

State-owned enterprises (SOEs) Accounting and Reporting

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Vienna, December 4, 2024



Public Sector Accounting and Reporting Program

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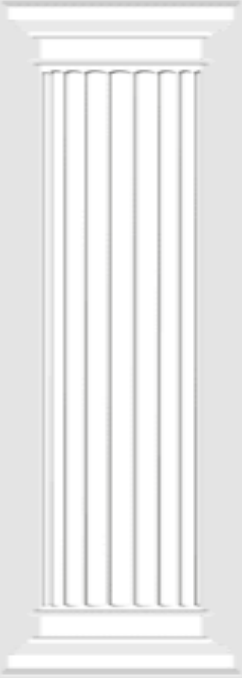
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Session Overview



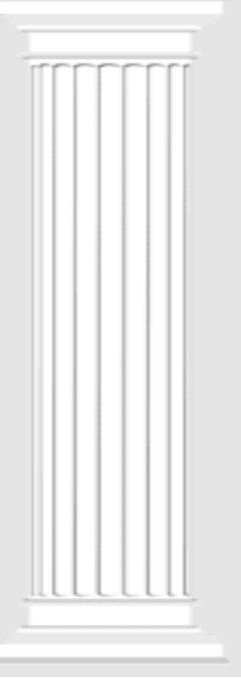
Introduction & Overview

- 
- Why interest in SOEs?
 - What are SOEs?
 - Select issues

SOE reporting and aggregate report

- 
- Reporting by SOEs
 - Aggregate portfolio report

SOE accounting and consolidation: Austria experience

- 
- Accounting of SOEs in Austria
 - Accounting of governments for SOEs



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Introduction to SOEs & Overview

State-owned enterprises (SOEs): Introduction & Overview

Immanuel Steinhilper, Senior Governance Specialist, Institutions Global Department (World Bank Group)


Vienna, December 4, 2024



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WHY? SOEs play a critical role for global challenges



Economy



- Over 100k SOEs worldwide (incl. thousands in ECA)
- **25% of world's largest companies** (126 of 500)
- **Significant share in world GDP** (SOE assets >50%, revenues > 10%)

Services & Jobs



Public Services

- Water
- Electricity
- Public transport
- Extractive industries
- Banks

Jobs

- 5% of total employment
- Higher share in public sector employment

Climate Change



- SOE present in **high-emitting sectors** (power, transport)
- Annually at least **7.49 gigatons carbon dioxide** equivalent direct emissions by SOEs
- **More emissions than any country** except China

WHY? SOEs contribute to the World Bank Group development mission



End extreme poverty and boost shared prosperity on a livable planet

SOE development outcomes: Improved SOE financial performance, service delivery, climate and functioning markets

↑
Assess the SOE Landscape & Data



↑
Strengthen SOE governance (incl. accounting and reporting)



↑
Manage SOE-related fiscal risk and improve SOE financial performance



↑
Ensure competitive neutrality and level playing field with private sector



↑
Enhance SOE climate reporting and sustainability



↑
Reform and restructuring of individual SOEs

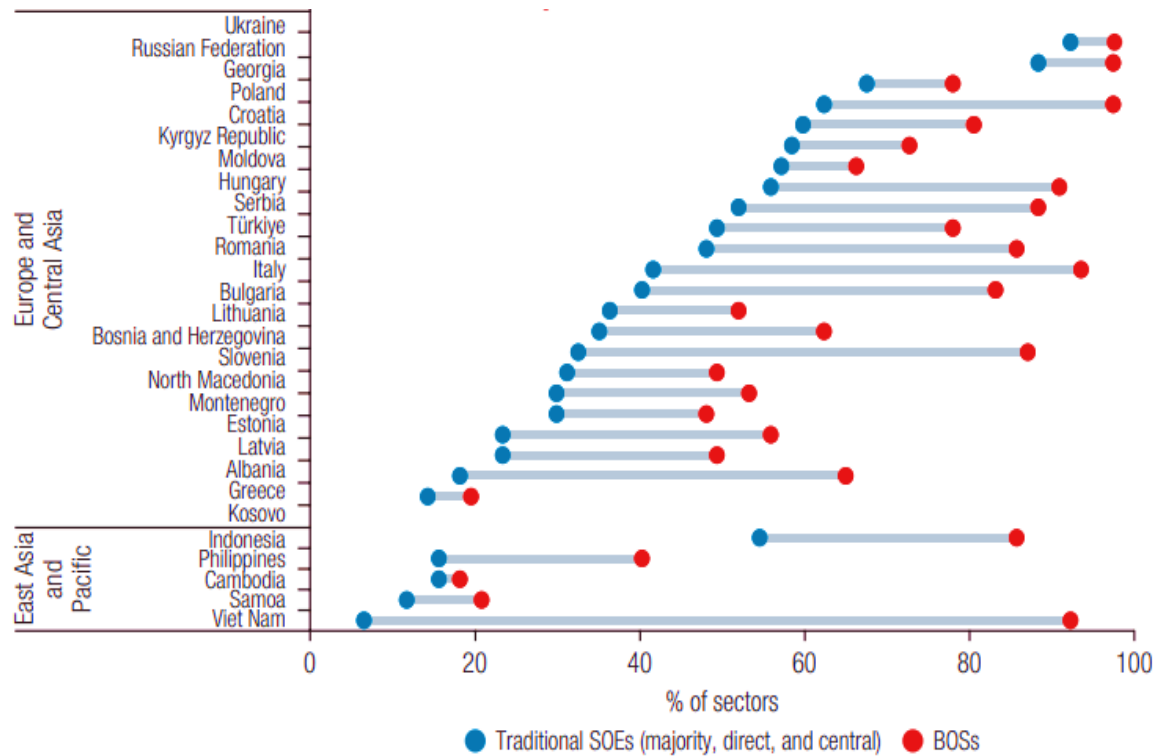


World Bank Group integrated approach to SOE reform
Integrated SOE Framework (iSOEF)

