Ministry of Finance SR

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

Progress report 2

State as at 20 September 2006

KPMG Slovensko, spol. s r.o.

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1 Executive summary

1.1 Accounting

The workgroup of Provider organised regular project meetings with the responsible project team of the Ministry of Finance, where differences between the proposed methodology and IPSAS were analysed in detail.

Further content of the meetings was to resolve selected issues where solution was crucial for recognition and disclosure of mutual transactions within the consolidated group, financial position and financial performance of public sector entities. Special attention has been devoted to the split of the public sector entities into groups for the preparation of consolidated financial statements, accounting treatment and disclosure of transfers in different types of organizations and to the conversion bridge as at 1 January 2008.

The workgroup summarized the results of its analysis into two outputs. Firstly, there was the Report on strengths and weaknesses of the current system of financial and fiscal reporting prepared, which is including in appendix A of this report. Secondly, the report “Comments to the proposed regulation on new public sector accounting principles and the structure of financial statements” which is including in appendix B of this report. Most comments, which have been recommended by the workgroup to be included to the proposed regulation, were accepted by the responsible project team of the Ministry of Finance. However, the process of incorporation of workgroup comments has not been finalized up to the date of submission of this report due to the fact that the amendment to the Act on Accounting, which is a pre-condition to issue the new methodology, has not yet been discussed in the Parliament.

1.2 Consolidation

The progress of the Consolidation Workgroup is subject to finalising the new accounting procedures for budgetary organisations, state funds, contributory organisations, municipalities and local governments and to amending §23 of the Act 431/2002 Z.z. on accounting. The amendment is expected to pass no sooner than January 2007. Our work in the next period will continue without interruption on proposing consolidation procedures and forms. It will be carried out concurrently with the accounting trainings.

1.3 Fiscal reporting

Our output in this area was in proposing tables for the notes to the financial statements or for other reporting regulations from the aspect of statistical reporting needs. According to the recent information, MF SR prefers meeting the needs of statistics by a separate regulation, i.e. the proposed tables will be commented upon and possibly accepted when preparing this regulation.

1.4 Organisation

We have mapped the as-is accounting processes of MF SR for 3 relatively independent internal accounting entities: funds accounting, MF SR Office Administration accounting and accounting in the chapter of General Treasury Management ("VPS"). The identified strengths and weaknesses, along with improvement opportunities, have been presented in the Report on strengths and weaknesses. A tool for identifying and documenting the strengths and weaknesses of the as-is accounting processes was to develop process models in tabular form. These models are presented in appendix C In the next period, our work will continue by modelling to-be accounting processes.

1.5 Information technology

We have continued our work on analysing information requests for the common database of accounting and fiscal reporting. We held two meetings with representatives of the project Architecture of IS of State Accounting ("Architecture Project") and we took part in a presentation of this project for MF SR representatives on foundations of anticipated solution. We came to an understanding that tables created by principles applied in the tables proposed by us to meet the needs of statistical reporting could meet the needs of the Architecture Project.

A key event in the area of analysing the MF SR as-is IT processes was a meeting with the Office Head Advisor for IS and Accounting, Mr. Kotian. We were informed by him that IS and IT maturity at MF SR far exceeds maturity of similar systems at other general government organisations. The existing systems are run-in and appear to be sufficiently reliable. Our analysis would not therefore bring added value to the IPSAS Project, since the areas exposed to risk are located outside the MF SR. On the basis of the agreement reached on this meeting, we will focus our activity on analysing information requirements for the common database of accounting and statistics.

1.6 Training

We have focused on preparing and delivering the foundation course - Accrual accounting essentials. We have evaluated the interim feedback to the course being delivered – the overall evaluation will be prepared after completion in the next progress report. We have prepared a three-day course for the new accounting methodology based on IPSAS, entitled –“Accounting of state and self-administration per IPSAS principles”. The training concept of a three-day course for small groups of approx. 40 trainees remains unchanged. Due to postponing the time for passing the amendment to the Act on Accounting in the Parliament (instead of expected passage in September - October 2006, it will be passed no sooner than January 2007), the new accounting methodology will not have been officially approved by the time the new methodology trainings start in November 2006. For this reason, the course is entitled “Accounting of State and of Self-Administration per IPSAS Principles”.

2 Accounting

The content of meetings of the workgroup was the completion of identification of differences between the IPSAS and proposed methodology, as well as selected issues the resolution of which are crucial for the accounting treatment of mutual transactions and balances for consolidation, financial position and financial performance of public sector entities. The main issues were as follows:

- Split of public sector entities into groups for the preparation of consolidated financial statements.

- Consideration of various methods of accounting and disclosure of revenues from transfers.

- Accounting treatment and disclosure of transfers in different types of organizations.

- Conversion Bridge as of 1 January 2008.

