ESV 2001:8

Accrual Accounting in Swedish Central Government

EKONOMISTYRNINGSVERKET

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Printed by:Ekonomiprint
Dnr: 71-372/2001
ESV 2001:8
ISBN: 91-7249-112-4

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Foreword

The Swedish Financial Management Authority is a government agency responsible for financial management and the development of generally accepted accounting principles in Swedish central government. Full accrual accounting was implemented in Swedish central government in 1993.

There is a great deal of written material describing the existing government accounting model in general, as well as more detailed information such as accounting regulations. However, all this information is in Swedish. As non-Swedish-speaking people quite often ask for information about Swedish central government accounting we have decided to produce this document.

In addition to providing a description of government accounting, we try to present some of the reasoning behind the ideas and methods and also try to convey our experience of eight years of accrual accounting.

We hope this document will be useful both to those who have a general interest in government accounting, and to people from countries that are considering implementing accrual accounting. The document is primarily written for practitioners, such as our colleagues in other countries, but hopefully it will also be of interest to scholars.

Kristina Lundqvist, head of the accounting development unit at the Swedish National Financial Management Authority, has written the document.

Stockholm, May 2001

1. Introduction

Overview

The purpose of this paper is to describe central government accounting in Sweden - particularly accrual accounting.

The first two chapters provide an overview and an introduction to the financial management system in the Swedish central government. For those interested, more information on the organisational structure is given in chapter eight.

Chapter three and four provide information on the annual report - its content of different reports and statements as well as valuation principles. Special accounting issues, such as infrastructure, heritage assets etc. are also discussed.

Chapter five and six are more technical. They present our accounting and reporting plans and also give an overview of how accounting information is reported and consolidated.

We would like to share Sweden's experience of implementing accrual accounting with others. Chapter seven includes what we consider to be important implementation issues and experience gained during our eight years with accrual accounting. We hope this will provide useful information for those who are considering adopting accrual accounting.

Financial management reforms in the 1990s

Accrual accounting was implemented in Swedish central government in 1993. It was one of many management reforms that were started in the late 1980s and were fully implemented in the 1990s. Flexibility and performance are key words for these reforms.

Considerable flexibility in the use of resources was introduced in the late 1980s. This means that a government agency can decide itself how much it will spend on salaries, premises, travelling etc. Previously there were detailed regulations for these matters. The reform also made the agencies fully responsible for setting salaries and renting premises, e.g. today, in spite of the fact that there is a government-owned real-estate company, an agency can go out on the open market and rent premises from any landlord.

Flexibility in spending over fiscal years was also introduced in the late 1980s. This means that the agencies can carry over unused appropriations to the following year and it also makes it possible to spend a portion of the following year's budget in advance.

As regards performance, we have seen a shift in focus from resources used to performance. Thus, the outcome of the agencies' activities - the result - is more important than the resources put into the activities. The result can be both in terms of output, such as products and services, and in terms of effects for individuals and society.

The flexibility and the focus on performance are linked to an increase in accountability for financial and operating results and the annual report is a very important tool in this respect. From 1993 all government agencies have had to submit annual financial and performance statements on an accrual basis. A new accounting model makes it possible to monitor performance such as total costs of government programmes and activities. It also facilitates the analysis of more specific information such as cost per product etc.

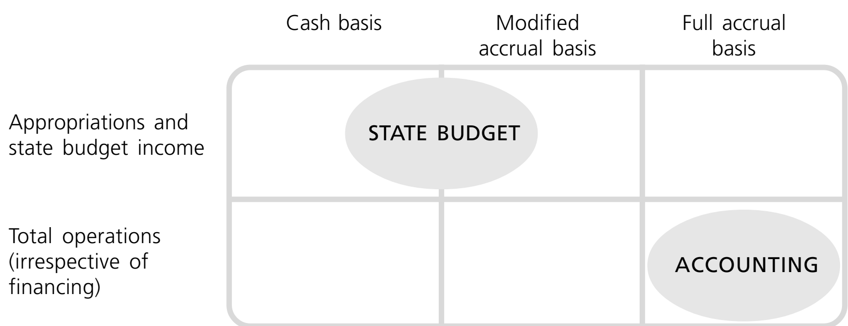
From 1993/94 a consolidated whole of central government annual report has also been produced. Hitherto this report has mainly included financial information. However, it should be mentioned that the submission of a consolidated whole of government annual report was not the aim of the reform, but rather a possibility provided by the reform.

Other management reforms in the early 1990s are related to cash management and the allocation of interest expense. The launching of a system of internal loans to finance investments in fixed assets has had the effect that interest expense is allocated to the agencies and that a more correct cost allocation is achieved (a type of capital charge). The use of interest-bearing accounts with credit facilities for both appropriations and other government funds promotes good cash management.

The most recent financial management reform is the new budget process from 1996. It includes the setting of a ceiling on total centrally-finances expenditure for each one of the following three years.

The many reforms in the field of financial management have contributed to improving transparency and financial control. But one important issue has still to be resolved. It is the link between the budget and the accounting. Hitherto the state budget has been presented partly on a cash basis and partly on a modified accrual basis, while the general accounting has primarily been on an accrual basis. Also the coverage of the budget is narrower (the budget has not included activities financed by donations, fees, charges etc) and it is presented in format very different from the accounting format. This problem is currently being dealt with. In December 2000 the Swedish Ministry of Finance published a White Book containing proposals for the adoption of an accrual-based budget.

State budget & accounting
- different coverage & bases of accounting



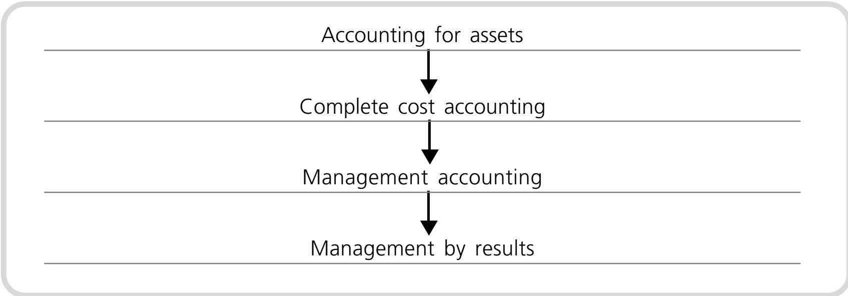
Why was accrual accounting implemented?

The main reason for implementing accrual accounting in Sweden was to facilitate the implementation of management by results.

Accrual accounting focuses on revenue, cost, assets, liabilities and equity - instead of cash flows only. The capitalisation of assets, such as computers and machines, makes it possible to calculate deprecations and account for them in each period during which the machine is used. Consequently complete cost accounting is made possible, especially in combination with the implementation of the system for interest allocation.

With complete cost accounting it is possible to distribute cost to various products or activities. This is sometimes referred to as management accounting. In this way the consumption of resources - not the payments - is weighed against the performance of an entity or agency. The measurement of the results of an agency's different programmes and activities forms the basis for implementing management by results.

Therefore the implementation of a new accounting model was a precondition for implementing management by results.



Accrual accounting greatly improves information on assets. The information can be used partly as a basis to allocate resources and costs, and partly to keep track of government property. In Sweden the former is regarded as very important, and consequently assets are valued at acquisition value. Of course, it is also important to keep track of government property. But that has not been a great problem since, at the time accrual accounting was implemented, government agencies already had adequate asset registers for most types of assets.

In general terms accrual accounting is also a way to increase financial awareness. However, it must be said that accrual accounting cannot replace the follow-up of cash accounts, since it is still important to monitor the government cash situation.

Finally, the new accounting model also resulted in accounting methods similar to those applied in the private sector. There are many advantages with this, for instance when recruiting and training personnel. It also facilitates the use of standard accounting systems.

2. Accounting organisation and regulations

Each agency is an independent accounting unit

The Swedish public sector is divided into:

- local government, i.e. the municipalities and the regional councils, and
- central government, consisting of Parliament and Government (Cabinet, ministries and agencies).

The information in this document refers to central government accounting.

The ministries are relatively small and their task is to act as policymakers, preparing the decisions of the Cabinet. Under the ministries there are approximately 300 agencies, which are responsible for carrying out government activities in accordance with the legislation, ordinances and decisions made by the Cabinet. More information on the Swedish government organisation can be found in chapter eight.

Central government annual accounts in Sweden are prepared by the agencies, including the ministries. Each agency is responsible for its own accounting and reports. The accounting methods are designed as if the agencies are completely independent units, even though they are part of central government and therefore not independent legal entities.

The Swedish National Financial Management Authority (ESV) is the government agency for financial management in Sweden and is, among other things, responsible for the development of generally accepted accounting practice and for the consolidation of accounting information.

Each accounting entity is required to produce financial information monthly and send it electronically to a database at ESV. Some information is aggregated monthly, while other information is aggregated quarterly or on a yearly basis. After a certain amount of analysis, the aggregated information is transferred to the ministries and to others, such as Statistics Sweden and the National Institute of Economic Research. The agencies' statements of financial performance and financial position are consolidated once a year into the central government annual report.

Each agency pays its own bills and expenses, and thus there is no central government function for this purpose. Payments are most often made by a giro system connected to banks. Each agency has its own bank accounts, but these bank accounts are all connected to the government central current account. The system is similar to a corporate account system.

Each agency normally has its own accounting system. ESV distributes and supports a commercial accounting system, called Agresso, which the agencies are recommended to use. However, if an agency wants to use another system, it can usually buy any system that is offered on the open market.

Each agency is also responsible for its own internal control system. Actually, it is stipulated that the head of the agency is responsible for "the organisation being structured in a way that ensures that the accounting, the handling of funds and the management of other assets as well as the agency's operations are controlled in an adequate way".

