



Mbaya & Associates

CERTIFIED PUBLIC ACCOUNTANTS (K)

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**IPSAS IMPLEMENTATION :
PRESENTATION TO ICPAK MEMBERS**

PRESENTED BY : CPA MIKE MBAYA

July, 2017

IPSAS Implementation

Topics to be covered:

1. Introduction to IPSAS
2. IPSAS adoption in the UN system
3. IPSAS accounting requirements
4. IPSAS impacts at the UN
5. UN 2013 financial statements
6. IPSAS going forward
7. IPSAS implementation in Kenya
8. Q & A

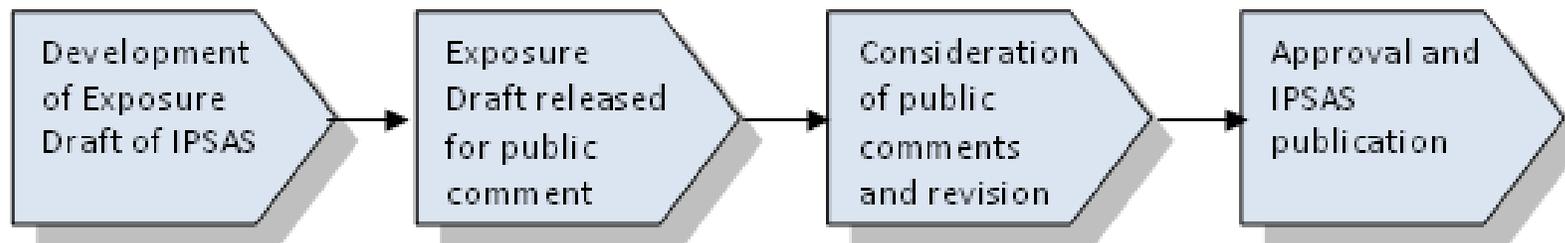
▶ 1. Introduction to IPSAS

International Public Sector Accounting Standards (IPSAS)

- ▶ Accounting standards which establish guidelines on how economic transactions and events should be reported in financial statements
- ▶ Currently 38 standards, with others in the pipeline
- ▶ Much more detailed than the previously applied United Nations System Accounting Standards (UNSAS)
- ▶ Do not directly impact the preparation and formulation of budgets

Preparation of IPSAS standards

- ▶ Specifically for the public sector, but largely based on International Financial Reporting Standards (IFRS)
- ▶ Prepared and adopted by an independent board (IPSASB), part of the International Federation of Accountants (IFAC)
- ▶ Transparent development process:



Application of IPSAS

- ▶ National Governments
- ▶ Current European Commission project (EPSAS)
- ▶ International organizations:
 - UN
 - NATO
 - EU

▶ 2. IPSAS adoption in the UN system

The decision to adopt IPSAS (1)



- ▶ Since 1993, UN system organizations were applying UNSAS when preparing their financial statements
- ▶ However, concerns were raised (both internally and by external auditors) that this did not represent best practice
- ▶ UN Task Force on Accounting Standards was commissioned to review the possible adoption of external accounting standards
- ▶ Review concluded IPSAS represented international best practice

The decision to adopt IPSAS (2)

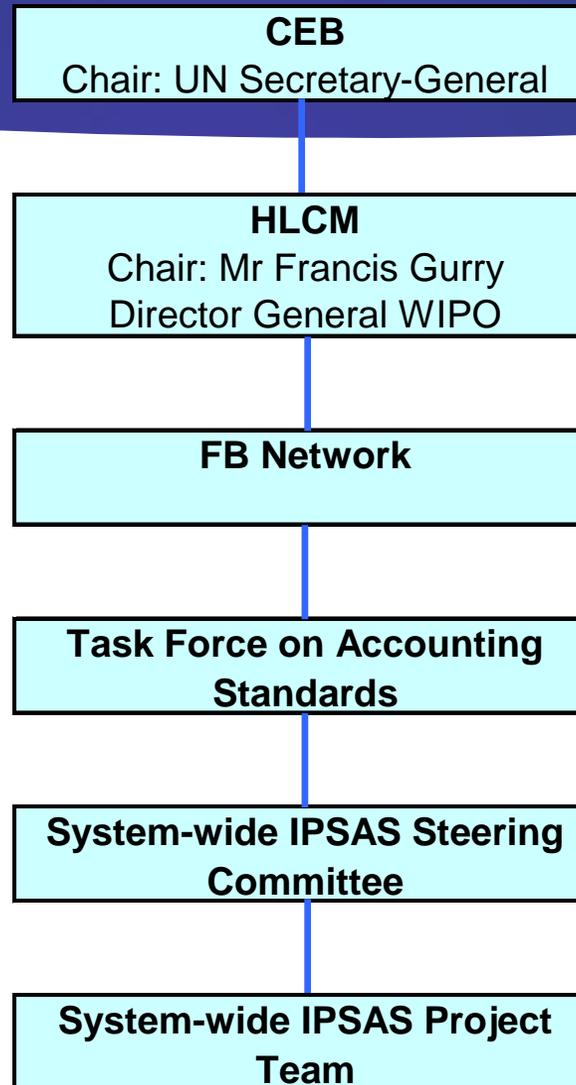
- ▶ November 2005: UN System High-Level Committee on Management (HLCM) recommend adoption of IPSAS by 2010
- ▶ April 2006: UN System Chief Executives Board for Coordination (CEB) endorse HLCM recommendation
- ▶ July 2006: UN General Assembly (resolution 60/283) approves the adoption of IPSAS by the United Nations
- ▶ September 2007: Assemblies of the Member States of WIPO approve the adoption of IPSAS by WIPO (A/43/5)



