PULSAR

PERSPECTIVES FOR
THE FUTURE

TECHNICAL NOTE

FIRST-TIME ADOPTION OF ACCRUAL BASIS IPSAS

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Acronyms

ACCA	Association of Chartered Certified Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CPE	Continuing Professional Education
CU	Cumulative Units
DRC	Depreciated Replacement Cost
EduCoP	Education Community of Practice
FinCoP	Financial Reporting Community of Practice
FMIS	Financial Management Information System
GRC	Gross Replacement Cost
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IT	Information Technology
MoF	Ministry of Finance
PFM	Public Financial Management
PPE	Property, plants and equipment
PSA	Public Sector Accounting
PULSAR	Public Sector Accounting and Reporting Program
SAI	Supreme Audit Institution

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Preface

The Public Sector Accounting and Reporting (PULSAR) Program, launched in 2017, is a regional and country level program in 13 beneficiary countries of Europe and Central Asia. Its objective is to support the enhancement of public sector accounting and financial reporting frameworks in line with international standards and good practices to improve government accountability, transparency, and performance.

The objectives and scope of the PULSAR Program are jointly determined by the PULSAR Partners - Austria, Switzerland, and the World Bank – who also provide institutional support for its implementation and mobilize the resources needed for its activities. Beneficiary countries help shape the program through regional cooperation platforms and inputs to two Communities of Practice: FinCoP on Financial Reporting, and EduCoP on Education.

More information about the PULSAR program and its publications is available online at: **www.pulsarprogram.org.**

Executive Summary

The objective of this Technical Note is to: (i) provide practical guidance based on worldwide experience to public sector accounting (PSA) practitioners, who intend to implement accrual basis IPSAS[1] directly or indirectly for the first time, and (ii) summarize key concepts of IPSAS 33.[2] Jurisdictions[3] and public sector entities around the world are encouraged to adopt IPSAS directly (i.e., without altering any of their requirements), applying IPSAS 33 *First-time Adoption of Accrual Basis IPSAS*, which was issued by the IPSAS Board (IPSASB) in January 2015. However, it should be noted that in practice many jurisdictions decide to implement IPSAS indirectly (i.e., through a national endorsement process, adjusting for any specific jurisdictional features). But even in that case the use of IPSAS 33 remains relevant and helpful.

IPSAS 33 distinguishes between a preparation phase, which can take as long as needed and precedes the adoption of IPSAS 33, and a transitional period following the adoption of IPSAS 33, which may not exceed three years. During this transitional period, IPSAS 33 allows a first-time adopter to take advantage of various exemptions. After the transitional period, jurisdictions should present financial statements in full compliance with IPSAS.

IPSAS 33 is designed for a phased rather than a "big-bang" approach to IPSAS implementation. It should be noted that when a first-time adopter takes advantage of the exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS, it will not be able to make an explicit and unreserved statement of compliance with the IPSAS framework as a whole during the period of transition (of up to three years).

Based on an analysis of countries' experiences discussed in this paper (included in Chapter 6 and depicted in Table 1 below), most of the jurisdictions included in the sample, with the exception of New Zealand, prefer a phased implementation approach that enables them to adopt a more flexible implementation timeline and distribute the impact of the reform over a longer period of time. On the other hand, only one jurisdiction actually used IPSAS 33 for first-time IPSAS adoption; this was at the subnational level. In terms of the IPSAS adoption approach, most of the selected jurisdictions preferred to use direct IPSAS adoption; however, there is no clear correlation with the use of transitional provisions during the three-year period after the formal IPSAS adoption.

Another key lesson learned from experiences in different jurisdictions around the world is that implementing accrual based IPSAS is a long and arduous process. Consequently, while IPSAS 33 significantly eases the burden for entities adopting accrual basis IPSAS for the first time, its successful implementation can be greatly enhanced by an overarching and comprehensive reform strategy.

[1] International Public Sector Accounting Standards (IPSAS) are a set of accounting standards, issued by IPSASB, for use by public sector entities in the preparation of financial statements.
[2] This Technical Note discusses the version of IPSAS 33, which includes amendments resulting from IPSAS issued up to January 31, 2019 which assumes that the entity early adopted IPSAS 41 Financial Instruments.
[3] Jurisdiction is referred to a national or subnational government that have authority of a sovereign power to govern or legislate.

Table 1. IPSAS first-time adoption summary

Country	IPSAS adoption approach	Reform implementation approach	Use of IPSAS 33[4]	Use of transitional provisions
Costa Rica	Direct	Phased	No	Yes
Malaysia	Indirect	Phased	No	No
New Zealand	Direct	Big bang	No	No
Nigeria: Ekiti and Lagos States	Direct	Phased	Yes	Yes
Switzerland	Direct	Phased	No	No
Tanzania	Direct	Phased	No	Yes

Jurisdictions should consider the transitional period in IPSAS 33 as the last stage of the adoption process and allow for ample preparation time before announcing the date of IPSAS adoption, as after that date only three years remain before full compliance is required. Jurisdictions should also exercise restraint in applying the wide range of transitional provisions, as they limit the benefits of IPSAS adoption and reduce the integrity and transparency of the financial statements during the transition.

Jurisdictions should develop an implementation strategy and plan that establish a credible timeframe for the accounting reforms that are to take place before the date of adoption and should apply a phased approach to the implementation to manage the risks. Key elements of such a strategy include consideration of information technology (IT) systems and processes, human capacity, and important implications of the planned reforms.

Special attention should be paid to the amendment of the existing legal and regulatory frameworks, and their alignment with the IPSAS framework. Development and enactment of a specific law on public sector accounting is a great way to prioritize and support the PSA agenda in each jurisdiction.

It should be noted that IPSAS implementation will require a considerable amount of collaboration and coordination between the Ministry of Finance (MoF) or another agency/body (appointed as champion of the reform implementation) and other key institutional stakeholders such as the Treasury, tax administration authorities, and the Supreme Audit Institution (SAI).

Ultimately, continuous training and capacity building efforts throughout the whole duration of the IPSAS reform (including the preparation phase) will play a critical role in successful implementation of the entire reform. In Section 2 "Planning ahead for IPSAS adoption" this Technical Note offers good examples of different capacity building approaches that may be considered to address the specific circumstances and training needs of each jurisdiction.

[4] One of the main reasons of not using IPSAS 33 is the fact that the IPSAS implementation process started prior to issuance of this standard.

1

INTRODUCTION

The main objective of this Technical Note is to: (i) provide practical guidance based on worldwide experience to public sector accounting (PSA) practitioners who intend to implement accrual basis IPSAS directly or indirectly for the first time and (ii) summarize key concepts of IPSAS 33. Jurisdictions and public sector entities are encouraged to apply IPSAS 33 *First-time Adoption of Accrual Basis IPSAS*. This Technical Note provides an integrated perspective on the preparation necessary before adopting IPSAS 33; it explains the main requirements and exemptions in the standard, and provides practical guidance rooted in international country experiences.

This Technical Note continues a series of knowledge products, developed under the PULSAR program, such as the "Roadmap to Public Sector Accounting Reform: Good Practice Template."[5] The roadmap provides comprehensive guidance for implementation of PSA reforms and includes important considerations such as the reform approach, implementation, monitoring, governance, organizational capacity, communication and culture, and includes an illustrative example of the preparation of an opening statement of financial position as well as a disclosure and presentation checklist.

The guidelines presented here are meant to assist with the application of IPSAS 33 but are not a substitute for comprehending the entire standard. IPSAS 33 is not a rigid guideline for first-time implementation, as it allows for a variety of exemptions. Consequently, it is not a substitute for an overarching and comprehensive reform strategy. IPSAS 33 can serve as an important framework for designing reform milestones, but it also does not substitute for strategic decisions. This Technical Note is subordinate to the ultimate authority on IPSAS requirements, the IPSASB Handbook, which is available at **www.ipsasb.org**.

IPSAS 33 is a standard developed for jurisdictions which implement the full suite of IPSAS standards directly, i.e., without making any changes to the standards. However, many countries implement IPSAS indirectly, which means that they use IPSAS as a basis for development or revision of a national PSA framework, which usually differ from IPSAS by making country-specific adaptations. These adaptations may relate to terminology, the choice of options offered by IPSAS, the inclusion of additional guidelines, or outright deviations from IPSAS such as the omission of certain standards. However, it should be noted that even if a jurisdiction seeks to implement IPSAS indirectly, IPSAS 33 can be useful to this process.

[5] Available at: https://cfrr.worldbank.org/publications/roadmap-public-sector-accounting-reform-good-practice-template

The main objective of IPSAS 33 is to ensure that the first financial statements that use accrual IPSAS:

- Provide transparent reporting about the transition to IPSAS;
- Provide a suitable starting point for compliance with IPSAS;
- Are generated at a cost that does not exceed the benefits.

