



New challenges for governmental reporting: from traditional Budget to integrated reports

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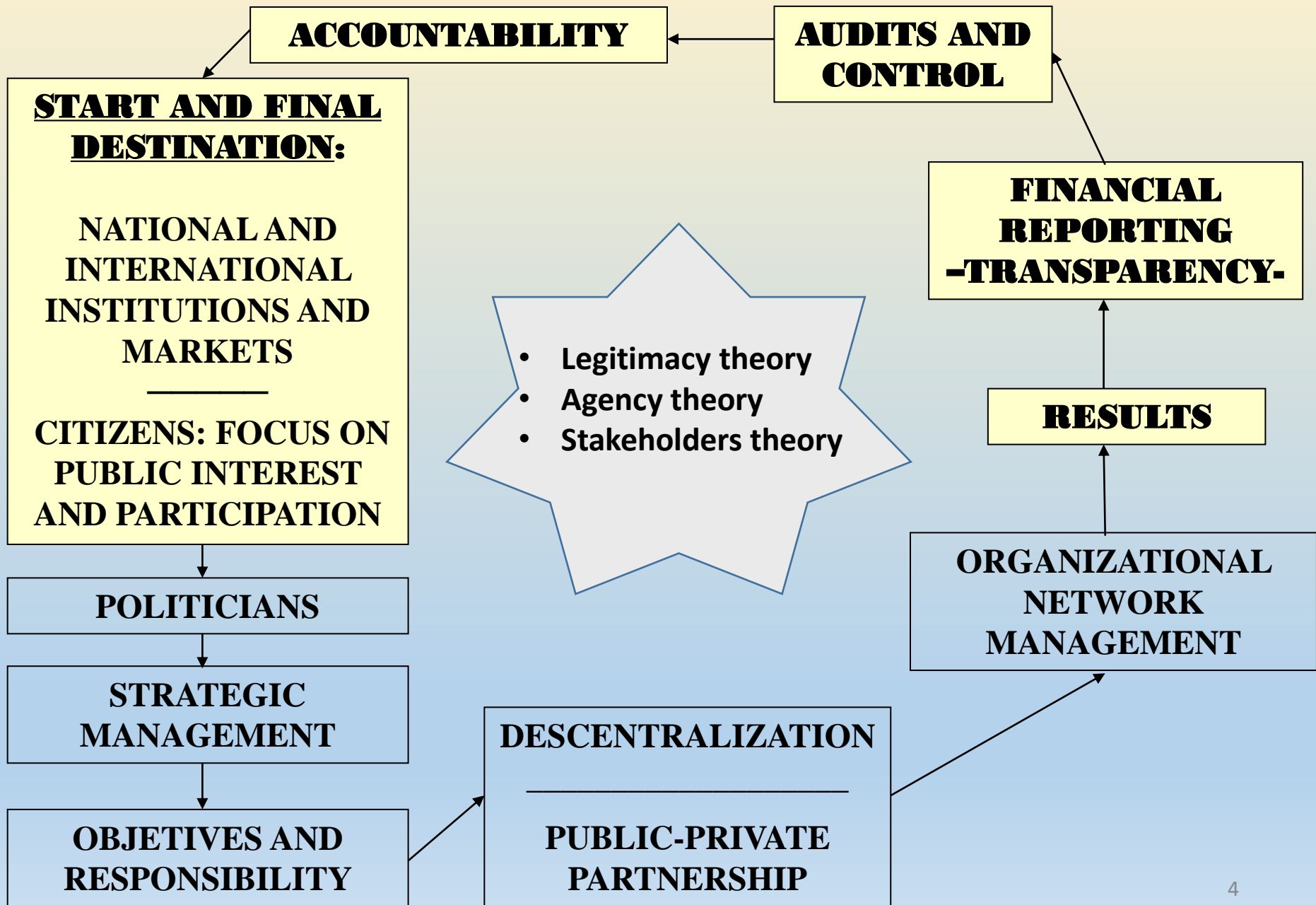
Summary

- I. The needs for public sector governance: better answers of Financial Reporting**
- II. The convergence of Government Financial Reporting Systems: towards an international harmonized regulatory framework**
- III. The next challenges: Non-financial information, Integrated Reporting**
- IV. The assurance process**
- V. Government Accounting Reforms in European Continental Law Systems: the case of Spain**

