



12TH JOINT EDUCOP AND FINCOP WORKSHOP

Consolidating Public Sector Financial Statements: Including Local Governments and SOEs

11 -13 November 2025



Public Sector Accounting and Reporting Program

PULSAR is an initiative of:

PULSAR is co-funded by:

 Federal Ministry
Republic of Austria
Finance





**EduCoP Session 1: Integrating aggregation
and ultimate consolidation topics into
academic curricula and professional training
programs**



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Relevance and usefulness of general-purpose Consolidated Financial Reporting (CFR)

Agenda:

- Introduction and main question
- Challenges and success factors for preparing consolidated accounts
- Normative learning objectives
- Proposed learning objectives
- Concluding thoughts

Relevance and usefulness of general-purpose Consolidated Financial Reporting (CFR)

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- Consensus in the academic literature about CFR's role, relevance, use and users (Chow et al., 2015) but at Local Government level conflicting evidence from literature and practice
- Controlled entities (SOEs) are variably included in CFRs.
- Several issues to consider from both a theoretical and technical perspective
- CFR to go beyond a mere compliance exercise to promoting good governance, transparency, informed decision-making
- Is CFR relevant as a GPFR or as SPFR?

Challenges and success factors for preparing consolidated accounts

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- Process of externalization of public services not fully included in individual financial statements poses questions about transparency and accountability
- CFR provides a conceptual solution to this lack of information
- Framework of accountability and decision-making usefulness
- Important drivers identified in experiences:
 - Clarify control across government levels (CG – LA)
 - Parliament's involvement in the process in connection with the desire for greater transparency and accountability in the provision of public services, highlighting the importance of both the Executive and Parliament in accountability to citizens
 - Accrual accounting (and budgeting) paved the way for publication of WGA
 - Key support of entities **with training** (also at University level), technical support & publication of guidance materials

Learning Objectives from IPSASB training slides

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- IPSAS 34, Separate Financial Statements
- IPSAS 35, Consolidated Financial Statements
- IPSAS 36, Investments in Associates and Joint Ventures
- IPSAS 37, Joint Arrangements
- IPSAS 38, Disclosure of Interests in Other Entities
- IPSAS 40 Public sector Combinations
 - ❖ You shall be able to:
 - Apply the requirements for the preparation and presentation of consolidated financial statements
 - Understand the definition of “control”
 - Carry out consolidation procedures

Ideal Training programme: Proposed learning objectives

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- Uses and benefits of CFR
- Scope of Consolidation – Key Issues
- Particular issues for Local Government (LG) as Reporting Entity
- Complex cases for CFR
- Relation to statistical reporting
- Using relevant learning materials, for example international, regional and national standards
- Including practical numerical examples to work through

Uses and benefits of CFR

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- Enhances transparency and strengthens accountability
- Enables assessments of Government's performance in their stewardship of resources
- Supports fiscal reforms, long-term planning, and coordination (e.g., Estonia, Australia, UK, Sweden)
- Aids internal (managers) and external (politicians) decision-making
- Creates a single reference source detailing total government resources and obligations, allowing governments (and others) to better assess the financial position, enabling medium to longer term comparisons of major accounting aggregates

Scope of Consolidation – Key Issues

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- Scope of consolidation often evolves from practical experience
- Controlled entities (public or private) are variably included in CFRs
- Central government does not “control” some local entities...?
- Materiality and comparability differ due to diverse SOE structures
- Consolidation boundaries vary: legal, organisational, budgetary, and control perspectives
- Global comparability is not the main goal of CFR

Particular issues for Local Government (LG) as Reporting Entity

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LG reporting is complex due to decentralisation, agencification, and corporatisation.

- Debate: Should broader definitions of control (e.g., financial dependence) be used?
- Differential reporting may be needed for smaller or less complex entities
- Varying degrees of financial dependence on central governments must be considered
- CFR must be purpose-driven: why and for whom is the report prepared?
- Must ensure compatibility in accounting practices across entities.

Complex cases for CFR

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- Complex portfolio of 'a' (local government) body
 - Shareholder in a number of corporations which may have:
 - Different legal forms (public or private)
 - Different ownership structures (totally public or mixed public-private), and
 - Responsible for providing different public services, such as pharmacies, schools and nurseries, water, gas, waste, and housing.
 - Contractual relationships with several entities mainly in charge of social services delivery

Complex cases for CFR

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Universities

- Not consolidated into government financial statements when unclear as to which government 'control' the universities or, alternatively, whether universities are independent
- Alternative view: universities should be consolidated with government for financial reporting purposes on accountability grounds as they receive significant sums of public money
- Use of the accountability criterion. For example, Power to control the day-to-day operating policies of universities (even though, universities must have strategic plan according to the educational policy objectives of governments)

Differences between IPSAS and ESA/GFS in terms of boundary of reporting

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- IPSASB's approach: Financial statements and reports on either a compulsory or voluntary basis Vs ESA/GFS requirement in Europe of classification of each government (resident) institutional unit to the GGS for statistical purposes
- Central government a single unit under ESA/GFS whereas may not be separate reporting entities under IPSAS.
- SOEs excluded by IPSAS from scope of reporting, but consolidated when “controlled”
- Residence approach in ESA/GFS;
- GFS: GGS and Public sector
- A government-controlled institutional unit (a public producer) is a resident institutional unit which is directly or indirectly controlled by resident general government units or other public producers.
- The public sector consists of general government and market public corporations

The issue of alignment with statistical reporting

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Experiences:

Australian Accounting Standard Board 1049 Whole of Government and General Government Sector Financial Reporting (AASB 1049)

- Since 2000, Australia has produced a Budget for the (statistical) General Government Sector, presented under the accrual basis of GFS as developed by the Australian statistical office. After the move to standard AASB 1049 on Whole of Government and GGS in 2009 (AASB, 2007), an aligned GFS and GAAP framework has been used. However, since there is no alignment between GFS and financial reporting standards, some see them as providing alternative approaches (rather than complementary).

UK Whole of Government Accounts (WGA)

- In the UK, with the adoption of IFRS, the alignment of accounting practices across the government has been enabled, delivering a consolidated UK whole of government financial statement. The UK public sector offers parliament and other major stakeholders various reconciliations, reflecting a greater emphasis on the principle of accountability and fiscal transparency (Dabbicco & Mattei, 2021).

The issue of alignment with statistical reporting

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Point to learn in training

- The issue of alignment with statistical reporting may affect the development of WGA
 - ESA/GFS versus IPSAS control concept: ESA institutional sector approach and relationship of control/functions versus IPSAS control (power/benefit) approach
 - The reporting entity has to establish a purpose for consolidation and consolidate accordingly. It depends on the uses and users, but reconciliation by preparers of the two reporting systems is necessary so as not to confuse users

Academic vs Professional Training

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Possibly different needs for academic and professional training?

Academic training focus:

- Theoretical knowledge and concepts (basic and advanced):
- Understanding of national and international accounting standards
- Knowledge of frameworks as they apply to consolidation
- Develop critical skills and the ability to analyze cutting-edge topics

Professional training focus:

- Additional advanced practical hands-on exercises using case studies and scenarios
- Software use and automation
- Data governance and data management (i.e., data capture, data maintenance, data synthesis, data usage, data analytics, data publication, data archival)

Closing reflections

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- CFR may serve specific purposes - not universally relevant – important to understand its uses and benefits
- The theoretical aspects of training should also consider:
 - Control and consolidation models at the local level
 - Different consolidation criteria (e.g., budgetary control).
 - Links to statistical reporting
- References to relevant standards and practical (numerical) cases studies useful for fostering understanding