IPSAS 3
Accounting Policies, Changes in Accounting Estimates and Errors

Presentation by:
CPA Anthony M. Njiru
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Effective date

Annual periods beginning on or after January 1, 2008.

Scope

IPSAS 3 applies to all public organizations

Scope

- The standard does not cover the tax effects of corrections of prior period errors and

- Retrospective adjustments made to apply changes in accounting policies are as they are not relevant for many public sector organization

Objective

To prescribe the criteria for:

- Selection and application of accounting policies
- Changes in accounting policies
- Errors

Accounting policies

Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Selection and Application of Accounting Policies

In selection and application of accounting policies

- An entity shall apply the relevant IPSAS
- If no specific IPSAS the management shall use its discretion in coming up with policies

In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition - Management must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable.

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

Managerial Considerations In Selection Of Policies

- Requirements and guidance in IPSAS dealing with similar and related issues;
- 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.

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Consistency of accounting policies

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorization of items for which different policies may be appropriate

If a Standard or an Interpretation requires or permits categorization, an appropriate accounting policy shall be selected and applied consistently to each category

Changes in accounting policies

An entity is permitted to change an accounting policy only if the change:

1. is required by a standard or interpretation;
2. or results in the financial statements providing reliable and more relevant information

Exclusions

- Transaction or event that did not occur previously
- or were immaterial

Treatment of Change In Accounting Policies

- If a change in accounting policy is required by a new standard or interpretation- as per that standard
- If the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively.

Disclosures relating to changes in accounting policies

- Title of the standard or interpretation causing the change
- The nature of the change in accounting policy
- Description of the transitional provisions
- To the extent practicable, the amount of the adjustment: for each financial statement line item affected

Disclosures relating to changes in accounting policies

- If retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

Financial statements of subsequent periods need not repeat these disclosures.

Disclosures For Voluntary Changes In Policies

- ❑Nature
- ❑Amount
- ❑Description

If an entity has not applied a new standard or interpretation that has been issued but is not yet effective, the entity must disclose that fact

Changes in accounting estimates

Adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability

Treatment of Change In Accounting Estimate

Prospectively by including it in profit or loss in:

- The period of the change, if the change affects that period only,
- or the period of the change and future periods, if the change affects both.

Disclosures On Change In Accounting Estimate

- Nature and amount of a change in an accounting estimate
- If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact

Prior Period Errors

Omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements.

Causes Of Errors

Errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud

Mainly errors emanate from non system based accounting

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Treatment of Errors

Correct all material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- ✓restating the comparative amounts for the prior period(s) presented in which the error occurred
- ✓or if the error occurred before the earliest prior period presented, restating the opening balances for the earliest prior period presented

Disclosures relating to prior period errors

- Nature of the prior period error
- Amount of the correction at the beginning of the earliest prior period presented
- If retrospective restatement is impracticable, an explanation and description of how the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures

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IPSAS 14 Events After the Reporting Date

Overview

To prescribe:

- When an entity shall adjust its financial statements for events after the reporting date
- Disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date

Event after the reporting period

An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue

Adjusting event

An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Eg. settlement of a court case after the reporting date, that confirms that the entity had an obligation at the reporting date.

Non-adjusting event

An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

e.g a decline in the fair value of property after year end, which does not change the valuation of the property at the reporting date

Accounting Treatment

Adjust financial statements for adjusting events

Do not adjust for non-adjusting events - events or conditions that arose after the end of the reporting period.

If an entity declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. That is a non-adjusting event – disclosure is required

Going concern issues arising after end of the reporting period

An entity shall not prepare its financial statements on a going concern basis if management determines after the end of the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

Disclosure

Disclosure

Non-adjusting events should be disclosed if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.

The required disclosure is

(a) the nature of the event and

(b) an estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made

Disclosure

A company should update disclosures that relate to conditions that existed at the end of the reporting period to reflect any new information that it receives after the reporting period about those conditions.

Companies must disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise must disclose that fact.

IPSASB - Recommended Practice Guideline

- Recommended Practice Guidance (RPGs) are developed and approved by the International Public Sector Accounting Standards Board. (IPSASB).
- IPSAS and RPGs are for use by all public sector entities including national, regional and local governments and related agencies.
- While IPSAS guide the preparations of financial statements, RPGs provide best practice guidance in preparation of general purpose financial report.

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RPG 1long-term sustainability of a public sector entity’s finances

- Provides guidance on reporting on the long-term
- sustainability of a public sector entity’s finances.

- Applicable to entities which:
  - Have significant tax and/or other revenue raising powers;
  - Have powers to incur significant debt; or
  - Have the power and ability to determine the nature, level and method of service delivery including the introduction of new services.

- long-term fiscal sustainability information will usually include the following components:

Projections of future inflows and outflows, displayed in tables/graphs and narratives explaining the projections.
Discussions on the dimensions of long-term sustainability (revenue; service; debt…etc.)
Discussion on the principles, assumptions and methodology underlying the projections.

- Adequate information should be provided to users to enable them assess the long-term sustainability of the entity’s finances: Key disclosures include:
  - Name of the entity
  - The financial statements referred to
  - Date of projections
  - Reference to sources of all information obtained from other entities

- Sources of revenue inflows from taxation and other sources
- Sources of significant outflows including capital expenditure
- Explanations of changes in projections at the reporting date
- Time horizon used in the projections
- Sensitivity analysis on all key indicators

RPG 2 : Financial Statements Discussion & Analysis

Components should include:

- Explanation of the entity’s operations and the environment in which it operates;
- Information about the entity’s objectives and strategies;
- Analysis of the entity’s financial statements; changes and trends in an entity’s financial position, financial performance and cash flows;
- Description of the entity’s principal risks and uncertainties; strategies for bearing or mitigating those risks and uncertainties.

RPG 3 : Reporting Public Service Information

The guidance in RPG 3 aligns with the IPSASB's view that public sector financial reporting has a greater scope than financial statements alone.

RPG 3 – Reporting service performance information

- Service information includes explanations on the services that an entity provides; its objectives in relation to service performance and the extent to which the objectives have been achieved.

- Service information assist users assess the entity's efficiency and effectiveness.

Service information to display includes the below:

- Service performance objectives – e.g. reducing inputs/ increasing output
- Performance indicators – Intended outcomes and actual outcomes
- Total cost of services

End

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0722241005
toniemnjiru@gmail.com