

# **THE 35<sup>TH</sup> ANNUAL SEMINAR**

**Theme: Africa's Value Addition for Global  
Competitiveness**

**Sarova Whitesands, Mombasa 20<sup>th</sup> – 24<sup>th</sup> May 2019**

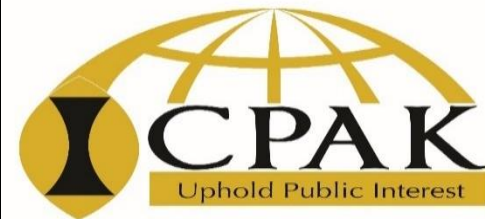


# **PROGRESS IN IPSAS AND E-GOVERNMENT ADOPTION: A COMPARATIVE REVIEW**

**CPA Andrew Rori  
Deputy Director  
Kenya School of Government**



# Agenda of the Presentation



- Introduction
- International Public Sector Accounting Standards (IPSASs)
- IPSAS Implementation - World wide
- IPSAS Implementation - Africa
  - ✓ IPSAS implementation case of Tanzania
  - ✓ IPSAS implementation case of Nigeria
  - ✓ IPSAS implementation case of South Africa
  - ✓ IPSAS implementation in Rwanda
  - ✓ IPSAS implementation in Kenya
- Lessons Learnt
- Overview of IPSAS updates



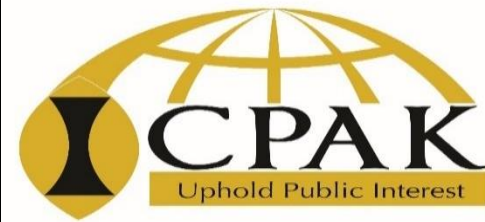
# Introduction



- IPSAS and e-government adoption underpins **quality** and **credibility** of financial reporting and public confidence
- Revolutionary change over the last 8 years in how and when financial information is **communicated**
- Global financial crisis has further triggered questions
  - **Relevance** of the accountancy profession
  - **Quality** of auditing – effectiveness, professional judgment, professional skepticism
- Increased complexity in financial reporting and global business activity has increased users' need for more information



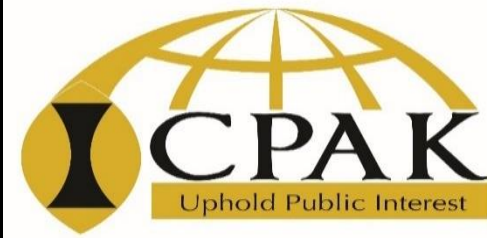
# International Public Sector Accounting Standards (IPSASs)



- IPSASs are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.
- These standards are to be applied by central government, local government, and controlled entities with non-market activities.
- IPSASs are widely considered best accounting practice for public sector organizations, as they improve the quality of financial reporting .



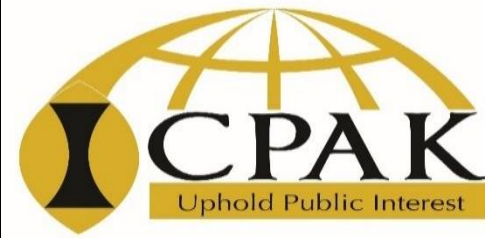
# International Public Sector Accounting Standards (IPSASs)



- There are two types of the IPSAS Standards.
  - ✓ The **cash IPSAS standard** allows for accounting of financial receipts, payments and balances under the cash basis of accounting.
  - ✓ **IPSAS Accrual Standards** focus on revenue, cost, liability and equity instead of cash flow only. Currently IPSAS accrual standards run to IPSAS 42 (issued January 31, 2019 Comments on the ED 67 are requested by 31 May 2019).
- IFRS – Applied by GBEs – Currently IFRS 17 (issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021)



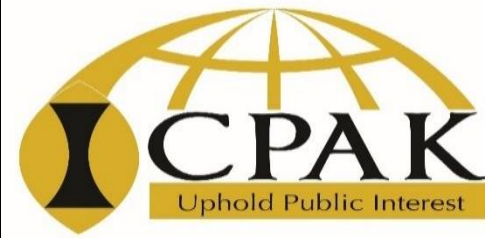
# International Public Sector Accounting Standards (IPSASs)



- There are two approaches to adoption of IPSAS:
  1. Big bang Approach
  2. Phased approach
- Phased approach is more advisable where both adoption of IPSAS and consolidation of Government wide financial statements are done in phases.



