FOR OFFICIAL USE ONLY

TECHNICAL ASSISTANCE REPORT

MAURITIUS

IMPLEMENTING ACCRUAL ACCOUNTING AND INTERNATIONAL STANDARDS

JUNE 2022

PREPARED BY

MOULAY ABDERRAHMANE EL OMARI, ABDUL MUDABBIR KHAN, FRANS VAN SCHAIK, AND PRIYA GOEL

AFRITAC South

MEMBERS

Angola, Botswana, Comoros, Eswatini, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Zambia, Zimbabwe

PARTNERS

European Union, SADC, COMESA, SECO, Germany, China, UKaid, Ministry of Foreign Affairs of the Netherlands, European Investment Bank, Australian Aid

DISCLAIMER

The contents of this report constitute technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Mauritius (the "TA recipient") in response to their request for technical assistance. This report (in whole or in part) or summaries thereof may be disclosed by the IMF to IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the TA recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest, including members of the Steering Committee of AFRITAC South, unless the TA recipient specifically objects to such disclosure (see Operational Guidelines for the Dissemination of Technical Assistance Information). Publication or Disclosure of this report (in whole or in part) or summaries thereof to parties outside the IMF other than agencies or instrumentalities of the TA recipient, World Bank staff, other technical assistance providers and donors with legitimate interest, including members of the Steering Committee of AFRITAC South, shall require the explicit consent of the TA recipient and the IMF's Fiscal Affairs Department.

MEMBERS

Angola   Botswana   Comoros   Eswatini   Lesotho

Madagascar   Mauritius   Mozambique   Namibia   Seychelles

South Africa   Zambia   Zimbabwe

PARTNERS

CONTENTS

ABBREVIATIONS AND ACRONYMS

AFS	Regional Technical Assistance Center for Southern Africa—AFRITAC South
AG	Accountant General
BCG	Budgetary Central Government
BoM	Bank of Mauritius
CFS	Consolidated Financial Statements
CG	Central Government
FSDA	Financial Statement Discussion and Analysis
FVTNAE	Fair Value Through Net Assets/Equity
FVTSD	Fair Value Through Surplus or Deficit
GFSM	Government Finance Statistics Manual (2014)
GG	General Government
GoM	Government of Mauritius
IPSAS	International Public Sector Accounting Standards
IPSASB	IPSAS Board
LGA	Local Government Authority (aka Municipal Council)
MDA	Ministry, Department, and Agency
MoFEPD	Ministry of Finance, Economic Planning and Development
MRA	Mauritius Revenue Authority
NAO	National Audit Office
RRA	Rodrigues Regional Assembly
SIL	Provider of IT solutions and software development
SL	Secondary Ledger
SOE	State-Owned Enterprise
Rs	Mauritius Rupee

PREFACE

AFRITAC South (AFS) fielded a remote capacity development (CD) mission to Mauritius during the period January 19 to February 2, 2022. The mission comprised Messrs. Moulay Abderrahmane El Omari (AFRITAC South Public Financial Management resident advisor), Abdul Mudabbir Khan, Frans van Schaik (Fiscal Affairs Department experts) and Ms. Priya Goel (Fiscal Affairs Department/RM).

The mission met with Mr. Anandsing Acharuz, Deputy Financial Secretary at the Ministry of Finance, Economic Planning and Development (MoFEPD), Mr. Sunil Dutt Ramdeen, Accountant General, Mr. Sachidanund Ramparsad, Deputy Accountant General; and other senior officers of the MoFEPD, and the Treasury. The mission also met with Mr. Sunil Charanjivsingh Romooah, Director of Audit, and his deputies, as well as with senior officials from the Department of Valuation (Ministry of Housing, Physical Planning and Development).

Moreover, the mission met with officials of Mauritius Revenue Authority, statutory bodies, state-owned enterprises, special funds, and local authorities, as well as of the finance section of the Island of Rodrigues.

The mission discussed the key findings and recommendations with Mr. Anandsing Acharuz, Deputy Financial Secretary, Mr. Sunil Dutt Ramdeen, Accountant-General, and Mr. Sunil Charanjivsingh Romooah, Director of Audit, and with the above senior officials.

The mission would like to express its appreciation for the collaboration offered by its interlocutors, and for the frank and fruitful discussion of all issues. It is also grateful to Mrs. Naimabee Aubdoollah-Suhootoorah, lead analyst (MoFEPD), for coordinating the mission and for her excellent cooperation.

EXECUTIVE SUMMARY

The authorities are proceeding with the reform initiative to improve financial reporting. This follows the authorities' decision in 2016 to prepare financial statements in accordance with International Public Sector Accounting Standards (IPSAS). IMF Regional Technical Assistance Center for Southern Africa (AFS) has been providing technical assistance from the inception of this reform project. AFS missions in 2016 to 2020 provided assistance on identification of key issues and challenges, helped develop and update a roadmap, reviewed progress and provided recommendations. This report summarizes the mission's findings and recommendations.

The project to improve financial reporting consistent with IPSAS is making progress. The importance of fair presentation has been reaffirmed in the budgetary central government (BCG) financial statements. This would provide reassurance to the users, and help enhance the credibility, of the financial statements. The financial reporting framework for the public sector (PS) should also explicitly incorporate the requirement of fair presentation**.** A large number of gaps that the mission identified in the 2018/19 financial statements have been eliminated. Revenues and retirement benefit obligations have been reported in accordance with IPSAS, though some more work remains to be done. This is a notable achievement given the complexities involved. In particular, corporation tax is planned to be reported in accordance with IPSAS in 2021/22. Retirement benefit obligations should be reviewed and remeasured on an annual basis, instead of every three years. The presentation of the financial statements has also been improved. Local government authorities (LGAs) have made good progress, aiming for fair presentation and compliance with accruals IPSAS.

However, a number of issues have had an adverse impact on the extent to which the financial statements satisfy the requirements of fair presentation and comply with IPSAS:

- Retirement benefit obligations are understated by an estimated Rs 27.7 billion (6.3 per cent of GDP). This arose because of the use of discount rate of 6.5 per cent, compared to the rate of 4.8 per cent used by the BoM.
- The amount at which land is reported in the financial statements continues to remain high compared to international practice. While many factors contribute to differences in metrics between countries, the difference in government land as a percentage of GDP between Mauritius and the other countries is so large that there is a need for further investigation into the valuation methodology to find an explanation.

The financial statements of the BCG, LGAs, and RRA have been reviewed for consistency with IPSAS and good practice. The gap analysis undertake by the mission and related recommendations are included in this report. MoFEPD and Treasury should review and implement the recommendations.

Much remains to be done to make the Secondary Ledger (SL) an effective and up-to-date general ledger which can be used to, among other things, prepare financial statements. While progress has been made in addressing some of the issues related to test data and opening balances, the development of reports remains substantially incomplete. In particular, reports should be developed for statements and notes (amounts, not text) that are an integral part of the financial statements. Some of the reports developed are incomplete or poorly designed, which reflects a lack of adequate quality assurance procedures. Such procedures should be implemented immediately.

Little progress has been made in updating the government asset register. Issues such as ministries, departments, and agencies (MDAs) not uploading assets and a lack of skilled staff discussed by earlier missions are persisting. MoFEPD and Treasury should consider taking appropriate action to strengthen staffing at the ministries and departments so that pending assets may be uploaded. Pending assets should be entered into the register as soon as possible.

Consolidation system and processes should be put in place to ensure that reliable statements are produced in a timely manner. As a first step, a consolidation package should be prepared. This would comprise the financial statements including all the notes and any additional information that the Treasury would need to receive from the controlled entities to prepare consolidated financial statements. Information required to enable the elimination of intra-economic entity transactions and balances should be incorporated. The consolidation package should be made available to all the controlled entities as soon as practicable. The Accountant General (AG) and MoFEPD should aim to reduce the lead-time in submission of audited consolidated financial statements to parliament. Some of the measures to speed up the preparation and audit of financial statements are identified in this report. The Excel-based system to receive data and carry out the consolidation should be developed.

More attention should be directed to planning and monitoring progress in order to achieve the impending important milestones. Consolidated financial statements would have to be prepared for the central government (CG) and the general government (GG) for 2021/22, and for the whole of the public sector for 2022/23. A joint plan should be prepared by MoFEPD and Treasury specifying the major activities and the related timelines to achieve these important milestones. The steering committee should review and approve the plan and monitor progress on a monthly basis. Progress reports should deal with each activity and provide substantive information on progress. The steering committee should also review the needs for resources in the context of the plan and ensure that the necessary resources are available to this important project.

Key information related to the project is being made available online. This is a good initiative that should facilitate a wide dissemination of such information and enhance transparency. However, more attention should be directed to ensuring that the information uploaded is complete. Where this is not the case, this fact should be disclosed prominently to avoid any confusion.

Summary of Recommendations

	Recommendation	Responsibility and timeframe
	Progress of reform	
1	Incorporate the fair presentation requirement in the financial reporting framework	MoFEPD, March 2022
2	Complete the development of the financial reporting framework by including notes to the financial statements and obtain formal steering committee approval of the complete framework	AG, by June 2022
	IT systems	
3	Make the SL more up-to-date with a view to reducing the volume of year-end adjustments	AG, by December 2022
4	Produce financial statements from the SL as a test run before the year-end to assess whether the SL can be used to prepare the 2021/22 financial statements	AG, by December 2022
5	Accelerate the development of SL reports so that the financial statements including notes (amounts, not text) can be generated from the SL to the maximum extent possible	AG, commencing February 2022
6	As a first step, identify, and document the reports and notes (amounts, not text) forming part of the financial statements that can be generated from the SL	AG, by February 2022
7	Identify the amounts in the statement of financial position and performance that do not have a supporting note in order to develop SL reports to support these amounts	AG, by February 2022
8	Document, review, and formally approve the list of reports and notes forming part of the financial statements that cannot be prepared from the SL	AG, February 2022
9	Develop, review, and approve the reports and notes (numbers, not text) and supporting analysis	AG, by July 2022
10	Find alternative options to meet requirements once it is determined that they are not part of the functionality of the system	AG, ongoing
11	Develop a plan to put in place Excel-based systems to prepare consolidated financial statements for 2021/22 for CG and GG and for PS for 2022/23	AG, by March, 2022
12	Develop, test, review, and approve necessary Excel-based templates to capture all data including those required for elimination and preparation of consolidated financial statements	AG, by August, 2022
13	Implement formal procedures to ensure that important work is done in time, reviewed for quality, and approved	AG, by February 2022

14	Upload pending assets in Government Asset Register (GAR) and take appropriate action to strengthen staffing at the ministries and departments so that pending assets may be uploaded	MoFEPD, Treasury, by February 2022
	Revenue reporting	
15	Review the accounting policies and procedures for recognition of revenue with a view to enhancing their understandability	MRA, by June 2022
	Budgetary Central Government, RRA	
16	Use the findings from the Section V on status and issues to prepare financial statements for budgetary central government that comply with all the requirements of accrual-basis IPSAS except for consolidation of public corporations (MoFEPD, by 2021/22) and subsequently comply with all IPSASs (MoFEPD, by 2022/23)	• GG: MoFEPD, by June 2022 • PS: MoFEPD, by June 2023
17	Prepare 2021/22 financial statements of RRA as far as possible in compliance with IPSAS (RRA, Treasury, by 2021/22) and prepare 2022/23 financial statements of RRA in compliance with all IPSASs, providing a fair presentation. (RRA, Treasury, by 2022/23)	• as far as possible in compliance with IPSAS: RRA, Treasury, by June 2022 • compliance with all IPSASs, providing a fair presentation: RRA, Treasury, by June 2023
18	Accuracy of RRA's source documents should be established.	RRA, September 2022
	Local Government Authorities	
19	Use the findings from Section VI to prepare financial statements of LGAs that comply with all the requirements of accrual-basis IPSAS and are suitable to be included in the consolidated financial statements of GG	LGAs, by 2021/22.
	Consolidation	
20	Develop a strategy and necessary mechanism to enforce compliance with reporting requirements for preparation of consolidated financial statements of CG, GG (MoFEPD, Treasury by June 2022), and public sector (MoFEPD, Treasury by June 2023)	• CG, GG: MoFEPD, Treasury by June 2022 • PS: MoFEPD, Treasury by June 2023
21	Develop and distribute a consolidation package to facilitate the collection of all information of the entities within the scope of the consolidation, necessary for the preparation of consolidated financial statements and notes of CG and GG (MoFEPD, Treasury by June 2022) and public sector (MoFEPD, Treasury by June 2023)	• CG and GG: MoFEPD, Treasury by June 2022 • PS: MoFEPD, Treasury by June 2023
22	Amend legislation including Finance and Audit Act (FAA) andtutory Bodies (Accounts and Audit) Act, to ensure timely submission of entity financial statements and consolidated financial statements	MoFEPD, Treasury by June 2022

