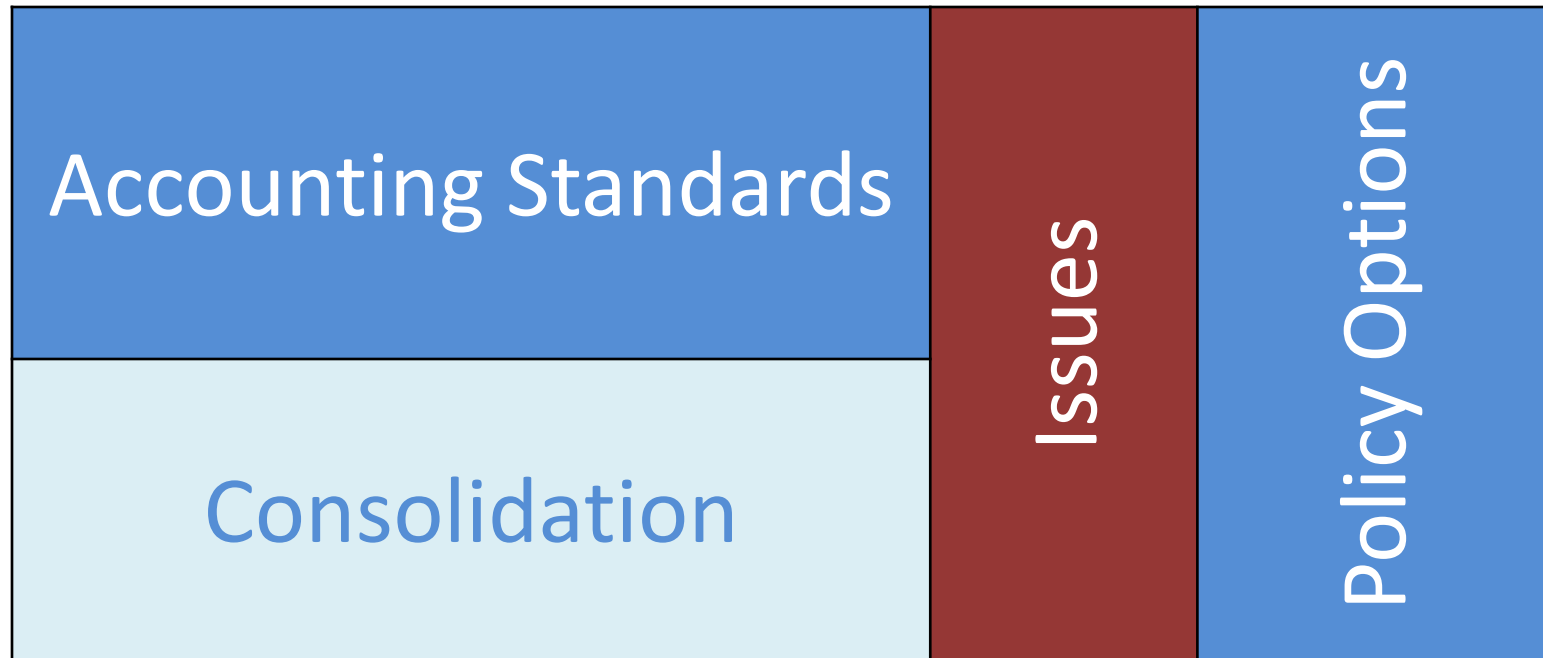


Public Sector Accounting Standards and Consolidated Financial Reporting

*Skopje
September 2013*

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World Bank

Overview



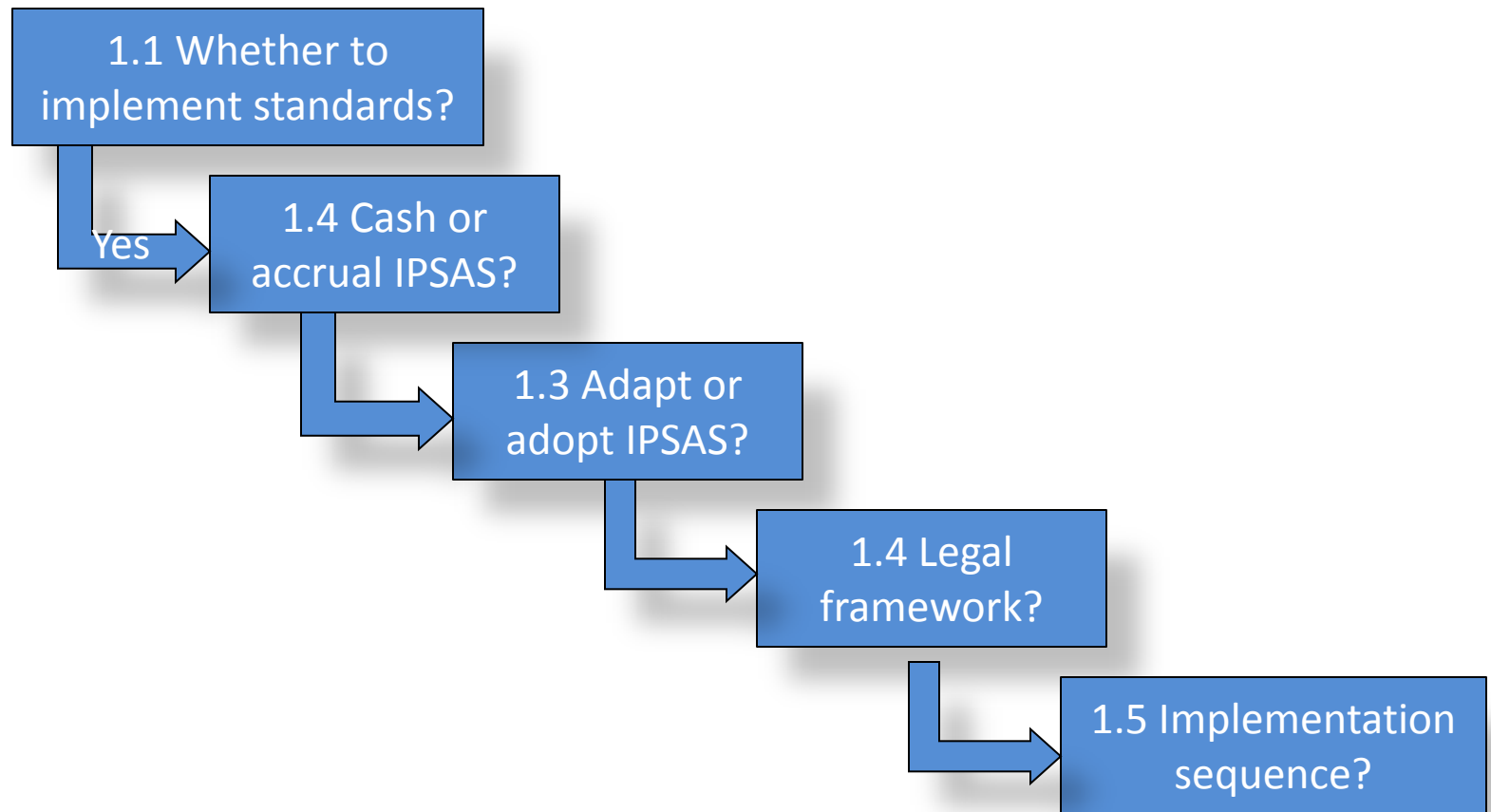
- This presentation identifies issues and options
 - For and against
- No recommendations
 - Decisions to be made by individual countries

