Project public brief

Portugal: Accounting Reforms and Financial Management Information Systems

Technical Support Instrument

Supporting reforms in 27 Member States

Funded by the European Union

OECD

BETTER POLICIES FOR BETTER LIVES

This document was produced with the financial assistance of the European Union. Its content is the sole responsibility of the author(s). The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

The project is funded by the European Union via the Technical Support Instrument and implemented by the OECD, in cooperation with the European Commission Directorate-General for Structural Reform Support.

This report has been delivered as part of the project Accounting reforms and Financial Management Information System.

Directorate-General for Structural Reform Support
REFORM@ec.europa.eu
+32 2 299 11 11 (Commission switchboard)
European Commission
Rue de la Loi 170 / Wetstraat 170
1049 Brussels, Belgium

Project context

Portugal is in the process of implementing a wide range of budget management reforms required under the 2015 Budget Framework Law (Lei de Enquadramento Orçamental) or LEO. The issues addressed include establishing a multi-annual budget framework (MTBF) and a balanced budget rule, reducing budget fragmentation, strengthening commitment control, introducing programme budgeting and accrual accounting.

The Public Financial Management reform unit of the Ministry of Finance (UniLEO) has been supported in the implementation of several provisions of the new budget framework law by both Eurostat (accounting) and the European Commission (DG REFORM) including projects on cash management, commitment controls and performance budgeting.

In 2021, UniLEO requested support from DG REFORM to develop policies and guidance materials to implement accrual accounting in respect of service concession agreements, consistent with IPSAS standards and international good practice. In addition, UniLEO requested advice on the functional requirements for an integrated financial management information system that would underpin many of the budget reforms with higher quality financial information.

The request was assessed by the Commission in accordance with the criteria and principles referred to in Article 9 of the TSI Regulation. Following the assessment, the European Commission agreed to fund the request and provide technical support to Portugal, together with the Organisation for Economic Co-operation and Development (OECD).

Project Beneficiaries

The national authority that requested technical support and is the main beneficiary of this project is the Public Financial Management Reform Unit of the Ministry of Finance (UniLEO).

Other key project stakeholders are the Budget Department of the Ministry of Finance (DGO), the Shared-services Agency (eSPAp), the PPP Technical Unit (UTAP) and the General Inspectorate of the Ministry of Finance (IGF).

Outside the Ministry of Finance project stakeholders include the State Modernisation Agency (AMA), the 17 financial coordinating entities in the line departments, the Statistical Office (INE), the Court of Accounts (Tribunal de Contas) and the Independent Fiscal Institution (CFP). Additional target groups for discussion of the report findings include the Budget, Finance and State Modernisation Committee in Parliament and the Parliamentary Budget Office (UTAO).

Needs addressed by the project

The overall objective of the project was to improve fiscal decision-making based on better financial reporting and information for prioritizing resource management. The more immediate goals of the project were to advise the Ministry of Finance on the approach to implementation of accrual-based accounting standards in respect of service concession agreements (SCA) and on the further integration of computerized information systems (IFMIS) that support processing of financial transactions, financial analysis and decision making.

Methodology and approach

The development of the analysis and recommendations provided in the report was based on research and analysis conducted by the OECD secretariat, assisted by the Portuguese Ministry of Finance and the European Commission. This involved a process of in-depth interviews and structured questionnaires sent to stakeholders in Portugal, including departments within the Ministry of Finance, (UniLEO, Budget, Treasury), the Court of Accounts, and review of existing reports.

A similar approach was followed for all components of the study, based on structured interviews with the main stakeholders in the government, supported by advanced questionnaires and interviews with officials from the governments of other OECD member countries that have implemented similar reforms. A group of comparable OECD countries was selected for each topic covered by the report in consultation with UniLEO. OECD countries whose experience was researched include Austria, Belgium, Canada, Denmark, Czechia, Estonia, France, Korea, the Netherlands, New Zealand, Spain, Switzerland, and the United Kingdom. Officials from governments of other OECD member states were sent questionnaires and interviewed as part of the preparation process.

