



REPUBLIC OF MOZAMBIQUE

TECHNICAL ASSISTANCE REPORT — PRODUCTION AND FORMAT OF THE STATE GENERAL ACCOUNT

January 2023

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Republic of Mozambique

*Production and Format of the
State Account*

March 2011

Joseph Cavanagh

INTERNATIONAL MONETARY FUND

Fiscal Affairs Department



MOZAMBIQUE

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ABBREVIATIONS AND ACRONYMS

Abbreviation	English	Portuguese
ANFP	Public Service Authority	Autoridade Nacional da Função Pública
AT	Mozambique Revenue Authority	Autoridade Tributária de Moçambique
BM	Bank of Mozambique	Banco de Moçambique
CEDSIF	Financial Information System Development Centre	Centro de Desenvolvimento de Sistemas de Informações Financeiras do Estado
CUT	Treasury Single Account	Conta Única do Tesouro
CUT-ME	Treasury Single Account Foreign Currency	Conta Única do Tesouro Moeda Estrangeira
CUT-MN	Treasury Single Account Domestic Currency	Conta Única do Tesouro Moeda Nacional
DAF	Financial Administration Department	Direcção de Administração e Finanças
DGA	Directorate General of Customs	Direcção Geral das Alfândegas
DGI	Directorate General of Taxes	Direcção Geral dos Impostos
DNCP	National Directorate of Public Accounts	Direcção Nacional de Contabilidade Pública
DNO	National Directorate of the Budget	Direcção Nacional do Orçamento
DNT	National Directorate of the Treasury	Direcção Nacional do Tesouro
DNPE	National Directorate of State Assets	Direcção Nacional de Património do Estado
DPPF	Provincial Departments of Planning & Finance	Direcção Provincial do Plano e Finanças
e-SISTAFE	SISTAFE Computer System	Sistema Informático do SISTAFE
e-Tributação	Revenue Collection Network	Rede de Cobrança da Receita
FAD	Fiscal Affairs Department	Departamento de Finanças Públicas
FMI	International Monetary Fund	Fundo Monetário Internacional
IGEPE	State Participation Management Institute	Instituto das Participações do Estado
IGF	Inspection General of Finance	Inspeção Geral de Finanças
MEC	Ministry of Education and Culture	Ministério da Educação e Cultura
MEO	Budget Formulation Module	Módulo de Elaboração Orçamental
MF	Ministry of Finance	Ministério das Finanças
MISAU	Ministry of Health	Ministério da Saúde
MPD	Ministry of Planning & Development	Ministério da Planificação e Desenvolvimento
PAO	Action Plan and Budget	Plano de Acção e Orçamento
PARPA	National Poverty Reduction Strategy	Plano de Acção para Redução da Pobreza Absoluta
PBCP	Basic Chart of Accounts for the State Accounts	Plano Básico de Contabilidade Pública
PQG	Five-Year Program of the Government	Plano Quinquenal do Governo
PES	Social and Economic Plan	Plano Económico e Social
SISTAFE	Public Sector Management Reform	Sistema de Administração Financeira do Estado
TA	Administrative Tribunal	Tribunal Administrativo
TI	Information Technology	Tecnologia de Informação
UGB	Beneficiary Executive Unit	Unidade Gestora Beneficiária
UGE	Special Executive Unit	Unidade Gestora Executora
UI	Intermediary Unit	Unidade Intermédia
US	Supervisor Unit	Unidade de Supervisão
UTRAFE	Project Implementation Unit for SISTAFE Reform Program	Unidade Técnica da Reforma da Administração Financeira do Estado

PREFACE

At the request of the Ministry of Finance (MF), and with financial assistance from the Danish Embassy in Mozambique, the consultant Joe Cavanagh (of the Panel of experts from the Public Finance Department (FAD) of the International Monetary Fund IMF) visited the Republic of Mozambique between 14-25 March 2011 to follow up an earlier mission of 16-26 November 2010, both in response to a request for technical assistance in the area of public accounting.

The main objectives of the visit were to (i) develop proposals for a new format for the State Accounts, using existing information, which can be ready in time for use on the 2010 State Accounts; (ii) follow-up and assist DNCP and CEDSIF with the improvements proposed for production of the CGE2010 (better control over document production, and use of e-SISTAFE to produce more existing statements); (iii) develop a short layman's guide to the new format of State Accounts, for inclusion in the main volume; (iv) develop a statement of accounting policies, for inclusion in the main volume of the State Accounts; and (v) discuss with CEDSIF and DNCP the value and feasibility of a new e-SISTAFE module "e-Conta", and plan its implementation in possible readiness for use with the 2011 State Accounts, in the context of the new Vision for Public Financial Management.

The consultant held meetings with the National Director of Public Accounting (DNCP), Carolina Pessame, and Deputy National Director of Public Accounting (DNCP), Amade Assane, National Director of the Treasury (DNT), Maria Isaltina de Sales Lucas, the Director General of the Centre for the Development of State Financial Systems (CEDSIF), Augusto Sumburane, the Deputy Director Generals of CEDSIF, Jacinto Muchine and Antonio Chambal, the Accountant General of the State Accounts in the Administrative Court (TA), Moisés Amaral, and the Accountant General for Financial Audit (AT), Francisco Zuande.

The consultant also met with the donor representatives. The consultant's work was facilitated by the active participation of Victor Lledo, the IMF Resident Representative in Maputo, and by Emelie Bosten, the Fund's Coordinator for Technical Assistance in Mozambique. We would also like to acknowledge the participation and support provided by staff of the Ministry of Finance, and particularly Antonio Amâncio Ramalho, Pena Vasco e Emilia Novela.

EXECUTIVE SUMMARY

In Mozambique, the term “State Accounts” refers both to the principal financial statements and the document in which they appear. This larger document also includes a Ministerial commentary on economic and financial performance. From this point on we use “Accounts” to mean the accounts only; and “State Account document” or “document” to refer to the whole document.

On improving production of the State Accounts document

Processes within the National Directorate of Public Accounts (DNCP) could easily be improved to facilitate production of the State Accounts document. DNCP could use its existing capacity to produce an electronic version of the most important components of the State Accounts document, to be made available on government web sites. Production of all data and volumes would not be feasible without a great deal of work.

The Ministry has options for automating more of the production of the State Accounts document. Our previous mission recommended a new functionality within e-SISTAFE to capture aggregated data from sources outside of the system and assist production of the State Accounts document. Technically, such functionality already exists and would be relatively simple to implement. However, CEDSIF has reservations about this proposal. An alternative solution would be a free-standing solution within DNCP to help improve the management of information supporting the State Accounts document. Both alternatives require the prior specification of the contents of the State Accounts document, whether that be in the current or new format.

Such an investment would bring long-term benefits. In the longer term, new modules of e-SISTAFE should reduce the need for this functionality, but it is unlikely to remove it completely. It could be a long time before new systems will do all that is required. We also doubt that the current vision for e-SISTAFE will do all that is needed to support a transition towards fuller accruals accounting. We therefore believe that there will be a long-time need for a functionality along the lines we have suggested. This functionality would also support the Institute for National Statistics’ efforts to improve statistics about public finances, in line with international norms.

On a new format for the State Accounts and the State Accounts document

International standards recommend or require a transition to accruals accounting and fuller consolidation across the public sector. There are three sets of international standards which should be reflected in the Accounts; they are mostly harmonized but small differences remain. These standards all encourage or are based on the adoption of accruals accounting rather than the existing use of a modified cash basis of accounting. The three standards also encourage or require the consolidation of all parts of the public sector. The transition towards accruals can be achieved in stages, and need not go all the way to full accruals accounting.

This mission has developed proposals for a new format for the Accounts and the document in which they appear, including a version which can be used for the State Accounts document of 2010. The existing accounts are, strictly speaking, accounts of government and not the whole State since they do not consolidate all entities within the State.

We have prepared a new format for the Accounts of government, which can form part of the larger document. That document would also include the existing commentaries on economic and financial performance, as well as selected detailed analyses.

The format for the Accounts of government needs further development later in 2011: both to reflect the data for 2010 once available; and also to tailor the notes and accounting policies, based on further analysis of current accounting practices. This will probably require a follow-up mission sometime between June and October.

In future years, the Accounts of government can be extended and improved to achieve greater compliance with international standards. The new format is based on existing data and classifications, but it is flexible enough to accommodate further improvements. There is scope for improvements in terminology and classifications, and for some new data. In addition, more detailed application of accounting standards may require new accounting treatments for some transactions. Finally, the transition to accruals may introduce new transactions, assets and liabilities into the accounts.

A new format of the State Accounts document would allow a smaller but more accessible and informative document, suitable for presentation to Parliament and faster availability in electronic format. Additional detailed analyses of budget execution could be provided in a separate document, or in a series of documents, made available electronically.

On a longer-term project for public accounting

A transition to accruals accounting not only helps compliance with international standards, it also aids financial management and increases transparency. Accruals accounting gives a fuller picture of the government's resources and how they are used, by incorporating a wider range of assets and liabilities.

The transition to full compliance with international standards, and especially to an accruals basis of accounting, will not be fast or easy. It will involve the gradual incorporation of all the relevant transactions, and economic assets and liabilities, as well as a fuller range of entities within the State. The best approach is to make this transition towards accruals in stages, as the development of capacity allows, and in a pragmatic way. In Mozambique, this transition could take 10 years or more.

