

Financial Reporting Consolidation Guidance

Practical Issues in Relation to Accounting & Reporting in Public Sector

Financial Statements generally contain summary of accounting data for that period with background information, forms and other information. Additional information added to the end of financial statements helps to explain specific items in the statements as well as provide a more comprehensive assessment of an entity's financial condition. It can include information on debt, going concern criteria, accounts, contingent liabilities or contextual information explaining the financial numbers (e.g. to indicate a lawsuit).

Additional information clarifies individual statement line-items. For example, if an entity lists a loss on a fixed asset impairment line in their income statement, it could corroborate the reason for the impairment by describing how the asset became impaired. It's also used to explain the accounting methods used to prepare the statements and they support valuations for how particular accounts have been computed.

Any items within the financial statements that are valued by estimation are part of the additional information if a substantial difference exists between the amount of the estimate previously reported and the actual result. Full disclosure of the effects of the differences between the estimate and actual results should be included.

Preparers and others have a role in making sure footnote disclosures are clear and understandable, focusing on not only the type of information that should be disclosed, but how it is presented, where it is disclosed, and how technology can be used to facilitate stakeholders' access to the information. An increased volume of disclosures can cause cumbersome and unwieldy presentations and result in questions about the continued relevancy and usefulness of certain of the information provided.

A. Summary of accounting policies

Management's responsibilities

Management is responsible for FS's preparation in accordance with IPSAS under the Modified Accrual Basis of Accounting and for such internal control as management determines is necessary to enable the preparation of FS to be free from material misstatement, whether due to fraud or error.

Management analysis is an integrated part of an entity's annual financial statements. The purpose of it is to provide a narrative explanation through the eyes of management of how an entity has performed in the past, its financial condition and its future prospects. Horizontal analysis compares financial information over a series of time, typically from past periods. Horizontal analysis is performed by comparing financial data from a past statement, such as the statement of financial performance. When comparing this past information one will want to look for variations such as higher/lower earnings. Vertical analysis is a proportional analysis of financial statements. Each line item listed in the financial

statement is listed as the percentage of another line item. Also the financial ratio analysis is very powerful tools to perform some quick analysis of financial statements.

Accounting Is an Art, Not a Science

The presentation of an entity's financial position, as portrayed in its financial statements, is influenced by management estimates and judgments. In the best of circumstances, management is scrupulously honest and candid, while the outside auditors are demanding, strict and uncompromising. Whatever the case, the imprecision that can be inherently found in the accounting process means that the prudent investor should take an inquiring and skeptical approach toward financial statement analysis.

Auditors' responsibilities

Auditor is responsible to express a sufficient and appropriate opinion on FS, to conduct the audit in accordance with International Standards, ethical requirements and to obtain reasonable assurance whether the FS are free from material misstatement. The audit procedures include the risk assessments to consider internal control relevant to the entity's FS preparation, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the FS.

.....

Opinion

FS are prepared, in all material respects, in accordance with IPSAS under the Modified Accrual Basis of Accounting.

.....

Other requirements

The audit testing includes examining that:

- ◆ the expenditures are supported by appropriate evidence (justified documentations)
- ◆ goods and services have been procured in accordance with the relevant financing agreement
- ◆ the data on expenditures and revenues are double checking with banking system data.
- ◆

Restriction on use and distribution

The audit report is intended solely for the entity and government and should not be used or distributed to parties other than the entity and government.

The FS should be formatted in accordance with one of the major accounting frameworks, if an entity plans to issue the FS to outside users (such as investors or lenders). These frameworks allow for some leeway in how financial statements can be structured, so statements issued by different units even in the same activity are likely to have somewhat different appearances.

If financial statements are issued strictly for internal use, there are no guidelines, other than common usage, for how the statements are to be presented.

At the most minimal level, an entity is expected to issue an income statement and balance sheet to document its monthly results and ending financial condition. The full set of financial statements is expected when an entity is reporting the results for a full fiscal year.

B. Notes to the annual FS

Supplementary notes include explanations of various activities, additional detail on some accounts and other items as mandated by standards.