I. The needs for public sector governance: better answers of Financial Reporting



The Wheel of Good Governance and Reporting



The keys for the reform of public Governance and Accountability

**Information is
Transparency and
accountability**



- **Emphasis on *accountability***
- **Emphasis on *outputs and outcomes***
- ***Social and environmental* responsibility. *Sustainable* policies and development**
- ***Social participation***
- ***Transparency*: Complete, clear, in time and easily accessible disclosure of information**

**Good performance is
Efficiency and
sustainability**



- ***Benchmarking* (national/international)**
- **Management and information *integrated systems***
- ***Best practices***
- ***Cost and performance* indicators**
- **Market/non-market parameters**

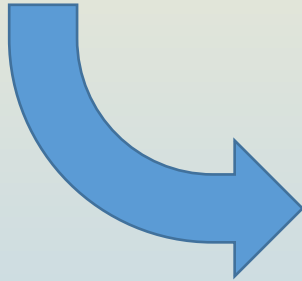
Is traditional governmental accounting old fashioned?

- Annual budget single-entry recording as the only government Accounting in Public entities tradition
- The duality in modern government Accounting: Budgetary & Financial Reporting
- Cash criterion in budgets produces “fiscal illusion”: Sale of assets, as asset reduction is not disclosed; order now and pay later; doubtful receivables not recorded...
- Is the duality of basis “cash” in budgets Vs. “accrual” in financial statements a sound practice according to GAAP?
- More than financial: managerial, social and ecological accountability

The logic for a harmonized accrual-based system

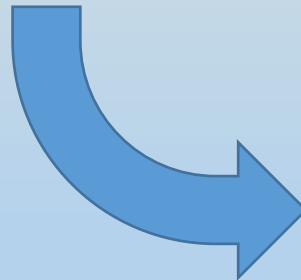
1. The NEEDS

- Fiscal Transparency
- Comparability



2. DEFICIENCIES

- Incomplete data
- Lack of comparability
- Inconsistent information



3. AFFECTS

- General purpose financial reports
- Aggregate Reports of National Accounts and Government Financial Statistics

New trends in Governmental Accounting

- From traditional Input-oriented stewardship and control of fraud to Output and outcome-oriented Management and control
- From traditional and unrealistic “exactness” to “true and fair view” accounting information
- From accounting for a Burocratic Administration to accounting for Good Governance of organisations
- From “cash basis” reporting to three-pillars based Accounting for Public Reporting

Next horizons for Governmental Reporting

- Focusing on *quality* of public services, *social* and *sustainable* public policies?
- A new concept and scope for public *accountability*?
- Through *accrual budgeting*?
- Through more *participative* public management, budgeting and even audits?
- Through an integrated and comprehensive *Public Reporting System*?

