

IPSAS 33, First Time Adoption of Accrual Basis IPSASs

Jeanine Poggiolini
IPSASB Deputy Chair

May 2015, CReCER IPSASB Training
Event, Quito, Ecuador

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
 - Lower interest rates (e.g. State of Geneva lower by 0.5%, see Hiler 2012)

IPSAS Adoption: How do we get there?



Topics covered in this Session:

1. Support provided—includes IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*
2. The Roadmap—What happens before IPSAS 33
3. IPSAS 33—How it helps, and how it works
4. IPSAS adoption case studies

1. Support 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)
- Training course: Introduction to IPSASs
- IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

2. 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



2. Roadmap—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.

3. IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

- IPSAS 33's objective is 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

3. IPSAS 33, First Time Adoption of Accrual Basis IPSASs

- IPSAS 33 provides:
 - Comprehensive coverage of transition issues experienced
 - Exemptions allow degree of flexibility to adopt based on individual circumstances
 - Guidance directs accounting requirements
- Meets needs of both preparers and users of financial statements during “*the transition period*”

3. IPSAS 33, First Time Adoption of Accrual Basis IPSASs

- Addresses different types of transition to accruals IPSASs
- Transition starting point may be reporting on:
 - A cash basis
 - An accrual basis under another reporting framework
 - A modified version of either the cash or accrual basis of accounting

3. IPSAS 33—How it helps

- Allows three years to recognise and/or measure specific assets, liabilities and revenues:
 - Enough time to develop reliable models for recognising and measuring assets and liabilities
- Concessions related to certain aspects of consolidation
- Addresses:
 - What to do when reliable historical cost information is not available
 - Presentation of comparative information in transitional financial statements

3. IPSAS 33—How it works: 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 Business Enterprises (GBEs).

3. IPSAS 33—How it works: 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”

3. IPSAS 33—How it works: Exemptions

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

3. IPSAS 33—How it works: Exemptions

- Exemptions that do affect fair presentation and compliance:
 - 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

3. IPSAS 33—How it works: Exemptions

- Exemptions that do not affect fair presentation and compliance:
 - Some optional, some outline specific transitional arrangements.
 - No statement required in financial statements.

3. IPSAS 33—How it works: Exemptions

Exemptions that do affect fair presentation and compliance:

- Three year transitional relief period for recognition and measurement of specific assets and/or liabilities.
 - Assets: inventories, property, plant and equipment, investment property, biological assets, financial assets, service concession assets and intangible assets
 - Liabilities: financial liabilities, certain pension liabilities and employee benefit liabilities

3. IPSAS 33—How it works: Exemptions

Exemptions that do affect fair presentation and compliance:

- Three year transitional relief period for recognition and measurement of specific assets and/or liabilities.
 - Class by class, or category by category
 - To qualify for recognition & measurement exemption → assets and liabilities not previously recognized
 - If previously recognized, measurement only
 - Other exemptions provided because of delay in recognition or measurement.

3. IPSAS 33—How it works: Exemptions

Exemptions that do affect fair presentation and compliance:

- Three year relief for the recognition and measurement of non-exchange revenue
- Apply to different classes of revenue

3. IPSAS 33—How it works: Exemptions

Exemptions that do affect fair presentation and compliance:

- Three year relief for the recognition and measurement of investments in other entities (controlled entities, joint ventures and associates);
- Three year relief for the elimination of balances, transactions, revenues and expenses between entities (controlled entity, joint venture and associates).

3. IPSAS 33—How it works: Exemptions

Exemptions that do affect fair presentation and compliance:

- Three year relief for the disclosure of information about related party relationships, transactions and key management personnel.

3. IPSAS 33—How it works: Exemptions

Exemptions that do not affect fair presentation and compliance:

- Using deemed cost to measure assets and liabilities
 - Can use fair value as proxy for cost
 - If using three year relief period, anytime during period
- Comparative information not required, but present opening statement of financial position
- Segment reporting not required

3. IPSAS 33—How it works: Exemptions

Exemptions that do not affect fair presentation and compliance (*continued*):

- Specific requirements for initial adoption—main areas:
 - Employee benefits
 - Financial instruments
 - Intangible assets
 - Service concession arrangements
 - Consolidated financial statements
 - Joint arrangements

3. IPSAS 33—How it works: Disclosures

- Information for users of the transitional financial statements
- Disclosures during the transition period:
 - Explanation of transition to IPSASs
 - Reconciliations
 - Disclosures where deemed cost is used
 - Exemptions from disclosures in IPSASs

3. IPSAS 33 - How it works: Illustration

Background

- Government A 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.