General: The entity's composition consists in ___(?) units and ___(?) subunits (e.g. the local governments entity consist in __ municipalities, ___ communes and __ region councils/ central government entity consists in __ line ministries/ special funds consists in Social Insurance funds, health care insurance fund and ex owner propriety's compensation fund etc.). By each unit and subunit FS is stated that it was founded by legal act no., dated ___/___/1992 in 1993 year, its main objective is to improve such areas ..., the kind of its activities, and number of employees as at December 31st, 2014.

Albanian example:

a Albania

b Units of General Government

c Central Government

d Subsector 1. Budgetary central government
e 1.1 Budgetary institutions, council of ministers, ministries, non ministerial departments, parliament, and president

d Subsector 2. Extrabudgetary units/entities
e 2.1 Compensation of former political prisoners
e 2.2 Compensation of former owners from expropriation

d Subsector 3. Social security funds
e 3.1 Not applicable

c State Governments

d Subsector 4. State governments
e 4.1 Not applicable

c Local Governments

d Subsector 5. Local governments
e 5.1 36 districts and 64 municipalities and 313 communes (administrative units)
d Subsector 6 Extra budgetary units/entities
e 6.1 Not applicable

c Special Funds

d Subsector 7 Social security funds
e 7.1 Social Security Institute
d Subsector 8 Health Care security funds
e 8.1 Health Care Security Institution
d Subsector 9 Funds of compensation and restitution to former owners
e 9.1 Agency of Compensation and Restitution to Former Owners

b Data Coverage

Data in general government tables cover operations of subsectors 1–2, 5 and 7-9.

b Accounting Practices

f1. Liquidation or complementary period are not reported.

f2. Valuation of assets and liabilities:

Fixed assets are valued at historical cost; financial assets at market prices and loans and bonds at face value.

b This institutional table is based on information reported in 2013. We are in discussion to include self financing units in financial statements. It's prepared the draft strategy for moving gradually to accrual basis accounting until 2020 year.

Basis of preparations:

FS consist in a set of documents prepared by general government units at the end of an accounting period (by Albanian accounting rules at the end of March of the next year). FS are a collection of reports about an organization's financial results and condition.

They are useful for the following reasons:

- To determine the ability of a unit to generate cash, and the sources and uses of that cash.
- To determine whether a unit has the capability to pay back its debts.
- To track financial results on a trend line to spot any looming profitability issues.
- To derive financial ratios from the statements that can indicate the condition of the unit.
- To investigate the details of certain unit transactions, as outlined in the disclosures that accompany the statements.

The content of a set of financial statements is as following:

1. Statement of financial position or Balance sheet (is often described as a snapshot of an entity's financial condition). Shows the entity's assets, liabilities and stockholders (ownership)'equity as of the report date (statement which applies to a single point in time of a entities' calendar year).
2. Statement of financial performance. Shows the entity's revenues, expenses and results (net profit) of the entity's operations and financial activities for the reporting period. It represents a period of time. This contrasts with the balance sheet, which represents a single moment in time The purpose of the income statement is to show managers and investors whether the entity made or lost money during the period being reported (*or Income statement, profit and loss account, profit and loss statement, revenue statement, earnings statement, operating statement, or statement of operations*)
3. Statement of Cash flow, shows changes (flows in and out) in the entity's cash flow during the reporting period and the opening balance; receipts from current and capital budget funds, the tax revenues, social and health contributions, non tax revenues, aids, sponsors, trust accounts, loans, etc.; payments from current and capital budget funds, from receipts; transfers to budget, internal transfers, etc.; net account movement and closing balance. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of an entity, particularly its ability to pay bills. Provide information on an entity's liquidity and solvency and its ability to change cash flows in future circumstances. It is a cash basis report on three types of financial activities: operating, investing and financing activities. Non-cash activities are usually reported in footnotes. It eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets, improving the comparability of different entity' operating performance.
4. Statement of changes in net assets/equity (Fix assets stock and changes statement),_shows opening balance, purchases, additions, disposals, sales and closing balance for all items of tangible and intangible assets.
5. Investment expenditures and source of financing shows the sources from vendor and foreign/ current and capital grants, vendor and foreign borrowing; investment expenses for tangible and intangible fix assets, capital transfers, lending and sub-lending, shares etc.

