1. Introduction

The economic shock of the coronavirus outbreak has an unprecedented impact on public finances. Governments are implementing massive fiscal packages including both budgetary and nonbudgetary measures to fight the pandemic while receipts are sharply down. Communicating the financial consequences of COVID-19 to all stakeholders in a timely manner is important to create enduring broad support. Audited financial statements play a key role in building citizen trust in government. This policy note provides reflections on how governments could make use of existing systems of financial reporting during the pandemic as well as opportunities for improved financial reporting systems for the post-crisis environment. It also seeks to share insights into the impact of the pandemic on government financial performance, position, and cash flows.

This note is part of the series of papers on governance response to COVID-19 issued by the Governance Global Practice of the World Bank. It is based on analysis by World Bank experts on the emerging global trends in financial reporting during COVID-19. It also benefited from the work done by other organizations, particularly the International Public Sector Accounting Standards Board and the Association of Chartered Certified Accountants.

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1 This note is one of a series on “Governance & Institutions: COVID-19 Response Resources,” prepared under the guidance of Ed Olowo-Okere, Global Director. It is an output under the COVID-19 Rapid Improvised Solutions Program of the Governance Global Practice of the World Bank Group, which produces a series of just-in-time governance and institutions responses to COVID-19. The note was overseen by Tracey Lane and Fily Sissoko (Practice Managers) and Jim Brumby (Advisor), and was developed by a team comprising Dmitri Gourfinkel, Srinivas Gurazada, Christopher Anthony Flores Moreno, Rajat Narula, Jungyoon Oh, Jose Simon Rezk, Frans van Schaik, Juan Carlos Serrano-Machorro, Bonnie Ann Sirois, Patrick Umah Tete, and Arman Vatyan. For further information please contact: governancegplearns@worldbank.org

2 For accounting guidance relevant to the pandemic, visit the website of the International Public Sector Accounting Standards Board (IPSASB) at https://www.ipsasb.org/publications/covid-19-relevant-ipsasb-accounting-guidance. For information about the COVID-19 Intervention Assessment Tool, created by the International Federation of Accountants (IFAC) and the Zurich University of Applied Sciences in partnership with the IPSASB, visit the IFAC website at https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/covid-19-intervention-assessment-tool.

Topics span the following:

- Context of COVID-19 and potential use of the balance sheet approach;
- Impact of the pandemic on line items in government financial statements;
- International experience with regard to communicating the impact of COVID-19 on government financial statements; and
- Suggested actions for preparers and auditors of government financial statements.

2. Context of COVID-19 and Balance Sheet Approach

Distinct Approaches Based on Basis of Accounting

The balance sheet approach is to view fiscal policy making from the perspective of government financial statements. Rarely do countries have balance sheets developed in the same way as private sector financial statements (exceptions include New Zealand). Yet, every government has financial statements that can be used to help shape a balance sheet approach. The degree to which a country can use the balance sheet approach largely depends on the system of accounting and financial reporting it follows as well as the inclination of key decision-makers in using information generated by financial statements in COVID-19 response.

Cash-basis financial statements report on the most immediate effects of the pandemic—receipts are down, spending is up, and as a result, the deficit and net public debt goes up. Many governments still follow the cash basis of accounting, which effectively serves the purposes of “control” on finances during COVID-19. Several jurisdictions have some degree of accrual-basis information in the financial statements or notes to accounts. Typical examples include debt balance, cumulative balance of capital investment over years, and additional statements on off-budget items. To a certain extent, all countries using the cash basis of accounting can also inform their fiscal policies based on information generated by financial statements that are supplemented with information from other sources.

Given the emergency situation, governments should use existing financial information and financial reports for decision-making, even if they are based on cash accounting. In this context, it does not really matter whether governments use cash- or accrual-based accounting if their financial information is timely and reliable.
For a more comprehensive overview of the impact of COVID-19 and the government’s readiness to respond, accrual-accounting financial statements are more useful. They include a balance sheet that provides a complete overview of assets and liabilities, accompanied by disclosures, such as maturity analyses of financial assets and liabilities, and information about contingent liabilities and undrawn borrowing facilities. From the perspective of using benchmarking and best international practices, governments should continue moving toward implementation of accrual-accounting systems based on the International Public Sector Accounting Standards (IPSAS) or equivalent framework.

