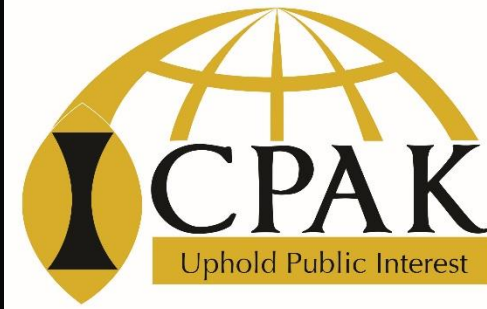


THE 5th PUBLIC SECTOR ACCOUNTANTS CONFERENCE

Theme: Debt, Austerity and Crisis Management. The Role of Public Sector Accountants

Leisure Lodge Beach & Golf Resort – South Coast

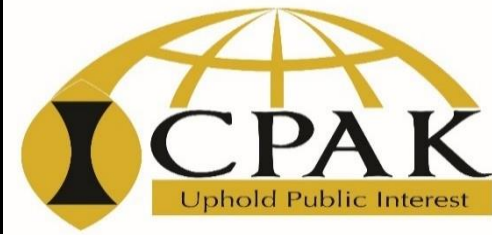
Date: 16th – 18th October 2019



Transitioning to Accrual Accounting – Are we Ready Yet?

CPA Andrew Rori

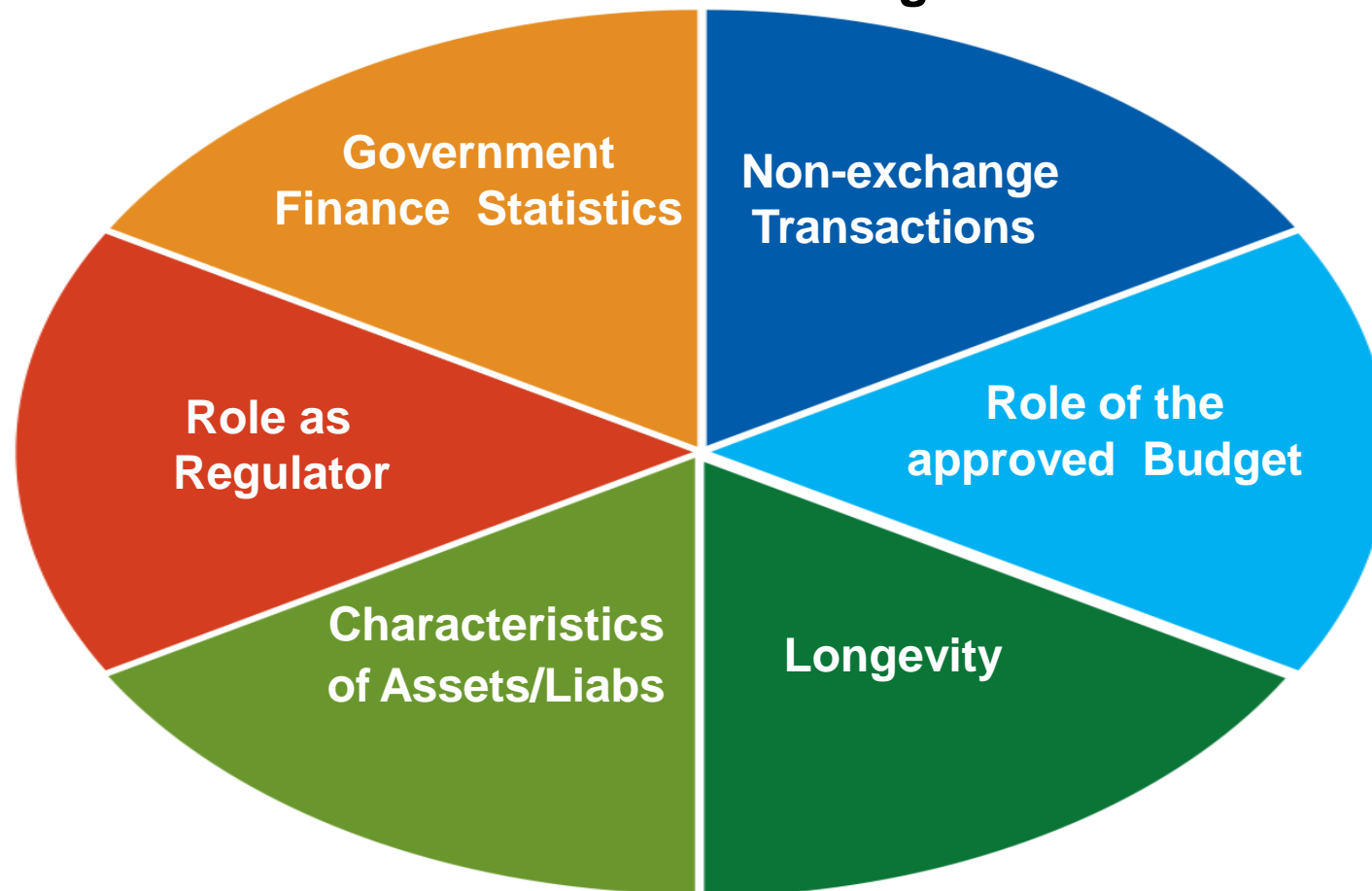
Agenda



- ▶ The first-time adoption dilemma and what is needed for first-time adoption of government accounting standards
- ▶ Overview on IPSASB's Approach to First-time Adoption
- ▶ Challenges of first-time adoption of IPSASs
- ▶ Lessons learnt

