International Public Sector Accounting Standards (IPSAS) Workshop

Central Rift Branch

Transitioning to IPSAS Accrual

Friday, 28 July 2017

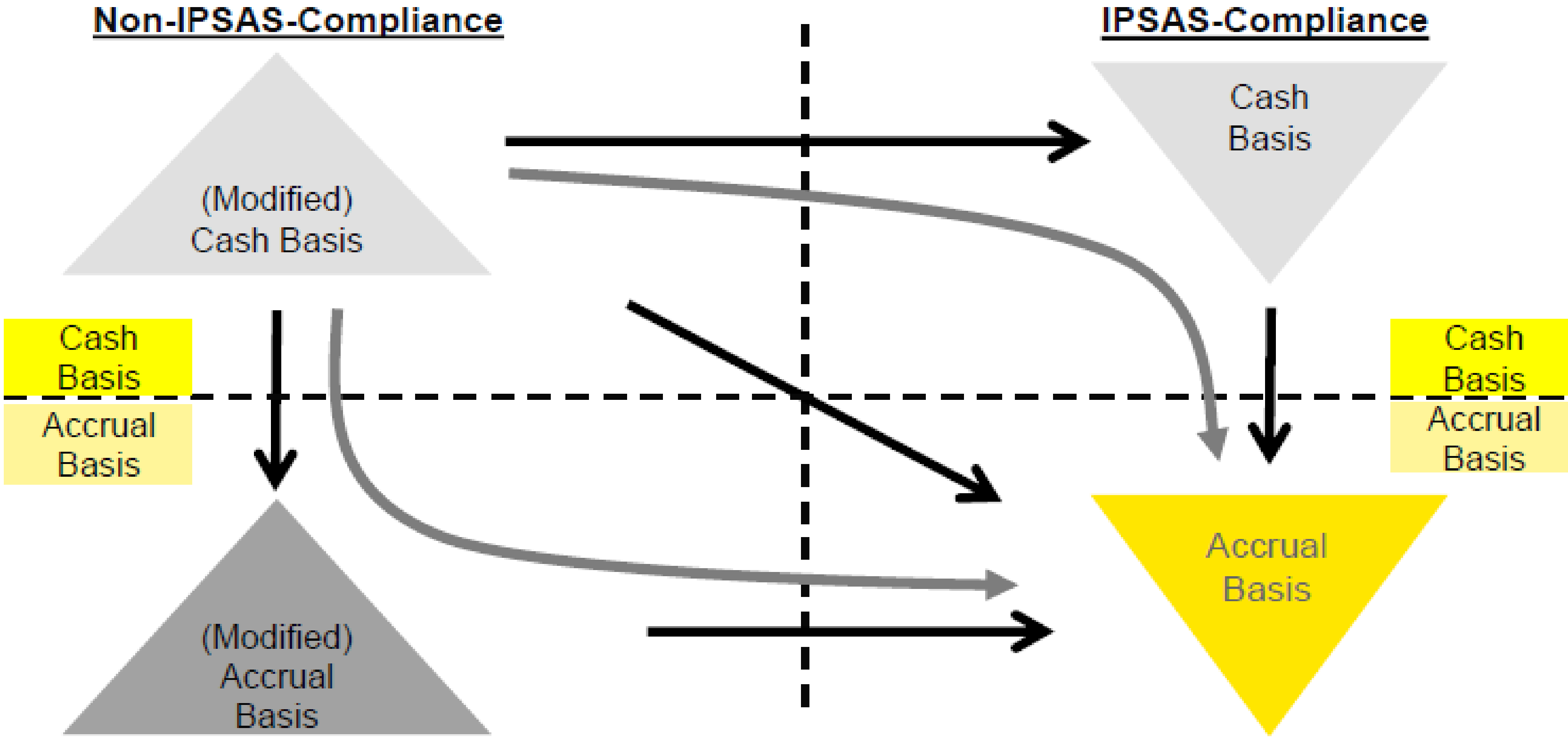
Learning Objectives

- Understand the need to transition to IPSAS Accrual ,benefits of IPSAS Accrual and the scope of IPSAS 33
- Explain the types of transitional exemptions
- Understand “deemed cost”
- Disclosure requirements

Outline

- Overview on IPSASB's Approach to First-time Adoption
- The Roadmap—What happens before IPSAS 33
- IPSAS 33—How it helps, and how it works
- Challenges of first-time adoption of IPSASs
- Lessons Learnt – Do's and Don'ts

Where are we?


