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Public Sector Accounting and Auditing in Portugal

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11.1 Introduction

According to its Constitution, Portugal is a unitary state with two levels of government: central and local (constitutionally autonomous). There are also two autonomous regions (Azores and Madeira archipelagos) with independent regional governments. Local government embraces municipalities and civil parishes. The 1997 Constitution created administrative regions but a national referendum in 1998 prevented these being implemented so, currently, there are 308 municipalities (278 in continental Portugal, 18 in Azores and 11 in Madeira) and 3,091 civil parishes (2,882 in continental Portugal, 155 in Azores and 54 in Madeira).

Due to strong centralization and legalistic tradition, public sector activities are based on administrative laws and any reforms have been centrally driven. Consequently, budgetary and financial accounting and reporting regimes are established by law and legislative changes are the main government's tools for the implementation of reforms, since professional influence is still very weak (Jorge, 2003).

Nevertheless, since 1998 (Law decree 68/98) there has been a standard-setting committee for public sector accounting, which works independently although it is under the Ministry of Finance.

Budgeting and accounting systems are, at both levels of government, generally separated, although linked in the same final reporting. There is currently a Plan of Accounting for the Public Sector (POCP) that covers the whole of public sector accounting and reporting, and has been adapted to the main subsectors within public administration: local government, health, education and social security.

Excessive fragmentation, new informational needs for accountability and decision-making and national and international harmonization issues, have raised the need for a reform of the current system, highlighted by government in the Document of Fiscal Strategy 2012–2014. In 2012 the organization and functions of an accounting standard-setter were revised (Law

decree 134/2012) and a Committee for Public Sector Accounting (CNCP) was created, which has been working since 2013 on a new public sector accounting system (SNC-AP) for the whole of the Portuguese public administration. This system is adapting International Public Sector Accounting Standards (IPSAS) to the particularities of the Portuguese context, combining financial accounting with budgetary accounting.

11.2 Public sector accounting standards in Portugal

The public sector in Portugal, as in other countries, embraces the administrative public sector and the business public sector. The latter comprises business enterprises owned either by central government or by municipalities. The business public sector is beyond the scope of public sector accounting, as public business enterprises generally follow the business accounting system. Nevertheless, recently, several issues have arisen concerning the scope of the, so-called, general government sector (GGS) both in public sector (micro) accounting and in the national accounts. Several public business entities, for example, hospitals, have been reclassified within the GGS because of the national accounts, due to non-market criteria, so they continue to use the business accounting system for financial accounting and reporting purposes, while preparing budgets and budgetary reporting according to public sector regulations. This chapter concentrates on the administrative public sector, which is undoubtedly under public sector accounting.

The system currently in practice in public sector accounting in Portugal goes back to the beginning of the 1990s, when the Public Sector Accounting Framework Law was passed (Law 8/90). This law established a new regime for the state's financial administration, considering the types of autonomy of the entities within the central administration, with consequences in the accounting systems (Law decree 155/92) – entities with administrative autonomy should use a cash and commitment-based accounting (single-entry), while entities with administrative and financial autonomy (with the requirement that their own revenue covers two-thirds of total expenditure) should additionally have a financial accounting system close to that used in business accounting (accrual-based with double-entry bookkeeping).

As a consequence, in 1997 the POCP was passed (Law decree 232/97) and became a landmark in Portuguese public sector accounting reform by creating an integrated system that brought cash-based budgetary accounting together with accrual-based financial and cost accounting. POCP was mainly derived from the then existent business accounting plan, which was revoked in 2009 and replaced by a new International Financial Reporting Standards (IFRS)-based system (SNC). Between 1997 and 2002, POCP was adapted to the main relevant subsectors of public administration, starting with local government (Law decree 54A/99), education (Order 794/2000), health (Order 898/2000) and social security (Law decree 12/2002). Entities within other sectors, for

example, defence, use POCP directly. Nowadays POCP has been extended, either directly or via a sectorial plan, to all entities within public administration, regardless of their degree of autonomy.

A simplified regime for small entities, consisting basically of traditional cash-based budgetary accounting and reporting, is allowed within the plans of accounting for local government and for education.

