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Review of practical implementation of international standards of accounting and reporting in the private and public sectors

Note by the UNCTAD secretariat

Summary

This note presents a review of the current state of implementation and practical issues arising in the process of the application of international financial reporting standards (IFRS) and international public sector accounting standards (IPSAS), to facilitate consideration of these issues by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting at its thirty-ninth session. The status of implementation of IFRS worldwide and the current state of standard-setting activities and projects, as well as finalized standards that will become effective in the near future, are addressed in the note. Practical challenges in the application of IFRS 9 (financial instruments), IFRS 17 (insurance contracts) and IFRS for small and medium-sized enterprises are discussed. In addition, the overall status of implementation of IPSAS and the current standard-setting activities of the IPSAS Board are addressed. Practical application issues, such as with regard to transitions from a cash-based to an accrual-based system, employee benefits and leases, are also highlighted. Finally, regulatory, institutional and human capacity-building implementation issues are presented in the context of both IFRS and IPSAS.

I. Introduction

1. Through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, the United Nations has been contributing to global efforts aimed at developing accounting and reporting standards, with a view to promoting reliable and comparable financial and sustainability reporting by enterprises and organizations worldwide. High-quality corporate reports on the performance and financial standing of businesses facilitates investment flows; and high-quality accounting and reporting by public sector entities promotes good governance and supports solid financial management. Since its establishment in 1982, the Intergovernmental Working Group of Experts has been an open and neutral forum at which member States may deliberate and articulate views on a variety of accounting and reporting topics.

2. Over the last two decades, the preparation of financial statements by applying IFRS in the private sector and IPSAS in the public sector has spread widely worldwide. The Intergovernmental Working Group of Experts has been assisting States in building and strengthening regulatory, institutional and human capacity, to enable entities in the respective jurisdictions to produce high-quality financial reports that meet the needs of decision makers, capital providers and other stakeholders.

3. The Accounting Development Tool developed by the Intergovernmental Working Group of Experts is key in analysing the impact and outcomes of accounting reforms towards convergence with global standards and codes. The Tool supports understanding of the status of adoption of international standards such as IFRS and IPSAS, as well as challenges and issues for improvement and support, particularly among developing countries. Through the use of the Tool, Government agencies can identify areas for support, gaps and weaknesses; define policies and priorities; and allocate resources.

4. The Intergovernmental Working Group of Experts, at its thirty-eighth session, emphasized the need for further measures to be taken at the jurisdictional level to support the implementation of sustainability reporting standards developed at the global level. In this regard, a review of recent standard-setting developments with regard to IFRS is provided in chapter II, along with practical implementation issues. A review of recent developments and the main practical implementation challenges with regard to IPSAS is provided in chapter III.

5. Previous reviews of the practical implementation of international standards of accounting and reporting in the private and public sectors have been discussed by the Intergovernmental Working Group of Experts at previous sessions and provide useful background information and a broader context.[1]

II. Practical implementation of international financial reporting standards

A. Background and overview of implementation status

6. The adoption of IFRS, issued by the International Accounting Standards Board (IASB), for financial reporting by listed corporations globally, plays a key role in the international convergence of corporate reporting and governance. At present, worldwide, 144 jurisdictions require the use of IFRS by domestic listed corporations (see table).

[1] TD/B/C.II/ISAR/86; TD/B/C.II/ISAR/90.
Note: The present review does not cover developments and practical implementation issues in the area of sustainability reporting, which are addressed in TD/B/C.II/ISAR/101.

In many jurisdictions, such as the European Union, IFRS are mandated by law.[2] IFRS have been key in the global convergence of accounting and financial reporting.[3]

International Financial Reporting Standards implementation status

Region	*IFRS required*	*IFRS permitted*	*IFRS neither required nor permitted by regulation*	*Total number of jurisdictions monitored*
Europe	43	1	0	44
Africa	36	1	1	38
Americas	27	8	2	37
Asia and Oceania	25	3	6	34
Middle East	13	0	0	13
Total	**144**	**13**	**9**	**166**

Source: IFRS Foundation.

B. Overview of forthcoming standards and projects

7. Over the last two years, IASB has been making progress in deliberations on certain topics through discussion papers and exposure drafts, as discussed in this section. These topics are still under discussion; once they have been finalized and become effective, they are likely to have implications related to practical implementation.

1. Primary financial statements project

8. IASB is focused on improving the communications effectiveness of financial statements, under an initiative on better communications in financial reporting.[4] This initiative comprises projects on the following topics: primary financial statements; disclosures; and management commentary. The projects are aimed at improving information for users of financial statements. The first project aims to help users of financial statements better understand and compare information published in the general purpose financial statements of companies; the changes proposed through the project are focused on helping companies provide useful information to users of financial statements and on improving the comparability, understandability and relevance of the information provided. Proposed changes include the replacement of international accounting standard 1 on the presentation of financial statements with a new standard and further deliberations on the proposals in the exposure draft on general presentation and disclosures, including on requiring an entity to disclose an analysis of its operating expenses by nature in notes when reporting on operating expenses by function in statements of profit or loss, as well as other topics such as the following: disclosing tax effects and effects on non-controlling interests of differences between a management performance measure and the most directly comparable total specified under IFRS accounting standards; and defining and disclosing unusual incomes and expenses in a single note and the structure of the note and the classification of incomes and expenses from associates and joint ventures accounted for using the equity method for entities with specified main business activities. Subprojects include one on management performance measures and disaggregation.[5]

[2] See, for example, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en.
Note: All websites referred to in footnotes were accessed in August 2022.

