Introduction to International Public Sector Accounting Standards (IPSAS)

The International Public Sector Accounting Standards Board (IPSASB) focuses on the accounting and financial reporting needs of national, regional and local governments, related governmental agencies, and the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance and facilitating the exchange of information among accountants and those who work in the public sector or rely on its work. IPSASB is responsible for the issue of IPSAS.

There are two types of IPSAS;

- Cash basis: Allows for transparent financial reporting of cash receipts, payments and balances, under the cash basis of accounting.
- Accrual Accounting: Focuses on revenue, cost, assets, liability and equity, instead of cash flow only. Most IPSAS are on accrual basis which is in line with IFRS

Compliance with the IPSAS guarantees that the financial reporting of public bodies conveys what is termed a “true and fair view” of the financial status of an organisation as is. IPSAS are modelled around the International Financial Reporting Standards (IFRS.) The use of IPSAS also ensures that financial statements are comparable for organisations that adopt them.

IPSAS take account of the characteristic features of the public sector. They are high quality global financial reporting standards for the application by public sector entities other than Government Business Enterprises. (GBEs)

Why IPSAS are being introduced

The application of the IPSAS gives the financial reporting by bodies incorporated under public law greater significance through comparability with internationally recognised regulations for submitting financial statements. The greater transparency raises the quality of financial management, facilitates dealings with financiers and simplifies communication with the general public.

In Kenya, there is increasing demand for public accountability and transparency by all stakeholders in the Public Sector. Current revelations during the Public Accounts Committee (PAC) hearing on the Auditor General's reports raise issues of financial accountability and transparency. The preparation of transparent and understandable financial statements is an important way for Government bodies to demonstrate their accountability to their taxpaying stakeholders and development partners. This communication is an important part of building trust.

Quality and comparability

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. It will improve the comparability of reports between various government agencies, parastatals, donor funded projects etc. Reports prepared in accordance with IPSASs provide for comparability between different financial periods, even within the same institutions, hence facilitating management decisions.

Transparency

Disclosure information requirements of various reports will facilitate transparency in the financial dealings of public institutions. These disclosures will enable users of financial information interpret the reports in the right context and better decision making processes.

Consistency

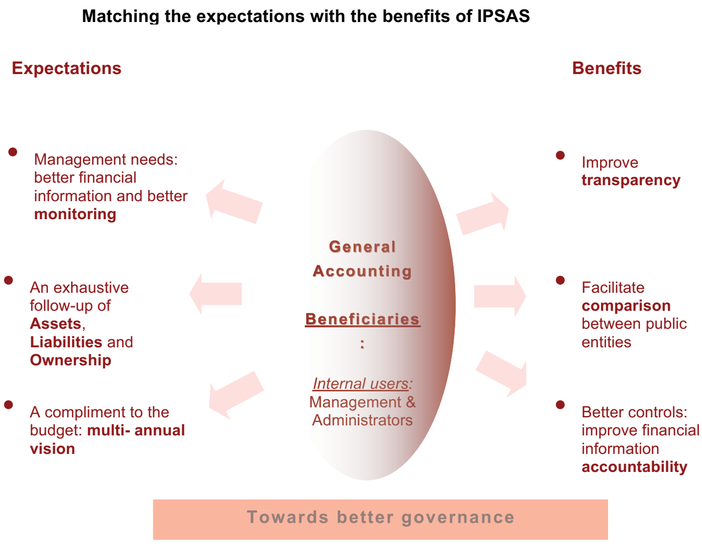
IPSASs will also improve consistency in preparation and reporting of financial information. This will in turn enable users to draw consistent conclusions given similar sets of financial statements.

Accountability

Adoption of IPSASs will improve accountability and ease the audits of public institutions. This will translate into timely audit reports, better information to donors and countries providing external assistance, better quality and credibility of financial reports.

Governance

IPSASs will result in stronger governance procedures and a framework for the accounting practise in the public sector. This will strengthen the financial management of public institutions.



Challenges in adoption of IPSAS

There are a number of challenges envisioned in the adoption of IPSAS. These include;

- The IPSASs concept needs to be embraced by stakeholders such as Parliament, National Audit Office, Treasury, Government departments, Development Partners as well as Non – Governmental Organisations (NGOs).
- It is essential to have a legislative backing for the adoption of IPSASs among the public sector entities
- There are varying levels of national regulations relating to auditors and preparers of financial statements, as well as a history of developing ethics codes to meet local requirements.
- There are cost to be incurred in the implementations of IPSASs. Statutory bodies responsible for enforcing accounting regulations require funding to roll out implementation of IPSAS. These costs include research, training, technology and consultancy costs.
- There is call for political goodwill in the implementation of better accountability in the Public Sector due to divergent views on accountability.

