - Oct. 07
12. Updating of operating manuals for fiscal and financial reporting focused on 2007 statements prepared in compliance with new Slovak accounting legislation, ESA95 and GFS2001;	to be done Assistance in respect of financial reporting may be limited due to postponing nation-wide launch of accrual accounting. However, we expect to be able to prepare working draft of operating manual.	Jan. 07 - Oct. 07
13. Assessment of "Analysis of need for training activities and of recommendations to the training plan" prepared by other PFMR consultants;	in progress Our assessment will be performed as a part of process of preparing curriculum for the foundation accrual accounting training per item 15	Mar. 06 - Aug. 06
14. Assessment of activities carried-out by MF SR in accounting training for prior 2 years;		
15. Prepare detailed training plan for 2006-2007 for employees of state administration and local self-administration that must include: <ul style="list-style-type: none"> <li>- using new accounting methodology and related accounting procedures prepared on MF SR accrual basis,</li> <li>- using new fiscal and financial reporting systems;</li> </ul>	to be done This activity will be performed in 3 steps: <ol style="list-style-type: none"> <li>1. training plan for foundation accrual accounting training</li> <li>2. training plan of training for detailed accrual accounting per approved legislation</li> <li>3. detailed training plan of training for consolidation training</li> </ol> For the Project inception, we have prepared indicative training plan included in appendix B.	Mar. 06 - Jul. 06 Sep. 06 - Oct. 06  Nov. 06 - May. 07
16. Preparing relevant study handbook and materials to be used for training activities and for distribution to trainees;	to be done This activity will be carried out in the analogical manner to the activity 15.	Apr. 06 - Oct. 07
17. Training of selected set of employees of state administration and local self-administration according to training plan.	to be done Based on our understanding of training needs gained during Project inception and the need to reschedule the migration plan, as described in section 8.2, there should be 4 trainings: <ol style="list-style-type: none"> <li>1. accrual accounting essentials,</li> <li>2. detailed accrual accounting training per approved legislation,</li> <li>3. consolidation training.</li> <li>4. IPSAS training</li> </ol>	Aug. 06 - Oct. 06  Nov. 06 - Oct. 07  Jun. 07 - Oct. 07  Sep. 07 - Oct. 07

Activity	Status	Duration
18. Ongoing external communication	External communication is an important aspect of change management. There will be outbound communication popularising the change process to broader professional audience, especially in the form of publications in professional press.	Apr. 06 - Oct. 07
19. Preparing long-term plan	to be done Long-term planning is needed to support sustainability of Project benefits after Project completion. The outputs will be represented by our recommendations to MF SR to activities to be carried-out after the Project completion.	Oct. 07

The above deadlines reflect the amended time schedule, as discussed in section 8.3.

## 6 Assessment of current status of MF SR readiness to migrate to accrual accounting

It was necessary to us to gain an understanding of MF SR readiness to migrate to accrual accounting in order to be able to comment on feasibility of the migration plan assumed by the terms of reference. We attended a series of meetings with all key MF SR team members listed in the section 4.1, i.e. Ms. Kaszasová, Ms. Kašiarová, Ms. Majorová, Mr. Kotian, Mr. Bulla and Mr. Beňo. We also had meetings with external PFMR advisors ensure the project continuity: Mr. Sander Winckel - Principal Advisor for PFMR and Mr. Hrabak - Adviser on Public Finance Accounting. Our understanding is summarised in following sections.

### 6.1 Allocation of resources to PFMR

MF SR created a separate Section for State Reporting headed by General Secretary Ms. Kaszasová. The section is organised into 3 divisions and 4 departments with 41 employees. The organisational structure of the Section is included as appendix C.

Based on our initial assessment, the workload related to a successful completion of PFMR goes well above the current capacity of the Section. For example, the Separate Department of methodology for accounting and state reporting with current headcount of 4 persons will not be able to handle the expected drastic increase in the numerous questions raised by accountants after the nation-wide launch of the accrual accounting system. We propose to solve this situation by creating a helpdesk, as described in section 7.8. We also anticipate a need for a separate consolidation department, see section 7.2. We recommend strengthening the administrative capacity of the Section to handle the workload increase and reducing the reliance on key persons.

## **6.2 Accounting methodology and consolidation methodology**

The existing accounting methodology and practice reflects the priority of the budgetary rules for setting up chart of accounts and recording accounting transactions. Under the new accrual accounting methodology, the accounting records will have to continue in providing the primary information for the budgetary process. Moreover, it will have to provide true and fair view on reporting entities' financial position and on the results of their operations and their cash flows. In order to make these 2 tasks consistent, Mrs. Majorová and her team have prepared:

- a draft regulation on methodology for maintaining accounting records including statutory chart of accounts for budgetary and contribution organisations, higher territorial units and municipalities that will be applicable to state administration entities and local self administration + budgetary and contribution organisations established by them;
- a draft regulation on contents (including format) of financial statements and notes;
- a draft guideline for transfer from the existing accounting methodology to the drafted accrual accounting methodology, including account mapping between the old and new statutory chart of accounts;
- a draft regulation on consolidation methodology;
- draft wording of the Act on Accounting amendment.

We believe that the above results in preparing accounting legislation have provided a sound basis for progress in the PFMR project, however, we identified significant external project risks in this aspect that need to be dealt with, see section 8.

The existing process of preparing the State Closing Account ("Štátny záverečný účet") is, as well as the future consolidation process will be complicated by the fact that entities to be consolidated use 6 different accounting methodologies. There will be a need to unify them as much as possible, however, this task is out of scope of this Project.

## **6.3 IT support for new accounting and consolidation methodology**

Mr. Kotian has informed us about 2 pilot projects for consolidating accounting records: within MF SR (small pilot) and for 5 budgetary organisations established by MF SR (large pilot). The aim of the pilots is, inter alia, parallel run of the new accounting and consolidation methodology on the existing IT platform. The small pilot was close to generating consolidated trial balance. We were informed also about IT process of gathering accounting data for fiscal reporting via ISSP and Datacentrum, the central data-processing unit of MF SR. and key ideas to be developed in future in this area, e.g. developing a single datawarehouse for accounting and fiscal reporting.

## 6.4 Fiscal reporting issues

Mr. Beño provided a high-level overview of fiscal reporting process and related issues, especially issue of unrecorded accounting accruals that are needed for fiscal reporting. A large portion of the required data can be obtained electronically from the reporting entities trial balances. These data are bound to budgetary classification. In order to process it, there are code mappings from the budgetary classification to rows of GFSM2001 balance and ESA95 accrual reconciliation table. However, since these data are strictly bound to budgetary classification and do not include accounting accruals and provisions, e.g. provisions to doubtful receivable and provisions to doubtful financial investments, the department runs separate statistical investigation using purpose-fit return forms to obtain the information on needed accruals. Subsequently, the department combines the information into fiscal reports.

