

**ANALYSIS AND REPORTS DIVISION
REPORT OF THE AUDITOR
PRESENTATION OF ACCOUNTS AND ACCOUNTING**

1. PRECEDENTS

This Report carried out in the frame of the request of the Memorandum D.D.O. N ° 044/07, sent by the Development Organizational Division on the topic "Presentation of Accounts and Accounting " needed both by the INTOSAI and by the OLACEF, continuing to the intention of collaboration among the SAIs.

2. SCOPE OF THE FORMLESS

This formless consisted basically in the development of the requests on topics like: Support and risks of the Countable Public System for the presentation of Accounts and financial consolidation.

Diagnosis on current situation of the Rendition of Accounts.

Update of Procedures and recommendations to improve the management of the Accounts Rendition.

In function to the stipulated by the Article 65 of the Law 1535/99 "Of Financial Administration of the State " that mentionsThe Audit Office of the Republic will have to the study the Rendition and examination of the accounts. As well as for the Article 54 of the same law, which establishes ... The Information of the Accounting on the financial, economic and patrimonial management, will have to.... Inc. C) expires with the constitutional requirements of Rendition of Accounts.

3. AIM

Prepare a Report that expires with the requirements foreseen in the scope considering the Resolution CGR N ° 677/2004 " By which the Rendition of Accounts and its review are regulated, and the information to be presented to the Audit Office is established " and to the Resolution CGR N ° 520/2005 " By which the Methodology is approved for the production of the Report and Opinion of the Audit Office" for the accomplishment of a test about the Financial Report of the Finance Ministry and the Consolidated Rendition of Account of the Public Entities.

4. DEVELOPMENT OF THE REPORT

In conformity with the foreseen in the scope of the Report. It develops the following ones

4.1 SUPPORT AND RISKS OF THE COUNTABLE PUBLIC SYSTEM

4.1.1 ORGANIZATIONAL STRUCTURE

Inside the Integrated System of Financial Administration (SIAF), they handle the criteria of Normative Centralization and Operative Decentralization. There is a Countable Institutional Unit (UAF AND SUAF) and a Countable Unit Consolidated from the operative point of view, where the Countable Institutional Unit will have to report to the Headquarter of Public Accounting and both units are ruled by the same regulation.

4.1.2 WEAKNESSES OF THE ORGANIZATIONAL STRUCTURE

In conformity with the development of the Budgetary Structure. The Public Entities are separated in: Organisms of the Central Administration, Decentralized Entities and Municipalities. The Integrated System of Financial Administration (SIAF) across the Integrated System of Accounting (SICO) works " on line " between the Finance Ministry and the Organisms of the Central Administration, nevertheless with the Decentralized Entities and Municipalities there is in use the mechanism " pretty user ", the presentation of Financial Reports by magnetic means (CDs, Diskettes, etc.) in posterior dates to the operative one.

4.1.3 OPERATIONS FOR SOURCES OF FINANCING

In Agreement to the Decree N ° 8.127/2000 that regulates the Law N ° 1535/99 of Financial Administration of the State, it is found the budgetary structure of the resources and income of the following way: Art. 16 Budget of Current Income (Tributary Income, Not tributary Income. Art. 17 Budget of Capital income (Sale of Assets, Alienation of Capital goods, Transferences and Donations, etc.) and the Art. 18 Budget of Resources of Financing (Internal Indebtedness, External Indebtedness, Recovery of Lending, etc.). Proveniences of SOURCE (FOUNTAIN) 10 - Resources of the Exchequer, SOURCE (FOUNTAIN) 20 - Resources of the Public Credit and SOURCE(FOUNTAIN) 30 - Institutional Resources.

4.1.4 DIFFICULTIES OF CONTROL OF OPERATIONS FOR FINANCING SOURCES.

In agreement to the Art.64, 65, 66 and 67 of the Decree N ° 8127/00 that regulates the Law 1535/99, on the Accounts of the Institutional Treasuries, the funds of the Institutional Treasuries of Organisms and Entities of the Central Administration will have to be deposited and supported in national currency in administrative accounts in an Official Bank that is not the Central Bank of Paraguay, with authorization of the Headquarter of the Exchequer that will have to manage the record of the above mentioned accounts. Nevertheless, the funds of the Institutional Treasuries of Decentralized Entities that are of Source (Fountain) 30 are not registered by the Headquarter of the Exchequer.

