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MAURITIUS

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UPDATE ON PROGRESS TOWARDS ACCRUAL ACCOUNTING AND INTERNATIONAL STANDARDS

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CONTENTS

ABBREVIATIONS AND ACRONYMS

AFS	IMF's Regional Technical Assistance Center for Southern Africa—AFRITAC South
AG	Accountant General
AO	Accounting Officer
BCG	Budgetary Central Government
CF	Consolidated Fund
CFS	Consolidated Financial Statements
CG	Central Government
DMO	Debt Management Office
FAD	Fiscal Affairs Department
GFSM	Government Finance Statistics Manual (2014)
GG	General Government
GoM	Government of Mauritius
GPFS	General Purpose Financial Statements
ICT	Information and communication technology
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	IPSAS Board
ISAAI	International Standards of Supreme Audit Institutions
LTX	Long Term Expert
MDA	Ministry, Department, and Agency
MR	Mauritius Rupee
MoFED	Ministry of Finance and Economic Development
MRA	Mauritius Revenue Authority
NAO	National Audit Office
PAC	Pubic Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPP	Public Private Partnership
STX	Short term Expert
TAS	Treasury Accounting System
TWG	Technical Working Group

PREFACE

A technical assistance (TA) mission from AFRITAC South (AFS)[1] visited Port-Louis, Mauritius, during the period February 28 - March 13, 2018. The mission team comprised Abdul Khan and Frans van Schaik (Fiscal Affairs Department experts). Mr. Jean-Luc Helis (AFRITAC South Public Financial Management resident advisor) coordinated the mission.

The mission met—representing Mr. Dev. Manraj, the Financial Secretary - Mr. Gerard Bussier, Deputy Financial Secretary; Mrs. Kwee Chow (Philise) Tse Yuet Cheong, Director of Audit; Mr. Anandsing Acharuz and Mr. Ishwarlall Bonomaully, Directors, Ministry of Finance and Economic Development (MoFED); Mr. Sunil Ramdeen, Acting Accountant General; Mr. Sanjay Annauth, Deputy Accountant General; Mr. Sachidanund Ramparsad and Mr. Randhir Kalleechurn, Assistant Accountants General; and other senior officers of the MoFED, the Treasury and the National Audit Office. The mission held extensive discussions with the Financial Controllers, Accountants, and other officials of Municipal Councils and District Councils. The mission also met with officials of Statistics Mauritius and a number of statutory bodies.

The mission would like to thank all of them for the frank and candid discussion of all issues and courtesy extended throughout its stay. The mission also appreciates the courtesy and assistance provided by Mrs. Naima Aubdoollah-Suhootoorah, MoFED and Mrs. Lowtoo Jadunundon, AFRITAC South in respect of mission logistics and scheduling.

[1] AFS provides TA and training to Angola, Botswana, Comoros, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Zambia, and Zimbabwe. Donors include but are not limited to the European Union, the United Kingdom, Mauritius, Switzerland, Germany, and Australia.

EXECUTIVE SUMMARY

The authorities are committed to the reforms to modernize public sector financial reporting. Following the decision to prepare the government financial statements in accordance with accrual basis International Public Sector Accounting Standards (IPSAS), AFS provided advice on the major areas that would be affected by the move to accrual IPSAS and prepared a roadmap for implementation. The authorities requested a follow-up mission to review progress and also advise on extending the reform to statutory bodies and local government. The mission worked closely with senior officials of the Treasury, Ministry of Finance and Economic Development (MoFED), Ministry of Local Government and Outer Islands (MLGOI), Municipal and District Councils and statutory bodies. This report summarizes the mission's findings and recommendations.

Progress has been made in implementing accrual accounting based on IPSAS. Notably, the Finance and Audit Act has been amended to provide the legal basis for the reforms. Loans and long-term debt have been recognized in the 2016/17 financial statements—a year earlier than the roadmap. Some work has been done in developing the format of the financial statements and related accounting policies. Efforts are continuing to reconfigure the Treasury Accounting System (TAS) to facilitate the reforms.

However, some key targets and milestones, set out in the previous IMF AFS report including the roadmap, are yet to be achieved. Key elements of the financial reporting framework, including the form and content of financial statements and the accounting policies and related guidance, are not yet complete. In addition to delaying the reform at the budgetary central government level, this also increases the risk of uncoordinated reform activities at the level of statutory bodies and local government authorities. The opening statement of financial assets and liabilities, which need to be determined in accordance with the agreed accounting policies, is not yet available. This is an important step for the preparation of the first set of accrual financial statements for 2017/18.

The TAS system is not yet able to accommodate accrual accounting. A key success factor for reforms of this type is that the accrual IPSAS-based financial statements are reliable and verifiable. A fully operational general ledger that records assets and liabilities and transactions on an accrual basis is an important tool to provide assurance of reliability and verifiability. The TAS system has the functionality to operate an accrual based secondary ledger, while continuing to operate the existing primary ledger on the budgetary accounting basis. However, various issues have arisen and, while efforts are continuing to resolve them, the secondary ledger is not yet operational. Priority should be given to completing the current testing and operationalizing this ledger with a view to producing the financial statements from this ledger.

The entities to be included in the financial statements of the government should be clarified. In particular, the treatment of the statutory bodies needs attention. Statistics Mauritius treats some of these bodies as extra-budgetary units (e.g. Irrigation Authority) and therefore as part of the central government and general government. Other statutory bodies (e.g., Agricultural Marketing Board) are treated as nonfinancial public corporations and therefore outside the general government sector. MoFED and Treasury should adopt a similar classification for the preparation of financial statements for the central government and general government sector.

Statutory bodies should not be unduly concerned about the nature and extent of changes required to move from International Financial Reporting Standards (IFRS) to IPSAS. IPSASs are based on IFRSs and only deviate from IFRSs for public-sector specific reasons. IPSASs also cover public sector specific issues such as non-exchange revenues (e.g. taxes, grants) and comparison of published budget and actual information that are not covered by IFRSs. An analysis of the differences between IFRS and IPSAS is provided in this report.

The Minister has directed the local government authorities (LGAs) to prepare financial statements in accordance with accrual IPSAS with effect from 2017/18. The LGAs will apply the transitional provisions allowed under IPSAS and will therefore have, in many cases, until 2020/21 to implement the requirements fully. A detailed gap analysis between the current practice of these bodies and the requirements of IPSAS is set out in this report. The major gaps relate to financial reporting for employee pensions and non-financial assets. Most local government authorities do not provide full disclosure of their pension liabilities and may in fact be understating pension liabilities. The latest available audited financial statements also indicate that the accounting and reporting for non-financial assets has been a source of audit concern and a basis for qualified audit opinions. The local government authorities, in coordination with the central government, should review the gap analysis and start addressing the gaps in a systematic manner. The MoFED should instruct the LGAs to adopt the roadmap included in this report and proceed with implementation in accordance therewith.

The Finance and Audit Act requires full compliance with IPSAS by 2022/23. This is two years later than was envisaged in the roadmap. This extended deadline should be treated as applicable for the preparation of the consolidated financial statements for the public sector as a whole. All other milestones regarding IPSAS compliance according to the roadmap should continue to apply. The financial statements should identify the IPSASs that have been complied with and those where compliance has not yet been achieved. The issue of a lack of skilled human resources should be addressed and available positions should be filled without undue delay in order to facilitate the achievement of this ambitious timetable.

Improved management and coordination of reform activities is necessary. With the extension of IPSAS to statutory bodies and local government it is important to ensure that the

Treasury and MoFED define the reporting framework as soon as possible and make this available to these and other stakeholders. In particular, the form and content of the financial statements and the accounting policies and related guidance should be available to the entities that are required to prepare financial statements in compliance with IPSAS from 2017/18. Unfortunately, while the LGAs and statutory bodies have to prepare their 2017/18 financial statements by September 30 2018, the authorities do not expect to complete this essential guidance until December 2018. This introduces a risk of inconsistent policies, practices and formats being applied that may require costly changes to systems and processes later on. For example, the system for local government has been modified to meet IPSAS requirements and might need to be changed again once Treasury and MoFED define their requirements.

I. INTRODUCTION AND BACKGROUND

1. **The MoFED has commenced the move to accrual accounting and IPSAS**. This follows the advice provided by an IMF Regional Technical Assistance Center for Southern Africa—AFRITAC South (AFS) mission during October 2016 on key issues and a roadmap for a phased implementation of the reform.[2] The MoFED requested AFS to review the status of the reform and provide advice on the extension of the reform to the local government and selected extra budgetary units and other bodies to, among other things, facilitate the preparation of consolidated financial statements for the general government and the public sector.

2. **This report comments on the current status of the reforms and the measures and activities necessary to take the reforms forward**. It identifies issues and challenges faced so far and suggests approaches to address them. A key output of the reform is also a road map attached as Appendix 1, which provides guidance on the sequencing of activities required to progressively implement the accrual framework at the local government level. This roadmap is complementary to the roadmap for the central government provided by the previous mission. The two roadmaps together constitute an integrated plan for the implementation of the reforms including change management.

II. CENTRAL GOVERNMENT

A. Current status

3. **The authorities have made progress in moving towards accrual accounting and IPSAS**. The Finance and Audit Act has been amended to provide a legal basis for the reforms. Work is underway in defining the form and content of the financial statements and the

[2] P. Murphy and A. Khan (March 2017); *Towards Accrual Accounting and the Adoption of International Standards.*

accounting policies and related guidance. A chart of accounts based broadly on *GFSM* 2014 classification has also been developed. Efforts are continuing to reconfigure the Treasury Accounting System (TAS), including the asset register to accommodate accrual accounting and facilitate the preparation of financial statements in compliance with IPSAS.