IPSASs in summary

There are 26 accrual based IPSAS and 1 cash based IPSAS currently in issue. Below is a summary of the IPSASs and their key objective.

Cash Basis IPSAS

Objective: To prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting. Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity's own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

Accrual Basis IPSASs

IPSAS No. 1: Presentation of Financial Statements

Objective: To set out the manner in which general purpose financial statements should be prepared under the accrual basis of accounting, including guidance on their structure and minimum requirements for content.

IPSAS No. 2: Cash flow Statement

Objective: To require the presentation of information about historical changes in public sector entity's cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period according to operating, investing and financing activities.

IPSAS No.3: Accounting Policies, Changes in Accounting Estimates and Errors

Objective: To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosures of changes in accounting policies, changes in accounting estimates, and correction of errors.

IPSAS No. 4: The effects of Changes in Foreign Exchange Rates

Objective: To prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

IPSAS No. 5: Borrowing Costs

Objective: To prescribe the accounting treatment of borrowing costs.

IPSAS No. 6: Consolidated and Separate Financial Statements

Objective: To prescribe requirements for preparing and presenting consolidated financial statements for an economic entity under the accrual basis of accounting. To prescribe how to account for investments in controlled entities, jointly controlled entities and associates in separate financial statements

IPSAS No. 7: Investments in Associates

Objectives: To prescribe the investor's accounting for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure.

IPSAS No. 8: Interests in Joint Ventures

Objectives: To prescribe accounting treatment required for interests in joint ventures, regardless of the structures or legal forms of the joint ventures activities.

IPSAS No.9: Revenue from Exchange Transactions

Objectives: To prescribe the accounting treatment for revenue arising from exchange transactions and events

IPSAS No. 10: Financial Reporting in Hyperinflationary Economies

Objectives: To prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information (including the consolidated financial information) provided is meaningful.

IPSAS No. 11: Construction Contracts

Objectives: To prescribe the treatment for revenue and costs associated with construction contracts in the financial statements of the contractor

IPSAS No. 12: Inventories

Objectives: To prescribe the accounting treatment of inventories under the historical cost system, including cost determination and expense recognition, including any write down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories

IPSAS No. 13: Leases

Objective: To prescribe for leases and lessors, the appropriate accounting policies and procedures to apply in relation to finance and operating lease.

IPSAS No. 14: Events after the Reporting Date

Objective: To prescribe when an entity should adjust its financial statements for events after the reporting date and disclosures about the date when financial statements were authorised for issue and about events after the reporting date.

IPSAS No. 15: Financial Instruments – Disclosures and Presentation

Objective: To enhance users understanding of the significance of on balance sheet and off balance sheet financial instruments to an entity's financial position, performance and cash flows.

IPSAS No. 16: Investment Property

Objective: To prescribe the accounting treatment for investment property and related disclosures.

IPSAS No. 17: Property, Plant and Equipment

Objective: To prescribe the principles for initial recognition and subsequent accounting for property, plant and equipment (carrying amount, depreciation and impairment loss)

IPSAS No. 18: Segmental Reporting

Objective: To establish principles for reporting financial information by segments to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity, and enhance the transparency of financial reporting.

IPSAS No. 19: Provisions, Contingent liabilities and contingent Assets

Objectives: To prescribe the appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to financial statements.

IPSAS No. 20: Related Party Disclosures

Objective: To ensure that financial statements disclose the existence of related party relationships and transactions between the entity and its related parties.

IPSAS No 21: Impairment of Non Cash Generating Assets

Objective: To ensure that non cash generating assets are carried at no more than their recoverable service amount, and to prescribe how recoverable service amount are calculated.

IPSAS No. 22: Disclosure of Financial Information about the General Government Sector

Objective: To prescribe disclosure requirements for governments which elect to present information about the General Government Sector (GGS) in their consolidated financial statements.

IPSAS No. 23: Revenue from Non Exchange Transactions (Taxes & Transfers)

Objective: To prescribe requirements for the financial reporting of revenue arising from non exchange transactions that give rise to an entity combination.

IPSAS No. 24: Presentation of Budget Information in Financial Statements.

Objective: To ensure that the public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with approved budget.