1. ACCOUNTING STANDARDS

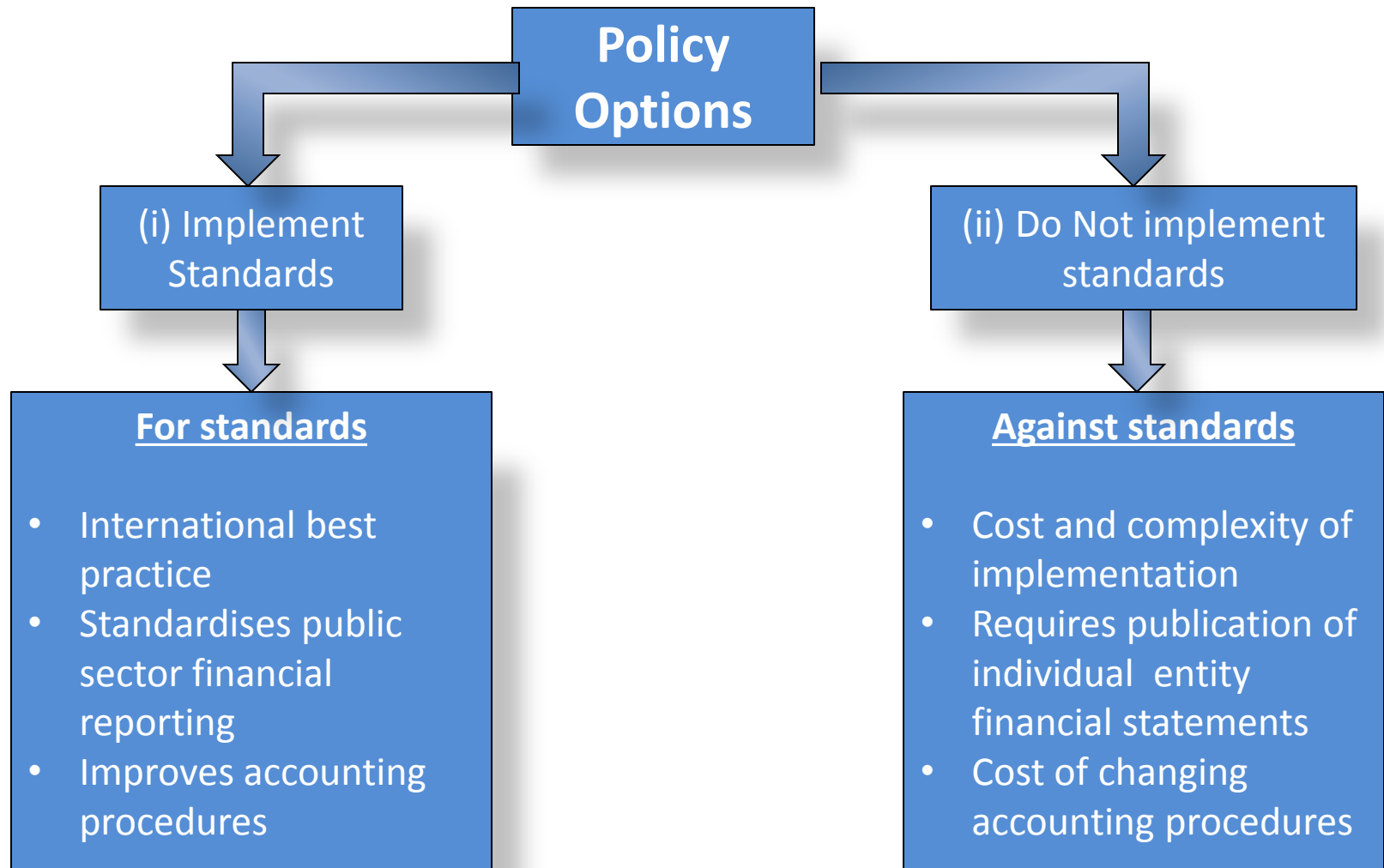
Purpose of accounting standards

- To standardise and enhance public sector entity financial reporting
- Accounting Standards specify financial statement:
 - Form
 - Content
 - Valuation and measurement rules
- Accounting standards only meaningful if financial statements are published
 - Separately for public interest entities
 - Consolidated for whole of government

