

THE 2nd Accountants Convention

Theme: “Compete or Collaborate; The Role of Professionals in the East African Region”

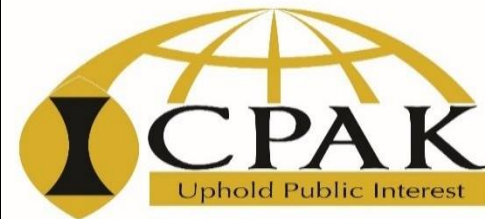
Marriott Hotel – Kampala 7th – 9th August 2019



IPSAS Journey in the Region: Milestones, Challenges and Way Forward

CPA Andrew Rori

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 adoption underpins **quality** and **credibility** of financial reporting and public confidence
- Revolutionary change in many countries over the last 10 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

Accountants are Crucial

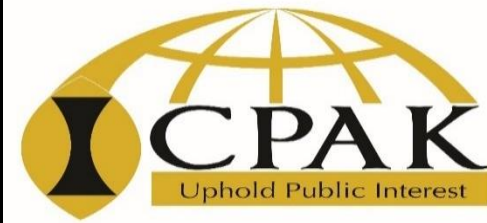


IFAC believes that the world needs a strong & vibrant accountancy profession of highly-trained ethical accountants to protect the public interest ...

- to promote economic activity & development
- that will lead to responsible & effective governments
- thus building overall confidence in the global financial system

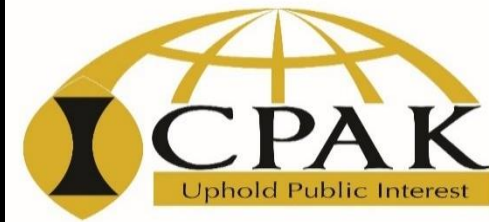


Important role of a professional Accountant



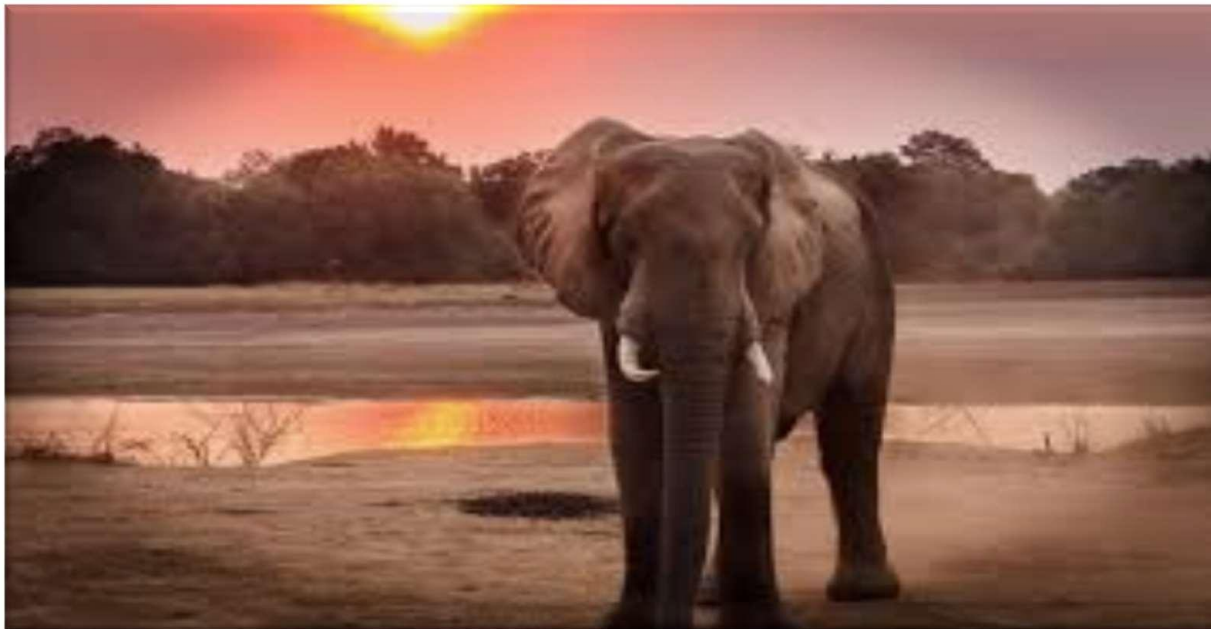
- The primary responsibility of the Professional Accountant is to protect and serve the public interest:
 - (a) Vibrant and competent professionals
 - (b) Highly trained & ethical
- Value of Professional accountants:
 - (a) Contribute to the economy and economic growth
 - (b) Ethical business behavior and reporting
 - (c) Confidence in the accounting profession

If IPSAS is an Animal.....



