



# REPUBLIC OF MOZAMBIQUE

## TECHNICAL ASSISTANCE REPORT — REASSESSMENT OF THE PUBLIC ACCOUNTING REFORM ROADMAP

January 2023

This technical assistance report on Republic of Mozambique was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in October 2014.

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**Mozambique**

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*Reassessment of the Public  
Accounting Reform Roadmap*



October 2014

**Delphine Moretti, Fernando de Almeida, and  
Herberto Monteiro**

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# **INTERNATIONAL MONETARY FUND**

Fiscal Affairs Department



## **MOZAMBIQUE**

### **REASSESSMENT OF THE PUBLIC ACCOUNTING REFORM ROADMAP**

**Delphine Moretti, Fernando de Almeida, and Herberto Monteiro**

**October 2014**

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### ABBREVIATIONS AND ACRONYMS

AA	Accrual Accounting
AT	Revenue Authority
CEDSIF	Finance Information System Development Center ( <i>Centro de Desenvolvimento de Sistemas de Informação de Finanças</i> )
CGE	General State Account
CoA	Chart of Accounts
CoM	Council of Ministers
CUT	Treasury Single Account
DAF	Department of Financial Administration
DEAE	Research and Economic Analysis
DNCP	National Director(ate) of Public Accounts
DNO	National Budget Directorate
DNPE	National Director of State Assets
DNT	National Treasury Directorate
e-CAF	Staff Register Module
e-CAP	Pensioner Register Module
e-Folha	Salary payment system
e-SISTAFE	Electronic State Finance Administration System
e-Tributação	Tax Administration System
FAD	Fiscal Affairs Department
GFSM	Government Finance Statistics Manual
ICA	Internal Control Agent
IGEPE	State Equity Holding Management Institute
IGF	General Inspection of Finance
INSS	Social Security National Institute
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
MEO	Budget Preparation module
MEX	Budget Execution module
MoF	Ministry of Finance
MoH	Ministry of Health
NCP	National Accounting Standards
PFM	Public Finance Management
SC	Steering Committee
SISTAFE	State Finance Administration Law ( <i>Lei do Sistema de Administração Financeira do Estado</i> )
SAI	Supreme Audit Institution ( <i>Tribunal Administrativo</i> )
SPE	Subsystem of State Assets
TA	Technical Assistance
UGB	Beneficiary Management Unit
VAT	Value Added Tax

## PREFACE

At the request of the Ministry of Finance (MoF), and with the financial assistance of the Danish Embassy in Mozambique, a mission of the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited the Republic of Mozambique during the period from July 22 to August 4, 2014, in response to a request for technical assistance (TA) in the area of public finance management (PFM).

The mission had meetings with the National Directorate of Public Accounts (DNCP), Amélia Mutemba; the Director of the Center for Development of Financial Information Systems (CEDSIF), Tricamo Taju; the National Director of the Treasury (DNT), Maria Isaltina Lucas; the National Director of the Budget (DNO), Rogério Nkomo; the General Inspector of Finance (IGF), Carolina Pessane; the Deputy National Director of State Assets (DNPE), Abdique ; the Revenue Authority (AT), where it met the General Director of the Taxes Department, Augusto Tacaríndua, the General Director of the Planning Studies and International Cooperation Department, Horácio Simão, and their teams.

The mission also met the Administrative Tribunal (TA), where it met the Accountant-General for General Public Accounts, Moisés Amaral, and the Accountant-General for Accounts and Audits, Jeremias Zuande; the Ministry of Health (MoH), where it met with the Deputy Director of the Department of Financial Administration (DAF), António Mulhovo; the National Director of Research and Economic Analysis (DEAE), where it met Isabel Sumar; and the State Equity Holding Management Institute (IGEPE), where it met with the Chair of the Board of Directors, Apolinário Panguene.

The mission would like to thank the authorities of the Republic of Mozambique (RoM) for their collaboration in the conduct of this pilot evaluation and for the frank and open exchanges of views on all matters discussed.



## EXECUTIVE SUMMARY

The public accounting reform (the “Accounting Reform”) in Mozambique started a number of years ago. The Accounting Reform is part of a broader set of PFM reforms, defined in the *Public Finances Vision 2011-2015*. Its objectives can be broadly summarized as follows: (i) improving reliability and timeliness of the financial reporting at all levels of government; and (ii) moving to accrual accounting (AA), in compliance with international standards, by 2025. Assessments of the reform have been done by FAD on a regular basis since then. Overall, the assessments noted that significant progress had been made in developing the national IFMIS, e-SISTAFE (*Sistema de Administração Financeira do Estado*).

In line with these previous assessments, the mission identified positive factors that should contribute to the success of the reform. Among them are the leadership of the Finance Information System Development Center (*Centro de Desenvolvimento de Sistemas de Informação de Finanças - CEDSIF*), motivated staff, good capacities in the areas of IT and PFM, sufficient resources, and experience in developing the IFMIS, e-SISTAFE, which is able to support AA. However, the mission also noted that a number of key issues need to be considered for moving forward the reform.

First, the date of 2026 for implementing full AA—that is accruals of revenue and expenditure, a complete balance sheet, and consolidation of the public sector—is deemed tight. Therefore, in line with previous recommendations, the mission advised the authorities to adopt a phased approach for their transition to AA, and proposed a tentative phasing (see table 1).

Second, the mission noted that a number of preparatory tasks also need to be undertaken for setting the stage to the transition to AA. Mainly, the mission recommended (i) defining, in an integrated and transparent manner the project’s desired outcomes and expected deliverables into specific, verifiable, realistic, and time-bound indicators which should be monitored and evaluated during the course of the project; (ii) defining clear arrangements for setting up standards, accounting policies; and (iii) establishing a detailed training strategy.

Last, the mission provided recommendations for implementing the first step of the transition to AA. Two major business processes, the budget execution and the production of financial reports, needs to be strengthened. Indeed, the former does not allow for a timely and reliable recording of commitments and debt to service providers, suppliers or other third parties. The later is relying heavily on manual procedures, which does not allow producing a timely and reliable financial reporting. In addition, a number of improvements should be made on the presentation and content of the year-end financial reporting (General State Account; CGE) from 2015.

In particular, a simplified balance sheet with information on financial liabilities, financial assets, and contingent liabilities should be included in the CGE. As well, a consolidation at the central government level could be tentatively undertaken from 2015. The mission noted

the reluctance of the authorities to present a partial balance sheet, which would result in showing a negative net financial net worth. However, the mission indicated that the partial nature of the information provided could be explained relatively easily in the notes to the financial statements, and noted, in addition, that most of countries that have move to AA show a negative net worth, as their main asset, which is the power to raise taxes, is indeed not reported in the balance sheet (for example, UK and France disclose a negative financial net worth). The mission therefore strongly encouraged to move forward on producing a simplified balance sheet of the central government, within the next three years.

The recommendations of the mission are summarized in Table 1.

**Table 1. Summary of Recommendations**

<b>Recommendation</b>	<b>Timeframe</b>	<b>Stake-holder</b>
<b>1/ Reassessing the strategy</b>		
Adopt a sequenced approach for moving to accruals, and reconsider the timeline for the transition, as suggested in table 1	2014	MOF, CEDSIF
<b>2/ Setting the stage: preparatory tasks</b>		
Establish a concept note that identifies the challenges and costs associated with the reform and seek Parliament's approval after the 2014 elections.	2014	CEDSIF
Set up governance arrangements for the Accounting Reform (Steering Committee chaired by the Minister of Finance and Technical Committees).	2015	MOF, CEDSIF
Establish an annual progress report on the accounting reform (CEDSIF) and perform annual independent assessments (IGF).	2015	CEDSIF, IGF
Set up standard setting arrangements (dedicated team within CEDSIF or the DNCP, and oversight by an Advisory Board) for reviewing, amending and completing NCPs and developing a manual of accounting policies.	2015	CEDSIF, DNCP
Set-up a working group involving the DNO, the DEAE, the DNCP, representatives from the line ministries and provinces, and CEDSIF to elaborate the new CoA.	2015	CEDSIF, DEAE, DNCP, DNO
Define a strategy for capacity building and a training plan, identifying targets, their needs, and a course schedule (see Table 3).	2015	CEDSIF
Review financial and accounting procedures based on a risk assessment.	2015	CEDSIF
<b>3/ The first stage of the transition to AA: improving the current financial reporting</b>		
Improve to the Budget Execution process by allowing users to record commitments and liquidations in e-SISTAFE in due time.	2015-16	CEDSIF, DNO
Improve the financial reporting functionalities and accounting processes in e-SISTAFE mainly by incorporating data available in other IT systems, automatizing the production of the CGE.	2015-2017	CEDSIF, DNCP
Include a financial balance sheet in the CGE, including debt balances and transactions, payables, cash and bank balances, investments, other financial assets and report on contingent liabilities.	2015	DNCP
Shorten and clarify the CGE, which should include: (i) the overall presentation of the budget execution figures (Introduction, Objectives of the economic and social policy); (ii) the main budget execution tables (Tables I, I.1 to I.7); (iii) a simplified balance sheet reporting on the main financial liabilities and assets, (iv) as well as set of disclosures presenting, detailing and commenting the figures.	2016	DNCP
Establish a census and sectorization of public entities.	2017	MOF
Establish consolidated financial statements for the Budgetary Central Government and controlled Autonomous Institutions	2017	DNCP

## I. REASSESSING THE STRATEGY: A PHASED TRANSITION TO AA

### A. Discussion of Key Issues

1. **During the last years, an impressive work has been undertaken for setting the stage to the transition to accruals under the leadership of CEDSIF.** As noted in previous reports of FAD,<sup>1</sup> a number of tasks have been undertaken for moving forward the accounting reform. They include:

- The development of an IFMIS, e-SISTAFE, that already works with double entry bookkeeping, generates a general ledger and could support AA;
- The drafting of an AA implementing plan.<sup>2</sup> Its content and timing are summarized in Figure 1 below: this plan entails the move to full AA by the end 2025, including the consolidation of public sector by 2024. Some broad challenges associated to the implementation of this plan have also been identified, such as capacity building, without detailing, at this stage, the action plan for addressing them.