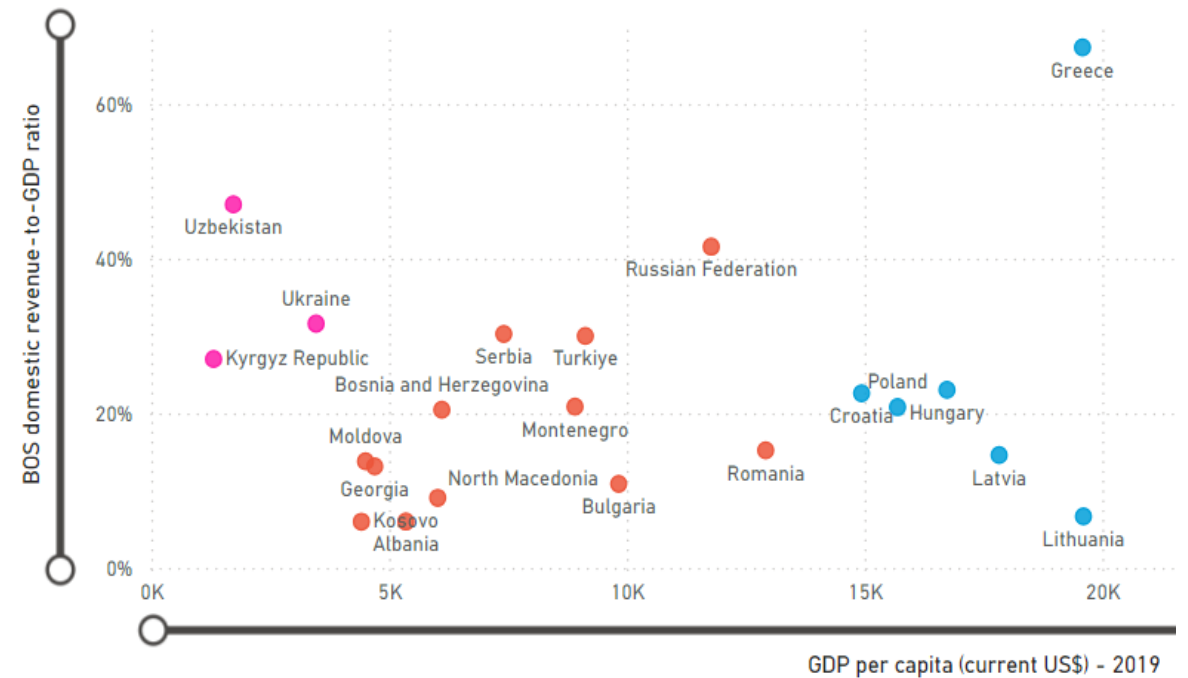
WHY? ECA is the region with the heaviest SOE presence



Percentage of sectors with SOEs and state minority participation > 10% (BOS) in selected countries, by region



SOE and minority participation revenue to GDP ratio by country



WHY? SOEs represent a high stake for accounting and reporting



At SOE-level

- Need for comprehensive and accurate records
- Ability to track performance
- Comparability over time and across entities

At level of the State (portfolio)

- Provide a full and accurate picture of public sector net assets, debt, and performance (aggregation/consolidation)
- Manage fiscal risk

WHAT? What exactly are state-owned enterprises (SOEs)?