23	Require entities to mutually confirm revenue and expenses, receivables and payables shortly, say 2 months, after year end, taking materiality into account	MoFEPD, Treasury by March 2022
24	Consider options for reducing the lead-in time for submitting the audited financial statements to the Parliament	MoFEPD, Treasury by June 2022
25	Apply IPSAS 22 *Disclosure of Information About the General Government Sector* when disclosing GG information in IPSAS financial statements	MoFEPD, Treasury by June 2023
	Audit	
26	In order to meet the audit timeline, NAO capacity would need to be assessed and augmented as appropriate.	NAO, March 2022
27	Critical review of timelines for completion of audit of individual entities will need to be considered and changes if any, would need to be reflected in the appropriate legislations.	NAO and AG, March 2022
28	Strengthen the capacity of statutory bodies through the deployment of accountants to assist in the preparation of financial statements	AG, March 2022
	Management and coordination of reforms	
29	Develop a plan of major activities and related timelines to achieve the impending key milestones of consolidated financial statements	MoFEPD and Treasury, April 2022
30	Report monthly to steering committee progress against the plan	MoFEPD and Treasury, commencing May 2022
31	Make adequate and appropriately skilled resources available to accrual IPSAS project to ensure that milestones are achieved	MoFEPD and Treasury, by May 2022
32	Ensure information provided on the website is complete or provide information about any missing information and when this might be available	MoFEPD and Treasury, by April 2022

I. INTRODUCTION AND BACKGROUND

1. **In 2016, the authorities decided to move to the accrual basis of accounting and to comply with the accrual based IPSASs in a stepwise approach**. To meet this strategic objective, the authorities, with the support of the IMF Regional Technical Assistance Center for Southern Africa (AFS) in October 2016[1], developed a seven-year roadmap to achieve full compliance with IPSAS by FY 2022/2023. Follow-up AFS missions in 2018, 2019, March 2020, and October 2020[2] supported the authorities in implementing this roadmap and maintaining the momentum of this important reform. The March 2020 mission provided advice on a range of issues, including revenue reporting, the secondary ledger of the Treasury accounting system, and undertook a detailed review of the 2018/19 financial statements of the budgetary central government and local authorities. The October 2020 mission advised on the consolidation process and timeline.

2. **Despite the challenges imposed by the COVID-19 pandemic, the authorities are pursuing the implementation of the 2016-roadmap and significant progress has been made since 2020 missions**. The country's complete lockdowns in 2020 slowed the pace of the reform. While progress has been made on the 2020/21 financial statements, including the first-time recognition of items, enhancement of existing items, and improvement of disclosure requirements, further work is still needed to address the issues, detailed in the following sections, related to the secondary ledger, the Government Asset Register, and the presentation of the 2020/21 financial statements to meet the agreed-upon milestone for BCG to be fully IPSAS compliant by 2020/21.

3. **This report reviews progress since the 2020 missions and provides guidance to ensure successful implementation of the project according to the agreed-upon roadmap.** The mission provided advice on a range of issues, including accounting policies and format, revenue recognition and reporting, the valuation of state land and buildings, the secondary ledger of the Treasury accounting system, and undertook a detailed review of the 2020/21 financial statements of the budgetary central government, local authorities, and, for the first time, the 2019/20 and 2020/21 financial statements of the Rodrigues Regional Assembly. The mission also advised on the consolidation process and timeline, and on the audit of the financial

---

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

[2] A. Khan and F. van Schaik (2018): *Implementing Accrual Accounting and International Standards*

A. Khan and F. van Schaik (2019): *Implementing Accrual Accounting and International Standards*

A. Khan and F. van Schaik (March 2020): *Implementing Accrual Accounting and International Standards*

G. Priya (October 2020): *IPSAS Implementation* statements. Moreover, the mission held three workshops with officials of state-owned enterprises, statutory bodies, and local authorities respectively.

II. PROGRESS OF REFORM

4. **Financial reporting by GoM has improved considerably over the last few years.** The draft financial statements for the 2020/21 fiscal year[3] reflect notable improvements. Significant revenues, assets and liabilities have been recognized and reported on an accrual basis. Necessary work for the implementation of further improvements in respect of certain areas is progressing well. Progress has also been made in addressing some of the issues related to the IT systems and their use to facilitate the reforms, though much remains to be done. This Section discusses progress made in various areas. Appendix 1 summarizes progress made in respect of recommendations of the reports of the missions of 2020.

A. Financial reporting framework

5. **The importance of fair presentation has been reaffirmed in the BCG financial statements.** The requirement of the Finance and Audit Act (paragraph 19(1)) that financial statements of the government should provide a fair presentation has been incorporated in the notes to the BCG financial statements. This would be helpful for the users of financial statements who are not familiar with the legal requirement that the government has adopted a fair presentation framework for financial reporting purposes. This would, in turn, help enhance the credibility of the reports.

6. **The financial reporting framework for the consolidated financial statements should incorporate the fair presentation requirement, be fully developed, and formally approved**. The format of financial statements and the accounting policies have been made available on the MoFEPD and Treasury websites. This is a good start, but does not represent the full framework. Fair presentation has not been explicitly incorporated as part of the framework for the consolidated financial statements. Furthermore, IPSAS-compliant financial statements are required to provide a significant amount of information in the notes. These notes need to be developed and included in the framework. Information requirements to enable the elimination of significant transactions and balances among entities being consolidated need to be specified. This will enable the controlled entities to identify the information that they would need to provide to the AG over and above those required for the statements currently available on the MoFEPD website. The AG will need this information to prepare the consolidated financial statements in compliance with IPSAS. The full framework should be developed by the AG, reviewed and approved by the steering committee, and communicated to the stakeholders.

---

[3] The audit of the financial statements was in progress at the time of the mission

B. Financial statements

7. Revenues and retirement benefit obligations have been reported in the financial statements on an accrual basis and according to IPSAS, though some more work is needed. In particular, accrual basis reporting for corporate tax revenue is planned to commence with the 2021/22 financial statements. The corporate tax receivables as at June 30, 2020 have been reported in the 2020/21 financial statements. The estimated retirement benefit obligations, which were first reported on an accrual basis in 2019/20, are currently subject to actuarial review once every three years. The liability should be reviewed and remeasured on an annual basis. These two items usually involve significant amounts and the manner in which they are reported have a material impact on the financial statements. Reporting these items on an accrual basis can be particularly challenging and the successful implementation of these reforms is commendable.

8. The basis of valuation of a number of items has been refined. Thus, commencing with the 2019/20 financial statements, investments are stated at fair value instead of cost. Government debt has been stated at amortized cost instead of cost**.** However, loans to state-owned enterprises are stated at cost, rather than amortized cost.

9. The financial statements include three important reconciliations. These reconciliations explain the differences between the accrual-based surplus/deficit (statement of financial performance), the budget surplus/deficit (comparison of budget and actual amounts) and net increase/decrease in cash (cash flow statement). These reconciliations thus facilitate an appreciation of the reasons for differences in key fiscal indicators.

10. The presentation of the financial statements of 2019/20 and 2020/21 has been improved to align with generally accepted practice. In particular, a clear distinction has been made between statements and notes that are in integral part of the financial statements and the statements have been presented in a widely recognized sequence followed by the notes. This is a change from long established practice, which involved presenting the statement of financial position first that were followed by notes that, in turn, were followed by other reports referred to as statements. The term statement was also used to describe items that would usually be considered notes.

11. However, a number of issues have had an adverse impact on the extent to which the financial statements satisfy the requirement of fair presentation and comply with IPSAS. According to the Finance and Audit Act, the statements are intended to provide a fair presentation of the financial transactions and financial position of the government (Section 19(1)) and be prepared in accordance with IPSAS as far as possible (Section 19(A)(a)).

12. First, retirement benefit obligations are understated by an estimated Rs 27.7 billion (6.3 per cent of GDP). GoM has used a discount rate of 6.5 per cent per annum to value this liability. This compares with a rate of 4.8 per cent used by the BoM to estimate its retirement benefit obligations. IPSAS 39 *Employee Benefits*, par. 39.84 states that the discount rate should "reflect the time value of money." Both BoM and GoM state: "The discount rate is determined by reference to market yields on bonds." Therefore, it would be reasonable to expect both BoM and GoM to use approximately the same rates. As far as discount rates are concerned, BoM should be considered an authoritative source. Had the government used a discount rate of 4.8 percent as used by BoM, the retirement benefit obligation would increase, and the net assets decrease by an estimated Rs 27.7 billion (6.3 per cent of GDP) and the deficit for the year would also increase by the same amount. This issue is discussed in more detail in Section V of this report.

13. Second, the amount at which land is reported in the financial statements continues to remain unusually high compared to international practice. This issue was raised the first year that these assets were recognized (see report of the mission of March 2019) and further discussed in the report of the mission of March 2020. The value at which land is stated has increased further. The authorities noted the comparison of land values with those of other countries with audited accrual-based financial statements. They requested additional information showing a comparison of Mauritius' land value to other island nations. This exercise was carried out during this mission and, as discussed more fully in Section V, confirms that Mauritius' land is stated at an exceptionally high value compared with other island nations.

14. LGAs have made good progress in improving their financial statements, aiming for fair presentation of their financial statements and compliance with accruals IPSAS. Comments on the financial statements of LGAs and related recommendations are provided in Section VI.

15. Progress has also been made in implementing the accrual based general ledger referred to as the secondary ledger (SL). The major issues related to the existence of test data in the live system and opening balances as at July 1, 2019 being entered as transactions of the year discussed in the report of the March 2020 mission have been addressed. The serious issues discussed in the earlier report related to report design and the reliability of reported data in the statement of financial position as at July 1, 2019 and statement of financial performance for 2018/19 (classification of expenses by nature) have been addressed.

16. However, much remains to be done to make the SL an effective and up-to-date general ledger which can be used to, among other things, prepare financial statements. Many more reports remain to be developed including the notes (amounts, not text) to the financial statements. Other reports derived from the system are incomplete or not well designed. For example, items appear in reports without any description, reconciliation reports do not clearly identify the items being reconciled, and comparative amounts are not included in the FSG reports. This suggests that the reports have not been subject to adequate quality assurance procedures, including formal and documented processes of review and approval. Significant additional effort would be required to complete the development, testing, and approval of necessary reports, including additional statements, e.g., statement of cash flows and statement of changes in net equity and notes (amounts, not text) and any necessary reports to carry out reconciliations or explain amounts in the SL where such explanations are necessary. These issues are discussed more fully in Section III.

17. **Preparation for consolidation of CG and GG are under way.** There is a need for a consolidation package to be prepared by AG to collect the necessary information from some 234 entities that will be included in the consolidation. Because of the large number of entities involved, there is a need for solid procedures to make this consolidation a smooth process.

C. Summary of recommendations

It is recommended that the authorities:

- ***Incorporate the fair presentation requirement in the financial reporting framework*** (MoFEPD, March 2022)
- ***Complete the development of the financial reporting framework by including notes to the financial statements and obtain formal steering committee approval of the complete framework*** (AG, by June 2022)

III. IT SYSTEMS

A. Secondary ledger (accrual based)

18. **The SL for 2020/21 had not been finalized at the time of the mission**. Adjustments were still being made to the SL and relevant reports from the system were not available. Therefore, it was not possible to review the 2020/21 SL to assess the extent to which it reflected the draft financial statements for 2020/21 that had been prepared from sources (PL and returns from MDAs) outside the SL. The mission reviewed selected SL reports of 2019/20 and compared them with the audited financial statements of that year. This section discusses, among other things, the findings of this comparison.

19. **More effort is required to make the SL up-to-date and use it to generate financial statements**. The progress report on the SL indicate that work is underway to prepare the financial statements using SL data and that it is expected that the 2021/22 financial statements would be prepared using this methodology. While this target is strongly supported, there is little evidence of tangible progress towards it or a clearly documented plan to achieve it. It is necessary to make the SL more up-to-date so that the volume of adjustments at year-end is minimized. As discussed below, many more reports need to be developed. Once these necessary steps are completed, a set of financial statements should be generated from the SL at least once before the year-end date to provide assurance that the 2020/21 financial statements can be prepared using the SL data. Such a test run will also help identify and resolve issues before the financial statements for the full year 2021/22 have to be prepared. The resource constraints and the additional challenges posed by the pandemic are appreciated. However, without such

preparation, the expectation set out in the progress report might not be realized. Furthermore, the aim should not be limited to using the SL data to prepare the financial statements, but also to use the SL to generate the financial statements including notes (amounts, not text) to the maximum extent practicable.

20. Development and testing of reports using the secondary ledger and their review and approval should be accelerated. Issues identified with the statement of financial position and statement of financial performance (Classification of expense by function) available during the March 2020 mission have been addressed. However, little progress has been made in developing other reports, including the cash flow statement, statement of changes in net assets/equity, the comparison of budget and actual amounts (if SL can access this data), and the notes to the financial statements.