Currently, accounting standards for the public sector as a whole in Portugal might be seen as fragmented and inconsistent, because there are five different accounting plans for public administration plus an IFRS-based system for the public business sector (central and local) and yet another special regime for non-profit entities. Additionally, since the previous business accounting plan, which POCP was based upon, was revoked, POCP lost its reference and conceptual basis. The public sector accounting system is still very much based on detailed rules, while the business accounting system builds upon general principles. This fragmentation is creating several inconsistency problems and generating inefficiencies, for instance when preparing consolidated accounts, implying adjustments that are non-desirable and might affect financial information reliability while it is being integrated. The solution for these problems is seen as a change towards a single system, adapting IPSAS, hence bringing public sector accounting back to being close to business accounting.

Therefore, the reforms of public sector accounting in Portugal have been following those in business accounting, regardless of criticism by some (Jorge et al., 2007).

11.2.1 General accounting plan for the public sector

It follows from the above that POCP is the general framework for public sector accounting in Portugal, being the basis for other sectorial plans that differ essentially on technicalities concerning the chart of accounts, derived from particularities of the sector in which it is applied. Notwithstanding, the plans for local government (POCAL) and for the education sector (POC-E) comprise already detailed rules for cost accounting. POC-E also embraces rules for consolidated accounts. These rules exist in separate guidance and instructions both for central and local government. These matters will be addressed further on in this chapter.

POCP overcame the problems of traditional budgetary cash-based single-entry accounting, which had the main objective of showing how the budget was accomplished. By bringing three subsystems together into one integrated system, gathering budgetary (cash-based), financial (accrual-based) and cost (accrual-based) accounting, POCP created conditions for a harmonized public sector accounting system, allowing entities to have information to:

- Control legality, financial regularity and effectiveness of their operations;
- Monitor the budget accomplishment, determining budgetary deficits/surpluses and debt levels;

- Prepare the balance sheet, presenting assets and liabilities, as well as their evolution;
- List and control tangible assets;
- Evidence costs, and revenue when applicable, of public goods, services or activities, determining analytical results and analysing performance;
- Prepare the annual accounts to be sent to oversight bodies, namely the Court of Accounts (supreme audit institution);
- Make available more and different economic and financial information to support decision-making, both of a political and a management nature;
- Improve transparency while managing public resources and in the financial relationship with the state;
- Get the required elements to calculate the main relevant aggregates for national statistics, contributing to a better assessment of EU convergence criteria.

POCP is organized in eleven chapters (Law decree 232/97), the most important regarding: technical considerations on how to prepare the balance sheet, the income statement, the statements of budgetary execution and the notes, and on how to deal with specificities regarding the record of budgetary operations; accounting principles and measurement criteria; models of the main financial and budgetary statements and of some statements included in the notes (e.g. statements of budgetary alterations, investment projects accomplishment, debt, and transfers and grants); and the chart of accounts with explanatory notes (detailed accounts to record both budgetary and financial accounting operations; double-entry is required in both subsystems).

The new system now being prepared, moving towards national and international harmonization, will approach the structure and elements of the SNC for business accounting, adapting IPSAS to specificities of Portuguese public administration. It will be a single system for the whole of the public sector, except public (central and local) business enterprises.

The main structural elements of SNC-AP are:¹

- *Object* (budgetary, financial and management accounting and reporting).
- *Accounting bases* (modified cash basis for budgetary accounting and full accrual basis for financial and management accounting).
- *Conceptual framework* which, allowing for the theoretical basis for the standards, establishes underlying concepts to both budgetary and financial statements (DOF), helps their preparers applying the standards and dealing with matters not included in these, and supports users while reading the information presented in the DOF.
- *General and simplified regimes*, defining the scope of application of each one; since it is believed that accrual accounting is important to all public sector entities, regardless of their materiality, the simplified regime will also work on a full accrual basis, endorsing an integrated, more informative

and transparent budgetary and financial reporting, also using double-entry bookkeeping.

- *Accounting and reporting standards* (NCP), as in Table 11.1.