Figure 1. Mozambique: Overview of the Draft NCPs/IPSASs Implementation Plan

Year	Actions	Corresponding IPSAS
2017	Implementation of NCP 7, 16 e 21	1 - Presentation of Financial Statements ;2 - Cash Flow Statements ; 3 - Accounting Policies, Changes in Accounting Estimates and Errors ;24 - Presentation of Budget Information in Financial Statements ; 14 Events after the Reporting Date 12 - Inventories 5 - Borrowing costs 4 - The Effects of Changes in Foreign Exchange Rates
2018	Implementation of NCP 9 e 13	11 - Construction contracts 13 - Leases
2019	Implementation of NCP 17 e 24	32 - Service concession contracts 28 / 30 - Financial instruments
2020	Implementation of NCP 10, 11 e 12	17, 31 et 16 - Assets standard
2021	Implementation of NCP 22 e 23	22 / 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers) ; Disclosure of Financial Information about the General Government Sector
2022	Implementation of NCP 8, 19 e 20	27 - Agriculture ; 25 - Pensions ; 19 - Liabilities
2023	Implementation of NCP 14 e 15	21 /26 - Impairment if assets
2024	Implementation of NCP 6 e 18	18 - Sector information ; 6, 7 et 8 - Consolidation standards
	Implementation of NCP 10, 11 e 12	17, 31 et 16 - Assets standard
2025	Implementation of NCP 24	28 / 30 - Financial instruments standards

Note: Some standards are be implemented on more than one year, where requirements were considered as too demanding for being adressed during the first year of implementation.

Source: CEDSIF, Mission

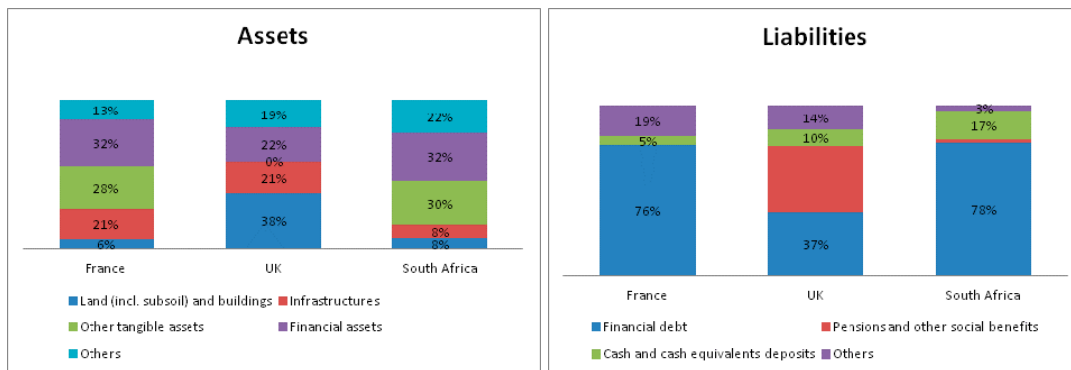
<sup>1</sup> Mainly, *Follow-up on Reforms in Public Financial Management*, Juan Ramón Ruiz, Margarida Azevedo, Joseph Cavanagh, Helio Tollini, and Esther Palacio (April 2013); and *Refocusing the Public Financial Management Strategy*, Holger van Eden, Richard Allen, Margarida Azevedo, Esther Palacio, Xavier Rame, and Mike Williams, March 2013.

<sup>2</sup> This plan was established with the assistance of an external consultant. It is detailed in Ernst & Young report entitled *Nota technical 1 – Sugestao de Programa Anual de Implementacao das NCps no Periodo 2014-2026*.

2. **Despite this progress, the current draft AA implementation plan appears overly ambitious.** The implementation plan recently drafted by CEDSIF is defining a 10 years roadmap for implementing the *Normas de Conta Publica* (NCPs), which are standards derived from the IPSASs. Their implementation has been prioritized based on two criteria: first, the usefulness of the information for citizens and civil society, and, second, the complexity of the NCPs (and their equivalent IPSASs). These criteria could be revised:

- **Priority should be given to reporting on financial operations that are crucial for financial management and/or fiscal risks oversight.** In Mozambique, these would include the financial assets and financial liabilities. The complexity of the NCPs should not defer the reporting of these items. Indeed, where needed, simplified transitional accounting policies should be developed to allow for their recognition. For example, in recognizing the government’s debt or investments, compliance with the requirements of the NCPs is likely to be challenging: during the first years of the transition to AA, transitional accounting policies could therefore be developed with limited reporting requirements, simplified valuation methods and fewer disclosures (see chapter II below);
- **More consideration should be given also to the work charge and complexity of the tasks involved in reporting of new items in the financial reporting.** Establishing the opening balance sheet will entail large inventories and complex evaluations to be done at the line ministry and province level: experience of others countries have shown that these tasks have taken at least 3 to 5 years. Difficulties to be overcome include inventorying and evaluating infrastructures, land and buildings, and other assets such as military equipments, which usually represent a considerable value in a government’s balance sheet (see Figure 2 below, “other assets”).

Figure 2. Main assets and liabilities reported in selected countries’ financial statements



Source: staff, “Compte Général de l’Etat” 2012 (France), *Whole of Government Accounts 2011–12* (UK), *Annual Financial Statements 2012—National Treasury* (Republic of South Africa).

3. **On the whole, the preparatory tasks required for implementing a reform as complex as the move to AA may have been underestimated.** Indeed, before moving to accruals, the governance of the accounting reform, the change management strategy (including capacities building). As well as arrangements for setting the new the accounting framework should be clearly defined. In each of these areas, in Mozambique, some progress remains to be done. The following chapter II discusses the issues to be considered and how progress could be achieved in more detail.

4. **In addition, Mozambique should adopt a sequenced approach for moving to AA, and reconsider the timeline for the transition.** Previous reports from FAD have proposed a phased transition to AA to the authorities.<sup>3</sup> Building on previous recommendations, other countries' experience (see Box 1 below), and progress made over the last years in Mozambique, and Table 1 below shows a possible phased strategy for Mozambique involving three stages of transition, to be considered by the authorities. This phasing is covering the period 2014–25, and does not entail the transition to a full accrual basis of accounting, nor the consolidation of the whole public sector. Indeed, the mission believes that the timing of the transition to full accruals should be left relatively open: the focus should be on providing at each phase a consistent and reliable, even if partial, set of audited financial data on an accrual basis, and long-term objectives should be set based on progress achieved over time. Chapter III discusses how the phase 1 of the transition, which consists mainly in improving the current accounting system, could be implemented.

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<sup>3</sup> *Follow-up on Reforms in Public Financial Management*, Juan Ramón Ruiz, Margarida Azevedo, Joseph Cavanagh, Helio Tollini, and Esther Palacio (April 2013); and *Refocusing the Public Financial Management Strategy*, Holger van Eden, Richard Allen, Margarida Azevedo, Esther Palacio, Xavier Rame, and Mike Williams (March 2013). The April 2013 report noted that “A reform of this kind could take many years and it would be good to avoid overly ambitious plans and timelines. A transition to an accrual system should be carried out in phases or stages, and not in one giant leap. Specifically, the introduction of the concepts and practices of accrual accounting should wait neither for the setting up of all of the computer systems, nor for the availability of the accounting data in all of the organs of the state. The gradual introduction of accrual accounting could be seen in terms of an expansion of the scope of the accounts on three dimensions: the kinds and number of entities to consolidate; the kind or class of assets and liabilities to be captured; and the valuation of these assets and liabilities. This process will result in the development and use of a format and contents of new financial statements, and will be guided by the international accounting standards (which in fact are financial reporting standards)” (p.38–39). The March 2013 report advised to “Carry out a full review of the practicalities and implications of implementing accrual accounting (AA), and the cost and benefits of alternative options (...); Consider any move to accrual accounting as a long-term development, to be implemented in a step-by-step basis to ensure that the optimal benefits for fiscal reporting and transparency are delivered; In the next two years, focus attention on improving the reliability, timeliness and transparency of the annual financial statements, and broadening their coverage to include all general government entities and the full range of public corporations.”

**Box 1. Duration of Transition to AA in Selected Countries**

- In Australia, the accounting reform of the State to adopt a repository accrual was initiated in 1995. In 1996, it was decided that an accrual-based outputs and outcomes budgeting and reporting framework would be introduced in the Australian public sector. The framework was implemented for the first time in the budget of 1999/2000.
- In the United Kingdom (UK), the transition to AA at the central government level was initiated in the mid 90s. It was carried out through a department-by-department process of continuous improvement over more than 10 years.
- In France, the transition to AA for budgetary central government started in 2001 and lasted five years. The government's first accrual basis financial statements are dated 2006. The accounts have been certified with twelve qualifications in 2006. By 2013, five qualifications remained.
- In Canada, the accounting reform took place very gradually: the cash basis was dropped from the late 70s, the accounting reform was adopted in 1999 and full AA has been in place since 2003. Thus, the government's first financial statements prepared using the accrual basis integral are dated from 2002–03.

Except for the UK, none of these countries have yet achieved a full consolidation of the public sector.

*Source: Mission*

**B. Summary of Recommendations**

- Adopt a sequenced approach for moving to accruals, and reconsider the timeline for the transition, as suggested in table 2.

