



GOVERNANCE

GOVERNANCE

EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT

# Impact of COVID-19 on Financial Reporting in Latin America and the Caribbean

© 2022 International Bank for Reconstruction and Development / The World Bank  
1818 H Street NW,  
Washington DC 20433  
Telephone: 202-473-1000;  
Internet: [www.worldbank.org](http://www.worldbank.org)

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy, completeness, or currency of the data included in this work and does not assume responsibility for any errors, omissions, or discrepancies in the information, or liability with respect to the use of or failure to use the information, methods, processes, or conclusions set forth. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be construed or considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.



### **Rights and Permissions**

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).



# Contents

<b>Acknowledgments</b>	<b>iii</b>
<b>Abbreviations</b>	<b>iv</b>
<b>1. Introduction</b>	<b>1</b>
<b>2. COVID-19: The Road from Fiscal Response to Transparency</b>	<b>3</b>
<b>3. Methodology</b>	<b>6</b>
<b>4. Regional Analysis</b>	<b>7</b>
4.1 Financial Statements Presenting the Impact of the Pandemic	8
4.2 Approach Taken in Presenting Information about the Pandemic in the Financial Statements	8
4.3 Additional Financial Reports on the Long-Term Sustainability and/or Fiscal Risk	10
4.4 Major Challenges in Collecting Information on the Impact of COVID-19 Pandemic on Financial Reporting	11
<b>5. Recommendations</b>	<b>12</b>
<b>Notes</b>	<b>14</b>
<b>Bibliography</b>	<b>15</b>
<b>Annex 1: Summary of Responses to Questionnaire</b>	<b>16</b>
<b>Annex 2: Questionnaire</b>	<b>22</b>

## Tables

Table 1. International Public Sector Accounting Standards Board—Accounting Guidance Relevant to COVID-19	4
--	---



## Acknowledgments

A World Bank team led by Juan Carlos Serrano Machorro (Senior Financial Management Specialist, Governance Global Practice (GGP)), with the support of Leonardo Nascimento (Senior Financial Management Specialist, GGP), prepared this study on the impact of COVID-19 on financial reporting in Latin America and the Caribbean. Patricia Mc Kenzie (acting Practice Manager, GGP), Xiomara Morel (former Practice Manager, GGP), and Robert Taliencio (Regional Director, Equitable Growth, Finance and Institutions (EFI)) supervised the conduct and preparation of the study. Inputs were provided by a team from the Zurich University of Applied Sciences. Andreas Bergman led this team comprising Christoph Schuler, Diana Monroy, Durlandy Cubillos, Esteban Walteros, and Ingrid Rios.

The team appreciates the excellent collaboration and support provided by the Presidency of the Network of Government Accountants of Latin America (FOCAL by its name in Spanish) who coordinated the conduct of the study. The team is also grateful to the governments of Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Paraguay, and Peru for supporting and participating in the study.

Regional Vice President:	Carlos Felipe Jaramillo
Regional Director:	Robert R. Taliencio
Practice Manager (acting):	Patricia Mc Kenzie
Task Team Leader:	Juan Carlos Serrano





## Abbreviations

EMDEs	emerging market and developing economies
GDP	gross domestic product
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
LAC	Latin America and the Caribbean
RPG	recommended practice guidelines
ZHAW	Zurich University of Applied Sciences



# Introduction

The COVID-19 pandemic represents the largest economic shock the world economy has witnessed in decades, causing a collapse in global activity. Nevertheless, there are signs that global activities are stabilizing, and have picked up in many large emerging markets and developing economies (EMDEs). Global growth is set to reach 5.6 percent in 2021, however, growth will be uneven and concentrated in a few major economies, with most of the EMDEs lagging behind. While about 90 percent of advanced economies are expected to regain their pre-pandemic per capita income levels by 2022, only about one-third of EMDEs are expected to do so. This has been a challenging situation for policymakers who face a difficult balancing act as they aim for economic recovery through fiscal support while safeguarding price stability and fiscal sustainability (World Bank 2021).

The large fiscal support packages implemented by countries, together with the fall in revenues resulting from the crisis, should result in high deficits and an increase in debt. Projections indicate that, by the end of 2021, debt as a share of gross domestic product (GDP) will be 18 percentage points higher than pre-pandemic levels for advanced economies, 10 percentage points higher for emerging markets, and 6 percentage points higher for low-income developing countries (IMF 2021).



The Latin America and the Caribbean (LAC) region continues to experience the severe impact of the COVID-19 pandemic. The region accounts for about 30 percent of confirmed deaths worldwide, nearly four times its share of the global population. The region has also been one of the most severely affected in economic and social terms. Its estimated decline in GDP exceeds both that of advanced and developing economies.

With such a challenging global and regional landscape, the actions of policymakers are under tight scrutiny by the media, civil society, oversight entities, rating agencies, private investors, academia, and other stakeholders. This situation has led to a growing recognition of the importance of ensuring the effectiveness and efficiency of public expenditure, where high-quality, accrual-based financial reporting plays a key role, through the provision of better information that will help governments make sound decisions in addressing the balance sheet impact of the pandemic.

The government balance sheet presents all the assets and liabilities controlled by the government and accounts for the entirety of what the state owns and owes. It offers a broader fiscal picture beyond the analysis of budgetary items such as revenues and expenditures. IMF's fiscal monitor, *Managing Public Wealth* (October 2018), unravels comprehensively the relevance of public sector balance sheet to enhancing economic resilience, increasing revenues, reducing risks, and improving fiscal policymaking. It also points out that most

governments do not provide such transparency, avoiding the additional scrutiny the balance sheet brings.

Considering the relevance of the financial reporting information in understanding the effects of COVID-19 on the governments' balance sheets, the World Bank has conducted this study with the following objectives:

- (i) Analyze whether the financial impact of COVID-19 is reflected in the financial reports of a sample of countries of the LAC region in accordance with the relevant normative accounting framework for each country, with the International Public Sector Accounting Standards (IPSAS) as reference.
- (ii) Assess whether the balance sheet of the countries included in the sample can convey the long-term fiscal sustainability of the government, reflecting the fiscal risks associated with the financial performance and financial position of the government in the context of the COVID-19 pandemic.
- (iii) Determine whether the notes to the financial statements are being used to present the financial information in a transparent manner by explaining materially large figures and significant changes caused by the COVID-19 pandemic.