6. Amortization of tangible and intangible assets statement shows amount of accumulated amortization in the beginning, annual amortization, movements during the fiscal accounting period, amount of accumulated amortization in the end of fiscal accounting period.
7. Movements of funds' statement, shows the charter funds stock and movements during the fiscal period.
8. Salary fund and number of employees statements, shows by categories (manager, experts, mechanics, specialists, workers, temporary workers etc.) average number, hire and fire, closing balance; salary funds in total, supplementary allowance, immediate social aids, social and health contribution, income tax etc.
9. Consolidated financial position statement, shows subordinated data if they exist.
10. Consolidated statement of operating income and expenses, shows subordinated data if they exist.
11. Survey/questionnaires, shows protocol extremes, absence of statements, reconciliation statement with treasury.

The FS are presented in EUR (in Albania are presented in ALL – Albanian LEK).

Absence of data/Migration Issues:

Albanian example:

Expenses (e.g. wages, utilities) of the December which have the due date of the payment in January when the budget classification code and chart of accounts code are equal.

The automated treasury system is implemented “LIVE” on September 2010 and operates with the equal code of chart of accounts and budget economic classification data. The migration phase to record the previous manual financial statements data in the automated treasury system has began on 2012 during the compilation of financial statement of 2011 year and still is not over. There are non reconciled data of the migration phase between manual financial statements and electronic ones generated by the automated treasury system. The reason is that the budget plan (which is in the cash basis) is approved for 12 months including the wages from December 2010 until November 2011. The due date of the December wages payment is in January of 2012 year. The financial statements include wages expenses data of the period from January to December 2010. For this reasons there is a difference between the annual data of actual budget and the data of financial statement. The example: December wages and utilities invoices which have the due date of the payments in January by the agreement/contract.

The solution: (i) The Parliament have to approve (in the middle of the 2014 year) the revised budget of 2014 year with the added expenses for a month to be possible to record the December wages expense in treasury automated system, which rejects them if there are not available funds; (ii) Moving of budgeting to modified accrual basis.

Note: It was the elections period on 2013 year and a new elected government has target to pay old arrears and to compile the financial reports by standards

Significant accounting policies:

Foreign currency transactions: Foreign financing fund are received in EUR, USD, SDR and the expenses are paid in ALL, exception by agreement decision. The service debt expenditures are paid by the agreement foreign currency. The project has adopted the donor's foreign currency as its reporting currency for consistency with the reporting needs of its main donor. Cash and bank balances in other currency are converted to the donor's foreign currency at the year-end rate of exchange. Transactions in currencies other than the donor's foreign currency are converted to the reporting currency at the rate ruling at the date of the transaction. As at the year-end, one unit of the donor's foreign currency is equivalent to ____ ALL.

- Recognition of income and expenses: Income is recognized when received rather than when earned; expenses are recognized when occur rather than when paid (explanation of direct and indirect payments).
- Taxation, VAT expense-central government is responsible for reimbursing all VAT incurred by the foreign financing projects

Funding: (direct payments, replenishment etc.)

Contribution: Contribution from government units relate to 10% of civil works financed by beneficiary local government unit; from government are for VAT and Local costs....

Consultant services: are technical assistance, programs design, supervision etc. paid to company X..

Incremental operating costs: is charged based on available funds

- Personnel costs
- Third party services
- Vehicle maintenance
- Per diem
- Bank charges etc.

Cash at banks: cash on hand and at banking system by appendices (including bank name, IBAN, address, amount, currency, balance as at 1st January, total debits and credits and balance as at 31st December, etc.)

C. Appendices (supplementary schedules):

- Special Accounts Statements
- Foreign Financing Project Account Statement

Explanatory information'**Albanian example:**

- Migration issues,
- Absence of data during the transition phase to moving from manual treasury system to automated one, as presented to Georgia event