**Timeliness of Financial Statements and Interim Financial Reporting**

When policy makers needed to take prompt action following the outbreak of the coronavirus, they needed to be well-informed about the financial position of the government. If no recent financial statements are available, policy makers have to continue to rely on daily cash statements and other reports from management information systems, and may not have a comprehensive picture of financial performance and position to assess the government’s firepower to confront the crisis. For these statements to be useful to policy makers, they need to be available within a reasonable period of time after the end of the fiscal year. Their usefulness is impaired if they are unavailable within the timeframe enshrined in the government’s legal and regulatory framework (usually 3 to 6 months from the end of financial year).

In normal times, the audited financial statements of the previous year should arrive well in time to be taken into consideration when deciding on the budget for the following year. In these unusual times, up-to-date financial information is even more important. To provide an overall picture of the government’s financial position, financial statements need to cover central government and its controlled entities. This makes timely preparation even more challenging because it requires making available the audited financial statements of all significant controlled entities.

Furthermore, given the quickly changing nature of the pandemic, and the important amount of fiscal measures involved, the availability of up-to-date

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According to IPSAS, “control” is the power to govern the financial and operating policies of another entity so as to benefit from its activities. A controlled entity is an entity, including an unincorporated entity such as a partnership, that is under the control of another entity (known as the controlling entity).
financial information is more important than ever to allow governments to take decisions on a timely basis. An interim financial report is a complete or condensed set of financial statements for a period shorter than an entity’s full financial year (e.g., a quarter, a month, a week, or even a day). However, governments may face challenges on preparing such statements considering the intensive use of remote work and in the absence of prior investment in appropriate technology. This has to be taken in consideration and addressed if possible.

No matter if the financial statements are annual or interim, their discussion and analysis are critical for analyzing and explaining material items, differences, and variances against comparators. The commentary is an opportunity to make the financial statements more understandable to the users by explaining materially large figures and significant changes caused by the COVID-19 pandemic. It is useful to produce accessible summary material and appropriate narrative and notes within the financial statements. The accompanying narrative in financial statements helps users make sense of the figures.

**Reporting on Long-Term Fiscal Sustainability**

Reporting long-term fiscal sustainability information may be a helpful tool in analyzing the fiscal risks to the financial performance and financial position of the government. This type of report is particularly relevant because of the long-term impact of the large-scale measures taken by governments to lessen the economic impact of the pandemic. Such reporting can be drawn from and/or accompany the government financial reports, which could be a valuable source of information for all stakeholders.

**Going Concern**

Following the impact of the coronavirus, and given its unprecedented nature, some government entities may need to undertake a more robust assessment of their ability to continue as a going concern and whether it is appropriate for their financial statements to be prepared using the going concern assumption. Going concern uncertainty may be a reality for some government entities but not for government as a whole because of its sovereign power to raise taxes. Financial statements have to be prepared on a going concern basis unless there is
an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. Note disclosures should communicate any material uncertainties that may cast significant doubt on the entity’s ability to continue as a going concern.

3. Impact of COVID-19 on Government Financial Statements

The fiscal impact of the coronavirus crisis on the government’s financial performance, position, and cash flows is expected to be far-reaching. This section highlights several key account heads that are expected to be most severely impacted by the pandemic. For each country, the context and impact will be different. Tables 1, 2, and 3 are intended to be illustrative to understand possibilities from a conceptual standpoint. They are visualized based on current trends as seen from the policy actions of governments.
Revenue
Lockdowns are causing significant deterioration in tax revenues, mainly from industries such as manufacturing, construction, retail, travel, and food. Value added tax (VAT) accounts for a large part of the deterioration, in some countries causing VAT receipts to fall short of refunds (negative net VAT receipts). Similarly, profit tax may be negative for the government as companies set off losses for the current year against profits in previous years. Profit tax refunds may thus exceed receipts (negative net profit tax receipts). Wage taxes will be down sharply as unemployment rises to unprecedented levels, although not as much as would have been the case without the government providing job retention support to employers. Fuel duties are double hit. Fuel usage is down because of the lockdown, and fuel duty per liter is down if the levy is a percentage of the sales price. Companies in trouble may have a hard time paying tax liabilities, so government may have to impair tax receivables that were already recognized before the crisis.

Expenses
Government spending goes up sharply on public health, unemployment benefits, social security, subsidies and grants, and lending to public enterprises and lower levels of government. To fight the economic consequences of the pandemic, governments have announced large-scale bailouts of companies small and large, government assistance, and disaster relief packages. Governments may be reluctant to take austerity measures as they are considered a procyclical fiscal policy.

For many governments, debt interest spending is not expected to increase as sharply as public debt, as interest rates are expected to remain low for the foreseeable future. For governments with a lower credit rating, interest rates may increase if they face difficulty in rolling over loans and issuing new ones.

