



PULSAR – FINCOP & EDUCOP

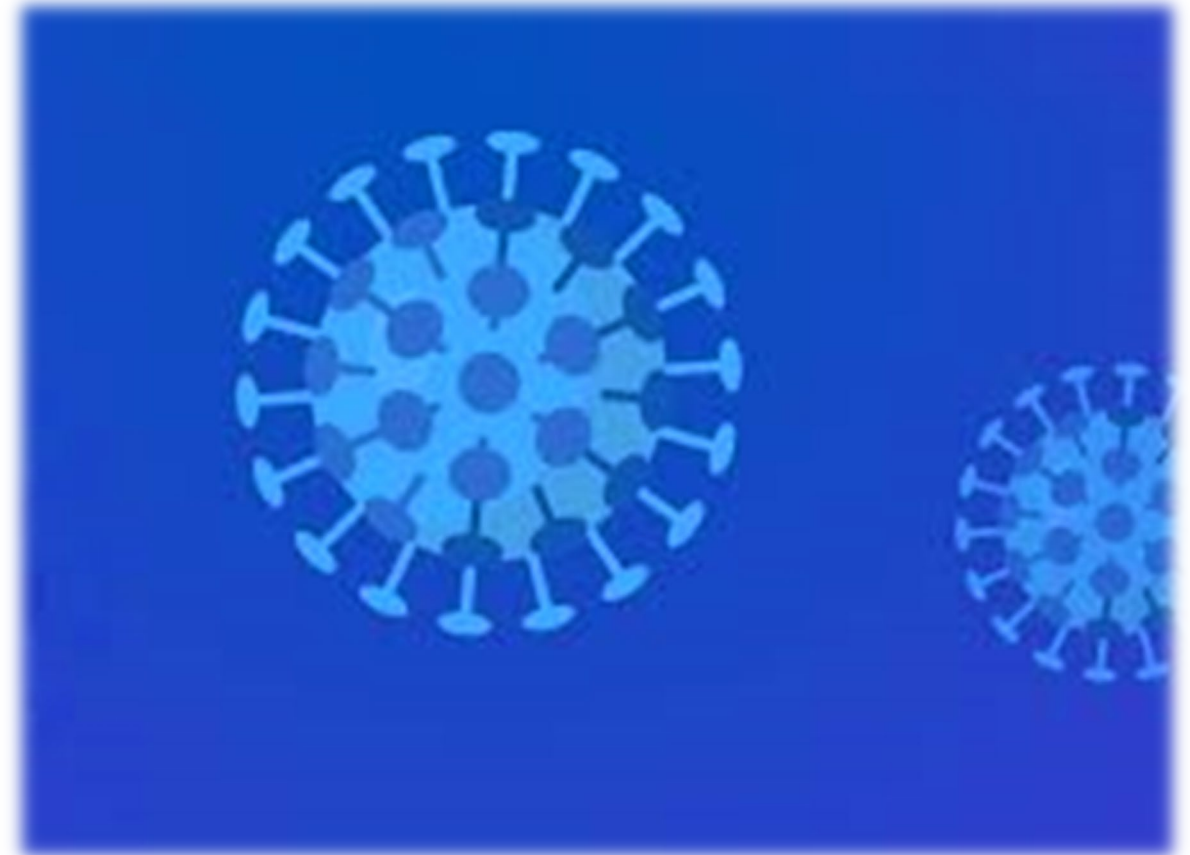
FINANCIAL REPORTING AND CONSOLIDATION IN TIMES OF COVID-19

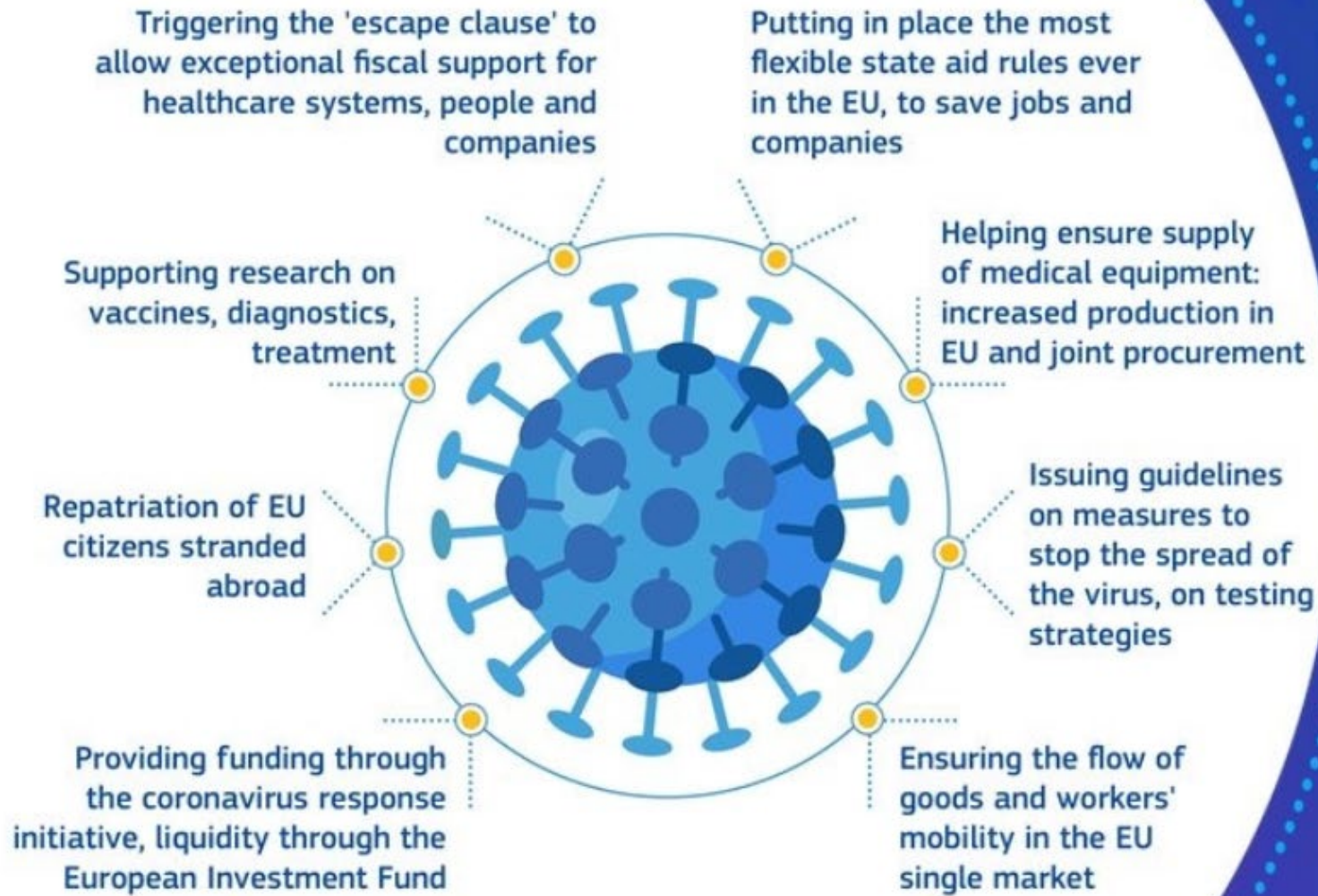
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- EU response to COVID-19 overview
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EU CORONAVIRUS RESPONSE

#CORONAVIRUS



European Commission

Government accounting, EPSAS and supporting the COVID-19 response – *paper prepared by PwC*

- The need for high-quality information to ensure effective policymaking and financial planning.
- Greater transparency is a key feature of democratic accountability.
- A vital need for reliable information to regain trust in these uncertain times, mainly through financial reporting.
- Many governments have already announced measures to provide both financial and nonfinancial assistance.
- A great need to ensure proper use of the funds spent and to assess the effectiveness of the measures taken.