4. A number of improvements have been made in the financial statements for 2016/17. Loans (financial assets) and long-term debt have been recognized for the first time. This is a step in the right direction, as these assets and liabilities will form part of the opening balance sheet as at July 1, 2017. A first estimate of property, plant and equipment and intangible assets has also been included in the statement of financial position, ahead of the roadmap. However, this is a calculated amount based on aggregating the acquisitions over a number of years. It does not relate to any identified assets or any depreciation or impairment. The audit report on the financial statements has been submitted to the authorities but was not seen by the mission.

B. Issues

5. Some of the critical milestones according to the roadmap have not been achieved. The roadmap was developed by the previous AFS mission in close consultation with the authorities. It has been adopted by the authorities to guide the implementation. However, progress so far has not been consistent with the roadmap. This section discusses a number of key issues, including areas where progress has not been achieved as planned.

Financial reporting framework

6. The key elements of the financial reporting framework are yet to be developed. In particular,

- ***The form and content of the financial statements to be prepared in compliance with IPSAS are not yet ready.*** The roadmap envisages that these would be completed in 2016/17 to provide an overall reference and guidance for the development of other elements of the framework such as the accounting policies, the systems and processes.

- ***The accounting policies for financial assets and liabilities are not yet available.*** The roadmap required these and the related procedures to be developed to, among other things, provide the basis for determining the opening balances of financial assets and liabilities as at July 1, 2017.[3] These policies would also inform the recording of

[3] A document on accrual and prepayment rules was developed for use by ministries to report information to the Treasury as at June 30,2017. This document provides guidance on specific items but does not include accounting policies and does not cover all financial assets and liabilities, particularly pensions, non-exchange revenues,

(continued…)

transactions and balances in TAS for 2017/18. Finally, the policies would select among options provided by IPSASs in certain areas to ensure that all entities follow the same accounting practice. For example, IPSAS 2 *Cash Flow Statements* allows interest expense to be treated as either operating or financing flows. The Treasury should standardize this and specify that interest should always be treated as part of operating activities.

7. The incomplete draft format of the financial statements reviewed by the mission shows some information presented as "statements" that should be included as part of the notes rather than as separate statements. The Finance and Audit Act uses this term and officials feel that the financial statements should use the same term. However, IPSAS uses the term for statement of financial performance, statement of financial position, statement of changes in net assets/equity, and cash flow statement. The comparison of budget and actual amounts may also be presented as a separate statement. All other information should be included in the notes to the financial statements and the term "statement" should not be used to describe them. The report also suggests below that the Act should be amended to allow this change in the financial statements. Furthermore, the numbering system (a, aa-af, d, da etc.) used in the financial statements should be revised. The numbering system follows the sub-paragraph or sub-section numbers used in the Finance and Audit Act. That does not necessarily imply that this numbering system should be reflected in the financial statements. The numbering system is not very user-friendly and should be revised. It should be noted that governments that prepare financial statements based on IPSAS (New Zeeland) or IFRS (Australia, UK) do not usually number their primary statements. Only the notes are numbered—sequentially, not in accordance with sub-paragraph or sub-Sections numbers in legislation. The authorities have agreed to consider these recommendations further.

Opening statement of financial assets and liabilities

8. The opening statement of financial assets and liabilities as at July 1, 2017 is not yet complete. This was planned to be completed by September 2017 and input into the TAS system. The financial statements as at June 30, 2017 include some financial assets and liabilities. However, material liabilities such as pensions, passage benefits, sick leave, and vacation leave, and most other accounts payable or creditors and provisions (if any) are yet to be determined for the purposes of inclusion in the opening statement of financial assets and liabilities. Furthermore, it is not clear whether the financial assets and liabilities that are included in the financial statements have been reported in accordance with accounting policies that are consistent with IPSAS.

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investments, contingent liabilities and related provisions, receivables and related provisions for doubtful debts etc. Also the guidance on this document has not been developed to be consistent with IPSAS.

The Treasury Accounting System (TAS)

9. The TAS system does not yet have an operational accrual-based general ledger (GL). The availability of this accrual-based GL, referred to as the secondary GL in TAS, is a critical success factor for the accrual reforms (Box 1). Various problems have been faced in making this functionality operational. The service provider —State Informatics Limited (SIL)— set the ledger up but it failed to post the accrual transactions completely.

10. Efforts to resolve the issues are continuing. Experts from the application provider identified that there were several issues with the setup. These included setting up both the primary and secondary GLs to carry out encumbrance (budgetary) control. The experts indicated that the system cannot operate dual encumbrance control systems and the setup should be changed to operate encumbrance in the primary (budget accounting basis) GL only. The mission was advised by the SIL that this and other issues identified by the experts had been addressed but these are yet to be fully tested by Treasury officials. The SIL was optimistic that once the tests have been successfully completed it would be possible to post the transactions from July 1, 2017 to the accrual ledger. However, neither SIL nor the officials were able to provide a timetable for the resolution of the issues and the successful operation of the secondary GL. Subsequent to the mission, the authorities confirmed that the secondary GL is not expected to be operational by the end of 2017/18, but would be available for the preparation of the financial statements of 2018/19.

Mauritius. Box 1 The role of the dual general ledger system

Given that the budget is going to continue on a cash basis, it was recognized that the government should be able to continue to generate cash based budget execution report as it progresses to preparing financial statements on an accrual basis. During the last mission it was agreed that TAS would be able to accommodate both cash accounting for budgetary purposes and accrual accounting for financial reporting purposes. TAS has a functionality to operate dual general ledgers—a budget accounting-based primary ledger and an accrual accounting-based secondary ledger.

The roadmap required this secondary ledger to be operational from July 1, 2017. This would enable the recording in TAS of the opening balances of financial assets and liabilities as at July 1, 2017 and the accrual transactions from that date. TAS would thus provide a general ledger on an accrual basis for 2017/18, excluding nonfinancial assets. Subject to any additional year-end adjustments (e.g., recognition of provisions) this would enable the production of the 2017/18 accrual IPSAS-based financial statements for financial assets and liabilities, with nonfinancial assets continuing to be recorded on a cash basis.

Source: AFS mission

11. The secondary GL is intended to record transactions on an accrual basis. There was some uncertainty on this issue, with some officials being under the impression that the secondary GL will not be a complete record of transactions but will record accrual related adjustments at the year-end based on some kind of mapping with the primary ledger. Extensive discussions with officials and SIL and a demonstration of the system in a test environment helped clarify this issue. It was concluded that the primary GL would continue to record transactions on the budgetary (mainly cash) basis to facilitate budgetary control and reporting. The secondary GL will record the same transactions on an accrual basis. The major difference will be the manner in which the transactions related to the acquisition of nonfinancial assets is processed. In the primary ledger these acquisitions would be treated as expenses. The accrual GL will record these as acquisition of assets, and the asset register will be updated. Another key difference will be invoices for goods and services received. These will be recognized as liabilities and expenditures in the secondary GL, while the primary GL will record these expenditures only when cash is paid and will not recognize a liability.

12. The secondary GL will continue to show liabilities for invoices even if the budgetary encumbrances are cancelled in the primary GL. This situation can arise for example when invoices remain unpaid at the end of the fiscal year for goods and services received during the year. Under budgetary regulations the encumbrances created in the primary GL to reflect that the available funds are reduced have to be cancelled at the end of the fiscal year. There was a lack of clarity regarding whether such cancellation would also lead to the cancellation of the liability in the secondary GL. It was established during the discussions and the demonstration that this was not the case. The secondary GL will continue to reflect the liability and the expenditure under such circumstances. This is the correct treatment because the liability and expenditure had been properly incurred before the end of the fiscal year and are not affected by the cancellation of the encumbrances.

13. Nonfinancial assets acquired will be recorded as assets both in the GL and the asset register regardless of whether payment has been made for the acquisition. This would be particularly relevant at the end of the fiscal year because assets might be acquired during the year but the payment may be made next year. Assets constructed under public-private partnerships and assets received as grants or donations might also give rise to asset acquisitions where the related cash payments may be made in the future or no cash payments might be involved.

14. However, when cash payments have not been made for the acquisitions, different procedures will need to be followed to ensure that these assets are properly accounted for and reported. When asset acquisitions are first entered into the system, they are initially posted to asset clearing accounts. At this stage the accounts are not categorized and not depreciated. When assets are acquired without cash payments, certain details about the asset being acquired will have to be entered into the system as a separate exercise to take the asset out of the clearing account and post it to the appropriate asset account (e.g., dwelling). Where cash payment is made for an acquisition the transfer from the clearing account to the asset account occurs automatically and does not need this additional step. The different processes required should be documented and made available to all staff, as there was some confusion on this issue. It should be stressed that the separate procedures for any acquisition of assets for which cash payment has not been made by the year-end date must be completed in order that the assets are properly classified and recorded in the GL and the asset register, and depreciated.

15. The system issues should be resolved and the system should be tested fully before it is accepted as operational. It should be stressed that the Treasury's experience has been that even when the secondary GL worked in a test environment it failed in the live system. This suggests that testing should be undertaken in an environment that is an exact copy of the live system. Even after successfully completing such testing, AG officials should regularly review and assess the operation of the secondary GL in the live system for a period of several months. At the end of the first year of operation the outputs of the system should also be reviewed to ensure that the system has produced data completely and accurately. The trial balance and other reports should be reviewed thoroughly to provide assurance that the information in the secondary GL is free from error. The accrual financial statements should thereafter be prepared using the secondary GL.

16. The functionality and the operating procedures related to the secondary GL should be documented in a users' manual. The unusual setup of TAS with a primary and a secondary GL makes it particularly important that senior officials in charge and day-to-day users of the system have ready access to a user-friendly manual. This would help the users understand or seek clarification on what the system is designed to do and what procedures or steps are required to complete a task or obtain a report from the system. The manual should, in particular, clearly explain the concept, the detailed functionality and the outputs of the secondary GL and the manner in which this relates to and can be reconciled with the primary GL. The manual should also highlight areas (e.g., acquisition of nonfinancial assets) that involve special procedures or manual interventions.

