
**Intergovernmental Working Group of Experts on
International
Standards of Accounting and Reporting
(ISAR)**

32nd SESSION

4 - 6 November 2015

Room XVIII, Palais des Nations, Geneva

Thursday, 5 November 2015

Morning Session

**Key foundations of high-quality reporting: International
audit and assurance requirements and good practices in their
implementation (continued)**

Presented by

Oscar Pajuelo Ramírez

Accountant General

Department of Public Accounting, Ministry of Economy and Finance,
Peru

*This material has been reproduced in the language and form as it was provided.
The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.*



CONSTRUCTION AN ACCOUNTING MODEL WITH IPSAS, AND AUDITOR'S OPINION

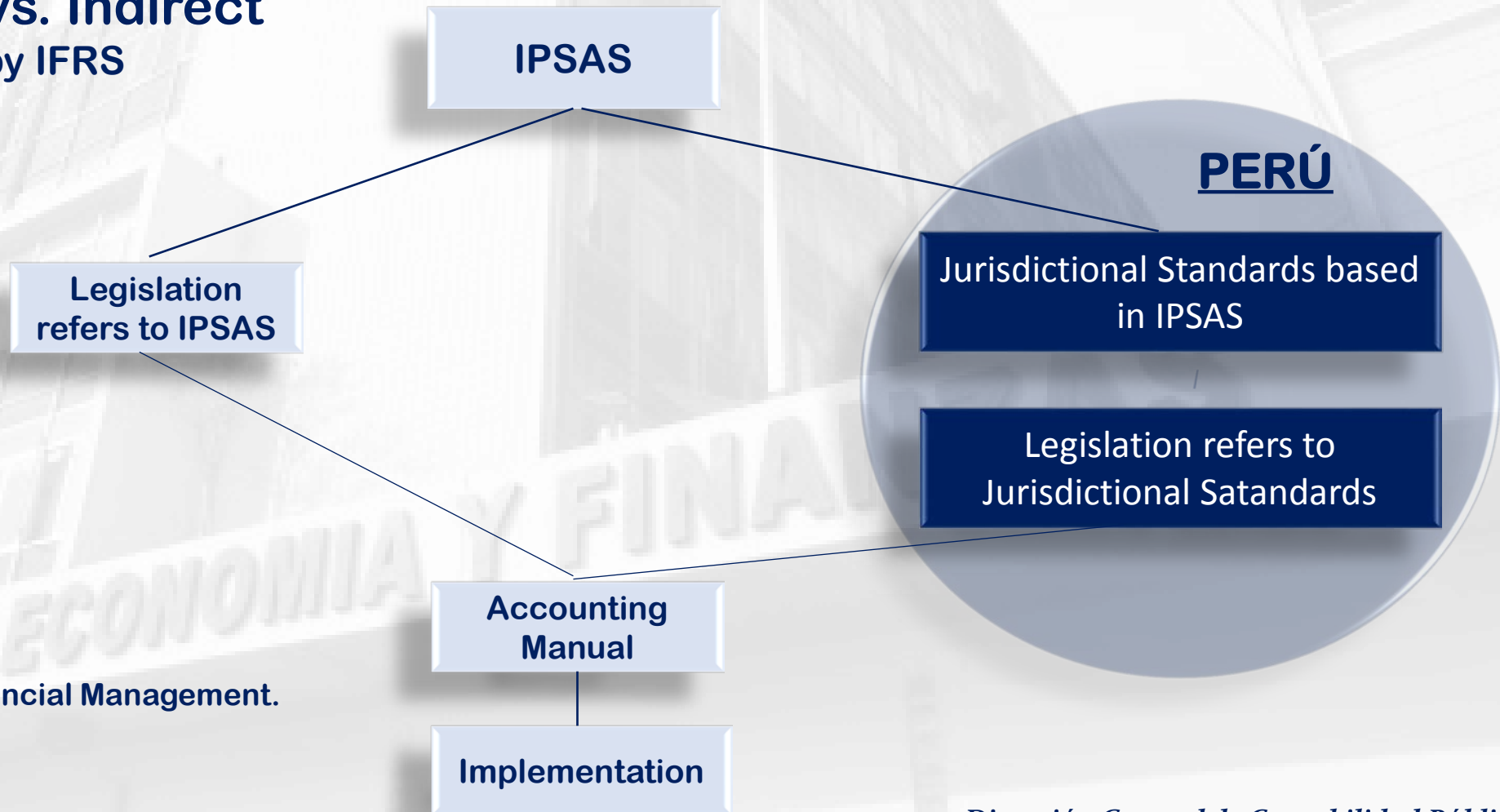
CPC OSCAR PAJUELO RAMÍREZ
General Accountant of the Nation
PERÚ

