



Magyar
Államkincstár

**Le Trésor Public Hongrois
Governmental Accounting in Hungary**

Dr. József DANCSÓ
President
Hungarian State Treasury

The Hungarian National Treasury (Exchequer)

- The Hungarian Public Treasury (TPH), in place already before World War II, then suppressed after the war, was reinstated on January 1st 1996. The purpose of the TPH is to ensure the execution of the general budget and to make sure it is being implemented consistently.
- The main office of the TPH and its general management are located in Budapest. At sub-national level, each of the 19 counties of Hungary hosts county directorates that fulfill their missions autonomously.
- By means of its action, the National Exchequer must epitomize budgetary culture. TPH has become one of the most dynamic and important public service bodies in Hungary.

A modern national Treasury

From its vast scope, the National Hungarian Treasury singled out five major assignments for the period 2014-2018. Reaching the objectives that would lay the foundation of a “**modern Public Treasury**” is a realistic expectation provided that it is accompanied by an appropriate schedule and that the necessary resources are ensured timely.

The five major assignments

- Managing financial flows;
- Fulfillment of public finances assignments, budget execution and control of budget execution
- Establishment of appropriations and centralized settlement of wages and salaries
- Fulfillment of assignment related to the management of the Treasury's entities
- Fulfillment of communication assignments

The strategy

Main ROLE:

-Act in the public interest, enable the use of public funds in a transparent, efficient and disciplined manner.

STRATEGIC OBJECTIVE:

- Develop and provide services for the internal use of government
- Plan and execute the budget, contribute to governmental and legislative decision making, provide reliable, precise and up-to-date information,
- Diminish the need of financial resources in the field of public finances.

OPERATIONAL OBJECTIVE:

- Expand the scope of the Public Treasury in terms of bookkeeping (local governments);
- Implementation of the Treasury's new application for the administration of accounts;
- Act as an information and service centre.

APPROACH:

- Integrate and simplify the performance of assignments
- Action focused on services, needs, delivered in a highly competent manner

Vision of the future

- Focused on services, the renewed Hungarian Treasury acts considering client needs and fulfills its mission in a reliable and highly competent manner.
- Organized in an integrated network, in its capacity of information and service centre, the Treasury ensures that public service bodies and associated entities operate efficiently by means of modern management instruments and IT applications. It is thus supporting the preparation of accounts by the bodies charged with this task.
- By means of its information systems (its data base), it contributes to budget formulation and to the analysis of budget execution, to a knowledgeable decision making by the government on legislative matters, and supplies reliable, precise and up-to-date information to taxpayers, investors and international bodies. The data from governmental accounts is integrated in the Treasury's data base.

Hungarian accounting standards

The **accounting act** “C” adopted in 2000 applies to all companies and **establishes** harmonized **accounting standards** compliant to Community Directives. The Hungarian accounting act also incorporated international accounting standards enabling thus the provision of information that render a true and fair representation of the wealth produced by the bodies within its scope as well as of their financial position, their assets and progress, and expected prospects.

Hungarian accounting standards comprise **rules, methods and detailed processes** derived from the accounting act. The standards are issued in the form of decrees by each ministry tasked to draw up accounting regulations. The legal basis of the government decrees is comprised in the provisions of the accounting act. These standards provide the particulars related to the framework of account formulation and bookkeeping.

Accounting standards applicable to governmental accounting prior to 2014

Four government decrees applied:

1. Decree n°249 from 2000 on the specific duties of government entities in relation to bookkeeping and the production of accounts stipulates the rules to be observed

- by the sub-sector consisting of central government entities, laying the particulars down to ministries, public bodies (operators) receiving money from the general budget and from special funds.
- by the sub-sector consisting of local government entities and sub-national entities

2. Decree n°240 from 2003 on the specific duties of the Public Treasury in relation to the production of accounts and bookkeeping stipulates the rules to be observed

- by the sub-sector consisting of central government entities for the booking of revenues and charging of expenditure from public funds and for the accounting of revenues and expenditure related to financing operations

3. Decree n°347 from 2011 on bodies tasked with the administration of national wealth by means of delegation of property rights by the State and on their duties in relation to bookkeeping and production of annual accounts. The decree indicates the rules to be observed

- by the sub-sector consisting of central government entities when exercising their property rights over the national wealth

4. Decree n°34 from 2011 on the duties of bookkeeping and production of accounts in relation to the real estate of the State whose administration was entrusted to the National Real Estate Fund. The decree indicates the rules to be observed

- by the sub-sector consisting of central government entities in what concerns the assets administered by the National Real Estate Fund.