Non-IPSAS-Compliance
IPSAS-Compliance
(Modified) Cash Basis
Cash Basis
Cash Basis
Accrual Basis
Cash Basis
Accrual Basis
(Modified) Accrual Basis
Accrual Basis

Cash vs Accrual?

- The government wants to build a bridge which will take two years to complete. The government pays the contractor 50 percent of the costs upfront and the remaining 50 percent on delivery.
- The bridge is expected to last 50 years and will cost KES 20 billion.
- How do you account under cash vs accrual?

Benefits of IPSAS Adoption

- Time and cost required for IPSAS
  - implementation are substantial –yes, but
  - returns are easily higher

- Returns on IPSAS investment:
  - Better accountability and decision making
  - Financial transparency; improves public trust
  - Identification of assets and liabilities; scope to improve their management
  - Better management of resources and leads to better public services
  - Ease of audit

What happens before IPSAS 33

- IPSAS 33 is the last stage of the adoption process
- IPSAS 33 applies from "date of adoption"
- You need a *road map* to reach that point

IPSASB's guidance for IPSAS adoption/ implementation

- Study 14, *Transition to the Accrual Basis*
  - Guidance for governments and government entities
  - Practically oriented («How to do it»)
  - Includes suggestions on project management
  - Non-authoritative (not an IPSAS)

- IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

Roadmap – what happens before IPSAS 33?

- Prepare for the transition to accruals IPSASs:
  - Policy and/or legislative reforms
  - Gap analysis –present versus future
  - Develop a plan –which entities affected, when, how
  - Resources required –people, systems, funding
  - Develop clear policies and processes

- Reach “date of adoption” and start applying IPSAS 33.

Objective

- To ensure that the first financial statements that use accrual IPSASs:
  - provides consistent, credible information;
  - provide transparent reporting about the transition to IPSASs;
  - provide a suitable starting point for compliance with IPSASs; and
  - are generated at a cost that does not exceed the benefits.

IPSAS 33 – How it helps

- Allows three years to recognise and/or measure specific assets, liabilities and revenues;
- Concessions related to certain aspects of consolidation; and
- Addresses-
  1. what to do when reliable historical cost information is not available; and
  2. presentation of comparative information in transitional financial statements

IPSAS 33 - Scope

- 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 Owned Enterprises (GOEs).~~

IPSAS 33 - When

- IPSAS 33 applies during “period of transition”-
  - From “date of adoption”—start of first accrual based IPSAS financial statements
  - To when entity first claims full compliance with IPSASs
- Entity can apply IPSAS 33 **exemptions** during “period of transition”

Exemptions

- Two types of exemptions:
  - Those that *do* affect fair presentation and compliance with IPSASs
  - Those that *do not* affect fair presentation and compliance

Exemptions (continued)

IPSAS 33	Effect	Statement of compliance	Type of FS
Transitional exemptions under IPSAS 33	that affect	No explicit and unreserved statement of compliance	Transitional IPSAS financial statements
	that do not affect	Make statement of compliance with accrual-based IPSASs	First IPSAS financial statements

Exemption (continued)

- Exemptions that affect the fair presentation include, the:
  - recognition and measurement of a wide range of assets and liabilities that were not previously recognized;
  - 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.

Exemptions (continued)

- Exemptions that do not affect fair presentation and compliance include:
  - Using **deemed cost** ("surrogate" for acquisition cost or depreciated cost at a given date) to measure assets and liabilities
    - Can use fair value (if historical cost information is unavailable) as proxy for cost
    - If using three year relief period, anytime during period
  - Comparative information not required, but present opening statement of financial position
  - Specific requirements for initial adoption for employee benefits, intangible assets, consolidated financial statements and joint arrangements
  - Segment reporting not required

Deemed costs (continued)

