

Date
2013-09-23
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Financial information of good quality, in time and for multiple uses – the Swedish experience

The purpose of this paper is to present how the Swedish central government has secured that the financial information is of good quality, is delivered on time and can be used for different purposes. The Swedish National Financial Management Authority, a government agency under the Ministry of Finance, has a key role in this regard and the focus is therefore on the work carried out by the agency.

The Swedish acronym for the Swedish National Financial Management Authority is ESV and this acronym is used further on in this paper.

To start with, this paper gives an overview of the public finances in the early 1990's when Sweden had a deep economic crisis which was a starting point for a series of reforms. These are briefly described as well as the present financial situation. There is also a brief description of how the Swedish government sector is organised.

Further on the focus will be on the role of the ESV. There is a description of which type of financial information we are responsible for, how the data is collected from all central government entities, how we consolidate it and how a good quality is secured.

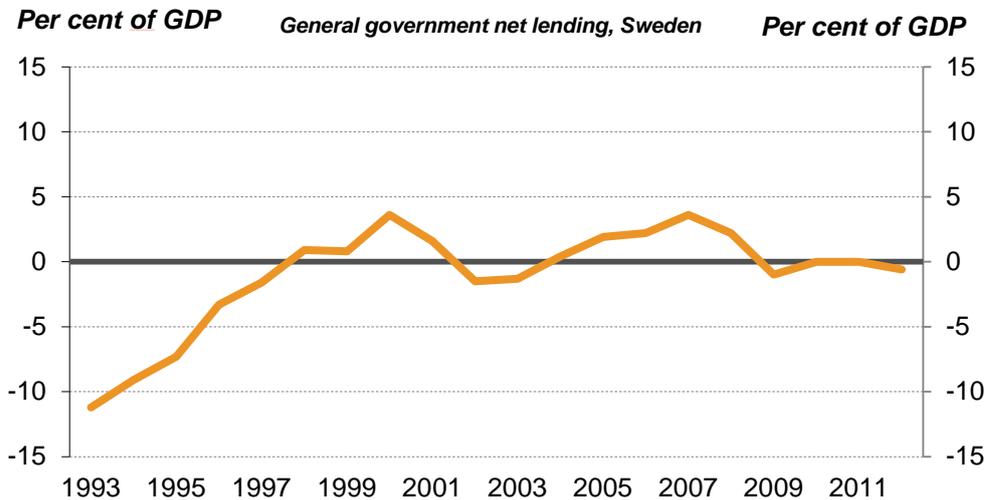
Finally the paper describes how the ESV analyse the financial information, how forecasts are made and how the agency contributes to fiscal control. The presentation is from a practitioner's perspective.

1 From deep economic crisis in the early 1990's to among the strongest finances in Europe

General government net lending

During the financial crisis in the early 1990's Sweden's budget deficit was one of the largest in Europe. The crisis resulted in a public sector deficit of 11 per cent of GDP in 1993.

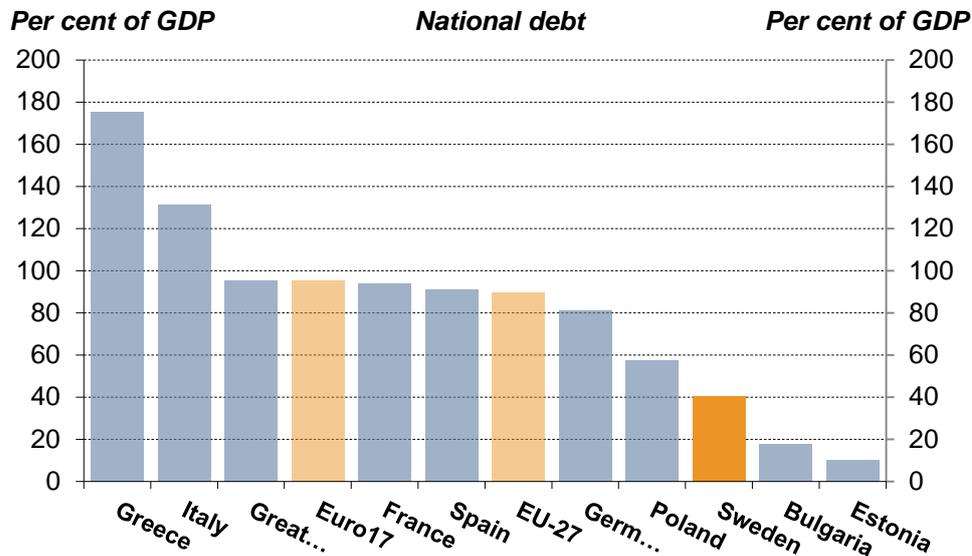
The crisis was a real estate and a bank crisis, altogether the state budget was heavily strained. Real national income declined three years in a row – a unique pattern Sweden has not seen any time before in the 20th century. The central bank was forced to abandon the fixed exchange rate of our currency, the krona, and since then it has been floating.



