International Public Sector Accounting Standards (IPSASs)

Vs

International Financial Reporting Standards (IFRS)

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What will we cover

- Background to IPSAS
- Why IPSAS
- IPSAS Vs IFRS
- Overview of IPSAS Adoption and key challenges
- Conclusion

IFAC, PAAB & ICAZ Public Sector Project

Setting up of PSTF

IPSASB Projects

ICAZ Public Sector Thrust

Background to IPSAS

Issues public entities are facing today

Transparency and accountability	• As the economy is going through turbulence, high quality accounting and financial reporting standards are vitally needed in the public sector to enhance transparency and accountability
Demand for timely information	• Citizens, parliament and other interest groups are increasingly demanding timely, reliable and detailed information
Dependency on capital markets	• As public sector entities look forward to raise financing for different developmental projects, investors, lenders are not satisfied when provided with only cash information – they want a broader range of data
Robust financial management systems	• Financier and donor organisations are urging their beneficiaries to implement robust and sound public financial management systems. IPSAS are the only globally accepted set of standards for the public sector

Why does IPSAS/accrual accounting matter?

- Just a few headlines
  - Ex-Mutare town clerk up for fraud……
  - 3 Harare councillors arrested…….
  - Details of Zimbabwe's $7bn debt revealed for first time
  - Byo in precarious financial position
- Who is next to follow?
- But it is clear : Uncertainty damages the economic development
- Transparency and Accountability – Relevant for all our us

The Need for High-Quality and Timely Accrual-Based Financial Reporting in the Public Sector

- A key issue for public sector financial reporting is that the government, local authorities and government bodies and agencies still adhere to the cash basis of accounting,
- This therefore provide minimal disclosures relative to what the public, banks, investors, and credit providers generally expect of the private sector.
- Given the prominence of banks and private sector investors in holding government debt, it is of no surprise that there is a growing demand for the same level of financial transparency and accountability from the public sector as is expected from the private sector.

The Need for High-Quality and Timely Accrual-Based Financial Reporting in the Public Sector

- Current cash-based accounting systems, which operate in many public sector bodies in Zimbabwe, may provide inappropriate incentives for decision makers.
- For example, should we offer wage increases to workers today, or whether to offer them increased pension benefits that they can access at a future date.

Cash Accounting Vs Accrual Accounting

The Need for High-Quality and Timely Accrual-Based Financial Reporting in the Public Sector

- Only through a high-quality, robust, and effective accrual-based financial reporting system can all government assets and liabilities (including debt) be appropriately recorded, reported, and disclosed, and hence effectively monitored.
- It is imperative for governments to address long-term sustainability and the welfare of future generations should compel governments to recognize and act, now and into the future, to enhance the reporting, transparency, accountability, and decision-making of the public sector.

IPSAS – Applies to who??

- **IPSASs are the international financial reporting standards for public sector**
- 39 Standards approved (accrual basis) covering all main areas of government activity, 1 cash basis standard
- The standards are designed for Public Sector entities other than Government Business Enterprises (which should use IFRS), i.e. IPSASs are for non-commercial organizations

Which entities listed below would be required to report under IPSAS

GMB	ZINARA	POSB
City of Bulawayo	EasiPark	Telone
ZESA	REA	

GBE

<u>Government Business Enterprise</u> means an entity that has all the following characteristics:

(a) Is an entity with the power to contract in its own name;

(b) Has been assigned the financial and operational authority to carry on a business;

(c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;

(d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

(e) Is controlled by a public sector entity.

IPSAS Vs IFRS

IPSAS and IFRS siblings

- International Public Sector Accountancy Standards (IPSAS) is considered the definitive set of accrual-based international accounting standards for the public sector.
- There is a close relationship between IPSAS and International Financial Reporting Standards (IFRS) due to the fact that IPSAS standards are largely based on the principles of IFRS.
- The rationale for drawing from IFRS is to ensure greater comparability between private and public sector reporting when accounting for similar types of transactions.
- However, IFRSs are developed primarily for profit-oriented entities, whereas IPSASs are written for public sector entities that provide services to enhance and maintain the well-being of the citizens of a state.
- These differences between the two reporting frameworks stem primarily from the following three sources:
  - Changes made by the IPSASB when developing an equivalent IPSAS based on an IFRS, to reflect differences between the public and private sectors
  - Differences in the range of topics covered by the two sets of standards because of differences in the prevalence of particular types of transactions, such as non-exchange transactions
  - Differences in the timing of when new or amended requirements are introduced into each set of standards

Process of setting IPSAS standards

IFRS

IPSASB standard setting process which considers public sector specific requirements through sector focused research

Due process through public Consultation

Issue an IPSAS

Key principle in developing IPSAS

«Transaction Neutral Approach»

If transaction is the same in private and public sector, the accounting should be the same