Asset category	Initial Measurement (First time adoption)	Initial Measurement (subsequent periods)	Subsequent measurement
Property, plant and equipment	Deemed cost – actual cost where historical records are available or Estimated fair value (applied retrospectively apart from impairment of non-cash generating assets)	Cost or Fair value if acquired in a non-exchange transaction	Cost less accumulated depreciation and impairment losses or Fair value at date of revaluation less subsequent accumulated depreciation and impairment losses
Inventories	Deemed cost – actual cost where historical records are available or estimated fair value (net realizable value / current replacement cost) (applied retrospectively)	Cost or Fair value if acquired in a non-exchange transaction	Lower of cost or net realizable value / current replacement cost.
Investment property	Deemed cost – actual cost where historical records are available or Estimated fair value (applied retrospectively apart from impairment of non-cash generating assets)	Cost or Fair value if acquired in a non-exchange transaction	Lower of cost or net realizable value / current replacement cost.
Agricultural produce	Fair value less cost to sell, at the point of harvest. (applied prospectively)	Fair value less cost to sell, at the point of harvest.	Generally accounted for as inventory—refer to IPSAS 12.

Using deemed costs

- A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:
  i. inventory (see IPSAS 12);
  ii. investment property, if the first-time adopter elects to use the cost model in IPSAS 16;
  iii. property, plant and equipment (see IPSAS 17);
  iv. intangible assets, other than internally generated intangible assets (see IPSAS 31)
  v. financial Instruments (see IPSAS 29); or
  vi. service concession assets (see IPSAS 32).

When is deemed cost determined?

- An entity makes a decision to adopt accrual basis IPSASs on 1 July 2017 but opts to adopt the transitional exemptions for its property, plant and equipment.
- Assuming that the full three year period is used, when is deemed cost determined?
- *Deemed cost may be calculated any time between 1 July 2017 and 30 June 2020. If however the entity does not intend to utilise the three-year exemption and to prepare its first IPSASs accrual basis financial statements for the year-ended 30 June 2018, then the deemed cost must be calculated as at 1 July 2017.*

Disclosures

- Disclosures during the transition period:
  - Explanation of transition to IPSASs
  - Reconciliations
  - Disclosures where deemed cost is used
  - Exemptions from disclosures in IPSASs

