

## Accounting System Improvement

Accounting is an integrated, well-organized and fully accomplished information and control system. Its functions are to register, measure, analyse and control the assets and liabilities of the budgetary entity as well as the business process and business operations that lead to transformation and changes of the assets and liabilities and their carrying value as of certain moment. The all-comprising scope of the accounting system, the accounting principles, and particularly the accrual principle, the principle of going concern, prudence, revenue and expenditures compatibility, the substance over form principle, consistency of the accounting policy and the requirement that the operations have a good documentary ground, make the accounting system a reliable and secure instrument for efficient business management.

The accounting system is crucial for the preparation and execution of the state budget, financial discipline and for the strict adherence to the government fiscal policy. It ensures observance of basic principles for spending budgetary appropriations laid down in the Organic Budget Law and the annual budget laws, and those are lawfulness, expedience, providence and transparency, creating conditions to track the spending of appropriation at each stage of the spending cycle.

Harmonization of the accounting procedures with the requirements of the European Union and the international financial organizations incurred the budget reform and the imbedded modernization of the accounting system.

The set of measures under the IMF Agreement for 2000 contained the requirement to work out a new unified chart of accounts for budgetary entities, which was to be applied since 2001. It should concur with our commitments to the European Commission to improve the budget resources

management, to strengthen the fiscal discipline and increase the transparency of budgetary planning and execution. In compliance with the organizational regulations of the MoF, the Budget and Treasury Directorate was assigned the task to work out the unified chart of accounts. The structure of the chart of accounts was discussed and agreed with advisors from the European Commission, SIGMA and the IMF technical support missions.

Paragraph 44 of the Transitional and Final Regulations of the State Budget Law for 2001 obliges the budgetary entities to use the approved by the Minister of Finance chart of accounts and accounting standards. The above regulation and the instruction of the Ministry of Finance № 07/09.02.2001 imposed the introduction of the new chart of accounts in the public sector. Letters of the Ministry of Finance № № 13, 14, 16 and 17 of 2001 instructed budgetary entities to transform not later than 15.11.2001 the accounting data as of 30.09.2001, and to start to apply the new chart of accounts. A Manual and a bridge table for transforming the accounts were prepared to help the transition to the new chart of accounts, and they were published in "The Budget" magazine, No.3 and 5 of 2001 - an official MoF publication. The idea of the Manual was to make the officers familiar with the basic concepts, principles and approach in the new chart of accounts for budgetary entities, as well as to underline the new issues and changes in the new budget accounting practice.

The structure of the accounts as well as the principles and rules for recognition, valuation and classification of assets, liabilities, revenues and expenditures as a whole are based on the concepts and the accounting framework of the new GFS Manual of the IMF for Public Finances Reporting (GFS 2001) as well as on the System of National Accounts (SNA93), and

the European System of Accounts (ESA95). Provision of financial information for the purpose of macroeconomic and fiscal analysis is accentuated, this being a requirement of the main users of financial information on the public sector.. The public sector in Bulgaria, the way it is defined in the GFS, SNA 93 and ESA 95, includes the Parliament, the Council of Ministers, BNB, NSI, international institutions, banks and other financial institutions, rating agencies etc. The above accounting framework was chosen to facilitate the harmonization and coordination of public sector reporting data with those from the other three macro-statistics sources: the SNA, the monetary statistics of the banking system and the balance of payment.

Another reason for the choice made was the need to comply with certain requirements during the pre-accession period, such as public sector economic indices - budget deficit, level of indebtedness etc., estimated under ESA 95 methodology. Those are the indices the public sector accounting and statistics has to be focussed on.