The main types of public programs in response to the COVID-19 crisis

Direct government expenditure

- Increases in access to social benefits [Income support, Unemployment benefits]
- Limiting the spread of COVID-19 through testing, provision of protective equipment

Tax related measures

- Delays to tax payment deadlines and similar measures

Support for businesses

- Grants
- Loans (on favorable conditions)
- Equity and quasi-equity investments
- Public guarantee schemes

Support for financial systems

- Repurchasing bonds and other asset-backed securities
- Lowering interest rates

EU Member States experiences I.

- **Increase in unemployment benefits** - Several countries have taken measures to extend and increase the access to unemployment benefits.
- **Income support via wage subsidies, directed or not through employers** - Supporting employers with negative impact by COVID-19.

Harmonised public sector accounting framework for cash transfers and other benefits to mitigate the effect of social risks (such as a risk of unemployment caused by COVID-19 lock-down measures) enables consistency in reporting by MSs of large amounts of government expenditure. Consistent data can also explain the characteristics of the social benefit schemes and the demographic, economic and other external factors that may affect such schemes. In order to assess the effectiveness of these measures and keep government expenditure and deficit under control, governments need a reporting framework which captures and measures the relevant financial and non-financial data.

EU Member States experiences II.

- **Tax related measures** - In most countries, businesses have been granted temporary extensions of the deadline to file tax returns and pay taxes.

Taxes are the major source of revenue for many governments, therefore the impact of tax relaxation measures on government deficit needs to be measured and managed. Governments need reliable data more than ever to recognise revenue over the appropriate reporting period, to measure it reliably and to keep control over an important source of funding. High quality accrual accounting practices provide guidance on when to recognise revenue and for what amount. As the COVID-19 crisis and the related government measures currently have a major negative impact on the sources of tax revenue (VAT-income, personal income and taxable corporate profit), it is important to report it in a transparent and comparable way. This would also facilitate the expectations in terms of recoverability of outstanding tax claims under the prevailing economic conditions.

EU Member States experiences III.

- **Grants** - Many governments have provided grants to selected beneficiaries to support individuals, self-employed entrepreneurs and businesses. The measures have a budgetary impact that may span over several years.
- **Loans (on favourable conditions)** - Both the EC and the MSs can provide financial assistance in the form of loans granted on favourable terms to businesses.

Accrual accounting reflects each party's rights and obligations under the grant arrangement, enhancing transparency and accountability. It also enhances recovery management. Governments should assess the credit risks associated with the loans provided to individuals or companies and any surpluses or potential credit losses should be reflected in financial statements. Such information can also be used for strategic decision-making, monitoring and surveillance at both national and EU level.

Benefits of harmonised accrual accounting I.

- ✓ The production of relevant and reliable information that can be used to assess achievement by a government of its service delivery objective.
- ✓ Optimal asset management as reporting assets on their balance sheet forces governments to make conscious decisions on how best to use these assets.
- ✓ Comprehensive reporting of government (long-term) liabilities, reflecting the substance of the transactions, and of the risks associated with these liabilities, therefore contributing to the assessment of the long-term sustainability of public finances.
- ✓ Comprehensive and timely reporting of tax revenue, which is also a key element to assess the long-term sustainability of public finances.

Benefits of harmonised accrual accounting II.

- ✓ Reporting on how and to what extent grants given are effectively used by the beneficiary, enhancing transparency and accountability.
- ✓ Proper reporting and measurement of the risks involved with financial guarantees given.
- ✓ Reporting of the financial implications of equity investments, based on the level of control over the entity in which the government has invested.
- ✓ Reporting of the financial consequences of the granting of loans to a variety of stakeholders, potentially at favourable conditions.
- ✓ Nurturing the political debate between decision makers about the long-term financial impact of the social, environmental or other policies to be implemented, bringing the element of intergenerational fairness at the heart of the political decisions.

Communication

Government accounting, EPSAS and supporting the COVID-19 response:

<https://ec.europa.eu/eurostat/web/epsas/key-documents/analyses>

European Commission – Eurostat – EPSAS:

<https://ec.europa.eu/eurostat/web/epsas/>

CIRCABC depository:

<https://circabc.europa.eu/w/browse/18db61bc-6649-44b3-af14-17fcd1c1216c>

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Thank you



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