All financial transactions are accounted for - irrespective of how they are financed

The agencies normally have many different sources of finance, such as appropriations from the state, fees, charges, grants and donations, as well as internal loans issued by the Swedish National Debt Office and leasing. Some agencies also collect taxes and legal fees. All these types of income, as well as related expenditure, are recognised in the agencies' accounts.

Taxes and legal fees are normally collected by the agency on behalf of the state and subsequently transferred to the government central current account. The design of the accounting model has the effect that the agency receiving taxes etc. accounts for the revenue and includes the revenue in a specific section of its statement of financial performance.

The most important source of financing for government agencies is normally appropriations from the state budget. The frame appropriation is the most common type of appropriation. Important characteristics are the possibility to save unused amounts and use them during the following year and the credit facility, which makes it possible to use a portion of the following year's appropriation in advance. One-twelfth of the total appropriation is normally paid into the agency's bank account each month.

Many agencies are authorised to charge user fees in return for public services and products. The constitution states that, when determining the size of the fee, the full cost recovery principle should be applied as a general pricing policy. This means that the fees, in the long run, may neither exceed, nor be below the full cost of the service or product in question.

Many agencies, such as universities, receive grants and donations to help finance their operations. There are rules that regulate the circumstances under which agencies are allowed to receive donations and the treatment of donated assets.

As mentioned above, internal loans are to be used to finance investments in fixed assets other than infrastructure. The agencies are also allowed to enter into agreements to finance through leasing. However, there are certain limitations where leasing agreements are concerned, and the agency has to prove that it is less expensive for the state as a whole to lease an asset rather than to purchase it and to finance the purchase with the aid of an internal loan.

The accounting model

The accounting model is very similar to the accounting principles used in the private sector in Sweden. Important cornerstones are:

- double entry recording,
- a chart of accounts,
- a chart of object codes,
- accrual accounting and
- financial statements, such as a statement of financial performance and a statement of financial position.

The accounting model integrates external and management accounting through the chart of accounts and the chart of object codes. More information on this can be found in chapter five.

The accounting model also comprises both general accounting (irrespective of source of finance) and state budget accounting including appropriations and general income, such as taxes.

As the general accounting is on an accrual basis and the state budget accounting is partly on a cash basis, and partly on a modified accrual basis, the accounting model needs to take this into consideration. For example, special accounts are used for cut-off items, such as accrued expense or deferred expenditure. These accounts are either included or excluded, depending on the report produced or the type of analysis required.

Accounting regulations

In the constitution there is a section that covers financial powers. However, the constitution does not include any accounting regulations.

The budget act regulates the responsibilities and accountability of Parliament and the Government in the area of financial and performance management. Then there are several government ordinances that the agencies must follow. These ordinances cover more or less the same areas as the state budget act, but they are more detailed. In addition ESV has the authority and the obligation to issue supplementary regulations to the agencies.

The state budget act covers areas such as effectiveness and results, appropriations and state budget revenue, financial commitments, scope of the state budget, financing of investments, sale of state property, follow-up, forecasts and outcome, development of public finance as well as accounting and audit. As regards accounting it is stipulated that

> "Government accounting shall be performed according to generally accepted accounting practice, and further regulations on accounting shall be issued by the government or an agency designated by the government. Reports shall give a true and fair view of operations, financial performance and position, and the stewardship of financial and other assets."

The accounting regulations in the central government sector follow very closely the laws and standards in the private sector, with due consideration given, of course, to the special characteristics of the public sector. As private sector accounting principles in Sweden are, to a great extent, similar to the IASC standards, government accounting principles in Sweden are consequently close to the IASC standards.

The government has issued two ordinances in the area of accounting and reporting.

The ordinance on the annual report and budget documentation stipulates the budget and accountability documents that an agency shall submit to the Cabinet, the contents of the documents and the time at which they are due. Important documents are the annual report, the interim report and the budget documentation. A large part of the ordinance is made up of valuation principles, such as the valuation of different types of assets. The ordinance (see annex 4) follows the Annual Accounts Act, which is to be followed by Swedish companies, in both structure and content.

The bookkeeping ordinance includes principles concerning

- definition of generally accepted accounting practice,
- current recording of transactions,
- accounting vouchers,
- the closing of the books and
- reporting requirements for consolidation purposes.

The ordinance (see annex 5) is very similar to the Bookkeeping Act in the private sector.

Accounting regulations on some specific issues can also be found in the appropriation ordinance and in the ordinance on donations.

The supplementary regulations issued by ESV include more detailed rules and clarifications in the areas covered by the ordinances. We continuously monitor the development of principles and standards issued for private companies in Sweden - as well as the development of IASC and IFAC standards - in order to identify needs of amendments. In our work on regulations we also have to pay regard to the requirements related to the international standard System of National Accounts and the International Monetary Fund's Government Finance Statistics (GFS). Additions and changes to our regulations are normally made once a year. The supplementary regulations issued by ESV have hitherto not been translated into English.

In 1998 we decided to develop a framework for government accounting in Sweden and a draft edition was finished in 2000. The framework describes underlying assumptions and principles for accounting, such as the elements of various reports and qualitative characteristics such as materiality, substance over form, continuity, prudence and consistency. The point of departure for the development of the framework has been the IASC framework, which has been translated into Swedish by the Swedish Financial Accounting Standards Board. However, there are many issues specific to government that need to be taken into consideration and for that reason there is still more work to be done before a final version can be produced.

Standards influencing accounting rules and regulations in Swedish central government:

- Bookkeeping Act (private sector)
- Annual Accounts Act (private sector)
- Recommendations by the Swedish Financial Accounting Standards Council and the Swedish Accounting Standards Board
- IASC (International Accounting Standards Committee)
- IFAC-PSC
  (International Federation of Accountants - Public Sector Committee)
- The System of National Accounts
- IMF Government Finance Statistics

3. The annual report

Overview of the reports and statements

As mentioned above, whole of central government accounts are produced once a year on accrual basis and with internal transactions eliminated.

This central government annual report with the consolidated financial statements includes a statement of operations (see annex 1), a statement of financial position (see annex 2), a cash flow statement (see annex 3) and notes. It also includes a report on the outcome of the state budget revenue and appropriations.

The consolidated statements are based on the agencies' annual accounts, which are focused on in this chapter.

Each government agency in Sweden must deliver an annual report by February 22. The head of the agency and all members of the board must approve the annual report and sign it. The Swedish National Audit Office then audits each agency's report.

An agency's annual report consists of the following reports and statements.

The **statement of financial position** includes current assets and fixed assets as well as liabilities and capital.

The **statement of financial performance** covers all revenue and expense.

The **cash flow statement** provides a summary of cash receipts and cash payments during the year. In an agency's cash flow statement information is provided under various sub-headings, such as operations, investments and collections of taxes and transfers. Consequently, the statement shows how operations and investments have been financed.

The **appropriation report** includes the outcome of appropriations and general state budget income. The outcome is compared with the amount of the appropriation(s) placed at the disposal of the agency and with the calculated amount for state budget income.

The **performance report** compares results actually achieved with the goals and objectives. If the ministry concerned has not specified any reporting requirements, trends in respect of volume, incomes, costs and quality of the outputs shall be presented and commented on.

The annual report shall also include **notes** with information on the accounting and valuation principles applied and other information necessary to understand the report.

The statement of financial performance and the statement of financial position, as well as valuation principles, are described in more detail below.

The statement of financial performance

The main functions of the statement of financial performance in a government agency are

- to provide an account of the costs of operations,
- to account for resources made available for operations and to account for the extent to which this revenue is derived from appropriations or from other sources respectively,
- to account for the change in an agency's net capital and to show how this change has occurred.

THE STATEMENT OF FINANCIAL PERFORMANCE

Operating Revenue
Revenue from appropriations
Revenue from fees and other charges
Revenue from grants
Financial income
Total
Operating costs
Cost of staff
Cost of premises
Other operating costs
Financial expenses
Depreciation and write-downs
Total
Net surplus/deficit from operations
Profit or loss on holdings in associated companies and subsidiary companies
Collection of general income
Revenue from fees and other revenue that may not be used by the agency
Revenue from taxes
General revenue transferred to the government budget
Balance
Transfers
Appropriations for grants/allowances
Contributions from other agencies to finance grants/allowances
Other funds received to finance grants/allowances
Financial income
Financial expenses
Allocations to/withdrawals from funds etc. for transfer purposes
Grants/allowances provided
Balance
Change in capital for the year

The statement of financial performance starts with revenue from operations even though there was a great deal of discussion when the accounting model was developed whether it would not have been more appropriate, in the government sector, to start with expenses. However, as regards the matching principle we often use "reversed matching" in the sense that revenue for the period is matched against cost instead of vice versa.

Appropriations are a source of financing which certainly differs from other sources of financing (revenue from grants, fees, charges etc) but which are treated in the accounts as operating revenue.

When the Swedish government accounting model was developed, there were discussions whether collections of taxes and transfers should be included as items in the statement of financial performance of the agency concerned or accounted for only in the agency's statement of financial position. The reason for the latter is the fact that taxes and transfers are alien to the essential operations of the agency, i.e. the payments have nothing to do with the costs of production of an agency's services. Another reason is that, in some cases, there is no strict borderline between transfers that are handled solely on behalf of the state and transfers decided on by the agency.

Eventually, it was decided that collections of taxes and transfers were to be accounted for in specific sections in the agencies' statements of financial performance and should be regarded as revenue and expenses. It was concluded that this would be the best way to collect and consolidate information on taxes and transfers. In the section Collection of general income, agencies recognise taxes received as revenue and tax income forwarded to the central government current account is recognised as expenses. This has the effect that the net balance of the section is often zero. The same principle is used for transfers.