3. IPSAS 33 - How it works: Illustration

Background

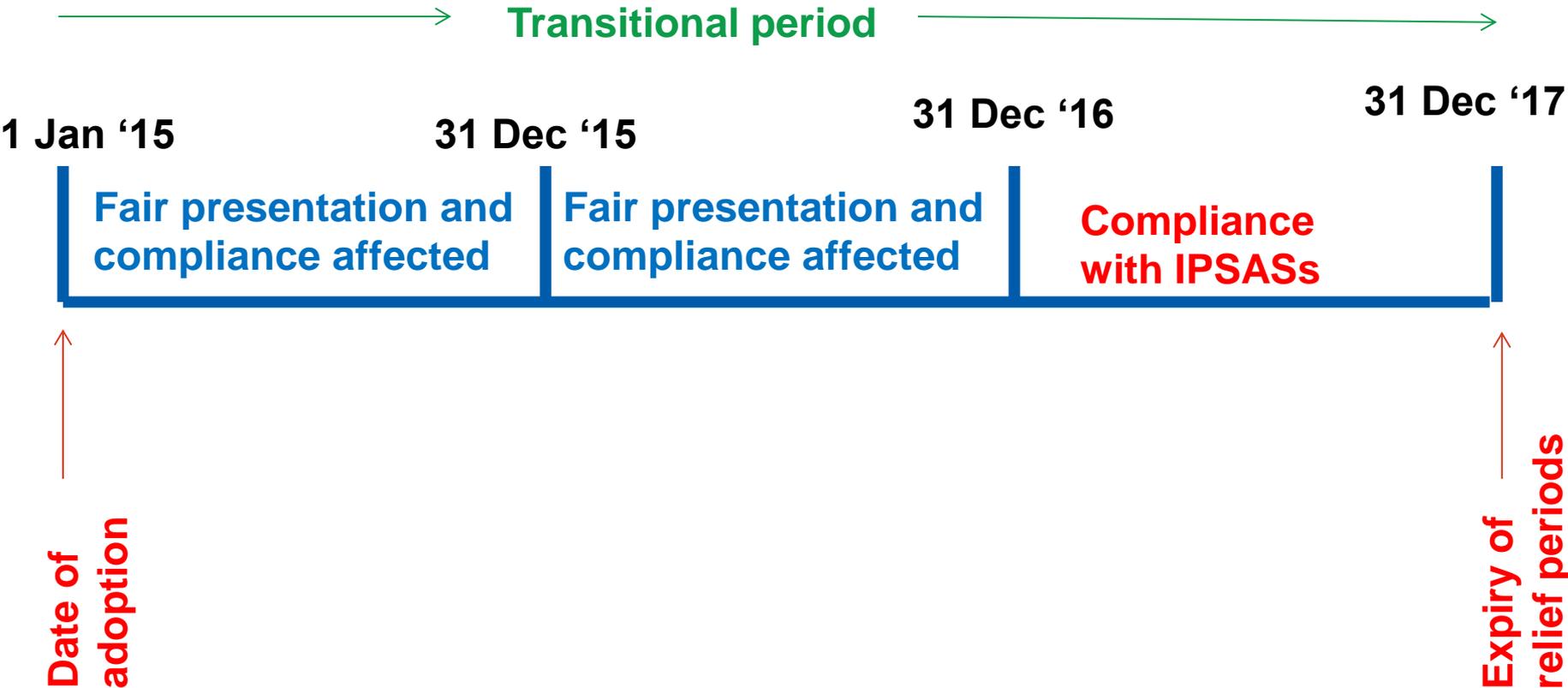
- Has started building models for the recognition of tax revenue, but data needs refinement.
- Has cost information for moveable assets.
- Had developed asset registers for immoveable assets, but has no cost information.
- Systems not well enough developed to provide asset and liability information for segments.
- Given lack of key data, adjustment of comparative information not possible.