4.1.5 THE ACCOUNTING PLAN OF PUBLIC SECTOR

The Headquarter of Public Accounting of the Finance Ministry, in agreement with the attributions that the Art 78 of the Law 1535/99 awards him, it expresses basic procedure and administrative procedures to which the different organisms and dependences adjust to program, manage, register, control and evaluate the income and the destiny of the public resources.

The Accounting plan allows generating information about the patrimonial structure, rights and obligations, origin and application of the resources. Since information also relevant can obtain the analytical information of the execution of the budget of income and expenses. Besides, it classifies operations related to the treasury, financial investments, goods of use and projects of investment, national debt classified by type of currency of short and long term, of the costs; among others.

4.1.6 DEFICIENCIES OF CONTROL IN THE APPLICATION OF THE ACCOUNTING PLAN OF THE COUNTABLE SYSTEM.

Among the principal characteristics of the proposed system it is the integration of the information for its entail with other systems. Nevertheless, it indicates like "the" "most "integral" the one that relates to the cycle of the budgetary execution of income and expenses. In other words, by means of the utilization of cybernetic tools "to "coordinate" the budgetary classifier with the countable adopted concepts and that the same documentary source updates the records related to this one.

In conformity with the Article 3 of the Law 1535/99, are inside the area of the Integrated System of Financial Administration (SIAF), the Organisms of the Central Administration, The Decentralized Entities and the Municipalities (in supplementary form), any foundation, not governmental organism, natural or juridical person, mixed or private that receives or administers funds, services or common goods or that relies on the guarantee of the Exchequer for its Credit operations.

For practical operation purposes, only the Organisms of the Central Administration are subject directly to the controls of the SIAF, and in indirect form the Decentralized Entities and other representations that handle public funds.

The Accounting plan is orientated in such way that the consolidation of the operations of the public sector is realized to level of Title (Degree), Group, sub. Group and Account. For the operative one of the system they can be attributable from low levels of this last group, 1 and 2 being able to be subdivided up to the levels of sub-accounts, analytical, respectively.

In the consolidation process of the accounts of the different Organisms and Public Entities only the Organisms of the Central Administration have its respective Accounting plans adapted to the Integrated System of Accounting (SICO) staying the remaining representations out of context, being necessary the implementation of mechanisms of conversion for extrapolate the values of the accounts imputed in another format of exhibition.

4.1.7 COUNTABLE AND BUDGETARY INTEGRATION

The countable and budgetary integration are regulated by the following legal dispositions:

The force of the Article 24 of the Dto.8127 - regulation of 1535/99-, it establishes in the inc. A) That the income will estimate on the base of the principle of effective or collected values. The same article 40 of the aforementioned decree establishes - clause e - all the resources collected or perceived during the year calendar will be considered to be income of the fiscal in force exercise, independently of the date in which there will have originated the liquidation, determination or right of the collection of the tax.

In the VII Conference of Inter-American Accounting, it was resolved bay common sense that " the economic results only must be calculated when they are realized, or when the operation that originates them remains perfected from the point of view of the legislation or commercial applicable practices, and there have been considered fundamentally all the risks inherent in such an operation. It must be established by general character that the "realized" concept informs of the concept of "earned".

The article 22 of the Law 1535/99 it establishes (3) stages of execution of the budget, beginning with the (i) forecast when the budgetary credit is assigned in specific form, the (ii)obligation when the commitment of payment originated in to juridical financial link between (among) an organism or entity of the State and to native or juridical person happens; and, finally the stage of the payment the (iii) or expenditure when it is given partial or whole fulfillment of the obligations constituted before like such. The mandate of the Law must not be obviated when it establishes that the obligation must be simultaneous to the incorporation of goods and services, but the stage of obligation must not ignore the receipt of the good or the service.

The units of Administration and Finance or the Sub Units must carry out every day the countable record of the operations derived from the revenue of resources coming from the exchequer or the collection of proper income, as well as of the expenditures derived from the budgetary execution previous analysis of consistency and documentary validation, in conformity with the procedure established by the Headquarter of Public Accounting of the Finance Ministry.

