# A Practical Guide to IPSAS Application

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# Topics to be covered

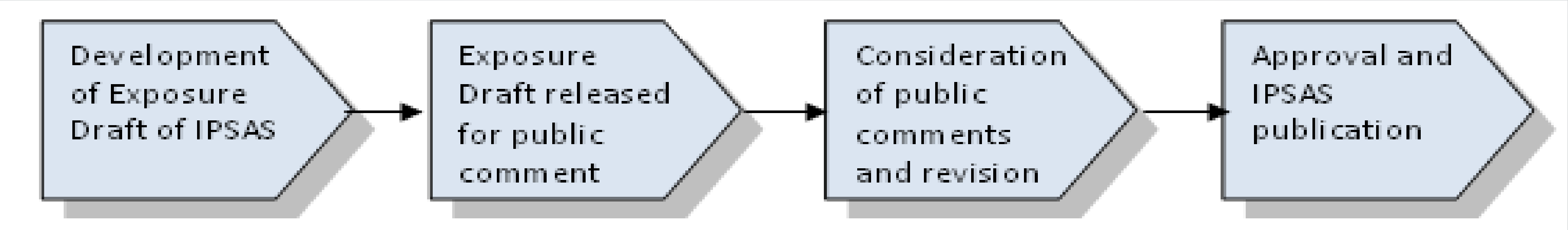
1. Introduction to IPSAS
2. IPSAS 1: Presentation of financial statements
3. IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors
4. IPSAS 6: Consolidated and Separate Financial Statements
5. Cash Basis IPSAS
6. Q & A

# Introduction to 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…
- IPSAS are developed by the IPSASB which is part of the International Federation of Accountants (IFAC)
- Much more detailed than the previously applied system of accounting in the government system.
- There is a need to train the preparers of financial statements in government to enable them be able to comply with the IPSAS requirements.

# 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:



# Who Is Trying to apply IPSAS

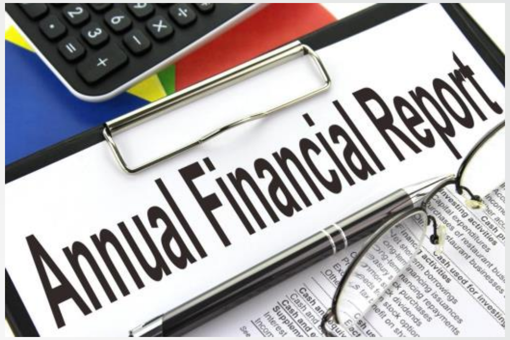
- National Governments & County Governments in Kenya
- Africa Union Members
  - South Africa
  - Kenya
  - Rwanda
  - Nigeria
  - Zimbabwe
- International Governments & organizations:
  - UN
  - EU
  - Asia Pacific

# IPSAS 1:
# Presentation of Financial Statements

- Effective date Annual periods beginning on or after January 1, 2008.
- Objective
  - To set out the manner in which general-purpose financial statements shall be prepared under the accrual basis of accounting, including guidance for their structure and the minimum requirements for content.
- Fundamental principles underlying the preparation of financial statements, including going-concern assumption, consistency of presentation and classification, accrual basis of accounting, and aggregation and materiality.
- A complete set of financial statements comprises:
  - Statement of financial position
  - Statement of financial performance
  - Statement of changes in net assets/equity
  - Cash flow statement
  - When the entity makes its approved budget publicly available, a comparison of budget and accrual amounts
  - Notes, comprising a summary of significant accounting policies and other explanatory notes

# IPSAS 1:
# Presentation of Financial Statements

- An entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes.
- Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS.
- Assets and liabilities, and revenue and expenses, may not be offset unless offsetting is permitted or required by another IPSAS.
- Comparative prior-period information shall be presented for all amounts shown in the financial statements and notes. Comparative information shall be included when it is relevant to an understanding of the current period's financial statements. If the case presentation or classification is amended, comparative amounts shall be reclassified, and the nature, amount of, and reason for any reclassification shall be disclosed.
- The statement of changes in net assets/equity shows all changes in net assets/equity.
- Financial statements generally to be prepared annually. If the date of the year-end changes, and financial statements are presented for a period other than one year, disclosure thereof is required.