Surplus/(deficit) for the period
The statement of financial performance will show lower revenues, higher expenses, and as a consequence, a higher deficit.
Table 2. Statement of Financial Position

<table>
<thead>
<tr>
<th>Impairment of assets</th>
<th>Assets</th>
<th>Possible Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment, intangible assets, and investment in and loans to state-owned enterprises and other entities should be assessed in light of the current pandemic stage with consideration given to whether there is objective evidence of impairment exists or not. If evidence exists, the entity should determine the amount of the impairment loss and reduce the book value accordingly.</td>
<td>Current assets</td>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Receivables</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inventories</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other current assets</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>Receivables</td>
<td>Increase or decrease</td>
</tr>
<tr>
<td></td>
<td>Investments in associates</td>
<td>Increase or decrease</td>
</tr>
<tr>
<td></td>
<td>Property, plant, and equipment</td>
<td>No change</td>
</tr>
<tr>
<td></td>
<td>Intangible assets</td>
<td>Increase or decrease</td>
</tr>
<tr>
<td></td>
<td>Other noncurrent assets</td>
<td>Increase or decrease</td>
</tr>
<tr>
<td>Total assets</td>
<td>Decrease</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Possible Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td>Payables (arrears)</td>
</tr>
<tr>
<td></td>
<td>Borrowings</td>
</tr>
<tr>
<td></td>
<td>Short-term provisions</td>
</tr>
<tr>
<td></td>
<td>Employee benefits</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>Payables</td>
</tr>
<tr>
<td></td>
<td>Borrowings</td>
</tr>
<tr>
<td></td>
<td>Long-term provisions</td>
</tr>
<tr>
<td></td>
<td>Employee benefits</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>Increase</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net assets/equity</th>
<th>Possible Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>Decrease</td>
</tr>
<tr>
<td>Accumulated surpluses/ (deficits)</td>
<td>Higher deficit</td>
</tr>
<tr>
<td>Noncontrolling interest</td>
<td>Increase or decrease</td>
</tr>
<tr>
<td>Total net assets and equity</td>
<td>Decrease</td>
</tr>
</tbody>
</table>
### Operating activities
Cash flows from operating activities will be negative, as tax receipts are down and expenditures across the board are up.

<table>
<thead>
<tr>
<th>Cash flows</th>
<th>Possible Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>Low</td>
</tr>
<tr>
<td>Sales of goods and services</td>
<td>Low</td>
</tr>
<tr>
<td>Grants</td>
<td>High or low</td>
</tr>
<tr>
<td>Interest received</td>
<td>Low</td>
</tr>
<tr>
<td>Other receipts</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Payments</strong></td>
<td></td>
</tr>
<tr>
<td>Employee costs</td>
<td>(Low)</td>
</tr>
<tr>
<td>Suppliers</td>
<td>(High or low)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(Low)</td>
</tr>
<tr>
<td>Other payments</td>
<td>(High or low)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>Low</td>
</tr>
</tbody>
</table>

### Investing activities
Investing activities will generate large cash outflows because of government lending to state-owned enterprises and lower levels of governments, partially compensated by lower discretionary spending on capital expenditure in infrastructure and other government fixed assets. Some compensation may also come from fire sale of assets to quickly raise cash.

<table>
<thead>
<tr>
<th>Cash flows from investing activities</th>
<th>Possible Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>Low</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment</td>
<td>Low</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(Low)</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>(Low)</td>
</tr>
</tbody>
</table>

### Financing activities
Financing activities will show large cash inflows, reflecting an increase in borrowing.

<table>
<thead>
<tr>
<th>Cash flows from financing activities</th>
<th>Possible Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from borrowings</td>
<td>High</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>High</td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>Decrease</td>
</tr>
<tr>
<td>Cash and cash equivalents opening</td>
<td>High</td>
</tr>
<tr>
<td>Cash and cash equivalents closing</td>
<td>Low</td>
</tr>
</tbody>
</table>
Notes to the Financial Statements

Events after the Reporting Date

Although the COVID-19 virus emerged during calendar year 2019, its impact was not expected to be so severe. Therefore, impact on the government’s financial position and performance is considered to have taken place after the reporting date. When preparing end-of-year financial statements for 2019, the pandemic should be reported as a so-called non-adjusting event after the reporting date. This means that the amounts recognized in financial statements do not reflect any of the pandemic’s consequences. Valuation of assets and liabilities should relate to the condition at the reporting date and should not reflect circumstances that arose in the following period. However, governments preparing financial statements for a fiscal year ending December 31, 2019 should still consider including a disclosure. The pandemic events after the reporting date are material and could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, the government should disclose an estimate of the financial effect of the pandemic or a statement that such an estimate cannot be made.