The mission therefore recommends that the government, probably with external support and assistance, embarks on a Public Accounting project. The project would map out the route and the stages towards accruals and fuller consolidation. It would need to review what sorts of disclosures and information will be desirable and possible, and when, for inclusion within the Accounts. It could also examine detailed application of accounting standards. The project would need to consider what human resources and systems (manual or computerized) will be needed to support these disclosures. A project of this type is not a trivial undertaking, and it will almost certainly need technical assistance including specialist public accounting expertise which is not currently available within the Ministry of Finance.

Proposals for increasing the human capacity within DNCP and elsewhere in government will be vital to support such reforms. Moving towards accruals accounting requires a small cadre of professional accountants and a larger group of trained accounting technicians. The project would need to consider how this might best be achieved.

REPORT

A. Production of the State Accounts document

1. **Our previous suggestion to increase the use of e-SISTAFE to produce more of the Accounts in their current format may not be worthwhile because this format may change soon.** e-SISTAFE already produces many of the detailed expenditure analyses directly. In our last mission we noted that there are a few other sections of the Accounts which could be produced from e-SISTAFE rather than manually as at present. The Ministry considered that whilst some statements (mapas and anexos informativos) could be produced by e-SISTAFE directly, there were difficulties with some of those we suggested. However, in this mission we were asked to take forward our earlier recommendations that the format of the Accounts be reviewed, both for consistency with international accounting standards and to make the document more accessible. Our proposals for this format are elaborated in later sections of this report. If the Ministry accepts these proposals for a new format of Accounts and the State Accounts document, to be developed over the next few years, it does not seem worthwhile to pursue a separate initiative to improve the use of e-SISTAFE to generate more of the Account in its current format.

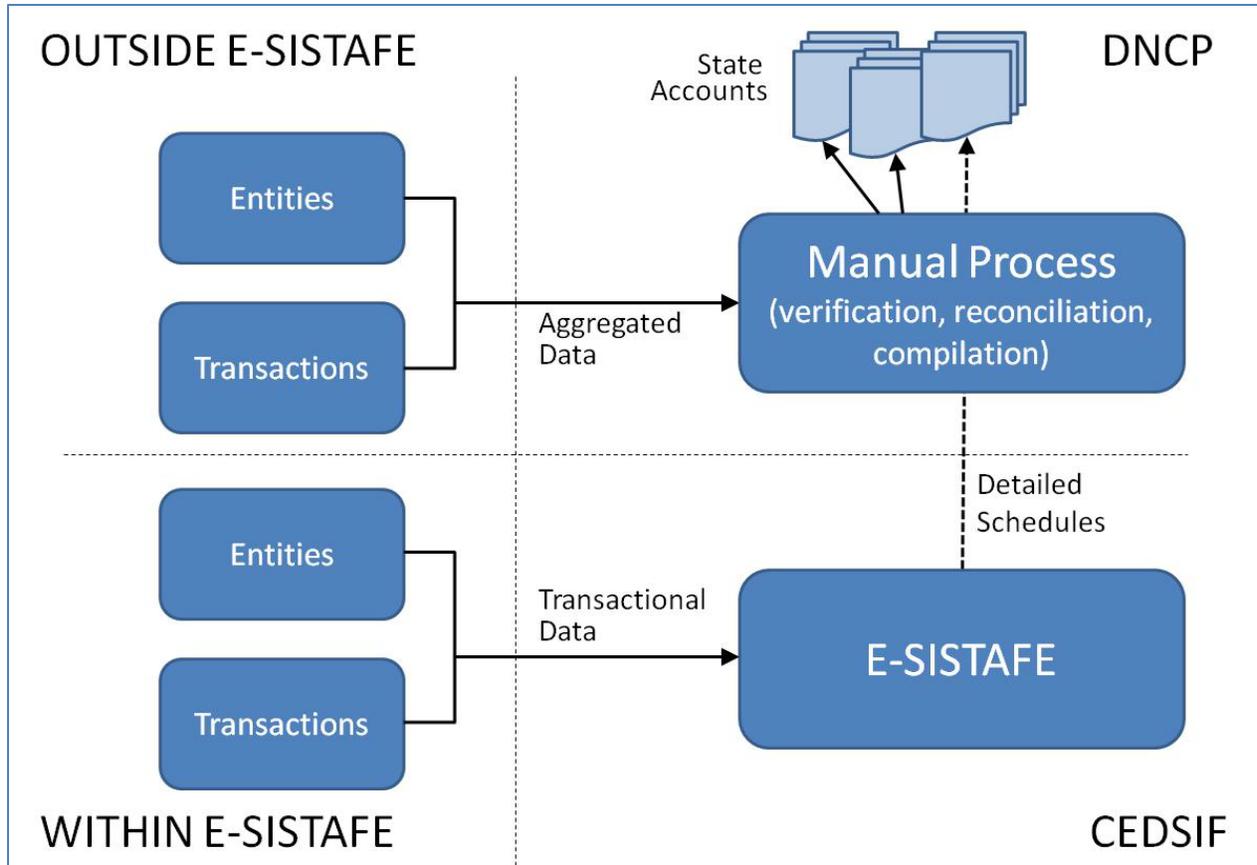
2. **Management of IT and documents within the National Directorate of Public Accounts (DNCP) could easily be improved to facilitate production of the State Accounts document for 2010.** In our last mission we explained how simple changes within DNCP's internal processes and management of information technology could establish a central collection point for data collected to compile the account, maintain a complete "master" version of the account and its constituent parts, maintain control over versions during the course of production, and generate a single electronic file for easier distribution. Technical assistance, with expertise in document management and document integration, may be needed. Much of this could be done in time for the 2010 State Account.

3. **DNCP assemble the State Accounts document from a number of sources.** The current system is set out diagrammatically in the following Figure. The main points are:

- For entities and transaction types outside e-SISTAFE, DNCP receive the data in aggregated form direct from these other entities (especially DNT and IGEPE but other institutions too). These data covers such things as receipts, debt, the finances of entities outside e-SISTAFE, and Treasury Operations.
- DNCP subject those data to a process of verification, reconciliation and other checks on the reasonableness of the data.
- E-SISTAFE produces many detailed analyses of expenditures and of State Assets. DNCP downloads and prints these out to provide the detailed statements, running to thousands of pages.
- DNCP produce the main financial statements largely from the manual data, combining this information with summary data on expenditures coming from e-SISTAFE.

- DNCP also generate or co-ordinate the report on the financial statements, using tables and figures which come from the main and supporting financial statements.

Figure 1. Current system for producing the State Accounts document



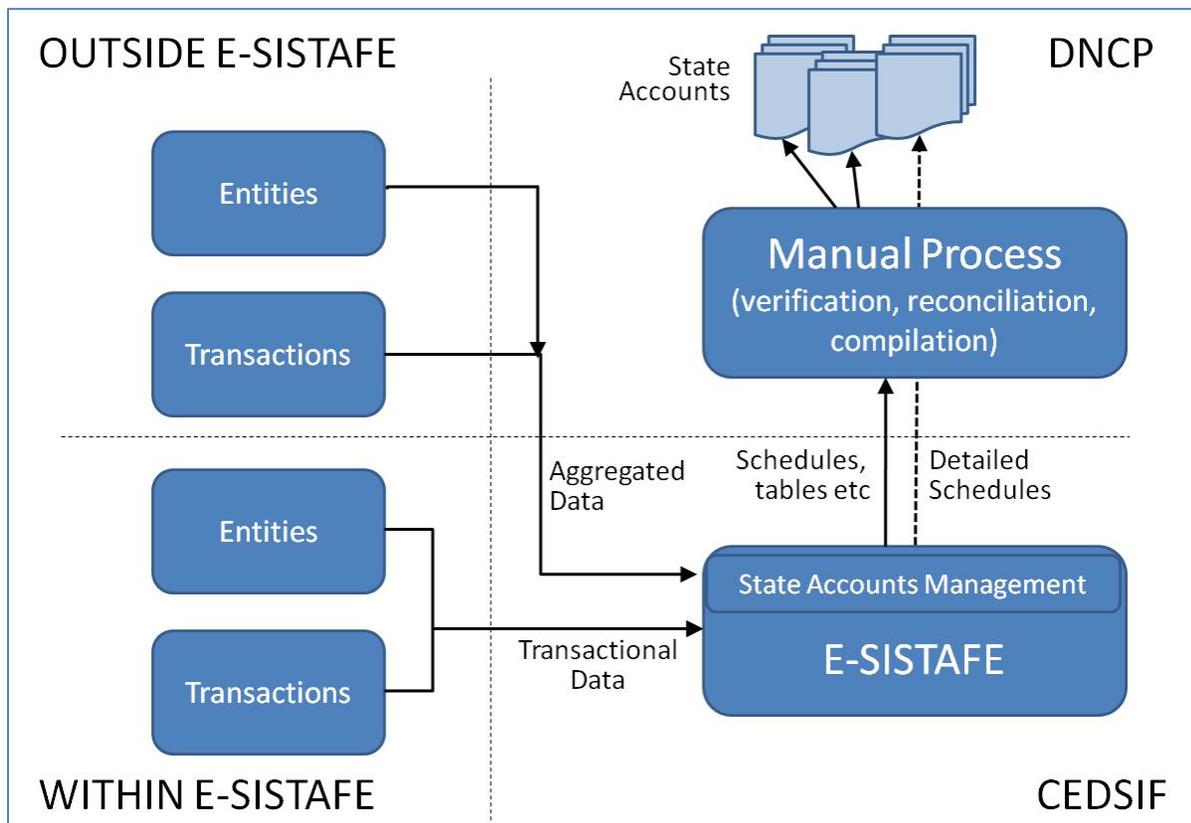
4. The complete set of documents which constitute the current State Accounts document for a single year are held in over 2,000 separate files on DNCP's computers (not including analyses of State Assets). The vast majority of these files are produced by e-SISTAFE for the many detailed analyses of expenditures. The management of these many separate analyses and files is a logistical nightmare. DNCP largely relies on printing and photocopying these documents manually, and production of an electronic version for publication and dissemination has been beyond DNCP's capacity.

