



IPSAS ADOPTION EXPERIENCE

Introduction

The International Public Sector Accounting Standards Board (IPSASB) is dedicated to promoting the acceptance of and the international convergence to International Public Sector Accounting Standards (IPSASs). As part of that effort, it is detailing the challenges and benefits of adopting IPSASs and accrual accounting.

The current implementation plan calls for full implementation¹ of IPSASs within the central government of Costa Rica by 2021, and the implementation of NICs within the Business Public Sector of Costa Rica by 2016.

— Irene Espinoza
Director of State Accounting

— Carmen Palladino
External Advisor

Background:

Currently, Costa Rica is undertaking the process of implementing International Public Sector Accounting Standards (IPSASs). The implementation process is a long and gradual process. It has generated many lessons up to this point (March 2014, and we are sharing them in hopes they are helpful to other countries interested in starting the implementation process.

In 2001, Costa Rica initiated its governmental financial management modernization through the following:

- **Law 8131 “Law of Financial Administration and Public Budget of the Republic” and its Regulations, which states that the Accounting System shall integrate the Financial Administration System and gives the National Accounting Office the power to be its Ruling Body, with the responsibility, among others, of elaborating the general standards to be enforced, and**
- The agreement celebrated with the Inter-American Accounting Association and the Inter-American Development Bank under the framework of the “Public Accounts Accountability Program” under which Costa Rica formally agreed to adopt IPSASs.

IPSAS Implementation Begins

The first step taken by the authorities of Costa Rica was to get a legal framework to support the adoption and implementation of the IPSASs. The legal support for the adoption of the International Standards was based on several decrees of the Executive Branch, issued for the Entities of the National Government

¹ 2021: Including the term dates granted by IPSAS in the transition regulations.

Sector as well as for the Financial and Non-Financial Public Sector Companies, as follows:

- **Decree 34,918 of the Executive Branch (12/9/2008):** Requires the adoption and implementation of the IPSASs as from January 1, 2012 for the Institutions of the National Government Sector of Costa Rica.
- **Decree 36,961-H of the Executive Branch (December 2011):** Extends the original fixed date (January 1, 2012) to January 1, 2016.
- **Decree 35,616 of the Executive Branch (12/2/2008):** Requires the adoption and implementation of International Financial Information Standards for Financial and Non-Financial Public Companies as from January 1, 2014.
- **Decree 38,069-H of the Executive Branch:** Extends the term for the implementation of the International Financial Information Standards in the Financial and Non-Financial Public Companies to January 1, 2016.

Later, in 2008, the “National Accounting General Plan” was developed with the assistance of external advisors, which is the Accounting Subsystem guideline both for the National Accounting and the Public Sector entities of Costa Rica, and which includes:

- Accounting Conceptual Framework; and
- Accounting General Standards and Policies for the Assets, Liabilities, Equity, Revenue, Expenditures, Disclosure of Financial Statements and Consolidated Financial Statements based on the IPSASs on the accrual basis.

In accordance with the General Plan, the Accounting List Plan was developed for the Non-Financial and non-business Public Sector under the IPSASs, as the support of the new Accounting subsystem.

The aforementioned was supported by the permanent and appropriate training process on the theoretical aspects of the IPSASs, issued on December 2008, for the public officers of the National Accounting Office and two officers of each body of the National Government Sector. Timeline

The first suggested deadline (January 2012) was not sufficient due to the impact of the IPSAS implementation process on every economic and financial transaction of the Public Sector of Costa Rica, and because the political authorities of the country had withdrawn their political support to the same due to the complexity of the process, only support an extension of time to the original date, and not providing the necessary resources to implement the process.