The government immediately took actions of fiscal tightening to get the finances in balance again. A substantial consolidation program was successfully implemented in several steps and an economy in balance was attained in 1998.

The national debt for EU-members

The financial crisis gave Sweden a national debt which amounted to over 70 per cent of GDP. However, by now the debt has decreased to 40 per cent of GDP. It is a substantial improvement and compared to other European countries Sweden now has a small debt.



A fiscal framework was established

Beside the immediate actions of fiscal tightening we also started to establish a fiscal framework.

The Swedish fiscal framework and sound financial routines have been established by taking one step at a time, starting in 1995. The most important elements are specified below.

1995:

- Top-down approach for the central government budget where the Parliament first decides the total volume of expenditures and then the distribution of expenditures across 27 specific expenditure areas.

1997:

- Central government expenditure ceiling was introduced,
- open-ended appropriations were abolished and
- monthly monitoring of government expenditures relative to budget was implemented.

2000:

- Surplus target: General government net lending is required to show a surplus of 1 per cent over the course of a business cycle. (To be used as a buffer for economic fluctuations and demographic changes.)
- Balanced budget requirement for local governments. It means that when municipalities and local counties do their budget for the coming year they need to budget income which exceeds expenditure.

2007:

- A fiscal policy council was established.

Parallel to the development of the fiscal framework the Swedish central government implemented accrual accounting. This accounting regime was adopted in 1993 by all central government agencies for their primary accounting. A year

later, for the first time, we consolidated whole of central government accounts on an accrual basis and since 2011 the state budget is, for the most part, also an accrual basis.

However, the implementation of accrual accounting had nothing to do with the financial crisis. This accrual accounting initiative started already in the end of the 1980's and was mainly driven by civil servants in the ESV. The introduction of accrual accounting has contributed to an improved transparency and to a larger awareness of financial issues within the government sector.

In the 1990's there were also reforms which focused on cash management and allocation of interest.

Altogether the fiscal framework and the financial management reforms have affected all government agencies and authorities.

2 The Swedish central government organisation

For a better understanding this paper gives an overview of the Swedish government organisation, especially the institutions which are important in terms of financial management and financial control.

The Swedish public sector is organised in a central government sector and a local government sector. This paper focuses on the central government sector. However, it should be mentioned that in addition there is a large local government sector made up of municipalities and county councils.