In summary: New Answers for a new and sustainable framework

Socio-economic & environmental framework

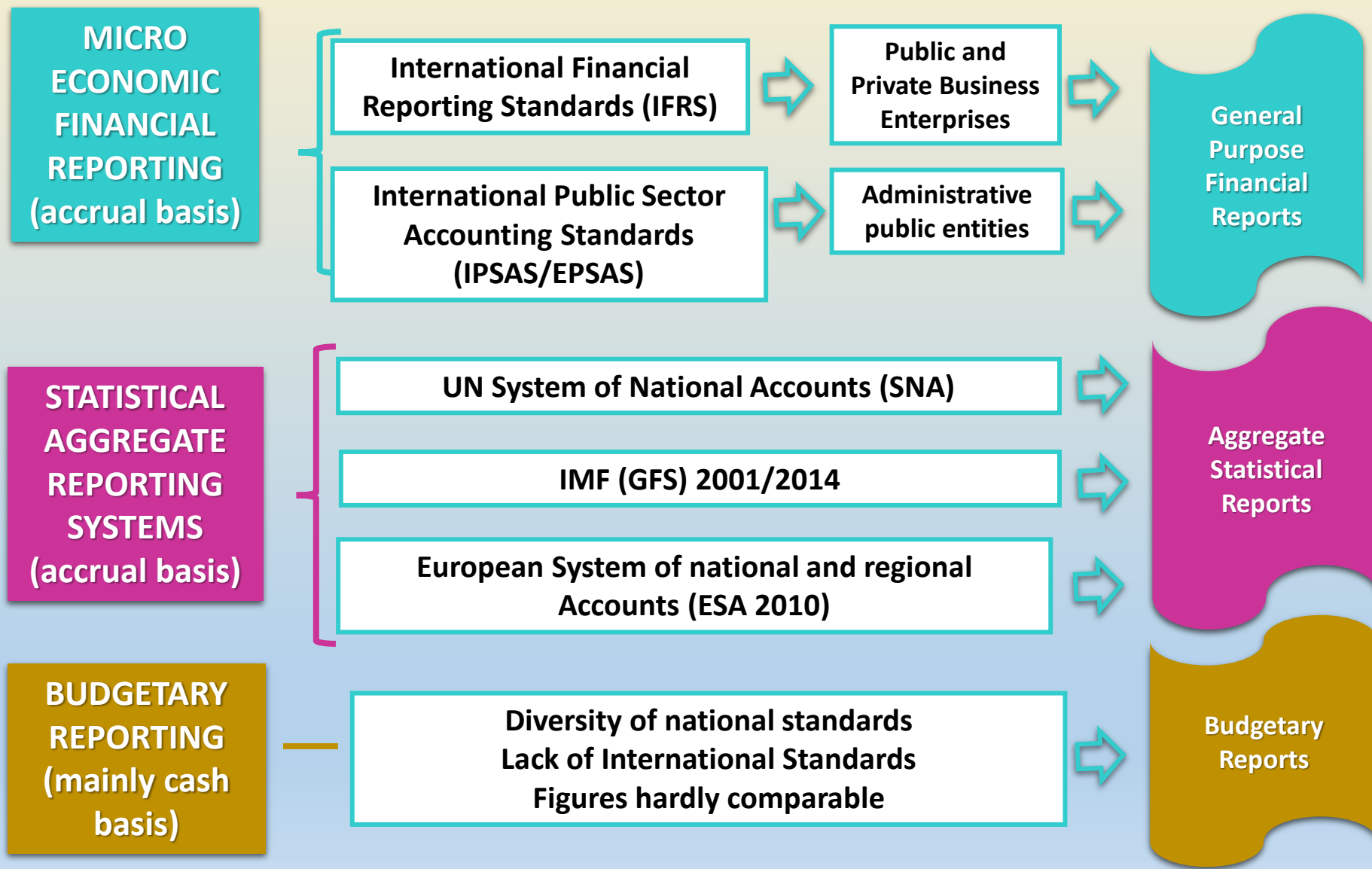
Government Accounting and Reporting Issues



II. The convergence of Government Financial Reporting Systems: towards an international harmonized regulatory framework



The three Pillars/Systems of Public Reporting



Towards an integrated financial and economic reporting system for public entities

The main features of Public Reporting Systems

Accounting System	Basis	Reporting Focus
National Accounts	<u>Accrual</u> for any operation affecting <u>public funding</u>	<u>Net lending / net borrowing</u>
Budgetary Accounting	<u>Modified Cash</u>	Financial effect of operations in the <u>short term</u>
Financial Accounting	<u>Accrual</u> for any operation affecting <u>net worth</u>	Net positive or negative <u>saving</u>

National Accounts require **Adjustments** on budgetary/financial accounting figures, as a consequence of different recognition, measurement and time assignment bases

Financial Information Convergence in Public Entities



IASB Business Standards (IAS/IFRS)

IPSASB Public Sector Standards (IPSAS)