The workgroup summarized the results of its analyses in the report "Comments to the proposal of new accounting regulation and structure of financial statements". Most of the comments, which were recommended by the workgroup to be incorporated into the Proposal of new regulation, were accepted by the project team of the Ministry of Finance, as described later.

2.1 Analysis of differences between IPSAS and proposed methodology

In compliance with the scheduled work plan, the workgroup continued with the analysis of differences between IPSAS and proposed methodology.

On the meetings of the workgroup, which members of Provider's team, Ms. Majorova and other personnel of the State Reporting Section also participated in, the following IPSAS has been dealt with:

2.1.1 IPSAS 1 – Presentation of financial statements

Analysis of presentation of financial statements was focused on the structure and content of financial statements, individual components of financial statements and notes, quantitative characteristics of financial statements and basic elements and principles of financial statements preparation, materiality.

Incorporation of all IPSAS 1 regulations into the new accounting methodology is not possible, as the accounting principles are mostly defined by the Accounting Act. Their incorporation to the new regulation would involve a change of the Accounting Act, i.e. by amending the definition of materiality, definition of comparability.

2.1.2 IPSAS 2 – Cash flow statement

The cash flow statement will become a part of notes to the financial statement, and will not be set as a separate statement. The direct method of the cash flow statement preparation is recommended and the budgetary (financial) statements will be used for preparation of the cash flow statement, which includes data collected on cash basis split according to various classifications. A discussion is currently in progress with the MF SR whether or not the duty to prepare the cash-flow statement will be shifted for some years, i.e. not to issue it in 2008.

2.2 Accounting treatment and disclosure of transfers

The workgroup has concluded during the regular meetings that the key issue relating to the accounting treatment of the transfer is the accounting treatment of revenues from transfers which has a direct impact on the disclosure of financial performance of the particular public sector entity.

In particular, the relations between the founder and its own budgetary organization have been analyzed in terms of the result of financial performance of the entity, which is directly linked to the budget of its founder and manages the budgetary funds according to the approved budget.

The provider's workgroup prepared 4 basic scenarios and 2 subscenarios relating to the accounting treatment of transfers, using the example of a municipality as founder and a school as its budgetary organization, partly from the municipality's perspective and partly from the school's perspective. Advantages and disadvantages of proposed treatments of individual scenarios were evaluated, which are described below, together with the description of the basic concept of the particular scenario. Based on this analysis, the particular scenarios were discussed during the meetings with the responsible project team members of the Ministry of Finance.

2.2.1 Proposed scenarios of accounting treatment of transfers

In the analysis of particular scenarios for the accounting treatment, all transfers were divided into two groups:

- Transfers to cover operational expenses and payments (hereinafter "operational transfers")
- Transfers to cover capital expenditure, i.e. acquisition of non-current assets (hereinafter "capital transfers")

2.2.1.1 Scenario 1

The first scenario of the proposed concept is derived from the assumption that a budgetary organization directly dependent on the budget of its founder should have a zero result on financial performance. Possible positive or negative results of financial performance of the budgetary organization is included the financial performance of the founder.

Under the principles of accrual accounting, in addition to expenses that are at the same time also payments, the entities might also have expenses which will become payments in future accounting periods. Therefore, the founder should cover not just payments for the current accounting period, but expenses that will become payments in future accounting periods. In addition to except for the cash inflows and outflows, mutual receivables and payables of the affected entities should also reflect the receivables against the founder from expenses not yet settled.

In the case of capital transfers, expenses relating to these payments do not arise in a single accounting period, most often the current, but in several consecutive accounting periods, as they relate to the acquisition of non-current tangible assets and intangible assets. Compared to the operational transfers, the difference resides in the fact that the payments arise at first and expenses subsequently, in several accounting periods.

In this context, several solutions can be considered, which form the bases for particular scenarios. According to scenario no. 1, with the basic assumption of zero profit or no profit, the budgetary organizations should recognize revenues relating to capital transfer only to the extent of respective expenses, which are the depreciation and set-up of provisions in the case of non-current assets.

Scenario 1 has the following features:

The result of financial performance of the budgetary organization is zero in all circumstances.

- The budgetary organization recognizes revenues from operational transfers to the full extent of operational costs, including the set-up of reserves and provisions.

- The budgetary organization recognizes revenues from capital transfers up to the amount of expenses arising as a result of capital transfer in the current accounting period.

- Cash flow between the founder and its own budgetary organization is monitored through the mutual balances (receivables and payables), whereas receivables and payables relating to capital transfers are monitored separately from receivables and payables relating to the operational transfers. Receivables and payables arising from operational transfers toward the founder from the perspective of the budgetary organization express how much operational costs exceed or are lower than budgetary payments. Receivables and payables arising from capital transfers express the amount of capital expenditure payments spent in the current accounting period as a consequence of capital transfer, and will be charged to expenses in the following accounting periods.