Based on our initial assessment, the fiscal reporting process is inherently risk-prone due to

- reliance on statistical information to mitigate missing accounting accruals and provisions. The processes of collecting and processing statistical information are not designed or organised to mitigate an accrual accounting framework. These processes neither embed controls and checks analogous to those in the accounting process, nor rely on traceable information. As a result, statistical information typically has lower reliability than accounting information;
- reliance on end-user computing (MS Excel sheets) for reporting the critical fiscal information.

In the future, the need for separate statistical investigation should be eliminated as much as possible, increasing reliance on accounting data. This would enable more IT support for generating the fiscal reports, or even automated generation of reports.

## 6.5 Training

MF SR provided a series of seminars in October 2005 focused on changes of statutory accounting procedures for budgetary and contribution organisations after 1 January 2005. As stated in the report on these seminars, they were provided on the basis of numerous requests for interpretation of the current accounting legislation. The seminars were delivered by Ms Majorová. Further, MF SR developed a Conception of further education for state administration and local self-administration. This Conception directly relates to anticipated trainings for the new accrual accounting methodology. The Conception assumes trainings in 8 residential cities of local governments, split in 2 parts:

1. Foundation trainings - focused on accrual accounting essentials;  
The Conception assumes that foundation trainings should include theoretical and practical sections devoted to explaining specific double entries in particular accounting classes and financial reporting rules, applying the new accrual accounting system.
2. Continuation trainings - focused on IPSAS synopsis and more advanced accounting topics, such as creating reserves and provisions, contingent liabilities and preparing notes;

We will build on this Conception when preparing and delivering our trainings, as explained in section 7.6.

Except for this, MF SR has experience with large-scale user trainings for ISSP (centralised IS of state treasury maintaining link between state budget and accounts of state administration entities and providing electronic financial reporting functionality). These trainings were successfully managed by Mr. Bulla who will be our counterpart in this project.

## **6.6 Information gained from Mr. Hrabak**

We had 2 sessions with Mr. Hrabak who summarised outputs of his work for MF SR. His most important synoptical deliverable was the Migration Plan for public sector accrual accounting providing series of activities to be taken and related risk analysis. Except for this, Mr. Hrabak prepared a number of small-scale reports providing advice on various aspects of IPSAS, e.g. measurement and recognition. His work was important to spread the idea of public finance reform.

## **6.7 Focus areas per Mr. Sander Winckel**

Mr. Sander Winckel introduced us to a broader context of PFMR and he stressed the need for correct fiscal reporting information, e.g. for reporting compliance with Maastricht criteria. According to Mr. Winckel, improving quality of fiscal reporting information and streamlining the fiscal reporting process using the accounting data should be the key result of our Project.

# **7 Our approach to service delivery**

Our approach will include 3 main groups of activities:

- Analysis of the reached progress in migration to the accrual accounting.

Our understanding at the end of the Project inception phase is documented in section 6. We will continue by

- validating the drafted accounting and consolidation methodology, and subsequently by working on accounting and consolidation manuals for all reporting entities
- performing as-is analysis of the existing processes of financial and fiscal reporting at the State Reporting Section of MF SR. We will need a detailed understanding, including IT aspects, of these processes to be able to design the to-be processes and to create the operational manual for the Section,
- confirming our understanding of training needs.
- Design of to-be processes of financial and fiscal reporting for the State Reporting Section of MF SR.



These processes will be designed in further detail, including input data, outputs + their timing, detailed activities, roles + responsibilities, and IT system support. We will also provide necessary assistance with implementing these processes.

- Generating deliverables.

Our deliverables will be grouped into

- validated accounting and consolidation methodology, including reporting pack,
- accounting manual and consolidation manual providing a knowledge base for reporting accountants,
- operational manual for the State Reporting Section of MF SR providing more detailed guidance on inputs, outputs and related timing in the framework of financial and fiscal reporting, activities to be done, related roles and responsibilities, and used IT systems,
- foundation and continuation trainings on accounting and consolidation methodology,
- long-term plan of activities to be performed after Project completion.

The above activities will be supported by broader communication to facilitate acceptance for change to accrual accounting.

In the sections below we discuss the key aspects of our service delivery, organised per workstreams:

## **7.1 Accounting**

The new accrual accounting methodology has been prepared by incorporating IPSAS into the nation-wide statutory accounting methodology, i.e. IPSAS were not taken over in full. We will analyse the gap between IPSAS standards and the drafted methodology to assess any significant deviations. We will discuss the gap plugging plan and propose recommendation as needed. We understand that current limited exposure to accrual accounting and prevailing cash-basis recognition requires gradual introduction of accrual accounting principles. In developing our recommendations, we will also take into account the requirements for fiscal reporting on accounting records, e.g. in form of analytical accounts, that will be provided by the fiscal reporting workstream. Timing aspects of the above activities are discussed in section 8.2.

We understand the intention of MF SR to include to the most fiscal information into notes to financial statements in the tabulated form. However, there may still be some fiscal information reported separately, or generated outside the accounting records.

The work in this area will continue by developing accounting manual providing detailed guidelines with sample transactions and best practice, to be used by accountants that completed the detailed accrual accounting training per section 7.6.1 b). The manual will serve as a:

- recapitulation of the training lessons for those accountants who will attend the training early, since there may be up to 14 months between the first trainings in November 2006 to the revised term of nation-wide accrual accounting launch on 1 January 2008;
- means of expanding the knowledge gained at the training, as the accountants will develop their proficiency in accrual accounting by applying it in their practice.

## **7.2 Consolidation**

The drafted consolidation methodology has been prepared by incorporating IPSAS. We will perform the gap analysis to IPSAS using the same approach as described in section 7.1 for the accounting methodology. Once the gaps identified will have been resolved, a consolidation pack in a form of templates and procedures to be used by reporting entities will be prepared. It will consist of forms to be filled in by the reporting entities and of the procedures on how to fill in those forms. It will be designed for entities applying statutory accounting procedures for budgetary and contribution organisations, higher territorial units and municipalities.

Based on our understanding of the consolidation processes at the Project inception phase, there should be 2 consolidation levels:

1. Public administration
- 2.A State administration
- 2.B Local self-administration.

A limited 3-level approach is currently under review where consolidated financial statements would be prepared by the state administration on the basis of State Budget chapters and by higher territorial units. This scenario should be accepted or rejected before the start of trainings for the consolidated financial statements (section 7.6.2 c).