# International Public Sector Accounting Standards (IPSASs)



- Under the process of IPSAS adoption, it's important for the implementers to:
  1. Identify areas of priority- e.g. begin with voted entities.
  2. Identify control of the national government on other levels of government and government owned entities(Control as laid out in IPSAS 35)
  3. Piloting of IPSAS adoption could also be considered- Consider to apply simpler standards first before moving on to the complex ones.



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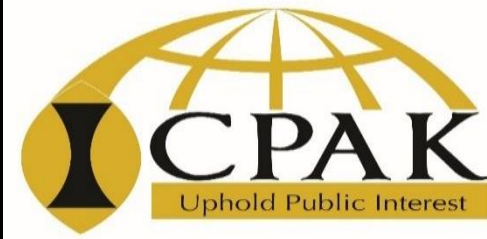
# IPSAS Implementation

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*Extent of IPSAS application in Government*



# Public Sector Accounting – Rest of the World

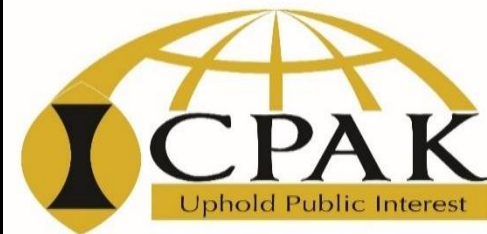


Countries that have implemented IPSAS or comparable standards around the World include:

- New Zealand: adopted IPSAS in 2014 – with some exceptions; previously IFRS
- Switzerland and Austria: Introduced IPSAS – with some exceptions
- UK and Australia adopted IFRS – with some enhancements
- USA follows national standards that are broadly consistent with IPSAS
- Good progress have been noted in Brazil, Chile, Indonesia, Israel, Korea, Malaysia and Philippines.
- **European Public Sector Standards (EPSAS)**



# Public Sector Accounting in Africa

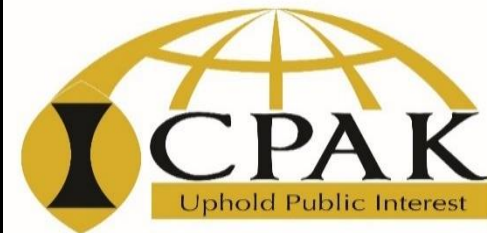


## IPSAS Implementation – early 2010s





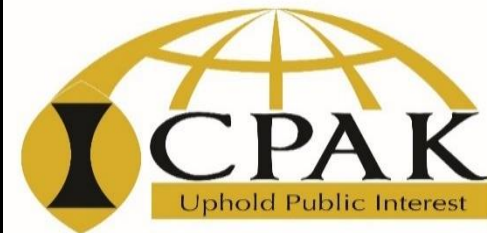
# Public Sector Accounting in Africa



Country	Previously reported		December 2018 status		Forward looking
	Other national standards*	Intention to converge with IPSAS	Cash IPSAS/Similar basis	Accrual IPSAS/Similar basis	5 year plan announced
Botswana					X
Cameroon					X
Congo					
Democratic Republic of Congo					
Equatorial Guinea					
Gabon					X
Ghana					
Ivory Coast					X



# Public Sector Accounting in Africa

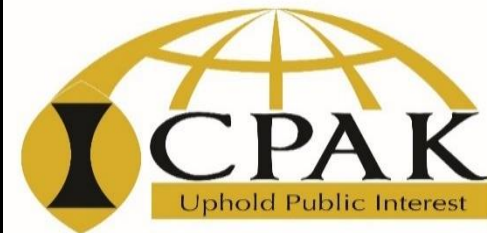


Country	Previously reported		December 2018 status	
	Other national standards*	Intention to converge with IPSAS	Cash IPSAS/Similar basis	Accrual IPSAS/Similar basis
Kenya				
Madagascar				
Malawi				
Mauritius				
Mozambique				
Namibia				
Nigeria				
Rwanda				
Senegal				

