

Public Sector Accounting Standards and Consolidated Financial Reporting

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Overview

Accounting Standards

sanss

Policy Options

Consolidation

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



1. ACCOUNTING STANDARDS

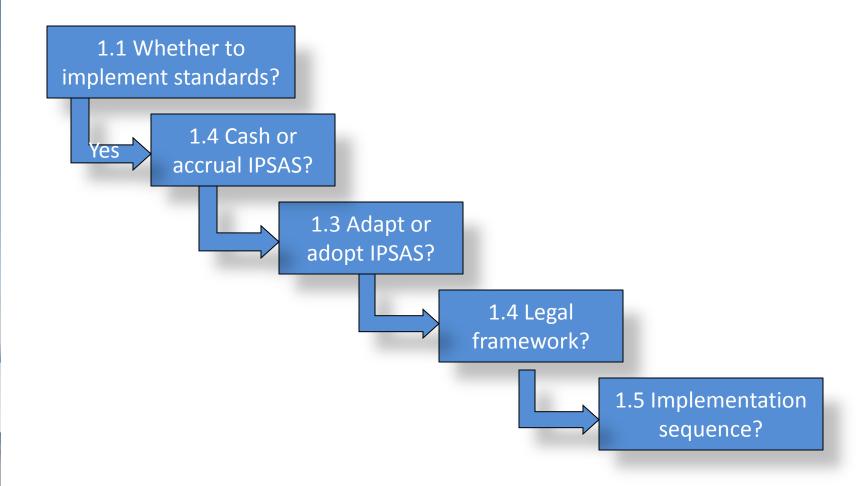


Purpose of accounting standards

- 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

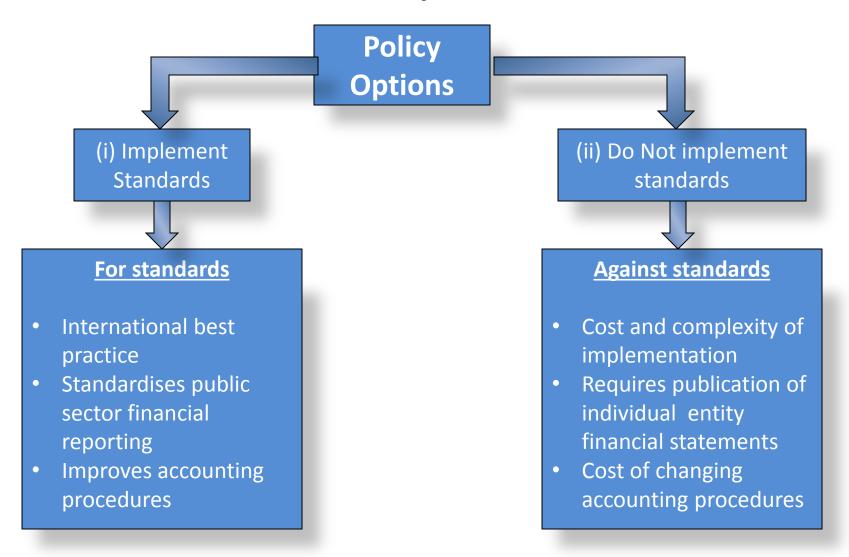


Accounting Standards Issues

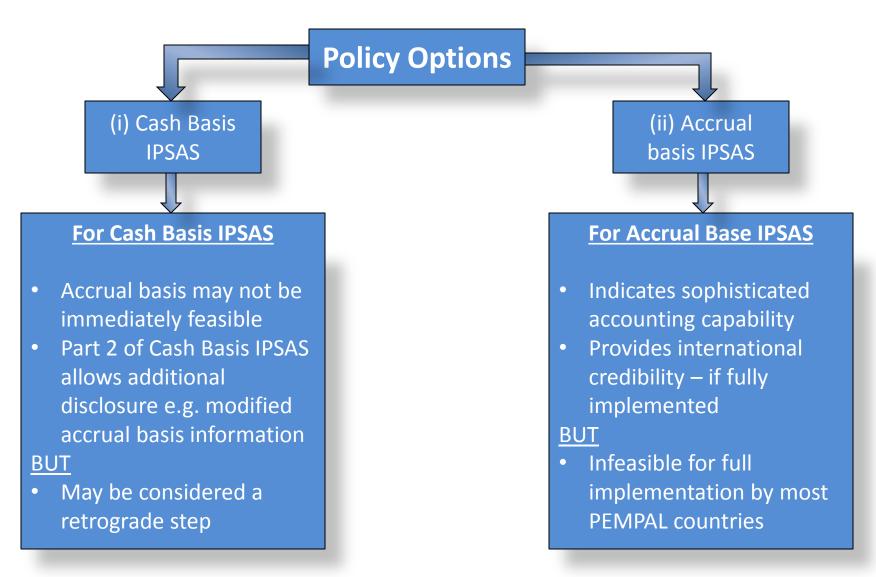




1.1 Whether to implement standards?

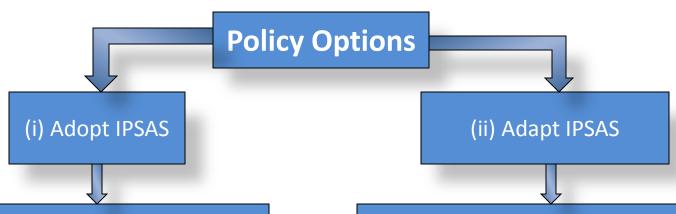


1.2 Cash or accrual IPSAS?





1.3 Adopt or adapt IPSAS?



For Adoption

- No work (except translation) since IPSAS already exist
- Ensures international credibility
- IPSAS regularly updated

BUT

 Problem of phasing implementation – requires amendments to IPSAS

For Adaption

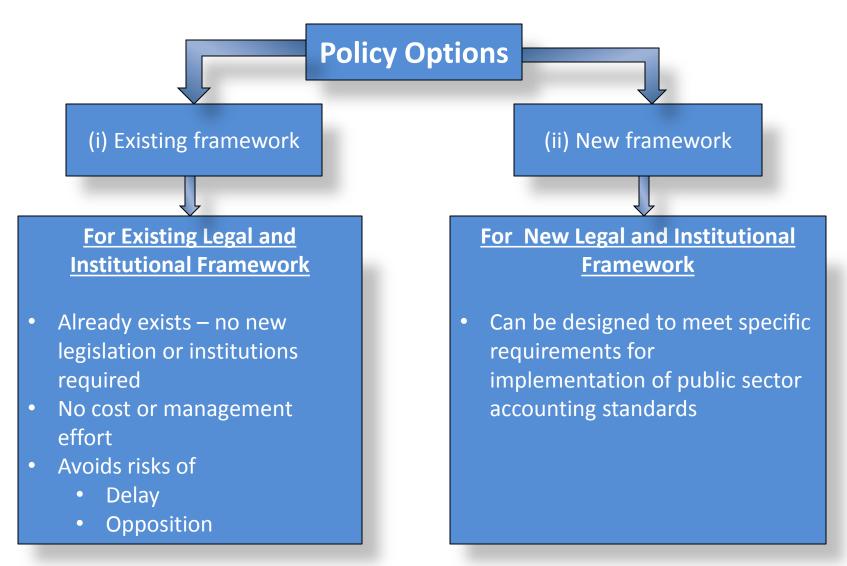
- Can be adapted as National standards to meet national requirements
- Any accounting base can be specified and changed over time

BUT

- Time and effort to adapt
- Standards may lack international credibility