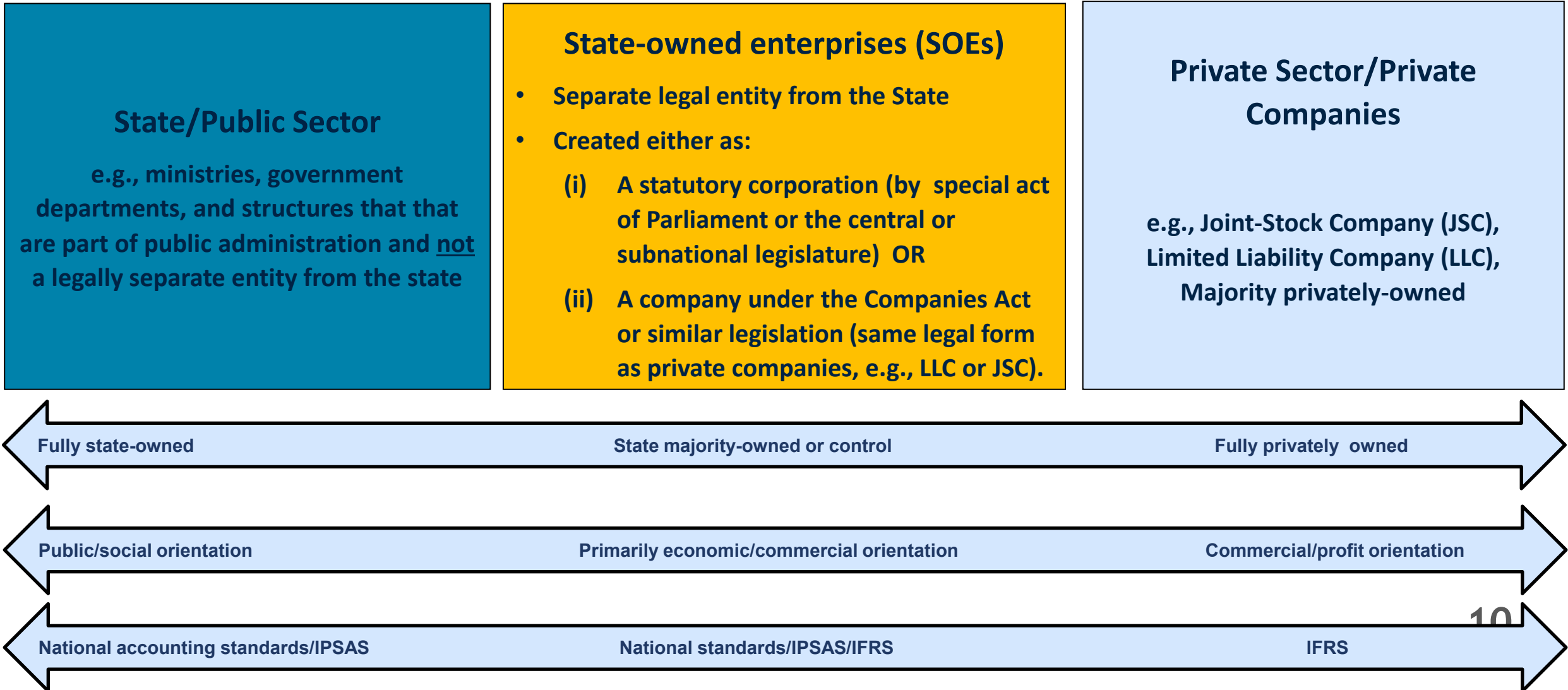
OECD/WBG iSOEF definition

- *“Any undertaking recognized by national law as an enterprise, and in which the state exercises ownership control”*

Typical features

- Separate legal entity from the State
- Primarily economic/commercial activity
- Majority State ownership (>50%) or significant minority stake with control

WHAT? Conceptually, SOEs are between the public and private sector



WHAT? SOEs should follow similar standards as private companies



State/Public Sector
e.g., ministries, government departments, and structures that are part of public administration and not a legally separate entity from the state

- State-owned enterprises (SOEs)**
- Legal form harmonized with private sector, i.e., created under company legislation (as JSC or LLC)
 - Similar corporate governance requirements
 - Professional boards (autonomy, independence, diversity)
 - Same competition rules/regulation as private sector
 - No preferential treatment (tax rules, access to finance/debt, inputs, and infrastructure)
 - Rate of return for economic activities similar to private companies, separation of public service obligations (PSOs)
 - Procurement similar to private companies

- High transparency and disclosure standards (with listed companies as overall reference)
- Internal audit and independent external audit
- IFRS or equivalent
- ESG and climate reporting

- Private Sector/Private Companies**
- Limited Liability Company (LLC)
 - Joint-Stock Company (JSC)
 - Internal and external audit
 - IFRS
 - ESG/climate reporting
 - Standards for listed companies

However, in reality, the public-private universe is much more complex



- **Absence of a clear definition, inventory, and data of SOEs in many countries.**
- **Many “intermediate/hybrid” forms of entities between the public and private sector:**
 - Autonomous public agencies (various degrees of commercial vs. social mandates)
 - Public establishments (EPIC/EPA in francophone systems)
 - Port or airport authorities
 - Independent regulators
 - Postal services in some countries (e.g., USPS not considered an SOE)
 - Cultural institutions (e.g., museums, theaters)
 - Educational and health services (e.g., universities, research institutions, public hospitals)
 - Sovereign wealth funds, pension funds, or social security
 - Public-private partnerships (PPPs)
- **Legal form and economic activity of an entity are not always aligned (and can vary across countries).**

... with large variations even among SOEs

- **Variety of legal forms:**

- Some SOEs established under private sector law: Joint-stock companies, limited liability companies...
- ... but many others are statutory corporations (created through their own specific legislation).
- Commercial public establishments (EPIC in francophone systems) or similar national legal forms.
- Partnerships
- Foundations
- Savings institutions
- Funds

- **Mix of commercial and non-commercial functions in many entities without proper specification of public policy objectives (PPOs) and public service obligations (PSOs).**

- **Wide range of size:** From very small (or sometimes inoperational) entities to Fortune 500 companies.

- **Different accounting and reporting standards:** IFRS, IPSAS, GAAP, national standards. No preparation of audited financial statements to full disclosure of quarterly financial reports (for listed companies).

Select reforms to consider



Priorities

Possible actions

1

SOE & Public Sector Universe

- Create inventory of SOEs and the broader universe of public sector entities that are independent or legally separate from the state.
- Publish and regularly update an official list of SOEs.

2

SOE Definition

- Clearly define SOEs and other public sector entities in the country.

3

SOE Strategy & Ownership Policy

- Clearly articulate the strategic/economic/social rationale of SOEs.
- Develop an SOE ownership policy.
- Review the existing portfolio accordingly.