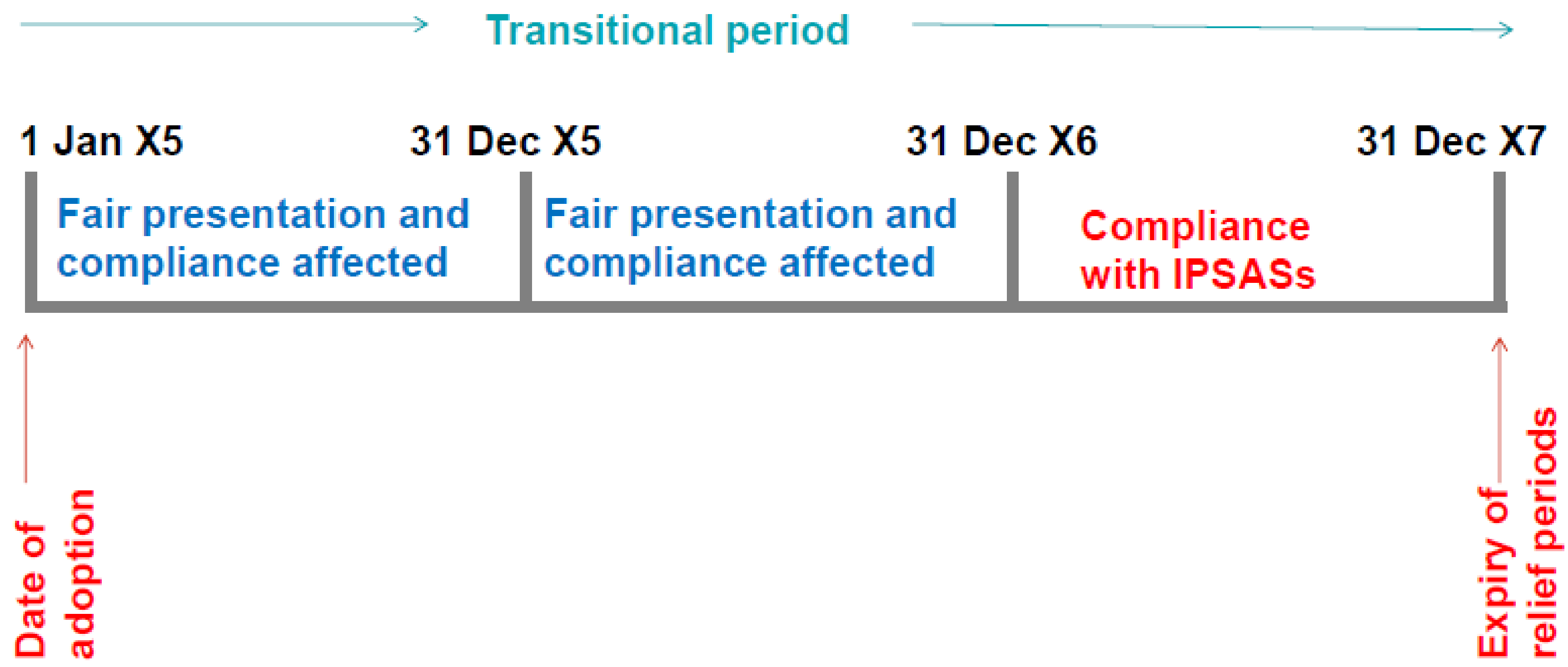
Illustration

- GoK initiated accounting reforms –relevant legislation issued and amended. Migrating from modified cash basis of accounting *[recognises only financial assets and financial liabilities]* to accrual basis. Developed plan, calls for full adoption by end 2017. Has started building models for the recognition of tax revenue, but data needs refinement. Has cost information for moveable assets. Had developed asset registers for immoveable assets, but has no cost information. Systems not well enough developed to provide asset and liability information for segments. Given lack of key data, adjustment of comparative information not possible.

Illustration (continued)

- Based on reform plan, and own circumstances, GoK intends to:-
  1. Take advantage of relief period offered in IPSAS 33 (maximum) 3 years:
     - 18 months for land and buildings.
     - 24 months for infrastructure.
     - 30 months for tax revenue.
  2. Use deemed cost for immoveable assets.
  3. To comply by 31 December 2017, date of adoption 1 January 2015.
  4. No comparative information.
  5. No segment reporting.

Illustration (continued)



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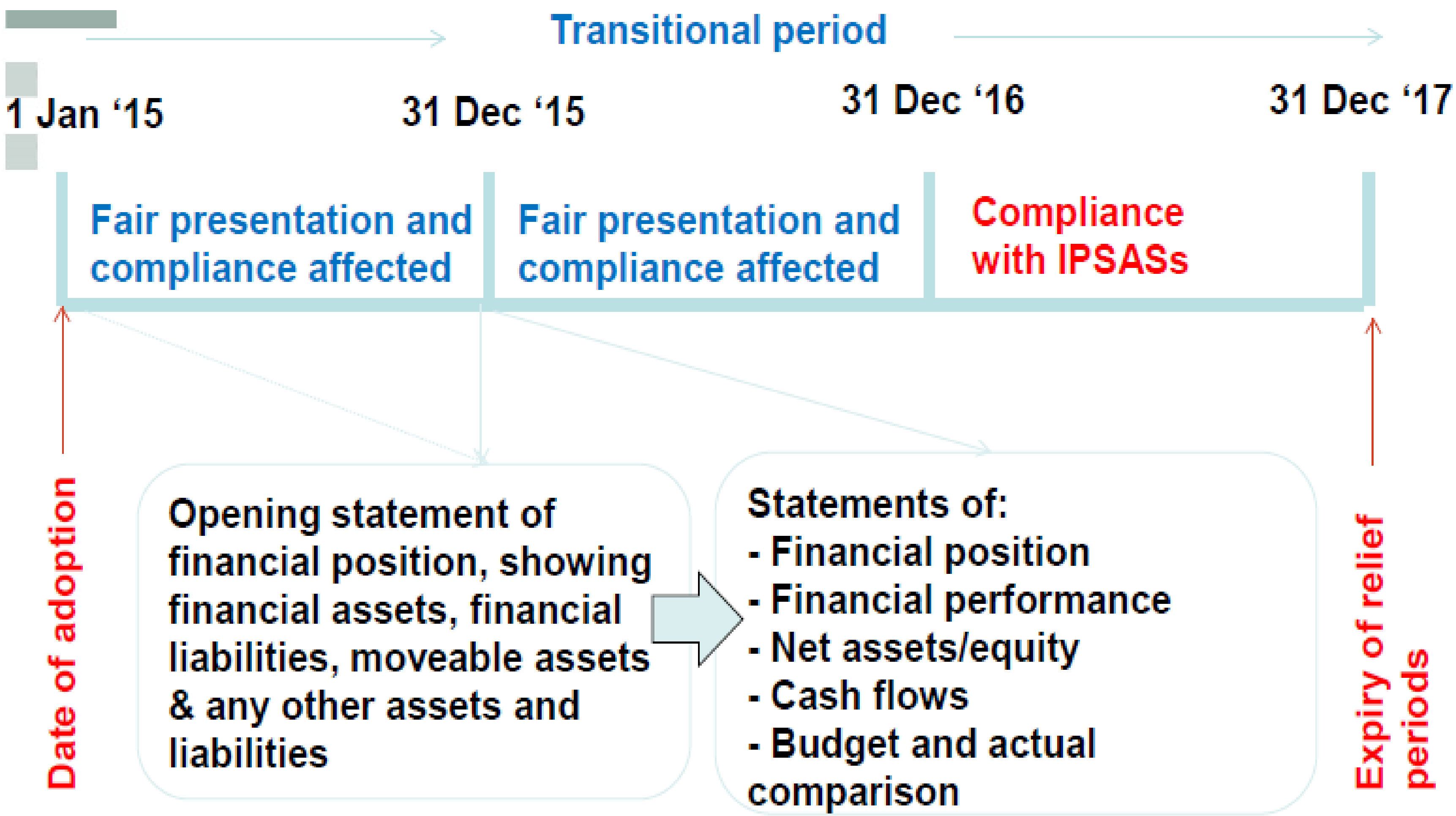