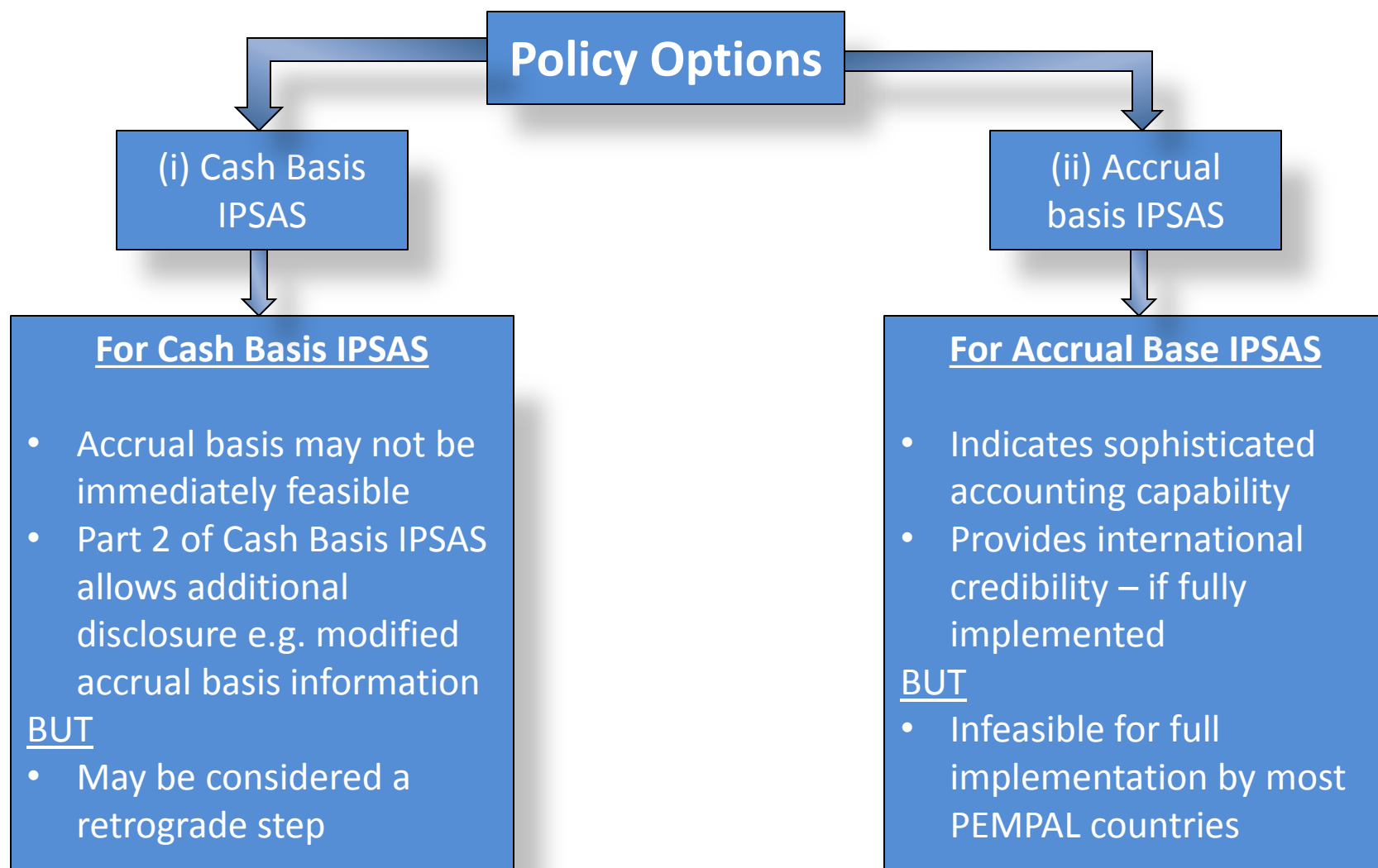
Accounting Standards Issues



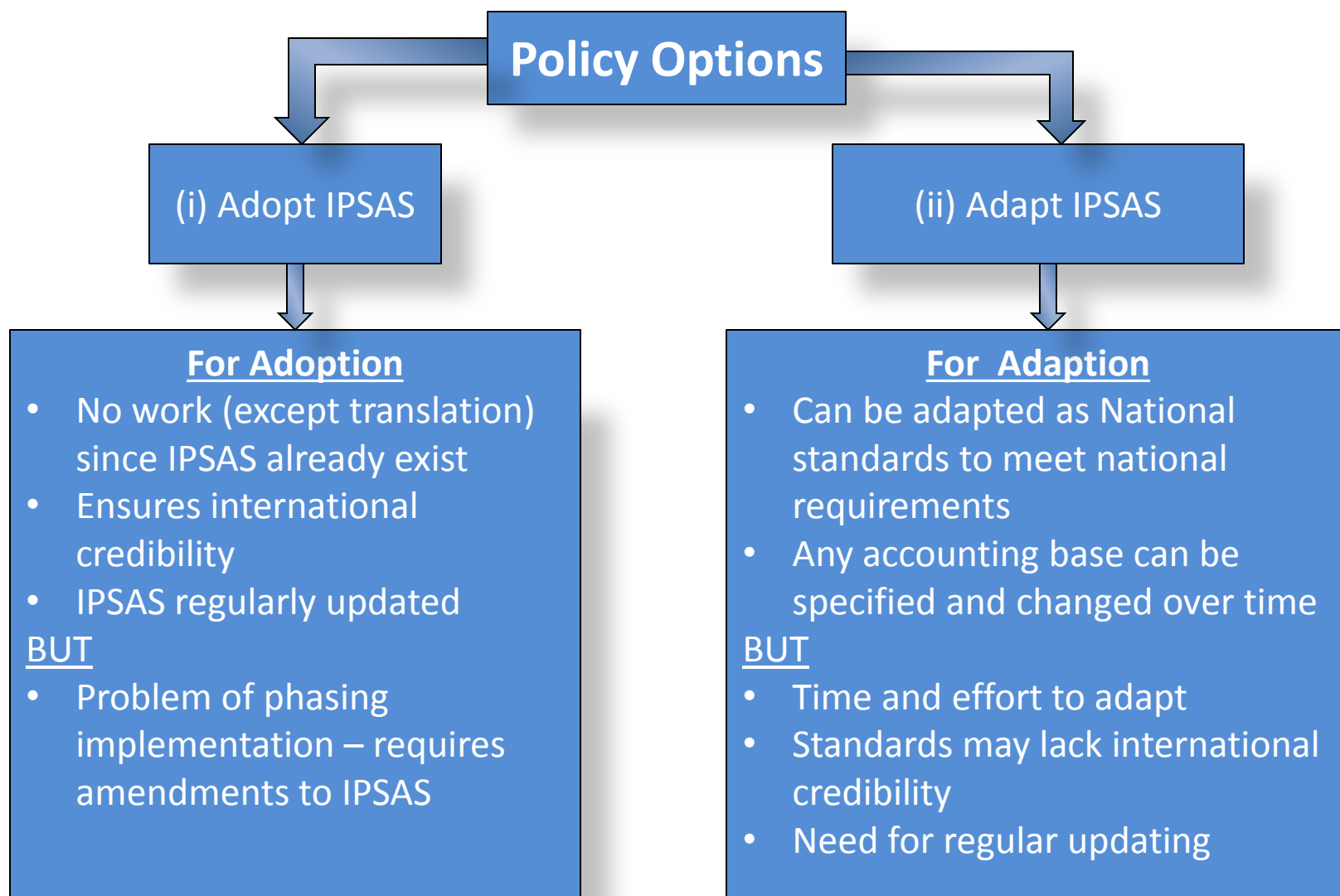
1.1 Whether to implement standards?