## COVID-19: The Road from Fiscal Response to Transparency

This section highlights the importance of transparency through high-quality financial reporting in the context of the COVID-19 pandemic, and why the International Public Sector Accounting Standards (IPSAS) offer a reliable framework for ensuring full transparency in determining the overall impact of the pandemic on public sector finances.

As noted earlier, the fiscal and monetary responses from countries to mitigate the effects of the pandemic have severely impacted public finances. However, such impact has been different from country to country, and among groups of countries. The higher the income group, the more countries invest in mitigating the impact of the pandemic. Such support varies across economies depending on the impact of pandemic-related shocks, the ability to access low-cost borrowing, and pre-crisis fiscal conditions.

In Latin America and the Caribbean, over-indebtedness was one of the mechanisms used during the COVID-19 crisis, which could have a durable impact on the future growth of the region (World Bank 2021). Despite the often-limited fiscal space, countries in LAC boosted public spending to support the health sector, provide social transfers to households, and assist firms in financial difficulties. This strong policy response cushioned the impact of the crisis, but it also led to very substantial increases in public debt, much more significant than that of the response to the global financial crisis.

The significant amount of fiscal and monetary interventions implemented by governments needs to be coupled with high-quality, accrual-based financial reporting. Such reporting will provide better information for decision making, improve transparency on how public resources are used, allow citizens to hold decision makers accountable, and better position governments in addressing the balance sheet impact of the pandemic

IPSAS are issued by the International Public Sector Accounting Standards Board (IPSASB),<sup>1</sup> which as noted earlier is a global independent board. Since 1997, the IPSASB has developed and issued 42 accrual standards, a cash basis standard for countries moving toward full accrual accounting and three recommended practice guidelines (RPGs). RPGs provide guidance on aspects of broader financial reporting outside the core financial statements.

The accrual basis of accounting provides a comprehensive and accurate picture of the resources of governments and other public sector entities and the claims against those resources, and therefore of financial position and financial performance. It is essential to accountability and decision making and a cornerstone of sound public financial management. Many governments and international institutions have already adopted and implemented IPSAS.

At the outset of the pandemic, the IPSASB published the *COVID-19: Relevant IPSASB Accounting Guidance*, which provides useful information regarding the importance of different IPSAS in connection with the different types of fiscal and monetary support. A summary is presented in Table 1.

> > >

**TABLE 1 - International Public Sector Accounting Standards Board—Accounting Guidance Relevant to COVID-19**

Type of fiscal and/or monetary support	Relevant International Public Sector Accounting Standard (IPSAS)
Accounting for direct government expenditures	<ul style="list-style-type: none"> <li>IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets—provides requirements for evaluation when a provision should be recognized for a planned economic intervention to reduce the financial impact of COVID-19.</li> </ul>
Support provided to individuals	<ul style="list-style-type: none"> <li>IPSAS 42, Social Benefit—provides public sector accounting requirements related to cash transfers and other benefits provided to individuals and/or households to mitigate the impact of social risks, and accounting requirements for collective services and individual services provided to address the needs of society.</li> <li>IPSAS 39, Employee Benefits—applies to both additional sick leave and redundancy payments provided to the employees of public sector entities. Negative market conditions may be an indicator of a need to remeasure the plan assets and liabilities of long-term employee benefit plans.</li> </ul>
Support for businesses and other public sector entities	<ul style="list-style-type: none"> <li>IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets—provides guidance for evaluation when a provision should be recognized for a planned economic intervention to reduce the financial impact of COVID-19.</li> <li>Exposure Draft 70, Revenue with Performance Obligations, and Exposure Draft 71, Revenue without Performance Obligations</li> <li>IPSAS 34, Separate Financial Statements; IPSAS 35, Consolidated Financial Statements; IPSAS 36, Investments in Associates and Joint Ventures; IPSAS 37, Joint Arrangements; and IPSAS 38, Disclosure of Interests in Other Entities—provide guidance on accounting for interests in other entities. These standards may be relevant to the accounting impact of COVID-19 interventions, such as the establishment of a newly formed</li> </ul>

Table 1 continued

Type of fiscal and/or monetary support	Relevant International Public Sector Accounting Standard (IPSAS)
	government entity to distribute or administer relief, or to assess whether an investment in another entity (such as when a government makes an equity investment) results in a change of control
Support for financial systems	<ul style="list-style-type: none"> <li>The financial instruments suite of standards, IPSAS 28, Financial Instruments: Presentation; IPSAS 29, Financial Instruments: Recognition and Measurement; IPSAS 30, Financial Instruments: Disclosures; and IPSAS 41, Financial Instruments—include requirements for recognizing and measuring the impairment of financial assets, such as receivables or loans which collectability have deteriorated due to negative financial environment.</li> </ul>
Relevant IPSAS for the accounting treatment of COVID-19-related interventions in general purpose financial statements	<ul style="list-style-type: none"> <li>IPSAS 1, Presentation of Financial Statements—may impact the key disclosures of the entity. For example, estimation uncertainty is likely to increase given the uncertainty in the amount and timing associated with the financial interventions related to COVID-19. IPSAS 1 includes guidance for evaluation whether an entity remains an ongoing concern which may require assessment should liquidity deteriorate.</li> <li>IPSAS 14, Events After the Reporting Date—provides guidance on how events that occur after the reporting date (but before the date the financial statements are authorized for issue) should be treated in the financial statements. This will be relevant when interventions have been launched after the reporting date. IPSAS 14 distinguishes adjusting events, which require changes to the face of the financial statements, and non-adjusting events that require disclosures with quantifications of estimates wherever possible.</li> <li>IPSAS 16, Investment Property—applied to determine the value of property held to earn rentals or capital appreciation, which may have deteriorated in value because of the uncertainty surrounding COVID-19.</li> <li>IPSAS 21, Impairment of Non-Cash-Generating Assets; IPSAS 26, Impairment of Cash Generating Assets—may be applicable to assets that have been closed or that have become idle due to measures such as physical distancing.</li> </ul>





## Methodology

Given the importance of the government balance sheet in understanding the effects of COVID-19 pandemic, and with the aim to help governments and other interested stakeholders determine the impact of government interventions at different points in time, the International Federation of Accountants (IFAC)<sup>2</sup> and the Zurich University of Applied Sciences (ZHAW), in partnership with the IPSASB, created the COVID-19 intervention assessment tool. The tool provides an immediate way of evaluating the economic impacts of current and planned policy initiatives, which can be used independently of any given jurisdiction's public sector accounting basis.