Collection of taxes is normally recognised as income when a tax liability is issued to the taxpayer. Earlier recognition than this is, in most cases, difficult due to the criteria of probability and measurability.

Government transfers are normally recognised as expenses when the payment is made. The reason is that the payments are regarded as discretionary until payment is made. However, this is a very difficult area and it has been identified as an area that needs to be studied in more detail. For example hitherto we have not made any clear distinction between different types of transfers, such as entitlements, transfers under shared cost agreements and grants.

We have considered whether financial revenue and expense should be accounted for in a specific section or under different headings such as Revenue from operations etc. After a thorough analysis we decided to change from having a specific section in favour of splitting the financial items and accounting for them under various headings. The main reason was that the accounting of transfers in the transfer section would be more correct with this method as some transfers are financed by special interest-yielding funds.

The change in net capital for the year is often very close to zero in an agency's statement of financial performance. The reasons are:

- for operations financed by user charges and fees, the full cost recovery principle should be applied. This means that, in the long run, revenue and expenses should be of the same size.
- grants received from donors etc. are allocated to specific periods, i.e. only grants used to finance the period's cost are recognised as revenue. Other grants are accounted for in the statement of financial position. In the long run grants are fully spent in operations and therefore there is normally a zero net balance.
- the appropriation amount recognised as revenue is normally very close to the period's expenses.

The statement of financial position

The statement of financial position shall give a summary account of assets, liabilities and capital. An underlying view in the Swedish government sector is that an important role of the statement of financial position is to distribute cost to different periods.

ASSETS

Intangible fixed assets
Capitalised expenditure on Research and Development
Rights and other intangible assets
Advances for intangible fixed assets

Tangible fixed assets
Buildings, land and other real estate
Improvements to real estate owned by others
Machinery, plant, equipment etc.
Construction in progress
Reserve stocks for war or emergencies
Advances for tangible fixed assets

Financial fixed assets
Shares in subsidiary and associated companies
Other long-term securities and bonds
Long-term claims on other agencies
Other long-term claims

Lending
Lending

Stock
Stock and stores
Work in progress
Properties
Advances to suppliers

Receivables
Accounts receivable
Claims on other agencies
Other claims

Periodisation items
Prepaid expenses
Accrued revenue from grants
Other accrued revenue

Settlement with the government
Settlement with the government

Short-term investments
Securities and shares

Cash and bank balances
Balance on interest-bearing account (SNDO)
Other balances at SNDO
Other cash and bank balances

CAPITAL AND LIABILITIES

Agency Capital
Government capital
Revaluation capital
Gifts and donations
Shares in profits of subsidiary and associated companies
Change in capital brought forward
Change in capital in Statement of financial performance

Funds
Funds

Provisions
Provisions for pensions and similar commitments
Other provisions

Liabilities etc.
Loans at the Swedish National Debt Office
Other loans
Interest account credit (SNDO)
Other credits at the SNDO
Debts to other agencies
Accounts payable
Other liabilities
Cash deposits
Advances from customers

Cut-off items
Accrued expenses
Unused grants
Other deferred revenue

Contingent liabilities

Definition of assets

At present there is no stipulated definition of assets in the regulations for government accounting in Sweden. However, in our preliminary framework for government accounting we propose to use the IFAC-PSC definition: "a resource controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity". This definition will probably be added to the accounting regulations from the year 2001.

The main rule is that all assets are to be shown on the face of the statement of financial position. The assets are to be classified into two groups: current assets and fixed assets. There is also a section for loans that may be both short-term and long-term.

Fixed assets

A fixed asset is an asset that is intended for permanent use or possession. Fixed assets - financial, physical and intangible assets - are valued at acquisition cost less accumulated depreciation. A fixed asset that is received free of charge shall be recognised at its market value.

Depreciation is based on the economic life of each asset. If the value of the asset has decreased by more than the depreciation made, and if the decrease in value of the asset is judged to be permanent, the value of the asset shall be written down.

Fixed assets with a value that considerably and permanently exceeds their recorded value may be stated at an amount not in excess of that value, i.e. they may be appreciated. This principle is very seldom applied in practice, and is currently being discussed.

Shares in subsidiaries and associated companies are regarded as fixed assets and are valued using the equity method.

Current assets

Current assets are assets that are not intended for permanent use or possession. With few exceptions, current assets are recognised either at acquisition value or at fair value if the latter is lower. Fair value in this context refers to sales value less estimated selling expenses.

The value of stock or similar assets may be estimated on the basis of the first-in, first-out principle, of weighted average prices or of other similar principles. The last-in, first-out principle may not be used.

Doubtful receivables are recognised at the value that is expected to be received. Claims and debts in foreign currency shall be valued at the exchange rate prevailing at the end of the accounting year.

Acquisition value

Acquisition value, also called historical cost, is the main valuation principle used in the Swedish government. Acquisition value is normally also applied in corporate financial accounting.

As an important role of the statement of financial position is perceived to be the distribution of cost, acquisition value is the valuation method that should normally be used. The reason for this is that this value reflects the resources sacrificed for the acquisition of the asset, and this sacrifice should be distributed over periods of time. Furthermore, acquisition cost (less depreciation, if applicable) is the value on which interest or yield should be placed if the intention is to let each generation pay for the use of resources including the borrowing cost of investments. Decisions on replacement have to be taken by each generation. The government is responsible not only for the management of the administration but also for the economic situation of the entire society.

Depreciation method

Fixed assets with a limited economic life shall be depreciated systematically during their lifetime. There are no specified limits for economic life as the same type of asset may have a different economic life depending on how the asset is used by different agencies. Consequently each agency shall decide on its own depreciation periods. In the ESV's supplementary regulations it is stated that the depreciation period shall normally be 3-7 years for computers, 5-10 years for machines, vehicles and inventories, and 30-40 years for buildings and roads. Expenditure on research and development shall be depreciated over not more than five years. The depreciation method used is normally straight-line but other methods may be used if appropriate.

Obligations

In the central government sector in Sweden obligations are divided into liabilities, provisions and contingent liabilities - the same structure as used by IASC. A liability is recognised on the face of the statement of financial position when it is probable that an obligation will have to be met. Where provisions are concerned, the IASC definition is used, i. e. liabilities of uncertain timing or amount, for example some government agencies account for provisions for pensions and for restructuring costs. However, as a basic principle, provisions for pensions are accounted for by the National Government Employee Pensions Board. The pension cost is spread annually through pension fees that the agencies have to pay to the Board. Contingent liabilities are also defined as by IASC and they shall be disclosed in the annual report of each agency, for example government guarantees are regarded as contingent liabilities.

Capital

State capital is recorded when an agency receives appropriations to use for investments, such as infrastructure, that are not financed through internal loans. The capital is decreased in accordance with depreciation made. If an agency receives donations with the provision that only returns on the donation may be used in operations, the amount received is recorded as donation capital.

4. Special accounting issues

Infrastructure

Investment in infrastructure is treated as an asset. Roads are depreciated over 40 years. Maintenance and upkeep expenditure to retain the service potential is treated as expense for the period.

Roads and railways are built and managed by two agencies. Investment in this kind of infrastructure was normally treated as an expense before 1993, but is now recognised at acquisition value less depreciation. When the new accounting model was introduced, road investments for the period 1955-1994 were valued retroactively. A conversion was made with the aid of special indices. A corresponding method has been used for railways. Thus, old roads and railways were valued at historical cost less accumulated depreciation and recognised in the statement of financial position, with a special item under Capital as counter value. This creates an overall picture of each year's cost of infrastructure: depreciation, upkeep, etc. and makes it possible to analyse the government's debt, taking into consideration what has been used for investment and what has been spent on consumption. Civil airports, electric grids and waterways are built by public utilities and were already treated as assets in 1993. These public utilities did not change their accounting principles (which are the same as for agencies and private companies).

Emergency assets including military assets

Emergency assets are assets that are kept in stock for use in an emergency or war situation. Emergency assets are divided into three groups:

1. Emergency assets, which are sold and replaced on a current basis, such as food supplies.
2. Emergency assets which are kept for their total economic life
3. Emergency assets under construction

All emergency assets are classified and normally valued as fixed assets. Emergency assets that are sold and replaced on a current basis are valued according to the first-in-first-out method (FIFO).

Accordingly, defence materiel such as real estate, vehicles, weapons and other equipment, are, in principle, accounted for as assets in Swedish government accounting. This principle has been in effect since 1998. Before that a distinction was made between materiel used for training of military staff on the one hand and materiel etc. kept in reserve to be used in the event of war, on the other. There are two reasons why all military equipment should now be treated similarly to other assets. One is practical: it has been difficult to distinguish the equipment used for training purposes from that kept in stock, due to turnover. The other reason is more theoretical: keeping military equipment in stock can be regarded as an insurance providing a service potential for each generation of citizens, and the expense should be recognised in the years when people enjoy this benefit.

Heritage assets

Heritage assets are the only exemptions from the rule that all assets shall be accounted for. Heritage assets were excluded from the accounts when the agencies constructed their statements of financial position under the new principles in 1993 because, in many cases, information on acquisition cost did not exist at all or was completely irrelevant because of changes in monetary units or prices. These assets were judged to be of no interest in respect of the aim of the reform, i.e. to contribute to better financial management. Even heritage assets acquired after 1993 may be excluded from recognition. In the regulations supplementing the ordinance on the annual report and budget documentation it is stipulated that: "Land, buildings and other real estate with predominantly historical or cultural value, as well as museum objects for which there is normally no market, may be excluded from recognition." The ESV is investigating how the accounting principles for heritage assets can be improved and made more uniform.