[3] A Jansson, 2020, Global financial reporting convergence: A study of the adoption of IFRS by the Swedish accountancy profession, *Competition and Change*, 24(5):429–449.

[4] See https://www.ifrs.org/projects/work-plan/primary-financial-statements/#about.

[5] See https://www.ifrs.org/content/dam/ifrs/meetings/2018/july/asaf/ap2-pfs-moving-to-standard-setting.pdf.

2. Management performance measures

9. IASB is engaged in improving the discipline of management performance measures, which are created by the management of a company rather than defined under IFRS. The purpose of streamlining reporting on such measures is to make it easier for investors to locate and understand them and to reconcile them with information in IFRS financial statements.

3. Aggregation and disaggregation

10. IASB seeks to improve requirements for the aggregation and disaggregation of transactions and other events in notes and as line items in primary financial statements.[6] The disaggregation and separate presentation of different types of income and expense items is vital for investors to be able to understand performance. Many disaggregation requirements related to profit and loss items are mandated under individual IFRS. However, there is also a need for general requirements to cover other situations. In the proposal, IASB states that disaggregation should reflect the degree to which characteristics are shared between profit and loss items; a greater number of different characteristics means that disaggregation is more likely to be necessary.

4. Dynamic risk management

11. In 2022, IASB has discussed refinements to the mechanics of the dynamic risk management model, to decide on which amounts to recognize and where they should be recognized in financial statements. In addition, IASB has discussed whether to move this project from the research programme to the standard-setting programme.[7] The model seeks to enable an entity to better reflect its dynamic risk management strategy in financial statements and provide useful information to statement users. IASB is considering changing the mechanics of the model to require designated derivatives to be measured at fair value in statements of financial position; and the dynamic risk management adjustment to be recognized in such statements, as the lower (absolute amount) of the following: cumulative gain or loss on designated derivatives from the inception of the model; and cumulative change in the fair value of the risk mitigation intention attributable to the repricing risk (due to changes in interest rates) from the inception of the model, calculated using benchmark derivatives as a proxy.[8] The difference between the change in the fair value of designated derivatives and the dynamic risk model adjustment is then recognized in the statement of profit or loss.[9]

5. Goodwill and impairment

12. IASB, following a discussion paper on this issue, decided to prioritize further work as of September 2021 to make tentative decisions on the package of disclosures on business combinations; and analyse particular aspects of the feedback on subsequent accounting for goodwill.[10] This IASB project is focused on providing investors with better information regarding motivation for the acquisition of goodwill and whether expectations with regard to goodwill are met over time. Goodwill is a challenging topic from an accounting perspective. The most recent discussions at IASB have addressed engaging in additional research on whether it is feasible to estimate the useful life of goodwill and the pattern in which it diminishes; and the potential consequences of transitioning to an amortization-based model.[11]

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[6] See https://www.ifrs.org/content/dam/ifrs/meetings/2021/september/iasb/ap21d-pfs-principles-of-aggregation-and-their-application-in-the-primary-financial-statements-and-the-notes.pdf.

[7] See https://www.ifrs.org/projects/work-plan/dynamic-risk-management/.

[8] See https://www.ifrs.org/content/dam/ifrs/project/dynamic-risk-management/discussion-paper/published-documents/dp-accounting-for-dynamic-risk-management.pdf.

[9] See https://www.iasplus.com/en/meeting-notes/iasb/2022/may/drm.

[10] See https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/dp-goodwill-and-impairment/.

[11] See https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/.

6. Rate-regulated activities

13. IASB continues to deliberate on proposals made in the exposure draft on regulatory assets and regulatory liabilities. The project on rate-regulated activities addresses, for example, utility companies, which are subject to regulations that state how much and when they can charge customers.[12] Companies use different accounting models to report the effects of this regulation. However, the information currently provided is not complete. IASB seeks an accounting model that will improve the information provided to investors on the rights and obligations of a company.

7 Management commentary

14. In 2010, IASB published a practice statement on management commentary, providing a broad, non-binding framework for the presentation of commentary related to financial statements prepared in accordance with IFRS. In May 2021, IASB published an exposure draft on management commentary, setting out proposals for a comprehensive new framework for preparing such commentary, to replace the practice statement.[13]

8. Business combinations under common control

15. IFRS 3 sets out reporting requirements for mergers and acquisitions but does not specify how to report transactions that involve transfers of businesses between companies within the same group. Such transactions are common in many countries worldwide. As a result of this gap in IFRS, companies report combinations in different ways. A discussion paper on business combinations under common control sets out the preliminary views of IASB on how to fill this gap.[14] IASB has discussed feedback received, which will help IASB decide whether and how to develop detailed proposals based on the views in the paper.

