

FROM CRISIS TO RECOVERY



PUBLIC SECTOR PRIORITIES TO SUPPORT COVID-19 RECOVERY



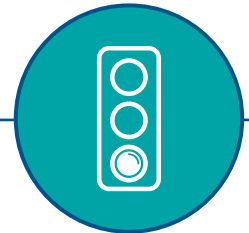
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FROM CRISIS TO RECOVERY: PUBLIC SECTOR PRIORITIES TO SUPPORT COVID-19 RECOVERY



SUMMARY

The public sector is a high priority for IFAC and the global accountancy profession. Professional accountants serve the public interest, and as such, those working in the public sector have been at the heart of the response to the COVID-19 pandemic, playing a critical role in advising governments and helping make tough choices, drive innovation, do more with less, and ultimately reinforcing trust in public services and spending.

The world's governments must advance from crisis response to recovery with sustainable fiscal programs that are affordable over the long-term.



Priorities going forward include:

- Balance spending on immediate priorities and invest in longer-term strategies to restore economic growth, and ensure a sustainable, equitable and inclusive recovery.
- Build on measures taken during the pandemic to drive transformation and digitalization of public service delivery.
- Address systemic issues that have been exacerbated by the global crisis, such as climate, inequality, access to education, and poverty.
- Promote transparency and accountability to help build trust. This requires public sector leaders to:
 - Ensure strong public financial management (PFM) to enable governments and public sector entities around the world make better decisions for people, planet, and the economy.
 - Understand the impact of spending on social value and outcomes, and advocate for comprehensive performance measurement to ensure accountability for broader societal outcomes.

INTRODUCTION

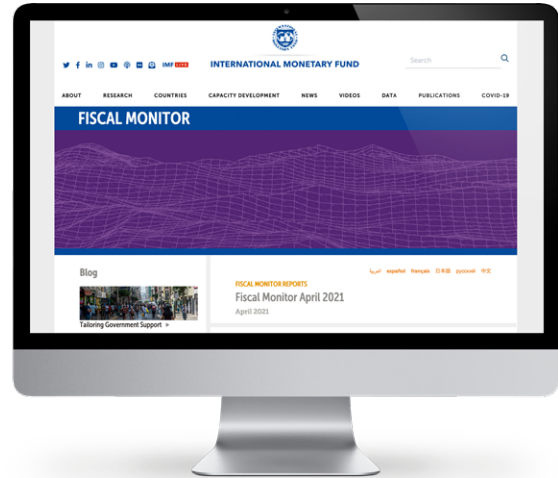
Governments around the world are dealing with pandemic crisis management as they respond to the economic and societal consequences of COVID-19. Their attention is on short-term measures with many governments doing, and spending, whatever they can to get through the immediate health and economic crisis.

Fiscal interventions globally have already exceeded **16 trillion US dollars (as of April 2021)**, a significant proportion of which has been from advanced economies, with **less than 20 percent** from developing countries. This is causing widening inequality between and within countries. Increased spending has also drastically increased public borrowing, which according to the International Monetary Fund (IMF), globally will reach an **unprecedented average of 99 percent of GDP in 2021**.

And now, over a year into the crisis, the world's governments face an increasingly difficult balancing act between continuing to spend on immediate priorities and investing in longer-term strategies to restore economic growth, and ensure a sustainable, equitable, and inclusive recovery.

To explore key strategic issues for the public sector and its finance leaders, IFAC convened a global virtual roundtable that brought together senior public finance professionals from across central and local governments, the health sector, accountant general and supreme audit institutions, as well as members of the International Public Sector Accounting Standards Board (IPSASB) and representatives from professional accountancy organizations. Countries represented included Austria, Australia, Canada, China, Hong Kong, India, Ireland, Jamaica, Kenya, Malaysia, Panama, Rwanda, South Africa, Tanzania, UK, and US.

This paper summarizes the key themes discussed at the virtual meeting.



BALANCING SPENDING PRIORITIES

Public finances and service delivery are more strained than ever. Globally, the pandemic has caused significant value destruction related to curtailed economic activity, increased unemployment, and reduced tax revenues. As a result, many governments have extended benefits, such as income replacement, unemployment insurance, and loan guarantees. Public health infrastructure, which even in the most advanced economies was far from adequate for this crisis, has been the target of much emergency spending, and will continue to be as governments undertake monumental vaccination campaigns.