The scope-in entities not preparing the consolidated financial statements would prepare the consolidation pack. The both approaches are cost-efficient especially from the point of view of small reporting entities, e.g. small municipalities. In order to apply them, the amendment wording of the § 23 of the Accounting Act will need to be redrafted as the currently proposed wording assumes full consolidation without any exemptions. However, this may lead to a repeated commenting procedure the Act amendment.

The information to be provided in the consolidation pack will include information for fiscal reporting in the extent deemed practicable in the existing conditions.

The consolidation pack will be supported by consolidation manual as a backing for accountants who attended the consolidation training.

It should be borne in mind that once the consolidation process launches, it will have to be controlled by the State Reporting Section. We assume a need for creating a separate department preparing the last level consolidation and review the consolidations at preceding levels.

### **7.3 Fiscal reporting**

We will map the existing fiscal reporting process including all sources of input data, outputs, responsibilities for activities and timing of activities. This will enable us to define the fiscal information reporting requirements. In combination with results of our accounting and consolidation methodology review we will understand which fiscal reporting requirements can be satisfied from accounting records. We will design a process of satisfying these fiscal reporting requirements from the accounting records. This process will have to use a common database for purpose of financial and fiscal reporting which is yet to be created. The underlying accounting data can be in form of account balances, summary movements or transaction types. The process of feeding this database will become a part of accounting and consolidation process, i.e. we will provide assistance to MF SR in the process of ensuring that fiscal reporting requirements be included into the accounting and consolidation methodology, generated statements and supporting manuals and guidelines.

### **7.4 Organisation of the State Reporting Section of MF SR**

A detailed process analysis and design will be performed for the State Reporting Section of MF SR. In the as-is phase, we will obtain understanding of the existing processes of financial and fiscal reporting, including inputs, activities, roles and responsibilities, outputs and used IT systems functionality. This will be needed in order to design in detail these processes at MF SR and deliver detailed operational manual. The new system design will assumedly generate additional staffing requirements, e.g. for the anticipated consolidation department, see section 7.2 and for accounting and consolidation helpdesk, see section 7.8, and additional requirements on IT systems functionality. We will also design, on the high-level, procedures to be carried-out by state budget chapter administrators for cooperation with the State Reporting Section of MF SR.

### **7.5 Information technology**

The financial and fiscal reporting processes have to be supported by IT systems. This support is ensured by separate IT processes. We will provide assistance to existing IT function at MF SR in migration to the accrual accounting system, primarily in areas:

- continuing pilot implementations of the new accounting systems at MF SR,
- creation of common database for financial and fiscal reporting in MF SR,
- formulating IT migration guidelines for entities outside direct control of MF SR,
- formulating electronic reporting instructions under the new accrual accounting system.

### **7.6 Training**

The trainings proposed under this Project will be based on with the Conception of further education for state administration and local self-administration, as described in section 6.5.

However, due to external project risks discussed in section 8 we assume that new accounting methodology will not be published before September 2006. As a consequence, there is a need to adjust the Conception as described in the following sections. Should the new accounting methodology not be published by September 2006, it would be necessary to further adjust the time plan for the trainings and/or other components of the Project.

### **7.6.1 Foundation trainings**

The foundation trainings, if they are to be started reasonably soon, cannot provide the information as closely linked to the new accounting methodology as anticipated by the Conception. As a way out we propose to remain with the plan of 2 tier trainings where the foundation trainings would be split in 2 parts:

- a) accrual accounting essentials - focused on relationship within individual components of financial statements.

We believe that such training is inevitable to most accountants with target entities as they are used to cash-based recognition in their accounts and are mostly not experienced with applying professional judgement for recognition of assets and liabilities. We also believe that the accrual accounting essentials training should be provided as soon as possible from 2 reasons:

- Completion of accrual accounting essentials training should be a pre-condition for detailed accounting methodology training. From the timing aspect, the detailed accounting trainings should start as soon as possible after publishing the new accounting methodology. It results that the optimum route is to start foundation trainings without waiting for published methodology, aiming at building a foundation for the details of the new accounting methodology.
- The accrual accounting essentials training will be an important part of overall change management and a suitable opportunity to communicate benefits of the new accrual accounting system. Such a communication should also start without undue delay.

The accrual accounting essentials training should be a 1-day training. We assume to be able to deliver these trainings during August - October 2006. The short delivery period will be enabled by large scale training runs. On average, 200 participants are anticipated for a run. The trainings will be provided in cities of Banská Bystrica, Bratislava, Košice, Nitra, Žilina.

- b) detailed accounting methodology training - including IPSAS introduction, new accounting procedures, chart of accounts, new financial statements.

As there will already be a foundation developed by the accrual accounting essentials training, we intend to include also the advanced accounting topics into this training, i.e. creating reserves and provisions, contingent liabilities and preparing notes, that were to be left for the continuation trainings by Conception.

We assume to start these trainings in November 2006. We expect that by this time the new accounting methodology will have been published, providing us sufficient time to prepare training materials. The scheduled start would give us 12 months of training period until October

2007. We believe that such an extended period is necessary to train the anticipated number of accountants. We anticipate a need to obtain additional trainers which will be communicated with MF SR in due time. The scheduled completion of trainings will give time to accounting entities to prepare for the nation-wide migration on 1 January 2008, primarily to adapt their IT solutions for the new accounting methodology.

The detailed accounting methodology training should be a 3-day training for groups up to 40 trainees, to be provided in the same cities as the accrual accounting essentials training. Separate runs will be organised for state administration and for local self-administration.

## **7.6.2 Continuation trainings**

We propose to split the continuation trainings into 3 parts:

### **a) Consolidation reporting pack**

The training will explain IPSAS consolidation procedures and rules to fill in the consolidation reporting pack. It will be a 2-day training for groups of 40 trainees, to be provided in the same cities as the accrual accounting essentials training. The number of trainees per 1 run will be flexible on the basis of demand for a location and a venue capacity. Separate runs will be organised for state administration and for local self-administration.

### **b) Consolidated financial statements**

The training will be designed for those accountants who will prepare full consolidated financial statements, in the extent of 2 day for 40 trainees.

### **c) IPSAS**

This will be a 2-day training for selected group of up to 40 trainees, primarily MF SR employees involved in maintaining the accrual accounting framework or significant users of new financial statements. This training will also be attended by employees of Supreme Auditing Body.

Detailed overview of all proposed trainings is provided in appendix B. The above training plan may be further finetuned on the basis more detailed skill set assessment and a precise definition of the trainee groups.

