

Governance

Budget, Accounting and Fiscal Statistic Reporting - How to Reconcile Differences

PULSAR Workshop, Batumi, Georgia

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Governance

June 7, 2023

Agenda

1. What – What are the Main Reports in Government
2. Why – Key Issues in Budgetary, Fiscal and Accounting Reports Reconciliation
3. How – How Governments have addressed these issues:
 - » Consolidation
 - » Chart of Accounts
 - » Accrual Transition
 - » GovTech Tools
 - » Institutional Arrangements

What are fiscal reports?



Budget Execution Reports

- ✓ Purpose: Control
- ✓ Budget out-turn reports
 - ✓ Revenue
 - ✓ Expenditure
 - ✓ Other fiscal aggregates

Fiscal Statistics Reports GFS Manual

- ✓ Purpose: Fiscal Policy
- ✓ Fiscal Operations Report
- ✓ Functional classification
- ✓ Economic Classification

Financial Statements IPSAS

- ✓ Purpose: Control, Accountability
- ✓ Financial Position
- ✓ Performance:
 - ✓ Changes in Net Assets
 - ✓ Cash Flows
 - ✓ Comparison of Budget and Actual
 - ✓ Notes

Key Issue on budgetary, statistical and financial reporting

1. Concept of consolidation entity is not clearly aligned with international standards: IPSAS, GFS? Control concept vs Fiscal Policy perspective

4. Accounting procedures are weak, and not complied: reconciliation procedures, closing procedures, intra-government clearing procedures

2. Separate systems for budget management and accounting: same transaction captured twice

5. Interpretation of special codes requiring guidance is not available as part of the classification manual

Reasons: Functionality gaps in IFMIS: non-monetary transactions like depreciation, write-offs, amortization, inventory management systems

3. Issues with chart of accounts: segments are not internally coherent – duplicative codes- too much detailed program classification, interpretation of certain codes, manual selection of codes

6. Multiple IFMI systems maintaining CoA and Budget classifications which are not standardized, consistent and harmonized

Consolidation - Statistical Bases of Financial Reporting converges IPSAS with GFS standards