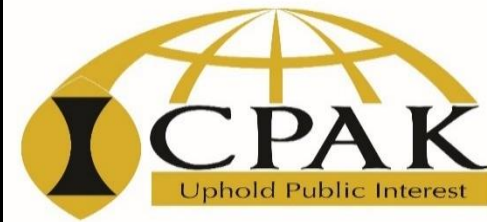
"The state of government reporting is 'the elephant in the room.'"

- World Bank Group CFO Vincenzo LaVia

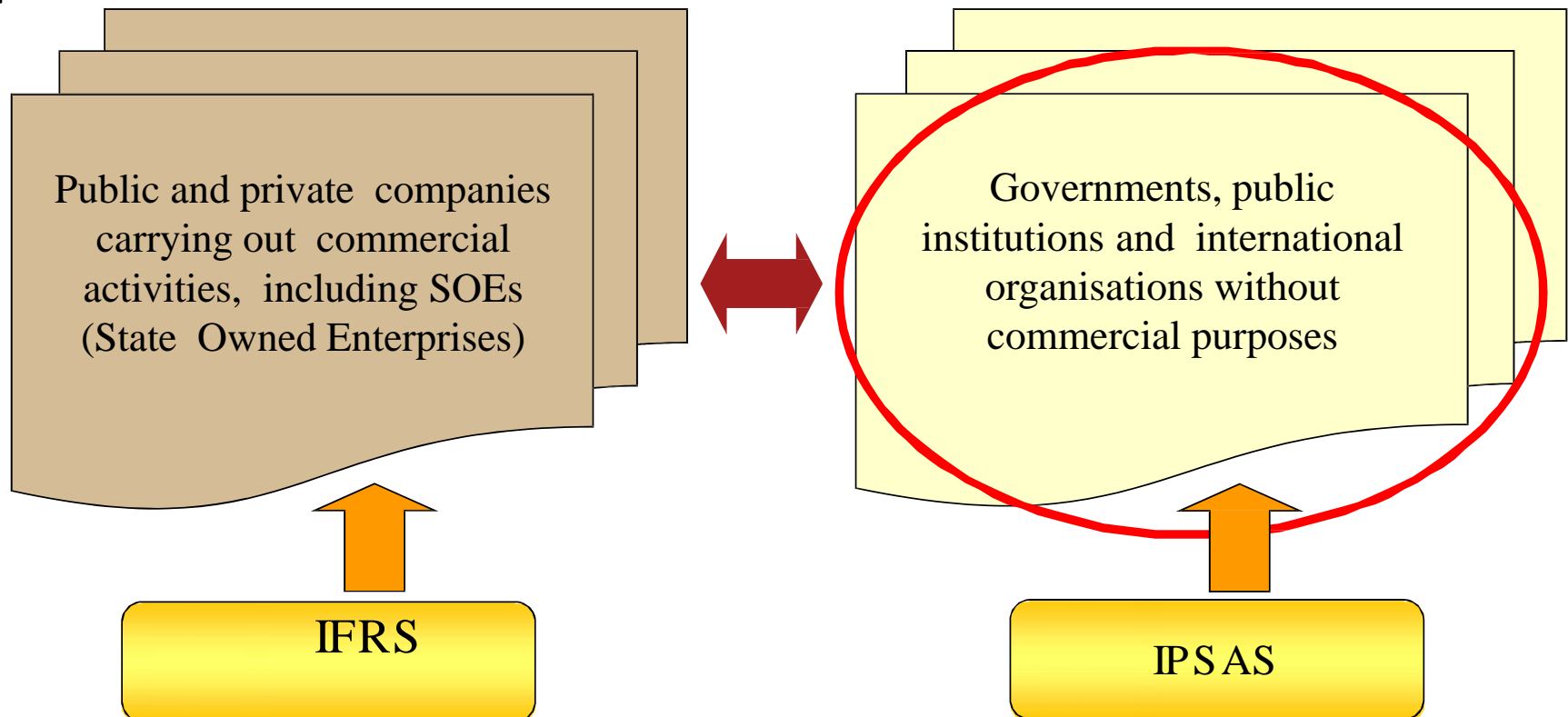


IPSAS is a catalyst to providing high- quality financial information and, even more importantly, improving public finance management.

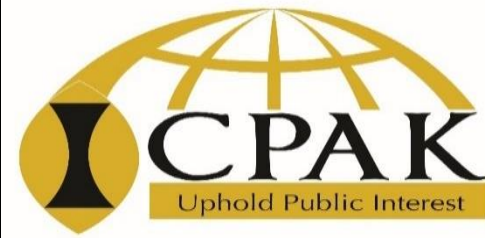
International Public Sector Accounting Standards (IPSASs)



The International Public Sector Accounting Standards (IPSAS) constitute the international accounting framework for public sector entities.

