



# PUBLIC FINANCIAL MANAGEMENT REFORMS IN THE CARIBBEAN: With an emphasis on financial reporting

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April 12 2016  
Bahamas



# CARTAC

- ▶ Caribbean Regional Technical Assistance Centre (CARTAC)
- ▶ created to help countries strengthen human and institutional capacity to design and implement sound macroeconomic policies that promote growth and reduce poverty.


# CARTAC

- ▶ Tax/customs policy and administration
  - ▶ Financial Sector Regulation and Supervision & Capital Markets
  - ▶ Economic and financial statistics
  - ▶ Financial programming
  - ▶ Public Finance Management
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# CARTAC

- ▶ Diagnostic work
  - ▶ Prepare detailed reform plans
  - ▶ Consistency with internationally agreed standards
  - ▶ Hands-on technical advice and training either by the centre's advisers or contracted consultants
  - ▶ Conduct training courses, seminars, workshops and the dissemination of best practices;
  - ▶ Arrange professional attachments for skills enhancement and development
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# PFM Program

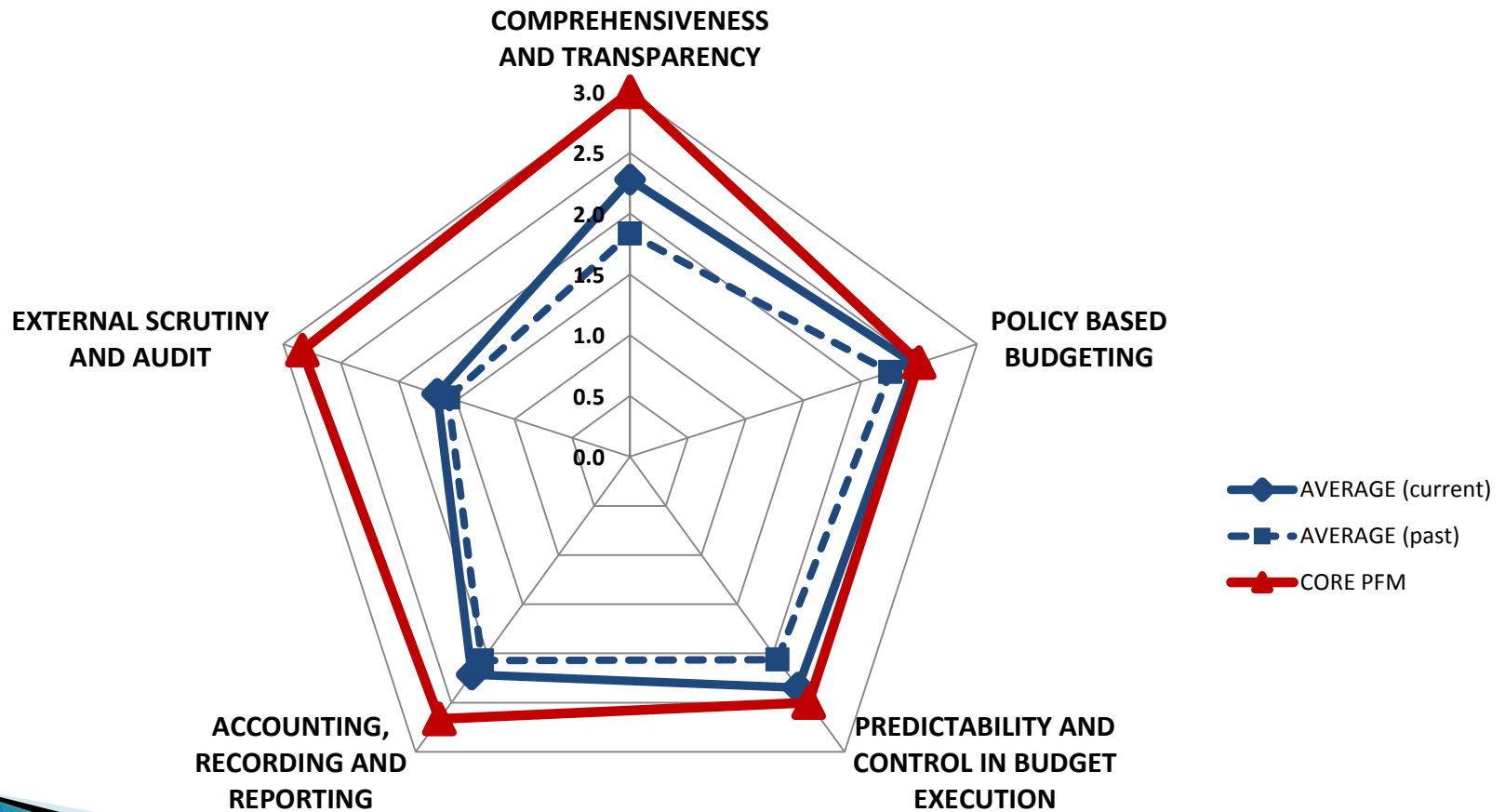
1. Strengthened ownership of PFM reforms
  2. Assist countries to implement a Model PFM legal and regulatory framework
  3. Improve multi-year perspective in fiscal planning, expenditure policy and budgeting
  4. Strengthened capacity of treasury to produce timely, accurate and comprehensive financial reports
  5. Independent and competent internal audit function
  6. Assist countries to have a system for managing and monitoring fiscal risks
  7. Sustainable education and peer-assisted learning capacity in the region
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# PFM Reform Program