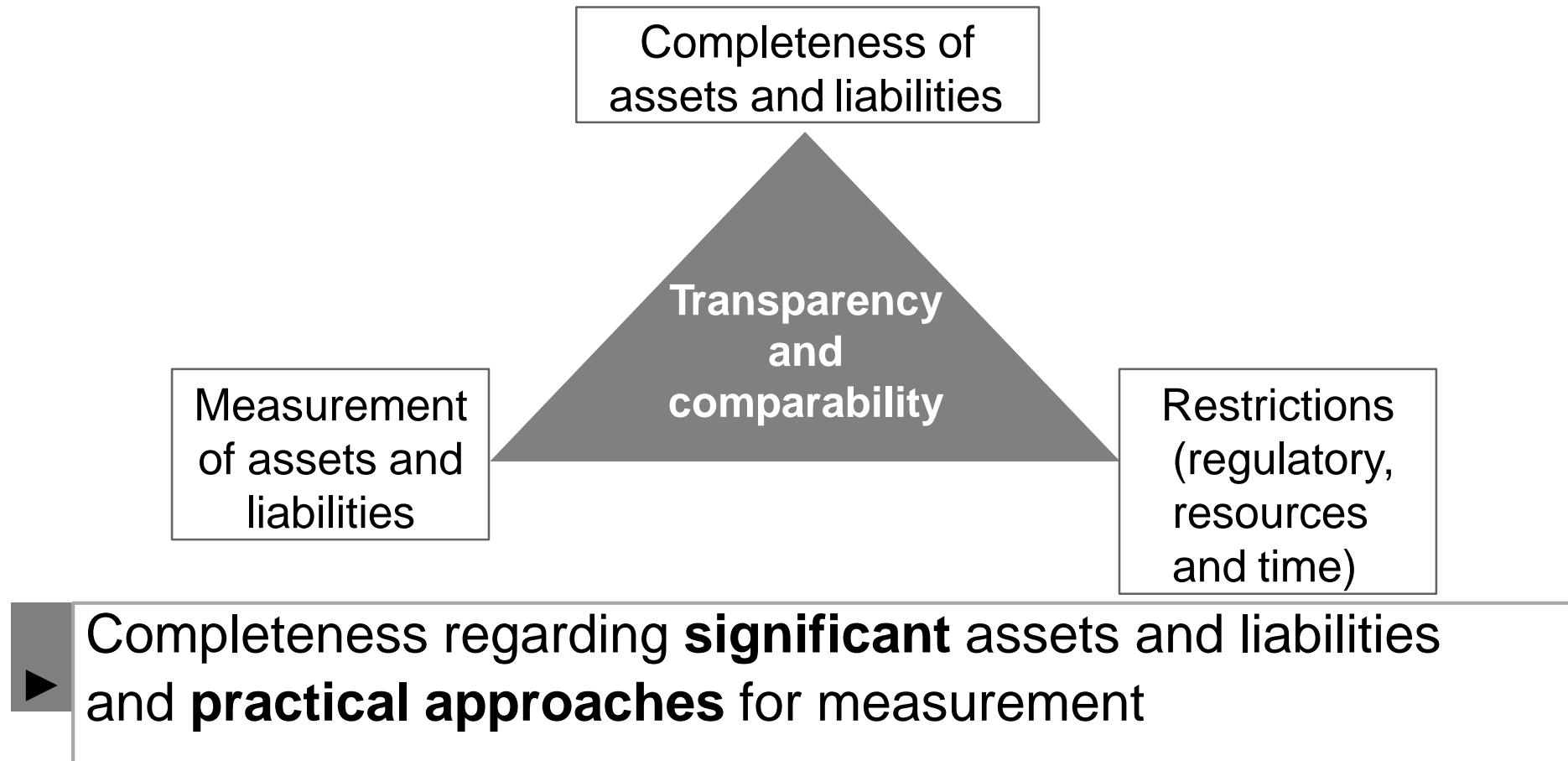
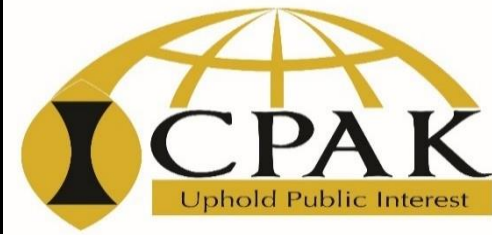
The first – time adoption dilemma

Public Sector Conceptual Framework - Characteristics of the Public Sector that influence Public Sector Accounting



