

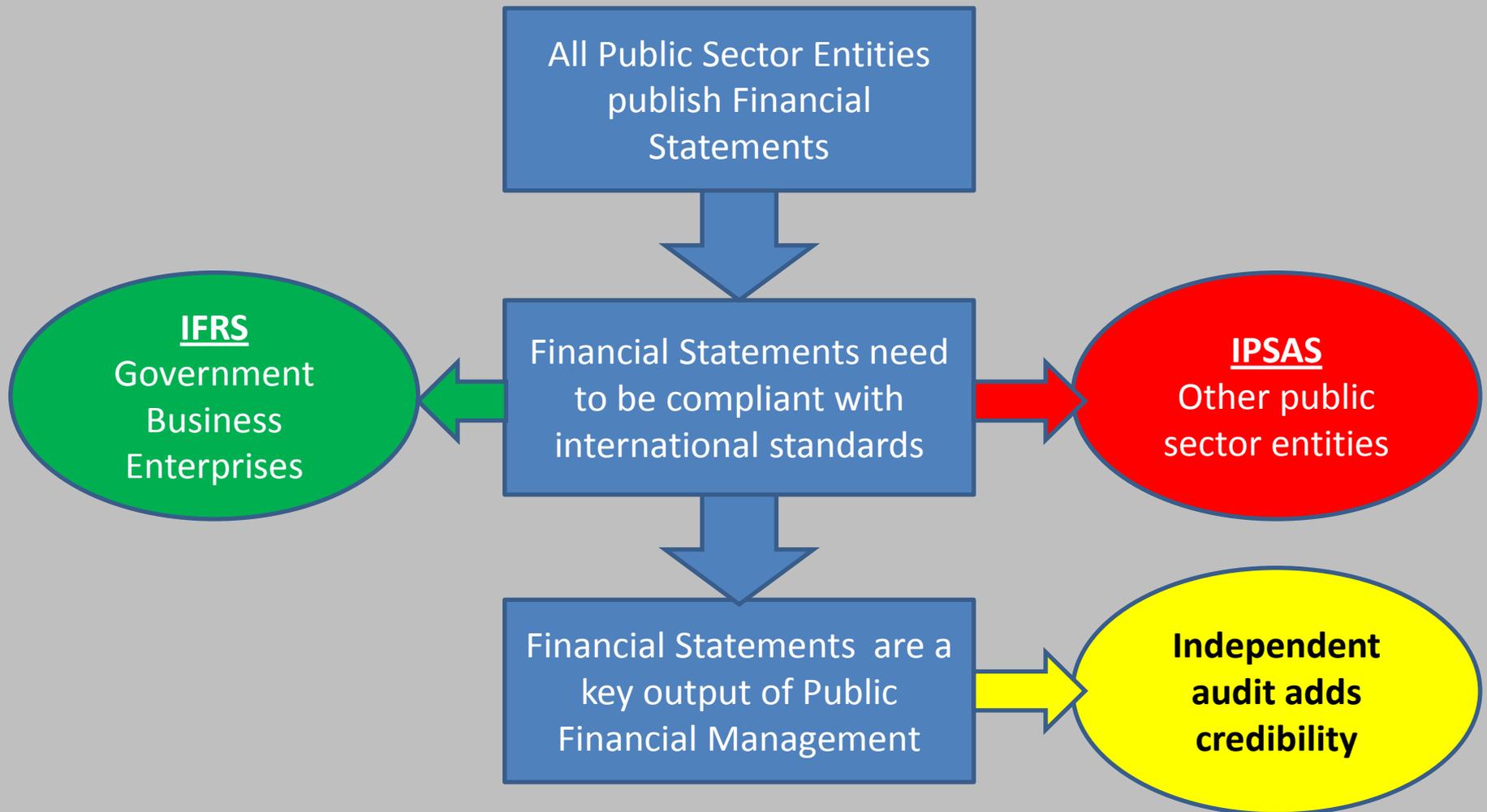
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