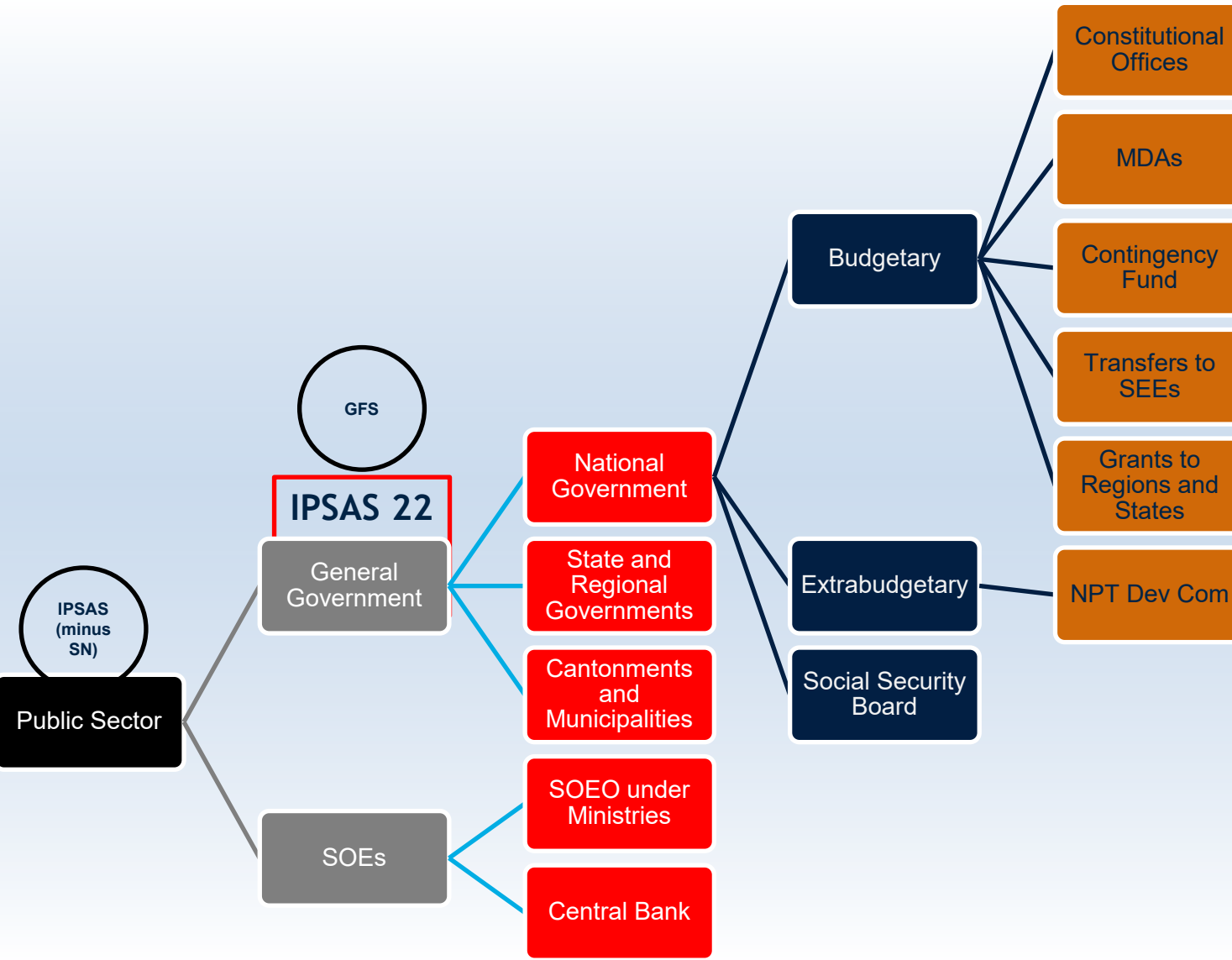


Chart of accounts provide the foundations for statistical and financial reporting:

International Standards - *Government Finance Statistics Manual 2014 (GFSM 2014)*

Financial Reporting

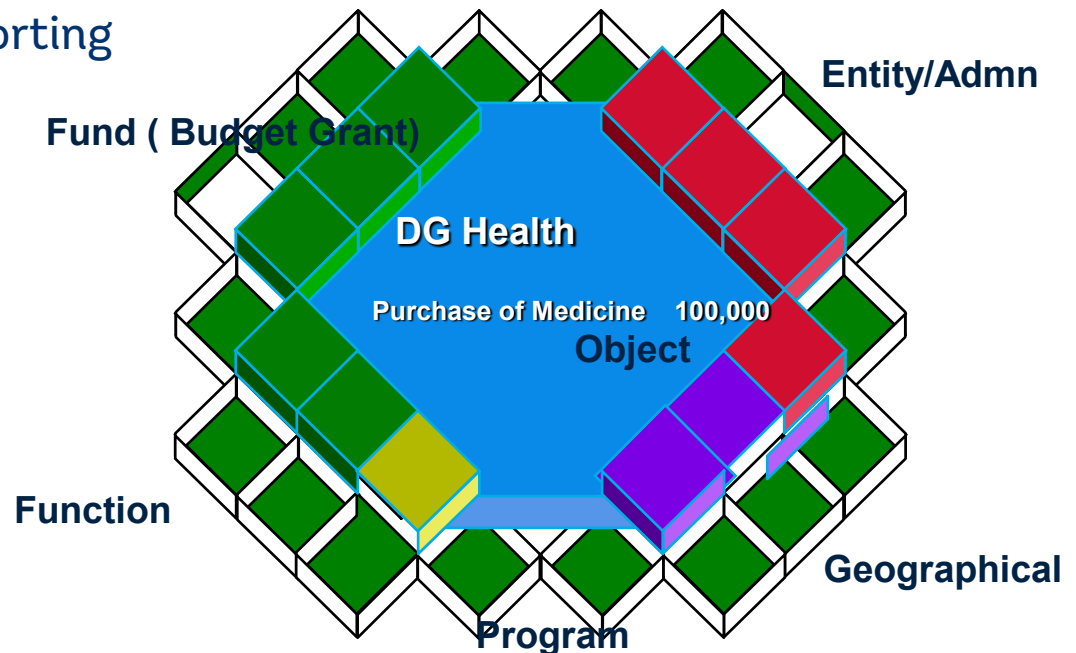
- Economic

The *GFSM 2014* has been harmonized with the updates in other macroeconomic statistical manuals and guides, such as the overarching *System of National Accounts 2008 (2008 SNA)*