Assets acquired through donations

Assets acquired through donations shall be recorded at a value that corresponds to the market value at the time of acquisition.

Financial leasing

Assets acquired under finance leases shall be capitalised and included in the accounts together with a liability to pay future rentals (the same principle as in the IASC standard).

Intangible assets

Hitherto the accounting rule for expenditure on research and development activities has stated that expenditure may be recognised as a fixed asset if the asset is expected to be of considerable value to the operations during years to come. Due to the use of the word may some agencies have recognised expenditure on computer programs etc. as an asset while other agencies have not. From 2002 the accounting rule will be changed in order to achieve uniformity between agencies. This means that expenditure on research is to be treated as an expense while expenditure on development activities is to be recognised as a fixed asset if the asset is expected to be of considerable value to operations during years to come. The principle follows IAS 38.

Construction of statements of financial position when the new accounting model was introduced

Although agencies, in general, showed no fixed assets on the face of the statement of financial position before the changeover to accrual accounting, most agencies had asset registers from which the acquisition cost could be established. In such cases, the asset was recognised on the face of the statement of financial position along with the accumulated depreciation at amounts that would have been shown if the new principles had been followed from the beginning. The corresponding credit amount was recorded as "capital" and during subsequent years, the annual depreciation of these assets reduced capital until the assets were fully depreciated. This resulted in annual expenses that included depreciation of assets acquired before the accounting reform. As a transitory rule, assets with a remaining economic life of less than three years did not have to be recognised, and nor did assets with a minor value, such as furniture.

Pension liabilities

Pensions for government employees are recorded as a cost by each agency as they are accrued. The cost is distributed through fees from the National Government Employee Pensions Board. The expenditures are recognised on an actuarial basis. The National Government Employee Pensions Board handles the administration of the pensions and accounts for the pension liability, with exceptions for smaller amounts accounted for by a few agencies themselves.

National debt

The Swedish national debt is the largest liability on the Swedish central government consolidated statement of financial position. Treasury bonds with coupons are recognised at nominal value. Treasury bills and treasury bonds without annual coupons are recognised at the amount received at the time of issue. The foreign currency debt is recognised at the exchange rate at the year-end. Accrued interest is recorded as a cut-off item - an accrual- and is thus not included in the definition of national debt.

Unspent grants

Unspent grants are grants received but not yet spent for their intended purposes. Unspent grants are recorded as a cut-off item - prepaid revenue - in the statement of financial position. This means that only grants, which are actually spent during the year, are regarded as revenue in the statement of financial performance. The reason is that we apply the matching principle in this context. Consequently, accrued grants shall be recognised as an asset in cases where promised grants are spent before they are received.

Contingencies under social insurance programs and other transfer programs

Future contingencies regarding social insurance programmes are normally not taken into account as obligations or contingencies, and are consequently not reported on the face of the statement of financial position. In general the reporting of contingencies is an issue that should be subject to improvement.

5. Accounting and reporting plans

Chart of accounts

The government chart of accounts is based on a concept that is used by many private companies in Sweden. With the private sector standard as a point of departure, the ESV has developed a standard chart of accounts that can be used by the agencies - it is recommended but it is not compulsory. As regards the detailed accounts, it is common that the agencies make modifications and add new accounts so the chart better suits their specific needs.

The structure of the chart of accounts is based on a decimal classification with hierarchically categorised levels (digit positions). The first digit of the account number indicates the class of account, the second the group of accounts, the third, forth and fifth the account.

The chart of accounts includes nine account classes, numbered 1-9. The classes of accounts 1-8 are used for external transactions, account class 9 is used for internal transactions (internal cost allocations, etc.). Separate account classes are provided for revenue and for the major types of costs for materials and labour. Separate account classes are also provided for assets, and liabilities and equity.

The following figure shows the basic format for the chart of accounts as well as for the plan of reporting codes.

ACCOUNT

Class
1 Assets
2 Liabilities and capital
3 Revenue
4 Cost of staff
5 Cost of premises, office services, external services
6 Depreciation
7 Collection of taxes, transfers
8 Change in capital
9 Internal revenue and expense (within an agency)

We have a double entry accounting system and consequently one account is debited and another account is credited.

In some respects the chart of accounts for agencies does differ from the private sector standard chart of accounts. These differences stem from the differences between government and private accounting that have been regarded as fundamental in this context. For example, a separate account class has been created for collections and transfers. There are also some other transactions that are specific to government agencies.

Plan of reporting codes

The plan of reporting codes, which is compulsory, is based on the plan of accounts. However, it is less detailed. It is used for reporting and consolidation and makes it possible to monitor different types of financial information, such as

- Type of expenditure and income (salaries, cost of premises etc)
- Economic category (consumption or investment)
- Type of asset and liability.

The figure on the previous page shows the basic format for the plan of reporting codes.

The structure is also constructed 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. This will be necessary as long as budget accounting is not on a full accrual basis.

Chart of object codes

By developing a suitable chart of object codes, it is possible to store and retrieve information in various dimensions in order to follow up and evaluate the result of operations. Thus, the chart of object codes is necessary for performance reporting and to monitor the cost of different activities in an agency as well as the cost of products and different kinds of services.

The chart of object codes is also used for management accounting. It can, for example, be used to allocate cost between different organisational units in an agency.

There is no structure of the chart of object codes that is compulsory. It can include object codes, such as area of activities, product, project and organisational unit. Also, a chart of object codes is not static. It must be adjustable over time as the operations of an agency and the information required changes.

The chart of object codes and the chart of accounts form the agency's accounting plan.

6. Reporting and consolidation

Periodic reporting

Monthly reporting

Each accounting entity (agency) is required to produce financial information monthly and send it electronically to ESV, normally not later than twelve days after the end of the month. The information is structured according to the plan of reporting codes. After compilation and some degree of analysis, the information is transferred to the Ministries and sometimes to other agencies, for example Statistics Sweden and the National Institute of Economic Research.

The monthly reporting includes information on:

- the use of appropriations,
- the collection of general income, such as taxes,
- payments made.

The state budget information, such as the use of appropriations and the collection of state budget revenue, is used to follow up the budget forecasts and the state budget ceilings. Information on payments made is used for reconciliation of the central government's corporate bank account system.

Quarterly reporting

Finance statistics are reported by the agencies once a quarter. This information is used for reporting in accordance with the system of national accounts, as well as for government finance statistics. The ESV compiles the information from the agencies and then transfers it to Statistics Sweden.

Semi-annual reporting

The interim report shall be submitted by the 15th of August. The report covers the first six months of the year and consists of almost the same financial reports as in the annual report. However, the reporting requirements are somewhat less detailed as neither a cash flow statement, nor notes have to be included. On the other hand a forecast of the expected state budget income and expenditure at year-end shall be included.

Annual reporting

The annual report is to be submitted by February 22. It includes a statement of financial position, a statement of financial performance, a cash flow statement, an appropriation report, notes and a performance report. For more details, see chapter three.

Periodisation and elimination of internal transactions

Periodisation

Periodisation is regarded, as the term indicates, as a process by which revenue and cost items are divided into one part which affects the present period's statement of financial performance, and another part which is carried forward to one or more subsequent periods through the statement of financial position. According to current accounting rules correct periodisation is required for the semi-annual and annual reporting.

In principle there are three types of periodisation. These are:

- Periodisation of stocks, stores and the like, i.e. periodisation of current assets
- Depreciation, i.e. periodisation of fixed assets
- Accrued and deferred items, such as accrued or prepaid revenue and expense.

There is an ongoing discussion on the need to increase periodisation requirements in order to receive fully periodised information on a monthly basis.

Elimination of internal transactions

When consolidating accounting information from the agencies it is important to eliminate internal transactions, such as sales from one agency to another, as well as government-internal receivables and liabilities.

Previously this elimination was only done at year-end. From year 2000 the accounting information from the agencies makes it possible to make eliminations in the semi-annual reporting.

Where elimination of internal receivables and liabilities is concerned, the requirements have recently been intensified in order to improve quality in the elimination process. This means that now, in their reports, the agencies often need to refer receivables and liabilities to specified counterparts in the central government. The agencies also need to check their balances against each other.

7. Implementation issues and experience

At the time of implementation

After gradual implementation over a period of two years, accrual accounting was fully implemented in the Swedish central government from July 1, 1993. The implementation process was performed without a great deal of trouble. One reason was that no organisational changes were needed, as the Swedish system of having a large number of agencies responsible for the execution of policies was well suited for the implementation of accruals and management by results. Another reason is that accruals were implemented only in the agencies' accounting and in the whole of government financial statements, but not in the budget approved by Parliament. Therefore small changes were needed as regards the budget procedure and the involvement of Parliament. Also, credit must be given to the personnel working in the financial administration departments at all agencies.

Of course it was not without effort that accrual accounting was implemented. Accounting systems had to be adjusted or replaced, accounting policies developed, routines changed and a great deal of information, education and training was necessary. The costs of these activities are not easily identified.

Accounting systems

An important prerequisite when implementing accrual accounting is the availability of accounting systems that can handle accrual accounting. Prior to implementation, most of the agencies were using a centralised system that had been used - and rebuilt - since the late 1960s. This system was modified to handle accruals. A new system was also made available for the agencies. The new system, called AGRESSO, is a commercial system also used by many private companies worldwide. Through the introduction of a new system it was possible to move from centralisation towards decentralisation.

Accounting policies

As early as in the 1980s accounting policies were formulated in a way that moved the central government sector closer to the private sector as regards accounting principles. But still, most agencies were not required to follow accrual accounting principles or to submit financial statements similar to what is required today. Thus, accounting policies had to be further developed. The point of departure was the accounting policies applicable to the private sector in Sweden. Certain adaptations were made, of course, to meet specific government needs.