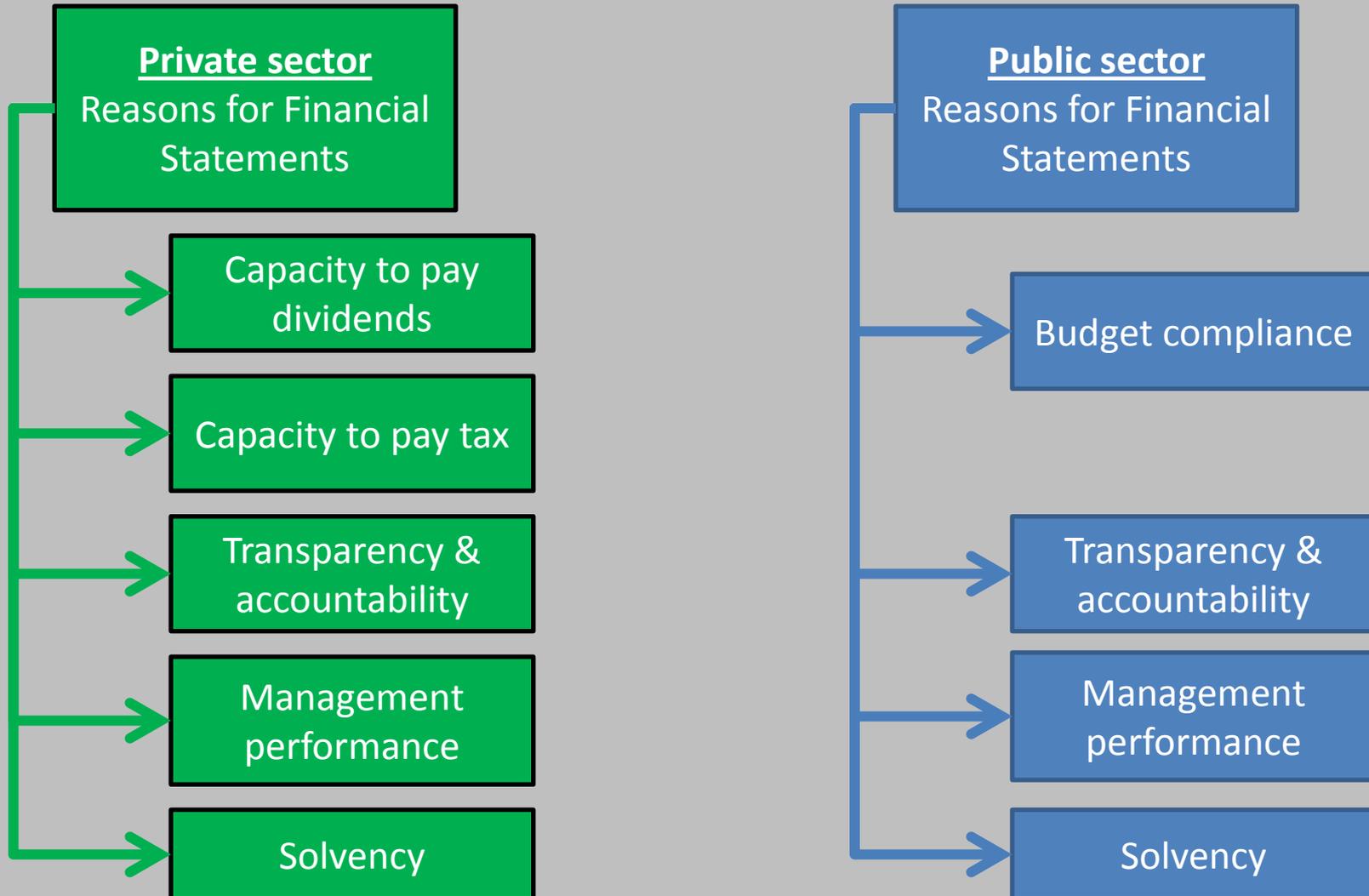
Ljubljana April 2011