Advantages and disadvantages of scenario no. 1

The main advantage of scenario no. 1 is a balanced result of financial performance and transfer of expenses and costs of budgetary organization into the bookkeeping of the founder, which will simplify the consolidation process.

The main disadvantage of scenario no. 1 is that the general public may not understand the results of the financial performance, which is always zero profit. Because this disadvantage was identified as one of weaknesses of the current system of financial reporting, this scenario has been assessed as less favourable. Another disadvantage is the need of reconciliation of mutual balances between the entities as a part of the year-end closing procedures.

2.2.1.2 Scenario 2

The second scenario of the proposed concept is derived from the assumption that, even though the budgetary organization is directly dependant on the budget of its founder, it should disclose the result of its financial performance. The result of the financial performance should be determined as a difference between revenues, recognized as the amount of eligible budgetary receipts, i.e. in the amount of payments made, and the amount of actual expenses.

As in the first scenario, a different approach has been adopted for the capital transfers and operational transfers.

In the case of capital transfers, the same approach as under scenario 1 was accepted; i.e. to recognize revenues relating to capital transfers only to the extent of respective expenses, which are the depreciation and set-up of provisions in the case of non-current assets.

In the case of operational transfers, which are used to cover the operational expenses, two concepts were adopted, which are the basis for subscenarios 2a and 2b. The underlying difference between them is the method of revenue recognition.

Under scenario 2a, revenues from operational transfers are recognized as the lower of cash spent or actual expenses. Therefore, under scenario 2a, the result of the financial performance cannot be positive, only zero (when operational expenses are lower than cash spent) or a loss (when operational expenses are higher than cash spent).

Under scenario 2b, revenues from operational transfers are recognized as cash spent, regardless of the amount of actual expenses. Therefore, under scenario 2b, the result of the financial performance of the budgetary organization can be positive, negative or zero.

Scenario 2a has following features:

The result of the financial performance of the budgetary organization is zero or a loss.

- The budgetary organization recognizes revenues from operational transfers as the lower of cash spent or actual expenses.

- The budgetary organization recognizes revenues from capital transfers to the extent of the amount of expenses arising as a consequence of capital transfer in the current accounting period.

- Cash flow between the founder and its own budgetary organization is monitored through the mutual balances (receivables and payables), whereas receivables and payables relating to capital transfers are monitored separately from the receivables and payables relating to the operational transfers. Receivables and payables arising from operational transfers towards the founder from the perspective of the budgetary organization express how much operational costs are lower than used cash from the operational transfer, respectively, it has no balance, in the event that the operational expenses equal or are higher than the cash spent. Receivables and payables arising from capital transfers express what amount of capital expenditure payments spent in the current accounting period in consequence of capital transfers will be charged to expenses in the following accounting periods.

Advantages and disadvantages of scenario no. 2a:

The underlying advantage of scenario no. 2a is that the result of the financial performance is easier to understand than under scenario no. 1. A negative result of financial performance expresses the need of additional financial resources in following accounting periods.

The main disadvantage of scenario no. 2a is limited presentational ability in the event of a zero result of financial performance, because it does not allow the budgetary organization to identify more effective utilization of resources, when the operational expenses of the budgetary organization are lower than cash spent. In this case, a receivable of the founder arises towards the budgetary organization that is not recoverable, as the budgetary organization is not in the position to settle this receivable. It leads to a certain distortion in the accounting of the budgetary organization. Therefore, this scenario has not been recommended by the workgroup.

Another disadvantage is the need of reconciliation of mutual balances between the entities as a part of the year-end closing procedures.

Scenario 2b has the following features:

- The result of financial performance of the budgetary organization can be positive, zero or negative.
- The budgetary organization recognizes revenues from operational transfers as the full amount of cash spent, regardless of the amount of actual expenses.
- The budgetary organization recognizes revenues from capital transfers to the extent of expenses arising as a consequence of capital transfer in the current accounting period.
- Cash flow between the founder and its own budgetary organization is monitored through the mutual balances (receivables and payables), whereas receivables and payables relating to capital transfers are monitored separately from the receivables and payables relating to the operational transfers. Receivables and payables arising from operational transfers towards the founder from the perspective of its budgetary organization does not express the relation between the operational expenses and the cash spent, as this relation is shown in the result of the financial performance. Receivables and payables arising from capital transfers express what amount of capital expenditure payments spent in the current accounting period in consequence of capital transfers will be charged to expenses in the following accounting periods.

Advantages and disadvantages of scenario no. 2b:

The main advantage of scenario no. 2b is that the result of the financial performance profit through inclusion of all expenses and revenues into the accounting of the budgetary organization as a public sector entity is very easy to understand.