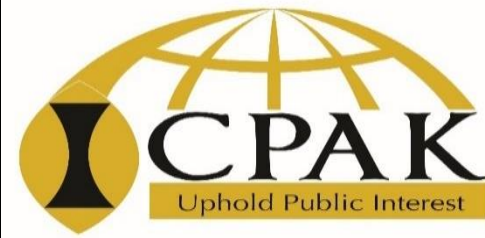


International Public Sector Accounting Standards (IPSASs)



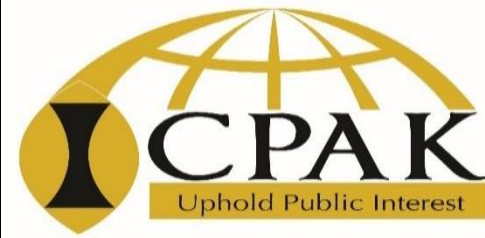
- There are two types of the IPSAS Standards.
 - ✓ The **cash IPSAS standard** allows for accounting of financial receipts, payments and balances under the cash basis of accounting.
 - ✓ **IPSAS Accrual Standards** focus on revenue, cost, liability and equity instead of cash flow only. Currently IPSAS accrual standards run to IPSAS 42 (issued January 31, 2019 Comments on the ED 67 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)

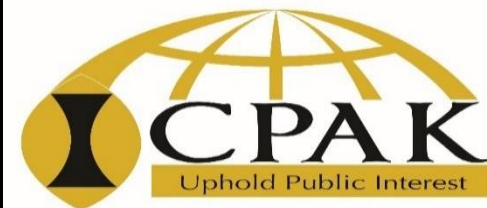


- Under the process of IPSAS adoption, it's important for the implementers to:
 1. Identify areas of priority- e.g. begin with voted entities.
 2. Identify control of the national government on other levels of government and government owned entities
 3. Piloting of IPSAS adoption could also be considered-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

IPSAS Implementation

Extent of IPSAS application in Government

Global Trends in Public Sector Accounting



IPSAS....



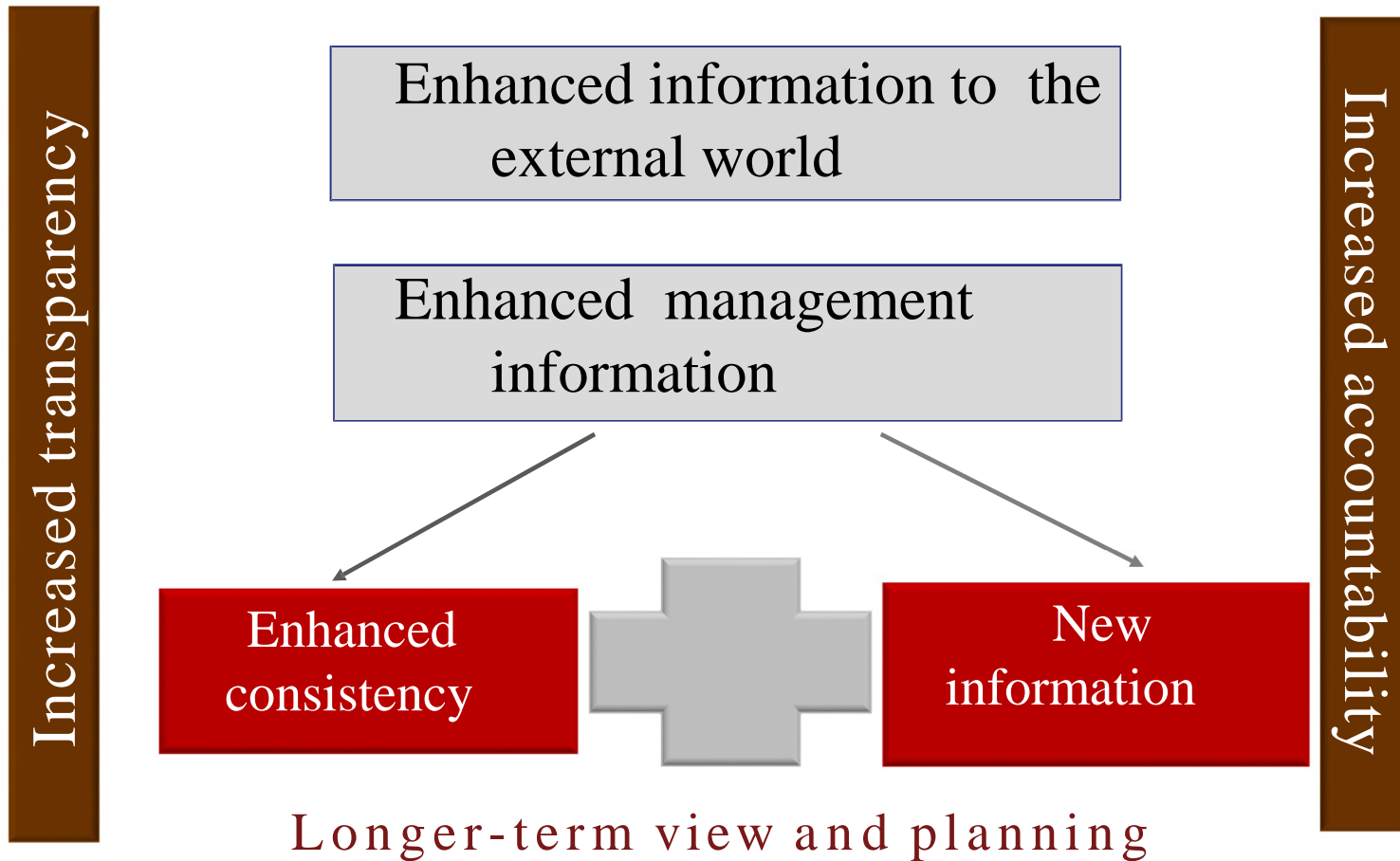
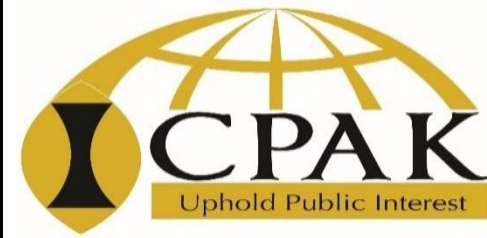
Global Trends

