First-time Adoption of Accrual Basis IPSAS

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June 16, 2021

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Public Sector Accounting and Reporting Program

PULSAR Program is co-funded by:

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Objectives of the paper and IPSAS 33

Objective of the paper

- ✓ Provide practical guidance for first-time adoption of IPSAS, based on worldwide experience
- ✓ Summarize key concepts of IPSAS 33

Objective IPSAS 33

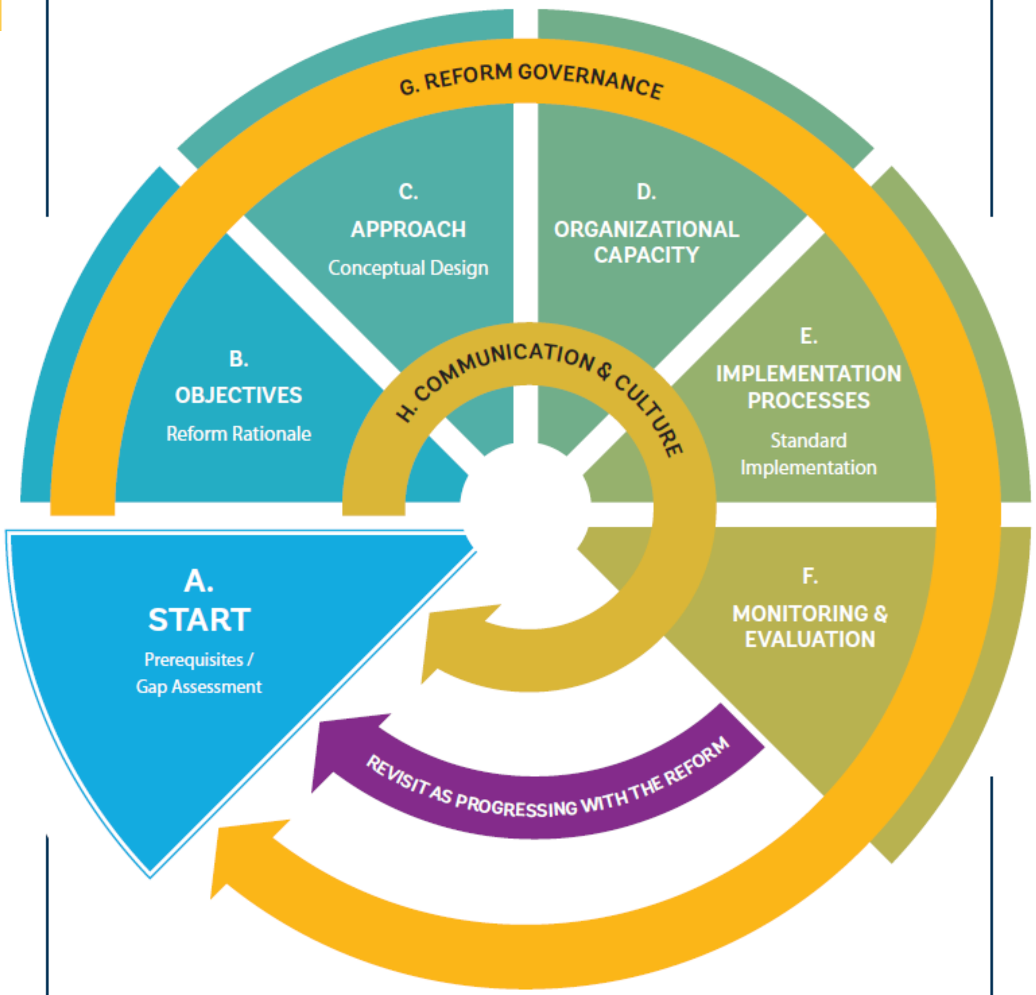
- ✓ Ensure that the first financial statements that use accrual IPSAS:
  - Provide transparent reporting about the transition to IPSAS
  - Provide a suitable starting point for compliance with IPSAS
  - Are generated at a cost that does not exceed the benefits