- Need for regular updating



1.4 Legal and institutional framework





1.5 Sequencing implementation

Policy Options (ii) Phased adoption of (i) Simultaneous adoption all standards - "Big Bang" standards For Big Bang approach **For Phased adoption** Quick and simple Consistent with phased Minimises risk of delays implementation approach Scope to learn from Immediate international credibility experience of first standards Implementation can be phased adopted Allows flexible approach BUT developing and adopting Adoption without implementation meaningless standards as appropriate Need for regular updating



2. CONSOLIDATED FINANCIAL REPORTING



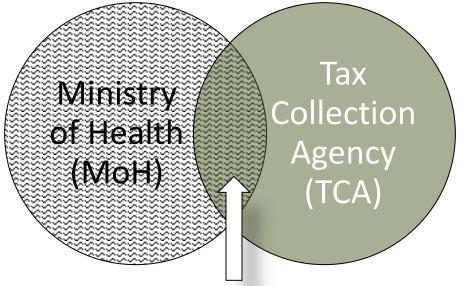
Numeric example of consolidation

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		
From/to Revenue Collection						
Agency	€ 200	€ 2,000				
From/to other sources	€ 800	€ 13,000			€ 800	€ 13,000
Revenue Collection agency						
Total	€ 30,000	€ 5,000	€ 30,000	€ 5,000		
From/to Ministry of Health	€ 2,000	€ 200				
From/to other sources	€ 28,000	€ 4,800			€ 28,000	€ 4,800
TOTAL			€ 31,000	€ 20,000	€ 28,800	€ 17,800