Accounting standards applicable to governmental accounting prior to 2014

- The central government entities sub-sector carried out the harmonization of the **charts of accounts** and of balance sheets in a particular manner.
- Bookkeeping according to the four decrees mentioned previously relied on **on a receivable-payable basis**. Thus, transition to bookkeeping in line with the principles of accrual basis accounting (financial accounting) required by the EU and international bodies proved to be an extremely difficult task.
- Although bookkeeping relied on a payable-receivable basis, differences between actual financial flows and the Treasury's accounting records were likely to occur. **The computation of these differences** was performed by means of specific forms attached to the statements of accounts.
- Consecutive amendments to government decrees required the production of ever more in-depth data which lead to the **increase** from one year to another of the **number of forms attached to the statements of accounts** as well as of the quantity of data to be provided.

Compliance to international standards

- *Council Directive 2011/85/UE on the requirements for budgetary frameworks of the Member States* was adopted by the European Council in 2011 and had to be transposed into national laws by December 31st 2013. It especially provided for:
 - implementation of governmental accounting across the whole of the government sector;
 - monthly publication for the whole of the government sector of cash-based financial data;
 - drawing up of a transition methodology (in the form of a reconciliation table) to show the transition between cash-based data to data established on an accrual basis
 - The directive lead to a comprehensive rewriting of the national legislation on public finances. In fact, implementation of the new regulations triggered a compulsory amendment of the rules in place regarding accounting classification, bookkeeping and the provision of data.

Compliance to national standards

- Bring in simplifications,
- Promote the taking into account of less data in terms of quantity, but more reliable in terms of contents;
- Consistent and unified classification of revenues and expenditure throughout the whole of the government sector;
- Support for the bookkeeping based on cash-accounting;
- Provide data in support of effectiveness calculation, cost calculation, cost price required by some of the operators;
- Measure national wealth using consistent criteria;
- Unify the fragmented accounting regulations
- Draw up exceptions to the provisions of the accounting act for public finances specific fields that do not lend themselves to its application;
- Move towards the solutions envisaged by the accounting act when its provisions can be harmonized with the specificities of public finances and if they enable streamlining of bookkeeping.

Accounting standards applicable to governmental accounting starting with January 1st 2014

The decree on governmental accounting sets the rules on the **drawing up of accounts** and **governmental bookkeeping** at a more demanding level than that of current standards. It lays down for the two government sub-sectors (central government/local governments) a list of accounts, identical identification codes for headings and – in line with the rules on reconciliation (transcription) – the keeping of two types of accounts, namely budgetary accounting and general purpose (financial) accounting

–A ministerial decree provides for the **actions** resulting from **the amendment of governmental accounting** in 2014. The differences compared to previous government decrees led to the set up of offset items and to adjustment balances derived from offset items.

–A specific ministerial decree regulates the **compulsory accounting** of certain chargeable events found more often in the government sector than in the private sector. The decree provides detailed explanations of the items reserved for the accounting of these chargeable events.

– A ministerial decree lays down the subdivision of **governmental functions**, as well as the sub-divisions of **technical tasks** and **specific sectors** in the realm of public finances.

The new governmental accounting

BUDGETARY ACCOUNTING

Every financial transaction passing through the Treasury needs to be linked to its identifier. This identifier relates to a line in the law and to a unified heading code.

The identifier of the line in the law is used for the purpose of **administrative classification** while the unified heading codes are used for the purpose of **economic classification** and constitute the basis of budgetary accounting.

