

**UNCTAD-Intergovernmental Working Group of Experts on
International Standards of Accounting and Reporting**

Workshop on practical implementation of IPSAS

Tuesday, 31 October 2017
Room XVII, Palais des Nations, Geneva
Afternoon Session

Presentation

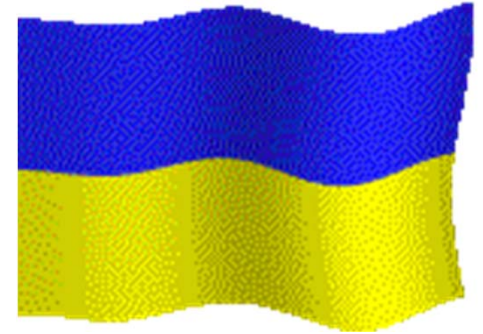
Presented by

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The United Nations Conference
on Trade and Development
(UNCTAD)
IPSAS Workshop
October, 31



Some Issues of IPSAS Implementation in Finance Management

- *Key considerations to keep in mind for implementing countries in transitioning from cash-based to accruals-based accounting*
- *Issues of IPSASs consistency facilitation between public sector financial reporting, systems of national accounts and Government Financial Statistics Systems (GFS)*

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Issues of implementation of accruals-based accounting in public sector

KEY ASPECTS OF IMPLEMENTATION OF IPSAS

1. The application of accruals-based accounting in public sector envisages the measurement, recognition and presentation in reporting of all assets and liabilities of the state. Not only property, plant and equipment, tangible and other current and non-current assets are the objects at the moment, but also all intangible assets. These intangible assets include all rights owned by state, all natural resources that make a state asset and property, pension liabilities of state.

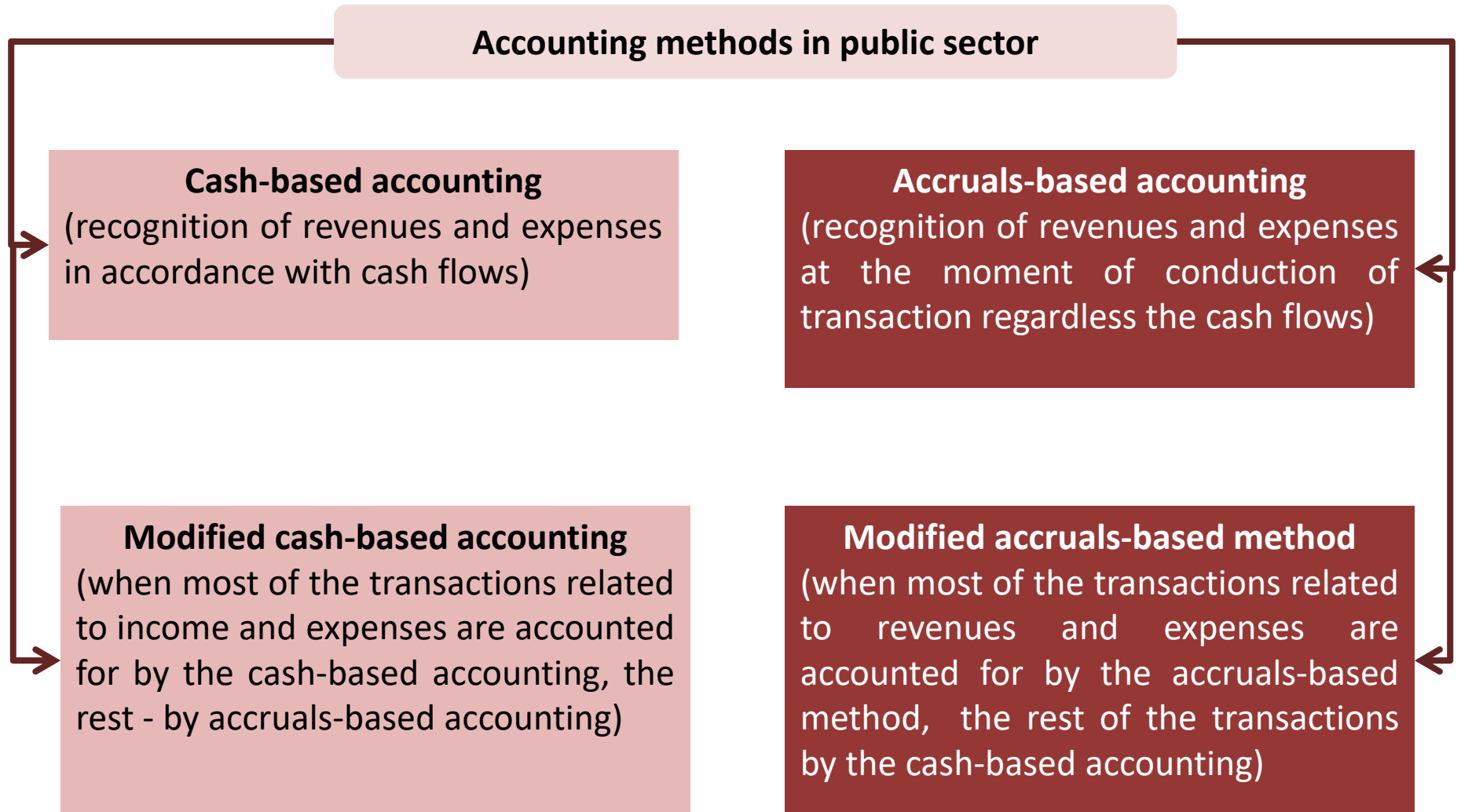
This information is of great importance for decision-making process at state level.

