The New Government Accounting. Contents. Controversies. Controls.

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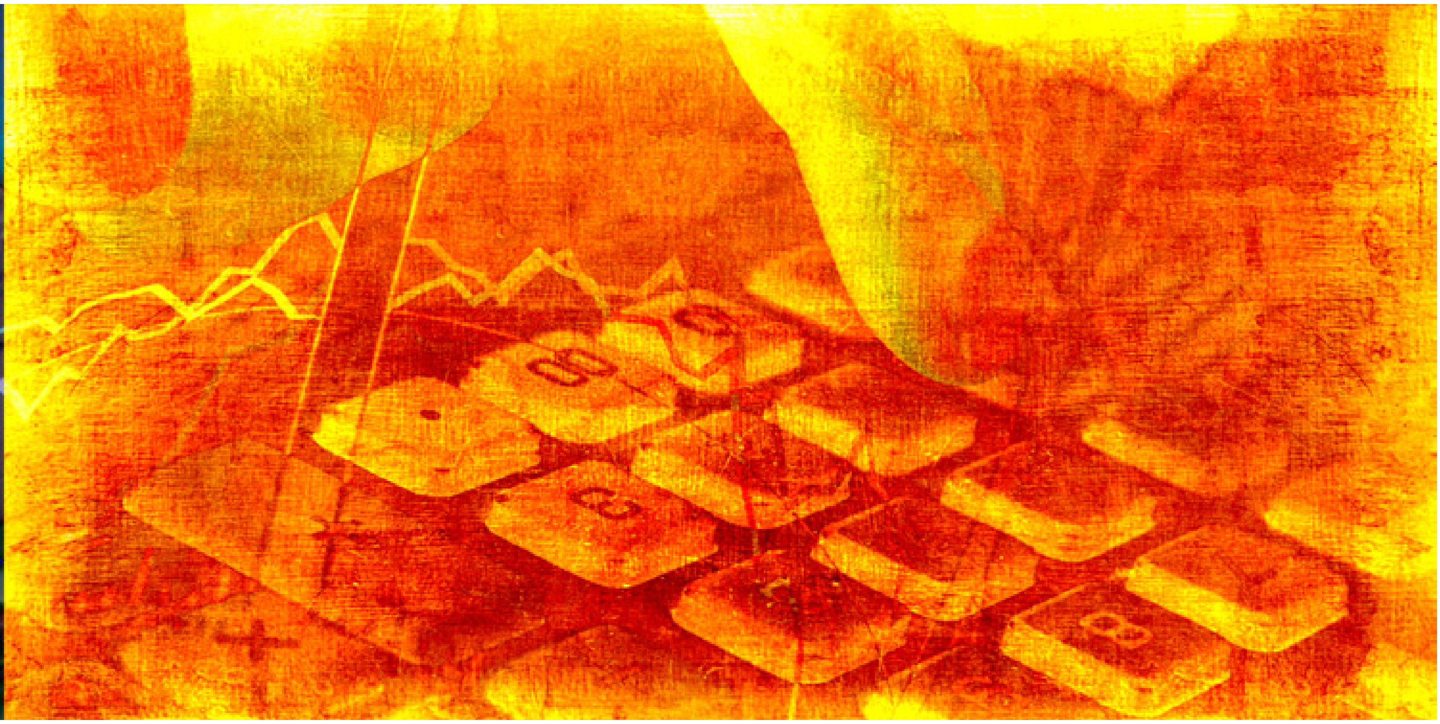
ABSTRACT:

The new standard of government accounting is equivalent to that of the private sector, along with the rulemaking tools: the Ordinances of the National Treasury Office and the Resolutions of the Federal Accounting Council, one or another are in conflict with certain parts of the basic rules of the Financial Law, no. 4320 of 1964; the format of Balance Sheets; the fact that the said balances do not detail the floating/consolidated debts and the components of financial income; the mandatory nature of reassessing and depreciate fixed property.