Governments preparing financial statements with a March 31, 2020 year-end closing or later should consider the impact of the pandemic when deciding on recognition and measurement. For example, certain assets may have been impaired or provisions may be required, and the accrual deficit for the year ended March 31, 2020 may have been impacted negatively by the pandemic. For those governments that prepare financial statements within the recommended timeframe of 3 to 6 months after year-end closing, the judgments and estimates will be difficult. It is hard to predict in this stage how long the pandemic will last and what the impact will be of the measures taken by government. Properly reflecting the pandemic’s impact require considerable professional judgment. Consultation with government auditors at an early stage may be helpful. A note disclosure to the financial statements should provide insight into the judgments and estimates made, enabling the user of the financial statements to understand the assessments made.

Arrears

Under pressure from large COVID-19 outlays, governments may build up arrears, which are unpaid amounts that are past the due date for payment. Amounts
payable for any expense, acquisition of assets, or related to any liability including public debt may be in arrears. An increase in arrears artificially boosts cash flow, at least for a while. Information on arrears is needed for various kinds of policy analyses and solvency assessments and should be an encouraged disclosure within accounts payable. In many countries, it may not be easy to assess the accumulated arrears. The financial management information systems and processes in place may not capture all arrears, as some transactions may be done outside the system. Governments need to put in place systems to capture all arrears to be able to report accurate figures in financial statements. To enable users of the financial statements to quickly understand the extent of arrears, governments should report “days payable outstanding,” a yardstick of how long it takes the government to settle bills with suppliers.

**Extraordinary Items**

On the face of the financial statements, government should maintain its regular classification of revenue and expenses, be it by nature, function, administrative, or otherwise. Governments may consider reporting COVID-19-related revenue and expenditure as extraordinary items depending on the accounting standards or framework applicable in the country. For example, according to IPSAS, extraordinary items may be described as “revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly, and are outside the control or influence of the entity.” Some resources deployed for emergency response, including any external grants, may clearly meet this definition, and it may be possible to quantify significant items included in revenue and expenditure that arose solely due to the impact of the pandemic. These may be disclosed in the notes to the financial statements or in the financial statement discussion and analysis only if it is possible to reliably identify and separately quantify the pandemic’s impact. However, it is unlikely to be possible to attribute items, such as decreases in tax revenue and increases in government expenditure, solely to the impact of COVID-19 and therefore regular classification needs to be maintained.

**Contingent Liabilities and Guarantees**

COVID-19 may cause contingent liabilities to turn into provisions that should be
recognized on the government’s balance sheet. These include, for example, state guarantees for non-sovereign borrowing, guarantees for loans provided to small and medium enterprises, and insurances. Therefore, financial statements should adequately report on contingent liabilities. If the possibility of outflow is remote, then no disclosure is required. Contingent liabilities are not recognized in the statement of financial position due to uncertainty regarding any possible amount or timing of any possible underlying claim or obligation. Other contingent liabilities that may need to be disclosed include long-term agreements, such as public-private partnerships (PPPs). More than ever, governments should monitor guarantees and assess the probability of whether an outflow of resources will be required to settle obligations. At that point in time, a provision will have to be recognized as a liability on the balance sheet, assuming that a reliable estimate can be made. Because the lockdown has severely affected the transportation sector, governments should assess the accounting impact of review of guarantees given within the context of PPPs in road transportation (highways) and aviation (airports). If an operator of a PPP runs into trouble, and the government steps in, it may trigger an altogether different accounting treatment in the government’s books. If the government starts controlling or regulating the nature, recipients, and price of the services the operator must provide, and any significant residual interest in the asset (e.g., highway or airport), then the government should recognize the asset and the corresponding liability on its balance sheet. This may severely impact the balance sheets of governments that have entered into significant PPP arrangements.

**Public Debt**

Public debt is a material and, because of COVID-19, fast-growing item in government financial statements and is a subject of interest for both macroeconomic and fiscal management purposes. IPSAS, complementary to the Public Sector Debt Statistics of the Government Financial Statistics methodology, provides a comprehensive and reliable framework for debt and liability reporting by capturing all financial estimates of present and future economic benefits and obligations on a consistent basis in whole-of-government financial reports. Therefore, it is appropriate for all governments, including those reporting under the cash basis of accounting, to report extensively on public debt. Issues in accounting for debt include valuation of the loans and the calculation of debt
servicing cost. Concessionary loans under accrual accounting will have a book value below face value. Public debt is rising not only because of deficits, but also because of increases in lending to state-owned enterprises (SOE). Disclosures should provide an explanation of the increase of public debt during the period, including a breakdown in disbursements and repayments, direct payments from lenders to suppliers, exchange rate differences on public debt denominated in foreign currencies, interest arrears being added to the principal, or other causes.