CONTENT

- ❑ PREFACE
- ❑ THE COMPTROLLER GENERAL OF THE REPUBLIC AND HIS DISCLAIMER OF OPINION
- ❑ THE INTERNATIONAL AUDITING STANDARDS AND THE COMPTROLLER'S GENERAL OF THE REPUBLIC, AUDIT OPINION
- ❑ PERUVIAN ACCOUNTING MODEL (TRANSITIONAL IPSAS – GAAP IN PERU)
- ❑ THE “METHODOLOGY FOR THE MODIFICATION OF THE USEFUL LIFE OF THE BUILDINGS, AND REVALUATION OF BUILDINGS AND LANDS” INTO DIRECTIVE AND IPSAS
- ❑ CONCLUSION

IPSASB has created a full suite of standards

- **Adoption: Direct vs. Indirect**
Both can be observed by IFRS



Source:
Bergmann, A: Public Sector Financial Management.
FT Prentice Hall, 2009

THE PARADOX OF A DISCLAIMER OF OPINION

OPINION CONCERNING N° 567-2015-CG/AFI-AF



Disclaimer of opinion

7. Because the matters described in paragraph Basis for Disclaimer of Opinion, it wasn't possible for us to obtain sufficient appropriate audit evidence to base an opinion of audit. Accordingly we do not express an opinion about the financial statements, the integration and consolidation of them at December 31, 2014



DIRECTORIAL RESOLUTION

Lima, September 13, 2013

N° 011-2013-EF/51.01

Article 1°.- Formalize the International Public Sector Accounting Standards - IPSAS, issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, whose titles are listed in the annex which is part of this resolution.

Article 2°.- The General Direction of Public Accountanting will regulated the application of the IPSAS formalized in Article 1° of the present resolution

THE AUDIT OPINION OF THE COMPTROLLER GENERAL OF THE REPUBLIC, AND THE INTERNATIONAL AUDITING STANDARDS

ISA 210, AGREEING THE TERMS OF AUDIT ENGAGEMENTS

General purpose frameworks

A8. At present, there is no objective and authoritative basis that has been generally recognized globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organizations that are authorized or recognized to promulgate standards to be used by certain types of entities presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders

Examples of such financial reporting standards include:

- International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board**
- International Public Sector Accounting Standards (IPSASs) promulgated by the International Public Sector Accounting Standards Board; and**
- Accounting principles promulgated by an authorized or recognized standards setting organization in a particular jurisdiction, provided the organization follows an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders**

PERUVIAN ACCOUNTANT MODEL (TRANSITIONAL IPSAS – GAAP IN PERU)

THE GENERAL DIRECTION OF PUBLIC ACCOUNTANT - GDPA

Issue resolutions dictating and approving the standards and procedures of accounting that should apply (govern) in the public sector. (to be apply in the public sector)

Develop the General account of the Republic by processing renditions of accounts sent in by the public sector entities

Define the accountability of the government business enterprises according with their legal nature or operational characteristics

Develop financial and budgetary accounting information to facilitate the formulation of national accounts, fiscal accounts, planning and budget evaluation.