4.1.8 FAILINGS OF THE COUNTABLE BUDGETARY INTEGRATION

The budgetary discipline with countable effect uses three methods:

- I. Of Box, it recounts to the registration for the method known like realized;
- II. Of Competition it gives itself "executed" in reason of his commitment or obligation; and,
- III. Compound when the expenses are considered to be executed by the method of competition and the income by the method of box.

The graph under, corresponds to the equivalencies of the budgetary classifier and the countable accounts of the income.

BUDGETARY CLASSIFIER		ACCOUNTING PLAN	
CODE	DENOMINATION	CODE	DENOMINATION
110000	Tributary income	212.11	D.P. for Tributary Income
120000	Contributions to the Social Security	212.12	D.P. for Contribution to the Social Security
130000	Not tributary Income	212.13	D.P. for Income not Tributaries
140000	Sale of Goods and Services of the Public Administrations	212.14	D.P. for Sale of Goods and Services of the Public Administrations
150000	Current Transferences	212.15	D.P. for Current Transferences
160000	Rent of the Property	212.16	D.P. for Revenues of the Property
170000	Engineering. Of Operation (Managerial and Financier)	212.14	D.P. for Engineering. Of Operation (Managerial and Financier)
180000	Current Donations	212.18	D.P. for Current Donations
190000	Other Current Resources	212.19	D.P. for Other Current Resources
210000	Sale of Assets	212.21	D.P. for Sales of Assets
220000	Capital transferences	212.22	D.P. for Capital transferences
230000	Donations of Cardinal	212.23	D.P. for Capital donations
240000	Decrease of the Inv. Financial	212.24	D.P. for the Financial Investment Decreasing
290000	Other Resources of Cardinal	212.29	D.P. for Other Resources of the Capital
310000	Internal Indebtedness	212.31	D.P. for Internal Indebtedness
320000	External Indebtedness	212.32	D.P. for External Indebtedness
330000	Recovery of Lending	212.33	D.P. for Recovery of Lending
340000	Initial Pay of Box	212.34	D.P. for Initial Balance of Box

This equivalence, might present problems that could originate when it is not perceived in the same moment of the liquidation, worsening the question when it is not deposited in the same year. As it the procedure is adopted of to classify in a different way when it is not perceived in the same act, initially obviating to operate with the code 212 so not to provoke the execution of the budget of income reminding the budgetary execution of the revenue for the income exactly perceived and on the criterion of accomplishment.

The graph under, corresponds to the equivalencies of the budgetary classifier and the countable accounts of the expenditures.

BUDGETARY CLASSIFIER		ACCOUNTING PLAN	
CODE	DENOMINATION	CODE	DENOMINATION
100	Personal services	41101	A.P. for Personal Services
200	Not personal services	41102	A.P. for Not personal Services
300	Goods of Consumption and Inputs	41103	A.P. for Good of Consumption and Inputs
400	Goods of exchange	41104	A.P. for Goods of Exchange
500	Physical investment	41105	A.P. For Physical Investment
600	Financial investment	41106	A.P. for Financial Investment
700	Service of the National debt	41107	A.P. for Services of the Debt
800	Transferences	41108	A.P. for Transferences
900	Other Expenses	41109	A.P. for Other Expenses

This equivalence, might present problem that could originate when a good does not join ó a service in the same moment of the obligation, worsening the question when it does not join in the same year. Situation raised by the Administrations Decentralized to justify the budgetary execution of its exercise expenses.

This information is necessary for the planning of the cash flow or the plan of box; or, not less important for the fulfillment of the Law of Public Contracting. Regarding the latter norm, it hopes that the countable records are constituted in an effective instrument of the control in the fulfillment of the above mentioned regulation.

4.2 ACCOUNT RENDITION IN THE AUDIT OFFICE

The Article 65 of the Law 1535/99 that arranges "Account examination " The SAI will have to study the surrender and examination of the accounts of the Organisms and Entities of the State subject to the present Law. And considering the Article 9 and 15 of the Law 276/93 " Organic and Functional of the SAI " on duties and attributions, to the Article 6 of the CGR Resolution N ° 677/2004 " By which it is regulated the Surrender of Accounts and its review, and the information is established to being presented to the SAI " it is required among others the following documentations: a) General Balance, b) State of Results, c) Trial balance of Balances and Variations, d) Execution of Income and Expenses, e) Inventory of Goods of Use (Depreciated and Revalued to the closing), f) Inventory Consolidated of Patrimonial Goods, g) Composition of the Income Earned to perceiving, h) Composition of the Floating debt, i) Report of External Audit, j) Formless of Execution of the Annual Plan of Contracting, k) Reports Consolidated of the projects and / or programs implemented by the Institution with International Loans,

cooperation and / or donation, l) Opinion of the Internal Auditor, m) Any other different additional information.