Paper's structure

1. Introduction
2. Planning ahead for IPSAS 33 adoption
3. Recognition and measurement: general principle
4. Recognition and measurement: Exemptions from the general principle
5. Disclosures
6. International experience
7. Conclusions and recommendations

PSA Reform roadmap

Figure 1: Reform Architecture



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

PSA reform challenges

1. **Political support and willingness of the key stakeholders** to initiate and carry out the reform
2. **Agreement on a reform strategy and feasible implementation timeline,** avoiding including unrealistic objectives and timelines
3. **Establishment of proper reform coordination and management arrangements**
4. **Availability of required resources**, including financial and human
5. **Amendment of legal and regulatory frameworks**

PSA reform challenges

6. **Definition of structure of the new PSA system,** including definition of the standard-setting mechanism
7. **Definition of risk management and mitigation mechanisms**
8. **Development of change management and capacity building strategy,** including communication, dissemination, and training strategies
9. **Upgrading the existent or development of a new IFMIS** in parallel with the implementation of the PSA reform
10. **Integration between different PFM functions and systems**, including budgeting, treasury, revenue, debt, fiscal statistics, procurement, etc, ideally though the existing or new IFMIS

Direct vis-à-vis indirect IPSAS adoption approach

Direct adoption

- ✓ Without altering the original content of the IPSAS
- ✓ Entities are encouraged to adopt IPSAS directly

Indirect adoption

- ✓ Through a process of endorsement of the national PSA standards aligned with the IPSAS framework
- ✓ The national framework usually takes into consideration country-specific circumstances

IPSAS 33 is helpful for both direct and indirect adoption

Phased vis-à-vis big-bang IPSAS adoption approach

Phased (recommended)

- ✓ Involves the progressive implementation of improvements in a planned sequence
- ✓ Enables the jurisdictions to demonstrate quick wins by allowing some IPSAS requirements to be met in the short term
- ✓ Allows time to build IPSAS-related skills and expertise in keeping with the pace of implementation.
- ✓ Main risks are:
  - Longer implementation periods
  - Reform fatigue
  - Loss of momentum and political support

Big bang

- ✓ Entails a switch from the pre-IPSAS to full IPSAS compliance commencing from a particular date
- ✓ In some jurisdictions, it is the only option due to national law reequipments, which may not permit to phase the implementation
- ✓ Parallel dry run of old and new systems is costly and requires additional operational capacity
- ✓ Main risks are:
  - High dependence on external consultants
  - Extensive use of internal organizational skills
  - Significant delay in startup until all the preparations necessary for a full implementation are completed.

IPSAS 33 is designed for a phased approach, since it includes some exemptions over a 3-year period