Keywords: Accrual Basis. Act 4320 of 1964. DCASP (Public Sector Statements). Equity. MCASP (Public Sector Accounting Guide). Ordinances of the National Treasury Office. PCASP (Public Sector Chart of Accounts). Resolutions of the Federal Accounting Council.

The New Government Accounting seeks to be in keeping with the international standards of the private sector of the economy. Regulation is not imposed by the law, but rather through Ordinances of STN (National Treasury Office) and Resolutions of CFC (Federal Accounting Council).

This is so due to the continuing lack of the supplementary law which will replace act no.



4320/1964, which is referred to in Article 165, paragraph 9 of the Constitution. The fact that dozens of bills are pending approval or were not entertained in the National Congress since 1989 is an illustration of that, in addition to the lack of perspective that they occupy the legal void even in the medium run.

In point of fact, while the Tax Management Council is not instituted legally, STN (National Treasury Office) is in charge of regulating nationwide the aggregation of public accounts, given that this agency is the central accounting entity within the federal government, i.e., for these purposes provided for under Article 50, paragraph 2, of the Fiscal Responsibility Law:

> Article 50 – (...)
> § 2º The institution of general rules for consolidating public accounts will be the responsibility of the Federal Government's central accounting agency when the council referred to in Article 67 has not been established.

Nonetheless, in this process, a lingering doubt remains: can an Ordinance, which is an administrative act in nature, overrule the law?

As addressed below, there are parts of the STN Ordinances which are not supported by Act 4320. On account of that, this paper reviews the basic structure of Balance Sheets or the mandatory nature of reassessing and depreciating properties of fixed nature or even the lack of evidence in the Balance Sheet of the floating and consolidated debts and the detailed financial income.

All things considered, the new accounting procedures are in keeping with IPSAS (International Accounting Public Sector Standards), prepared in 1997 by IFAC (International Federation of Accountants), organization gathering 173 countries.

In this scenario, the Ministry of Finance published in 2008 the Ordinance 184, i.e., the initial framework of convergence to the international model of public accounting.

Besides, in that year (2008), CFC (Federal Accounting Council), after debates with the society, introduced the eleven (11) NBCASP (Brazilian Accounting Public Sector Standards), "**having mandatory nature, as of 2010, for public sector entities.**"

In substance, the Public Sector Accounting is grounded on the following assumptions:

- Use of the same chart of accounts for the entire Federation and, consequently, in standardized balance sheets and statements, which serves the purpose to facilitate comparison and aggregation of accounts of the Federal Government, States and Cities.
- Predominantly patrimonialist focus and, on account of this, the recognition of revenue and expenditure on the accrual basis.

- Application of procedures for reassessment, depreciation and provision of government assets and liabilities.
- Implementation of the government cost system.
- Raising the value of the government accounting professional.

The National Treasury Office manages across the country the new accounting system, thus publishing a new edition of MCASP (Public Sector Accounting Guide) every year, which must be used at all government levels.

In its 5th edition, the said guide includes the single chart of accounts (PCASP), the financial statement templates, as well as the budget, equity and specific accounting procedures, given that the specific ones compass special situations, which are extraordinary owing to the applicable laws (for instance: Fundeb, special social security regime; public-private partnerships).

On one side, the single chart, PCASP, establishes rules and the list of accounts to register accounting acts and facts, which are subsequently summarized in public sector financial statements, referred to as DCASP.

The single chart of accounts and the financial statements should be used by all of the governments until the end of 2014 and, under this new template, STN (National Treasury Office) will consolidate, until June 30, 2015, the national accounts.

The said terms were corroborated by STN Ordinance 634, dated 11.19.2013, gathering in only one document previous rules of the new government accounting.

Therefore, as of 2015, government departments which fail to forward statements in keeping with the new accounting standard to the Federal Government will no longer receive contractually-based disbursements from the government (transferências voluntárias). If the fault is ascertained, STN will not settle the liability established under Article 51, paragraph 1, of the Fiscal Responsibility Law.

Notwithstanding the term, the Accounting Court of the State of São Paulo ordered, as of January 2013, that accounting information should be sent according to PCASP (Public Sector Chart of Accounts), which illustrates how the electronic system was assimilated by the said Court: the Audesp[1].