Education and training

Education, training and information activities were held before the launching of the accrual accounting model. Written material was produced to give an overview of the reform and to explain some of the reasoning behind the model. Training, mainly through seminars, was an important way of spreading information. The seminars were mainly made available for personnel working with financial administration at the agencies. We also gave each agency the name of a contact person at the ESV they could reach when they had questions and when problems arose.

In the long run

As can be seen from the above, the implementation of accrual accounting went smoothly and the direct goal of facilitating result management was achieved. We have also achieved greater transparency, better financial control and better financial awareness in general.

One reason for our success was that the state budget principles were not changed. However, this lead to a dual system that, in the long run, has been a problem. We have also discovered that the shift in focus towards the accounting principles used in the private sector should not go too far since the purpose of the state and a company differs in some specific respects.

We also learned that changes take time. For example, after quite a few years we still have not finished the development of detailed accounting principles for some government-specific issues, such as the accounting of transfers and heritage assets.

The accrual-based information is sometimes of subordinate importance

The budget approved by Parliament has hitherto been presented partly on a cash basis and partly a modified accrual basis. The annual reports of agencies and the government's consolidated financial report are, however, presented on a full accrual basis. Thus it has been necessary to keep the accounts in a structure that facilitates analysis of both an accrual and cash basis and in many cases also on a modified accrual basis. This has complicated the accounting model. It has also resulted in a lot of problems defining when an event is to be recognised in the different types of reports.

A further problem has been that the accrual based financial statements have not received the attention that they should have received. In the follow-up process it has often been the budget that has been in focus. Parliament has decided on appropriations in the budget and, when monitoring operations, the appropriations (on a cash or modified accrual basis) have, naturally, been the most important follow-up items. The Ministry of Finance has recently proposed a changeover to accrual-based budgeting.

Due to substantial budget deficits in the first part of 1990s, a new budget process was introduced in 1996. Expenditure ceilings were introduced as a tool to strengthen the process. This has put a lot of focus on appropriations as they constitute the expenditure ceilings, which are monitored very closely. The new budget process also focuses on macro restrictions and, as these restrictions often are on a cash basis, the accrual basis has, temporarily, lost somewhat in importance. In any case, it has not facilitated the implementation, the acceptance and the use of accrual accounting in the ministries.

On the other hand the annual report has become more important. In the first place the submission of a whole of central government annual report is, since 1996, stipulated in law. In the second place there have been high demands to bring forward the time of submission. In addition Parliament has also requested improved methods for result management.

We have also learned that it is very difficult to abandon old routines and replace them with completely new ones. Both agencies and ministries often tend to add the new routines to the old ones and this often makes the accounting complex and more complicated than it should be.

Risks in moving too far towards private sector accounting principles

There is a general trend, which we have seen in Sweden, that government accounting principles are moving towards the principles used in the private sector. This development has been mainly advantageous, but the Swedish experience is that some accounting policies are not relevant for government accounting. As regards private sector accounting policies, there has been an orientation towards market values and such a focus is not as relevant in the public sector.

For example, IAS 36 Impairment of assets points out future cash flows as an important basis for estimating the need to write down the recorded value of an asset. However, in the government sector the ability of certain assets, for example property, plant and equipment, to generate future cash flows or service potential to a certain entity is not effected whether carrying amount is higher than fair value. Therefore, in our opinion, property, plant and equipment should primarily be considered impaired if the asset has been destroyed or if it is used for some other purpose than originally intended.

We support the development of International Public Sector Accounting Standards by IFAC-PSC. However, we would like to emphasise the need to place a special focus on government-specific issues. It is not possible merely to take over private sector accounting standards since the underlying basic accounting theories are not the same. Actually we see a need to have more theories developed with regard to non-profit organisations.

We should never forget that circumstances are not the same in the private and government sectors, especially as regards the goals of the operations and the means made available to achieve them.

- In the private sector the goal is to earn as much money as possible and the operations are the means to reach the goal.
- In the public sector the goal is the operations themselves - such as education of children and building roads - and money is used to reach this goal.

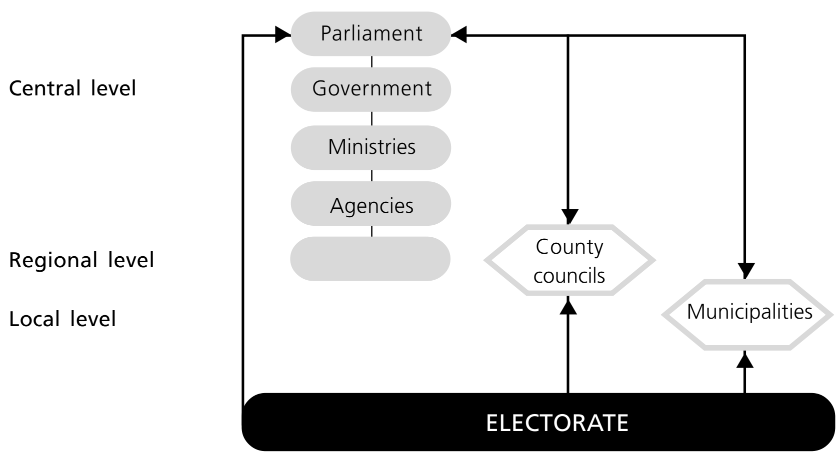
Consequently, in the private sector the accounting is used mainly to provide information on the company's financial results. However, in the government sector it is also very important to collect information that can be used for various kinds of evaluations. Some of these evaluations need to be made from an economic perspective, for example information on national accounts.

	GOAL	MEANS
Private Sector	Money	Operations
Public Sector	Operations	Means

8. The Swedish Government Organisation

The public sector in Sweden consists of three democratically elected levels: the Parliament (called Riksdagen in Swedish) at the national level, the county councils at the regional level, and the municipalities at the local level. The 289 municipalities are responsible for local issues in the immediate environment of the citizens, for example primary and secondary education, child care, care of the elderly etc. The main responsibility for the 21 county councils is health and medical care. The national level, i.e. the central government level, consists of the ministries and approximately 300 agencies. Some of these agencies have regional organisations.

The Swedish Government system



Organisational structure of the central government

The Parliament is our legislative assembly and is elected every forth year by the people of Sweden. The Parliament elects the Prime Minister and the Prime Minister appoints the Cabinet. It is made up of a number of cabinet ministers, the majority of whom are heads of ministries. All decisions are made jointly by the ministers under the Prime Minister's presidency.

The ministries, currently eleven including the Prime Minister's Office, assist the Cabinet. The ministries are small policy-setting units, often consisting of no more than about 100 persons (including clerical staff). The ministries are mostly engaged in preparing matters of business for the Cabinet, such as the preparation of the Government's bills to Parliament on budget appropriations and laws. The ministries are generally not concerned with details of the administration.

The actual operations are carried out by a large number of independent agencies, or authorities. Their size, structure and types of operations vary considerably. For example, under the Ministry of Health and Social Affairs there are agencies such as the National Board of Health and Welfare, the National Social Insurance Board and certain other smaller agencies.

Once the state budget has been approved by Parliament, all appropriations are placed at the disposal of the Government, which in its turn delegates both responsibility and funds to its agencies. This is normally done through a Government approval document, issued just before the beginning of the year.

Financial management in central government - main actors

The ministry that is primarily responsible for financial management in central government is the **Ministry of Finance**. Important responsibilities are economic, fiscal and debt policy, the national budget, taxes, international economic co-operation, issues relating to banks, insurance and the securities market and local government finances.

The Ministry of Justice also has some specific responsibilities in the area of financial management.

The Swedish National Debt Office administers government borrowing activities and is responsible for the management of the central government debt. It also issues guarantees and provides loans on behalf of the state, co-ordinates the state guarantee activities and lending to the business sector. An important task in respect of financial management is that the office functions as an internal bank vis-à-vis government agencies, monitors the state's cash management efficiency, and publishes forecasts of central government borrowing requirements.

The task of the **Swedish Agency for Administrative Development** is to conduct studies and evaluations at the request of the government and also to modernise public administration with the use of IT.

Statistics Sweden is responsible for providing statistics on some sectors of society, for example central economic statistics, the national accounts, and statistics relating to the population, labour market, prices, and living conditions. Where financial and economic statistics concerning central government are concerned, the ESV is responsible for the compilation of information from the agencies. The ESV then transfers the information to Statistics Sweden, which is the organisation responsible for delivering financial statistics etc. to international organisations.

The Swedish National Audit Office is responsible for auditing central government activities, both financial auditing and performance auditing. All the annual reports of agencies are audited and each audit report shall be submitted to the government no later than one month after the agency has submitted its annual report. This means that audit reports shall normally be finished by March 22. Most audit reports are unqualified but each year a number of qualified opinions are given. In such cases the agency has to inform the government, within one month, of the measures it has taken or the measures it has planned as a result of the auditor's objection.

The Swedish National Financial Management Authority (ESV) is the government agency for financial management in Sweden. Its objective, as defined by the Government, is high quality financial management. The ESV works in close co-operation with the Government and other agencies.

The ESV's main fields are:
Information on Central Government Finances
Performance and Financial Management
Financial and Personnel Administration Systems

The ESV shall participate in developing and improving methods for performance and financial management for both the agencies and central government. The work focuses on combining financial management and performance management. ESV also draws up the rules for financial regulations and develops generally accepted accounting practices for the central government.

Much work is also devoted to methods development projects that shall produce financial management manuals and handbooks that are offered to the agencies and the ministries. The ESV also provides a substantial amount of training and consultations.