5. **DNCP could use its existing capacity to produce an electronic version of the main volume of the State Accounts document, to be made available on government web sites.** However, the main volume of the State Accounts document consists of a limited number of documents which could easily be combined into a single electronic version and put on government web sites. DNCP already carries out an exercise of this sort to produce the quarterly budget execution reports – merging Word documents, Excel spreadsheets and Adobe pdf files into a single pdf file. This proposal would fit well with our suggestion, later

in this report, that the many other detailed analyses, already available in electronic format but in numerous files, could be also be made available separately via the internet.

6. **Our previous mission recommended a new functionality within e-SISTAFE to capture aggregated accounting data from the various sources outside of the system.** The idea of this new functionality (we previously used the term “module” but that has a special meaning within the SISTAFE reform) would allow DNCP and possibly others to enter their aggregated information directly into a system, using standardized forms or templates (“modelos”), and then combine this with data generated by e-SISTAFE to produce more of the State Accounts document. Note here that we are referring to the numeric contents of the State Accounts document – not the accompanying text. This numeric content consists of the various financial statements and annexes, plus the various tables which appear in the commentary on the accounts. Such data entry is identical in principle to the method already used in e-SISTAFE whereby “balancetes” are used to capture data for units operating outside of e-SISTAFE and direct budget execution. A title for this functionality, which better captures what we propose, is “State Accounts Management”.

Figure 2. Proposed system for producing the State Accounts document – within e-SISTAFE



7. **Such a functionality could be extended over time.** Initially the idea would be to just capture such data and format it into the financial statements and related tables needed by DNCP to produce the State Accounts document. However, it could be extended to allow DNCP to oversee the collection and chasing of data, allow better control of versions, keep track of changes and provide an audit trail, perhaps include validation and cross-checks to ensure internal consistency between figures in the accounts, and be able to produce the State Accounts document in a printable and exportable electronic format. It could also capture or retain figures for previous years, for use in the tables which use previous year's data, and check consistency with previous year's numbers such as opening balances.

8. **Technically, such a functionality is both feasible and relatively easy to implement within e-SISTAFE.** The system already accepts aggregated data in "balancetes" into the accounting engine, and has functionality to specify and generate reports from this accounting database. Each night the system generates a reporting database (so that reporting does not slow down the main transaction processing system). This reporting database has an allied function to specify and produce pre-specified reports. Clearly, this functionality could be extended to accept aggregated accounting data from other sources outside of e-SISTAFE and to facilitate fuller consolidation in the future. And all the other components of the State Accounts document not currently produced by e-SISTAFE could be specified and produced in this way.

9. **However, CEDSIF have reservations about this proposal.** CEDSIF argue against this proposal on the grounds of resources and priorities – there is already much work to do. They also argue that this new functionality would provide a portal for introducing poor quality data, and thus taint the image of e-SISTAFE in the eyes of its sceptics and critics. Finally, they believe that a quick-win solution like this would give an incentive and a reason for others to divert energy and commitment from the strategy to develop all the requisite systems within e-SISTAFE.

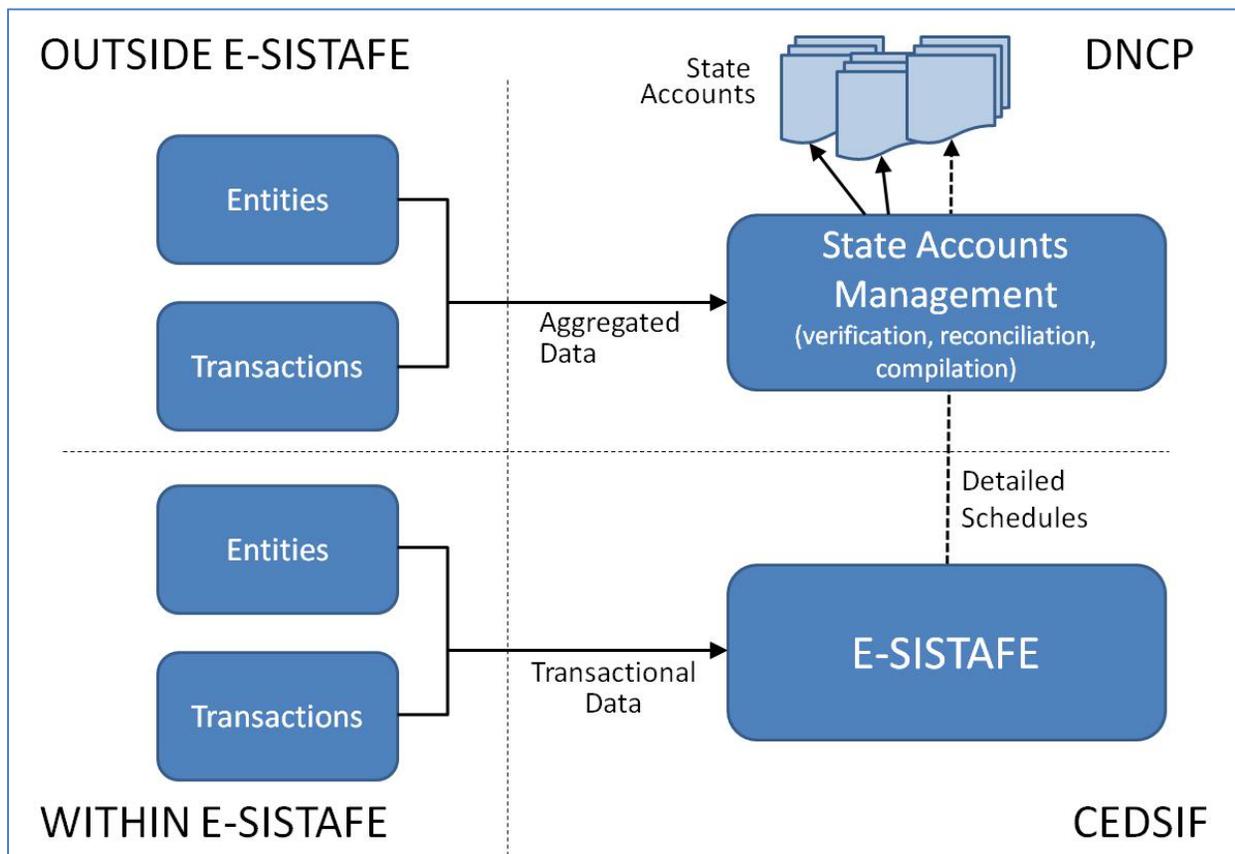
10. **This mission believes these reservations to be ill-founded.**

- On priorities, we regard better accounting as a priority, and yet e-SISTAFE is still not able to produce most of the key financial statements, and will not be able to for some years to come. We also consider better accounting to be a higher priority than some of the other developments in CEDSIF's Action Plan and Budget for 2011. We note, for example, proposals for an HR management system, and Mt1.1225 million to be spent on developing externally-commissioned systems outside the ambit of SISTAFE (to develop a new business model based on recharging).
- As for concerns over the entry of poor quality data, the system already allows such poorer data through the system of balancetes for units operating and accounting under advance of funds. Moreover, the current State Accounts document already includes data of variable quality coming from a number of different sources, using a manual system which induces more errors and requires much work.
- On concerns over diversion from the CEDSIF strategy, we observe that the current strategy for e-SISTAFE will not be able to support a move to full accruals accounting

(see below). A temporary solution of this sort (which will endure for many years yet) should not provide an excuse to slow down or stop other key developments. We understand that the Ministry is committed about the reform to not allow an essential interim solution to inhibit or divert attention from other essential elements of reform.

11. **An alternative solution would be to develop a free-standing solution within DNCP.** If CEDSIF are not prepared or able to develop a functionality along these lines, it would be possible to develop a free-standing solution within DNCP to achieve the same objective. This solution could combine the need for better control over document production, as described above, with a system for compiling and entering the data and text needed for the Accounts and the State Accounts document. DNCP would need resources and technical assistance to implement such a solution. There is already some technical capacity to do this in DNCP but more would be needed.

Figure 3. Proposed system for producing the State Accounts document – in DNCP



12. **In the longer term, new systems should reduce the need this functionality of aggregate data entry. But it will be a long time before new systems will do all that is required.** In response to our earlier mission, the Ministry stated that it preferred to wait for the development of key systems rather than implement a temporary solution. The new Vision for PFM Reform is expected to foresee implementation of new systems (receipts network,

payroll, state assets, public debt) which will capture more accounting transactions automatically, reducing the need for manual methods of entering accounts data. We have not seen this new Vision, but doubt that all these new systems can be expected to be developed, tested and implemented within 5 years. There is also a difference between capturing accounting data, and facilitating production of the State Accounts document: we would hope that the Vision includes proposals for both these aspects.

