Implications of International Public Sector Accounting Standards (IPSASs) on County Financial Management Reporting

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Government finances (1)

- We are aware of the need for better financial reporting by the central government and the county governments and the need for improvement in the management of public sector resources.
- The citizens of Kenya are affected by the government's financial management decisions.
- Strong and transparent financial reporting has the potential to improve public sector decision making, and make governments more accountable to their constituents.

Government finances (2)

- The failure of governments to manage their finances has in the past, and could again in the future, have dramatic consequences such as social unrest and the failure of governments to meet their commitments today and in the future.
- Since 1997, IPSASB has developed and issued a suite of 32 accrual standards, and a cash-basis standard for countries and counties moving toward full accrual accounting.

Accrual basis accounting

- Governments that report on a cash-basis do not account for significant liabilities, such as pensions and infrastructure development. IPSASB encourages public sector entities to adopt the accrual basis of accounting—which will improve financial management and increase transparency resulting in a more comprehensive and accurate view of a government's financial position.
- For example, what is the total liability for accrued expenses in the Government as at 30 June 2012?

IPSAS: An African odyssey

Sylvia Okolieaboh, writing in “Public Finance International”, “The Greek government debt crisis in particular and the eurozone crisis in general are often linked, in part, to an incomplete and inefficient cash-based accounting system. This allowed liabilities and costs to be concealed that would have otherwise been disclosed if (accrual basis) IPSASs were implemented effectively”.

Do we have the skill & capabilities?

- In a May, 2012 submission to the Eurostat’s consultation on whether IPSASs are suitable for adoption across the European Union, the Institute of Chartered Accountants in England and Wales observed that “EU member countries lack the skill and capabilities to implement IPSASs”.
- The Republic of Georgia plans to adopt IPSAS in 2021, starting from 2008.

An overall plan?

- “Every government, agency or entity that has ever implemented or planned to implement IPSAS has a roadmap, an implementation plan detailing a sequence of activities spanning a longer period of time that progressively and systematically leads to full accrual IPSAS adoption”.

Georgia’s plan

- The Georgian implementation plan consists of six phases spread over the ten-year transition period.
- Each of the actions is further broken down into detailed time based activities spread within the allotted target implementation timelines.

Faster in Africa

- Nigeria and Zimbabwe announced in mid-2012 that they will be adopting IPSASs in 2013.
- This translates to less than one year of preparation.
- Nigeria has already shifted its IPSASs adoption target date to 2014 for cash basis and 2016 for accrual basis IPSASs. Again, this translates to roughly two and four years for cash basis and accrual basis respectively; dwarfing Georgia's ten-year transition by half.

Zimbabwe v. Nigeria

- There is no publicly available IPSAS implementation strategy for Zimbabwe.
- Nigeria, on the other hand, has constituted a high-powered implementation team, officially known as the ‘*Federation Account Allocation Committee* (FAAC) Sub-Committee on the Roadmap for Adoption of IPSAS’.
- This has a mandate covering virtually everything that is required not only to implement IPSASs but also to ensure long-term sustenance including IT needs.

The Nigerian FAAC sub-committee

- The sub-committee has already:
- conducted sensitisation of political leaders across the country;
- exposed all stakeholders to IPSASs;
- collated IPSASs gap analysis for all tiers of government
- collaborated with the World Bank and other development partners;
- conducted sensitisation workshops for all stakeholders country-wide;
- adopted a common Chart of Accounts;
- and procured and distributed 'IPSAS Explained' by Thomas Muller.
- A training manual and timetable are also said to be ready.

