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SNC-AP Public Administration Accounting Standardization System - An Approach to Standards

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Abstract **Review Article**

The growing complexity of the business world, associated with economic and financial globalization, has led to an increase in economic activity between companies and countries, which has given rise to the need to adopt a set of internationally accepted accounting standards, in order to mitigate the different accounting practices between countries and companies. In this sense, the International Accounting Standards Board, IASB, was created, responsible for creating a set of accounting standards with a global scope. The European Union joined the IASB, in the accounting harmonization process, leading to the adoption of the IASB's international standards as from 2005, all listed companies. In Portugal, it was decided to bring the national accounting system closer to international standards. For this purpose, the Accounting Standardization System, SNC, was created by the Accounting Standardization Committee (CNC), which includes a set of accounting standards, based on the international standards of the IASB. Decree-Law No. 192/2015 of 11 September, institutes the Accounting Standardization System for Public Administration in Portugal. This introduction eliminated a problem recognized in the diploma as “fragmentation constitutes a serious problem of technical inconsistency, as it affects the efficiency of the consolidation of accounts in the public sector and entails many adjustments that are not desirable and that question the reliability of the information in headquarters of its integration." Thus, it is referred in the legislation, after “15 years since the approval of the POCP and after having considered the needs of having an accounting system that responds to the requirements of adequate planning, reporting and financial control, the Government decided, through the Decree-Law No. 134/2012, of 29 June, instructs the Accounting Standardization Committee to prepare a new accounting system for public administrations, which is consistent with the SNC and with the International Public Accounting Standards (IPSAS).
Keywords: SNC-AP; conceptual structure; public accounting; public sector.

INTRODUCTION

The SNC -AP makes it possible to standardize procedures and increase the reliability of the consolidation of accounts, with an approximation to the SNC and the SNC -ESNL, applied in the context of the business sector and entities of the non-profit sector, respectively. The SNC-AP now includes the budget accounting, financial accounting and management accounting subsystems. The SNC-AP is based, namely: i) on a conceptual structure of public financial information; ii) public accounting standards convergent with the IPSAS; iii) in financial statement models; iv) a standard on budget accounting; v) in a multidimensional chart of accounts; and vi) a management accounting standard.”

1 - The Conceptual Structure

The SNC-AP Conceptual Framework (EC) (Annex I) defines the concepts that must be present in the development of public accounting standards (NCP) applicable to the preparation and presentation of financial statements and other financial reports by public entities.

These differentiating characteristics of Public Administrations, given the lucrative activities, namely in the private sector, are at the base of most of the differences identified between the SNC and the SNC-AP.

It is important to identify and analyze the main differences between the normative regime of the SNC and the SNC-AP.

In summary, these differentiating characteristics are based on the following:

Transactions without consideration (§3)

In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in return, or gives value to another entity without directly receiving approximately equal value in return. - Taxes, fines, fees that represent symbolic retribution and transfers are examples of transactions without consideration.

State budget and budget execution (§4)

Another differentiating element in the public sector is the State Budget. Public entities prepare the budget with their revenues and expenses, being the object of public disclosure. - The Parliament and other bodies control the management acts of the Government and public entities through budget execution. The budget is also the basis of fiscal policy and expenditure authorizations.

The nature of programs and longevity in the public sector (§5 to 6)

Many public sector programs are long-term and the ability to meet commitments depends on future taxes and contributions. - The principle of continuity is hardly related to the ability of a State to meet its financial obligations and can hardly be measured through equity or equity (as in the business sector). Although the principle of continuity is important, long-term sustainability becomes more relevant to assess the performance of the State.

The nature of assets and liabilities in Public Administrations (§7 to 10)

While in the private sector, the objective of holding assets is to generate cash flows and profits, in the public sector the objective is to provide services as well as economic benefits. Most assets are specialized, for example, roads and military equipment where there may be only a very limited market for such assets. This fact has implications for the measurement of these assets. The Government at its different levels can hold assets that contribute to national culture and history, such as works of art and historic buildings.

The State may also be responsible for natural parks and other areas of importance to indigenous flora and fauna. These assets are generally not for sale, even if there is a market. It is the responsibility of the State to preserve and maintain these assets for current and future generations.

Governments have powers over natural resources such as mineral reserves, fisheries resources, forests or electromagnetic spectrum. These features allow governments to license their use.

The regulatory role of Public Administrations(§11 to 12)

The Government at its different levels has the power to regulate entities that operate in some sectors of the economy either directly or through independent administrative entities, usually designated as regulatory entities.

Relation to statistical reporting (§13 to 15)

Portugal prepares two types of financial information: from the perspective of national accounts for the purpose of macroeconomic analysis and decision-making (based on ESA 2010), and financial statements, with a view to decision-making and accountability.

The conceptual structure of public financial information is based on the following:

- Purpose of the conceptual framework;
- Purposes and users of general purpose financial statements;
- Qualitative characteristics;
- reporting entity;
- Elements of financial statements;
- Recognition of the elements of the financial statements;
- Measurement of the elements of the financial statements.

An important note is that the conceptual framework is not a Standard. In case of conflict between the EC and an NCP, the Standard prevails.

Purpose of the conceptual framework (§16 to 20)

a. To help those responsible for the financial statements in applying the Public Accounting Standards on an accrual basis (NCP) and in dealing with matters that still come to be the subject of one of these standards;
b. Help form an opinion on the adequacy of the financial statements to the NCP;
c. Assist users in interpreting the information contained in the prepared financial statements;
d. Provide accounting standardization entities with the concepts necessary for the formulation of NCPs.

