

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

Workshop on practical implementation of IPSAS

Tuesday, 31 October 2017
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Afternoon Session

Presentation

Presented by

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Chair, Consultative Advisory Group
International Public Sector Accounting Standards Board

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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

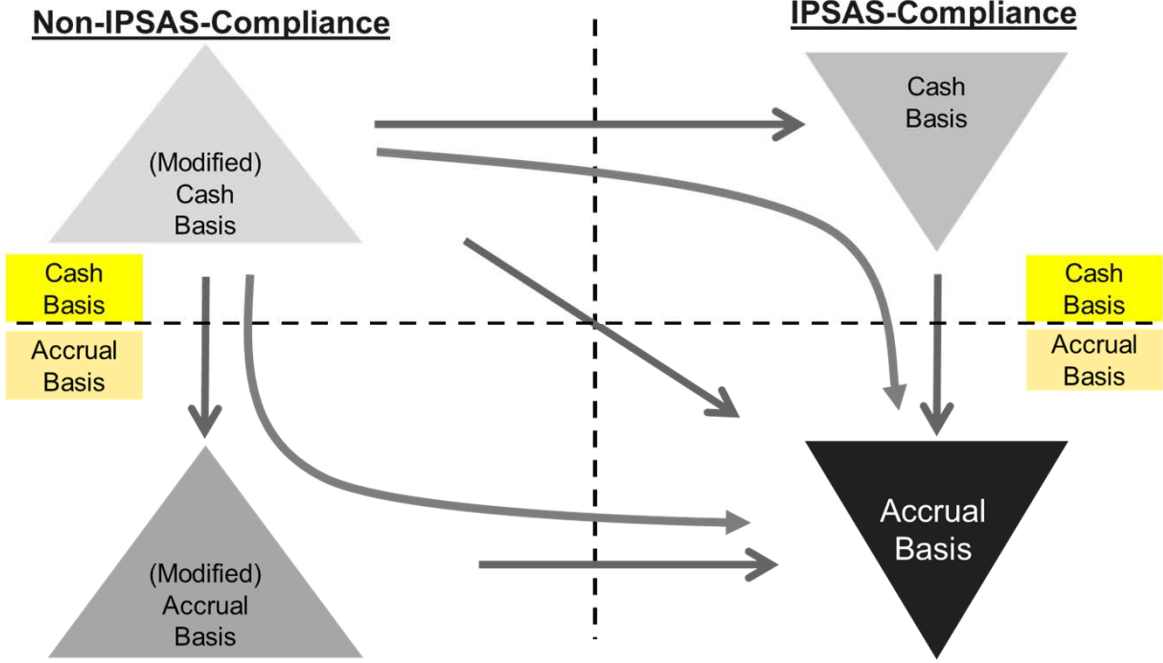
Measurement
of assets and
liabilities

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

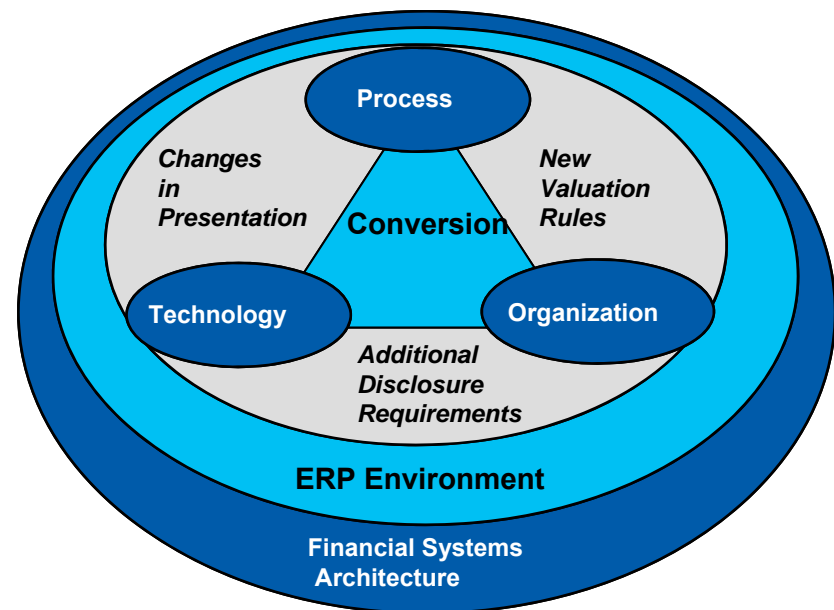
- Political/Executive support
- Climate of change, Mind change for public officials
- Length of reform/"reform fatigue"

