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Public Accounting and IPSAS in Portugal: The Accounting Standardization System for Public Administrations

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The Accounting Standardization System for Public Administrations (SNC-AP) was approved by Decree-Law No. 192/2015, of September 11 and constituted the new accounting system for public administrations in Portugal, which will take effect from January 1, 2017, although there were pilot entities that are already applying it in the year 2016. The reasons for the approval of these accounting regulations are presented in the approval diploma itself, the existence of a strong fragmentation and outdated accounting standardization for the public sector. This paper intends to analyze the public accounting reform in Portugal based on the SNC-AP and the impacts that it will determine in public institutions in terms of accounting in relation to the previous POC-P regime and sectoral plans as well as the resources involved in the Implementation. Likewise, it is intended to assess whether all public bodies subject to its adoption will proceed to its implementation on January 1, 2017, as planned. For this purpose, the data available on this subject will be used, in particular those of the Directorate-General for the Budget of the Ministry of Finance.

Keywords: public accounting, SNC-AP, public administrations, reform

Introduction

The Accounting Standardization System for Public Administrations (SNC-AP), approved by Decree-Law No. 192/2015, of September 11, constitutes the new accounting system for public administrations in Portugal.

It is recognized in the same statute that fragmentation is a serious problem of technical inconsistency, since it affects the efficiency of public sector accounts consolidation and entails many adjustments that are not desirable and that question the reliability of the information in its integration. More is said that this problem is felt throughout the public sector, although with particular emphasis on entities, such as the General Directorate of the Budget, the Directorate General of Local Authoritiesm and the National Institute of Statistics, which have to aggregate information produced on the basis of budgetary and financial information systems which are inconsistent in building macroeconomic indicators, which are indispensable for decision-making in budgetary and monetary policies at the European Union (EU) level.

Concerning the reform that this new financial information system recommends, high expectations are drawn regarding its impact on Portuguese public accounting, as it is stated in the text of the aforementioned decree that it solves the fragmentation and inconsistencies that currently exist, while at the same time providing public administrations with a more efficient and more convergent budgetary and financial system with the systems that are currently being adopted at the international level.

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With the approval of the SNC-AP, it will be possible to implement the accrual basis in accounting and financial reporting of public administrations, articulating it with the current modified cash basis, establishing the grounds for a state budgeting on an accrual basis, and fostering harmonization to institutionalize the state as an entity reporting, through the preparation of budgetary and financial statements, on an individual and consolidated basis, to increase the alignment between public accounting and national accounts, and to contribute to meeting the needs of users of the information system accounting and budgetary and financial reporting of public administrations.

Also with this new accounting standard that the SNC-AP materializes, it will be possible to standardize the procedures and increase the reliability of the accounts consolidation, in line with the standards of private companies (SNC) and non-profit sector (SNC-ESNL).

The SNC-AP includes the subsystems of budget accounting, financial accounting, and management accounting. The elaboration of the SNC-AP contemplates, in particular:

(1) A conceptual framework of public financial information;

(2) Public accounting standards converging with IPSAS;

(3) Models of financial statements;

(4) A standard on budgetary accounting;

(5) A multidimensional chart of accounts;

(6) A management accounting standard.

This paper intends to analyze the public accounting reform in Portugal based on IPSAS and the impacts that it will determine in public institutions in terms of accounting in relation to the previous POC-P regime and sectoral plans as well as the resources involved in the Implementation.

Adoption of IPSAS

Contextualization

International Federation of Accountants (IFAC) is a global organization for accountants. Founded in 1977, the organization is composed of more than 175 members and associates in 130 countries and jurisdictions, representing approximately 2.8 million accountants employed in public practice, industry and commerce, government, and academia. According to its statutes, its mission is “to serve the public interest, to strengthen the accounting profession throughout the world, and to contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, seeking the international convergence of such standards, and defending, in the public interest, the aspects in which the expertise of the profession is of the greatest relevance”. In pursuing this mission, IFAC created the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB (ex Public Sector Committee (PSC)) is an IFAC Board, created to develop and issue, under its own authority, International Public Sector Accounting Standards (IPSAS).

IPSAS are global high quality financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs)[1].