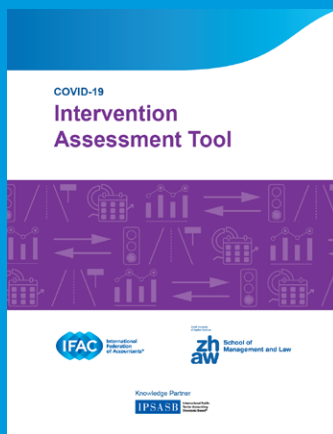
A key message from the panel of leaders was that it is crucial not to withdraw government support too prematurely. With new waves of COVID-19 infections, reimposed lockdowns and varying restrictions across countries, this pandemic is far from over. That said, governments are acutely aware of rising budget deficits and increasing debt burdens, and the need to evaluate spending strategies and investments to improve public sector resilience and deliver continued social value.



Professional accountants have played key roles in the COVID-19 response, helping direct expenditure to priority areas.

Current spending considerations and actions include:

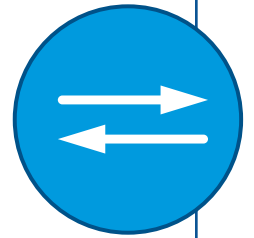
- Identifying where costs can be controlled through efficiencies and spending reductions in specific areas, without compromising recovery and longer-term planning. For example, short-term public sector pay freezes.
- Focusing expenditure on growth-creating opportunities with a multiplier effect. There is limited capacity for direct cash support, particularly in developing economies, so it is important to explore ways of directing spending to create growth. For example, through investment in capital and infrastructure projects that create employment opportunities and drive additional social benefits.
- Ensuring decisions about future expenditure are not overly dictated by 'last year's problems' alone, but instead take a more strategic view on where public spending is needed for restoration. Taking healthcare as an example, it is important not to only deal with the current health emergency, but also tackle the underlying causes of poor health outcomes by focusing spending on areas that will address structural challenges. For example, consider increasing investment in preventative care to reduce future pressures on acute healthcare. Ultimately, this requires a holistic strategy that factors in other related areas such as social care, housing, and education, all of which have an impact on health outcomes.
- Restoring normal spending control and assurance frameworks. Balancing control and risk appetite during the immediate crisis has been a key challenge for governments. Decision making processes have had to be streamlined and improved to enable faster and more flexible emergency responses, but this has often required temporary relaxation of normal protocols and procedures, and application of less scrutiny.
- Understanding the effects of, and future scope for, stimulus and cash transfers to support economies going forward, particularly in relation to future crises.



COVID-19 INTERVENTION ASSESSMENT TOOL

High quality financial reporting is key to communicating the impact of the pandemic on public finances. Responses to the crisis may constrain future policy choices, and it is important that the accrual impacts of decisions made today are understood. To help governments and other interested stakeholders understand the impact of government interventions at different points in time, IFAC and the Zurich University of Applied Sciences (ZHAW), in partnership with the IPSASB, created a 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.

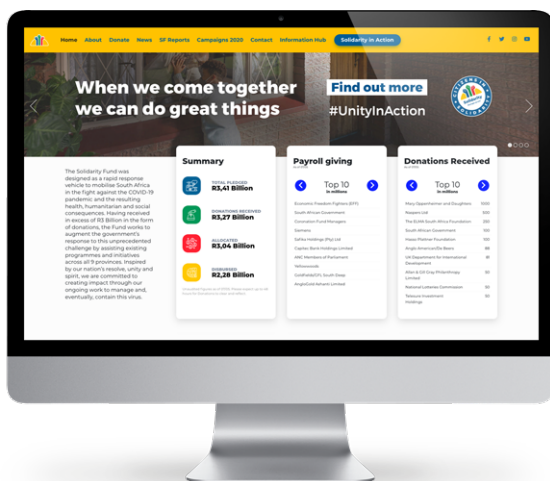
ENSURING CONTINUITY OF SERVICE DELIVERY AND VALUE FOR MONEY



The concept of ‘doing more with less’ is not new to the public sector, but COVID-19 has pushed this notion to a new extreme. With reduced tax revenues, emergency spending, the need to cut costs, and increasingly higher demand for services, public sector entities must think fundamentally differently about how services are delivered and how to ensure public sector finances are more resilient going forward.