The expected benefits of IPSAS

- ▶ Improved **accountability** and **transparency** (greater detail and increased disclosure in financial statements)
- ▶ More **credibility** and **reliability** (independent standards, up to date with latest financial developments)
- ▶ **Harmonization, comparability** and **consistency** (within the UN System, with other international organizations, and over time)
- ▶ Improved **governance** – complete information on assets, liabilities, revenues and expense hopefully leads to better management of public resources.

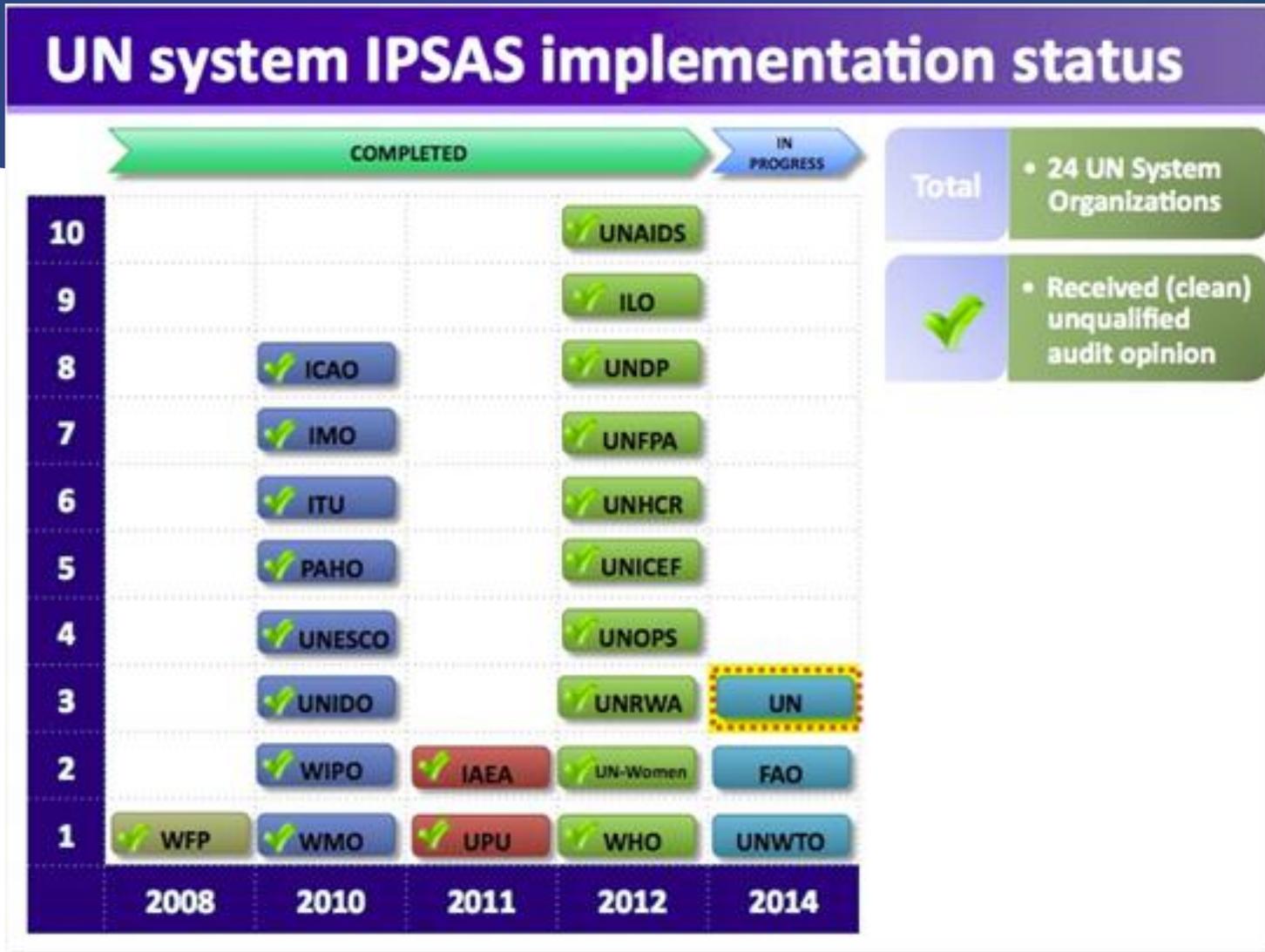
IPSAS System-wide Project Accountability Structure