4

SOE Legal and regulatory framework (including for accounting and reporting)

- Develop or update SOE law (with strong requirements on transparency and disclosure, including on sustainability/climate reporting).
- Develop or update SOE corporate governance code or guidance.
- Progressively harmonize SOE legal framework with private sector:
 - Bring commercial SOEs under company legislation (JSCs).
 - If necessary: standardize legal form of non-commercial SOEs.
 - Adopt IFRS in SOEs.
 - Require sustainability/climate reporting of SOEs.



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SOE financial and aggregate reporting

Financial and aggregate reporting of State-owned enterprises (SOE)

Andrei Busuioc, Senior Financial Management Specialist, Institutions ECA Region (World Bank Group)


Vienna, December 4, 2024



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The main purpose – providing a fuller and more accurate picture of the public sector net assets, debt and its performance



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- There is increasing demand for governments to monitor the performance of state-owned enterprises (SOEs) more closely and to improve public reporting on SOEs
- The preparation of annual aggregate reports has emerged as a leading practice for governments to account for the use of public money in the SOE sector, manage fiscal risk, and effectively exercise their role as owner – accountability of the ownership function of the state to Parliament and citizens
- SOEs are increasingly being integrated into public sector financial statements
- SOE aggregate reporting and public sector consolidated financial statements serve distinct purposes, but the two can complement each other to improve public reporting on SOEs

Key topics



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- Financial reporting requirements for SOEs
- Aggregate reporting

Financial reporting standards applicable to SOEs



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- **SOE** - enterprise, the state exercises ownership or control, their purpose and activities are of economic nature (offering goods or services in a given market).
- General purpose financial statements - intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs (IASB)
- Therefore: Financial reporting standards designed for entities with economic activities
- For external users - shareholders, lenders, regulators, and investors

Economic substance and business models are critical in determining applicable financial reporting frameworks

Good practices in Financial reporting and auditing standards for SOEs



Topic	International standard	Standard-setter
Financial reporting	International Financial Reporting Standards (IFRS) and IFRS for Small and Medium-sized Enterprises (SMEs)	International Accounting Standards Board
Internal audit	International Standards for the Professional Practice of Internal Auditing	Institute of Internal Auditors
Internal control and risk management	COSO Internal Control-Integrated Framework	Committee of Sponsoring Organizations of the Treadway Commission
External audit	International Standards on Auditing (ISA) ----- International Standards for Supreme Audit Institutions (INTOSAI)	International Auditing and Assurance Standards Board ----- International Organization of Supreme Audit Institutions
Corporate governance	Principles of Corporate Governance SOE Corporate Governance Guidelines	OECD

Source: World Bank, 2014, op. cit.

Transparency & Accountability of SOEs



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- SOEs are expected to be “more public than public (listed) companies” - wider public is ultimate owner
- Transparency is not only release of information, but rather the quality, timeliness and reliability of the information being made public. This can be facilitated by accurate and timely reporting, either at entity level (individual SOEs) or for the country’s SOEs as a whole (aggregate annual reporting on all SOEs)
- Accountability -internal and external:
 - Internal accountability - strong control environment, compliance of internal controls over financial reporting and effective internal audit overseen by effective audit committees;
 - External Accountability - effective and independent external audit practices, audit by SAIs and follow-up of audit findings, effective role of regulators and Parliament’s public accounts committees

Quality of financial reporting information by SOEs



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- The quality of an entity's financial reporting is measured across different dimensions, including completeness, accuracy, timeliness, and relevance
- As evidenced by in-country work by World Bank teams, SOEs have difficulties with producing IFRS-based financial reports
- SOE reports are often incomplete, lacking key statements or notes that would normally be an integral part of the financial reporting package; or they may be inaccurate in the treatment of technical or sensitive areas; or they may be so delayed that they lose their timeliness and relevance

Financial reporting standards



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IFRS – for economically significant SOEs

- Complex set of standards
- Recognition and measurement requires significant cost and effort (fair value)
- Demanding disclosure requirements