Adoption of IPSASs

- Many countries at the moment are commencing reforms in government accounting including putting processes in place to adopt IPSASs.
- US: Federal Accounting Standards Advisory Board (FASAB) for the Federal Govt. and Governmental Accounting Standards Board (GASB) for state and local governments

Countries adopting IPSASs

- About 30 countries are adopting accrual basis IPSAS, including France, South Africa, Switzerland, Russia, Israel, Slovakia, Brazil
- Some adopt IPSASs directly (e.g. Switzerland, Slovakia)
- Some adopt IPSASs through national standards (e.g. South Africa, Brazil)
- Also sub-national governments are adopting IPSAS when the decentralized structure allows them to move independently – e.g. Prefecture of Tokyo, State of Hesse, State of Zurich
- Entire UN system, OECD, NATO, Interpol and EU
- UNDP adopted IPSASs in 2012

COUNTRIES WHICH HAVE ADOPTED

- Some start with the cash-based IPSAS and establish a plan to transition to accrual based IPSASs
- Others go straight to the accrual accounting IPSASs.
- First problem: how should IPSASs be adopted? What are the steps from cash to modified accrual to full accrual?

The scope of consolidation?

- IPSASs state all controlled entities should be consolidated.
- In practice, the governance structure is often unclear, but control still appears the best solution.
- Consolidation requires harmonized accounting policies, i.e. IFRS for government business enterprises.
- For entities applying the cash-basis IPSAS, consolidation of government business enterprises, which apply accrual accounting, is a challenging issue.

SWEDEN

- The most difficult issues have been asset recognition (infrastructure, military assets, intangible assets and heritage assets), taxes (full accrual since 2000), transfers (not finalized so far) and pensions.
- Capacity problems for training and consultation have been constraints in the implementation process.
- The IPSAS Handbook is not available in Swedish
- The IPSAS Handbook contains too much text for daily use
- Differences between accruals, budget and national accounts also create confusion

IPSASs based on IFRSs

- IPSASB develops accrual IPSASs that are converged with IFRSs
- IPSASB's main challenges are in dealing with public sector financial reporting issues that are either not comprehensively or appropriately dealt with in existing IFRSs or for which IFRSs have not been developed by the IASB.

Australia & New Zealand (1)

- **T**he first to introduce IFRS into local government financial reporting
- Time allocated to complying with external reporting requirements:
- - often considered excessive
- - not always relevant
- Perception: the bottom line is an important indicator of a council's performance
- Reinforced by media attention (often unwanted) as councils are rated on their ability to remain sustainable
- Implementation process: time-consuming and costly
- In general - very little perceived benefit

Australia & New Zealand (2)

- Some counties: the pain continues as different standards and related legislation are staggered in their implementation
- For the public sector, the concept of harmonisation is irrelevant:
- Subjectivity in relation to valuing and depreciating infrastructure made it too difficult to compare counties
- Suggestion: Australian standard for reporting via model financial statements be developed and implemented –
- To ensure that all states were at least reporting in a similar format
- Financial statements and related disclosures now over-complicated.

Australia & New Zealand (3)

- "… [we] only do IFRS reporting for compliance. Doesn't add any value"
- "… we now produce a monster which no one reads"
- "… we have moved too far away from the real reason for local government"
- Problems with depreciation: the effect additional depreciation (as a result of revaluation) had on the operating statement;
- There were problems with the reliability of information reported in regards to the infrastructure gap
- Valuing land under roads: an example of a standard that required a lot of effort yet the benefits to users of the financial report were not obvious

Australia & New Zealand (4)

- "We spend far too long complying rather than getting out and doing things … Implementing IFRS meant we incurred an extra cost for no active gain. We prepared the relevant financial statements purely for compliance. We have more people reporting what they do than people actually doing things."
- What is the best method for valuing assets in a public sector environment where there is no market value, e.g., roads and other infrastructure assets?
- How does one ensure valuations are undertaken with sufficient regularity to reflect the actual fair value of the assets?
- "… what does the value really mean if you are not going to sell it?"

Australia & New Zealand (5)

- Despite being a ‘not-for-profit’ entity, many local council interviewees considered that they were still judged on their bottom-line result rather than the excellence of service to the community.
- “councils consider they are moving away from the real reason of local government”
- The media was often seen to be to blame for this focus on the operating result. “…Ratepayers are easily influenced by bottom line and media reports”
- “If one were to do a cost/benefit analysis on this across all states, the findings could be distressing”

Conclusion

- Keep it as simple as possible
- Educate people in the media