**IPSAS and Public Financial
Management Reform**

IPSAS - implicit assumptions



Comparison of reasons for Financial Statements in public & private sectors



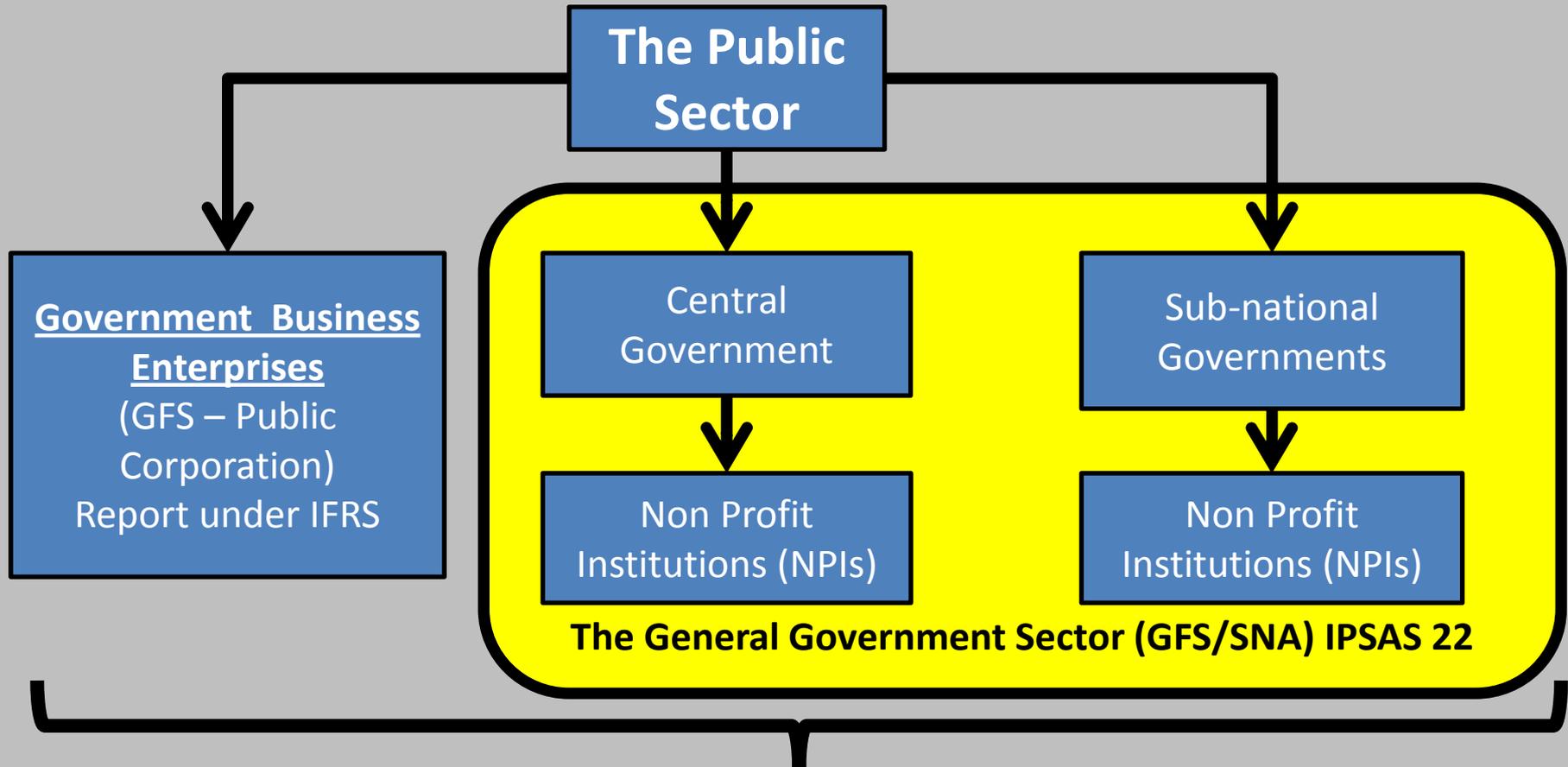
Implications of IPSAS compliance

- Published Financial Statements
 - Which entities? – Central government? Local government? Other agencies?
- Must define accounting policies, e.g.
 - Basis of accounting
- Accounting systems and procedures must be consistent with IPSAS requirements
 - Recognition, measurement, valuation
 - Chart of accounts must enable IPSAS reporting
- Must be able to compare budget with accounting information (IPSAS 24)
 - Internal and budget reporting should be consistent with IPSAS requirements