The said advance, in two years, is founded on the National Treasury Office's Technical Note no. 1096/2012: (....) The new deadlines defined in STN Ordinance 753/2012 may be met in advance by the Account Courts if under the jurisdiction of a given case (...)

It should be noted that the new accounting system furthers the accurate proof of equity elements, whether positive or negative, thus unveiling the actual net equity of governmental entities.

On account of this and from any point of view, all of the properties, rights and liabilities will be recognized on accrual basis, i.e., when the triggering fact happens, regardless of receipts and payments.

As an illustration for this priority of the accrual basis, the local government, in the beginning of each year, will bookkeep, in the current assets, the receivables of IPTU (Urban Real Estate Tax), at the same amount of the installments sent to taxpayers and, as current liabilities, 1/12 of vacation and 13th salary owed by the end of each month.

Anyway, it should be noted that, in the budget system, accounting continues to take place when IPTU is actually paid to city treasuries (Article 35, I, of Act 4320 of 1964), or, in the event of vacations and 13th salary, it is assessed on the month of payment or, even before, of the prior global assessment is applied (**item II of the rule above**).

In this scenario, the Government Accounting starts to cope with the equity oscillation as a priority, and not budget execution. That is how Accounting Science essentially understands the equity.

On the other hand, the Constitution and the rules of law prioritize the budget execution, since they are based on it for essential information, such as the primary and nominal incomes, as well as the application in constitutionally-protected industries (Education and Health); not to mention the fact that, only through budget execution, one may check the fulfillment of a number of scheduled targets, the level of investment, the disbursements transferred to other Branches and non-profit sectors, among other capital data to substantiate the lawfulness, efficacy and efficiency of the management of disbursements mandatorily paid by the society.

In other words, in spite of the good intentions of the New Government Accounting, the budgetary system in the governmental sector is way more important than the equity system. In addition to this, attention should be drawn to the impossibility to expend one cent of taxpayer's money without the prior authorization under the annual budget law (Article 167, I and II of CF (Federal Constitution)).

Furthermore, one should point out that the expectation of revenue will hinder frauds and embezzlements. However, the said bookkeeping will happen in a general, global and aggregate manner and not per each taxpayer. Given this generality, instead of the individual approach, how can the new accounting spot the typical frauds in the field of government revenue? If the analysis can only be global and aggregate, shouldn't it be enough to regard the estimated amount, with updates, in the annual budget law?

One should therefore agree to the fact that the individual registration in cities with million taxpayers is not an easy task.

As part of the attempt to value the equity, the government should update the amount of personal and real property, without the prejudice to the right to depreciate it on account of use and wear.

Thusly, nonfinancial assets[2] will no longer be recorded with their farfetched current amounts, they will be bookkept at an amount next to the market reality, which facilitates the assessment of the costs of public services.

On the other hand, the reassessment of properties is an optional and non-mandatory procedure under Act 4320 of 1964:

> Article 106 – The assessment of equity elements shall abide by the following rules:
> (...)
> Paragraph 3 - Reassessments of personal or real properties may be made.

In view of this, the legislature of 1964, however, proposed that the government assets have relevance other than that of the private sector ones. For the latter, equity income is the germane indicator for members, shareholders, and creditors, as the rights and duties account for the debts of the private entity; and the government is a totally different scenario, where assets are typically non-transferable, unleviable and imprescriptible, but, as a matter of fact, governmental entities are not subject to reorganization, and definitely not to bankruptcy.

Therefore, another obstacle to the new government accounting is easily realized: if the founding governing law only suggest but not enforce the revaluation of personal and real properties, how will the External Control impose any penalties for entities which do not do this?

Likewise, the National Treasury Office is bereft of legal foundation to cut contractually-based disbursements from the government when the entity under the federation records its assets following the "old" government accounting, i.e., not revaluating or depreciating them.

Moreover, it is also intended that liabilities reflect the actual status of the governmental entity's debts, compassing long-term debts of the special social security regimes: the so-called actuarial liabilities, which is highly valued to many.