Under scenario 2b, no principal disadvantages have been identified. A minor disadvantage is the need for reconciliation of the mutual balances between the entities as part of the year-end closing procedures.

For these reasons, this scenario was considered the most acceptable and approved by responsible project team members of the MF SR.

2.2.1.3 Scenario 3

The third scenario of the proposed concept is derived from the assumption that the budgetary organization, as in scenario 2, should disclose the result of its financial performance. The result of the financial performance is calculated as the difference between the revenues recognized in the amount of budgetary receipts, i.e. in the amount of cash provided, and the amount of actual expenses.

In contrast to the first two scenarios, there is the same approach to capital and operational transfers. In this case, revenues from both types of transfers are recognized by the budgetary organization as the full amount of budgetary receipts, regardless of the amount of actual expenses. Therefore the result of the financial performance of the budgetary organization can be positive, negative or zero.

Scenario 3 has following features:

- The result of financial performance of the budgetary organization can be positive, zero or negative.
- The budgetary organization recognizes revenues from operational and capital transfers as the full amount of budgetary receipts.
- Cash flow between the founder and its own budgetary organization is not monitored through the mutual balances (receivables and payables), as the budgetary organisation recognizes revenues from transfers at grant, respectively the allocation of budgetary receipts. The relation between the budgetary receipts and expenses is directly reflected in the result of the financial performance.

Advantages and disadvantages of scenario no. 3

The main advantage of scenario no. 3 is the reflection of all expenses and revenues in the accounting of the entity, and less extensive preparation of financial statements, as there no need for reconciliation of the mutual balances between the entities as part of the year-end closing procedures.

The main disadvantage of scenario no. 3 is the limited presentational ability of the result of the financial performance for the general public as a consequence of the recognition of revenues from capital transfers as the time of their actual usage. This can give rise to a positive result of the financial performance due to higher capital expenditure, as opposed to more effective management of the budgetary receipts. As this was identified as one of the weaknesses of the current system of financial reporting, this scenario has been assessed as less favourable.

2.2.1.4 Scenario 4

The fourth scenario of the proposed conception is derived from the assumption that the budgetary organization is linked to the budget of its founder and is financed through budgetary receipts. Therefore, the budgetary organization should not recognize any revenues. The result of the financial performance consists only of expenses from the budgetary organization’s activities.

In contrast to the previous scenarios, revenues are recognized from neither operational nor capital transfers. Under this scenario, there can be only a negative result of financial performance, which is the amount of expenses of the budgetary organization.

Scenario 4 has following features:

- The result of the financial performance of the budgetary organization can only be negative due to the fact that only expenses are recognized.

- The budgetary organization does not recognize revenues from either operational or capital transfers.

- Cash flow between the founder and its own budgetary organization is monitored through the mutual balances respectively, in the form of a liability against the founder in the accounting of the budgetary organisation, which can be either cumulated over the existence of the budgetary organization, or decreased in the subsequent accounting period by the amount of the negative result of the financial performance of the budgetary organisation.

Advantages and disadvantages of scenario no. 4

The main advantage of scenario no. 4 is the reflection of all expenses in the accounting of the budgetary organization and less extensive preparation of financial statements, as there is no need for reconciliation of the mutual balances between the entities as part of the year-end closing procedures, as the founder can determine the amount of budgetary funds provided to its budgetary organization.

The main disadvantage of scenario 4 is that it is a modification of the current system of financial reporting and represents the smallest movement from all considered scenarios towards the full accrual accounting. Under this scenario, revenues are not recognized at all, which was identified as a weakness of the current system of financial reporting. Therefore, this scenario proved to be unfavourable.

2.2.2 Accounting treatment of transfers

From the above description of scenarios, scenario 2b has been chosen. According to the analysis of strengths and weaknesses of the current system of financial and fiscal reporting, scenario 2b is the most suitable scenario for the elimination of the identified weaknesses.

All the particular scenarios have been simulated based on the single relationship between the budgetary organization and its founder from both perspectives, and the workgroups have also analysed other relevant relations, such as:

- Relations between the founder and its contributory organization
- Relations between the state administration, i.e. Ministry of Finance (state) and its chapters and their budgetary and contributory organizations
- Territorial autonomy i.e. municipalities, higher territorial units and their budgetary organizations

The content of subsequent meetings of the workgroup has focused on the determination of particular features within those entities and relationships between them, as well as the accounting treatment of those relationships within the chosen scenario. The output of these meeting was the preparation of a proposal for the new accounting treatment of transfers, which is described in detail in "Comments to the proposed regulation on new public sector accounting principles and the structure of financial statements" included in appendix B of this report.

2.3 Comments to the proposed regulation on new public sector accounting principles

As mentioned above, the result of our work have been summarised in "Comments to the proposed regulation on new public sector accounting principles and the structure of financial statements", which is included in appendix B of this reports.

