Presentation

Presented by

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Practical Implementation of IPSAS.
Timeliness of government financial statements

International Public Sector Accounting Standards

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Qualitative characteristics of information included in general purpose financial reports (GPFRs) of public sector entities

from Conceptual Framework
Balance between qualitative characteristics

- Accrual accounting is more relevant but timeliness may suffer
- More faithful information takes longer to prepare

Relevance

Timeliness

Faithful representation

Comparability

Understandability

Verifiability

Balance

When are financial statements considered timely?
**Timeliness according to IPSAS**

Cash-basis IPSAS (§ 1.4.4) and IPSAS 1 (§ 69) both state:
- An entity should be in a position to issue its financial statements within **six months** of the reporting date

Cash-basis IPSAS (§ 1.4.4) states in addition:
- Timeframe of no more than **three months** is strongly encouraged

**Public Expenditure and Financial Accountability (PEFA)**

- PEFA is an internationally recognized methodology that provides for an integrated tool to assess Public Financial Management (PFM) performance.
- Multi-donor partnership between World Bank, European Commission, and UK’s Department for International Development (DFID) and others
- PEFA enables comparison of PFM performance between countries and in time.
Timeliness of submission of the financial statements according to PEFA

**PEFA 2011 framework-PI25(ii)**
Submitted for external audit:
A. Within 6 months  
B. Within 10 months  
C. Within 15 months  
D. After 15 months or not at all

**PEFA 2016 framework-PI29.2**
Submitted for external audit:
A. Within 3 months  
B. Within 6 months  
C. Within 9 months  
D. After 9 months or not at all

**PEFA 30.2. Submission of audit reports to the legislature**

A. Audit reports were submitted to the legislature within three months from receipt of the financial reports by the audit office for the last three completed fiscal years.

B. Audit reports were submitted to the legislature within six months from receipt of the financial reports by the audit office for the last three completed fiscal years.

C. Audit reports were submitted to the legislature within nine months from receipt of the financial reports by the audit office for the last three completed fiscal years.

D. Performance is less than required for a C score.
Two countries: different in comprehensiveness and timeliness

Government of France

- Financial statements decreed 4.5 months after year-end
- Audit opinion issued 5 months after year-end
- Public corporations not included in the scope of consolidation. They are included in a separate consolidation which is published later
United Kingdom: time to produce the whole of government accounts (separate financial statements of ministries are published in a timely manner)

<table>
<thead>
<tr>
<th>Year</th>
<th>Months</th>
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<tbody>
<tr>
<td>2009-10</td>
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<td>2010-11</td>
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<td>2011-12</td>
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<tr>
<td>2013-14</td>
<td>12</td>
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<tr>
<td>2014-15</td>
<td>14</td>
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Statistical analysis of PEFA scores
Most PEFA assessed governments score an A for timeliness

<table>
<thead>
<tr>
<th>PEFA score</th>
<th>Number of countries</th>
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<tbody>
<tr>
<td>A</td>
<td>105</td>
</tr>
<tr>
<td>B</td>
<td>35</td>
</tr>
<tr>
<td>C</td>
<td>14</td>
</tr>
<tr>
<td>D</td>
<td>25</td>
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PEFA score: A = < 6 months, B = < 10, C = <15, D = other

Governments in democratic countries prepare financial statements slightly more timely (not significant)

<table>
<thead>
<tr>
<th>PEFA score</th>
<th>Democracy Index</th>
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<tbody>
<tr>
<td>A</td>
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<td>B</td>
<td>4.8</td>
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<tr>
<td>C</td>
<td>5.2</td>
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<td>D</td>
<td>4.6</td>
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</tbody>
</table>

PEFA score: A = < 6 months, B = < 10, C = <15, D = other
Governments in richer countries prepare financial statements more timely (significant)

PEFA score: A = < 6 months, B = < 10, C = < 15, D = other

Governments in countries with larger populations prepare financial statements slightly more timely (not significant)

PEFA score: A = < 6 months, B = < 10, C = < 15, D = other
Practical recommendations how to improve timeliness

Recommendation

- Review and rationalize processes for preparation of (consolidated) financial statements to progressively reduce the time required for issuance of audited financial statements.
- This should be done in consultation with the office of the auditor general.
How to improve timeliness? Preparation of financial statements

- Prepare interim financial statements and resolve issues during the fiscal year rather than after year-end
- Reduce the extent of time-consuming manual operations by using ERP functionalities
- Improve bank reconciliations during the year, thus reducing the time needed to carry out the bank reconciliations after year end and auditing them
- Establish shared-service centers for reporting entities that are too small to maintain a professional finance department

How to improve timeliness? Preparation of financial statements

- Staggered issuance of statements (1. budget execution statement, 2. unconsolidated statements, 3. consolidated statements)
- Build capacity of the preparers of the financial statements at all government entities
- Introduce sanctions for those reporting entities that fail to submit financial statements before the legal deadline
- Establish quality assurance mechanisms for improving the accuracy and quality of the financial reports, reducing the time needed for correction of errors prompted by the auditor general
How to improve timeliness? Audit of financial statements

- Document a better audit trail by the preparers of the financial statements, facilitating the work of the auditor (prepared-by-client list)
- Enhance the internal audit departments, if any, within the ministries enabling the auditor general to rely on their work
- Carry out more extensive interim audits, limiting the amount of audit work needed after year end
- Build capacity of the officials of the office of the auditor general
- Consider outsourcing more audits to private sector audit firms.

- Consider materiality: *Don’t let the perfect be the enemy of the good*