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# **Main Principals of the Uniform System of Accounts (USoA)**

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# USoA Objectives

- **Primary Objective:** The primary objective of USoA shall be to guarantee that the Companies' Accounting Information Systems can easily generate all the reports defined in the regulatory reporting requirements based on information extracted from the General Ledger and Subsidiary Ledgers.
- **Secondary Objectives:**
  - a. Conform to financial best practices, while being consistent with the Accounting Standards of the Country and the Accountancy Law
  - b. Support variety of internal and external reporting requirements for different users of accounting and financial information
  - c. Provide a platform that can change as requirements change
  - d. Integrate budget, financial, tax and regulatory reporting
  - e. Provide flexibility for future organization change, including reengineering and reorganization
  - f. Be easy to use



## Regulatory Chart of Accounts (RCA), Regulatory Accounting Manual (RAM) and the Regulatory Reporting Forms (RTF)

### RCA:

- Must be developed for each specific type of undertaking;
- Must be sufficiently detailed to allow accurate cost allocation for pricing purposes, for benchmarking purposes and for purposes of ensuring compliance with license conditions;
- The chart of accounts also breaks down by individual accounts the expenses of regulated and non-regulated activities of undertakings to ensure that the non-regulated activities are not supported by consumers under regulated tariffs.

### RAM:

- Provides instructions to the regulated undertakings as to how to complete their duties;
- Completing the chart of accounts and filing a mandatory annual performance report;
- Template reporting forms and related instructions should be designed and adopted by the regulatory authority, which should also establish an annual reporting date.

### RRF:

- Defines the format of the required information for the submission to the Regulator
- Provides more details to the required data for regulatory purposes
- The analytical levels contain the financial information, essential for the regulatory activities.



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# USoA Institution/Designing Uniform Accounting Standards

The process used to design a USoA includes:

- Integrating the regulatory and non-regulatory requirements into one comprehensive set of requirements
- Reclassification of information from the previously used Chart of Accounts into new USoA
- Transitional Arrangements
- To facilitate the practical transition from the prior charts of accounts to the USoA, the Regulator should assist undertakings in the process of generating the beginning balances on the new balance sheets by developing and offering a comprehensive Account Balances Conversion Manual (ABC Manual). This Manual can also guarantee a uniform and consistent approach to account balances conversion not only within one company, but also within the energy sector as a whole.



# USoA – Practical Implementation

## **Some of the major activities of the implementation plan:**

- Develop proposals for data requirements within the energy sector
- Propose new assumptions for accounts division and conversion
- Specify the major groups of accounts and sub-accounts
- Classify undertakings based on capacity level. Specify the possibilities for regulatory accounting reporting requirement for reduction or exemption, which could apply to some undertakings according to specific criteria
- Develop a draft chart of accounts for regulatory reporting for each sub-energy sector (electricity; natural gas; heating)



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## Identifying non-regulated activities

- Need to discuss with all stakeholders what is meant by separating out regulated activities from rest of the licensee activities
- Regulated energy tariffs should only reflect the cost of providing the energy and nothing more
- Activities not related to energy provision are identified and separately accounted for;
- Energy activities that are priced competitively should be separately accounted for;
- Least amount of allocation of costs (that is, separating out the activities by division or department) is best.
- All non-direct costs (such as top management of the holding company) should be allocated to all activities (in other words, regulated activities should not bear all costs of top management nor general headquarters).



# Regulatory Auditing Procedures

**Regulatory Auditing Manual** - The regulatory auditing procedures should be developed and adopted by the regulatory authority. Audits are a key part of the overall regulatory oversight essential for enforcement of the rules and regulations. There are two major forms of the special regulatory reporting responsibilities:

- to provide a report on matters specified in legislation or by the Regulator
- statutory duty to report certain information, relevant to the Regulator's functions that come to the auditors' attention in the course of their audit work

**Periodic regulatory audits of each company** - Regulatory audits should be performed on a regular basis and should aim to enhance the quality and verifiability of the companies' regulatory reports and to establish a companies' credibility with both Regulator and all other users of its reports.



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# Regulatory Accounting Audit

- Based on Uniform System of Accounts
- Unbundling Compliance Programs versus financial audits required by the National Legislation
- Tariff Reviews
- Due Diligence during Asset Privatizations
- Assets revaluation and classification
- Accurate allocation approach
- Periodic reviews focused on single topic



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# Regulatory vs. Financial Audits

- **Conflict of Interest** – Financial audit represents shareholders' interest while regulatory audit represents energy consumers' interests
- **Financial Audit** – Do profits properly reflect the entire company's financial position and continued operation?
- **Regulatory Audit** – Are the right expenses booked and allocated to the proper regulated function? What costs are to be recovered in rates?



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# Internal Control

- How transactions are identified
- What accounting records and supporting documentation are kept
- Structure and organization of the accounting process
- Management's attitude, awareness and actions
- Specific control procedures in place



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## USoA as a Key Element to the Successful Reform in the Energy Sector

The USoA greatly reduces the regulatory risk of business operations and investment in a country by providing to investors:

- **Consistency** – all energy entities will be treated in the same fashion for pricing, license monitoring, and for provision of service and energy quality
- **Fairness** – fair approach defining the basis for tariff setting and monitoring, provision of service and energy quality
- **Transparency** – the price's elements will be known to companies and their customers. In addition, the price's basis charged to the energy companies will be specified before privatization occurs.



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