



IPSASs

(International Public Sector Accounting Standards)

AUDIT / TAX / ADVISORY / IG&H

Content

- ◆ **Brief history on Accountability and Transparency**
- ◆ **IPSASs in general**
- ◆ **Development in The Netherlands**
- ◆ **IPSASs specific**

Accountability and Transparency in the public sector (1)

Step 1: accountable only for financial aspects (till 1980's)

Step 2: accountable for the relationship budget and goals achieved (from input → throughput → output)

Step 3: accountable by stakeholder dialogue (1990's – 2004) (from input → throughput → output → outcome)

**Step 4: network organizations and stakeholder partnerships (2006 →)
(from input → throughput → output → outcome)**

Accountability and Transparency in the public sector (2)

- ◆ Current accounting (mixture of cash accounting and accrual accounting) policies are no longer sufficient to achieve the goals set by (Dutch) government
- ◆ New accounting policies could support the accountability and transparency goals set by stakeholders
- ◆ The change in organizing programs from 'ivory tower' to 'network partners'

Accountability and Transparency in the public sector (3)

◆ Q: In what stage of transparency is your organization?

IPSAS in general

◆ IFAC (approx 170 members, 120 countries)

- International Auditing and Assurance Standards Board (IAASB)
- Education Committee
- Ethics Committee
- Professional Accountants in Business (PAIB)
- International Public Sector Accounting Standards Board (IPSASB)

International Public Sector Accounting Standards Board (IPSASB)

◆ Objectives:

- Improving financial management
- Improving accountability and transparency

◆ Through:

- Reporting (financial and others) for governmental and government related organizations

◆ Support:

- benchmark guidelines
- Research and education
- Facilitating exchange of knowledge e.g. between auditors and stakeholders

Products IPSASB

- ◆ International Public Sector Accounting Standards (IPSASs)
- ◆ International Public Sector Guidelines
- ◆ International Public Sector Studies
- ◆ Occasional Papers

IPSASB: accrual based IPSASs

- ◆ IPSASs based on IFRS; adjusted for the public sector
- ◆ De IPSASB tries to maintain original text IFRSs
- ◆ Significant discrepancies requires adjustments
- ◆ Additional standards to IFRS or filling gaps
- ◆ Accrual IPSASs based on IFRSs → IASB “Framework for the preparation and Presentation of Financial Statements”

From Cash Basis to Accrual Basis

- ◆ **Implementing IPSAS is voluntarily**
- ◆ **Cash Basis IPSAS encourage disclosure of accrual based information**
- ◆ **IPSASB organizes transition periods which facilitate transfers from cash based to accrual based IPSAS**
- ◆ **After the transition periods the entity should report full compliance with accrual based IPSASs**
- ◆ **IPSAS 1 demands to disclose in which way the entity uses these transition periods**
- ◆ **Advise: from cash basis → accrual basis → accrual based IPSASs**

Critical IPSASs (accrual based)

- ◆ *IPSAS 1: Presentation of Financial Statements*
- ◆ **IPSAS 2: Cash Flow Statements**
- ◆ *IPSAS 6: Consolidated Financial Statements and Accounting for Controlled Entities*
- ◆ **IPSAS 9: Revenue from Exchange Transactions**
- ◆ **IPSAS 15: Financial Instruments: Disclosure and Presentation**
- ◆ **IPSAS 16: Investment Property**
- ◆ *IPSAS 17: Property, Plant and Equipment*
- ◆ *IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets*
- ◆ **IPSAS 21: Impairment of Non-Cash-Generating Assets**

Practice in The Netherlands (1)

Pilot ministry of Agriculture:

- ◆ Budget finances a wide range of activities like research (also NWO), education, EU-regulation
- ◆ Controls and control-function are in place
- ◆ Experienced with transition processes from cash/accrual accounting to accrual accounting

Practice in The Netherlands (2)

Objectives:

- ◆ Is the information based on accrual accounting of higher quality especially for the long term budgeting?
- ◆ Will the efficiency and effectiveness improve of the internal organization ?
- ◆ What are the consequences of implementing accrual accounting for the entire government?

Practice in The Netherlands (3)

Transition process ministry of Agriculture:

◆ Conversion:

- New accounting policies and implementing them fully (including consolidated entity's)
- New accounting ledgers
- Annual accounts 2005 transform in to accrual based IPSAS

◆ Accounting and reporting manual

Practice in The Netherlands (4)

- ◆ Consolidation criteria
- ◆ Actual costs/fair value
- ◆ Impairment of non-cash-generating assets
- ◆ Provisions
- ◆ Contingent liabilities
- ◆ Contingent assets
- ◆ Reserves

Practice in The Netherlands (5)

◆ Planning pilot ministry of Agriculture:

- 2006: implementing
- 2007: first year
- 2008: first results

◆ It's more complex then expected

Practice International

Implementing accrual based IPSAS:

- ◆ EC
- ◆ NATO
- ◆ World Bank
- ◆ Liechtenstein
- ◆ Canton's in Switzerland

IPSASs (Accrual based / IFRS) (1)

