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Global perspectives: Roadmap for fixed asset management reform
and IPSAS implementation experiences









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Agenda



- Fixed asset management reform For what purporse?
- How does a roadmap for fixed asset management reforms typically look like?
- What are challenges faced in practice and experiences when implementing IPSAS in terms of fixed assets?

Macro perspective

- In the recent global financial crisis, governments' balance sheets have become an important instrument of macroeconomic policy
- Given that total liabilities of governments are much larger than debt alone, fixed assets become a relevant component in the overall evaluation of a government's financial health
- IMF also found that strong balance sheets enhance a government's economic resilience
- Currently low interest rates, put greater focus on sound investing in and management of fixed assets

Micro perspective

- Fixed assets such as infrastructure, military assets or property play a major role in an entity's balance sheet
- Fixed assets in a government's balance sheet reflect i.a. their service potential
- Accounting for fixed assets is essential for knowing what a government owns
- Only when governments know what fixed assets they own, their size and nature, they can manage them effectively in the interest of efficient and effective service provision:
 - O by avoiding misallocation
 - O by avoiding misfunction

How does a roadmap for fixed asset management reforms typically look like? (1)

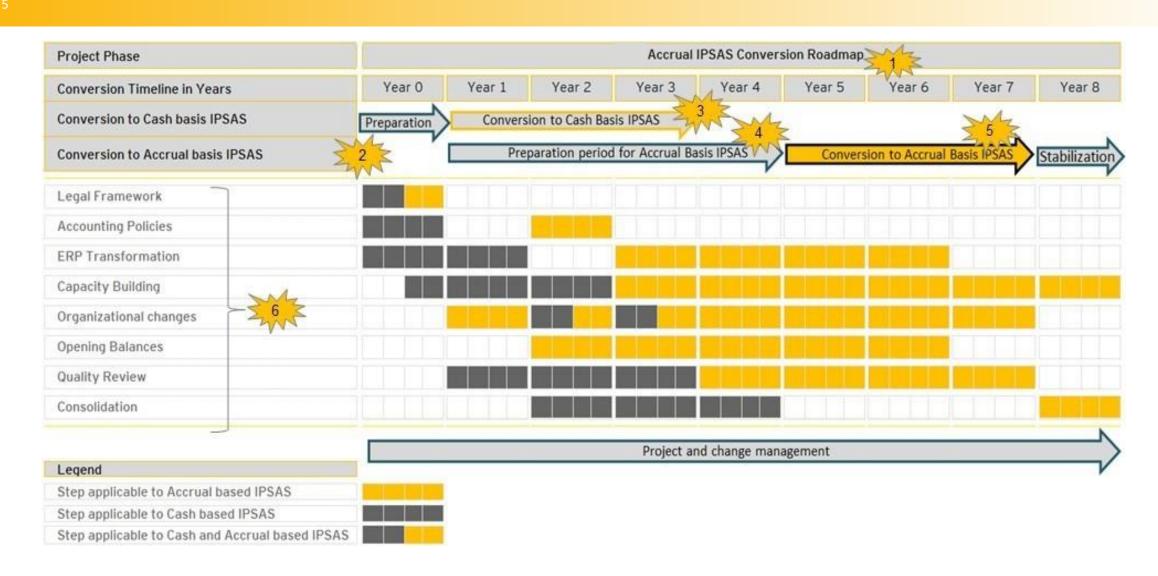


	Balance	e Sheet	0				
	Assets	Liabilities	Revenues	Expenses	Other Flows	Institutions	
Phase 0: Cash Accounting	Cash balances	Bank overdrafts Debt	Cash receipts	Cash payments	None	Budgetary Central Government	
Phase 1: Elementary Accrual Accounting	Trade receivables Prepayments	Trade payables	Accrued trade revenue	Accrued expenses excluding depreciation	None	Central Government	
Phase 2: Advanced Accrual Accounting	Equity Investments	Other financial liabilities Long-term liabilities (e.g., pensions)	Accrued non-tax receivables	None	Valuation changes in financial assets and liabilities Provisions	General Government	
Phase 3: Full Accrual Accounting	Fixed and intangible assets Inventories Tax receivables	Monetary financial instruments	Accrued receivables	Depreciation	Valuation changes in non-financial assets	Public Sector	

Source: IMF, Implementing Accrual Accounting in the Public Sector, April 2016, p. 13.