# IPSAS 1:
# Presentation of Financial Statements

- Current/noncurrent distinction for assets and liabilities is normally required. In general, subsequent events are not considered in classifying items as current or noncurrent. An entity shall disclose for each asset and liability item that combines amounts expected to be recovered or settled both before and after 12 months from the reporting date, the amount to be recovered or settled after more than 12 months.
- IPSAS 1 specifies minimum line items to be presented on the face of the statement of financial position, statement of financial performance, and statement of changes in net assets/equity, and includes guidance for identifying additional line items, headings, and subtotals.
- Analysis of expenses in the statement of financial performance may be given by nature or by function. If presented by function, classification of expenses by nature shall be provided additionally.

# IPSAS 1:
# Presentation of Financial Statements

- IPSAS 1 specifies minimum disclosure requirements for the notes. These shall include information about:
  - Accounting policies followed
  - The judgments that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements
  - The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year
  - The domicile and legal form of the entity
  - A description of the nature of the entity's operations
  - A reference to the relevant legislation
  - The name of the controlling entity and the ultimate controlling entity of the economic entity

**An appendix to IPSAS 1 provides illustrative statements of financial position, statements of financial performance, and statements of changes in net assets/equity**

# IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors

- Effective date
  - Annual periods beginning on or after January 1, 2008.
- Objective
  - To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors.
- In the absence of an IPSAS that specifically applies to a transaction, other event or condition, management shall use judgment in developing and applying an accounting policy that results in information that is:
  - Relevant to the decision-making needs of users
  - Reliable, in that the financial statements:
    - ✓ Represent faithfully the financial position, financial performance, and cash flows of the entity
    - ✓ Reflect the economic substance of transactions, other events and conditions, and not merely the legal form
    - ✓ Are neutral, i.e., free from bias
    - ✓ Are prudent
    - ✓ Are complete in all material aspects

# IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors

- IPSAS 3 prescribes a hierarchy for choosing accounting policies:
    - IPSAS, taking into account any relevant implementation guidance.
    - In the absence of a directly applicable IPSAS, look at the requirements and guidance in IPSAS dealing with similar and related issues; and the definitions, recognition, and measurement criteria for assets, liabilities, revenue, and expenses described in other IPSASs.
    - Management may also consider the most recent pronouncements of other standard-setting bodies and accepted public and private sector practices.
- Apply accounting policies consistently to similar transactions.
- Make a change in accounting policy only if it is required by an IPSAS, or it results in reliable and more relevant information.

# IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors

- If a change in accounting policy is required by an IPSAS, follow that pronouncement's transition requirements. If none are specified, or if the change is voluntary, apply the new accounting policy retrospectively by restating prior periods. If restatement is impracticable, include the cumulative effect of the change in net assets/equity. If the cumulative effect cannot be determined, apply the new policy prospectively.
- Changes in accounting estimates (for example, change in useful life of an asset) are accounted for in the current period, or the current and future periods (no restatement).
- In the situation a distinction between a change in accounting policy and a change in accounting estimate is unclear, the change is treated as a change in an accounting estimate.
- All material prior-period errors shall be corrected retrospectively in the first set of financial statements authorised for issue after their discovery, by restating comparative prior-period amounts or, if the error occurred before the earliest period presented, by restating the opening statement of financial position.

# IPSAS 6 Consolidated and Separate Financial Statements

- Effective date
  - Annual periods beginning on or after January 1, 2008. IPSASs 34-38 (Interests in Other Entities) are effective for annual periods beginning on or after 1 January 2017, replacing IPSASs 6-8. Earlier application permitted.
- Objective
  - To prescribe requirements for preparing and presenting consolidated financial statements for an economic entity under the accrual basis of accounting. To prescribe how to account for investments in controlled entities, jointly controlled entities, and associates in separate financial statements.

# IPSAS 6 Consolidated and Separate Financial Statements

- A controlled entity is an entity controlled by another entity, known as the controlling entity. Control is the power to govern the operating and financial policies. Consolidated financial statements are financial statements of an economic entity (controlling entity and controlled entities combined) presented as those of a single entity.
- Consolidated financial statements shall include all controlled entities, except when there is evidence that:
  - Control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal within 12 months from acquisition
  - Management is actively seeking a buyer
  - No exemption for controlled entity that operates under severe long-term funds transfer restrictions. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other activities within the economic entity.