Table 11.1 Budgetary and financial accounting and reporting standards

NCP	Adapted from
<i>Group I – Presentation of budgetary, financial and management information</i>	
NCP 1 – Structure and content of financial statements	IPSAS 1 IPSAS 2 POCP SNC
NCP 2 – Accounting policies, changes in accounting estimates and errors	IPSAS 3
NCP 23 – Budgetary accounting	POCP LEO
RT1 – Management reporting ^a	RPG 1 e 2 (IPSASB) INTOSAI (October 2001) AASB 1055
<i>Group II – Financial position and performance – annual (single) accounts</i>	
NCP 3 – Intangible assets	IPSAS 31
NCP 4 – Service concession arrangements: grantor	IPSAS 32
NCP 5 – Tangible fixed assets	IPSAS 17
NCP 6 – Leases	IPSAS 13
NCP 7 – Borrowing costs	IPSAS 5
NCP 8 – Investment properties	IPSAS 16
NCP 9 – Impairment of assets	IPSAS 21 IPSAS 26
NCP 10 – Inventories	IPSAS 12
NCP 11 – Agriculture	IPSAS 27
NCP 12 – Construction contracts	IPSAS 11
NCP 13 – Revenue from exchange transactions	IPSAS 9
NCP 14 – Revenue from non-exchange transactions	IPSAS 23
NCP 15 – Provisions, contingent liabilities and contingent assets	IPSAS 19
NCP 16 – The effect of changes in foreign exchange rates	IPSAS 4
NCP 17 – Events after the reporting date	IPSAS 14
NCP 18 – Financial instruments	IPSAS 28 IPSAS 29 IPSAS 30
NCP 19 – Employee benefits	IPSAS 25

Continued

Table 11.1 Continued

NCP	Adapted from
<i>Group III – Consolidation and controlled entities</i>	
NCP 20 – Related party disclosures	IPSAS 20
NCP 21 – Interests in joint ventures and investments in associates	IPSAS 7 IPSAS 8
NCP 22 – Consolidated and separate financial statements	IPSAS 6
<i>Group IV – Special matters</i>	
NCP 24 – Management and cost accounting	IFAC Study 12 POCAL POC-E PCAH (hospitals) IPSAS 18
NCP 25 – Segment Reporting	–
NCP-PE – Standard for small entities (simplified regime)	–

Note: *This is not a regular standard, but a technical recommendation.

- *Interpretation guidelines*, when necessary, to clarify and complete NCP gaps.
- *Multidimensional chart of accounts*, a single chart of accounts, encompassing accounts to control budgetary and financial accounting operations, as well as tangible assets; it assures consistency with the one used in the SNC; it contributes to increased rigour in the records, improving accuracy in the values of individual and consolidated accounts, and in national statistics aggregates (alignment with European System of National and Regional Accounts (ESA)).
- *Budgetary and financial statements*, modified cash-based budgetary statements (expenditure and revenue control); accrual-based financial statements (balance sheet, income statement, by nature and by function, statement of changes in equity); a cash flow statement (reconciling the budgetary balance – cash – with cash and cash equivalents – accruals); and notes.

11.2.2 Conceptual framework

POCP does not have a conceptual framework (CF); no references are made to budgetary or financial information objectives and users, nor to qualitative characteristics. No recognition criteria are presented. However, there is a chapter on accounting principles and another on measurement criteria. Budgetary principles, relating to budgeting classical rules, are established in the Budget Framework Law (LEO), referred to later.

POCP accounting principles are: reporting entity, continuity, consistency, accrual, historical cost, prudence (conservatism), materiality and non-compensation (gross amounts). Substance over form is not accepted as a general

principle, due to its conflict with the predominant legality principle; yet, it is applied in certain situations (e.g. financial leasing). It is clearly stated that the application of these principles will lead to a true and fair view of the entity's financial position, performance and budgetary accomplishment. Cases where the application of these principles is not possible should be indicated in the notes.