Task Force and IPSAS Project Team

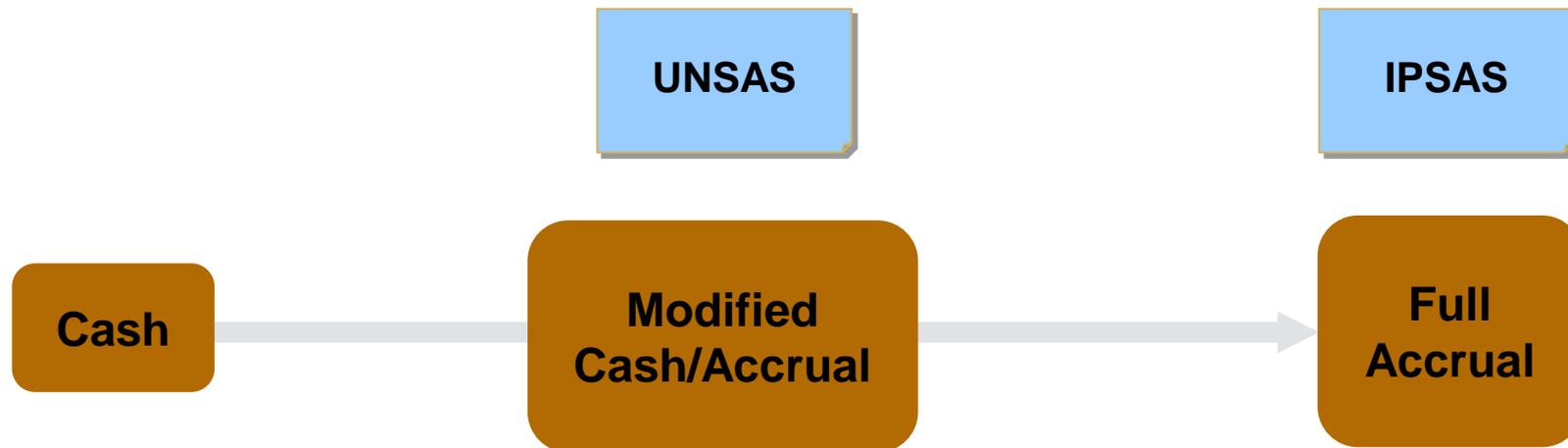
- ▶ 2 system-wide IPSAS meetings per year (one conference call, one face-to-face)
- ▶ Development of system-wide guidance papers
- ▶ Work towards harmonization of policies
- ▶ Observe the IPSASB and comment on exposure drafts and consultation papers
- ▶ Liaise with the Technical Group of the Panel of External Auditors

Implementation by UN System organizations



▶ 3. IPSAS accounting requirements

Change in the basis of accounting



Full accrual basis of accounting

- ▶ IPSAS 33 is the last stage of the adoption process
- ▶ IPSAS 33 applies from “date of adoption”
- ▶ Meets needs of both preparers and users of financial statements during “the transition period”
- ▶ Transition starting point may be reporting on:
 - ▶ – A cash basis
 - ▶ – An accrual basis under another reporting framework
 - ▶ – A modified version of either the cash or accrual basis of accounting

Full accrual basis of accounting

- ▶ how does IPSAS 33 help
 - ▶ Allows three years to recognise and/or measure specific assets, liabilities and revenues: which is ample time to develop reliable models for recognising and measuring assets and liabilities
 - ▶ Offers concessions related to certain aspects of consolidation
 - ▶ Addresses:
 - ▶ What to do when reliable historical cost information is not available
 - ▶ Presentation of comparative information in transitional financial statements

- ▶ Applies to entities:
 - ▶ In the transition period to full adoption of IPSASs; and
 - ▶ Claiming full IPSAS compliance for first time.
- ▶ Does not apply to:
 - ▶ Entities that have previously claimed full IPSAS compliance
 - ▶ Government Business Enterprises (GBEs).

Full accrual basis of accounting

- ▶ Annual periods beginning on or after 1 January 2017. Earlier application permitted.
- ▶ Transactions and events recognized when they occur and in the financial statements of the periods to which they relate
- ▶ Expenses - goods/services are recognized in the financial statements when they are delivered
- ▶ Revenue – fee income recognized when earned as services are rendered
- ▶ All assets and liabilities are recognized

Full accrual basis of accounting

- ▶ IPSAS 33 allows a first-time adopter to take advantage of certain exemptions that affect fair presentation and compliance with accrual basis IPSASs.
- ▶ If a first-time adopter takes advantage of the exemptions that affect the fair presentation and its ability to assert compliance with accrual basis IPSASs, it will not be able to make an explicit and unreserved statement of compliance with other IPSASs, during the period of transition.
- ▶ An entity will present its first IPSAS financial statements when it can make an explicit and unreserved statement of compliance with accrual basis IPSASs.
- ▶ A first-time adopter shall apply the requirements of the IPSASs retrospectively on the date of adoption of accrual basis IPSASs.