The regional study was prepared using as reference the COVID-19 intervention assessment tool and an analytical questionnaire developed for the study (see annex 2).

An invitation was sent to a sample of countries in the region to participate in the study. Those who accepted were included in the study, namely, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Paraguay, and Peru.

The countries in the sample were analyzed focusing on the consolidated financial statements of year 2020. The results of the analysis were validated with the designated focal points per country (see annex 1 for a summary of these results).



## Regional Analysis

This study explores how different jurisdictions in LAC have presented the impact of the pandemic on their 2020 financial statements. General purpose financial statements serve two objectives: (1) hold governments accountable and (2) inform decision making. Given the magnitude of the fiscal impact of the pandemic, it is expected that financial statements are pursuing both objectives.

As there is no precedent to the crisis, it is unlikely that there are any best practices already identified. All government accounting entities are operating in a best-effort mode, often under difficult circumstances in terms of the resources available and priorities set during the crisis. The examples presented in this paper, therefore, could be highly valuable toward improving government financial reporting. This study does not propose any type of ranking or rating; rather, it intends to motivate preparers of government financial statements improve their practices based on a mixture of experiences from all countries represented in the sample.

## 4.1 Financial Statements Presenting the Impact of the Pandemic

---

It is essential to reflect on which financial statements are best suited in presenting the impact of the crisis since most of the countries in the sample have different types of financial statements. They also have different levels of aggregation or consolidation, and sometimes different structures and a variable degree of disclosures. The financial statements presented by the countries in the region are generally following accounting regulation, but also to a certain degree with statistical guidance.

IPSAS requires consolidated financial statements of an economic entity. The economic entity is defined as a controlling entity and its controlled entities (IPSAS 35.14). Hence, the economic entity is defined based on the control criteria, which includes a benefit and a power component. These consolidated financial statements are the only financial statements required by IPSAS. All other types of statements discussed in the standards (for example, separate financial statements according to IPSAS 34) are voluntary and not required by IPSAS.

Indeed, many countries in the sample present at least one type of financial statements, which corresponds to the concept of control in compliance to IPSAS 35. These financial statements typically include the central government, decentralized entities, and state-owned enterprises. In most jurisdictions, such compliance is limited to the national level because subnational levels have some degree of autonomy, which contradicts control.

On the other hand, most jurisdictions also present additional financial statements which are not in compliance to IPSAS 35, because they consolidate either more or less entities than the ones controlled. These financial statements typically follow statistical sectors or subsections. Examples are financial statements presenting the budget entities, which usually exclude some decentralized entities and the state-owned enterprises, or financial statements of the entire public sector, which include also autonomous regional or local governments, which are not controlled. The financial statements representing statistical sectors or subsectors are usually prepared in accordance with the accounting regulation, except that the selection of the entities consolidated is not based on the control criterion.

This study however reveals that some governments present a rather large number of different financial statements. Arguably,

each has its merits and might be demanded by some specific users; but in terms of efficiency and comparability, an extensively large selection of financial statements should be treated critically. In fact, countries with a large variety of financial statements find it difficult to develop all the financial statements beyond what their IFMIS is able to produce as an output.

## 4.2 Approach Taken in Presenting Information about the Pandemic in the Financial Statements

---

Based on the analysis undertaken there are two tendencies that have been observed:

1. A majority of the countries dedicate a special chapter or section to introduce the financial statements, which is referred to by the IPSAS RPG 2 as “discussion and analysis” of the effects of the COVID-19 pandemic. This section is usually a few pages long and analyzes the effects, either by type of entity or following a budgetary classification, or both combined. It often also highlights some key programs deployed by the government. Broadly speaking, the discussion and analysis presented by the countries is in line with the non-mandatory IPSAS RPG 2, although the RPG 2 might provide some recommendations for this approach. In addition to the discussion and analysis, most countries also refer to the pandemic in a small number of notes disclosures, for example, about transfers or debt. The number of such references is, however, rather smaller than expected, which might be due to time and resource constraints.
2. Many countries provide some financial information about the COVID-19 pandemic outside the financial statements, often in a web-based format, sometimes offering drill-down options, resulting in the disclosure of additional details based on the user’s need. This type of information is generally based on the budget execution. At least budget execution is usually based on accounting information, prepared in the IFMIS. However, such form of financial statements does not comply with national and international standards.

Based on the findings of the study, the effects of the pandemic are generally reflected in the government expenditures. This includes spending for both health measures and economic measures mitigating the impact of the pandemic. Most



countries did not specifically distinguish between investment expenditures (for example, purchase of assets and lending or capital injections to entities) and consumptive expenditures (for example, grants or operational expenditures). Only a small number of countries presents information on the revenue side. Clearly, it is expected that some of the impact on the revenues will be experienced with a time lag, that is, in 2021 rather than in 2020. Therefore, revenues might receive greater attention in the 2021 financial statements.

Considering the large magnitude of the impact of the pandemic, there is surprisingly little focus on debt. Obviously, some of the countries mention what the impacts are, which are also visible in the statement of financial position. However, there is remarkably little discussion and analysis of such impacts, compared to the information presented on expenditures.