- ◆ **IPSAS 1 - *Presentation of Financial Statements***
 - *(IAS 1 Presentation of Financial Statements)*
- ◆ **IPSAS 2 - *Cash Flow Statements***
 - *(IAS 7 Cash Flow Statements)*
- ◆ **IPSAS 3 - *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies***
 - *(IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies)*
- ◆ **IPSAS 4 - *The Effects of Changes in Exchange Rates***
 - *(IAS 21 The effects of Changes in Exchange Rates)*

IPSASs (Accrual based / IFRS) (2)

- ◆ **IPSAS 5 - *Borrowing Costs***
 - *(IAS 23 Borrowing Costs)*
- ◆ **IPSAS 6 - *Consolidated Financial Statements and Accounting for Controlled Entities***
 - IAS 27 Consolidated Financial Statements and Accounting for Controlled Entities
- ◆ **IPSAS 7 - *Accounting for Investments in Associates***
 - IAS 28 Accounting for investments in Associates

IPSASs (Accrual based / IFRS) (3)

- ◆ **IPSAS 8 - *Financial Reporting of Interests in Joint Ventures***
 - IAS 31 Financial Reporting of Interests in Joint Ventures
- ◆ **IPSAS 9 - *Revenue from Exchange Transactions***
 - IAS 18 Revenue
- ◆ **IPSAS 10 - *Financial Reporting in Hyperinflationary Economies***
 - IAS 29 Financial Reporting in Hyperinflationary Economies
- ◆ **IPSAS 11 - *Construction Contracts***
 - IAS 11 Construction Contracts

IPSASs (Accrual based / IFRS) (4)

◆ IPSAS 12 – *Inventories*

- IAS 2 Inventories

◆ IPSAS 13 – *Leases*

- IAS 17 Leases

◆ IPSAS 14 - *Events After the Reporting Date*

- IAS 10 Events After the Balance

◆ IPSAS 15 - *Financial Instruments: Disclosure & Presentation*

- IAS 32 Financial Instruments: Disclosure & Presentation

◆ IPSAS 16 - *Investment Property*

- IAS 40 Investment Property

IPSASs (Accrual based / IFRS) (5)

- ◆ **IPSAS 17 - *Property, Plant and Equipment***
 - IAS 16 Property, Plant and Equipment
- ◆ **IPSAS 18 - *Segment Reporting***
 - IAS 14 Segment Reporting
- ◆ **IPSAS 19 - *Provisions, Contingent Liabilities and Contingent Assets***
 - IAS 37 Provisions, Contingent Liabilities and Assets
- ◆ **IPSAS 20 - *Related Party Disclosures***
 - IAS 24 Related Party Disclosures
- ◆ **IPSAS 21 - *Impairment of Non-Cash-Generating Assets***
 - IAS 36 Impairment of Assets

IFRSs and IPSASs (1)

- ◆ **IFRS 1 First-time adoption of IFRS**
- ◆ **IFRS 2 Share-based Payment**
- ◆ **IFRS 3 Business Combinations**
- ◆ **IFRS 4 Insurance Contracts**
- ◆ **IFRS 5 Non current Assets and Discontinued Operations**
- ◆ **IAS 1 Presentation of Financial Statements**
 - IPSAS 1 Presentation of Financial Statements
- ◆ **IAS 2 Inventories**
 - IPSAS 12 Inventories
- ◆ **IAS 7 Cash Flow Statements**
 - IPSAS 2 Cash Flow Statements

IFRSs and IPSASs (2)

- ◆ **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**
 - IPSAS 3: Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies
 - IPSAS 3 Exposure Draft: Accounting Policies Changing in Accounting Estimates and Errors
- ◆ **IAS 10 Events after the Balance Sheet Date**
 - IPSAS 14 Events After the Reporting Date
- ◆ **IAS 11 Construction Contracts**
 - IPSAS 11: Construction Contracts

IFRSs and IPSASs (3)

- ◆ **IAS 12 Income Taxes**
- ◆ **IAS 14 Segment Reporting**
 - IPSAS 18 Segment Reporting
- ◆ **IAS 16 Property, Plant and Equipment**
 - IPSAS 17 Property, Plant and Equipment
- ◆ **IAS 17 Leases**
 - IPSAS 13 Leases
- ◆ **IAS 18 Revenue**
 - IPSAS 9: Revenue from Exchange Transactions
- ◆ **IAS 19 Employee Benefits**

IFRSs and IPSASs (4)

- ◆ **IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**
- ◆ **IAS 21 The effects of changes in Foreign Exchange Rates**
 - IPSAS 4 The Effects of Changes in Foreign Exchange Rates
- ◆ **IAS 23 Borrowing costs**
 - IPSAS 5 Borrowing Costs
- ◆ **IAS 24 Related Party Disclosures**
 - IPSAS 20 Related Party Disclosures

IFRSs and IPSASs (5)