IFRS for SMEs or NAS

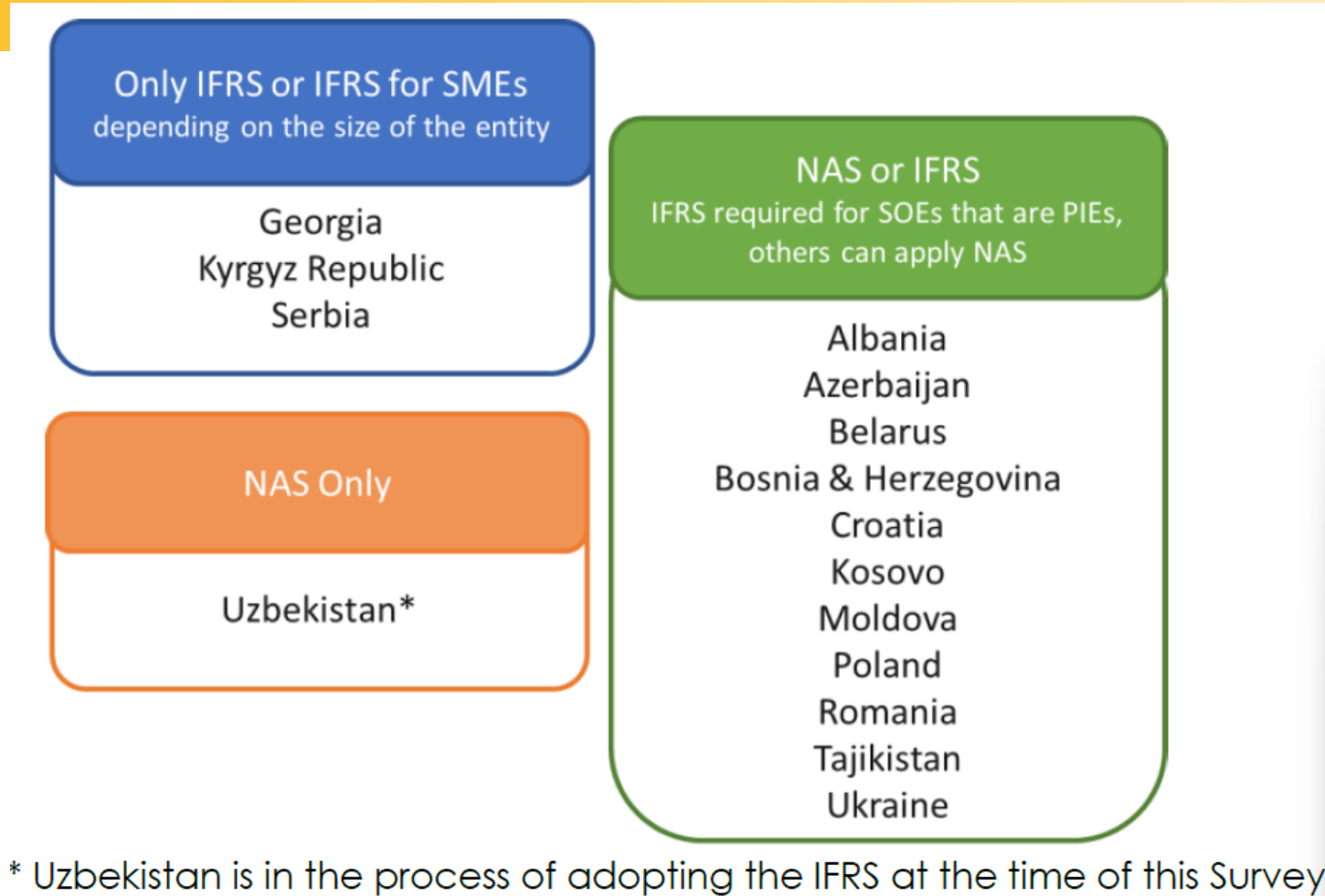
- For smaller SOEs
- Less demanding in recognition and measurement (concept of undue cost and effort), often historic cost is allowed
- Less demanding disclosures
- NAS or other reporting frameworks (i.e. compliant with EU accounting directive) – policy choice in some countries for non-PIEs – usually less demanding

Consolidated financial statements! – for SOEs with subsidiaries/groups

Applicable of Financial Reporting Standards in selected countries in the region



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Source. *Corporate Governance of SOEs in ECA, survey, WB 2020*

Appropriate accountability mechanisms - Auditing & Controls



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Standards

- International Standards of Auditing
- Independent auditors
- Supreme Audit Institutions – avoid duplication of financial audits; define the scope

Controls and accountability mechanisms

- Audit committee – proper scrutinizing internal and external audits & demand follow up actions
- Internal audit
- System of internal controls
- Systems for auditors' appointment – avoid significant decision-making role by management
- Corporate governance statement – “comply or explain” principle for CG code

Public availability of full sets of audited financial statements and annual reports 25