Quantified in actuarial studies, the said liabilities stand for the difference between pensions/retirements and the obligations of the employers and security members; which is analyzed over a period of 35 years.

If that is so, States and Cities of larger dimensions will surpass the thresholds of long-term debts: the consolidated one, given that currently only few surpass this limit.

MCASP (Public Sector Accounting Guide) lists the new financial statements.

- Budget Balance Sheet (annex 12)
- Financial Balance Sheet (annex 13)
- Equity Balance Sheet (annex 14)
- Statement of Changes in Equity (annex 15)
- Statement of Cash Flows (annex 18)
- Statement of Owner's Equity (annex 19)
- Income Statement (annex 20).

Annex 19 will be mandatory only for dependent state-owned companies. Annex 20 is optional for any governmental entity.

In the Balance Sheet, the legal nomenclature, financial and fixed was changed to current and noncurrent, which are the same terms used by private law entities, including state-owned and government-controlled companies.

The comparison between assets and liabilities results in a capital indicator for the new accounting model: the net equity; and not more the positive net worth or negative net worth.

However, the structure of equity accounts opposes to that provided for under Act 4320 (Article 105). In fact, neither one may maintain that the current accounts are independent on the law, nor that all of the noncurrent accounts need for budget permission.

Actually, by the end of the Balance Sheet, as an informative appendix, the former financial and fixed sets of data are included on average, but not detailed.

This is due to the need to know if the financial income, especially when there is surplus, i.e., money surplus which backs the deficit in budget execution and the additional debts, as well as providing the monetary guarantee required under Article 42 of the Fiscal Responsibility Law.

If that was not so, how could the External Control know that the budget deficit was backed by the financial surplus in the previous year?

Given this controversy, the National Treasury, with the **Transition into the New Accounting Plan**, establishes that

> "to allow the calculation of the financial surplus, in accordance with Act 4320/64, the financial and ongoing control will not be made in bookkeeping accounts, but through features of the computer systems, which will allow separating the financial and fixed balance of assets and liabilities."

By the way, the controversy between financial and current was the theme of the opinion on the accounts issued by the Governor of the State of São Paulo for the year of 2011:

> As a matter of fact, the state balance sheet seems to point out to a financial surplus amounting to BRL16.936 bn, a bit more than twice the amount for the previous year (BRL8.417 bn). However, after removing assets and liabilities with no perspective of realization any time soon, one should draw the conclusion that, in fact, the actual financial surplus of 2010 was BRL7.874 bn, reduced in 2011, which posted BRL1.290 bn, a drop of 83.61%, and not, as implied by the accounting items: an increase of more than 100%.
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> There is no need to consider that the State's Accounting was mistaken, insofar as that the latter is grounded on the national models of the Ministry of Finance, which vehemently prioritize the equity system and, as a consequence, the accrual basis for the public revenue, to the detriment of the cash. On the other hand, it is possible to state that this standardizing effort does not entail care for the fundamental budget system.
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> The Federal Government adopts this procedure with the purpose to converge the government accounting and the private accounting, although it forgets that, in comparison, the budget is capital for the government, though subsidiary for the private sector.
>
> Therefore, it is advisable that the State's financial income be the result of the difference between the Cash on Hand and the Floating Debt; that is, the calculation will no longer consider the sets of data Receivables and Several of the Financial Assets and, symmetrically, the Debt and Several of the Financial Liabilities.

It is blatant that the financial assets and liabilities are now subsidiary, and not detailed. This gap asks for a supplementary annex, evidencing the floating debt, in keeping with Article 92 of Act 4320 (**remaining debts, deposits and treasury debts**; and this subsidiary item should be required by Account Courts. All this considered, and also as a supplementing of the items of the new accounting, the Account Courts should demand the consolidated debt statements.

In sum, the new Balance Sheet takes for granted fundamental variables of the government finance, such as the composition of the financial income and of the floating and consolidated debts.