SNC-AP, as presented, comprises a conceptual framework which is going to be an adaptation from both that existent in business accounting (International Accounting Standards Board (IASB)-based), and that of International Public Sector Accounting Standards Board (IPSASB). Since the system brings cash-based budgetary accounting together with accrual-based financial accounting, issues concerning the former have to be included. Therefore, concepts specific to Portuguese public sector entities, namely linked to administrative and budgetary execution processes, will be added (e.g. public domain assets, expenditure appropriations and commitments, revenue liquidations, arrears, available funds, budgetary execution degree, among others). For the same reasons, adaptations for measurement criteria are also considered, for example, the notion of fair value for non-current tangible assets does not come from market value, but from the property's value for taxation purposes. The elements addressed by the conceptual framework are: its authority over the standards, the definition of a reporting entity (where "the State" as a reporting entity is of utmost importance), accounting bases for both budgetary and financial accounting, objectives for and users of the reported information, qualitative characteristics, definition of the main concepts linked to the information presented in budgetary and financial statements, and respective recognition and measurement criteria.

11.2.3 Recognition and measurement of assets, liabilities, equity, expenses and revenues

POCP endorses full accrual basis, so assets, liabilities, revenue and expenses are recognized as much as possible. Non-current assets embrace tangible and intangible assets, investment properties and financial investments. Given the dominance of a patrimonial perspective, public domain assets (including infrastructure and heritage) are also recognized, on the basis of controlling criteria. Liabilities include provisions, but not for future pensions (since the pension scheme is based on contributions not benefits). Equity structure follows that of business accounting, which will continue with SNC-AP.

Substance over form is not generally accepted, due to the fact that legality and property control are overriding concerns. In SNC-AP, despite the fact that heritage and cultural assets are required to be recognized as much as possible, substance over form will be established as a generally accepted principle.

There is a general prevalence of the historical cost convention (purchasing of production cost) in POCP. Nevertheless:

- Cash and cash equivalents – exchange rate adjustments are required at the reporting date; financial instruments follow business accounting criteria.
- Receivables and payables – exchange rate adjustments are required at the reporting date; impairment adjustments allowed.
- Inventories – net realizable value or replacement cost is used, when lower than the historical cost, hence impairment adjustments are allowed; cost formulas are FIFO, LIFO, weighted average cost and specific cost.
- Non-current tangible assets – exceptions are allowed when purchase or production costs are not known (donated assets, transferred assets, initial recognition and public domain assets): asset value to the entity where it comes from, or as a result of a legal or technical evaluation (e.g. replacement cost), is used when possible; insurance value is admissible when applied; zero value, just disclosing qualitative information in the notes, is used when measurement is not possible (e.g. heritage) until the asset undergoes substantial repair, which value is then used for recognition. Revaluation is not allowed, except by legal authorization.

SNC-AP keeps the measurement criteria as close as possible to business accounting criteria, hence allowing revaluation after the initial recognition, taking market and fair values as reference. Still, for tangible assets this will approach the value used for taxation purposes.

Expenses and revenue are recognized on a cash basis regarding budget accomplishment (cash-based deficit/surplus in the cash flow statement), and on an accrual basis in financial accounting. The income statement is prepared under the matching concept, given that the annual deficit/surplus is obtained by the difference between total revenue and total cost. SNC-AP will continue with these.

11.2.4 Financial statements

Under POCP the financial statements are: balance sheet, income statement by nature and notes. The cash flow statement is a budgetary statement, presenting payments and receipts from budget execution and from treasury operations; it includes cash balances from the previous year and to the following year.

Additionally, while reporting on the budget execution two main budgetary control statements are prepared, linked to the amounts of receivables and payables presented in the balance sheet. For expenditures the statement shows the final budgeted amounts, payments and commitments still to be paid. Regarding revenue it also shows the final estimated values, liquidations, amounts received and those to be received at the end of the year. Both

statements present, for each item of expenditure/revenue and globally, the degree of budget execution (amounts paid/received over the final budget). The final estimated amounts come from statements of budgetary alterations presented in the notes.

SNC-AP changes the format of the financial statements according to current business accounting models, and requires (for some entities) an income statement by function and a statement of changes in equity. The cash flow statement becomes that of business accounting (dividing the flows into activity categories), but linking to budgetary accounting through a reconciliation between budgetary cash balance and cash and cash equivalents. In reality, there is (and will be) budgetary and financial reporting, since the annual accounts also include budgetary statements.