Forward looking
5 year plan announced
X
X
X
X



# Public Sector Accounting in Africa

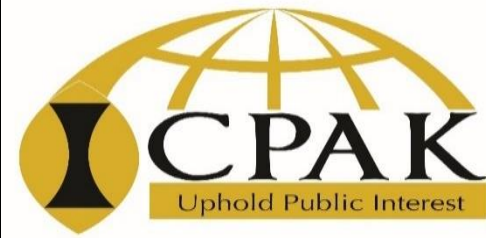


	Previously reported		December 2018 status	
Country	Other national standards*	Intention to converge with IPSAS	Cash IPSAS/Similar basis	Accrual IPSAS/Similar basis
Seychelles				
South Africa				
Tanzania				
Uganda				
Zambia				
Zimbabwe				

Forward looking
5 year plan announced
X
X
X
X



# Public Sector Accounting in Africa



## IPSAS Implementation-case of Tanzania

IPSAS Accrual implementation in Tanzania took the following steps:

- Establishment of the Task Force which spearheaded the reforms - roadmap or action plan, Capacity building to the task force on IPSAS related issues and other stakeholders.
- Obtaining political will and support through sensitization and capacity building to Parliamentary Oversight Bodies i.e. PAC
- Training to Accounting Officers on the whole process of migration to IPSAS Accrual Basis of accounting and training to preparers of financial statements
- Discuss and agreeing the roadmap with the Controller and Auditor General

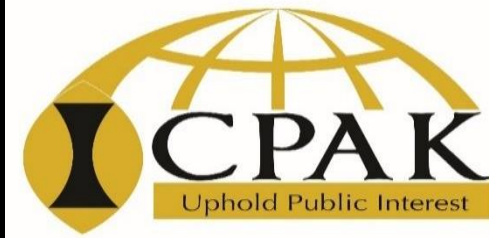


## IPSAS Implementation-case of Tanzania

- Preparation of the opening balance sheet which was submitted to the CAG for verification and authentication of the figures to be used
- Developing the accounting policies to be used by all the entities.
- Upgrading of Integrated Financial Management System to accrual based transaction
- Preparation of accounting manual for procedure guidance
- Upgrading of Chart of Accounts and GFS code from 1986 GFSM to 2001 GFSM currently the task force is upgrading the Chart of Accounts and GFS code to suit new IMF GFS Manual i.e. 2014
- Amendment of Laws governing Public Finance Management.
- Prepared and submitted the consolidated financial statements for the year ended 30th June, 2014 to the Controller and Auditor General .



# Public Sector Accounting in Africa



## IPSAS Implementation-case of Tanzania

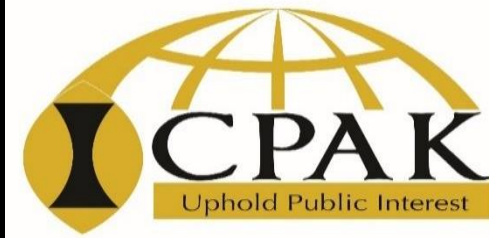
- The Government through Government Asset Management Department is continuing with the process of identifying and valuing assets for the purpose of producing asset register.
- Continuous review of roadmap and update it accordingly to ensure that there is no backlog in implementation process.

### CHALLENGES IN IMPLEMENTATION

- Legal framework – initial Inconsistencies between Public Finance Act, Public Audit Act and Local Government Finance Act.
- System & procedures –Accounting manual not in place differences in SCOA
- Consolidation – Inter-entity balances
- Inadequate technical skills – skilled accountants numbers



# Public Sector Accounting in Africa



## IPSAS Implementation-case of Nigeria

- Nigeria began its IPSAS adoption journey as far back as 2010
- Federation Account Allocation Committee (FAAC) sub-committee developed an IPSAS Roadmap to guide the process. This included, inter-alia, implementation of a National Chart of Accounts.
- Approved that all Public Sector Entities in all three tiers of government begin implementation of Cash and Accrual IPSAS by 1 January 2014 and 1 January 2016 respectively
- Various publications issued including Accrual Accounting Manuals, and several training interventions
- FAAC Sub-committee on IPSAS carried out a monitoring and evaluation review, in the form of a survey, in June 2016 to evaluate progress