From the perspective of international standards, it is definitely a good practice to address a major crisis with significant financial implications. This can be incorporated in the

introductory section of the financial statements, which is referred to as “discussion and analysis” by the IPSAS RPG 2. The introductory section should clearly go beyond the mere mentioning of the crisis, and provide some analysis of the financial statements with this focus, consistently with the financial statements themselves (RPG 2.15 to 2.18). Most countries indeed included such an analysis and are therefore in line with this good practice. In some cases, there could be more cross-referencing, as suggested by this section of the RPG to allow a more balanced presentation of budgetary and accounting information.

The financial effects of the pandemic should also be disclosed in the notes disclosures. Such notes could be observed in some cases but remained relatively scarce. Certainly for the aspects most affected by the pandemic, such as debt and a few specific expense and revenue items, it would be good to discuss the effects in the notes. Such notes should not repeat the information provided in the discussion and analysis, but should rather serve as anchor point for the cross-references.

## 4.3 Additional Financial Reports on the Long-Term Sustainability and/or Fiscal Risk

Traditional financial statements present the financial performance and cash flows for a one-year period and the financial position at the end of the respective year. For the users, it is quite difficult to read information about long-term substantiality of government finances or about fiscal risk out of such one-year financial statements. Therefore, the IPSASB issued RPG 1, which recommends general purpose financial reports addressing these topics, supplementing the more traditional general purpose financial statements. Like all RPG, this is a non-mandatory guidance issued by IPSASB. While RPG 1.25 and 1.26 do not prescribe a specific period, they make it clear that sustainability periods should cover longer periods, possibly of up to 75 years (RPG 1.BC20), depending on the characteristics of the entity and the qualitative characteristics, which are also applicable to long-term reports.

Only a few countries in the sample prepare such reports and they are published independently from the financial statements. Also the responsibility is usually not with the accounting office, but with some other entity, typically within the Ministry of Finance.

On the budgetary side, most countries also use projections, however typically between four and six years. They are often referred to as medium-term fiscal frameworks or similar terminology. Given the much shorter time horizon, they can be more detailed and more precise than long-term sustainability and/or fiscal risk reports. In that sense the two types of forward-looking reports complement each other.

The COVID-19 pandemic, without any doubt, has affected both the medium-term fiscal framework and the long-term sustainability or fiscal risk reports. The most obvious longer-term effect of the pandemic is the increase in public debt. As mentioned earlier, the increase in debt is a particular concern in the LAC region .

Looking at the financial reports in the context of the COVID-19 pandemic, all nine sample countries in the LAC region have medium-term expenditure frameworks in place. Usually, they are updated in the context of budget preparation. The budget proposal for 2021, presented in late 2020, was the first one that did reflect the effects of the pandemic. At that stage it is already obvious that the pandemic has continued

in 2021 and therefore they included measures such as for the COVID-19 vaccination campaign. They also considered the effects of increased debt. However, it will not be possible to fully amortize the increased debt to pre-pandemic levels within the medium-term time horizon of four to six years. Hence, the focus of the medium-term fiscal framework published in 2020 is more on the ongoing pandemic and the subsequent economic reactivation, than on longer-term economic effects.

Some countries have additionally published a fiscal risk report, also in the context of the 2021 budget proposal. The focus of such reports is often on debt, and they cover slightly longer periods than the medium-term framework, for example, 10 to 12 years. However, the period covered is not as long as proposed by IPSAS RPG 1, which is 30 to 75 years. A possible explanation for this is that the population in the region is younger than in Europe or North America and therefore demographic challenges are less significant. The IPSASB had in particular demographic challenges in mind when it issued RPG 1. But since the additional debt incurred during the pandemic will not be amortized within 10 to 12 years, an extension of the period still might become necessary. It is also important to know whether debt financing has been used for investments with longer-term service potential or for short-term consumption expenditures. Fiscal risk is defined as “factors that may cause fiscal outcomes to deviate from expectations or forecasts” and comprise also factors other than debt. But public debt—that is, debt of government, decentralized government entities, or state-owned-enterprises—is without any doubt, an important factor influencing fiscal risk.

In light of the longer-term effects of the pandemic, in particular, the increase in debt which all jurisdictions have experienced, it is a good practice to publish a report that covers the period over which it is necessary to pay back the debt. In most cases, this period will be longer than the typical period covered by the medium-term fiscal framework. Similar to the long-term sustainability reports recommended by IPSAS RPG 1, that report will analyze different scenarios, reflecting different patterns of economic recovery. It is a good practice to publish a separate report from the financial statements; and information from that report should be cross-referenced to the information on debt contained in the financial statements.

## 4.4 Major Challenges in Collecting Information on the Impact of COVID-19 Pandemic on Financial Reporting

---

The entities responsible for preparing and presenting government financial statements have faced significant challenges. All entities that participated in the study reported some resource constraints, not only due to the economic situation, but also because they were not fully prepared to work from home. Accountants of these entities also faced the same issues; therefore, there were some delays in reporting and consolidating financial statements of entities. Since the time limit for presenting the financial statements in most countries is defined by law, this meant that some entities could not be included in the consolidated financial statements.

At a more technical level, all countries also faced the challenge of distinguishing COVID-19 related transactions from normal transactions. Some governments created special purpose entities or funds in order to channel the funding for specific, earmarked measures. Others amended their chart of accounts in order to create specific sub-accounts or developed special forms which the entities have to use to report COVID-19 related transactions. Some could use budgetary classifications used for program budgets. In some cases, the IFMIS also permitted the creation of special identifiers, labelling such transactions and allowing subsequent analysis.

However, all these methods only identify specific programs or measures. When entities reallocate resources, for example, within a school or a hospital, or from the culture sector to the health sector, such reallocation would not be identified by most methods as COVID-19 related transactions. In general, most methods are budget-oriented, wherein they focus on earmarking budgetary expenditures. There were no specific methods mentioned for distinguishing investment and consumption expenditure, probably because all jurisdictions in the sample are already on accrual accounting and therefore recognized newly acquired assets as a standard procedure.

In general, it is a good practice to use sub-accounts or other identifiers available to earmark the relevant transactions, similar to what many countries in the sample did. Using separate surveys or forms will also provide some information, but these can be more difficult to analyze than the identifiers, particularly if the number of transactions and involved entities is large.