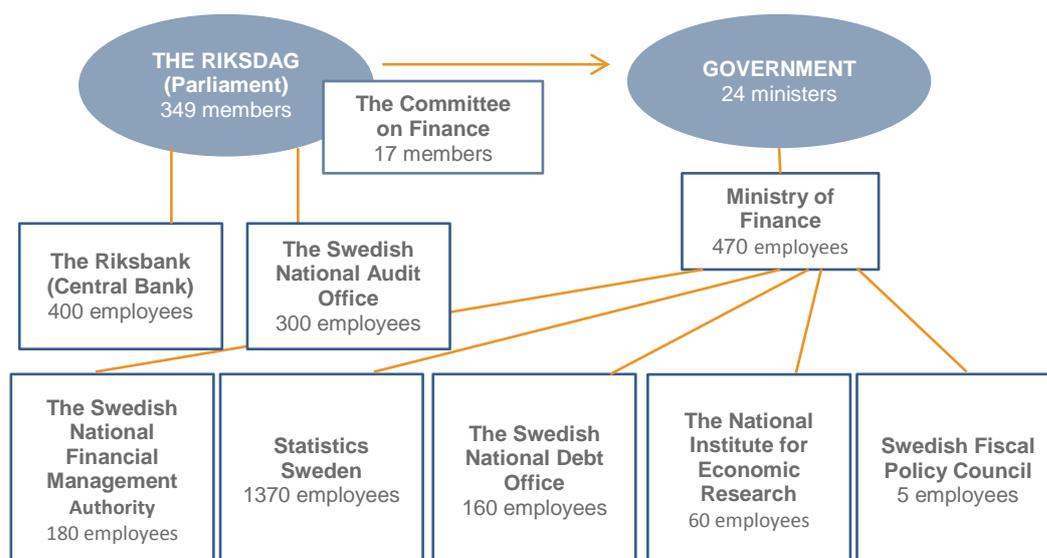
The Riksdag, our Parliament, is our legislative assembly and is elected every fourth year by the Swedish people. The Parliament appoints the Prime Minister and the Prime Minister forms the Government. The Government governs the nation, implementing the Parliament's decisions and initiating new laws and amendments.

A special characteristic of the Swedish central government sector is that the ministries, currently 13, are rather small policy-setting units. In total there are less than 5 000 employees within the government.

It is the government agencies and authorities who carry out the actual operations. Altogether the agencies have approximately 200 000 employees. It should also be mentioned that in Sweden the agencies are regarded as independent and ministers may not attempt to control their business in detail. The agencies are accountable to the government, the cabinet members, as a group.

Government organisations with focus on financial control

The chart below gives an overview of the institutions which are important in a financial management and financial control perspective.



It should also be mentioned that most of the central government agencies are independent accounting units, in total 230. In some cases several agencies together make up an independent accounting unit. All transactions are accounted for including all sources of financing such as the state budget funding (appropriations), fees, grants etc. Each agency is also to prepare yearly financial statements which are audited.

Important institutions under the Parliament are the Riksbank (the Central Bank) as well as The Swedish National Audit Office which is our Supreme Audit Institution.

The role of the ESV

The ESV is a central administrative agency under the Ministry of Finance with responsibilities such as:

- To develop efficient financial management and provide suitable tools to the agencies (this includes several areas which are not covered in this paper, such as performance management issues, electronic procurement, framework agreements and audit of funds from the EU)
- To produce and analyse information on central government finances
- To make forecasts of central government budget and public finances, altogether we keep control of government finances.

We work in close cooperation with the Ministry of Finance and all other government agencies.

3 Financial information supplied by the ESV

Information on central government finances is a key area for the ESV and we deliver financial information to be used for different purposes. The information can, if simplified, be categorised into three groups, or dimensions. Each one of these dimensions has a different scope which means that the inclusion of accounting units as well as types of transactions may vary.

Dimension	Scope	Accounting principles	Frequency
The state budget outcome	Income and expenditure over the state budget. Operations financed by fees, grants etc. are <i>not</i> included.	Accrual basis since 2011, bottom line on cash basis.	Monthly
Finance statistics data	According to ESA 95	ESA 95	Quarterly
Consolidated whole of central government accounts, Annual report	All central government operations, irrespective of how they are financed	Inspired by IPSAS Accrual basis since 1993	Yearly (more frequently on an agency level)

The state budget dimension has the scope of income and expenditure handled over the state budget. This means that off-budget operations financed by fees, user charges, grants etc. are *not* included. Since 2011 state budget income and expenditure, for the most part, are recorded on an accrual basis. However, due to adjustments made, the bottom line is on a cash basis. The follow-up of the state budget is done on a monthly basis by the ESV.

The finance statistics data is produced according to the ESA 95 principles (European System of Accounts). These statistics och central government are put together on a quarterly basis.

A third dimension is the consolidated whole of central government accounts which are put together once a year as an Annual report. This report includes all central government operations, irrespective of how they are financed. These accounts are on an accrual basis since 1993 and the accounting principles are much inspired by the IPSAS, International Public Sector Accounting Standards.