The terms of reference prescribe a fixed amount of training costs. Adhering to this amount will depend on venue rental, number of trainees per 1 training run, trainee catering unit cost, etc.

## **7.7 Communication**

Training and communication, both internal and external, are key elements in change management. The planned trainings will not only convey the professional information but will also communicate the reasons for introducing accrual accounting and anticipated benefits of PFMR in the context of trainees, in order to facilitate change acceptance. In addition to this, there will be outbound communication popularising the change process to broader professional audience, especially in the form of articles in professional press. They should focus on:

- general aspects of PFMR;
- IPSAS as the selected basis for accrual accounting;
- interim achievements of the Project, e.g. comments to
  - validated accounting methodology,
  - incorporation of fiscal reporting requirements into the financial statements,
  - migration plan including account mapping from the old to the new chart of accounts and impact on financial statements,
  - sample financial statements of budgetary and contribution organisations, higher territorial units and municipalities,
  - consolidation methodology and consolidated financial statements.

## **7.8 Long-term strategy**

It is necessary to provide for sustainability of benefits created by reaching our Project results even after completion of our Project. There should be a process of continuous improving quality of accounting information and using it for measuring operational performance and preparing reliable fiscal reports. Our project will deliver a strategy for sustainability of Project benefits. It will focus on:

- **creating a full-time helpdesk** at MF SR for queries of accountants of almost 8000 entities. It may be assumed that the nation-wide launch of accrual accounting system will bring a number of detailed practically-orientated questions that would need to be promptly responded. The critical issue will be to estimate sufficient size of the helpdesk and time during which the helpdesk should be operated, since the need for the helpdesk may decrease over time as the new accounting rules become more routine. MF SR will have to provide sufficient professional capacity for such a helpdesk;
- **maintenance of accounting, consolidation and operational manuals.** There should be a process of controlled updates of manuals in responsibility of appointed person. Also, there should be a process ensuring compliance with the procedures, methodologies and manuals, e.g. internal audit or audit ordered by MF SR for reporting entities;
- **monitoring quality of accounting records.** There should be quality indicators triggering corrective actions as needed, e.g. audit in reporting entity or need for training;
- **reassessment of training needs** on the basis of external factors, e.g. changes in related legislation;
- **embedding** of the accrual accounting processes in all entities filling in a consolidation pack.

There may be additional aspects that we will find significant during the course of our Project.

## 7.9 Project office

We will open our Project office in the reserved room with MF SR. Our Team leader and Project office coordinator will typically be present in the Project office every day. The Project office will maintain the Project outputs, including meeting minutes and timesheets.

## 8 Project risks and limitations

We have identified the following significant Project risks that should be dealt with already at the Project inception:

<b>Risk</b>	<b>Type</b>	<b>Impact</b>	<b>Probability</b>	<b>Rating</b>
1. Suspension of the migration to accrual accounting	external	High	Low	Medium
2. Delayed publishing of accounting methodology	external	High	High	High
3. Resistance to change by accounting entities	external	High	High	High
4. Low administrative capacity at MF SR to manage the change	internal	High	High	High

### 8.1 Suspension of the migration to accrual accounting

#### *Risk description*

The significant portion of the migration to accrual accounting will occur under a new government in result of parliamentary elections in June 2006. The new government may have different priorities than the current one which could potentially lead to suspending the migration for a certain time period.

#### *Impact*

Slovakia as the EU member state needs reliable system for reporting compliance with Maastricht criteria and for reporting basis for paying member state contributions. There are similar reporting requirements to IMF. Suspending the project would leave open the risk of erroneous fiscal reporting that could be embarrassing at international level.

#### *Recommended solution*

We believe that, on basis of above mentioned risk impact, the new government will have favourable approach to the migration to accrual accounting and also to this Project. The entire Project team should be prepared to clearly reason for benefits of migration to accrual accounting and to build trust that the change will be managed successfully.

## 8.2 Delayed publishing of accounting methodology

### *Risk description*

As already mentioned in section 6.1, MF SR has drafted regulation for new accrual accounting methodology and guideline for transfer from the existing accounting methodology to the drafted accrual accounting methodology. The PFMR team expected official publishing of these methodologies in the form of accounting methodology in spring 2006. Due to close election to Parliament and resulting potential government change, it is assumed that the accounting methodology will not be published before the election. Some time will also be needed after the election for publishing the methodology. It may be reasonably assumed that the methodology will not be published before the end of September 2006. At the same time, the project plan schedules the nation-wide launch of the accrual accounting system for 1 January 2007.

### *Impact*

Delay in publishing the methodology currently prevents us from preparing training materials for detailed accounting methodology training per section 7.6.1 b) and from launching the trainings themselves. If the accounting methodology will really be published only in September 2006, we will have in the best case only 3 months to train all the accountants of target entities for the new accounting methodology. Continuing in the original time-schedule would give rise to the following additional risks:

- should the accounting methodology be published with significant changes to the wording resulting from our validation, we will not have enough time to redo the prepared training materials. This may hurt effectiveness of detailed accounting methodology trainings especially in the early runs, i.e. until full updating of training materials to unexpected changes in the accounting methodology;
- the detailed accounting methodology trainings would have to be delivered in runs with approx. 200 trainees. This would significantly decrease training effectiveness as trainees would have limited opportunity to ask ad hoc questions to matters they do not understand;
- the trainees, especially those attending last runs, would have limited time to adjust their accounting systems. The accountants should be able to clearly and timely formulate the change requirements to their software vendors in order to have needed functionality at the time of nation-wide accrual accounting launch. Software vendors will need certain time to implement the new functionality. In some cases, e.g. if a new software is needed, additional time may be spent by public procurement;
- the reporting entities would not have enough time to analyse impact of new financial reporting requirements on their financial statements. This relates primarily to contribution organisations that should not report accounting losses without a threat of liquidation. Recording of e.g. provisions to doubtful receivables or obsolete inventory, recording of reserves, may pose a significant problems to them;



- there will not be enough time to support the migration by communication, as assumed in section 7.7;
- nation-wide launch of the accrual accounting system will not be supported by accounting and operational manuals that should serve to the accountants as the primary source of advice and best practice;
- insufficient support to reporting entities both before and after the nation-wide launch of the accrual accounting system may eventually lead to demotivation and change resistance;
- potential errors in accounting records due to
  - misunderstanding of the new accrual accounting methodology or of the transition guideline,
  - wrongly set-up accounting softwares, or even
  - unwillingness to apply the new methodology due to change resistance or fear of unfavourable impact on financial statements

may distort the financial and fiscal reporting data which would directly threaten achieving the overall Project objective per section 3.1 and devalidate the prior work in PFMR.