13. We also doubt that the current vision for e-SISTAFE (both current and planned systems) will provide all that is needed for State Accounting if the Ministry decides to continue on the road towards fuller accruals accounting. e-SISTAFE is based on the vision that all accounting transactions derive from budget execution, and ideally from payments and receipts passing through the Treasury Single Account. Whilst this current model will encompass many of the important financial stocks and flows to be captured, it will not cope with the various accounting transactions needed to support full accruals, including many important transactions for which there is no cash movement, or with the fuller consolidation of bodies outside the current accounting boundary. Later on in this report, we discuss the benefits (and implications) of a transition towards accruals accounting.

14. We therefore believe that there will be a long-time need for a functionality to enter aggregated data into a system for producing the State Accounts document. It would be a pity if this functionality ended up outside of e-SISTAFE which, after all, was conceived as a system to produce accounts. If e-SISTAFE cannot encompass this functionality, then DNCP will need an alternative system of their own. At this point, it is important to stress that what we propose is not a parallel or alternative accounting system – it is a system to support and automate DNCP’s work to produce the Accounts and the document in which they appear. Much of the accounting data would still come from e-SISTAFE.

15. A functionality or system along these lines would also support the Government’s efforts to improve statistics about public finances, in line with international norms. A state accounting system also has an important part to play in supporting the production of statistical data on state finances, in line with the IMF’s own standards (“Government Finance Statistics”) and the United Nations’ standards (“System of National Accounts”). These standards expect consolidation of all parts of the public sector, on an accruals basis (see later sections for a description of accruals-based accounting). In this respect, DNCP and CEDSIF also need to take into account the needs of the National Statistical Institute (INE). A recent Fund mission made recommendations about the compilation and production of financial statistics to IMF and UN standards. The recommendations in this report are consistent with and supportive of the recommendations from this earlier mission.

16. Earlier production of the State Accounts document remains desirable and possible; more automation and a new format of accounts could make this possible within a few years. The Ministry agrees that an earlier timetable remains desirable, but believes that the challenges would not permit implementation for the 2011 State Accounts document. DNCP and the Tribunal are each involved in efforts to improve the efficiency of their respective roles in relation to the Accounts. And there is the prospect of more automation and a new accounts format, which could take time to bed in. For all these

reasons, a faster timetable may not be worth pursuing at this stage. Nonetheless, the Accounting Project we recommend below, in the final section of this Report, could include a date and a plan for achieving faster presentation of the Accounts.

Recommendations

- In the short term, DNCP can improve its management of IT and documents to facilitate production of the State Accounts document for 2010. A small amount of technical assistance may be needed.
- DNCP could use its existing capacity to produce an electronic version of the main volume of the State Accounts document for 2010, to be made available on government web sites. This main volume would need to be checked to ensure it contains all that is required by the SISTAFE law.
- Other detailed analyses of expenditures, already available in electronic format but in numerous files, could be also be made available separately via the internet, if necessary at a later stage.
- The Ministry should consider its options for improving production of the State Accounts – either through use of a functionality already available within e-SISTAFE or in a separate system (not a parallel accounting system) to be developed in DNCP.
- In developing any proposals, the Ministry should also consider the needs of the National Statistics Institute, which has similar needs in the area of public finances statistics.
- Better management of the production of the State Accounts document should facilitate earlier publication of the Accounts, and this should be considered as part of the Public Accounting project we recommend in later sections of the report.

B. Accounting rules

17. **There has been limited progress in resolving the problems of duplicate accounting records, although it should be possible to resolve these.** There remain differences of opinion between the Ministry and the Tribunal Administrativo over whether institutions should produce manual books of account, for audit purposes, even though e-SISTAFE produces electronic versions which reflect directly the transactions and payments processed by the system. The issue revolves around interpretation of the law – the Ministry needs to sort this out and change the law if necessary. This could be done by either revoking explicitly the relevant ministerial instruction (which the Tribunal are applying) or requesting a statement from the Ministry’s legal department on the status of the ministerial instruction.

18. **There has also been limited progress in resolving differences over the audit requirement for supplier receipts, in part based on weaknesses in internal control.** There is also a difference of view as to whether supplier receipts are still needed. Further investigation reveals that the Tribunal require a supplier receipt as proof of services or goods

rendered, in the absence of an invoice, rather than as proof of payment. We understand the Tribunal's desire to see evidence of goods or services delivered (although we would hope the Tribunal should not require a receipt where a valid invoice has already been supplied). It may also not be realistic to expect an invoice in every case, for example for small expenditures and purchases from tradesmen or small suppliers (will every local carpenter have to produce a formal invoice for fixing a table?). On the other hand, we recognise the necessity that there should be proof that the services or goods have been supplied, before payment. One way to resolve this would be that the system should accommodate the use of a receipt (specifying the services or goods provided) as proof. There needs to be dialogue between the Ministry and the Tribunal on this point.

Recommendations

- The Ministry should clarify the legal requirements for maintaining manual books of account and, if necessary, amend or rescind the relevant ministerial instruction. The Tribunal Administrativo should be consulted in clarifying this legal confusion.
- There should be a dialogue between the Ministry and the Tribunal about the use of supplier receipts as sufficient proof of goods or services delivered, as an alternative to a formal invoice. The aim of the dialogue would be to determine whether this is a practice that can be accepted, and in what circumstances; and whether e-SISTAFE processes need to reflect this practice.

C. New format for the Accounts and the State Accounts document

International accounting and other standards

19. **There are three sets of international standards which should be reflected in the Accounts.** These standards come from the sphere of accounting (IPSAS), and from the sphere of statistics (GFS and SNA). The three sets of standards are shown in the Figure below. These standards are mostly harmonized but small differences remain. The most directly relevant standards are the international accounting standards for the public sector. IPSAS standards are based on IFRS (International Financial Reporting Standards) standards for the private sector, modified to reflect the public sector environment.

Figure 4. International Standards

Initials and name	Responsible	Uses
IPSAS ("NICS-SP" in Portuguese) International Public Sector Accounting Standards	International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC)	Production and publication of financial accounts
GFS ("Government Finance Statistics")	International Monetary Fund	Macroeconomic and financial analysis of the public sector
SNA ("System of National Accounts")	The United Nations	Financial Statistics

20. **IPSAS standards include some fundamental principles which underpin them and which should inform anyone seeking to apply them.** These include:

- A set of accounts should have a clear accounting boundary which relates to a defined economic entity. Typically, this entity would be a company, a Ministry, a Fund, an Institution etc. The accounting boundary is defined as the economic interest of that entity, including the other entities it controls. The account should make clear the nature of this entity and boundary.
- In deciding the proper accounting policy or treatment of this boundary, or the inclusion and valuation of transactions within it, the accountant should be guided by the principle “Substance over form”. This means that the accounts should seek to reflect the true nature of the entity or transaction, regardless of how the organization or even the law decides to regard it. For example, just calling an agency “independent” does not determine whether, for accounting purposes, it is controlled or not – instead the standards suggest their own criteria for determining control. On transactions, classifying fines as a tax, or current expenditures as capital expenditures, would not pass this test. The accountant should always be guided by the substance and not the legal or administrative form of the transaction.
- Accounting information should satisfy some basic characteristics. These include Understandability, Relevance, Reliability, and Comparability (between years and between organisations). In seeking to apply these characteristics the accountant may have regard to another characteristic - the “Constraints on Relevant and Reliable Information” (in effect, the cost of collection versus the benefits of disclosure).

21. In effect, through these characteristics the standards place an onus on the accountant to apply professional judgement to ensure that the accounts provide a true and fair view of the organisation’s financial position and performance.

22. **These standards all encourage or are based on the adoption of accruals accounting rather than the existing use of a modified cash basis of accounting.** The Figure below shows the main characteristics of the different bases of accounting – pure cash, modified cash, and full accruals. The current State Accounts in Mozambique are prepared and presented on a modified cash basis. Whilst the principal basis for accounting and reporting is on cash, the approach in Mozambique is “modified” in that:

- books are left open for three months, until end March, so that budgetary payments made during the calendar year can be processed and brought to account (a typical feature of government accounts based on budget execution); and
- the additional statements and annexes to the main statements include a number of asset and liability disclosures such as debt, as well as information on fixed (physical) assets (although these records are recognised to be of poor quality).