**Table 2. Mozambique: Possible Steps for a Phased Transition to AA**

Stages	Operations reported on an accrual basis	Statement of Financial Position		Consolidation
		Assets	Liabilities	
2014–18  Stage-I : Improvements to the current accounting system	Budget execution report: - All expenditures reported at liquidation stage (source: e-Sistafe). - Revenue reported at the payment stage (source: e-Sistafe)	- Major financial assets (source: Treasury, IGEPE).	- Payables, that is expenditures and VAT refunds liquidated but not paid (source : e-Sistafe) - Public debt (Source: Treasury)	Budgetary central government.
		Disclosures: all information already provided in the CGE, plus : - Commitments (source: e-Sistafe); - Guarantees (Source: Treasury).		
2019–24  Stage-II	1/Budget execution report (see above). 2/ Accruals Operating Statement: - All expenditures reported at liquidation stage, except for non-exchange operations (source: e-Sistafe). - Revenue reported at the payment stage (source: e-Sistafe) - Valuation and volume changes in assets and liabilities (source: inventories, e-Sistafe).	- All Financial assets (source: Treasury, IGEPE). - Selection of non-financial assets, such as military assets, infrastructures, buildings, etc. (source: line ministries, e-Patrimonio).	- Provisions: litigations, e.g., tax litigations, and other risks (source: line ministries and MOF) - Financial liabilities, including financial leases, PPPs, employee post-employment benefits (source : MOF, INSS)	Central government (autonomous institutions), <u>and</u> possibly municipalities.
		Disclosures: the above, plus: - All contingent liabilities.		
2024–...  Stage-III	1/Budget execution report (see above). 2/ Accruals Operating Statement: - All expenditures reported on a full accrual basis (source: e-Sistafe). - Tax Revenue reported on an accrual basis – tax payer declaration (source: e-Sistafe) - Valuation and volume changes in all assets and liabilities (source: inventories, e-Sistafe).	All assets as required by NCPs.	All liabilities as required by NCPs.	General government (municipalities, INSS), <u>and</u> public enterprises (13).
		All disclosures as required by NCPs.		

Source: Mission



## II. SETTING THE STAGE: PREPARATORY TASKS

### A. Discussion of Key Issues

#### Objectives of the Accounting Reform

5. **Mozambique’s government is committed in modernizing the government accounting system and has set some broad ambitious objectives for 2025.** The adoption of the SISTAFE Law (SISTAFE) in the 2000s has been the first step towards the modernization of the PFM in Mozambique. The *Public Finances Vision 2011-2015* has more recently formalized overarching objectives for strengthening further the PFM (see Box 2 below). It mentions, among other objectives, the reliability of financial reporting, and the transition to AA, via the adoption of the International Public Sector Accounting Standards (IPSASs). This *Vision* has been endorsed by the Council of Ministers (CoM), which gave the necessary political support to the PFM reforms. This document is public, and is available on the website of the MoF.

#### **Box 2. The six strategic objectives of the *Vision of Public Finances 2011–25***

- The organization and modernization of the planning system, programming and budgeting programs and results and their implementation in a decentralize framework;
- The increase in revenue and domestic savings, the inclusion of all expenditure and revenues in the budget and their inclusion in the circuit of Treasury Single Account (CUT);
- The improvement of asset management, including financial assets, as well as public debt, integrating them all in e-SISTAFE;
- The description of the property and economic situation of the State and all its institutions with or without financial autonomy;
- The reliability and availability of statistical, economical and financial information to support public financial management, ensure internal and external control and public accounts reporting;
- The improvement of public financial processes and systems.

*Source: Vision of Public Finances 2011–25, MoF website.*

6. **The objectives of the public accounting reform, and in particular the transition to AA, need to be more detailed.** Indeed, the *Vision of Public Finances 2011-2025* defines only some broad objectives, and the implementation strategy has not been defined in a detailed manner yet. It would therefore be advisable that a concept document (or blueprint) identifies the challenges and costs associated with the accounting reform, and details, in an integrated and transparent manner, the project’s roadmap, desired outcomes and expected deliverables into specific, verifiable, realistic, and time-bound indicators which should be monitored and evaluated during the course of the project. The recent report of Ernst & Young could be a useful basis for developing this concept note.

7. **This should be used for seeking the Parliament’s approval of the accounting reform.** The international experience shows that it is critical for the planned introduction of

AA to be well understood and supported at the highest levels. Where such a support has not been obtained, the transition to accruals has been left unfinished, or the accrual financial reporting has remained largely ignored by the Parliament and the citizens, which represents, to a certain extent, a failure of the accounting reform.

### **Governance Arrangements**

8. **The public accounting reform has been led by CEDSIF since a number of years.** CEDSIF is an autonomous institution created in 2010 by the MOF (decree n°34/2010 of 30 august 2010), which took over functions previously assumed to the MOF's PFM reforms unit (*Unidade Técnica de Reforma da Administração Financeira do Estado*, UTRAFE). The creation of CEDSIF was led by two considerations: first, the supposedly better capacity of a third party (that is an entity outside of the MOF) to coordinate all stakeholders of the accounting reform, and, second, a greater capacity, due to its legal status, to hire technical staff and secure its budget. While progress in developing e-SISTAFE has been underlined by several TA reports, recent assessments noted that the implementation of the AA would generate a heavy work-charge, as well as technical challenges, for CEDSIF. Questions exist on whether these challenges will be met. Already, some objectives of CEDSIF's action plan<sup>4</sup>, for example the revision of SISTAFE and the related regulation by end of 2014, are unlikely to be achieved.

9. **Resources from other stakeholders should be dedicated to the reform's implementation, under the supervision of CEDSIF.**<sup>5</sup> As at today, the accounting reform implementation is relying mainly on CEDSIF resources. These resources, while important, may not be sufficient to absorb the work charge associated with the transition to accruals in the coming years. In addition, all technical competencies necessary for undertaking the transition are not available in CEDSIF at the moment. Therefore resources from outside of CEDSIF should be dedicated to the accounting reform, in order to ensure an appropriate sharing and transfer of expertise and knowledge between all stakeholders. In particular, the DNCP should be involved in most of the technical undertaken for transitioning to accruals. As well, the *Tribunal Administrativo* (Supreme Audit Institution – SAI) should also have an advisory role on the accounting reform implementation. Indeed, while the external auditor cannot be directly involved in the reform implementation, CEDSIF and the MOF would benefit from a feedback of the TA on the main issues with business processes identified as part of their audits and controls, as well as indications on actions to be taken for facilitating the audit of the financial statements by the SAI.

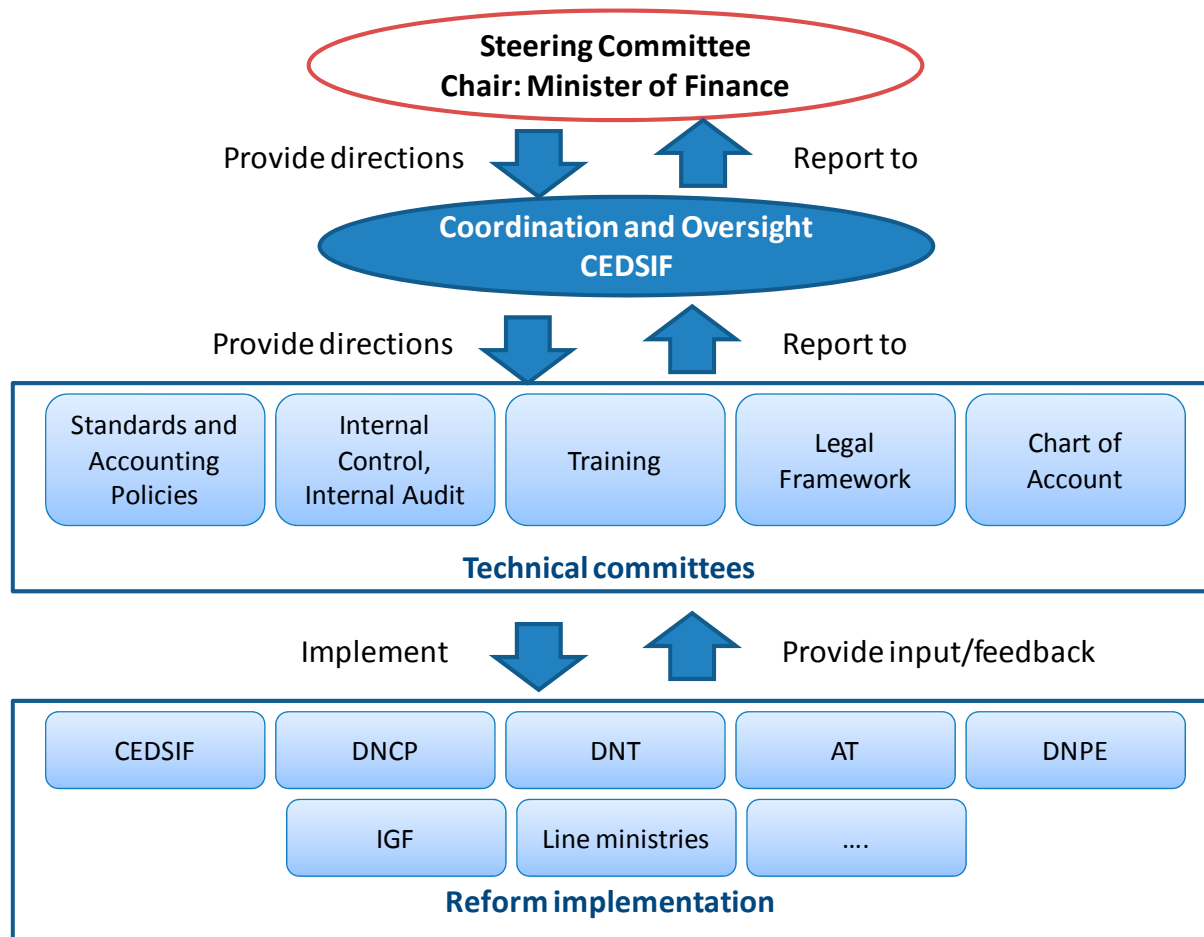
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<sup>4</sup> CEDSIF has developed a five-year action plan for 2009-2014 that is based on the *Public Financial Vision 2010–25*

<sup>5</sup> This has already been done, for example, for developing the e-Taxation module: staff from the AT was allocated to the project implementation under the auspices of CEDSIF.

10. While CEDSIF is cooperating successfully with various stakeholders for developing e-SISTAFE's modules, the governance of the accounting reform remains unclear and should be strengthened. Executive Committees and Technical Committees dealing with various projects related mainly to the development of e-SISTAFE have been created. However, no Committee seems to be in charge of overseeing and monitoring the accounting reform, and the move to AA. The governance and monitoring of the project is weak, compared to those observed in other countries moving to accruals. While stakeholders seem to be consulted on regular basis, but decision-making seems to be, in most cases, devolved to CEDSIF. Governance arrangements should therefore be strengthened. A proposed governance organization is presented in Figure 3 below. Improvements to the governance and monitoring of the accounting reform should include :

Figure 3. Mozambique: proposed governance for the Accounting reform



Source: Mission

- Setting-up an Accounting Reform Steering Committee (SC). This SC, ideally, should be chaired by the Minister of Finance. Its function would be to oversight, via meetings held at least twice a year, the work undertaken by CEDSIF, monitor closely the reform, assess progress made, and provide information to the Parliament and public;

- Defining a list of the Technical Committees covering the main reform's areas (development of the IT system, standards and policies, internal control, training and revision of the legal framework, CoA, etc.). All stakeholders should be invited to participate in these committees.