9. Standards for small and medium-sized enterprises

16. Currently, 87 jurisdictions require or permit IFRS for small and medium-sized enterprises.[15] IASB has initiated deliberations with regard to a second comprehensive review of IFRS for small and medium-sized enterprises, focused on particular sections, for alignment with new requirements under IFRS accounting standards. IASB aims to work towards publishing an exposure draft, proposing amendments to IFRS for small and medium-sized enterprises with regard to new requirements that are in the scope of the review. Proposed amendments will be developed, treating alignment with the full IFRS accounting standards as the starting point and applying the principles of relevance to small and medium-sized enterprises, simplicity and faithful representation, including an assessment of costs and benefits, in determining whether and how the alignment should take place.[16]

C. Practical implementation issues

17. Overarching regulatory, institutional and human capacity development-related practical considerations in the implementation of IFRS are addressed in this section. Insights through the implementation of the Accounting for Development Tool in Colombia, Guatemala, Kenya and South Africa in the past two years are highlighted. In addition, technical implementation challenges with regard to selected IFRS are discussed.

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[12] See https://www.ifrs.org/news-and-events/calendar/2022/march/accounting-standards-advisory-forum/.

[13] See https://www.ifrs.org/projects/work-plan/management-commentary/.

[14] See https://www.ifrs.org/projects/work-plan/business-combinations-under-common-control/discussion-paper-and-comment-letters-business-combinations-under-common-control/.

[15] See https://www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes/ifrs-for-smes/2021/september-2021-ifrs-for-smes-update/.

[16] See https://www.ifrs.org/content/dam/ifrs/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/summary-of-iasb-tentative-decisions.pdf.

1. Legal and regulatory aspects

18. Implementation of IFRS requires considerable preparation at the national level to ensure clarity on the authority of IFRS with regard to other existing national laws and standards.[17] The four countries that recently applied the Accounting Development Tool have enacted laws that require the application of IFRS in the preparation of financial statements by entities in the respective jurisdictions. Without legal backing, the enforcement of IFRS is more challenging. The roles and responsibilities of authorities responsible for regulating general purpose financial reporting need to be clearly articulated to avoid overlaps with other regulators such as prudential authorities responsible for banking and insurance. IFRS implementation is often accompanied by the adoption of international standards on auditing. This was the case in all of the countries that recently applied the Accounting Development Tool, implying that regulators need to specify in law, regulation or policy the standards for the preparation of financial statements and for audits. Applicable reporting and audit regimes for microenterprises and small and medium-sized enterprises also need to be specified.

2. Institutional arrangements

19. Effective IFRS implementation and enforcement requires legally recognized and adequately staffed and funded institutions. For example, in South Africa, the Financial Reporting Standards Council and the Johannesburg Stock Exchange monitor IFRS implementation. Coordination among the different institutions responsible for implementation is essential. For example, in Colombia, the Intersectoral Accounting Commission brings together different Government entities to achieve coherence in activities. In one of the countries that recently applied the Accounting Development Tool, the lack of adequate funding to support the work of a focal entity was cited as a limiting factor. A recent study of 54 countries in Africa found that the lack of institutional capacities was considered the greatest obstacle to IFRS implementation; for example, 42 countries had a recognized accounting body, yet some did not have the requisite legal backing to regulate the accounting profession.

3. Human capacity-building

20. IFRS implementation requires accounting bodies to ensure that accountants are well trained and updated on the standards. Findings from recent applications of the Accounting Development Tool show that this is a challenging area. The lack of competent individuals in the accounting profession creates obstacles to IFRS implementation. In some cases, requirements are lacking for the certification and licencing of auditors. Accountants need continuous education and training in financial reporting in accordance with IFRS and enforcement authorities need to be competent in IFRS to effectively carry out their duties. The findings show that in some countries, continuous professional development is not a requirement and that education and training programmes on advanced topics in IFRS are lacking. Developing economies can enhance the quality of financial reporting and auditing through education and training, quality review, investigation and the discipline of professional accountants.

4. Technical implementation issues

21. IFRS 17 on insurance contracts will come into effect in January 2023 and there are already indications of technical challenges with regard to implementation.[18] The post-implementation review of IFRS 9 has revealed some technical challenges. In addition, for example, in Brazil, the implementation of IFRS for small and medium-sized enterprises has

[17] See https://www.ebizproject.com/the-issues-of-implementing-ifrs-in-developing-countries/.

[18] Application of IFRS 17 is covered in an international actuarial note that aims to familiarize actuaries with approaches that might be taken and to demonstrate how the profession might approach the topic. See https://www.actuaries.org/iaa/IAA/Publications/IANs/IAA/Publications/international_actuarial_notes.aspx.

demonstrated a need for the further alignment of proportionate accounting and reporting requirements for different sizes of enterprises, including microenterprises.

(a) Insurance contracts

22. IFRS 17 is a globally standardized accounting model for all insurance contracts that makes significant changes to the valuation of the liabilities of insurers. Insurance contract liabilities will be calculated as the present value of future insurance cash flows, with a provision for risk. The implementation of IFRS 17 introduces new accounting challenges for insurers across jurisdictions.

23. Discussion of IFRS 17 would be incomplete without mention of IFRS 9, which has led to changes in the valuation and income recognition of assets.[19] The implementation of IFRS 9 could generate new modelling approaches for credit risk in infrastructure investment, which could provide further impetus for the recalibration of regulatory capital charges.