Key IPSAS Issues

1. Basis of accounting?
 - IPSAS 24 & budget comparison
2. IPSAS or national standards?
3. The accounting entity
4. IPSAS and statistical reporting systems, e.g. GFS, ESA90, UN SNA
5. Key stages in transition to IPSAS

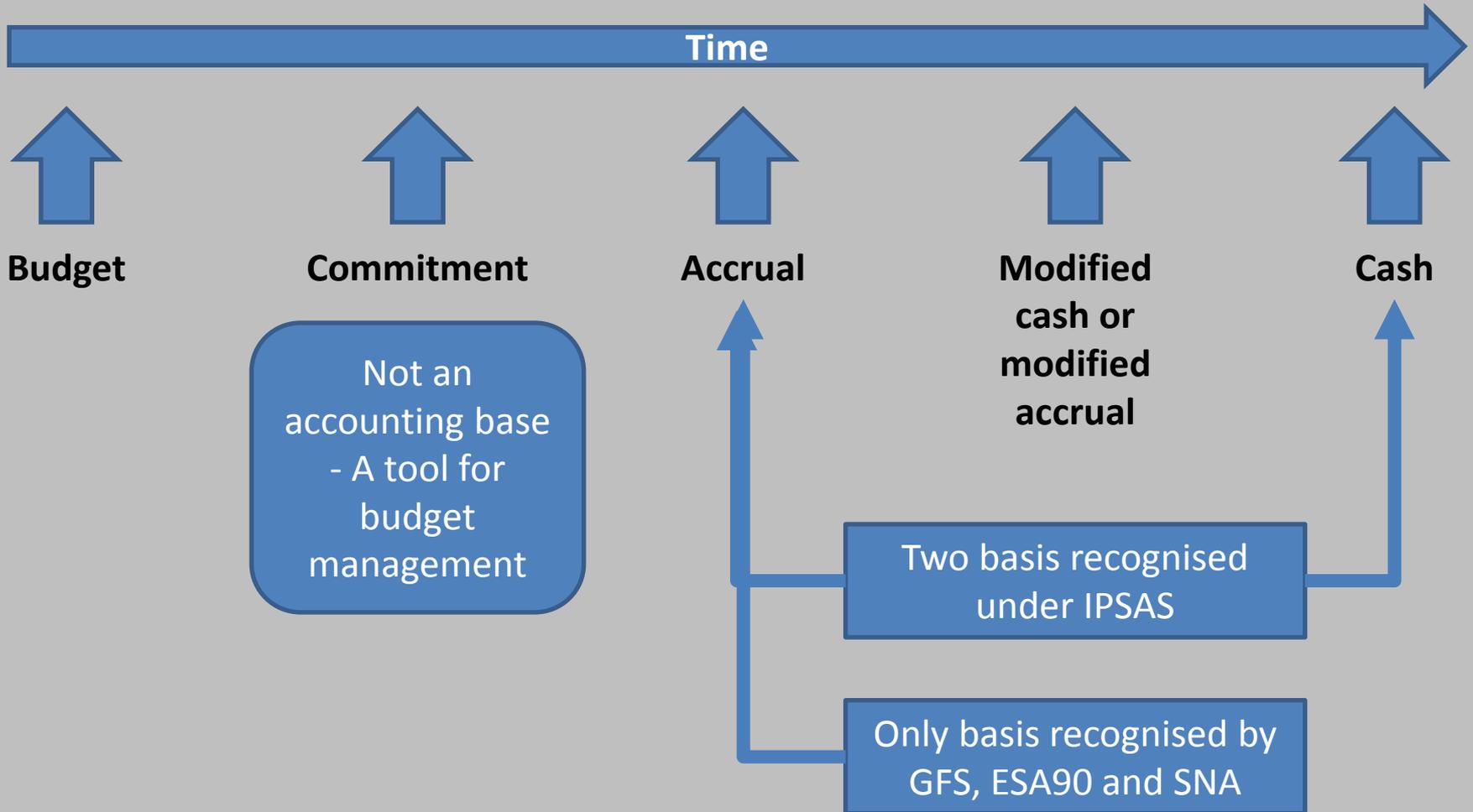
The Reporting Entity



IPSAS requirements:

- Financial Statements for each entity
- Consolidated Financial Statements on basis of control

Basis of accounting



Accounting basis in region

- Budgets modified cash basis
 - Modified cash because budgets recognise financing flows
 - No intention of moving to accrual budgeting
- Treasury – cash basis
 - Cash expenditures
 - Cash revenues
- Ministries & budget organisations
 - Some elements of accrual
 - Not usually a double entry system

Accrual pros and cons

Arguments for accrual

- Compliance international standards – GFS, ESA90, IPSAS accrual standards
- Provides better measure of resources consumed since includes all economic flows
- Improved control by including all assets & liabilities
- Enables meaningful Financial Statements enhancing transparency & accountability

Arguments against accrual

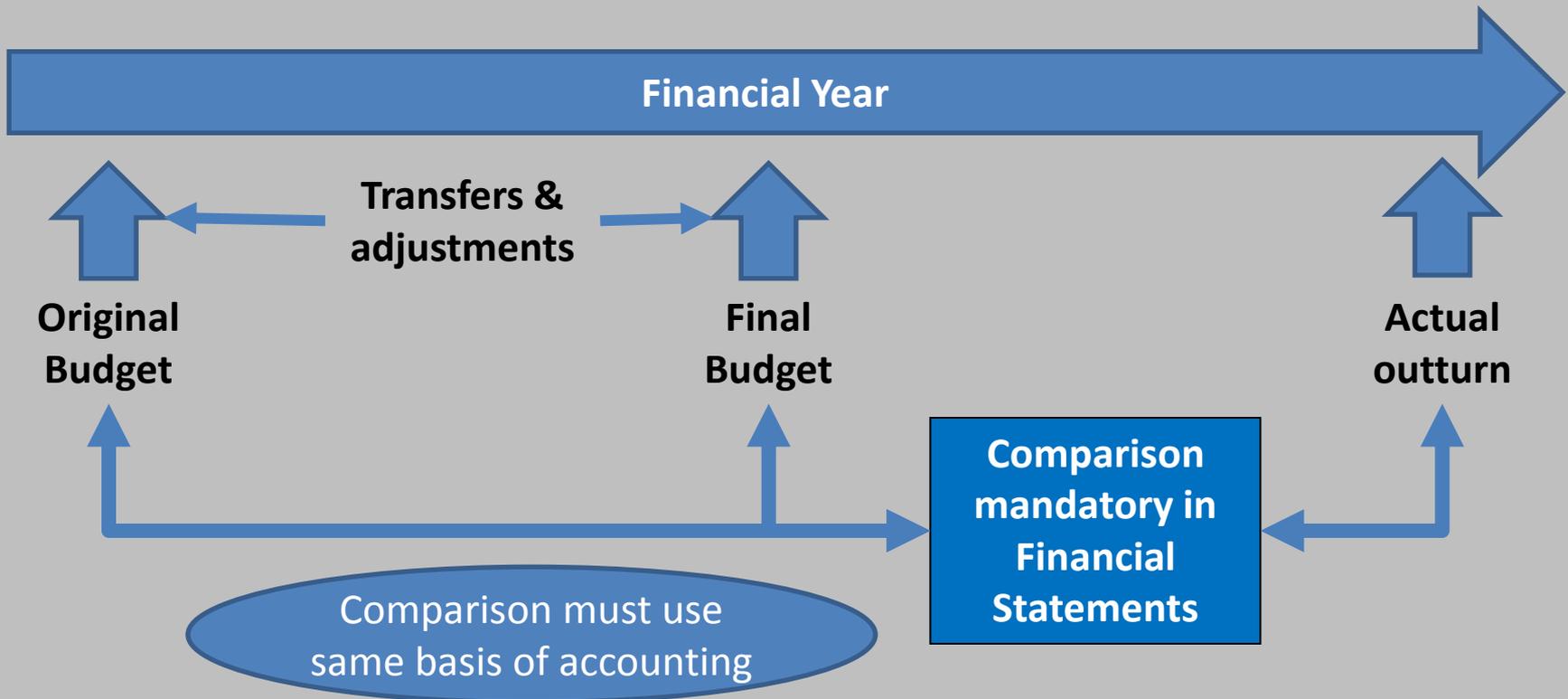
- Not consistent with budget basis making comparison difficult
- Costs of implementing accrual
- Accrual valuations and measures have an element of subjectivity leading to imprecision of conclusions
- Shortage of skilled resources able to implement accrual accounting