Figure 5. Accounting bases

Basis	Key features
Pure cash	<ul style="list-style-type: none"> • Only includes cash receipts and payments, and cash balances • Only has one statement (of cash balances and flows) and the option of a statement of budget performance • There is only one applicable standard
Modified Cash	<ul style="list-style-type: none"> • A number of variations, from "near cash" to "near accruals" • Common in the public sector, with budgetary execution systems • Common to combine receipts on a cash basis, with expenditure on the basis of accruals or commitments, to reflect the budgetary treatment • May include a limited balance sheet (not all assets and liabilities) • Can include notes and disclosures of an accruals nature
Full Accruals	<ul style="list-style-type: none"> • Includes all liabilities and assets • Includes more principal financial statements • Many standards apply

23. An accruals-based system is probably alien to most people more accustomed to cash-based budget execution systems and accounts based on them. The main differences between the cash and accruals bases are:

- Under cash, payments and receipts are “recognised” (brought to account) when they are paid or received (ie when the money moves in or out). The only asset that is recognised (accounted for) is cash.
- Under accruals, payments (or more correctly, “costs”) are recognised when the obligation to pay is created (ie when the goods and services have been received and invoiced), and receipts (more correctly, “income”) is recognised when the right to receive that income is created. In each case, recognition is independent of whether and when payment or receipt actually happens.
- Under accruals, the accounts include and account for assets and liabilities, and not just cash. These can be assets and liabilities which have a related cash movement (such as the purchase of machinery, or a loan), or they can be assets and liabilities with no cash implications (at least in the short term), such as holdings of shares which increase or decrease in value by virtue of possession (called holding gains – or “lucro vegetativo”).
- Under accruals, the use or consumption of fixed assets is recorded as a cost, and the asset is depreciated over its working life .

24. The Figure below therefore shows some of the key features of an accruals-based system.

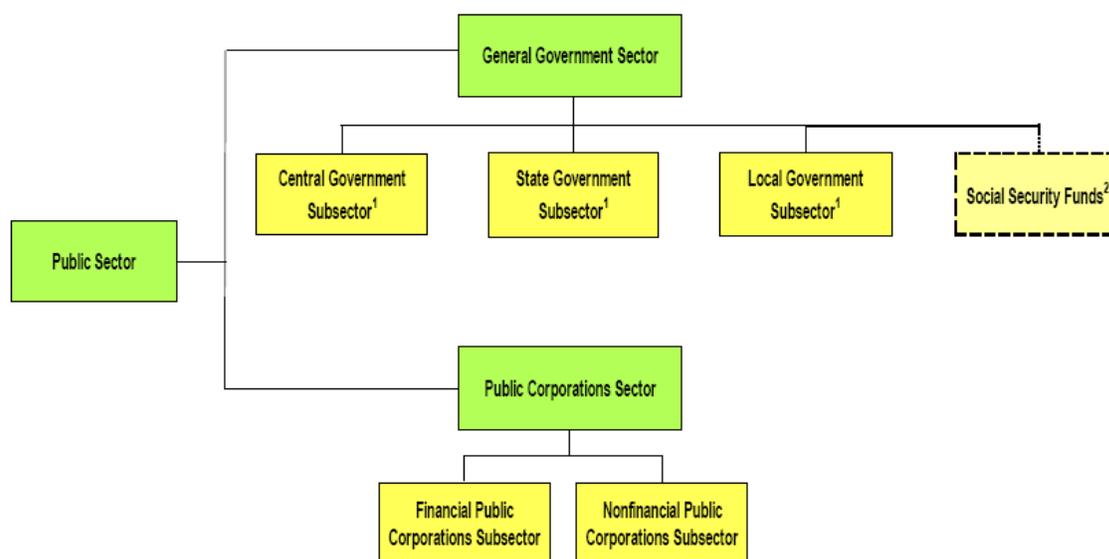
Figure 6. Key aspects of the accruals basis of accounting

Aspect	Explanation
<ul style="list-style-type: none"> • Prepayments and provisions 	<ul style="list-style-type: none"> • Systems need to differentiate between payments and receipts relevant to the current year and those relevant to other financial years
<ul style="list-style-type: none"> • Accounts payable, accounts receivable 	<ul style="list-style-type: none"> • Systems need to maintain accounting books to recognize obligations to pay, and rights to receive cash
<ul style="list-style-type: none"> • Treatment of fixed or physical assets 	<ul style="list-style-type: none"> • The acquisition cost is not charged in the year of payment, but spread over the operational life of the asset
<ul style="list-style-type: none"> • Financial assets and liabilities 	<ul style="list-style-type: none"> • The system and the account must capture all the assets and liabilities of the entity.
<ul style="list-style-type: none"> • Less obvious assets and liabilities 	<ul style="list-style-type: none"> • The account should include less obvious assets and liabilities such as intellectual property rights and unfunded pension schemes
<ul style="list-style-type: none"> • Changes in value that do not generate cash flows 	<ul style="list-style-type: none"> • The tracking of changes in value also includes changes in value that are not linked to or do not generate cash flows, such as the revaluation of property, changes of exchange rates, deterioration of assets
<ul style="list-style-type: none"> • Contingent liabilities 	<ul style="list-style-type: none"> • Only liabilities of certain existence and value should be recognised in the accounts, but contingent liabilities (such as guarantees) must be disclosed in a note to the account

25. **International standards define the public sector and its component parts.** As the next Figure shows, the Public Sector includes two parts: General Government and State Enterprises. These in turn have constituent parts.

Figure 7. Statistical and Accounting coverage of General Government and the Public

Sector



1. Budgetary, extra budgetary accounts, and/or social security funds may exist at each of these subsectors.

2. As an alternative, social security funds could be treated as a separate subsector.

Fonte: FMI, ficha técnica GFS

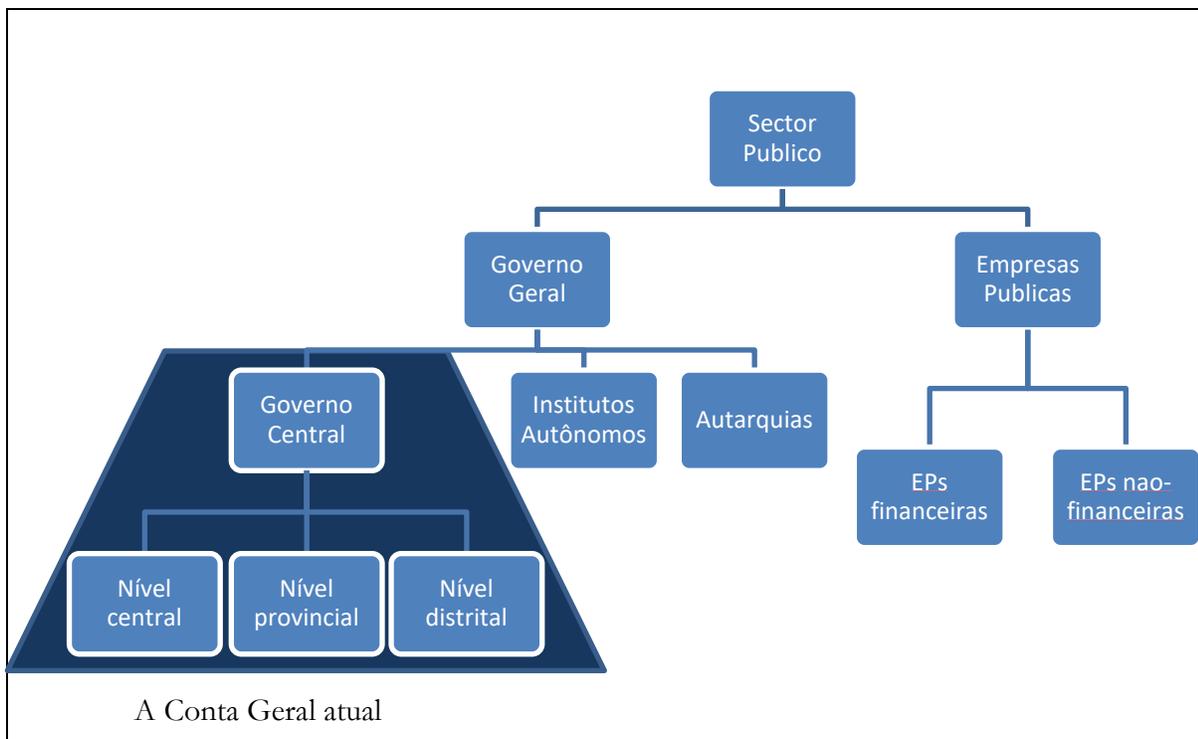
26. **The three standards also encourage or require the consolidation of all parts of the public sector.** The three sets of international standards listed above all encourage or require that State Accounts and financial analyses of public finances should be able to generate information at various levels, using a process known as “consolidation” – that is, combining all the information from the various component parts to provide a picture at the higher level(s).

- the IPSAS standards bring an expectation of consolidation, since the reporting entity is expected to include or consolidate all its controlled subsidiaries or entities so as to give a fuller and truer picture of financial position and performance
- the GFS standards expect consolidation at the level of general government and the public sector as a whole – see the next few paragraphs for definitions of these. The GFS also expect financial statistics to be on an accruals basis.
- the SNA standards expect consolidation but do not require elimination of intra-sectoral transactions. Again SNA expects an accruals basis.

27. Such consolidation is usually done on a “line by line basis” whereby a line item, say for “salaries”, is added up for all the component parts and entities. The other feature of such consolidations is the need to eliminate transactions between the different parts (to avoid double counting). Without elimination, a government which receives taxes of US\$100 million, and then passes on US\$50 million to local government, would show a consolidated income of US\$150 million (which clearly overstates their combined income).

28. **The current State Account consolidates only the various levels of the government**, capturing full accounting information about expenditures and receipts of around Mt88 billion in 2009, as shown in the following Figure. In contrast, the value for the general government sector (which also includes autonomous institutions and local government) is Mt96bn and the value for the public sector (which includes public enterprises) is Mt108bn¹. These values also exclude government interests in controlled companies (empresas controladas), joint ventures and other semi-public enterprises (empresas participadas). Clearly, there is a significant difference between these different bases of reporting. Any format of accounts, and the systems which support it, should be capable of producing a consolidated set of accounts for the public sector and the general government sector, as well as accounts for their component parts.

