

Consolidation techniques and tools

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Technical Challenges in Public Sector Consolidation



1 Heterogeneity of Public Sector SOEs

- Diverging Accounting Frameworks (IFRS, Local GAAP, Modified Local GAAP)
- Heterogenous Size and Industry of SOEs

2 No Common Chart of Accounts

- Variances such as Mandatory Private Sector Chart of Accounts / Industry Specific Chart of Accounts, etc.

3 No IT Integration

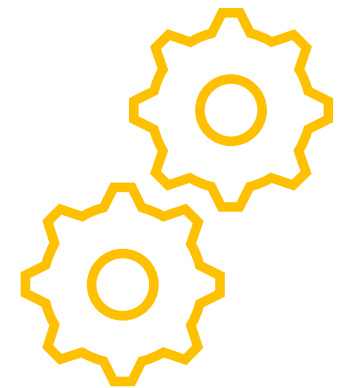
- Historically SOEs utilize their own systems
- Interfaces are not available or not possible

4 Control ≠ Power to Direct

- Control does not establish “Power to Direct”
- SOE CEOs may be more powerful than certain Ministers

5 Lack of Timeliness of Information

- Year-End data often delayed in Public Sector
- Mid-Year Reporting often not available



Techniques to address Challenges in Public Sector Consolidation



Materiality

- Non-material SOEs are not consolidated according to their
 - Revenue / Expenses;
 - Total Balance Sheet; and
 - Number of Employees.
- Define materiality for intercompany transactions

Alignment of Accounting Policies

- Useful life varies depending on the use of the asset (e.g. school vs ministry building)
 - Ranges for asset classes are common practice
 - Annual reviews to ensure the continued accuracy of the useful life estimate
- Criteria and input elements for provisions can either be harmonised but may also differ when circumstances warrant it

Intercompany transactions

- Clear differentiation between intercompany vs non-intercompany SOE counterparties
- Uniform Chart of Accounts is necessary for intercompany transactions
 - Intercompany transactions can be matched and consolidated based on their account codes
 - Preexistent configuration of account codes enables automatization via tools

Purpose of Consolidation

→ Visualization of total group assets and liabilities



Analysis of Individual Transactions

→ Strategic Management of assets and liabilities



Tools to address the Challenges in Public Sector Consolidation









Challenges

- Competition for resources
- Gap in internal capabilities
- Uncertainty how to start
- Long-term planning vs quick wins
- Employees resistant to change
- Technological know-how of the system is necessary
- One consolidation tool across all entities to benefit from consolidation necessary



Solutions

Solutions differ on

- | | |
|--|--|
|  Deployment Model | Cloud-native, on-premise, hybrid, SaaS |
|  Data Integration | ETL support, API availability |
|  User Accessibility | No-code visual tools, customizable dashboards, spreadsheet like UI, programming knowledge needed |
|  Flexibility | Driver-based simulations, scenario planning |
|  Performance & Scalability | May require certain hardware, cloud autoscaling |
|  Licensing & Cost Model | Per user, module based, enterprise-wide |

Success Factors

- Active Change Management
- Enablement, Incentivization & Training of Endusers
- Structured Design- & Test-Phases
- Start small, pilot quick wins as proof of concept

Conclusion



1. Heterogenous SOEs
2. No Common Chart of Accounts
3. No IT Integration
4. Control does not establish „Power to Direct“
5. Lack of Timeliness of Information



First Steps



Integration &
Harmonization of
Data Platforms



Clear and consistent
application of
Accounting Policies
and Chart of Accounts


Thank you!



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