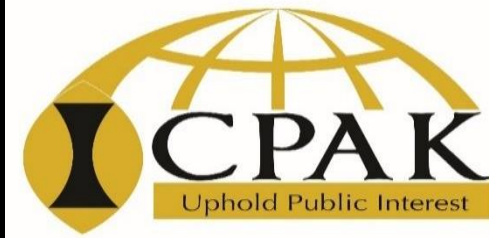


## IPSAS Implementation-case of Nigeria

- Progress to-date as at 31 Dec 2018:
  - ✓ Federal Government has been preparing IPSAS financial statements since 2016. However, media reports indicate that the audit outcomes have not been favourable.
  - ✓ While there has been reasonable success with a good number of states having implemented IPSAS Accrual in the last few years, Local Government appears to be lagging behind with relatively few Local Councils being considered IPSAS compliant in line with the original prescribed timelines.
  - ✓ The FAAC continues its efforts to embed the reform across all entities.



# Public Sector Accounting in Africa

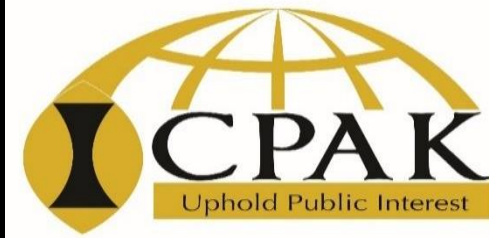


## IPSAS Implementation-case of South Africa

- South Africa was one of the pioneer country's that began implementation of IPSAS across the public sector in 2002. The country has implemented IPSAS accrual (with local amendments) successfully across Local government, Agencies and Parliament whereas Modified cash basis is still being applied in Ministries.
- Public sector entities apply the following recognised frameworks:
  - ❖ **Standards of Generally Recognised Accounting Practice (i.e. "Standards of GRAP")**
    - ✓ Developed and issued by the South African Accounting Standards Board, IPSAS-based
    - ✓ Currently used by all public sector entities (except for Departments and certain SOEs) at National, Provincial and Local Government (including municipalities)



# Public Sector Accounting in Africa



## IPSAS Implementation-case of South Africa

### ❖ **Modified Cash Standards**

- ✓ Developed and issued by the Office of the Accountant-General, within National Treasury
- ✓ Not identical to Cash IPSAS, but covers most of those requirements (and more)
- ✓ Includes “secondary disclosures” notes that provide accruals-based information
- ✓ The secondary disclosures form part of the audited financial statements, a step closer to accrual accounting.
- ✓ Plan is for Departments to eventually also transition to Standards of GRAP

### ❖ **IFRS**

- ✓ Limited to certain types of entities with a commercial objective, financial institutions or entities with listed equity



## IPSAS Implementation-case of Rwanda

- Since 2006, the Government of Rwanda (GoR) has been using modified cash basis IPSAS for reporting and consolidation for general government entities.
- The following are the modifications to cash basis:
  - ✓ Prepaid expenditure/advances are treated as receivables;
  - ✓ Commitments which are outstanding on the date of the closure of the fiscal year are recognized as accounts payable for that specific fiscal year;
  - ✓ Income earned but not yet received at the end of an accounting period is recognised as accounts receivable;
  - ✓ Loans and advances are recognized as income at the time of disbursement and are expensed at the time of payment. However, interest payable on public debt is accrued;



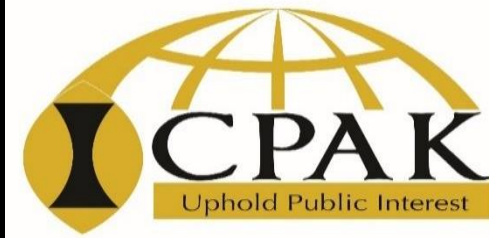
## IPSAS Implementation-case of Rwanda

GoR made the following steps towards adoption of accrual IPSAS:

- The Identification of gaps against IPSAS standards and monitoring of progress against the cash basis commenced in 2012/13 with technical assistance (TA) from East AFRITAC – East Africa Regional Technical Assistance Centre.
- A high level IPSAS implementation roadmap developed with a technical assistance (TA) mission from East AFRITAC of the IMF in 2015. The road map requires full compliance to IPSAS accrual basis by 30 June 2022.