Resources

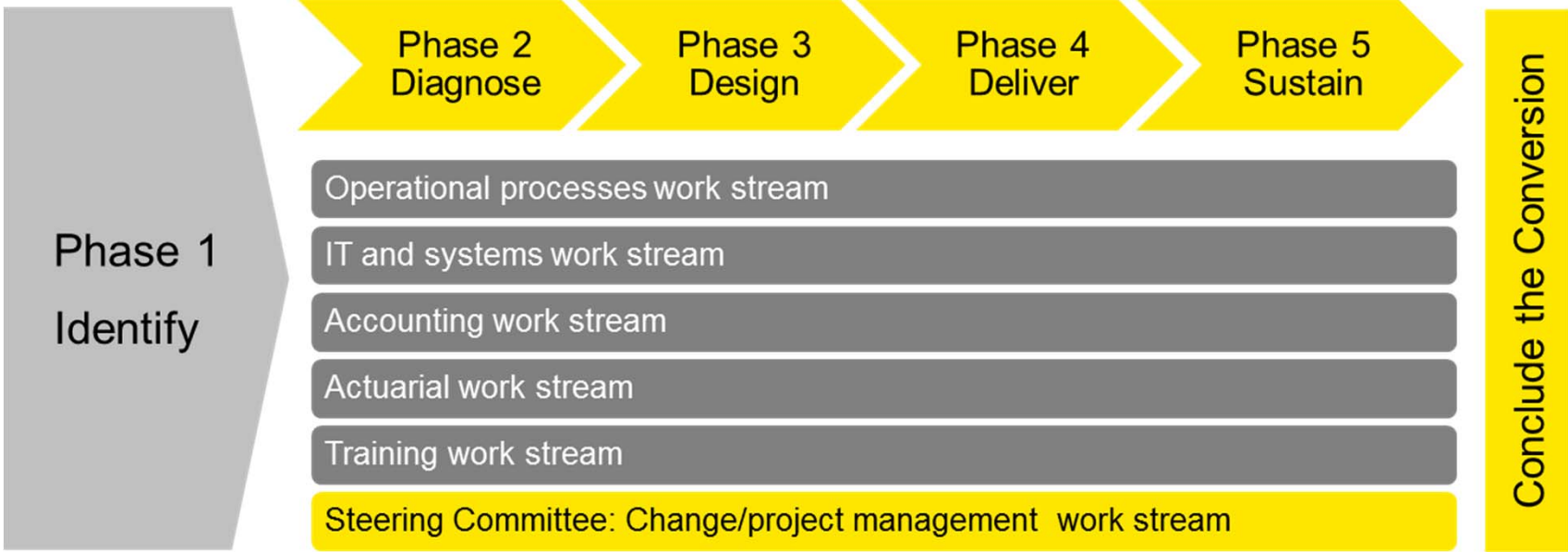
- Accrual accounting know how/capacity building
- Staff capacities for reform