21. Statements and notes that can be developed using the system should be identified as a first step. The amounts disclosed in the notes should in most cases be capable of being generated using the system. The text in the notes such as accounting policy or explanatory material contained in the notes will not be generated using the system. This should not prevent SL reports being developed for the amounts shown in the notes to support or explain the amounts in the statements. For example, the amounts in the following notes in the draft financial statements of 2020/21 should be capable of being derived from the SL. This is not an exhaustive list, and the treasury should develop an exhaustive list. Once developed, tested, and formally approved, these reports should be available at any time without any additional significant effort.

- Note 4 : Cash and cash equivalents
- Note 5: Receivables from non-exchange transactions
- Note 6: Receivables from exchange transactions
- Note 8: Investments (this is an example where the table showing the analysis of the amount in the statement of financial position should be developed using the SL; the explanatory text will have to be drafted outside the SL)
- Note 10: Property plant and equipment
- Note 19: Taxation
- Note 25: Employee costs
- Note 26: Grants

To the extent that a statement or certain amounts in the notes cannot be extracted easily using the system, these should continue to be derived using alternative means, but the audit trail to the system should be clear. The decision that a particular statement or notes, or portions thereof, cannot be developed using the SL and alternative means would be used, should be formally documented, reviewed, and approved.

22. Reports should also be developed to support all amounts in the primary statements that do not have a note associated with them. For example, the draft financial statements for 2020/21 show the following items in the primary statements that do not have a note reference. These should be supported by reports from the system showing an analysis of the totals in the statements:

- Inventories
- Prepayments
- Sale of goods and services
- Subsidies

23. The treasury should accept that the SL may not be able to satisfy all requirements that might be identified. The Treasury acquired and have been using a widely used off-the-shelf system. In common with other such systems it has been deigned to meet a set of user needs that are common to many users. It is not designed to meet every need that particular users might identify. The Treasury should accept this limitation and find alternative ways to meet its requirements. For example:

- if the system does not replicate in the secondary ledger manual journal entries made in the primary ledger, the Treasury might have to enter the journals manually in the secondary ledger.
- If the system cannot reconcile the PL and the SL, the Treasury would have to undertake this reconciliation outside the system. One option to explore would be to reconcile accounts selectively every month and reconcile the main totals regularly. Thus, totals such as the deficit, net assets/liabilities per the PL could be reconciled with the corresponding totals in the SL. Thus note 34 to 36 of the draft 2020/21 financial statements provide the reconciliation of the deficit to amounts in the accrual based financial statements. If those statements were derived directly from the SL (assuming that the SL can access the relevant information), these reconciliations would achieve the objective of reconciliation between PL and SL, as far as flows are concerned. Additionally, net assets/liabilities according to PL and SL should be reconciled.

24. Protracted discussions with SIL (provider of IT solutions and software development) to do something that is not part of the system's core functionalities should be avoided. If the option to change the software settings to achieve the objective is not available, efforts to customize[4] the software (that involves changing the source code) should be avoided once it has been confirmed that the application cannot perform a task because it was not designed to do it and therefore not part of its functionality. SIL has also confirmed that they do not consider customization to be consistent with good practice.

[4] For the purposes of this report customization is defined as changing the source code of the software to meet the business needs of a customer.

25. Preparatory work should commence to ensure that necessary systems are in place to support the preparation of consolidated financial statements (CFS). The broader issues related to consolidation are discussed in Section VII. This section discusses some of the IT systems issues related to consolidation. According to the roadmap, CFS should be prepared for the central government and the general government commencing 2021/22. CFS for the public sector should be prepared commencing 2022/23. At this stage, the treasury intends to use Excel to undertake the consolidation. However, the authorities should explore, and make a decision about, an advanced consolidation software solution as soon as practicable. Entities outside the BCG, i.e., local government authorities and statutory bodies that are not public corporations according to Statistics Mauritius would have to submit their financial statements to the Treasury for consolidation. The Treasury should commence work to develop the necessary Excel-based tables or templates to receive the data and undertake the calculations, including eliminations. Ideally, the controlled entities should be able to upload the financial statements in the standard format required by the Treasury, subject to some quality assurance procedures. Significant efforts would be required to develop these consolidation templates, test them, and formally approve them prior to making them available to the controlled entities. The controlled entities, in turn,, might need some time to ensure that they have the necessary data and can upload the data without difficulties.

26. The Treasury should implement formal procedures to ensure that important work is done in time, reviewed for quality, and approved. The existing lack of formal and documented quality assurance procedures have affected important reports. For example

- Report[5] showing the reconciliations of SL trial balance with the audited financial statements of 2019/20 contained amounts without any descriptions. These were critically important amounts for this report showing the reconciliation of accumulated deficit amounts. However, without any description or label, this was not easily understandable.
- A report developed to reconcile the consolidated fund and accumulated deficit amounts in the PL and the SL contained simple design flaws that made the report confusing and difficult to understand. For example, it was not readily apparent which amounts related to the PL and which amounts to the SL, which was the purpose of the report.

Treasury officials agreed that these issues could have been easily identified and rectified if the reports were reviewed for quality. Unfortunately, without these simple quality assurance steps, the reports were confusing.

B. Government asset register

27. There have been significant delays in filling in the details of assets by ministries and departments. During previous years, trainees were posted at ministries by the Treasury and

[5] *See Report SL TB 30 June audited.*

while they were there, asset data was being input regularly. When the trainees left there have been backlogs in data entry.

28. There is also an issue of attrition of staff at the Treasury and the fact that data entry suffers when the user leaves or retires. There is no document which contains instructions on how to enter data in the GAR. There are internal control officers and procurement officers at the ministries and departments who belong to the MoFEPD, and it may be worth considering whether these officers can be made responsible for the input of assets into the GAR.

29. The Treasury has had to recently delete a lot of data and re-fill it in because it was incorrectly put into the system. All data entered up to 30 June 2021 was mass retired to ensure data integrity as from 1st July 2021.

30. There is a backlog in data entry and assets of 10 ministries and departments have been entered only from June 2017 to July 2020. The Treasury requested that details of assets should be entered from July 2020 to July 2021, but this has not happened. The Treasury is unable to post asset data on behalf of ministries and departments because they have data at hand only for ministries for which they make payments, all the self accounting ministries make payments for their own assets. There are several data gaps for intangible assets and the Treasury does not have a comprehensive list of these assets.

31. Assets to the tune of Rs 407 billion comprising infrastructure assets, land and buildings have not been entered because the Treasury does not have details about the categories that the assets belong to. The GAR does not have a field where the correct categorization of assets can be made. It is perceived that this is a system limitation, and the Treasury is checking with SIL about whether there can be a field for comments about categorization. Other assets comprising transport equipment, other machinery and equipment and intangible assets have been entered to the extent of 1% of their total asset value. This is also due to the inability of the ministries and departments to update records.

32. The Treasury mentioned that the GAR does not support large data entry and the systems tends to crash if many items are sought to be input simultaneously. This issue is being resolved by the provider SIL.

C. Summary of recommendations

It is recommended that the authorities:

- ***Make the SL more up-to-date with a view to reducing the volume of year-end adjustments*** (AG, by December 2022)
- ***Produce financial statements from the SL as a test run before the year-end to assess whether the SL can be used to prepare the 2021/22 financial* statements** (AG, by December 2022)

- ***Accelerate the development of SL reports so that the financial statements including notes (amounts, not text) can be generated from the SL to the maximum extent possible*** (AG, commencing February 2022)
- ***As a first step, identify and document the reports and notes (amounts, not text) forming part of the financial statements that can be generated from the SL*** (AG, by February 2022)
- ***Identify the amounts in the statement of financial position and performance that do not have a supporting note in order to develop SL reports to support these amounts*** (AG, by February 2022)
- ***Document, review and formally approve the list of reports and notes forming part of the financial statements that cannot be prepared from the SL*** (AG, February 2022)
- ***Develop, review and approve the reports and notes (numbers, not text) and supporting analysis*** (AG, by July 2022)
- ***Find alternative options to meet requirements once it is determined that they are not part of the functionality of the system*** (AG, ongoing)
- ***Develop a plan to put in place Excel-based systems to prepare consolidated financial statements for 2021/22 for central government and general government and for public sector for 2022/23*** (AG, by March, 2022)
- ***Develop, test, review, and approve necessary Excel-based templates to capture all data including those required for elimination and preparation of consolidated financial statements*** (AG, by August, 2022)
- ***Implement formal procedures to ensure that important work is done in time, reviewed for quality, and approved*** (AG, by February 2022)
- ***Upload pending assets in GAR and take appropriate action to strengthen staffing at the ministries and departments so that pending assets may be uploaded*** (MoFEPD, Treasury, by February 2022)

IV. REVENUE REPORTING

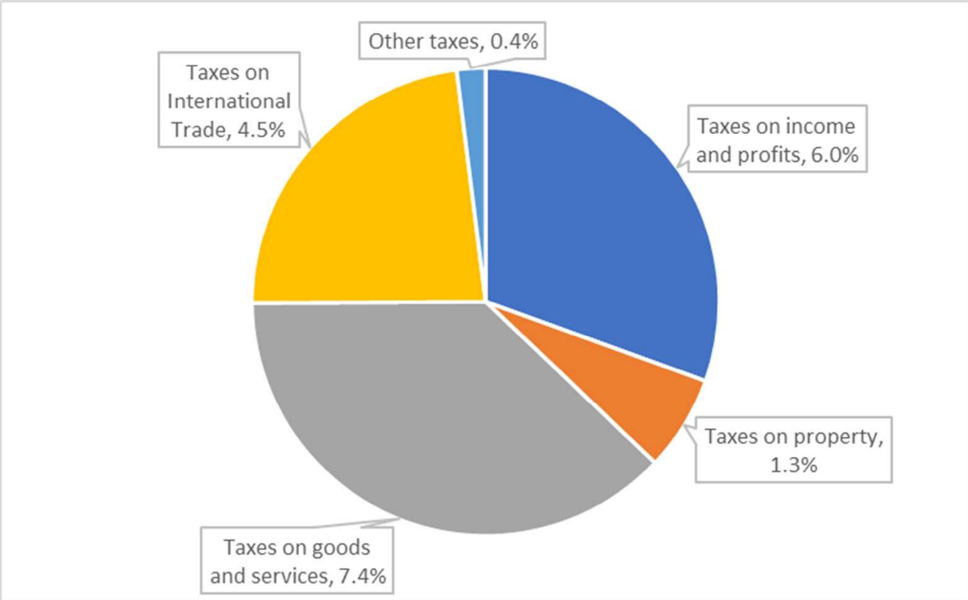
A. Introduction

33. The mission of March 2019 recommended that revenues be recognized on an accrual basis commencing with the 2020/21 financial statements. The report of that mission included an analysis of the major categories of revenues and concluded that the four major categories of revenue—value added tax (VAT), excise duties, corporate tax and personal income tax—should be given priority at the early stages of revenue reporting on accrual basis (see Figure 1 and 2). The mission also advised on applicable principles and recommended accounting policies.

B. Current status

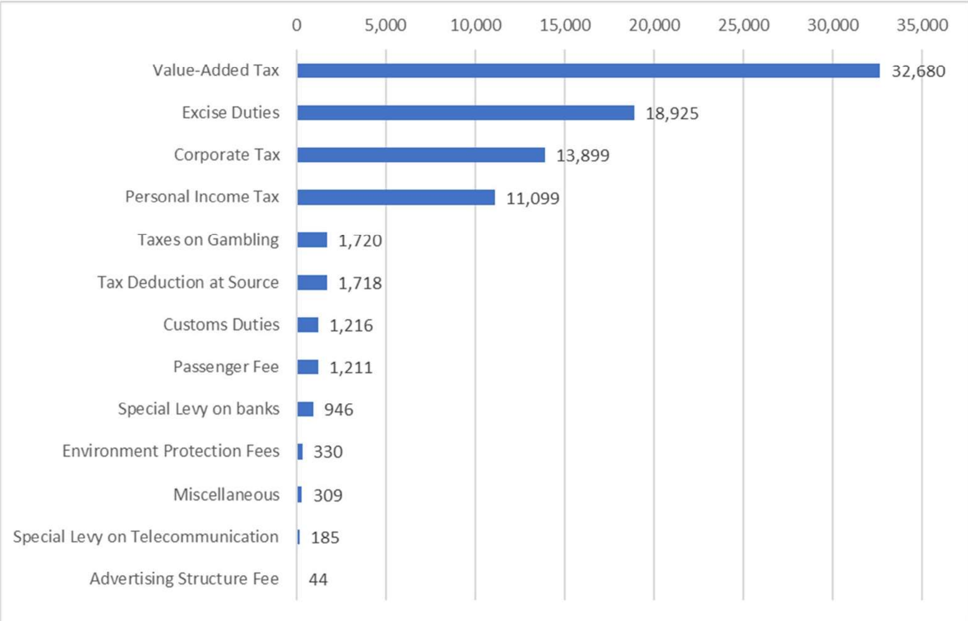
34. Significant progress has been made on recognition and reporting of revenue on an accrual basis. The working group known as the Special Cell for Revenue Accounting comprising MoFEPD, Treasury, Mauritius Revenue Authority (MRA) and all major revenue-collecting agencies is to be commended for developing policies and procedures along the lines recommended by previous missions. The authorities are also commended for proceeding with recognition and reporting of most revenues on an accrual basis. Total revenue from tax collected by MRA represented 19.6% of GDP for Mauritius in 2020/21.