Aggregate reports

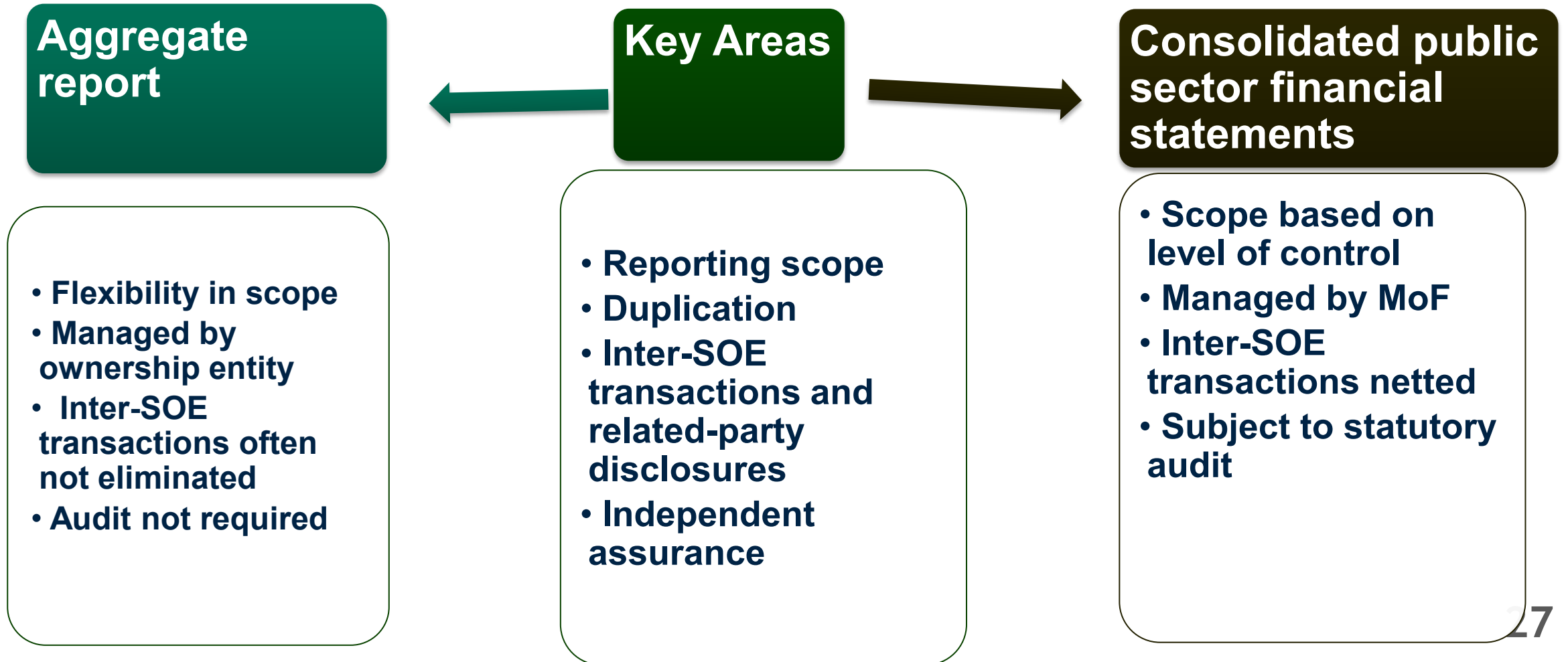
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- The objective of aggregate reports - improve transparency and accountability in government reporting on the composition and performance of the SOE portfolio
- Aggregate reports - an account on the economic performance and financial situation of SOEs and the use of public money in the sector
- The term “SOE aggregate report” is distinct in meaning from aggregation of financial statements
- SOE aggregate reports are often publicly disclosed
- International governance frameworks also call for governments to report on the main fiscal flows from the national budget to SOEs, particularly with respect to public service obligations
- SOE aggregate reports are increasingly seen as an accessible means for any government to account for the way they exercise their ownership role and to manage the fiscal risks associated with SOEs

Key Issues: Aggregate Reporting and Public Sector CFS



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Aggregate SOE Reporting in selected countries



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- Croatia
- Kosovo
- Moldova
- Romania
- Ukraine (top 100 SOEs only)

Yes



- Albania
- Azerbaijan
- Belarus
- Bosnia & Herzegovina
- Georgia
- Kyrgyz Republic
- Poland
- Serbia
- Tajikistan
- Uzbekistan

No





Benefits

- Relatively accessible in low-capacity environments; draws on existing data
- Enhances transparency on individual SOE performance and the overall portfolio (one-stop shop for SOEs)
- Facilitates management of fiscal risks
- Encourages consideration of non-financial indicators (e.g., environmental, social or sustainability metrics)
- Promotes governments taking an active ownership role



Potential Limitations

- Challenging to implement when ownership functions are fragmented
- Related party transactions with other SOEs - may not be reflected appropriately
- May require investment in staff training or information systems for efficiency

Content of aggregate reports – good practice (1)



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Reporting on material issues, including information related to sustainability, governance aspects, as well as on the achievement of public policy objectives. The information should give a full, clear and reliable picture of the SOE portfolio and be of high quality, comparable, concise and accessible publicly, including through digital communications.

- covers all economically significant SOEs and make it a key disclosure tool directed to the general public, the legislature and the media
- annual narrative report with information regarding the performance of the SOE portfolio
- overall accountability framework of an ownership entity - a mechanism to report back to the legislature or other representative bodies

Content of aggregate reports – good practice (2)

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Full picture of the SOE portfolio's size and sectoral distribution when appropriate and the portfolio's and individual SOEs' performance for the reporting period

- “forward looking” elements that support value creation
- financial performance and the value of individual SOEs, performance related to key relevant non-financial indicators
- indication of the total value of the state's portfolio, general statement on the state's ownership policy and how the state has implemented it
- organisation of the ownership function, nomination and appointment, composition, qualifications and remuneration of state-owned governing bodies, overview of the evolution of SOEs, aggregate financial information and reporting on changes in SOEs' boards
- key financial indicators: turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratio and dividends, share of employment and other information bearing on environmental, social and governance practices
- individual reporting on the most significant SOEs
- the applied reporting standards applicable to individual SOEs and by the ownership entity when presenting aggregate information by the portfolio

Key conclusions



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- Financial reporting of individual SOEs and groups of SOEs (consolidated) – critical source of information
- Information should be credible and available – audits and public availability
- Aggregate reporting – tool for aggregate data and sound accountability mechanism
- Financial statements of SOEs (and groups), and aggregate reporting should be a good source of information for consolidation into Public Sector financial reporting

Reform options for sound quality of financial information by SOEs



- Sound financial reporting standards
- Audit requirements
- Public availability requirements
- Sound governance arrangements for financial reporting and auditing, including audit committees and sound internal controls and audit
- Aggregate reporting requirements



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Accounting for SOEs: Austrian experience

Accounting for SOEs an Austrian experience

Bernhard Schatz, Senior Manager (PwC Austria)

4th of December 2024



CFRR >>
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Agenda



- ✓ Accounting of SOEs in Austria
- ✓ Accounting of Governments for SOEs
- ✓ Preconditions for consolidation
- ✓ Challenges and specifics of the current system
- ✓ Conclusions and Recommendations