Jurisdictions are required to apply IPSAS 33 when they prepare and present annual financial statements during the transition to accrual basis IPSAS. A first-time adopter is the jurisdiction or entity that adopts accrual basis IPSAS for the first time and presents its first transitional IPSAS financial statements. IPSAS 33 equally applies to first-time adopters whose previous accounting policies are cash-based, accrual-based, or hybrid.

The background of the development of IPSAS 33 was the acknowledgement by the IPSASB that the implementation of the full suite of IPSAS accrual accounting standards is a complicated undertaking. By issuing IPSAS 33, the IPSASB provides relief to entities that embark on this challenging change process. IPSAS 33 does not cover the entire period of IPSAS implementation. In fact, it applies when much of the planning has already been done and the entity is in the final stages of moving towards full accrual basis IPSAS compliance.

The structure of this Technical Note follows a logical sequential order in time:

- Section 2 addresses activities that need to be carried out before the date of IPSAS adoption;
- Sections 3-5 treat activities that need to be carried out after the date of IPSAS adoption;
- Section 6 provides an overview of the experience of IPSAS first-time implementation by several jurisdictions around the world;
- Section 7 documents key findings and recommendations related to the subject matter.

2

PLANNING AHEAD FOR IPSAS 33 ADOPTION

IPSAS 33 provides a comprehensive set of principles that provide relief to entities that adopt the accrual basis IPSAS for the first time. However, the IPSASB emphasizes that the first-time adopter should not just rely on the relief periods in IPSAS 33 to get ready for the transition to IPSAS. The IPSASB encourages jurisdictions to ensure proper planning for the transition and in advance of formal adoption of IPSAS 33. IPSASB[6] provides guidance on the transition to the accrual basis of accounting for public sector entities. One of the first PULSAR publications, "Roadmap to Public Sector Accounting Reform: Good Practice Template"[7] provides more insights on the sequence and key elements of public sector accounting implementation reform in general. The IMF also provides guidance on the implementation of accrual accounting in the public sector (IMF, 2016).[8]

There is a need for a clearly sequenced and phased strategy with a credible timeframe for implementation of accrual accounting prior to IPSAS adoption. The strategy for implementation should take into account multiple factors, including, among others: (i) political support and willingness of the key stakeholders; (ii) agreement on a feasible implementation timeline; (iii) amendment of current legal and regulatory frameworks; (iv) availability of required resources, including financial and human; (v) establishment of proper reform coordination and management arrangements; (vi) definition of risk management and mitigation mechanisms; (vii) development of change management and capacity building strategy, including development and implementation of communication, dissemination, and training plans; (viii) integration between different PFM functions/systems, such as accounting, budgeting, treasury, revenues, debt, procurement, etc.; and (ix) upgrading of existing or development of a new Financial Management Information System (FMIS) (which, ideally, should be able to integrate the operation of the key above-mentioned PFM functions). Additional insights on the key elements of reform implementation can be found in another PULSAR publication, "Drivers of Public Sector Accounting Reform",[9] which focuses on helping governments identify, consider, and nurture drivers of those reforms.

As can be noted in the preceding paragraph, IPSAS implementation is an ambitious and long-term reform that will require a lot of effort and resources. However,

[6] IPSASB. Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities. Third Edition, January 2011. URL: https://www.ifac.org/system/files/publications/files/IPSASB-study-14-3e.pdf
[7] World Bank. Roadmap to Public Sector Accounting Reform: Good Practice Template. 2018. URL: https://cfrr.worldbank.org/publications/roadmap-public-sector-accounting-reform-good-practice-template
[8] Cavanagh, J., S. Flynn, and D. Moretti (2016). Implementing Accrual Accounting in the Public Sector. IMF, Fiscal Affairs Department. September 2016. URL: https://www.imf.org/external/pubs/ft/tnm/2016/tnm1606.pdf
[9] Available at: https://cfrr.worldbank.org/publications/pulsar-drivers-public-sector-accounting-reforms.

the implementation of PSA reform, based on a robust set of international standards for the public sector and good international practices, such as IPSAS, represents an opportunity for jurisdictions to not only improve the quality and reliability of their financial information that could be used for decision-making but also to:

- Assess the financial position, financial performance, and cash flows of the governments;
- Promote consistency and further comparability with peers at both regional and global levels;
- Strengthen public investment planning and state assets management;
- Achieve greater levels of fiscal transparency and accountability, which could contribute to improvement of credit ratings assessed by the credit ratings agencies.

Due to better decision-making enabled by the improved data availability, implementation of PSA reform could also have the following indirect benefits:

- Improves the quality of public services;
- Ensures fiscal stability and promotes national economic growth;
- Improves the acceptability and credibility of governments.

As mentioned above, it should be noted that IPSAS implementation will require a considerable amount of collaboration and coordination between the Ministry of Finance (MoF) or another agency/body, appointed as champion for reform implementation, and other key institutional stakeholders, such as treasury and tax administration authorities, and the Supreme Audit Institution (SAI). The role of the SAI is particularly relevant during the entire implementation process, since external auditors could become powerful allies during the reform preparation, implementation, and evaluation. For instance, the external auditors should be timely trained in the new regulatory framework, and they might also be involved in validation of the amounts reported in the opening balance sheet.

In general, an implementation strategy can be based on one of two approaches – a "big bang" or a phased approach. A big bang approach entails a switch from the pre-IPSAS accounting system to full IPSAS compliance commencing from a particular date. By contrast, a phased approach involves the progressive implementation of improvements in a planned sequence, with the aim of meeting IPSAS requirements to the fullest extent practicable by the end of the final phase. IPSAS 33 is designed for a phased approach, i.e., includes some exemptions over a period not exceeding three years. In some jurisdictions, the big bang approach is the only option due to administrative law requiring entities to follow formal legislation for financial reporting, which may not permit entities to phase the implementation, while the parallel dry run of both systems usually is costly and requires additional operational capacity.

This technical note recommends a phased approach to the implementation of IPSAS. A big-bang approach, under which all or most of the requirements of IPSAS would be implemented by all government entities from a specific date, involves risks such as a high dependence on external consultants and a crowding-out of internal organizational skills. A big bang approach could lead to a significant delay in startup while all the preparations necessary to be ready for a full implementation are completed.

By contrast, a phased approach enables the jurisdictions to demonstrate quick wins by allowing some IPSAS requirements to be met in the short term, with progressive implementation of IPSAS over the medium term. A phased approach also allows time to build IPSAS-related skills and expertise in keeping with the pace of implementation. Considering the existing accounting framework, the IT-systems in place, and the capacity of staff, a phased approach, in which the identified gaps compared to IPSAS are closed and the quality of the accounting information is improved progressively during an implementation phase, is typically more appropriate. However, it should be noticed that a phased approach also has risks, mainly consisting of: (i) longer implementation periods; (ii) reform fatigue; and (iii) loss of momentum and political support.

Sequencing the IPSAS reforms

In sequencing the phases of IPSAS implementation, getting the basics right is a guiding principle. One of the basics of government accounting is "account for cash before accounting for accruals." The implementation plan should therefore start with compliance with IPSAS 2 Cash Flow Statements, which is one of the standards from the accrual-basis suite of IPSAS standards.[10]

Other guiding principles in sequencing the phases are the core objectives of government financial reporting: accountability and decision-making. The financial statements are useful if they provide high-quality information about assets and liabilities that directly affect these objectives. The largest asset class, which is important for both accountability and decision-making purposes, is fixed assets (including infrastructure assets). On the liability side, most notably large items are public debt and pension liabilities, both of which expose the government to important liquidity and market risks. Hence, the implementation plan should prioritize the recognition and disclosures of the largest items on balance sheet. For instance, PULSAR's paper on "Strengthening fixed asset management through public sector accounting"[11] provides more insights on fixed asset recording and reporting.

Jurisdictional circumstances should also be considered during sequencing. For example, in former Soviet countries, asset registries and accounting are usually already quite strong. Such strengths should also be considered in planning the implementation.

IPSAS 33 distinguishes between a preparation phase (which can take as long as needed) and a transition phase (which can take a maximum of three years). During the preparation phase, entities present financial statements based on previous accounting policies; while during the transitional period, entities present financial statements based on IPSAS, but with some exemptions. After the transitional period, entities should present their financial statements in full compliance with IPSAS.

IPSAS 33 includes several transitional provisions that apply during three years after the date of adoption. During the three-year period, the first-time adopters can be exempted from the requirements about recognition of specific assets and liabilities, and the elimination of transactions and balances at consolidation. This means that the financial statements during this period, even while taking advantage of specific exemptions, are not yet compliant with accrual IPSAS.

Though the transitional exemptions in IPSAS 33 are meant to support entities along their journey to implement IPSAS, they should be seen as the last stage of the adoption process. This is because exemptions become applicable from the date of adoption and have a limited currency of three years, which often is not enough for countries to make this transition. Considering that the application of the transitional provisions allows reporting entities to limit, eliminate, and defer some of the work involved in the transition, it may appear attractive in the short term for entities to call the financial statements "transitional IPSAS financial statements." However, this temptation should be resisted, and the timing of this claim by government entities should be carefully considered.