How does a roadmap for fixed asset management reforms typically look like? (2)





How does a roadmap for fixed asset management reforms typically look like? (3)



Accrual Basis Implementation Plan

No	Title of task	Responsibility	Duration of tasks								
			Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
6	Opening Balances										
6.1	Develop instructions for compiling opening balances with an aim of adopting accrual based IPSAS for first time at the <u>Beginning of Year 5.</u> <u>First Time Transitional IPSAS</u> financial statements will be produced in <u>Year 5</u> . This is with an aim of having a Three Year Transitional Relief Period for Recognition and/or Measurement of Assets & Liabilities so as to reach full IPSAS Compliance by End of Year 7 (Within a Period of 3 years) NB: This will be a staged approach of compiling easily identifiable and measurable short terms assets and liabilities immediately while giving a considerable period to compile long term assets and liabilities in the long run.	Accrual Based IPSAS Implementation Steering Committee commissioned by the Accountant General									
6,2	Phase 1 - Elementary Accrual Accounting										
6.2.1	Identify PPE	Head of Accounting Unit - National Government Entities & Chief Finance Officer - County Government Entities									
6.2.1.1	Identify Immovable PP&E (Land & Buildings, Infrastructure (Roads & Bridges), Service Concession Assets i.e public-private partnerships, Community Assets)	Head of Accounting Unit - National Government Entities & Chief Finance Officer - County Government Entities									
6.2.1.2	Identify movable PP&E (Motor Vehicle, Leased Assets, etc.)	Head of Accounting Unit - National Government Entities & Chief Finance Officer - County Government Entities									
6.2.2	Identify Intangible assets	Head of Accounting Unit - National Government Entities & Chief Finance Officer - County Government Entities									
6.2.3	Identify, Register and Measure Provisions	Head of Accounting Unit - National Government Entities & Chief Finance Officer - County Government Entities									
6.2.3.1	Register and measure Provision for Doubtful Debts	Head of Accounting Unit - National Government Entities & Chief Finance Officer - County Government Entities									
6.2.3.2	Identify Service Concession Liabilities i.e public-private partnerships	Head of Accounting Unit - National Government Entities & Chief Finance Officer - County Government Entities									

What are challenges faced in practice and experiences when implementing IPSAS in terms of fixed assets? (1)



The first-time adoption dilemma

Completeness of assets and liabilities

Affects transparency and comparability

Measurement of assets and liabilities

Time and resource constraints

What are challenges faced in practice and experiences when implementing IPSAS in terms of fixed assets? (2)



Challenges faced (1)

- Number and complexity of fixed assets (e.g. military or infrastructure assets)
- Identification of suitable measurement values for items of fixed assets, e.g.
 - O lack of historical cost data or lack of data for comparable assets
 - O historical cost versus current value
 - O statistical methods to estimate historical cost
 - O appraisals by experts
 - O Searching for measurement-relevant information in archives
- Treatment of military, infrastructure or heritage assets at first-time adoption (e.g. componentization, measurement difficulties, recognition or no recognition)

What are challenges faced in practice and experiences when implementing IPSAS in terms of fixed assets? (3)



Challenges faced (2)

- Necessity of involving non-accounting specialist experts, such as engineers, which typically follow a different approach
- Component approach
- Classification of fixed assets
- Identification of all fixed assets
- Data integrity (relevant data is spread over different stand-alone data sources and these sources are not linked)
- Treatment of fixed assets that are still in use but fully depreciated in the books
- Lack/shortage of skilled resources

What are challenges faced in practice and experiences when implementing IPSAS in terms of fixed assets? (4)



Experiences

- IPSAS 33's transition period of three years does not mean that there are only three years!
- Component approach considered to be complex
- Different approaches re. capitalization thresholds, e.g.
 - O One capitalization thresholds for all fixed assets versus asset class-specific thresholds
 - O Common cross-jurisdictional capitatization thresholds versus jurisdiction-individual thresholds
- Centralized versus decentralized approach for fixed assets management
- Principle of economic control can help with ownership issues
- Clear and concise guidance for first-time adoption can smoothen registration and measurement of fixed assets at first-time adoption
- Accounting for liabilities related to contribution-/ grant-funded fixed assets can be difficult
- 80/20-method: Focus on those entities in terms of registration where fixed assets are concentrated.