The simplified reporting model in POCAL and POC-E must include budgetary control cash-based statements (revenue and expenditure). In SNC-AP it will also include a balance sheet and an income statement, using simpler and more summarized models.

11.2.5 Links between the budget and financial accounting

It comes from the above that in the current (as in the forthcoming) public sector accounting system in Portugal, budget and financial accounting are linked, as they are parts of (and work together in) the same system of accounting and reporting.

The annual budget is the starting point for all transactions made yearly by either governments or other public sector entities. Each expenditure or revenue transaction follows a cycle of accounting records, comprising more stages for expenditure than for revenue, due to reasons of control. Expenditure operations are: budget initial amount, alterations, appropriation, commitment,² processing (obligation), payment authorization and payment. Revenue operations are: budget initial estimate, alterations, processing (right), liquidation and receipt.

Some operations are recorded within budgetary accounting, using budget classifications (all related to expenditure and revenue internal operations, plus payment authorization/liquidation and payment/receipt), while others are in financial accounting (obligation/right and payment/receipt), since they create rights and/or obligations for the entity towards third parties.

The forthcoming SNC-AP will continue the link between budget and financial accounting, controlling different operations in both expenditure and revenue cycles, as well as merging the current budgetary and financial classifications, using a multidimensional chart of accounts for both purposes. Budgetary control statements will remain in the same terms, but a new statement of budgetary performance will be added, which will replace the currently existent cash flow statement. It is expected that the new cash flow statement within financial accounting, while approach that of business accounting, will reconcile the cash-based budgetary balance with the deficit/surplus in the income statement.

11.2.6 Accounting standards for consolidated statements

Whole-of-government accounts (WGA) are not yet prepared, partially because “the State” still does not exist as a reporting entity.

At an organizational level, entities already prepare group accounts following general guidance adapted to public administration (Order 474/2010), essentially derived from both IPSAS and the 7th EU Directive. Therefore, control or presumption of control is the criterion to establish which entities are within the consolidation perimeter. Consolidation methods are: simple aggregation³ (no interest in the controlled entity equity, but an effective administrative control); full consolidation (interest higher than 50 per cent in the controlled entity); and equity method (interest in the controlled equity between 20 per cent and 50 per cent, allowing significant influence on operational and financial management, or when none of the other methods apply). Consolidated financial statements are: balance sheet, income statement by nature, cash flow statement from budgetary operations and notes. There is also a requirement to prepare consolidated management reporting. SNC-AP is likely to maintain this.

These pronouncements were adapted through specific instructions to local government, to which there was a requirement, since the 2007 Local Finance Law, for municipalities to prepare consolidated accounts, but no proper rules existed until 2010.

11.3 Central government

11.3.1 Budgeting

The rules for preparing the State’s Budget and State’s General Account (budget execution) are established in the Constitution (articles 105–107) and particularly in the Budget Framework Law (Law 91/2001; 8th revision by Law 41/2014, to include issues concerning EU fiscal discipline).

Main budgetary principles are: annuity (civil year) and multi-annuity; unity and universality; detail (specification, gross amounts, non-allocation of revenue); balance; equity between generations; stability and sustainability; reciprocal solidarity; economy, efficiency and efficacy; public debt limits; and responsibility and transparency.

Budgets are cash-based, essentially incremental and line-item (Jones and Pendlebury, 2010). Revenue and expenditure are grouped in current and capital. SNC-AP will replace the present budgetary classifications (by nature) with a multidimensional chart of accounts. Programme budgets are also prepared, focusing on control of inputs and responsibilities (Pinto et al., 2013).

The state budget embraces the budget of all entities belonging to the central administration (integrated and autonomous services). Social security and local government present separate budgets due to autonomy statutes. All entities submit their budgets to the general budget department (DGO)

within the Ministry of Finance, using electronic platforms, by the end of August. The state budget is prepared and presented to parliament by 15 October, to be approved within 45 days.