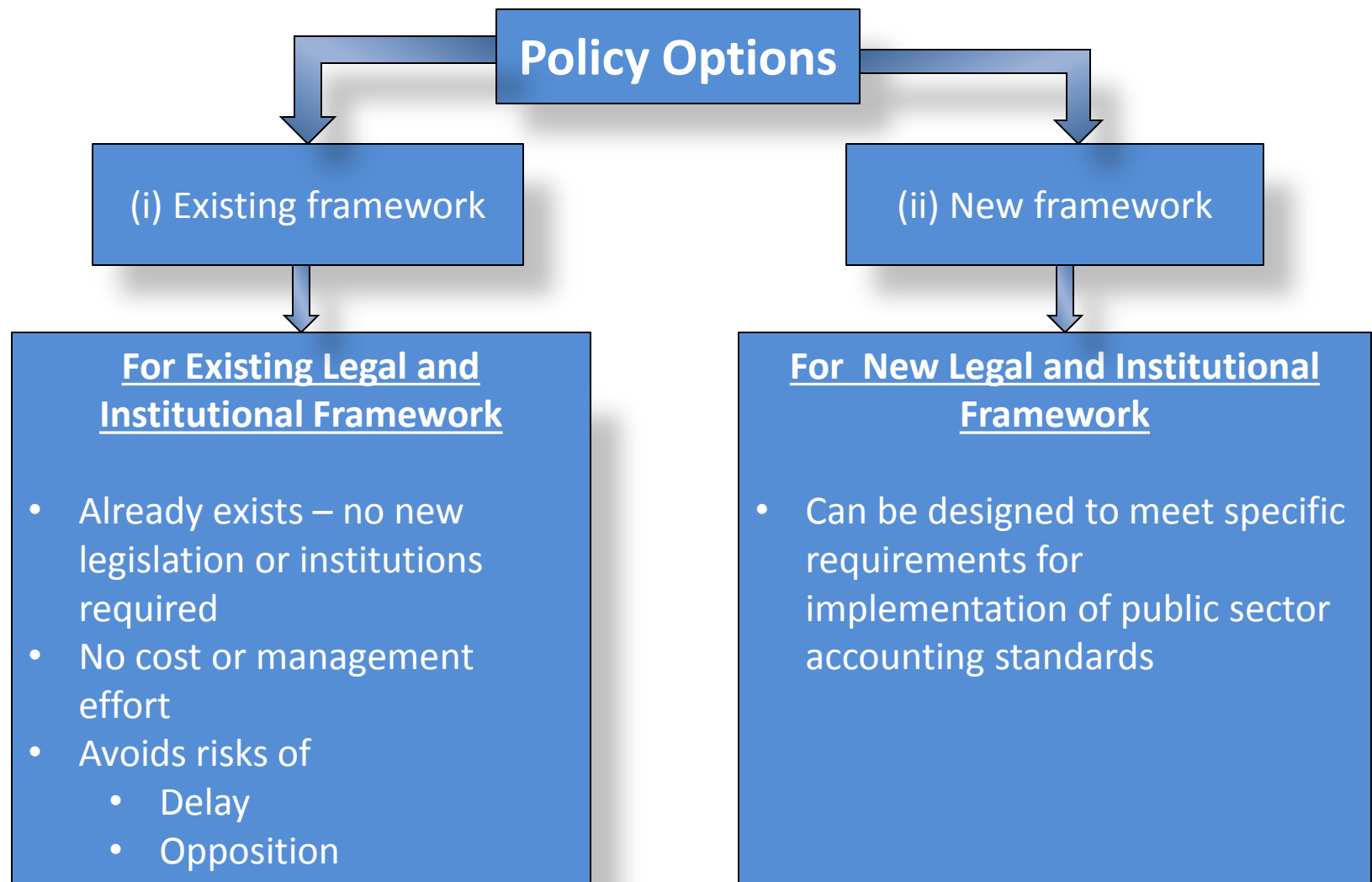
1.2 Cash or accrual IPSAS?



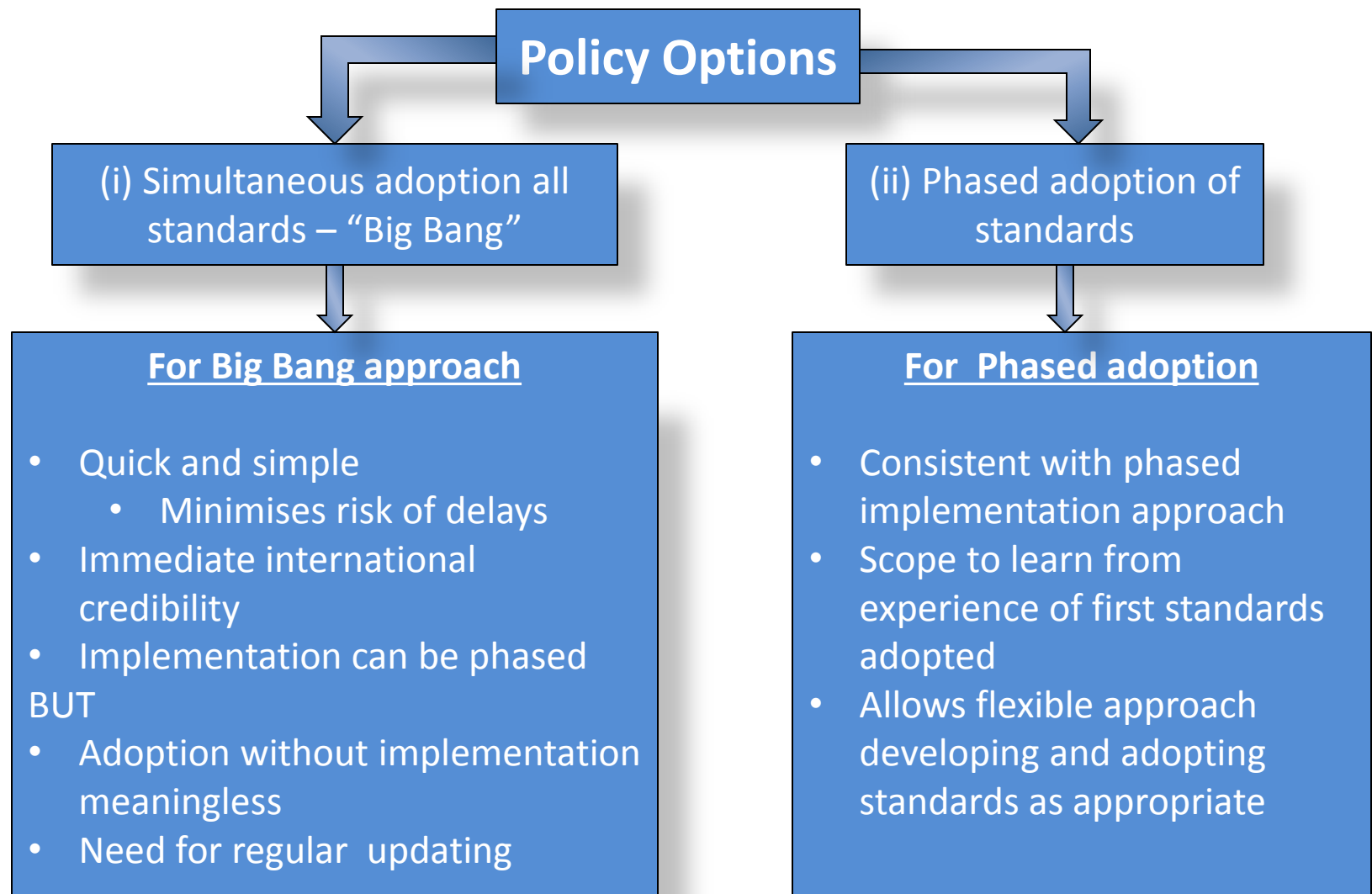
1.3 Adopt or adapt IPSAS?