The legal framework

17. The Finance and Audit Act was revised in 2017. A key objective of the revision was to require the AG to prepare the financial statements of the government in compliance with IPSAS. Full compliance with IPSAS is required by 2022/23. This compares with the previous mission's recommendation and the roadmap that required full compliance by 2020/21. The revised Act also requires the financial statements to present a true and fair view of the public finances.

18. The concept of the adjusted consolidated fund could be included in the law. The existing text in the Act defines the consolidated fund (Part II, Section 3) and the related definitions confirm that the consolidated fund is based on a cash concept. Legal experts have confirmed that this does not present any obstacle to implementing accrual accounting.[4] The

[4] P. Murphy and A. Khan (March 2017); *Towards Accrual Accounting and the Adoption of International Standards.*

existing financial statements of the government, however, includes a number of adjustments based on the accrual concept. Based on legal opinion the financial statements show a reconciliation of the consolidated fund on a cash basis and the consolidated fund after adjustments for assets and liabilities recognized. This adjusted consolidated fund balance is shown on the statement of financial position. The cash balance of the Fund is reconciled to the cash and bank balances. However, the Act does not refer to the adjusted consolidated fund. It might be helpful to include such a reference in any future amendment to the Act.

19. The accounting policies regarding the recognition of capital expenditures and related liabilities should be developed in line with IPSAS, not necessarily the provisions related to the carryover of capital expenditures. The provisions of the Act (Part II, Section 3A) allow any appropriations for capital expenditure that are not yet "incurred" to be carried forward for three months after the year end. The existing practice to implement this provision is to treat these amounts as expenditure of the budget year. This is regardless of whether the related goods and services have been received or not. This accounting treatment will need to be modified when financial statements are prepared in compliance with accrual IPSAS. If the goods and services have been received before the year-end and a liability has been incurred this should be recognized in the financial statements. This would imply that the accrual IPSAS financial statements and the current accounting practice would be similar. However, where goods and services have not been received before the end of the fiscal year and no liability has been incurred by the government, neither the capital expenditure nor any liability should be recognized under IPSAS. Where a contract or order exists, the commitment, if material should be disclosed.

20. The inclusion of requirements for the financial statements to present fairly the public finances is a positive step, but the language should be more consistent with generally accepted usage. The Act (Part III, Section 19.1) requires the financial statements to present fairly "the financial transactions and the financial position of Government on the last day of…. fiscal year." The concept of fair presentation is discussed in, among other things, the International Standards of Supreme Audit Institutions (ISSAI) 1700, *Forming an Opinion and Reporting on Financial Statements* and the related International Standard on Auditing (ISA) 700. Based on these sources the audit opinions would usually refer to the financial statements presenting fairly, "in all material respects, the financial position of the Government at the reporting date and its financial performance and cash flows for the year then ended.." It is recommended that the Act be modified accordingly.

21. The requirements related to disclosure in financial statements of budget information should be expanded. First, the existing text (Part III, Section 19.3) requires comparison of budget and actual information on expenses by function and nature of expenses. The Act should also require comparison of revenues and deficit/surplus. IPSAS 24 requires that the actual amounts on a comparable basis used to compare with the budget should be reconciled with the net cash flows from operating activities, investing activities, and financing activities. Material variances between budget and actual amounts should be explained. Reference should be made to IPSAS 24 and explanatory material based on IPSAS 24 should be included in the guidance material on accounting policies. Finally, the financial statements should also include a reconciliation of the accrual-based surplus/deficit shown on the statement of financial performance and the budget surplus/deficit shown on the budget outcome report (also referred to as budget execution report). This reconciliation was discussed and illustrated in the previous mission's report. Among other things it was noted that this reconciliation was not required by IPSAS. However, given the importance and prominence of the budget, the users including members of parliament would consider the accrual based financial statements more credible if they are provided with information that explain why the financial statements and the budget outcome reports show different "bottom lines."[5] The previous report also included an example of this reconciliation from the US government's consolidated financial statements.

22. The references to the term "statement" in the Act should be reviewed and revised. As noted above IPSAS, uses the term for a number of specific statements. All other information should be included in the notes to the financial statements. The Act specifies many other statements, including a separate statement each for investments, advances, arrears of revenue, and store losses. These references in the Act are interpreted by officials to imply a requirement to use the term "statement" in a similar way in the financial statements. This would therefore lead to the financial statements not being consistent IPSAS terminology. The Act should be revised and all such information should be included in the notes and the word "statement" should not be used.

Reporting entity

23. The entities to be covered in the consolidated financial statements of the central government, general government, and public sector should be clarified. It has been agreed that the first accrual-based financial statements would be prepared for the budgetary central government. This will be followed progressively by a move to financial reporting for the central government, general government, and the public sector. The definition of the budgetary central government will follow the coverage of the existing financial statements. However, the entities that would be included in the central government, general government, and the public sector should be clarified further.

24. In particular, the entities to be included in and excluded from general government financial statements should be agreed and documented as part of the new framework.

[5] P. Murphy and A. Khan (March 2017); *Towards Accrual Accounting and the Adoption of International Standards (paragraph 15)*..

(continued...)

Statutory bodies[6] include some extra budgetary units (e.g. Irrigation Authority) and some nonfinancial public corporations (e.g., Agricultural Marketing Board), as classified by Statistics Mauritius. GFS reports prepared by Statistics Mauritius include EBUs as part of the central government. Public corporations, on the other hand are treated as outside the general government.

25. Financial statements should follow the sector classification used in GFS reports. The classification of the public sector is based on statistical principles set out in *GFSM* 2014. The existing classification was reviewed by a mission from the Statistics Department of the IMF.[7] The mission analyzed the financial statements of, and other publicly available information related to, a number of corporations and concluded that the classifications of these entities was consistent with *GFSM* 2014 guidelines, with one exception. The mission also recommended that Statistics Mauritius should regularly review and revise the classification of public sector units. MoFED should confirm with Statistics Mauritius that existing classification is based on such reviews.

Employee pensions

26. Employee pensions should be accounted for according to IPSAS. Under IPSAS 39 *Employee Benefits,* obligations arising out of defined benefits arrangements should be valued actuarially and recognized in the financial statements as a liability. IPSAS 39 also requires extensive disclosures about, among other things, the characteristics of the defined benefit plans and the related risks, how the plans may affect the amount, timing, and uncertainty of the government's future cash flows, and actuarial assumptions.

27. The recognition of liability for employee pensions in the financial statements should be distinguished from the issue of funding. In common with practice in many other jurisdictions, the pension liabilities are funded on, what is commonly referred to as a pay-as-you-go basis. The benefits to be paid in the fiscal year to existing pensioners are funded through the budget. The budget does not provide for or set aside any funds for the pension liabilities that are incurred during the fiscal year. This is usually referred to as unfunded liabilities. For the purposes of the financial statements, the liability should be recognized in accordance with IPSAS regardless of whether the pension commitments are funded or not. The recognition of the liability does not imply that the obligation should be funded. Conversely, the failure to fund the obligations does not imply that the liability does not exist.

[6] The Statutory Bodies (Accounts and Audit) Act, First Schedule

[7] S. De Clerck and B. Robinson (June 2014), *Report on the Government Finance Statistics Mission*

C. Statutory bodies

Accounting framework

28. IPSAS does not determine which specific entities should prepare financial statements in accordance with IPSAS. It is therefore up to the Government of Mauritius (GoM) to decide, based on the criteria developed by IPSASB (see below), whether individual government entities should prepare financial statements that will be compliant with IPSAS. If all government-controlled entities are to prepare IPSAS-compliant financial statements or IFRS-compliant financial statements, the necessary information will be available to prepare consolidated financial statements. IFRS (International Financial Reporting Standards) is a set of accounting standards for the private sector organizations, developed by an independent organization called the International Accounting Standards Board (IASB).

29. IPSASs should be applied by the public sector entities that meet all the following criteria:

- Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;
- Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt, or fees; and
- Do not have a primary objective to make profits.[8]

Differences between IFRS and IPSAS

30. IPSASs are based on IFRSs and only deviate from IFRSs for public-sector specific reasons. The similarity between IFRS and IPSAS facilitates the preparation of consolidated financial statements for GoM with limited need for adjustments to the amounts reported in the financial statements of the consolidated entities. The last page of each IPSAS standard lists the differences between that standard and the equivalent IFRS, if any.

31. From a brief review of some of the financial statements issued by statutory bodies the mission concluded that important areas for further improvement include the reporting of employee benefits and the presentation of budget information in the financial statements. This section highlights some –but not all– differences between these two financial reporting frameworks.

32. Some IPSAS standards differ temporarily from IFRS when the IPSAS Board is in the process of amending its IPSAS standards to match amendments made to the equivalent IFRS standards. This applies momentarily to IPSAS 13 *Leases*, which is still based on IAS 17, but differs

[8] P. Murphy and A. Khan (March 2017), *Towards Accrual Accounting and the Adoption of International Standards* which refers to IPSASB (April 2016);

Preface to the International Public Sector Accounting Standards, paragraph 10.

from IFRS 16 *Leases* and to IPSAS 9 *Revenue from Exchange Transactions*, which is still based on IAS 18 *Revenue*, but differs from IFRS 15 *Revenue from Contracts with Customers*. Until recently, it applied to IPSAS 25 that has been superseded by IPSAS 39 *Employee Benefits* and to IPSAS 6-8 that have now been superseded by IPSAS 34-38 *Interests in Other Entities*.