The administrative classification reflects the territorial organization of the country and enables correlation to a public finances operator and to the law on public finances..

1.The central government sub-sector:

- Ministries and their operators, appropriations managed directly by ministries
- Appropriations managed by central government entities (State owned property)
- Social Security funds and Treasury special funds

2.Sub-national government sector (local governments)

The new governmental accounting

Economic classification according to budgetary accounting: main headings (for the purpose of the decree)

Staff costs (K1)
Employer social security contributions – contributive social tax (K2)
Procurement (K3)
Entitlements for ensured persons (K4)
Other operating expense (K5)
Investment (K6)
Renovation works (K7)
Other expense for fixed capital formation (K8)
TOTAL BUDGETARY EXPENDITURE
Operating appropriations allotted internally within the scope of public finances (B1)
Appropriations for fixed capital formation allotted internally within the scope of public finances (B2)
Receipts from public entities (B3)
Operating receipts (B4)
Fixed capital formation receipts (B5)
Financial resources transferred for the purpose of operating expense (B6)
Financial resources transferred for the purpose of fixed capital formation (B7)
TOTAL BUDGETARY REVENUES

The new governmental accounting

Budgetary accounting falls under a functional classification (523 items) regulated by ministerial decree.

Linkage of governmental functions

- 1) General public services
- 2) Defense
- 3) Public order and safety
- 4) Economic affairs
- 5) Environmental protection

- 6) Building of housing and community amenities
- 7) Health
- 8) Recreation, sports, culture, and religion
- 9) Education
- 10) Social protection
- 90) Technical tasks codes

The governmental accounting

General purpose (financial) accounting falls under a functional classification (408 items) regulated by ministerial decree.

Classification of specific functions ensured by general government

- 1) AGRICULTURE
- 2) INDUSTRY
- 3) BUILDING INDUSTRY
- 4) TRADE, CARRIAGE OF GOODS AND PASSENGERS
- 5) HOTEL, CATERING
- 6) PRINTING, TELECOMMUNICATION, INFORMATION SYSTEMS
- 7) HOUSING, PROPERTY AND FACILITY MANAGEMENT
- 8) PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES
- 9) OTHER SERVICES
- 10) PUBLIC SERVICE, SECURITY
- 11) PUBLIC EDUCATION AND VOCATIONAL TRAINING
- 12) HIGHER TRAINING AND HIGHER EDUCATION
- 13) OTHER TYPES OF EDUCATION
- 14) HEALTH
- 15) SOCIAL WELFARE
- 16) CULTURE
- 17) SPORTS, RECREATION
- 18) BENEFITS, CUSTOMIZED SERVICES
- 19) TECHNICAL SPECIALIZED TASKS/SERVICES

The new governmental accounting

BUDGETARY ACCOUNTING

Budgetary accounting **relies on cash basis recognition of budgetary receipts and expenditure**, in class n°0 accounts, in tracking accounts that correlate with the classification of headings.

Accounts needs to track:

- scheduled receipts and expenditure
- Receivables** on non-received revenues and **payables** on pending expenditure. The breakdown of receivables and payables throughout the financial year or the following financial year is done by means of contra accounts.
- execution** of expenditure and receipts. Charging according to the functional classification is ensured by means of contra accounts tracking cash outflows and inflows.

The new governmental accounting

BUDGETARY ACCOUNTING

The set-up of tracking accounts

Designation of the tracking account:	053313 Settlement of utilities invoices
"0"	0
5 / 9	5
Expenditure / Receipt	
Heading code	K331
1 / 2 / 3	
appropriation/settlement of claims or debts	3

Consistency needs be observed according to public financial management rules:

Debts \geq expenditure execution **053312 \geq 053313**

Appropriations for payment \geq debts **053311 \geq 053312**

Debts to be paid upon year end **053312 - 053313**

The new governmental accounting

GENERAL PURPOSE (FINANCIAL) ACCOUNTING

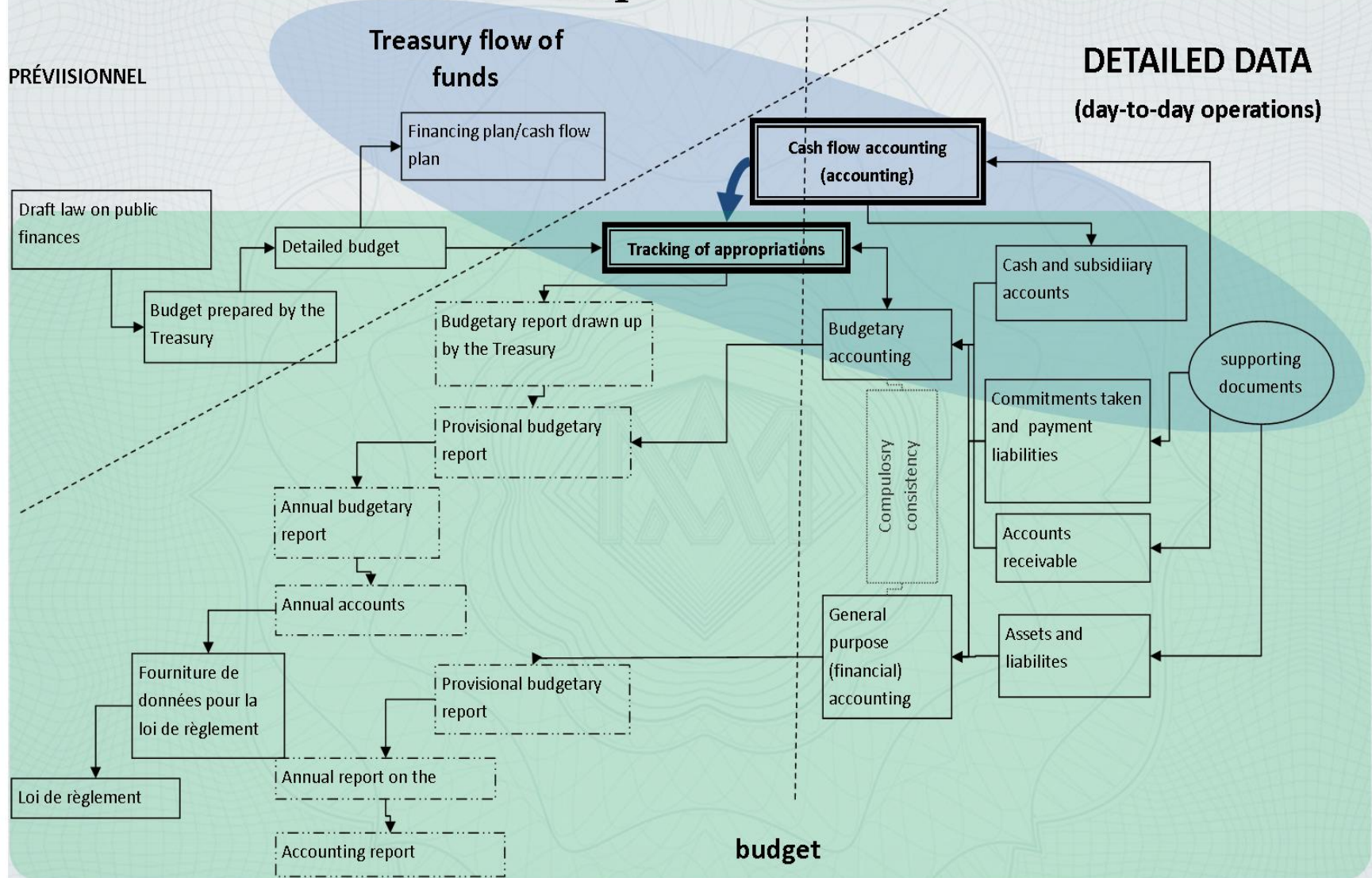
General purpose (financial) accounting is kept according to the method of **commitment-basis accounting**. A record should be kept in real time and in a closed circuit so as to reflect in a true and transparent manner charging events that might produce an impact on assets and liabilities, their change as well as the evolution of the balance (profits and losses).