Figure 1. Revenue from taxation 2020/21 Mauritius BCG (% of GDP)



Source: 2020/21 BCG financial statements (unaudited)

Figure 2. MRA Revenue to Consolidated Fund 2019/20 (in Rs million)



Source: 2019/20 MRA Annual report

35. Major categories of revenues, except corporate tax, have been reported on an accrual basis in the 2020/21 financial statements. In particular, value added tax (VAT), personal income tax, and excise duties—three of the most significant sources of revenue—have been recognized on an accrual basis for the first time. Revenues from exchange transactions, except for dividends and withdrawal of income from quasi-corporations, have also been recognized on an accrual basis. Policies and procedures for the recognition and reporting on an accrual basis have been developed for different categories of revenues. The accounting policies for revenue recognition, including the revenue recognition points for different categories of revenues have been disclosed in the financial statements of 2020/21.

36. Corporate taxes are planned to be recognized on an accrual basis commencing 2021/22. The working group has developed the policies and procedures for estimating the revenues based on the accrual concept. The receivables as at June 30, 2021 have been estimated using this basis and incorporated in the 2020/21 financial statements. This has demonstrated the practicability of the policies and procedures. This will also provide the comparative information for corporate tax receivable when corporate tax revenues are recognized on an accrual basis in 2021/22 financial statements.

37. The policies and procedures for recognition of revenue, particularly corporate taxes should be reviewed with a view to enhancing understandability. While providing the necessary information and guidance, as drafted, the policies and procedures can sometimes be difficult to follow, particularly if the reader is not an expert on the subject. The working committee should build on the impressive work already done by reviewing the policies and procedures with a view to enhancing their understandability.

C. Summary of recommendations

It is recommended that the authorities:

- ***Review the accounting policies and procedures for recognition of revenue with a view to enhancing their understandability*** (MRA, by June 2022)

V. BUDGETARY CENTRAL GOVERNMENT

A. Introduction

38. **This Section reviews accounting practices followed by BCG in its 2020/21 financial statements and identifies the gaps between these practices and the requirements and encouragements of IPSAS.** The authorities should be commended for eliminating a large number of gaps that the mission identified in the 2018/19 financial statements. The authorities plan to address the remaining gaps with the aim to achieve compliance with all IPSASs except for consolidation of public corporations by 2021/22 and compliance with all IPSASs including consolidation of all controlled entities by 2022/23. Some of the gaps that were identified by earlier mission are briefly reiterated here to avoid the need for a reference to earlier TA reports.

B. Current status BCG

39. **According to the Finance and Audit Act (FAA), the 2020/21 financial statements shall present fairly the financial transactions and financial position of Government and shall be prepared "as far as possible" in accordance with IPSAS.** The Act requires that the statements shall, for the fiscal year 2022/23 and onwards, be prepared in compliance with IPSAS (FAA, article 19).

Accounting for investments

40. **In its 2020/21 financial statements, GoM has recognized a Rs 55 billion one-off contribution from the Bank of Mauritius (BoM) as revenue, while at the same time recognizing a concomitant decrease in the value of its holding of BoM shares**. This accounting treatment is in line with GoM's accounting policy of measuring investments in public corporations (financial and non-financial) at fair value through surplus or deficit.

41. **GoM's 2020/21 financial statements do not qualify as separate financial statements in accordance with IPSAS 34 *Separate Financial Statements*.** This is because IPSAS 34 defines separate financial statements as those financial statements that do not comply with consolidation requirements and are presented *in addition to* consolidated financial statements, which GoM currently does not prepare. The guidance in IPSAS 34 therefore does not apply. However, as GoM applies IPSAS as far as possible, IPSAS 34 seems a suitable standard. IPSAS 34 allows accounting for investments in controlled entities either:

- at cost;
- in accordance with IPSAS 41 (if early applied; IPSAS 41 is effective is from January 1, 2023);
- using the equity method as described in IPSAS 36 *Investments in Associates and Joint Ventures*.

GoM has made the policy choice to accounting for its equity shares in accordance with IPSAS 41. All equity investments in scope of IPSAS 41 are measured at fair value in the statement of financial position, with fair value changes through surplus or deficit (FVTSD), except for those equity investments for which the entity has elected to present value changes in net assets/equity. The option to designate an equity instrument at fair value through net assets/equity (FVTNAE) is available at initial recognition and is irrevocable.

42. GoM's accounting policy for equity investments is fair value through surplus or deficit (FVTSD). The 2020/21 financial statements include the following policy: "Investments classified as FVTSD are measured at fair value at the end of each financial year, with any gains or losses on remeasurements recognised in surplus or deficit. Any dividend earned on these investments is also recognised in surplus or deficit." (Note 2.7 Financial Assets (iii) Investments). GoM determines the fair value of equity participations as the net assets figure from the latest audited financial statement of investees. (Statement F Detailed Statement of Investments).

43. In order to be compliant with IPSAS, the financial statements of all public corporations should be included in the consolidated financial statements of GoM All revenues and expenses, gains and losses of public corporations should be included in GoM's consolidated Statement of Financial Performance, and thus affect the consolidated surplus or deficit. In IPSAS-compliant financial statements, the dividends and other distributions from a controlled entity to a controlling entity (GoM) are eliminated on consolidation. For financial reporting purposes, in consolidated financial statements, which GoM plans to prepare from 2022/23, the carrying amount of GoM's investment in public corporations and the public corporations' equity would be offset, and all transactions between GoM and the public corporations would be eliminated, including dividends and one-off contributions.

44. GFS considers exceptional one-off dividends as a transaction in financial assets (financing), not revenue. This is clear from two paragraphs in *GFSM* 2014: "Any dividends declared greatly in excess of the recent level of dividends and earnings should be recorded as a transaction in financial assets, specifically the withdrawal of owners' equity from the corporation (*GFSM* 2014, par. 5.115)" and "This will be the case for distributions by public corporations to shareholders of proceeds from privatization receipts and other sales of assets and large and exceptional one-off payments based on accumulated reserves or holding gains. (*GFSM* 2014, par. 5.49)." The June 2021 Article IV mission confirmed this statistical treatment: "Following the *GFSM* 2014, Sections 5.111-5.116, the transfers from the BoM to the Central Government are considered as financing" (footnote 2 on page 4).

Accounting for employee pension liabilities

45. GoM has recognized employee pension entitlements as a liability in accordance with IPSAS 39 for the first time in its 2020/21 financial statements with comparative figures for 2019/20. The authorities should be commended for this major step ahead on the road towards government transparency. GoM's pension liabilities are material and their recognition and reporting in the financial statements are essential for accountability and decision-making purposes. Regular reporting of this liability will highlight any sustainability issues and will provide a basis for the consideration of the need for reforms such as the move from defined benefit schemes towards defined contribution ones. Showing the full extent of the government's pension liabilities towards its employees should provoke a better-informed discussion about retirement age, level of pension premium, pension payments and funding of state pensions.

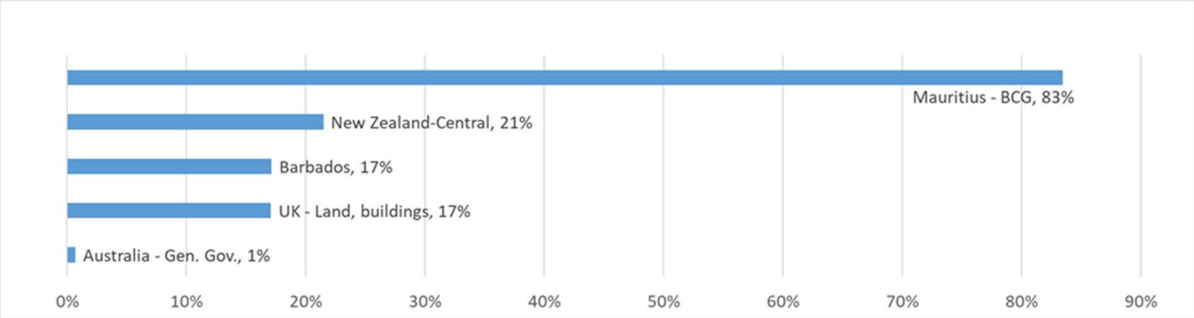
46. GoM has reported exactly the same amount in defined benefit pension obligation as per June 30, 2020 and 2021, but actuarial valuation of the liability should be updated each reporting date, i.e., each year. GoM's accounting policies for pension obligations state that "The calculation of defined benefit obligations is performed on a 3-yearly basis by a qualified actuary. Currently, Government appoints SICOM Ltd as its actuary.' (Note 2.13b). A new actuarial calculation by SICOM (State Insurance Company of Mauritius) will be carried out for the financial year 2021-2022. The authorities have indicated that going forward, they intend updating the actuarial calculation of the pension liability on an annual basis as required by IPSAS.

47. GoM's valuation of the defined benefit pension obligation is based on a discount rate which is on the high side, which causes the retirement benefits obligations to be understated. An interest rate of 6.5 per cent per annum has been used to discount retirement benefit obligations (as per June 30, 2019). This compares with a rate of 4.8 per cent used by the BoM to estimate its retirement benefit obligations (as per June 30, 2021). BoM should be considered an authoritative source for discount rates. IPSAS 39. 84 states that the discount rate "shall reflect the time value of money." Both BoM and GoM state: "The discount rate is determined by reference to market yields on bonds," so one would expect approximately the same discount rate. The notes to GoM's financial statements state: "If the discount rate would be 100 basis points (one percent) higher (lower), the defined benefit obligation would decrease by Rs 13.1 billion (increase by Rs 16.3 billion) if all other assumptions were held unchanged." The estimated impact therefore would be 6.5-4.8=1.7. 1.7*16.3 = 27.7. This is a considerable impact: Rs 27.7 billion amounts to 6.3% of GDP. The authorities have indicated that the discount rate to be used will be reviewed in the next year's financial statements.

Accounting for land

48. GoM presents exceptionally high amounts of land on its statement of financial position. The total value of land recognized as per June 30, 2021 is Rs 368.6 billion. This equals 83.5% of 2020/21 GDP. This is a considerable increase over the last three years, as the total value of land recognized as per June 30, 2018 was Rs 306.7 billion which equaled 66.39% of 2017 GDP. Figure 3 demonstrates that this is considerably higher than land recognized by central governments in other island nations that implemented accrual accounting. According to the authorities "Mauritius is a tropical island and the land value is considered high." and "Mauritius is a small island with limited resources for land development and is not comparable to other large countries." While many factors contribute to differences in metrics between countries, the difference in government land as a percentage of GDP between Mauritius and the other countries is so large that there is a need for further investigation to find an explanation. Box 1 lists the land valuation policies of the countries in Figure 3.

Figure 3. Government land as % of GDP for selected island nations



Source: Latest available audited financial statements: Barbados March 31, 2018, UK: March 31, 2019, Australia: June 31, 2021, New Zealand: June 31, 2021

Box 1. Land valuation policies

Commonwealth of Australia 2020/21 financial statements

Land which will continue to be used is valued by independent valuers at fair value (highest and best use). Highest and best use is determined from the perspective of market participants with the current use of the land presumed to be its highest and best use unless market or other factors suggest otherwise.

Barbados 2018-2019 financial statements

All lands are valued using the Comparative Method which relies on the analysis of recent transactions involving similar lands.