...Increasing stakeholders demand for transparency and accountability of public sector

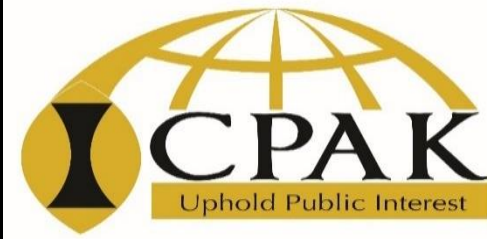
A global shift towards a more meaningful and a uniform financial reporting framework for public sector;

.... Adopted by many international and regional organisations – UN, EU, AU, ECOWAS...

Benefits of IPSASs



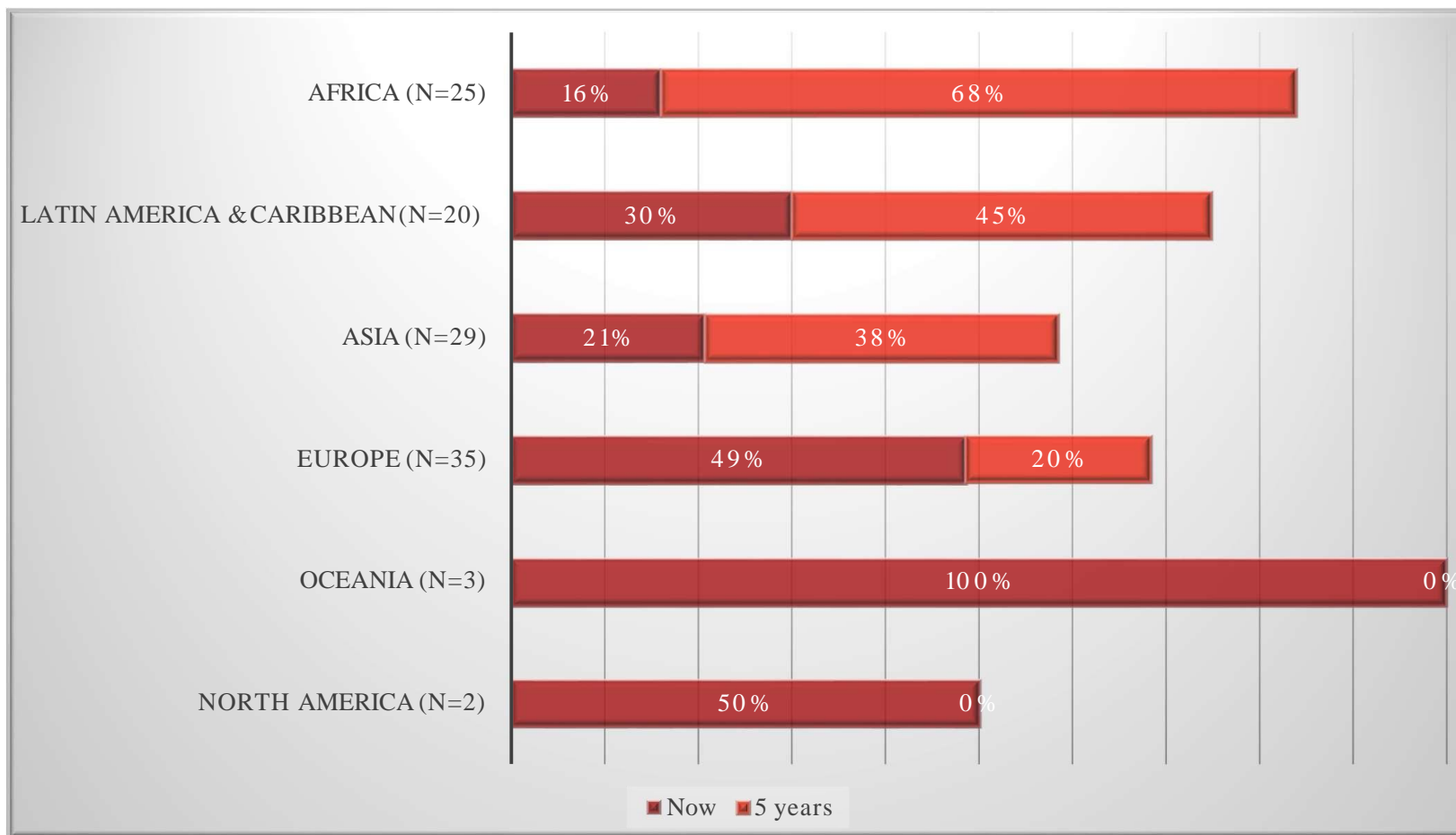
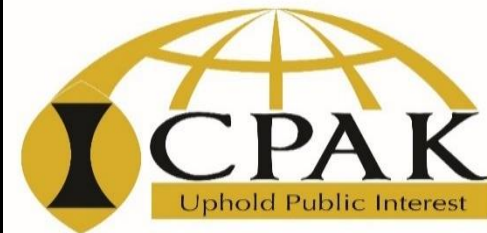
Public Sector Accounting – Rest of the World



