Presentation

Presented by

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Workshop on practical implementation of International Public Sector Accounting Standards (IPSAS)

UNCTAD-ISAR Workshop: Implementation of IPSAS
Thomas Müller-Marqués Berger, CAG Chair
31 October 2017, Palais des Nations, Geneva
Key questions

- Which key issues should countries consider when transitioning from cash-basis to accrual accounting?
- How can governments facilitate the timely publication of public sector financial statements?
- How do IPSASs facilitate consistency between public sector financial reporting, systems of national accounts and Government Financial Statistics Systems (GFS)?
General challenges faced by public sector entities when transitioning to accruals

- Completeness of assets and liabilities
- Measurement of assets and liabilities
- Transparency and comparability
- Restrictions (resources and time)

Completeness of material assets / liabilities and practical measurement approaches
Benefits, challenges and costs are dependent on starting point.
Challenges faced by public sector entities when converting to accruals

- Costs and expected efforts required
- Lack of detailed project timeline
- Many areas of organization impacted
- Comprehensiveness of accruals requirements
- Required skills
Challenges faced by public sector entities when converting to accruals

Main Challenges

Change Management
- Political/Executive support
- Climate of change, Mind change for public officials
- Length of reform/"reform fatigue"

Resources
- Accrual accounting know how/capacity building
- Staff capacities for reform

IT and Tools
- IT/ERP system implementation
- Impact of reform on the organization
- Registration and measurement of assets and liabilities/opening balance sheet
- Data quality and consistency
Conversion Process
Implementation Overview

Phase 1
Identify

- Operational processes work stream
- IT and systems work stream
- Accounting work stream
- Actuarial work stream
- Training work stream
- Steering Committee: Change/project management work stream

Phase 2
Diagnose

Phase 3
Design

Phase 4
Deliver

Phase 5
Sustain

Conclude the Conversion
Major public sector GAAP conversion steps
GAAP conversion project development path

- First-time adoption, Opening BS, FSCP
- Auditing
- Capacity building
- Legal framework
- GAP-Analysis Feasibility
- Consolidation
- IT & Processes
- Sensitivity
IPSAS Conversion Process
Illustrative Structure of a Conversion Project

- **Steering Committee**
  - Project Leader
  - Project Group
  - Project Office
  - eventually external assistance

- Subproject 1: Output-oriented Budget
- Subproject 2: Registration of Assets and Liabilities/Opening Balance Sheet
- Subproject 3: Financial Accounting/Treasury
- Subproject 4: Financial Software and 3rd Party Applications
- Subproject 5: Training
- Subproject 6: Organisation

eventually external assistance
Lessons learned
IPSAS Conversions – Do’s (1)

- **Scope of reform**
  - Recognize the **importance of budgeting** => consider reform scope carefully
  - Make the project relevant - reform needs to be **linked** to **decision-making**

- **Project Management**
  - **Plan** and **manage** the conversion project **carefully** – project hides multiple interrelations and complexities
  - Invest time in the **gap analysis** and development of a **realistic roadmap**
  - Identify the entities which will **determine the majority of the values** regarding the items in the government’s balance sheet (materiality)
  - Involve **technical expertise** in conversions (auditors, statistical offices)
Lessons learned
IPSAS Conversions – Do’s (2)

- **Organisation**
  - Establish a **conversion project steering committee** (milestones, communication protocols)
  - **Anticipate the major challenges** around a successful conversion
  - Think of having a **trial opening balance sheet** and **dry run** accounts

- **Communication**
  - Explain and continually reinforce the **benefits of IPSASs adoption to specific stakeholders** to ensure buy in of all groups concerned, especially political commitment
Lessons learned
IPSAS Conversions – Don’ts (1)

- **Scope of reform**
  - Don’t limit the project to an accounting reform
  - Don’t assume that it is a desktop exercise
  - Don’t aspire to be 100% IPSAS compliant in the first stage of the reform; there will also be a learning curve

- **Project Management**
  - Don’t be over ambitious in terms of timing -> damage of lost trust is higher then initial increase in confidence after having announced great plans
  - The conversion should not be undertaken without adequate training of accounting personnel on accrual accounting and IPSASs
  - Don’t proceed without an early assessment of IT system conversion readiness
Lessons learned
IPSAS Conversions – Don’ts (2)

• **Organisation**
  - Don’t assume all *documentation will be in place* – plan time for stock-taking

• **Communications**
  - Don’t *underestimate communication* – proactively engage with the media
Key questions

• Which key issues should countries consider when transitioning from cash-basis to accrual accounting?

• How can governments facilitate the timely publication of public sector financial statements?

• How do IPSASs facilitate consistency between public sector financial reporting, systems of national accounts and Government Financial Statistics Systems (GFS)?
Current year-end financial reporting practices by governments *(Moretti, Rationalising Government Fiscal Reporting, 2017)*

### Year-end financial reports towards Parliament

<table>
<thead>
<tr>
<th>Country</th>
<th>Report</th>
<th>Time-lag</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Final Budget Outcome</td>
<td>3 months</td>
</tr>
<tr>
<td>Canada</td>
<td>Public Accounts of Canada</td>
<td>6 months</td>
</tr>
<tr>
<td>France</td>
<td>Budget Execution Law</td>
<td>5 months</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Annual Reports and Accounts (departments)</td>
<td>7 months</td>
</tr>
</tbody>
</table>

**Consolidated financial statements**

<table>
<thead>
<tr>
<th>Country</th>
<th>Report</th>
<th>Time-lag</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Consolidated Financial Statements</td>
<td>5 months</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Annual Reports and Accounts</td>
<td>12-14 months</td>
</tr>
</tbody>
</table>
How can the timeliness of government public sector financial statements be improved?