2. Not all assets and long-term liabilities of budget entities are subjects for real assessment. In particular, the cost of acquirement of fixed assets is written off on appropriate funding resources without further depreciation.

3. Transition of the formation of budget revenues accounting from paying taxes to accruals-based accounting.

Methods of recognition of revenues and expenses in public sector

KEY ASPECTS OF IMPLEMENTATION OF IPSAS



Methods of recognition of objects of accounting in public sector

Methods of recognition of objects of accounting in public sector (budget entities)

Object of accounting	Recognition method
Fixed assets	Accruals-based
Inventory	Accruals-based
Settlement	Accruals-based
Liabilities	Accruals-based
Revenues:	
budget allocations	Cash-based
own-source revenues	Accruals-based
Expenses	Accruals-based

Methods of recognition of objects of accounting in public sector (budgets execution)

Object of accounting	Recognition method
Assets	Cash-based
Public debt	Accruals-based
Settlement	Cash-based
Revenues	Cash-based
Expenses	Cash-based

Legislative support of the cash-based and accruals-based accounting in Ukraine

KEY ASPECTS OF IMPLEMENTATION OF IPSAS

Legislative Act	Content
Accruals-based accounting	
<p>Strategy of Modernization of the Accounting System in the Public Sector for 2007-2015, adopted by the Resolution of the Cabinet of Ministers of Ukraine dated 16.01.2007, No. 34</p>	<p>Accounting in budget entities and State Targeted Funds is carried out by the accrual-based accounting. Under this method of accounting transactions and events are recognized at the moment of their occurrence, regardless the date of receipt of payments (or their equivalents)</p>
Cash-based accounting	
<p>Strategy of Modernization of the Accounting System in the Public Sector for 2007-2015, adopted by the Resolution of the Cabinet of Ministers of Ukraine dated 16.01.2007 No. 34</p>	<p>Transactions related to revenues and expenses are recognized at the moment of payments, and transactions related to funding of budget -- at the moment of money transfer with simultaneous reflection of the debt</p>
<p>Regulation on the Organization of accounting and reporting of state and local budgets execution in the State Treasury of Ukraine entities, adopted by the order of the State Treasury of Ukraine dated 28.11.2000 No. 119 (with amendments)</p>	<p>Budget execution transactions are recognized in the accounting at the moment of the carrying out the appropriate payments. This corresponds to cash-based accounting</p>
<p>The Budget Code of Ukraine: Law of Ukraine dated 08.07.2010 № 2456-V (with amendments)</p>	<p>All revenues and expenditures of the budget are accounted for gross indicators, regardless whether it is expected or not in budget appropriations of interdependence of these indicators</p>

Issues of consistency in presentation of data in accordance with GFS 2014 and IPSAS

1. The lack of consistency between the classification of revenues and expenditures, used for state and local budgets execution and budget entities cost estimates

2. Revaluation outcomes are not included in revenues/expenses. In accordance with IPSAS this items are reflected in the Statement on Financial Performance

3. Discrepancies in the recognition criteria for assets and liabilities, revenues and expenses under GFS and IPSAS

4. Discrepancies in value measurement (under GFS and IPSAS current market prices are used, but for some classes of assets and liabilities according to IPSAS other evaluation methods are used)

Methodological issues of the implementation of IPSAS in Ukraine

Within the framework of cooperation between the State Educational Scientific Institution "Academy of Financial Management" and the Ad Hoc Committee on International Accounting Standards the International Consortium on Governmental Financial Management, experts of Ad Hoc Committee provided the comments on methodological issues on the implementation of IPSAS in Ukraine, formulated by Academy's specialists.