PROCESS OF CONVERGENCE

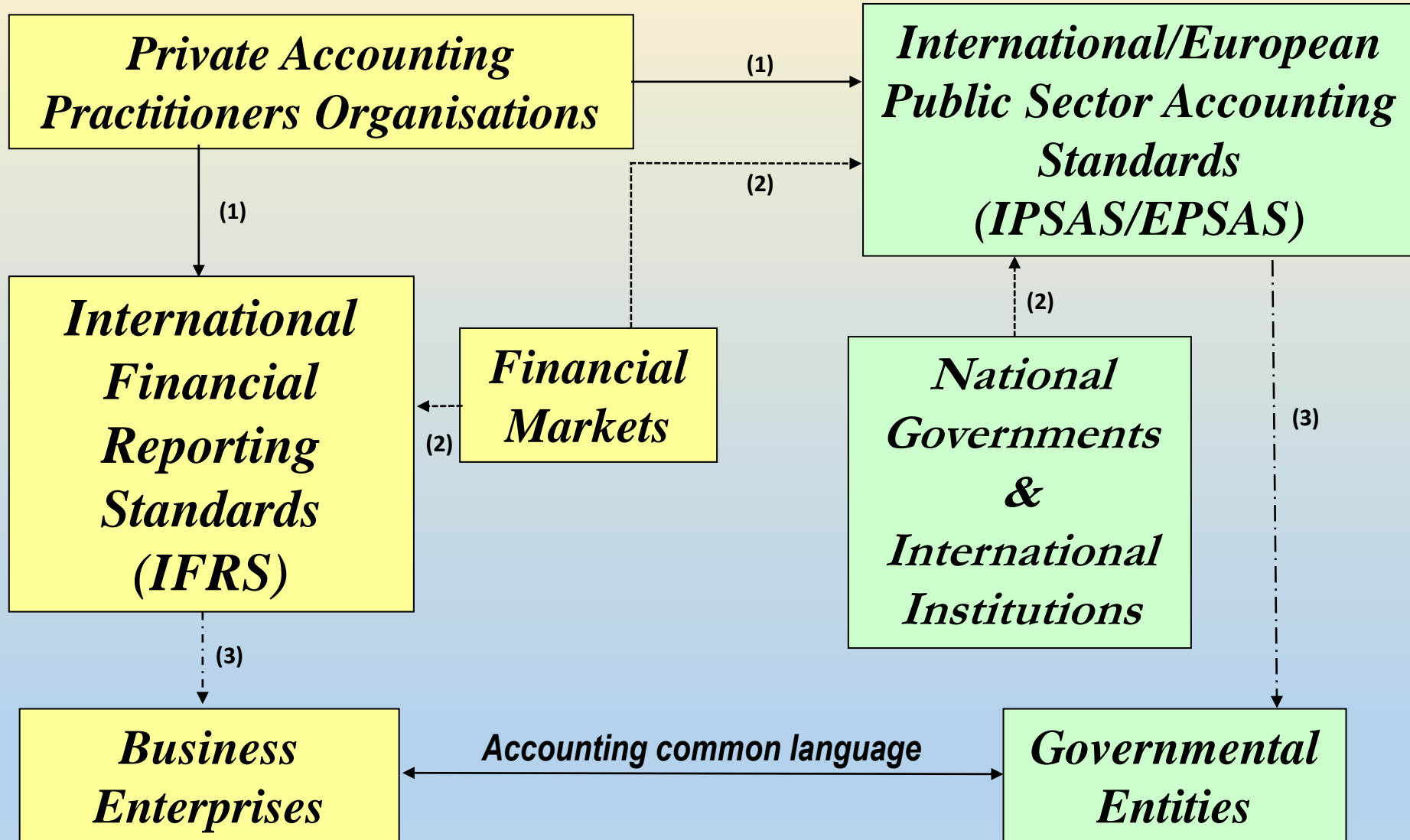


BUDGETARY REPORTING

STATISTICAL FINANCIAL REPORTING



IFRS and IPSAS / EPSAS approaches



(1) Standards setting

(2) Market and institutional standards supports

(3) Standards implementation


From language of business to language of government: is it the best way?

- The Accounting path: From business enterprises to non-profit organisations and public entities
- Accounting as the (common) language of business: the IASB and the financial market “authority”
- Is Accounting a common language of government today?
- Where the IFAC and IPSASB “authority” comes from...?
- Does accounting model require a more particular structure, better adapted to particular governmental objectives, activities and stakeholders' needs?