Undrawn Borrowings

The financial statements should disclose undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities. Such a disclosure is helpful for the users of the financial statements in assessing the government’s ability to raise cash in the short term to face the challenges posed by COVID-19.

Consolidated Financial Statements

To paint a comprehensive picture of the impact of COVID-19 on public finances, the boundaries of the reporting entity should be widened beyond budgetary central government. Governments should ensure that the necessary systems and procedures are in place to consolidate their financial statements at different levels of aggregation, including the general government (central and local governments, social security funds) and whole of government (including public corporations). Consolidated financial statements present a complete picture of all cash receipts and payments using cash basis accounting. They also present a complete picture of assets, liabilities, revenues, and expenses using accrual basis accounting.

Many public sector entities publish separate financial statements (i.e., financial statements of their own legal entity). Individually, these financial statements provide a limited view of the impact of COVID-19 because part of their operations is executed by controlled entities. Without consolidated financial statements, completeness of financial performance and position of government are not fully established. Without consolidated financial statements, a reader faced with a multitude of separate financial statements may not see the wood for the trees.
Sovereign Wealth Funds or Rainy Day Funds

Governments may in some jurisdictions be able to transfer money from sovereign wealth funds (SWFs) or other rainy day funds to finance emergency expenditures without having to transparently report on it. Many SWFs do not publish financial statements, and their financial information is rarely included in the government’s consolidated financial statements. Smoothing fiscal policy is a typical objective of SWFs so there is nothing secretive about spending some of the savings on unforeseen expenditures to meet the challenges caused by the pandemic. When such expenditure is extra-budgetary, it may be depicted in a budget execution statement. However, if the money has passed through the government’s bank accounts, inflows and outflows should be reported on the cash flow statement.

Quasi-Fiscal Activities

Governments may be tempted to incite government-related entities to engage in quasi-fiscal activities. Quasi-fiscal operations are government operations carried out by institutional units other than budget units in order to shift expenditure from the government budget to related parties. Examples are lending by central banks to SOEs, and public corporations, such as an oil company, charging artificially low energy prices to local citizens or paying for social benefits. Quasi-fiscal operations encompass a broad array of activities that have the same impact on the economy as government operations. Governments scrambling to find cash to fund COVID-19-induced expenditures may resort to related parties to fund activities that in normal circumstances would be funded by the government. Quasi-fiscal activities carried out by entities that are not included in the consolidated financial statements do not affect the government’s deficit, and they also help keep liabilities off the government’s balance sheet. It would be useful to provide narratives about the quasi-fiscal activities in notes to accounts or in discussion and analysis accompanying financial statements in order to enable stakeholders to assess the full extent of government expenditure on COVID-19.
4. Country Practices

The appendixes provide five examples of COVID-19-related updates on the government’s financial position and performance issued by Canada, India, New Zealand, South Africa, and the United Kingdom.

The government of Canada produced its first set of accrual-based financial statements for the year ending 2003 (appendix A). Its reporting entity includes all organizations controlled by the federal government but does not include the provinces and other lower levels of government. Financial statements are prepared under Canadian public sector accounting standards, which are similar to IPSAS.

The government of India prepares financial statements primarily on a cash basis (appendix B). Additional information, including those prepared on an accrual basis (e.g., relating to debt and off-budget items), is included in individual statements as part of the government’s financial statements.

The New Zealand government produced its first fully accrual-based combined financial statements in 1992. Its reporting entity includes all organizations controlled by the national government but does not include lower levels of government. Since 2015, financial statements are prepared according to IPSAS.

The government of South Africa prepares financial statements on the cash basis of accounting supplemented with additional disclosure items (appendix D). South Africa prepares three separate sets of financial statements: one consolidation including all departments of national government, another consolidation including the public entities, and a third set reporting on the national revenue fund.

The government of the United Kingdom has prepared accrual-basis, whole-of-government accounts (WGA) since 2010 (appendix E). These financial statements provide a comprehensive picture of the financial performance and position of the United Kingdom’s public sector, which comprises more than 8,000 bodies including public corporations and lower levels of government. WGA is prepared under International Financial Reporting Standards, which are interpreted and adapted for the public sector context and similar to IPSAS.
5. Suggested Actions

Box 1. Suggested Actions for Preparers of Government Financial Statements in the Wake of the COVID-19 Pandemic

1. Prepare financial statements (within the current basis of accounting—cash or accrual) to provide as much a comprehensive overview of the impact of COVID-19 as possible for enabling government decision-making.

