FINDINGS AND RECOMMENDATIONS OF THE CHART OF ACCOUNTS COMMITTEE

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This document is the final report of the Chart of Accounts Revision Committee

October 2018

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1. BACKGROUND:

1.1. **The Chart of Accounts (CoA) implemented in 2015 provides a sound general ledger accounting system.**[1] Following recommendations made by an IMF mission in 2014, the MOFPS mobilized technical assistance from the IMF Caribbean Regional Technical Centre (CARTAC) to develop a unified CoA for the central government. The COA was implemented in 2015 after a 3-day workshop which brought together all the stakeholders[2]. Earlier IMF reports confirmed that the overall structure of the 2015 CoA would meet most of the reporting requirements existing at that time even though the consultation with stakeholders was limited in scope and time. Subsequently the FSU organized many workshops to validate and propagate the CoA. This improved the understanding and ownership of the CoA among stakeholders. An IMF Technical Assistance mission in early 2017 confirmed that the 2015 CoA provides a sound general ledger accounting system that can distinctly identify and maintain the integrity of government funds- budgetary and others.

1.2. **The CoA is a living document which should be updated to keep pace with the government's evolving reporting requirements.** While the 2015 CoA was conceptually sound, it has not been systematically updated over the last 3 years to provide for evolving improvements in the classifications of revenues and expenditures. Additionally, budgetary reforms in the government require linkages between the financial reports and performance reports. The coding of the program/ activity segments in the CoA should be updated to provide this linkage. Finally, the GoJ has signalled its intention to implement IPSAS cash-based accounting standards and this has implications for activating economic category classifications already embedded on the 2015 CoA.

1.3. **The CoA is a critical component of the on-going web-based upgrade of the CTMS and should provide a sound basis for the eventual implementation of JIFMIS.** The multi-segmented CoA of 2015 has facilitated the configuration of the general ledger in CTMS. CTMS will now be the operational Financial Management System of the GoJ for five to six years till JFMIS is implemented. It should be appreciated that the upgrading of any CoA has two parts: (i) modification/ addition of the codes within each segment, and (ii) restructuring of the segments themselves. The former is a periodic exercise which provides for additional codes within existing segments to cater for additional revenue resources, additional expenditure items, implementation of new programs, and changes in the organization structure. The latter is much more fundamental and involves reorientation of the database of the Central Treasury Management System (CTMS). It requires system reconfiguration, testing and user training. The challenge is to design a CoA which is futuristic so that there should not be a periodic need to restructure the segments.

1.4. **The linkages between the core financial information classified using the CoA and additional management information required by different MDAs can be provided through reference tables held in the IFMIS database.** The CoA essentially provides for financial and budgetary reporting needs of the government. Every transaction processed through a financial management system should, as far as possible, be input in the system once. Thereafter, the workflow, designed for the system, will process the transaction through the expenditure cycle involving budget control, commitment, purchase, delivery, payment, accounting, and reporting. Additional pieces of management reporting information such as performance indicators, staffing numbers, supplier bank accounts, etc. added to the COA structure, and by implication, to coding

[1] **AN UPDATE ON TREASURY MODERNIZATION AND MACROFISCAL CAPACITY DEVELOPMENT January 2017**

[2] CARTAC supported the FSU in delivering this workshop and in its earlier design work.

of the transaction input at source, will only increase processing overload without ensuring the validation or accuracy of the additional information. The linkages between the core financial information classified using the CoA and additional management information required by different MDAs can be provided through reference tables held in the IFMIS database. These reference tables are an integral part of the database and not tables held externally on excel spreadsheets or paper documents. The tables are referenced by the application software only when the specific management report is required.