What is important to point out is that the underlying information is delivered by all the government agencies and authorities and only one code structure is used for the

reporting of information for all three dimensions. This will be described in more detail further on.

Users of financial information from the ESV

The users of the financial information produced by the ESV are very much the same government institutions shown earlier on the organisation chart. The Riksdag (Parliament) is an overall user as well as the Ministry of Finance. The most important information for these organisations is information on the state budget outcome. The Statistics Sweden Authority primarily uses the finance statistics data which is used for their reporting to Eurostat. The National Institute for Economic Research and The Swedish National Debt Office are other important users. We have a very close cooperation with these organisations.

There are also users outside the government, such as the finance market. Therefore our financial reports are made available to the analysts through our website. Media, such as newspapers and television, are accommodated through monthly press releases and especially our quarterly forecasts draw their attention. At those occasions we also have a press conference. All information is made public.

Information on state budget outcome

The monthly monitoring of the state budget outcome is our most important follow-up in a financial control perspective and there is a well-established routine for this process.

It starts with the agencies reporting outcome for the previous month around the 10th. The reporting is done electronically and includes information on the use of appropriations and the collection of state revenue, for example taxes.

Then ESV processes the data. First we check the quality and if necessary we make queries to agencies. We compare outcome to budget and to the previous year and we also analyse the information in several other ways.

The aggregated information and our analysis are sent electronically to officials in the Ministry of Finance. Normally the outcome is also discussed at a joint meeting. The information is also distributed to the other Ministries and published on ESV's website before the end of the month. There is also a press release from the ESV.

Approximately five employees at ESV work with financial information on the state budget and budget monitoring.

Finance Statistics data

On a quarterly basis we compile information on the national accounts for the central government sector, according to ESA 95, and report to Statistics Sweden. Our focus is on central government net lending, or borrowing.

We compile revenue data and expenditure specified by type, e.g. production, consumption, investments and transfers. We also compile expenditure by purpose data, often referred to as COFOG. Up till recently we have only compiled the non-financial data but from 2013 we are responsible also for the central government financial accounts.

In order to produce the national accounts information we use the same primary financial data from the agencies as is used for the state budget follow-up, it is just sorted in a different way. This means that the main source of information is the accounting records and reports of the various government entities. In specific cases though we also need supplemented financial information.

We also deliver data for EDP purposes and take part in the Excessive Deficit procedure (EDP), with the Statistics Sweden having the lead role. Statistics Sweden consolidates the finance statistics data from the different sub-sectors and subsequently delivers it to Eurostat. The finance statistics data is also reported to the IMF and the OECD.

Approximately five ESV employees work with the compilation of national accounts data for the central government sector.

Consolidated whole of central government accounts

The consolidated whole of central government accounts cover all central government operations, irrespective of how they are financed. It is produced once a year and includes among other things:

- An income statement (statement of financial performance),
- A balance sheet (statement of financial position),
- A statement of cash flows,
- The Government budget and Government budget outcome.

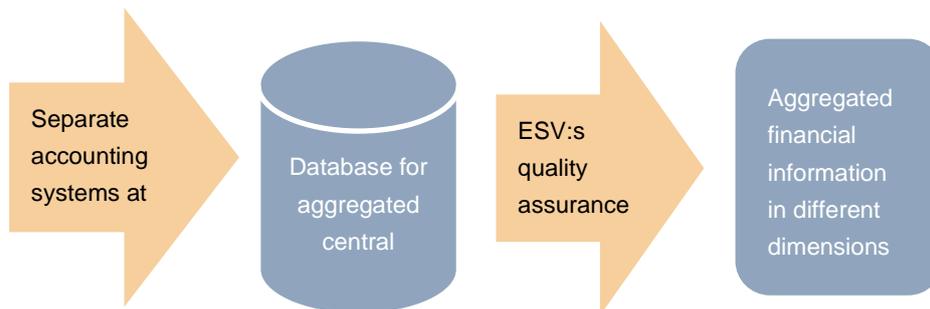
Again, the same primary financial data from the agencies is used also for this report. After compilation of all the data we make a thorough written analysis before we hand over the report to the Ministry of Finance. Subsequently more information is added to the report before it is presented to Parliament by April 15.