- Legal requirements
- Sufficient attention regarding financial reporting by leadership/politicians and linkage to decision-making
- Clear tone from the top communication within the organisation on why timely information is needed
- Assess trade-off between the completeness of financial reports and users’ needs for timely information
- Improvements to streamline processes
Key questions

• Which key issues should countries consider when transitioning from cash-basis to accrual accounting?
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• How do IPSASs facilitate consistency between public sector financial reporting, systems of national accounts and Government Financial Statistics Systems (GFS)?
Consistency between IPSAS financial reporting and systems of national accounts (1)

Different objectives

<table>
<thead>
<tr>
<th>IPSASs</th>
<th>2008 SNA</th>
<th>GFSM 2014</th>
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</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>Economic analysis</td>
<td>Fiscal Analysis</td>
</tr>
<tr>
<td>Decision-making</td>
<td>Decision-taking</td>
<td></td>
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<td></td>
<td>Peacemaking</td>
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</tbody>
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But considerable overlap

- Accrual-based information
- Assets/liabilities and revenues/expenses
- Cash flows
Consistency between IPSAS financial reporting and systems of national accounts (2)

IPSASB’s cooperation with statistical community:

- **2004:** IPSASs and Statistical Bases of Reporting – Analysis of Differences and Recommendations for Convergence
- **2004 - 2006:** Task Force For Harmonisation of Public Sector Accounting (TFHPSA) – inputs to SNA development
- **2010 – 2012:** GFS Advisory Committee membership
- **2012:** IPSAS and GFS Consultation Paper
- **2014 onwards:** GFS Tracking Table updated for each IPSASB meeting
- **Since 2014:** Process for considering GFS Reporting Guidelines during Development of IPSASs
Process for considering GFS Reporting Guidelines during Development of IPSASs

1. Is there any significant difference between IPSASs and GFS?
   - Yes: Consider guidance or pronouncement to manage the difference.
   - No: Proceed to Step 2.

2. Is the difference so fundamental that it cannot be addressed through an IPSAS or GFS change?
   - Yes: Consider guidance or pronouncement to manage the difference.
   - No: Proceed to Step 3.

3. Would necessary revision be appropriate for IPSASs?
   - Yes: Proceed to Step 4.
   - No: Proceed to Step 4.

4. Could IPSAS revision fill annual improvements criteria?
   - Yes: Include in next annual improvements project.
   - No: Consider the difference during an IPSAS project (new or revised IPSAS).

A1. No further action required.
A2. (i) Consider guidance or pronouncement to manage the difference.
   (ii) From Step 3, also consider referral to statistical community for consideration of a possible GFS change.
A3. Include in next annual improvements project.
A4. Consider the difference during an IPSAS project (new or revised IPSAS).
IPSASB’s efforts to align with GFS: Recently approved IPSASs

IPSAS 35, *Consolidated Financial Statements*
- Consolidation of all controlled entities versus sectors of government
- Concept of control
- Regulatory control versus control for financial reporting purposes
- Rights associated with golden shares

*Improvements to IPSASs 2015*
- Terminology on military assets
  - IPSAS 12, *Inventories*
  - IPSAS 17, *Property, Plant, and Equipment*
IPSASB’s efforts to align with GFS:
Active projects (1)

Social Benefits
- Classification: GFS social risks approach, except for universal services (ex: healthcare)
- Recognition and measurement: may not be aligned with GFS

Heritage
- Proposals in the draft CP are likely to be aligned with GFS on asset recognition and measurement

Revenue and Non-Exchange Expense
- No significant differences between current IPSASs and GFS
- GFS consideration will be given as project progresses
IPSASB’s efforts to align with GFS:
Active projects (2)

Public Sector Specific Financial Instruments
- Key principals underlying definitions drawn from GFS literature (SNA and the IMF’s Balance of Payments and International Investments Position Manual)
- Certain measurement proposals in the CP consistent with GFS

Financial Instruments (Updates to IPSASs 28-30)
- Project to maintain convergence with IFRS 9, Financial Instruments
- Scope of recognition of FI’s not expected to be fully aligned with GFS
- Measurement expected to be broadly consistent with GFS
Thank you for your attention!

► Since 2009: Global Head of International Public Sector Accounting at EY and since 2012 Assurance Leader Government and Public Sector for EMEIA (Europe, Middle East, India and Africa) within EY.

► From January 2016: Inaugural Chairman of the Consultative Advisory Group (CAG) to the IPSASB. Since June 2017, first elected IPSASB CAG Chair.

► Since 2011: Chair of the Public Sector Group of Accountancy Europe (ACE; formerly FEE). Currently, he is the representative of ACE at the European Commission Accounting Advisory Council (since 2013) as well as at the EUROSTAT EPSAS Task Forces, the EPSAS Working Group and its Cells (since 2012).

► November 2016: Award of “Honorary Membership” by The Chartered Institute of Public Finance & Accountancy (CIPFA), UK, for outstanding contributions to raising the standards of global public finance management.