Full accrual basis of accounting

- ▶ An entity shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in IPSAS 33.
- ▶ Two types of exemptions:
 - ▶ Those that do affect fair presentation and compliance with IPSASs
 - ▶ Those that do not affect fair presentation and compliance
- ▶ While applying exemptions that affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSASs during the period of transition to accrual basis IPSASs, a first-time adopter will prepare transitional IPSAS financial statements.

Full accrual basis of accounting

- ▶ Exemptions that affect the fair presentation include a three year transitional relief period to, amongst others, the:
 - ▶ recognition and measurement of a wide range of assets and liabilities that were not previously recognized; e.g Assets: inventories, property, plant and equipment, investment property, biological assets, financial assets, service concession assets and intangible assets – Liabilities: financial liabilities, certain pension liabilities and employee benefit liabilities
 - ▶ elimination of balances, transactions, revenue and expenses between entities within the economic entity in its consolidated financial statements;
 - ▶ disclosure of related party relationships, related party transactions and information about key management.

Full accrual basis of accounting

- ▶ Exemptions that do not affect fair presentation of a first-time adopter's financial statements and compliance with accrual basis IPSASs include, amongst others:
 - ▶ determining a surrogate for acquisition cost or depreciated cost when reliable cost information about the historical cost of an asset is not available on the date of adoption of accrual basis IPSASs. The asset's fair value will be its deemed cost as determined on the specific date;
 - ▶ not presenting comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements;
 - ▶ not presenting segment information during a three year relief period.

Full accrual basis of accounting

- ▶ Disclosures should be made in the financial statements to assist users in tracking adoption progress and confirming a first-time adopter's accounting policies against the requirements in the applicable accrual basis IPSASs during the period of transition.
- ▶ A first-time adopter shall present a reconciliation of its net assets/equity, surplus or deficit in accordance with its previous basis of accounting to its opening balance at the date of adoption of IPSASs. The reconciliation explains the adjustments to the previously reported financial statements in each period when new items are recognized and/or measured in accordance with IPSAS 33.



Revenue recognition at the UN

- ▶ Fees for the processing of international applications (Patents, Trademarks, Industrial Designs) are recognized as revenue when services are performed – i.e. at the date of publication
- ▶ Part of revenues are only recognized as revenue when the conditions tied to the revenues are completed
- ▶ Leads to significant deferred revenue liabilities in the financial statements

Employee benefits at the UN

- ▶ The full liability for post-employment benefits is recognized (future payments for services already rendered)
- ▶ For the salaries and repatriation benefits, the Organization has an obligation to provide agreed benefits to current and former employees
- ▶ Use actuarial calculations to make an estimate of the cost of benefits that employees have earned
- ▶ Leads to significant employee benefit liabilities in the financial statements

Land and buildings at the UN

- ▶ Buildings in use as at 1/1/2010 were valued at deemed cost of construction less accumulated depreciation, and continue to be depreciated over useful lives
- ▶ New constructions since 1/1/2010 are capitalized at cost and are depreciated over useful lives
- ▶ New building site land is recognized at fair (market) value
- ▶ Madrid (Meyrin) building is classified as an investment property and held at fair value
- ▶ Acquired land surface rights (PCT building site) are treated as an intangible asset and amortized over rights period

Budget presentation in the financial statements

- ▶ Required to present a comparison of budgeted amounts and actual amounts on the budgetary basis
- ▶ Annual budgeted amounts required – biennial budget split into annual components
- ▶ As the budgetary basis (modified accrual basis) and the accounting basis (IPSAS full accrual basis) differ, a reconciliation of the two results for the year must be provided.

▶ 4. IPSAS impacts at the UN

IPSAS Opening balance adjustments

(in millions of Swiss francs)

1)	Recognition of land	28.6
2)	Recognition of buildings	122.9
3)	Revaluation of investment property	0.9
4)	Recognition of intangible assets	28.2
5)	Recognition of equipment	3.8
6)	Recognition of inventory	2.4
7)	Deferral of unearned revenue	-132.2
8)	Recognition of PCT receivables	11.5
9)	Recognition of allowance for doubtful debts	-7.3
10)	Recognition of employee benefit liabilities	-78.8
	Net impact of conversion to IPSAS as at January 1, 2010	-20.0

Other impacts

- ▶ Annual audit sign-off
- ▶ Update of accounting policies (Policy Guidance Manual)
- ▶ Internal processes – recording and tracking fixed assets, recognizing expenses
- ▶ IT system upgrades and developments (purchasing, e-procurement, asset management)
- ▶ Changes to financial regulations and rules
- ▶ Staff training and awareness
- ▶ Increased provision of information from HR, Buildings, Procurement, Publications ...