2. Issue financial statements in a timely manner and consider issuing interim financial statements to be useful for policy makers in deciding about a response to the pandemic.

3. Use Integrated Financial Management Information Systems and information technology tools to the maximum extent possible to ensure the reliability and timeliness of financial information.

4. Issue financial statement discussion and analysis and explain the impact of the pandemic on public finances.

5. Report on the long-term fiscal sustainability of the entity, updated to take into consideration the pandemic’s impact.

6. Continue moving forward with implementation of accrual-based accounting systems, ideally aligned with the International Public Sector Accounting Standards.

7. Ensure that the governments have the necessary systems and procedures to consolidate their financial statements at different levels of aggregation, including the level of government as a whole.

8. Conduct an assessment of business continuity to ensure that the government is ready to face potential new emergency situations in the future without affecting its service capability while allowing essential and nonessential staff to work remotely when needed.

9. Assess whether it is appropriate for the entity’s financial statements to be prepared using the going concern assumption.

10. When preparing government financial statements, consider guidance provided in section 3 of this note, “Impact of COVID-19 on Government Financial Statements.”

11. Promote coordination with the Supreme Audit Institution to ensure proper accountability mechanisms are in place.
Box 2. Suggested Actions for Auditors of Government Financial Statements in the Wake of following the COVID-19 Pandemic

1. Work with preparers of financial statements to find ways to issue audited financial statements in a timely manner.


3. Support the government’s implementation of accrual-based accounting systems.

4. Review the government’s systems and procedures to consolidate its financial statements at different levels of aggregation.

5. Assess whether it is appropriate for the entity’s financial statements to be prepared using the going concern assumption.

6. When auditing government financial statements, consider guidance provided in section 3 of this note, “Impact of COVID-19 on Government Financial Statements.”
Appendix A. Scenario Analysis Update from the Parliamentary Budget Officer of Canada

Excerpts from “Scenario Analysis Update: Covid-19 Pandemic and Oil Price Shocks”

(Issued April 30, 2020)

COVID-19 Pandemic and Oil Price Shocks

Our fiscal results include $146.0 billion in federal budgetary measures that has been announced as of April 24 based on Finance Canada and PBO cost estimates.

• Based on our updated economic scenario and including announced federal measures, the budget deficit would increase to $24.9 billion in 2019-20 and then to $252.1 billion in 2020-21.

• Relative to the size of the Canadian economy, the deficit would be 1.1 per cent of GDP in 2019-20 and 12.7 per cent of GDP in 2020-21.

As a share of the economy, the budget deficit in 2020-21 would be the largest budgetary deficit on record (since the beginning of the series in 1966-67) and sit well above the record of 8.0 per cent of GDP observed in 1984-85.

• Rising budgetary deficits and sharply lower nominal GDP boost the federal debt-to-GDP ratio to 48.4 per cent in 2020-21.

• The last time the federal debt-to-GDP ratio was above 48.4 per cent was in 1999-00. This level, however, still remains well below the peak (since the beginning of the series in 1966-67) of 66.6 per cent of GDP reached in 1995-96.

Despite the recently announced measures, additional fiscal measures may be required to support the economy in the coming months. Moreover, after support measures are provided, fiscal stimulus measures may be required to ensure that the economy reaches lift-off speed, especially if consumer and business behavior does not quickly revert back to “normal” conditions.

In the context of fiscal sustainability, it is essential to distinguish between temporary and permanent budgetary measures. The current situation calls
for immediate and robust policy actions to face unforeseen and exceptional circumstances. To date, budgetary measures announced by the Government are not intended to be made permanent.

Recall that prior to the COVID-19 and oil price shocks, the Government’s balance sheet was healthy. Given the temporary nature of budgetary measures, credit market access at historically low rates, and looking to historical experience, indicate that the Government could undertake additional borrowing if required.

Once the budgetary measures expire and the economy recovers, the federal debt-to-GDP ratio should stabilize and then start declining under pre-crisis fiscal policy settings. However, should some of the measures be extended or made permanent, the federal debt ratio could keep rising.