The IPSASB Advisory Group is designated by the IPSASB. The Consultative Group is a non-voting group which provides a means by which the IPSASB can consult and seek advice when necessary from a broad constituency group and is chaired by the President of the IPSASB.

[1] In August 2014, the IPSASB issued a consultation document entitled “The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities”, with comments received as of December 31, 2014.

The Consultative Group is mainly an electronic forum. However, the Regional Committees of the Consultative Group meet with the IPSASB in conjunction with any IPSASB meetings in their regions. All members of the Consultative Group are invited to these meetings. In addition, a full meeting of all members of the Consultative Group may be held if deemed necessary.

IPSAS establish recognition, measurement, presentation, and disclosure requirements that address transactions and events in the general purpose financial statements. IPSAS are designed to apply to the general purpose financial statements of all public sector entities.

Public sector entities include national governments, regional governments (e.g., state, provincial, territorial), local governments (e.g., city, municipality), and their component entities (e.g., agencies, councils, commissions), unless declared differently. The Standards, as referred to, do not apply to GBEs. GBEs apply the International Financial Reporting Standards (IFRS) which are issued by the International Accounting Standards Board (IASB) and a definition of GBEs is included in the IPSAS.

IPSAS are prepared by the IPSASB on an accrual basis, in line with the IFRS issued by the IASB and adapted to the public sector context whenever appropriate.

In undertaking this process, the IPSASB intends, where possible, to maintain the accounting treatment and the original IFRS text, unless there is a significant public sector aspect that results in a departure. These standards address public sector reporting issues that are not extensively addressed in existing IFRS or for which IFRS have not been developed by the IASB.

At present, IPSAS constitute the only set of internationally recognized public sector accounting standards. They are based on the IFRS applied in the private sector and currently comprise a set of 32 accrual accounting standards and a cash accounting standard (EC Report, 2013, p. 3).

Modern public sector management, consistent with the principles of economy, efficiency, and effectiveness, depends on management information systems that enable the provision of up-to-date, accurate, and reliable information on the state and the economic and financial performance of the states in the same terms of any other economic entity (Grossi & Soverchia, 2011; Grossi & Steccolini, 2014). IPSAS are the standards that allow us to achieve these goals.

According to the European Commission (2013):

> There are currently 15 EU Member States making some links to IPSAS standards in their national public accounting standards; of these, nine base their national standards on (or at least guide) IPSAS standards, five make some references to those standards and apply them to certain sectors of local administrations. However, while recognizing the undisputed value of IPSAS, no Member State has fully implemented them. (p. 9)

The six-pack adopted by the European Parliament and the Council on November 16, 2011 consists of a set of six reports on economic governance. As with any other economic activity, the management and control of the efficiency and effectiveness of the public sector depends on the management and control of its economic and financial situation and performance (Olson, Guthrie, & Humphrey, 1998). Its objective is to broaden and strengthen the surveillance of budgetary and macroeconomic policies as well as structural reforms to fill the gaps in existing legislation. The report of the European Commission to the Council (2013, p. 5) mentioned that the existence and quality of data, comparable and consistent, according to the accrual accounting principle, are prerequisites for ensuring the high quality of deficit and debt on an accrual basis and at the macroeconomic level. In the same document, it is recognized that micro-accountability of the public sector in the Member States has many variants, making comparisons difficult both within and between Member States.

It is assumed in the above-mentioned document that harmonized micro-economic accounting systems for all public sector entities (i.e., public administration) in all EU Member States, reconciled with internal control and external audit, appear to be the only effective way of compiling high-quality debt and debt data, in accordance with the accrual accounting principle and the legal provisions in force. Indeed, such a guarantee of the quality and timeliness of reports based on the accrual accounting in the public sector to which the document refers can be given, for example, by the IPSAS, issued by the IPSASB.

In this regard[2], we can give the example of Recommendation No. 4 sent by IFAC to the G20 Leaders' Summit, held on November 15 and 16, 2014, to support growth and economic resilience. In this document, IFAC recommends the adoption and application, in all jurisdictions, of: (1) International Financial Reporting Standards; (2) International Auditing Standards; (3) Auditor's independence requirements set forth in the Code of Ethics for the Accounting Profession, issued by the International Ethics Standards Board for Accountants; and (4) IPSAS.