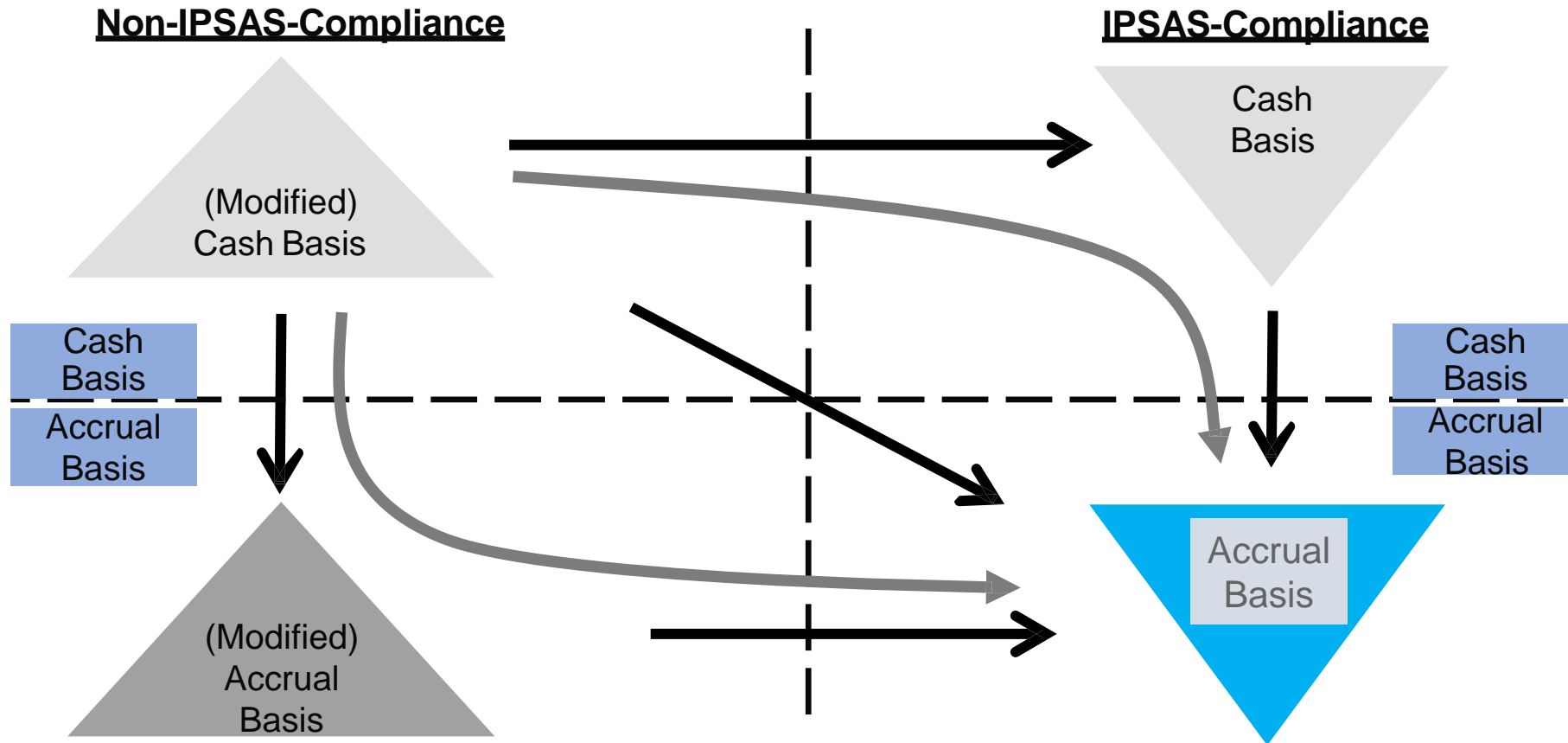
Acknowledgement
IPSASB and IFAC

The first – time adoption dilemma



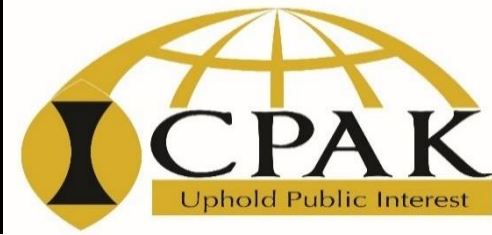
The first – time adoption dilemma

Starting position - Challenges depend significantly on this



Different types of transition to accruals IPSASs

The first – time adoption dilemma

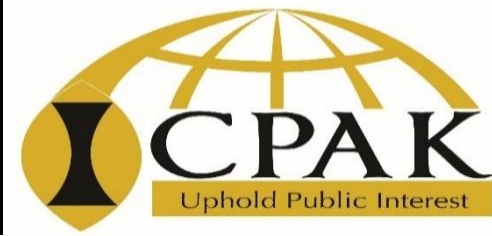


The scoping study/gap analysis: Bringing the reforms together



"Failing to plan is planning to fail"