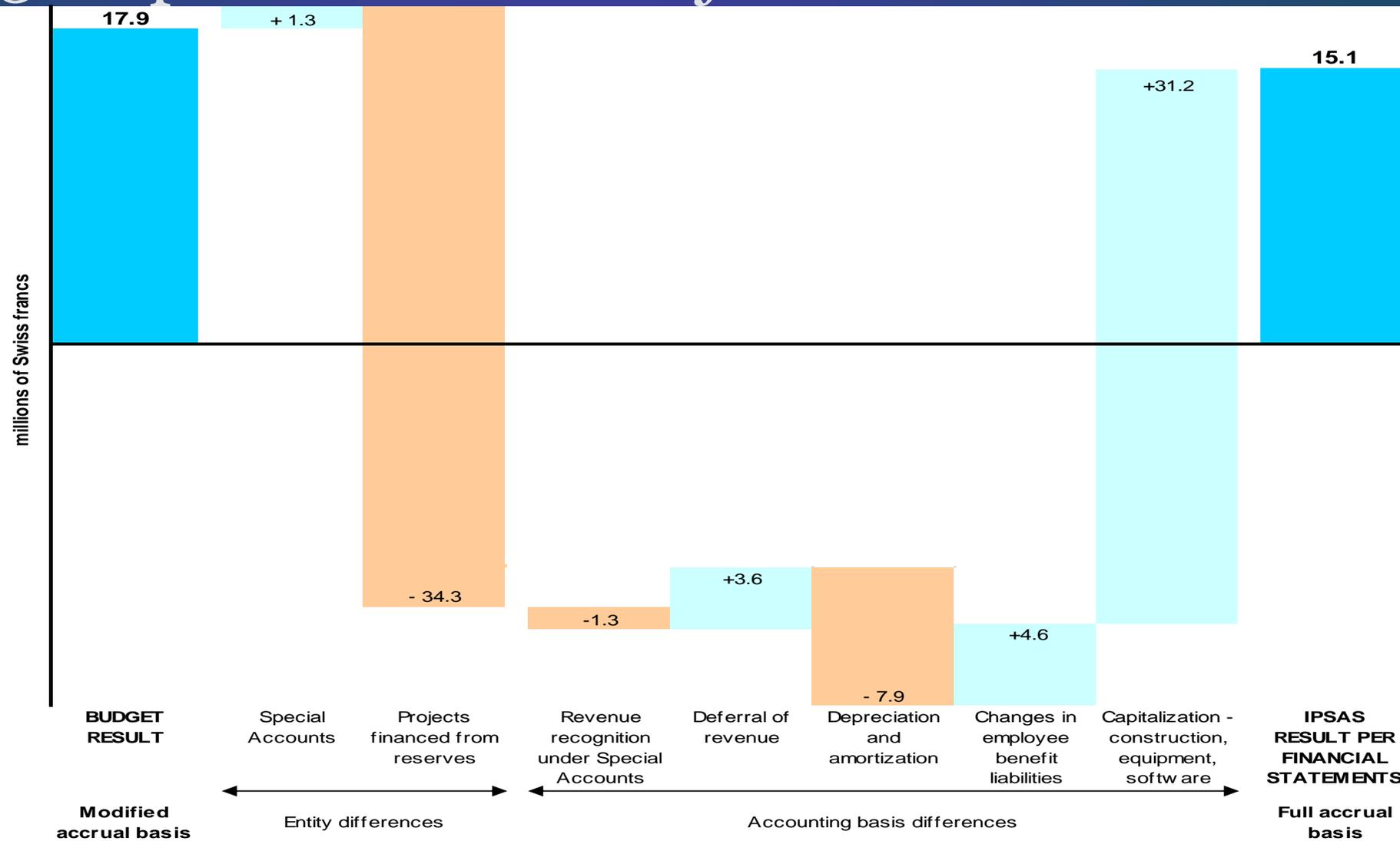
▶ 5. 2013 financial statements

2013 Statement of Financial Performance

	2013	2012 (restated)
REVENUE		
Assessed contributions	17,714	17,591
Voluntary contributions	7,550	7,737
Publications revenue	405	630
Investment revenue	2,080	1,804
PCT system fees	257,462	251,954
Madrid system fees	55,401	51,598
Hague system fees	3,202	3,036
Other fees	8	4
Sub-total fees	<u>316,073</u>	<u>306,592</u>
Arbitration and Mediation	1,629	1,643
Other/miscellaneous revenue	6,160	4,997
TOTAL REVENUE	<u>351,611</u>	<u>340,994</u>
EXPENSES		
Personnel expenditure	214,457	212,824
Travel and fellowships	20,500	17,586
Contractual services	65,017	54,975
Operating expenses	24,488	24,789
Supplies and materials	3,265	2,652
Furniture and equipment	859	577
Depreciation, amortization and impairment	7,893	8,104
TOTAL EXPENSES	<u>336,479</u>	<u>321,507</u>
SURPLUS/(DEFICIT) FOR THE YEAR	<u>15,132</u>	<u>19,487</u>