1.4 Legal and institutional framework



1.5 Sequencing implementation



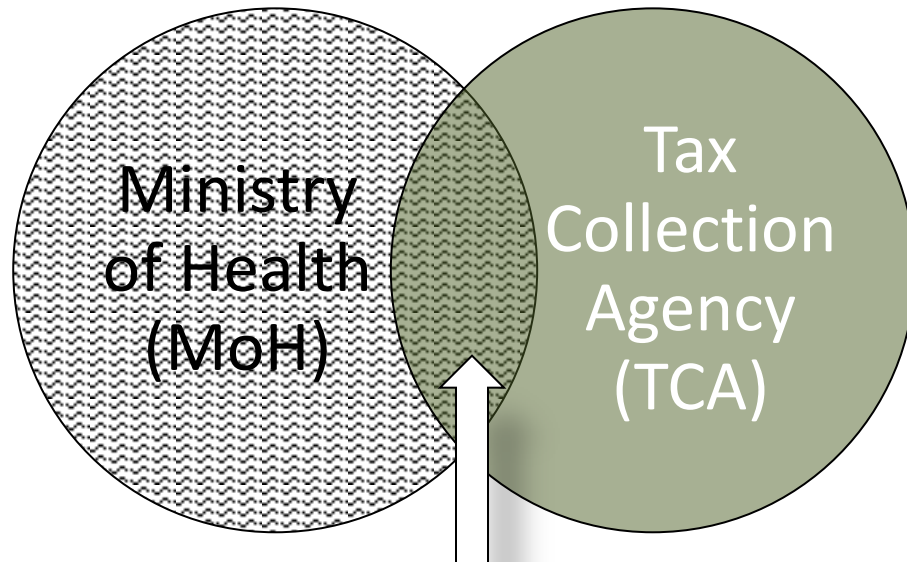
2. CONSOLIDATED FINANCIAL REPORTING

Numeric example of consolidation

Consolidation compared to aggregation of Ministry of Health and Revenue Collection Agency

Entity	Individual entity		Aggregated		Consolidated	
	Income	Expenditure	Income	Expenditure	Income	Expenditure
Ministry of Health						
Total	€ 1,000	€ 15,000	€ 1,000	€ 15,000	€ 800	€ 13,000
From/to Revenue Collection Agency	€ 200	€ 2,000				
From/to other sources	€ 800	€ 13,000				
Revenue Collection agency						
Total	€ 30,000	€ 5,000	€ 30,000	€ 5,000	€ 28,000	€ 4,800
From/to Ministry of Health	€ 2,000	€ 200				
From/to other sources	€ 28,000	€ 4,800				
TOTAL			€ 31,000	€ 20,000	€ 28,800	€ 17,800