For monitoring purpose, the minutes of all meetings should be systematically established, to keep track of decisions made. Another improvement of the accounting reform's governance would be to collect users' feedback, and to disseminate issues or concerns raised to the relevant Executive and Technical Committees. CEDSIF envisions already creating a users' forum. However, it is not operational yet.

### **Monitoring of the Accounting Reform**

11. **In addition, so far, no assessment of the progress of the accounting reform implementation has been made by the authorities.** While the progress of the reform has been evaluated almost annually by TA missions, no formal assessment of the progress reform has been made by CEDSIF or the MoF. Consequently, potential slippage of costs or serious implementation issues may not be identified soon enough by the authorities.

12. **Assessment of the accounting reform implementation should be undertaken by the authorities at least annually.** CEDSIF could establish an annual progress report and the IGF could realize annually an independent assessment of the progress made, costs incurred, etc. Both should be communicated to the Steering Committee, for assisting in monitoring the accounting reform implementation.

### **Accounting standards and policies**

13. **The draft NCPs prepared by CEDSIF are directly aligned to the corresponding IPSASs.** A set of draft NCPs has been prepared by an external consultant under the supervision of CEDSIF. The standards are based on the IPSASs: in fact, IPSASs have been transposed with only minor amendments.<sup>6</sup> CEDSIF has indicated to the mission that these standards were a starting point, and would be amended in the coming months. However, the procedure for reviewing, discussing and amending the draft standards has not been defined yet.

14. **The implementation of the NCPs should be considered as a long term objective more than an actual target.** The mission discussed with the authorities a number of technical difficulties to overcome for implementing the NCPs. They include developing

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<sup>6</sup> No differences, except for the aggregation of some IPSAS standards and the choice of one option where IPSASs authorized a number of accounting treatment on an accounting issue, have been identified by the mission.

evaluation methods for assets and liabilities, gathering of extensive information for developing the disclosures of the financial statements, etc. The mission also noted that a number of gaps in the current set of standards will have to be addressed, such as the accounting treatment of transfers or social benefits (non-exchange expenditures), or the valuation of land and subsoil assets. Complements and revisions to the NCP are likely to be necessary.

15. **In addition, developing accounting policies is necessary for setting up the AA framework.** Accounting standards provide the requirements in terms of what must be accounted for and the principles for meeting those requirements, but do not provide operational-level guidance (see Box 3 below). International experience has shown that detailed operational policies need to be developed to ensure the proper implementation and consistent application of standards across government. Producing these accounting policies will be a difficult and time consuming task, but one that is a critical component of the government's internal controls to ensure the reliability of financial information.

### **Box 3. Accounting Policies, Accounting Standards and Transitional Provisions**

**Accounting policies** are the set of nationally-defined principles for presenting an entity's operations in its financial statements, including the recognition and valuation criteria. They are increasingly developed by professional accounting boards and with explicit reference to international accounting standards

**Accounting Standards**, which can be International Public Sector Accounting Standards (IPSASs) or national standards, contain guidance on these accounting policies. However, standards may allow for one or more alternative accounting policies. When it is the case, an entity should choose one of these, and apply it consistently. Entities may also develop or detail their accounting policies, to the extent that these are consistent with the set of principles or standards that the entity is required to adopt. Significant accounting policies are usually disclosed in the notes to the financial statements.

**Transitional provisions** may also adopted by entities, to smooth the transition to AA. These transitional provisions are sometimes proposed in the standards: the IPSASs contain a number of transitional provisions. The IPSAS Board has provided guidance on the transition in its Study 14 entitled Transition to the Accrual Basis of accounting: Guidance for governments and government entities (updated in January 2011). The Board is also currently developing a standard that will be specifically deal with the First Time Adoption (FTA) of IPSAS standards; for the most part, this future standard will pull together the various transitional provisions that are already included in individual standards. When entities apply transitional provisions, they should clearly disclose these in their financial statements, and provide details of the policies that are not in accordance with those prescribed by the set of standards that the entity is required to adopt.

*Source: Mission*

16. **For accompanying the phased transition to AA, transitional provisions will also be necessary.** The IPSASs usually permits a three year transition period during which time countries are authorized to gradually implement their requirements: this will be authorized also by the NCPs. However, in Mozambique, a three year transition period will be too tight. Mozambique, during its transition to AA is therefore encouraged to apply relevant IPSAS

requirements as and when it becomes possible within existing capacity and data constraints, and to develop transitional accounting policies relevant to its specific operations and capacities as needed. Examples of transitional accounting policies that could be adopted in Mozambique have been mentioned by the mission during the various meetings held with the authorities. They include the evaluation of some financial liabilities at face value and investments at equity value, a progressive recognition of fixed assets (e.g., building first, then military equipments, then infrastructures, then furniture, etc.), the use of the control approach for recording assets at the latest stage of the transition to AA,<sup>7</sup> etc.

**17. In this context, CEDSIF should consider options for establishing a formal mechanism for standards and accounting policies setting.** In Mozambique, setting the accounting standards and policies will require having a good knowledge of the generally accepted accounting principles, as well as a good understanding of the available information within or outside e-SISTAFE, current accounting practices, and staff capacities. Indeed, standards and policies that do not take into account the current accounting practices and practices are likely to be misunderstood, or ignored. The drafting of relevant accounting policies can be achieved only by involving actors with different backgrounds in the standard setting mechanism. The following arrangements could be envisioned in Mozambique:

- Development of accounting standards and drafting on accounting policies manual under the responsibility of a dedicated Technical Committee with appropriate professional competencies, under the auspices of CEDSIF and the DNCP, which would be assisted by technicians as needed<sup>8</sup>, and
- Oversight of this Technical Committee by an Advisory Board composed of representatives of the DNCP, the DNT, the Budget Department (DNO), the line ministries, the provinces, the TA, academia and professional accountants.<sup>9</sup> The proposed mechanism is drawn from experiences in other countries (see Figure 4 below).

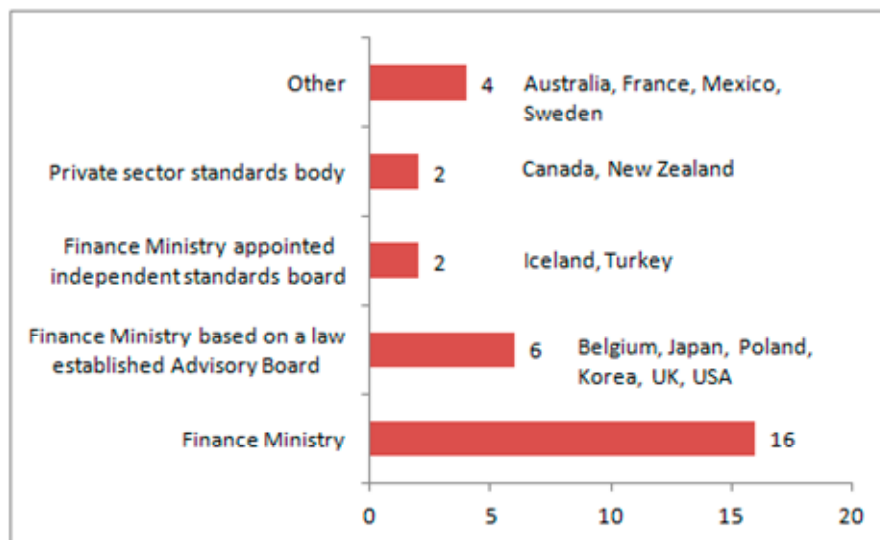
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<sup>7</sup> For example, IPSASs require recording investments that are directly or indirectly controlled by the government (as opposed to directly-owned): under AA, all government's investments in "controlled entities" should therefore be reported in the balance sheet. The "controlling stake" refers to the Government's ability to appoint board members and senior managers of the company, make major decisions (e.g., contract awards, strategy statements, restructuring and financing, acquisitions and divestments, etc.) either directly or through government-linked investment companies. Defining the perimeter of the entities controlled by the Government represents an important work-charge and will require some capacity building.

<sup>8</sup> For example, the AT should be involved in the drafting of the standard and policies related to tax revenue (also called non-exchange revenue), line ministries in the drafting of the standards and policies related to expenditures, etc.

<sup>9</sup> Such a variety of backgrounds in the oversight body is needed for enhancing the credibility of the standards and policies.

Figure 4. Nature of Accounting Standard Setting Bodies in the OECD Countries



Source: OECD 2007 Survey of Budget Institutions

### Chart of accounts (CoA)

18. **The new version of the CoA, developed for supporting AA implementation, communicated to the mission will need to be developed.** The following issues should be considered for finalizing the CoA:

- The segments and sub-segments of the CoA may not be detailed enough for realizing the combination of data elements necessary for the control, accountability, management, and reporting needs of various stakeholders. For example, asset accounts should be detailed enough to identify some important categories of assets such as the military equipment and infrastructures and liability accounts will have identify various nature of transfers payable or different nature of provisions (such as provisions for tax litigations);
- In addition, the CoA is supposed to integrate the account and coding structure of budgetary and financial accounting (see Box 4 below) ;
- Likewise, statistical reporting depends on information from the accounting system. It is recommended that, prior to finalizing the CoA, the statistical reporting requirements (that is the compatibility with the IMF's financial reporting requirements under GFS 2001) are analyzed and taken on board to the extent possible.

A joint review of the CoA should therefore be undertaken by the DNCP, the DNO, and the DEAE. The mission noted that, if necessary, bridge tables should be developed before the CoA is finalized, to ensure that the data generated under the e-SISTAFE system will be

easily linked to the statistical reporting under GFSM 2001, in order to mitigate the risks of impairing the reliability and completeness of these reporting requirements under the new system of accounting.