The state budget procedure

A system of top-down setting of budget constraints was introduced in 1996. Since then an overall ceiling on total centrally financed expenditure has been set for the three following financial years. The ceiling for the following year is broken down, in the Spring Fiscal Policy Bill, into ceilings - expenditure frames - for 27 expenditure areas. The frames for expenditure areas form the framework for the presentation of the actual Budget Bill that is tabled in September. When Parliament processes the Budget Bill, voting is in two stages, first on the expenditure area envelope and then on the appropriations. The consequence is that a motion to increase a particular appropriation must be accompanied by a proposal that describes how the increase is to be financed, i.e. what appropriation(s) in the expenditure area should be reduced.

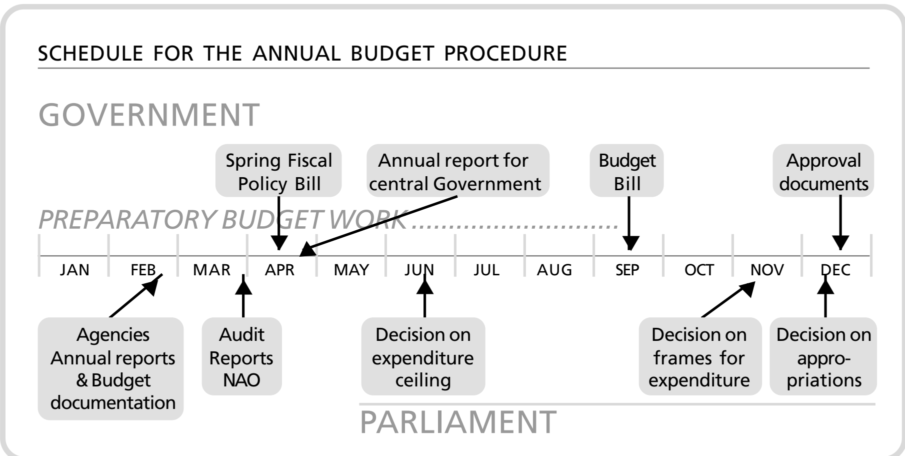
After the Parliament's decision on the budget in mid-December, the Government is responsible for making sure that the decisions are executed. The Government commissions the central government agencies with the task of carrying out the major part of the decisions reached.

Where the relationship between the government and the agencies is concerned, it is important to point out the regular dialogue on budget matters. This dialogue is undoubtedly an important part of the budget process. The formal parts of the budget process consist of the budget documentation and the approval document. The budget documentation contains the agency's proposals for financing its activities during the following three years. Each agency shall submit its budget documentation by March 1.

The implementation of the budget decision is delegated to the agencies by means of approval documents. These documents, approved by the Cabinet in December, contain the objectives of the agency's activities, the amount of funds at the disposal of agencies, and the information on performance to be provided to the Government.

The ministries monitor trends in expenditure each month for their appropriations and expenditure areas. Revenue is also monitored. The semi-annual and the annual report are also very important documents in the monitoring process.

The following picture gives an overview of the budget process.



Annex 1:

Consolidated statement of financial performance for central government

million SEK	Note	2000	1999
Revenue			
Taxes etc.	1	795 682	772 788
Revenue from fees and other payments	2	47 591	46 231
Revenue from grants	3	16 912	49 427
Total revenues		**860 185**	**868 446**
Costs			
Transfers and grants			
Transfers provided	4	-614 805	-604 671
Allocations to/withdrawals from funds	5	-5 349	-4 212
Total transfers		**-620 154**	**-608 883**
Cost of government operations			
Cost of staff	6	-76 786	-72 519
Cost of premises	7	-10 706	-10 804
Other operating costs	8	-59 232	-53 278
Depreciation and write-down	9	-16 825	-15 819
Total cost of government operations		**-163 549**	**-152 420**
Total costs		**-783 703**	**-761 303**
Result before financial items		*76 482*	*107 143*
Profit or loss on holdings in associated and subsidiary companies	**10**	**8 819**	**18 777**
Financial income and expenses			
Financial income	11	107 331	85 331
Financial expenses	12	-164 572	-152 678
Total financial items		**-57 241**	**-67 347**
SURPLUS FOR THE YEAR		**28 060**	**58 573**

Annex 2:

Consolidated statement of financial position for central government

Million SEK	Note	2000-12-31	1999-12-31
ASSETS			
Intangible fixed assets			
Capitalised expenditure on research and development	13	1 302	1 082
Rights and other intangible assets	14	232	243
Advances for intangible assets	15	7	13
Total intangible fixed assets		**1 541**	**1 338**
Tangible fixed assets			
Roads and road constructions	16	67 356	63 185
Railways and railway constructions	17	57 642	53 149
Buildings, land and other real estate	18	35 178	33 437
Improvements on real estate of others	19	2 026	1 640
Machinery, plant, equipment etc.	20	22 359	30 003
Constructions in progress	21	25 829	30 523
Stock reserves for emergency	22	74 462	66 855
Advances for tangible assets	23	340	349
Total tangible fixed assets		**285 192**	**279 141**
Financial assets			
Shares in subsidiaries ad associated companies	24	139 988	140 766
Long-term securities and bonds	25	16 579	9 559
Other long-term claims	26	8 439	6 454
Total financial assets		**165 006**	**156 779**
Total assets		**451 739**	**437 258**
Lending	**27**	**127 046**	**123 532**
Stocks etc.			
Stock and stores	28	1 222	1 370
Work in progress	29	365	442
Real estate	30	146	161
Advances to suppliers	31	10 437	11 958
Total stocks etc.		**12 170**	**13 931**
Receivables			
Accounts receivable	32	4 664	4 108
Other claims	33	33 222	20 107
Total receivables		**37 886**	**24 215**
Cut-off items			
Prepaid expenses	34	16 721	22 055
Accrues revenue from grants	35	820	486
Other accrued revenue	36	17 284	14 774
Total cut-off items		**34 825**	**37 315**
Short-term investments			
Securities etc.	37	20 094	18 908
Total short-term investments		**20 094**	**18 908**
Cash, bank etc.			
Cash, bank etc.	38	3 924	6 743
Total cash, bank etc.		**3 924**	**6 743**
TOTAL ASSETS		687 684	661 902

Million SEK	Note	2000-12-31	1999-12-31
CAPITAL AND LIABILITIES			
Net capital	39	-1 001 019	-1 086 375
Funds	40	40 045	34 697
Provisions			
Provisions for pensions and similar commitments	41	125 369	115 636
Other provisions	42	13 990	9 353
Total provisions		139 359	124 989
National debt	43		
Borrowing in Sweden		1 036 832	1 079 080
Borrowing abroad		241 061	291 075
Total national debt		1 277 893	1 370 155
Liabilities			
Loans	44	126 122	105 297
Accounts payable	45	12 375	12 746
Cash deposits	46	739	777
Advances from customers	47	369	476
Total liabilities		139 605	119 296
Cut-off items			
Accrued expenses	48	73 096	75 959
Unused grants	49	4 190	3 472
Other deferred revenue	50	14 515	19 709
Total periodisation items		91 801	99 140
TOTAL CAPITAL AND LIABILITIES		687 684	661 902
Contingent liabilities	51		

Annex 3:

Consolidated cash flow statement for central government

Million SEK	Note	2000	1999
Government operations			
Revenue from taxes etc.		811 529	770 158
Revenue from fees and other payments		62 571	53 286
Revenue from grants		16 912	49 163
Total revenue		**891 012**	**872 607**
Transfers and grants		**-637 993**	**-573 093**
Cost of government operations		-132 354	-131 715
Total cost excluding depreciation		**-770 347**	**-704 808**
Transfer of AP-funds		45 000	45 000
Adjustment to payments	52	8 385	-8 572
Balance government operations		**174 050**	**204 227**
Investments			
Financial investments		-1 261	-810
Tangible investments	53	-30 404	-33 518
Intangible investments		-569	-606
Sale of fixed assets		62 810	1 145
Total investments		**30 576**	**-33 789**
Lending	54		
New lending		-13 894	-13 275
Amortisation		4 799	4 655
Total net lending		**-9 095**	**-8 620**
Financial activities			
Government net borrowing, adjusted for exchange rate fluctuations		-91 403	-87 739
Net amount of other financial items, adjusted for shares of profit		1 748	2 731
Adjustment to payments	55	-4 365	-3 880
Total financial activities		**-94 020**	**-88 888**
TOTAL		**101 511**	**72 930**
Government borrowing			
Change of national debt		-92 262	-75 806
change of other debt			28
Unrealised exchange gains and losses		-9 249	2 848
BALANCE GOVERNMENT NET BORROWING		**-101 511**	**-72 930**

Annex 4:

Ordinance concerning the Annual Reports and Budget Documentation (SFS 2000:605)

Section 1. Introductory provisions

Area of application of the ordinance

Art 1 This ordinance applies to agencies that report directly to the Government.

Sections 1 (2), 2 (3 and 5-8), 4, 5 (1-6 and 8-12), 7 (2) and 10 apply to public utilities. Sections 6 (1) and 9 (3) are also applicable to public utilities that have appropriations from the government budget placed at their disposal.

Art 2 The Ordinance shall not apply if other provisions have been made in an Act or Ordinance or by a special decision of the Government.

Common provisions relating to annual reports, interim reports and budget documentation

Art 3 Each year the agency shall draw up, and submit to the Government, an annual report, an interim report and a budget documentation.

These documents shall provide a concise basis for the Government's follow-up, appraisal or budgeting of the agency's operations.

Art 4 The annual report, the interim report and the budget documentation shall refer to all operations for which the agency is responsible, regardless of how these operations are financed or the form in which they are performed.