Source: IMF

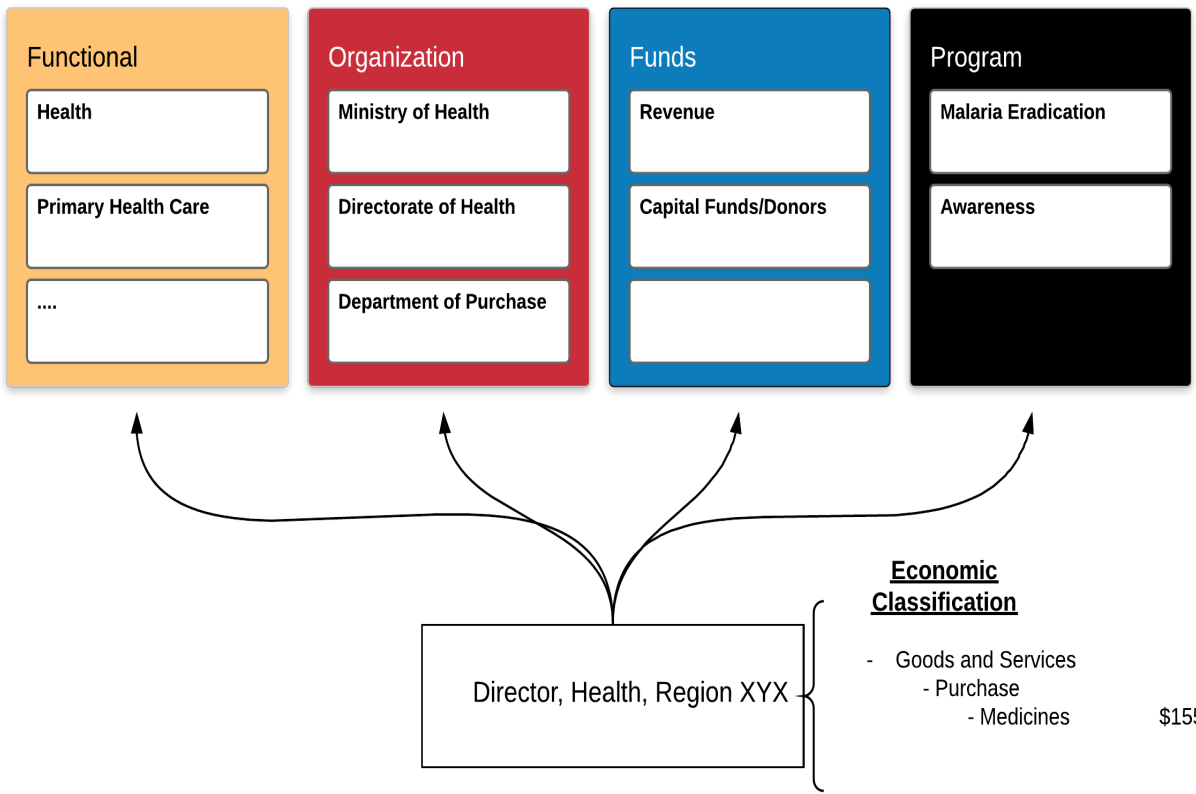
Budgetary and Statistical Reporting

- Functional
- Administration
- Program
- Source of funds
- Geographical
- Beneficiary