#### *Recommended solution*

In our opinion, the optimum solution in the given situation is to reschedule the nation-wide launch of the accrual accounting framework to 1 January 2008. This would favourably address all the risks pending to the original time schedule:

- There would be enough time to deliver high quality trainings using up-to-date training materials, in smaller runs of maximum of 40 trainees, providing for high training effectiveness;
- entities will have enough time to adjust their softwares and organise public procurement procedures properly, if needed;
- entities will have opportunity to analyse impact of migration to the accrual accounting system on their financial statements and discuss it with their establishers. To avoid problems in this area, an amendment to § 21(12) of the Act no. 523/2004 Z.z. on Budgetary Rules of the Public Administration could be amended or a transitional rule introduced to the effect that the losses resulting from the one-off recording of provisions and reserves due to the transition to IPSAS will be disregarded for the purposes of application of the said provision in the first accounting period in which the new accounting procedures will be used.
- there will be a space to carry out communication as assumed by section 7.7 and thus facilitate change management;

- entities will be better motivated for the migration which will facilitate improving the reporting data quality. This is the eventual objective of the Project.

### 8.3 Revised migration time-schedule

Should the rescheduled time of nation-wide accrual accounting launch per section 8.2 be accepted, the Project milestones defined by the terms of reference would be rescheduled as follows:

Original deadline	Milestone	Completed	Revised deadline	Note
Jan. 05	1. Obtaining MF SR acceptance for scope and direction of extending the public sector accounting on accrual basis.	yes		
Jan. 05	2. To create migration plan for the public sector accounting on accrual basis with regard to priorities.	yes		
Mar. 05	3. To identify resources dedicated to migration to the public sector accounting on accrual basis.	yes		
Mar. 05	4. To gain a broad acceptance by key ministries.	yes		
Apr. 05	5. To allocate personal/financial resources to achieve migration to the public sector accounting on accrual basis.	no	Sep. 06	We assume a need for additional resources, e.g. for operating help desk, possibly in short time after publishing new accounting methodology, see 8.5.
May 05	6. To start training employees in using the public sector accounting on accrual basis and financial management techniques.	no	Aug. 06	This will be the accrual accounting essentials training, see 7.6.1 a)
	6a To complete the accrual accounting essentials training	no	Oct. 06	
Jul. 05	7. To prepare revised methodology for the public sector accounting on accrual basis	no	Sep. 06	See discussion on risk of delayed accounting methodology publishing in section 8.2.
Jul. 05	8. To launch a pilot project of new accounting on accrual basis for 2 state organisations (small pilot).	yes		
Jan. 06	9. To launch limited parallel operation of the new accounting system in 5 state organisations (large pilot).	no	Jan. 07	Postponed due to current political situation
Mar. 06	10. To prepare the first annual financial statements per newly proposed public sector accounting methodology for 2 pilot organisations.	no	Mar. 06	Per explanation of Mr. Kotian, preparation of trial consolidated statements under the small pilot was very close to completion.
Jul. 06	11. To prepare interim financial statements per new public sector accounting methodology by converting the existing data of 5 state organisations (linked to item 9).	no	Jul. 07	Relates to item 9
Jul. 06	12. To start a broader parallel operation of the new accounting system.	no	Jul. 07	Relates to item 9. We understand that this milestone relates to the large pilot

Original deadline	Milestone	Completed	Revised deadline	Note
	12a To start accrual accountin essentials training	no	Aug. 06	
	12b To complete trainings per item 12a	no	Oct. 06	
	12c To start detailed accounting methodology training on the basis of approved legislation (linked to item 7).	no	Nov. 06	
	12d To complete trainings per item 12c	no	Oct. 07	
	12e To start the consolidation pack training on the basis of approved standard	no	May. 07	
	12f To complete trainings per item 12e	no	Oct. 07	
	12g To complete the consolidated financial statements training	no	Oct. 07	
	12e To complete IPSAS training.	no	Oct. 07	
Jan. 07	13. To start a nation-wide parallel operation of the new accounting system.	no	Jan. 08	In our opinion, MF SR will not be able to force independent accounting entities to run old and new accounting in parallel. However, parallel run can be realized in pilot organisations (item 9), and also in organisations under MF SR control. For explanation to revised deadline, see discussion on risk of delayed accounting methodology publishing in section 8.2.
Mar. 07	14. To prepare annual financial statements per new public sector accounting methodology by converting the existing data of 5 state organisations (linked to item 9).	no	Mar. 08	
Jul.-Dec. 07	15. To reach full parallel operation of the public sector accounting system on the accrual basis and to start overall conversion to the new system.	no	Dec. 08	We recommend to continue both in small and large pilots on the basis of draft accounting and consolidation methodologies so that related subsequent deadlines do not have to be postponed.
Jan. 08	16. To start first accounting period in the new public sector accounting system on the accrual basis.	no	Jan. 08	
Mar. 08	17. To prepare the first annual financial statements for 2008.	no	Mar. 09	See discussion on risk of delayed accounting methodology publishing in section 8.2.
	18. To prepare the first consolidated financial statements for 2009.	no	Mar. 10	

In order to be able to assess progress in delivering the Project outputs and to reassess the Project risks affecting the readiness to migration to accrual accounting on the revised term of 1 Jan. 2008, we recommend to organise a steering committee meeting on 31 March 2007. Except for that, we recommend to hold regular monthly steering committee meetings commencing in April 2006.

## 8.4 Resistance to change by accounting entities

### *Risk description*

Some accounting entities may feel uncomfortable about the migration to accrual accounting. This situation may result from various factors. Insufficient sponsorship or scarce resources are the most common reasons.

### *Impact*

Insufficient motivation for change may lead to poor quality of accounting records that will not give appropriate basis for financial and fiscal reporting.

### *Recommended solution*

The work in this area should start by understanding motivation of the accounting entities for change. There may be e.g. 2 types of accountants: traditional book-keeping oriented vs. modern judgementally oriented accountants. It may be assumed that acceptance of the change will be higher with the judgementally orientated accountants as they will see an opportunity to make their work more sensible and even respected. Also, we assume that certain portion of accountants has previous experience with other accounting procedures, e.g. for business entities, if they previously worked in those areas. These accountants should also be more prepared for change.