Figure 8. Coverage of the current Accounts



29. Such consolidations are usually achieved using one of 2 options:

- A single accounting system (or identical systems) for all parts of the Public Sector or at least for General Government.

¹ It has proven difficult to obtain a definitive answer on the consolidation of autonomous institutions and funds. Some claim they are consolidated, and other say not. The evidence in the accounts is not conclusive. In our view, they are not consolidated.

- A central system for consolidating financial results from a range of organisations using different accounting systems (such systems are sometimes called a “consolidation engine”). Data is sent electronically or manually to a central point, typically using pre-defined forms, where it is entered into the consolidation engine to produce a consolidated account.

In both these options there needs to be a single Chart of Accounts used for consolidation purposes, so that there is consistent classification of transactions across all the organisations and systems involved. This single Chart of Accounts can be comprehensive, or can be restricted to just those levels of detail and analysis needed to support the consolidated financial statements. A common issue in such consolidations is the difficulty of consolidating general government, which uses IPSAS standards, with public and other government-controlled enterprises, which use IFRS standards.

A new format for the Accounts

30. In this section we discuss the Accounts (that is, the key financial statements) – the next section discusses the way forward with the State Accounts document. The proposals in this section for the Accounts should be seen in the context of proposals for the document as a whole.

31. **This mission has developed proposals for a new format for the Accounts and the document in which they appear, both in the short term and the longer term.** Our last mission identified a need to review the Accounts, both in terms of compliance with international standards and the possibility of producing a more accessible and readable document. This mission has carried out such a review, both to devise a format which can be adopted in the short term using existing information and a format which will be suitable in the longer term for the transition to accruals accounting.

32. **This proposed format for the Accounts (not the document) is based on the IPSAS principles of a few summarised financial statements accompanied by a statement of accounting policies and a set of notes to the account giving explanations and greater levels of detail.** The Figure below shows the types of financial statements required under the cash and accruals basis of accounting.

Figure 9. Main financial statements under cash and accruals bases

Pure cash	Full accruals
<ul style="list-style-type: none"> • Statement of revenue and expenditure • (Statement of Budget Performance) 	<ul style="list-style-type: none"> • Statement of financial position (balance sheet) • Statement of financial performance • Cash flow statement • Statement of changes in net assets/equity • (Statement of budgetary performance)
<p>In both bases of accounting, the main statements are accompanied by</p> <ul style="list-style-type: none"> • a statement of accounting policies • notes and other disclosures 	

33. Mozambique is already some way along the transition from cash to accruals. The principal financial statements in the current Accounts include some of these elements already:

Figure 10. Current and recommended financial statements

Recommended	Current	Comment
<ul style="list-style-type: none"> • Statement of financial position (balance sheet) 	<ul style="list-style-type: none"> • Not present 	<ul style="list-style-type: none"> • Only cash balances are shown – some other assets and liabilities shown in supporting schedules
<ul style="list-style-type: none"> • Statement of financial performance 	<ul style="list-style-type: none"> • Present – Mapa I e Mapa I-1 	<ul style="list-style-type: none"> • Provided in a variety of presentations
<ul style="list-style-type: none"> • Cash flow statement 	<ul style="list-style-type: none"> • Not present (but not relevant) 	<ul style="list-style-type: none"> • The current basis is near-cash, so there would not be much difference
<ul style="list-style-type: none"> • Statement of changes in net assets/equity 	<ul style="list-style-type: none"> • Not present 	<ul style="list-style-type: none"> • Only changes in some assets and liabilities, in other schedules
<ul style="list-style-type: none"> • Statement of budgetary performance 	<ul style="list-style-type: none"> • Mapa I-1 	<ul style="list-style-type: none"> • Also in many detailed supporting schedules

34. **This mission has prepared a new format which can be used for the State Accounts of 2010.** That format is provided in another document, separate from this report. The format has been tested using data from the 2009 financial year and Accounts, and is ready to receive data for 2010 once that is available. The new format is based on two, and possibly, three new principal financial statements which achieve partial compliance with international standards:

- A statement of financial performance

- A statement of budgetary performance
- A possible statement of financial position (sometimes referred to as a Balance Sheet).

We have also prepared:

- an initial statement of accounting policies, and
- an initial set of notes to accompany the financial statements.

35. The reason for hesitation over the statement of financial position is that it has been drawn up using information from the Accounts of 2009, but there is much work to be done to ensure that this information has been interpreted correctly and that it is reliable.

36. It will be noted that the new principal financial statements are not very different from some of the financial statements in the current Accounts, at least at first view. However, they differ in the detail and the manner of presentation, including some reclassification to better comply with international standards.

37. **In future years, the format can be improved to achieve greater compliance with international standards.** This can be done by extending the accounts to include more accruals-based transaction types and expanding the balance sheet to include more of the State's assets and liabilities; adding and improving the notes and other disclosures; checking that the treatment of different transaction types are in line with the latest standards for recognition and valuation; and possibly by consolidating more of the public sector.

38. **In the time available, we have looked at compliance in terms of the format and contents of the financial statements, but there is much work still to be done to check compliance with all the relevant standards.** International accounting standards include some standards which define the general purposes and characteristics of financial statements, including suggested formats for the different types of statement. In this mission we have concentrated on these general requirements and on those which most apply to the modified cash basis of accounting. The relevant standards are shown in the following Figure.

Figure 11. Main accounting standards for the Accounts

IPSAS relevant to the format of the accounts	
Unnumbered	Cash Basis IPSAS—Financial Reporting Under the Cash Basis of Accounting
1	Presentation of Financial Statements
2	Cash Flow Statements
24	Presentation of Budget Information in Financial Statements

39. It should be noted that there are 31 standards in all at the present time – running to nearly 1,600 pages. The cash basis IPSAS alone has 130 pages. The following Figure shows the other standards most likely to be applicable to the Accounts in Mozambique. In general,

these standards set out how to account for specific types of transactions, assets or liabilities. Some of these transactions, assets and liabilities are already included in the Accounts. Others are not but could feature in a new format of account more in line with international standards.

Figure 12. Other accounting standards for the Accounts

IPSAS that need to be considered later	
3	Accounting Policies, Changes in Accounting Estimates and Errors
4	The Effects of Changes in Foreign Exchange Rates
5	Borrowing Costs
6	Consolidated and Separate Financial Statements
8	Interests in Joint Ventures
9	Revenue from Exchange Transactions
12	Inventories
13	Leases
14	Events After the Reporting Date
15	Financial Instruments: Disclosure and Presentation
17	Property, Plant and Equipment
18	Segment Reporting
19	Provisions, Contingent Liabilities and Contingent Assets
21	Impairment of Non-Cash Generating Assets
22	Disclosure of Information about the General Government Sector
23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
25	Employee Benefits
26	Impairment of Cash-Generating Assets
28	Financial Instruments: Presentation
29	Financial Instruments: Recognition and Measurement
30	Financial Instruments: Disclosures
31	Intangible Assets

40. **The Ministry should resist the temptation to put additional levels of information and classification into the Accounts, if it wishes to keep the accounts simple and in line with international accounting norms.** The current Accounts have grown to an enormous size through the addition of many analyses, at the request or suggestion of various users. The essence of international standards is to aim at high-level financial statements that are simple and uncluttered, with supporting or explanatory information appearing elsewhere. The better place for additional analysis, or interpretation and re-presentation of financial results, is in the accompanying commentaries, notes to the accounts, or in additional analyses.

41. **In other jurisdictions, Accounts are often “sandwiched” between or preceded by two professional statements: one by the Accountant General or equivalent, and another which contains the opinion or statement from the external auditor.** These statements are intended to give the reader assurances that the accounts have been prepared in a professional manner and that they are free of error or misrepresentation. Ideally, accounts should not be published unless they include an audit opinion; if they are published before audit completion, it should be clear to the reader that they are unaudited. Mozambique has an option, subject to agreement with the Tribunal Administrativo, to include an audit opinion or statement as an integral part of the Accounts.

42. In preparing the suggested new format for the Accounts, we have taken into account the following aspects of the IPSAS standards:

- a few principal financial statements together with a statement of accounting policies and notes to the account
- describing the accounts as “Accounts of Government” rather than the State, to reflect their current coverage.
- use of the previous year’s figures as the main axis for comparison in the statements of financial performance and financial position
- a format of the statement of budget performance which is clearly reconcilable with the statement of financial performance, and with the format of the budget presented to the Assembly, showing comparisons of results with both original and final budget figures.
- suggested designs for the three principal financial statements which follow the models in the standards
- re-presentation of some receipt and payment classifications in the statement of financial performance, to comply with the IPSAS suggestion of differentiating operating, investment and financing activities and transactions.

43. **Compilation of the new format of accounts has highlighted a tendency for classifications and terminology of receipts to change between one document and another in the budgetary cycle.** It would be better to maintain consistency. The treatment of “other taxes”, “capital receipts” and “assigned receipts” (receitas consignadas) changes from one document to another (State Budget, Reports on Budgetary Execution, and Accounts), and even between the commentary and financial statements within the State Accounts document. It would be better to maintain a consistent set of terminology between and within the documents so that it is easier to track and compare figures from one document to another.