Conclusions on accrual accounting

- Accrual accounting is the preferred basis of accounting
- Cash flow information remains essential for:
 - Liquidity and debt management
 - Comparisons with budget
- Essential that human capacity is in place before implementing accrual
- Implementing full accrual may be a low priority for many countries
 - Modified cash a valid interim stage
 - May be used for many years before full accrual
- No general agreement on moving to accrual budgeting

Budget comparison

- IPSAS 24 & Cash Basis IPSAS require comparison actual to budget
- Comparison must be on same basis of accounting
- Provides model for budget reports



Technical problems IPSAS 24

- Comparison on same basis of accounting
 - If accrual in use for accounting then cash information must be available for IPSAS 24 budget comparison
 - **BUT** many COTS accounting packages cannot generate line item cash analysis
- Comparison original and final budget
 - **BUT** many COTS accounting packages do not hold both budgets
- Hence requirements must be mandatory requirements in system specification

Pros and Cons of national standards

For national standards

- Specific to requirements and capabilities of country
- Automatically a legal requirement
- Compliance feasible
- May be only way of achieving compliance with standards

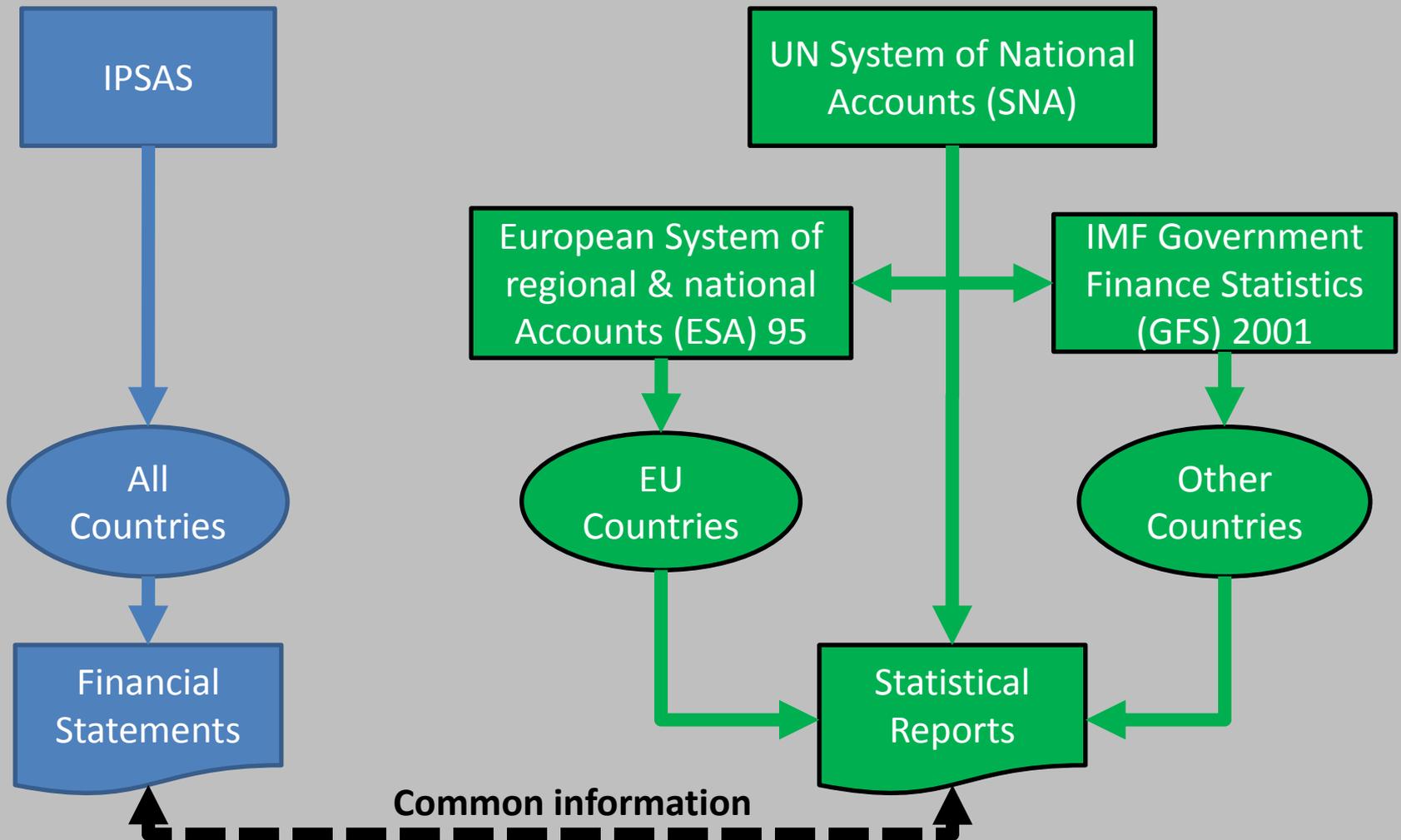
Against national standards

- Decision needed whether to adopt or adapt IPSAS
 - Adoption simply makes IPSAS legal within country; no other change
 - Adaption requires time & effort; loses international compliance
- Problem of keeping up to date

Conclusions on national standards

- Most countries will require national legally adopted standards
- As far as feasible these should simply adopt IPSAS
 - Simplicity
 - Ease of updating
- Some requirements may need to be omitted or deferred to make compliance feasible, e.g.
 - Use of a modified cash/modified accrual basis for an extended interim period