Most of the comments, which the workgroup has recommended be included in the proposed regulation, were accepted by the responsible project team of the Ministry of Finance. As the process of incorporation of the workgroup's comments has not been finalized, it is not possible now to present an overview of incorporated recommendations. This analysis will be included in the next progress report.

3 Consolidation

Accounting consolidation strengths and weaknesses were described in the Report on strengths and weaknesses in section 3. We stated therein also the matters having an impact on preparing the accounting consolidation process that result from passing the needed legislation. There has been no significant development in this area since the closing time for gathering information for the Report on strengths and weaknesses. Passage of the amendment to Act 431/2002 Z.z. on accounting and the new accounting procedures for budgetary organisations, state funds, contributory organisations, municipalities and local governments is expected no sooner than

January 2007. According to recent information from the MF SR, some regulations of Act 431/2002 Z.z. on accounting will be amended also by an amendment to Act 595/2003 Z.z. on income tax. The resulting amended regulations of the Act on Accounting will not have an impact on the accounting consolidation.

Our work in the next period will continue without interruption on proposing consolidation procedures and forms. It will be carried out concurrently with the accounting trainings.

4 Fiscal reporting

Fiscal reporting strengths and weaknesses have been analysed in detail in the Report on strengths and weaknesses, including system improvement opportunities. The key point of the proposed solutions was proposing tables for the notes to the financial statements or for other reporting regulation from the aspect of statistical reporting needs. According to recent information, MF SR prefers meeting the needs of statistics by a separate regulation. The notes to the financial statements will therefore be driven solely by accounting reporting needs.

The work in fiscal reporting is subject to the MF SR's progress passing the regulation dealing with statistical reporting needs. The working group will provide cooperation on an as-needed basis in preparing such a regulation, e.g. in interpreting the proposed tables. The next task is developing a statistical reporting manual. The progress in this area also depends on passing the above mentioned regulation on data collection or processing for fiscal reporting needs.

5 Organisation

It was the task of this reporting period to map the as-is accounting processes of MF SR. The mapping was performed for 3 relatively independent internal accounting entities: funds accounting, MF SR Office Administration accounting and accounting in the chapter of General Treasury Management ("VPS").

Identifying process improvement opportunities was a significant part of the process mapping. They relate either to identified strengths that can be developed further, or to weaknesses that can be removed or mitigated. They were presented in the Report on strengths and weaknesses.

A tool for identifying and documenting the strengths and weaknesses of the as-is accounting processes was to develop process models in tabular form. These models are presented in appendix C

In the next period, our work will continue modelling to-be accounting processes. This is subject to MF SR standpoints on the particular proposed improvement opportunities and to progress in passing the legislation creating the basis for applying the new accounting methodology.

6 Information technology

6.1 Common database for accounting and statistical reporting

We have continued our work analysing information requests for the common database of accounting and fiscal reporting. We held two meetings with representatives of the project Architecture of IS of State Accounting ("Architecture Project"). We have been informed that, with the use of proper technology, tables fed by source data generated by accounting entities will be a substantial element of a future solution. These tables would be aggregated further according to reporting needs. We took part in a presentation of this project for MF SR representatives on foundations of anticipated solution.

During our last meeting, we presented the tables proposed by us from the point of view of statistical reporting. Since these tables have not yet been approved by the IPSAS Project, we were not able to make them available to the Architecture Project representatives. On the basis of the presentation of these tables and the principles applied therein, an agreement has been reached that the tables created using these principles could satisfy the Architecture Project needs. More exact feedback would be provided after analysing the tables.

6.2 Strengths and weaknesses of existing IS

The key event in this area was a meeting with the Office Head Advisor for IS and Accounting, Mr. Kotian. We were informed by him that IS and IT maturity at MF SR far exceeds maturity of similar systems at other general government organisations. The existing systems are run-in and appear to be sufficiently reliable, including the connectivity of RIS, the accounting system and ISŠP. Our analysis of IS and IT strengths and weaknesses at MF SR would not therefore bring added value to the IPSAS Project, since the areas exposed to risk are located outside the MF SR, mainly in smaller budgetary or contribution organisations of state administration and self-administration. Such organisations often use obsolete accounting solutions, e.g. on the DOS platform, without the possibility to set up sufficient logical security and connectivity. As agreed at that meeting, we will focus our activity on analysing information requirements for the common database of accounting and statistics.

6.3 Analysis of requests for support by IS

In compliance with the conclusion of the meeting mentioned in section 6.2, we will not analyse strengths and weakness of IS and IF of MF SR, but will focus our activities on analysing information needs for the common database of accounting and statistics. The work of statistics and IT workstreams will overlap in this area. If needed, however, we can increase our involvement in more technological details.