33. The IFRS-definition of an asset refers only to economic benefits, while IPSAS also takes service potential into account. An asset provides service potential to its holder if it helps the entity to provide a service, albeit free, to its citizenry. This has an impact on the way IPSAS accounts for impairment of non-cash-generating assets that provide service potential but no economic benefits to the entity. IFRS calculates impairments based on economic benefits, i.e. future cash flows from the assets or cash-generating unit. IFRS requires entities to impair all non-cash generating assets since the impairment calculation is based on future cash flows. IPSAS caters for impairment of cash and non-cash generating assets in two separate standards. IPSAS 26 *Impairment of cash-generating assets* calculates impairment in the same way as IFRS. IPSAS 21 *Impairment of non-cash-generating assets* provides specific guidance on how to determine the value-in-use of non-cash-generating assets. IPSAS 21 prescribes impairment calculation based on service potential rather than future cash flows and therefore does not require impairment in many case when IFRS would.

34. IPSAS 23 *Revenue from Non-Exchange Transactions* includes measurement and recognition guidance that differs from IFRS. For-profit organizations receive their revenue in exchange for providing goods or services. IFRS 15 *Revenues from Contracts with Customers* focuses exclusively on revenue arising from exchange type commercial transactions. IAS 20 Accounting for Government Grants and Disclosure of Government Assistance only deals with one type of 'non-exchange' revenue – revenue received from governments. IAS 20 allows organizations to recognize revenue from government grants in the same pattern as the depreciation or amortization of the asset acquired using this grants. Most public sector organizations receive most of their revenue in 'non-exchange' transactions. Revenue from non-exchange transactions is not earned in the normal commercial sense of that word - it is provided with the expectation that it will be used to benefit others. IPSAS 23 *Revenue from Non-exchange Transactions* deals with accounting for a wide range of non-exchange revenues, including taxes and grants. IPSAS 23 takes a balance sheet approach to revenue recognition, which focuses on the extent to which assets are controlled and associated liabilities are created and extinguished.

35. IPSAS standards require donated assets to be recognized at their fair value. IPSAS 12 *Inventories*, IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment* all require that 'cost' equal fair value, if an asset is acquired at no or nominal charge. The IFRS standards on which they are based do not include this requirement.

36. IPSAS 24 *Presentation of Budget Information in Financial Statements* requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities. IPSAS 24 also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget for which they are held publicly accountable. IPSAS 24 only applies to entities that are required to, or elect to, make publicly available their approved budget and for which they are, therefore, held publicly accountable. The mission, however, recommends making IPSAS 24 mandatory for all statutory bodies in Mauritius.

37. IPSAS includes clarification about the accounting for concessionary loans. Concessionary loans are loans at below market terms. Concessionary loans usually have contractual interest rates that are intentionally set below the market interest rate that would otherwise apply. The degree of concessionality can be enhanced with grace periods, frequencies of payments and a maturity period favorable to the debtor. Since the terms of a concessionary loan are more favorable to the debtor than market conditions would otherwise permit, concessionary loans effectively include a transfer from the creditor to the debtor. Statutory bodies in Mauritius regularly receive concessionary loans from central government. As these entities currently measure their concessionary loans at historic cost (face value) application of IPSAS 29 *Financial Instruments: Recognition and Measurement* might make a considerable difference. IPSAS requires concessionary loans to be measured at amortized cost. The off-market portion of the loan (the difference between the proceeds of the loan and the present value of the contractual payments in terms of the loan agreement, discounted using the market related rate of interest), is recognized as non-exchange revenue or a liability in accordance with IPSAS 23.

38. IPSAS includes clarification about the accounting for financial guarantee contracts issued through a non-exchange transaction (IPSAS 29, paragraphs AG92-AG97). Statutory bodies in Mauritius regularly receive loan guarantees from central government. These are non-exchange transactions, as the statutory bodies do not pay a market-based fee for the guarantee to central government. Financial guarantee contracts are contracts that require the issuer (in this case central government) to make specified payments to reimburse the holder (the lender to the statutory body, for example a bank) for a loss it incurs because a specified debtor (the statutory body) fails to make payment when due in accordance with the terms of a loan. IPSAS requires financial guarantee contracts, like any other financial asset and financial liability, to be initially recognized at fair value. As central government issues this contract in its capacity as shareholder or owner of the statutory body, the counterparty entry in the accounts of the statutory body should be equity. IPSAS 29 includes extensive guidance on the valuation of guarantees, so non-recognition because of a lack of reliable measurement should only arise in rare circumstances.

D. Summary of recommendations

It is recommended that the authorities:

- Complete the development of the financial reporting framework, including the form and content of the financial statements; accounting policies and related guidance (Treasury, MoFED by December 2018).
- Complete the opening statement of financial assets and liabilities (Treasury, MoFED by August 2018).
- Resolve TAS set up issues and commence live operation of secondary accrual-based GL (Treasury, MoFED by July 1, 2018).
- Amend specified sections of Finance and Audit Act (MoFED, Treasury by June 2020).
- Adopt definition of general government and public sector for financial statements consistent with Statistics Mauritius (MoFED, Treasury by June 2018)

III. LOCAL GOVERNMENTS

A. Accounting framework

39. The preparation of a local government authority's financial statements is governed by the Local Government Act 2011, paragraph 132:

'Obligation to prepare financial statements
(1) (a) The Chief Executive of every local authority, other than a Village Council, shall, within 3 months after the end of the financial year, submit to the Council financial statements that comply with section 133.'

40. The form and content of the financial statements are governed by the Local Government Act 2011, paragraph 133:

'133. Contents and form of financial statements
(1) The financial statements of a local authority shall present fairly the financial position, financial performance and the cash flow of the local authority.
(2) The financial statements shall –
(a) be prepared in accordance with, and comply with, Accounting Standards, which should be in convergence with international accounting standards, as determined by the Minister to whom responsibility for the subject of finance is assigned;

(3) Where, in complying with the standards referred to in subsection (2), the financial statements do not present fairly the matters to which they relate, the Chief Executive shall add such information and explanations as are necessary to present fairly those matters.'

41. The Minister of Finance and Economic Development decided, that 'all Local Authorities shall prepare their financial statements in accordance with IPSAS accruals basis with effect from 1st July 2017'.[9] Given the transition provisions allowed under IPSAS 33 *First-Time Adoption of Accrual Basis IPSASs,* this implies that the LGAs have until 2020/21 to achieve a full compliance with IPSAS.

B. Gap analysis

42. There is a need to compare the accounting practices currently followed by the Local Government Authorities (LGAs), with IPSAS and identify the gaps between the existing practices of the Government of Mauritius and the mandatory requirements under IPSAS. A gap-analysis helps develop an action plan to meet the IPSAS requirements. This plan is presented in Appendix 1. This plan indicates a deadline for each activity ("Effective for financial statements for the year"). Preparation will need to start considerably earlier to meet this deadline. Where practical, implementation should start earlier with the aim to achieve full implementation by the deadline. The authorities indicated that a sub-committee would be established to address the issues identified in this gap analysis and the plan in Appendix 1 and report to the technical working group (TWG).

43. The mission reviewed the 2016/17 unaudited financial statements and concluded that important areas for further improvement include the reporting of employee benefits and fixed assets. The mission identified a number of differences between LGAs' current accounting practices and the accrual-basis IPSAS (gap analysis). This section analyzes some –but not all– gaps. They are discussed in an order that aligns with the Government of Mauritius' Road Map for Implementation of Accrual Accounting which is included in the March 2017 IMF AFS report.[10]

Financial reporting framework

44. Some LGAs' financial statements include an assertion that they comply with an IPSAS standard without fully complying with all the requirement of that standard. Port Louis makes a reference to the application of IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*, without making the required disclosures in the financial statements to assist users in tracking adoption progress. Quatre Bornes asserts compliance with IPSAS 25 *Employee Benefits* without including all disclosures required by that standard. Moka announces that its 2017/18

[9] Letter to the Permanent Secretary, Ministry of Local Government, dated 14 February 2017.

[10] P. Murphy and A. Khan (March 2017); *Towards Accrual Accounting and the Adoption of International Standards*.

financial statements will comply with IPSAS. The mission recommends including a note listing the deviations from IPSAS.

45. The notes to the financial statements of some LGAs do not state the basis of preparation of the financial statements. This applies to Grand Port and Savanne. All other LGAs' financial statements simply refer to generally accepted accounting principles (GAAP) without being specific as to which framework they apply. IPSAS requires disclosure of the basis of preparation of the financial statements.

Presentation of financial statements

46. Some of the terms used in the LGAs' financial statements differ from the terms defined in IPSAS. Some LGAs refer to statement of financial position and statement of financial performance in line with IPSAS. However, other LGAs call these statements balance sheet and income and expenditure account (Curepipe, Quatre Bornes, Pamplemousses, Flacq, Grand Port, Savanne, Black River). Rivière du Rempart presents a statement of comprehensive income in line with IFRS, which has a different layout from the statement of financial performance under IPSAS. Most LGAs use the word 'outlays' to refer to their stock of property, plant and equipment at reporting date. The meaning of the word outlay, however, is the expenditure during the year. Some LGAs use the term 'Other Financial Assets (Fixed)' instead of property, plants and equipment. Savanne uses 'long-term' instead of 'non-current'. The mission recommends using terminology in accordance with IPSAS.

47. LGAs' financial statements do not include all components of the general-purpose financial statements prescribed in IPSAS: LGAs' financial statements do not include a comparison of budget and actual amounts, and some do not include a statement of changes in net assets/equity. According to IPSAS, an entity should prepare and present general purpose financial statements which include the following components:

- Statement of financial position
- Statement of financial performance
- Statement of changes in net assets/equity
- Cash flow statement
- When the entity makes its approved budget publicly available, a comparison of budget and accrual amounts
- Notes, comprising a summary of significant accounting policies and other explanatory notes

48. LGAs' financial statements do not include the general information about the entity as required by IPSAS. IPSAS financial statements should include the following information about the reporting entity: domicile and legal form of the entity, the jurisdiction within which it operates, a description of the nature of the entity's operations and principal activities, and reference to the relevant legislation governing the entity's operations.

