Financial Reporting and Consolidation in Times of COVID-19
Financial Reporting and Consolidation in Times of COVID-19

Agenda

A. General Implications
B. Main Types of Government Interventions
C. Relevant IPSAS
A. General implications (1)

Short term challenges

- The current situation might require relaxed reporting deadlines for entities and a clear focus on user critical information.
- Given relaxed pre-transactions controls, effective retrospective checks are required on how funds were used.
- Reporting and auditing impacts are to be expected such as:
  - Potential delays due to staff shortages.
  - Increased uncertainty and risk in respect of going concern of entities.
  - Uncertainty on how to report post-balance sheet events and contingencies.
  - Additional disclosures required in the management report.
• Active management of governments’ balance sheets is needed as the measures dramatically increased both PS assets and liabilities. It is therefore necessary to:
  • Strengthen active asset management (identify surplus assets, monitor impairment needs)
  • Establish processes to manage loans and guarantees (monitor default risks of loans and increased probability of being claimed on guarantees)
Long term challenges

• Post-crisis, public sector finances will need to be restored and economies will need a kick start – the public need to be on board for hard decision to be made

• Governments will need a record level of borrowing, much of it from open markets. Investors will want to see timely, reliable and comparable information

→ Robust accruals-based accounts provide the necessary foundation
→ Internationally accepted Public Sector Accounting Standards (IPSAS) provide credibility and trust
B. Main Types of Government Interventions

Interventions typically fall into four broad categories:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Examples:</td>
<td>Examples:</td>
<td>Examples:</td>
<td>Examples</td>
</tr>
<tr>
<td>• Provision of healthcare services</td>
<td>• Social benefits such as income support and unemployment benefits</td>
<td>• Grants, loans, equity investments</td>
<td>• Lowering of interest rates</td>
</tr>
<tr>
<td>• Administration of testing</td>
<td>• Income tax deferrals and relief</td>
<td>• Purchase of distressed assets</td>
<td>• Purchasing of government bonds</td>
</tr>
<tr>
<td>• Provision of personal safety equipment</td>
<td></td>
<td>• Tax relief</td>
<td>• Tax relief</td>
</tr>
</tbody>
</table>
C. IPSAS that may be Relevant to Interventions (1)

1. Direct Government Expenditure

• Interventions, such as providing care to those impacted by the pandemic or administration of COVID-19 tests, are considered collective and individual services provided to address the needs of society as a whole
  • Such services are accounted for under the amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, typically as expenses when the services are provided
  • Some interventions may result in provisions or contingent liabilities which require recognition or disclosure under IPSAS 19
  • See support for individuals and businesses for more details
C. IPSAS that may be Relevant to Interventions (2)

2. Support for Individuals (1)

• Certain cash transfers to individuals or households, such as unemployment benefits or minimum income guarantees, are within scope of **IPSAS 42, Social Benefits**
• Such benefits are recognized as an expense and a liability **when**
  • the entity has a present obligation for an outflow of resources, and
  • the obligation is measurable
• If a public sector entity needs to restructure its operations as a result of COVID-19, certain restructuring provisions and employee termination costs may fall within the scope of **IPSAS 19, Provisions**
2. Support for Individuals (2)

- Additional sick leave and redundancy payments provided to a public sector entity’s own employees are accounted for under IPSAS 39, Employee Benefits
  - Additional sick leave is typically recognized as an expense when the absence occurs
  - Redundancy and termination benefits to provided to specific employees are typically recognized when the employer can no longer withdraw the offer of these benefits
C. IPSAS that may be Relevant to Interventions (4)

3. Support for Businesses and Other Public Sector Entities (1)

- **IPSAS 34**, *Separate Financial Statements*, **IPSAS 35**, *Consolidated Financial Statements*, **IPSAS 36**, *Investments in Associates and Joint Ventures*, and **IPSAS 37**, *Joint Arrangements*, and **IPSAS 38**, *Disclosures of Interests in Other Entities*, are relevant to:
  - The establishment of new government entities as a result of COVID-19 intervention programs
  - Potential changes in control as a result of certain transfers made by governments – see next slide for more details
C. IPSAS that may be Relevant to Interventions (5)