SOE structure in Austria

Accounting frameworks and reports

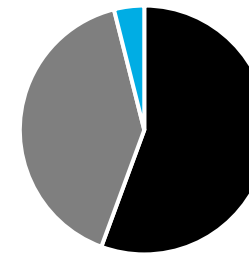


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	Geschäftsergebnisse der Beteiligungen - 2022				BVA-E 2024	
	Umsatzerlöse	Bilanzsumme	Personalstand	Personalaufwand	Auszahlungen	Einzahlungen
	in Mio. €	in Mio. €	in VZÄ	in Mio. €	in Mio. €	in Mio. €
Summe Top-16-Einheiten	29.368,4	88.242,0	107.495	8.353,2	16.987,0	2.227,3
AMS	911,3	617,7	5.945	425,1	995,6	0,0
ASFINAG	2.530,1	18.841,4	2.915	234,4	3,0	255,4
aws	113,4	549,6	308	26,1	2.591,6	1,0
Austro Control	302,9	532,0	1.073	179,2	6,1	
Bundesmuseen	230,4	390,8	1.868	113,7	157,8	5,0
BRZ	450,0	316,3	1.576	166,2	0,1	1,1
Bundestheater-Konzern	245,2	220,8	2.415	193,7	197,2	2,5
AGES	198,3	162,8	1.517	123,2	105,1	14,7
ÖAW	209,2	200,3	1.517	116,0	169,2	
ÖBAG	1,1	3.528,2	21	4,4	0,2	690,0
ÖBB-Konzern	6.889,8	37.968,0	42.941	2.946,6	6.044,9	416,7
ÖBF	304,1	433,6	977	77,2	1,1	18,5
FFG	272,4	555,5	352	34,7	1.693,1	
SCHIG	1.347,4	612,2	107	9,5	16,0	
Universitäten (gesamt)	5.016,6	4.156,2	40.448	3.274,6	5.006,0	390,0
Verbund AG	10.346,1	19.156,6	3.516	428,4		432,3
OeNB	194,1	261.125,3	1.208	183,7	6,0	0,2
Restliche Einheiten	1.761,2	8.304,1	11.111	842,9	1.361,7	54,9
Summe	31.323,7	357.671,4	119.814	9.379,7	18.354,7	2.282,4

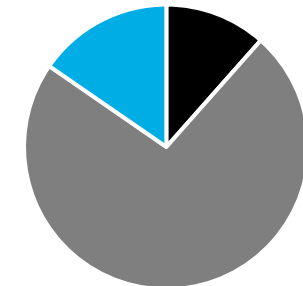
The federal government in Austria owns majority shares in more than 100 companies from a variety of sectors:

Accounting frameworks used by balance sheet total



■ IFRS ■ UGB ■ Customized

Accounting Frameworks by number of entities



■ IFRS ■ UGB ■ Customized

On regional and local government level several hundred entities are owned and controlled by government.

Accounting of the Government for SOEs



- § 92 of the Federal Budget Law (BHG 2013) states:
“Subsidiaries are to be measured at cost, at the acquisition date. Subsequent measurement is to be measured with the share in net assets of the entity. If the value exceeds acquisition cost, the surplus should be accounted for in a “valuation reserve” without going through surplus/deficit.

3.2.1.4 Beteiligungen

Tabelle 3.2–5: Langfristiges Vermögen – Beteiligungen

AKTIVA		Stand 31.12.2022	Stand 31.12.2023	Veränderung gegenüber 31.12.2022	
Position	Bezeichnung	in Mio. EUR		in %	
A.IV	Beteiligungen	33.468,66	32.944,80	-523,86	-1,6
A.IV.01	an verbundenen Unternehmen	27.041,30	26.862,66	-178,64	-0,7
A.IV.02	an assoziierten Unternehmen	546,44	229,22	-317,22	-58,1
A.IV.03	Sonstige Beteiligungen	5.838,58	5.803,70	-34,88	-0,6
A.IV.04	Gegebene Anzahlungen für Beteiligungen	42,34	49,22	+6,88	+16,2

Quelle: HIS

- The federal government also implemented a Subsidiary- and Finance Controlling:
 § 67 Federal Budget Law (BHG 2013) establishes:
 In addition to existing reporting requirements:
 1. entities, directly or indirectly controlled by the Federal government and
 2. Are subject to oversight by the federal government- excluding social security agencies – have to report under a “subsidiary controlling”