#### **Box 4. Integrating the Chart of Accounts for Budgetary and Financial Accounting**

“In spite of the apparent distinction between the two, there can and should be a common and integrated account coding structure for both budgetary and financial accounting. In most countries, it is generally considered to be good practice for the budget classifications and accounting classifications to be completely integrated. The two need to be developed together to ensure that they are mutually consistent. This principle directly applies in cases where an IFMIS is used for budget management and financial reporting. (...) In countries where the budget classifications are not integrated with the COA, or only partially integrated, there is risk of loss of important information undermining the effectiveness of budget control and reporting. For example, in this case it might be difficult to identify with certainty the accounting implications of a given budgetary operation, and reciprocally, identical accounting transactions may not reflect systematically equivalent budgetary operations.”

*Source: “Chart of Accounts: A Critical Element of the Public Financial Management Framework”, Julie Cooper and Sailendra Pattanayak, Fiscal Affairs Department, Technical Notes and Manuals, International Monetary Fund, August 2011.*

### **Training**

19. **So far, only basic training on IT systems is delivered systematically by CEDSIF.** The accounting reform, in Mozambique, would impact more than 3000 civil servants and decision makers in about 800 units, at the national and at the local level, who have heterogeneous level of experience, knowledge and skills. Being aware of this situation, CEDSIF has delivered steadily training to users of e-SISTAFE and has also started recently to train trainers. However, the line ministry, auditors, and public accountants met by the mission have all expressed a need for more capacities building, and noted that while basic training on e-SISTAFE modules was delivered systematically, more advanced training was scarce.

20. **Therefore, the success of the accruals reform in Mozambique will also be heavily contingent on an extensive and sound training program.** Capacity building needs should be evaluated as soon as possible in order to design an appropriate training strategy, and a training program for each training target: the training should not be focused only on users to e-SISTAFE and will have to cover several technical areas. Possible guidelines for a training plan in Mozambique are described in the Table 3 below.<sup>10</sup> The mission noted that the time

<sup>10</sup> This could be part of a more global revision of the training strategy. As mentioned in a previous report of FAD, the MoF should establish a standard training curriculum for new staff, as well as for line ministries and deconcentrated units. This could be combined with CEDSIF’s training courses which focus on the roll-out and use of e-SISTAFE. (...) Mozambique should consider developing basic and advanced training curriculums for finance and planning staff across the public sector. The idea of establishing a dedicated training school, a Public  
(continued...)



necessary for delivering training, and build sound capacities within the staff of the reform's stakeholders, should be considered as one of the main parameter for defining the timing of the transition to AA.

**Table 3. Mozambique: Guidelines for a training plan**

Training target	2014–18	2019–24
Accounting reform core team	Change management (communication, human resources, ...) Standards and accounting policies (IPSASs, NCPs, accounting policies manual, ...) Internal control (COSO) Study tours	
Professionals: public accountants; line ministries' and municipalities financial directions	IT training (System design, users' training on new modules) Accounting procedures (e-Sistafe, users' manual) Accruals (basic concepts)	IT training (new modules) Accruals (advanced) Internal control (COSO) Standards and accounting policies (NCPs, accounting policies manual, ...) Consolidation (mechanisms, techniques)
Other stakeholders : IGF, SAI	Accruals (basic concepts) Internal control and Audit standards (COSO, Institute of Internal Auditors' standards, INTOSAI standards)	Accruals (advanced) Standards and accounting policies (NCPs, accounting policies manual, ...) Audit procedures
Public accounts committee	Seminar on planned improvements/changes to the CGE Seminar on transition to accruals accounting: concepts and benefits expected	Seminar on new financial reporting

Source: Mission

### Internal Control, Internal Audit and External Audit

21. **Internal control's efficiency appears limited as at today.** In the budget execution and accounting areas, the main features of the current internal control system are as follows :

- *Controls on expenditure execution.* Within the spending units, control on expenditure execution relies on a basic segregation of duties, supported by the IT system.<sup>11</sup> Each

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Finance Academy, to provide a broad range of courses in economics, finance, accountancy, budget and IT topics, has already been discussed within the MoF and should be taken forward. Source:

<sup>11</sup> Access to the application and its functionality is built around 9 different profiles. Such as: Budget Execution Agent / Financial Execution Agent / Accountant Agent / Internal Control Agent. The latter has the responsibility to analyze if the Administrative Process is being implemented in accordance with regulatory

(continued...)

payment is subject to *ex-ante* scrutiny by an internal control agent (ICA). However, the ICA is appointed by and reporting to the head of the spending unit. Therefore, the internal audit department (IGF), as well as the Supreme Audit Institution (TA) have expressed concerns over risks that ICAs are not truly independent and subject to administrative pressures, and have sought to develop procedures that would strengthen their position. However, it is to be noted that the delegation of the responsibility of *ex-ante* control to spending units is in practice in several other countries.

- A *Financial Handbook of Procedures*<sup>12</sup> has been established by CEDSIF to increase the awareness and knowledge of users on procedures. This document is actualised as needed, that is when new functionalities of e-SISTAFE are developed. While the usefulness of the procedures manual is obvious, users have noted that its use remain limited due to its length. The *Handbook*, in addition, is mostly focused on e-SISTAFE and provides little guidance on manual procedures (such as archiving of supporting documentation, or procedures to be followed at year-end for controlling the balances, etc.). However, guidance on accounting procedures is provided via Circulars each year.

22. **Internal audit (IA) appears well established; however, the quality of financial audits is uneven so far.** The IGF is in charge of the MOF's internal audit (IA). Also, all line ministries and some provinces have dedicated IA units in charge of performance and compliance audits. However, these IA units are not systematically reporting at the appropriate level.<sup>13</sup> In addition, the quality of the audits performed is uneven, though, as no IA framework has been developed yet. IA manuals, shared training programs, audit plans, and regular meetings to discuss methodology and share experience would be necessary for ensuring a consistent quality of the audits in all ministries. Over time, standards of IA are brought into line with international standards laid down by the Institute of Internal Audit (IIA) and developed countries.<sup>14</sup> The IGF is aware of these challenges and intends to set up a framework for better coordinating the audit activities, as well as audit standards, and to deliver training.

23. **Strengthening the internal control should be considered as a priority.** On the whole, compliance and reliability of the financial operations and financial reporting relies

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requirements, acting as a first level of verification of expenditure execution, and giving document compliance within the system to allow the recording of following phases.

<sup>12</sup> This document includes the recall of standards, guidelines for the implementation of procedures and screen copies of the information system to allow users to be able to apply these provisions correctly.

<sup>13</sup> IA should report of the Secretary General or Minister in each line ministry.

<sup>14</sup> Institute of Internal Auditors, *International Standards for the Professional Practice of Internal Auditing*, October 2012.

heavily on inspections and audits realized by the IGF, the line ministries' IA units and the DNCP<sup>15</sup>—that is more on audits rather than internal control. Strengthening the internal control appears therefore as a priority for setting the stage to the transition to AA. This would entail analyzing the financial and accounting procedures; performing a risk assessment of these procedures; and identifying additional controls that need to be put in place to mitigate these risks (new/additional IT and/or manual controls, where necessary). The mission was informed that TA has been recently provided in the internal control area by the European Union. The analysis and risk assessment of the financial and accounting procedures could be drawn from the report recently sent to the authorities.

### **B. Summary of Recommendations**

- Establish a concept note that identifies the challenges and costs associated with the reform and seek Parliament's approval after the 2014 elections.
- Set up governance arrangements for the Accounting Reform (Steering Committee chaired by the Minister of Finance and Technical Committees).
- Establish an annual progress report on the accounting reform (CEDSIF) and perform annual independent assessments (IGF).
- Set up standard setting arrangements (dedicated team within CEDSIF or the DNCP, and oversight by an Advisory Board) for reviewing, amending and completing NCPs and developing a manual of accounting policies.
- Set-up a working group involving the DNO, the DEAE, the DNCP, representatives from the line ministries and provinces, and CEDSIF to elaborate the new CoA.<sup>16</sup>
- Define a strategy for capacity building and a training plan, identifying targets, their needs, and a course schedule (see Table 3).
- Review financial and accounting procedures based on a risk assessment.

### **III. THE FIRST STEP OF THE TRANSITION TO AA: IMPROVING THE CURRENT FINANCIAL REPORTING**

24. **Mozambique's PFM System is defined in the SISTAFE Law.** The Law, adopted in 2002, sets the rules and principles governing the PFM system, which is divided in five

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<sup>15</sup> For that purpose, e-SISTAFE includes a specific module dedicated to internal control.

<sup>16</sup> There may be one department in charge, but establishing a consultation process, which would also serve to disseminate the information, would be necessary.

“*subsystems*” or components: (i) national budget; (ii) government accounting; (iii) cash management; (iv) State assets management; and (v) internal control. The Law applies to all State bodies and institutions, as well as local government and State enterprises (except for the rendering of accounts of these last two categories of public entities, which is governed by a specific legislation).

25. **e-SISTAFE, the IT system implemented under the SISTAFE Law, has been successfully developed since 2004; however, delays in rolling-out new modules have accumulated over time.** e-SISTAFE was launched in 2004, initially with only the Budget Execution module (MEX). Two years later the Budget Preparation module was implemented (MEO). Since then, CEDSIF had planned to add several functionalities. However, the technological process for developing e-SISTAFE new functionalities has proven challenging and time-consuming. Delays in implementing new modules have accumulated over time, and although SISTAFE was created over 10 years ago, only a limited number of modules are operational yet (see Table 4 below).

26. **The system decentralization, started in 2007, has been successfully undertaken so far, but it is not completed country wide yet.** e-SISTAFE is already used by the provincial sectors and in expansion to municipal sectors, bringing significant benefits in the reform process: (i) increasing the capacity of national experts; (ii) dissemination of technical / operational expertise and working principles; (iii) a drastic reduction of the workload on the ministerial sectors. Access is provided by a dedicated line with adequate band width and may progress to support the creation additional workstations with local support (provincial) provided by technicians contracted for that purpose and complemented by a plan for regular training based on a pyramid structure for the replication of knowledge (central, provincial and district trainers). However, the coverage of e-SISTAFE still has to be increased (the coverage of additional 113 units is scheduled by the end of 2014).