# Public Sector Accounting in Africa



## IPSAS Implementation-case of Kenya

- The constitution of Kenya (Chapter 12) provides the foundational and overarching framework for public financial management
- **Article 226(1)(a)** exclusively provides that an Act of Parliament shall provide for the **keeping of financial records and the auditing of accounts** of all governments and other public entities, and prescribe other measures for securing efficient and transparent fiscal management
- Sec. 192 of PFMA 2012 establishes the **PSASB** and mandates it to provide frameworks and set generally accepted standards for development and management of accounting and financial systems by all state organs and public entities
- Section 81(3) and 83(2)(b) requires Accounting officers of **National Government entities prepare annual and quarterly financial reports** according to standards prescribed by PSASB

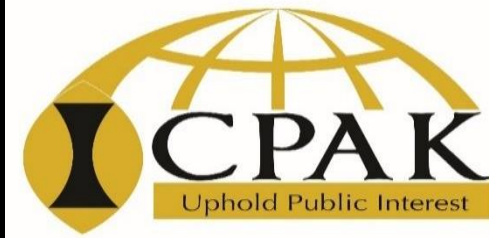


## IPSAS Implementation-case of Kenya

- Section 164(1) and 166(1) of the PFM Act requires Accounting officers of a **County Government entity prepare annual and quarterly financial reports** according to standards prescribed by PSASB
- Sections 82 and 165 provides for similar requirements for **receivers of revenues** for both National and County Government entities respectively
- **Gazette Notice No 5440** - all Accounting officers to comply with directive and provides for the development of Standard Templates for ease of conformity and compliance



# Public Sector Accounting in Africa



## IPSAS Implementation-case of Kenya

- The PSASB **adopted** the financial reporting standards applicable to public sector entities as follows:
  - ✓ National & County Governments –IPSAS Cash basis of accounting;
  - ✓ Semi Autonomous Government Agencies (SAGAs) – IPSAS accrual; and
  - ✓ State Corporations (Commercial) – IFRS
- 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 KASNEB, ICPAK and Kenya School of Government (KSG) to include IPSAS trainings in their programs



## IPSAS Implementation-case of Kenya

- Uniformity in reporting which has made audit by the office of the Auditor General easier and faster.
- Progressively closing the gaps in Cash Based IPSAS
- Originally all government MDAS were to migrate to accrual by **30/06/2017 now anticipated implementation over 3 years from July 2019 onwards – risk of modified approach**
- The Department of National Assets and Liabilities Management (NALM) established in the National Treasury - **Policy framework on assets and liabilities**
- Cabinet memorandum on moving from **cash to accrual** required
- Entities are required to **disclose** all assets and liabilities



# Key observed challenges

## Overview of challenges identified



1

### Human Capital

Shortage in supply of qualified experienced accrual accounting calibre. Higher remuneration to retain such calibres



2

### System Enablement, Fixed Assets and Funding

- Challenge for decentralized IT systems across
- Spread-out fixed assets
- absence of adequate government budget allocation.



3

### Change Management

Hesitation from current employees to adopt the change



4

### Adoption of Standard Accounting Framework

Direct adoption of global framework may not address all the needs of a government based on its activities, or culture.



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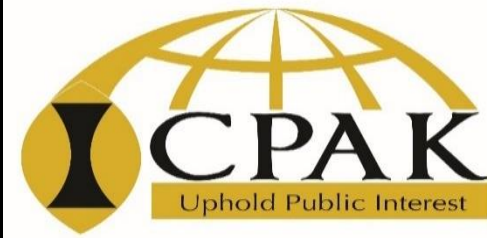
### Project Management

Supervision across all governmental entities during the implementation.