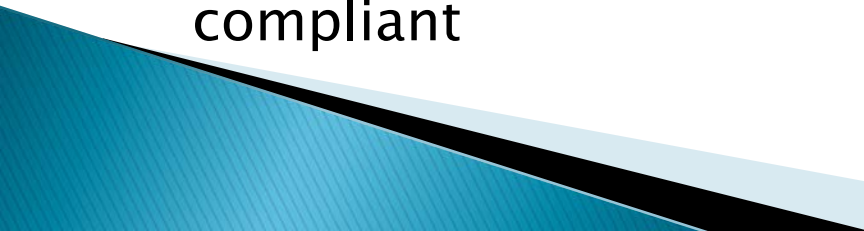
- ▶ Ownership of program
  - Implementation activities
  - Monitoring of achievements
  - Updating of plan
- ▶ Prepared from identified need
  - Country request
  - Diagnostic on operational functions, such as Treasury, Budget, Internal Audit, etc
  - Public Expenditure and Financial Accountability review

# Overview

## PFM – Results of PEFA Assessments



# Key Results in the last 12 months

- ▶ Modern PFM legislation is occurring across ECCU – 4 countries have modern legislation; 3 final drafts; 2 interim drafts
  - ▶ SOEs – 6 countries implementing SOE reforms and have prepared SOE oversight manual
  - ▶ Budget reforms – active in 11 countries with 3 countries including additional pilots this year; budget manuals completed for 9 countries
  - ▶ PEFA assessments – Grenada and Dominica (2016 methodology) completed – 10 now have repeat PEFA's
  - ▶ Most countries implementing reforms based on PFM action plans, prepared after PEFA or similar assessments
  - ▶ Development of regional experts – regional managers join PEFA team; workshop presentations of regional best practices
  - ▶ IPSAS cash basis – based on new exposure draft for cash basis, 4 countries fully compliant; a further 7 mostly compliant
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# Financial Reporting

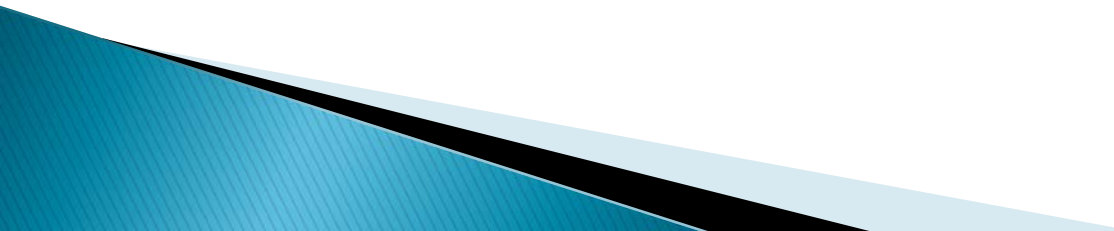
## ▶ Summary of CARTAC FR Activities

- Annual IPSAS cash basis reporting workshop (2014, 2015, 2016)
- 2014 Workshop for Accrual countries
- Barbados workshop on requested IPSAS standards
- In country technical assistance:
  - Trinidad and Tobago
  - Bahamas
  - Turks and Caicos
  - Dominica
  - Grenada
  - Anguilla
  - Montserrat
  - Belize / St Kitts & Nevis (CARTAC/SEMCAR/FMC)