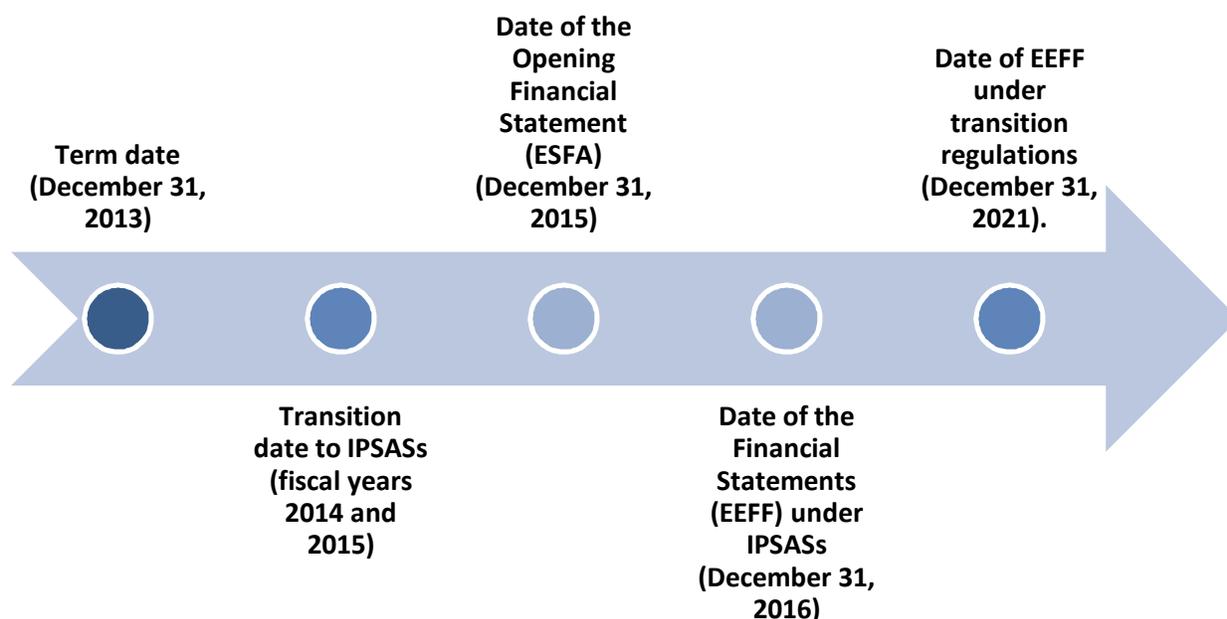
For the aforementioned, the National Accounting Office started the implementation process with its own staff that had to deal both with the project and their own responsibilities, and only being able to hire a project manager for the implementation of IPSASs and the new accounting plan. With the change of authorities in the country, the project became a priority for the political authorities and had the necessary support to keep working. That is the moment when the National Accounting Office received external advisors once again and the following tasks were undertaken:

- Elaboration of an Action Plan;
- Update of the General Accounting Plan with the new standards issued (December 2011);
- Update of the Accounting List Plan for the non-financial and non-business Public Sector;

- Elaboration of the IPSASs Implementation Methodology, using some of the guidelines of Study 14 “Transition to the Accounting on the Basis of Accrual” of the IFAC; and
- Training for the Public Sector of Costa Rica.

Currently, the country is working on the implementation process with the challenge of issuing the first Financial Statements for the National Public Sector under IPSASs by January 2016, and also with the terms stated by the transition regulations. The implementation process states several due dates for its development, as follows:

- Term date (December 31, 2013)** with the Accounting Principles Applicable to Costa Rica’s Public Sector (PCASPC): last fiscal year issued under Accounting Principles;
- Transition date to IPSASs (fiscal years 2014 and 2015)**: fiscal year of transition in which IPSASs are the standards to be applied for those items possible, and PCASPC for those which are not ready for IPSASs;
- Date of the Opening Financial Statement (ESFA) (December 31, 2015)**: closure of first fiscal year in which IPSASs will be enforced, except for the transition regulations; taking this Balance Sheet as basis for the following fiscal year;
- Date of the Financial Statements (EEFF) under IPSASs (December 31, 2016)**: first fiscal year to be disclosed under IPSASs (SGG), except for the transition regulations, and
- Date of EEFF under transition regulations (December 31, 2021)**: the five (5) fiscal years after the first EEFF issued under IPSASs.



We should also mention that the Business Governmental Sector (Financial and Non Financial Public Companies) shall disclose their first Financial Statements under NIC/NIIF by December 31, 2016.

Anticipated Challenges

The accounting areas of the institutions and mainly the National Accounting faced and are still facing great challenges in the implementation of IPSASs. If we look back, it could be said that the challenges at the beginning of the implementation were, from the technical point of view, among others, as follows:

- Cultural changes (accounting culture vs. budget culture)
- Resistance to changes
- Reinforce accounting concepts, especially the basis of accrual
- Integration and adjustment of computer systems of the financial administration to the requirements of the Integrated Accounting Module adapted to the IPSAS, and
- Integration of the budget lists/Assets catalogues/with the accounts list of the accounts under IPSAS.

Even though important stages of the process have been complied with, such as the regulatory framework, the technical manuals, the training process, the accounts list, there are several pending challenges that jeopardize the implementation process, such as:

- Implementation of IPSASs within the Executive Branch
- Development of computer systems which guarantee the implementation of IPSASs
- Accounting procedures, based on accounting policies under IPSASs
- Transition from the registration under the cash basis to the accrual basis
- Inventories administration (operational and sales assets)
- Registration of assets (real estate, biological, intangibles)
- Registration of Infrastructure assets
- Implementation of NINSO 32, "Concession of Public Services
- Implementation of Accounting Policies of Financial Instruments, and
- Compliance with the Accounting Policies in the consolidation process of the accounting information.

International Support

The National Accounting Office is undertaking the IPSAS implementation tasks with a great dedication and devotion of the National Accounting Office officers, who have made task groups in order to implement the fixed deadlines (assets, revenue accrual, public credit, consolidation, etc.). The officers were trained by external advisors, and, based on the lessons learned, the elaboration of procedures was continued as well as the training of the rest of the public institutions.