Section 2. General provisions relating to the annual report

Submission of the annual report

Art 1 The agency shall submit an annual report to the Government for the preceding financial year no later than by February 22 each year.

Art 2 When it submits its annual report to the Government, the agency shall also submit copies of its annual report to the National Audit Office and the Financial Management Authority.

Art 3 The agency shall submit the documentation required by the Financial Management Authority for the central government annual report and consolidated financial statements no later than February 15 each year.

Content of the annual report

Art 4 The annual report shall consist of
- a performance report,
- a statement of financial performance,
- a statement of financial position,
- an appropriation report,
- a cash flow statement, and
- notes.

The agency's annual report shall also contain a summary of important information from the statement of financial performance, the statement of financial position and the appropriation report. The summary shall also contain information on the loan limit, appropriation credit and certain key indicators.

In its annual report the agency shall also provide information on other circumstances of significance for the Government's follow-up and appraisal of operations.

Arrangement and generally accepted accounting practice

Art 5 The annual report shall be well arranged and drawn up in accordance with generally accepted accounting practice.

True and fair view

Art 6 The constituent parts of the annual report shall be arranged as a composite whole and shall provide a true and fair view of the results of operations and of expenses, revenues, and the financial position of the agency.

Other fundamental accounting principles

Art 7 The following shall be observed when the annual report is drawn up:

1. It shall be assumed that the agency will continue operations.
2. The same principles for the valuation, classification and sub-division of the various items in the annual report shall be used consistently from one financial year to the next.
3. The valuation of the various items shall be made while exercising reasonable prudence.
4. Revenue and expenses referring to the financial year shall be included regardless of the point of time when they are received or paid.
5. The different constituent parts of the balance sheet shall be valued individually.
6. Assets and liabilities may not be set off against each other. Nor may items of revenue and expense be set off against each other.
7. The opening balance for a financial year shall correspond to the closing balance of the immediately preceding financial year.

If there are particular grounds and this is in accordance with Articles 5 and 6, a departure may be made from the provisions of paragraph one. In that case particulars of the departure, the reasons for it and an assessment of its effects on the results of operations and on expenses, revenues and the agency's financial position shall be provided in a note.

Signing of the annual report

Art 8 The annual report shall be signed by the head of the agency and, if the agency has a board, by all members of the board.

Section 3. The Performance Report

Art 1 The agency shall report and comment on the outcome of its operations in relation to the goals and in accordance with the reporting requirements stipulated by the Government in the Approval document, or in another decision.

In cases where the Government has not stipulated reporting requirements, the agency shall report and comment on the development of its output in terms of volumes, revenues, costs and quality.

Art 2 It shall be evident from the performance report how the cost of operations and revenue other than that received in the form of appropriations are broken down in accordance with the structure of the report on operations stipulated by the Government.

Section 4. The statement of financial performance and the statement of financial position

Components of the statement of financial performance

Art 1 The statement of financial performance shall present, in summary form, all the revenue received and expenses incurred by the agency during the financial year.

Components of the statement of financial position

Art 2 The statement of financial position shall present, in summary form, all the assets and liabilities of the agency and its capital on balance sheet date. Pledged assets and contingent liabilities shall be disclosed as memorandum items.

Section 5. Valuation rules

Fixed assets and current assets

Art 1 A fixed asset is an asset that is intended for permanent use or possession. All other assets are current assets.

Art 2 Expenditure on research and development and suchlike may be recognised as a fixed asset if it is considered that it will be of considerable value for operations in future years.

Acquisition value of fixed assets

Art 3 Fixed assets shall be taken up at an amount which corresponds to the cost of their acquisition or manufacture (acquisition value), unless otherwise provided for in the second and third paragraphs, Articles 4-7 or Article 11.

A fixed asset that is received free of charge, or for an amount which is considerably lower than its market value, shall be taken up at its market value at the time it is acquired.

When fixed assets are transferred between agencies, the Financial Management Authority may lay down the valuation principles that shall apply at the point in time of the transfer.

Depreciation of fixed assets

Art 4 Fixed assets with a limited economic life shall be depreciated systematically during their lifetime.

A fixed asset of the type described in Article 2 shall be depreciated annually by at least 20 per cent of its value unless, as a result of special circumstances, depreciation by less than 20 per cent is deemed to correspond to generally accepted accounting practice.

Amounts of depreciation shall be reported in the statement of financial performance.

Write-down of fixed assets

Art 5 If a fixed asset has a lower value on balance sheet date than the value that is obtained from Article 3 and Article 4 first paragraph, or Article 7, the asset shall be written down to the lower value if it can be assumed that the reduction in value is permanent.

The amount by which an asset is written down under the first paragraph shall be reversed if there is no longer reason for it.

Depreciation and reversals referred to in the first and second paragraphs above shall be reported in the statement of financial performance.

Revaluation of fixed assets

Art 6 Tangible or financial fixed assets which have a reliable and permanent value which significantly exceeds their book value under Article 3, Article 4 first paragraph, and Article 5 first and second paragraphs, or Article 7 or Article 11 may be revalued at an amount not exceeding this value.

The amount of the revaluation shall be reported under agency capital.

Shares and participation rights in associated companies and subsidiary companies

Art 7 The equity method shall be applied for the valuation of shares and participation rights in associated companies and subsidiary companies.

Valuation of current assets

Art 8 Unless otherwise provided for in Article 9 or Article 11, current assets shall be taken up at the lower value of their acquisition value and their actual value at balance sheet date.

Unless otherwise provided for in Article10, the acquisition value is the expenditure for the acquisition or manufacture of the asset.

A current asset that is received free of charge or for an amount that is considerably lower than its actual value, shall be taken up at its actual value at the time it is acquired.

When current assets are transferred between agencies, the Financial Management Authority may lay down the valuation principles that shall apply at the point in time of the transfer.

Actual value refers to the sales value after a deduction is made for estimated selling expenses. If special reasons exist, the actual value may be determined to be the replacement cost, or another value compatible with Section 2, Articles 5 and 6.

Valuation of work-in-progress

Art 9 Work in progress on behalf of another may be valued at an amount which exceeds its acquisition value if special reasons exist and it is compatible with Section 2, Articles 5 and 6.

Acquisition value of stock

Art 10 The acquisition value of stock of similar assets may be calculated on the basis of the first-in, first-out principle, of weighted average prices or of other similar principles. The last-in, first-out principle may not be used.

Fixed quantities and values

Art 11 Tangible fixed assets, raw materials and consumables which are replaced and whose total value is of minor importance to the agency may be taken up as a fixed amount and a fixed value if their quantity, value and composition does not vary significantly.

Conversion of claims and liabilities in foreign currencies

Art 12 Claims and liabilities in foreign currencies shall be converted in accordance with the exchange rate in force on balance sheet date, if this is compatible with Section 2, Articles 5 and 6.

Section 6. Appropriation report and cash flow statement

Appropriation report

Art 1 In the appropriation report the agency shall report on the outcome of the appropriations that the agency has at its disposal and the income headings that the agency shall report on in accordance with the breakdown made in the Government approval document or other decisions of the Government, or the agency that has delegated the right of disposal. The outcome shall be compared with the amount allocated or delegated per appropriation or appropriation item and with the estimated amount for each income heading. An analysis shall be made of discrepancies.

The appropriation report shall also show the extent to which the agency, on the basis of special authority granted to it, has ordered goods or services or approved grants, compensation, loans or the like that will entail expenditure in following financial years but which are not covered by appropriations at the disposal of the agency.

The appropriation report shall also show how the agency has complied with other financial conditions laid down by the Government.

Cash flow statement

Art 2 The cash flow statement shall show the agency's payments broken down by operations, investments, tax collection and transfers. This analysis shall show how these operations have been financed, and how the agency's cash position has changed. In connection with the cash flow statement, the agency shall provide the comments and explanations necessary to make an assessment of this statement.

Section 7. Supplementary information

Art 1 In addition to what is provided for in other sections in this ordinance, the annual report shall contain any supplementary information prescribed by the Financial Management Authority.

Art 2 In its annual report the agency shall present the taxable remuneration and other benefits disbursed during the financial year, as well as any future commitments made, in respect of each and everyone of

1. the members of the board of the agency,
2. the members of the agency's advisory council appointed by the Government, and
3. the management staff at the agency appointed by the Government.

The agency shall also state any appointments held by these persons on the boards or advisory councils of other government agencies and on the boards of limited companies.

Section 8. Interim report

Art 1 The agency shall submit an interim report to the Government no later than August 15 each year. The interim report shall cover the first six months of the current financial year.

The interim report shall consist of:

- a statement of financial performance,
- a statement of financial position,
- an appropriation report,
- a forecast, for the current financial year, of the outcome of appropriations, income headings and special authorisations, and the costs and revenues of operations.

The interim report shall be signed by the head of the agency. The provisions in respect of annual reports contained in Section 2 Article 2, Article 4 third paragraph, and Articles 5-7 shall be observed when the interim report is drawn up.

Section 9. Budget documentation and documentation for in-depth appraisals

Common provisions for budget documentation and documentation for in-depth appraisals

Art 1 If the agency's budget proposals are expected to lead to an increase in costs or a reduction in revenue, it shall present proposals for measures it intends to take in its operations which will lead to a corresponding reduction in costs. Should special reasons exist, the proposals may also refer to other operations.

Art 2 The agency shall examine the appropriateness of the rules which govern its operations. If the agency's proposals necessitate amendments to a statute, proposed amendments shall be provided. Proposals for amendments to statutes shall be drawn up in accordance with the principles for writing statutes.