# Lessons Learnt



**The following are some of the lessons learnt out of the experiences from African countries:**

- Development of legal framework
- Adoption of appropriate financial information system
- Development of an asset register before full implementation is crucial
- Valuation of assets is a challenges world-over
- Implementation of processes and policies to deal with transactions undertaken after the initial adoption of the standards.
- Communication and change management
- Political will and support
- Capacity building

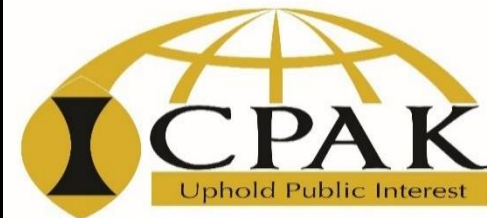


# IPSAS Update

Courtesy of IPSASB



# Current IPSASB work programme



## 2 IPSAS approved

- Financial Instruments – IPSAS 41
- Social Benefits - IPSAS 42
- plus 'Improvements to IPSAS'

## 3 Exposure Drafts

- Social Benefits (ED 63)
- Leases (ED 64)
- Collective & Individual Services & Emergency Relief (ED 67)
- plus 'Improvements to IPSAS' (EDs 65 & 66)

## Consultation Paper

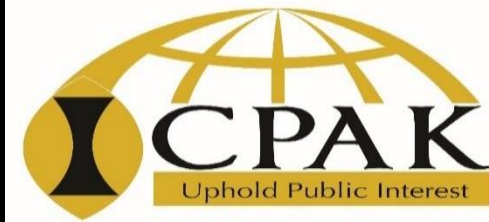
- 2019-23 Strategy and Work Plan

....and considerable work on:

- Revenue
- Grants and Transfers (Expense)
- Public Sector Measurement



# Delivering a challenging Work Plan: Strong progress during 2018

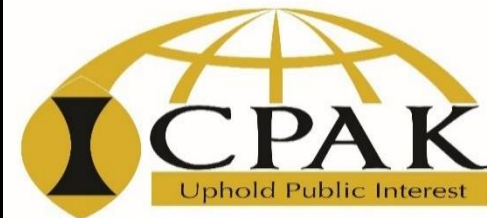


Project	Public sector specific	IFRS alignment
Non-Exchange Expenses -Collective and Individual Services (IPSAS 19 amends) - Grants and transfers	ED 67 ✓	✓
Revenue -IFRS 15 alignment (replacing IPSAS 9 & 11) - IPSAS 23 update -Grants and transfers (guidance location TBD)	✓ ✓ ✓	✓ ✓
Financial Instruments (Public Sector)	✓	IPSAS 41
Leases	✓	✓
Public Sector Measurement	✓	✓
Heritage	✓	
Infrastructure Assets	✓	