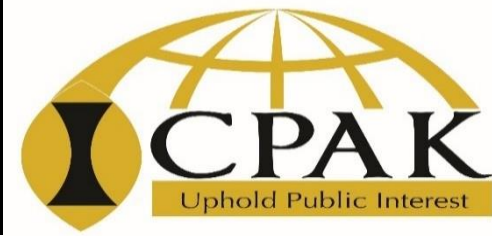
The first – time adoption dilemma



Kenyan case

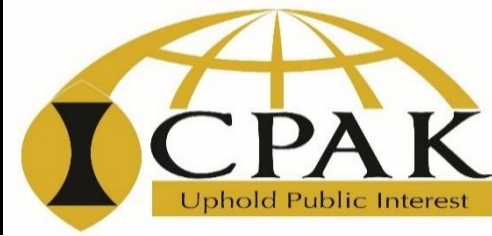
- ▶ Gazette Notice No. 5440 of 8th July, 2014.- The PSASB kenya **adopted** the financial reporting standards applicable to public sector entities as follows:
 - ✓ National & County Governments –IPSAS Cash basis of accounting;
 - ✓ Semi Autonomous Government Agencies (SAGAs) – IPSAS accrual; and
 - ✓ State Corporations (Commercial) – IFRS
- ▶ Progressively closing the gaps in Cash Based IPSAS
- ▶ Audit reports as well as FiRe Awards show remarkable improvement in financial reporting
 - ✓ Some entity concerns – accrual basis of accounting principles violations;
 - ✓ Quality of the financial statements (may some needed cash accounting first)

What is needed for first – time adoption of government accounting standards



- ▶ The three C's: “**C**ompromises that need to be done on a basis of **C**onsensus, outlined in a **C**ookbook.”
- ▶ Government accounting principles are not sufficient for preparing an opening balance sheet
- ▶ Therefore, it is essential to have guidelines for the preparation of an opening balance sheet
 - ▶ Clear guidance on the scope of assets and liabilities to be included in the opening balance sheet is needed
 - ▶ Also clustering of assets and liabilities according to their materiality for the OBS possible
 - ▶ Providing relief for measurement => measurement hierarchy

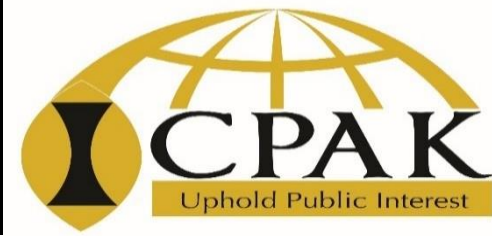
IPSASB's guidance for IPSAS adoption



- ▶ 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)

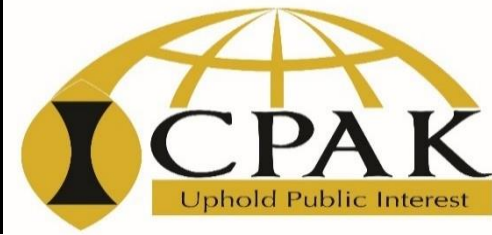
- ▶ IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

IPSASB's guidance for IPSAS adoption



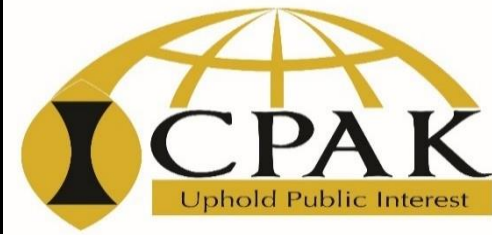
IPSAS Adoption: How do we get there?

IPSAS 33 – In what respect does the standard help?



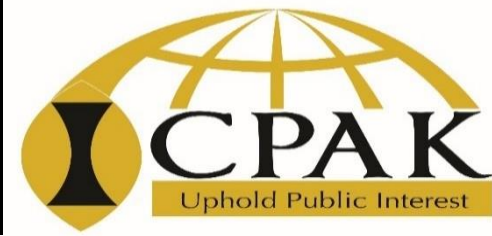
- ▶ Allows three years to recognise and/or measure specific assets, liabilities and revenues:
 - ▶ Sufficient time to develop reliable models for recognising and measuring assets and liabilities
- ▶ Concessions related to certain aspects of consolidation
- ▶ IPSAS 33 addresses:
 - ▶ what to do when reliable historical cost information is not available
 - ▶ presentation of comparative information in transitional financial statements.

Roadmap – What happens before IPSAS 33?



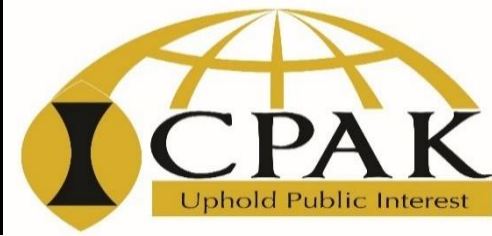
- ▶ IPSAS 33 applies during “period of transition”-
 - ✓ From “date of adoption”—start of first accrual based IPSAS financial statements
 - ✓ To when entity first claims full compliance with IPSASs
- ▶ Entity can apply IPSAS 33 exemptions during “period of transition”

IPSAS 33 – How it works: Exemptions



- ▶ Two types of exemptions:
 - ▶ Those that do affect fair presentation and IPSAS - compliance with IPSASs
 - ▶ Usually relate to time relief for the recognition and/or measurement of items, specific accounting requirements and disclosures
 - ▶ Indicate this fact in the financial statements while exemptions applied
 - ▶ Optional, can be applied based on specific needs
 - ▶ Those that do not affect fair presentation and compliance
 - ▶ Some optional, some outline specific transitional arrangements.
 - ▶ No statement required in financial statements.
- ▶ Kenya to adopt a phased out approach on assets and liabilities – specific policy pronouncements (classifications)