The acceptance of IPSAS as a set of benchmarks is in line with the ambition stated by the FSB[3], which states: "The list of essential standards will be periodically reviewed and updated by the FSB in the light of international policy developments" (Ferreira, 2013, p. 63), further mentioning that the sovereign debt crisis triggered the evolution of policies at the international level. The use of IPSAS by governments around the world is intended to improve the quality of financial information provided by public entities, a beneficial situation for investors, taxpayers, and the general public to better understand the impact of decisions (Kraff, 2013).

IPSAS or EPSAS?

The current public financial crisis in Europe shows the need to reform and harmonize public sector budget and accounting systems in the European Union (EU). Citing the European Commission (2013) on the use of IPSAS, "On the one hand, it seems clear that IPSAS cannot easily be applied in the EU Member States as they currently exist... indisputable to the potential harmonization of public sector accounts"[4].

Following on from this idea, the EU argues that a system that could provide these benefits is currently being discussed with the development of the European Public Sector Accounting Standards (EPSAS), which are prepared on an accrual basis, further arguing that an appropriate starting point for EPSAS is IPSAS.

The Accounting Standardization System for Public Administrations (SNC-AP)

Context

Taking into account the harmonization of the private sector in relation to international accounting standards, resulting in the approval of the Accounting Standardization System (SNC), which is applicable to the private sector, in order to standardize and increase the comparability of the information provided, public sector felt the need to think about the harmonization of its accounting through the adoption of international standards for public sector accounting (Da Costa & Alves, 2014; Gomes & Pires, 2015; Rodrigues, 2015). It was therefore approved the Decree-Law No. 134/2012, of June 9, which instructed the Accounting Standardization Commission (CNC) to carry out the technical work with a view to the approval of a single accounting standardization system adapted to IPSAS.

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[2] The Group of 20 (or G20) is a group made up of finance ministers and heads of the central banks of the 19 largest economies in the world plus the EU. It was created in 1999 following the successive financial crises of the 1990s. The G-20 studies, analyses, and promotes discussion among richer and emerging countries on political issues related to promoting international financial stability and is beyond the individual responsibilities of any organization.

[3] FSB—Financial Stability Board, of which the European Central Bank (ECB) is a member.

[4] Retrieved from http://www.epsas.eu/en/.

Internationally recognized, IPSAS are the international accounting standards of the public sector that are based on the idea that modern management of the public sector, in accordance with the principles of economy, efficiency, and effectiveness (Pereira, Afonso, & Gomes Santos, 2016), depends on management information systems capable of providing accurate, reliable information about the situation, the economic and financial performance of a State.

Accordingly, in order to meet all the needs inherent in public sector accounting, the Accounting Standardization System for Public Administrations (SNC-AP), approved by Decree-Law No. 192/2015, will come into force on January 1, 2017[5].

The SNC-AP

The SNC-AP, as previously mentioned, was approved by Decree-Law No. 192/2015 and will come into force on January 1, 2017, date changed by Decree No. 85/2016 of December 21, which postpones the application for January 1, 2018, without prejudice to the fact that the pilot entities may have adopted it already in 2017. Its application will be mandatory in all central, regional, and local government departments and agencies that do not have the nature, form, and subsector of social security and public entities reclassified. For the purposes of this Regulation, public entities that are reclassified shall be those entities which, regardless of their form or designation, have been included in the subsectors of central, regional, local, and social security of general government within the European System of National and Regional Accounts, in the last published by the national statistical authority.

The SNC-AP requires accounting to be made on an accrual basis and comprises:

(1) A conceptual framework that establishes the basic principles underlying the construction of public accounting standards;

(2) A set of 27 specific Public Accounting Standards (NCP) for certain transactions and subjects (including a standard on Accounting and Budget reporting);

(3) A detailed Chart of Accounts that can accommodate the budget report, the financial report, and the statistical report;

(4) A set of harmonized models for the presentation of financial statements and budget statements (included in NCP 1—Structure and Content of the Financial Statements and NCP 26—Accounting and Budget Report, respectively).

Although these elements of the SNC-AP are of widespread application, such an application may not be cost-effective when dealing with smaller and lower risk entities and a simplified standard specific to these entities has been prepared and approved by the Ordinance No. 218/2016 of August 9.