49. LGAs present their financial statements with different layout and classification, which causes difficulties in comparison and consolidation. There is therefore a need for harmonization of financial statements of LGAs and central government. One example is the many different classifications LGAs apply for fees, rates and taxes. Some LGAs do not provide a breakdown of the items on the statement of financial position by current versus not current assets and liabilities, but instead present 'net current assets minus liabilities'. Not all LGAs present the minimum line items required to be presented on the face of the statement of financial position, statement of financial performance, and statement of changes in net assets/equity. IPSAS for example requires separate line items 'Recoverables from non-exchange transactions (taxes and transfers)' and 'Receivables from exchange transactions' on the face of the statement of financial performance. All LGAs present current year's figures in the left column and comparative figures for last year in the right column in accordance with common practice. One LC (Black River), however, presents comparative figures for last year in the left column. The mission recommends all LGAs follow the common practice. Ref. IPSAS 1, para. 88, 102, 118.

50. The financial statements of one LC include items on the face of the statements of financial position and performance that are not cross-referenced to related information in the notes. This applies to Savanne. IPSAS requires that the notes to the financial statements are presented in a systematic manner and each item on the primary financial statements should be cross-referenced to any related information in the notes.

51. Some LGAs' financial statements do not include all required previous period's comparative information. This applies to Curepipe, which does not present previous period's comparative information for the notes. IPSAS requires that comparative information be disclosed in respect of the previous period for all numerical information in the financial statements, except at first-time adoption of IPSAS. There is also an exception for the comparison of budget and actual amounts. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. For example, the reconciliation of property, plant and equipment shall also be presented for the previous period.

Presentation of budget information in financial statements

52. LGAs do not present a comparison of budget and actual amounts (budget execution statement). In accordance with IPSAS, the financial statements should include a comparison of original and final budget and the actual amounts on a comparable basis.

53. LGAs' financial statements do not include explanations of the differences between budget and actual amounts and between original and final budgets. IPSAS requires:

- By way of note disclosure, the financial statements should provide an explanation of material differences between the budget for which it is held accountable and actual amounts;
- An explanation of whether changes between the originally approved budget and the final budget are a consequence of reallocations within the budget or other factors.

54. The LGAs' financial statements do not include a note disclosure explaining the budgetary basis and classification basis adopted in the approved budget. IPSAS requires such a disclosure. The LGAs' budgetary basis may be described as the cash basis except for some current assets and liabilities such as accounts payable, which are accounted for on an accrual basis; these exceptions should be listed. A classification basis might for example be described as "an economic classification in accordance with GFSM 2014" or "a functional classification in accordance with the Classification of Functions of Government (COFOG).

55. The LGAs' financial statements do not include a note disclosure identifying the entities included in the approved budget, as required by IPSAS.

56. The LGAs' financial statements do not include a reconciliation of the actual amounts in the comparison of budget and actual amounts (budget execution statement) and the cash flow statement, as required by IPSAS. This reconciliation aims to clarify to the users of the financial statements any differences that may arise between receipts, payments and surplus/deficit according to the cash flow statement and receipts, payments and surplus/deficit according to the budget execution statement. Ref. IPSAS 24, par. 47.

57. The LGAs' financial statements do not include a reconciliation of the actual amounts in the budget execution statement and the statement of financial performance. Although not required by IPSAS, the mission recommends including this reconciliation because the credibility and understandability of the accrual based financial statements will be enhanced if the users of the financial statements understand why the revenues, expenses and surplus/deficit in the budget execution statement differ from the accrual figures in the statement of financial performance.

Related party disclosures

58. Most LGAs' financial statements do not include any related party disclosures, as required by IPSAS. Only Moka and Flacq do. Related parties may include:

- key management personnel, such as the mayor
- higher or lower level of government (central government, village councils)
- controlled entities
- public enterprises
- joint ventures
- associates.

This information is helpful for accountability purposes and to facilitate a better understanding of the financial position and performance of the government.

Employee pensions

59. Most LGAs do not provide full disclosure of the pension liabilities and may in fact be understating pension liabilities. Reporting the full extent of pension liabilities in the financial statements is essential for accountability and decision making purposes. The mission therefore recommends that LGAs report on the employee pension entitlements and related liabilities incurred in accordance with IPSAS 39 *Employee Benefits* (which is equivalent to IAS 19 *Employee Benefits*). Actuarial valuation of the liability should be performed at regular periodic intervals. Reporting of the pension liability will highlight sustainability issues, if any.

60. There is sizable group of employees of LGAs that have unfunded defined benefit pensions rights. Their pensions are paid by the LC from the current budget on a 'pay-as-you-go'- basis. As these pension arrangements qualify as defined benefit plans, IPSAS requires a liability to be recognized in the statement of financial position. This liability should be equal to the net total of:

- the present value of the defined benefit obligation (the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods); and
- the fair value of any plan assets at the end of the reporting period.

61. IPSAS 39 *Employee Benefits* provides guidance on the accounting for pension obligations. Showing the full extent of the government's pension liabilities towards its employees is an essential element of transparency and provokes a better-informed discussion about retirement age, level of pension premium, pension payments and funding of state pensions. The mission recommends a careful analysis of the pension arrangements to determine the appropriate accounting and actuarial valuation. The pension liabilities relating to the LGAs' personnel should be reported in accordance with IPSAS 39 *Employee Benefits*. Understating the government pension liability disguises borrowing from future generations.

62. Most LGAs do not recognize 'vacation earned but not taken' and sick leave. IPSAS 39 requires a liability to be recognized on the statement of financial position representing the future compensated absences. The entity shall measure the liability as the amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

Passage fund

63. Some LGAs account for the Passage Fund as part of net assets/equity, although the Passage Fund constitutes a liability. This is because LGAs have an obligation, under certain circumstances, to pay passage benefits (long-term leave) to officers. The Passage Fund is established by the Local Government Act, Sections 81(5) and 81(6). Receipts of the Passage Fund consist mainly of passage benefits due to the officers of the local authority, income derived from investments of the Passage Fund, and any sum that may become payable to the Passage Fund following the transfer of an officer from another institution. Payments out of the Passage Fund are solely payments of passage benefits for officers. LGAs presenting the Passage Fund as part of net assets/equity are Port Louis and Beau Bassin-Rose Hill.

Debt

64. The LGAs provide limited disclosures about the nature of their borrowings. Only Beau Bassin-Rose Hill, Pamplemousses, Rivière du Rempart present borrowings on the statement of financial position. For these LGAs, borrowings is only a small item and represent borrowings solely from central government. The mission recommends including the following disclosures about public debt:

a. A breakdown between loans at concessional and commercial terms and conditions;
b. The nominal amount in addition to carrying amount, if different.
c. A maturity analysis (breakdown of future cash outflows relating to principal repayments by time bracket).

Accounts payable, accruals and arrears

65. Most LGAs do not accrue for goods and services received if the invoice has not arrived and also do not report arrears. All LGAs recognize some accounts payable on their statement of financial position. Reporting all accounts payable for goods, services and capital expenditure provides useful information, including for cash and debt management. The accrual basis requires that the entity accrues for goods and services received before reporting date even if the entity did not receive an invoice before the date of preparation of the financial statements ('delivery principle'). For this information to be dependable, certification of goods and services received should be timely and all invoices should be entered into the system immediately after receipt. The information system should be capable of routinely reporting all current accounts payable and providing some analysis. A useful disclosure in the notes of the consolidated financial statements would be to indicate the extent to which payment obligations are overdue and the level and trends of payment arrears.

Provisions

66. The LGAs provide limited disclosures about the nature of the provisions on the statements of financial position. Only Port Louis, Quatre Bornes, Pamplemousse, Rivière du Rempart, Flacq and Black River present provisions. IPSAS requires the disclosure of the following for each class of provision:

a. A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

b. An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events; and
c. The amount of any expected reimbursement, stating the amount of any asset that has been recognized as a result.

Some LGAs use the term provision in the context of doubtful debts. However, these are adjustments to the carrying amounts of the accounts receivable and should not be presented as provisions under the liabilities on the statement of financial position.

Contingent liabilities

67. Some LGAs do not disclose contingent liabilities, as required by IPSAS. Only if the possibility of an outflow is remote, no disclosure is required. The following LGAs do report contingent liabilities: Port Louis, Beau-Bassin-Rose Hill, Quatres Bornes, Rivière du Rempart, Grand Port, Black River. Vacoas-Phoenix states that it has no contingent liabilities. Typical examples of contingent liabilities are loan guarantees, long-term agreements (e.g. public-private partnerships), guarantees to pension and social security funds and potential court awards for compensation claims. Contingent liability arises when:

a. There is a possible obligation to be confirmed by a future event that is outside the control of the entity
b. A present obligation may, but probably will not, require an outflow of resources embodying economic benefits or service potential
c. A sufficiently reliable estimate of the amount of a present obligation cannot be made (this is rare)

Commitments

68. Most LGAs do not disclose commitments. Only Rivière du Remparts discloses capital commitments showing two separate amounts:

- commitments authorized (that is by the Minister of Finance) but not yet contracted; and
- commitments approved (that is by the Council) and Contracted.
- IPSAS requires disclosure of the amount of contractual commitments for the acquisition of property, plant, and equipment. See IPSAS 1, par. 89(c).

