IPSASs
(International Public Sector Accounting Standards)
Content

- Brief history on Accountability and Transparency
- IPSASs in general
- Development in The Netherlands
- IPSASs specific
Accountability and Transparency in the public sector (1)

Step 1: accountable only for financial aspects (till 1980’s)

Step 2: accountable for the relationship budget and goals achieved (from input → throughput → output)

Step 3: accountable by stakeholder dialogue (1990’s – 2004) (from input → throughput → output → outcome)

Step 4: network organizations and stakeholder partnerships (2006 →) (from input → throughput → output → outcome)
Accountability and Transparency in the public sector (2)

- Current accounting (mixture of cash accounting and accrual accounting) policies are no longer sufficient to achieve the goals set by (Dutch) government

- New accounting policies could support the accountability and transparency goals set by stakeholders

- The change in organizing programs from ‘ivory tower’ to ‘network partners’
Q: In what stage of transparency is your organization?
IPSAS in general

- IFAC (approx 170 members, 120 countries)
  - International Auditing and Assurance Standards Board (IAASB)
  - Education Committee
  - Ethics Committee
  - Professional Accountants in Business (PAIB)
  - International Public Sector Accounting Standards Board (IPSASB)
International Public Sector Accounting Standards Board (IPSASB)

- Objectives:
  - Improving financial management
  - Improving accountability and transparency
- Through:
  - Reporting (financial and others) for governmental and government related organizations
- Support:
  - benchmark guidelines
  - Research and education
  - Facilitating exchange of knowledge e.g. between auditors and stakeholders
Products IPSASB

- International Public Sector Accounting Standards (IPSASs)
- International Public Sector Guidelines
- International Public Sector Studies
- Occasional Papers
IPSASB: accrual based IPSASs

- IPSASs based on IFRS; adjusted for the public sector
- IPSASB tries to maintain original text IFRSs
- Significant discrepancies requires adjustments
- Additional standards to IFRS or filling gaps
- Accrual IPSASs based on IFRSs → IASB “Framework for the preparation and Presentation of Financial Statements”
From Cash Basis to Accrual Basis

- Implementing IPSAS is voluntarily
- Cash Basis IPSAS encourage disclosure of accrual based information
- IPSASB organizes transition periods which facilitate transfers from cash based to accrual based IPSASs
- After the transition periods the entity should report full compliance with accrual based IPSASs
- IPSAS 1 demands to disclose in which way the entity uses these transition periods
- Advise: from cash basis → accrual basis → accrual based IPSASs
Critical IPSASs (accrual based)

- IPSAS 1: Presentation of Financial Statements
- IPSAS 2: Cash Flow Statements
- IPSAS 6: Consolidated Financial Statements and Accounting for Controlled Entities
- IPSAS 9: Revenue from Exchange Transactions
- IPSAS 15: Financial Instruments: Disclosure and Presentation
- IPSAS 16: Investment Property
- IPSAS 17: Property, Plant and Equipment
- IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets
- IPSAS 21: Impairment of Non-Cash-Generating Assets
Practice in The Netherlands (1)

Pilot ministry of Agriculture:

- Budget finances a wide range of activities like research (also NWO), education, EU-regulation
- Controls and control-function are in place
- Experienced with transition processes from cash/accrual accounting to accrual accounting
Practice in The Netherlands (2)

Objectives:

- Is the information based on accrual accounting of higher quality especially for the long term budgeting?

- Will the efficiency and effectiveness improve of the internal organization?

- What are the consequences of implementing accrual accounting for the entire government?
Practice in The Netherlands (3)

Transition process ministry of Agriculture:

Conversion:
- New accounting policies and implementing them fully (including consolidated entity’s)
- New accounting ledgers
- Annual accounts 2005 transform into accrual-based IPSAS

Accounting and reporting manual
Practice in The Netherlands (4)

- Consolidation criteria
- Actual costs/fair value
- Impairment of non-cash-generating assets
- Provisions
- Contingent liabilities
- Contingent assets
- Reserves
Practice in The Netherlands (5)

- Planning pilot ministry of Agriculture:
  - 2006: implementing
  - 2007: first year
  - 2008: first results

- It’s more complex then expected
Implementing accrual based IPSAS:
- EC
- NATO
- World Bank
- Liechtenstein
- Canton's in Switzerland
IPSASs (Accrual based / IFRS) (1)