Government of New Zealand 2020/21 financial statements

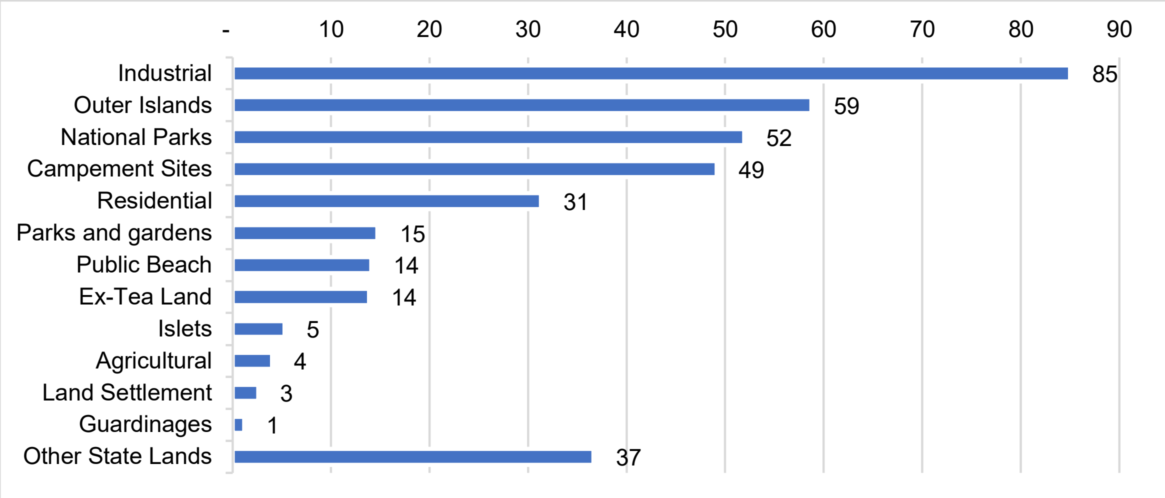
Land and building valuations are undertaken in accordance with standards issued by the NZ Property Institute or are based on the Rating Valuation Act 1988.

United Kingdom 2018-2019 Whole of Government Accounts

Land and buildings are usually professionally valued at 5-year intervals or when material changes are known to have arisen and are subject to annual internal reviews.

49. GoM recognizes considerable amounts of property, plant and equipment (PPE) which appear to be natural heritage assets. The mission recommends presenting heritage assets as a separate class of assets to clearly indicate the nature of these assets to the users of the financial statements. GoM is quite unique in recognizing such large amounts in heritage assets on the statement of financial position. Figure 4 shows that major components of state lands in Mauritius are the outer islands (Rs 59 billion), national parks (Rs 52 billion), parks and gardens (Rs 15 billion). public beaches (Rs 14 billion) and islets (Rs 5 billion). Other countries either do not recognize these types of land in their financial statements, or only for limited amounts. See March 2019 TA report for an overview of accounting policies for heritage assets in selected countries.

Figure 4. Major classes of government land at 30 June 2021 (in Rs billion)



50. GOM should verify whether its current land valuation practice is consistent with international practice. "The valuation basis is Market Value which is defined as follows: Market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction…" (source: Valuation report in connection with Valuation of State Land, issued by GoM's Valuation Department on December 14, 2021). However, the States Land Act does not allow selling some of the government land currently valued at market value, viz. defense lands, mountain reserves, pas géométriques (reserved lands along the seacoast which are part of the 'domaine public' and are inalienable), and river reserves. The market value is therefore not a suitable valuation basis for that non-marketable land. The mission recommends consultation with government valuation departments in other countries to verify whether the valuation basis applied is in line with international practice. A comprehensive international comparison should be carried out with a view to establish that GoM follows international practice and explain the large differences between Mauritius and other countries in the peer group. The mission stands ready to arrange an online meeting with a government valuation department in another country. For illustrative purposes, Box 2 provides an example from Australia.

Box 2. Land that cannot be traded in an open market (source: CPA Australia)

In the public sector a significant amount of land is designated as crown land or reserve, or has specific restrictions placed upon it that precludes it from being traded in the market. [...]. Because the asset cannot be traded in an open market it would be inappropriate to use a 'market' approach.

A good example that demonstrates this is a council in New South Wales who recently sold a parcel of land for over $100m. This land had previously been used as a community park and had been classified as 'community land' meaning that it could not be sold and had a range of restrictions in place regarding its use. However, over a number of years the council undertook a legal process to change these restrictions to enable sale.

Managing capital

51. GoM does not disclose information that enables users of its financial statements to evaluate the government's objectives, policies, and processes for managing capital. This is required by IPSAS 1 *Presentation of Financial Statements*, paragraphs 148A-148B. The entity discloses qualitative information about its objectives, policies, and processes for managing capital, including (but not limited to) a description of what it manages as capital (e.g., net assets/equity or Consolidated Fund) and how it is meeting its objectives for managing capital. The entity also provides summary quantitative data about what it manages as capital. Some entities regard capital as including only some components of net assets/equity (e.g., Consolidated Fund). This disclosure is particularly relevant for the Government of Mauritius because net assets/equity of GoM is exceptionally high as a percentage of GDP in comparison with other countries.

Special Funds

52. Some Special Funds deposit money with the Treasury and thus appear in the BCG financial statements; most Special Funds do not. Currently, cash-basis financial statements of all Special Funds are prepared, either by their staff, or by staff at the Treasury. In order to be consolidated in the GG financial statements, financial statements of all Special Funds have to be prepared for the year 2021/22. While each Special Fund has its own regulation, MoFEPD is preparing a single regulation to amend all 28 regulations to require accrual accounting financial statements. A small number of Special Funds are subject to the Statutory Bodies (Accounts and Audit) Act.

53. Revenue and expenses of the Special Funds that deposited money with the AG are booked directly in net assets/equity. However, according to IPSAS 1.99 "all items of revenue and expense recognized in a period shall be included in surplus or deficit, unless an IPSAS requires otherwise." No other IPSAS requires otherwise for revenue and expenses of Special

Funds. Revenue and expenses of Special Funds should therefore be presented on the statement of financial performance. This will cause a reconciliation difference with the actual amounts prepared on a comparable basis to the budget as the revenue and expenditure of the Special Funds are not included in the approved Estimates (only transfers to Special Funds are appropriated and included as expenditure in the approved Estimates in the year of expenditure.).

Inventories

54. GoM recognizes inventories but the valuation policy is not in accordance with IPSAS. IPSAS 12 *Inventories* requires inventories to be measured at the lower of cost and *net realizable value,* except for some items that should be measured at the lower of cost and *current replacement cost,* viz. inventories where they are held for distribution at no charge or for a nominal charge or for the production thereof. However, GoM measures all inventories at the lower of cost and current replacement cost.

Segment information

55. GoM's financial statements do not include segment information. IPSAS 18 *Segment Reporting* requires all entities to report financial information by segments to better understand GoM's past performance, to identify the resources allocated to support the major activities of GoM, enhance the transparency of financial reporting, and enable the GoM to better discharge its accountability obligations. Segments will usually be based on the programs the government operates, the activities it undertakes or the major goods and services the government provides. IPSAS states that an entity normally looks to its organizational structure and internal reporting system for the purpose of identifying its segments. The most common segment structure for central governments is by service segment such as health, education and defense. GoM is planning to present segment information by sector as defined by *GFSM* 2014 such as budgetary central government, general government, public corporations, and public sector.

Presentation of budget information in the financial statements

56. The statement of comparison of budget estimates and actual amounts (Statement AE, classification of expenses by function) reports inflows from financing such as the issue of government securities, as revenue. This classification is not in accordance with *GFSM* 2014 although Note 2.1 A states that "The Estimates is classified by both economic and functional classifications based, as far as possible, on the Government Finance Statistics Manual."

57. The statement of comparison of budget estimates and actual amounts (Statement AF, classification of expenses by nature) includes the approved budget which follows the format of the statement of government operations. However, there are various deviations from *GFSM* 2014:

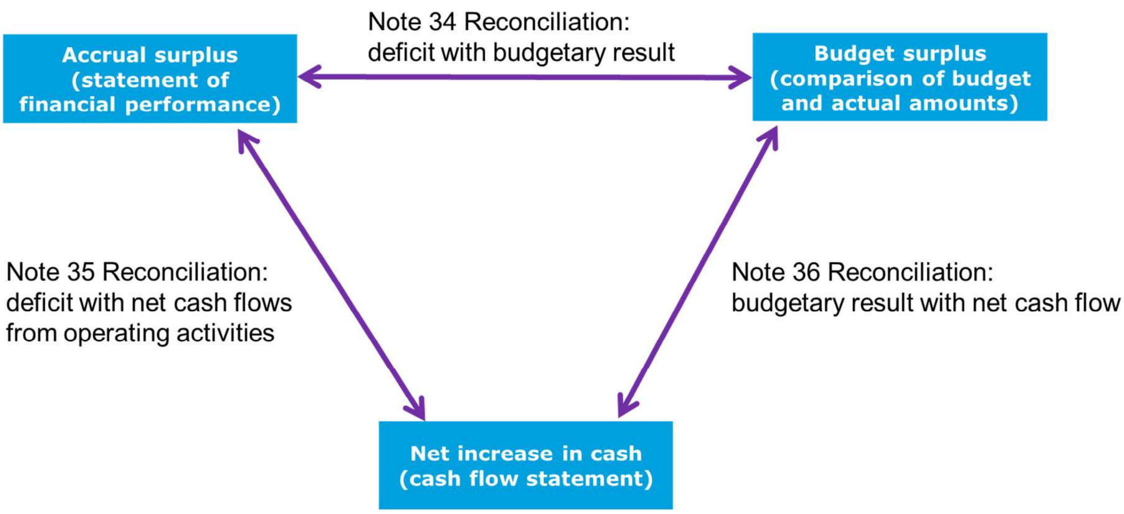
- grants to parastatal bodies local authorities/RRA are reported as capital expenditure;

- changes in cash and cash equivalents are reported as part of net government borrowing requirements rather than acquisition of financial assets (*GFSM* 2014, par. 4.28).

58. The financial statements include three important reconciliations. The authorities should be commended for this achievement. These reconciliations aim to clarify to the users of the financial statements the differences between the statement of financial performance, the cash flow statement and the comparison of budget and actual amounts. These reconciliations (shown in Figure 4), are:

- a reconciliation of the actual amounts in the comparison of budget and actual amounts and the statement of financial performance. Refer to IPSAS 24 *Presentation of Budget Information in Financial Statements*, paragraph 47 (a). (Note 34 Reconciliation: deficit with budgetary result).
- a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities, as encouraged by IPSAS 2 *Cash Flow Statements*, paragraph 29, for entities that prepare the cash flow statement according to the direct method. (Note 35 Reconciliation: deficit with net cash flows from operating activities)
- a reconciliation of the actual amounts in the comparison of budget and actual amounts and the net cash flows from operating, investing and financing activities in the cash flow statement, as required by IPSAS 24, paragraph 47(b). (Note 36 Reconciliation: budgetary result with net cash flow).

Figure 4. Three important reconciliations included in GoM's financial statements



Disclosure of debt information beyond budgetary central government

59. GoM's budgetary central government financial statements include information about general government debt and public sector debt (Statement J- Statement of Public Sector Debt) as required by Section 19 of the Finance and Audit Act. IPSAS does not require any information that goes beyond the boundaries of the reporting entity (ministries and departments), but does require that any disclosures in the financial statements meet the qualitative characteristics of information. The information included in IPSAS financial statements should meet the qualitative characteristics: relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. The Accountant-General, when including the Statement of Public Sector Debt in BCG's financial statements in accordance with IPSAS, should verify that this information about the public sector meets the qualitative characteristics of information.

Financial statement discussion and analysis

60. GoM's financial statements are becoming more encompassing and comprehensive and therefore need careful explanation. A financial statement discussion and analysis (FSDA) is helpful to make the financial statements understandable to a wide range of users. GoM's 2019/20 financial statements already include a financial analysis which mainly consists of breakdowns of revenue and expenditure. The added value of this analysis might be increased by following the guidance in the Recommended Practice Guideline (RPG) 2 *Financial Statement Discussion and Analysis* issued by IPSASB. An RPG is not an IPSAS standard, and an entity is not required to comply with it in order to comply with IPSASs. However, it does represent good practice. An FSDA should include the following:

- An overview of the entity's operations and the environment in which it operates;
- Information about the entity's objectives and strategies;
- An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and
- A description of the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties. The risks described in the FSDA should be wider than the risks described in the notes to the financial statements which mainly relate to financial instruments.

61. The FSDA should provide answers to questions that are likely to arise when a user tries to understand and interpret the financial statements, for example:

- What has been the impact of the Covid-19 pandemic on the financial position and performance of the government? How did the government manage to increase net assets/equity from Rs 195 billion to 201 billion in spite of the economic impact of the pandemic?
- What has been the impact on the government's financial performance and position of the Japanese bulk carrier spilling hundreds of tons of fuel oil near the coast of Grand Port district council.
- Neither the pandemic nor the oil spill led to any impairment of assets for the government. What is the explanation for this?

- General public services have increased from Rs 33.8 to 71.2 billion, while health merely increased (from Rs 11.7 to 12.4 billion) during 2020/21 as compared to 2019/20. One would expect a large increase on health expenses during a pandemic. What is the explanation?
- GoM spends Rs 71.2 billion on general public services according to the statement of financial performance. Why does general public services amount to Rs 192.5 billion on the comparison of budget and actual amounts? That amounts seems large in comparison with other functions, such as health (Rs 13.0 billion), education (Rs 15.0 billion) and social protection (Rs 50.3 billion). What is the explanation?