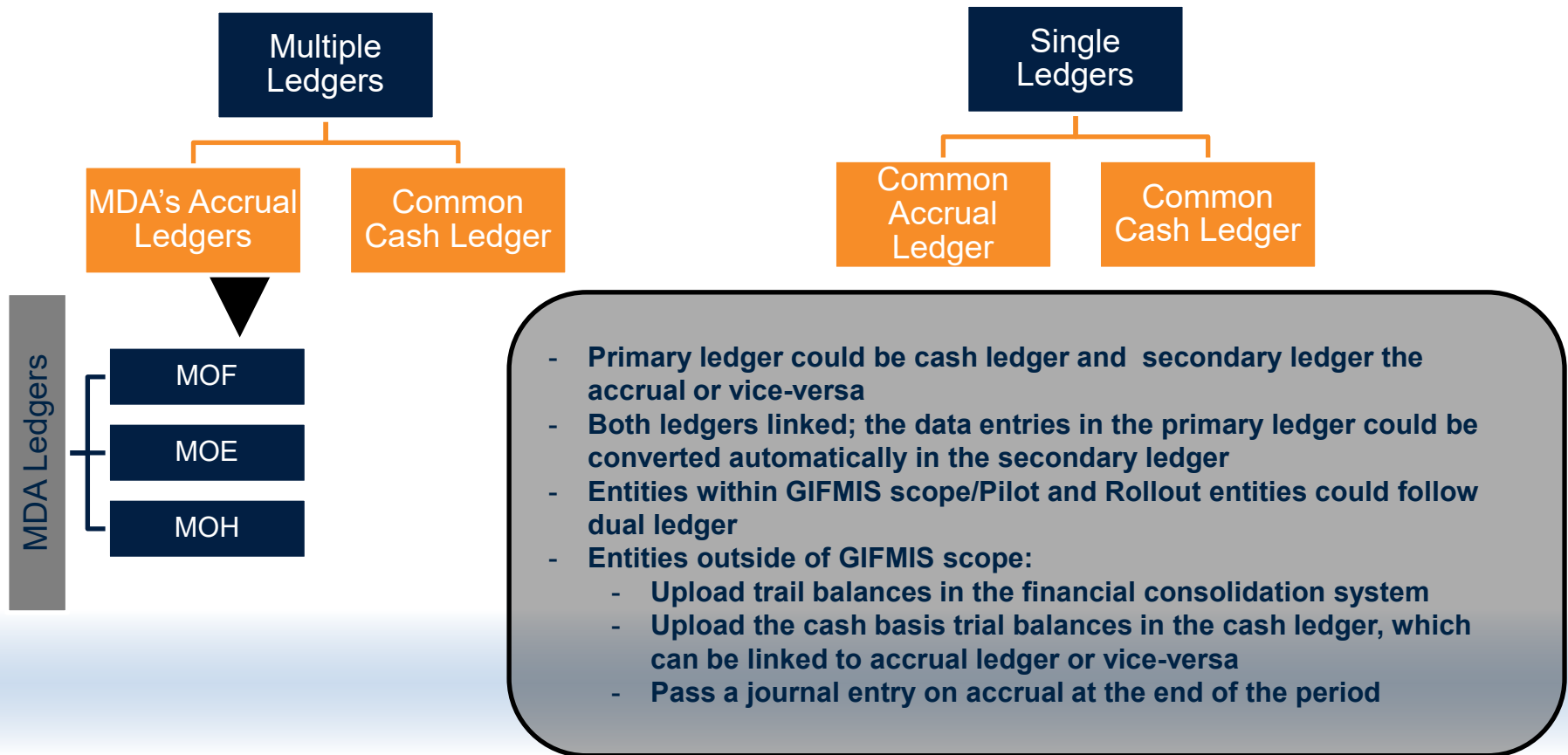
Internal consistency of chart of accounts can minimize reconciliation issues

Source of Statistical reporting is accounting data



- IPSAS does not prescribe any classification but requires disclosures.
- GFS Manual prescribes classification, but only for two segments: function and economic
- GFS economic classification can be tailored to ensure capturing information on codes necessary for IPSAS disclosures

GFS and IPSAS are accrual-based; Technology can ease the transition to accrual - Dual Ledgers Approach