The objectives of the SNC-AP (according to Article 6 of the Decree-Law approving it) suggest that it allows the fulfilment of management, analysis, control, and information objectives, namely:

(1) Demonstrates the implementation of the budget and its performance against the objectives of fiscal policy;

(2) Allows a true and fair view of the financial position and the respective changes, financial performance, and cash flows of an entity;

(3) Provides information for the determination of public service expenditures;

(4) Provides information for the preparation of all accounts, statements, and documents that must be sent to the Assembly of the Republic, the Court of Auditors, and other control and supervision entities;

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[5] The Decree-Law No. 85/2016 of December 21 refers the application of the SNC-AP to January 1, 2018.

(5) Provides information for the preparation of accounts in accordance with the European System of National and Regional Accounts;

(6) It allows financial control, legality, economy, efficiency, and effectiveness of public expenditure;

(7) Provides useful information for management decision-making.

Conceptual Structure

The Conceptual Framework (CE) determines the concepts present in the creation of NCPs applicable to the preparation and presentation of the Financial Statements of Public Entities.

Public entities have several characteristics that distinguish between them, which should be considered in the creation of the CE for the SNC-AP. Within the specificities contained in the EC, the following stand out:

(1) Transactions without consideration: Transactions in which there is no exchange of an equal amount, such as tax receipts and the payment of transfers to parish boards or other entities;

(2) State Budget and Budget Execution: What distinguishes public entities from private entities is the State Budget. Budget information becomes important to its users by allowing a comparison between revenue and expenditure and analysing its execution.

Regarding the purposes of the CE, the following are considered:

(1) Assist those responsible for the financial statements in the correct use of NCPs;

(2) Helping to form an opinion on the adequacy of the financial statements to the NCP;

(3) Assist users in interpreting the information contained in the financial statements;

(4) Provide concepts necessary for the formulation of NCPs by standardizing entities.

The CE is not an NCP because it does not explicitly establish measurement, recognition, or disclosure criteria. Therefore, the CE focuses on the following aspects:

(1) Objectives of the financial statements;

(2) Qualitative characteristics that determine the usefulness of the information of the financial statements (FS);

(3) Defines the reporting entity;

(4) The elements of FS;

(5) Recognition of FS elements;

(6) Measurement of FS assets and liabilities.

The main purpose of the financial statements is to provide useful information to its users for the purpose of accountability and decision-making (Carvalho & Nogueira, 2006; CNC, 2009; 2013). The users of the financial reporting are diverse and public entities are responsible for the management and use of resources that taxpayers, donors, financiers and others grant them.

Regarding the information that the financial report provides, we can highlight the knowledge of financial position, financial performance and cash flows, the provision of services, prospective financial and non-financial information, and explanatory information.

In the CE, the qualitative characteristics of the information included in the financial report are considered, namely, relevance, reliability, comprehensibility, opportunity, comparability, and verifiability.

In turn, constraints are defined in the information included in the financial report, such as materiality—being the information material if its inaccuracy or omission can influence the decisions of the users of the FS. Cost-effective, that is, financial reporting entails costs, and their benefits must justify the costs of obtaining it. There should be a balance between the qualitative characteristics, since these work together in order to contribute to the usefulness of the financial information.

As regards the elements of the financial statements, the CE defines the following:

(1) Asset, which consists of a resource that the entity controls as a result of a past event;

(2) Liabilities, which is an obligation originated by a past event that could generate an outflow of resources;

(3) Income and Expenses, where incomes are increases and expenditures are decreases in net worth;

(4) Net worth (NW), which includes the net result determined by the difference between income and expenses; the contributions to the NW and distributions of the NW, in which contributions are inflows of resources by external entities in their capacity as owners that establish or reinforce their interest in NW. Decreases are outflows of resources, delivered to external entities in their capacity as owners, which extinguish or reduce their interest in NW.

The Standards of the SNC-AP

With regard to the Public Accounting Standards, there are 27 standards, of which 25 relate to financial accounting standards, a standard on accounting and budget reporting, and an NCP for management accounting as shown in Table 1.