(b) Financial instruments

24. IFRS 9, in effect since January 2018, has changed how credit losses are recognized in financial statements. By replacing an incurred credit loss approach with an expected credit loss approach, it requires, for example, banks to recognize losses earlier in the credit cycle, starting at the origination phase, and to increase provisioning, also incorporating forward-looking information, when credit risk increases. IASB has conducted a post-implementation review process for IFRS 9.[20] Most respondents to a request for information agreed that, generally, the requirements work as intended, indicating that there is no need for fundamental changes. However, feedback also indicated that IASB could help entities with consistent application by clarifying particular aspects of the requirements on solely payments of principal and interest. The majority of feedback on the latter requirements were related to the following: features linked to environmental, social and governance-related reporting and how to assess whether a financial asset had solely payments of principal and interest on the principal amounts of outstanding cash flows (which qualifies an asset to be measured at an amortized cost) when the instrument had such features; and contractually linked instruments,[21] namely, the scope of transactions to which requirements for contractually linked instruments applied and how to apply the requirements, including questions on the interaction between the requirements for contractually linked instruments and the requirements for financial assets with non-recourse features.

25. A number of jurisdictions have been encountering various challenges in applying IFRS 9.[22] For example, in Asia and the Pacific, the greatest challenges faced by banks and corporations in complying with IFRS 9 pertain to the new impairment model that requires companies to make provisions for expected credit losses. This tenet has led to significant challenges globally, as companies attempt to build the models and obtain the data required to model estimates. The World Bank, in a recent study on emerging markets, provides a set of high-level policy recommendations for countries in the process of a transition to the use of IFRS 9 or aiming to do so, based on reflections from various jurisdictions on challenges faced and remedies used when implementing IFRS 9, as well as lessons learned during the pandemic.[23] Countries that have already implemented IFRS 9 must address the following key questions: how does the pandemic affect the significant increase of credit risk?; cow can banks estimate expected credit loss in such an uncertain environment?

[19] See https://thedocs.worldbank.org/en/doc/758831545325065732-0030022018/How-Transparency-Can-Contribute-to-Development-November-2018-IFRS-Conference-A-Jobst.

[20] See https://www.ifrs.org/content/dam/ifrs/meetings/2022/may/iasb/ap3-ccfc-prioritising-pir-findings.pdf.

[21] IFRS 9 requirements describe contractually linked instruments as types of transactions in which an issuer prioritizes payments to the holders of financial assets using multiple contractually linked instruments that create concentrations of credit risk.

[22] See https://www.eba.europa.eu/eba-notes-significant-efforts-ifrs-9-implementation-eu-institutions-cautions-some-observed.

[23] See https://openknowledge.worldbank.org/handle/10986/35373.

(c) Small and medium-sized enterprises

26. In Brazil, a case study on IFRS for small and medium-sized enterprises shows that they are considered too complex among the roughly 5 million microenterprises in the country; and the Federal Council of Accounting has issued simplified accounting requirements for microenterprises. The reality of a medium-sized enterprise differs markedly from that of a small enterprise; therefore, as of 2023, Brazil will have the following sets of standards in effect based on company size: large enterprises, IFRS; medium-sized enterprises, IFRS for small and medium-sized enterprises; small enterprises, a separate standard; and microenterprises, a separate standard.[24] The two latter standards are aligned with IFRS for small and medium-sized enterprises, with some simplifications developed in consideration of the characteristics of these companies and of limitations in the availability of financial resources for administrative activities. Despite the introduction of these changes, engaging the accountants of small and medium-sized enterprises in regulatory processes and providing training to ensure that they have adequate knowledge to apply the standards will still be a challenge. A recent study detailed challenges faced and highlighted the importance of IFRS education among small and medium-sized enterprises, noting that professional accountancy bodies in Brazil usually did not offer courses on IFRS for such enterprises and that, although most firms in Brazil were small and medium-sized enterprises, higher-education training on IFRS for such enterprises was deficient or lacking.[25]

III. Practical implementation of international public sector accounting standards

A. Background and overview of implementation status

27. Public sector accounting and reporting issues have been on the agenda of the global professional accountancy community for decades. In 1986, the International Federation of Accountants established the Public Sector Committee to address public sector accounting matters through research and publications. In 2004, as part of a general reorganization of the International Federation of Accountants, the Public Sector Committee was superseded by the IPSAS Board. The objective of IPSAS is to ensure comparability with both an entity’s financial statements from previous periods and the financial statements of other entities.[26] The adoption of IPSAS issued by the IPSAS Board is not mandatory. Governments therefore face the decision of whether to fully adopt IPSAS, partially adopt IPSAS (that is, only some standards), adapt certain standards or not implement IPSAS at all. IPSAS are being applied by a number of States and international and regional organizations, including in the United Nations system. Financial statements prepared in accordance with IPSAS gain more credibility as the standards are considered robust and developed by globally recognized experts following a rigorous due process.

28. The International Federation of Accountants, in *International Public Sector Financial Accountability Index: 2021 Status Report*, highlighted that the process towards providing high-quality public sector financial information begins with Governments committing to the implementation of internationally recognized financial reporting standards.[27] In the public sector, 40 of the 165 jurisdictions monitored under the index (24 per cent) have adopted IPSAS with no modifications. However, in many instances, adoption approaches differ between jurisdictions due to national political and economic positions that influence government decision-making. Many countries favour a gradual

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[24] See https://www.ifrs.org/supporting-implementation/supporting-materials-for-the-ifrs-for-smes/ifrs-for-smes/2022/march-2022-ifrs-for-smes-update/.