44. **Likewise, compilation of the new format has highlighted some classifications which are not very helpful, and even confusing to the lay reader.** Some of the terminology in the accounts is archaic or administrative (“receitas consignadas”), and other terminology could mislead the reader (“investment expenditures” which are in fact project

expenditures). It would be better to tidy these up and generally develop a simpler, less technical and less administrative language for the accounts (and the Budget). Some changes in terminology can be done quickly and easily. Others may need more thought and time.

45. **Any format for the Accounts also needs to be consistent with the SISTAFE law and the presentation of finances in the State Budget.** The new format is consistent with both, although in the longer term it may be necessary to review both. For example, in the longer term there may be some additional disclosures not anticipated in the law, and some required disclosures which will no longer be needed. In the longer term, a better solution would be for the law to be less specific as to the precise format, contents and terminology – over-specifying these in the law will make it difficult to modify the format as new disclosures and standards emerge. Revisions to budget presentation are less problematic, being largely of language and classification.

46. **We have made an initial check against the legal requirements, which confirms that the format we have developed will be more compliant with the law than the existing Accounts.** The relevant legislation is Regulation 23 of 2004. It specifies the minimum contents of the Accounts. The following Figure shows the main requirements, and whether the existing Accounts or the new format comply with these new requirements. The existing Account is deficient in that it does not include a Balance Sheet (Statement of Financial Position) as required by the law. The new format includes a Statement of Financial Position.

Figure 13. Regulation 23 of 2004 - requirements

Section VIII – State Accounts, Article 87 - Structure	Complied ?	
	Current	New ³
The State Accounts are structured so as to provide the following information:		
1. Government report on the results of budget execution for the financial year;	✓	✓
2. Global financial position of the State Budget, showing sources of finance,	✓	✓
3. A Balance Sheet;	X ¹	✓
4. Statements of Budget Execution, compared to budget allocations and forecast and actual receipts, and of expenditures issued and/or paid, by organic classifier;	✓	✓
5. A Statement of Results;	? ⁴	✓ ⁴
6. Supporting the financial statements;	✓	✓
7. A statement of financial assets and liabilities at the start and end of the year;	x ²	✓
8. A consolidated statement of Treasury Operations;	✓	✓
9. Additional schedules showing:		
a) Consolidated statement of fixed assets;	✓	✓
b) A summary of the receipts, expenditures and balances of Autonomous Institutions;	✓	✓
c) A summary of the receipts, expenditures and balances of municipalities;	✓	✓
d) A summary of the receipts, expenditures and balances of State Enterprises.	✓	✓

Note 1: "Balance" includes a budgetary balance, a financial balance and a balance sheet

Note 2: there is no consolidated statement – information appears separately in maps and informational annexes

Note 3: In the new formats, items can be included in the main statements or notes or additional disclosures.

Note 4: it is not clear what this clause requires

47. **Any new format for the Accounts and the document in which they appear would need to be piloted and trialled before adoption.** This would involve consultation with the various parties with an interest in the accounts – principally Parliament, donors, other parts of government, and possibly civil society groups. Such a pilot could be developed using the data from the 2010 Accounts.

The State Accounts document

48. **We have also prepared a suggested format for the new State Accounts document, largely using existing material, which maintains a clear distinction between the Accounts and other material.** The proposed structure is shown in the following Figure. The right hand column shows whether each component is new or is based on material in the current document. This structure allows publication (in Section B) of the Accounts of Government in compliance with international norms,.

Figure 14. Proposed structure of the State Accounts document

Sections	New
How to read and use this document - a layman's guide	Yes
Glossary and list of abbreviations	Yes
A: Reports and commentary	
Commentary on economic performance	No
Commentary on the financial performance (of government)	No
B: Accounts of government	
Statement by the Accountant General	Yes
Statement of financial performance	No
Statement of budgetary performance	No
Statement of financial position - government's assets and liabilities	Yes
Statement of Accounting Policies	Yes
Notes to the Accounts	Yes
C: Analysis of government's expenditures and revenues	
Analysis of expenditures	No
Analysis of receipts	No
Analysis of financing operations	No
D: Analysis of government's assets and liabilities	
Financial assets and liabilities	Yes
Fixed assets	No
Other assets and liabilities	Yes
E: The finances of the wider public sector	
Public sector finances - summary	Yes
Autonomous institutions and funds	No
Municipalities	No
State Enterprises (100% owned)	No
Other government-controlled enterprises	Yes
Other enterprises with minority shareholdings	Yes

49. The structure of the document would be as follows:

- essential introductory material
- Section A: commentaries on economic and financial performance
- Section B: the Accounts of Government, to international standards

- Sections C and D: further analysis of revenues, expenditures, assets and liabilities, drawing on information from the current financial analyses in Mapas and Anexos Informativos
- Section E: the finances of the Public Sector, bringing together information on the different parts of the sector, including government.

[Note – we have prepared some suggested more detailed contents for sections C-E of the document. These are set out in Annex 1 to this report]

50. **If the Accounts continues to appear as part of a larger document, which is likely, it would be worth thinking about giving that document a different title so that the Accounts and the document have clearly separate identities.** Currently the phrase “State Accounts” can be interpreted to mean the Accounts or the whole document in which they appear, which can be confusing. Under international standards, one reason for differentiating the Accounts and the larger document is that the Accounts should represent a set of documents (financial statements, notes and other disclosures) prepared to professional standards, and covered by an audit opinion or report. In contrast, the larger document contains commentaries and analyses which are not covered by these professional standards or the audit opinion.

51. **Retaining the terminology “State Accounts” for the whole document, and “Accounts of Government” for the financial statements would best comply with international standards, and avoid the need for changes in the law.** The law requires production of a document called the State Accounts, with various components which could appear within the financial statements or in accompanying analyses or commentaries. Retaining this title gives useful flexibility as to where these components appear. At the same time, it is incorrect, under international standards, to refer to the current Accounts as the State Accounts – they should more properly be called the Accounts of Government. Using the terminology suggested above maintains consistency with the law and international accounting standards.

52. **A new format of the State Accounts document, would allow a smaller but more accessible and informative document, suitable for presentation to Parliament and faster availability in electronic format.** The State Accounts document could be limited to those financial statements, commentaries, analyses and other information required by the law, together with any other information thought relevant or needed to meet international standards. The structure of the document would include the existing commentaries on economic and financial performance, the accounts of government, some additional analyses of government finances, and a section which brings together information on the finances of the wider public sector. A document of this type could be less than 200 pages long.

53. **Additional detailed analyses of budget execution could be provided in a separate document, or in a series of documents, made available electronically.** Over time, the State Accounts document has grown to an unmanageable size. Much of this additional detail could be removed from the document and published or made available elsewhere, for example on a

government website. In this way, there would be no loss of transparency but the information would be available in a way better suited to a range of audiences.

Recommendations

- The Ministry should consider our proposals for a new format of Accounts and the State Accounts document, and decide whether it wishes to pursue further these proposals. More work will be needed to take them forward, and to trial the new format for the State Accounts document of 2010.
- If the Ministry wishes to continue with this work, it will probably require a follow-up mission to help assemble the data for 2010, test and improve the statement of accounting policies, and assemble a full set of notes and additional disclosures based on the 2010 data. Such a mission would be best timed between June and September of 2011.
- International norms require that the existing accounts be called the Accounts of Government, to better reflect their coverage. The whole document can still be called the State Accounts, to reflect the fact they include information about other parts of the Public Sector and to comply with the law.
- Introduction of a new format of the Accounts of Government provides an opportunity to include a professional statement by the Accountant General, and an abbreviated form of auditor opinion, to reinforce the Accounts' status as a professional and objective presentation of financial results. The former can be easily achieved. The latter requires consultation with the Tribunal Administrativo and would be better considered as part of the Public Accounting project we recommend below.
- In the short term and the longer term, there is much scope for improving and modernising the terminology used in the accounts, to make them clearer and easier for the general reader.
- The Ministry will need to consider whether the newly-developed Statement of Financial Position should be published, as is required by the law. The proposed version uses information already disclosed in the Accounts and in that sense is not controversial. Nonetheless, bringing together these elements into a single statement may highlight weaknesses in data which the Ministry would prefer to address before publication.
- The new format provides an opportunity to reduce the size of the State Accounts document, with lower levels of detail published or made available separately. This smaller document will be more suited for publication – maybe less than 200 pages – and easier to produce in electronic format for dissemination via government websites.

D. A longer-term project for public accounting

54. **The transition from cash or near-cash to full accruals is recommended by international standards because an accrual-based account provides a much fuller and meaningful picture of the financial position and performance of an organisation, whether it be a company, a Ministry or a government.** As such, it facilitates better financial management and improves transparency. But as the Figure below shows, it also involves more judgement, interpretation and technical skills. Recognising the likely capacity constraints on governments, the standards accept that the transition to accruals can also be achieved in stages, in line with the administration's capacity to absorb and adopt these new techniques. Nor is it necessary to travel the whole distance to full accruals. A modified cash basis (of which there are many varieties from near-cash to near-accruals) may provide all the information thought necessary.