Concept of Consolidation



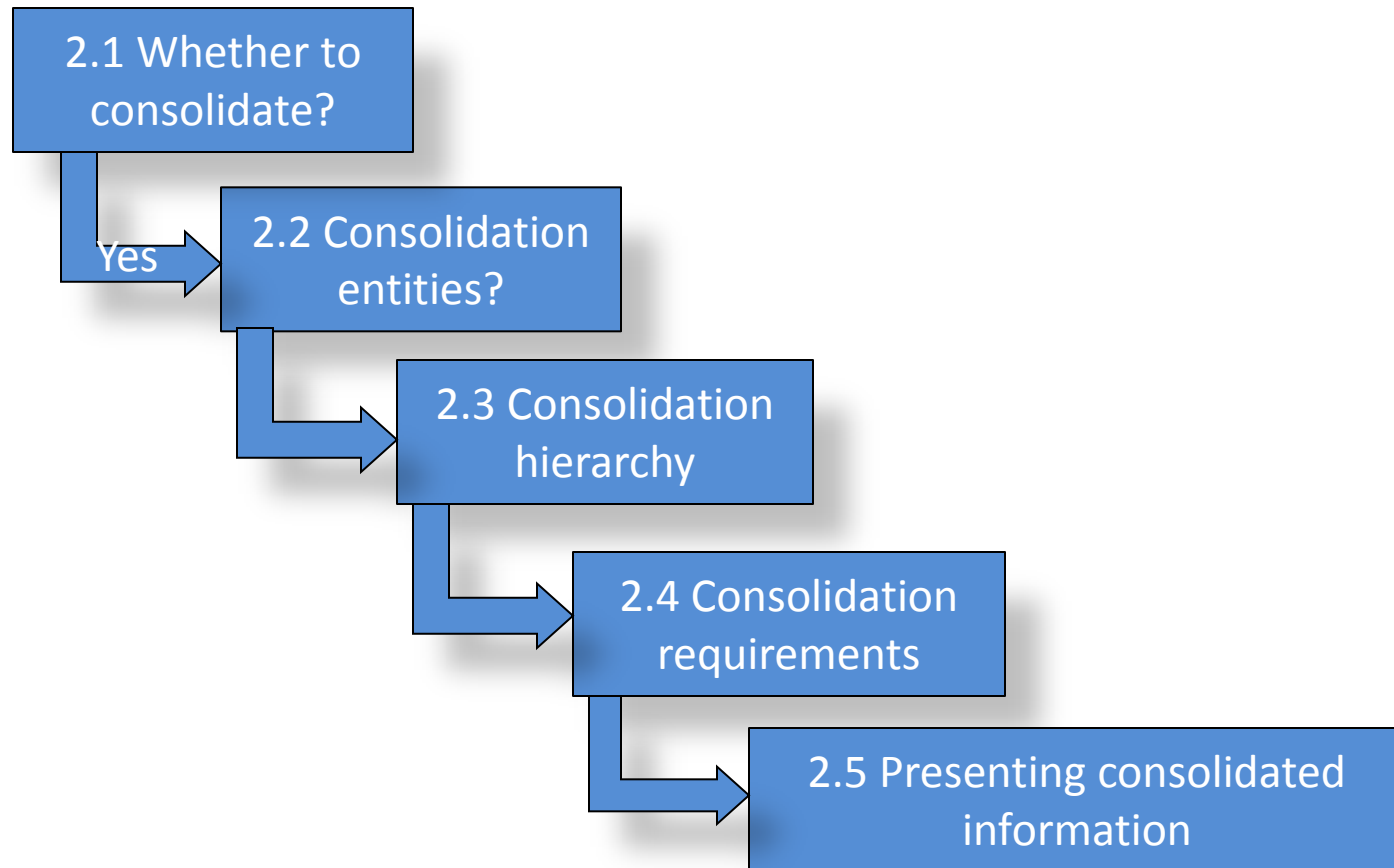
Transfers
between MoH
and TCA

Mathematical notation
 $MoH \Delta TCA$

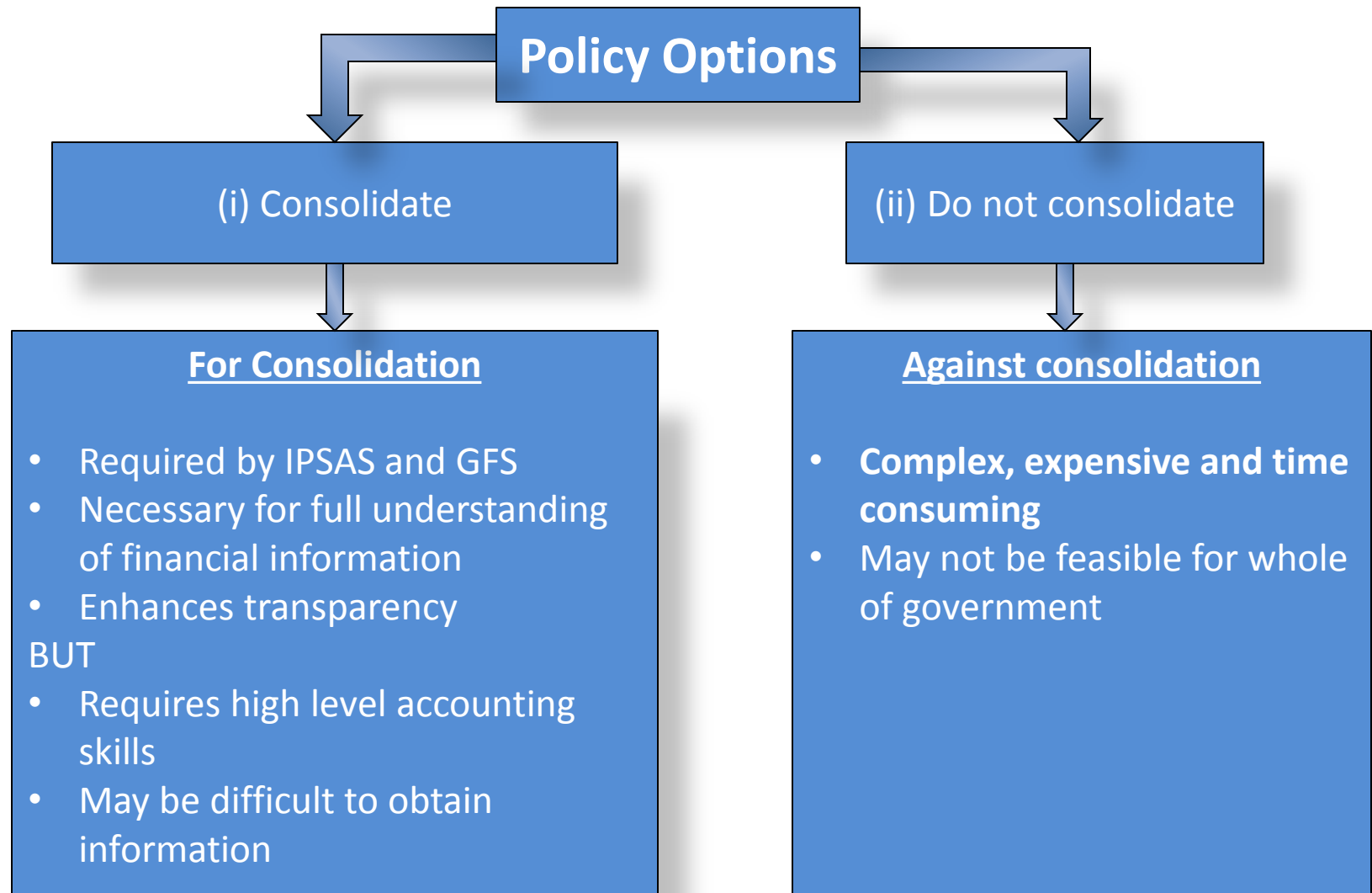
Consolidated Result

Aggregate of all MoH and TCA
transactions except:
Transfers between MoH and TCA

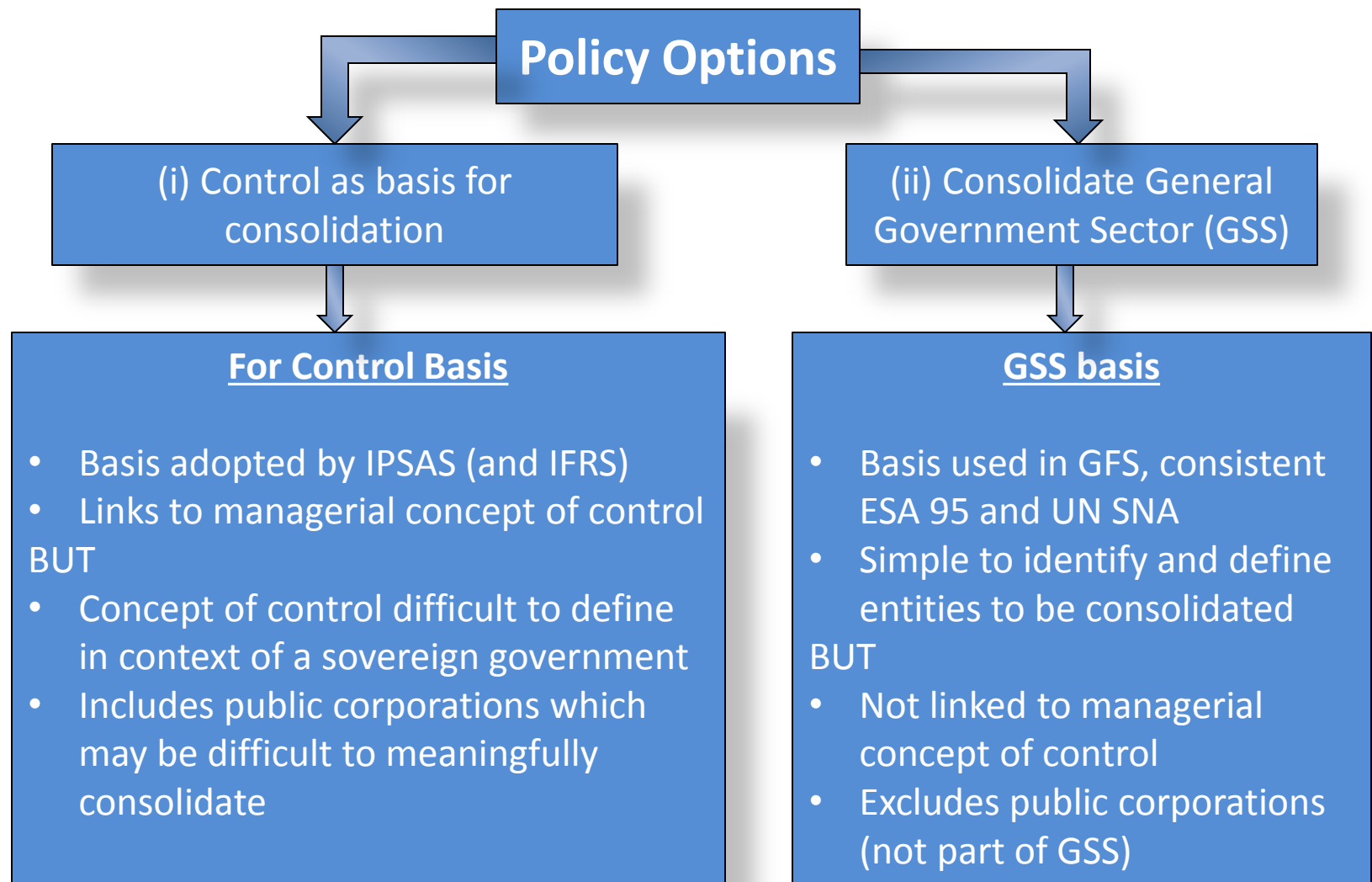
Consolidation issues



2.1 Whether to consolidate

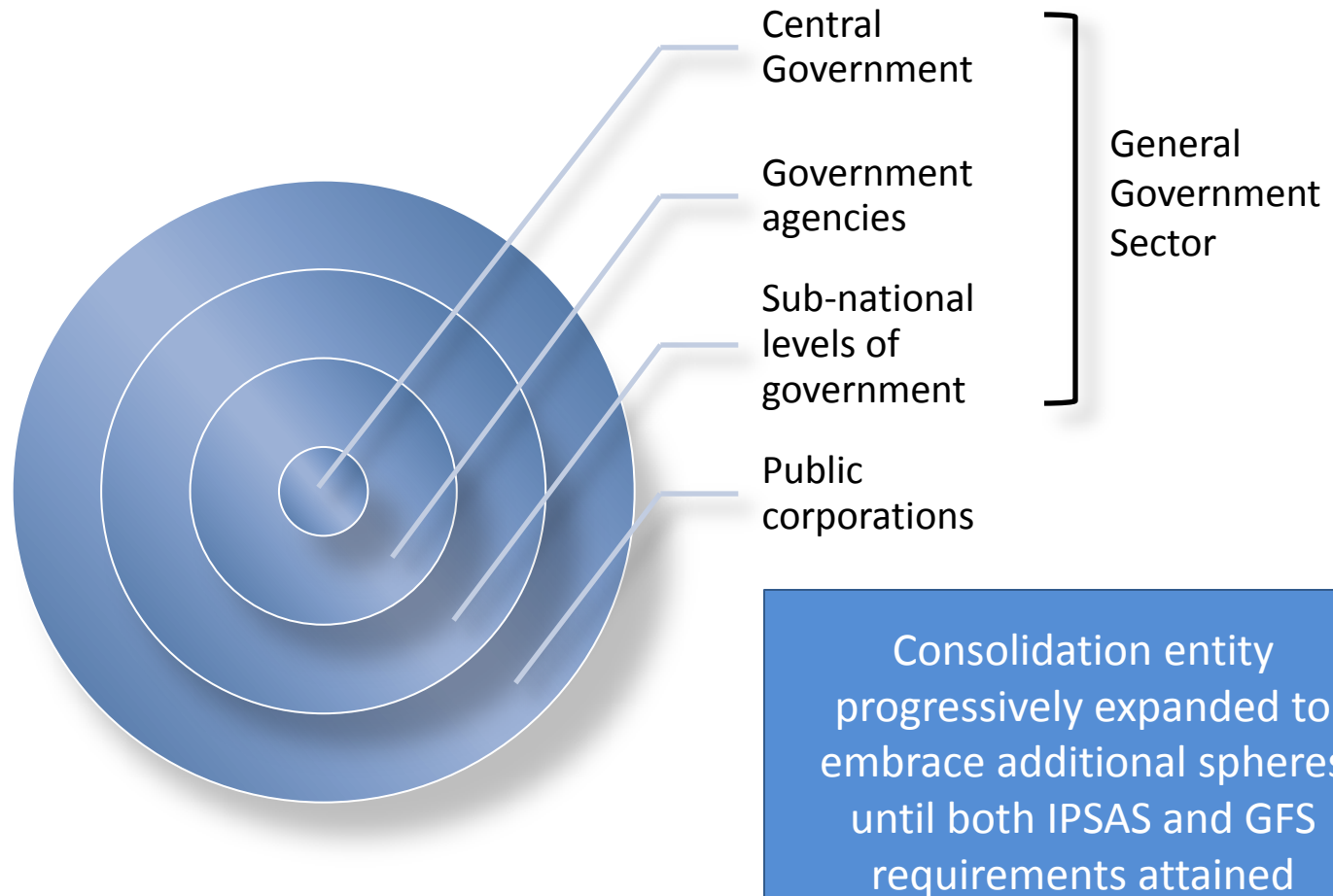


2.2 Consolidation entities

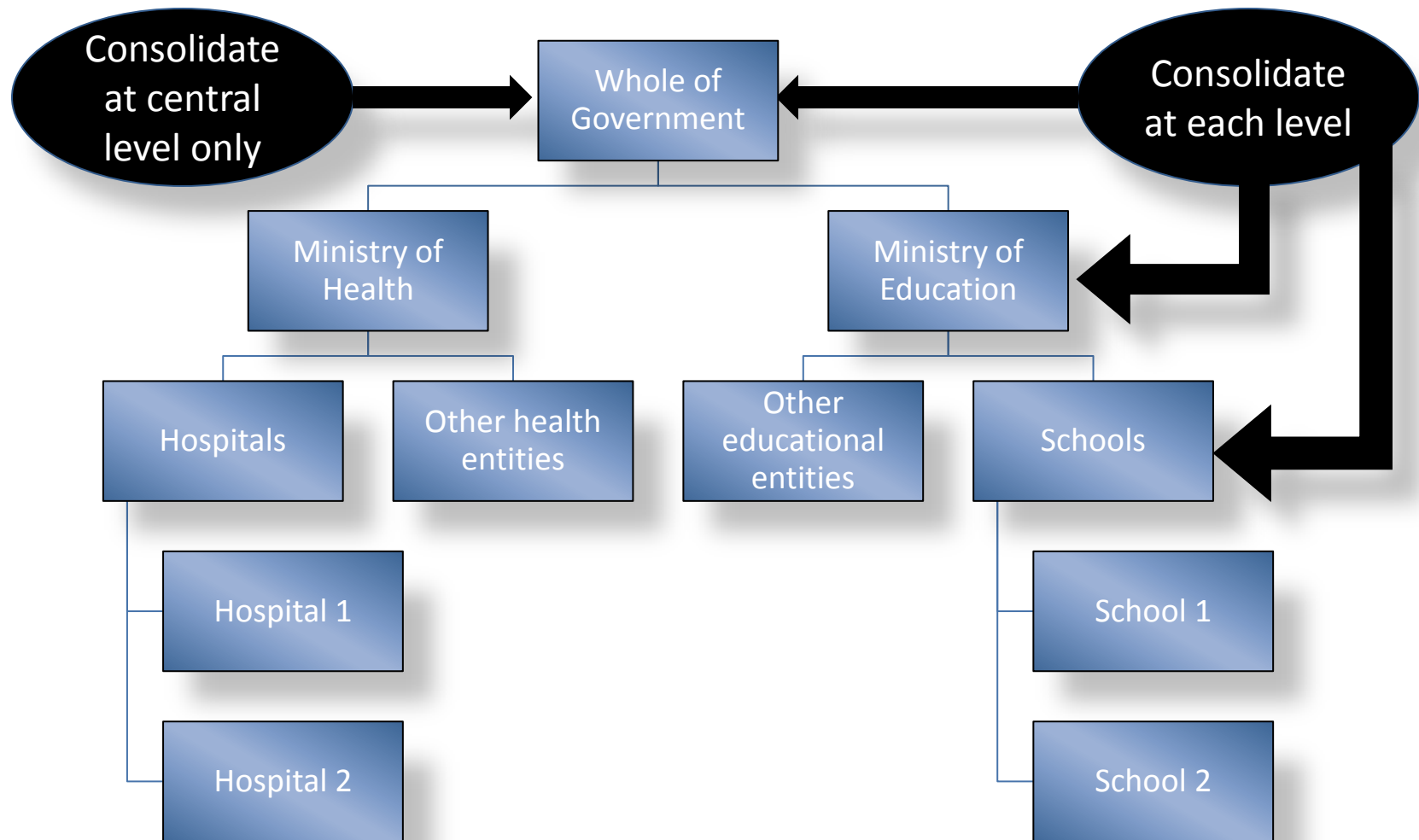


2.2 Consolidation entities (cont'd)

Concept of Progressive Spheres of Consolidation



2.3 Consolidation hierarchy



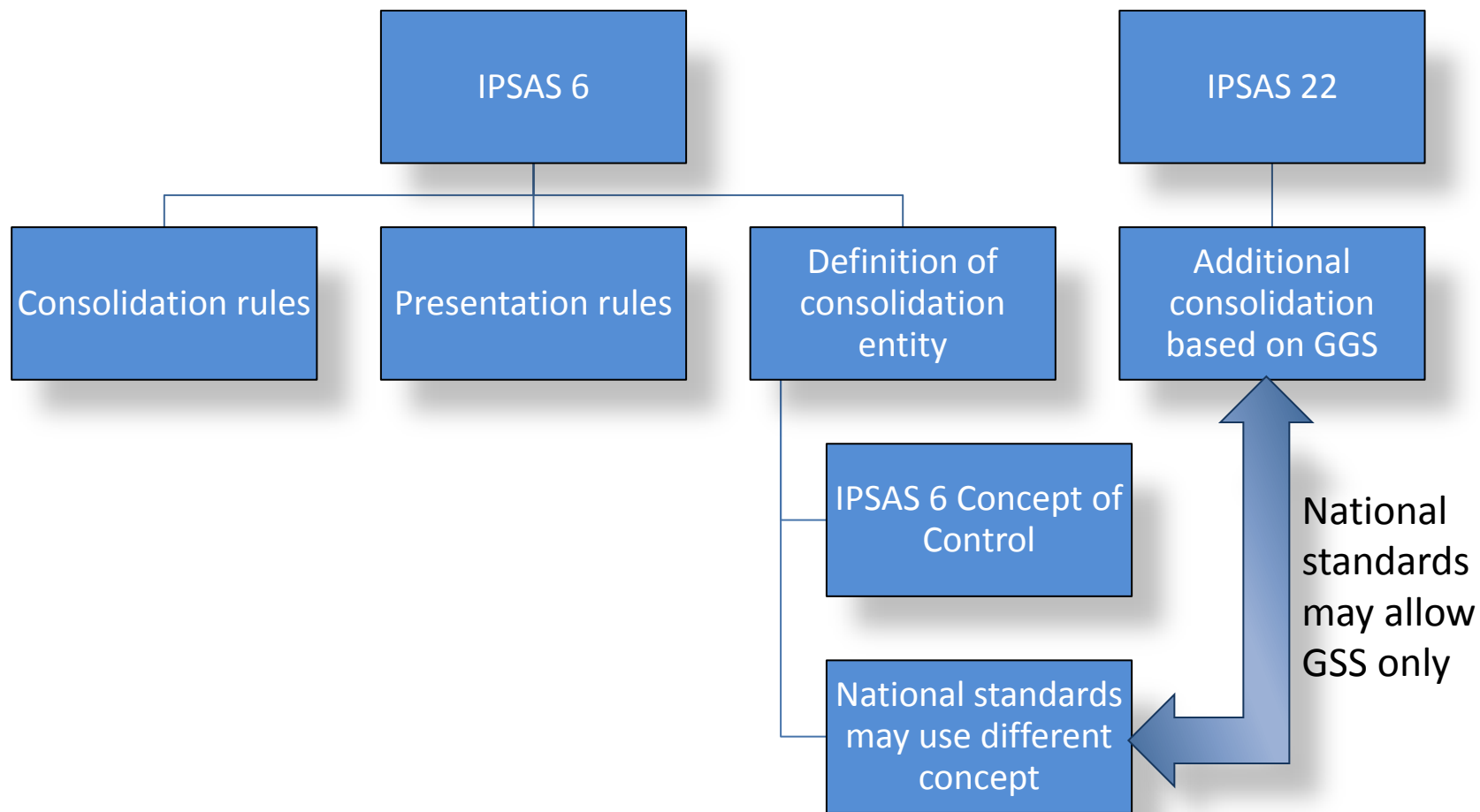
2.3 Consolidation hierarchy (cont'd)

Policy Option	For	Against
(i) Consolidate at central level only	<ul style="list-style-type: none">• Skills and software only required at one central location• Ensures a consistent approach	<ul style="list-style-type: none">• Only feasible if process automated• Problem of building into software all IPSAS/GFS consolidation requirements
