



# Financial Reporting and Consolidation in Times of COVID-19

# Agenda

- A. General Implications
- B. Main Types of Government Interventions
- C. Relevant IPSAS

## A. General implications (1)

### Short term challenges

- The current situation might require relaxed reporting deadlines for entities and a clear focus on user critical information
- Given relaxed pre-transactions controls, effective retrospective checks are required on how funds were used
- Reporting and auditing impacts are to be expected such as
  - Potential delays due to staff shortages
  - Increased uncertainty and risk in respect of going concern of entities
  - Uncertainty on how to report post-balance sheet events and contingencies
  - Additional disclosures required in the management report

## General implications (2)

### Long term challenges

- Active management of governments' balance sheets is needed as the measures dramatically increased both PS assets and liabilities. It is therefore necessary to:
  - Strengthen active asset management (identify surplus assets, monitor impairment needs)
  - Establish processes to manage loans and guarantees (monitor default risks of loans and increased probability of being claimed on guarantees)

## General implications (3)

### Long term challenges

- Post-crisis, public sector finances will need to be restored and economies will need a kick start – the public need to be on board for hard decision to be made
- Governments will need a record level of borrowing, much of it from open markets. Investors will want to see timely, reliable and comparable information
  - Robust accruals-based accounts provide the necessary foundation
  - Internationally accepted Public Sector Accounting Standards (IPSAS) provide credibility and trust

## B. Main Types of Government Interventions

**Interventions typically fall into four broad categories:**

### 1. Direct Government Expenditure

Examples:

- Provision of healthcare services
- Administration of testing
- Provision of personal safety equipment

### 2. Support for Individuals

Examples:

- Social benefits such as income support and unemployment benefits
- Income tax deferrals and relief

### 3. Support for Businesses and Other Public Sector Entities

Examples:

- Grants, loans, equity investments
- Purchase of distressed assets
- Tax relief

### 4. Support for Financial Systems

Examples

- Lowering of interest rates
- Purchasing of government bonds
- Tax relief

## C. IPSAS that may be Relevant to Interventions (1)

### 1. Direct Government Expenditure

- Interventions, such as providing care to those impacted by the pandemic or administration of COVID-19 tests, are considered *collective and individual services* provided to address the needs of society as a whole
  - Such services are accounted for under the amendments to **IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets**, typically as expenses when the services are provided
- Some interventions may result in provisions or contingent liabilities which require recognition or disclosure under IPSAS 19
  - See support for individuals and businesses for more details

## C. IPSAS that may be Relevant to Interventions (2)

### 2. Support for Individuals (1)

- Certain cash transfers to individuals or households, such as unemployment benefits or minimum income guarantees, are within scope of **IPSAS 42, *Social Benefits***
- Such benefits are recognized as an expense and a liability when
  - the entity has a present obligation for an outflow of resources, and
  - the obligation is measurable
- If a public sector entity needs to restructure its operations as a result of COVID-19, certain restructuring provisions and employee termination costs may fall within the scope of **IPSAS 19, *Provisions***



## C. IPSAS that may be Relevant to Interventions (3)

### 2. Support for Individuals (2)

- Additional sick leave and redundancy payments provided to a public sector entity's own employees are accounted for under **IPSAS 39, *Employee Benefits***
  - Additional sick leave is typically recognized as an expense when the absence occurs
  - Redundancy and termination benefits to provided to specific employees are typically recognized when the employer can no longer withdraw the offer of these benefits

## C. IPSAS that may be Relevant to Interventions (4)

### 3. Support for Businesses and Other Public Sector Entities (1)

- **IPSAS 34**, *Separate Financial Statements*, **IPSAS 35**, *Consolidated Financial Statements*, **IPSAS 36**, *Investments in Associates and Joint Ventures*, and **IPSAS 37**, *Joint Arrangements*, and **IPSAS 38**, *Disclosures of Interests in Other Entities*, are relevant to:
  - The establishment of new government entities as a result of COVID-19 intervention programs
  - Potential changes in control as a result of certain transfers made by governments – see next slide for more details

## C. IPSAS that may be Relevant to Interventions (5)

### 3. Support for Businesses and Other Public Sector Entities (2)

- Various government interventions may result in interests in other entities:
  - Equity investments and certain convertible loans could result in obtaining control of the funding recipient, leading to consolidation under **IPSAS 35**
  - Depending on the specific terms of a funding arrangement, interventions may result in joint control or significant influence over the recipient, which would be accounted for under IPSAS 36 or IPSAS 37
  - Regardless of the accounting outcome, interests in controlled entities, joint arrangements, associates or unconsolidated structured entities require disclosures under **IPSAS 38**