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

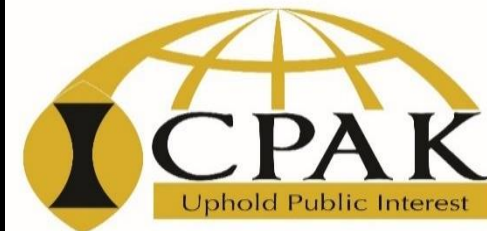
- United Nations
- New Zealand: adopted IPSAS in 2014 – with some exceptions; previously IFRS
- Switzerland and Austria: Introduced IPSAS – with some exceptions
- UK and Australia adopted IFRS – with some enhancements
- USA follows national standards that are broadly consistent with IPSAS
- Good progress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

Public Sector Accounting



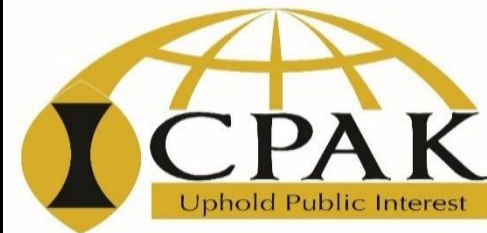
The trend is visible across all continents, with the biggest shift expected in Africa, Latin America and Asia

Public Sector Accounting in Africa



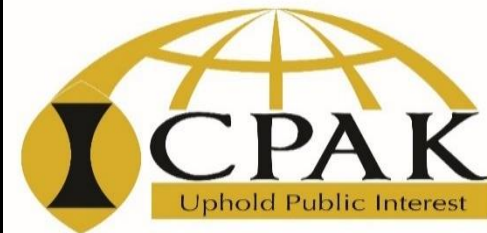
| Country | Previously reported | | December 2018 status | | Forward looking |
|------------------------------|---------------------------|----------------------------------|--------------------------|-----------------------------|-----------------------|
| | Other national standards* | Intention to 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 | | Forward looking |
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| | Other national standards* | Intention to converge with IPSAS | Cash IPSAS/Similar basis | Accrual IPSAS/Similar basis | 5 year plan announced |
| Kenya | | | | | |
| Madagascar | | | | | X |
| Malawi | | | | | |
| Mauritius | | | | | |
| Mozambique | | | | | X |
| Namibia | | | | | |
| Nigeria | | | | | |
| Rwanda | | | | | X |
| Senegal | | | | | X |

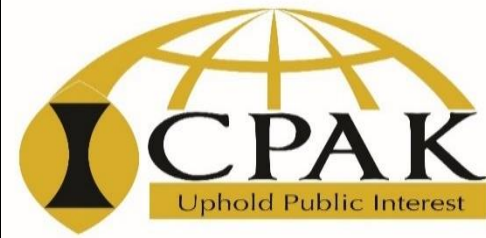
Public Sector Accounting in Africa



| | 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 |
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| X |