Public sector is different: Key characteristics

- Volume and Significance of *Non-Exchange* transactions such as Taxes and Transfers, or the provision of goods and services in a non-market environment
- Importance of *Budget*
- Nature of PPE: To *provide goods/services* – not cash generation, often *very specific nature*
- Responsibility for *Heritage*
- *Longevity* of public sector entities
- *Regulatory* role of government
- Ownership or control of rights to *natural resources*
- *Statistical reporting*

Key differences between IPSAS and IFRS

Service potential as part of the definitions and recognition criteria

- Many of the assets and liabilities of entities within the public sector are acquired or incurred as a result of the entity's service delivery mandate, for example, heritage assets and parks maintained for public access.
- IPSAS introduces the concept of service potential into the definition of assets, liabilities, revenue and expenses. Service potential is also a supplementary recognition criterion to account for items that do not result in the inflow or outflow of economic benefits, where an item either contributes to or detract from the entity's ability to deliver its services

Key differences between IPSAS and IFRS

Exchange vs non-exchange transactions

- Non-exchange transactions are those transactions where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Within the public sector non-exchange transactions are prevalent.
- **Examples of Non-exchange revenue transactions (IPSAS 23) vs 1AS 18:**
  - **Taxes and levies**
  - **Donations and grants**
  - **Fines**

Key differences between IPSAS and IFRS

Impairment of non-cash-generating assets

- In light of the assets recognized based purely on their service potential (as opposed to economic benefits), IPSAS also caters specifically for impairment considerations for non-cash-generating assets. IFRS assumes that all assets will be cash-generating; whereas IPSAS assumes that the majority of a public sector entity's assets are likely to be non-cash generating. IPSAS 21 *Impairment of Non-cash-generating Assets* provides specific guidance on how to determine the value-in-use of such assets.

Key differences between IPSAS and IFRS

Recognition of revenue from government grants

- IPSAS focuses on whether there is entitlement to the revenue from government grants (even though there may be restrictions on how the funds are spent), or an obligation to meet certain conditions, which is recorded as liability.
- The distinction between restrictions and conditions is crucial in determining whether or not to recognize revenue from a non-exchange transaction.
- As a result, government grants are generally fully released to income earlier under IPSAS than under IFRS.
- Another key issue is on the recognition of donations in kind – services.

Key differences between IPSAS and IFRS

Reporting of budgets vs actual

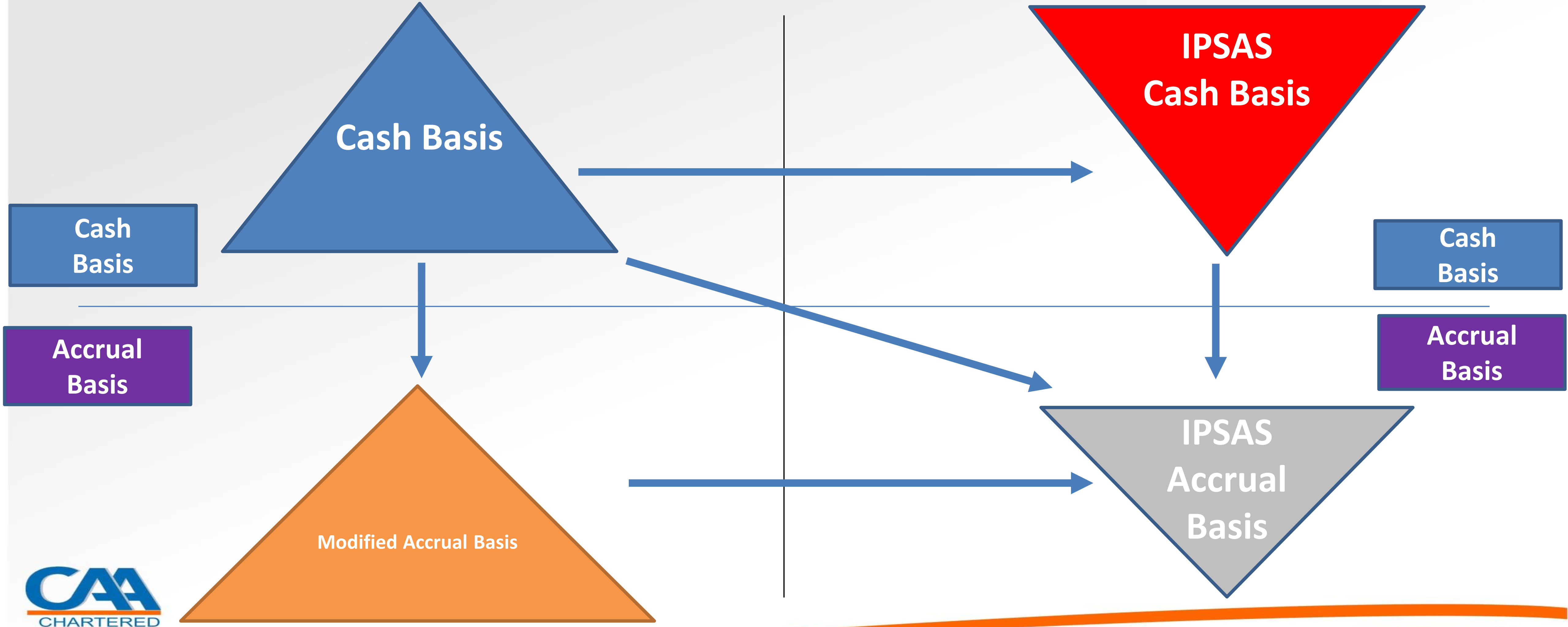
- With the increased focus on stewardship, service delivery and budget management in the public sector, IPSAS requires a comparison of the actual financial performance of an entity with the approved budget of that entity, where the budget is publicly available.
- There is no equivalent requirement in IFRS.