- **IPSAS 1 - Presentation of Financial Statements**
  - (IAS 1 Presentation of Financial Statements)

- **IPSAS 2 - Cash Flow Statements**
  - (IAS 7 Cash Flow Statements)

- **IPSAS 3 - Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies**
  - (IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies)

- **IPSAS 4 - The Effects of Changes in Exchange Rates**
  - (IAS 21 The effects of Changes in Exchange Rates)
IPSASs (Accrual based / IFRS) (2)

- **IPSAS 5 - Borrowing Costs**
  - (IAS 23 Borrowing Costs)

- **IPSAS 6 - Consolidated Financial Statements and Accounting for Controlled Entities**
  - IAS 27 Consolidated Financial Statements and Accounting for Controlled Entities

- **IPSAS 7 - Accounting for Investments in Associates**
  - IAS 28 Accounting for investments in Associates
IPSASs (Accrual based / IFRS) (3)

- **IPSAS 8 - *Financial Reporting of Interests in Joint Ventures***
  - IAS 31 Financial Reporting of Interests in Joint Ventures

- **IPSAS 9 - *Revenue from Exchange Transactions***
  - IAS 18 Revenue

- **IPSAS 10 - *Financial Reporting in Hyperinflationary Economies***
  - IAS 29 Financial Reporting in Hyperinflationary Economies

- **IPSAS 11 - *Construction Contracts***
  - IAS 11 Construction Contracts
IPSASs (Accrual based / IFRS) (4)

- **IPSAS 12 – Inventories**
  - IAS 2 Inventories

- **IPSAS 13 – Leases**
  - IAS 17 Leases

- **IPSAS 14 - Events After the Reporting Date**
  - IAS 10 Events After the Balance

- **IPSAS 15 - Financial Instruments: Disclosure & Presentation**
  - IAS 32 Financial Instruments: Disclosure & Presentation

- **IPSAS 16 - Investment Property**
  - IAS 40 Investment Property
IPSASs (Accrual based / IFRS) (5)

- **IPSAS 17 - Property, Plant and Equipment**
  - IAS 16 Property, Plant and Equipment
- **IPSAS 18 - Segment Reporting**
  - IAS 14 Segment Reporting
- **IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets**
  - IAS 37 Provisions, Contingent Liabilities and Assets
- **IPSAS 20 - Related Party Disclosures**
  - IAS 24 Related Party Disclosures
- **IPSAS 21 - Impairment of Non-Cash-Generating Assets**
  - IAS 36 Impairment of Assets
IFRSs and IPSASs (1)

- IFRS 1 First-time adoption of IFRS
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 4 Insurance Contracts
- IFRS 5 Non current Assets and Discontinued Operations
- IAS 1 Presentation of Financial Statements
  - IPSAS 1 Presentation of Financial Statements
- IAS 2 Inventories
  - IPSAS 12 Inventories
- IAS 7 Cash Flow Statements
  - IPSAS 2 Cash Flow Statements
IFRSs and IPSASs (2)

- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
  - IPSAS 3: Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies
  - IPSAS 3 Exposure Draft: Accounting Policies Changing in Accounting Estimates and Errors
- IAS 10 Events after the Balance Sheet Date
  - IPSAS 14 Events After the Reporting Date
- IAS 11 Construction Contracts
  - IPSAS 11: Construction Contracts
IFRSs and IPSASs (3)

- IAS 12 Income Taxes
- IAS 14 Segment Reporting
  - IPSAS 18 Segment Reporting
- IAS 16 Property, Plant and Equipment
  - IPSAS 17 Property, Plant and Equipment
- IAS 17 Leases
  - IPSAS 13 Leases
- IAS 18 Revenu
  - IPSAS 9: Revenue from Exchange Transactions
- IAS 19 Employee Benefits
IFRSs and IPSASs (4)

- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21 The effects of changes in Foreign Exchange Rates
  - IPSAS 4 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing costs
  - IPSAS 5 Borrowing Costs
- IAS 24 Related Party Disclosures
  - IPSAS 20 Related Party Disclosures
IFRSs and IPSASs (5)