GFS Report on Government Operations has multiple sources of data

- Multiple source systems
- Consolidation of General Gov
- Unified CoA critical

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	<u>X</u>	<u>X</u>
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	<u>(X)</u>	<u>(X)</u>
Share of surplus of associates *	<u>X</u>	<u>X</u>
Surplus/(deficit) for the period	<u><u>X</u></u>	<u><u>X</u></u>
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	X	X
	<u>X</u>	<u>X</u>

What are the GovTech Options for Consolidation



Spreadsheets

- ✓ No audit trail
- ✓ Difficult to maintain
- ✓ Error prone

Data Warehouse

- ✓ Dependence on IT experts – accounting consolidation teams don't own it generally
- ✓ Highly customizable, deviation from good practices
- ✓ Difficult for auditors to audit

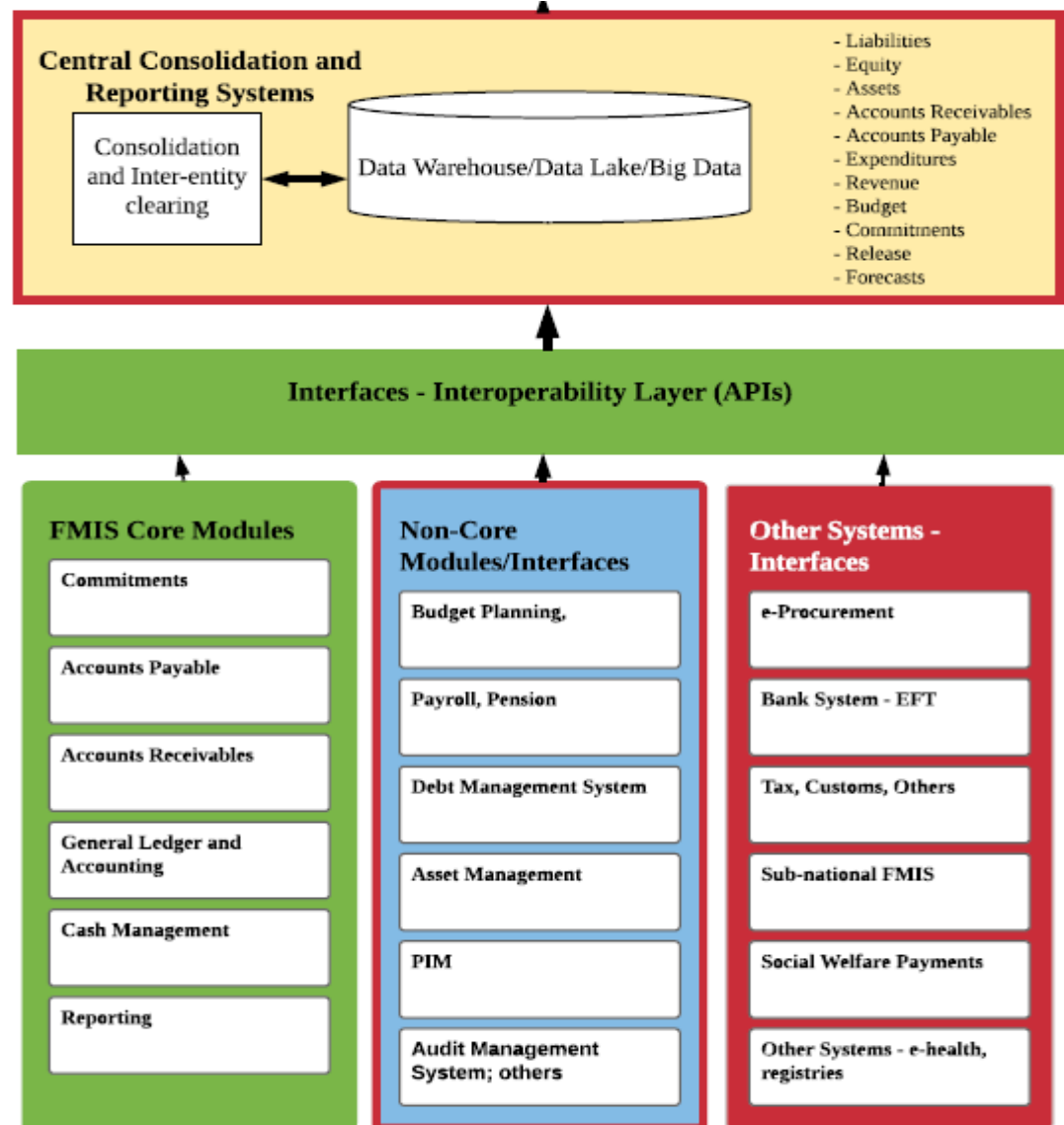
Financial Consolidation Tools

- ✓ Owned by accounting consolidation staff typically
- ✓ Standard controls and consolidation procedures like year-end closing, clearing, etc
- ✓ Faster implementation and easier maintenance

81 percent of the large corporations use financial consolidation tools

Implement a Consolidation and Reporting System to Produce Fiscal and Financial Reports

1. Major ERP vendors have a separate consolidation system: SAP BPC, Oracle Hyperion, PeopleSoft GL for consolidation
2. These systems take the load off the underlying IFMIS and protect its performance
3. Also have special purpose functionalities like inter-entity clearing