This is mainly because the application of some of the exemptions, in particular those relating to material amounts, such as property, plant, and equipment, defined benefit plans, and financial instruments, affects fair presentation of the financial statements and might attract a qualified audit opinion. Furthermore, applying transitional provisions limits the benefits of IPSAS adoption in the short term because the integrity and transparency of the financial statements will not be fully achieved from the date of transition but will only improve over time.

The move to accrual accounting involves progressive improvements to the financial statements and the claim of first-time adoption of accrual IPSAS should only be made when the entity is confident of achieving full compliance within the permitted three years. During the period of transition, it would be appropriate to state in the financial statements that the entity is in the process of implementing the accrual-

[10] Alternatively, the jurisdictions might start with compliance with the Cash Basis IPSAS (Financial Reporting under the Cash Basis of Accounting), which is a standard that has been developed as an intermediate step to assist in the adoption of accrual IPSAS. It is not intended as an end in itself. The Cash Basis IPSAS encourages jurisdictions that are completing their transition to the accrual basis of financial reporting and adoption of accrual IPSAS to present a statement of cash receipts and payments in the same format as that required by IPSAS 2 Cash Flow Statements.
[11] Available at: https://cfrr.worldbank.org/publications/strengthening-fixed-asset-management-through-public-sector-accounting

basis IPSAS. It should be also noted that, based on the IPSAS 33, transitional exemptions also require additional disclosures, mentioned in the section 5 "Disclosures" of this paper.

Special attention during the preparation phase should be paid to the revision and amendment of the existing legal and regulatory frameworks, which, in some cases, might take a considerable amount of time. It should be noted that both indirect and, particularly, direct IPSAS implementation could require a thorough review and alignment between national PFM/PSA and IPSAS frameworks. Development and enacting of a specific law on public sector accounting is a great way to prioritize and support the PSA agenda in each jurisdiction.

As mention before, continuous training and capacity building effort throughout the whole duration of the IPSAS reform, including the preparation phase, will play a critical role in successful implementation of the entire reform. There are examples of different capacity building approaches to consider based on the specific circumstances and training needs of each given jurisdiction. Some of the most common approaches are: (i) conduct of regular raising awareness and dissemination activities for different groups of stakeholders during the preparation phase; (ii) delivery of specific training activities on relevant topics during the preparation and implementation phases; (iii) development of comprehensive IPSAS training programs at institutional or national levels; (iv) development of national IPSAS certification programs or implementation of requirement to pursue international recognized certification program, e.g., those developed by the Association of Chartered Certified Accountants (ACCA) or Chartered Institute of Public Finance and Accountancy (CIPFA); and (v) establishment of Continuing Professional Education (CPE) programs for the post-implementation phase.

3

RECOGNITION AND MEASUREMENT: GENERAL PRINCIPLE

The general principle underlying IPSAS 33 is that on the date of adoption of accrual basis IPSAS, a first-time adopter shall apply the requirements of the IPSAS retrospectively except if required or otherwise permitted by IPSAS 33. The first-time adopter should comply with each IPSAS standard effective at the date of adoption of IPSAS. Therefore, the first IPSAS financial statements are presented as if the entity had always applied IPSAS, subject to several exemptions, as discussed below. The starting point in IPSAS 33 is an opening statement of financial position, also known as opening balance sheet, prepared at the date of transition to IPSAS. Because a first-time adopter is required to comply with all IPSAS effective at the reporting date, the specific transitional provisions of the individual IPSAS do not apply to a first-time adopter. Instead, a first-time adopter prepares the opening statement of financial position in accordance with the requirements of IPSAS 33.

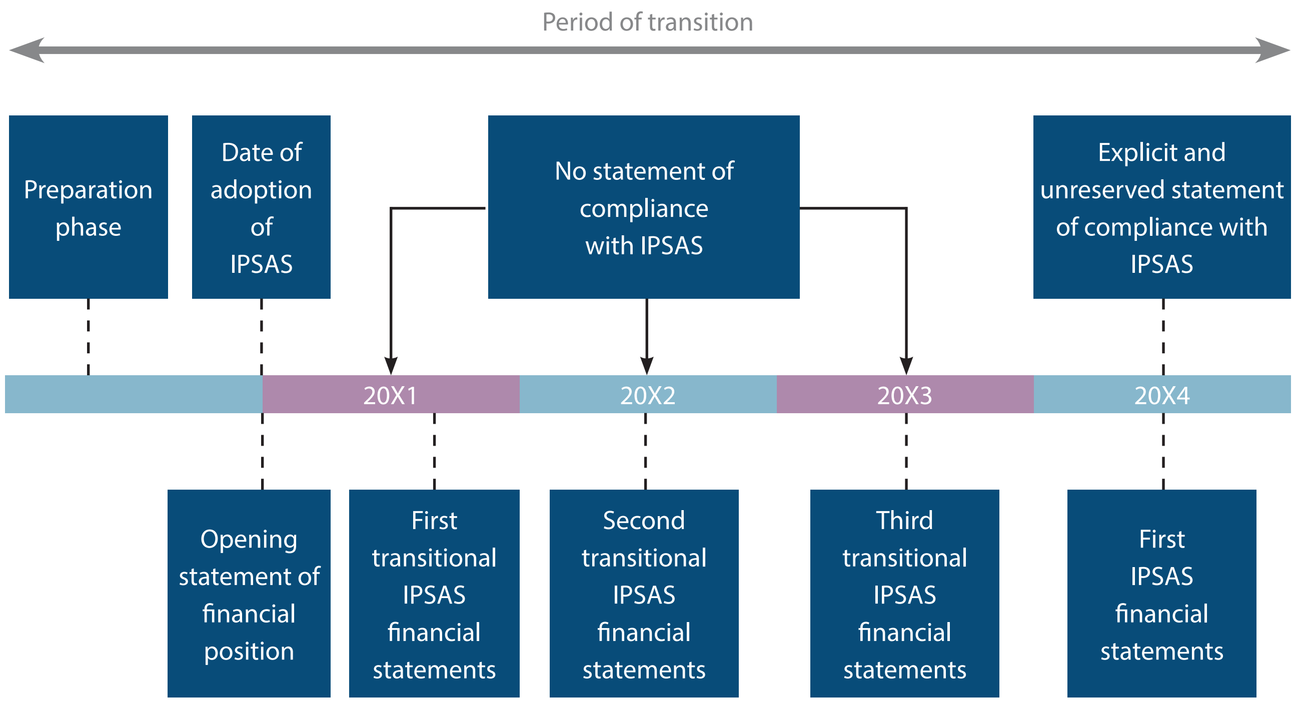
The amounts to be reported in the opening balance sheet should be also carefully revised and, in some cases, cleansed of outdated and obsolete data, which might even lack some of the supporting documentation. This particularly applies to some historical data and balances reported in the current or previous FMIS. This exercise should be done as early as possible, ideally during the preparatory phase, to avoid the situation in which outdated financial information is erroneously included in opening financial statements prepared on the IPSAS framework. This effort will further increase the reliability and quality of financial information to be used for decision making.

Figure 1 illustrates the timeline from IPSAS adoption to first IPSAS financial statements if the entity adopts transitional exemptions in IPSAS 33 that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS. The timeline illustrates key dates for a first-time adopter with a calendar year end and a date of transition of January 1, 20X1 which opts for a three-year transition period (one or two years is allowed as well). The timeline in Figure 1 is not to scale; note that the preparation phase usually lasts considerably longer than the period of transition.

This exhibit illustrates the meaning of various defined terms in IPSAS 33:

- **Opening statement of financial position** is a first-time adopter's statement of financial position at the date of adoption of IPSAS.
- **Date of adoption of IPSAS** is the date an entity adopts accrual basis IPSAS for the first time and the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS, and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.
- **Period of transition** is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSAS, and before it can make an explicit and unreserved statement of such compliance with IPSAS.