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

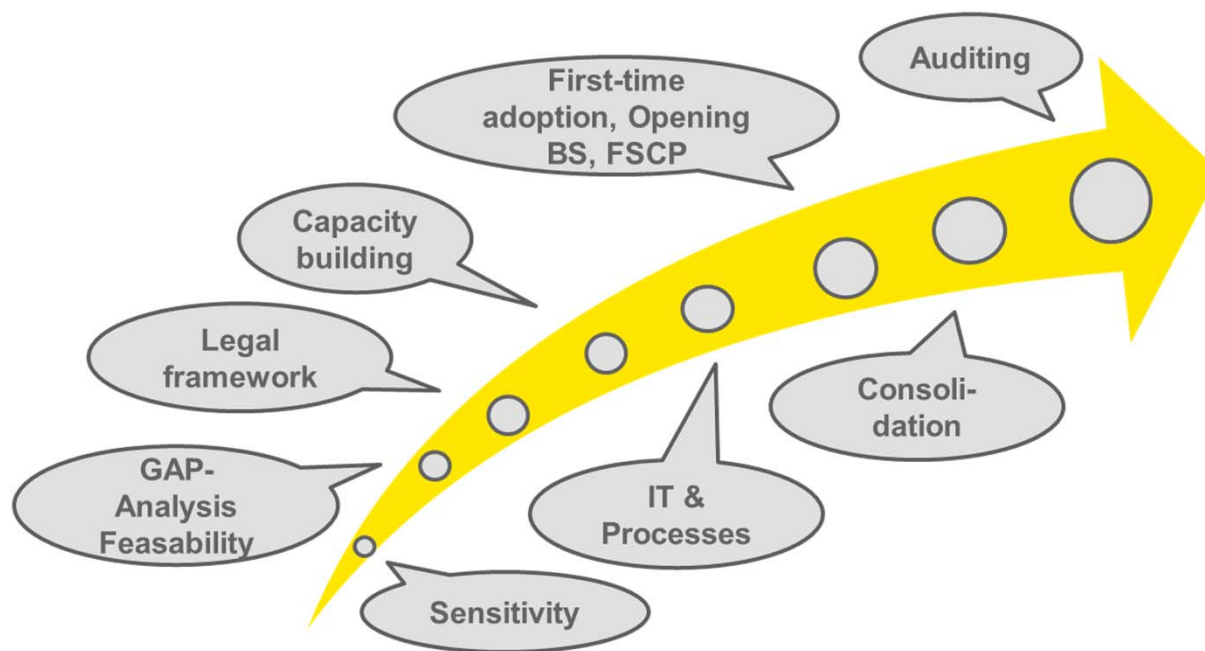


Conversion Process Implementation Overview



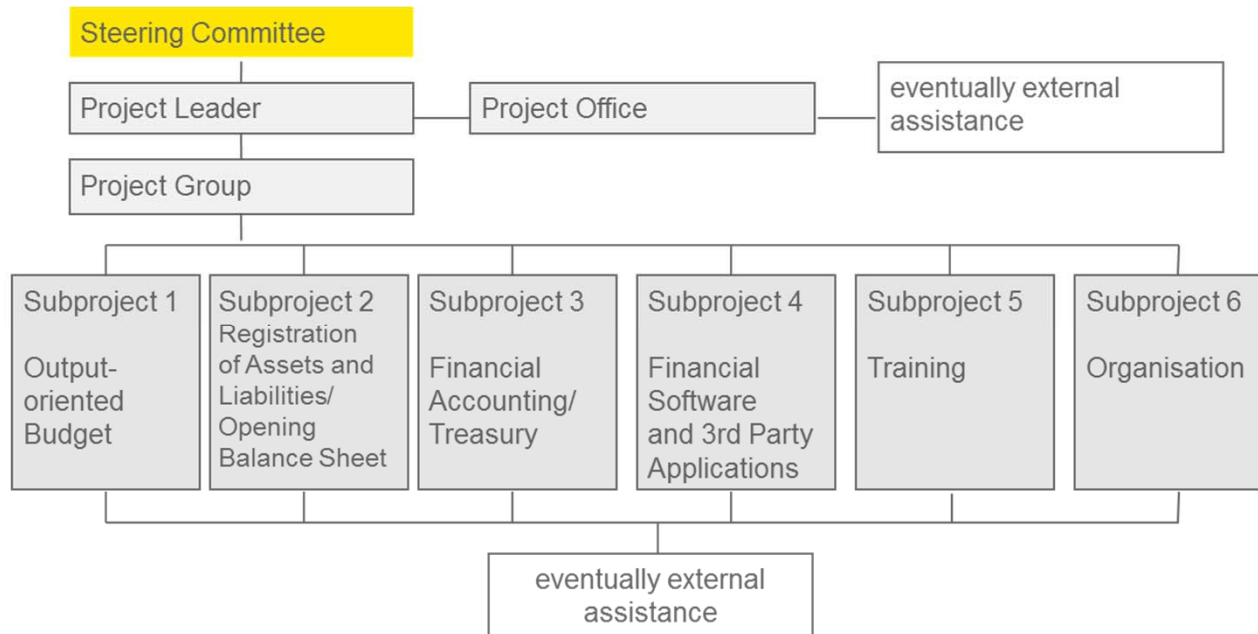
Major public sector GAAP conversion steps

GAAP conversion project development path



IPSAS Conversion Process

Illustrative Structure of a Conversion Project



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 than 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