1.5. **The implementation of the web-based upgrade of CTMS provides an opportunity to centralize responsibility for the CoA maintenance.** Many IMF technical assistance reports have recommended that the responsibility for the implementation and future development of the COA, which are managed by the FSU, should shift to the AGD. This should of course be done in close coordination with counterparts in MOFP, MDAs and revenue collection agencies. They have recommended that a CoA Steering Committee led by the AGD should supervise this task. The AG has been reluctant to take over this responsibility because she believed that (i) there were deficiencies in the CoA which needed to be resolved, and (ii) there is a lack of capacity in the AGD to anchor this responsibility. AG had communicated her concerns about the deficiencies in 2015 CoA to FSU in April this year. The response given by FSU on 27th April 2018 is attached as Annex 1. The implementation of a centralized CTMS architecture provides the opportunity to maintain and update a single occurrence of the CoA which becomes available immediately for transaction processing by the MDAs.

2. TERMS OF REFERENCE OF CHART OF ACCOUNTS REVISION COMMITTEE

2.1. **A Chart of Accounts Revision Committee was established in July 2018 to facilitate the transfer of responsibility for maintenance of COA from FSU to the AGD.** The MOFPS Critical PFM Programme to Support Reform of the AGD issued on April 13, 2018 provided for action items which were required to be completed before the maintenance of the COA was transferred to the AGD by 31st August 2018. Most of these action items have been completed. It is anticipated that the maintenance of the CoA will be anchored in the GAR unit of the AGD. The recruitment of a Deputy AG to oversee the GAR is underway.

2.2. **The terms of reference of the committee were to review the current COA and make recommendations to:**

(i) Rationalize the program structure to eliminate overlap and repetition of items classified as programs, sub-programs, projects, and activities.

(ii) It was agreed that due to timing constraints, the COA revision will be implemented as follows:

Phase 1. The COA changes related to the economic and organizational segments will be completed in time for inclusion in the budget formulation for 2018-19.

Phase 2 will be implemented after the on-going work in the *Public Expenditure Division* related to the definition of Programs, Sub-Programs, Activities and Projects for implementing Results Based Budgeting has been completed. However, it was decided that the structure of the Activities/ Project segment would be rationalized to eliminate the possibility of overlap and repetition of items classified as activities, sub-activities, projects, and sub-activities.

3. RECOMMENDATIONS OF THE CHART OF ACCOUNTS REVISION COMMITTEE

3.1. Revision of the COA Structure

The Committee recommended that the Chart of Accounts be revised to have eight (8) segment groups and forty-four (44) digits. Each segment provides a separate dimension of analysis and reporting of core financial information. See COA structure in Table 1 below:-

Table 1 – COA Structure

Segment Group No.	Segment Group	Segment		No. of digits
1	**Organization**	Level 1 - Ministry Code	(2 digits)	10
		Level 2 – Department Code	(3 digits)	
		Level 3 –Other Organisations	(5 digits)	
2	**Financial Pattern**	Type -Capital/Recurrent	(1 digit)	2
		Sub-Type	(1 digit)	
3	**Fund Source**	Funding Body	(3 digits)	4
		Loan/Grant	(1 digit)	
4	**Function**	Function	(2 digits)	4
		Sub-Function	(2 digits)	
5	**Programme**	Programme	(3 digits)	5
		Sub-Programme	(2 digits)	
6	**Project/Activity**	Activity (Recurrent) Project (Capital)	(5 digits)	9
		SubActivity (Recurrent) Component (Capital)	(2 digits)	
		SubSub Activity (Recurrent) Sub Component (Capital)	(2 digits)	
7	**Economic Classification (Object) ***	Category	(1 digit)	6
		Object)	(1 digit)	
		Sub-object	(2 digits)	
		Detailed Sub-object	(2 digits)	
8	**Location**	Parish	(2 digits)	4
		Constituency	(2 digits)	
	Total Coding Characters	**Total**		**44**

3.2. Revision of the Organisation Segment

1. The organization segment should be expanded to accommodate different types of public bodies. The revised organisation segment provides the ability to classify public bodies according to their characteristics so that oversight over their financial performance is better focussed and effective.

2. The implementation of web-based CTMS and eventual migration to JIFMIS provides significant opportunities for improved oversight over their financial condition. Earlier IMF mission have pointed out that public bodies can present unexpected demands on the budget, result in cash management inefficiencies due to lack of transparency of their cash resources, and contribute to resource allocation inefficiencies. The report suggests that the oversight of public bodies should be approached in different ways depending on their functions, financing sources, legal bases and political accountability.