Revenues

69. LGAs do not indicate whether they consider trading fees, licence fees and other fees exchange or non-exchange transactions. Consideration should be given to the nature of the trading fees and fees levied for various licenses granted by LGAs as to whether these are revenues from exchange or from non-exchange transactions because this affects the pattern of revenue recognition. The mission's preliminary view is that trading fees represent non-exchange transactions, based on the guidance provided in *GFSM* 2014, para. 5.73 about the boundary between taxes on specific services and administrative fees.

70. The accounting policies of LGAs for recognition of revenues from taxes and fees are not consistent. Some LGAs recognize taxes on the statement of financial performance when they receive the cash and do not recognize tax receivables on the statement of financial position. Other LGAs recognize revenues on an accrual basis. IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* requires recognition of an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. Determining the tax receivable at reporting date may be a challenging issue and a reliable measurement, which is required for recognition of any item in the financial statements, may not be feasible in the short term.

71. LGAs do not recognize donations in kind (goods). The accrual basis requires the value of donations received in the form of goods to be recognized as assets and revenues. Examples might include land transferred by central government, medical equipment or a vehicle donated by a bilateral donor country or a multilateral agency. Ref. IPSAS 23.

Investments

72. A number of LGAs report financial investments on their statement of financial position, but most of them are unclear about the valuation policy. This applies to Port Louis, Curepipe, Pamplemousses, Rivière du Rempart, Flacq, and Savanne. IPSAS requires various disclosures about investments, including special disclosures when the fair value option is used, reclassifications, derecognitions, and pledges of assets. IPSAS also requires disclosures relating to the entity's performance in the period — including information about recognized revenue, expenses, gains, and losses; interest revenue and expense; fee revenue; and impairment losses.

Cash and cash flows

73. Some LGAs' cash flow statements show an increase and decrease in cash but do not present a reconciliation with the opening and closing cash and cash equivalents for the year as required by IPSAS. This applies to Curepipe, Moka, Flacq, Grand Port, Savanne, and Black River. For Curepipe this reconciliation is ever the more important, as it presents some bank accounts under current assets and others (bank overdrafts) under current liabilities. One LC (Flacq) reports an increase in cash that does not match with the opening and closing cash for the year.

74. One LC does not include all its bank accounts in the cash flow statement. IPSAS requires all government-controlled bank accounts to be included in the financial statements, on both the statement of financial performance and the cash flow statement. Control of cash arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit. Port Louis presents its 'special bank accounts', but does not include them in the cash flow statement.

75. The financial statements of one LC present its cash flow statement following the indirect method rather than the direct method (Rivière du Rempart). At consolidation, central government would need to convert an indirect method cash flow statement into a direct method cash flow statement, which inevitably leads to some inaccuracies. The mission therefore recommends preparing a direct method cash flow statement by all LGAs.

76. The LGAs' cash flow statements present capital grants as cash flows from financing activities but this should be operating activities. Financing activities, by definition, are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity. Grants are neither contributed capital nor borrowings of the LGAs.

77. The LGAs' cash flow statements present interest charges as cash flows from financing activities. Although IPSAS allows a choice between presenting interest charges within operating or financing activities, the mission recommends reporting interest charges within operating activities in order to more closely align with the statistical bases.

78. LGAs' financial statements present cash rather than cash and cash equivalents. IPSAS requires presenting cash and cash equivalents, rather than cash only. Cash includes bank accounts and petty cash. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, for example time deposits. As most LGAs present investments under the current assets, some of them may have to be treated as cash equivalents.

79. LGAs' financial statements do not include a note disclosure showing a breakdown of cash and cash equivalents. This applies to Curepipe, Vacoas-Phoenix, Beau Bassin-Rose Hill, Quatre Bornes, Pamplemousses, Grand Port, and Savanne. IPSAS requires such a note disclosure, including all controlled bank accounts providing a breakdown by major bank accounts. The bottom line (cash at end of period) should reconcile with the bottom line of the cash flow. If bank overdrafts that are repayable on demand form an integral part of an entity's cash management, these bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn. Ref. IPSAS 2, para. 10.

80. LGAs' financial statements do not include a disclosure of cash balances that are not available for use and a disclosure of restrictions on cash balances. IPSAS requires these disclosures. LGAs should also disclose in the notes to the financial statements, together with a commentary, the nature and amount of significant cash balances that are not available for use by the entity and cash balances that are subject to external restrictions, e.g. amounts to be used only for specific development projects. Some of LGAs' cash balances may be restricted, e.g. for the payment of any outstanding letters of credit to suppliers.

Net assets/equity

81. For one of the LGAs', liabilities exceed assets, i.e. net assets/equity is negative. This applies to Rivière du Rempart. Rivière du Rempart reports a considerable employee benefits liability and is the only LC that includes the necessary note disclosures about employee benefits in its financial statements. The existence of negative net assets simply reflects the difference between the assets and liabilities currently recognized on the statement of financial position. Even governments that have recognized all fixed assets such as infrastructure assets, land and buildings, still have negative net assets/equity, mainly because of their pension liabilities. Many governments that have prepared a statement of financial position on a full-accrual accounting basis show negative net assets/equity.

Non-financial assets

82. In order to prepare for compliance with IPSAS, the LGAs should complete and subsequently maintain asset registers. The key challenge in preparing for accrual accounting is to complete the identification of all material existing assets, record them systematically and value them. The LGAs should subsequently review the existence and completeness of the assets and their valuation.

83. LGAs recognize some, but not all property, plant and equipment (PPE). All LGAs recognize at least some land on their statement of financial position. A number of LGAs (Vacoas-Phoenix, Quatre Bornes, Pamplemousses, Moka, Flacq, Grand Port, Black River) present Land & Buildings together, but IPSAS requires separating land from buildings. A considerable challenge in moving to accrual accounting is the recognition of PPE in accordance with IPSAS 17 *Property, Plant and Equipment*. IPSAS 17 allows a choice of accounting model between cost and revaluation model. IPSAS requires a consistent choice for an entire class of PPE but allows different choices for different classes. The cost model may for example be applied to IT equipment, while the revaluation model is applied to road infrastructure. LGAs should analyze by class of PPE which model is most suitable. Under the cost model, the asset is carried at cost less accumulated depreciation and impairment losses. Under the revaluation model, the asset is carried at revalued amount, which is fair value at revaluation date less subsequent depreciation and impairment losses. Revaluations should be carried out regularly, which makes the revaluation model more costly than the cost model.

84. Most LGAs do not depreciate their property, plant and equipment. Rivière du Rempart is the only LC recognizing depreciation. Depreciation is an essential requirement in accrual accounting for property, plant and equipment, investment property and intangible assets, both under the cost model and the revaluation model. Depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity, which is not necessarily on a straight-line basis. The residual value and the expected remaining useful life must be reviewed at least annually.

Finance and operating leases

85. **Most LGAs do not report any leases, either as lessor, or as lessee.** Only Rivière du Rempart discloses in the notes that it leases a hall for one of its village councils, and plans to account for it under the international standards in the future. There is a need for all LGAs to analyze leasing arrangements and determine whether they are finance leases or operation leases. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership of an asset. IPSAS 13 *Leases* provides guidance about the accounting treatment, both for lessors and for lessees. The IPSAS Board is considering to amend its lease standard and introduce requirements in line with IFRS 16 *Leases*. LGAs may therefore consider awaiting the new lease standard before accounting for leases in accordance with IPSAS.

Public-private partnerships (PPPs)

86. **LGAs do not report on public private partnerships (PPPs).** There is therefore a need to identify and review existing PPP arrangements, if any. Accounting policies for PPPs should be developed and implemented. IPSAS 32 *Service Concession Arrangements – Grantor* should be used as the basis for the accounting policy. In summary, if the LC controls or regulates the nature, the recipients, and the price of the services the operator must provide, and any significant residual interest in the asset (e.g., road, hospital) that is the subject matter of the arrangement then the LC should recognize the asset and the corresponding liability on its statement of financial position. This IPSAS does not allow governments to use service concession arrangements to undertake capital projects and not show the related debt on its statement of financial position except in limited circumstances.

Software and databases

87. **Most LGAs do not report any intangible assets on their statement of financial position.** Only Rivière du Rempart recognizes software. Governments usually account for software using a cost model rather than a revaluation model. Under the cost model, assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Inventories

88. **All LGAs recognize inventories but most LGAs do not disclose the valuation policy, nor the nature of these inventories.** Inventories are required to be measured at the lower of cost and net realizable value. Where inventories are acquired through a nonexchange transaction, their cost shall be measured as their fair value as at the date of acquisition. However,

inventories are required to be measured at the lower of cost and current replacement cost where they are held for:

- Distribution at no charge or for a nominal charge
- Consumption in the production process of goods to be distributed at no charge or for a nominal charge

Consolidated financial statements

89. LGAs' financial statements do not include a listing of significant controlled entities. IPSAS requires such a listing including the name and the jurisdiction in which the controlled entity operates (if different from that of the controlling entity). The financial statements of LGAs should include lower levels of government such as villages, only if controlled by the LGAs. There is a need for LGAs to review all related parties in order to evaluate whether they are controlled by the LC.

90. Some controlled entities may operate different accounting bases or have different reporting dates compared to the LGAs. Entities controlled by an LC may apply accrual accounting principles complying with national standards or with International Financial Reporting Standards (IFRS). IPSASs are based on IFRS and there is increasing convergence on their respective requirements, so adjustments on consolidation should be limited. IPSAS includes additional guidance if reporting dates differ between controlling and controlled entity.

91. LGAs' financial statements do not include controlled entities in consolidated financial statements. IPSAS requires the financial statements of a reporting entity to include all controlled entities in the consolidated financial statements. If some of the controlled entities are not included in the scope of consolidation, the reasons for not consolidating that controlled entity should be disclosed.