In conformity with the Article 8 of the CGR Resolution N ° 677/04 the period for all Public Institutions, the half-yearly one on July 30 of every exercise and the annual one for the Central Administration, Decentralized Entities, Banks of the State or Compounds and Binational Entities (not defined), on February 28 of the posterior year to the closing of the exercise (December 31). And Municipalities, Governments and Societies of mixed Economy, Public utility companies and Commercial Societies or Organisms in what the State is a part of, on March 31 of the posterior year to the closing of the exercise.

In fulfillment with the Article 282 of the National Constitution, to the Article 69 of the Law 1535/99, to the established to the Article 9 of the Law 276/03, to the CGR Resolution 882/05, to the Procedure of the International Organization of Supreme Audit Institutions (INTOSAI), to the CGR Resolution 677/04 and to the CGR Resolution N ° 520/2005 " By which the Methodology is approved for the elaboration of the Report and Opinion of the Audit Office " for the accomplishment of a test about The Financial Report of the Finance Ministry and in relation to the Article 94 of the Decree N° 8127/00 that regulates the Law 1535/99, the content of the same one is the following one: a) General balance and State of Results Consolidated of the Public Sector, b) Origin and Application of Funds, c) The States of Execution of the Budget, State Consolidated of Saving, Investment and Financing, The General Balance and State of Result of the Public Exchequer and The State of the Credit and National debt Updated.

4.2.1 RESULTS OBTAINED IN THE ACCOUNT SURRENDERS BY APPLICATION OF THE RESOLUTION CGR N ° 677/04

The Sectors that were evaluated by effect of the Resolution CGR N ° 677/04 were the following ones:

Central administration: in this Sector that receives principally Transfers of Source 10 (National Treasury) where the Integrated System of Financial Administration (SIAF) works "on line ". The principal observed aspects are:

a) Inventory differences, for the lack of update between the countable value and the physical existence.

b) Excessive accumulation of the Floating debt, for lack of Institutional rescheduling or lacking in response of the Treasury Department.

c) In the Credit and National Debt Division, it is necessary to harmonize the lending of the National debt, among the Financial Organisms, the executing units of project and the Public Accounting Division, as well as to incorporate the lending belonging to the Decentralized Administration, it is necessary to unify the references of lending that registers the System of Analysis and Public Debt management (SIGADE) with the International organizations and the Executing Entity to keep updated the balances of the loans, it is also necessary to include the Debt of ANDE for the construction of the Hydroelectric and a detailed Inventory of the Internal Debt is absent.

d) Ambiguity in the fulfillment of legal requirements, for lack of the elaboration of budgetary preliminary designs to present the Treasury Department, in case of Institutions with autarchy or budgetary autonomy.

Decentralized administration: in this Sector the Source 30 is in use for the most part (Proper Resources) and eventually Source 20 (Credits) and in minor proportion Source 10 (National Treasury), except the case of the Governments where their principal Income are the Transfers of the National Treasury.

a) In the Public companies, the lack of control of the SIAF on the SOURCES 30 (Institutional Resources) which difficult the real Exhibition of the Countable Reports of the Entities.

b) In the Governments, the lack of direct control of the SIAF on not having worked " on line " what throws as consequence, differences between the countable and budgetary balance.

c) In the Municipalities, the lack of direct control of the SIAF and supplementary utilization of the Law 1535/99, presenting particular Accounting plans with very different characteristics from the requested one for the SICO. Countable reports with significant and very rude mistakes, as well as municipalities that do not present Account Renditions, principally those of small categories.

4.2.2 RESULTS OBTAINED IN THE REPORT AND OPINION ON THE FINANCIAL REPORT (CONSOLIDATION OF ACCOUNT RENDITION OF THE DIFFERENT ENTITIES OF THE STATE) OF THE DEPARTMENT OF THE ESTATE FOR THE CGR RESOLUTION N ° 520/05.