## C. IPSAS that may be Relevant to Interventions (6)

### 3. Support for Businesses and Other Public Sector Entities (3)

- A government may provide financial guarantees on the default of debt owed by a business – these guarantees fall within the scope of **IPSAS 29, *Financial Instruments: Recognition and Measurement***, or **IPSAS 41, *Financial Instruments***
  - Under IPSAS 41, financial guarantees are recognized at fair value and subsequently adjusted to an expected credit loss allowance under certain conditions
  - Under IPSAS 29, some guarantees will not be recognized, if an outflow of resources is not probable
    - However, these guarantees may require disclosure under **IPSAS 19**, and the probability of outflow will need to be monitored to determine if recognition is required

## C. IPSAS that may be Relevant to Interventions (7)

### 3. Support for Businesses and Other Public Sector Entities (4)

- **ED 72, *Transfer Expenses***, once finalized, could apply to certain transfer of resources from governments to individuals or to other public sector entities
- From a transfer recipient's perspective, **IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)***, or **ED 71, *Revenue without Performance Obligations***, once finalized, may apply to receipts of transfers from COVID-19 interventions

## C. IPSAS that may be Relevant to Interventions (8)

### 4. Support for Financial Systems

- IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, IPSAS 30, *Financial Instruments: Disclosures*, and IPSAS 41, *Financial Instruments*, provides guidance on recognition and measurement of impairment of financial assets, which could occur as a result of uncertainties arising from COVID-19
- Above standards also apply to sovereign debt restructurings and concessionary loans under IPSAS

# Backup

## Other Potentially Relevant IPSAS (1)

- **IPSAS 1, *Presentation of Financial Statements***
  - In extreme cases, COVID-19 may affect the viability of an entity's operations – IPSAS 1 includes guidance for evaluation of whether an entity continues to be a going concern
  - COVID-19 may result in uncertainty regarding the collectability of receivables from customers who are experiencing financial difficulty – disclosure of estimation uncertainty is required by IPSAS 1
  - Many COVID-19 intervention programs may be considered material due to their significance or their unusual nature. IPSAS 1 requires disclosure of nature and amount of material expenses.



## Other Potentially Relevant IPSAS (2)

- IPSAS 14, *Events After the Reporting Date*
  - Some interventions that launched after the reporting date may still impact the financial statements:
    - Significant interventions may require additional disclosures with quantification of their estimated future impact on the financial statements
    - Some interventions or programs may be indicative of events that already existed at the reporting date—these events may require adjustments to the face of the financial statements

## Other Potentially Relevant IPSAS (3)

- IPSAS 16, *Investment Property*
  - Applies to the valuation of investment property, whose estimated future cash flows or service potential may have deteriorated as a result of uncertainties from COVID-19
- IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*
  - Measures such as social distancing or quarantine may result in a deterioration of the estimated cash flows or service potential of assets which have been closed or made idle
  - Such deterioration could result in impairment losses

# Other Potentially Relevant IPSASB Guidance – Recommendation Practice Guidelines (1)

- RPG 1, *Reporting on Long-Term Sustainability of an Entity's Finances*
  - COVID-19 interventions may have far-reaching financial consequences
    - Consequences can impact a government's long-term fiscal sustainability information, including projections of long-term inflows and outflows
  - RPG 1 provides guidance on compilation of projections and disclosure of underlying assumptions

# Other Potentially Relevant IPSASB Guidance – Recommendation Practice Guidelines (2)

- RPG 2, *Financial Statement Discussion and Analysis*
  - Financial Statement Discussion and Analysis can be used to provide additional narrative on how the pandemic has affected an entity's financial position, financial performance and cash flows
  - Discussion and analysis can also elaborate on risks and uncertainties created by COVID-19 and how these risks and uncertainties are managed

# Other Potentially Relevant IPSASB Guidance – Recommendation Practice Guidelines (3)

- RPG 3, *Reporting Service Performance Information*
  - Provides principles-based framework for reporting service objectives, the extent to which these objectives have been achieved, and how service delivery objectives have changed during the reporting period
  - COVID-19 intervention programs are likely to result in new service delivery objectives or change existing service delivery mechanisms



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