Structure of financial accounting accounts

- Class 1 to 3 accounts - assets
- Class 4 accounts - liabilities
- Class 5 to 6 accounts – type of expense and general expense
- Class 7 accounts – track service-related expense/specialized tasks (on the basis of a specific ministerial decree)
- Class 8 to 9 accounts – track overheads and expenses as well as proceeds accounted for according to the method of commitment-basis accounting.

AGGREGATE

Preparation of annual accounts statements



The new governmental accounting

“Revenues” form from the annual accounts statement (excerpt)

Annual accounts														
Budgetary revenues B1 to B7														
SIF number		Public Finances Code				Sector		Ministry or department in Hungary		Title/chapter or financial area				
KK059493		59493				1000		17		2101				
Designation		Mineral rights												
Form	type	Financial year				Starting from month		Day	Upon month		Day			
0	2	2	0	1	4	0	1	0	1	-	1	2	3	1
												Thousand HUF		
N°	Heading	Heading N°	Appropriations (credits)		Receivables		Settlement							
			Original	Adjusted	Due date in current year	Due date in following year								
1.	2.	3.	4.	5.	6.	7.	8.							
186	Property income (>=187+...+192)	B404	65 000 000	65 000 000	63 152 910		62 962 865							
209	Operating revenue (=180+181+184+186+193+...+196+200+205)	B4	65 000 000	65 000 000	63 152 910		62 962 865							
271	Budgetary revenues (=43+79+179+209+218+244+270)	B1 to B7	65 000 000	65 000 000	63 152 910		62 962 865							
Outstanding upon year end: columns 6 to 8=			190 045 THUF											

The new governmental accounting

Asset-liability form in the annual balance sheet statement based on general purpose (financial) accounting (excerpt)

N°	Designation	Account in the General Ledger (financial and budgetary accounting)	Outstanding amounts at the beginning of financial year	Change in outstanding amounts related to financial flows operations	Change in outstanding amounts non-related to financial flows operations	Other volume changes	Valuation	Outstanding amounts upon year end
1.	2.	3.	4	5	6	7	8	9
70	D/I/4 Accounts receivable from operating revenues due in current financial year	3514, 3582	136 993	-62 962 865	63 019 548	-3 631	0	190 045
72	D/I/4/2 – out of which: accounts receivable due in current financial year: Property income	3514, 3582 and 094042 due in current year budgetary forecast	136 993	-62 962 865	63 019 548	-3 631	0	190 045

Relation between **forecast figures** in the accounts drawn up following the two accounting methods:

Line 186, columns 6 to 8 in the form revenues from the statement of accounts drawn up on the basis of budgetary accounting principles= 190 045 MHUF

Budgetary line 70, column 9 in the report on the balance/regular balance drawn up on the basis of general purpose (financial) accounting principles = 190 045 MHUF

Relation between **actual figures** in the accounts drawn up following the two accounting methods:

Line 186, columns 6 to 8 in the form revenues in the statement of accounts drawn up on the basis of budgetary accounting principles = 62 962 865 MHUF

Line 72, column 5 in the report on the balance/regular balance drawn up on the basis of general purpose (financial) accounting principles = 62 962 865 MHUF

From our experience

For the entities:

- very little time left for the preparation and the transition from one system to another. The shift was made difficult by a lack of in-depth consistency between the two systems and by IT issues;

- we temporarily experienced a shortage of computer engineers and developers specializing in accounting applications as well as a shortage of accountants within the entities, knowing that all stakeholders had to be trained at the same time in the use of the new type of accounting. The preparation of the adjustment balance and the transition to the new balance structure came as an additional and demanding task for accounting officers. The double entry accounting system multiplies the number of entries and the balancing tasks.

At central level:

Unified, clear and comparable data were made available for the two public finance sub-sectors;

- the implementation of this system enabled a clearer formulation of regulations;
- only reliable accounting applications can sustain the shift to a new accounting system and this provided that they are backed against unified interfaces with the public finances information system.



Magyar
Államkincstár

www.allamkincstar.gov.hu