27. **In this context, priorities for developing e-SISTAFE over the next years may need to be reassessed.** CEDSIF is now faced with a number of competing tasks, in a context of relatively limited resources. Therefore, at this stage of implementation of the accounting reform, priorities for developing e-SISTAFE and improving business processes should be reconsidered. The mission identified three main areas to be considered for strengthening the accounting system: the budget execution process (*National Budget subsystem*), the financial reporting functionalities (*Government Accounting subsystem*). These are discussed in more detail below.<sup>17</sup>

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<sup>17</sup> They have also been discussed in a number of previous FAD reports : *Follow-up on Reforms in Public Financial Management*, Juan Ramón Ruiz, Margarida Azevedo, Joseph Cavanagh, Helio Tollini, and Esther Palacio (April 2013); and *Refocusing the Public Financial Management Strategy*, Holger van Eden, Richard Allen, Margarida Azevedo, Esther Palacio, Xavier Rame, and Mike Williams, March 2013.

**Table 4. Mozambique: overview of the development of e-SISTAFE modules**

<b>Existing modules</b>	
<b>Budgetary Execution Module (MEX)</b>	Allows execution of the budget. It includes information on the different stages of Expenditure Execution (i.e. commitment, liquidation and payment). Data is used in the preparation of the State Budget Execution Reports (quarterly) and the CGE. Some additional improvements to the functionalities of the modules are planned for enhancing controls (e.g., requirement to place a “contract number” at the commitment or the “invoice number” in the payment stage).
<b>Financial Management (CUT, CUT-ME)</b>	Allows mainly financial controls by the DNT, based on cash availability on a monthly and / or weekly basis.
<b>e-Folha (e-Payroll)</b>	Allows processing and calculating the payroll of state agents with controls, guarantees and integration expenditure component in e-SISTAFE, only for active public employees (e-CAF). Pensioners (e-CAP) may be included in the short term.
<b>Subsystem of Public Accounting (SCP)</b>	Allows producing the financial statements. Since 2006 the budget execution is entirely carried out based on the accounting records made through the SCP. However, several improvements to the module remain to be done.
<b>Planned modules</b>	
<b>e-Tributação</b>	Will allow, among other features, to collect all revenues in an integrated way with the implementation of the single collection document (GARE - Guide Collection of State Revenue). <sup>1/</sup>
<b>e-Patrimonio</b>	Will allow the management of information relating to State assets, through their inventory or their asset recovery, also providing management of their lifecycle. Will include a Supplier Registration component, a catalog of goods and services, which will underpin the implementation of the procurement model, and provision of reference prices.
<b>Modules under initial development</b>	
Subsystem of Public Treasury (STP); Subsystem of State Assets (SPE) and Subsystem of Internal Control (SCI).	

*Source: CEDSIF, Mission*

<sup>1/</sup> The taxpayer registration module (NUIT) is already in production. Specific modules for VAT and ISPC are already in experimental use in areas defined as pilot and will be completed by the end of this year with the inclusion of payments via bank network. The modules for IRPS and IRPC should be made available in 2015 and the modules for the remaining taxes in 2016. The interconnection with the Single Electronic Window (Janela Única Eletrónica) used in Customs, is also under implementation.

## **A. Discussion of Key Issues**

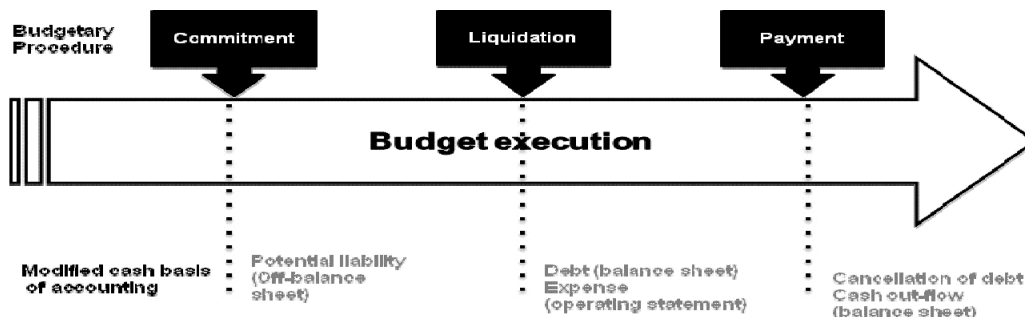
### **Budget execution process**

**28. The budget execution process is monitored via monthly cash plans.** Due to severe cash constraints in Mozambique and a lack of active cash management, the Treasury (DNT) is controlling expenditure via commitments: the DNT determines monthly the level of commitments that can be released to each of the spending units, depending on the expected cash reserves. Commitments, liquidations and payments of expenditures that can be reported in the system are capped monthly within the limits of the commitments released. Payments

scheduled for a given month but not made are automatically carried forward to the following month. The financial resources placed at the disposal of the units but not spent in a given month are cancelled, so that no funds are left unused.

### Box 5. Improvements to the Budget Execution business process as a step towards Accruals

Under the current modified cash basis of accounting currently in Mozambique, the liquidation stage should generate a debt to the supplier, as long as the payment is not realized.



Going forward, accruing expenses implies that transactions will be recognized at the time of the economic event creating an obligation for the government (the “triggering event”), as opposed to the time of the cash payment. The liquidation stage could be a proxy of the triggering event, in Mozambique, in order to avoid creating a new administrative step in the budget execution procedure.

Source: Mission

**29. In this context, the information reported in e-SISTAFE on commitments and debts to third parties is likely to be incomplete.** While the arrangement described above works well to manage the risk of a cash shortfall, they also generates a risk that commitments and service deliveries are realised by line ministries outside of the IT system. Indeed, in this context, commitment, liquidation and payment can be, in some cases, recorded quasi-simultaneously in e-SISTAFE.<sup>18</sup> Meetings held during the mission confirmed that such practices existed, as line ministries cannot go through the whole expenditure procedure within a month (that is procurement, issuance of a contract, delivery of goods or services and payment of the invoice). The mission did not discuss the cash management constraints with the authorities, but noted that the current budget execution enforcement did not allow for reliable and complete information on the expenses incurred by the government, despite having all the necessary functionalities in e-SISTAFE. The mission also underlined that timely information on commitments and service delivery was needed for recording expenses under the AA (see Box 5 above). Therefore, improvements to budget execution practices

<sup>18</sup> The mission did not do any data analysis to assess the delays between the different stages of the expenditure chain. Information reported is related to interviews held during the mission.

should be considered as a priority for implementing the accounting reform. The authorities indicated that they were considering a number of technical options for addressing these issues.<sup>19</sup>

### **Production of the financial reporting**

30. **A number of weaknesses of the IT system have created serious difficulties for producing in-year and year-end financial reports.** The e-SISTAFE module on revenue management is not implemented yet. Some expenditure is processed outside of the CUT. Public Debt is managed via an independent IT system that is not interfaced with e-SISTAFE. Other financial data, such as the book value of the State's shareholdings in public enterprises and affiliated companies, are not integrated in e-SISTAFE, although they are essential for the elaboration of the statements in the CGE. As a consequence, the current functionalities of e-SISTAFE do not allow for a complete, reliable and timely financial reporting to be established quarterly and at year-end.

31. **These fiscal reports are therefore established manually by the DNCP, which is therefore heavily burdened by these manual tasks.** The DNCP has faced serious difficulties, in this context, to produce the quarterly fiscal reports and CGE in due time over the last years. This undermines the credibility of the financial reporting system, which main outcomes should be to produce a complete, reliable and timely financial reporting. Streamlining the production of the in-year and year-end financial reporting should therefore be considered as a priority by CEDSIF, and the government. In addition, reports available in the system according to the users' profile are not always fitted to their needs and are not updated timely. As, the system does not allow creating ad hoc reports, users have to use multiple queries from e-SISATEFE to create their reports.

32. **A number of improvements to e-SISTAFE should be considered by the authorities for streamlining the production of financial reporting.** The mission discussed with the authorities the following issues:

- **Incorporate available data on other systems into e-SISTAFE** through automated routines created for this purpose that will allow a consolidated information relating to budget execution analysis. The areas responsible for the production and processing of data specific to each business area related to budget execution processes, have more or less evolved computer applications, generic or customized, they use in performing their tasks. Because they have not been developed or acquired in a global perspective to the public sector, but isolated and limited applicability to the organization, hardly allow sharing information with others, by resorting to the usual extraction to Excel files and

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<sup>19</sup> A June 2014 FAD mission by Mike Williams discussed these issues and possible solutions in detail with the authorities.

later manual processing, usually lengthy and subject to typos or treatment errors. The availability of such routines will decrease the administrative work consumed in preparing the data and frees up time for far more important managerial and analysis functions. Data of the revenue and the Public Debt provided by DNT and state shareholdings in public companies and subsidiaries made available by IGEPE are some examples of information that may be incorporated into e-SISTAFE through this process until the new modules are developed or the existing ones improved under the reforms.