**III. The next challenges:
Non-financial information,
Integrated Reporting**

The Pyramide of Reporting process for a good governance

**The search for sustainability.
Ecological, economic and social crisis**



**New requirements for information and
transparency: integrating ESG (Environmental,
Social, Governance)-NFR**



**The assurance of NFR: looking for a prudent application of
professional judgment and skepticism**



**Regulators, preparers of information and those responsible for good
governance should work together**

**Main challenges: NFR systems implementation as a cornerstone for integrated
information systems. Processes will be diverse, taking into account the
characteristics of countries and entities**

Pressures and Commitments on SDG transparency

INSTITUTIONAL APPROACH

- Coercive / normative isomorphism - Pressures from international organizations
- UN, EU, OECD, WB, WHO, IFAC, GRI, SASB, IIRC....
- Calling for a new Sustainability Standards Board alongside the IASB?
- Directive 2014/95/EU as a reference for EU possible further regulation on public entities?

STAKEHOLDERS, LEGITIMACY AND AGENCY APPROACHES

- Pressures of citizens and interested third parties are taken into consideration

THE UN PRONOUNCEMENTS


DATE	DOCUMENTS	MAIN FOCUS
2015	Sustainable Development Goals SDG	169 concrete goals for the year 2030, in 17 objectives

NFR IN SATELLITE ACCOUNTS

- In areas such as Environment, Tourism, Culture, Health and Social Security or Care Economy

The holistic approach to information (thinking integrated) in public entities follows the criteria and guidelines of business companies

Benefits of integrating Non-Financial Information

- **Improve accountability and decision making**
 - **Strengthen relations between stakeholders, politicians and managers**
 - **Serve as a guide for the provision of sustainable services**
- 
- **Allow the long-term orientation of management, in a robust and integrated way to create value**
 - **Increase connection of the internal and external communication fields**

NFR Challenges, Risks And Barriers

- **Integrated FR/NFR**
- **Different NFR requirements for different entities**
- **Materiality. General and entity perspectives**
- **Digitalisation**
- **Harmonisation and Standardisation**

- **Lack of civic culture and democratic quality**
- **Disinterest of politicians and managers. Insufficient incentives**
- **Limited financial resources, insufficient statistical sources and biased information**
- **Lack of adequate assurance**

EU regulation of non-financial reporting

Directive 2014/95/EU requires **LARGE COMPANIES** to disclose information on the policies they implement in relation to

- Environmental protection
- Social responsibility and treatment of employees
- Respect for human rights
- Anti-corruption and bribery
- Diversity on company boards

Companies may use international, European or national guidelines to produce their statements.

In December 2019 the Commission committed to review this directive in 2020 as part of the strategy to strengthen the foundations for sustainable investment.



This Directive represents an important reference for *EU POLICIES ON NFR AND POSSIBLE FURTHER REGULATION ON PUBLIC ENTITIES*

Non-financial information in macroeconomic or aggregate accounts: the Satellite Accounts

- The Satellite accounts are an extension of the national accounts system, with which they share their basic concepts, definitions and classifications.
- Their Objective is to expand the analytical capacity of the national accounting to certain areas of socio-economic interest in a flexible way, without overloading or distorting the central system.
- Contents: Not only the monetary units, but also the physical units associated with the activities. They present detailed indicators on the economy, society and the environment; their records can affect one or more accounts simultaneously, so they are not additive to obtain the total for the country's economy.
- Areas such as Environment, Tourism, Culture, Health and Social Security or Care Economy.

IV. The assurance process

NFR assurance in public entities

Key work performed	Type of assurance	Information items
Conclusive foundation/evidence	Absolute	Guarantees or similar
Sufficient appropriate audit evidence	Reasonable	Retrospective information items of a quantitative nature (monetary and nonmonetary)
Mainly enquiries and analytical Review, with less detailed procedures	Limited	Most other information items, ie qualitative/narrative cific) and/or futureoriented/ forward-looking
Preparation of the Reports or performing an agreed set of procedures	No assurance	No conclusions or opinion are provided

The prerequisites to qualify an assurance as absolute or no assurance are clearly determined
An engagement is not an assurance engagement if an auditor provides no assurance