Gap analysis

62. The combined effect of the two major issues raised in the gap analysis (accounting for the employee benefits, and land) is to present a view of the financial position and performance that is unduly positive. Each of the above issues involves a choice of accounting policy that leads to an overstatement of surplus or deficit and net assets/equity. While the amounts of the impact of the use of the high discount rate to value retirement obligations and high land valuation can only be estimated as this stage, the combined impact of these issues is likely to be so material that the/ financial statements would be unlikely to provide a fair presentation.

63. While making progress in achieving compliance with detailed IPSAS requirements—important as they are—accounting policy decisions are being taken that distract from the fair presentation objective. This may have a significant impact on the credibility of the financial statements. The government is making progress in moving towards financial reporting in accordance with internationally accepted standards. However, providing a fair presentation is of paramount importance and following IPSAS is a way of reaching this goal.

64. Box 3 identifies the gaps between accounting practices followed by the Government of Mauritius in its 2020/21 financial statements and the requirements under IPSAS. The authorities plan to address the remaining gaps with the aim to achieve compliance with all IPSASs except for consolidation of public corporations by 2021/22 and compliance will all IPSASs by 2022/23.

Box 3. Required actions to close the gap on IPSAS compliance

The following actions need to be undertaken for the financial statements of the Government of Mauritius to comply with IPSAS. This gap analysis only highlights the major gaps and is not meant to be exhaustive. References to IPSAS requirements are provided in brackets.

Presentation of financial statements

1. Include a disclosure of the expected impact of the implementation of major new standards: IPSAS 41 and 42 (IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, par. 35)
2. Include any additional information that may be relevant in understanding the financial position and liquidity of the government (IPSAS 1, par. 127)
3. Disclose information about the government's objectives, policies, and processes for managing capital (IPSAS 1, par. 148A)

Special Funds

4. Report revenue and expenses of the Special Funds in the statement of financial performance rather than directly in net assets/equity (IPSAS 1, par. 99)

Inventories

5. Amend valuation basis of inventories: lower of cost and net realizable value or current replacement cost (IPSAS 12, par. 15)

Property, plant and equipment

6. Complete recognition and valuation of all property, plant and equipment (IPSAS 17 *Property, Plant and Equipment*)
7. Align recognition and measurement of land and heritage assets with international practice (IPSAS 17)
8. Start depreciation when asset is available for use, instead of charging full year depreciation in the year of acquisition (IPSAS 17, par. 71)
9. Apply impairment standards (IPSAS 21 *Impairment of Non-Cash-Generating Assets*, par. 26)

Segment reporting

10. Include segment reporting (IPSAS 18, par. 12)

Provisions

11. Recognize provisions and provide disclosures about their nature (IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*)

Related party disclosures

12. Include related party disclosures (IPSAS 20 *Related Party Disclosures*)

Tax revenues and receivables

13. Recognize corporate-tax revenues and receivables on an accrual basis and provide disclosures (IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfer)*)
14. Report an ageing analysis of outstanding receivables
15. Recognize a bad debt allowance and provide a reconciliation of changes in that allowance during the year (IPSAS 30 *Financial Instruments. Disclosures*, par. 20)

Budget information in the financial statements

16. In the comparison of budget and actual amounts, rename the column Total Provisions in Final Budget (IPSAS 24, par. 7)

17. Amend description of budgetary basis and include a note disclosure about the classification basis adopted in the approved budget (IPSAS 24, par. 39)
18. Amend the statements of comparison of budget estimates and actual amounts (Statement AE and AF) to closer match the statement of government operations in *GFSM* 2014.

Public debt and other financial instruments

19. Improve maturity analysis and sensitivity analysis of financial liabilities (IPSAS 30)
20. Ensure that debt information beyond budgetary central government meets qualitative characteristics of information
21. Improve reporting on significance of financial instruments to an entity's financial position and performance and nature and extent of risks arising from financial instruments (IPSAS 30, par. 38)

Consolidated financial statements

22. Prepare consolidated financial statements including all controlled entities including (IPSAS 35 *Consolidated Financial Statements*)
23. Agree and eliminate all inter-entity transactions and balances in full (IPSAS 35, par. 40)
24. Enforce timely preparation and audit of financial statements of all controlled entities (IPSAS 1, par. 69)

Equity investments and loans to public corporations and other entities

25. Determine the fair value taking into account all available information, most notably the latest financial statements. Alternatively, apply equity method to equity investments instead of measurement at fair value (IPSAS 36)
26. Take concessionary terms and conditions into account when measuring loans to state-owned enterprises and other entities (IPSAS 29 *Financial Instruments: Recognition and Measurement*).
27. Review loans to state-owned enterprises and other entities for impairment (IPSAS 29)

Employee benefits

28. Remove employee contributions from social contributions currently included in revenue (IPSAS 39)
29. Include full disclosures on post-employment benefit schemes, including reconciliations between opening and closing amounts (IPSAS 39, par. 137-154)

Financial statement discussion and analysis

30. Expand the financial analysis along the lines of RPG 2 *Financial Statement Discussion and Analysis*. Include full disclosures on post-employment benefit schemes (IPSAS 39, par. 137-154)

C. Current status Rodrigues

65. **The purpose of this section is to conduct a gap analysis for the Rodrigues Regional Assembly (RRA) to demonstrate the extent of preparation that will be required for compliance with IPSAS by 2022/23.** The analysis also provides recommendations for adoption of IPSAS by the envisaged time of 2022/23. RRA was established under Section 75 (A) of the Constitution of Mauritius, and it prepares accounts in accordance with Section 19 (4) of the FAA.

RRA accounting is on cash basis and accounts are manually prepared with limited use of Excel. RRA follows the same financial year as BCG (July 1 to June 30).

66. RRA does not have a comprehensive accounting software in place. Accounting is done manually and with limited use of Excel. The consolidation of RRA accounts with those of the BCG would be facilitated if RRA is to get a comprehensive software which is compatible with the Treasury Accounting system.

67. The latest audited financial statements available for RRA are for the financial year 2019-2020. The FAA requires that RRA submits its accounts to audit within three months of the close of the financial year (September 30). The audited financial statements for 2020/21 were not available as of end January 2022, but the authorities made unaudited 2020/21 financial statements available to the mission for review. The accounts for the year 2019/20 were qualified on account of overstatement of investments (Rs 76 million), incorrect reflection of a loan received from the Government of Mauritius (Rs 89 million) which had not been received and the fact that guarantees of Rs 50 million issued had not been reflected in the notes.

68. If RRA had been in full compliance with the FAA it would have had details of arrears of revenue, provisioning for write offs and details of opening and closing balances of stores and hence significant progress towards accrual IPSAS would have been achieved. For example, the FAA requires a statement of arrears of revenue. This would have meant that details of revenue accrued and receivable but not received would be available with RRA. Similarly, the Act requires a statement of claims abandoned which would imply that the RRA would have prepared an accounting policy for provisioning and write off for claims. Table 2 shows the statements that RRA prepares as compared with the requirements. The objective of this table is to show how full compliance with the FAA would have facilitated the transfer to IPSAS.

Table 2. RRA compliance with the FAA

(a) a statement of assets and liabilities;	Prepared but assets are not classified as current and non-current, neither are categories of assets (roads, highways, public utilities) disclosed. A comprehensive presentation of liabilities is not provided.
(b) an abstract account of revenue and expenditure of the Rodrigues Consolidated Fund	Prepared
(d) a detailed statement of revenue and a detailed statement of expenditure, recurrent and capital of the Rodrigues Consolidated Fund	Prepared
(da) a progress report on achievements and performance	Not prepared
(f) a statement of investments	Prepared. In the financial statements for 2020/21, there are write-offs of investment in the 3 companies that have been pointed out as closed in the 2019/20 audit report.

(g) a detailed statement of advances	Prepared. The statement of advances gives a column for write-offs but there are no write-offs.
(h) a detailed statement of deposits	Prepared
(i) a statement of arrears of revenue	Not prepared
(j) a statement of claims abandoned	Not prepared
(k) a statement of losses charged to expenditure	Not prepared
(l) a statement of stores losses	Not prepared
(m) a tabular summary of all unallocated stores showing opening and closing stocks	Not prepared
(n) a statement of foreign aid received	Prepared

69. In order for RRA accounts to be consolidated with those of the Budgetary Central Government, RRA will need to transition to full accrual IPSAS by 2022/23. The mission discussed with RRA officials the provisions of IPSAS 33 *First-time Adoption of Accrual Basis IPSASs* which provide for a transition period for first time adopters of IPSAS. RRA will be able to avail of transition period provisions for one year 2021/22. In 2021/22, the first time adopter is expected to prepare (a) statement of financial position, (b) statement of financial performance, (c) statement of changes in net assets/equity, (d) comparison of budget with actual amounts (if the entity makes the budget public) and (e) notes (summary of significant accounting policies). During the transition period the first time adopter must disclose the measurement basis, extent to which transitional provisions are applied, accounting policies that are relevant and exemptions availed under IPSAS 33. There is no exemption from preparation of a cash flow statement in accordance with IPSAS. RRA does not prepare a cash flow statement in accordance with IPSAS 2 and this would be a good starting point towards IPSAS.

70. RRA may also work on strengthening its Statement of Assets and Liabilities. It may consider the presentation of different classes of assets (roads, highways, public utilities), deciding thresholds for current and non-current assets, restricted cash balances, valuation methodologies, treatment of repairs and maintenance and treatment of capitalization, upgrades and improvements. RRA should consider the treatment of owned and vested land in accordance with IPSAS 17 *Property, Plant and Equipment* and BCG guidance on treatment and valuation of land. RRA also has a number of investments in local entities on its books and it needs to take guidance from IPSAS 29 *Financial Instruments: Recognition and Measurement* and IPSAS 36 *Investments in Associates and Joint Ventures* for their accounting treatment.

71. RRA shows limited liabilities and fails to make a distinction between liabilities, reserves and capital. For example, RRA shows its Consolidated fund as a liability while it should be classified as an equity balance. RRA should establish policies regarding the definition, recognition and classification of liabilities. It may also consider other types of liabilities that may exist, like accounts payable for purchases of goods and services, accrued interest payable, accrued salaries and wages, accrued vacation vested pay, accrued compensated balances, amounts payable under guarantees and indemnities liabilities related to unearned revenues and bank loans and other borrowings. In addition, in accordance with IPSAS 29 *Financial Instruments:*

Recognition and Measurement, a breakdown of debt and breakdown of loans at market terms and concessionary loans should be provided as well as a maturity analysis to determine breakdown of future cash flows required for principal repayments. RRA should take reference to IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* wherein they would need to look at environmental risks and obligations resulting from landfills and other contaminated sites like asbestos remediation, old gasworks, quarries, timber treatment, garbage disposal sites, and effluent treatment plants.

72. RRA source data for preparing accounting records is not reliable as there are consistent differences between actuals and estimates. This lack of reliable data is shown by the fact that items of revenue like issuance of National Identity cards was 82% less than estimated. This points to the fact that the demographic records for population eligible for such identity cards is not reliable. Other examples include the underperformance of revenue from Agricultural State Land was 51% which points to the fact that the land records are not accurate. RRA will need to ensure the accuracy of records from which to extract opening balances.

D. Summary of recommendations

It is recommended that the authorities:

- ***Use the findings from the Section V on status and issues to prepare financial statements for budgetary central government that comply with all the requirements of accrual-basis IPSAS except for consolidation of public corporations*** (MoFEPD, by 2021/22) ***and subsequently comply with all IPSASs*** (MoFEPD, by 2022/23)
- ***Prepare 2021/22 financial statements of RRA as far as possible in compliance with IPSAS*** (RRA, Treasury, by 2021/22) ***and prepare 2022/23 financial statements of RRA in compliance with all IPSASs, providing a fair presentation.*** (RRA, Treasury, by 2022/23)
- ***Accuracy of source documents should be established. (****RRA, September 2022****)***

VI. LOCAL GOVERNMENT AUTHORITIES

A. Introduction

73. LGAs have made good progress in improving their financial statements, aiming for fair presentation of their financial statements and compliance with accruals IPSAS. Notable improvements over the last few years include:

- recognition of property, plant and equipment and introducing and maintaining asset registers
- recognition of employee benefits
- deciding on a common budgetary basis
- preparing a comparison of budget and actual amounts and reconciliation between the actual amounts in this comparison and amounts in the cash flow statement or statement of financial performance.
- explanation of differences between budget and actual amounts
- valuation of land and buildings
- preparing a list of significant controlled entities.

This Section provides recommendations, mainly to prepare the necessary information needed for the consolidated financial statements for general government which will prepared for the first time for the year 2021/22.