[25] FJA Gonçalves, AAF De Moura and FYS Motoki, 2022, What influences the implementation of IFRS for SMEs[small and medium-sized enterprises]? The Brazilian case, *Accounting and Finance*, 62 (2):2947–2992.

[26] See https://www.ipsasb.org/standards-pronouncements.

[27] See https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/international-public-sector-financial-accountability-index-2020.

approach to accrual-based IPSAS and 53 jurisdictions (32 per cent) have adopted modified IPSAS to align with local contexts or national standards with reference to IPSAS.

29. The International Federation of Accountants groups countries according to IPSAS adoption as follows: 0, non-adopted; 1, partially adopted; and 2, fully adopted. Countries in the first group might use accrual-based accounting but have not formally adopted IPSAS in any form. Countries in the second group use cash-based IPSAS or only some standards. Countries in the third group use the full, up-to-date version of IPSAS.[28] Differences in administrative and legal systems and the available human, technical and financial resources mean that, even within a country, accounting requirements may vary between central government entities and territorial or decentralized agencies. It is therefore difficult to clearly define the international status of implementation of IPSAS.[29]

30. In addition, adopting IPSAS implies a major change for Governments, particularly in developing countries, typically entailing challenges related to moving from a cash-based to an accrual-based accounting system; adopting new infrastructure for technology to support accrual-based accounting and reporting; the continuous education of professional accountants in the public sector; ensuring that users of IPSAS-based financial information are trained to understand and use data for decision making; and embedding new institutional structures and functions to support IPSAS implementation. The adoption of IPSAS has been progressing globally, yet some challenges have persisted, in particular with regard to advancement in the competency of accountants in the public sector and the implementation of a sound institutional structure to support IPSAS-based reporting.

31. Regional updates since the last review are presented in this section.[30]

1. Africa

32. The International Federation of Accountants, in *International Standards: 2019 Global Status Report*, stated that the adoption of accrual-based standards would increase in Africa in 2020–2025 (nine jurisdictions). For example, in 2013, the Government of the United Republic of Tanzania adopted accrual-based IPSAS at all levels of government, with the National Board of Accountants and Auditors playing a key role in the IPSAS implementation process by participating in the National Steering Committee created by the Government to oversee implementation.

2. Asia and the Pacific

33. The International Federation of Accountants, in *International Standards: 2019 Global Status Report*, stated that the adoption of accrual-based standards would increase in Asia in 2020–2025 (17 jurisdictions). The Asian Development Bank, in 2020, highlighted that the enhancement of financial management capacity in Asia and the Pacific included a focus on IPSAS adoption, including in particular improving the quality of financial audits by private and public audit professionals; supporting the adoption of IPSAS; and developing the financial management and audit function capacity of staff in implementing agencies and supreme audit institutions in developing country members of the Asian Development Bank.[31]

3. Eastern Europe

34. Countries in Eastern Europe are engaged in IPSAS adoption processes.[32] The Public Sector Accounting and Reporting Programme is a regional and country-level programme targeting the Western Balkans and the European Union Eastern Partnership countries, to

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[28] V Tawiah, 2022, The effect of IPSAS adoption on governance quality: Evidence from developing and developed countries, *Public Organization Review*.

[29] M Gómez-Villegas, I Brusca and A Bergmann, 2020, IPSAS in Latin America: Innovation, isomorphism or rhetoric? *Public Money and Management*, 40:7:489–498.

[30] TD/B/C.II/ISAR/86.

[31] See https://www.adb.org/projects/52113-001/main.

[32] For country cases of IPSAS implementation, see https://link.springer.com/book/10.1007/978-3-030-03353-8.

support the development of public sector accounting and financial reporting frameworks in line with international standards and good practices.[33] These countries are modernizing accounting and financial reporting in the public sector in the period up to 2025 and beyond.[34] A majority of jurisdictions have embarked on some form of public sector accounting reform towards accrual-based accounting and this has the potential to further strengthen current human capacity-building efforts and help coordinate joint reform efforts. Examples from European Union member States, as well as States acceding to the European Union (Albania, Montenegro, North Macedonia, Serbia) or aspiring to do so (Republic of Moldova, Ukraine) show that public sector accounting reforms mainly appear to be driven by external factors such as European Union directives that require accrual-based accounting for fiscal reporting under the European System of National and Regional Accounts (2010) and the Eurostat initiative to develop and implement European public sector accounting standards.[35]

4. Latin America and the Caribbean

35. In Latin America, public sector accounting reforms are ongoing and IPSAS are becoming a reference in introducing accrual-based accounting. Brazil, Chile, Colombia and Costa Rica are advancing in IPSAS implementation, but at different speeds and levels of achievement. Ecuador, El Salvador, Guatemala, Panama and Paraguay have legally endorsed IPSAS and are working on implementation. The greatest advances are in the institutionalization of accounting offices, the professionalization of public technical experts in financial management and the improvement of information on public sector assets. This helps in maintaining fiscal stability.[36]

5. Western Europe

36. The public sector accounting standards approach within the European Union is more voluntary and progressive, focused on increased fiscal transparency in the short to medium term and comparability in the medium to long term.[37] A recent study of nine jurisdictions details the reasons for deviations from or non-adoption of IPSAS.[38]

B. Overview of forthcoming standards and projects

37. In 2021, the IPSAS Board released the following four exposure drafts for public comments: 76, conceptual framework update, chapter 7, measurement of assets and liabilities in financial statements; 77, measurement; 78, property, plant and equipment; and 79, non-current assets held for sale and discontinued operations.[39] They were issued together to align the proposed common measurement principles and ensure consistency throughout the draft guidance with regard to the ways in which they should be applied. The Board issued additional exposure drafts in 2020–2022, which are addressed in this section, along with a review of standard-setting initiatives in progress at the Board.