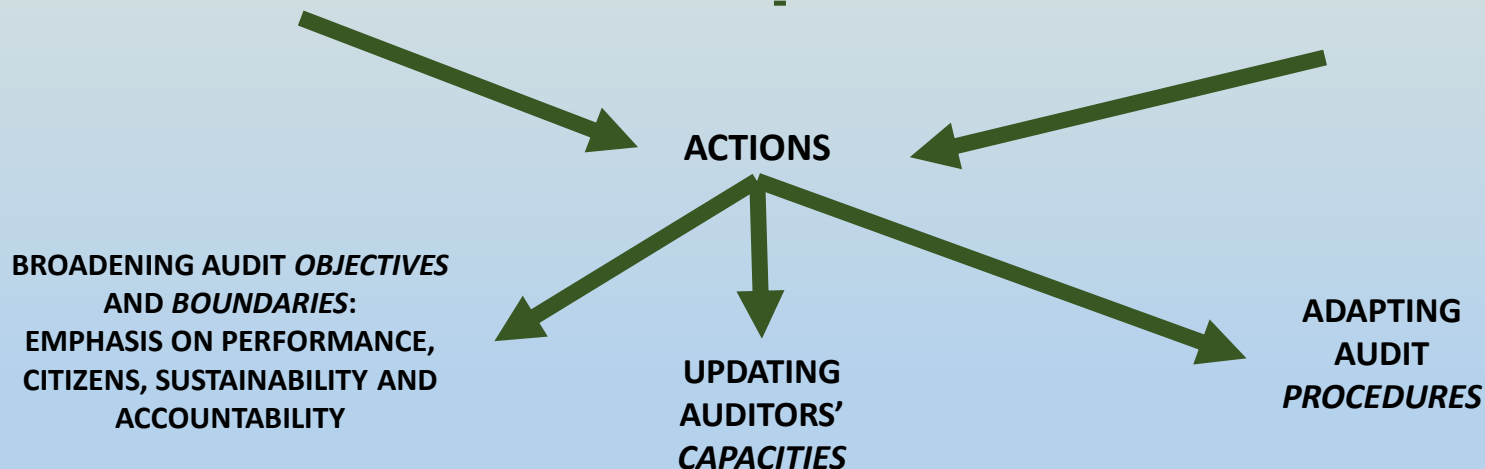
Reasonable and Limited Assurance Suitability for NFI

Type of assurance	Suitability for NFR
Reasonable Assurance	Even when RA could be applied to some NFI, limited assurance might be appropriate in a first step
Limited Assurance	LA could be a short term minimum requirement . Obtaining a reasonable assurance on part of non-financial information in a near future is probably not realistic (unless optional), but it could be an objective to keep in mind in the medium term

Adaptation of objectives and procedures to the assurance of non-financial information

- *Internal control will be involved with the new objectives and structure of the information system, after the incorporation of NFI.*
- *Frequently, the intervention of professionals from different specialties will be required*

- *Incorporation of NFI will require close collaboration between internal control, the external auditor and the rest of the professionals, if applicable.*
- *NFR requires a new approach to the process and a broader view of the organization on the part of the auditor and internal control*



The external auditor is going to find reports that incorporate non-financial information and must decide on the adequacy of the same. This requires a new approach to the process and a broader view of the organization on the part of the auditor and internal control

Broadening audit *objectives* and *boundaries*: **Emphasis on performance, citizens, sustainability** **and accountability**

Emphasis on
Performance Audits

Verification of *non-financial* data,
information and
reporting

Evaluation of social,
economic, financial
and environmental
impact of public
policies

Audit of public sector
data for GFS and SNA

Fairness and
consistency of
prospective reported
information, including
budgetary figures

Stress verification of
internal control
systems

Effectiveness of
mechanisms against
fraud and corruption

Advocate
improvements in
Management,
Reporting and
Accountability

Updating Auditors' *Capacities*

Strengthening auditors' *independence, integrity and responsibility*

Development of *new skills of auditors*, in accordance with the new objectives and scope of audits

Regulation of *public-private partnerships in control*: conditions, requirements and limitations

Incorporation of *new specialists* as members of the staff or, alternatively, use outsourcing for technical issues

Adapting Audit *Procedures*

New *social demands* for audits: Transparency, emphasis on performance and outcomes, timely and broad disclosure of results

Cooperation and participation of *citizens* in the audit process

International cooperation

A more cooperative and harmonized model for *European Government Auditing*. The role of European Parliament, European Commission, ECA and National SAIs