- **Develop in e-SISTAFE the financial statements required by law** will increase the credibility and strengthen the confidence of the supervisory authorities, international partners and the citizens themselves. The SISTAFE Law provides in Article 43 (accounting statements) that "*The Government shall produce, at the end of each financial year, the Balance, Budgetary Control Maps, Income Statements and Accounting Inventory*" and in section III, dedicated the General State Account (CGE), its structure. Being e-SISTAFE the technological instrument that operationalizes the State Budget subsystem immediate priority should be given to this goal. Knowing that all data used for the preparation of these documents are from many systems, the resources should be invested for their integration and consolidation within the e-SISTAFE. Data consistency must be assumed by the entities responsible for their provision, while in e-SISTAFE side the validation and integrity checks are created. The need to create new statements such as the Table of Financial Operations of the State (TOFE) or others should be expected.
- **Provide a tool for creating reports and ad hoc queries** through metadata created for this purpose. Generally, the needs to query the data provided by the systems are not static, popping up with some frequency specific requests that were not previously anticipated, which require technological area further developments. The way to mitigate this dependency is to provide a tool that allows users to create free-form queries, which is to identify which columns, lines, breaks and total apply based on the data model made available for this purpose. Oracle has complementary tools to the database that enable this functionality, but there are also other software vendors that support integration with Oracle. This implementation must regard the performance of the solution, which may require additional tuning tasks on the database to ensure adequate response times. The metadata will have to observe the segregation and segmentation controls implemented in order to ensure data protection. Should not be neglected training, both for administrators or for users. The BI (Business Intelligence) tools available to management and/or control areas introduce very valuable analysis of information mechanisms to support decision-making process, and of course, their adoption should be measured.
- **Over the medium term, scan the Administrative Process documents and attach them into e-SISTAFE** will be an important step in increasing transparency and rigor in the management of public affairs. Technological conditions shall be created within the system (scanners) to enable the various sectors to digitalize documents of administrative proceedings (requests for funds, pro forma invoice, contract, delivery notes, invoices,



etc.) and save them in electronic format as an image or pdf file as an attachment to documents registered during the expenditure execution phase. Additionally controls that do not allow the payment without being attached the respective scanned invoice should be created. This feature will be of utmost importance to the supervisory authorities, creating the possibility of access to these elements without the need to program physical visits to the sectors, within Mozambique's geography may be hundreds of miles away, avoiding high financial costs and expenditure of time. A small technological solution, but of enormous significance in the internal control component, that may allow to scale down the existing manual controls, which are considered as heavy.<sup>20</sup>

- **Over the long-term, consider implementing the Treasury issuing checks on the CUT from the e-SISTAFE** as an alternative to cash advance, over the long term. Assess the possibility to create a "Bank Withdrawal Order", which will act as the Treasury check issued directly from e-SISTAFE alternatively to advance payments and may be raised from commercial banks previously selected. This mechanism will considerably reduce the number of bank accounts off-CUT that are used for this purpose. Obviously there are security concerns with the issue of this document that must be regarded, such as ensuring that it can only be printed once, must contain security features and may only be available to a very restricted user profiles. This process of direct payment to vendors or agents of the state is implemented in São Tomé and Príncipe's system, SAFE – Sistema de Administração Financeira do Estado (State Financial Administration System).

### **Content of the financial reporting**

33. **The CGE is so far only partly compliant with the SISTAFE Law.** The Law requires the CGE to be established on a modified cash basis,<sup>21</sup> and detailed information to be

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<sup>20</sup> There are already several controls on payments, since the payment can only be made after the regular liquidation (and after the due compliance check by another agent. In short: if any payments are made without an invoice, this means that, as a minimum, two agents other than the financial agent are circumventing the system, by recording fraudulent liquidations.

<sup>21</sup> Article 41: "The recording system adopted shall be mixed, with the use of cash-basis accounting on the revenue side and commitment-basis accounting on the expenditure side." Article 48.1 and 48.2 : "The General Account of the State must contain the following basic documents: (a) The report of the government on budget management performance for the financial year; (b) The overall financing of the national budget, with a breakdown by funding source; (c) The balance sheet; (d) The budget execution tables, comparing budget estimates with the revenue actually collected and with the expenditure validated and/or paid, following the classification described in paragraphs 1 and 2 of Article 20 of this law; (e) The income statement; (f) The annexes to the financial statements; (g) The table of financial assets and liabilities in existence at the beginning and at the end of the financial year; and (h) The annual consolidated table of flows of funds relating to cash operations. The government shall submit, as an annex to the General Account of the State, the consolidated inventory of state property."

provided on the government accounts, budget execution, as well information on the State's assets and liabilities. The CGE contains the following information:

- The core document focuses on the financial operations of the budgetary central government. Information on the cash position, the revenue and expenditures and the debt and financing operations of the government are provided via a number of summary tables, along with detailed tables on the revenue and expenditures of the spending units.
- The appendices provide information on some fixed assets of the government, transfers to provinces, districts, municipalities, and autonomous entities of the central government; and the book value of the state-owned corporations.

However, the CGE is only partly compliant with the Law as information on the State assets and liabilities is very scarce.

**34. The content and presentation of the CGE therefore needs to be improved, also as a first step towards AA.** Several FAD reports noted issues with the presentation of the CGE and provided detailed suggestions<sup>22</sup> for improving its format and content, but progress in this area has been limited so far. The authorities consider indeed that the current version CGE is consistent with most the requirements of Law, and are reluctant to change or modernize its presentation. While understandable, this position should be reconsidered. Indeed, there is an important “gap” between the CGE and financial statements compliant with IPSASs. A number of improvements could be made that would help both the producers (DNCP) and the users (the Parliament, the citizens) of the financial reporting to familiarize themselves with concept of balance-sheet, to close progressively the gap between the CHE and the IPSASs compliant financial statements, and, also, and maybe more importantly, to improve the transparency of the financial information. These improvements are summarized in the Table 1 above, and could be implemented from 2014 to 2018, as a first towards the transition to AA.

**35. Consistent with the SISTAFE law, assets and liabilities should be reported in the CGE, based on available information.** As noted in previous FAD reports, a number of significant assets and liabilities should be reported in the government's financial statements. It is understood that two main reasons have prevented this so far:

- First, the reluctance of the authorities to present a balance sheet with a negative net financial net worth. Indeed, during the exercise carried out by the authorities a few years ago to prepare a first balance sheet, it became evident that it would result in a negative net worth, as the State's assets are not fully inventoried and evaluated. The authorities

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<sup>22</sup> See in particular *Projeto de Contabilidade Publica*, Joe Cavanagh, Paulo Feijo and Esther Palacio (June 2012).

considered that this would result in misleading information about the government's economic and financial situation. However, this could be explained relatively easily in the notes to the financial statements. In addition, most of countries that have move to AA show a negative net worth, as their main asset, which is the power to raise taxes, is indeed not reported in the balance sheet (for example, UK and France disclose a negative financial net worth);

- Second the perception that the evaluation of assets and liabilities should be recorded in e-SISTAFE only when their valuation is reliable enough. However, some elements that are already reported in the CGE are not fully reliable, as highlighted by the SAI reports, and reliability can improve over time, and notes can be included in the CGE for explaining possible issues with the completeness or reliability of some items reported in the financial statements. This has been done, also, by several countries. For example, in its first financial statements, France had reported rough estimation of its military assets, which was refined over time.

The authorities are therefore strongly encouraged to move forward on producing a simplified balance sheet of the central government, within the next 3 years. The assets and liabilities that should be reported in this simplified balance sheet (see Figure 5 below) as soon as possible are as follows:

### **1/ Financial liabilities:**<sup>23</sup>

- *Debt balances and transactions.* Information on Debt balances,<sup>24</sup> proceeds for debt issuance, principal repayments, and interest payments, which are available at the DNT, should be disclosed, as well as details on the concessionary loans and other main financial instruments of the government ;
- *Payables.* In Mozambique, the main factor contributing to the payables are pending payment of subsidies (e.g., fuel subsidies) and tax refunds (e.g., VAT refunds). Evaluations of these arrears are available at the MOF and Tax Administration (AT). They amount should be recorded as financial liabilities, and disclosures on their aging, the variation of the stock, etc. should be provided based on information available.

### **2/ Financial assets:**

- *Cash and Bank Balances.* Due to remaining government's commercial bank accounts,

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<sup>23</sup> Civil servants pensions are managed and paid by a social security agency, the INSS. The consolidation the INSS's accounts with those of the government will allow to include pensions' liabilities in the balance sheet.

<sup>24</sup> Public debt is measured at historical cost or face value.

and the fact that the CUT includes cash deposits from public entities outside of Budgetary Central Government (e.g., INSS cash deposits), establishing and understanding the cash balance of the Budgetary Central Government proves difficult. Formal bank reconciliations, including with the Central Bank, should therefore be established at least monthly. In addition, information available at the DNT on the government's cash balance in commercial banks, the number of commercial bank accounts of the government, the nature and source of the CUT's cash deposits, etc. should be disclosed in the CGE, in order to increase the transparency of the information on the government's cash balance.

- **Investments.** Information on the State's investments is available at the State Equity Holding Management Institute (IGEPE), which is responsible for managing the government's shareholdings in the private sector, and the DNT, which is responsible for overseeing Public Enterprises (100% held by the government). In both cases, the entities' financial statements are supposed to be collected annually. The investments in the private sector are evaluated in the CGE, at historic cost. No evaluation of the other investments of the government is provided. The actual value of these investments could however relatively easily be estimated (equity method) based on available financial statements.<sup>25</sup> This information should therefore be included in the CGE as soon as possible.
- **Other financial assets.** Other financial assets, such as loans to other public entities, should be presented in the government's balance sheet. This information is available at the DNT.

Figure 5. Mozambique: Possible Simplified Balance Sheet for the 2015 CGE

Assets	N-1	N	Note	Liabilities	N-1	N	Note
<i>Current financial assets</i>				<i>Current financial liabilities</i>			
Cash and bank balances			1/	Payables:			5/
				Payables from current year			
<i>Non-current financial assets</i>				Payables from previous years			6/
Investments:			3/	Short-term borrowings			7/
Public enterprises							
Other				<i>Non-current financial liabilities</i>			
Loans receivables			4/	Domestic loans			8/
Advances				External loans			9/
				<b>Total Liabilities (II)</b>			
<b>Total Assets (I)</b>				<b>Financial Net Worth (=II-I)</b>			

Source: Mission

<sup>25</sup> The equity method is a method of accounting whereby the investment is initially recognized at cost, and adjusted for the post-acquisition change in the investor's share of net assets/equity of the investee.

36. **The government's contingent liabilities should also be disclosed in the CGE.** The provision of complete and reliable information on the government's obligations is one of the key elements of AA financial statements. In order to improve the current financial reporting and to prepare the transition to AA, contingent liabilities of the governments should be analyzed and reported in the CGE (see Box 6 below). They should include, at least, guarantees on loans taken out by public entities and government-linked companies and commitments under long-term contracts. This information on the contingent liabilities of the government is indeed already available at the MOF.