Public Sector Accounting in Africa



IPSAS Implementation-case of Tanzania

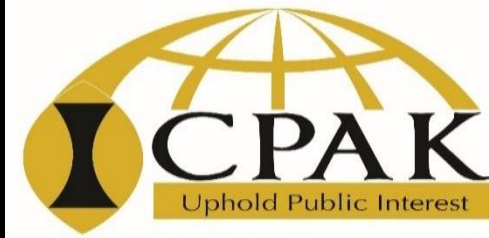
IPSAS Accrual implementation in Tanzania took the following steps:

- 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



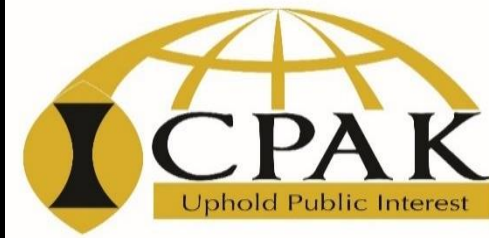
IPSAS Implementation-case of Tanzania

- 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

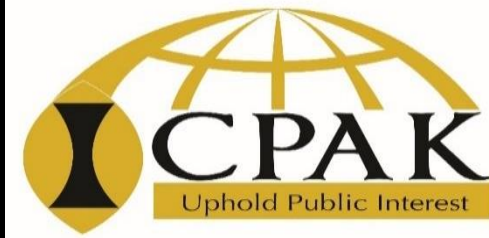
Public Sector Accounting in Africa



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

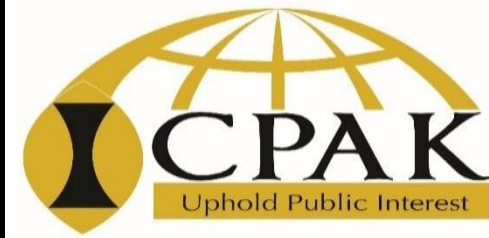
Public Sector Accounting in Africa



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)

IPSAS Implementation-case of Rwanda

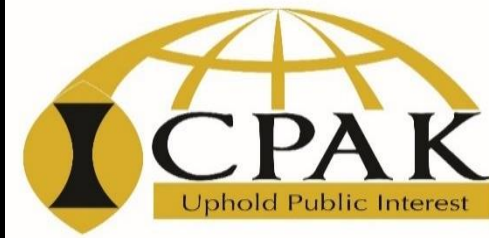
- Since 2006, the Government of Rwanda (GoR) has been using modified cash basis IPSAS for reporting and consolidation for general government entities.
- The following are the modifications to cash basis:
 - ✓ Prepaid expenditure/advances are treated as receivables;
 - ✓ Commitments which are outstanding 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



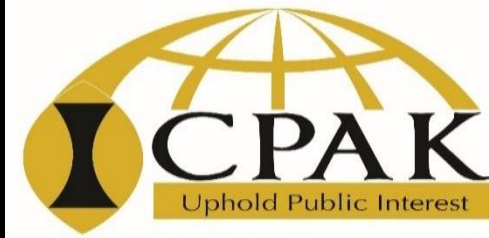
IPSAS Implementation-case of Kenya

- 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



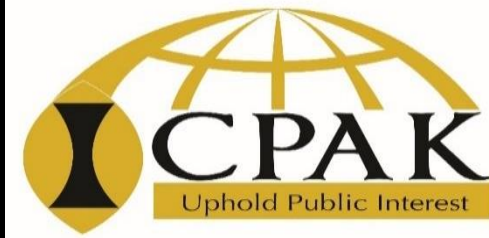
IPSAS Implementation-case of Kenya

- 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 to include IPSAS trainings in their programs