Courtesy of IPSASB



# IPSASB work programme: December 2019 projected position

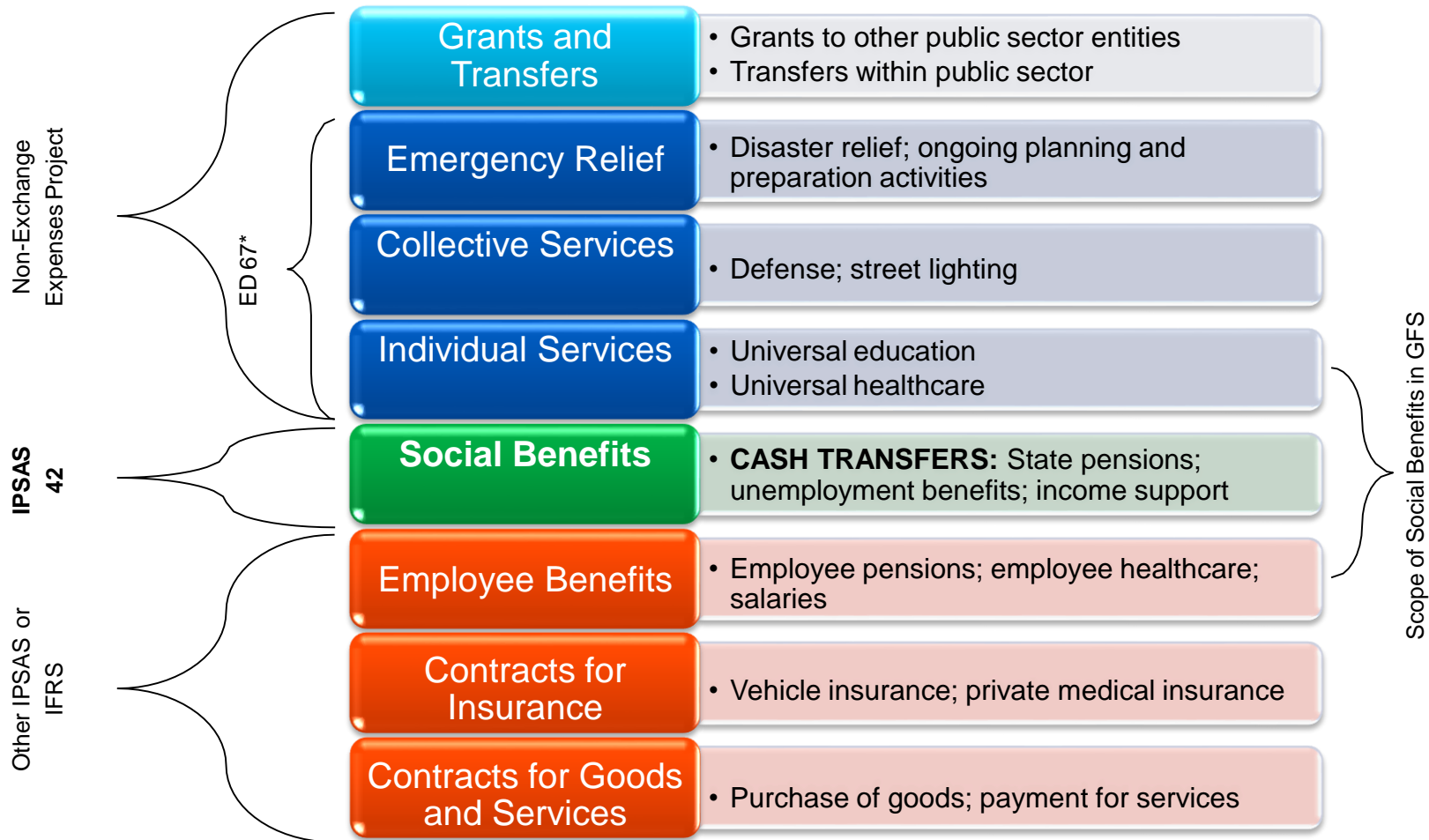


Project	Public sector specific	IFRS alignment
Non-Exchange Expenses -Collective and Individual Services (IPSAS 19 amends) - Grants and transfers	IPSAS ED	✓
Revenue -IFRS 15 alignment (replacing IPSAS 9 & 11) - IPSAS 23 update - Grants and transfers (guidance location TBD)	ED ED ??	✓ ✓
Financial Instruments (Public Sector)	ED	IPSAS 41
Leases	??	??
Public Sector Measurement	CP/ED	✓
Heritage	✓	
Infrastructure Assets	✓	

Courtesy of IPSASB

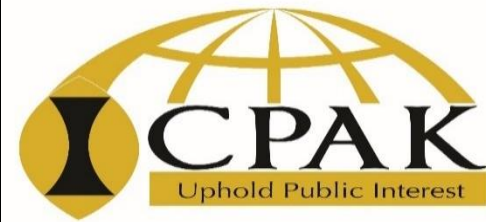


# Scope of IPSAS 42 and ED 67





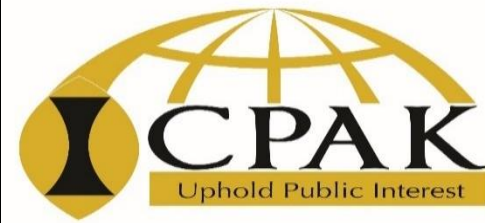
# Points to note!!



- Steady flow of new standards and interpretations – IFRSs, IPSASs, IPPF (IIA), ISAs & ISQC
- Significant amendments of fundamental principles in different areas of accounting, such as recognition, measurement, presentation and disclosure.
- Changes have implications that go beyond matters of accounting, also potentially impacting the information systems of many entities – Cost and effort
- The challenge for preparers is to gain an understanding of what lies ahead.



# Improving Financial Reporting Efficiencies



- Automation – standardized templates and customized checklists
- Software – utilizing commercially available products
- Planning – timeframe, list of deliverables, client meeting
- Risk based approach – in line with ISAs
- Staff training / supervision
- Regular and effective Communication



# Thank You