The team also made use of reference materials from other leading sources of information on good practice in developing FMIS including the World Bank, the IMF, the UK Overseas Development Institute, and agencies of the United States federal government.

Key deliverables and activities

The original project design envisaged four main written outputs from the project as follows:

Output 1: An Analysis summarising the responses from the questionnaire on existing practices in the government of Portugal for service concession contracts

Output 2*:* Report on the accounting treatment of service concession arrangements

Output 3: Report on needs to be addressed by an integrated financial management information system

Output 4: Report for developing specifications for a new integrated financial management information system and an action plan on the major initiatives and next steps.

By mutual agreement between UniLEO, DG REFORM and the OECD these outputs were consolidated into two, one on SCA (covering outputs 1 and 2) and the other FMIS, (Outputs 3 and 4) but with interim and final reports.

The project started in September 2021, with the expected duration of the project being 18 months with an end date of March 2023. Due to changes in management of UNILEO it was not possible to complete project activities by the originally scheduled end date in late March 2022. By mutual agreement between UniLEO, DG REFORM and the OECD the project was extended to May 31, 2023.

Service Concession Agreements

Survey questionnaires were prepared covering both the application of the IPSAS standard (IPSAS 32) and the European System of Accounts standard (ESA10). Subsequently, survey information was collected and analysed for both Portugal and selected OECD countries. Written responses to the survey questionnaires were followed up by interviews with officials and a workshop in Lisbon in June 2022.

A draft report covering outputs 1 and 2 was circulated in September 2022. Comments were received from UniLEO and a final version of the report was sent to the Government in December 2022.

Financial Management Information Systems

The process of information gathering on the situation in Portugal was conducted through a combination of virtual and in person meetings and surveys, including three in person missions. Detailed case studies of FMIS systems in other OECD countries were prepared to provide benchmarks and comparators for Portugal on the specified technical issues identified in the request for assistance.

An initial report covering Output 3 and elements of Output 4 was presented at a workshop in Lisbon in April 2022. A more detailed technical proposal was provided in July focused on improving the functional performance of the current FMIS through better integration with subsidiary FMIS systems operated by line ministries.

At that time Portugal emphasized the value of international benchmarking on a number of specialized topics and requested that international benchmarking on these issues be included in the report. These were agreed and incorporated into the work to prepare the final report. Benchmarking on these issues was based on detailed interviews with officials from Canada, Estonia, France, Korea, New Zealand, Switzerland and the UK.

A draft final report was submitted in December 2022 and comments were received from UniLEO in April. A final workshop was conducted in Lisbon in April 2023 and a final report submitted in May 2023.

Consultation with stakeholders and/or workshops

Initial consultations with key stakeholders were conducted by a team from the OECD that visited Lisbon in September 2021. Thereafter a series of in-depth discussions was held with stakeholders over the next six months, based questionnaires sent in advance of the meetings. Workshops to discuss the results of the survey findings and preliminary recommendations provided in draft reports were conducted in April 2022 (FMIS) and June 2022 (SCA). A final project workshop was conducted in April 2023 at which the final versions of the two reports were discussed.

Key findings and lessons learnt

Service Concession Agreements

The report noted a fundamental difference between the requirements of IPSAS standard (IPSAS 23) and the adapted national accounting standard (NCP4), which Portugal is obliged to implement under the LEO, and the European standard for accounting for SCAs (ESA 2010). For the practical implementation of the IPSAS based standard the report recommended that

- The IPSAS approach presented in NCP 4 be applied without modification to all binding arrangements that meet the definition of a service concession arrangement. This recommendation is consistent with the rights and obligations approach which has been adopted by standards-setters in both the public and private sectors around the world.

- Future arrangements clearly identify the fair value of the non-reclassified assets that result from the arrangement and the operator's cost of capital for those arrangements that have a financial liability element.

- Similar to other balance sheet accruals, the implementation of the service concession arrangement standards begin one year before the first accrual-based annual financial report, that include central government accounts, will be issued.

The report also noted that Portugal could make use of the additional three-years transition allowed under the IPSAS standard (33) on the adoption of accrual basis international Public Sector Accounting Standards (IPSASs).