Budget documentation

Art 3 The agency shall submit a budget documentation to the Government no later than March 1 each year. The budget documentation shall contain the agency's proposals for the financing of operations for the next three financial years. The material shall also contain proposals for any special authorisations required by the agency to enter into commitments on future expenditure not covered by its estimated appropriations.

If the accumulated unspent appropriation at the disposal of the agency at the end of the preceding financial year amounts to more than three per cent of the appropriation, the agency shall report the planned use of the unspent appropriation during the current and the three following financial years.

The agency's proposals shall not exceed the ceiling established by the Government for the agency's operations.

Documentation for in-depth appraisal

Art 4 The Government decides each year on the operations that shall be the subject of an in-depth appraisal.

The documentation required for the Government's in-depth appraisal shall be submitted in a special report no later than January 15 in the year stipulated by the Government.

Art 5 The agency's documentation for the in-depth appraisal shall include a comprehensive performance analysis and proposals for the aims and financing of operations for the financial year(s) to which the documentation refers. The operations shall be evaluated in the performance analysis and reported on in relation to the objectives of operations established by the Government.

The documentation shall also contain a comprehensive analysis of the external environment of the agency and a resource analysis.

Section 10. Special provisions for public utilities

Art 1 No later than March 1 each year, the public utility shall submit to the Government an annual report for the preceding financial year which has been audited by the National Audit Office. This report shall cover the public utility and, where relevant, the group of companies owned by the public utility. The annual report shall consist of:

- an administration report,
- a statement of financial performance,
- a statement of financial position,

- a cash flow statement, and
- notes

Interim reports for public utilities

Art 2 No later than July 1 and November 1 each year the public utility shall submit an interim report for the public utility and, where appropriate, the group of companies owned by the public utility. The reports shall apply to the first four or eight months respectively of the current financial year.

The interim report shall contain a statement of financial performance and a statement of financial position in summary form. The statement of financial performance shall be drawn up in the same way as in the annual report and be based on the same principles. Changes in turnover, results etc. shall be commented on, as well as important events for the public utility or group of companies owned by the public utility that occurred during the period.

The interim report submitted by November 1 shall be examined by the National Audit Office.

Plan of operations for public utilities

Art 3 No later than March 1 each year, the public utility shall submit to the Government its proposals for a plan of operations for the three following financial years. In this plan of operations the agency shall describe its operations and present the strategies it has decided upon to achieve the operational and financial objectives established for the utility. The plan of operations shall also contain an investment plan and, if the utility has appropriations from the government budget at its disposal, an appropriation report and budget documentation.

In the investment plan the utility shall report on the focus of its investments and their planned breakdown by different areas of investments, and how it intends to finance the investments.

Section 11. Implementing provisions

Art 1 Directives for the implementation of this ordinance may be issued by the Financial Management Authority.

This ordinance enters into force on January 1, 2001 when the ordinance (1996:882) on the annual reports of agencies etc. shall cease to apply.

Where annual reports for the financial year 2000 are concerned, the following sections and paragraphs shall apply Sections 3 and 4, Section 5 second and third paragraphs and Sections 6-13 of the ordinance (1996:882) on the annual reports of agencies etc, and Section 1 Articles 1 and 3, and Section 10 Article 1 of this ordinance.

Annex 5:

The Bookkeeping Ordinance
(SFS 2000:606)

Introductory provisions

Area of application
Section 1 This ordinance contains provisions relating to section 45 of the Government Budget Act (1996:1059).

The Archives Act (1990:782) and the Archives Ordinance (1991:446) contain provisions concerning the filing of accounting information.

Agencies obliged to keep accounts
Section 2 Agencies that report directly to the Government are obliged to keep accounts as specified in this ordinance.

Definitions
Section 3 In the ordinance the following terms have the following meanings:

1. bookkeeping item: each individual entry in the accounts
2. financial events: all changes in the amount and composition of an agency's assets, liabilities or capital which are a result of the agency's external financial relations, for example payments made and received, and claims and liabilities arising in the course of operations,
3. voucher: the information which documents a financial event or an adjustment made to the accounts,
4. accounting information:
   a) accounting information as referred to in
      - Section8 (books of original entry and the general ledger),
      - Section11 (subsidiary ledgers),
      - Section13 (vouchers),
      - Section 14 (documents etc to which a voucher refers),
      - Section18 (systems documentation and transaction logging),
      - Section19 (annual reports),
      - Section20 (specifications for the annual report),
      - Section21 (reports to the Central Government Accounts), and
      - Section 8 of the Ordinance (2000:605) on annual reports and budget documentation (interim reports)
   b) agreements and other documents of special importance for determining the financial status of operations, and
   c) other information which is of importance for following and understanding the treatment of individual items in the accounts.

Financial year
Section 4 The financial year shall comprise the calendar year.

The meaning of the obligation to keep accounts

General

Section 5 An agency shall

1 ensure that all financial events in its books of account are currently recorded in accordance with the provisions contained in Sections 8-12,
2. ensure that there are vouchers as stipulated in Sections 13-16 for all bookkeeping items, and that systems documentation and transaction logging are available as specified in Section 18,
3. close the accounts in accordance with the provisions contained in Sections 19 and 20,
4. maintain all accounting information and equipment and systems necessary to present financial information in the form laid down in the Archives Act (1990:782) and the Archives Ordinance (1991:446).

Generally accepted accounting practice

Section 6 The obligation to keep accounts shall be fulfilled in a manner consistent with generally accepted accounting practice. In this respect the special provisions for government operations issued by the Government and the Swedish National Financial Management Authority shall be observed.

Accounting of several operations

Section 7 If an agency is responsible for several different types of operations, its accounts shall cover all its operations.

The Financial Management Authority may permit exceptions from the provision contained in the first paragraph.

Current bookkeeping and vouchers

Books of original entry and the general ledger

Section 8 Financial events are to be recorded in such a way that they can be presented in chronological order (book of original entry) and in systematic order (general ledger). This shall be done in such a way that it is possible to check the completeness of the bookkeeping items and to obtain an overview of developments in operations, the financial position and the change in capital for the year.

Points in time when transactions shall be recorded in the accounts

Section 9 Cash disbursements and receipts shall be recorded in the books no later than the following working day. Other financial events shall be recorded in the books as soon as this can be done.

Financial events may be recorded in the books later than that stipulated in the first paragraph if special reasons exist and it is compatible with generally accepted accounting practice.

Year-end items

Section 10 When the accounts are closed, items which are necessary to determine the revenue and expenses of the financial year and the financial position at balance sheet date shall be entered in the accounts.

Subsidiary ledgers

Section 11 In the bookkeeping, asset and liability accounts shall be supported by detailed subsidiary ledgers to the extent necessary to provide satisfactory overview and control.

Corrections of bookkeeping items

Section 12 If an item which has been recorded in the accounts is corrected, a note shall be made as to when and by whom the correction was made. If the correction is made by means of a special correction entry, steps shall be taken to ensure that anyone examining the corrected item can learn without difficulty of the correction.

Vouchers

Section 13 There shall be a voucher for every financial event. If the agency has received information documenting a financial event, this information, supplemented whenever necessary with information as specified in Sections 14 and 15, is to be used as a voucher.

If considered necessary in view of the type of voucher received, the entry in the accounts may be based on a specially prepared reference voucher.

Several similar financial events may be documented by one voucher which covers them all.

Section 14 The voucher shall contain information on when it was drawn up, when the financial event occurred, what the event concerns, the amount involved, and the other party concerned. Whenever necessary the voucher shall also contain information on documents or other information which formed the basis of the financial event and where this documentation is kept.

The voucher shall include a voucher number or another form of identification and any other information necessary to make it possible, without difficulty, to establish the relationship between the voucher and the accounting entry in the records.

Section 15 Information stipulated in the first paragraph of Section14 may be omitted if it is difficult to include the information on the voucher and omission is compatible with generally accepted accounting practice.

Section 16 If a voucher is corrected, a note shall be added as to when and by whom the correction was made.

Other bookkeeping items than those referring to financial events

Section 17 The provisions of Sections 8-16 above also applies to other bookkeeping items than those referring to financial events.

Systems documentation and transaction logging

Section 18 The agency shall draw up specifications of the organisation and structure of the accounting system necessary to provide an overview of the system (systems documentation). The agency shall also draw up specifications of modifications made to the system which make it possible, without difficulty, to follow and understand the treatment of individual items (transaction logging).

Closing of the books

Annual report

Section 19 The agency shall close its books and produce an annual report for every financial year. The annual report shall be drawn up in accordance with the Ordinance (2000:605) on annual reports and budget documentation.

Specification for the annual report

Section 20 For each summarised item in the balance sheet which shall be included in the annual report, the amounts which make up the item shall be specified on a special schedule unless the composition of the item is otherwise clearly evident from the accounts.

Reports to the Central Government Accounts

Section 21 Over and above what is otherwise provided for in this ordinance, the accounting shall be arranged in such a way that

1. accounting against the government budget appropriations and income headings is made in accordance with the regulations which generally regulate this accounting,
2. it meets the specific accounting requirements given in letter of appropriations and other regulations,
3. it meets the requirements specified by the Financial Management Authority in respect of financial statistics and information for drawing up the Central Government Annual Report and Consolidated Financial Statements.

Other provisions

Section 22 An agency that is obliged to keep accounts is responsible for ensuring that its accounting organisation and routines are designed to promote reliable accounting and to protect assets administered by the agency.

Implementing provisions

Section 23 The Financial Management Authority may issue the regulations necessary for the implementation of this ordinance.

1. This ordinance enters into force on January 1, 2001, and shall be implemented for the first time for the financial year 2001.
2. This ordinance replaces the accounting ordinance (1979:1212)