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Estonia adoption of IPSAS to consolidate financial statements: David and Goliath



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1. Government consolidations practices (Estonia, Slovakia and UK)
2. Estonian adoption of IPSAS
2. Consolidated financial statements in Estonia
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Government consolidation practices

Figure 4: Government consolidation practices compared (Estonia, Slovakia and the UK)

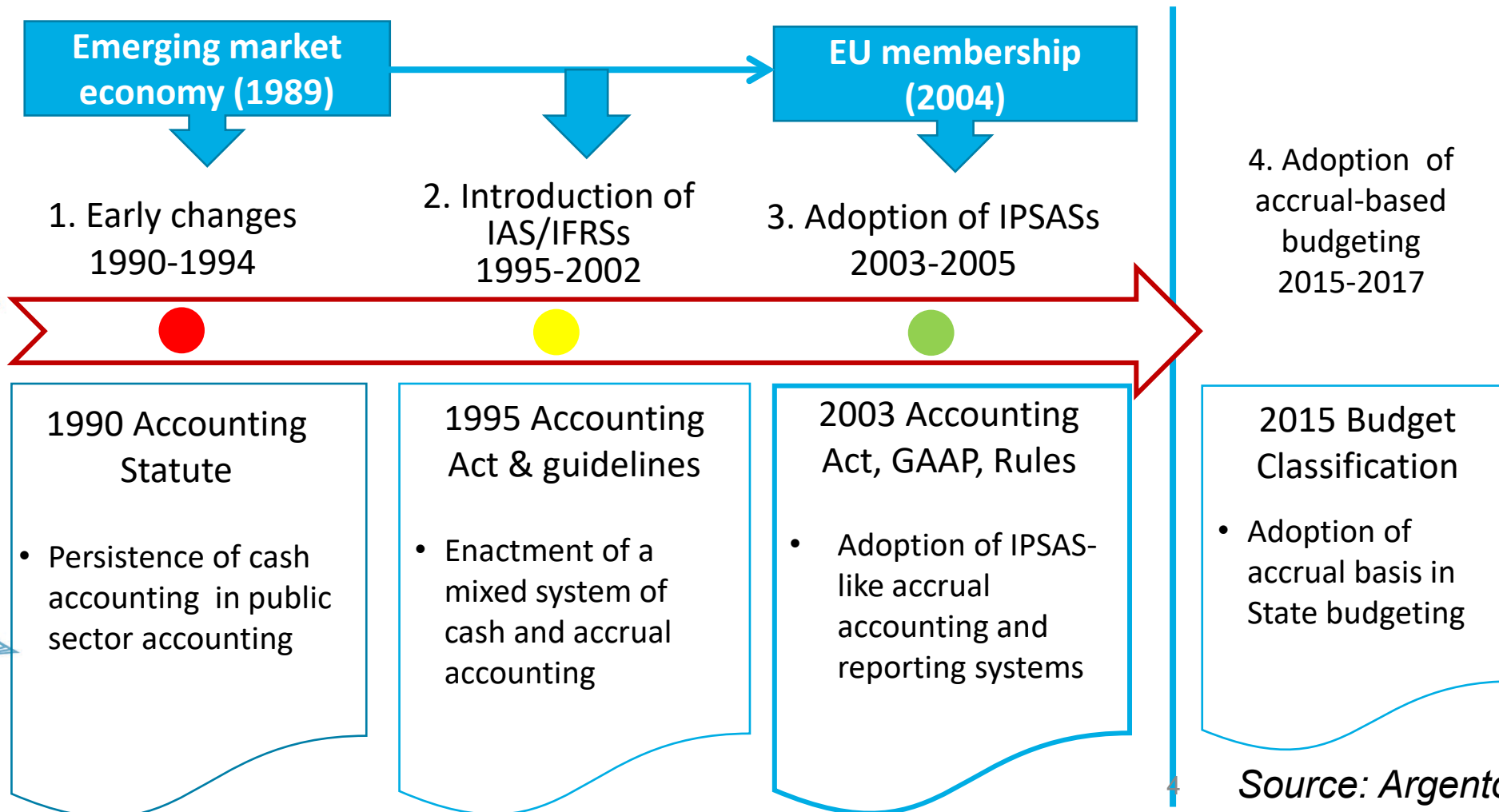
	<i>Estonia</i>	<i>Slovakia</i>	<i>UK</i>
<i>Level of consolidation</i>	<ul style="list-style-type: none"> -WGA covering the whole public sector. -WGA covering the GGS. -Central government. -Local governments. 	<ul style="list-style-type: none"> -WGA covering the whole public sector. -Central government. -Local governments. 	<ul style="list-style-type: none"> -WGA covering the general government sector. -Central government. -Local governments.
<i>Legal basis for consolidation requirements</i>	-National law.	-National law.	-National law.
<i>Scope of consolidation</i>	<ul style="list-style-type: none"> -Based on control. Disaggregated information about GGS and public corporations is given as per IPSAS 22. -No scope exclusion for SLREs. 	<ul style="list-style-type: none"> -Based on control. -No scope exclusion for SLREs. -An entity is excluded only if no longer a going concern or expected to be sold within one year. 	<ul style="list-style-type: none"> -Based on control, except for the exclusion of public banks. -Small entities below a certain threshold are not consolidated at central government and WGA level.
<i>Consolidation rules</i>	-IPSAS	-IPSAS	-IFRS (as adapted for the public sector)
<i>Use of consolidated financial statements</i>	<ul style="list-style-type: none"> -State financial statements (i.e. WGA) closely looked at and compared to budget fulfilment reports. -Used in long-term fiscal decisions, in PFM reforms, to derive ESA 2010 reporting. 	<ul style="list-style-type: none"> -Analysis of government net worth, complementary to budget analysis. -Improvements to accounting policies and procedures thanks to audit. 	<ul style="list-style-type: none"> -WGA and central government accounts reviewed by Parliament and complement review of fiscal risks. -Possible public scrutiny at the local and central level.