B. Current status

Statement of compliance with IPSAS

74. Several, but not all, LGA financial statements for the year 2020/21 include an explicit and unreserved statement of compliance with IPSAS and a reference to the Local Government Act. The Ministry of Finance and Economic Development requires, by letter of 14 April 2017, that LGAs prepare financial statements in accordance with IPSAS. The Local Government Act 2011, article 133(1), requires that "The financial statements of a local authority shall present fairly the financial position, financial performance and the cash flow of the local authority." The mission recommends that all LGAs include a statement of compliance (IPSAS 1, paragraph 28), and a reference to the Local Government Act (IPSAS 1, 150.c) in their financial statements. A statement of compliance shall only be included in financial statements if they comply with all requirements of IPSASs. Fair presentation is one of the requirements of IPSAS (IPSAS 1, par. 27).

Presentation of budget information in financial statements

75. LGAs' financial statements include explanations of the differences between budget and actual amounts. This is a step ahead towards more accountability and transparency by local councils.

76. Most LGAs' financial statements now include a reconciliation of the actual amounts in the comparison of budget and actual amounts and the cash flow statement or the statement of financial performance, as required by IPSAS 24, paragraph 47(a). This reconciliation aims to clarify to the users of the financial statements any differences that may arise between surplus/deficit according to the comparison of budget and actual amounts and receipts, payments and surplus/deficit according to the cash flow statement or revenues and expenses according to the statement of financial performance. This mission recommends that all LGAs include such a reconciliation to clarify the nature of the budgetary basis.

77. The Ministry of Local Government (Local Authorities Governance Unit, LAGU) and the municipal councils agreed that from 2021-22, LGAs prepare their budget on the cash basis. IPSAS 24 requires disclosing the budgetary basis, which is the basis of accounting adopted in the budget that has been approved by the legislative body. Determining and adequately describing the budgetary basis is important as IPSAS requires reporting the actual amounts in the comparison of budget and actual amounts on the same basis as the approved budget.

Employee pensions

78. All LGAs recognize pension liabilities on their statement of financial position, as determined by the State Insurance Company of Mauritius (SICOM) just like BCG. As local governments will be included in the general government financial statements for the year 2021/22 there is a need to align the assumptions used in the actuarial calculations (for example, LGAs apply a discount rate of 5% while BCG applies 6.5%). Actuarial calculations need to be updated annually.

Non-financial assets

79. The LGAs should continue completing and maintaining asset registers. Considerable progress in this area has been achieved in recent years. The LGAs should continue reviewing the existence and completeness of the assets and their valuation on a regular basis.

Consolidation

80. Since 2017/18 LAGU prepares a consolidation of all twelve LGAs by deriving the required information from the financial statements. This consolidation is carried out in Excel. For the year 2021/22, the first year the LGAs will be included in the GG consolidation, AG should prepare and distribute a consolidation package (see Section VII) to collect all information required for consolidation. For further guidance on the consolidation process, refer to Section VII, notably relating to elimination of balances and transactions between the LGAs and other government entities, taking into account materiality. Since LGAs have moved to the same software, consolidation should be straightforward.

C. Summary of recommendations

It is recommended that the authorities:

- ***Use the findings from Section VI to prepare financial statements of LGAs that comply with all the requirements of accrual-basis IPSAS and are suitable to be included in the consolidated financial statements of GG.*** (LGAs, by 2021/22).

VII. CONSOLIDATION

A. Current status

81. **Widening the boundaries of the reporting entity to include all controlled entities is an integral part of GoM's implementation plan.** GoM's 2020/21 financial statements do not include entities outside the budget sector that are controlled by central government. IPSAS 35 *Consolidated financial statements* requires the financial statements of a reporting entity to include all controlled entities. The logic of this approach to consolidation flows from the objective of IPSAS which is accountability: the controlling entity should be held accountable for those entities that it controls and not for entities that it does not control. While the effort involved will be considerable, the government and the stakeholders will benefit from seeing a consolidated view of the public finances including all the government assets and liabilities. GoM plans to widen the coverage of its financial statements in two major steps:

- *2021/22:* GoM considers the municipal councils as controlled entities and plans to include them in the scope of consolidation of its 2021/22 financial statements. GoM also plans to consolidate the extrabudgetary units, which includes all statutory bodies except Central Electricity Board (CEB) and Central Water Authority (CWA), in the 2021/22 consolidated financial statements. GoM considers -for financial reporting purposes- Rodrigues Regional Authority (RRA) a controlled entity within the general government sector which should also be included in the consolidation. These financial statements will thus cover the general government sector as defined by *GFSM* 2014.
- *2022-23:* GoM plans to include all public corporations, both financial and non-financial, in the 2022-23 financial statements. These financial statements will thus include all controlled entities in compliance with IPSAS. These financial statements will also cover the public sector as defined by *GFSM* 2014.

GFSM sector classification

82. **AG and MoFEPD have decided to follow the sector classification used in statistical reporting by Statistics Mauritius.** This classification of general government and the public sector is based on statistical principles set out in *GFSM* 2014. The existing classification has been reviewed by a mission from the Statistics Department of the IMF[6]. Statistics Mauritius regularly updates the classification of public sector units and publishes the classification in its Digest.

Consolidation package

Consolidation procedures and processes will need to be put in place to ensure that reliable statements are produced in a timely manner. The IT systems issues related to consolidation have been discussed in section III. This section discusses the broader issues related to consolidation. A consolidation package should be developed shortly to specify and clearly communicate the

---

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

information that entities outside the BCG would need to provide to the AG for the preparation of consolidated financial statements. This consolidation package should be available to all entities in the general government sector well before year end (June 30). A consolidated package comprises the formats or templates of all the financial statements that the controlled entities need to complete. The consolidation package would include all the notes that would need to be completed, including the accounting policies that should be followed in completing the templates. The consolidation package would also require identification of transactions and balances with other entities within general government to facilitate their elimination from the consolidated financial statements. MOFEPD has prepared a list of entities to be consolidated in line with the Digest of Public Finance issued by Statistics Mauritius. This list has been approved by the Steering Committee. The Treasury should furnish this list of entities as part of the consolidation package or refer to it if the steering committee makes it publicly available e.g., on the website. Elimination of transactions and balances with all entities in the public sector is required for the 2022-23 financial statements.

Elimination

83. To comply with IPSAS, all balances, transactions, revenue and expenses between entities within the public sector will have to be eliminated. As the FAA requires fair presentation of the financial statements, the law precludes GoM from applying any of the exemptions in IPSAS 33 that affect fair presentation. That means that GoM is not allowed to apply the exemption in IPSAS 33 *First-time Adoption of Accrual Basis IPSASs*, par. 55, to not eliminate balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within three years following the date of adoption of IPSASs. Materiality considerations apply to the elimination requirement. No undue time or cost should be spent on the elimination of items that are immaterial to the consolidated financial statements as a whole. To ensure smooth consolidation procedures, all entities in the consolidation should be required to mutually confirm revenue and expenses, receivables and payables shortly, say 2 months, after year end.

Materiality

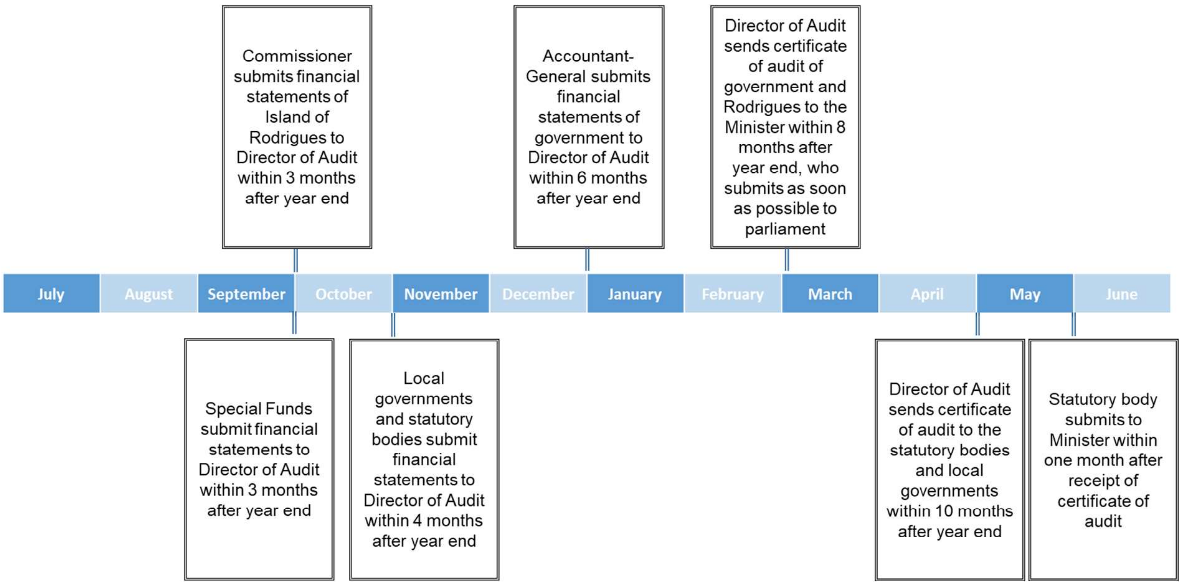
84. Some controlled entities may not be able to produce accrual accounting information of sufficient quality to be included in the consolidation. GoM should take materiality into account in determining whether omitting these entities from the consolidated financial statements affects fair presentation and compliance with IPSAS. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. (IPSAS 1, par. 7). GoM requires all government entities to prepare stand-alone accrual-basis financial statements. Materiality at the level of the individual entity (also known as the component materiality) is considerably lower than at the level of the consolidated financial statements (also known as the group materiality). A lack of fair presentation or compliance with IPSAS at the level of a statutory body does not preclude the fair presentation and compliance with IPSAS of the consolidated financial statements. The omission of an immaterial controlled entity does not prohibit GoM including an unreserved statement of compliance with IPSAS and fair presentation in the consolidated financial statements.

Timeliness of the preparation of consolidated financial statements

85. AG and MoFEPD should aim to reduce the lead-time in submission of audited consolidated financial statements to parliament. The time currently permitted by the FAA and Statutory Bodies (Accounts and Audit) Act, as illustrated in Figure 5, is too long. GoM is in the process of amending these laws. According to IPSAS, an entity should be able to issue its financial statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. Worldwide, many governments manage to submit their audited financial statements, even on an accrual basis, to their parliament within six months of the end of the financial year. AG and MoFEPD should review the year-end processes and explore options for reducing the time taken for the preparation and the audit of the financial statements. This should be done jointly and in consultation with the Director of Audit. Measures that could be considered to speed up the year-end closing, and auditing process include:

- Reducing the extent of time-consuming manual operations by enhancing the Oracle functionalities and coverage
- Preparation of interim financial statements, which allows for resolving issues arising during the fiscal year rather than after year end.
- Preparation of consolidation packages way ahead of the preparation of the entity's own financial statements allowing the auditor to audit this consolidation package with the group materiality which for small entities will not be time-consuming. Only later on, entity financial statements are finalized and audited with component materiality. This practice is quite common in complex consolidation processes.
- Instituting quality assurance mechanisms for improving the accuracy and quality of the financial reports, reducing the time needed for correction of errors prompted by the NAO
- Impose appropriate disciplinary actions in accordance with the Statutory Bodies (Accounts and Audit) Act on those reporting entities that fail to submit financial statements by the legal deadline in accordance with the law including naming and shaming during the budget speech
- Documenting a better audit trail by the preparers of the financial statements, facilitating the work of the NAO
- Enhance the internal audit departments, if any, within the ministries, enabling the NAO to rely on their work
- Capacity building of the preparers of the financial statements at all government entities.

Figure 5. Timeline preparation of financial statements general government of Mauritius



General government disclosures in IPSAS financial statements

86. IPSAS 22 *Disclosure of Financial Information About the General Government Sector* provides guidance to those governments that elect to present information about the general government (GG) in their financial statements. Financial information about the GG shall be disclosed in conformity with the accounting policies adopted for preparing and presenting the financial statements of the government, with two exceptions.

- The GG shall recognize its investment in the public financial corporations and public nonfinancial corporations sectors as an asset and shall account for that asset at the carrying amount of the net assets of its investees. GoM's accounting policy for equity shares applied in its 2020/21 (fair value in accordance with IPSAS 41) deviates from this requirement.
- The GG disclosures shall be reconciled to the financial statements of the government showing separately the amount of the adjustment to each equivalent item in those financial statements.