C. Road map for implementation by LGAs

92. The road map for implementation of accrual accounting, IPSAS, and asset register by LGAs resulted from a series of workshop sessions conducted during the course of the mission. The intended outcome was for a practical implementation plan that sought to progressively improve the quality of LGAs' financial statements through the implementation of IPSAS at a prioritized and realistic pace.

93. The Ministry of Local Government invited finance officers of each of the twelve LGAs to participate in a series of four workshops facilitated by the mission to discuss and agree on an accrual accounting and IPSAS implementation plan. Participants were generally aware of areas in which adopting accrual principles would impact their work.

94. The finance officers of the LGAs discussed and ultimately agreed on a timeframe that all twelve LGAs considered achievable. While the mission and the officers of the Ministry of Local Government participated in this discussion about the timeframe, the time bound implementation plan was decided upon by the LGAs. During the final workshop, the LGAs received a print of the draft implementation plan prepared during the earlier workshops. They unanimously agreed with the implementation plan including the deadlines therein.

D. Audit

95. There is no statutory deadline for the submission by Director of Audit of audit opinion on financial statements. In particular, the Local Government Act 2011 does not set such a deadline. Paragraphs 136-140 of the Local Government Act 2011, require the Chief Executive of every local authority to submit approved financial statements to the Director of Audit within 4 months of the end of every financial year. The latest audited financial statements of most local government authorities date back to 2014 or earlier.

96. As a consequence, the LGAs publish their audited financial statements a considerable period of time after year end, although they generally issue their unaudited financial statements within the legal deadline of 4 months after year end in accordance with the Local Government Act 2011, paragraph 134. According to IPSAS 1, paragraph 69, an entity should be in a position to issue its consolidated financial statements within six months of the reporting date. The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. Preparing consolidated financial statements for the general government sector requires that financial statements of all LGAs are available. Even though the financial statements of central government for the financial year may be in a near-final state within four months after the year, the LGAs may cause preparation of consolidated financial statements to be significantly delayed.

97. Measures that might speed up the year-end closing and auditing process include:

a. Amending the applicable law(s) to include a requirement for the Director of Audit to issue an audit opinion within a set number of days after receiving the financial statements and a deadline for publication of audited financial statements and sanctions for those LGAs that fail to publish audited financial statements before the legal deadline;
b. Reducing the extent of time-consuming manual operations after year end by enhancing system functionalities;
c. Instituting quality assurance mechanisms within the LGA to improve the accuracy and quality of the financial reports, reducing the time needed for correction of errors prompted by the NAO;
d. Improving bank reconciliations during the year, thus reducing the time needed to carry out the bank reconciliations after year end and auditing them;

e. Documenting a better audit trail by the preparers of the financial statements, facilitating the work of the NAO (prepared-by-client list);
f. Capacity building of the preparers of the financial statements at all LGAs and officers of the NAO; and
g. Outsourcing audits to private sector audit firms.

E. Summary of recommendations

It is recommended that the authorities:

- Request the Permanent Secretary, Ministry of Local Government, to issue an instruction to the LGAs to implement accrual accounting and IPSAS in accordance with the time-bound integrated road map for implementation of accrual accounting, IPSAS, and asset register as presented in Appendix 1. (MoFED, by June 2018)
- Develop uniform accounting policies and report formats to harmonize financial reporting by LGAs in preparation for the preparation of consolidated financial statements by the GoM (MoFED, TWG, by December 2018).
- Use the findings from the gap analysis to prepare financial statements that comply with all the requirements of accrual-basis IPSAS. Appendix 1 summarizes the recommendations to be carried out by the LGAs (LGAs, by 2017/18, 2018/19, 2019/20 as indicated in Appendix 1).
- Prepare an amendment to the Local Government Act 2011 establishing a deadline for the submission by the Director of Audit of audit opinion on financial statements (Minister of Local Government, in consultation with the NAO, by December 2018).
- Work together to find ways to speed up the year-end closing and auditing process (LGAs and NAO, by December 2018).

IV. MANAGEMENT AND COORDINATION OF REFORMS

A. Management of reforms

98. Change management issues were discussed in the previous report. These remain valid and are not repeated in this report. Instead this section focuses on issues that have arisen since the last mission and require attention to ensure that reform progresses in accordance with roadmap and is managed and coordinated effectively.

Reform roadmap

99. The Finance and Audit Act 2017 requires financial statements to be in full compliance with IPSAS by 2022/23. This is two years later than the roadmap. Despite this, the senior officials of MoFED requested the mission to suggest areas of reform that could be achieved earlier than the legally stipulated date. The roadmap was based on a phased approach under which the financial statements would initially include financial assets and liabilities and cover the budgetary central government (2017/18). The nonfinancial assets would be recognized progressively in 2018/19 and 2019/20. In parallel, the coverage of the financial statements would be extended to central government (including extra-budgetary units) in 2018/19, general government in 2019/20, and full public sector in 2020/21. The government should continue to adhere to the timetable and milestone for producing financial statements of the general government sector for 2019/20 that recognize all assets and liabilities in compliance with IPSAS. The extended timeframe allowed by the Finance and Audit Act could be used to achieve the full consolidation of the public sector.

100. Any non-compliance with IPSASs should be disclosed in the financial statements. The financial statements of the central government and LGAs should not be described as being in compliance with IPSASs until a full compliance is achieved with all IPSASs During the phased implementation period, the financial statements should identify the IPSASs that have been complied with fully and those where full compliance is yet to be achieved. If a particular asset or liability cannot be recognized and reported as planned due to unforeseen or unavoidable delays in completing the necessary work, the relevant facts and where possible some indication of the amounts involved should be disclosed in the notes to the financial statements. Any implementation of IPSASs over an extended—usually three-year—period of time in accordance with IPSAS 33 *First-Time Adoption of Accrual Basis IPSASs* should also be disclosed and explained.

101. The cumulative effect of the issues discussed in the previous section is to put at risk the implementation of the reforms according to the roadmap. A key milestone is the preparation, by February 2019, of accrual IPSAS compliant financial statements for budgetary central government for financial assets and liabilities, with non-financial assets continuing to be accounted for on a cash basis. The roadmap envisaged that these financial statements would be based on accounting policies of financial assets and liabilities and the form and content of the financial statements that should have been developed mainly in 2016/17. As noted earlier, these have not been completed although some work has been done.

102. The development of accounting policies and the form and content of the financial statements needs to be completed as soon as possible. This is essential for the preparation of the 2017/18 financial statements within the above deadline. This work also needs to be completed to ensure that the accrual based secondary ledger is set up and operated in accordance with the agreed policies and are able to generate the agreed financial statements. As discussed below, the development of these elements of the financial reporting framework is also critical for the success of the implementation of IPSAS by statutory bodies and local government.

IT system issues and strategy for preparation of financial statements

103. The roadmap also envisaged that the transactions would be recorded on an accrual basis commencing July 1, 2017. This would provide a full year of accrual based accounting records that would form the basis of the financial statements for 2017/18. As discussed earlier, the accrual based secondary ledger is not yet operational.

104. In the absence of the secondary accrual-based GL, the AG plans to prepare the 2017/18 financial statements from returns submitted by ministries and agencies. The returns will identify the assets and liabilities and these will be combined with the main information in the primary GL to produce the financial statements of the budgetary central government. The work will be done outside the TAS using spreadsheets.

105. This may be the only practicable strategy when no accrual based GL is available. The officials' resolve to prepare the accrual-based statements despite the system issues reflects commendable commitment to the reform. It is better than not producing any accrual financial statements at all and will avoid the missing of a key milestone that could have a negative effect on the reforms as a whole.

106. However, this short-term strategy should not distract from the importance of successfully operationalizing the secondary accrual-based GL. The GL is a fundamental accounting record based on double entry accounting and financial statements produced from this record usually provides a level of quality assurance. In particular, the statement of financial position and statement of financial performance derived from the trial balance of the general ledger assures that all transactions in the GL are included in the financial statements and that these two primary statements do not contain any data that were not recorded in the GL. Financial statements produced from returns prepared by various officials without reference to such a ledger are unlikely to provide such quality assurance. The secondary GL will also provide information on assets and liabilities throughout the year and this could, over time, encourage the use of such information for management purposes. Accrual financial statements prepared from returns only once a year, on the other hand, are more likely to be seen as more of a compliance exercise and are less like to encourage use of accrual information for management purposes.

107. Priority should be given to having the accrual-based secondary ledger fully operational as soon as possible. As soon as this is achieved, the original plan to post the opening statement of financial assets and liabilities as at July 1, 2017 and the transactions from July 1, 2017 should be implemented. The objective should continue to be to obtain an opening trial balance as at July 1, 2017 and a trial balance as at June 30, 2018 that would provide the basis for the operation of the 2017/18 financial statements. Subsequent to the mission, the authorities indicated that they did not expect the secondary GL to be available by the end of 2017/18. However, the secondary GL will be operational for the preparation of the financial statements for 2018/19.

Contingent liabilities

108. The MoFED has identified the monitoring and management of contingent liabilities as a priority. Information about contingent liabilities is not received in a systematic and timely manner. A central system to collect financial statements of all public sector entities has been set up but is not yet fully effective, due, among other things, to lack of timely information. Senior officials of the MoFED have expressed concern that this area is not receiving adequate attention. The accrual IPSAS reform provides an opportunity to make improvements in this important area.

109. The Treasury should give attention to the proper reporting of contingent liabilities. This should be implemented in the 2017/18 financial statements. IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* requires, among other things, the disclosure of all contingent liabilities, unless probability of an outflow (e.g., cash payment) is considered remote. In addition, where it is considered that an outflow is more likely than not (e.g., because the government is likely to lose a court cases) a provision should be made.