The concept of “fund accounting” also underlies the new accounting framework, so that assets, liabilities, revenues and expenditures are being identified by separate budgets, accounts, funds, projects and programs each treated as a separate reporting unit. In that context the accounting of the budget entity is organized in three separate reporting groups (business areas) – “Budgets”, Extra-budgetary funds and accounts” and “Other accounts and activities”

As a whole, the accounting of the public sector in Bulgaria is based on the same fundamental and conventional accounting principles and rules /accrual basis, substance over form principle, valuation and recognition rules etc./ that underlie the national accounting legislation as well as the International Accounting Standards. So the common accounting legislation of this country is applied with the budgetary entities as much as possible. That is why the structure of the accounts is as close to that in the National Chart of Accounts as possible.

The unified budget classification has been preserved in the meanwhile for cash based accounting of the public sector, in view of legally regulated practice to prepare and report execution of the State budget, the local and autonomous budgets and the extra-budget funds and accounts on a cash basis, as well as to provide public finances information for international organizations on a cash basis. The Unified Chart of Accounts for the budgetary entities was being worked out in the same time with the Accounting Law, which came in force as of 01.01.2002, defining in that way the legal framework of the public sector accounting. Here are the main issues of this framework:

- definition of the budgetary entities, i.e. the scope of the budgetary sector in Bulgaria. With § 1, item 1 of the Accounting Act the following legal definition has been introduced: “Budget entities are government and municipal bodies, their structural units and any economically independent persons that apply budgets, budgetary accounts, extra-budgetary funds and accounts in the context of the Organic Budget Law and the Municipal Budgets Law, as well as the government funds and institutions dealing with mandatory social and health insurance, state universities, Bulgarian Academy of Science, Bulgarian National TV, Bulgarian National Radio and other structural units, which accounts and operations are included in the General Government.”

- unified chart of accounts and accounting standards for the budgetary entities, approved by the Minister of Finance;

- the Minister of Finance approves the procedure of registration, the form and the items of the obligatory accounting documents for accounting the transactions, operation, assets and liabilities of budget entities;

- the consolidation of data on an accrual and a cash basis for the whole public sector is carried out in the Ministry of Finance under the terms and within the order determined by the Minister of Finance;

- The Minister of Finance can ask for some additional reports under specified terms and time limit from entities financed and controlled by the Government, and from the municipalities.

The new legal framework stipulates the common application of the accounting rules in public sector, so that the necessary accounting information on an accrual and cash basis is consolidated in the Ministry of Finance for the needs of the macroeconomic management and analysis. This leads to some changes in the hitherto existing situation, as the balance sheets and the trial balances prepared on an accrual basis before 2000 were not consolidated in the MoF because they did not contain appropriate information, useful to the government institutions. (Except for some statistical forms). Apart from that prerequisites will be created to compile consolidated data for the public sector under some macroeconomic indices such as fiscal deficit, investments, savings, and others, so that the fiscal position of the public sector could be assessed as a whole, in view of the macroeconomic environment.

The transition to the new chart of accounts makes possible not only to consolidate the financial reports on an accrual basis, but also to use this information for non statistical purposes, such as analysis of the assets and liabilities structure, receivables and liabilities in arrears, management decisions, budgeting and so on.

Last but not least we should mention the progress of the Financial Management Information System (FMIS) implementation process. The new chart of accounts was

introduced into the system in the “Financial Accounting“ module and it has become obligatory for the budget entities (on the level of the 4 digits code of accounts). That makes possible the unification of the accounts applied and the preparation of the consolidated report for the public sector on an accrual basis. Some first and second level spending units specially pointed out by the MoF, start step by step to use the FMIS for accounting and consolidating the budget and accounting operations for 2002 complying with paragraph 47 of the State Budget Law of Republic of Bulgaria for 2002 .

In the future the reporting methodology of the public sector will be focussed on supply of information for macroeconomic purpose, in compliance with the above mentioned requirements of the international institutions. Along with this the demand for financial information for management and microeconomic purposes will be satisfied.

What was achieved up to date was only the first step in the process of modernization of the reporting and accounting systems in the public sector in Bulgaria. Further on standards and instructions are to be developed and applied in practice, and this is connected with hard work in the future. This, together with the rest of the elements of the large-scale reform of the management and control of the public finances, will contribute to better transparency and effectiveness of the budget management.