The experience of Costa Rica with the national body representing the professional accountants has shown room for improvement, as the national body provided some training was not technically accurate, and was not useful to the officers.

Therefore, the National Accounting Office continued with the training given by the external advisors, which was financed by several organizations both national and international, including:

- Inter-American Development Bank (IDB), and
- Fundación Costa Rica-Estados Unidos para la Cooperación (CRUSA)

Those organizations made it possible to hire international advisors (Carmen Palladino and her group of advisors) who have supported the implementation of the IPSASs with their technical know-how, especially in training both within the National Accounting Office and several public sector institutions, and in the elaboration of tools such as the Accounts List, Accounts Plan, Methodology for the Implementation of IPSASs, among others.

Implementation Success

Even though there have been many challenges for the officers of Costa Rica in relation to the implementation of the process, there were also successes, which can be summarized as follows:

- Strong political support to the process
- Decision of the Director of the National Accounting Office to implement IPSAS
- Officers willing to be trained and to a change from a budget to an accounting perspective
- Support of the external advisors throughout the process. and
- Trust in the external assistance as the project mentor, and
- Creation of implementation teams in the institutions, with staff of different areas providing information and data for the accounting process, which was of great importance for the process to be institutional and agile.

Lessons learned

Looking back, we can see the successes, but also the lessons learned from the challenges Costa Rica faced, so that they are not repeated by other countries initiating the process. These lessons include:

- IPSAS adoption and implementation should have been undertaken as an “integral project”, considering the planning, management and control process, measuring timeline, cost and quality, and identified it as “country project”,
- The deadlines initially fixed were not based on a strategic implementation plan,
- The adoption and implementation process should have been supported politically and with the active participation of the managers of the public institutions concerned,
- Internal human resources should be given the accounting background for the execution of the process in each institution,
- A proper project administration and a management and coordination framework are a requirement for the success of the effort,
- Most of the entities have limited resources and their effective and proper use is essential,

- There should be an enhancement of the training through learn-do methodologies, as it is necessary not only to understand the standards, but also to learn how to implement them in real situations of each institution,
- When the entity migrates from cash basis accounting to accrual basis, there are changes in how the organization is administered and operated. Training goes beyond accounting and takes on an organizational component, and
- Information systems supporting the accounting process should be part of the same process from the beginning, so that it is not an obstacle at the end.

Costa Rica Benefits Resulting from the Implementation of IPSASs

One of the benefits to be mentioned is the exam² on Commerce Policies of Costa Rica made by the World Trade Organization in August 2013. One of the requirements of this exam was the incorporation of better governmental administration practices, and the adoption of IPSAS was a positive contribution for the country.

Additionally, Costa Rica has initiated a “Fiscal Consolidation Process” and the adoption of IPSASs is a guarantee of transparency and accountability.

And the implementation of the Integrated Accounting Module of the Public Sector as of January 2016 will be a technical benefit as it will:

- Provide reliable and comparable information in real time (among entities); and
- Improve transparency and accountability.

Sharing documents and experience

The National Accounting Office has offered other Accounting Offices of the Latin American countries its experience, including the agreement made with El Salvador for the use of the Accounting General Plan so that country can start its implementation process.

Also, training has been provided in order to show Costa Rica’s experience in the implementation of IPSASs. In March 2013, a delegation from the Government of El Salvador was received, and in April 2014, we are waiting for a group from the Government of Panamá, as well as a list from other countries showing their interest in knowing about the experience.

As part of a communication policy, all the information of the IPSASs implementation Project is available at the website NICSPCR (<http://www.nicpscr.com/>) of the National Accounting Office.

Furthermore, it is important to mention that in October 2013, a workshop was offered on Governmental Accounting in relation to the IPSASs implementation hosted the Government of Costa Rica, with the support of the IDB, and an “Inter American Community of Governmental Accounting Practices” was created, which shall help the region consolidate progress, exchange good practices, share lessons learned and mainly

² Commercial Policies Exams, exercise prescribed by the Agreements of the World Trade Organization, regularly examine and evaluate the commercial policies of the Member countries. They also keep an eye on the important events that could affect the world commerce system. Every Member of the World Trade Organization is subject to this exam.

enhance the development of the Governmental accounting as the integrating core of the financial administration on the countries, a greater fiscal and accounting transparency and accountability.

To that respect, and profiting from the progress and experience of the Government of Costa Rica in the implementation of IPSASs, the following agreements were noted: Irene Espinoza, National Accountant, was named to lead the process on behalf of the region and to serve as a source of initial communications to the website of the National Accounting Office until a structure is organized.

It is in the interest of the National Accounting Office to continue sharing the experience and lessons learned with every governmental body showing interest in the IPSASs implementation process.