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[33] See https://cfrr.worldbank.org/programs/pulsar and https://www.worldbank.org/en/region/eca/brief/pulsar.
Note: Current beneficiaries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Georgia, Montenegro, North Macedonia, the Republic of Moldova, Serbia and Ukraine.

[34] See https://cfrr.worldbank.org/publications/stocktaking-public-sector-accounting-and-reporting-environment-pulsar-beneficiary and https://cfrr.worldbank.org/index.php/node/4331.

[35] See https://cfrr.worldbank.org/publications/pulsar-drivers-public-sector-accounting-reforms.

[36] M Gómez-Villegas, I Brusca and A Bergmann, 2020.

[37] See M Bekiaris and T Paraponti, 2022, Examining the status of IPSAS adoption at the country level: An analysis of the OECD[Organisation for Economic Co-operation Development] member States, *Journal of Accounting and Organizational Change*, available at https://doi.org/10.1108/JAOC-02-2021-0023; and https://cfrr.worldbank.org/sites/default/files/2021-06/LIVIA%20SHINN%20STRAKOVA_Eurostat_First%20Time%20IPSAS%20Adoption.pdf

[38] T Polzer, G Grossi and C Reichard, 2022, Implementation of the international public sector accounting standards in Europe: Variations on a global theme, *Accounting Forum*, 46(1):57–82.

[39] See https://www.ipsasb.org/news-events/2021-04/ipsasb-issues-package-measurement-related-exposure-drafts.

1. Improvements on standards

38. Exposure draft 80 presents proposals for improvements on a number of IPSAS as part of ongoing standards maintenance, and closed for comments in September 2021.

2. Conceptual framework update

39. Exposure draft 81 is the second draft resulting from a limited-scope project to revise the conceptual framework in particular areas; proposes updates to the framework chapters that deal with the attributes of financial information that make financial reporting useful, namely, qualitative characteristics and building blocks of financial statements; and includes the following: clarification of the role of prudence in public sector financial reporting; revised definitions of asset and liability; clarification of what constitutes a transfer of resources when determining whether an entity has a liability; and restructured guidance on liability to improve clarity for users of the framework.[40]

3. Retirement benefit plans

40. Exposure draft 82 is intended to increase the transparency and accountability of public sector entities with regard to multi-employer retirement benefit obligations. It seeks to establish the accounting, presentation and disclosure requirements for the financial statements of a public sector retirement benefit plan. It is based on International Accounting Standard 26 but differs in a number of ways, as follows:[41]

(a) International Accounting Standard 26 allows for the presentation of retirement benefit obligations for defined benefit plans either in financial statements, notes or an external document; exposure draft 82 requires presentation on the face of financial statements, in particular, only on statements of financial position.

(b) International Accounting Standard 26 does not require plan assets to be measured at fair value; exposure draft 82 does.

(c) International Accounting Standard 26 allows for either projected or current salaries to be used to estimate the present value of promised retirement benefits; exposure draft 82 retains only projected salaries.

(d) International Accounting Standard 26 does not mention cash flow statements; exposure draft 82 proposes that retirement benefit plans should be required to prepare cash flow statements.

41. The scope of exposure draft 82 includes all types of public sector retirement benefit plans, whether formal or informal; incorporated or not; and single-employer, multi-employer or State plans. However, it does not apply to old-age pensions provided through welfare or social security programmes nor to social security schemes that provide pensions to all citizens. Exposure draft 82 closed for comments on 1 August 2022.[42]

4. Leases

42. IPSAS 43, which comes into effect on 1 January 2025, is based on IFRS 16 and introduces a right-of-use model that replaces the model in IPSAS 13 of risks and rewards incidental to ownership. With regard to lessors, IPSAS 43 mostly carries forward the model in IPSAS 13.[43] The key benefits of IPSAS 43 are depicted as increased transparency related to assets and liabilities that arise from lease contracts because lessees are required to recognize them for all leases; and increased comparability between financial statements of lessees that buy assets from lessors.

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[40] See https://www.ipsasb.org/news-events/2022-02/ipsasb-proposes-important-limited-scope-updates-its-conceptual-framework.

[41] See https://www.ipsasb.org/publications/exposure-draft-ed-82-retirement-benefit-plans.

[42] See https://www.ipsasb.org/news-events/2022-04/ipsasb-seeks-comments-retirement-benefit-plans-proposals.

[43] See https://www.ipsasb.org/publications/ipsas-43-leases.