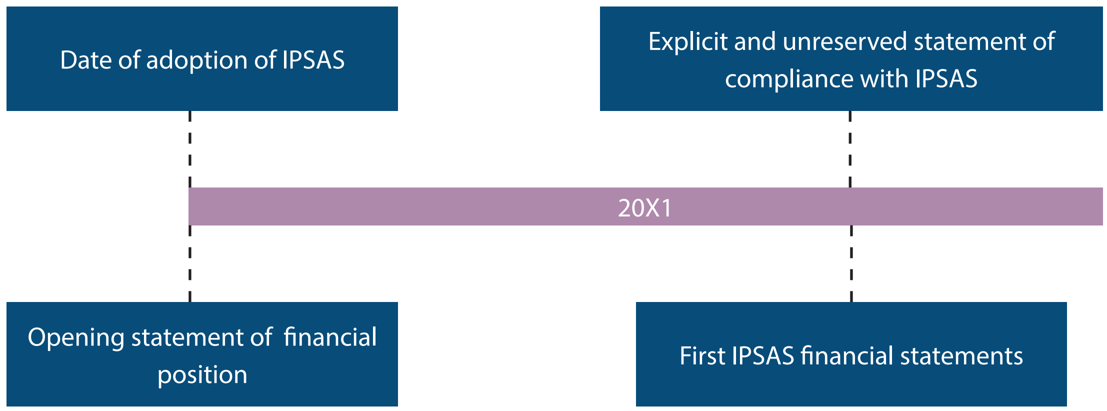
Figure 1. IPSAS adoption timeline (if entity applies transitional exemptions)



- **Transitional IPSAS financial statements** are the financial statements prepared in accordance with the IPSAS 33, for which a first-time adopter cannot make an explicit and unreserved statement of compliance with the IPSAS framework as a whole.
- **First IPSAS financial statements** are the first annual financial statements, which include an explicit and unreserved statement of compliance with IPSAS. The typical wording of such a statement is: "These financial statements have been prepared in accordance with IPSAS."

Figure 2 illustrates the timeline from IPSAS adoption to first IPSAS financial statements if the entity does not adopt any transitional exemptions in IPSAS 33 that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS. In this case, there are no transitional IPSAS financial statements, and the first financial statements produced following the opening statement of financial position are the first IPSAS financial statements, containing the explicit and unreserved statement of compliance with IPSAS.

Figure 2. IPSAS adoption timeline (if entity does not apply transitional exemptions)



Subject to exemptions listed later in this Technical Note, a first-time adopter is required to:

- Recognize, starting with the largest items, all assets and liabilities, whose recognition is required by IPSAS;
- Not recognize items as assets and liabilities if IPSAS do not permit such recognition;
- Reclassify in accordance with IPSAS those items recognized in the previous basis of accounting;
- Consistently apply IPSAS in measuring all recognized assets and liabilities.

Tables 2, 3, and 4 provide some examples of the differences that may arise between the previous accounting policies and IPSAS about recognition and derecognition, reclassification, and measurement. The transition to IPSAS results in an entity having to change its accounting policies about recognition and measurement. The effect of this is generally recognized in net assets/equity in the opening statement of financial position or in subsequent statements of financial position during the transition period.

Table 2. Recognition and derecognition examples under IPSAS

Recognize	Derecognize
• Pension liabilities • Deferred tax assets and liabilities • Finance lease assets and liabilities • Provisions, only if legal or constructive • Derivative financial instruments • Acquired intangible assets • Internal development costs	• Provisions not meeting criteria • Intangible assets not meeting criteria

Table 3. Reclassification examples in accordance with IPSAS

Previous accounting policies	In accordance with IPSAS
Financial assets	Classification based on (a) the entity's management model for financial assets, and (b) the contractual cash flow characteristics of the financial asset in accordance with IPSAS 41
Financial liabilities	Liability or equity under IPSAS 28
Offsetting	Presentation of gross amounts unless IPSAS allow offsetting
Statement of financial position	Generally separate presentation of noncurrent and current assets and liabilities under IPSAS 1
Securities in statements of cash flows	Classified as cash equivalents only if maturity < 3 months from date of acquisition

Table 4. Measurement examples in accordance with IPSAS

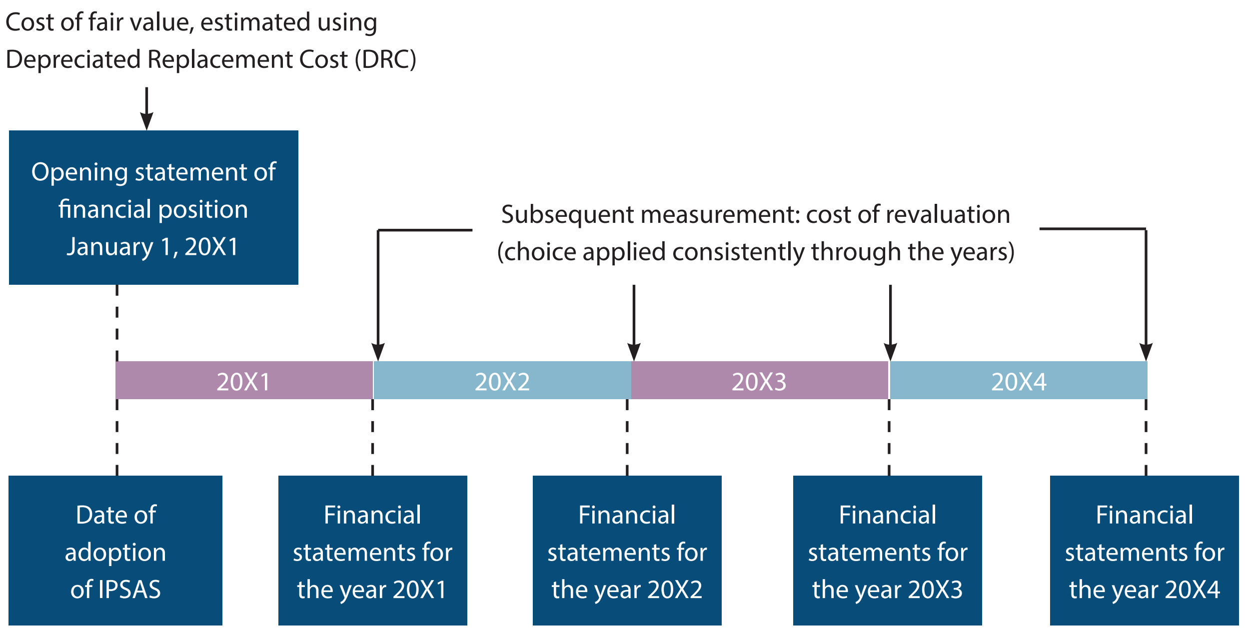
Previous accounting policies	In accordance with IPSAS
Financial instruments	Fair value or amortized cost under IPSAS 41
Pension liabilities	Apply IPSAS 39 (complex and detailed)
Provisions	Best estimate under IPSAS 19
Impairment of assets	Apply IPSAS 21 and 26 (complex and detailed)
Revaluation of inventories	Not allowed under IPSAS 12

If a first-time adopter takes advantage of the exemptions that affect the fair presentation and its ability to assert compliance with accrual basis IPSAS, it will not be able to make a statement of compliance with IPSAS during the period of transition. While applying exemptions that affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis IPSAS during the period of transition to accrual basis IPSAS, a first-time adopter will prepare transitional IPSAS financial statements. By applying transitional provisions, the jurisdiction may limit the amount of work needed to prepare the opening statement of financial position. Some of the work is eliminated altogether; some work is deferred until after transition date.

Opening statement of financial position measurement versus subsequent measurement

As per the date of adoption of IPSAS, the entity will have to prepare an opening statement of financial position as illustrated in Figure 3. An opening statement of financial position, also known as opening balance sheet, presents all assets and liabilities on the date of transition in accordance with the recognition and measurement requirements in IPSAS.

Figure 3. Asset measurement in the opening balance sheet versus its subsequent measurement



IPSAS 33 allows a first-time adopter to choose accounting policies for the valuation of assets on the opening statement of financial position that are different from the accounting policies that the entity plans to apply for subsequent measurement in future IPSAS financial statements. This is an exemption included in IPSAS 33, as in general an entity should use the same accounting policies in its opening statement of financial position as is does in all periods presented. The exemption allows the entity to apply current value (fair value) on the opening statement of financial position and apply either the cost model or the revaluation model in subsequent periods.

Measurement on IPSAS opening statement of financial position

Usually, the entity has only limited historical cost information about the assets readily available. For recent years, this information may be available in electronic format. For earlier years, this information is generally available only in paper archives. When reliable information about the historical cost of an asset is not readily available on the date of adoption of accrual basis IPSAS, IPSAS allows determining a "deemed cost" which is a surrogate for acquisition cost or depreciated cost. Cost information of assets under construction (work in progress) is readily available and should be used for valuation on the opening statement of financial position.

The entity may consider using depreciated replacement cost (DRC) to determine opening statement of financial position amounts of completed assets, such as infrastructure assets. DRC equals the current cost of replacing an asset with its modern equivalent asset, less deductions for all physical deterioration and impairment. A modern equivalent asset is the asset which provides the same potential performance as the existing asset but takes account of up-to-date technology and standards. Gross replacement cost (GRC) is the cost of constructing a modern equivalent new asset. The difference between the gross and depreciated cost is the cost of restoring the asset from its present condition to a condition as if it were new and modern.