1. IPSAS 9 Revenue from exchange transactions, IPSAS 23 Revenue from non-exchange transactions provides the classification of revenues by exchange and non-exchange transactions. GFS doesn't provide such classification. How can be such inconsistency overcome in accounting and financial reporting?

2. By GFS 2014 revenues are divided into "grants", which include "grants from general government units". In IPSAS 23 revenues are divided to "transfers" which include "grants". How does classification of revenues from exchange and non-exchange transactions in accordance with IPSAS correspond with the classification of revenues according to GFS?

Comment

This problem can be solved by foreseeing the classification of GFS in detailed sub-accounts in the relevant IPSAS revenues and expenses accounts

Comment

For practical purposes GFS "Grants" and IPSAS "Transfers" are synonymous. Therefore, in most cases, an item defined by IPSAS as a "Transfer" will be defined by GFS as a "Grant". In classification system the description should be "Grants and Transfers" and then the appropriate wording is used for GFS and IPSAS

Methodological issues of the implementation of IPSAS in Ukraine

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3. IPSAS do not include standard for cost accounting. The cost of public services can be calculated for items or elements. How are the expenses of the budget entities classified for the purpose of calculating the cost of public services / governmental services?

4. The spending units carry out the functions of the state government through the budgetary allocations (e.g. Ministry of Finance determines the budget and fiscal policy). Is it recommended to calculate the cost of services for all public services?

Comment

Classification of expenses by items provides their correlation with the expenses arose in certain units and distribution of overhead expenses between certain types of services.

This enhances the effectiveness of control of expenses, but also complicates the process of planning, accounting and calculation. However, in practice, it is not always easy to apply such classification. The choice of classification method depends on economic feasibility.

Comment

Such calculation is desirable but may not justify the costs involved, especially taking into account the issues identified above. Neither GFS nor IPSAS have such a requirement. It must be a decision by each country taking into account the benefit, costs and feasibility of such cost calculations.

Methodological issues on the implementation of IPSAS in Ukraine

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5. In countries which use IPSAS program-target method of budgeting, focused on result of activity is often used. How is the accounting data linked with indicators of cost, product, efficiency?



Comment

Program budgeting is a classification dimension in addition to that required for IPSAS and GFS reporting. Program budgeting dimensions do not therefore affect the classification required for GFS and IPSAS reporting.

Accounting as the element of the public finance management system

THE ISSUES OF IMPLEMENTATION

1

The lack of consistency between the classification of revenues and expenditures in the national standards and the budget classification of revenues and expenditures used in execution of state, local budgets and cost estimates of public sector entities

2

The lack of methodological support for the implementation of National Public Sector Accounting Standards (NPSAS)

3

Non-compliance of the budget classification to international government statistics reporting standards by structure of indicators and principles of their consolidation

4

The lack of an integrated information public finance management system

The transparency of the budget process and the reliability of the reporting data should be ensured through the implementation of IPSAS and GFSM 2014

The cooperation with the international organizations in the area of improvement of the public finance management

THE ISSUES OF IMPLEMENTATION

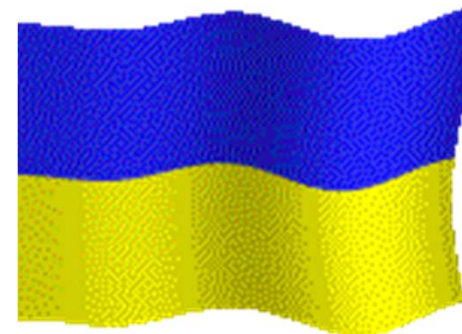
1. The draft Response Ad Hoc Committee on international accounting standards ICGFM on **Consultation Paper «Public Sector Specific Financial Instruments»**, issued by IPSASB (proposals on definitions of “monetary gold”, “monetary authority”, “reserve assets”, expressing an opinion on the appropriateness of using the market value for the valuation of monetary gold assets)

2. The draft Response Ad Hoc Committee on international accounting standards ICGFM on **Consultation Paper “Financial Reporting for Heritage in the Public Sector”** issued by IPSASB (proposals on features of recognition of natural heritage, the assignment of a monetary value to heritage assets, the suitability of presentation of heritage assets in financial reporting, the development of the list of heritage assets and establishment of criteria for its recognition)

3. The draft Response of Ad Hoc Committee on international accounting standards ICGFM on **Consultation Paper “Accounting for Revenue and Non-Exchange Expenses”** issued by IPSASB (the proposals on application of revenue recognition model proposed by IFRS 15 “The revenue from Contracts with Customers”; the issue of classification of revenues and argumentation of the classification of revenues from exchange and non-exchange transactions, proposed by IPSASB)



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**THANK YOU FOR
ATTENTION**

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