The purpose of financial reporting by public entities is to provide information about those entities that is useful to users of general purpose financial statements for accountability and decision-making purposes.

Financial reporting is not an end in itself. Its purpose is to provide useful information to users of financial statements and is determined by their needs.

Thus, the main users of financial information are service users and their representatives, resource providers and taxpayers and their representatives.

The qualitative characteristics of the information included in financial reporting are the attributes that make that information useful to users of financial statements and achieve the objectives of financial reporting.

The main qualitative characteristics are relevance, reliability, understandability, timeliness, comparability and verifiability.

Each qualitative characteristic must be considered when preparing the financial statements. If in practice this is not possible, there must be a balance between them.

Table 2: Qualitative characteristics in the Conceptual Structure

Main attributes	Other related and incomparable attributes
Relevance	Confirmatory value Predictive value
Reliability	Integrity Neutrality Exemption Substance over form (*)prudence is not present expressly but implicitly
Understandability	Clarity Conciseness
Opportunity	Timeliness
Comparability	Consistency Uniformity
Verifiability	Exemption Independence

Source: Own elaboration

The main characteristics of a reporting entity are:

a. It is an entity that receives resources from citizens, or on their behalf, and/or uses resources to carry out activities for their benefit; and
b. There are service users or resource providers who rely on the entity's financial reports as information for accountability or decision-making purposes.

The elements of the financial statements are as follows:

a) Active:

- Resource currently controlled by the public entity as a result of a past event
- Item that contains the ability to provide an inflow of service potential or future economic benefits.

Relevant Asset Characteristics

a) Ability to utilize its service potential or future economic benefits;
b) Ability to determine the nature and form of use, by other entities, of the benefits generated by the resource;
c) Legal ownership;
d) Access or ability to restrict access to other entities;
e) Means capable of ensuring use;
f) Result of a past event

b) Liabilities:

It is a present obligation arising from a past event that generates an outflow of resources.

The relevant feature of Liabilities is that it is a present binding obligation, of a legal or other nature, regarding the outflow of resources

c) Income: Increases in equity that do not result from contributions to equity.
d) Spending: Decreases in equity that do not result from distributions in equity
e) Contributions to equity that include results for the period and capital increases via input from the owners.

To recognize an element, the item must comply with the definition of elements in the section “Elements of the Financial Statements”.

Measurement is the process of determining the monetary amounts through which elements of financial statements are recognized and shown in them, which involves the selection of specific measurement bases.

The Conceptual Framework contains different measurement bases for assets and liabilities, which are based on historical cost or current value, and input or output values can be used.

2.1 Simplified Regime and NCP-PE

At this point, we will analyze the main differentiating aspects between:

- The NCP - PE and the General Regime of the SNC - AP
- The NCP - PE and the NCRF-PE of the SNC

The NCP - PE and the General Regime of the SNC - AP

For this Standard, a complete set of Financial Statements comprises:

- Balance Sheet / Income Statement / Cash Flow Statement / Statement of Changes in Equity / Annex
- The models of the Financial Statements are the same as those of the General Regime (NCP 1).
- As for the Annex, the Standard presents very synthetic guidelines.

It should be noted that the measurement of the Elements of Financial Statements is the process of determining the monetary amounts by which the elements of the financial statements are recognised, involving the selection of specific bases, providing information that allows the assessment of assets and liabilities, namely:

- The operational capacity to provide future services using resources;
- The financial capacity for the entity to finance its activities.
- Measurable assets and liabilities based on historical cost or current value
- Observable in active, open and organized markets and not observable in markets, subject to determination and with less reliability.
- Historical cost associated with the item.

Asset Measurement Bases

a. Historical cost – Can be defined as the acquisition, production or development value of the asset, corresponding to the amount of cash or its equivalent at the time of its acquisition, production or development.
b. Current value – This is the value that reflects the economic environment prevailing on the reporting date and that can be provided through the following bases: Market value; Replacement cost; Achievable (or settlement) amount; Use value.
c. Replacement Cost - Economic cost required to replace the asset's service potential, with reference to the reporting date.
d. Achievable (or settlement) value - Value that would be obtained from the sale of the asset at the financial reporting date, after deducting the costs of sale.
e. Value in use - Present value, with reference to the reporting date, of the service potential or future economic benefits of the asset.
f. Market Value - Amount for which the asset can be exchanged between two knowledgeable parties willing to negotiate, in a transaction between independent parties, operating in an active, open and organized market.

Liabilities Measurement Bases

With the same fundamentals as the assets, but adapted:

a. Historical cost - Transaction amount that gives rise to the assumption of the obligation
b. Cost of compliance - Current value necessary to meet the obligations associated with a given liability
c. Market value - Amount for which a liability will be settled between two knowledgeable parties willing to negotiate
d. Release cost - Amount to be spent that would allow the immediate extinction of the obligation
e. Assumption price - Equivalent to the replacement cost for assets, being the amount the entity would be willing to accept in exchange for assuming a liability that already exists as an obligation of a third party.

CONCLUSION

The introduction of the SNC-AP in Portugal is a challenge for different State bodies. It will require a process of reflection and change of procedures. A suggestion for future work is to evaluate the implementation in a segment of activity in the State.

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