This Technical Note therefore recommends determining a deemed cost when the historical cost information of the assets is not available, since applying DRC is a practical way for the entity to achieve fair presentation and compliance with accrual basis IPSAS at first-time adoption. For example, for roads the entity may determine a unit of measure, for example a cost per square meter. DRC may then be calculated by multiplying the number of square meters of roads controlled by the entity. These DRC values can then be used as opening statement of financial position balances and as deemed cost prospectively.

In turn, the GRC of an item of plant or equipment may be established by reference to recent construction contracts or use of an indexed price for a similar asset based on its historical price. When the indexed price method is used (for instance, by applying the Consumer Price Index), judgment is required to determine whether production technology has changed.

Subsequent measurement

Subsequent measurement means valuation of the assets in the entity's IPSAS compliant financial statements in the future. As mentioned earlier, for subsequent measurement, the entity may choose between the cost model and the revaluation model, irrespective of the valuation basis applied on the opening statement of financial position.

When applying the cost model, the DRC on the opening statement of financial position would be considered the deemed cost for subsequent measurement. As usual, depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity, e.g., the straight-line method, the diminishing balance method, or the units of production method. The remaining useful life value must be reviewed at least annually.

The cost model is generally considered to be simpler to apply and less costly. This Technical Note therefore recommends application of the cost model and consideration of the revaluation model at a later stage.

4

RECOGNITION AND MEASUREMENT: EXEMPTIONS FROM THE GENERAL PRINCIPLE

IPSAS 33 distinguishes between two kinds of transitional exemptions as presented in Table 5:

- Transitional exemptions that affect fair presentation and compliance with accrual based IPSAS during the period of transition
- Transitional exemptions that do not affect fair presentation and compliance with accrual based IPSAS during the period of transition.

Table 5. IPSAS 33 approach to exemptions for first-time adopters of IPSAS

Affect fair presentation and compliance	Do not affect fair presentation and compliance
During the transitional period, the entity will not be able to make an explicit and unreserved statement of compliance with accrual based IPSAS	During the transitional period, the entity will be able to make an explicit and unreserved statement of compliance with accrual based IPSAS
Transitional IPSAS financial statements	First IPSAS financial statements

Table 6. Exemptions affecting fair presentation and compliance (IPSAS 33, paragraphs 33-62)

Accounting topic	Summary of exemption in IPSAS 33
Inventories (IPSAS 12)	Allows a three-year transitional relief period to not recognize or measure assets and liabilities.
Investment property (IPSAS 16)	

Accounting topic	Summary of exemption in IPSAS 33
Property, plant, and equipment (IPSAS 17) Intangible assets (IPSAS 31) Financial instruments (IPSAS 41) Service concession assets and related liabilities (IPSAS 32) Biological assets and agricultural produce (IPSAS 27) Defined benefit plans and other long-term employee benefits: obligations and related plan assets (IPSAS 39)	Allows a three-year transitional relief period to not recognize or measure assets and liabilities.
Revenue from non-exchange transactions (IPSAS 23)	Allows not changing recognition and measurement policy during the three-year transitional relief period. Allows changing this policy on a class-by-class basis.
Borrowing costs (IPSAS 5)	Allows not to recognize borrowing costs on qualifying assets for which the commencement date is prior to date of adoption of IPSAS. This exemption is applicable if the entity utilizes the three-year transitional relief period and elects to account for borrowing costs in terms of the allowed alternative treatment (i.e., capitalization of borrowing costs).
Leases (IPSAS 13)	Allows not to apply the requirements related to finance lease. This exemption is applicable if the entity utilizes three-year transitional relief period.
Dismantling provisions (IPSAS 19)	Allows not to recognize a provision to dismantle and remove the asset and restore the site. This exemption is applicable if the entity utilizes three-year transitional relief period for that asset.
Related party disclosures (IPSAS 20)	Encourages, but does not require to disclose related party relationships, related party transactions and information about key management personnel during the three-year transitional relief period.
Interests in controlled entities (IPSAS 35), associates and joint ventures (IPSAS 36)	Allows not to recognize interests in controlled entities, associates, and joint ventures during the three-year transitional relief period.
Consolidated financial statements (IPSAS 35)	Encourages, but does not require to eliminate balances, transactions, revenue, and expenses during the three-year transitional relief period. Without elimination these financial statements should not be presented as consolidated financial statements.
Investments in associates and joint ventures (IPSAS 36)	Allows not to eliminate the entity's share in surplus or deficit from its transactions with the associate or joint venture during the three-year transitional relief period. This exemption is applicable if the entity applies the equity method.

Accounting topic	Summary of exemption in IPSAS 33
Public sector combinations (IPSAS 40)	Allows not recognizing and measuring the assets and liabilities associated with a public sector combination. This exemption is applicable if the entity utilizes three-year transitional relief period for assets and liabilities.

Table 7. Exemptions NOT affecting fair presentation and compliance (IPSAS 33, paragraphs 63-134)

Accounting topic	Summary of exemption in IPSAS 33
Deemed cost	Allows applying deemed costs as a surrogate for acquisition cost or depreciated cost for inventories, investment property, property, plant and equipment, intangible assets, financial instruments, and service concession assets and related liabilities.
Comparative Information	Encourages, but does not require comparative information in first transitional IPSAS financial statements or first IPSAS financial statements.
Cumulative translation differences	Deems cumulative translation differences to be zero at date of adoption of IPSAS.
Benchmark treatment of borrowing costs	Encourages, but does not require retrospective application.
Severe hyperinflation	Allows measuring all assets and liabilities held before the functional currency normalization date at fair value on the date of adoption of IPSAS.
Existing leases	Requires classification as operating or finance leases based on circumstances at the inception of the lease. However, if lessee and lessor have agreed to change the provisions, the entity shall consider the new agreement.
Segment information	Allows, but does not require segment information.
Impairment of non-cash-generating assets and cash-generating assets	Requires prospective application, except when entity utilizes the three-year transitional relief period exemption not to recognize or measure assets.
Defined benefit plans and other long-term employee benefits	Requires measurement of present value of the obligation by using the Projected Unit Credit Method at the date of (i) adoption of IPSAS, (ii) expiration of three-year transitional relief period if applied, (iii) recognition, or (iv) measurement.
Compound financial instrument	Allows not to separate the compound financial instrument into a liability component and a net asset/equity component if the liability component is no longer outstanding.

Accounting topic	Summary of exemption in IPSAS 33
Financial asset or liability at fair value through surplus or deficit	Allows designating a financial asset or a financial liability as a financial asset or a financial liability at fair value through surplus or deficit at the date of adoption of IPSAS.
Derecognition of financial assets and financial liabilities	Allows applying derecognition retrospectively if required information was obtained at the time of initially accounting for these transactions. Otherwise requires prospective derecognition.
Hedge accounting	Requires measuring all derivatives at fair value and eliminating all deferred losses and gains at the date of adoption of IPSAS.
Classification and measurement of financial instruments	Requires assessing whether there is a need to change the accounting policy for a financial asset based on the facts and circumstances that exist at the date of adoption of IPSAS.
Impairment of financial assets	Requires prospective application of impairment requirements, except if entity utilizes three-year transition relief period to not recognize or measure financial instruments.
Embedded derivatives	Requires assessing whether an embedded derivative is required to be separated from the host contract based on conditions that existed at the date it first became a party to the contract or the date of reassessment.
Disclosures about financial instruments	Requires prospective application of disclosure requirements.
Internally generated intangible asset	Requires recognition and measurement if the asset meets the definition of an intangible asset and the recognition criteria in IPSAS 31.
Liability related to service concession asset measured using deemed cost	• Requires measurement at remaining cash flows under financial liability model. • Requires measurement at fair value of the asset less any financial liabilities under grant-of-a-right to the operator model.
Assets and liabilities of controlled entities, associates, and joint ventures	Allows measuring assets and liabilities either with or without adjustments for consolidation procedures and public sector combinations. This exemption is applicable if a controlled entity becomes a first-time adopter later than its controlling entity. A similar exemption applies to associates and joint ventures.
Consolidated financial statements	Requires an entity to assess whether it is an investment entity and measure its investment at fair value through surplus or deficit at the date of adoption of IPSAS.
Joint arrangements	Requires measurement as the aggregate of the carrying amounts of the assets and liabilities. This exemption applies if the entity under its previous basis of accounting used proportionate consolidation.
Liability for a social benefit scheme	Requires measurement in accordance with IPSAS 42.