IPSAS 33 distinguishes between a preparation phase and transitional period

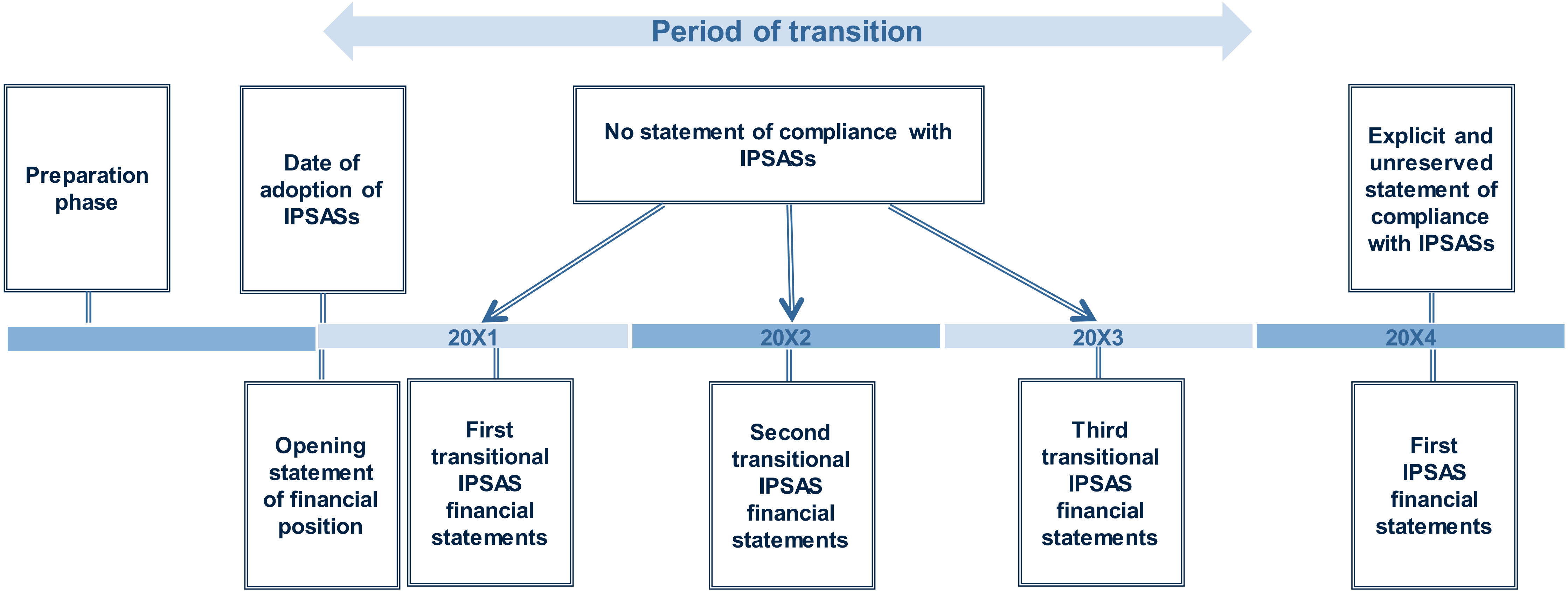
Preparation phase

- ✓ Precedes the adoption of IPSAS 33
- ✓ May take as long as needed. Usually, a long and arduous process
- ✓ Strategy and roadmap needed leading up to IPSAS 33

Transitional period

- ✓ Follows the adoption of IPSAS 33
- ✓ May not exceed three years
- ✓ Various exemptions apply
- ✓ There is no explicit and unreserved statement of compliance with IPSAS

IPSAS adoption timeline (if entity applies transitional exemptions)



International experience: 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

International experience: lessons learned

- ✓ Apply proven project planning and implementation methodologies;
- ✓ Set up an inter-departmental IPSAS project steering committee to drive transition;
- ✓ Monitor IPSAS adoption strategy, re-assess, and adjust as necessary;
- ✓ Regularly update the governing bodies through implementation progress reports allowing them to act when projects are at a risk of stalling;
- ✓ Amend laws, rules, and regulations in an early stage of the project to make the transition mandatory for all entities concerned;
- ✓ Allocate resources for the project through a multi-year budgeting mechanism;

International experience: lessons learned

- ✓ 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;
- ✓ Ensure adequate resources are provided for training and change management;
- ✓ Communicate awareness of the progress of the transition to IPSAS through all available means of communication, training, and dissemination;
- ✓ Adopt risk assessment, management, and mitigation strategies, considering good international practices for project management;
- ✓ Ensure proper integration between the key PFM modules, to include, at a minimum, accounting, budgeting, and treasury management;
- ✓ Ensure independent and comprehensive quality assurance of the progress assessment reports.

Recommendations

- ✓ Consider the three-year transitional period in IPSAS 33 as the last stage of adoption process
- ✓ Develop an implementation strategy and roadmap with a credible timeframe for the accounting reforms ahead of the date of adoption
- ✓ Provide continuous training and capacity building activities throughout the IPSAS reform process
- ✓ Ensure coordination between:
    - Champion for reform implementation, usually Ministry of Finance or Treasury
    - Key stakeholders, such as tax administration and Supreme Audit Institution

Recommendations

- ✓ Apply a phased approach to IPSAS implementation as big-bang approach leads to delay and is 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 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

Thank you!

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