7 Training

In compliance with the initial report on providing advisory services for improving accounting and reporting systems of public finance, we have focused on the following activities during the reporting period:

- preparing training material for the foundational course - Accrual accounting essentials,
- delivery of trainings of the foundational course - Accrual accounting essentials in Košice, Žilina, Banská Bystrica, Nitra and Bratislava
- preparation of course content - Accounting of state and self administration on the basis of IPSAS principles,
- preparation of training content for the course - Accounting of state and self administration on the basis of IPSAS principles,
- communication with additional lecturers (Ing. Brániková, Ing. Urbanová),
- communication with venue administrators in individual training centres.

The focus was on preparing and delivering the foundation course - Accrual accounting essentials, in processing particular topics as agreed with the MF SR.

The time schedule of the foundational course - Accrual accounting essentials elaborated for particular venues, has been adhered to. The foundational course has been delivered at the particular training centres during August and September 2006, as follows:

- in Košice: 16 and 17 August 2006,
- in Žilina: 23 and 24 August 2006,
- in Banská Bystrica: 6 and 7 September 2006,
- in Nitra: 20 and 21 September 2006 and
- in Bratislava: 29 September 2006.

The planned 10th foundational course will take place in Bratislava on 6 October 2006.

As at 31 August 2006, 854 trainees completed the foundational course in the first two training centres (Košice, Žilina).

The overall evaluation of the foundational course - Accrual accounting essentials, will be prepared after completion in the next progress report.

The topics for the three-day course - Accounting of state and self administration on the basis of IPSAS principles, have been consulted with the MF SR and comments have been incorporated on the basis of mutual discussion.

The prepared content of these courses has been specifiedas follows:

1. Introduction - information on Project, significance of the new methodology, contents of the three-day training, summary of the most significant changes compared to the current methodology
2. Accounting closing - balance sheet, income statement and notes
3. Framework chart of accounts for budgetary organisations, contribution organisations, municipalities and local governments
4. Transfers as an essential transaction in activities of budgetary organisations, contribution organisations, municipalities and local governments
5. Specific accounting issues of budgetary organisations, contribution organisations, municipalities and local governments
6. Provisions to assets, creating, use and release
7. Intangible and tangible fixed assets
8. Inventories
9. Financial assets
10. Clearing relationships
11. Reserves, creating, use and release
12. Own sources of assets
13. Expenses
14. Revenues
15. Accruing expenses and revenues
16. Migration account mapping
17. Solving comprehensive example

Due to the legislation process of preparing and approving the new accounting methodology with the new accounting procedures, the new framework chart of accounts and financial statements, the concept of the three-day training for small groups of approx. 40 trainees is retained, with the course title "Accounting of state and self administration on the basis of IPSAS principles", split into homogeneous groups (state budgetary organisations, contribution organisations, municipalities + local governments, budgetary organisations of municipalities and of local governments).

8 Communication

Within the workstream "Communication", a number of activities have been performed or are under preparation, in accordance with the communication strategy approved by the Steering Commission.

8.1 Communication activities performed

8.1.1 Letter of MF SR to the representatives of public administration authorities

In accordance with the approved communication strategy, at the beginning of June the MF SR prepared and sent a letter to representatives of the public administration authorities, in which they were informed about the reform of reporting which is being prepared, the reasons and principles thereof, the time schedule for work on the reform, what it will mean for the affected public administration entities, as well as the postponement by one year (1 January 2008) as opposed to the original plan of the Slovak Government.

8.1.2 Meeting with representatives of local self-administration

On 20 June 2006 a working meeting took place on the premises of the MF SR between the representatives of the MF SR, members of the Project Team (MF SR, KPMG, UPJŠ) and organisations who represent the self-administration authorities – The Union of Towns and Cities of Slovakia, The Association of Towns and Municipalities of Slovakia, and The Association of Municipal Finance Officers of the Slovak Republic. The participants agreed that the meeting has achieved its objective of informing representatives of self-administration about the implementation of the Project. The organisations of self-administration promised to inform their members about the Project and made a commitment to distribute information materials of the MF SR on the objectives and implementation of the Project among the members. The representatives of self-administration promised that the MF SR and the Project Team would be provided space in the "Obecné noviny" ("The Municipal News") newspaper, where they would be able to publish information regularly on the Project.

8.1.3 Setting up Internet sites on the Project

The MF SR has created a sub-site "Project of Implementation of Uniform State Accounting and Reporting" under "State Reporting" on its Internet site www.finance.gov.sk, where information is published and updated on the Project and its progress. Information on the Project, materials submitted for approval by the Government in connection with the Project, progress reports by external advisors on the Project, etc. are published there.