Standards not subject to transitional arrangements in IPSAS 33

IPSAS 33 does not allow a three-year transitional relief period for several standards, including:

- IPSAS 2 Cash Flow Statements
- IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors
- IPSAS 4 The Effects of Changes in Foreign Exchange Rates
- IPSAS 9 Revenue from Exchange Transactions
- IPSAS 10 Financial Reporting in Hyperinflationary Economies
- IPSAS 14 Events after the Reporting Date
- IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets (exemption only relates to provisions to dismantle and remove assets and restore the site).
- IPSAS 35 Consolidated Financial Statements (exemption only relates to the elimination of balances, transactions, revenue, and expenses at consolidation)

5

DISCLOSURES

IPSAS 33 includes extensive presentation and disclosure requirements, most notably to clarify to users that the financial statements of a first-time adopter taking advantage of the exemptions allowed by IPSAS 33 may not be fully compliant with IPSAS. This Technical Note includes a presentation and disclosure checklist in Annex 2. The objective of these disclosures is to make it transparent how the transition to full adoption of IPSAS is made and by when the transition is planned to be completed. The disclosures aim to clarify that the financial statements do not fully comply with the accrual basis IPSAS because the first-time adopter took advantage of exemptions in IPSAS 33 that affect fair presentation. The financial statements should disclose the extent to which the entity has taken advantage of the transitional exemptions, both those that affect the fair presentation of the financial statements and the entity's ability to assert compliance with accrual basis IPSAS, and those exemptions that do not. The disclosures should provide answers to questions such as:

- What progress was made towards recognizing, measuring, presenting, and disclosing assets, liabilities, revenue, and expenses in accordance with the requirements of the IPSAS.
- What assets, liabilities, revenue, and expenses have been recognized and measured under an accounting policy that is not consistent with IPSAS?
- What assets, liabilities, revenue, and expenses were not recognized, measured, presented or disclosed in the previous reporting period, but are now recognized, measured, presented and disclosed?
- What is the nature and amount of any adjustments recognized during the reporting period (reconciliation)?
- How did the transition from the previous basis of accounting to IPSAS affect the reported financial position, and its reported financial performance and cash flows?

6

INTERNATIONAL EXPERIENCE

This chapter presents several IPSAS implementation examples from various jurisdictions around the world. Table 8 summarizes the experience of first-time IPSAS adoption by six countries: Costa Rica, Malaysia, New Zealand, Nigeria, Switzerland, and Tanzania.

Based on the examples, it was apparent that most of jurisdictions, except for New Zealand (a unique case), preferred the phased implementation approach. The phased approach enables them to adopt a more flexible timeline and to distribute the impact of the reform over a longer period. In terms of IPSAS adoption method, most of the selected jurisdictions preferred to use direct IPSAS adoption. The examples also illustrate that, in practice, many jurisdictions apply transitional arrangements, but they are not necessarily in compliance with IPSAS 33. In fact, only the Nigerian states are clear examples of IPSAS 33 application.

The main reasons only a limited number of jurisdictions applied IPSAS 33 are:

- IPSAS 33 is a relatively recent standard. A first-time adopter shall apply IPSAS 33 if its first IPSAS financial statements are for a period beginning on or after January 1, 2017.

Table 8. IPSAS first-time adoption summary

Country	IPSAS adoption approach	Reform implementation approach	Use of IPSAS 33	Use of transitional provisions
Costa Rica	Direct	Phased	No	Yes
Malaysia	Indirect	Phased	No	No
New Zealand	Direct	Big bang	No	No
Nigeria: Ekiti and Lagos States	Direct	Phased	Yes	Yes
Switzerland	Direct	Phased	No	No
Tanzania	Direct	Phased	No	Yes

- Many jurisdictions use the indirect method for IPSAS implementation (for which the IPSAS 33 is not required);
- In many jurisdictions, having exemptions during transition are not legally allowed, which further reduces IPSAS 33 applicability.

The lessons learned from these examples are that the implementation of the complete range of accrual based IPSAS standards is a long and arduous process. Virtually every jurisdiction needs considerably more time than initially anticipated. Jurisdictions should therefore allow for ample planning and preparation time before announcing the date of adoption of IPSAS 33, as after that only three years remain. Lesson learned from these and other countries that embarked on the long and winding road to implement IPSAS include:

a. Apply proven project planning and implementation methodologies;

b. Set up an inter-departmental IPSAS project steering committee to drive transition;

c. Monitor IPSAS adoption strategy, re-assess, and adjust as necessary;

d. Regularly update the governing bodies through implementation progress reports allowing them to act when projects are at a risk of stalling;

e. Amend laws, rules, and regulations in an early stage of the project to make the transition mandatory for all entities concerned;

f. Allocate resources for the project through a multi-year budgeting mechanism;

g. Determine and budget for the additional human resources required in the administrative, budgetary and finance areas to ensure effective capacity for transition to IPSAS and to sustain IPSAS compliance;

h. Ensure adequate resources are provided for training and change management;

i. Communicate awareness of the progress of the transition to IPSAS through all available means of communication, training, and dissemination;

j. Adopt risk assessment, management, and mitigation strategies, considering good international practices for project management;

k. Ensure proper integration between the key PFM modules, to include, at a minimum, accounting, budgeting, and treasury management;

l. Ensure independent and comprehensive quality assurance of the progress assessment reports.

Country example: Government of New Zealand[12]

New Zealand is a one of the clearest examples of direct IPSAS adoption, which, in turn, were adopted using the "big bang" approach, given the relatively high degree of consistency between the originally used national accounting framework and IPSAS. New Zealand's 2015 financial statements, including the comparatives, were the first financial statements prepared in accordance with New Zealand's Public Sector PBE Accounting Standards, which are based on IPSAS. Previously published financial statements were prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (IFRS) as appropriate for public benefit entities. The impact of moving from New Zealand's IFRS to its public sector accounting standards was not significant and IPSAS 33 was not applied in this transition. This was due to a strong degree of convergence between the two suites of standards.

Country example: Federal Government of Switzerland[13]

IPSAS implementation at federal government of Switzerland is another example of IPSAS direct method, but, in this case, the IPSAS were implemented using phased approach. The federal government of Switzerland committed to the transition to full accrual accounting

[12] New Zealand's government financial statements are available at: https://www.treasury.govt.nz/publications/financial-statements-government/year-end-financial-statements.

[13] Switzerland's government financial statements are available at: https://www.efv.admin.ch/efv/en/home/finanzberichterstattung/finanzberichte/konsolidierte_rg_bund.html

and started the preparatory work in 2002 and issued its opening statement of financial position as of January 1, 2007. The preparation period was considered insufficient and the process of steadily improving the quality of accounting data was an important process in the subsequent years. Ever since, the federal government's consolidated financial statements do not include an explicit and unreserved statement of compliance with IPSAS. Instead, any differences relative to IPSAS are disclosed and explained in the notes to the annual financial statements. The number and extent of the differences have been reduced over time, and currently only few areas that diverge from IPSAS accounting and valuation principles remain.

Country example: Tanzania[14]

The government of United Republic of Tanzania also implemented IPSAS using the direct adoption and phased implementation approach. The first consolidated financial statements on an accrual basis were presented for the year 2012/13. It subsequently presented the consolidated financial statements on the IPSAS accrual basis under the transitional provisions for first-time adopters, which were included in the individual standards as IPSAS 33 was not yet issued at that time. The consolidated financial statements for the year FY 2017/18 represented the first year after the expiry of the transitional provisions. The transitional arrangements at the time exempted first-time adopters from the recognition and measurement of PPE and taxation revenues (based on taxable events) for a period of five-years. These provisions under IPSAS 17 and 23 were replaced in 2015 by IPSAS 33, which allows a three-year transition period.

Country example: Malaysia[15]

The Federal Government of Malaysia decided to use the indirect IPSAS implementation method through adoption of accrual-based Malaysia Public Sector Accounting Standards, drawn primarily from IPSAS, while at the same time considering some minor changes which adapted IPSAS to specific national circumstances. Malaysia also used a phased approach by implementing the new regulations step by step, but there is no IPSAS 33 transition period for each specific implementation step. The government announced its decision to adopt accrual accounting for better fiscal discipline management in 2011. In 2013, the Ministry of Finance issued a Treasury Circular explaining the move to accrual accounting. The government also decided to set up high-level committees to improve reform administration and implementation status monitoring.

Country example: Costa Rica[16]

IPSAS implementation in Costa Rica was another example of direct IPSAS adoption using a phased approach. According to the national PSA authorities, the implementation process for IPSAS was a long and gradual one. The governmental financial management modernization started in 2001 with the enactment of a new finance and budget law and an agreement to adopt IPSAS. In 2018, the government issued a decree announcing the adoption of the Spanish translation of the 2014 IPSASB Handbook. That handbook included the first 32 IPSAS standards (missing IPSAS 33 as it was issued in 2015). The 2018 financial statements of the Government of Costa Rica included a statement of compliance with IPSAS, except for a few transitional provisions. Thus, Costa Rica did not apply IPSAS 33, and its financial statements did not use IPSAS 33 specific terminology, such as transitional IPSAS financial statements.