Use and enhancement of *peer reviews*

V. Government Accounting Reforms in European Continental Law Systems: the case of Spain



Government Reporting Harmonisation in Europe

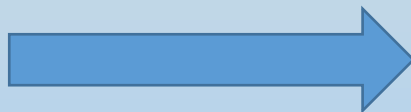
European Union



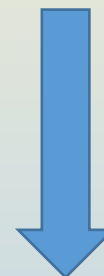
- ACCOUNTING RULES *FOR THE COMMISSION*
- EPSAS PROJECT



EPSAS**



IPSAS*



Member States – The case of Spain



NATIONAL LAW – GGAP - \$SPECIFIC \$STANDARDS

*Non-compulsory standards

**To become compulsory standards in the future

Government Accounting Reporting in Spain: Four sources for public entities' financial figures

- **Budgetary**.- Traditional cash based information according to specific regulation
- **Financial**.- Businesslike accounting information, according to Governmental Accounting Chart
- **National Accounts**
 - Macro-economic aggregated information
 - Micro-economic figures measured according to EAS 2010 criteria (for each public entity) as basic indicator of EU deficit and debt objectives fulfillment
- **Performance indicators** (budget objectives execution, public services costs and public prices...)

Governmental Accounting stages in Spain

Cameralism

I. Cameralistic Single-Entry Accounting: From 1812 to 1978 Constitutions

Accruals

II. Introduction and Implementation of Double-Entry Accrual Accounting: The Accounting and Budgetary Information System (SICOP) and the first General Governmental Accounting Plan (GGAP) in 1981

European framework

III. Governmental Accounting adaptation to European Accounting Rules: The 1994 GGAP

Financial discipline

IV. Implementing the 1997 Stability and Growth Pact (SGP) for a Financial Discipline: Deficit and Debt measurement according to National Accounts criteria

International harmonization

V. International harmonization and widespread application of the accrual criteria (IPSAS/EPAS): The 2010 GGAP

SDG

VI. The use of information for management and sustainable development: Non-financial information, Performance Indicators and SDGs

Integrated reporting

VII. Towards an Integrated Reporting in the Public Sector

Bases and main features of Spanish Governmental Accounting System

- **The aim**: Harmonization of accounting standards at Central, Local and Regional levels
- **Methodology**: Top-down approach, transferring the transferring central Government reforms to Local and Regional jurisdictions
- **Legal framework**. As in other European countries with a continental legal tradition, governmental accounting standards are set by law and are thus compulsory
- **To be effective**: The three levels of government should adapt their standards to the General Governmental Accounting Plan (GGAP)

Standard-setters

- **Parliament**. The Parliament is responsible for the approval of a general legal framework for financial reporting purposes. Central government is competent for the approval of a General Governmental Accounting Plan (GGAP) developing the Public Accounting Principles
- **Central Government**. Central government is also responsible for the development of accounting standards for central and local government levels
- **Autonomous regions**. The regional governments have autonomy and legislative power, including accounting, budgeting and auditing aspects.

Adapting Government Accounting Standards to International Framework in Spain

- **Commercial Law and Business Accounting Standards were adapted to European Regulations in 2007. A new General Accounting Plan for business enterprises was then passed, in force since 1-1-2008**
- **General Governmental Accounting Plan was adapted to Spanish Business Accounting Plan and IPSAS in 2010.**
- **Main issues in the reform of Government Accounting Standards:**
 - ***New Conceptual Framework and Governmental Accounting Principles***
 - ***Recognition and measurement rules***
 - ***New Annual Financial Statements for public entities***

The delays in Local authorities and Autonomous Communities Accounting Reforms

- There are delays between the date of GGAP and the reform of Accounting Standards for Municipalities, that was approved in 2013 and came into force in 2016.
- The adaptation of Autonomous Communities Accounting to GGAP has not only taken a considerable delay, but in most of them, either the adapted rules has been passed recently or even is still pending.
- A recent survey on the regional accountants' opinions about the suitability of the reforms, most of them consider the new regulation a useful tool for the elaboration of consolidated financial statements, decision making processes and quality of accountability.

Thank you for your attention

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