## Recommendations

The study finds that there is a need to improve the presentation of financial information on the implications of a large-scale crisis, such as the COVID-19 pandemic. The World Bank is well-positioned to continue providing technical support to countries for improving transparency reforms through a suite of financing products and advisory services.

Since most countries have also experienced significant impacts of the pandemic this year, some of the recommendations outlined below can already be applied in the 2021 financial statements. Other recommendations might be considered in the longer-run, perhaps for other crisis, including those of different nature (for example, natural disasters and general economic downturns), or other events that have important implications on government finances.

#### **Recommendation 1:**

For the sake of comparability, it is recommended to present one set of financial statements including the controlling and the controlled entities, in accordance with IPSAS 35. Jurisdictions preparing and presenting a large number of statements should reconsider reducing them gradually, as the impact of the crisis can be more elaborated with a small number of statements.

#### **Recommendation 2:**

Addressing a large-scale occurrence like the COVID-19 pandemic in the discussion and analysis (that is, introduction) of the financial statements is certainly adequate and in compliance with the non-mandatory IPSAS RPG 2. While the information on expenditures is often already plentiful in the 2020 financial statements, it might be worthwhile to provide more information on revenues and, in particular, about debt in the notes to the financial statements. The information provided in the discussion and analysis should be cross-referenced with the information in the financial statements and notes to the financial statements.

#### **Recommendation 3:**

Providing additional information outside the financial statements, such as on webpages, is certainly a user-friendly approach; however, it should also be cross-referenced to the financial statements.

#### **Recommendation 4:**

Given the long-term economic impact of the COVID-19 pandemic, in particular the increase in debt, jurisdictions should consider presenting information about fiscal risk and/or long-term financial sustainability. Such reports, in accordance with the recommendation of IPSAS RPG 1, should be presented separately from financial statements. However, the statements of financial position should include valuable information on debt and the service potential of debt-financed investments. Therefore, they play an important role in preparing longer-term reports and strategies. Cross-referencing, again, is recommended.

#### **Recommendation 5:**

In preparing and analyzing the data, having special sub-accounts or other identifiers, such as budgetary program classification, can help identify crisis-related transactions efficiently without creating too much additional workload. Such systems could also be used for future crises, regardless of their nature. However, it is important that after the end of the pandemic, related measures, such as ad-hoc identifiers or classifiers, are discontinued and removed.



## Notes

1. The International Public Sector Accounting Standards Board (IPSASB) works to improve public sector financial reporting worldwide through the development of IPSAS, international accrual-based accounting standards, for use by governments and other public sector entities around the world.
2. IFAC is the global organization for the accountancy profession, comprising 180 member and associate organizations in 135 countries and jurisdictions, representing more than 3 million professional accountants.



## Bibliography

International Federation of Accountants. 2020. *COVID 19, Relevant IPSASB Accounting Guidance*. New York.

International Monetary Fund. 2021. *IMF Fiscal Monitor: Strengthening the Credibility of Public Finance*. Washington, DC, October.

World Bank. 2021. *Global Economic Prospects*. Monthly Report. Washington, DC, October.

World Bank. 2021. *Renewing with Growth*. LAC Semiannual Report. Washington, DC, April.



# **Annex 1. Summary of Responses to Questionnaire**

## 1. Financial Statements Analyzed as Part of the Study

<b>Brazil</b>	Consolidated financial statements, encompassing all entities of the central government, including decentralized administration and state-owned enterprises that are dependent on the federal budget
<b>Chile</b>	Consolidated financial statements, which include financial information of the central government
<b>Colombia</b>	Consolidated financial statements, which include general government entities and state-owned enterprises at national level
<b>Costa Rica</b>	Consolidated financial statements, which include all levels of government and the non-financial, state-owned enterprises
<b>Ecuador</b>	Consolidated financial statements, which include all levels of government and the non-financial, state-owned enterprises
<b>Mexico</b>	Consolidated financial statements, which only include the general government at national level Consolidated financial statements, which include the executive branch Consolidated financial statements of entities under direct budgetary control
<b>Paraguay</b>	Consolidated financial statements, which include all levels of government and state-owned enterprises Consolidated financial statements, which only include the central administration
<b>Peru</b>	Consolidated financial statements, which include all levels of government entities and state-owned enterprises
<b>Dominican Republic</b>	Consolidated financial statements, which include all levels of government and non-financial, state-owned enterprises Consolidated financial statements, which only include the central administration

## 2. Approach Taken in Presenting Information on the Pandemic in the Financial Statements

<b>Brazil</b>	The most relevant information about the impact of the COVID-19 pandemic was presented in a specific note on financial statements, detailing the public measures of the Brazilian federal government that led to the relevant variations, as well as demonstrating values and the impact on equity. In addition to the financial statements, there is a website accessible to the public that provides a tool for monitoring the budget expenditures (projected and executed amounts) in the programs announced by the federal government to fight the COVID-19 pandemic, and the respective budget lines.
<b>Chile</b>	Information on financing and expenditures is presented on a web page through infographics, which are separate from the financial statements. There are no references related to the pandemic in the financial statements and notes. See report at <a href="https://www.contraloria.cl/web/cgr/estudios-destacados">https://www.contraloria.cl/web/cgr/estudios-destacados</a>