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Current year-end financial reporting practices by governments (Moretti, Rationalising Government Fiscal Reporting, 2017)

Year-end financial reports towards Parliament

Country	Report	Time-lag
Australia	Final Budget Outcome	3 months
Canada	Public Accounts of Canada	6 months
France	Budget Execution Law	5 months
United Kingdom	Annual Reports and Accounts (departments)	7 months

Consolidated financial statements

Australia	Consolidated Financial Statements	5 months
United Kingdom	Annual Reports and Accounts	12-14 months

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

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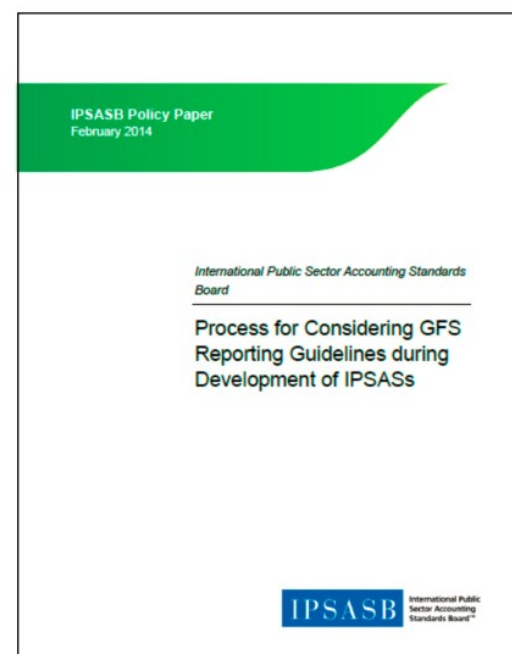
Consistency between IPSAS financial reporting and systems of national accounts (1)

Different objectives

IPSASs	2008 SNA	GFSM 2014
Accountability	Economic analysis	Fiscal Analysis
Decision-making	Decision-taking	
	Peacemaking	

But considerable overlap

- Accrual-based information
- Assets/liabilities and revenues/expenses
- Cash flows

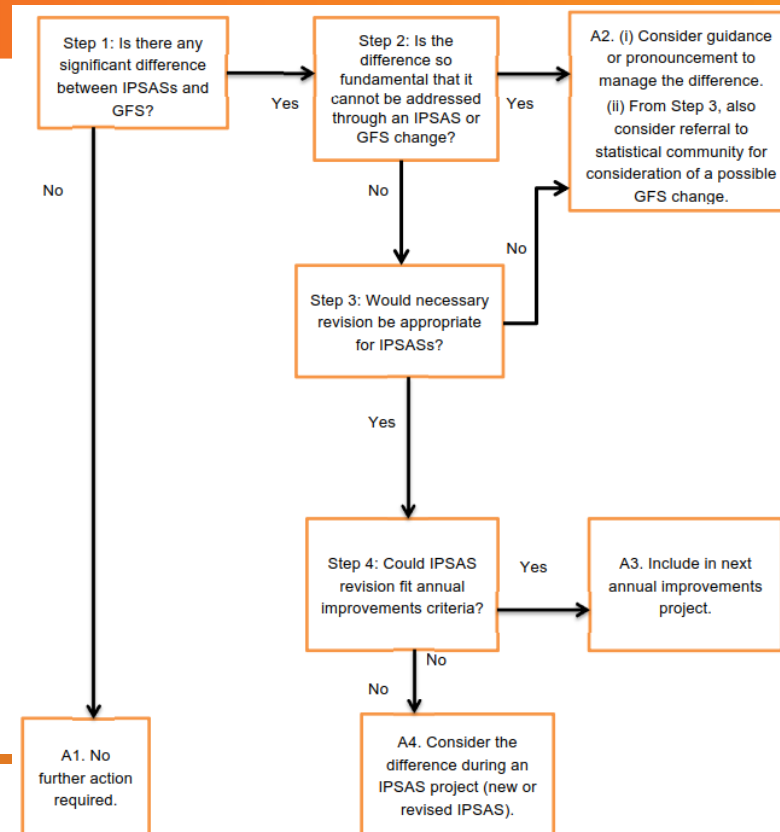


Consistency between IPSAS financial reporting and systems of national accounts (2)

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



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: health care)
- 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!



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- ▶ 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.