### Appendix B. Macroeconomic Report May 2020 from India’s Ministry of Finance

**Excerpts from Macroeconomic Report May 2020**

(issued June 30, 2020)

1. India imposed a strict lockdown beginning March 25, 2020. As restrictions were further eased, the country entered the unlock phase in June 2020. COVID-19 has impacted government fiscal revenues via its detrimental impact on both the income and production side of national accounts. As per provisional accounts (PA) data of central government finances for 2019-20, the fiscal deficit for 2019-20 PA stood at Rs 9.4 lakh crore which is 4.6 per cent of GDP, 0.8 percentage points higher than the Revised Estimates. This is attributable mainly to shortfall in revenue collection.

2. Net Tax receipts for 2019-20 PA stood at Rs. 13.56 lakh crore, 9.9 per cent lower than the amount envisaged in RE. The shortfall in direct tax collection contributed to 75 per cent of the shortfall in non-debt receipts. The shortfall
in indirect taxes was of the tune of 0.14 per cent of GDP, which was largely led by shortfall in customs and GST collections (Centre). The fall in direct taxes collection in 2019-20 is on expected lines due to the tax reforms undertaken and higher refunds issued during FY 2019-20. Non-tax revenue also registered a shortfall of Rs. 19300 crore in 2019-20 (PA) relative to RE, largely led by shortfall in dividends. On the expenditure side, the revenue expenditure was maintained at the RE level but the capital expenditure registered a cut by Rs. 12000 crore.

3. The interruption in economic activity due to COVID-19 has led to shortfall in revenue collection during the first two months of the FY 2020-21. Fiscal deficit stood at Rs 4.7 lakh crore till May 2020, which is 58.6 per cent of BE compared to 52.0 per cent during May 2019. Revenue Receipts registered a negative growth of 68.9 per cent, led by negative growth in Personal Income Tax, all indirect taxes and nontax revenue. Corporation tax registered a massive growth of 1408.1 per cent over May 2019 and stood at 2.5 per cent of BE. Personal Income Tax stood at 5.6 per cent of BE compared to 10.6 per cent till May 2019. Non-Tax revenue up to May 2020 turned out to be less than 62 per cent of the level till May 2019.

4. Government of India executed a well laid out strategy wherein it imposed lockdown to allow states to ramp-up their health and testing infrastructure while implementing “Pradhan Mantri Garib Kalyan Yojana” to provide immediate cash support to the needy. More than 42 crore poor people have so far received financial assistance of Rs 65,454 crore under the scheme. Procurement of wheat increased touching an all-time record figure of 388.3 Lakh Metric Tonnes (LMT) on June 29, 2020. Minimum Support Price (MSP) of Rs. 73,500 crore was paid, benefiting 42 Lakh farmers. The next step was to convert the pandemic situation into an opportunity of taking the economy to newer heights. Accordingly, in May 2020, Government adding to its past measures and that of RBI announced a consolidated stimulus package of Rs. 20 lakh crore. The stimulus package was pivoted on “Atma Nirbhar Bharat,” wherein MSMEs received a huge financial package in terms of collateral free debt, guarantee for subordinate debt through Funds-of-Funds and interest subvention scheme.

Appendix C. Budget Economic and Fiscal Update 2020
from The Treasury of New Zealand

Excerpts from Budget Economic and Fiscal Update 2020
(Issued May 14, 2020)

• The economic impact of COVID-19, coupled with the Government’s response, has had a significant impact on the Government’s fiscal position. All key indicators are significantly weaker than those forecast in the Half Year Update published in December.

• In the current year and the next two fiscal years, operating deficits (operating balance before gains and losses) average around $28 billion, while net core Crown debt is expected to increase on average by around $32 billion per year. The operating deficits and increases in net core Crown debt start to fall from 2022/23.

• Tax revenue is expected to fall in the first two years of the forecast period, primarily owing to the economic slowdown coupled with tax policy changes. The tax revenue forecasts then start to recover as economic activity starts to pick up. Overall tax revenue is $49.2 billion lower than the Half Year Update over the forecast period.

• In total across the forecast period, nominal GDP is $103 billion lower than in the Half Year Update. This lower GDP forecast accounts for around $34 billion of the $49.2 billion reduction in forecast core Crown tax revenue across the forecast period.

• A sharp rise in core Crown expenses is expected in the current year mainly as a result of the Government’s response to COVID-19. The level of core Crown expenses peaks at just under $120 billion in 2021/22, before starting to fall as some of the Government’s temporary response measures are expected to cease and the economy continues to recover.

• The Government has already announced an immediate $12.1 billion economic response package. In addition, $50.0 billion in funding has been set aside to manage the Government’s response to and recovery from COVID-19. Some of
that funding has already been announced, for example increases to the Wage Subsidy Scheme. Around $39.3 billion of the funding remains unallocated at the time the fiscal forecasts were completed.