Approximately 8-10 ESV employees are involved in the preparation of the whole of central government accounts.

4 How the financial data is collected and consolidated

The collection and consolidation process

Each accounting entity is required to produce financial information monthly and send it electronically to a database at ESV.



There are approximately 230 central government agencies that are independent accounting entities. This means that all accounting is carried out within the agencies and they are to report the financial data on a monthly basis to the ESV database. The reporting is done electronically and on ESV's website there is a reporting scheme which in detail describes what is to be reported at different dates.

Each agency normally has its own accounting system and may also have its own chart of accounts. However, the monthly reporting needs to be according to the compulsory reporting plan decided by the ESV. This reporting structure makes it possible for the ESV to produce different types of financial information for different purposes as explained earlier.

The ESV staff deal with the data in different ways depending on what kind of financial report is to be put together.

It could be added that the database is a part of a large IT-system which is used jointly by the ESV and the Ministry of Finance. This IT-system (it's called Hermes) is also used for the preparation of the state budget and the so called appropriation letters to the agencies. The ESV is responsible for the daily running of this system.

The plan of reporting codes

The compulsory reporting plan is structured into eight sections to represent both stocks (used for balance sheet information) and flows (used for income, expenditure, economic categories such as consumption etc.):

- 1xxx Assets
- 2xxx Liabilities and capita
- 3xxx Revenue
- 4xxx Labour cost
- 5xxx Cost of premises, goods and services
- 6xxx Depreciation and sales of assets
- 7xxx Transfers and collection of taxes
- 8xxx Change in capital

The first digit being 1 means that the code represents some kind of asset, 2 is used for liabilities and capital, 3 -7 are used for different types of revenue and expenditure, and 8 stands for change in capital. The code structure also pictures the different state budget appropriations and revenue headings.

Each code consists of 4 positions and our reporting plan consists of a total of 400 – 500 such codes. It is also possible to use a suffix if needed. The codes are structured so that it is possible to distinguish transactions within central government, i.e. between different agencies.

The reporting plan is structured in a way that makes it possible to keep items referring to specific periods, such as depreciation (as well as accrued and deferred items), separate from other expenditure and income. This permits information to be analysed on a full accrual basis, as well as on a modified accrual basis.

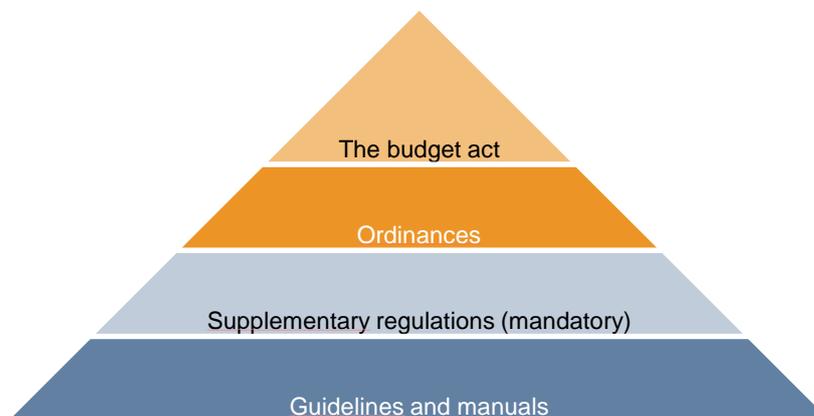
As mentioned before the reporting plan makes it possible for us to use the reported data in different ways depending on what kind of financial report we want to put together.

5 How we secure good quality financial data

It is of course very important that the financial information is of good quality. Therefore different types of controls are carried out when the data is delivered from the various government agencies and authorities to the ESV. For example, the outcome is compared to the budget and also the latest forecast.

This section will cover other approaches to good quality and the focus will be on accounting regulations and different types of support such as staff training, seminars, conferences etc. It will also make reference to auditing, financial management rating and internal management and control.