Budget accomplishment at entity level is demonstrated in budgetary control statements and in cash flow statements, and must be sent to the appropriate ministries by the end of April of the following year. At the level of the state (central administration) is the State's General Account, annually prepared by end of June and audited by the Court of Accounts by the end of December the following year. This is the main source of information for national statistics on the GGS. Since it is cash-based, while ESA is accrual-based, accounting basis adjustments (apart from other adjustments regarding specific operations requiring reclassifications) are needed when moving from micro to macro public sector accounting (Jesus and Jorge, 2015).

11.3.2 Accounting

The accounting system of entities within central government is based on POCP with: cash-based budgetary accounting, to record operations relating to controlling budget accomplishment; accrual-based financial accounting, aimed at recognizing assets, liabilities, expenses and revenue; cost accounting, to obtain costs of goods, activities and services provided. There are budgetary and financial accounts, but the whole system uses double-entry. The main features have already been presented. SNC-AP will keep the three subsystems. Some existent standards on cost and management accounting will be included and adapted in NCP 24.

11.3.3 Financial reporting

POCP-based budgetary and financial reporting is prepared for each entity (e.g. central government agencies, universities and health centres). SNC-AP will maintain this, approaching the statements models to those used in business accounting, hence adding the statement of changes in equity (for some entities) and transforming the existent budgetary cash flow statement into a financial statement. The notes include, among others, a statement demonstrating the annual (and up to date) financial accomplishment of the entity's investment programmes and projects.

For the state as a whole, only budgetary reporting continues to exist in the form of the state's general account. The state does not currently exist as a financial reporting entity; SNC-AP will change this, creating conditions for preparing WGA in the future.

11.3.4 Auditing

As in other jurisdictions, auditing of public sector accounts in Portugal is an important requirement to assure reliability. Regular audits allow for the prevention and detection of irregularities in financial matters, either due to corruption of the agents or simple negligence while pursuing procedures,

thereby ensuring that public resources are properly used (Jones and Pendlebury, 2010).

The national system of control is concerned with the state's budgetary and financial administration. It comprises external and internal control (Law 41/2014).

External control is essentially a financial and regularity (presumed independent) control, to ensure the good use of public money (Jones and Pendlebury, 2010). The two national bodies of external control are the Court of Accounts and parliament (Fardilha, 2004). Whereas the former exerts financial control (technical-jurisdictional), the latter exercises political control; both concern managing and accomplishing the state's budget. Jurisdictional control is a financial control, applied following proper legislation regarding the Court of Accounts' procedures; it relates to financial responsibilities. Political control relates to political responsibilities, according to that established by the constitution, the Budget Framework Law and parliament's regimen (Pinto et al., 2013). These types of control are *a priori* and *a posteriori*: the budget is previously passed by parliament and some budget appropriations have to be sanctioned by the Court of Accounts; the state's general account is approved in parliament and then submitted to the Court of Accounts.

Internal control is to ensure that management purposes are attended to (Fardilha, 2004). Traditionally, it focuses on the accounting system and seeks to safeguard financial resources, the prevention and detection of illegal, fraud and error situations, the accuracy and integrity of the accounting records, and reliable financial reporting, prepared in time (Jones and Pendlebury, 2010).

Law decree 166/98 establishes three levels within the national system of internal control (bottom-up): operational control, sectorial control and strategic control, embracing budgetary, financial and property matters.

Operational control is developed internally by the entities, namely via internal auditing departments (possibly employing certified auditors). It verifies, monitors and informs on internal management (budgetary regularity, financial statements compliance and economy, efficiency and effectiveness). Sectorial control embraces the first level, additionally assessing how the entity and its activities as a whole fit in with the global plans of the region or ministry; it is a responsibility of sectorial and/or regional bodies (e.g. ministries). Strategic (horizontal) control embraces the two lowest levels, adding in the evaluation of entities' activities regarding compliance with the government general plan and the state budget; it is a responsibility of the, so-called, internal control bodies, such as the Inspectorate General of Finance (IGF), Budget General Department (DGO) and Social Security Financial Management Institute (IGFSS). At all these levels, internal control is essentially administrative; entities might when necessary, resort to external certified auditors (Pinto et al., 2013).