Financial management information systems (FMIS)

The Government of Portugal has evolved a complex web of financial management information systems (FMIS) that collectively support a broad range of financial management functions. Within the Ministry of Finance and its agencies many separate systems perform specialized tasks with limited data integration and reliance on manual processes to aggregate information and share it between IT systems. Outside the Ministry of Finance several line ministries and agencies operate their own local FMIS. This fragmentation results in information delays, gaps, control weaknesses and other inefficiencies.

The Ministry of Finance has prioritized better integration of data as an essential task to support the achievement of its objective of improving the quality of financial management, as laid out in the 2015 Budget Framework Law. These objectives include;

- implementation of accrual accounting,
- consolidated financial reporting for the state,
- performance budgeting
- medium-term budget perspective, and
- improved capability to provide management accounting information.

At this juncture, the key decisions that the government needs to make are on the conceptual objectives of the IFMIS, the strategy for integrating additional functions within the IFMIS and the type of platform that will support the IFMIS.

At the highest level the choice is between moving towards a centralized IFMIS along the lines of Estonia, France, or Korea, a devolved FMIS architecture like Canada, Netherlands, Sweden, or the UK or maintaining the current hybrid architecture whereby central government provides an FMIS but line ministries may also develop local FMIS. Looking at the various models followed by OECD countries a critical factor influencing the conceptual model for the systems architecture is the legal or constitutional independence granted to line ministries to determine their own financial management arrangements. Here it is important to note that the Portuguese Constitution grants degrees of financial autonomy to line ministries and agencies and since 2018 a significant number of entities have already invested in separate IT systems that support the new accounting standards. It should also be noted that the government's reform objective, and hence the FMIS model, is to cover all sectors of public administration not limited to the central administration served by GERFIP.

The OECD recommends maintaining the current hybrid architecture in the short-term, but to move towards a centralized IFMIS architecture as part of a three-phase approach. In Phase 1 the current architecture would be maintained but the functionality of the central systems would be expanded, and a portal created to improve the flow of information from line ministries' local FMIS to the centre. In Phase 2 an upgraded IFMIS would be implemented, and ministries would be encouraged to migrate core financial management functions to the central system. In Phase 3 the functionality of the system would be expanded with possible migration to a cloud-based operation depending on further detailed analysis.

At the core would be the development of a successor to the GERFIP accounting system, with added functionality including improved interfaces to capture and consolidate information from other FMIS systems. Interoperability is also key, since a single central solution may not be able to address challenges for specific sectors such as municipalities, who already have their own solutions.

The top priority functions to be integrated into the new systems would be preparation of the multi-year and annual budget, expenditure ceilings and cash allocations, non-tax revenue collection, cash requirements, commitment control, recording of assets and liabilities, financial reporting on multiple bases (budget, cash, and accruals) and data analytics. Separate but linked systems would support the processes of procurement, fixed asset management, debt management, and recording and monitoring of guarantees and contingent liabilities, performance reporting and preparation of consolidation of financial statements.

Other strategic options are possible but carry more risk. The first is to devolve core FMIS functions to line ministries and restrict the functionality of the central systems to a smaller set of tasks for which the Ministry of Finance is uniquely responsible including budget allocation, cash flow management, debt management and preparation of consolidated financial statements. Cloud computing makes this option technically feasible, but only in the medium term as considerable work is needed to prepare for migration to the cloud.

A second alternative strategic option would be to move directly to develop a centralized FMIS with increased functionality along the lines of France's CHORUS or Korea's dBrain system. This would create the highest level of integration, but these systems required a heavy level of investment and many years of development, in the case of France this involved extensive customization of an off the shelf software and in the case of Korea development of a bespoke system. Given the timescales involved in developing a new centralized system, it is also likely that an interim solution will be needed to address weaknesses in the current systems.

As a core system supporting the operation of government and the delivery of essential services government FMIS is too important to fail and for this reason the OECD recommends the first, lower risk approach. Given the many tasks involved in implementing any of these solutions OECD recommends that a dedicated team is established as soon as possible to work on the design and implementation of the proposed IFMIS. This should include representatives for the main user departments as well as IT support services function.