Accounting regulations



The accounting practice as it is formalised in various accounting regulations.

On top there is the Budget Act, decided by Parliament, which includes rather brief regulations on accounting.

Then there are ordinances which are decided by the Government. However, the ESV often proposes changes and makes the preparations when new or changed ordinances are to be implemented. The two most important ordinances in the field of accounting are the Bookkeeping ordinance and the Ordinance concerning the Annual Report and budget documentation.

The ordinances should be read in connection with the supplementary regulations which are issued by the ESV. These regulations are mandatory and if an agency wants an exception from a specific rule it has to be sanctioned by the ESV.

Also, there are guidelines and manuals issued by the ESV. These cover a lot of different topics, for example there is a manual on how to account for fixed assets

and another manual which describes in detail how to account for entitlements and other transfers.

If a special topic is not covered in the regulations, reference should normally be made to private sector accounting standards.

Training and guidance

The ESV offers support to all agencies and authorities in terms of training, conferences and guidance. We have found that even though central government accounting is similar to private sector accounting there is a need for basic and intermediate courses for government employees. When needed we also arrange courses especially adapted to a specific agency.

In addition we arrange seminars such as those we have before year-end closing in order to remind everybody of important issues or to present changes in accounting standards or reporting routines.

Guidance is also provided in other ways. For example, questions can be conveyed to ESV by phone or to a specific e-mail address. Newsletters are also means of communication as well as our website where frequently asked questions and other information is published.

Courses and conferences are normally financed by user charges.

Within the ESV approximately eight people work with accounting regulations and various types of support, such as courses.

Auditing

All government agencies and authorities are subject to an external audit conducted by the Swedish National Audit Office, our Supreme Audit Institution. Most important is the audit of the agencies' annual reports. The Audit Office audits and evaluates whether the financial statements of the government agencies are credible and correct, if the accounts are true and fair, and whether the leadership of the agencies being audited are following current ordinances and regulations. The audit opinion is submitted March 22 at the latest, each year for each entity. They are always made public, as are reports and memos.

The Audit Office also gives a limited assurance on six months financial statements which are prepared by some agencies.

Agencies of a certain size which are handling a large amount of money must have an internal audit function. Approximately one fourth of all government agencies have an internal audit function and normally the function has a couple of

employees. Also, the ESV has an internal audit support function which is responsible for issuing guidelines and giving support.

The Audit Office also audits the consolidated whole of central government accounts, including state budget outcome.

Financial management rating

In order to secure a financial administration of good quality the Government, in cooperation with the ESV, in the 1990's introduced a financial management rating procedure. This rating reflects how well each agency's financial management practise conforms to the financial regulations.

The rating is focused on both internal financial management routines and on timely reporting.

In total the financial management rating consists of over 40 questions. A large part of them are answered by the agencies themselves and reported to the ESV. Other questions, such as the one concerning timely reporting, are answered by the ESV.

The ESV is responsible for compiling the rating and we report the results to the Government. This makes it possible for the ministries to observe which agencies have need to improve. However, for many years there has overall been very good results.

6 How we analyse the financial information and contribute to fiscal control

The ESV has a central role in terms of monitoring the central government finances and contributing to fiscal control. In a way we are a watchdog, ready to alarm when needed.

