



# Financial Reporting - Consolidation

Progress, survey results and next steps

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## Consolidation Thematic Working Group - Progress

- **Initiated Kiev 2013**
  - Programme of work agreed
- **Video Conference December 2013**
  - Presentation by Bulgaria – IPSAS and statistical reporting
  - Summary of new Consolidation Exposure Drafts
  - Draft outline of Consolidation Guidance
  - Survey on consolidation practices



# Consolidation Survey Results Summary



# Respondents

- 12 Countries responded:
  - Albania
  - Azerbaijan
  - Bulgaria
  - Kazakhstan
  - Kyrgyz Republic
  - Macedonia
  - Moldova
  - Montenegro
  - Russian Federation
  - Tajikistan
  - Turkey
  - Ukraine



## Q 2 - Existing Consolidation

- **Budget**
  - All countries consolidated budget expenditure
  - All but one consolidated budget revenue
- **Reporting**
  - All but one consolidated expenditure for budget or financial reporting
  - All but two consolidated revenues

Consolidated information is required for fiscal planning and management



## Q3 & 4 - Consolidation Comprehensiveness

- 9 out of 12 countries consolidated the whole of the General Government Sector for both budget and reporting
- All of the above used a “tree” consolidation structure
- Of the 3 countries that did not consolidate the whole GGS exceptions were:
  - Entities below Level 1 not consolidated
  - Pension and social funds not consolidated

Difficult to exercise fiscal control without information on all budget revenue & expenditure



## Reporting

- Q6 - Whole of government reporting
  - 6 countries prepare consolidated financial reports for the whole of government which are audited and submitted to Parliament
- Q5 - Reporting below the level of the whole of government
  - 8 countries prepared budget and financial reports at every level of consolidation

Narrative responses indicate reports do not contain all information required by IPSAS



## Q 7 & 8 - Consolidation Methodology

- Contradiction between responses from some countries:
  - 8 reported that all inter-entity transactions were eliminated on consolidation
  - But 4 of these did not eliminate taxation between entities

Concept of eliminating transactions between entities that are consolidated together may not be fully understood



## Q9 - Automation of Consolidation

- 6 countries reported partial automation
- 3 countries reported fully automated consolidation processes

- Easy to automate aggregation
- Difficult to automate consolidation - system must be able to identify, match and eliminate transactions between entities



## Q10 Compliance with IPSAS 6

- 4 countries prepare consolidated financial statements at every level of government fully compliant with IPSAS

- This result must be treated with caution
- No other country in the world has achieved full IPSAS compliance
- Need to compare financial statements to IPSAS requirements

## Q12 - Identified issues

- Reconciliation of data flows
- Obtaining information from some government entities
- Misstatement of economic operations
- Non-coordination of financial plans for consolidated transfers
- Scope of consolidation units

## Conclusions

- Survey results of limited value
  - All respondents have consolidation process for both budget and reporting
  - Some countries indicate a high level of compliance with IPSAS/GFS consolidation requirements
  - But questions have failed to adequately identify issues and problems

## Next steps - Tbilisi

## Required Actions

Action	Comment
Survey	<ul style="list-style-type: none"> <li>• Review results</li> <li>• Conclusions</li> </ul>
Experience other countries	<ul style="list-style-type: none"> <li>• Bulgaria &amp; Georgia presentations</li> <li>• Lessons learned</li> </ul>
IPSASB Exposure Drafts	<ul style="list-style-type: none"> <li>• Review</li> <li>• Impact on guidance</li> </ul>
Guidance Note on Financial Reporting for consolidation	<ul style="list-style-type: none"> <li>• Review headings</li> <li>• Process for preparation</li> </ul>



# Proposed Guidance Note Outline

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<b>1. Objectives of guidance note</b>	a. The need for consolidated information	<ul style="list-style-type: none"> <li>i. Budgetary</li> <li>ii. Financial reporting</li> <li>iii. Transparency and accountability</li> <li>iv. Audit</li> </ul>
	b. Guide should provide:	<ul style="list-style-type: none"> <li>i. Practical guidance</li> <li>ii. Compliance with statistical and accounting standards</li> <li>iii. Enabling enhanced governance</li> </ul>
<b>2. The framework of standards governing consolidation</b>	a. The various standards	<ul style="list-style-type: none"> <li>i. UN SNA</li> <li>ii. IMF GFS</li> <li>iii. European ESA</li> <li>iv. IPSAS</li> <li>v. National requirements</li> </ul>
	b. Similarities and differences between requirements of various standards	
<b>3. Consolidation issues</b>	a. Consolidation entity	<ul style="list-style-type: none"> <li>i. Differences between statistical and IPSAS approach</li> <li>ii. Sub-entities</li> <li>iii. Hierarchy of consolidation</li> <li>iv. Concept of different consolidation entities for different purposes</li> </ul>
	b. Consistency between budget and accounting consolidation	
	c. Types of flows and stocks to be consolidated	
	d. Technical issues	<ul style="list-style-type: none"> <li>i. Consistent accounting policies</li> <li>ii. Consistent year end</li> </ul>
	e. Various exceptions	<ul style="list-style-type: none"> <li>i. Investment entities (sovereign investment funds)</li> <li>ii. Temporarily owned entities</li> <li>iii. Partial, divided or joint ownership or control of entities</li> <li>iv. Valuation of entities not consolidated</li> </ul>
<b>4. Logistic issues of consolidation</b>	a. Aggregation process	
	b. Elimination of intra-entity transactions	<ul style="list-style-type: none"> <li>i. Chart of accounts</li> <li>ii. Use of technology - FMIS</li> </ul>
<b>5. Publication of consolidated information</b>	a. Requirements and need for publication of consolidated information	
	b. Consolidated budget information	
	c. Consolidated financial reports	<ul style="list-style-type: none"> <li>i. Whole of government</li> <li>ii. Sub-entities</li> </ul>