(ii) Consolidate at each level – hierarchical approach	<ul style="list-style-type: none">• Consolidation at each level by staff who understand the business processes• Enables different levels of consolidated information	<ul style="list-style-type: none">• Requires skilled staff and consistent procedures at each level of consolidation• Risk of:<ul style="list-style-type: none">• Inconsistency• Clerical errors• Delays

2.4 Consolidation requirements

Requirement	Reason	Problems
(i) Same year end for all consolidated entities	<ul style="list-style-type: none">• IPSAS requirement• Makes consolidation simpler	<ul style="list-style-type: none">• May require legislation
(ii) Same accounting base, i.e. cash or accrual	<ul style="list-style-type: none">• IPSAS requirement – all entities must be adjusted to common accounting base	<ul style="list-style-type: none">• May not be feasible, e.g. public corporations and GGS use different accounting base
(iii) Same valuation and measurement rules	<ul style="list-style-type: none">• IPSAS requirement• Enables meaningful consolidation	<ul style="list-style-type: none">• Requires implementation of same Accounting Standards at all consolidated entities- but commercial entities use IFRS
(iv) Elimination of transactions between consolidated entities	<ul style="list-style-type: none">• IPSAS and GFS requirement	<ul style="list-style-type: none">• Problems of identifying and reconciling all transactions between entities within the consolidation

2.5 Presentation of consolidated information



CONCLUSIONS ON ACCOUNTING STANDARDS AND CONSOLIDATION

- Multiple issues and policy options
 - Presentation only provides some examples
- No single correct solution
 - Each country must select the most appropriate options
- Appropriate policy options may change over time
 - Requires flexibility