#### **Box 6. Differences Between a Debt, Provision, and Contingent Liability**

A *debt* or *payable* is a current obligation of a certain amount and timing, arising from a past event, the ultimate settlement of which is expected to result in a future outflow of cash – arrears and loans repayable in the future are one example; liabilities values are included in the Statement of Financial Position (Balance Sheet).

A *provision* is a probable obligation of uncertain amount or timing; it relies on estimation, something that distinguishes it from the comparative certainties of cash accounting. An example of a provision would be the future pension liabilities; provision values are included in the Statement of Financial Position (Balance Sheet).

A *contingent liability* is a possible obligation arising from a past event whose existence will only be confirmed by future events. Contingent liabilities are not included in the Statement of Financial Position but are disclosed in a note. Examples of contingent liabilities are loan guarantees, or commitments under a long-term contract.

*Source: Mission*

### **Presentation of the financial reporting**

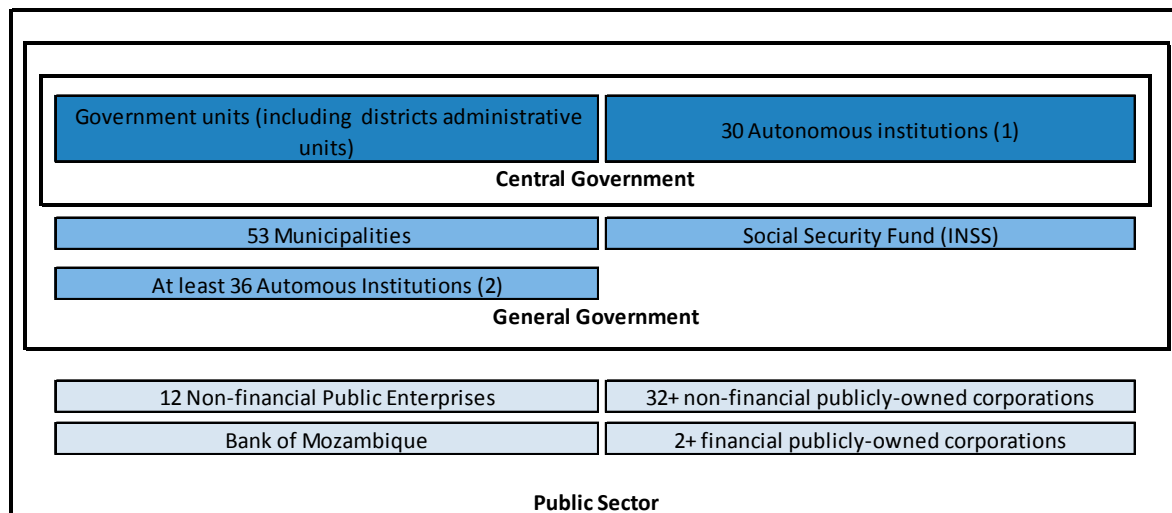
37. **The presentation of the CGE could also be improved over the short term.** Detailed guidance on possible improvements to the CGE presentation has already been provided in the FAD report mentioned in footnote 16 (see in particular Appendix 2), and the mission recommended to the authorities to follow-up on these previous recommendations, which can be summarized as follows:

- The core document should include: (i) the overall presentation of the budget execution figures (*Introduction, Objectives of the economic and social policy*); (ii) the main budget execution tables (Tables I, I.1 to I.7); and a simplified balance sheet reporting on the main financial liabilities and assets (see Figure 5 above). A set of disclosures presenting detailing and commenting the figures reported in these tables should also be included, for example the detail of transfers to local government and public enterprises.
- All other tables requested by SISTAFE Law and the SAI should be disclosed in appendices.

## Coverage of the financial reporting

38. **The consolidation<sup>26</sup> of the whole of the public sector would require, at first, a census and sectorization of public entities.** The draft implementation plan acknowledges the challenges associated with the consolidation of the public sector accounts by planning this for 2024. Indeed, the consolidation of the public sector accounts will require (i) identifying all entities to be reported within the public sector accounts; (ii) harmonizing the accounting frameworks across the different public entities so that their results can be brought together in a consistent and timely way; and (iii) building technical skills within the CEDSIF and the DNCP for undertaking the consolidation. All of these tasks remain to be implemented. In particular, as was noted in the recent IMF *Fiscal Transparency Assessment*, the MOF does not maintain a complete register of the public sector entities, and the exact scope of the public sector remains to be defined (see Figure 6 below). In addition, the accounting framework of public entities is not harmonized yet. In this context, the authorities still have a considerable work to undertake for preparing the consolidation of the public sector accounts, and the consolidation of the whole public sector accounts do not seem to be achievable by 2024. Establishing a census and sectorization of public entities should be considered as a priority task.

Figure 6. Mozambique: Overview of the Public Sector, based on authorities' inventories



(1) Institutions that do not finance at least two-thirds of their expenses with their own revenue are not considered as autonomous by the authorities.

(2) Institutions that finance at least two-thirds of their expenses with their own revenue are considered as autonomous by the authorities.

Source: IMF, draft *Fiscal Transparency Assessment*.

<sup>26</sup> The consolidation is the procedure that brings together, line by line, the accounts of all public entities to produce a single account.

39. **Therefore, the first step of the consolidation should be to produce consolidated financial statements for the central government.** For realizing this consolidations, the MoF should:

- **Establish a soon as possible a formal list of Autonomous Institutions controlled by the State** - that is Autonomous Institutions whose expenses are financed mainly by the government (see figure 6 above) - and gather relevant financial data from these institutions. The migration of some of these Autonomous Institutions under a harmonized accounting framework would be necessary for establishing consolidated financial statements. However, harmonizing the accounting framework can take some time. This should not detail the consolidation: reporting package can be established at year end by the Autonomous Institutions with basic financial information (expenses, revenue, financial assets and financial liabilities).
- **Produce a first set of consolidated financial statements based on the financial information available, starting from 2016.** For establishing these consolidated financial statements, internal transactions and balances with the government should be eliminated in full. This elimination will break down into the following steps that should be undertaken by the DNCP, with the possible assistance of CEDSIF: (i) identifying intra-central government transactions that are to be eliminated; (ii) ensuring that internal transactions and balances reported are measured and classified similarly; and (iii) realizing the elimination. The main eliminations will include transfers and grants from the government; tax paid to the government, as well as associated debtor/creditor balances.

This would pave the way for expanding the coverage of the financial statements over time, as requested by the international accounting standards.

### **B. Summary of Recommendations**

- Improve to the Budget Execution process by allowing users to record commitments and liquidations in e-SISTAFE in due time.
- Improve the financial reporting functionalities and accounting processes in e-SISTAFE mainly by incorporating data available in other IT systems, automatizing the production of the CGE.
- Include a financial balance sheet in the CGE, including debt balances and transactions, payables, cash and bank balances, investments, other financial assets and report on contingent liabilities.
- Shorten and clarify the CGE, which should include: (i) the overall presentation of the budget execution figures (*Introduction, Objectives of the economic and social policy*); (ii) the main budget execution tables (Tables I, I.1 to I.7); (iii) a simplified balance sheet

reporting on the main financial liabilities and assets, (iv) as well as set of disclosures presenting, detailing and commenting the figures.

- Establish a census and sectorization of public entities.
- Establish consolidated financial statements for the Budgetary Central Government and controlled Autonomous Institutions.



## APPENDIX 1. SHARING OF EXPERIENCE (WORKSHOP OF 08/01/2014)

### Implementation of AA in the U.K. and France: Key Dates

U.K.		France	
1993	Announcement by the Chancellor of the Exchequer	Prior to 2001	Financial reporting on a cash basis (modified cash basis reporting is established but not made public)
June 1994	Green Paper (discussion document)	2001	New Organic Budget Law (LOLF)
July 1995	White Paper (government proposal)	2002	Creation of the independent standard-setter ( <i>Conseil de normalization des comptes public</i> )
1995	Establishment of Financial Reporting Advisory Board (FRAB)	2002	Green paper on the modernization of internal audit and internal control
November 1997	Publication of National Asset Register	2003	Pilot inventories of buildings and PPEs in line ministries, reorganization of accounts/internal audit divisions
1998	Approval of new accounting systems and policies	2004	Publication of a complete accounting standards compendium
1999–2000	Assessment of departments' opening balance sheets	2004	Implementation of an upgraded IT system (" <i>Palier 2006</i> ")
Mid-1999	National Audit Office's dry run of 1998-99 resource accounts	2004	Inventories of buildings and PPEs, and reorganization of accounts/internal audit divisions extended to all line ministries
Mid-2000	Department's dry run of resource-based estimates for 2000-01	2005	Accounting manual and accounting procedures 1/ disseminated
August 2000	Approval by Parliament to proceed with resource accounting and budgeting	2005	Creation of a AASC
2000	Government Resources and Accounts Act	2005	Inventory of assets (other than buildings and PPEs) and liabilities for the opening balance sheet
2001	Publication of updated and improved National Asset Register	2006	Opening balance is transmitted to supreme audit institution
2001–02	Supply expenditure on an accrual basis	2007	First publication of the <i>Government's Financial Statements</i> (certified with 12 qualifications) and the <i>Report on Internal Control</i>
2003–04	Public expenditure planned fully on an accrual basis	2007–11	Action plans for addressing weaknesses identified by the SAI 2/
2011	Publication of whole of government accounts	2013	<i>Government's Financial Statements</i> (certified with 5 qualifications) and the <i>Report on Internal control</i>

1/ Mapping of procedures and risk assessment were realized in 2004.

2/ Reliability of the IT systems, of the inventories and evaluation of assets and liabilities (military equipments, buildings, social benefits).

**Notes:**

\* AA is referred to as "resource accounting" in the U.K. The U.K. government also switched its budgeting system onto an accrual (resource) basis.

\*\* Accrual (resource) accounting in the U.K. was introduced gradually. There were four "shadow years" when financial statements were prepared on a cash basis, but accrual-based accounts were also prepared and audited.

\*\*\* France publishes two sets of financial reports: (i) a set of budgetary statements on a cash basis comparable with the voted budget, and (ii) the financial statements *per se* on an accrual basis. A bridge table between the deficit calculated on a cash basis and the loss calculated on an accrual basis is disclosed in both reports.