11.4 Local government

Many issues already presented for POCP and central government, also apply to local government; they have been adopted, given the centralizing tradition. Still, differences must be highlighted (namely regarding budgeting) in respect of constitutional autonomy. This implies independence from the State's Budget (the budget of local government as a whole is presented as an appendix), since municipalities run their own property, budgets and finances separately, notwithstanding the high level of financial dependency some have on central government transfers, and the generally low level of discretion regarding local taxes.

11.4.1 Budgeting

Local government budgetary rules and principles are established in both the Local Finances Law (Law 73/2013) and POCAL. Many are copied or slightly adapted from the Budget Framework Law (central government), since there has to be solidarity and cooperation regarding fiscal discipline, namely in the accomplishment of the Stability and Growth Pact. The coordination between central and local government public policies, finances and budgetary constraints is assured by the Financial Coordination Council.

As at central level, budgets are cash-based, incremental and line-item, inputs-based and aimed at controlling responsibilities. Budgetary classifications will be replaced by the multidimensional chart of accounts in SNC-AP.

11.4.2 Accounting

A local government accounting system is established in POCAL, which derives from POCP. A simplified regime is admitted for small entities (civil parishes) consisting of cash-based budgetary accounting. SNC-AP, as a single system for the whole of public administration, is also going to apply to local government, adding accrual-based accounting and reporting to the simplified regime, as established in the standard for small entities (NCP-PE).

There are special rules for cost accounting, endorsing full costing; indirect costs are allocated firstly to functions/activities, and then to goods and services within each function/activity, proportionally to direct costs (single basis). These rules may be adapted to NCP 24.

11.4.3 Financial reporting

Local government financial reporting is defined in POCAL and hence is similar to POCP in embracing budgetary and financial reporting. Notes include, among others, statements of budget alterations (expenditure and revenue) and a statement demonstrating the current state of financial accomplishment of the multi-annual investments plan. With SNC-AP local budgetary and financial reporting will be similar to that at central level.

11.4.4 Auditing

As at central level, local authorities are also subject to external and internal control.

External control is, as explained, essentially the responsibility of the Court of Accounts, both *a priori* (some budget appropriations need to be sanctioned) and *a posteriori*, since all local authorities send their annual accounts for certification, after approval by their local council (assembly).

Recently, Local Finances Law 73/2013 required that a municipality's annual accounts be legally certified by an independent external auditor nominated by the council, from those proposed by the executive as certified public auditors or auditing firms.

As to internal control, POCAL provides general guidance for each municipality to develop, approve and apply its own internal control system (including the definition of controlling positions and functions), which embraces the plan of organization, policies, methods and procedures of control, established by those who are responsible for the entities. Specifically, the elements to be prepared are:

- Internal control norm – comprising methods and procedures to control cash and equivalents, payables and receivables, stocks, and non-current assets, to be sent to the Court of Accounts after approval;
- Organization's plan – structure, emphasizing departments related to budget, accounting and finances;
- Specific (internal) regulations (e.g. regarding working capital funds);
- Charts of accounts;
- Accounting procedures manual;
- Internal (control) auditing procedures manual.

The executive is responsible for approving and maintaining the operation of the internal control system.

11.5 Readiness for change: technical facilitators, comparison of national standards with IPSAS framework and readiness for adopting EPSAS

Public sector accounting in Portugal is currently changing. The shift from POCP (and sectorial plans) towards an IPSAS-based system seems irreversible. Meanwhile, in March 2013, the EU pronounced concerning the suitability of IPSAS for member states, highlighting a number of accounting-related technical issues as problematic in the IPSAS standards, subsequently grouped as: standards that might be implemented with minor or no adaptation; standards that need adaptation, or for which a selective approach is needed; and standards that are seen as needing amendment prior to implementation.

In the SNC-AP developing process, the above-mentioned groups were considered, so while some IPSAS were considered not relevant to the Portuguese context (*IPSAS 10 – Hyperinflationary economies and IPSAS 22 – General Government Sector*), others were directly adopted as NCP, a third group has been adapted and a fourth group radically changed (*IPSAS 25, 28, 29 and 30*). Therefore, it can be said that the strategy followed by Portugal has created a system ready for European Public Sector Accounting Standards (EPSAS) and that these will not require serious amendments to what has been done so far.