 - Postponement of some requirements, e.g. GBE consolidation, foreign aid disclosures

IPSAS & Statistical Reporting



Comparison IPSAS & Statistical Reporting

IPSAS

- Applies to Financial Statements for:
 1. Individual entities
 2. Controlling entities e.g. Government
- Objective: Audited Financial Statements
- Allows cash or accrual basis

GFS and ESA95

- General Government Sector of each country
 - ESA95 – EU
 - GFS other countries
- Objective: statistical reports
 - No audit
- Accrual basis
 - But cash reporting accepted

Conclusions on IPSAS & Statistical Reporting

- Different objectives but use common financial information
- All are reporting systems
 - Not intended to prescribe accounting procedures or systems
 - Hence accounting processes and systems should be designed to generate both Financial Statements and statistical reports
- IPSAS valuation and measurement rules generally acceptable for statistical reporting
 - Despite numerous conceptual and definitional differences

Transition to IPSAS

Stage	Comment
1. Establish legal basis	Legislation, Accounting Standards Board, adoption or adaption process
2. Translate IPSAS	Requires IFAC agreement on copyright
3. Identify entities required to publish IPSAS compliant Financial Statements	Central Government; sub-national governments; Non Profit Institutions
4. Decide on cash or accrual basis IPSAS – if former is this a transition stage to full accrual?	If modified cash/accrual to be used initially then must be either (i) Additional Disclosures under Part II of Cash Basis IPSAS or (ii) National Standard
5. Ensure adequate procedures, systems and human capacity	Requires planning and training. New or upgraded IT systems and software may be required
6. Pilot test preparing IPSAS compliant financial statements	Essential to pilot in a few Ministries before full implementation
7. Plan and implement phased transition	May involve progressive implementation of IPSAS and/or move to accrual