# Key changes in Cash Basis IPSAS (Exposure draft 61)

- ▶ Topics shifted from mandatory to voluntary disclosures
  - Consolidation of all reporting entities
  - Disclosing third party transaction
  - Disclosing external assistance

# Evaluation Framework Model

- ▶ Based on Exposure draft
  - ▶ Ranked responses 1 – 5 where 5 is fully compliant
  - ▶ Scored by country participants with assistance from experts
  - ▶ 46 Topic Areas
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No.	Para #	Information to be presented in the Statement of Cash Receipts and Payments
10	1.3.12	<p>The statement of cash receipts and payments shall present the following amounts for the reporting period:</p> <ul style="list-style-type: none"> <li>a) Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;</li> <li>b) Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and</li> <li>c) Beginning and closing cash balances of the entity.</li> </ul>
11	1.3.13	<p>Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, shall be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:</p> <ul style="list-style-type: none"> <li>a) They arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or</li> <li>b) They are for items in which the turnover is quick, the amounts are large, and the maturities are short.</li> </ul>
12	1.3.14	<p>Line items, headings and sub-totals shall be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.</p>
13	1.3.15	<p>This standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof.</p>

# Evaluation

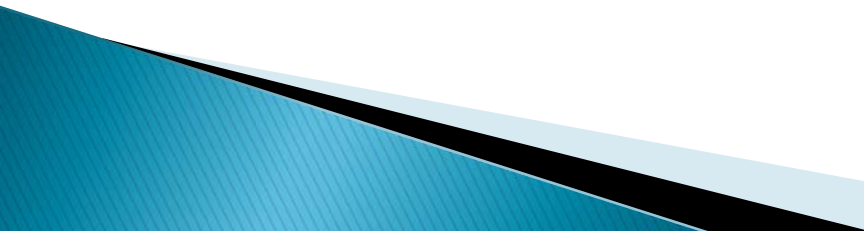
- Total Score possible: 230
  - 16 countries
  - Score 1–5 per topic
  - **4 Countries – Fully compliant**
  - **7 Countries – Mostly compliant**
  - 7 Countries also indicate financials are completely up to date and submitted to Audit Office within 6 months
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- Above 90% Full compliant
  - Above 75% Mostly compliant
  - Above 50% Majority compliant
  - Above 25% Partially compliant

# Evaluation

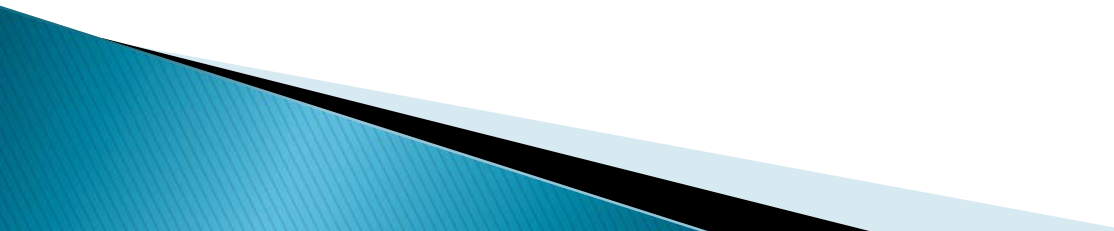
## IPSAS Compliance Rating



# Positive Findings

- ▶ Identification of financial statements
  - ▶ Name of reporting entity
  - ▶ Time period/date of financial statements
  - ▶ Cash (equivalents, overdrafts)
  - ▶ Consistency in presentation
  - ▶ Comparative information
  - ▶ Comparison of budget to actual
  - ▶ Identification of budget period
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# Areas of Concern

- ▶ Lack of disclosure when using ‘modified’ cash or ‘modified’ accruals
  - ▶ Selection and disclosure of accounting policies
  - ▶ Restrictions on cash balances and access to borrowing
  - ▶ Information on prior period adjustments
  - ▶ Disclosure of budgetary basis and classification basis
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# Cross Cutting Issues