- In addition to the Government’s fiscal policy response of $62.1 billion, the Reserve Bank is also employing monetary policy measures such as the Large-Scale Asset Purchases (LSAP) program aimed at reducing borrowing costs and injecting more money into the economy.

- The Government’s balance sheet is forecast to absorb most of the fiscal impact of the COVID-19 Government response and economic downturn impacts, with increasing borrowings and reducing net worth. Net core Crown debt is expected to reach 53.6% of GDP by the end of the forecast period.


### Appendix D. Supplementary Budget Review 2020 from the National Treasury, Republic of South Africa

*Excerpts from Supplementary Budget Review 2020* (Issued June 24, 2020)

This special adjustments budget sets out government’s initial economic and fiscal response to COVID-19. It fast-tracks normal processes to provide resources to frontline services, provincial and local government, and firms and households, with a focus on the most vulnerable South Africans. It also underlines our commitment to stabilize the public finances and enact reforms that will promote trade, investment and job creation.

The oft-overused word “unprecedented” is appropriate in this case. The pandemic is expected to lead to the sharpest global economic downturn since the Second World War and the biggest overall decline in countries’ per capita incomes in 150 years. In 2020, the output of developing economies is expected to contract for the first time in at least 60 years.

The pandemic has had a profound impact on South Africa. The economy is expected
to contract by 7.2 per cent this year. All economic sectors have experienced a sharp downturn and small businesses in particular face extreme pressure. Millions of jobs are at risk – and millions of households are experiencing increased hardship. Tax revenue projections are down sharply. Moreover, the epidemiological path and economic consequences of the pandemic are both highly uncertain and evolving rapidly, necessitating rapid adjustments in policy and forecasts.

Over the past three months, government has prioritized public health to save lives. It also took the difficult step of severely restricting economic activity at a time when GDP growth was already weak. South Africa’s R500 billion fiscal relief package is designed to help households and businesses to weather the short-term effects of the crisis.

For several years, the National Treasury has been warning that an absence of fiscal space would leave South Africa vulnerable to external shocks. That risk is now a reality. At the time of the 2020 Budget, economic growth was already low and the fiscal position had deteriorated significantly. South Africa has begun heading into a debt spiral.

Government is spending far more than it collects in revenue. As a result, debt has mushroomed. A failure to halt and reverse this pattern will harm the livelihoods of South Africans for many years to come. Left unchecked, the interest payments on that debt will become one of government’s largest expenditure items over the medium term. An ever-increasing share of tax revenue will not go to hospitals, schools or social grants – instead, it will be transferred to bondholders.

Cabinet has resolved to reverse this pattern. The process of preparing the 2021 medium-term expenditure framework kicks off next month. The forthcoming spending framework will include major adjustments to stabilize debt and narrow the budget deficit.

Appendix E. Commentary from the U.K. Office for Budget Responsibility

Extracts from “Commentary on the Public Sector Finances: April 2020”

(issued May 22, 2020)

Budget deficit leaps to £62 billion in April 2020 alone

- Today’s data highlight the fiscal impact of the coronavirus crisis, but will be prone to material future revisions. The headline accrued data rely heavily on forecasts (including our reference scenario assumptions in places). And while cash measures reflect actual payments to and from government, any underlying pattern is clouded by timing effects and non-payment of taxes. It will take many months before the true scale of even the initial shock becomes clear.

- Public sector net borrowing totaled £62.1 billion in April, £19.6 billion higher than market expectations. This takes the headline deficit to a record monthly level. The sharp rise on last year reflects both much higher spending and a significant deterioration in tax receipts.
• Her Majesty's Revenue and Customs cash receipts fell by 42 per cent on a year earlier. VAT accounted for the bulk of the deterioration as the Government's VAT deferral scheme left VAT receipts negative in April. Income tax, corporation tax and fuel duties also saw sharp falls on a year earlier.

• Central government spending was up 52 per cent in April, reflecting the assumed impact of the coronavirus job retention scheme, higher grants to local authorities and higher public services spending, much of which was coronavirus related (including National Health Service spending).

• Net debt rose by 17.4 per cent of GDP on a year earlier to 97.7 per cent in April – a sharper rise than at any point during the financial crisis. This reflects higher borrowing and the impact of Bank of England schemes on cash debt, but also the falls in nominal GDP over the coming months assumed in our reference scenario, which the Office for National Statistics has used pending outturn data.