Referring to the working document accompanying the EC Report of 6 March 2013, there are some factors that could either hamper or encourage the reforms, namely SNC-AP development and implementation:

- Political environment and support – in Portugal currently very favourable to public sector fiscal and accounting reforms.
- Reform scope – SNC-AP is part of a more embraceable reform process of public administration financial management as a whole, including administrative, budgeting and financial areas.
- Implementation timing and phases – an implementation period of four to six years is expected (starting with pilot entities), allowing for better testing of the new system and preparing all groups involved, namely politicians and civil servants. Staff training actions aimed at providing/reinforcing skills, first-time adoption rules and an implementation manual are being considered by the standard-setter.
- Implementation process – the centralizing tradition of reforms in Portugal implies a single SNC-AP for public administration as a whole, imposed by a legal framework centrally approved (top-down process), searching for an integrated system that, in the future, would allow for the preparation of WGA.
- Approving the relevant legal regulations – since Portugal is a civil law country, all elements of SNC-AP have to be passed as a form of law/law decree to be formally in force. The bureaucratic process associated with issuing legal regulations will determine the pace of reform.
- Accounting basis – SNC-AP endorses full accrual-based financial accounting and reporting, together with cash-based budgetary accounting and reporting. Nevertheless, it aims at creating conditions for accrual-based budgets to be prepared in the future, while already requiring the preparation of prospective financial statements.
- Information reliability concerns – since, so far, the accounts of most entities within the public administration are essentially audited for legal form (by the Court of Accounts), in order to reinforce credibility of the information prepared, there is the need for accounts to be independently certified (need for an auditor's independent opinion).

11.6 Main challenges: problems identified

The development and implementation of SNC-AP takes into consideration a cost-benefit analysis, searching for a balance between changes required and the standards and supporting structures (e.g. information systems and technological platforms) currently in place.

Although an urgent need to reform public sector accounting (replacing POCP) is generally recognized, the eventual high costs of the process are also acknowledged which, given the current context of budgetary constraints, becomes an enhanced critical issue. Considering other countries' experiences, costs are expected to be affected by the scale and rhythm of the reforms, as well as by the size of the jurisdiction; even if it is not possible to estimate an accurate amount, they are expected to be higher if the reforms, as happens in Portugal, extend to the whole of public sector budgetary and financial management.

Considering the current implementation of accrual-based accounting and reporting (POCP or sectorial plans) across all subsectors of public administration, and the technological platforms developed in conformity, it is admitted that reform costs might be mitigated, the great amount concerning staff training costs. Indeed, one of the main challenges to overcome in order to implement SNC-AP successively concerns giving (and/or reinforcing) technical capacity and skills to those who have to deal with the system. This requires considerable investment in staff training at all organizational levels and the assigning of certified accountants to key positions.

Finally, despite the favourable fact that most public sector entities are already used to accrual-based financial accounting and reporting, and some are even familiar with cost accounting, further improvements regarding the integration of information are required.

Notes

1. According to the preliminary document published in July 2013 by the accounting standard-setter (CNCP), titled "*Linhas Orientadoras para o Sistema de Normalização Contabilística – Administrações Públicas (SNC-AP)*"; available at <http://www.cnc.min-financas.pt/>.
2. Law 8/2012 and Law decree 127/2012, while regulating commitments assumption, created strict restrictions, among which commitments cannot be assumed if entities do not have available funds to cover amounts due within 90 days.
3. While in full consolidation, elements of the financial statements of the controlled entity(ies) are integrated in those of the one consolidating, evidencing minority interests, in simple aggregation financial statements are simply summed up; there are not minority interests. Eliminations of transactions and results intra-group are compulsory in both methods.

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Useful sites

<https://appls.portalautarquico.pt>
<http://www.cnc.min-financas.pt>
<http://www.dgo.pt>
<https://dre.pt/>
<http://www.en.parlamento.pt/Legislation/>
<http://epp.eurostat.ec.europa.eu>
<http://www.ifac.org/public-sector>