2013 Impact of IPSAS Adjustments

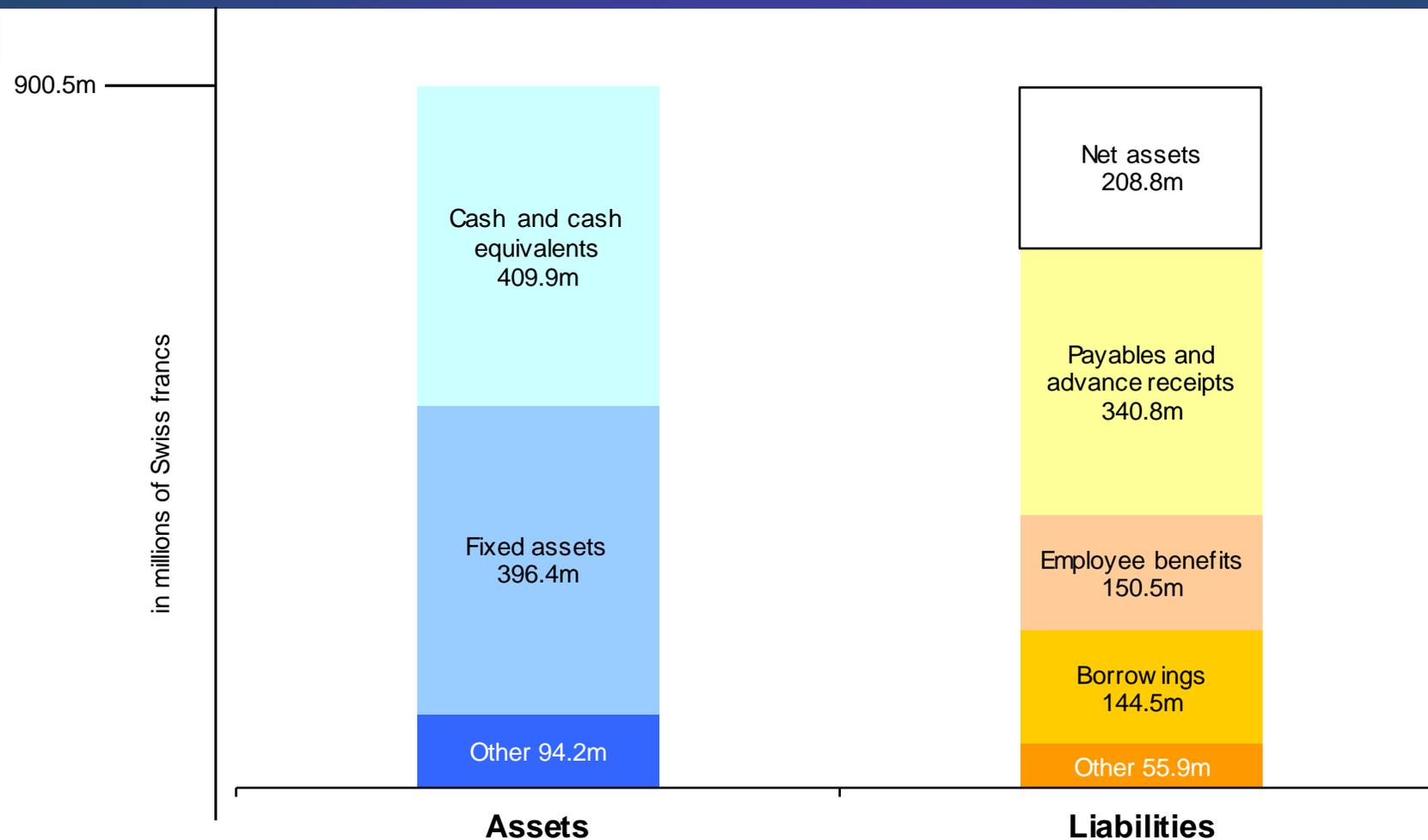


2013 Statement of Financial Position

	December 31, 2013	December 31, 2012 (restated)
ASSETS		
Current assets		
Cash and cash equivalents	409,916	408,117
Accounts receivable (non-exchange transactions)	2,677	1,430
Accounts receivable (exchange transactions)	79,749	74,711
Inventories	2,141	2,298
	<u>494,483</u>	<u>486,556</u>
Non-current assets		
Equipment	2,324	2,517
Investment property	4,785	4,785
Intangible Assets	29,161	27,394
Land and buildings	360,107	338,347
Accounts receivable (non-exchange transactions)	359	421
Other non-current assets	9,315	9,505
	<u>406,051</u>	<u>382,969</u>
TOTAL ASSETS	<u>900,534</u>	<u>869,525</u>
LIABILITIES		
Current liabilities		
Accounts payable	31,285	21,089
Employee benefits	17,538	17,672
Transfers payable	78,617	83,434
Advance receipts	229,101	221,100
Borrowings due within one year	5,258	5,258
Provisions	1,009	1,032
Other current liabilities	54,862	55,572
	<u>417,670</u>	<u>405,157</u>
Non-current liabilities		
Employee benefits	132,927	125,452
Borrowings due after one year	139,237	144,495
Advance receipts	1,881	734
	<u>274,045</u>	<u>270,681</u>
TOTAL LIABILITIES	<u>691,715</u>	<u>675,838</u>
Accumulated surplus	185,431	170,299
Working Capital Funds	8,342	8,342
Revaluation surplus	15,046	15,046
NET ASSETS	<u>208,819</u>	<u>193,687</u>