Table 1

Public Accounting Standards

	Standard	Definition
Financial Accounting Standards	NCP 1—Structure and Content of the Financial Statements	It establishes the basis for the presentation of general purpose financial statements (individual and consolidated), main components of the financial reporting of a public entity or public group, in order to ensure comparability, both with statements of prior periods, or with those of other entities.
	NCP 2—Accounting Policies, Changes in Accounting Estimates and Errors	Defines the criteria for selecting and changing accounting policies, as well as accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors.
	NCP 3—Intangible Assets	Prescribes the accounting treatment of intangible assets that are not specifically addressed in another Standard. This Standard requires an entity to recognize an intangible asset if, and only if, certain criteria are met.
	NCP 4—Service Concession Arrangements: Grantor	This Standard is intended to prescribe the accounting for service concession agreements from the grantor, an entity integrated in public administrations.
	NCP 5—Tangible Fixed Assets	Defines the accounting treatment of tangible fixed assets so that the users of the financial statements can perceive the information about an entity's investments in this type of assets and the changes that occurred in them.
	NCP 6—Leases	This Standard is intended to define the accounting treatment of financial leases and operating leases, both from the perspective of lessees and lessors.
	NCP 7—Borrowing Costs	Prescribes the accounting treatment of borrowing costs, generally requiring that such costs be considered as expenses for the period. However, the Standard allows, as an alternative treatment, the capitalization of borrowed costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
	NCP 8—Investment Properties	The purpose of this standard is to prescribe the accounting treatment of investment property and its disclosure requirements.
	NCP 9—Impairment of Assets	This Standard defines the procedures that an entity must apply to determine whether an asset is impaired and to ensure that impairment losses are recognized. The Standard also specifies when an entity should reverse an impairment loss.
	NCP 10—Inventories	This Standard defines the accounting treatment of inventories. A primary aspect in accounting for inventories is the amount of the cost to be recognized as an asset and its maintenance as such until the related income is recognized.
	NCP 11—Agriculture	The purpose of this Standard is to prescribe the accounting treatment for agricultural activity.

(Table 1 continued)

	Standard	Definition
Financial Accounting Standards	NCP 12—Construction Contracts	This Standard prescribes the accounting treatment of costs, expenses and income associated with construction contracts.
	NCP 13—Income from Counterpart Transactions	The purpose of this Standard is to prescribe the accounting treatment of income from transactions and events that have a consideration.
	NCP 14—Income from Unrequited Transactions	This Standard defines the requirements for the financial reporting of unredeemed transactions and addresses matters related to the recognition and measurement of the income from these transactions, including the identification of owners' contributions.
	NCP 15—Provisions, Contingent Liabilities and Contingent Assets	This Standard defines provisions, contingent liabilities and contingent assets and identifies the circumstances under which provisions should be recognized and how they should be measured.
	NCP 16—Effects of Changes in Foreign Exchange Rates	The purpose of this Standard is to establish how foreign currency transactions and foreign operating units should be included in an entity's financial statements and how they should be translated into the reporting currency.
	NCP 17—Events After the Reporting Date	This Standard is intended to establish when an entity should adjust its financial statements for events after the reporting date and the principles about disclosures that an entity should make about the date on which the financial statements were authorized for issue and events after the reporting date.
	NCP 18—Financial Instruments	The purpose of this Standard is to establish principles for the accounting treatment of financial instruments. It applies to the classification, presentation, recognition and measurement of financial instruments, as well as risk management in the context of financial instruments.
	NCP 19—Employee Benefits	The purpose of this Standard is to prescribe the accounting and disclosure of employee benefits.
	NCP 20—Related Party Disclosures	This Standard establishes the disclosure of related party relationships when there is control, as well as, in some circumstances, the disclosure of information about transactions between the entity and its related parties.
	NCP 21—Separate Financial Statements	The purpose of this Standard is to prescribe the accounting and disclosure requirements applicable to investments in subsidiaries, joint ventures or associates when an entity prepares separate financial statements.
	NCP 22—Consolidated Financial Statements	This Standard prescribes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities.
	NCP 23—Investments in Associates and Joint Ventures	This Standard prescribes the accounting treatment of investments in associates and joint ventures and defines the requirements for the application of the equity method in the accounting treatment of investments in associates and joint ventures.
	NCP 24—Joint Arrangements	The purpose of this Standard is to prescribe the financial reporting principles of entities with interests in jointly controlled arrangements, i.e., joint arrangements.
	NCP 25—Segment Reporting	This Standard establishes the principles for reporting financial information by segment.
Standard of Budget Accounting	NCP 26—Accounting and Budget Reporting	This Standard aims to regulate budget accounting by establishing the concepts, rules and models of general purpose budgetary statements (individual, separate and consolidated), which are the main components of a public entity's budget statement or a perimeter of consolidation, in order to ensure comparability, both with the respective statements of prior periods, or with those of other entities.
Management Accounting Standard	NCP 27—Management Accounting	The objective of this Standard is to establish the basis for the development of a management accounting system in Public Administrations, defining the general requirements for its presentation, giving guidelines for its structure and development and providing for mandatory minimum requirements for its content and dissemination.
Simplified Regime	Simplified System of Accounting Standardization System for Public Administrations	The Simplified System of Accounting Standardization System for Public Administrations is provided for in Article 5 of Decree-Law No. 192/2015 of September 11.