3. Support for Businesses and Other Public Sector Entities (2)

• Various government interventions may result in interests in other entities:
  • Equity investments and certain convertible loans could result in obtaining control of the funding recipient, leading to consolidation under **IPSAS 35**
  • Depending on the specific terms of a funding arrangement, interventions may result in joint control or significant influence over the recipient, which would be accounted for under IPSAS 36 or IPSAS 37
  • Regardless of the accounting outcome, interests in controlled entities, joint arrangements, associates or unconsolidated structured entities require disclosures under **IPSAS 38**
A government may provide financial guarantees on the default of debt owed by a business – these guarantees fall within the scope of **IPSAS 29, Financial Instruments: Recognition and Measurement**, or **IPSAS 41, Financial Instruments**.

- Under IPSAS 41, financial guarantees are recognized at fair value and subsequently adjusted to an expected credit loss allowance under certain conditions.
- Under IPSAS 29, some guarantees will not be recognized, if an outflow of resources is not probable.
- However, these guarantees may require disclosure under **IPSAS 19**, and the probability of outflow will need to be monitored to determine if recognition is required.
C. IPSAS that may be Relevant to Interventions (7)

3. Support for Businesses and Other Public Sector Entities (4)

- **ED 72, Transfer Expenses**, once finalized, could apply to certain transfer of resources from governments to individuals or to other public sector entities.

- From a transfer recipient’s perspective, **IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)**, or **ED 71, Revenue without Performance Obligations**, once finalized, may apply to receipts of transfers from COVID-19 interventions.
4. Support for Financial Systems

- Above standards also apply to sovereign debt restructurings and concessionary loans under IPSAS.
Backup
Other Potentially Relevant IPSAS (1)

- IPSAS 1, *Presentation of Financial Statements*
  - In extreme cases, COVID-19 may affect the viability of an entity’s operations – IPSAS 1 includes guidance for evaluation of whether an entity continues to be a going concern
  - COVID-19 may result in uncertainty regarding the collectability of receivables from customers who are experiencing financial difficulty – disclosure of estimation uncertainty is required by IPSAS 1
  - Many COVID-19 intervention programs may be considered material due to their significance or their unusual nature. IPSAS 1 requires disclosure of nature and amount of material expenses.
Financial Reporting and Consolidation in Times of COVID-19

Other Potentially Relevant IPSAS (2)

• IPSAS 14, *Events After the Reporting Date*
  – Some interventions that launched after the reporting date may still impact the financial statements:
    • Significant interventions may require additional disclosures with quantification of their estimated future impact on the financial statements
    • Some interventions or programs may be indicative of events that already existed at the reporting date—these events may require adjustments to the face of the financial statements
Other Potentially Relevant IPSAS (3)

- **IPSAS 16, *Investment Property***
  - Applies to the valuation of investment property, whose estimated future cash flows or service potential may have deteriorated as a result of uncertainties from COVID-19

  - Measures such as social distancing or quarantine may result in a deterioration of the estimated cash flows or service potential of assets which have been closed or made idle
  - Such deterioration could result in impairment losses
Other Potentially Relevant IPSASB Guidance – Recommendation Practice Guidelines (1)

• RPG 1, *Reporting on Long-Term Sustainability of an Entity’s Finances*
  – COVID-19 interventions may have far-reaching financial consequences
  • Consequences can impact a government’s long-term fiscal sustainability information, including projections of long-term inflows and outflows
  – RPG 1 provides guidance on compilation of projections and disclosure of underlying assumptions
Financial Reporting and Consolidation in Times of COVID-19

Other Potentially Relevant IPSASB Guidance – Recommendation Practice Guidelines (2)

• RPG 2, *Financial Statement Discussion and Analysis*
  – Financial Statement Discussion and Analysis can be used to provide additional narrative on how the pandemic has affected an entity’s financial position, financial performance and cash flows
  – Discussion and analysis can also elaborate on risks and uncertainties created by COVID-19 and how these risks and uncertainties are managed
Other Potentially Relevant IPSASB Guidance – Recommendation Practice Guidelines (3)

• RPG 3, *Reporting Service Performance Information*
  
  – Provides principles-based framework for reporting service objectives, the extent to which these objectives have been achieved, and how service delivery objectives have changed during the reporting period
  
  – COVID-19 intervention programs are likely to result in new service delivery objectives or change existing service delivery mechanisms