The co-organiser of the trainings, the Pavol Jozef Šafárik University in Košice (Univerzita Pavla Jozefa Šafárika v Košiciach – UPJŠ) has created a specialised site http://uctovnictvo.science.upjs.sk on which, in addition to a link to the above MF SR site, the dates and topics of the trainings are published, with an interactive search engine and a tool to either enrol in the trainings electronically or download an enrolment form to be sent by fax/post.

8.1.4 Articles in specialised press

In line with the communication strategy, the Project Team members have published the following articles in the magazine "Účtovníctvo, audítorstvo a daňovníctvo" ("ÚAD" - "Accounting, Auditing and Tax Issues"):

- an informative article on the contents and objectives of the Project, an announcement of a prepared series of specialised articles and a reference to the MF SR's Internet site („Verejný sektor bude účtovať prehľadnejšie" / "The public sector's accounting will be more transparent", Ing. Katarína Kaszasová, Ing. Miriam Majorová, PhD., ÚAD 9/2006),
- a specialised article on certain aspects of accounting and reporting under IPSAS („Dlhodobý hmotný majetok v kontexte Medzinárodných účtovných štandardov pre verejný sektor" / "Tangible fixed assets in the context of the International Public Sector Accounting Standards", Doc. Ing. Antónia Kovalčíková, PhD, ÚAD 9/2006).

Except for above-mentioned aricles, additional articles were published informing on realization of the Project in paeriodic magazines focused on public administration of the publisher Poradca.

8.2 Communication activities pending and under preparation

8.2.1 Specialised conferences

Ing. Katarína Kaszasová, the Director General of the State Reporting Section of the MF SR, spoke on 6 September 2006 at the conference "Summit of Municipalities 2006" organized by the Union of Slovak Towns and by the Slovak Rating Agency to the topic Project of implementing the uniform state accounting and reporting. Also, the conference "Municipality Management 2006" is organised by the publisher of the economic weekly TREND and will take place on 12 October 2006. At this conference, Ing. Katarína Kaszasová will speak on the implementation of the International Public Sector Accounting Standards (IPSAS) into the national accounting legislation and its influence on the public finance management in Slovakia, and on the benefits of the higher-quality financial reporting to the management of the self-administration entities.

8.2.2 Report submitted for discussion by the Slovak Government

In accordance with the communication strategy, the MF SR has prepared a report on the progress of the Project; the Government should approve the one-year postponement of launching of the Project (1 January 2008, as opposed to the original date of 1 January 2007). The draft report was approved by the Steering Commission on its meeting of 22 August 2006. The discussion of the Government on the material is expected to take place in early October 2006. After the Government starts its session, the conclusions of the Government meeting will be published, e.g. in the form of a press release.

9 Updated activity plan

We provide a comparison of the planned activities with the activities performed during the reporting period, on the basis of the analysis of detailed activities according to the terms of reference under section 5 of the inception report:

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	by 3 Apr. 06
2. Prepare report on significant deviations from approved strategy and proposing necessary changes to migration plan;	completed, inception report, section 8.2	by 3 Apr. 06
3. Familiarize with existing primary and secondary accounting legislation including the legislation in the process of preparation;	completed, progress report 2, section 2.1	March 06- Aug. 06
3a Validate the new accounting methodology by Provider;	in progress, progress report 2, section 2.3	March 06- Aug. 06
4. Prepare report on significant deviations from approved strategy of legislation changes and proposing necessary changes in the new accounting legislation;	completed, inception report, section 8.2	by 3 Apr. 06
4a Prepare wording of Act on Accounting amendment for IPSAS consolidation;	completed, progress report 2, section 3	Apr. 06 - Aug. 06
5. Familiarize with all other relevant reports of PFMR project;	completed, inception report, section 6 e, f	by 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, inception report, section 3.4	by 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;	completed	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: - description of all sub processes necessary for preparing statements, - competence framework (specification of all entities involved into statements preparation, - proposed changes to methodology application, - proposed changes in the information systems support, - time-schedule of implementing the proposed fiscal and financial reporting systems focusing on preparing statements in compliance with national accounting procedures, ESA95 and GFS200;	in progress, progress report 2, section 5	Sep. 06 - June 07
8a Validation of the new consolidation methodology;	planned	Oct. 06 - June 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:	planned Precondition for the following activities is publishing new consolidation methodology in the form of accounting legislation.	Oct. 06 - Oct. 07
- 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),	planned	Oct. 06 - Oct. 07