A potential resistance by book-keeping orientated accountants will assumedly come from the fact that the new accounting methodology is less prescriptive and requires application of professional judgement. In the Project inception phase, we see the following tools to manage their potential resistance:

- The foundation trainings per section 7.6.1 should improve their self-confidence in this area;
- The accounting manual per section 7.1 and operational manuals per section 7.4 should provide them detailed guidance especially in the early days after the nation-wide accrual accounting launch;
- There should be full-time accessible helpdesk able to professionally respond to queries within a reasonable time, see section 7.8;
- Impact of one-time recording provisions, reserves, etc. should be accepted by their establishers. This may require a change of the Budgetary Rules. This issue has already been discussed in section 8.2;
- All benefits of PFMR should be clearly communicated, during foundation trainings as well as by separate channels, see section 7.7;
- Consequences of non-compliance should also be made clear since there will be a system of monitoring accounting records quality, see section 7.8.

## **8.5 Low administrative capacity at MF SR to manage the change**

### *Risk description*

After the nation-wide launch of accrual accounting and completion of this Project, the State Reporting Section will not have sufficient administrative resources to oversee the reporting process. As already described in relation to the long-term strategy, see section 7.8, there will be a need to

- perform the last level consolidation and control consolidations at preceding levels,
- provide assistance to reporting entities in the form of helpdesk,
- maintain accounting, consolidation and operational manuals,
- monitor quality of accounting records,
- reassess training needs.

### *Impact*

Insufficient administrative capacity may cause that benefits of the migration to accrual accounting system may gradually disappear which would eventually lead to decreased quality of accounting records, not providing appropriate basis for financial and fiscal reporting.

### *Recommended solution*

We recommend to ensure sufficient administrative capacity for State Reporting Section on the basis of needs assessment derived from the future processes ensuring the above mentioned results.

## A Public administration entities

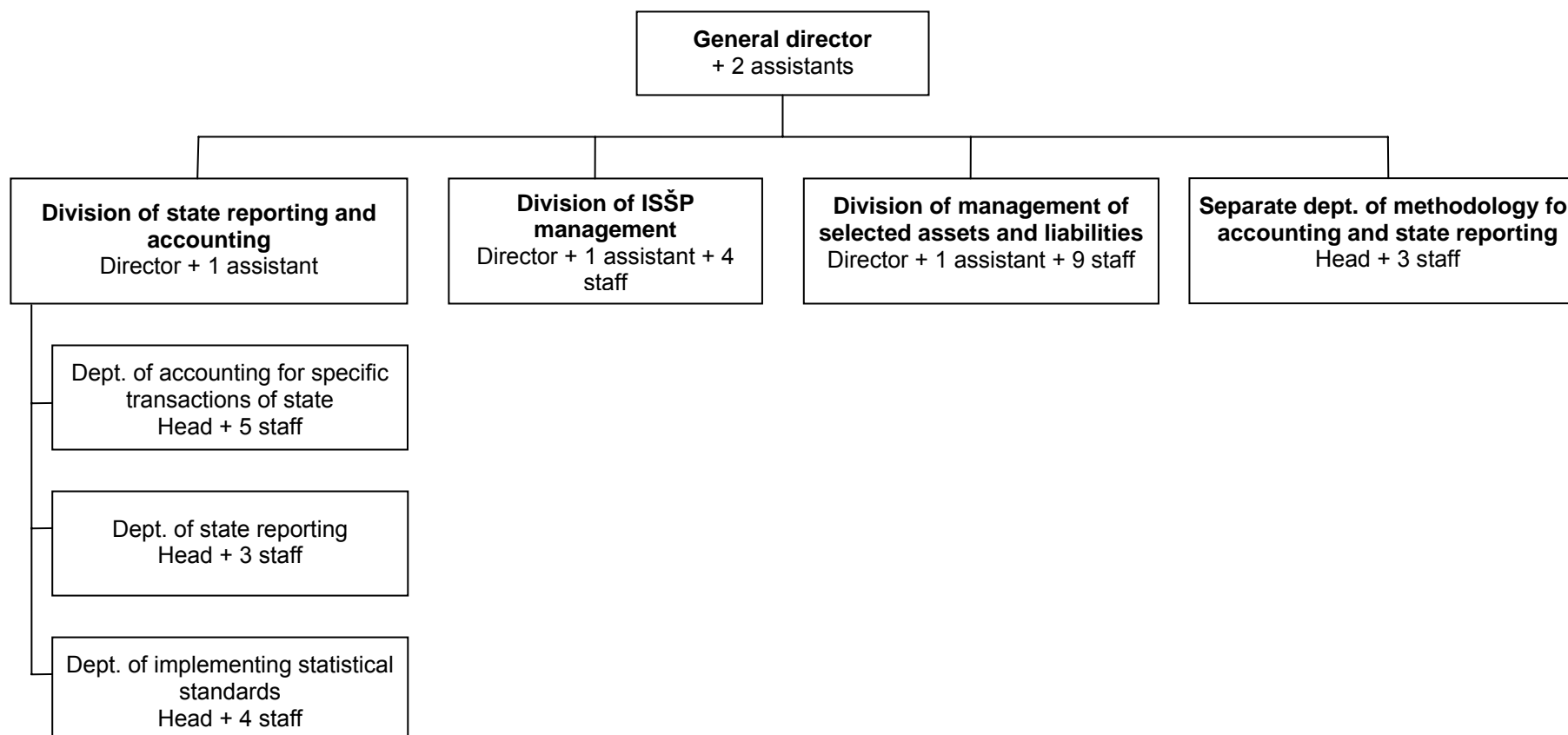
Entity	Number	In scope for		
		accounting advisory	consolidation advisory	fiscal reporting advisory
<b>Central state administration</b>	<b>1169</b>	<b>1144</b>	<b>1144</b>	<b>1144</b>
<i>State budget chapters:</i>	<b>34</b>	<b>34</b>	<b>34</b>	<b>34</b>
- Ministries	14	yes	yes	yes
- Central institutions	10	yes	yes	yes
- Other institutions	10	yes	yes	yes
<i>and organisations established by them and by special laws, and local state administration:</i>	<b>1135</b>	<b>1110</b>	<b>1110</b>	<b>1110</b>
- Budgetary organisations	911	yes	yes	yes
- Contribution organisations	199	yes	yes	yes
- Public universities	22	no	no	no
- State funds	3	no	no	no
<b>Local self-administration</b>	<b>6675</b>	<b>6675</b>	<b>6675</b>	<b>6675</b>
<i>Upper regional units</i>	<b>8</b>	<b>yes</b>	<b>yes</b>	<b>yes</b>
<i>and organisations established by them:</i>				
- Budgetary organisations	678	yes	yes	yes
- Contribution organisations	547	yes	yes	yes
<b>Municipalities</b>	<b>2891</b>	<b>yes</b>	<b>yes</b>	<b>yes</b>
<i>and organisations established by them:</i>				
- Budgetary organisations	2091	yes	yes	yes
- Contribution organisations	460	yes	yes	yes
<b>Funds of social and health insurance</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>
- Social Insurance Agency	1	no	no	no
- Health insurance companies	5	no	no	no
<b>Other organisations</b>	<b>123</b>	<b>0</b>	<b>0</b>	<b>0</b>
- National Property Fund, + its	1	no	no	no
- subsidiaries	34	no	no	no
- associates and joint ventures	35	no	no	no
- other (< 20%)	47	no	no	no
- Veriteľ, a.s.	1	no	no	no
- Slovenská konsolidačná, a.s.	1	no	no	no
- Slovak Land Fund	1	no	no	no
- Nation's Memory Institute	1	no	no	no
- Slovak National Centre for Human Rights	1	no	no	no
- Health Care Supervision Office	1	no	no	no
<b>Grand total</b>	<b>7973</b>	<b>7819</b>	<b>7819</b>	<b>7819</b>