3. IPSAS 33 – How its works: Illustration

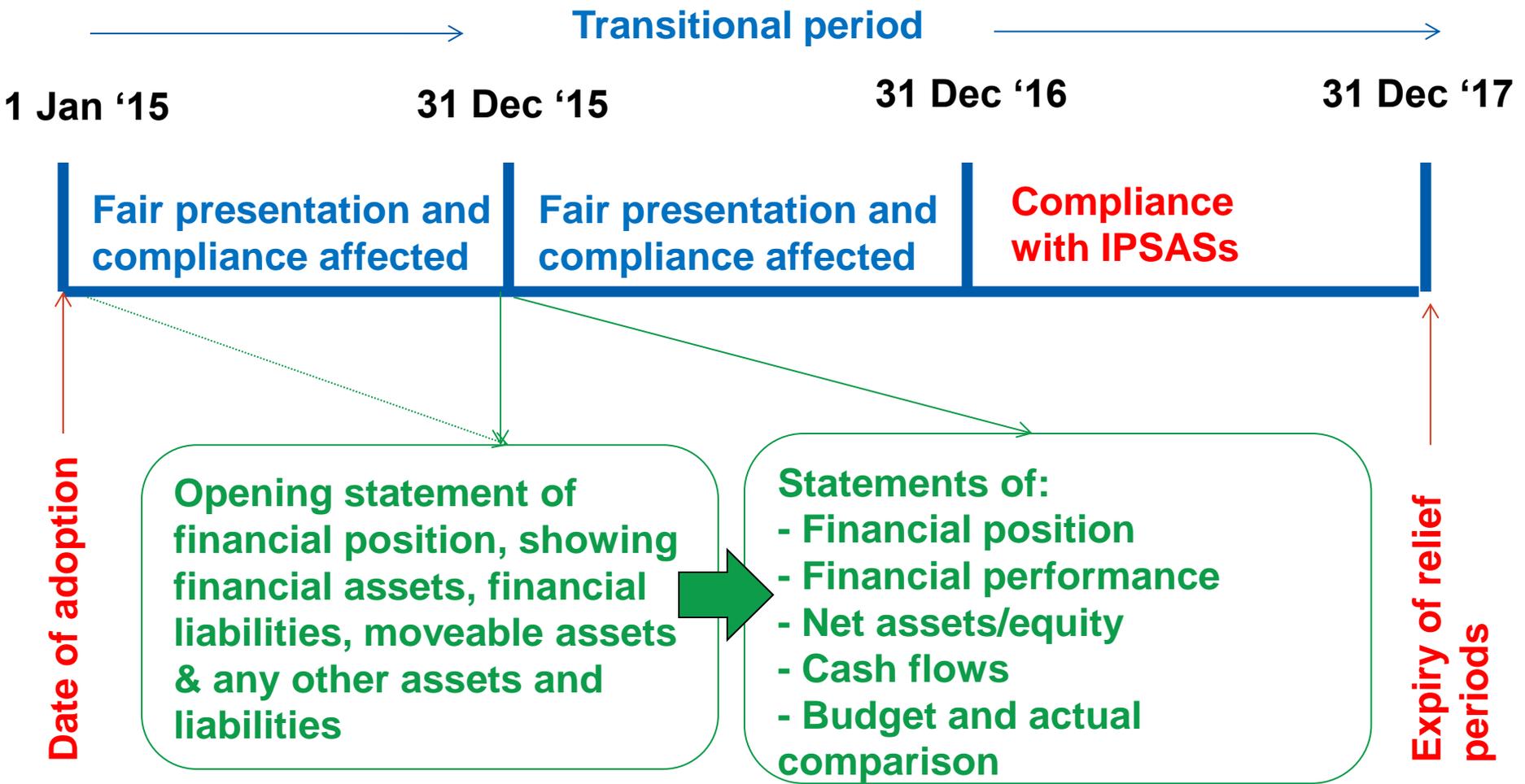
Based on reform plan, and own circumstances:

- 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.
- Use deemed cost for immoveable assets.
- To comply by 31 December 2017, date of adoption 1 January 2015.
- No comparative information.
- No segment reporting.