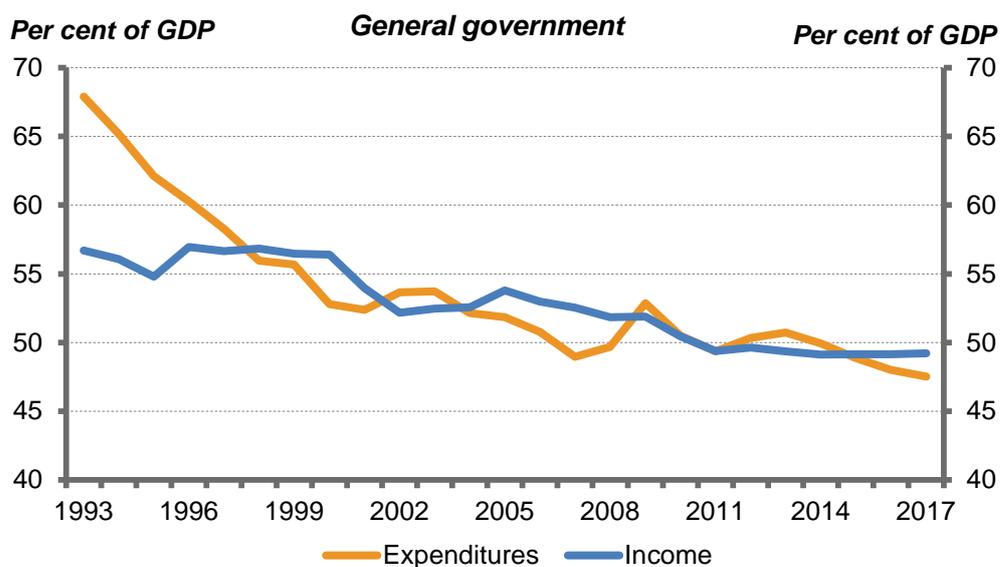
The monthly monitoring of the budget outcome is one of our most important tools. The financial data is analysed and presented to the Ministry of Finance and to other ministries as well, every month. However, this has already been described earlier in this paper.

This section will focus on the medium term forecasts which we present four times a year. Most important are the forecasts on the income and expenditure on the state budget. However, we also make forecasts of the total government sector. The follow-up of the expenditure ceiling and the surplus target will also be covered in this section.

Medium term forecasts

As mentioned before, the central government agencies in Sweden are independent and ministers may not attempt to control their business in detail. This means that the ESV forecasts have a high credibility and are referred to by economists and opinion-makers. The key user of our forecasts is the Ministry of Finance. Forecasts are also made in the ministry; however, the ESV forecasts are used for benchmarking and quality assurance.

The diagram below shows general government income and expenditure since 1993 and our predictions for the coming years until 2017.



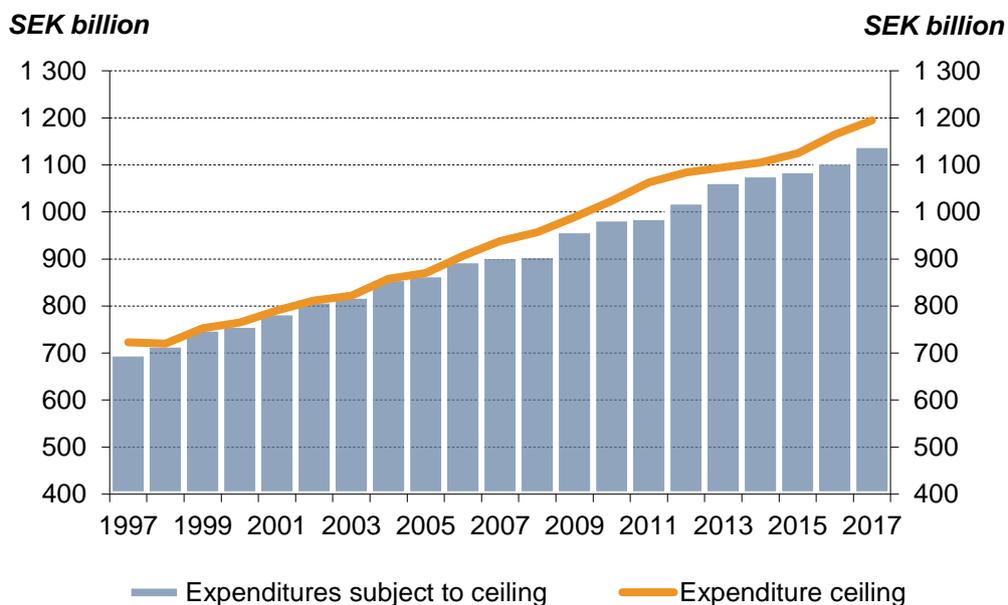
Our forecasts are based on existing legislation and bills decided by the Parliament and are therefore a good base for decision making. They are medium term forecasts reflecting the current year and the four coming years. It should also be mentioned that we make our own macroeconomic forecasts.