<b>Colombia</b>	<p>The disclosure approach in the notes to the financial statements and the separation of items in the financial statements was selected. Furthermore, a report form (Form COVID-19 of the Convergence Public Accounting Information Category) was prepared. See report at <a href="https://www.contaduria.gov.co/situacion-financiera-y-de-resultados-del-nivel-nacional-balance-general-de-la-nacion/-/document_library/BeVUxC4c6mLh/view_file/2876384?_com_liferay_document_library_web_portlet_DLPortlet_INSTANCE_BeVUxC4c6mLh_redirect=https%3A%2F%2Fwww.contaduria.gov.co%3A443%2Fsituacion-financiera-y-de-resultados-del-nivel-nacional-balance-general-de-la-nacion%3Fp_p_id%3Dcom_liferay_document_library_web_portlet_DLPortlet_INSTANCE_BeVUxC4c6mLh%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dvie">https://www.contaduria.gov.co/situacion-financiera-y-de-resultados-del-nivel-nacional-balance-general-de-la-nacion/-/document_library/BeVUxC4c6mLh/view_file/2876384?_com_liferay_document_library_web_portlet_DLPortlet_INSTANCE_BeVUxC4c6mLh_redirect=https%3A%2F%2Fwww.contaduria.gov.co%3A443%2Fsituacion-financiera-y-de-resultados-del-nivel-nacional-balance-general-de-la-nacion%3Fp_p_id%3Dcom_liferay_document_library_web_portlet_DLPortlet_INSTANCE_BeVUxC4c6mLh%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dvie</a></p>
<b>Costa Rica</b>	<p>The information provided follows in general a disclosure approach with some analytical elements. In a separate document containing all notes to the financial statements, a specific section is dedicated to the impacts of COVID-19.</p>
<b>Ecuador</b>	<p>The information about the pandemic is presented in a section of an accountability report, which is separate from the financial statements. In the financial statements, there are no references to the pandemic. See report at <a href="https://www.finanzas.gob.ec/wp-content/uploads/downloads/2021/05/LIBRO-ESTADOS-FINANCIEROS-CONSOLIDADOS-DEL-SECTOR-PUBLICO-2020_compressed.pdf">https://www.finanzas.gob.ec/wp-content/uploads/downloads/2021/05/LIBRO-ESTADOS-FINANCIEROS-CONSOLIDADOS-DEL-SECTOR-PUBLICO-2020_compressed.pdf</a>.</p>
<b>Mexico</b>	<p>The information is presented in the notes to the financial statements. A separate report (Volume I of the Public Account) provides information on the impact of the pandemic on public finances. See report at <a href="https://www.cuentapublica.hacienda.gob.mx/work/models/CP/2020/tomo/I/150.06.GPF.pdf">https://www.cuentapublica.hacienda.gob.mx/work/models/CP/2020/tomo/I/150.06.GPF.pdf</a>.</p>
<b>Paraguay</b>	<p>The focus is on discussion and analysis, with a few references in the financial statements and notes. Additional financial information is presented outside the financial statements, on a webpage found at <a href="https://www.hacienda.gov.py/web-contabilidad/index.php?c=306">https://www.hacienda.gov.py/web-contabilidad/index.php?c=306</a>.</p>
<b>Peru</b>	<p>The information is based on discussion and analysis, with some explanatory details in the notes to the financial statements. See report at <a href="https://www.mef.gob.pe/contenidos/conta_publ/Cuenta_General_2020.pdf">https://www.mef.gob.pe/contenidos/conta_publ/Cuenta_General_2020.pdf</a>.</p>
<b>Dominican Republic</b>	<p>The main information is provided in a special chapter of the Budget Execution Report, which is separate from the financial statements. In the financial statements there are a few references to the pandemic in the notes. See report at <a href="http://digecog.gob.do/transparencia/index.php/publicaciones-t/category/3213-2020?download=10931:estado-de-recaudacion-e-inversion-de-las-rentas-erir">http://digecog.gob.do/transparencia/index.php/publicaciones-t/category/3213-2020?download=10931:estado-de-recaudacion-e-inversion-de-las-rentas-erir</a>.</p>

### 3. Additional Financial Reports on the Long-Term Sustainability and/or Fiscal Risk

<b>Brazil</b>	Information on the long-term sustainability of government finances and/or fiscal risk is not included in the Brazilian federal government's financial statements. Although Brazil follows specific rules under the Fiscal Responsibility Law, including those related to fiscal and medium- and long-term sustainability risks arising from the COVID-19 pandemic, such financial projections are not part of the financial statements but are reported separately.
<b>Chile</b>	A medium-term expenditure framework is published, covering four years, as well as an estimate of public sector gross debt for each year, which is separate from the financial statements.
<b>Colombia</b>	A medium-term fiscal framework is published, which is prepared annually with a 10-year horizon, as well as a medium-term expenditure framework covering four years.
<b>Costa Rica</b>	Within the notes to the financial statements, the implementation of risk administration units is assessed. And as a separate document, a medium-term fiscal framework provides information on debt sustainability and fiscal risks.
<b>Ecuador</b>	A multiannual budget programming is published, which covers four years and includes the medium-term macroeconomic scenario, the assessment of public debt sustainability, and the multiannual fiscal programming.
<b>Mexico</b>	No information about long-term sustainability as part of financial statements is published. However, separate quarterly reports provide information about the economic situation, public finances, and public debt.
<b>Paraguay</b>	As part of the budget documentation, a medium-term expenditure framework covering 5 years is published. The budget documentation also includes a fiscal risk report, which covers about 12 years and addresses debt sustainability.
<b>Peru</b>	The Multi-Year Macroeconomic Framework (MMM), which contains the macroeconomic projections and its assumptions for a period of four years.
<b>Dominican Republic</b>	A medium-term expenditure framework covering five years and a fiscal risk report are published. The fiscal risk report is very similar to the financial sustainability reports defined in IPSAS RPG 1 and covers in some parts up to 60 years.