Key differences between IPSAS and IFRS

Elimination of private sector specific concepts

- **IFRS 2,**
- **IAS 33**
- **IAS 12**

Roadmap to IPSAS Adoption



Implementation path

Project Initiation

Approval

Training

Gap Analysis

Strategy for implementation

Conversion 1

- Cash IPSAS
- Update sytems
- Update controls
- Update Manuals
- Training
- PILOT IPSAS

Conversion 2

- Accrual IPSAS
- 3 years
- Training
- Updating

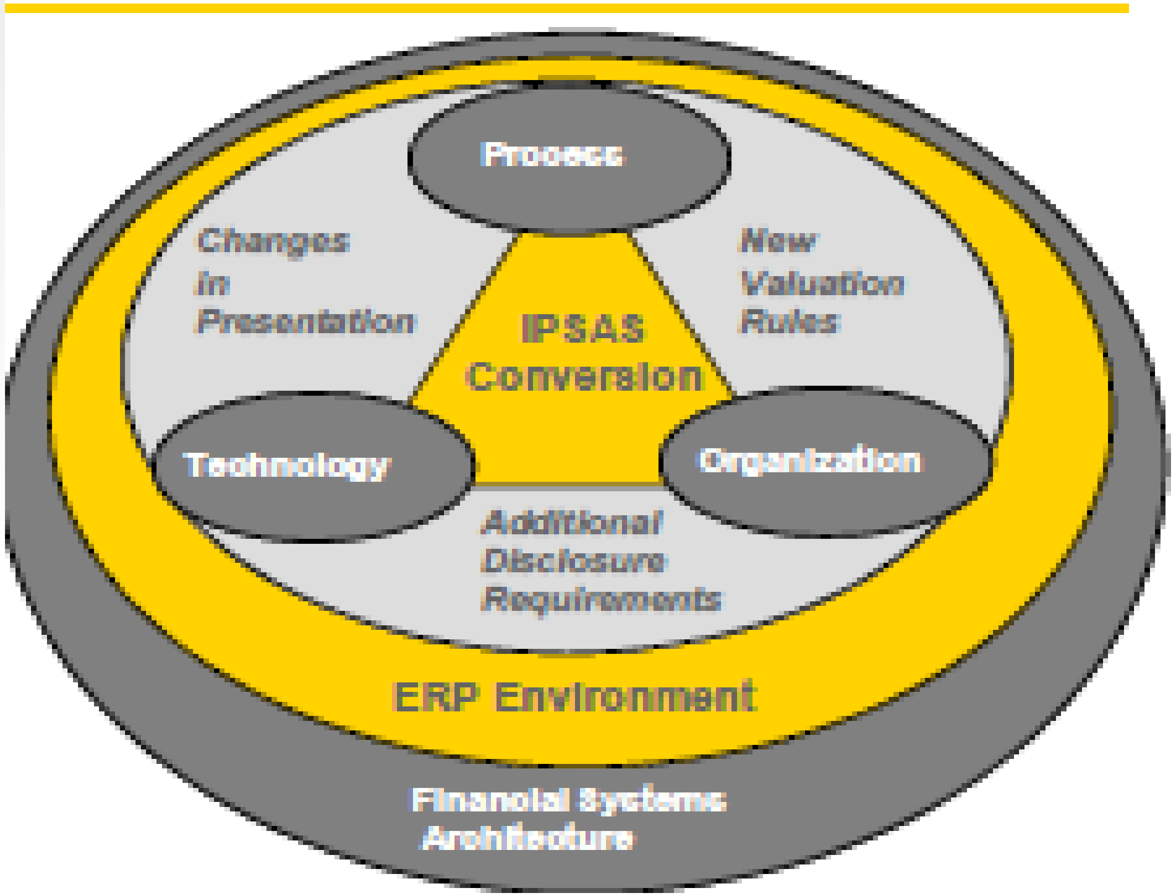
Embed

- Intergrate
- Review
- Change management
- Train

Conversion impact and challenges

Main challenges

- Political/Executive support
- Legal framework support
- Accrual Accounting know how/capacity building
- Staff capacities to reform
- IT systems support
- Registration and measurement of assets and liabilities/opening balance sheet



Questions