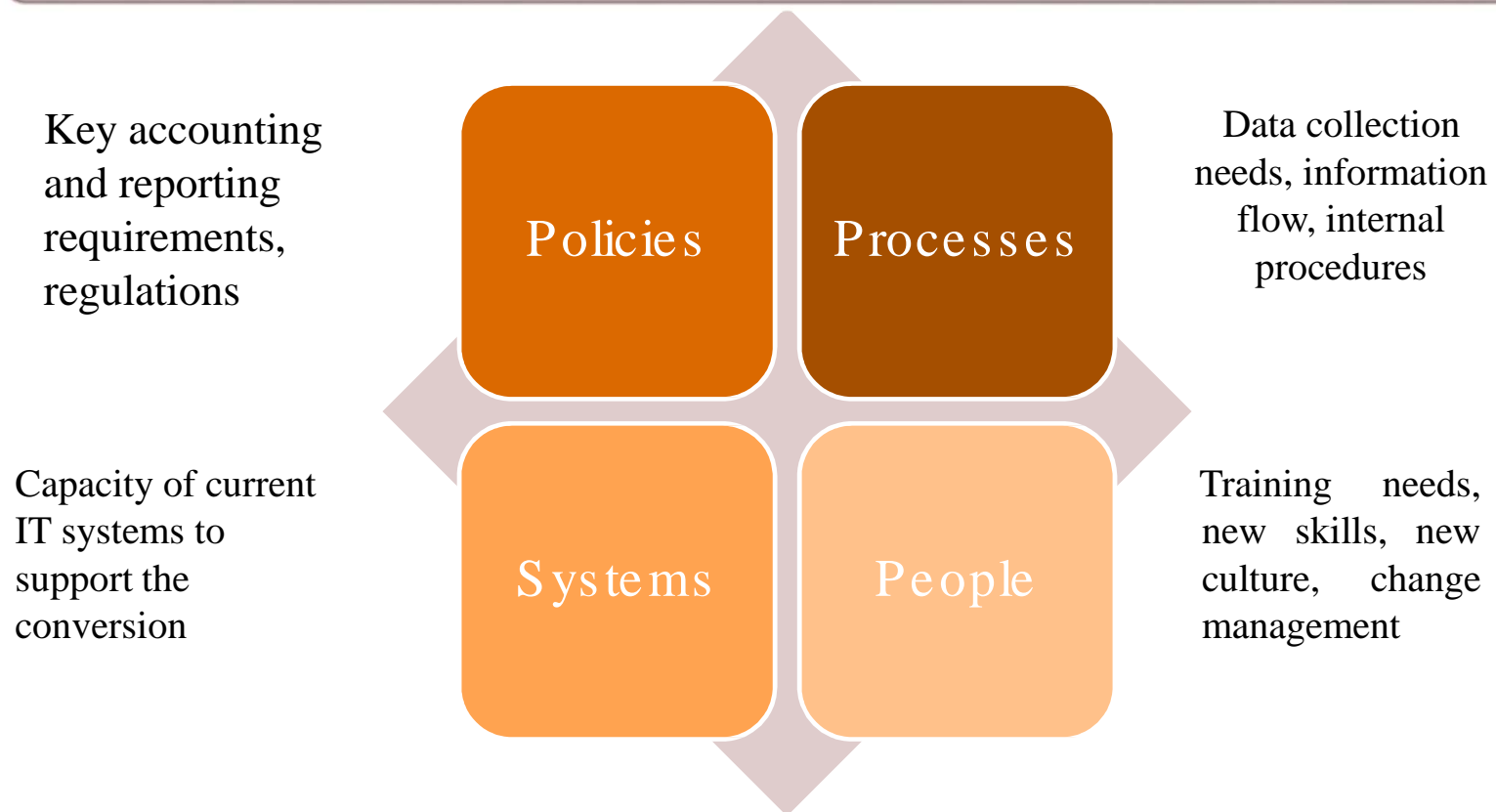
IPSAS Implementation-case of Kenya

- 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



Implementing accrual accounting and making the change to IPSAS is much more than an accounting exercise. It will impact the whole organisation.



IPSAS adoption is a change management process..

Key observed challenges



of times ranked in the top three challenges

of times ranked in the top three areas of impact

Lack of trained staff

55%

Fixed assets accounting

66%

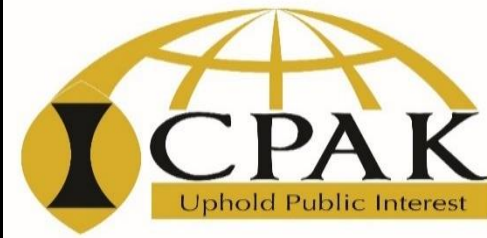
IT systems requirements

49%

Application of accruals

57%

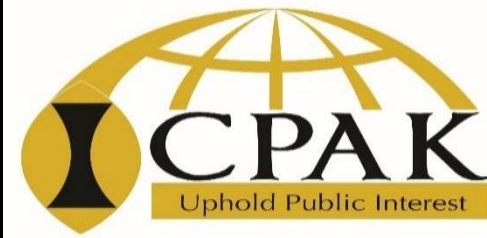
Lessons Learnt



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 Conversion - Key success factors



Political Will/Management Commitment

Planning

- Governance
- Roles and responsibilities
- Implementation Roadmap
- Business transformation

Communication

- Awareness
- Stakeholders buy-in
- Key stakeholders
- Auditors

Execution

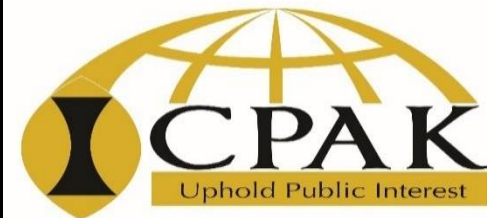
- Dedicated resources
- Training
- Coordination with other projects
- Issue ownership and resolution

Knowledge Transfer

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)