- ◆ **IAS 26 Accounting and Reporting by Retirement Benefit Plans**
- ◆ **IAS 27 Consolidated and Seperate Financial Statements**
 - IPSAS 6 Consolidated Financial Statements and Accounting for Controlled Entities
- ◆ **IAS 28 Investment in Associates**
 - IPSAS 7 Accounting for Investments in Associates
- ◆ **IAS 29 Financial Reporting in Hyperinflationary Economies**
 - IPSAS 10 Financial Reporting in Hyperinflationary Economies

IFRSs and IPSASs (6)

- ◆ **IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions**
- ◆ **IAS 31 Interests in Joint Ventures**
 - IPSAS 8 Financial Reporting of Interests in Joint Ventures
- ◆ **IAS 32 Financial Instruments: Disclosure and Presentation**
 - IPSAS 15 Financial Instruments: Disclosure and Presentation
- ◆ **IAS 33 Earnings per Share**
- ◆ **IAS 34 Interim Financial Reporting**

IFRSs and IPSASs (7)

- ◆ **IAS 36 Impairment of Assets**
 - IPSAS 21 Impairment of Non Cash Generating Assets
- ◆ **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**
 - IPSAS 19 Provisions, Contingent Liabilities and Assets
- ◆ **IAS 38 Intangible Assets**
- ◆ **IAS 39 Financial Instruments: Recognition and Measurement**
- ◆ **IAS 40 Investment Property**
 - IPSAS 16 Investment Property
- ◆ **IAS 41 Agriculture**

Summary

- ◆ IPSASs is an interesting phenomenon; broad implementation not on a shortterm
- ◆ First implementing accrual accounting
- ◆ It's food for thought in the not-for-profit sector

IPSAS 1: Presentation of Financial Statements (1)

- ◆ Refers IAS 1 Presentation of Financial Statements
- ◆ No considerable differences from IAS 1 !!
- ◆ A complete set financial statements contains:
 - Statement of financial position
 - Statement of financial performance
 - Statement of changes in net assets/equity
 - Cash flow statement
 - Disclosure of the accounting policies

Government Business Enterprises (1)

◆ IPSAS Guideline nr 1

- Has the authority to sign contracts
- Can run an ‘enterprise’
- Market oriented; at least full costs
- Going concern based on own activities
(no governmental support other than at arms length)
- Ownership by a government

Government Business Enterprises (2)

◆ **Exemples:**

- Railways
- Energy plants
- Telecom
- Water supply
- Research equipment

◆ **IAS/IFRS is applicable (not IPSAS)!**

◆ **Q: whom of you is in this position?**

IPSAS 1: Presentation of Financial Statements (2)

- ◆ **Statement of financial position should include:**
 - Plant, property and equipment
 - Immaterial assets
 - Financial assets
 - Provisions

- ◆ **Q: what are the consequences for your organization?**

IPSAS 6: Consolidated financial statements and Accounting for Controlled Entities

- ◆ No considerable differences from IAS 27
- ◆ Entity presents consolidated financial statements and disclose the entities which she controls
- ◆ Control is the power to govern and to gain from
- ◆ Transition period: It's accepted in the first 3 years of implementing accrual based IPSAS to ignore eliminations for the consolidation
- ◆ Q: what are the consequences for your organization?

IPSAS 17: Property, Plant and Equipment (1)

- ◆ Refers to IAS 16 Property, Plant and Equipment
- ◆ Significant deviation of IAS 16:
 - Does not concern historical assets (b.v. historical buildings, monuments, art) unless they have “service potential” (b.v. rent)
- ◆ Transition
 - It’s allowed during the first 5 years of adopting accrual based IPSAS to ignore (classes of) property, plant and equipment
 - First adoption based on fair value is allowed

IPSAS 17: Property, Plant and Equipment (2)

◆ Example of PPE:

- Roads, water and energy equipment
- Telescopes
- Specialized research equipment

◆ Split assets into different components (b.v. top layer of a road, buildings, inspecting assets)

◆ First valuation: historical costs → revaluation

◆ Revaluation based on: taxation, comparable assets, reproduction

IPSAS 17: Property, Plant and Equipment (3)

- ◆ Example of “classes”: land, roads, buildings, ships, oilrigs,
- ◆ Impairment based on IPSAS 21
- ◆ Depreciation methods relating to economic advantages or services rendered

- ◆ Q: what are the consequences for your organization?

IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets (1)

- ◆ **Based on IAS 37 Provisions, Contingent Liabilities and Assets**
- ◆ **Important deviations:**
 - Does not include social security obligations
 - Does not include pensions (IAS 19)
 - Does include restructuring costs

IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets (2)

◆ Examples:

- Guaranties on goods delivered
- Poluted soil
- Outsourcing
- Contracts which includes financial losses
- Lawsuits

◆ Q: what are the consequences for your organization?

To expect from IPSASB, other

- ◆ Revenue from Non-Exchange Transactions (comprising taxes and Transfers)
- ◆ Accounting for Social Policies of Governments
- ◆ Employee Benefits

Questions?