[14] Tanzania's government financial statements are available at: http://www.mof.go.tz/docs/00-ConsoFS_Audit%20Opinion.pdf
[15] Malaysia's government financial statements are available at: http://www.anm.gov.my/index.php/en/arkib-ag/terbitan/penyata-kewangan-kerajaan-persekutuan
[16] Costa Rica's government financial statements are available at: https://www.hacienda.go.cr/contenido/12442-estados-financieros

Country example: Ekiti[17] and Lagos[18] state governments in Nigeria

IPSAS implementation by subnational governments in Nigeria was conducted using a direct method and phased approach. However, these examples are some of only a few cases of actual use of IPSAS 33 in the implementation process. Ekiti and Lagos state governments initiated the use of accrual basis IPSAS on January 1, 2017 and 2016, respectively, and elected to adopt transitional exemptions from IPSAS 33, that allowed both governments to apply deemed cost and a transitional period of up to three years. However, as a result of adopting these transitional exemptions and provisions, governments were not able to make an explicit and unreserved statement about its full compliance with accrual basis IPSAS in financial statements presented during the transitional period.

[17] Ekiti State's government financial statements are available at:
https://ekitistate.gov.ng/wp-content/uploads/2019/07/AUDITOR%20GENERAL%27S%20REPORT%202018.pdf
[18] Lagos State's government financial statements are available at:
https://openstates.ng/lagos/dataset/220/2018-audited%20statement%20(financial%20statement)%20lagos%20state

7

CONCLUSIONS AND RECOMMENDATIONS

This Technical Note makes it clear that IPSAS 33 is a helpful standard for first-time adopters of IPSAS. It provides useful exemptions that facilitate a smooth transition to the full suite of accrual basis IPSAS. As the process of first-time adoption of accrual basis IPSAS tends to be a challenging task that may take a considerable number of years and possess certain risks mentioned above, IPSAS 33 ensures that during this process the financial statements are clear about which items are included in the financial statements and which items are excluded, and the progress made towards full compliance with IPSAS.

IPSAS 33 is a relevant standard for all first-time adopters of IPSAS. However, many jurisdictions implemented IPSAS without applying IPSAS 33. This is mainly because most of these jurisdictions started IPSAS implementation reform prior to issuance of IPSAS 33 in 2015. These cases may include jurisdictions that: (i) want their financial statements to be "first-time right" and be able to make an explicit and unreserved statement of compliance with IPSAS and thereby achieve fair presentation; or (ii) develop national standards that are like IPSAS but differ from IPSAS to accommodate specific practices and circumstances. For these jurisdictions, IPSAS 33 may still be useful, for example to apply the guidance on the measurement of assets and liabilities in the opening statement of financial position.

This Technical Note emphasizes that the three-year transitional period is typically too short, especially when the starting point is the cash basis of accounting. The recommendation is therefore made that extensive preparations should be made before adopting IPSAS 33, because as soon as the financial statements are labeled *transitional IPSAS financial statements* the clock starts ticking on a three-year period to achieve full compliance, in all material respects, with all requirements in all IPSAS.

The main recommendations of this Technical Note are as follows:

- Consider the transitional period in IPSAS 33 as the last stage of the adoption process. This is because it becomes applicable from the date of adoption and is limited to three years, which often is not enough for countries to make this transition.
- Develop an implementation strategy and plan that lays out a credible timeframe for the accounting reforms ahead of the date of adoption.
- Pay special attention to development and delivery of continuous training and capacity building activities throughout the whole duration of the IPSAS reform, including the preparation phase.
- Timely involve and ensure proper coordination between the MoF or another agency/body, appointed as champion for reform implementation, and other key institutional stakeholders, such as Treasury and tax administration authorities, and the Supreme Audit Institution.

- Apply a phased approach to the implementation of IPSAS because a big-bang approach, under which most of the requirements of IPSAS would be implemented at the same time, is conducive to delay and is very risky.
- Ensure that the opening balance sheet does not include outdated and obsolete data that might come from the current or previous FMIS.
- When prioritizing IPSAS standards for implementation, keep in mind that IPSAS 33 does not allow a three-year transitional relief period for several of the standards.
- Exercise restraint in applying the wide range of transitional provisions in IPSAS 33 as they limit the benefits of IPSAS adoption in the short term and reduce the integrity and transparency of the financial statements.

Annex 1. Illustrative example of first-time adoption of IPSAS

This annex illustrates the preparation of an opening statement of financial position. The date of IPSAS adoption in this annex is assumed to be January 1, 20X1. Selected adjustments are presented to the balances reflected as of December 31, 20X0 prepared in accordance with previous (hybrid) accounting policies. This annex includes a reconciliation of net assets/equity, showing the movements due to changes in accounting policies with the adoption of IPSAS (IPSAS adjustments).

Table 9. Consolidated statement of financial position

		Notes	Closing balance previous accounting policies December 31, 20X0	IPSAS adjustments	Opening statement of financial position January 1, 20X1
			CU'000[19]	CU'000	CU'000
	Assets				
	Non-current assets				
IPSAS 1.88(a)	Property, plant, and equipment	1	300,000	(100,000)	200,000
IPSAS 1.88(c)	Intangibles and goodwill				
IPSAS 1.88(b)	Investment property				
IPSAS 1.89	Biological assets				
IPSAS 1.88(e)	Equity accounted investees				
IPSAS 1.88(d)	Other investments and derivative assets	8	3,800,000	(800,000)	3,000,000
	Concessionary loans issued				
	Total non-current assets		4,100,000	(900,000)	3,200,000

[19] Thousands of Cumulative Units

		Notes	Closing balance previous accounting policies December 31, 20X0	IPSAS adjustments	Opening statement of financial position January 1, 20X1
	Current assets				
IPSAS 1.88(i)	Cash and cash equivalents		2,000,000	800,000	2,800,000
IPSAS 1.88(h)	Receivables (from exchange transactions)	6	1,500,000	(600,000)	900,000
IPSAS 1.88(g)	Recoverables (from non-exchange transactions)				
IPSAS 1.88(f)	Inventories	2		200,000	200,000
IPSAS 1.89	Prepayments and other assets				
IPSAS 1.88(d)	Other investments and derivative assets				
IPSAS 1.89	Biological assets				
	Concessionary loans issued				
IPSAS 1.88.1(a)	Assets held for sale				
	Total current assets		3,500,000	400,000	3,900,000
	Total assets		7,600,000	(500,000)	7,100,000
	Net assets/equity and liabilities				
	Capital and reserves				
IPSAS 1.95(a)	Contributed/[Share] capital				
IPSAS 1.95(c)	Available-for-sale financial assets fair value reserve				
IPSAS 1.95(c)	Foreign currency translation reserve				
IPSAS 1.95(c)	Revaluation surplus				
IPSAS 17.92(e)					
IPSAS 1.95(c)	Special purpose reserve				
IPSAS 1.95(b)	Accumulated revenue and expense		2,600,000	(1,600,000)	1,000,000
IPSAS 1.88(o)	**Net assets / equity attributable to the owners of the controlling entity**		2,600,000	(1,600,000)	1,000,000
IPSAS 1.88(n)	Non-controlling interests				
IPSAS 1.95(d)	Total net assets/equity		2,600,000	(1,600,000)	1,000,000

		Notes	Closing balance previous accounting policies December 31, 20X0	IPSAS adjustments	Opening statement of financial position January 1, 20X1
	Non-current liabilities				
IPSAS 1.89	Employee benefit liability	3		250,000	250,000
IPSAS 1.88(m)	Concessionary borrowings	4	1,000,000	(400,000)	600,000
IPSAS 1.88(m)	Finance leases payable				
IPSAS 1.88(m)	Derivative liabilities				
IPSAS 1.88(l)	Provisions				
	Non-exchange liabilities				
	Total non-current liabilities		1,000,000	(150,000)	850,000
	Current liabilities				
IPSAS 1.88(i)	Cash and cash equivalents – bank overdraft				
IPSAS 1.88(k)	Payables (from exchange transactions)				
IPSAS 1.89	Deferred revenue	7		700,000	700,000
IPSAS 1.88(m)	Employee benefit liability	3		50,000	50,000
IPSAS 1.88(m)	Loans				
IPSAS 1.88(m)	Finance leases payable				
IPSAS 1.88(l)	Derivative liabilities				
IPSAS 1.88(l)	Provisions				
IPSAS 1.88.1(b)	Non-exchange liabilities	5	4,000,000	500,000	4,500,000
IPSAS 1.88(l)	Liabilities held for sale				
	Total current liabilities		4,000,000	1,250,000	5,250,000
	Total liabilities		5,000,000	1,100,000	6,100,000
	Total equity and liabilities		7,600,000	(500,000)	7,100,000

Reconciliation of net assets/equity

Table 10 shows reconciliation of the balance of net assets/ equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS. IPSAS 33 requires this reconciliation unless the previous basis of accounting is the cash basis.