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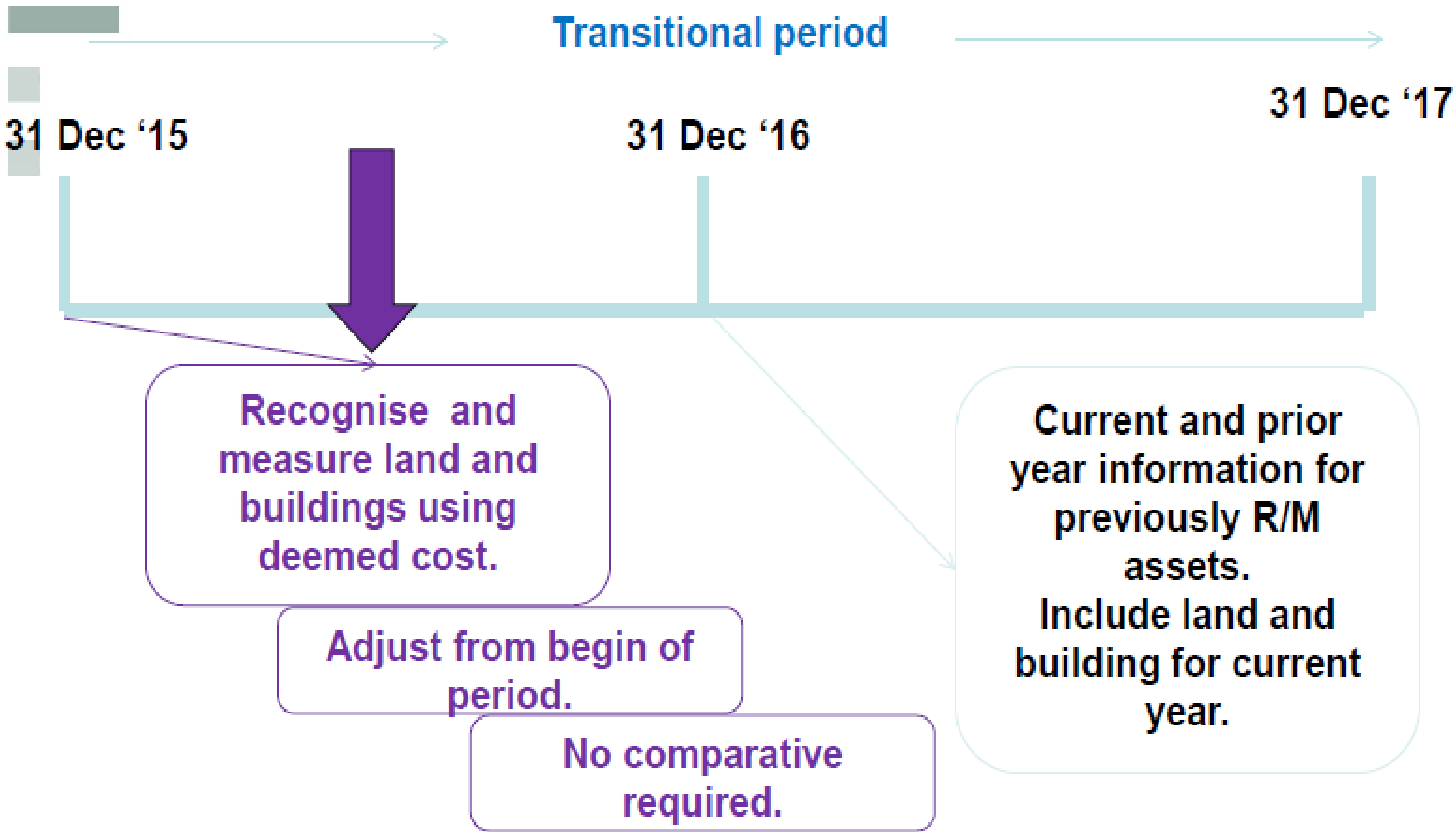