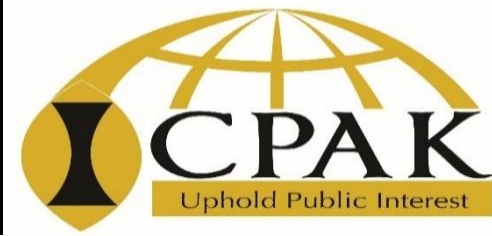
IPSAS 33 – How it works: Exemptions



► Exemptions that affect the fair presentation include, the:

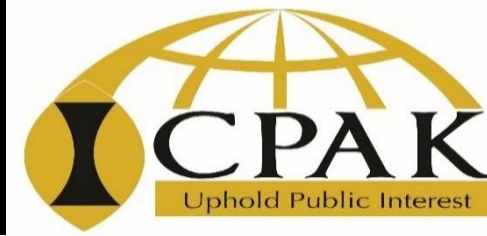
- ✓ recognition and measurement of a wide range of assets and liabilities that were not previously recognized;
- ✓ elimination of balances, transactions, revenue and expenses between entities within the economic entity in its consolidated financial statements;
- ✓ disclosure of related party relationships, related party transactions and information about key management personnel.

IPSAS 33 – How it works: Exemptions



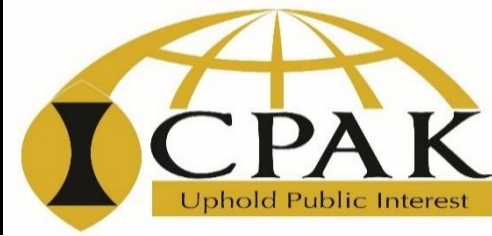
- ▶ Exemptions that do not affect fair presentation and compliance include:
 - ✓ Using deemed cost (“surrogate” for acquisition cost or depreciated cost at a given date) to measure assets and liabilities
 - Can use fair value (if historical cost information is unavailable) as proxy for cost
 - If using 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

IPSAS 33 – How it works: Exemptions “Deemed Costs”



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.

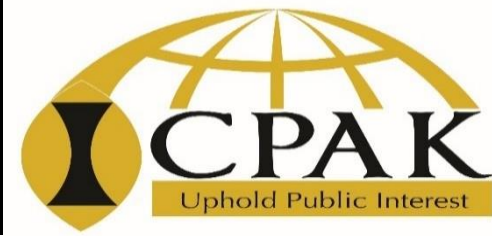
IPSAS 33 – How it works: Exemptions “Deemed Costs”



- 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:
- ✓ inventory (IPSAS 12);
 - ✓ investment property, if the first-time adopter elects to use the cost model in IPSAS 16;
 - ✓ property, plant and equipment (IPSAS 17);
 - ✓ intangible assets, other than internally generated intangible assets (IPSAS 31)
 - ✓ financial Instruments (IPSAS 29); or
 - ✓ service concession assets (IPSAS 32).