Summary - assets and liabilities 31/12/2013



Change in accounting policy (1)

- ▶ In 2013 the accounting policy relating to the recognition of revenue was changed:
 - ▶ New model developed to calculate balances of debtors and deferred revenue;
 - ▶ Incorporating available data by individual application (including all dates throughout the application process);
 - ▶ Reference to the applicable foreign currency exchange rates;
 - ▶ Revenue from the fees for extra pages is deferred until publication for all formats of application;
 - ▶ Inclusion of all fee reductions, including developing country reductions.

Change in accounting policy (2)

- ▶ Effect of change in accounting policy is recognized retrospectively, requiring restatement of 2011 and 2012 comparative numbers:

	As previously stated	Impact of restatement	Restated Total
	(in thousands of Swiss francs)		
Net Assets at December 31, 2011	162,529	11,671	174,200
Surplus for the year 2012	15,710	3,777	19,487
Net Assets at December 31, 2012	178,239	15,448	193,687

Cash and cash equivalents 31/12/2013

<u>Cash and Cash Equivalents</u>	December 31, 2013	December 31, 2012 (restated)
	(in thousands of Swiss francs)	
Total unrestricted cash	260,380	255,316
Total restricted cash - funds held on behalf of 3rd parties	133,479	139,006
Total restricted cash - Special Accounts	16,057	13,795
Total cash and cash equivalents	409,916	408,117

Fixed assets 31/12/2013

<u>Fixed Assets</u>	December 31, 2013	December 31, 2012
	(in thousands of Swiss francs)	
Equipment	1,720	1,905
Furniture and furnishings	604	612
Total equipment	2,324	2,517
Madrid Union Building	4,785	4,785
Total investment property	4,785	4,785
Land surface rights	26,450	26,890
Separately acquired software	518	460
Software under development	2,193	44
Total intangible assets	29,161	27,394
Land	28,600	28,600
Work in progress	57,668	32,008
Occupied buildings	273,839	277,739
Total land and buildings	360,107	338,347
Total fixed assets	396,377	373,043

Other assets 31/12/2013

<u>Other Assets</u>	December 31, 2013	December 31, 2012 (restated)
	(in thousands of Swiss francs)	
Accounts receivable (non-exchange transactions)	3,036	1,851
PCT debtors	62,399	52,729
Other debtors and prepayments	11,016	15,652
Advances	6,334	6,330
Accounts receivable (exchange transactions)	79,749	74,711
Other non-current assets	9,315	9,505
Total other assets	92,100	86,067

Payables and advance receipts 31/12/2013

<u>Payables and Advance Receipts</u>	December 31, 2013	December 31, 2012 (restated)
	(in thousands of Swiss francs)	
Trade creditors - Accounts payable	24,856	16,198
Miscellaneous transitory liabilities	4,342	2,935
Other trade creditors	2,087	1,956
Total accounts payable	31,285	21,089
Madrid Union Fees	53,286	54,200
Madrid Union deposits	17,938	17,548
Madrid and Hague Union Repartition Fees	4,468	212
Other transfers payable	2,925	11,474
Total transfers payable	78,617	83,434
PCT revenue deferred	194,943	189,799
Non exchange revenue deferred	15,144	12,471
Other deferred revenue	5,692	4,708
Madrid Union deposits	12,613	10,539
Other advance receipts	2,590	4,317
Total advance receipts	230,982	221,834
Total payables and advance receipts	340,884	326,357



Employee benefit liabilities 31/12/2013

<u>Employee Benefits</u>	<u>December 31, 2013</u> (in thousands of Swiss francs)	<u>Percentage of Liability</u>
Post-employment medical benefits	119,570	79.4%
Repatriation grant and travel	12,251	8.1%
Accumulated leave	12,176	8.1%
Closed pension fund	3,086	2.1%
Education grant	1,783	1.2%
Accrued overtime	755	0.5%
Home leave not taken	479	0.3%
Separation benefits - Special Accounts	240	0.2%
Performance rewards	125	0.1%
Total employment benefit liabilities	150,465	100.0%