The above rules can be grouped through a set of materials as shown in Table 2, namely:

Table 2

Grouping of Materials

Description	Standards
Regarding the form and content of presentation of the Financial, Budget and Management Report	NCP 1, 2, 20, 25, 26 and 27
Associated with non-current assets	NCP 3, 5, 6, 8 and 9
Associated with transactions common to any public or private entity such as inventories, financial instruments, employee benefits, provisions, income with consideration (sales)	NCP 7, 10, 11, 12, 13, 15, 16, 17, 18 and 19
As for the consolidation of subsidiaries, investments in associates and other investments	NCP 21, 22, 23 and 24
Finally, a group focused on more specific matters in the public sector, such as tangible and intangible assets that represent historical heritage, public domain assets and infrastructures, concessions, unrepresented revenues (from taxes, fees, transfers and subsidies) and impairment of non-cash-generating assets	NCP 3, 4, 5, 9 and 14

Implementation of the SNC-AP

General scheme. Decree-Law No. 85/2016 of December 21 established January 1, 2018 for the practical effectiveness of the SNC-AP and established the obligation to elaborate a strategy for the dissemination and implementation of said system in the year 2017 by all the entities that integrate the public administrations.

The implementation of the Accounting Standardization System for Public Administrations and the preparation of the budget for the year 2017 will be further elaborated taking into account the current benchmark, after which, after 2017, an adjustment will be made to the reporting models foreseen in the SNC-AP. The preparation and approval of a budget according to the SNC-AP will only take place during 2017, this one referring to the Budget for 2018. It will be important to mention in this scope the approval, simultaneously with the SNC-AP, of a new Framework Law (Law No. 151/2015 of September 11), which reforms the Budgetary Framework Law, by publishing a new regulation repealing the previous Budgetary Law, Law 91/2001 of August. This Act now is approved, which does not change the previous LEO, but repeals it (although some parts of the new Law do not have immediate application) and significantly changes the budget process. It is a reform of the public budgetary architecture, such as a reform of the Budgetary Framework Law.

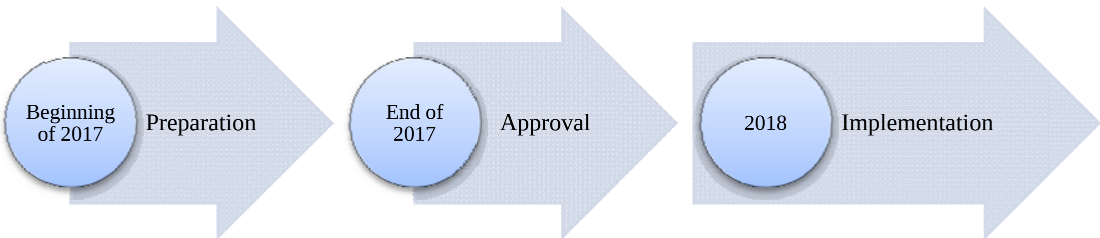

Figure 1. Implementation of the SNC-AP.

Another aspect to take into consideration at the beginning of the new economic year is the adaptation of the Multidimensional Plan of Accounts so that it is adjusted to the reality of each entity and only accounts will be created upon proposal to the TNC to maintain the objective of the SNC-AP, which is to promote the comparability of financial and budgetary information among public entities.