The changes because of IPSAS implementation totaled CU 1,600,000, as shown below:

Table 10. IPSAS adjustments

	Notes	Adjustments December 31, 20X0
		CU'000
Adjustment to buildings	1	(100,000)
Recognition of inventories	2	200,000
Recognition of employee benefit liability	3	(300,000)
Adjustment to concessionary borrowings	4	400,000
Adjustment to foreign exchange liabilities (unrealized exchange loss)	5	(500,000)
Adjustment to allowance for doubtful accounts receivable	6	(600,000)
Recognition of deferred revenue	7	(700,000)
Total IPSAS adjustments		**(1,600,000)**
Closing balance net assets/equity December 31, 20X0		**2,600,000**
Opening balance net assets/equity January 1, 20X1		**1,000,000**

Notes

1. **Adjustment to buildings.** The entity has adopted the transitional provision for property, plant, and equipment. The only asset class recognized as of January 1, 20X1 is buildings. Under the previous accounting policies, buildings were included in the financial statements at historical cost without depreciation or impairment. An adjustment of CU 100,000 for accumulated depreciation and impairment for buildings was recognized as an adjustment to net assets/equity.
2. **Initial recognition of inventories.** To comply with IPSAS, inventories are recognized in the statement of financial position for the first time as of January 1, 20X1 for CU 200,000. Inventories were not recognized under the previous accounting policies.
3. **Initial recognition of employee benefit liability.** Liabilities relating to pensions as per actuarial valuations have been recognized in the financial statements based on their valuation as of January 1, 20X1. These post-employment benefit liabilities (totaling CU 300,000) have been classified as current (250,000) and non-current (50,000).

4. **Adjustment to concessionary borrowings.** In the past, a foreign government provided an interest-free loan for the construction of a bridge. The loan of CU 1,000,000 is repayable over a 30-year period with effect from the first year of the completion of the bridge. The loan was adjusted by CU 400,000 to reflect the amortized cost of the loan using the effective interest rate of 1.23%.

5. **Adjustment to foreign exchange liabilities (unrealized exchange loss).** Liabilities denominated in foreign currencies are now revalued at closing rates at reporting date. Going forward, unrealized foreign exchange gains and losses will be reported in surplus or deficit. Under the previous accounting policies, any unrealized foreign exchange gains and losses were disclosed in the notes to the financial statements and were recognized in the financial statements in the accounting period in which they crystallized. An adjustment of CU 500,000 for accumulated unrealized exchange gains and losses was recognized as an adjustment to net assets/equity.

6. **Adjustment to allowance for doubtful accounts receivable.** To comply with IPSAS, an adjustment of CU 600,000 was recorded to reflect the reduction of the allowance for accounts receivable at the beginning of the year.

7. **Initial recognition of deferred revenue.** An adjustment of CU 700,000 was required to the opening balance of net assets/equity to recognize as deferred revenue, cash receipts from telecommunications companies for a 15-year license for 3G-networks that had been recognized in surplus or deficit in the year of receipts.

8. **Cash equivalents.** Time deposits amounting to CU 800,000 were reclassified from investments to cash and cash equivalents as required by IPSAS.

Annex 2. IPSAS 33 Presentation and disclosure checklist

IPSAS 33 includes several presentation and disclosure requirements which supplement the disclosures required by other standards in an entity's first transitional IPSAS financial statements and first IPSAS financial statements. These additional disclosure requirements are set forth in the checklist below.

Table 11. IPSAS 33 Presentation and disclosure checklist

IPSAS 33, paragraph	Disclosures	Check
135	A first-time adopter with financial statements that comply with the requirements of this IPSAS while taking advantage of the transitional exemptions and provisions that affect fair presentation and its ability to assert compliance with accrual basis IPSAS, shall make an explicit and unreserved statement of compliance with this IPSAS in the notes to the financial statements. This statement shall be accompanied by a statement that the financial statements do not fully comply with accrual basis IPSAS.	
136	Where a first-time adopter takes advantage of the transitional exemptions in this IPSAS, the first-time adopter shall disclose:	
136(a)	(a) The extent to which it has taken advantage of the transitional exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS; and/or	
136(b)	(b) The extent to which it has taken advantage of the transitional exemptions that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS.	
137	To the extent that a first-time adopter has taken advantage of the transitional exemptions and provisions in this IPSAS that affect fair presentation and compliance with accrual basis IPSAS in relation to assets, liabilities, revenue and/or expenses, it shall disclose:	

IPSAS 33, paragraph	Disclosures	Check
137(a)	(a) Progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities, revenue, and/or expenses in accordance with the requirements of the applicable IPSAS;	
137(b)	(b) The assets, liabilities, revenue and/or expenses that have been recognized and measured under an accounting policy that is not consistent with the requirements of applicable IPSAS;	
137(c)	(c) The assets, liabilities, revenue and/or expenses that have not been recognized, measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;	
137(d)	(d) The nature and amount of any adjustments recognized during the reporting period; and	
137(e)	(e) An indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS.	
138	Where a first-time adopter takes advantage of the transitional exemption to not eliminate some balances, transactions, revenue and expenses, and/or where it applies the three year transitional relief for the recognition and/or measurement of its interest in controlled entities, associates or joint ventures in paragraph 55, it shall disclose the nature of the balances, transactions, revenue and expenses and/or upstream or downstream transactions that have been eliminated during the reporting period.	
139	Where a first-time adopter is not able to present consolidated financial statements because of the transitional exemptions and provisions adopted in paragraphs 58 or 62, it shall disclose:	
139(a)	(a) The reason why the financial statements, investments in associates or interests in joint ventures could not be presented as consolidated financial statements; and	
139(b)	(b) An indication by when the first-time adopter will be able to present consolidated financial statements.	
140	The disclosure requirements of paragraphs 135 and 139 will assist users to track the progress of the first-time adopter in conforming its accounting policies to the requirements in the applicable IPSAS during the period of transition.	
	Explanation of Transition to IPSAS	
141	A first-time adopter shall disclose:	
141(a)	(a) The date of adoption of IPSAS; and	
141(b)	(b) Information and explanations about how the transition from the previous basis of accounting to IPSAS affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.	
	Reconciliations	
142	A first-time adopter shall present in the notes to its transitional IPSAS financial statements or its first IPSAS financial statements:	

IPSAS 33, paragraph	Disclosures	Check
142(a)	(a) A reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSAS; and	
142(b)	(b) A reconciliation of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of IPSAS.	
	A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.	
143	The reconciliation presented in accordance with paragraph 142 shall provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening statement of financial position and, where applicable, the restated comparative statement of financial performance presented in accordance with accrual basis IPSAS. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents shall be included in the notes.	
144	If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 142 shall distinguish the correction of those errors from changes in accounting policies.	
145	If an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact.	
146	Where a first-time adopter takes advantage of the exemptions in paragraph 36–43 which allow a three-year transitional relief period to not recognize and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognized and/or measured in accordance with this IPSAS.	
147	The reconciliation presented in accordance with paragraph 146 provides sufficient detail to enable users to understand which items have been recognized and/or measured during the reporting period where the first-time adopter adopts one or more of the exemptions that provide a three-year transitional relief period to not recognize and/or measure an item. The reconciliation explains the adjustments to the previously reported statement of financial position and, where applicable, the previously reported statement of financial performance in each period when new items are recognized and/or measured in accordance with this IPSAS.	
	Disclosures where Deemed Cost is Used for Inventory, Investment Property, Property, Plant and Equipment, Intangible Assets, Financial Instruments or Service Concession Assets	
148	If a first-time adopter uses fair value, or the alternative in paragraphs 64, 67 or 70, as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, financial instruments, or service concession assets, its financial statements shall disclose:	

IPSAS 33, paragraph	Disclosures	Check
148(a)	(a) The aggregate of those fair values or other measurement alternatives that were considered in determining deemed cost;	
148(b)	(b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and	
148(c)	(c) Whether the deemed cost was determined on the date of adoption of IPSAS or during the period of transition.	
Disclosures Where Deemed Cost is Used for Investments in Controlled Entities, Associates or Joint Ventures		
149	If a first-time adopter uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, associate or joint venture in its separate financial statements, its separate financial statements shall disclose:	
149(a)	(a) The aggregate deemed cost of those investments for which deemed cost is fair value; and	
149(b)	(b) The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.	
150	The disclosure requirements required in paragraph 148 and 149 shall be disclosed in each period when new items are recognized and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).	
Exemptions from Disclosure Requirements in IPSAS During the Period of Transition		
151	To the extent that a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure items, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1, IPSAS 18 and/or the applicable IPSAS until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).	
152	Notwithstanding the transitional provision in paragraph 151, a first-time adopter is encouraged to disclose the information required by IPSAS 1, IPSAS 18 and/or the applicable IPSAS as soon as possible.	
Transitional Provisions		
153	Where a first-time adopter has adopted the existing transitional provisions in other accrual basis IPSAS, it shall continue to apply those transitional provisions until they expire and/or the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). If the first-time adopter elects to adopt the transitional exemptions in this IPSAS, the relief period applied in adopting accrual basis IPSAS, may not be longer than the relief period provided in this IPSAS.	

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