- IAS 26 Accounting and Reporting by Retirement Benefit Plans
- IAS 27 Consolidated and Separate Financial Statements
  - IPSAS 6 Consolidated Financial Statements and Accounting for Controlled Entities
- IAS 28 Investment in Associates
  - IPSAS 7 Accounting for Investments in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
  - IPSAS 10 Financial Reporting in Hyperinflationary Economies
IFRSs and IPSASs (6)

- IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions
- IAS 31 Interests in Joint Ventures
  - IPSAS 8 Financial Reporting of Interests in Joint Ventures
- IAS 32 Financial Instruments: Disclosure and Presentation
  - IPSAS 15 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 34 Interim Financial Reporting
IFRSs and IPSASs (7)

- **IAS 36 Impairment of Assets**
  - IPSAS 21 Impairment of Non Cash Generating Assets

- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**
  - IPSAS 19 Provisions, Contingent Liabilities and Assets

- **IAS 38 Intangible Assets**

- **IAS 39 Financial Instruments: Recognition and Measurement**

- **IAS 40 Investment Property**
  - IPSAS 16 Investment Property

- **IAS 41 Agriculture**
IPSASs is an interesting phenomenon; broad implementation not on a shortterm

First implementing accrual accounting

It’s food for thought in the not-for-profit sector
IPSAS 1: Presentation of Financial Statements (1)

- Refers IAS 1 Presentation of Financial Statements
- No considerable differences from IAS 1 !!

A complete set financial statements contains:
- Statement of financial position
- Statement of financial performance
- Statement of changes in net assets/equity
- Cash flow statement
- Disclosure of the accounting policies
Government Business Enterprises (1)

IPSAS Guideline nr 1

- Has the authority to sign contracts
- Can run an ‘enterprise’
- Market oriented; at least full costs
- Going concern based on own activities
  (no governmental support other than at arms length)
- Ownership by a government
Government Business Enterprises (2)

- Exemples:
  - Railways
  - Energy plants
  - Telecom
  - Water supply
  - Research equipment

- IAS/IFRS is applicable (not IPSAS)!

- Q: whom of you is in this position?
IPSAS 1: Presentation of Financial Statements (2)

- Statement of financial position should include:
  - Plant, property and equipment
  - Immaterial assets
  - Financial assets
  - Provisions

- Q: what are the consequences for your organization?
IPSAS 6: Consolidated financial statements and Accounting for Controlled Entities

- No considerable differences from IAS 27
- Entity presents consolidated financial statements and disclose the entities which she controls
- Control is the power to govern and to gain from
- Transition period: It’s accepted in the first 3 years of implementing accrual based IPSAS to ignore eliminations for the consolidation
- Q: what are the consequences for your organization?
IPSAS 17: Property, Plant and Equipment (1)

- Refers to IAS 16 Property, Plant and Equipment
- Significant deviation of IAS 16:
  - Does not concern historical assets (b.v. historical buildings, monuments, art) unless they have “service potential” (b.v. rent)
- Transition
  - It’s allowed during the first 5 years of adopting accrual based IPSAS to ignore (classes of) property, plant and equipment
  - First adoption based on fair value is allowed
IPSAS 17: Property, Plant and Equipment (2)

- Example of PPE:
  - Roads, water and energy equipment
  - Telescopes
  - Specialized research equipment

- Split assets into different components (b.v. top layer of a road, buildings, inspecting assets)

- First valuation: historical costs → revaluation

- Revaluation based on: taxation, comparable assets, reproduction
IPSAS 17: Property, Plant and Equipment (3)

- Example of “classes”: land, roads, buildings, ships, oilrigs,
- Impairment based on IPSAS 21
- Depreciation methods relating to economic advantages or services rendered

Q: what are the consequences for your organization?
IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets (1)

- Based on IAS 37 Provisions, Contingent Liabilities and Assets

- Important deviations:
  - Does not include social security obligations
  - Does not include pensions (IAS 19)
  - Does include restructuring costs
IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets (2)

Exemples:
- Guaranties on goods delivered
- Poluted soil
- Outsourcing
- Contracts which includes financial losses
- Lawsuits

Q: what are the consequences for your organization?
To expect from IPSASB, other

- Revenue from Non-Exchange Transactions (comprising taxes and Transfers)
- Accounting for Social Policies of Governments
- Employee Benefits
Questions?