5. Non-current assets held for sale and discontinued operations

43. IPSAS 44, which comes into effect on 1 January 2025, is based on IFRS 5 and specifies accounting for assets held for sale and the presentation and disclosure of discontinued operations. It includes additional public sector requirements, in particular the disclosure of the fair value of assets held for sale that are measured at their carrying amounts when these are materially lower than their fair values.[44]

6. Amendments with regard to borrowing costs

44. The guidance addresses issues particular to the public sector, focusing on transactions associated with capitalizing borrowing costs when funds are borrowed by a related entity or centralized lending programme. The guidance illustrates the extent to which borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset can be capitalized and facilitates the preparation of financial reporting information that is relevant, faithfully representative and comparable with regard to such important public sector transactions.[45]

7. Natural resources

45. A consultation paper on natural resources is the first step by the IPSAS Board in developing guidance on the recognition, measurement, presentation and disclosure of natural resources in the public sector.[46] One key question is whether a natural resource can be recognized as an asset in general purpose financial statements. The paper includes the following sections: discussion of the description of natural resources; discussion of accounting for activities related to each topic; application of asset recognition criteria; measurement considerations for each topic; and disclosure considerations.

8. Work programme in 2022

46. The IPSAS Board work programme in 2022 comprises projects on the following key topics: presentation of financial statements; differential reporting; and a global consultation process on advancing public sector sustainability reporting.[47] In addition, the Board has launched a centrally located digital gateway to the international standards, to guide the accountancy profession on IPSAS.[48] In May 2022, the Board published a consultation paper on advancing public sector sustainability reporting.[49]

C. Practical implementation issues

47. Overarching regulatory, institutional and human capacity development-related practical considerations in the implementation of IPSAS are addressed in this section, based on insights gained through implementation of the Accounting Development Tool, findings from academic studies and work conducted by professional accountancy organizations and other development partners.

1. Legal and regulatory aspects

48. IPSAS implementation requires stakeholder and political support at the highest levels. In some cases, the need to import standards developed at the international level to

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[44] See https://www.ipsasb.org/news-events/2022-05/ipsasb-issues-ipsas-44-non-current-assets-held-sale-and-discontinued-operations.

[45] See https://www.ipsasb.org/publications/amendments-ipsas-5-borrowing-costs-non-authoritative-guidance.

[46] See https://www.ipsasb.org/publications/consultation-paper-natural-resources.

[47] See https://www.ipsasb.org/publications/mid-period-work-program-consultation-summary and https://www.ipsasb.org/news-events/2022-05/ipsasb-adds-four-projects-its-2022-work-program.

[48] See https://www.ipsasb.org/news-events/2021-11/ipsasb-announces-eis-digital-platform-navigate-international-public-sector-accounting-standards.

[49] See https://www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting.

replace existing national public sector accounting standards should be clearly presented and justified. The decision may require legislative or policy support. The four countries that have recently applied the Accounting Development Tool are applying national public sector accounting standards based on IPSAS. A case study on the practical implementation of IPSAS in the Philippines, jointly commissioned by UNCTAD and the International Federation of Accountants, illustrates how the country gradually implemented national standards based on IPSAS.[50] In addition, it is necessary to assess the compatibility and compliance levels of current national legal and regulatory frameworks with international practices. The development and enactment of a primary law on public sector accounting is recommended. Delays in updating legal and regulatory frameworks could compromise the overall success of reforms.[51]

2. Institutional arrangements

49. The roles and responsibilities required in the successful implementation of IPSAS are usually assigned to multiple institutions in a country. The preparation of financial statements is the responsibility of the respective entities defined by the particular regulation and audit work is conducted by an independent entity such as a supreme audit institution or office of the auditor general, depending on the national regulatory tradition. The implementation of IPSAS may imply the application of globally recognized auditing standards. For example, a case study in the Philippines shows how the country introduced national auditing standards based on the international standards on auditing issued by the International Auditing and Assurance Standards Board, as part of the reform of public sector financial reporting. Another area requiring strong institutional support is professional capacity development in accountancy and related disciplines such as actuarial science and valuations. It is important to clarify who in the jurisdiction is responsible for setting public sector standards or approving or endorsing IPSAS as they are issued by the IPSAS Board. Coordination among the different institutions responsible for ensuring the sound management of public sector finance is also needed. For example, the Pan-African Federation of Accountants has published a guide for professional accountancy organizations that provides technical support to Governments that have begun or are about to begin an IPSAS implementation process.[52]

3. Human capacity-building

50. Accounting education constitutes the fundamental basis of accounting practice; it is therefore constantly reviewed as part of an effort to bridge the gaps between theoretical education and practical application.[53] Public sector accounting education plays an essential role in the proper functioning of government operations. The World Bank has noted that in promoting IPSAS, it is critical for national stakeholders, accountants, auditors, non-governmental organizations and the staff of parliamentary budget offices to have training opportunities to understand IPSAS in depth, including the benefits, and create drive for reform. It is critical to enable such stakeholders to have informed discussions about both how principles and standards should be applied and adapted in national systems and on assessing whether the application of the standards, once introduced, has been done so appropriately.[54]

51. The Intergovernmental Working Group of Experts, in deliberations at previous sessions, has noted that there is a chronic shortage of qualified accountants in the public sector. The representation of public sector professionals in professional accountancy organizations is low. For example, the Confederation of Asian and Pacific Accountants

[50] See https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/case-study-adoption-international-public-sector-accounting-standards-philippines.