3. The organization segment of the COA should be revised to increase the transparency of finances of public bodies and other budget implementing agencies. Therefore the Committee recommends that the "Other Organisations" element of the Organisation Code Segment which is established to capture organisations other than Ministries, Departments and Agencies and should be allotted a 5-digit code.

4. The first digit of the "Other Organisation" element shall identify the types of the entities as shown in the table below:

Table 2 - Types of Other Organisations (i.e. Budget Implementation Agencies)

Other Organisations	**Type Code**
Local Authorities	1.
Embassies and High Commissions	2.
Health Authorities, Hospitals and Health Centres	3.
Non Commercial Public Bodies	4.
Commercial Public Bodies	5.
Schools, Colleges and Universities	6.
Internal Organisation	7.

5. The remaining 4 digits shall be a unique serial number allotted to each budget implementing agency. A reference table will be maintained in the CTMS database to link the unique serial number of the implementing agency to the agency type. New implementing agencies will be coded using the next available serial code and the code added to the range of codes in the link table against the appropriate type. The revised codes are included in the attached COA manual in section 5.7. The advantages of following this coding system are:

- The allotment of codes will be automatically controlled with no possibilities of duplication or over spill of blocks of codes.
- There is no need to keep track of the available blocks of codes and within the blocks further sub-blocks.
- All the related tables will automatically be updated when a new code is allotted to an Internal Organization.
- Central monitoring and control over the coding of COA segments will be facilitated.

4.1. Merger of Financial Patterns –Capital A and B

1. It was considered necessary that Capital A and B be merged into a single Capital head as there is no useful purpose in having them operate as separate heads.

4.2. Merger of Project and Activity

Activities in the COA which took effect on April 1, 2016 were placed as a child of the Project segment. This was implemented in the FinMan system but **not** in the Budget system. The latter system continued to treat both segments as being at the same level except that projects fall under the Capital Head and activities under the recurrent head.The Committee agreed that the COA should revert to having projects and activities sharing the same segment due to the fact that they are really at the same level with none subordinate to the other.

4.3. Increase in the size of the Project/Activity segment

1. The Committee agreed that the size of the merged Activity/Project segment be increased from four (4) digits to five (5) digits with the first digit denoting whether it is recurrent or capital.

4.4. Revision of the Economic Classification

1. **The Economic Segment of the COA was referred to the IMF Statistical Department advisor responsible for Jamaica in January 2018.** The advisor provided his comments by late January. He recommended that some of the economic classifications should be remapped to the appropriate GFSM economic category codes. He also pointed out instances where the revenues and expenditures had been miss-classified. These recommendations to a large extent have been incorporated in the revised COA.

4.5. Rationalization of the program structure

1. The ambiguity in the use of the project and activity segments should be eliminated. One of the basic principles of a multi-segmented COA is that each segment is used to capture one unique characteristic of financial information. In other words, the economic segment should capture only the economic characteristics of the financial information, the organization segment only the organizational aspects of the financial information, etc. There are multiple instances of “Activity” codes overlapping with Organization Codes and Source of Funds codes.

2. The implementation of the revised organization structure will ensure that all organizations are coded within the “organization” segment even though there will continue to be duplications with the “Activity” segment.

4.6. Account Consolidation

1. The Committee examine whether the COA should have a separate segment called Counter-Part ID for the elimination of inter-government transactions during consolidation. The Box below is a synopsis of the discussions.

Box 1. Elimination of G-to-G transactions

Background: Transactions among public sector entities can take several forms. These are as
Downstream transactions -Transactions flowing from the Treasury to a MDA
Upstream transactions - Transactions from the MDA to the Treasury and
Lateral transactions . Transactions between MDAs
The purpose of consolidated statements is to present, the results of operations and the financial position of the Treasury and its MDAs essentially as if the GOJ and its MDAs were a single entity with one or more branches or divisions. The process involves the elimination of all forms of G-to-G transactions whenever the consolidated statements are prepared.

