

Accounting consolidation of SOEs & government: Practical aspects and tradeoffs

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Public Sector Accounting and Reporting Program

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General Considerations



Scope



- What entities to include?
- Full consolidation or equity method?

Balance



- SOE accountability
vs.
- SOE independence

Implementation



- Convert SOE data into standardized chart of account, IPSAS
- Processes and digital systems
- Evaluation and improvement

Scope of SOE consolidation



Define the universe	Decide on inclusion	
<ul style="list-style-type: none"> Independent public agencies, non-commercial entities 	✓	Yes (similar to budget entities)
<ul style="list-style-type: none"> SOEs with mixed mandates (social and commercial) 	✓	Yes (see below for commercial)
<ul style="list-style-type: none"> Commercial SOEs (fully or majority-owned, “controlled” by state) 	✓	In principle yes (but avoid undermining SOE independence and level playing field)
<ul style="list-style-type: none"> Big SOEs/public entities 	✓	Yes (to be included as a priority)
<ul style="list-style-type: none"> Small SOEs/public entities 	(✓)	Yes (but may need to phase in over time, simplify)
<ul style="list-style-type: none"> Subsidiaries 	(✓)	Yes (but should normally be covered by parent)
<ul style="list-style-type: none"> Minority stakes, PPPs, SPVs, SWF 	?	Decide on a case-by-case basis (materiality, risk)

Potential Tensions & Tradeoffs



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● Compliance vs. competitiveness

- IPSASB: comprehensive consolidation (SOE accountability, public interest)
- OECD SOE Guidelines: SOE operational independence (emulating private sector, IFRS)
- ***Don't gain compliance but lose competitiveness:*** pursue consolidation without overburdening commercial SOEs in competitive sectors (level playing field)

● Comprehensive consolidation vs. getting started

- Some countries have thousands of public entities/SOEs
- As of today, only a few countries consolidate SOEs into government accounts (e.g., Australia, Canada, New Zealand, Sweden, United Kingdom)
- ***Don't do nothing while aiming for perfection:*** take a step-by-step approach and expand and improve over time (SOE aggregate report as initial step)

10 Practical Considerations



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- 1 Define the universe of entities to consolidate
- 2 Harmonize/convert SOE data into IPSAS (but avoid full duplication of accounting IFRS/IPSAS)
- 3 Start with largest entities and expand over time
- 4 Standardize and simplify processes to manage cost (tailored to size of SOE)
- 5 Develop digital systems (but do not hardwire commercial SOEs to IFMIS systems)
- 6 Compare commercial vs. open-source and “off the shelf” vs. bespoke systems
- 7 Share the burden (between state and SOEs)
- 8 Consult and train SOEs, Ministries of Finance, accountants & learn from peers, PULSAR
- 9 Test the results (e.g., initially prepare accounts without requiring formal assurance)
- 10 Evaluate, adjust and improve over time

Thank you!

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