OECD recommends that, as part of systems design the Ministry of Finance identifies opportunities to strengthen financial controls and to simplify and streamline key business processes and workflows, taking advantage of the opportunities presented by automation. Unless this work is undertaken up front, it is likely that the new system will simply replicate existing inefficiencies and control weaknesses.

FMIS systems have been developed successfully using both locally developed software (LDSW) and customized off the shelf software (COTS). Each of these approaches has its advantages and disadvantages but off the shelf software seems the most practical solution for Portugal due to constraints of budget, staff and timing and familiarity with COTS. Assuming Portugal decides to use COTS for the future core FMIS system careful analysis will be required of the systems offered by different providers to determine which is the best match and the extent of customization required.

An important prerequisite for successful data integration is to eliminate inconsistencies in data definitions which, if not identified and resolved, will compromise the quality of data and therefore the entire system. Core to the operation of the FMIS is the budget classification system and the chart of accounts. These should be consistently applied across government. Other types of master data may also need to be worked on to ensure harmonization such as unique identifiers, non-financial performance data, and budget earmarks or tags such as on gender or environmental sustainability.

The experience of other OECD countries suggests there is potential for Portugal to make use of cloud-based solutions. Cloud based solutions are likely to have additional relevance if Portugal decides to move in the direction of more devolved FMIS architecture, in which case government can work with service providers to offer generic software solutions tailored to the needs of the public sector as in the UK case. As a form of outsourcing to the private sector, OECD recommends deeper analysis of the costs, risks and benefits and international experience prior to any decision.

In developing an IFMIS Portugal should take advantage of the integration of business analytics and machine learning into the latest standard versions of finance software offered by major providers. As a starting point, Portugal could establish a specialized group or task force to explore and advise on their potential uses in financial management.

Expected results

It is expected that Portugal, having been closely involved in implementation of the Project and consulted at all major stages of the activities to be implemented, takes the necessary follow-up actions on the final outputs through its internal mechanisms and implements the work contained in the final outputs with the view of facilitating the achievement of the Project outcomes and impacts.

Service Concession agreements

- Apply the IPSAS approach presented in NCP 4 without modification to all binding arrangements that meet the criteria of a service concession arrangement
- Clearly identify the fair value of the non-reclassified assets that result from the arrangement and the operator’s cost of capital for those arrangements that have a financial liability element in respect of all future arrangements

FMIS

- Move towards a more centralized IFMIS as part of a phased approach, while respecting the autonomy of line ministries and agencies.
- Strengthen financial controls while simplifying and streamlining key business processes and workflows as part of the system design process.
- Apply OECD recommendations on user requirements and functional and technical requirements for the IFMIS and on the selected technical issues.
- Incorporate the functions of recording contractual finance commitments (including multi-year commitments), receipt of good and services, invoice recording, payment authorization and settlement within the core FMIS.

- Analyse and select from alternative customized off the shelf software options for IFMIS development.
- Initiate work to eliminate inconsistencies in data definitions to ensure interoperability and quality of IFMIS data, including unique identifiers, non-financial performance data, and budget earmarks or tags.
- Conduct analysis of the costs, risks and benefits and international experience of cloud-based solutions prior to any decision to move IFMIS to the cloud.
- Establish a specialized group or task force to advise on integration of business analytics and machine learning into the latest standard versions of finance software offered by major providers.

Achievement of these outcomes, and contributing to a longer-term impact of this Project, depends largely on the degree of follow-up actions and implementation of the outputs by Portugal and subsequent enforcement, as well as wider policy conditions, which remain outside the responsibility of the European Commission and the OECD. Such implementation remains the responsibility of Portugal

Expected impact

The expected long-term effect of this project (**impact**) is to improve fiscal decision-making based on better financial reporting and better-quality information for prioritizing resources. In addition, the Project is expected to produce additional effects in short and / or medium term (**outcome**). The outcomes are the following: increased comprehensiveness and transparency of financial reporting in Portugal.

Visit our website:

Find out more
about the Technical
Support Instrument:

BETTER POLICIES FOR BETTER LIVES

Funded by
the European Union