Source: EPSAS Issue paper on CFS (2018)


Estonia's adoption of IPSASs



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The enabling role of institutional entrepreneurs in the adoption of IPSAS within a transitional economy: The case of Estonia

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Summary

In the light of neoinstitutional theory and by adopting case study research methodology, this article explains the adoption of International Public Sector Accounting Standards for modernizing public sector accounting in Estonia. This article reveals that the smooth—yet gradual—adoption of International Public Sector Accounting Standards-compliant accounting systems was enabled by the involvement of powerful actors (i.e., institutional entrepreneurs) with foreign and/or business backgrounds. In addition, the change in public sector accounting in Estonia was facilitated by the developments in its international positioning, characterized by the transition from a Soviet communist to a market economy and subsequent European Union membership and by the absence of past accounting practices, which could potentially hinder the change.

KEYWORDS

accounting change, Estonia, institutional entrepreneur, institutional logics, IPSAS, isomorphism

Consolidated financial statements: at different levels

The CFS of the State, consisting of state accounting entities together with foundations, subsidiaries, and associated companies under their significant influence

The CFS of Local Governments, which includes all Estonian local governments, that is, both cities and rural municipalities, together with their foundations, nonprofit associations, subsidiaries, and associated companies under their significant influence

The CFS of the General Government Sector (GGS), which comprises legal entities consolidated into the above-mentioned state or local government levels, except those considered as market producers, for example, state infrastructure companies. Moreover, the GGS consolidation also includes social insurance funds (i.e., the health insurance fund and the unemployment insurance fund) and some other public institutions not belonging to the central or local governments, such as public universities, the national library, the national opera, the national broadcaster, and the volunteer-organized national defense organization

- **The CFS of the whole public sector**, which is the highest level of consolidation covering the CFS of all Estonian public institutions. The CFS of the whole Estonian public sector comprises approximately 1,000 accounting entities in total

Source: Argento et al. (2018)



Scope of consolidation

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At each government level (central and local), the consolidation scope includes all entities over which the controlling entity has control, in line with international accounting standards such as IPSAS

Every local government entity has its own reports, information of all local government units is consolidated within the annual statements of the state

WGA are prepared and are composed of the accounts of the central government (including all entities it controls) and the accounts of the local government sector (including all local governments and the entities they control). They provide disaggregated information about the GGS (split between central government and local government) and public corporations in line with IPSAS 22 requirements

No scope exclusions are granted for smaller or less risky entities

Source: EPSAS Issue paper on CFS (2018)

Use of CFS

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WGA for the whole public sector are produced once a year but the accounting software automatically generates some condensed financial statements (primary statements plus selected notes) for the GGS on a monthly basis and the public sector on a quarterly basis

The most used CFS are the state government CFS (i.e. at WGA level); those are the financial reports of the legal entity which also include budget fulfillment reports

Benefits

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Increased transparency - better understanding of what the nation owns and what its obligations and how it manages its resources are

Helps to make **long-term fiscal decisions**

Better **financial discipline** in the whole public sector

Basis for **wider management reforms** (cost effectiveness, results-based management)

Used as a basis for **Eurostat calculations** - enables to assess compliance with Maastricht criteria in a short time period

High **reputation** in the eyes of international organisations

Source: EPSAS Issue paper on CFS (2018)



RAHANDUSMINISTEERIUM

THE REPUBLIC OF ESTONIA CONSOLIDATED ANNUAL REPORT OF THE STATE FOR 2021

Prepared by: Ministry of Finance
Tallinn 2022