## 4. Major Challenges in Collecting Information about the Impact of COVID-19 on Financial Reporting

<b>Brazil</b>	<p>The main challenge was related to lack of staff and time to gather all information from all agencies to put in the notes for financial statements. Another challenge was obtaining information without excessive focus on budgetary execution (flows related to budget revenues and expenditures) and not on accrual reporting and impact on debt assessments (stocks related to assets and liabilities).</p>
<b>Chile</b>	<p>The main challenges were distinguishing routine transactions from those caused by the COVID-19 pandemic; consolidation of information from different entities; timeliness of information; lack of financial and personnel resources; lack of IT and time for collecting information; and poor quality of information provided and reporting of the services involved.</p> <p>These problems were addressed by linking expenditures to programs and measures adopted, reporting COVID-19 information, and creating an emergency transitional fund as of 2021.</p>
<b>Colombia</b>	<p>The main challenges were distinguishing transactions by programs or measures adopted, consolidation of information from different entities, timeliness of information, lack of financial resources to process and present available information, and poor quality of information provided and reporting of the services involved.</p> <p>They were addressed by designing a special form of quarterly report. Likewise, the COVID-19 Guide was published and the FOME (Emergency Mitigation Fund) was created through Decree 444/20.</p>
<b>Costa Rica</b>	<p>The main challenges were distinguishing usual transactions from those caused by the COVID-19 pandemic; delineating transactions by programs or measures taken; consolidating information from different entities; timeliness of the information available; lack of a regulatory framework, financial resources, and IT to collect or present such information; and lack of staff to process and present the available information.</p> <p>The issues above are to be addressed through analysis of individual financial statements of relevant entities.</p>
<b>Ecuador</b>	<p>The main challenges were distinguishing usual transactions from those caused by the COVID-19 pandemic; delineating transactions by programs or measures taken; timeliness of the information available; lack of a regulatory framework, financial resources, and IT to collect or present such information; and consolidation of the information from different entities.</p> <p>These challenges were mainly addressed by requesting to the entities that make up the General State Budget the creation of an activity related to the pandemic within their programmatic budget structures.</p>
<b>Mexico</b>	<p>The main challenges were distinguishing routine transactions from those caused by the COVID-19 pandemic, delineating transactions by programs or measures adopted, timeliness of information, and lack of staff to process and present available information.</p>

<b>Paraguay</b>	<p>The main challenges were distinguishing usual transactions from those caused by the pandemic and lack of financial resources and time.</p> <p>They were addressed by creating a special budgetary funding entity, special current accounts, and special reports.</p>
<b>Peru</b>	<p>The main challenges were distinguishing usual transactions from those caused by the COVID-19 pandemic, delineating transactions by programs or measures taken, timeliness of the information available, and lack of time and other resources to process and present the available information.</p> <p>These challenges were addressed by (i) creating accounts that are related to COVID-19 pandemic in the government's account plan, and (ii) preparing a special budget report on spending related to the pandemic.</p>
<b>Dominican Republic</b>	<p>The main challenges were distinguishing usual transactions from those caused by the COVID-19 pandemic; consolidating information from different entities; timeliness of information; lack of a normative framework, IT, and time for collecting information; and poor quality of the information provided.</p> <p>They were addressed by introducing a special identifier on the expenditure form.</p>





## Annex 2. Questionnaire

# World Bank Regional Study on the Impact of COVID-19 on Financial Reporting in Latin America and the Caribbean

---

The study aims to analyze whether the financial impact of COVID-19 is reflected in the financial statements of a sample of countries from Latin America and the Caribbean (LAC). It also identifies whether this financial impact is disclosed directly or indirectly in accordance to the International Public Sector Accounting Standards (IPSAS) or other normative references.

COVID-19-related references to IPSAS, such as the IPSASB staff COVID-19 Q&A (April 2020), the IFAC and ZHAW COVID-19 Assessment Tool (July 2020), and the World Bank Report (October 2020), show a selection of measures and the respective IPSAS accounting treatment. Other normative references may include other accounting standards or statistical frameworks.

Furthermore, the study analyzes whether the financial statements provide information about the long-term fiscal sustainability of the government, reflecting the fiscal risks associated with the financial performance and financial position of the government in the context of the COVID-19 pandemic. If the financial statements do not provide such information, the study evaluates the existence of such information in other documents.

To better understand the challenges in collecting and disclosing financial information about the COVID-19 pandemic, the study examines the experience of the sample countries.

## Question 1: Financial Statements for Analysis

### Introduction to the question

The study will require an analysis of the financial statements of the sample country; the primary focus is on the following:

- Financial statements (i.e., no other types of communication, such as studies, press briefings, and webpages about the pandemic)
- For the 2020 financial year
- At national level (i.e., not at subnational level)
- At some level of consolidation (i.e., not individual entities, such as governmental, individual entities or agencies like individual ministries or hospitals).

We understand that there might be different financial statements that meet these criteria (e.g., Consolidated Financial Statements of Government Budget Entities, Consolidated Financial Statement of the Nation). We therefore ask you to identify the statements that should be analyzed as part of the study.

### Question 1.1

**Which financial statements should be analyzed from your jurisdiction for the purpose of this study?** Please identify them (e.g., Consolidated Financial Statements of Government Budget Entities or Consolidated Financial Statement of the Nation or another kind of financial statements).

*Answer:*

### Question 1.2

**Please provide the classification and a brief description of the scope and method of consolidation.**



Answer:

Options	Yes	No	N/A
Control in accordance to IPSAS 35			
Central government			
Other			

### **Question 1.3**

Please provide a link to the financial statements identified or attach them with your response.

Answer:

## **Question 2: Approach Taken in Presenting Information on COVID-19 Pandemic in the Financial Statements**

### **Introduction to the question**

As for the financial statements identified in *Question 1.1*, there are different possible approaches taken to present the information about the COVID-19 pandemic. A non-exhaustive list of approaches, which are likely to be combined, are as follows:

- A. Discussion and analysis: The impact of the pandemic is analyzed and discussed, either:
  - A1. in an introduction to the financial statements, or
  - A2. in the notes to the financial statements.
- B. Separate sub-line-items:
  - B.1 in the financial statements
  - B.2 in the notes.
- C. Disclosure at the level of consolidated entities or groups or types of entities (e.g., additional cost incurred by government entities, by government enterprises, by hospitals, and by function of government or COFOG)
- D. Disclosure at the level of measures taken (e.g., cost for testing, vaccinations, bail-out of enterprises, loans to SMEs, and financial guarantees to airlines)
- E. Other approach

### **Question 2.1**

**What approach(es) have been taken for the financial statements identified in *Question 1.1*?** Mark the answer with X (Multiple selection is allowed).

Answer:

Options	Yes	No	N/A
<b>A. Discussion and analysis</b>			
A.1 In an introduction to the financial statements			
A.2 In the notes to the financial statements			
<b>B. Separate sub-line items</b>			
B.1 In the financial statements			
B.2 In the notes			
<b>C. Disclosure at the level of consolidated entities or groups or types of entities</b>			
<b>D. Disclosure at the level of measures taken</b>			
<b>E. Other approach</b>			

## Question 2.2

Please briefly describe the selected approach(es) (those with answers “yes” in Question 2.1).