Figure 15. Advantages and disadvantages of cash and accruals

Cash basis	Accruals basis
<ul style="list-style-type: none"> • Only cash balances and flows (receipts and payments) • Simple, and concrete (tangible) • A minimum of interpretation • More control 	<ul style="list-style-type: none"> • Stocks and flows of all types of economic value • A fuller picture of government's resources • More useful for financial management • More transparent • Cash not forgotten or uncontrolled • More interpretation (and less control) • Needs a cadre of accountants

55. **The transition to full compliance with international standards, and especially to an accruals basis of accounting, will not be fast or easy.** Only a few countries have already completed this transition – generally those that already have a body of professional accountants. Many other countries are embarking on the journey. The speed of this transition will depend on human and systems capacity. It may range from say 5 years in a country with an established base of trained accountants, to 20 years in a country starting from first base.

56. **This transition to full accruals involves the gradual incorporation of all the relevant transactions, and economic assets and liabilities, and events, which should be captured, as well as the full range of institutions which would come within the accounting boundary.** Some of those transactions, assets and liabilities are obvious; whilst others are less so. Some will be simple to capture and to value; others will be difficult to trace or hard to value. In each case, the cost and benefits of disclosure need to be assessed.

Figure 16. Examples of transactions to be captured

Current basis (in the Accounts and annexes) 1	Accruals basis - additional ²
<ul style="list-style-type: none"> • Cash – stock and flows • Stamps • Fixed assets – property, vehicles and equipment • Internal and external debt • Treasury operations • Debtors and creditors of the Treasury • Government shareholdings • Tax debtors 	<ul style="list-style-type: none"> • Accounts payable, accounts receivable • Prepayments and provisions • Inventory and stocks (consumables) • Other physical assets – land, infrastructure • Bad debts • Intangible assets • Long term liabilities – unfunded pension schemes • Contingent liabilities - guaranties.

Note 1: Inclusion does not indicate that these classes are captured entirely, only that there is a class to receive them in the current account.

Note 2: this list is not exhaustive – these are only examples

57. **The best approach is to make this transition towards accruals in stages, as the development of capacity allows and in a pragmatic way.** Mozambique is perhaps 20 per cent down this road between pure cash and full accruals accounting. Each step brings better and fuller information on the State finances, facilitating more informed financial management and greater transparency. However, the road ahead is rough and uncertain. It is not mandatory or always necessary to complete the journey – accounting information should always be a trade-off between the reliability and usefulness of the information on the one hand, and the cost of collecting and maintaining the information on the other. In this sense, the Ministry has the option of retaining cash or modified cash statements of financial performance whilst increasing the amount of accruals-based disclosures in the notes to the accounts. Many other countries are making this transition, providing a source of experience on which Mozambique can draw, and further guidance and help on the transition is available:

- The IMF produced a Technical Note in 2009
- In January 2011 IPSASB updated and published a study on the transition from cash to accruals.

58. **The mission therefore recommends that the government, probably with external support and assistance, embarks on a Public Accounting project.** As explained above, there is much to consider and debate about the distance and the speed to be travelled along the road to full accruals. There is no need to hurry. The purpose of a Public Accounting project would be to map out the route and the stages on that journey. Viewed from the end product, the Accounts and State Accounts document, the project would seek to establish what sorts of disclosures and information will be desirable and possible, and when, for inclusion within the Accounts and the document. Viewed from the production end, the project would need to consider what human resources and systems (manual or computerised) will be needed to support these disclosures.

Figure 17. Main features of a Public Accounting Project

- Cash or accruals, or a mixture?
- What changes and additional disclosures, and when?
- Which transactions, assets and liabilities, and events to be captured ?
- Requirements of IPSAS
- Requirements of GFS and SNA (and co-ordination with INE)
- What form of consolidation and how will it be achieved?
- Systems and data sources, existing and planned
- Changes to the Chart of Accounts ?
- Staff and other resources
- Involvement of internal and external auditors

59. **A project of this type is not a trivial undertaking, and it will need specialist accounting expertise which is not currently available within the Ministry of Finance.** Some external assistance, involving professional accountancy expertise and expertise in public sector accounting, will almost certainly be needed. But such assistance will need to be matched by expertise from within the Ministry, both for a better diagnosis and to bring about some transfer of expertise. The imminent availability of accounting standards (NIC-SP) in Portuguese – being translated by the National Treasury of Brazil - will help.

60. **The vision or plan for the future of Public Accounting will need to include proposals for increasing the human capacity within DNCP and elsewhere in government to support such reforms.** Typically such reforms will require a new cadre of accounting technicians with knowledge of the accounting system, similar to those being trained within the e-SISTAFE project. But they also require a smaller number of professionally qualified accountants with enough knowledge to act as the guardians of the accounting vision and to guide the development of the accounts, and to act as intelligent clients to work with CEDSIF on how accounting requirements are best served by e-SISTAFE and possibly other systems. The Ministry may wish to co-ordinate such efforts with those of other organisations in Mozambique seeking to professionalise public accounting and audit – for example the Tribunal Administrativo. The International Federation of Accountants (IFAC) produced guidance in February 2011 on creating an accounting profession in developing countries. The guidance, also available in Spanish but not Portuguese, is available from www.ifac.org

61. **International norms suggest full consolidation of public enterprises and other controlled entities.** But full consolidation of public enterprises and other enterprises in which the government has a significant shareholding can be difficult, because of different accounting regimes (IPSAS and IFRS). An alternative would be to consolidate on an investment basis, the State Accounts showing only transfers and gains in the value of the State's shareholding, as well as the opening and closing value of these shareholdings. Any accounting project should consider in more detail the best way forward.

62. **Such a project could focus only on the Accounts, but it could also extend to include accounting by individual institutions.** At the moment, the financial statements of

individual institutions (“contas da gerencia”) are not readily available because they cannot be published until they have been judged by the Tribunal Administrativo: only a small proportion are judged each year. With around 1,100 entities, and possibly more, within the State or Government (it is difficult to obtain a definitive list) it would be infeasible to include the summarised results of all of them in the State Accounts document. But the document could include the more important ones. In this way the document would provide a “bridge” between the Accounts of Government with the accounts produced by individual entities.

63. The project also needs to take into account the needs of the National Statistical Institute (INE). As we mentioned above, this Institute also has an interest in any data emerging from the State Accounts document – its data on public finances relies largely on the data in the State Accounts document, and the Institute also has to have regard international standards, especially those of the FMI and ONU. The Institute should be represented in any project.

64. Ideally, internal and especially external auditors should be involved or represented in a project of this sort. Auditors need to be consulted over anything which affects their ability to audit the accounts – especially the existence of an audit trail. But they may also wish to express views on proposed accounting policies. Likewise, the Ministry of Finance will want to know that any new format, the content of it, or the selected accounting policies, will not automatically attract an adverse audit opinion or criticism for reasons which could have been avoided.

Recommendations

- The Ministry should launch a Public Accounting project, along the lines described above, to map out its future path towards greater compliance with international standards and to decide how this will be done. The project will almost certainly require technical assistance.
- The Project should consider the scope for improving the accounts and accountability of individual entities, and how this may be linked to the State Accounts.
- The Project should involve and consider the needs of the National Statistics Institute, whose work in part relies on the information from the State Accounts.
- The Project should involve external and internal auditors, to ensure that any new proposals do not impede the work of auditors, and to ensure that the format of accounts and the systems that underpin it will not attract audit criticism that could have been avoided.

Annex 1: Proposed sections C-E of the State Accounts document

Sections and subsections	New?	Sources (ref: CGE2009)
C: Analysis of government expenditure, revenue and financial operations		
Expenditure analysis	No	
Budget variations	No	Mapa XVII-XX, XXII-XXV
Operating and investment expenditure (O & I) - summary	No	Table 8
Priority sectors (O & I)	No	Mapa I-1-1, Table 9
By program (O & I)	No	Mapa I-1-2
By functional classification (O & I)	No	Table 8, Mapa I-1-2
By economic classification (O & I)	No	Tables 5
By organic classification (O & I)	No (?)	(Mapa XVII-XX, XXII-XXV?)
By territorial classification (O & I)	No	Table 7 (& Tables 6, 5a)
Operating expenses	No	Mapas III
Investment expenditure	No	Mapas IV
Revenue analysis	No	Mapas II
By economic classification - provincial and central	No	Mapa II
By economic classification - central	No	Mapa II-1
By economic classification - provincial	No	Mapa II-2
Assigned revenue	No	Mapa II-3
Own revenue	No	Mapa II-4
External assistance - loans and grants	No	Mapa II-6
Analysis of financial transactions	No	Table 10
Overall funding of State budget	No	Table 11, Mapa II-5
D: Analysis of government assets and liabilities		
Financial assets and liabilities	No	Mapa V
Financial assets	No	Mapa 1-2
Debt	No	Mapa 1-3
Treasury operations	No	Mapa 1-4
Cash balances in Recebedorias	No	Mapa 1-5
Tax debts	No	Mapa I-6
Stamps	No	Mapa I-7
Physical assets and liabilities	No	Annex 7
Other assets and liabilities	Yes	Not yet available – to follow ?
E: Public sector finances		
Public sector finances – summary	Yes	Summary of section contents
Autonomous institutions and funds	No	Annex 1
Local Authorities	No	Annex 2
Public companies (100%)	No	Annex 3
Other subsidiaries	Yes	IGEPE report
Other non-controlled companies	Yes	IGEPE report