Movement in ASHI liability

<u>Movement in ASHI Liability</u>	(in thousands of Swiss francs)
Liability as at December 31, 2012	110,937
Current service cost	7,556
Interest cost	2,864
Benefits paid from plan	-2,341
Amortization of net (gain) / loss	554
Movement 2013	8,633
Liability as at December 31, 2013	119,570

▶ Projected liability from actuary going forward:

- ▶ 2014: CHF 127.8m
- ▶ 2015: CHF 135.4m
- ▶ 2016: CHF 142.5m
- ▶ 2017: CHF 149.0m

Borrowings 31/12/2013

<u>Borrowings</u>	December 31, 2013	December 31, 2012
	(in thousands of Swiss francs)	
FIPOI Loan Payable	22,295	23,653
BCG/BCV New Building Loan Payable	122,200	126,100
Total borrowings	144,495	149,753

Reserves and fund balance

	December 31, 2012 (restated)	Program and Budget Surplus for the Year (before IPSAS adjustments)	Special Accounts Surplus for the Year (before IPSAS adjustments)	Projects Financed from Reserves (before IPSAS adjustments)	IPSAS adjustments for the year	Transfer to Accumulated surpluses	December 31, 2013
							(in thousands of Swiss francs)
Program and Budget surplus/(deficit) for the year	-	17,936	-	-	4,846	-22,782	-
Special Accounts surplus/(deficit) for the year	-	-	1,321	-	-1,321	-	-
Accumulated surpluses/(deficits)	170,299	-	-	-34,330	26,680	22,782	185,431
Working capital funds	8,342	-	-	-	-	-	8,342
Revaluation surplus	15,046	-	-	-	-	-	15,046
Net Assets	193,687	17,936	1,321	-34,330	30,205	-	208,819

New disclosures in 2013 financial statements

47

- ▶ Note 25 financial instruments – summary of risks (forex, credit, interest rate, liquidity) including sensitivity analysis
- ▶ Note 2 changes in accounting policies and estimates – details of impact of change in accounting policy, and explanation of presentation changes
- ▶ Financial statement discussion and analysis in line with IPSASB RPG2

▶ 6. IPSAS going forward

IPSAS issues/developments

Areas to be addressed/monitored going forward:

- ▶ IPSAS 28-30 Financial Instruments – accounting implications for any future hedging activity
- ▶ IFRS changes to accounting for employee benefits, removal of the corridor method
- ▶ Component accounting for the New Conference Hall
- ▶ Increasing guidance on narrative disclosures/reporting:
 - ▶ RPG 2: Financial Statement Discussion and Analysis
 - ▶ ED 54: Reporting Service Performance Information

Factors to consider when adopting IPSAS

- ▶ Political support from the executive and legislature
- ▶ Legal and regulatory factors- Does the law support the reforms?
- ▶ Systems and processes- Do the systems support the reforms?
- ▶ Skilled Staff/ Capacity building
- ▶ Change management and communication
- ▶ Impact of the reforms on the budgeting process e.g accrual accounting vs. cash budgeting.

IPSAS implementation Kenya

- ▶ Kenya has a two tier Government system. The National Government and the County Governments.
- ▶ IPSAS adoption in Kenya was spearheaded by the Public Sector Accounting Standards Board(PSASB). PSASB was established in 2014 in line with the Public Finance Management Act, 2012.
- ▶ PFM is a key chapter in the Constitution of Kenya, 2010, it governs the use of public finance in the National and County Governments
- ▶ Establishment of the PSASB as per section 192 of the PFM Act.
- ▶ The PSASB adopted the IPSAS Cash Standard for use in National Government Ministries and County Governments, IPSAS Accrual for Semi – Autonomous Government Agencies and IFRS for commercial State Corporations

IPSAS implementation in Kenya

- ▶ Gazettement of the prescribed standards in order to make them law.
- ▶ Capacity building- PSASB in conjunction with the National Treasury embarked on a series of workshops and on the job training program to the public sector accountants.
- ▶ Engagement of key stakeholders such as ICPAK to include IPSAS trainings in their programs
- ▶ A partner of the Financial Reporting Award organized by ICPAK as a way of creating IPSAS awareness within the public sector.
- ▶ Preparation of reporting templates which are in line with the IPSAS standards to harmonize reporting across board.

IPSAS implementation in Kenya

- ▶ • Capacity building conducted for the Office of the Auditor General on IPSAS.
- ▶ Inclusion of budgetary requirements in the PFMR budget to ensure that planned activities are carried out without delay.
- ▶ Collaboration with KASNEB to include IPSAS and PFM training in their CPA course content.
- ▶ Inclusion of non mandatory disclosures on fixed assets, investments, liabilities such as pending bills and loans in the standard reporting templates as they ground for IPSAS accrual implementation.

Implementation In Kenya

- ▶ Kenya has applied the prescribed standards for the last 3 years and has been able to consolidate Government wide financial statements since 2014.
- ▶ In addition, there is uniformity in reporting which has made audit by the office of the Auditor General easier and faster.

▶ 7. Q&A

THE END



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