## B Detailed overview of trainings

	Trainees/run	Runs	Hours/ run	Days/ run	Total days	Trainee- days	Scheduled for
<b>1. Foundation trainings</b>							
a) accrual accounting essentials relationship of balance sheet, income statement, cash flow, equity movements and notes	200	10	8	1	10	2000	Aug.-Oct. 06
	Count of trainees on 1 run is not limited but estimated for 200.		In towns of BA, BB, KE, NR, ZA				
b) detailed new accounting methodology training IPSAS introduction, new accounting procedures, chart of accounts, new financial statements	40	75	24	3	225	9000	Nov. 06 - Oct. 07
	Separate runs will be organised for state administration and for local self-administration						
<b>Total</b>	<b>5000</b>	<b>85</b>			<b>235</b>	<b>11000</b>	
<b>2. Continuation trainings</b>							
a) Consolidation reporting pack IPSAS procedures on consolidation + rules for filling in the reporting pack	40	20	16	2	40	1600	May - Oct. 07
	Separate runs will be organised for state administration and for local self-administration						
b) Consolidated financial statements For selected group of accountants preparing full consolidated financial statements	40	1	16	2	2	80	Sep. - Oct. 07
c) IPSAS For MF SR employees, Supreme Auditing Body (NKU) and users of the new financial statements	40	1	16	2	2	80	Sep. - Oct. 07
<b>Total</b>	<b>880</b>	<b>22</b>			<b>44</b>	<b>1760</b>	
<b>Total for both levels</b>	<b>5880</b>	<b>107</b>			<b>279</b>	<b>12760</b>	

The above calculation results in 107 runs (in 5 regional towns), representing 279 training days.

## C Organisational structure of State Reporting Section of MF SR





## D Project plan

### D.1 Overview

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007	
Accounting	Gap analysis IPSAS					Reporting pack incl. F/S and instructions		Accounting guidelines, migration account mapping, solving topical issues													
Consolidation	High level consolidation rules for Act on Accounting						Validation of new consolidation methodology, Preparing consolidation pack procedures, Consolidation guidelines														
Fiscal reporting	Gap analysis ESA95/GFS					Input for reporting pack		Assistance to fiscal reporting													
Organisation	As-is processes, roles responsibilities					To-be processes for reporting pack		To-be processes for operational manual										Long-term plan			
														Assistance in preparing for 2007 reporting							
IT	As-is analysis of IT processes					IT support to reporting pack		IT requirements for financial and fiscal reporting processes of State Reporting Section						Assistance to reporting system implementation							
														Assistance in testing of the reporting system							

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Training	Preparing training materials for accrual accounting essentials training		accrual accounting essentials training		Detailed training per approved new accounting methodology															
					Preparing training materials for consolidation pack training						Consolidation pack training									
			Preparing training materials for detailed training								Preparing training materials for consolidated F/S training		Consolidated F/S training							
											Preparing training materials for IPSAS training		IPSAS training							
Communication																				
Project office																				

## D.2 Accounting

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Accounting	Gap analysis IPSAS				Reporting pack incl. F/S and instructions		Accounting guidelines, migration account mapping, solving topical issues													
Review existing primary and secondary accounting legislation including legislation currently in the process of preparation	x	x	x	x																
Report on significant deviations comparing the approved strategy in legislation changes (Inception report)	x	x																		
Compare legislation currently in the process of preparation (Opatrenie) with IPSAS and ED		x	x	x	x															
Prepare draft report on identified strengths and weaknesses of existing financial and fiscal reporting framework						x														
Proposed necessary changes in new accounting legislation (Opatrenie)						x														
Specify financial statements format							x	x												
Draft the "Reporting pack" for preparing new financial statements and ESA 95 and GFS 2001 statements							x	x												
Rules for data submission by public sector units for reporting purposes - in cooperation with Organisation workstream preparing operational manual									x	x	x									
Detailed accounting guidance on new accrual accounting methodology and procedures												x	x	x	x	x				
Illustrative financial statements preparation															x	x	x	x		

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Accounting	Gap analysis IPSAS						Reporting pack incl. F/S and instructions	Accounting guidelines, migration account mapping, solving topical issues												
Analysis of the impact of the change of accounting methodology on the opening equity																x	x	x		
Solving questions and issues											x	x	x	x	x	x	x	x	x	x
Draft tests to be performed in the process of preparation of 2007 reports in accordance with new accounting methodology																x	x	x		
Perform tests of the process of preparation of 2007 reports in accordance with new accounting methodology																		x	x	x
Prepare reports on testing and implementation issues																			x	x

## D.3 Consolidation

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Consolidation	High level consolidation rules for Act on Accounting							Validation of new consolidation methodology, Preparing consolidation pack, procedures, Consolidation guidelines												
Review existing primary and secondary accounting legislation including legislation currently in the process of preparation	x	x	x	x	x	x	x													
Prepare draft report on identified strengths and weaknesses of existing financial and fiscal reporting framework							x													
Rules for data submission by public sector units for reporting purposes - draft operational guidance for aggregation of data								x	x	x	x									
Preparation of the consolidation pack									x	x	x									
Accounting guidance on consolidation methodology and procedures												x	x	x	x					

## D.4 Fiscal reporting

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Fiscal reporting	Gap analysis ESA95/GFS						Input for reporting pack		Assistance to fiscal reporting											
Review existing fiscal reporting system	x	x	x	x																
Identification of significant deviations comparing the existing system and requirements for ESA 95 and GFS 2001				x	x	x														
Prepare draft report on identified strengths and weaknesses of existing financial and fiscal reporting framework.						x														
Provide input for the reporting pack in respect of fiscal reporting requirements							x	x												
Rules for data submission by public sector units for reporting purposes - in cooperation with Organisation workstream preparing operational manual									x	x	x	x	x	x						
Detailed guidance on new bridge from accounts to fiscal reporting									x	x	x	x	x	x						
Assistance with coordination of activities necessary for preparation of 2007 reporting															x	x	x	x	x	x
Assistance to draft tests to be performed in the process of preparation of 2007 reports in accordance with ESA 95 and GFS 2001, to be used by IT workstream.																	x	x	x	x