Concept of Consolidation



Consolidated Result

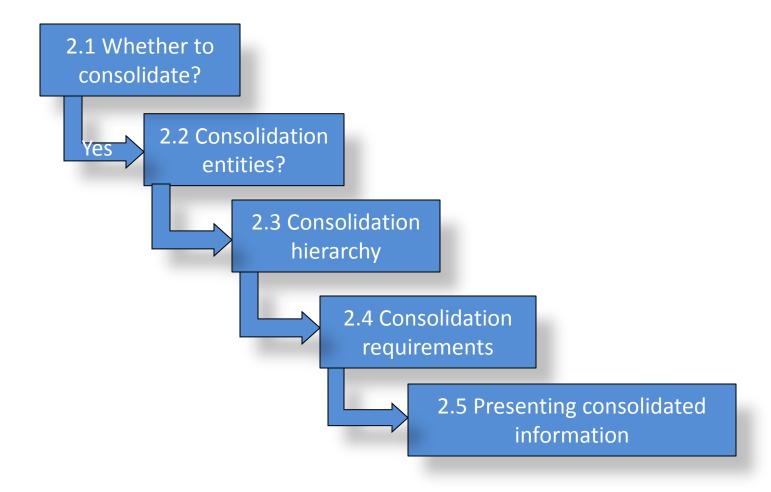
Aggregate of all MoH and TCA transactions except:
Transfers between MoH and TCA

Transfers between MoH and TCA

Mathematical notation MoH Δ TCA

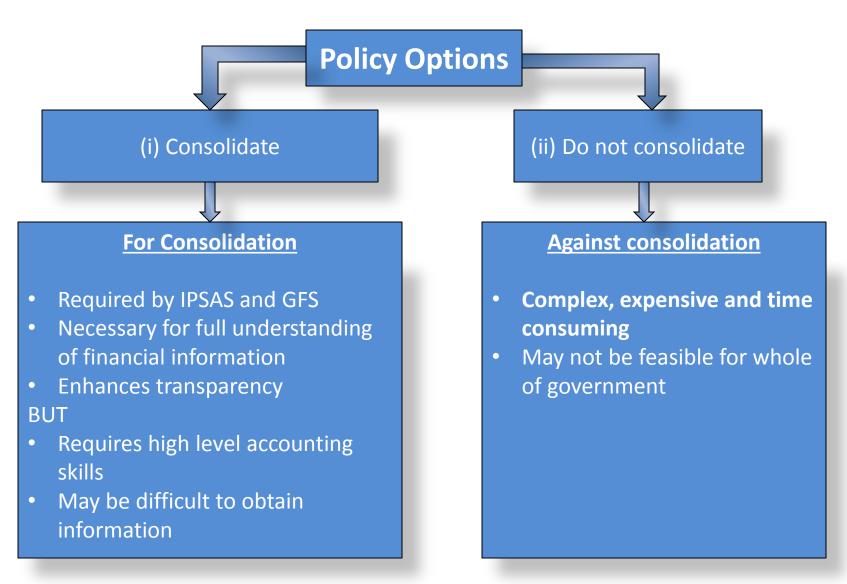


Consolidation issues



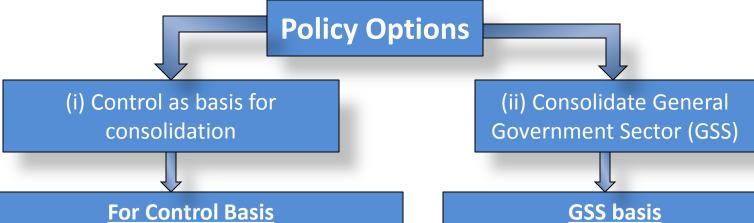


2.1 Whether to consolidate





2.2 Consolidation entities



- Basis adopted by IPSAS (and IFRS)
- Links to managerial concept of control BUT
- Concept of control difficult to define in context of a sovereign government
- Includes public corporations which may be difficult to meaningfully consolidate

GSS basis

- Basis used in GFS, consistent ESA 95 and UN SNA
- Simple to identify and define entities to be consolidated

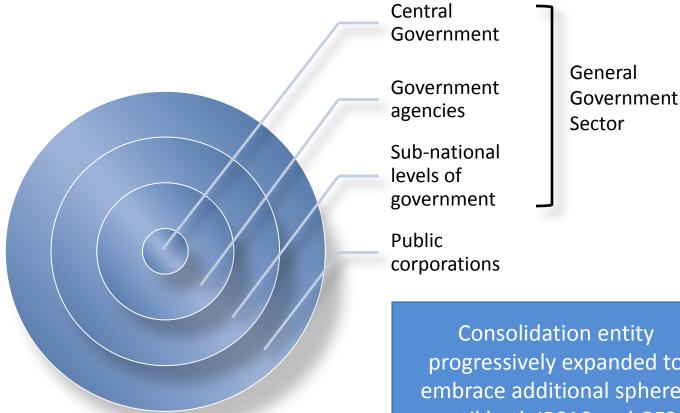
BUT

- Not linked to managerial concept of control
- Excludes public corporations (not part of GSS)