# IPSAS 6 Consolidated and Separate Financial Statements

- Balances, transactions, revenue, and expenses between entities within the economic entity are eliminated in full.
- Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
- Reporting dates of controlled entities cannot be more than three months different from reporting date of the controlling entity.

# IPSAS 6 Consolidated and Separate Financial Statements

- Minority interest is reported in net assets/equity in the consolidated statement of financial position, separately from the controlling entity's net assets/equity, and is not deducted in measuring the economic entity's revenue or expense. However, surplus or deficit of the economic entity is allocated between minority and majority interest on the face of the statement of financial performance.
- In the controlling entity's separate financial statements: Account for all of its investments in controlling entities, associates, and joint ventures either using the equity method, at cost or as financial instruments.

# Cash-Basis IPSAS — Financial Reporting under the Cash-Basis of Accounting

- Effective date
  - Periods beginning on or after January 1, 2009.
- Objective
  - To prescribe the manner in which general-purpose financial statements should be presented under the cash-basis of accounting to achieve transparency in the financial reporting of the cash receipts, cash payments, and cash balances of the governments.

# Cash-Basis IPSAS — Financial Reporting under the Cash-Basis of Accounting

- The IPSAS Board encourages governments to progress to the accruals basis of accounting.
- If a government uses the cash basis, IPSAS Board suggests the adoption of the cash-basis IPSAS Standard.
- Financial statements under the cash basis show the sources of cash raised during the period, the purposes for which cash was used, and the cash balances at the reporting date.
- The Standard consists of two parts. Part 1 sets out the requirements for reporting under the cash basis. Part 2 is not mandatory. It sets out encouraged additional disclosures.
- Financial statements under the cash basis consist of the following components: – Statement of cash receipts and payments – Accounting policies and explanatory notes – Comparison of original budget, revised budget, and actual amounts on a comparable basis (only when the entity makes publicly available its approved budget)

# Cash-Basis IPSAS — Financial Reporting under the Cash-Basis of Accounting

- When an entity elects to disclose information prepared on a different basis (e.g., modified cash, modified accrual, or full accrual) such information should be disclosed in the notes to the financial statements.
- A statement of cash receipts and payments recognises all cash receipts, cash payments, and cash balances controlled by the entity • Where a third party (e.g., a donor of external assistance or a higher level of government) directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in a separate column on the face of the statement of cash receipts and payments total payments made by third parties in a sub-classification appropriate to the entity's operations.
- Disclosure of third-party payments should only be made when the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment. • When the entity makes its approved budget publicly available, most of the requirements from IPSAS 24 apply, including an explanation of material differences between the budget and actual amounts and an explanation of whether differences between original and final budget are virements or other changes.

# Cash-Basis IPSAS — Financial Reporting under the Cash-Basis of Accounting

- The accounting policies and explanatory notes should include descriptions, detailed schedules, and analyses of amounts shown on the face of the statements.
- A controlling entity should issue consolidated financial statements which consolidate all controlled entities applying most of the requirements of IPSAS 6. When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than three months.
- Transactions should generally be accounted on a gross basis.
- Accounting on a net basis is allowed for special types of transactions, like administered and agency transactions, and items in which the turnover is quick, the amounts are large, and the maturities are short. • The standard requires disclosure of any cash balances held by the government at reporting date that are not available for use by the government or are subject to external restrictions.

# Cash-Basis IPSAS — Financial Reporting under the Cash-Basis of Accounting

- The standard requires disclosure of any undrawn borrowing and loan facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.
- The entity should disclose external assistance received in cash during the period, both in total and by significant classes of providers of assistance, showing separately external assistance received in the form of loans and grants.
- An entity should disclose the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions.
- An entity should disclose significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when noncompliance resulted in cancellation or an obligation to return assistance previously received.

# Cash-Basis IPSAS — Financial Reporting under the Cash-Basis of Accounting

- An entity should disclose the date when the financial statements were authorized for issue (the authorisation date) and who gave that authorisation. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.
- An entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by IPSAS 2 Cash flow statements.

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Q&A

# THE END