Basic requirements for elimination:
(i) Identification of the initiating entity and the receiving entity of the G-to-G transaction; and,
(ii) Accounting rules for consolidation of different types of G-to-G transactions.

Identification of the parties of a G-to-G transaction:
(i) It is common to use a Counter Party Identity (CPID) to identify and eliminate G-to-G transactions.
(ii) In the case of GOJ, all payments made through the CTMS carry the TRN of the receiving entity and the organization code/TRN of the initiating entity.
(iii) This TRN may be used as the CPID. Or, alternatively, the unique identification code for Budget Implementation Agencies in the revised version of the COA may be used to identify the parties.
(iv) There is no need to provide for a separate CPID segment as the TRN can be used to serve this purpose.

Accounting rules for consolidation
It is argued that elimination and consolidation can be executed through established accounting rules. These rules will depend on the nature of the transaction and the flow of the transaction i.e. whether it is downstream, upstream or lateral. In all cases the TRN can be used as a CPID.

4.7. Location Code Segment

1. The Committee discussed whether the location segment should continue to be a part of the main COA as the required information can be picked up from reference tables held within the CTMS database. Further it is believed that the reports prepared by using the location segment will neither be comprehensive nor accurate. This is because the location of the expenditure may not be known at the time the invoice for payment is being entered in FINMAN.

2. It is also noted that the existing location segment is not being used for the reasons stated above and is also not a mandatory segment. Box 2 below provides a brief note on the location segment:

Box 2: Brief Note on the Location Segment

Purpose of the location segment: To report government budgetary support flowing to various regions of the country.
Practical limitations of including the location segment in the main COA:

(i) The actual data classified under the various segments is validated, checked for consistency, and controlled against the budget at every stage of the expenditure cycle.

(ii) The coding of each transaction by location cannot be validated or controlled because:

(a) All appropriations and warrants are not issued by location;

(b) Many MDAs make purchases (and record expenditures) centrally and subsequently issue goods to different to regions.

(c) there is no way of ensuring that the system users enter the location code as this is not controlled through the budget.

To summarize, the reports prepared by using the location segment will neither be comprehensive nor accurate.

Solution: reporting of expenditures by regions can be done through subsidiary database linkage tables without further fragmenting the budget control and execution process.

3. The Committee despite the strong arguments above decided to allow the Location Segment to remain in the COA but to validate or back it up through the use of other information in the FinMan database relating to the location of public expenditures.

4. MAINTENANCE OF THE COA

4.1. AGD Training

1. **The biggest immediate challenge which should be addressed is ensuring the AGD staff understands the CoA structure. In** 2014 an IMF report recommended that the CoA must be institutionalized in the AGD if all general government cashflows are to be properly identified in the CTMS.

2. An essential prerequisite for the transfer of the COA to the AGD is the identification of a staff member to maintain the COA.

3. Thereafter, the nominated senior official should, in consultation with FSU develop and implement a training program for the relevant AGD staff ..

4.2. Standard Operating Procedures

1. **The COA manual should include the SOPs for maintenance of the COA in the AGD.** Section 13 on maintaining the COA included in the current manual provides for procedures for updating the COA. However, the responsibilities of the various stakeholders and the actual process within the AGD needs to be clearly enunciated with process flow diagrams.

2. It is also essential to capture each change made in the COA along with the rationale for the change in an issues log maintained in the AGD. The acceptance or rejection of change requests should be posted on the AGD website so that the MDAs are guided by earlier decisions while submitting new requests.

5. SUMMARY OF RECOMMENDATIONS:

1. The organization segment of the COA should be revised to increase the transparency of finances of public bodies.

2. Misclassifications of revenue and expenditure items should be corrected, and the rationale recorded.
3. The ambiguity in the use of the project and activity segments should be eliminated
4. The location segment should continue to be a part of the main COA.
5. identification of a staff member to maintain the COA.
6. Develop and implement a training program for the relevant AGD staff and staff from the MDAs.
7. The COA manual should include SOPs for maintenance of the COA in the AGD.

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