## D.5 Organisation

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Organisation	As-is processes, roles responsibilities						To-be processes for reporting pack		To-be processes for operational manual							Long-term plan				
																Assistance in preparing for 2007 reporting				
Document the existing processes in fiscal and financial management reporting system focusing on the preparation of reports in accordance with accounting methodology, ESA 95 and GFS 2001 standards, at the State Reporting Section	x	x	x	x	x	x														
Review existing competence framework	x	x	x	x	x	x														
Identify strengths and weaknesses of the existing processes			x	x	x	x														
Draft a report on identified strengths and weaknesses of the existing processes						x														
Description of all sub-processes needed for preparation of reports							x	x	x	x	x	x	x	x						
New competence framework (specification of all parties involved into reports preparation, their tasks and responsibilities)							x	x	x	x	x	x	x	x						
Activities, roles and responsibilities in processing reporting a consolidation packs from reporting entities and generating consolidated financial statements and fiscal reports - draft operational manual									x	x	x	x	x	x						
Assistance with coordination of activities necessary for preparation of 2007 reporting															x	x	x	x	x	x
Based on the results of the project prepare a long-term plan for IPSAS implementation																		x	x	

## D.6 Information technology

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
IT	As-is analysis of IT processes						IT support to reporting pack	IT requirements for financial and fiscal reporting processes of State Reporting Section						Assistance to reporting system implementation						
																				Assistance in testing of the reporting system
Documenting existing IT systems and processes applied to support the State Reporting Section in financial and fiscal reporting process	x	x	x																	
Identifying significant weaknesses in IT support to reporting processes finding solutions			x	x	x															
Prepare draft report on identified strengths and weaknesses of existing systems						x														
Analyse and formulate requirements on IT support for processing reporting packs from reporting entities at State Reporting Section							x	x												
Analyse and formulate requirements on IT support for financial and fiscal reporting processes at State Reporting Section focusing on preparation of reports in accordance with new accounting methodology, ESA 95 and GFS 2001									x	x	x	x	x	x						
Assistance to broader implementation of reporting system at State Reporting Section															x	x	x	x	x	x
Review testing plan, drafting additional tests to be performed in the process of preparation of 2007 reports related to systems - depending on IT systems readiness																	x	x	x	x



Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
IT	As-is analysis of IT processes						IT support to reporting pack	IT requirements for financial and fiscal reporting processes of State Reporting Section						Assistance to reporting system implementation						
														Assistance in testing of the reporting system						

Assistance in performing tests of the process of preparation of 2007 reports related to systems - depending on IT systems readiness

Prepare reports on testing and implementation issues

X

X

## D.7 Training

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Training	Preparing training materials for accrual accounting essentials training						accrual accounting essentials training		Detailed training per approved new accounting methodology											
									Preparing training materials for consolidation pack training				Consolidation pack training							
							Preparing training materials for detailed training						Preparing training materials for consolidated F/S training				Consolidated F/S training			
													Preparing training materials for IPSAS training				IPSAS training			
Review Training Needs Analysis report and Training Plan Recommendations prepared by other consultants under the PFMR program	x	x																		
Review activities performed by the MOF in the accounting education area for the last two years	x	x																		
Prepare a detailed Training plan for the years 2006 and 2007			x																	
Specify training logistics			x	x	x															
Prepare content of the trainings																				
- accrual accounting essentials training	x	x	x																	
- training on new accounting methodology and new accounting procedures based on accrual basis, new fiscal and financial reporting system							x	x												
- consolidation pack training									x	x	x	x	x							

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007				
Training	Preparing training materials for accrual accounting essentials training		accrual accounting essentials training		Detailed training per approved new accounting methodology																			
					Preparing training materials for consolidation pack training								Consolidation pack training											
			Preparing training materials for detailed training										Preparing training materials for consolidated F/S training		Consolidated F/S training									
													Preparing training materials for IPSAS training		IPSAS training									
																x								
																x								
Prepare relevant training guidance and material for use during training sessions and for distribution to training participants																								
			x		x																			
						x		x																
																		x		x				
																x		x						
Deliver trainings																								
					x		x		x															

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007														
Training	Preparing training materials for accrual accounting essentials training		accrual accounting essentials training		Detailed training per approved new accounting methodology																													
					Preparing training materials for consolidation pack training				Consolidation pack training																									
	Preparing training materials for detailed training																Preparing training materials for consolidated F/S training		Consolidated F/S training															
					Preparing training materials for IPSAS training		IPSAS training																											
<div>- training on new accounting methodology and new accounting procedures based on accrual basis, new fiscal and financial reporting system</div> <div>- consolidation pack training</div> <div>- consolidated financial statements training</div> <div>- IPSAS training</div>									x		x		x		x		x		x		x		x											
																									x		x		x		x		x	
																											x		x		x		x	
																											x		x		x		x	

## D.8 Communication

Stream	03.2006	04.2006	05.2006	06.2006	07.2006	08.2006	09.2006	10.2006	11.2006	12.2006	01.2007	02.2007	03.2007	04.2007	05.2007	06.2007	07.2007	08.2007	09.2007	10.2007
Communication																				
Review existing migration strategy	x																			
Review all other relevant reports of the PFMR project	x	x																		
Update the existing migration strategy, report on significant deviations to approved strategy, and propose necessary changes in migration plan in the Inception report		x																		
Project progress meetings	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Communication on the reform via press, technical articles in magazines - continuously	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

## **E Abbreviations**

MF SR	Ministry of Finance of Slovak Republic
IPSAS	International Public Sector Accounting Standards
ISSP	State treasury information system
EU	European Union
IMF	International Monetary Fund
PFMR	Public finance management reform

## **F Glossary of terms**

For better understanding and avoidance of doubt, below is the list of terms used in this report and their translation to the official terminology according to the Slovak legislation

Budgetary organisation	Rozpočtová organizácia
Contribution organisation	Príspevková organizácia
Higher territorial unit	Vyšší územný celok
Local self-administration	Miestna samospráva (includes Municipalities and Higher Territorial Units)
Local state administration	Miestna štátna správa
Municipality	Obec
State administration	Štátna správa
Recognition	Uznanie (aktívacia/“pasivácia“, uvádzanie na strane aktív/pasív)