The ESV forecasts on expenditure are based on forecasts from each agency. This information is also gathered through the database which has been described earlier. However, the agencies' forecasts are not just added together; instead we make adjustments based on our own judgements. When it comes to taxes the forecasts are done without information from other agencies, such as the Tax authority.

There are approximately 15 ESV employees who work with the forecasts and each person is specialised in a special type of government income or expense, for example Social security, or Income taxes.

Expenditures must not exceed the expenditure ceiling

Our expenditure ceiling covers the expenditures of the central government budget, except expenditure on interest related to Government debt, plus the off-budget expenditures for the old-age pension system. As can be seen in the diagram below the expenditure ceiling has been respected every year since it was introduced 1997. However, in some years the budgeting margin, ex post, has been very small.

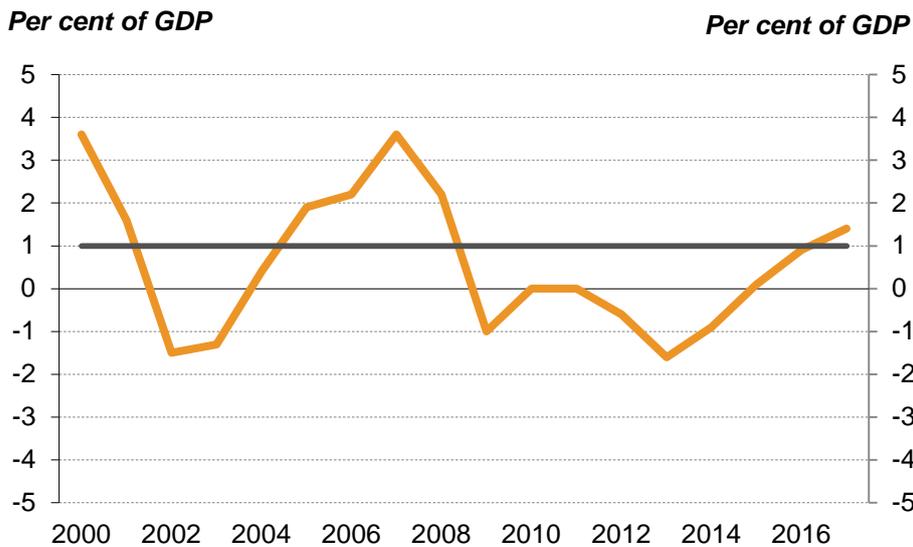


The expenditure ceiling is set by Parliament. The Budget Act stipulates that the Government in the Budget Bill shall propose an expenditure ceiling, in nominal

terms, for the third year ahead. The ceiling is the overarching restriction on the budget process in terms of total expenditure.

General government net lending shall be 1 per cent of GDP

The diagram below visualises our surplus target which is set at the level of 1 per cent. More exactly it is the general government net lending which is measured in relation to GDP. The surplus target is to be met over a business cycle, which is intended to prevent a pro-cyclical fiscal policy.



The ESV monitors the outcome and makes forecasts of the surplus target on a quarterly basis. Together with the expenditure ceiling and a transparent budget process, this fiscal target has been helpful in sustaining sound public finances over a long period of time.

7 Summary

Coming to the end of this paper, the purpose of following figure is to summarize and give an overview of our process, or the infrastructure, which we use in order to collect financial data and make it available to various interested parties.

The demands from the users of financial information have been an important starting point for us when we have established our system for collection of financial data. Accounting regulations have been adapted to these needs and also formulated in ways to assure good quality information. Other quality activities are the offering of training courses, seminars and guidance. Auditing also contributes to good quality.

The micro level accounting takes place at approximately 230 agencies which are independent accounting entities. The accounting information is reported electronically to the ESV database. The data is sorted and adjusted into different types of financial output, such as state budget outcome, finance statistics data or whole of government accounts. Hence the information is available for different users and interested parties, including the finance market and journalists.



We have developed this infrastructure during a long period of time, starting in the early 1990's. Our approach has been a "step by step" approach and we will probably continue that way. It is important to stay alert and be prepared to make changes when needed.