Challenges public entities are facing when converting to the IPSAS framework

Main Challenges

Change Management

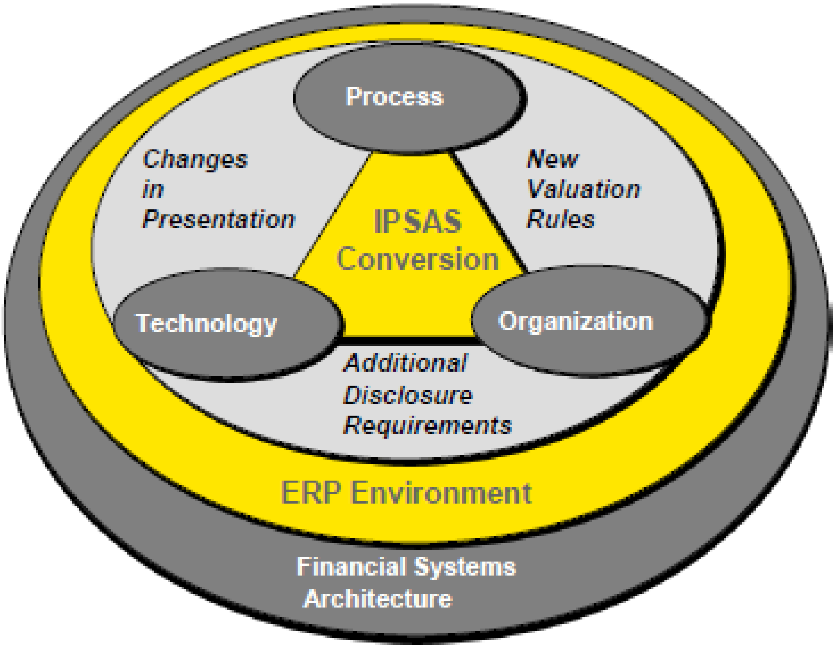
- Political/Executive support
- Climate of change, mind change for public officials
- Length of reform/"reform fatigue"
- Detailed time line missing

Resources

- Accrual accounting know-how/capacity building
- Staff capacities/skills for reform
- Time and costs associated with conversion substantial but often unclear

IT and Tools

- IT/ERP system implementation
- Impact of reform on the organisation, i.e. changes to processes and systems
- Registration and measurement of assets and liabilities/opening balance sheet
- Data quality and consistency



1. IPSAS conversion will impact all levels of accounting in an entity!
2. IPSAS conversions will impact several areas of the entity outside of the accounting function!
3. A top level conversion to IPSAS may not be sufficient

A possible conversion methodology

Identify
- Validate requirement
- Identify specific conversion issues
- Perform engagement-specific planning

Diagnose
- Conduct review of existing GAAP, IT and capacity assessment
- Evaluate impact on current state
- Generate and prioritize observations and next steps

Design
- Set up a road map
- Draft accruals-based GAAP
- Design new processes
- Develop a capacity-building strategy

Deliver
- Implement ERP-system
- Register and measure all assets and liabilities
- Perform trainings and briefings

Sustain
- Support continuous improvement

Close
- Close out engagement
- Assess team members' performance

Deliver
- Kick off engagement delivery
- Execute engagement plan
- Monitor engagement progress
- Complete execution of the engagement plan

Interactive Session