3. IPSAS 33 – How it works: Illustration



3. IPSAS 33 – How it works: Illustration



4. IPSAS Adoption Case Studies

MORE TRANSPARENCY
MORE TRANSPARENCY



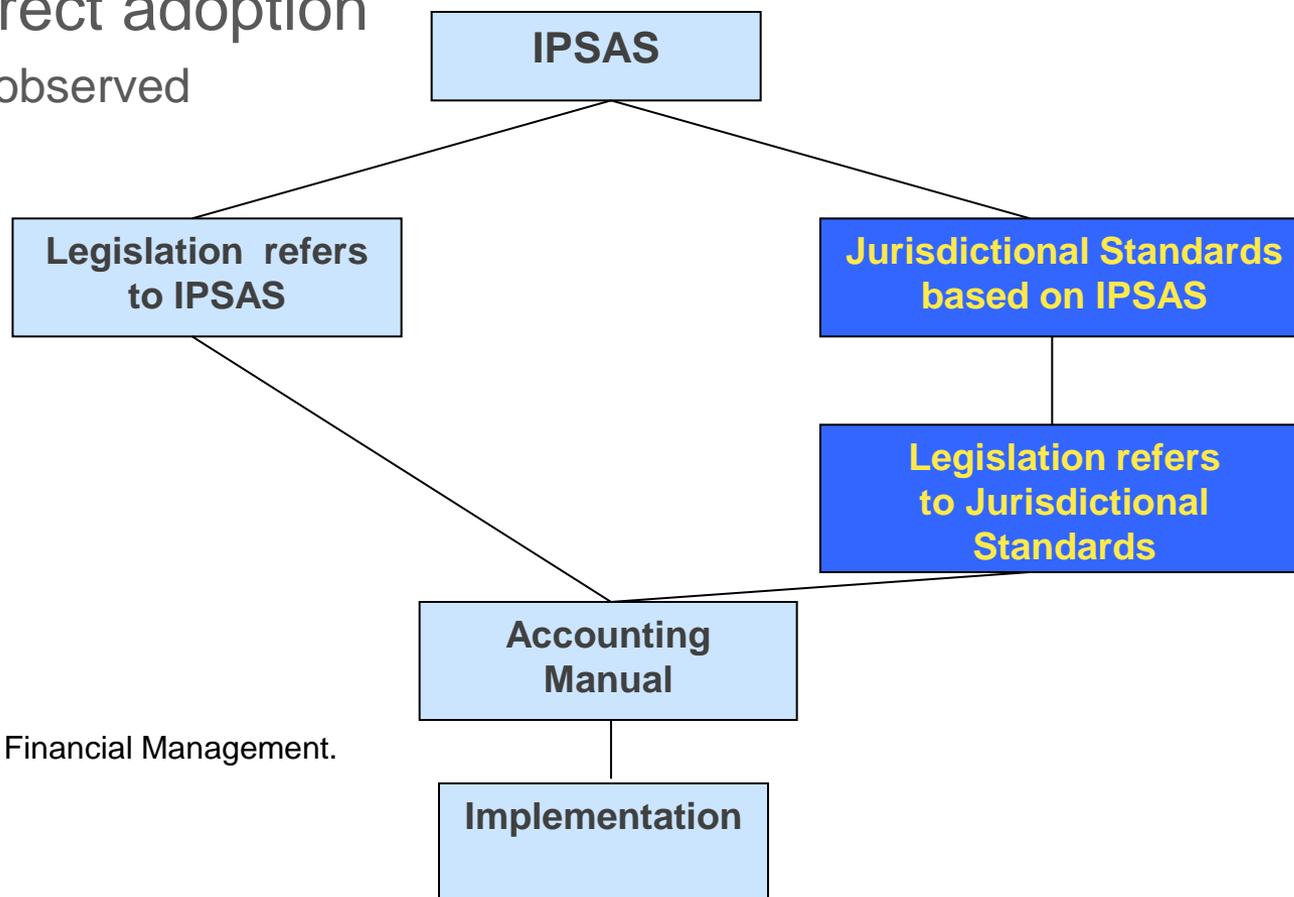
4. IPSAS Adoption Case Studies: Momentum in IPSAS Adoption

- Over 40 national governments have adopted IPSASs
 - Direct adoption, e.g. Switzerland, Austria, Estonia, Lithuania, Chile
 - Indirect adoption e.g. South Africa, Brazil, Indonesia, Malaysia, Spain, New Zealand
- IPSAS adopted by:
 - Lower levels of government, e.g. Prefecture of Tokyo, State of Geneva
 - International organizations, e.g. All United Nations System organizations, the OECD, NATO, Interpol and the European Commission

4. IPSAS Adoption Case Studies: Overview of Adoption Approach

- Direct vs. indirect adoption

- Same can be observed for IFRS



Source:
Bergmann, A: Public Sector Financial Management.
FT Prentice Hall, 2009.

Case study - Malaysia

- Adopted Cash Basis IPSASs in 2005:
 - Useful because introduced a disciplined approach to accounting
 - Considered a positive transitional move to full accruals
- Government announced move to develop Malaysian Public Sector Accounting Standards (MPSAS) based on IPSASs
- Adoption of MPSAS slated for 2015 for the federal government and 2016 for state governments

Case study - Switzerland

- In 2001, the Swiss Federal Finance Administration decided to overhaul the Swiss Confederation accounting system and to issue IPSAS compliant statements by 2007
- Main goals to:
 - Increase cost transparency at level of ministries and administrative units;
 - Provide adequate accounting framework when using performance budgeting; and
 - Restructure and develop the information technology within the federal administration

Questions Discussion & Further Information



- Visit our webpage <http://www.ipsasb.org/>
- Or contact us by e-mail:
Chair IPSASB: andreasbergmann@ipsasb.org
Technical Director: johnstanford@ipsasb.org