A first task, at the beginning of the fiscal year with the new regulation issued by the SNC-AP, concerns the collection of the initial balances of the accounts, which will run from January to April, for the preparation of the initial balance sheet.

With regard to revenue movement:

(1) The recipe circuit remains the same, i.e., Settlement, Cancellation, and Receipt[6];

(2) The Refunds and Refunds are no longer part of the expenditure circuit and are only a regularization of an undue payment;

(3) There is recognition of amounts to be settled in future years and there is no record of Virtual Revenue.

Regarding the movement of the Expenditure:

(1) Maintaining the Accuracy, Commitment, Obligation, Payment, and Replenishment Reduced to Payment;

(2) There is recognition of Bonds in future years;

(3) In the Treasury movement the concept remained, that is, it is cash inflow and outflow movements that do not represent budget execution operations. For these, new accounts are defined in Class 0, with account 071 for Receipts and account 072 for Payments.

Simplified regime. A relevant aspect of the application of the SNC-AP is the importance of its application to smaller entities. In fact, the cost/benefit ratio of the application of the general SNC-AP scheme may not be the most appropriate for small and low-risk entities. To address this situation, a specific simplified standard was drafted for these entities and approved by Administrative Rule No. 218/2016 of August 9, i.e., a simplified accounting regime.

In accordance with Article 2 of the aforementioned Decree, the simplified regime applies to entities that, within the scope of the SNC-AP, fulfil the requirements to be small entities or micro entities, provided that the former does not opt for the general regime and the implementation of that scheme or the simplified scheme for small entities.

For this purpose, small entities are those that have a Budget Expenditure in excess of 1,000,000€ and less than or equal to 5,000,000€, while micro entities are those whose budget expenditure does not exceed 1,000,000€ inclusive.

The Simplified System of Accounting Standardization for Public Administrations recommends that smaller entities be exempted from the effort to apply the full set of SNC-AP financial accounting standards, subject to comparison with the general regime, especially in accounting for transactions and other events, as well as in relation to its reporting.

The simplified scheme for small entities is thus composed of:

(1) Public Accounting Standard-Small Entities (NCP-PE);

(2) NCP 26—Accounting and Budget Report;

(3) NCP 27—Management Accounting;

(4) Multidimensional Chart of Accounts.

The simplified scheme for micro-entities consists of:

(1) NCP 26—Accounting and Budget Report;

(2) Disclosure of the inventory of assets.

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[6] It should be noted that with SNC-AP, Account 25 is no longer handled, which was only a ticket on this account.

In short, the simplified SNC-AP scheme is designed to enable smaller entities, which generally have small human and financial resources, to be able to effectively respond to and meet the requirements they face, thereby ensuring sound financial management, transparency of public accounts, and the satisfaction of civil society in general.

Conclusion

In Portugal, there is a growing need for rigor and transparency in the application of public funds and in the accountability of its administration, so that, in addition to controlling compliance with legality, the available information system must allow for the analysis and evaluation of the decisions taken and support for future decisions (Costa Marques, 2002).

IPSAS are high quality global financial reporting standards for application by public sector entities, establish recognition, measurement, presentation, and disclosure requirements, and treat transactions and events in general purpose financial statements.

The SNC-AP thus configures a modern and global accounting model, more based on principles than on explicit rules, representing an accounting reform aimed at resolving the fragmentation and inconsistencies that currently exist. At the same time, it provides public administrations with a more efficient and more convergent budgetary and financial system with the systems that are currently being adopted at the international level.

With the implementation of the SNC-AP, public entities must recognize all the assets and liabilities recognized by public accounting standards; recognize items as assets only if they are permitted by public accounting standards; reclassify items that have been recognized in accordance with the Official Public Accounting Plan, or sector plans (Viana, Rodrigues, & Nunes, 2016), in one category, but according to the public accounting standards belong to another category; apply the rules of public accounting in the measurement of all recognized assets and liabilities.

The change in accounting policies may result in the need to make adjustments, which should be recognized in the balance of retained earnings in the period in which the items are recognized and measured, as well as in the previous comparative period.

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