2.2 Consolidation entities (cont'd)

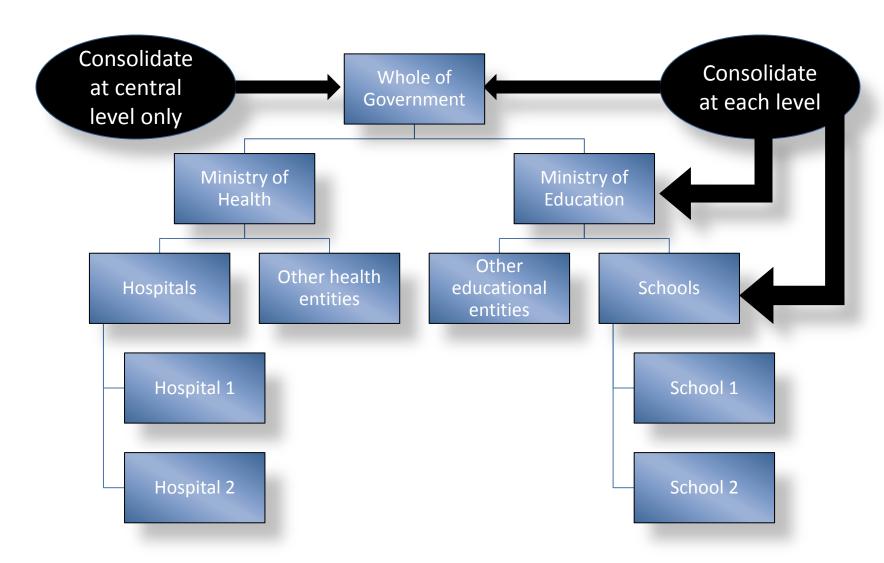
Concept of Progressive Spheres of Consolidation



progressively expanded to embrace additional spheres until both IPSAS and GFS requirements attained



2.3 Consolidation hierarchy





2.3 Consolidation hierarchy (cont'd)

Policy Option	For	Against		
(i) Consolidate at central level only	 Skills and software only required at one central location Ensures a consistent approach 	 Only feasible if process automated Problem of building into software all IPSAS/GFS consolidation requirements 		
(ii) Consolidate at each level – hierarchical approach	 Consolidation at each level by staff who understand the business processes Enables different levels of consolidated information 	 Requires skilled staff and consistent procedures at each level of consolidation Risk of: Inconsistency Clerical errors Delays 		

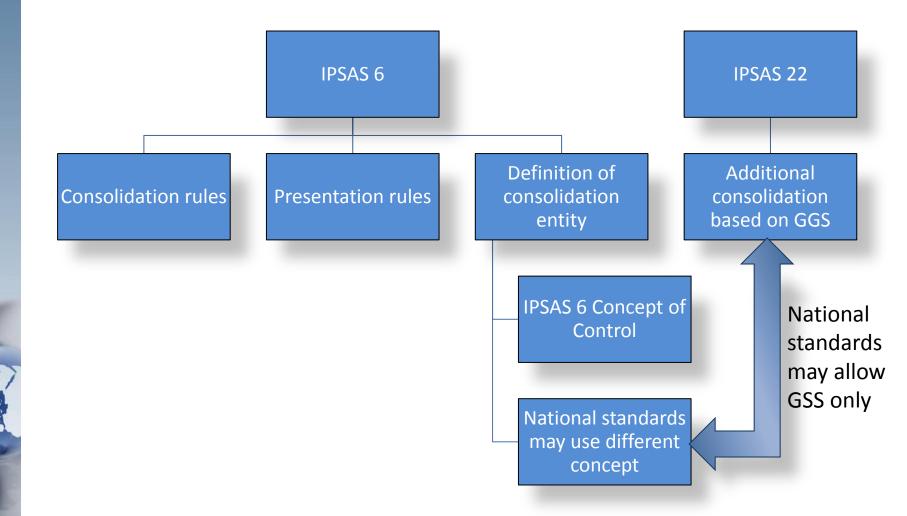


2.4 Consolidation requirements

Requirement	Reason	Problems	
(i) Same year end for all consolidated entities	IPSAS requirementMakes consolidation simpler	May require legislation	
(ii) Same accounting base, i.e. cash or accrual	 IPSAS requirement – all entities must be adjusted to common accounting base 	 May not be feasible, e.g. public corporations and GGS use different accounting base 	
(iii) Same valuation and measurement rules	IPSAS requirementEnables meaningful consolidation	Requires implementation of same Accounting Standards at all consolidated entities- but commercial entities use IFRS	
(iv) Elimination of transactions between consolidated entities	IPSAS and GFS requirement	 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