4. Trail Balance from underlying source systems could simplify the consolidation
5. Standardized Chart of Accounts at higher level critical for consolidation

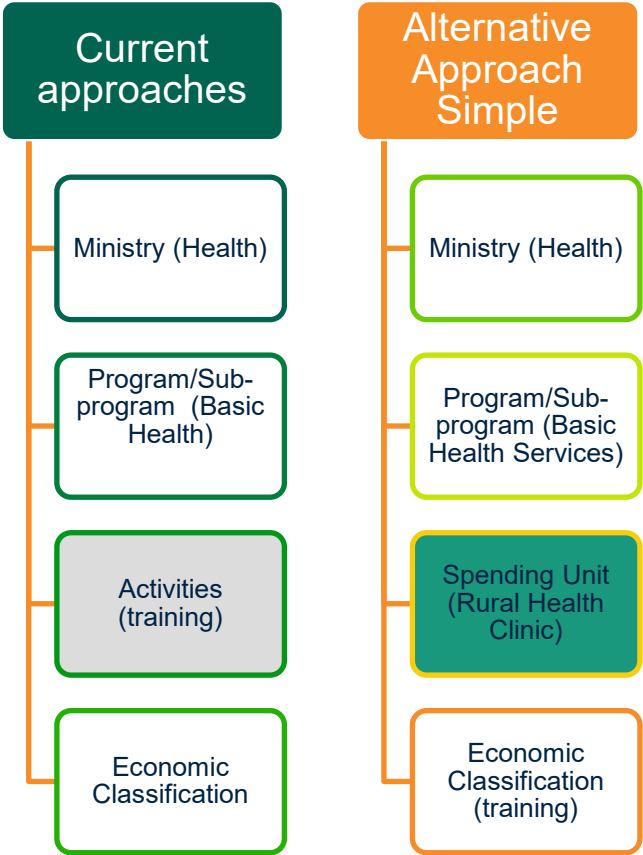


HOW CAN YOU ACHIEVE UNIFORMITY OF FISCAL AND FINANCIAL REPORTING

1. A centralized consolidation and analytics unit work closely with the budget and accounting staff for consolidation and analytical reporting
2. Centralized Entity to prescribe the UCOA has the legal mandate; COA is internally consistent
3. IT Systems to ensure compliance – Master Data Management, and Compliance Services (USA Model)
4. Standardized Specs for IFMIS prescribed by the central entity with QA for all the systems to ensure compliance – Portugal Planning to adopt this
5. Uniform IFMIS which everyone uses – Russia and France Model

Discussion

Program and Activities – another example of common problems



GFS requires interest details while IPSAS disclosures on financing cost

Expenses (account numbers 50000 - 54999)

53100 Interest Expense

53101 Interest – To nonresidents

53102 Interest– To residents other than public sector

53103 Interest - To other general government units

53103.1 To other budgetary central government units

53103.2 To extra budgetary central government units

53103.3 To social security funds

53103.4 To state governments

53103.5 To local authorities

53104 Interest– To public corporations

53104.1 To financial public corporations

53104.2 To nonfinancial public corporations