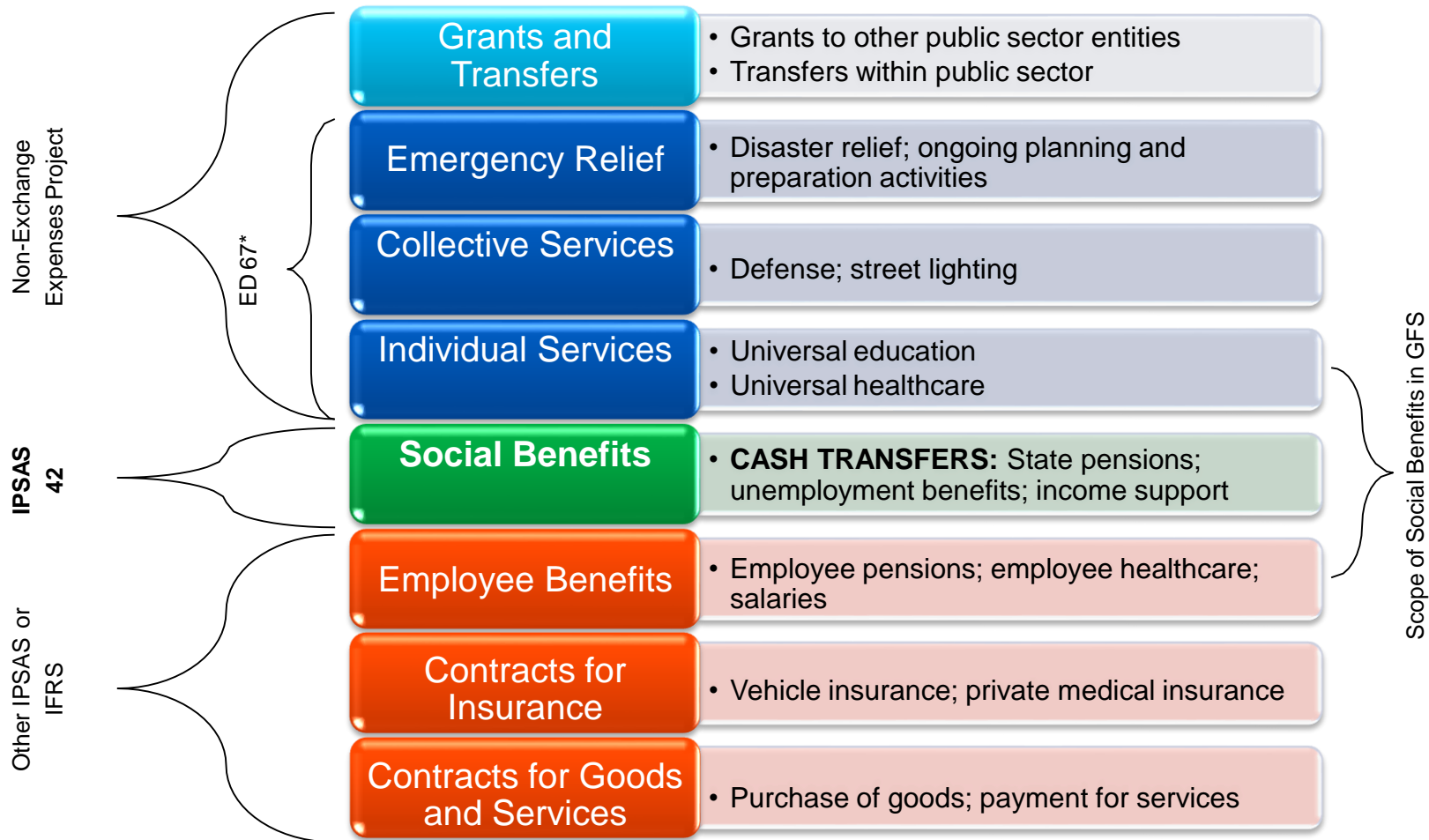
Consultation Paper

- 2019-23 Strategy and Work Plan

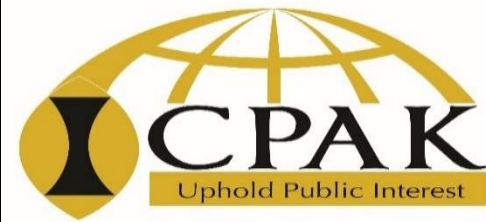
....and considerable work on:

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

Scope of IPSAS 42 and ED 67

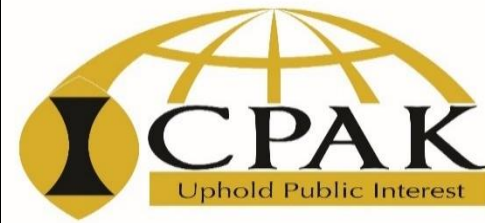


Points to note!!



- 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