- ▶ Recognize transaction and events only when cash or equivalent is received or paid – incorrect inclusion of un-presented checks and dishonored revenue cheques
- ▶ Disclosure of cash balances, whether cash is generated from taxes, fines, fees and/or borrowings and whether it was for operating costs, acquisition of capital assets or retirement of debt (can be corrected by inclusion of cash flow statement IPSAS 2)

# Cross Cuttings Issues (2)

- ▶ Where cash is restricted as to its use or access to borrowings are restricted – restrictions should be disclosed in notes. (money held in trust)
- ▶ Disclosure of corrections in opening balances – need to be disclosed and not just adjusted
- ▶ Treatment of Foreign currency cash receipts, payments and balances – adjustments made for currency exchange rates that impact statements.
- ▶ Presentation of budget and actual – requirements are not completely satisfied

# Accrual Basis

- ▶ Three countries on accruals
- ▶ Two have developed road maps for implementation of accruals
- ▶ Estimated costs of moving from cash to accrual accounting:
  - Switzerland: €40m
  - Austria: €30m
  - France: €1.5bn for all accrual accounting and budget reforms over past 10 years
  - EU: The EU estimates that the costs of transition to accrual accounting could be up to €50m for central government in “a medium-sized EU country.”
- ▶ Annual operating costs are not included in above amounts.

# Accrual Basis

## Problems noted

### ▶ **Compliance and Control :**

- Data quality of the financial statements is dependent on compliance and control by line ministries.
- Lack of accountability and absence of consequences when ministry officials fail in their duties.
- Awareness raising programs and on-going training are critical.

### ▶ **Accounts Payable:**

- Accounting systems support the recording of commitments through purchase orders, and recording accounts payable by registering goods receipt and matching the purchase orders to invoices, however, purchase orders are often prepared only when a payment is due.
- Problems with payables affects cash planning and management.

# Accrual Basis

## ▶ Problems noted

### ▶ Accounts Receivable:

- Writing off unrecoverable debt can become a political issue. A/R balances must reflect the level of collections and recoverability. Causes include:
  - Lack of understanding that adjusting the balances is an accounting action and distinct from the forgiveness of the debt and collection activities.
  - Recovery of money owed to governments is important and the legal obligation to pay debts is not expunged through the write-down.
  - Policies are required regarding the collection of revenue and enforcement of debt.
  - Issues and performance are enhanced when the financial statements reflected provisions and impairment action.

# Accrual Basis

## ▶ **Legislation, Policies and Procedures:**

- Legislation to enshrine the requirements for compliance with accounting standards is critical.
- User friendly internet accessible guidelines and instructions supporting accounting policies and the standards ensure better compliance with these requirements.

## ▶ **Infrastructure Assets:**

- Identification and valuation of other fixed assets is problem and needed.

## ▶ **Revaluation and Impairment of Assets:**

- When fixed assets are in balance sheets, revaluation and impairment are often neglected.

# Accrual Basis

## ▶ Pension and other unfunded benefits:

- Only one regional country includes the unfunded pension liability.
- All countries are either undertaking an actuarial assessment or have already undertaken an assessment to quantify this liability.
- The recognition of pension and other unfunded liability (such as post retirement health care) to current and past public servants must be distinguished from governments' obligation to provide age pension and health care to the general population as a public policy.
- In general, these liabilities are being treated as current expenses.

## ▶ Consolidation:

- Only one regional country prepares consolidated financial statements. One is planning to pilot integration in the near future.
- Determining whether these bodies in each of the countries meet the definition of controlled entities is an issue.

# IPSAS Consolidation

Subject	Old IPSAS	New IPSAS
Consolidation requirements	IPSAS 6	IPSAS 35
Consolidation disclosures	IPSAS 6	IPSAS 38
Associates and Joint Ventures	IPSAS 7	IPSAS 36
Joint arrangements	IPSAS 7	IPSAS 37
Separate financial statements	IPSAS 6	IPSAS 34
Consolidation of General Government Sector	IPSAS 22	IPSAS 22



Questions?