Evaluate the proper application of the standards, procedures and accounting information systems approved

Interpret accounting standards that have been approved and answer queries on accounting matters within its competence

Opinion concerning accounting on the projects of legal devices

Conduct training activities

THE “METHODOLOGY FOR THE MODIFICATION OF THE USEFUL LIFE OF THE BUILDINGS, AND REVALUATION OF BUILDINGS AND LANDS” INTO DIRECTIVE AND IPSAS

THE REASONS FOR THE CHANGE

PREVIOUS METHODOLOGY

- **Measurement at recognition:** Acquisition cost for lands. Acquisition cost or construction cost for buildings
- **Useful life of buildings:** 33 years
- **Residual value:** No
- **Measurement after recognition:** No
- **Depreciation:** Straight-lineal method

OUTCOME

- Lands and buildings, undervalued. (No fair value)
- **Net assets/equity undervalued**
- **Value of buildings:** S/. 1.00 (U.S.\$ 0.31). For example: Courthouse
- Price-level restatements (Hyperinflation)
- **Appraisals of lands and buildings:** Property transfers, sales, privatization, others
- **Lack of reliability and consistency**

UNDERLYING REASONS

- **First-time Adoption of Accrual Basis IPSASs:** 3 years (Exposure Draft 56, ¶ 34; and IPSAS 33, ¶ 36). (IPSASB-IFAC). Include IPSAS 17 – Property, Plant and Equipment
- **Real state boom effect:** Increase the gap
- **Excessive cost of appraisals:** The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, (Constraints on Information - Cost-Benefit ¶ 3.35 and ¶ 3.36)
- **NOTE:** IPSAS 17 allow continue with the historical cost method (¶ 42)

THE “METHODOLOGY FOR THE MODIFICATION OF THE USEFUL LIFE OF THE BUILDINGS, AND REVALUATION OF BUILDINGS AND LANDS” INTO DIRECTIVE AND IPSAS

NEW METHODOLOGY

BUILDINGS

Measurement at recognition for buildings

- Acquisition cost or construction cost

Useful life of buildings:

- Materials quality : 50 – 80 years (Good conditions)
- Buildings made of adobe, wood, cane walls, and similars materials: 33 years

Residual value: No

Depreciation: Straight-lineal method

LANDS

Measurement at recognition for lands

- Acquisition cost

Measurement after recognition - Both

- Directive N° 002-2014-EF/51.01 – GDPA

- Revalued whit appraisals has high costs for the State
- GDPA* applies the Constraints on Information - Cost-Benefit (The Conceptual Framework - IPSAS (¶ 3.35 y 3.36)
- GDPA* applies the indexed price method (IPSAS 17, ¶ 47 y 48):

Buildings

- Measuring Capital: OECD *Manual* 2009
- Statistics and Computing National Institute (INEI): Index of Gross Fixed Capital Formation

Lands

- Peruvian Chamber of Construction (CAPECO): Market Study Urban Buildings (Lima, Cusco, Others)
- Municipal duties

2014 START GRADUAL IMPLEMENTATION

CONCLUSIONS

- **THE COMPTROLLER GENERAL OF THE REPUBLIC**
 - Must apply the ISAs to General purpose framework that corresponds: IFRS, IPSAS or GAAP from the entity authorized to promulgate accounting standards. The General purpose framework is not defined by the Comptroller
 - The General purpose framework for auditing is defined by the GDPA*
 - The Auditing societies emit opinion under GAAP of Peru
 - Implementation of the Revaluation Directive: Difference of opinions. Some Auditing Societies contracted by the Comptroller emit opinion by the reasonableness of the information to apply the directive. Others Auditing Societies emit a disclaimer of opinion
- **GENERAL DIRECTION OF PUBLIC ACCOUNTING - GDPA**
 - Authorized by law to issue accounting standards in Peru
 - Gradual implementation of IPSAS: Buildings and lands, financial instruments, derivative financial instruments, consolidated financial statements and accounting for controlled entities, and concessions
 - The directive of revaluation of buildings and lands is based on IPSAS: Conceptual framework and IPSAS 17
 - The revaluation rates are based on information of representative bodies and prestige: OECD, INEI, CAPECO, Municipalities
 - Audit quality assurance
 - Does the audit quality assurance?
 - Who's going to dare put the bell on the cat?

THANK YOU FOR YOUR ATTENTION

CPC OSCAR PAJUELO RAMÍREZ
General Accountant of the Nation
PERÚ