In turn, in the Budget Balance Sheet, revenue and expenses are way more specified. Revenues go as deep as the species category. In comparison, the expenditure (**commitment, settlement and payment**) reach the families group and, not as before, per type of debt (**budgetary and additional**). The said opening is backed by the assumptions in the Fiscal Transparency Law.

In an appendix to the balance sheet above, charts for the Remaining Debts will appear, against the original nature of the expenditure. That being so, the said remainders will be qualified per budgetary origin, not remaining in the generalizing group of financial transactions.

Still, the Budget Balance Sheet will bring accompanying notes, showing bank transfers, be them received or made. In fact, these disbursements are not under the scope of the budgets, they have to do with the mandatory monthly disbursement to the other Branches, and the financial aid by the government to government agencies, foundations and dependent companies.

Owing to all of these arguments, the new Budget Balance Sheet will facilitate the adjustments of internal and external controls, notably the relativization of budget deficit *vis-à-vis* the financial surplus of the previous year, and the addition, in the budget expenses, of financial transfers to government agencies, foundations and dependent companies.

The Financial Balance Sheet is a major temporary account, but, under the new model, has undergone considerable change. As a matter of fact, it will present receipts and payments under the ordinary and restricted accounts (**not anymore per nature and function**), also revealing the financial transfers above between entities under the same government level.

The Statement of Changes in Equity has also undergone a significant modification. This way, it better itemizes the budget revenue and expenditure; displays the transfers out of the budget's scope; and comes up with the entities of quantitative and qualitative changes in equity.

All in all, the new financial and equity balance sheets, and the new equity and cash flow statements, all of them will have two rows: one for the current year; and the other for the previous year, given the low inflation in the country, facilitating advantageous comparative analyses.

In turn, the Cost System will be the basic tool for Internal Control, subsequently serving as basis for decision-making of public managers. This regime is enforced, as can be appropriately remembered by allusion to Articles 85 and 99 of Act 4320 and Article 50, paragraph 3, of the Fiscal Responsibility Law.

According to the guide of the National Confederation of Municipalities[3], the cost system allows answering the following requirements:

- Should the surveillance service be outsourced or the responsibility of the City?
- Should the fleet of vehicles and drivers be kept or should this be outsourced?
- Personal and real properties should be serviced monthly or when needed?
- Should spaces to develop services be rented or constructed?
- Should public servants be registered to undergo training open to public or should this be directly engaged?
- Should vehicles be fueled in private gas stations, should fuel be purchased in bulk or should equipment for a gas station be purchased to serve the agency exclusively?
- Should a physical structure of servants for specialized medical assistance be maintained or should they be contracted when needed?
- Should laboratory test equipment be purchased or should this service be outsourced?
- Should software available on the market be used after adjustment for the special service or should special software be developed?

In view of everything exposed in this paper, internal and external controls, as of 2014, should be heedful of the following:

- Was there a monthly approval, in the current liabilities, of more 1/12 of vacation and 13th salary of servants, given that the said installment has already been settled?
- In the beginning of the year, was there bookkeeping, in the equity system, of IPTU receivables and other taxes, subject to prior assessment (eg.: ISS (Municipal Services Tax), water and sewer rates)?
- In the equity system, was there monthly record of the depreciation of personal and real properties, as well as of the allowance on credit assignments, principally the ones of Overdue Tax Liabilities (allowance for doubtful debtors)?
- In the equity system, was there valuation update of short-term and long-term debts, in addition to the inclusion of actuarial liabilities?
- Was the premises and equipment revaluated from time to time?
- Does the Budget Balance Sheet bring accompanying notes, showing bank transfers, transfers out of budget, for the entities of the same government level?
- Does the Equity Balance Sheet bring an annex showing the financial surplus or deficit for the year?
- Was the Cost System implemented according to the rules established under the budget guideline law (Article 4, I, "e", of LRF)?

NOTES

1 Upon the SDG Communication no. 46, of 2012.

2 Personal properties; real properties; credit assignments, such as, inter alia, the Overdue Tax Liabilities and shares.

3 A nova Contabilidade Pública Municipal; 2013; Confederação Nacional dos Municípios (CNM).