B. Summary of recommendations

It is recommended that the authorities:

- ***Develop a strategy and necessary mechanism to enforce compliance with reporting requirements for preparation of consolidated financial statements of CG, GG*** (MoFEPD, Treasury by June 2022)***, and public sector*** (MoFEPD, Treasury by June 2023)
- ***Develop and distribute a consolidation package to facilitate the collection of all information of the entities within the scope of the consolidation, necessary for the***

preparation of consolidated financial statements and notes of CG and GG (MoFEPD, Treasury by June 2022) ***and public sector*** (MoFEPD, Treasury by June 2023)

- ***Amend legislation (FAA, Statutory Bodies (Accounts and Audit) Act) to ensure timely submission of entity financial statements and consolidated financial statements.*** (MoFEPD, Treasury by June 2022)
- ***Require entities to mutually confirm revenue and expenses, receivables and payables shortly, say 2 months, after year end, taking materiality into account.*** (MoFEPD, Treasury by June 2022)
- ***Consider options for reducing the lead-in time for submitting the audited financial statements to the Parliament.*** (MoFEPD, Treasury by June 2022)
- ***Apply IPSAS 22 when disclosing GG information in IPSAS financial statements*** (MoFEPD, Treasury by June 2023)

VIII. AUDIT

A. Current status

87. Discussions with the National Audit Office (NAO) were held about the proposed timeline for the transition to IPSAS by 2022/23 for the whole of government accounts. NAO mentioned that significant progress has been made by the LGAs, all of which prepare IPSAS-financial statements. However, there are concerns with regards to the submitting financial statements by the statutory bodies. NAO officials mentioned that only 50% of the statutory bodies have submitted financial statements to audit for the year 2020-21. There are significant capacity constraints at statutory bodies and many of the smaller statutory bodies do not have accountants in place. In this context, NAO mentioned that the Treasury may consider putting in place a pool of accountants who would help statutory bodies complete their pending financial statements.

88. An examination of the roadmap for completing accounts as agreed in the October mission is required if NAO is to complete the audit of the consolidated FS of 2022-23 by May of 2024. NAO has developed an audit timeline for 2021/22 up to 2023/24. It plans to complete the audit of 2022/23 consolidated financial statements by the end of June 2024. To meet that goal all FS should be submitted by April of the year following the year under audit. In this context the timelines decided in the October 2020 Roadmap for accounting for different categories of entities should be critically re-examined.

89. The audit of consolidated FS presents some challenges as it will be the audit of the consolidated accounts most of which have been audited by the NAO but will include some that have not been audited by NAO. In this regard, NAO will have to ensure that the consolidation process has been correctly carried out. In addition, they will need to place some degree of reliance on the work of other auditors so they would need to satisfy themselves about the audit procedures and methodology carried out by the other auditors. Therefore, the NAO maintained that they would need at least one month after receiving the individually audited accounts to audit the consolidated financial statements.

90. NAO is not currently staffed to the full complement of allotted posts, and this may present challenges in the timely completion of audit of consolidated financial statements. NAO mentioned that there are staffing deficiencies in the number of established posts and only about 90% of established posts are filled. Furthermore, in the context of remote audit and possibly audit of computerized accounts, the Director of Audit mentioned that in addition to trained accounting staff they would also need a complement of staff of other functionalities like software developers, engineers and other IT professionals.

B. Summary of recommendations

It is recommended that the authorities:

- ***In order to meet the audit timeline, NAO capacity would need to be assessed and augmented as appropriate.*** *(NAO, March 2022)*
- ***Critical review of timelines for completion of audit of individual entities will need to be considered and changes if any, would need to be reflected in the appropriate legislations.*** *(NAO and AG, March 2022)*
- ***Strengthen the capacity of statutory bodies through the deployment of accountants to assist in the preparation of financial statements (****AG, March 2022****)***

IX. MANAGEMENT AND COORDINATION OF REFORMS

91. This Section deals with the issues that require senior management attention. The objective is to alert management to any slippages and other concerns that need to be addressed. Change management issues, including communication, coordination and training, were discussed in the reports of the earlier missions advising on implementation of accrual accounting and IPSAS.[7] This Section does not repeat the earlier discussion.

A. Management of reform

92. More attention should be directed to planning and monitoring the progress to achieve the impending important milestones. According to the roadmap, consolidated financial statements (CFS) for the central government and the general government should be prepared for 2021/22. A plan should be developed jointly by the MoFEPD and Treasury to identify the major activities required and the related timelines to achieve these milestones. The party responsible for each activity should also be identified. The steering committee should approve the plan. Monthly progress reports should be prepared by MoFEPD and Treasury and reviewed by the steering committee to ensure that progress is satisfactory, and the milestones can be achieved. The progress report should address the specific activities in the plan and provide substantive information about the progress. General and broad statements should be avoided. The steering committee should continue to review the progress reports and request specific additional information where necessary for a proper appreciation of the state of progress.

93. The adequacy of appropriately skilled resources continues to be an issue. This issue has been raised by earlier missions that also noted that where additional resources had been made available they were not working, or only working part-time, on issues related to the accrual project and the SL. The resource constraints, particularly under the current circumstances, are a difficult issue. However, as discussed in Section VII a great deal of work would need to be done to ensure that the CFS can be prepared within the agreed timetable. The steering committee should review the needs for resources in the context of the plan referred to above and make the necessary resources available to this important project. Where additional resources are not available, existing resources might need to be reallocated so that the necessary work can be

---

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

A. Khan and F. van Schaik (March 2018): *Update on Progress Towards Adoption of Accrual Accounting and International Standards*

A. Khan and F. van Schaik (July 2019): *Implementing Accrual Accounting and International Standards* done in time to achieve the milestones. Attention should be given to ensuring that the resources allocated have the relevant skills.

B. Communication, coordination, and training

94. Key information is being uploaded to MoFEPD and Treasury websites as an important part of the communication strategy. The MoFEPD site (https://mof.govmu.org/Pages/reporting.aspx) has uploaded the Accountant General's report, the IMF/AFS mission's reports on this project, the MoFEPD Circular No. 6 of 2020 – Implementation of IPSAS that provide important information about the project, including amendments brought to the Statutory Bodies (Accounts and Audit) Act. The website also has an IPSAS query form that should enable interested parties to raise questions and seek clarification. The form and content of CFS (IPSAS) and the draft accounting policies of CFS (IPSAS) are also included. These two documents are also available on Treasury site (https://treasury.govmu.org/Pages/ResourceCentre/IPSAS-Implementation.aspx).

95. Care should be taken to ensure that the information uploaded is complete. If not, it should be clearly disclosed that the information is incomplete and if possible an indication should be given of when the remaining information would be available. The form and content of the CFS (IPSAS) set out the statements. However, the notes to the financial statements, other than accounting policies, that are an integral part of the CFS are not included in this document. This might be potentially misleading as many users might think that the information on the website represents the complete form and content of the CFS. This might also mislead the controlled entities into thinking that the statements represent all the information that they would need to provide. The website should clearly state that the statements do not constitute the full financial statements and that notes to the financial statements are an integral part of the financial statements. The website should disclose that the notes would be developed and made available in due course. If possible, the date when this information is expected to be available should be indicated.

96. The draft communication strategy should be developed further. The mission provided advice in earlier missions about this topic, including the importance of communicating with different groups of stakeholders. The Chairperson of the steering committee (13th steering committee meeting of 17 July 2020) acknowledged the need to enhance the strategy. A subsequent meeting (14th steering committee meeting of 1 October 2020) decided that any new communication needs with regards to IPSAS will be "addressed in due time." The mission reiterates its earlier recommendations in this respect; however, it respects the steering committee's decision to make the necessary improvements at a later time.

C. Recommendations

It is recommended that the authorities:

- ***Develop a plan of major activities and related timelines to achieve the impending key milestones of consolidated financial statements*** (MoFEPD and Treasury, April 2022)
- ***Report monthly to steering committee progress against the plan*** (MoFEPD and Treasury, commencing May 2022)
- ***Make adequate and appropriately skilled resources available to accrual IPSAS project to ensure that milestones are achieved*** (MoFEPD and Treasury, by May 2022)
- ***Ensure information provided on the website is complete or provide information about any missing information and when this might be available*** (MoFEPD and Treasury, by April 2022)

APPENDIX 1. PROGRESS MADE ON 2020 MISSIONS' RECOMMENDATIONS

	Recommendation	Timeframe and responsibility	Status as per February 2022
	Progress of reform		
1	Include a reference to fair presentation in any description of financial reporting framework	AG, by May 2020	Included in the accounting policies in the BCG financial statements. The draft accounting policies of the consolidated financial statements does not include a reference to fair presentation. A comprehensive financial reporting framework for the public sector is yet to be developed.
2	Develop the framework in full compliance with IPSAS and disclose by way of a note in the framework the extent to which the existing financial statements do not comply with IPSAS – use Box 1 in March 2020 report as a guide	AG, by May 2020	Full framework not yet developed. Authorities adopted an alternative approach-referring to IPSAS compliance as far as possible, without specifying specific non-compliance
3	Develop a stand-alone document to describe the financial reporting framework	AG, by May 2020	Not done. Two documents—statements and draft accounting policies—developed. Notes have not yet developed. The timelines agreed for completion of accounts need to be re-examined in light of the fact that consolidated financial statements will be submitted to audit by April of the year following the year under audit.

	IT systems		
4	Document, review, and approve the full impact of (i) entering test data and (ii) entering opening balances as at July 1, 2019 as 2019/20 transactions in the SL and the manner in which these have been addressed	AG, by May 2020	There has been testing of the system but documentary evidence of review and approval is not available.
5	Confirm to steering committee that the above has been done	AG, by May 2020	There has been reporting to the Steering Committee of the work done but there is no formal documentation of testing.
6	Take steps to ensure that 2020/21 SL does not have any of these issues	AG, by May 2020	Full functionality of the SL is yet to be achieved and 2020/21 SL has not been finalized. As of Jan 2022 the SL is still being updated in January 2022
7	Verify balances in the SL and adjust as necessary maintaining strict control and audit trail	AG, by May 2020	Done
8	Produce, review, and approve trial balances as evidence that balances have been verified	AG, by May 2020	Trial balance of 2019/20 verified against the financial statements, though there are quality issues. No evidence of review and approval
9	Develop, test, review, and approve all financial statements including notes and other necessary reports	AG, by June 2020	Not done
10	Improve the design of three reports developed to-date as discussed in this report	AG, by June 2020	Done
11	Revise chart of accounts as discussed in this report	AG, by April 2020	Done
12	Consider measures to ensure that MDAs complete asset register and cooperate on other issues related to accrual IPSAS implementation	MoFEPD, by June 2020	GAR remains incomplete due to issues at MDAs.

	Revenue reporting		
13	Finalize and adopt formally the accounting policies in respect of tax revenues. The accounting policies recommended by the 2019 mission's report (Box 3 in March 2020 report) should be used as a basis and updated as appropriate.	Working Group, Steering Committee by June 2020	Done
14	Develop format of revenue reporting by MRA and other revenue raising entities incorporating a full reconciliation of data on revenue, receivables and cash collected	Working group, AG by June 2020	Done
15	Complete development of detailed policies, procedures, and systems to measure or estimate revenues and receivables to be reported in financial statements according to approved accounting policies	MRA, other revenue raising entities, by June 2020	Done
16	Send opening balances of revenue receivables as at June 30, 2020 to MoFEPD and AG	MRA and other revenue raising entities by November 30, 2020	Done
17	Commence reporting revenues twice a year in specified format	MRA and other revenue raising entities commencing 2020/21	2020/21 revenue and receivables reported in November/December.
	Management and coordination of reforms		
18	Make it clear that the roadmap and the key milestones set out in Figure 3 of the March 2020 should be followed	Steering Committee by April 2020	Done
19	Dedicate more resources to resolve issues and complete all work to ensure that the SL can be used as a reliable source of data to prepare accrual based financial statements and other reports	AG, starting immediately	Resource issues continuing

20	Dedicate more resources to the accrual IPSAS project as set out in the 2019 mission's report	AG, starting immediately	Resource issues continuing
21	Monitor closely the allocation of resources to the SL and progress of work on SL including reviewing monthly progress reports and seeking additional information as appropriate	MoFEPD senior management, Steering Committee, ongoing	Resource issues continuing
22	Direct Treasury to complete all outstanding work on SL so that it is reliable and fully operational by June 2020	MoFEPD senior management, Steering Committee, immediately	Done
23	Describe progress on SL more clearly in monthly reports to steering committee including achievements, issues, and work that remains to be done, and provide a realistic assessment of when this work will be completed	AG, commencing immediately	Partially done. This report recommends further improvements
24	Develop communication strategy further along the lines set out in this and earlier reports of AFS missions	MoFEPD, Treasury, and steering committee, by June 2020	A draft prepared. Needs further development
	Budgetary Central Government – Status and issues		
25	Use the findings from the Section V in the March 2020 report on status and issues to prepare financial statements for budgetary central government that comply with all the requirements of accrual-basis IPSAS except for consolidation.	MoFEPD, by 2020/21	Considerable progress made in 2019/20 and 2020/21 financial statements. Full compliance planned in 2022/23 financial statements.
	Local Government Authorities – Status and issues		
26	Use the findings from the Section VI on status and issues to prepare financial statements of LGAs that comply with all the requirements of accrual-basis IPSAS. (LGAs, by 2019/20)	LGAs, by 2019/20	Considerable progress made in 2019/20 and 2020/21 financial statements. Full compliance planned in 2021/22 financial statements.