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Consolidation at different levels of government: Conceptual considerations and good international practices

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1 December 2022

Agenda

- 1. Background**
- 2. Main issues arising from consolidation and how issues are addressed in practice**
- 3. Further consolidation challenges**

Background

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- » Government policies are to be decided at the highest level, so you need the “big picture”
- » Reforms carried out to improve accountability and transparency therefore only make sense if assets/liabilities/risks identified on a single entity basis are aggregated into an overall consolidated view
- » With the increasing implementation of IPSAS/accrual accounting at single entity level, many technical and organisational questions arise, e.g.:
 - » Accounting policy choices in IPSAS (e.g. cost vs. revaluation model)
 - » Different approaches in IPSAS and IFRS (e.g. borrowing costs)
 - » Data delivery by public corporations

Main issues arising from consolidation and how issues are addressed in practice

Issue 1: Definition of the scope of consolidation and the number of entities to be consolidated

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Main issues	How addressed in practice
Consolidation of very heterogeneous entities (e.g. state-owned banks, police, hospitals) and therefore no clear messages can be derived from the CFS	Definition of the consolidation perimeter => exclusion of specific public corporations, such as public banks, agencies or foundations (e.g. CH)
Number of entities to be consolidated can be challenging, e.g. Lithuania faces over 3.600 entities that need to be consolidated	Exclusion of very small entities or immaterial entities from the consolidation scope (e.g. Lithuania)
Issues around sub-consolidations, e.g. efforts, meaningfulness, organisation (“principle of ministerial autonomy”)	Sub-consolidations can help in managing the often large number of entities and in eliminating inaccuracies to some extent and ease the consolidation process (e.g. Lithuania)
Different notion of control in the public sector, e.g., controlling entity may have problems to direct the preparation of the accounts in a certain manner	<ul style="list-style-type: none">▪ Centralization of the consolidation function within the group ensures a common understanding of control (e.g., City State of Hamburg)▪ Coordination and monitoring of the whole process by a central consolidation team (e.g., UK)

Issue 2: Differences between the accounting frameworks and differences in the accounting policies

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Main issues	How addressed in practice
<p>Differences between the accounting frameworks of the controlling entity and the public corporations (e.g. IPSAS 21 versus IAS 36); could also be timing differences (e.g. IPSAS 13 versus IFRS 16) or IPSAS 9/23 and IFRS 15</p>	<ul style="list-style-type: none">▪ Use of a harmonised chart of accounts for the economic entity including a mapping of the individual financial statements of the public corporations to the group chart of accounts▪ Use of standardised reporting formats/templates▪ Exceptions to the controlling entity's accounting requirements for certain topics▪ Require the public corporations to prepare reporting packages that comply with the accounting framework of the controlling entity
<p>Consolidation of foreign government-controlled public corporations</p>	<p>Adjustments to achieve uniform accounting policies with the controlling entity should be made by the respective public corporations (e.g., City State of Hamburg)</p>
<p>Differing reporting dates</p>	<p>Definition of a corridor in which reporting at different reporting dates is consolidated after adjustments for material effects (e.g. 3 months before and after the reporting date of the controlling entity).</p>

Issue 3: Organizational challenges

Main issues	How addressed in practice
<p>IT-requirements and processes (e.g., use of different IT systems by public corporations, but also by the controlling entity)</p>	<ul style="list-style-type: none">▪ Different IT systems/ERP systems at the single entities, which can lead to differences in accounting/evaluations/reporting due to technical reasons▪ IT system to provide reporting packages to the controlling entity▪ Consolidation software to support the consolidation process - is the same consolidation solution used for all subgroups or does each ministry/entity have its own solution?
<p>Sometimes missing central power over and related management of subsidiaries by the central government (e.g., public enterprises are often quite independent of their controlling entity)</p>	<ul style="list-style-type: none">▪ Centralization of the consolidation function within the group (e.g., UK)▪ Creation of a holding entity that prepares subgroup accounts (e.g., Lithuania)▪ Clear allocation of the consolidation tasks▪ Reporting packages to be audited by the auditor of the annual accounts of the respective public corporation

Further consolidation challenges



Further consolidation challenges

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- » Elimination of intra-group balances and transactions
- » Timeliness of reporting
- » Reliability and quality of reported data
- » Capacity and competencies
- » Dynamic environment of public corporations
- » Segment reporting
- » Conceptual issues (e.g. different notions of “income” in the public and in the private sector)

Thank you for your attention!