Answer:

## Question 3: Accounting Standards and Policies for COVID-19 Measures

### Introduction to the question

The normative accounting framework in each country may include a hierarchy of regulations which define the accounting and financial reporting for public sector entities through standards and accounting policies. The standards may be IPSAS (direct adoption), national standards based on IPSAS (indirect adoption), or national standards based on different sources. However, this survey is taking into account the IPSAS as the reference framework.

The COVID-19 pandemic has led to different types of transactions, which vary between jurisdictions. Many have provided social benefits to the population; purchased assets (e.g., lab equipment) and inventories (e.g., face masks, test, and vaccines); and provided loans, grants, and/or financial guarantees to businesses. The IFAC COVID-19 Q&A (April 2020), the IFAC COVID-19 Assessment Tool (July 2020), and the World Bank Report (October 2020) show a selection of measures and the respective IPSAS accounting treatment.

Question 3 intends to know whether the countries have used one of the references issued by IFAC or World Bank to disclose in the financial statements or in the notes the effects of the COVID-19 measures taken by the governments, or whether there is another reference used by the country.

### Question 3.1

Select the references used by the country in order to disclose the effects of the COVID-19 measures taken by the governments in the financial statements or in the notes: Mark the answer with X (Multiple selection is allowed).

Answer:

References	Yes	No
IFAC COVID-19 Q&A publication		
IFAC COVID-19 Assessment Tool		
World Bank Report of the Government Financial Reporting in Times of the COVID-19 Pandemic		
Another reference		
<i>Please indicate.</i>		
<hr/>		
<hr/>		
<hr/>		
<i>Please provide a link to the reference used.</i>		
<hr/>		
<hr/>		
<hr/>		

### Question 3.2

If another reference was used in *Question 3.1*, please explain briefly whether this reference is based on IPSAS or another best practice (national or international).

Answer:

## Question 4: Additional Financial Reports on the Long-Term Sustainability and/or Fiscal Risk to Be Analyzed

### Introduction to the question

Information on the long-term sustainability of government finances and/or fiscal risk are useful in analyzing the government's capacity and vulnerability in terms of honoring debt, generating revenues, providing goods, and delivering services. Such information could also be useful in planning for recovery from crisis, such as the COVID-19 pandemic.

Information on the long-term sustainability of government finances and/or fiscal risk, according to IPSAS RPG 1, may be included in the financial statements, either in the introductory section or in the notes or in the discussion and analysis as suggested by the IPSAS RPG 2. However, IPSAS RPG 1 also offers the option to present such information in financial reports which are published separately from the financial statements. Fiscal sustainability reports cover a long period, for example, 50 or 75 years. Medium-

term expenditure frameworks, which cover shorter periods and often have a strong budgetary focus, are not in the scope of IPSAS RPG 1.

This study considers long-term sustainability information in the financial statements. Also, it may consider separate long-term sustainability reports without analyzing them in detail. However, one of the limitations of the study is that it did look into the medium-term expenditure frameworks to analyze the impact of COVID-19 pandemic on sustainability of government finances, since such frameworks provide insufficient basis for the analysis.

#### **Question 4.1**

**Has your jurisdiction published information on long-term sustainability of government finances or on fiscal risks, as part of the financial statements, which includes an analysis of the impact of the pandemic?** If yes, please identify this type of information (e.g., pages X to Y of the financial statements).

*Answer:*

#### **Question 4.2**

**Has your jurisdiction published information on long-term sustainability of government finances or on fiscal risks separately, which includes an analysis of the impact of the pandemic?** If yes, please identify them and provide a link or attach them with your response. If no, please let us know whether there are plans to publish such information in the future (e.g., later this year or as part of the 2021 financial statements).

*Answer:*

#### **Question 4.3**

**If your jurisdiction has published such information as part of the financial statements (see Question 4.1) or in a separate report (4.2), who has prepared it and what source of information has been used to prepare it?** For example, information provided by the consolidated entities, by the macroeconomic unit within the Ministry of Finance, and by universities or other research institutions, among others.

*Answer:*

#### **Question 4.4**

**Is there any specific regulatory framework for publishing long-term sustainability information, either as part of the financial statements (Question 4.1) or in a separate report (4.2)?** Please identify the specific regulatory framework, if there is one.

*Answer:*

#### **Question 4.5**

**In your jurisdiction, is there a medium-term expenditure framework analyzing the impact of COVID-19 pandemic on sustainability of government finances?**

*Answer:*

# Question 5: Major Challenges in Collecting Information on the Impact of the COVID-19 Pandemic

## Introduction to the question

Collecting information on the impact of the COVID-19 pandemic has been a challenge for the countries in preparing the financial statements, notes, and sustainability reports, due to several reasons, such as difficulties in differentiating usual transactions from those caused by the COVID-19 pandemic.

Question 5 intends to know the major challenges that the countries have found from collecting information on the impact of the COVID-19 pandemic.

### Question 5.1

Which are the major challenges that your jurisdiction has encountered in collecting information on the impact of the COVID-19 pandemic? Mark the answer with X (Multiple selection is allowed).

Answer:

Challenges	Answer
Distinguishing usual transactions from those caused by the COVID-19 pandemic	
Distinguishing the transactions by programs or measures taken	
Consolidation of the information from different entities	
Timeliness of the information available	
Lack of a regulatory framework to collect or present such information	
Lack of financial resources to process and present the available information	
Lack of IT to process and present the available information	
Lack of staff to process and present the available information	
Lack of time and other resources to process and present the available information	
Quality of the information available	
Concerns raised by the auditors	

Challenges	Answer
<p>Other challenges</p> <p><i>Please indicate.</i></p> <hr/> <hr/> <hr/>	

**Question 5.2**

**Which measures have been designed and implemented to handle the challenges identified in *Question 5.1*?** For example, changes to the chart of accounts, creation of one or more special purpose entities, newly created reporting forms, among others. If possible, please link your measures to the challenges identified in Question 5.1.

*Answer:*