IPSAS No. 25—Employee Benefits

Objective: To prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:

(a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

IPSAS No 26—Impairment of Cash-Generating Assets

Objective: To prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognized. This Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

Current Development in IPSASs

New standards, Recent Exposure drafts, Consultative papers and Projects issued by the IPSASB are listed below.

New Standards

In 2008 the IPSASB finalised and published the following Standards:

- IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” (Revised);
- IPSAS 25, “Employee Benefits”; and
- IPSAS 26, “Impairment of Cash-Generating Assets.”

Amendments

The Cash Basis IPSAS, “Financial Reporting under the Cash Basis of Accounting” was amended at the conclusion of the IPSASB’s project on “Disclosure Requirements for Recipients of External Assistance.” The revised Standard is effective for reporting periods beginning on or after January 1st, 2009. In addition, the following IPSASs were amended by the issuance of IPSAS 26:

- IPSAS 21, “Impairment of Non-Cash Generating Assets”; and
- “Glossary of Defined Terms.”

These amendments are effective for annual reporting periods beginning on or after April 1st, 2009.

Recent Exposure Drafts

- Exposure Draft (ED) 34 - ED 34, Social Benefits: Disclosure of Cash Transfers to Individuals or Households, proposes disclosure requirements for amounts to be paid to beneficiaries as part of social benefits programs, as well as information about those programs. ED 34 also proposes requirements for determining the amounts to be disclosed.
- Exposure Draft (ED) 35 - ED 35, IPSAS 5 “Borrowing Costs” (Revised 200X) is a continuous improvement project to update existing IPSASs to converge with the latest related IFRSs to the extent appropriate for the public sector.

Recent consultation papers

- Social Benefits: Issues in Recognition and Measurement - The IPSASB is also seeking comments on this consultation paper, which sets out its strategy for developing approaches to address the issues involved in accounting for social benefits, including recognition and measurement. Released on March 6 2008, comments were due on July 15 2008.
- Accounting and Financial Reporting for Service Concession Arrangements - This consultation paper explores accounting and financial reporting issues related to service concession arrangements from the perspective of the grantor (typically a public sector entity). It provides proposals to be considered by the IPSASB in the development of any authoritative international public sector requirements for accounting and financial reporting of service concession arrangements. Released on March 2008, comments were due on Aug 1 2008.
- Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities - The IPSASB has issued for comment the first in a series of consultation papers focused on the development of an international public sector conceptual framework. The consultation paper identifies the IPSASB’s preliminary views on the objectives and scope of financial reporting; the qualitative characteristics of information included in general purpose financial reports and the characteristics of public sector reporting entities. Released on September 2008, comments are due on March 31 2009.

Current Projects

- Heritage Assets Project - The project aims in developing accounting and disclosure requirements for heritage assets.
- Long-Term Fiscal Sustainability Project - The project applies to reporting and disclosures about the long-term fiscal sustainability of governmental programs, including both projected outflows and inflows - for all public sector entities other than Government Business Enterprises (GBEs) preparing and presenting financial statements under the accrual basis of accounting.
- Agriculture Project - To develop an IPSAS that converges with IAS 41, Agriculture.
- Intangible Assets Project - The objective of the project will be to develop financial reporting guidance on intangible assets converged with IAS 38 and SIC-32.

Trends in adoption of IPSAS worldwide

The UN Group made the decision to adopt IPSASs in 2005. A number of other supranational organizations are also using IPSASs for their financial reporting. These include the European Commission and the OECD, NATO, IFAC and INTERPOL.

More than 70 countries have agreed processes or have a project in place to adopt IPSASs or align with IPSASs as part of wider reforms to adopt accrual accounting e.g. Rwanda, Uganda, Algeria, South Africa, Ghana, Brazil, Switzerland, Russia, India,China, Britain, USA, etc.

ICPAK is leading in creating awareness of the need for IPSAS.

How can PricewaterhouseCoopers contribute?

PricewaterhouseCoopers has the technical skill and capacity to help the Public sector adopt IPSAS in Kenya. Having practiced in the Kenyan Arena for many years, we have in depth understanding of the Public Sector needs in respect to financial reporting. We have a network of global firms with whom we can leverage on to assist the IPSAS implementation in Kenya and Africa in general. For instance, our office in Ghana is currently working with the public sector towards the implementation of IPSAS.

In 1999, PricewaterhouseCoopers in Kenya worked with the private sector to assist them in the adoption of IFRS. We still hold seminars and workshops for business leaders and accounting practitioners to consult on implementation of IFRS and provide updates on recent changes. We can also assist the Public sector achieve the same.

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