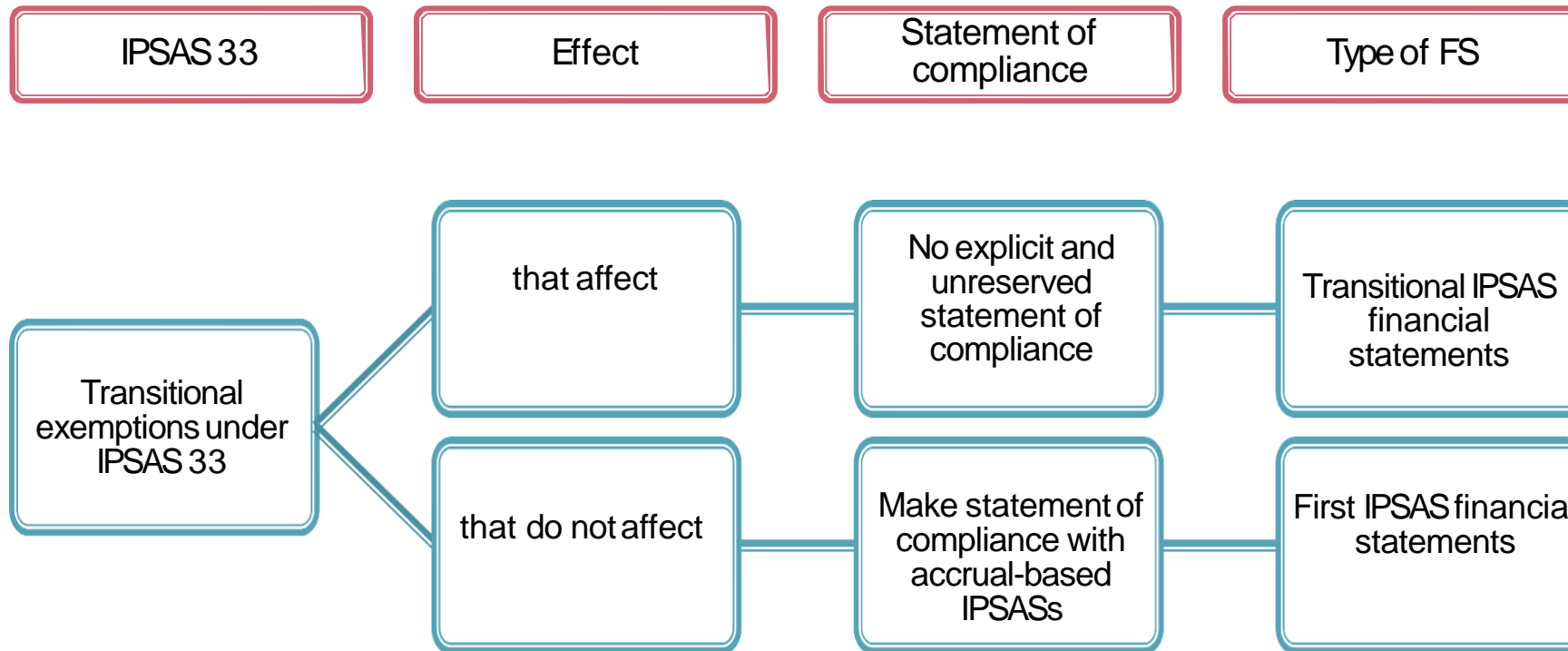
IPSAS 33 – How it works: Exemptions

“When is Deemed Cost determined”

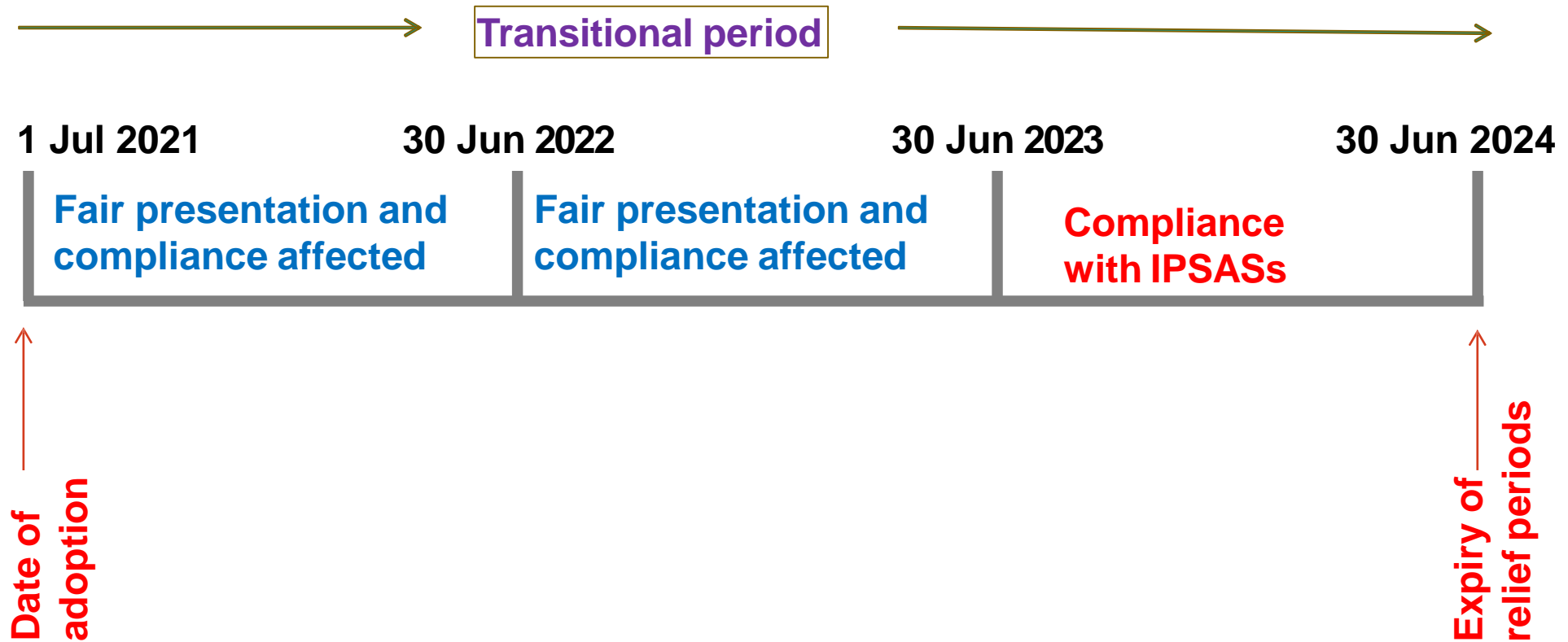
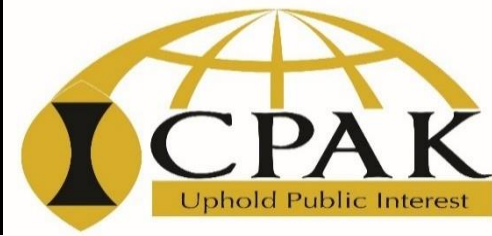


- ▶ An entity makes a decision to adopt accrual basis IPSASs on 1 July 2021 but opts to adopt the transitional exemptions for its PPE
- ▶ Assuming that the full three year period is used, when is deemed cost determined?
- ▶ Deemed cost may be calculated any time between 1 July 2021 and 30 June 2024.
 - ✓ 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 2022, then the deemed cost must be calculated as at 1 July 2021.