Special examination to the different Directions of the Treasury Department that were evaluated by effect of the CGR Resolution N ° 520/05 for the obtaining input for the draft of the Financial Report on the Accounts Rendition Consolidated of the different Public Entities that made the following observations:

a) In the Public Accounting Division, not accounting of certain economic facts with opportunity, there is an absent check of activated amounts and breach of the generally accepted accounting principles. Likewise it is necessary to assess credits including the monthly updates in conformity with the variation of the Consumer prices index, the lack in accounting of the losses of privatized companies.

b) In the Budget Division, lacking to unify the different period of presentation of institutional results sent by the Organisms and Entities of the State. Recommend the optimization of the System of Control and Budgetary Evaluation foreseen in the Inc. K) of the Article 6 of the CGR Resolution N ° 677/04 its implementation in the correspondents institutional Accounts Renditions. Improve the calculations on Royalties distribution and Compensations (in the aliquots like in the aggregates) destined principally for the different municipalities.

- c) In the Credit and National debt Division the lending of the National debt do not gain among the Financial Organisms, the executing units of project and the Public Accounting Division.
- d) In the Public Exchequer Division, lacking in the Public Exchequer to register the Assets of Companies in process of privatization, it fails to verify if the Assets of Institutional Use that were appearing in the General Balance of the Public Exchequer were transferred to the Financial Entities to which they correspond (for effect of the Article 12 of Decree 8127/00)
- e) In the Computer science and Communications Division the safety system is vulnerable and the lack of implementation of methodologies for the suitable control of those Institutions that are not connected to the SIAF.

4.3 PROPOSALS TO IMPROVE THE PRESENTATION AND MANAGEMENT OF THE ACCOUNT RENDITION.

Considering the current situation of the Integral System of Financial Administration (SIAF) and to the results obtained in the application of the CGR Resolution N ° 677/04 and of the CGR Resolution N ° 520/05, in the process of report of information for the Account Rendition, it is possible to suggest the following measurements:

4.3.1 PROPOSALS TO UPDATE THE PROCEDURES OF PRESENTATION OF THE ACCOUNT RENDITION.

- a) To request the amplification of the computer Net of the Integral System of the Financial Administration to the Entities Decentralized for the transmission of information in real time " on line ".
- b) Stimulate the legal mechanisms through the modification of the Decree N ° 8.127/00 that regulates the Law N ° 1535/99 " Of Financial Administration of the State ", in the sense of adapting the scope of this Law.
- c) Suggest the technical and accounting changes pertinent to the Integrated System of Accounting (SICO) to incorporate physics and countably the operations of the Entities Decentralized in agreement to its administrative needs shaped in its respective Accounting plans.
- d) Demand the Treasury Department the update of the Inventories of Goods and its corresponding countable adjustments, in fulfillment to the legal pre-established regulations.
- e) The Treasury Department will have to keep updated the composition of the Floating debt and the foundation of the lack of cancellation of same as the in force laws establish.

- f) Request the Treasury Department the improvement of the calculations and stimulate the modifications in the legal regulations for a better distribution of the Resources for Royalties and Compensations (aliquot and total amount) established in the Law.
- g) Unify the criteria for the record of the international lending to the Integrated System of Analysis and Public Debt management (SIGADE), the Central Bank of the Paraguay and the Public Accounting Division of the Treasury Department.
- h) State if the Assets of the Companies in process of privatization are inside the patrimony of the State, while the transfer to private hands does not concrete.

4.3.2 IN RELATION TO THE NEGOTIATIONS OF PRESENTATION OF THE ACCOUNT RENDITIONS.

- a. Request the implementation of “centers of costs” to incorporate a “subsystem of accounting inside the Accounting plan. This possibility will allow knowing the quantity of destined and / or applied resources for product or department or the wished form.
This would facilitate in obtaining finally, the relation of cost benefit and / or to apply criteria of indicators of management to measure the efficiency in the use of the resources; All that turns out to be suitable for the planning, programming and budgeting of the activities for areas. In fact that the accounting cost allows identifying or associating the investment for centers of costs, it constitutes the principal base for the budgeting base zero.
- b. Request the implementation of a format extended for the different subsystems of the SIAF that allow the automatic analysis across Formulas before established by the processing of the necessary information in the evaluation of the Account Rendition of the different Public Institutions.