While it may still be too early to fully review and analyze decisions and actions taken by public sector entities during the pandemic, the roundtable participants shared lessons from the responses so far:

- The importance of capitalizing on measures put in place, and major investments made, during the crisis that should remain long after COVID-19. Lockdown and stay-at-home orders, office closures and other restrictions forced innovation and investment in the digitalization of public services, which has been both substantial and rapid. In the health sector, implementing telehealth systems could have taken years, but in the emergency circumstances, was achieved by necessity in weeks. Governments are also focusing on digitalization across services, for example in Japan **digital reform is high on the government’s agenda**.
- Local government entities proved their ability to quickly pivot and adapt, but the pandemic exposed a lack of formalized service continuity plans. Many were forced to make reactionary decisions to redesign service delivery. In order to reduce future risks associated with major service delivery disruptions, local governments must prioritize developing and documenting formalized continuity plans.
- The resilience of local government funding must be evaluated and addressed. With resources and public services already so far stretched, and in some cases on a ‘knife-edge’ even before the pandemic, local authorities had little or no contingency to cope with additional pressures. For example, in England, **billions in cash** infusions from central government have been required to keep local councils operating.



- Collaboration is crucial to recovery—this means globally across countries, nationally across government departments and public sector entities, and between the public and private sectors. Public-private sector partnerships have been critical during the crisis in a range of areas including vaccine development and rollout, procurement of personal protective equipment, and track and trace arrangements. Another example, in South Africa a **solidarity fund**—managed independently of the South African government by a public benefit organization—was established to assist existing government programs and initiatives to support the government’s response.



THE ROADMAP TO SUSTAINABLE RECOVERY

Governments need to identify and evaluate post-pandemic priorities that will foster a pathway to sustainable recovery. A sustainable and equitable recovery is evaluated in the context of the sustainable development goals (SDGs) and national sustainable development plans that provide context to government policy and spending decisions to address systemic issues such as climate, gender inequality, access to education, and poverty.

Key observations shared include:

- COVID-19 has had a devastating impact on global poverty, and is estimated to push an additional **119 – 124 million people into extreme poverty**, effectively reversing decades of progress. The pandemic has also highlighted and widened inequality within and between countries. The most vulnerable in society have been disproportionately affected, and the pandemic is leading to an increasingly **unequal world**. Compassion and fairness must be at the heart of response measures. Ordinary people will judge the efforts of the public sector not only by whether economies bounce back, but also by the equity and inclusiveness of recovery. At a country level, governments need to consider reforms to drive greater local regeneration and recovery to support local economies, which will in-turn contribute to national recovery efforts. To further support developing economies, the IMF is calling on the **‘international community to provide substantial assistance through debt relief, grants and concessional lending’**.
- The pandemic has highlighted areas already under extreme pressure. Further transformational changes may be needed as part of recovery measures to address pre-existing challenges such as adult social care and the resilience of local government funding to sustain service delivery, as well as issues exacerbated by COVID-19 such as healthcare back-logs and education.



ACCA: COVID-19 and gender inequality

As a result of the pandemic, women’s employment is 19% more at risk compared to men’s (**UN Women 2020**), and women are more likely than men to take on unpaid care and domestic work in households. In addition, it is estimated that global domestic violence cases are up around 20% (**BBC 2020**). For women in more marginalized communities

—such as women with disabilities, LGBTQ women and women from ethnic minorities—compounding factors have led to even greater discrimination and inequality.

To help tackle gender inequality, ACCA has developed a **set of tools and resources** to help the profession learn more about gender responsive budgeting.

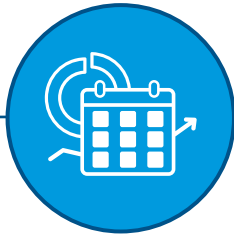
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- Effectively influencing decisions requires **more than good financial information**. To understand the impact of spending on social value and outcomes, performance reporting needs to bring together financial and non-financial information to provide a more comprehensive picture. In many jurisdictions, there is a renewed focus on how to widen performance measurement to ensure accountability for outcomes. Understanding and measuring desired outcomes and social value delivered can be facilitated by a principles-based framework

Examples include:

- International Integrated Reporting Framework
- UK’s Public Value Framework
- New Zealand’s well-being approach to budgeting
- IPSASB guidance on the relevance of International Public Sector Accounting Standards (IPSAS) and related Recommended Practice Guidelines (RPG) for reporting on both climate change and the SDGs in the general purpose financial reports of public sector entities.