IPSAS 33 – How it works: Exemptions



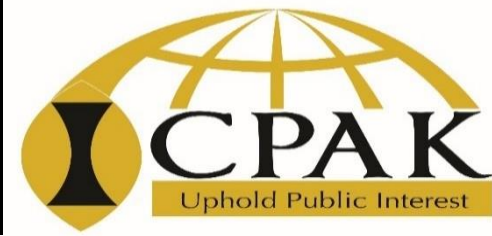
IPSAS 33 – How it works: Illustration



Announcement is anticipated on 1 Jul 2021 for Commissions, Ministries and County Governments

Are we ready yet?

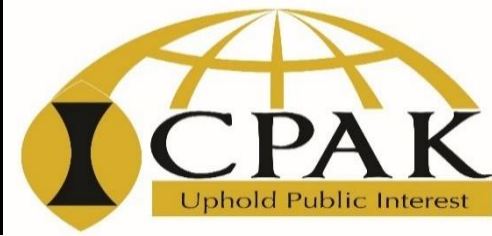
Roadmap – What happens before IPSAS 33?



- ▶ 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
- ▶ Prepare for the transition to accrual-basis 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

Are we ready yet?

IPSAS 33 – In what respect does the standard help?

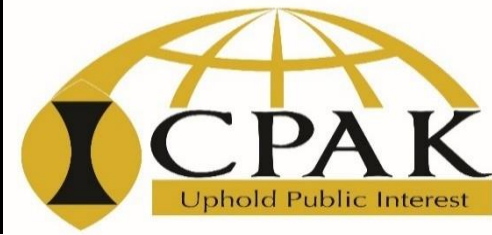


Kenyan case

- ▶ Originally all government MDAS were to migrate to accrual by **30/06/2017** now **anticipated implementation over 3 years from July 2021 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
- ▶ Government to progressively prepare consolidated financial statements till 2024

Are we ready yet?

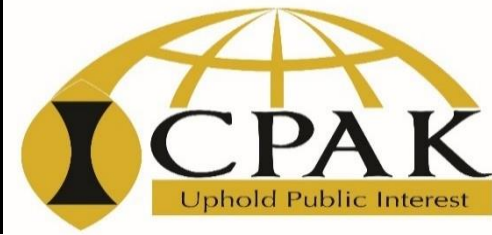
IPSAS 33 – In what respect does the standard help?



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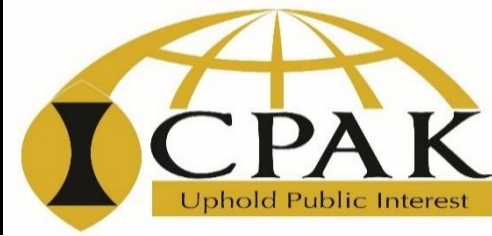
- ▶ Review of PFM Act to align accrual based concepts
- ▶ Upgrading of Integrated Financial Management System to accrual based transaction
- ▶ Upgrading of Chart of Accounts and GFS codes – expand to include accrual accounting
- ▶ Continued capacity building
 - ✓ Sensitization and capacity building to Parliamentary Oversight Bodies
 - ✓ Training to Accounting Officers on the whole process of migration to IPSAS Accrual Basis of accounting and
 - ✓ Training to preparers of financial statements

Success features



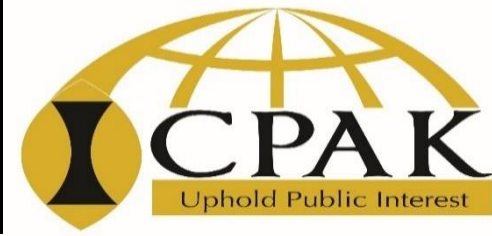
- ▶ Clear scope and mandate
- ▶ Commitment:
 - ✓ Political
 - ✓ Key officials
 - ✓ Legislation
- ▶ Adequate resources:
 - ✓ IT / information systems
 - ✓ Resources
 - ✓ Financial
- ▶ Effective project management

Adequate resources: Building capacity



- ▶ Project team:
 - ✓ Project and change management skills
 - ✓ Experience in accounting policy issues and systems implementation
 - ✓ Requirements change over programme lifetime
- ▶ Entity staff:
 - ✓ Appropriate level of technical and systems knowledge
 - ✓ Skills assessment and integrated training / development – ‘train the trainers’?
 - ✓ Internal development or external recruitment?
- ▶ External auditors:
 - ✓ Appropriate level of technical and systems knowledge
 - ✓ Skills assessment and integrated training / development
 - ✓ Judgements, quality control and coordination processes

Roadmap – What happens before IPSAS 33?