110. The Treasury should develop an accounting policy for contingent liabilities and set out guidance for the collection and reporting of relevant information. The accounting policy should be consistent with IPSAS 19. The guidance should set out what information related to each contingent liability should be collected and reported to AG. The Treasury should consult with MoFED with a view to ensuring that to the extent practicable any needs of MoFED over and above the requirements of IPSAS are taken into account. This will avoid the inefficiency of entities requiring to report annually contingent liability information in different forms to Treasury and MoFED. The ministries and agencies reporting this information should also be required to assess the probability of crystallization of any of the identified contingent liabilities and identify any where the probability is considered to be more than 50 percent.

111. The MoFED needs to monitor contingent liabilities. This should be part of the overall MoFED function of monitoring fiscal risks. The responsibility for this function should be explicitly allocated to a unit within the MoFED. This unit should collect information about all fiscal risks including contingent liabilities, analyze them with a view to forming an opinion on the risks, the amounts involved, and the probability of their crystallizing. The Treasury should share the accounting policy and guidance on contingent liabilities with the MoFED with a view to facilitating more frequent than annual reporting of contingent liabilities. The MoFED might require more frequent reporting.

B. Coordination of reforms

Coordination with entities outside the budgetary central government

112. The requirement for local government to follow IPSAS has increased the need for effective management and coordination of reform activities. The 12 LG authorities (5 municipal councils and 7 district councils) were directed to prepare financial statements in accordance with IPSAS commencing 2017/18, with full compliance being achieved by September 2020 (for 2019/20). With this timetable in mind, the Ministry of Local Government (MoLG) has developed a set of financial statements for local government and has had the common LGA IT system modified to enable the generation of these statements. However, this work is being done without ensuring that the LGA financial statements and the accounting policies are consistent with the requirements of the MoFED and the Treasury. There is a risk that this will require the format of the LGA financial statements and the accounting policies and the IT system to be modified once the requirements for the central government and general government are finalized by the MoFED and the Treasury.

113. The requirement for statutory bodies to follow IPSAS also needs to be implemented in a coordinated manner. These entities follow mainly IFRS and their main concern was the nature and extent of changes required to move to IPSAS. The mission provided a detailed presentation to the entities on this issue. The changes required were highlighted and explained. The main message was that the changes are not very extensive and should not concern the entities unduly. Notwithstanding this, these entities would benefit from receiving information about the accounting policies and the form and content of the financial statements determined by MoFED and Treasury.

114. The technical working group that has been set up should be expanded to include members who can discuss issues from the perspective of the statutory bodies and LGAs. The policies, procedures and form and content of financial statements should be standardized for budgetary central government and these bodies. Any specific or unique requirements should be accommodated. In addition to ensuring consistency, this will also avoid the inefficiency of different groups considering the same accounting issues and developing their own policies and procedures. Subsequent to the mission, the authorities have indicated that they expect to complete the preparation of the form and content of the financial statements by December 2018. This implies that the LGAs and the statutory bodies will need to prepare their financial statements for 2017/18 in advance of the completion of the standardized form and content of the financial statements. Under such circumstances the TWG should consider providing interim guidance (including any materials that might be substantially completed) to mitigate the risk of inconsistencies and the need for significant changes when the policies and procedures and the form and content of the financial statements are fully completed.

Coordination among LG authorities

115. The IT systems and the report generation functions should be as standardized as possible. Although the LGAs use a common system each LGA configures it differently. This has led to a situation where even if the financial reports are standardized and the same system is in use, the reports still cannot be generated without each LGA linking their accounts to the lines in the report. The mission was advised that this is mainly because each LGA has different organizational structures. This situation should be addressed by ensuring that the standard financial statements are set up in the system in such a way that system is able to aggregate all the organization units automatically and produce reports for the LGA as a whole. For example, if the reporting line is salaries, the system should automatically aggregate all (say 5) organization units of LGA 1 and all (say 3) organization units of LGA 2 and report the total salaries for each LGA. The LGAs can continue to link their organization units in different ways to produce tailored reports for their management purposes.

Human resources

116. A lack of suitably skilled human resources is an issue that requires attention. The implementation of the reform is critically dependent on such resources. While the Treasury, as the agency mainly responsible for the preparation of the financial statements of the government and defining the framework, has been granted additional human resources, the recruitment is not yet completed. The Treasury does not have any information on when these additional staff would actually commence work as the recruitment process is not under their control. This appears to be a major factor that has led to a lack of progress in a number of areas including the development of the accounting policies and procedures and the form and content of the financial statements. The local government entities indicated that the lack of adequate resources is also a major constraint for them. The MoFED and the MoLG should take steps including consultation with the Public Service Commission and Local Government Service Commission to expedite the recruitment of staff. Otherwise there is a risk that the reform milestones will continue to be missed and that the quality of policies, procedures, and financial statements will be impaired.

C. Summary of recommendations

It is recommended that the authorities:

- Clarify that the extended deadline (2022/23) for full compliance with IPSAS in the Finance and Audit Act applies to the preparation of the consolidated statements of the public sector as a whole and other deadlines and milestones of the roadmap continue to be applicable (MoFED and Treasury by June 2018).

- Make the framework available to all stakeholders including LGAs and statutory bodies that are required to follow IPSAS (Treasury, MoFED by December 2018).

- Consider providing interim guidance to the LGAs and statutory bodies for the preparation of 2017/18 financial statements pending the completion of the development of the framework (TWG, by June 2018)

- Continue to focus on operationalizing the secondary GL, even if the 2017/18 financial statements have to be prepared from sources outside TAS, such as returns (Treasury, MoFED as soon as possible).

- Monitor contingent liabilities and report these in accordance with IPSAS (MoFED - monitoring; Treasury-reporting commencing 2017/18 financial statements).

- Improve coordination with LGAs and statutory bodies that are required to follow IPSAS and include their representatives in the technical working group (MoFED, Treasury commencing May 2018).

- Address human resource issues and ensure that the newly created or vacant positions are filled without undue delay (MoFED, Treasury by June 2018).

APPENDIX 1. ROAD MAP FOR IMPLEMENTATION OF ACCRUAL ACCOUNTING, IPSAS, AND ASSET REGISTER BY LOCAL GOVERNMENT AUTHORITIES

Activity area	2017/18	2018/19	2019/20	Responsible Agency
1. Financial reporting framework	• Include an assertion that the financial statements comply with IPSAS; or: Include a note listing deviations from IPSAS. • Disclose basis of preparation of the financial statements			LGAs
2. Presentation of financial statements	• Use IPSAS compliant terminology. • Include statement of changes in net/assets equity. • Include general information about the entity in the notes. • Harmonize layout and classifications. • Cross reference items in the statement of financial position and financial performance, and the comparison of budget and actual amounts to related information in the notes. • Include all previous period's comparative information.			LGAs

Activity area	2017/18	2018/19	2019/20	Responsible Agency
3. Budget information in the financial statements	• Include explanations of the differences between budget and actual amounts and between original and final budget. • Include a disclosure explaining the budgetary basis and classification basis adopted in the approved budget. • Include a note disclosure identifying the entities included in the approved budget. • Present a comparison of budget and actual amounts showing both the original and the revised budget. • Include reconciliation of the cash flow statement and the comparison of budget and actual amounts. • Include reconciliation of statement of financial performance and comparison of budget and actual amounts.			LGAs
4. Related party disclosures	• Include related party disclosures.			LGAs
5. Employee benefits	• Recognize pension liabilities and other employee benefits and include related disclosures. • Present Passage Fund under liabilities rather than net assets/equity.	• Recognize accrual for 'vacation earned but not taken' and sick leave.		LGAs
6. Debt	• Include disclosures about borrowings.			LGAs
7. Accounts payable	• Recognize all accounts payables and disclose arrears.			LGAs

Activity area	2017/18	2018/19	2019/20	Responsible Agency
8. Other liabilities incl. provisions	• Recognize provisions and related disclosures.			LGAs
9. Contingent liabilities	• Disclose contingent liabilities.			LGAs
10. Commitments	• Disclose commitments for the acquisition of property plant and equipment.			LGAs
11. Receivables (exchange and non-exchange revenues)	• Indicate whether revenues are exchange or non-exchange and account for them accordingly. • Account for taxes and fees on an accrual basis.	• Recognize donations in kind (goods) as assets and revenues.		LGAs
12. Investments	• Disclose accounting policies for investments.			LGAs

Activity area	2017/18	2018/19	2019/20	Responsible Agency
13. Cash and cash flows	• Include a reconciliation of increase/(decrease) in cash and cash equivalents with the opening and closing cash and cash equivalents for the year. • Include all bank accounts in the cash flow statement. • Prepare direct method cash flow statement. • Report capital grants as cash flow from operating activities. • Report interest charges as cash flow from operating activities. • Present cash and cash equivalents rather than cash only. • Include a note disclosure showing a breakdown of cash and cash equivalents. • Include a disclosure of cash balances that are not available for use and a disclosure of restrictions on cash balances.			LGAs
14. Asset registers, recognition, valuation, depreciation	• Vehicles • IT-equipment	• Furniture • Other equipment	• Land • Cemeteries • Buildings • Infrastructure • Roads • Bridges • Street lighting	LGAs
15. Intangible Assets	• Recognize intangible assets (mainly software) and depreciate.			LGAs

Activity area	2017/18	2018/19	2019/20	Responsible Agency
16. Leases	• Report finance lease on the statement of financial position.			LGAs
17. Public-Private Partnerships	• Account for public private partnerships (PPPs).			LGAs
18. Inventories	• Disclose valuation policy for inventories			LGAs
17. Consolidated financial statements	• Include a listing of significant controlled entities, and disclose the reasons for not consolidating a controlled entity. • Evaluate which related parties are controlled by the government. • Verify that all controlled entities apply compatible accounting standards and reporting dates. • Prepare consolidated financial statements including all controlled entities.		• Include all controlled entities in the consolidated financial statements.	LGAs