Activity	Status	Duration
- assistance with preparing statements for 2006 and 2007 in compliance with new Slovak public sector accounting legislation (general purpose financial statements), ESA95, GFS2001;	planned 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.	Oct. 06 - Oct. 07
10. Prepare reports on findings identified during testing and implementation process, design changes in proposed processes, competencies, methodologies and system support;	planned Zistenia budú zahrnuté v pravidelných štvrťročných priebežných reportch.	Oct. 06 - Oct. 07
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: - reporting data submission rules for all public sector entities (data types, submission time-schedule, submission form, etc.), - roles and responsibilities of all public sector entities and professional units responsible for preparing statements, - summary of procedures to be carried-out in the process of statements preparation (data aggregation, elimination, statements adjustments, statements submission, etc.);	planned 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;	planned 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;	completed Progress report 2, section 7	Mar. 06 - Aug. 06
14. Assessment of activities carried-out by MF SR in accounting training for prior 2 years y;		
15. Prepare detailed training plan for 2006-2007 for employees of state administration and local self-administration that must include: - using new accounting methodology and related accounting procedures prepared on MF SR accrual basis, - using new fiscal and financial reporting systems;	1. training plan for foundation accrual accounting training (in progress, progress report 2, section 7)	Mar. 06 - July. 06
	2. training plan of training for detailed accrual accounting per approved legislation (in progress, progress report 2, section 7)	Sep. 06 - Oct. 06
	3. detailed plan for consolidation training (planned)	Nov. 06 - May. 07
16. Preparing relevant study handbook and materials to be used for training activities and for distribution to trainees;	in progress, progress report 2, section 7	Apr. 06 - Oct. 07
17. Training of selected set of employees of state administration and self-administration according to training plan.	1. Delivering accrual accounting essentials - in progress,	Aug. 06 - Oct. 06
	2. Delivering detailed accrual accounting training - planned,	Nov. 06 - Oct. 07
	3. Delivering consolidation training.	June. 07 - Oct. 07
	4. IPSAS - plánované	Sep. 07 - Oct. 07

Activity	Status	Duration
18. Ongoing external communication	in progress, progress report 2, section 8	Apr. 06 - Oct. 07
19. Preparing long-term plan	planned 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

10 Financial report

In compliance with article 14.3 of the general contractual terms we provide information on the use of finance for the contract execution, i.e. information on

- the number of worked days by persons utilised by the Provider to deliver the contract (tables 1a, 1b),
- ancillary costs spent for the contract execution (tables 2a, 2b).

No contract on subdelivery has been concluded in the reporting period. We expect concluding contracts with additional external lecturers to ensure accounting trainings in the next period.

Table 1a: Overview of used days per individual experts in the period of 03-09/2006

No	Expert	Allocated days	Used days							
			03/06	**04/06**	**05/06**	**06/06**	**07/06**	**08/06**	**09/06**	**Spolu**
1	Richard Farkaš	220	17,0	16,0	18,0	18,0	14,0	17,0	14,0	114,0
2	Karol Švitel	220	0,0	18,0	13,0	13,0	11,0	9,5	11,0	75,5
3	Viliam Kitta	220	17,0	14,0	13,0	9,3	14,0	11,6	9,7	88,5
4	Branislav Ďurajka	220	17,0	13,0	16,0	18,0	14,0	16,0	18,0	112,0
5	Mikuláš Zalai	220	8,0	3,6	4,6	10,1	7,4	2,6	1,9	38,1
6	Antónia Kovalčíková	220	9,0	10,0	8,0	12,0	15,0	17,0	15,0	86,0
7	Alena Kordošová	220	9,0	10,0	11,0	10,0	12,0	14,0	16,0	82,0
8	Karim Mouedden	100	3,1	5,9	4,8	1,3	0,0	2,0	2,0	19,1
9	Ivan Kupkovič	220	12,8	12,6	9,6	9,5	6,8	12,1	12,5	75,9
10	Katarína Somogyiová	220	11,0	13,0	9,5	16,0	20,0	23,0	15,0	107,5
11	Alena Šranková	220	13,0	12,0	12,0	12,0	3,0	0,0	0,0	52,0
	Allocated in total	**2300**	**116,9**	**128,1**	**119,5**	**129,1**	**117,1**	**124,8**	**115,1**	**850,5**
	Used in total*	**850,5**								
	Balance	**1449,5**								

* At the time of approving this progress report, the project manager has not yet approved the used days amounting to 3.0 days.

Table 1b: Costs related to the worked time

Budget in SKK	Used as at 30 Sep. 06 in SKK	Balance in SKK
48 400 000	17 025 675	31 374 325

Table 2a: Ancillary costs per the budget in total

Budget in SKK	Used as at 30 Sep. 06 in SKK	Balance in SKK
9 449 500	235 478	9 214 022

Table 2b: Ancillary costs per the budget in detail

No	Item	Amount in SKK
1	Translations	7 200
2	Traning room equipment	4 558
3	Logistics of training activities	223 720
	Total	**235 478**

A Report on strengths and weaknesses of the existing financial and fiscal reporting framework

B Comments to proposed new accounting procedures and framework chart of accounts structure

C Models of as-is accouting processes of MF SR