Project Management: Accrual reform periods

► IPSASB Study 14:

- ✓ Short (1-3 Years) – strong political support; few entities
- ✓ Medium (4-6 years) – increased preparation and implementation time
- ✓ Long – (6+ years) – risk of ‘reform fatigue’

► IPSAS 33 – First Time Adoption:

- ✓ Use of ‘dry run’ periods
- ✓ Date of IPSAS adoption
- ✓ 3 year transitional relief period for certain requirements
- ✓ First IPSAS financial statements (full accrual IPSAS compliance)

Challenges public entities are facing when converting to the IPSAS framework

Main Challenges

Change Management

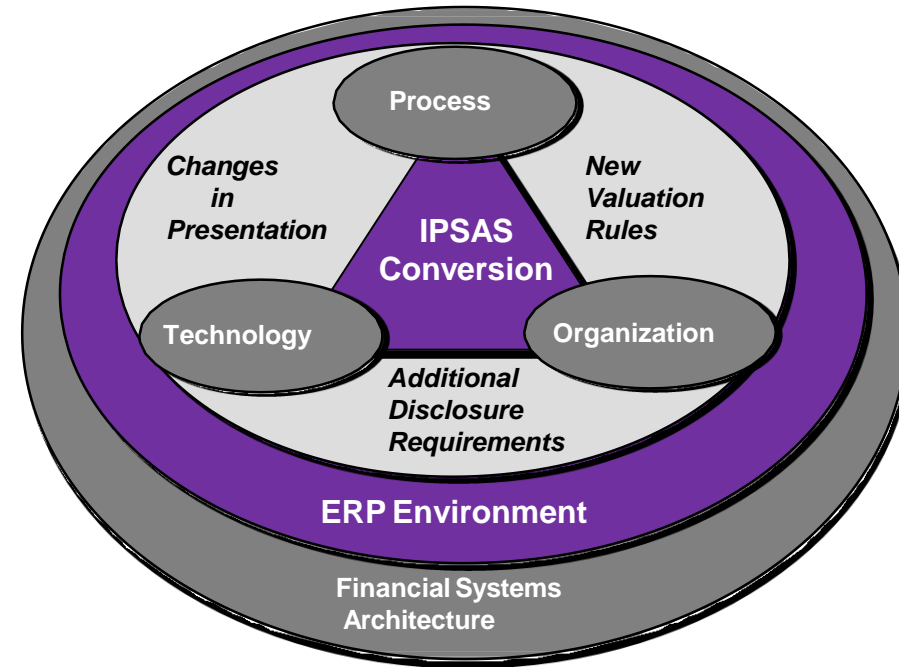
- Political/Executive support
- Climate of change, mind change for public officials
- Length of reform/"reform fatigue"
- Detailed time line missing

Resources

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

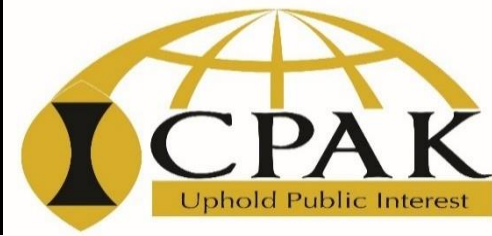
IT and Tools

- 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

Lessons learnt IPSAS conversions – Do's



► Scope of reform

- Recognize the **importance of budgeting** => consider reform scope carefully
- make the project relevant - reform needs to be **linked** to **decision-making**

► Project Management

- **Plan** and **manage** the conversion project **carefully** – project hides multiple interrelations and complexities
- Invest time in the **gap analysis** and development of a **realistic roadmap**
- Identify the entities which will **determine the majority of the values** regarding the items in the government's balance sheet (materiality)
- Involve **technical expertise** in the conversion (auditors, statistical offices)

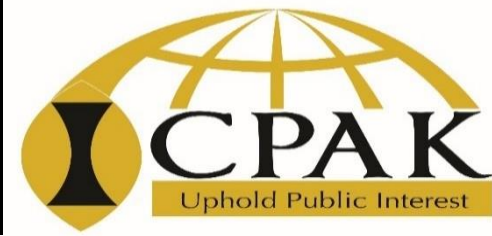
► Organisation

- Establish a **conversion project steering committee** (milestones, com. protocols)
- **Anticipate the major challenges** around a successful conversion
- Think of having a **trial opening balance sheet** and **dry run** accounts

► Communication

- Aspire stakeholder-specific **explanation of benefits of IPSAS conversion** in order to obtain buy-in of all groups concerned, esp. political commitment.

Lessons learnt IPSAS conversions – Don't's



► Scope of reform

- Do not limit the project to an **accounting reform**
- Do not assume that it is a **desktop exercise**
- Don't aspire to be **100% IPSAS compliant** in the first stage of the reform; there will also be a learning curve

► Project Management

- Don't be **over ambitious** in terms of timing -> damage of **lost trust** is higher than initial increase in confidence after having announced great plans
- The conversion should not be undertaken without **adequate training of accounting personnel** on accrual accounting and IPSAS standards
- Don't do without an **early assessment of IT system conversion readiness**

► Organisation

- Don't assume all **documentation will be in place** – plan time for stock take

► Communications

- Don't **underestimate communication** – get especially the stakeholders involved

**Is our National Government, Ministries and County Governments
Ready?**

THANK YOU VERY MUCH