[51] World Bank tools such as institutional and governance reviews are examples of analytical reports that focus on the functioning of key public institutions; see https://openknowledge.worldbank.org/handle/10986/11334.

[52] See https://www.pafa.org.za/resources/pafa-ipsas-implementation-roadmap.

[53] See S Karatzimas, J Heiling and C Aggestam-Pontoppidan, 2022, Public sector accounting education: A structured literature review, *Public Money and Management*.

[54] See https://cfrr.worldbank.org/publications/pulsar-drivers-public-sector-accounting-reforms.

conducted a survey of professional accountancy organizations that represented, through membership, around 1.8 million professionally qualified accountants from 30 jurisdictions, of which only about 120,000 (8 per cent) worked in the public sector.[55] Such organizations play an essential role in assisting public sector institutions to build the necessary professional capacity to properly apply IPSAS. Three of the four countries that recently applied the Accounting Development Tool have a dedicated professional accountancy organization meeting the needs of accountants in public sector institutions. There are indications that the number of such organizations developing tailored training for public sector accountants is growing. The Association of Chartered Certified Accountants was one of the pioneering organizations to develop a training programme dedicated to IPSAS. In addition, to assist Governments and government entities wishing to report in accordance with accrual-based IPSAS, the International Federation of Accountants has developed a train-the-trainer package of materials, designed to be delivered through a five-day course, providing an introduction to the current suite of IPSAS.[56] In the United Republic of Tanzania, in response to growing demand for high-quality and transparent financial statements aligned with IPSAS, the National Board of Accountants and Auditors launched an IPSAS diploma course.

52. The implementation of IPSAS is an interdisciplinary exercise. Comprehensive and accrual-based standards such IPSAS require actuarial estimates for measurement purposes, for example in the context of pension benefits for employees in public sector institutions. Property, plant and equipment items might often require valuations by professionals to determine the carrying amounts for items to be entered in the accounting records of an entity. In many developing countries, such professionals are either few in number or lacking, and the need for capacity-building in these areas is acute.

4. Technical implementation issues

53. IPSAS implementation is frequently carried out through a phased approach, as opposed to a one-time approach that may often be technically and financially challenging. A phased approach entails the adoption and implementation of cash-based IPSAS first, then a migration phase that might incorporate a modified cash-based IPSAS then, after a reasonable, defined period of time, the adoption and implementation of accrual-based IPSAS. Cash-based IPSAS do not indicate a clear correlation of expected results and resources employed, in contrast to accrual-based IPSAS. Countries use cash-based IPSAS in a variety of ways. Examples from selected countries with recent data available are as follows:[57]

(a) Botswana. Financial Reporting Act, 2010, requires adherence to IPSAS and empowers the Accountancy Oversight Authority to enforce compliance with IPSAS. The Institute of Charted Accountants states that the Government has adopted modified cash-based standards using IPSAS as a reference and aims to transition to accrual-based IPSAS by 2023.

(b) Cyprus. The Treasury, in cooperation with external advisers, prepared a comprehensive action plan for the transition of the public sector to accrual-based accounting, taking into account the views of and comments from all relevant ministries, the Audit Office and the Internal Audit Service. The Council of Ministers adopted the action plan in 2016 and authorized the Accountant General to take all actions necessary for its implementation in cooperation with all line ministries, departments and independent services.

(c) Nepal. Since 2009, the Accounting Standards Board has been developing public sector accounting standards based on cash-based IPSAS. The Institute of Chartered

55 See http://www.capa.com.my/paos-engaging-with-the-public-sector/.

56 See https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/train-trainer-introduction-ipsas-module-1-introduction.

57 See https://www.ifac.org/about-ifac/membership/country/botswana; http://www.treasury.gov.cy/treasury/treasurynew.nsf/page74_en/page74_en?opendocument and https://www.ifac.org/about-ifac/membership/country/cyprus; https://www.ifac.org/about-ifac/membership/country/nepal; and https://openknowledge.worldbank.org/handle/10986/35096.

Accountants states that the Government plans to implement national public sector accounting standards in 16 ministries and has piloted their application in the Ministry of Physical Infrastructure and Transportation and the Ministry of Women, Children and Social Welfare.

(d) Sierra Leone. The Office of the Accountant General has adopted cash-based IPSAS. There are no plans at present to transition to accrual-based IPSAS but discussions are ongoing on designing a road map to enhance the quality and comprehensiveness of reporting in the public sector, which would also take into consideration measures to address challenges related to the identification and valuing of fixed assets and natural resources, as well as the design and operation of an effectively integrated financial management information system.

IV. Issues for further discussion

54. Recent developments with regard to IFRS and IPSAS and practical issues arising in their implementation are highlighted in this note. In addition to the issues presented in this note, delegates at the thirty-ninth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

(a) Are there barriers limiting the further adoption of IFRS and IPSAS worldwide?

(b) To what extent have the benefits of adopting IFRS and IPSAS been gained in a practical manner?

(c) What are some of the key lessons learned with regard to the regulatory, institutional and human capacity-building aspects of the implementation of IFRS and IPSAS?

(d) Are there areas that require further capacity-building in States, to facilitate the implementation of IFRS and IPSAS?

(e) How can the Intergovernmental Working Group of Experts further its work with the Accounting Development Tool to support States in the practical implementation of IFRS and IPSAS?