TRANSPARENCY, ACCOUNTABILITY, AND TRUST

There is heightened need for transparency and accountability in the current environment to help build trust and reinforce the social contract between governments and citizens. Trust is particularly important in times of crisis given the demand for confidence in how public money is being managed and spent. Open communication on the impact of the pandemic on public finances is key, including transparency around levels of increased public spending and the liabilities this spending creates. Repayment of public debt may ultimately come down to a combination of future tax increases and spending cuts to services, affecting future policy and spending decisions, with potential intergenerational ramifications.

Public sector entities will be held accountable for the management of public funds and for the tough decisions being made. Consequently, they need to demonstrate how they are controlling expenditure to ensure public services are delivering the most value within the funding available.

The importance of trust places a greater emphasis on the role of professional accountants in the public sector. Although not as visible as other frontline workers, public finance professionals have been at the heart of the COVID-19 response, ensuring public funds are prioritized and directed to areas of urgent need, while simultaneously supporting other vital operations, such as procurement and supply chain management.



CIPFA: Key Competencies for Public Finance Professionals Responding to Today’s Challenges

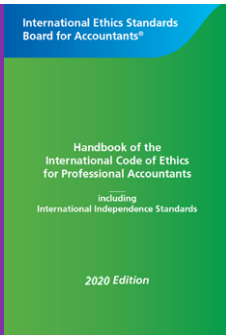
The global political and economic landscape is as volatile and unpredictable as ever. In this ever-changing public sector environment, the importance of continuous professional development cannot be understated. Lifelong learning is key to future-proofing the accountancy profession around the world. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA), *Key Competencies for Public Sector Finance Professionals* outlines essential competencies in four core thematic areas:

- Public sector context and needs;
- Technical skills;
- Leading and influencing; and
- Increasing public value.

Other areas where public finance professionals have contributed include:

- Helping to ensure well-developed public financial management (PFM) systems, which are fundamental in supporting fiscal and policy decisions. Globally the strength of PFM systems varies widely, and **improvements are needed in many jurisdictions**. Embedding financial discipline and internal control across public sector entities remains a key priority for many countries, and the accountancy profession must advocate for and support PFM reform.
- Supporting evidence-based policy decisions and financial planning, by providing direction and clarity through actionable insights and information, including **high quality financial reports**, scenario planning, **data analytics and data modelling**. Senior public finance professionals are responsible for communicating to politicians and the public the reasoning behind and consequences of their decision-making.
- The role of supreme audit institutions (SAIs) and professional accountants as supreme auditors is to ensure appropriate expenditure and prevent fraud, corruption, and waste, which can be more prevalent during a crisis. To fulfill their mandates, SAIs must have the independence and necessary resources to properly protect public trust. Implementing real-time audits has been extremely beneficial, helping SAIs identify threats and inappropriate expenditure—sometimes before occurrence, allowing corrective actions to be executed, and saving significant amounts from being lost or misallocated.

IMPORTANTLY, PFM REQUIRES PROFESSIONAL ACCOUNTANTS WITH THE SOFT SKILLS TO INFLUENCE POLICY DECISION-MAKERS TO MAKE THE BEST EVIDENCE-BASED DECISIONS



The International Code of Ethics for Professional Accountants underpins everything professional accountants do. This is what makes it possible for them to influence public policies and speak out on issues that are relevant to the profession, the economy, technology, sustainability, and society at large.

It was clear throughout the discussion that not only is there an incredibly important **need** for the accountancy profession to step into a greater leadership role in the public sector as part of its public interest mandate, but there is also an incredible **opportunity** to help those in positions of authority to make the tough choices that are inevitably facing every country as a result of the pandemic. By doing so, the accountancy profession can create a better world with stronger economies and fairer societies.

OUR THANKS

IFAC WOULD LIKE TO THANK ALL ROUNDTABLE PARTICIPANTS FOR THEIR CONTRIBUTIONS:

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