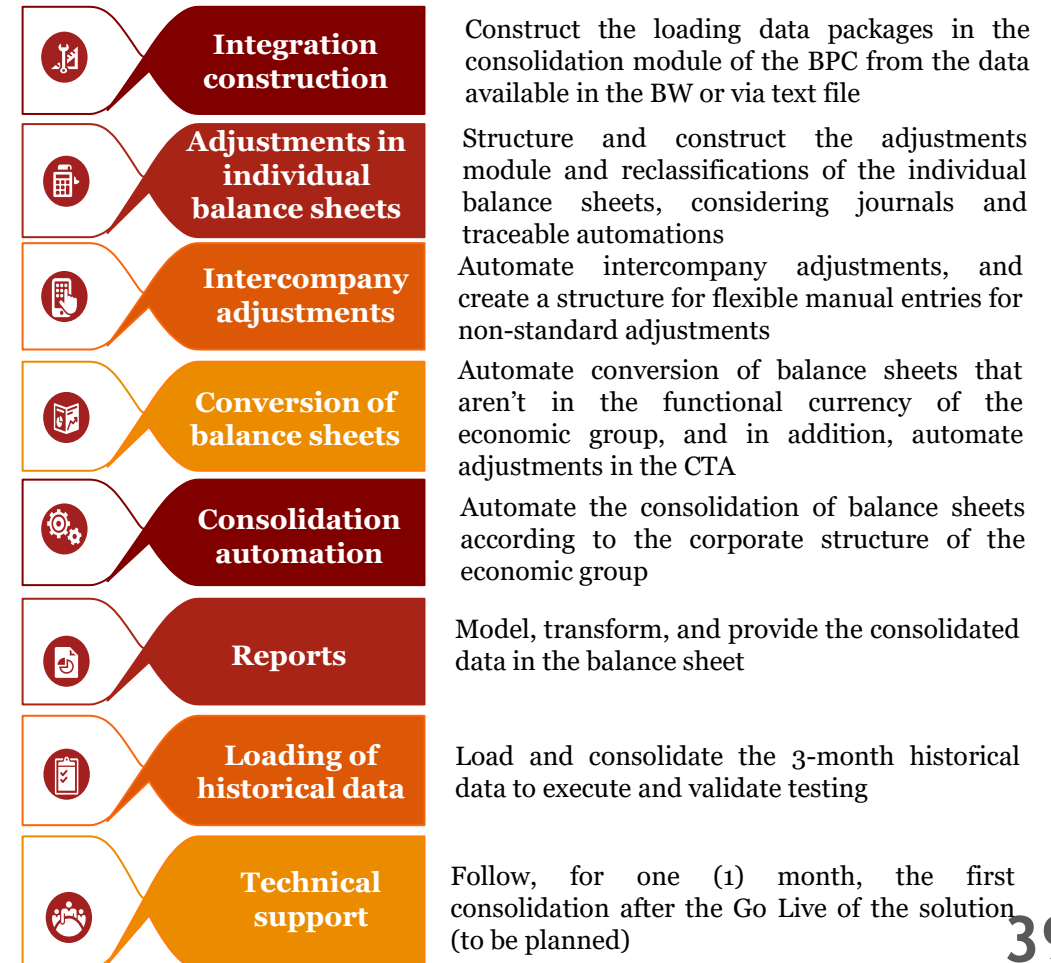
The **quarterly reports** include:

- Elements of balance sheet items, elements of the profit and loss statement, KPIs on refinancing/rentability, employees and company specific KPIs
- Risks and Risk management, Internal Controls

Preconditions for consolidation

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- **Identify scope of consolidation** (e.g. determine control in the public sector can be challenging)
- **Align accounting policies** (e.g. useful life of assets, capitalisation thresholds, measurement methodologies for assets and liabilities)
- Harmonise **data environment** (e.g. harmonise chart of accounts, limit IT systems involved, digital availability of accounting information)
- **Eliminate intergroup transactions** (e.g. services or goods delivered within the group, financial transactions as loans, etc.)
- Deal with **minority interests** (special challenge if multiple players hold minority interests in the same group).
- There are **more tools and knowledge available** in terms of consolidation than ever before!



Challenges and specifics of the current system



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● Challenges

Different accounting framework and accounting **policy** choices blur the picture and do not give a reliable overall **“true and fair view”** on a **government level**

The **multitude** of different **players** creates a strong **principal - agent** setting where depending on capacity and completeness of information inefficiencies can occur.

Organisations set up by private law and using private sector accounting are a **strong shield** against **undue political intervention** but this balance can tip once they do not **fulfil** their **public sector purpose**.

The **single line item “at equity consolidation”** does not reveal relevant information on the reasons for the increase/decrease in equity.

● Specifics

Valuation of assets under local gaap - if assets are donated or transferred by law they are recognised at **“0”** value due to the acquisition cost and the **“lowest value principle”**.

Lack of consolidation in governments creates **“artificial”** transactions and accounting.

Focus on **economic benefit** in IFRS and local gaap **triggers impairments** unless economic viability is demonstrated (usually by transfers of the owner/government).

Maximising profit even in **“public services”** leads to either an underutilisation of services or a higher cost structure in the public sector.

Conclusions and Recommendations

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- An SOE is not an SOE = a loose definition of SOEs will lead to **organisations with “mixed mandates” (public service obligations in addition to commercial mandates)** which will not only cause issues in accounting and reporting but subsequently governance and oversight. **For-profit or non-profit** should be documented and implemented on a **segment / product level and government contributions** should match those.
- In addition to **IFRS** as international **best practice, use of IPSAS** as a primary or secondary reference framework can help mitigate grey areas and challenges. IPSAS developed respective **standards** for many of those grey areas: **service concessions, transfers, revenue, natural resources, public sector measurement**, etc.
- SOEs should be an **integrated** (and integral) **part of a PFM** system, if mandate, reporting and oversight of those entities does not reflect the full picture (sometimes SOE are implemented to be more agile in terms of budgeting and sourcing) there is a threat that SOEs land “outside” of PFM. **SOEs impacts on the budget should be transparent while at the same time not undermine the autonomy** of the SOE. IFMIS systems should record transfers to SOEs and similar transactions, with SOEs operating their own financial management and accounting systems.


Thank you!



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