First Time Adoption of Accrual Basis IPSASs

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Roundtable: Planning for implementation

Accounting Standards Board

Benefits of IPSAS Adoption

- Time and cost required for IPSAS implementation are substantial – yes, but returns are easily higher
- Returns on IPSAS investment:
  - Better accountability and decision making
  - Financial transparency; improves public trust
  - Identification of assets and liabilities; scope to improve their management
  - Better management of resources and leads to better public services
  - Lower interest rates (e.g. State of Geneva lower by 0.5%, see Hiler 2012)

IPSAS Adoption: How do we get there?

Topics covered in this section

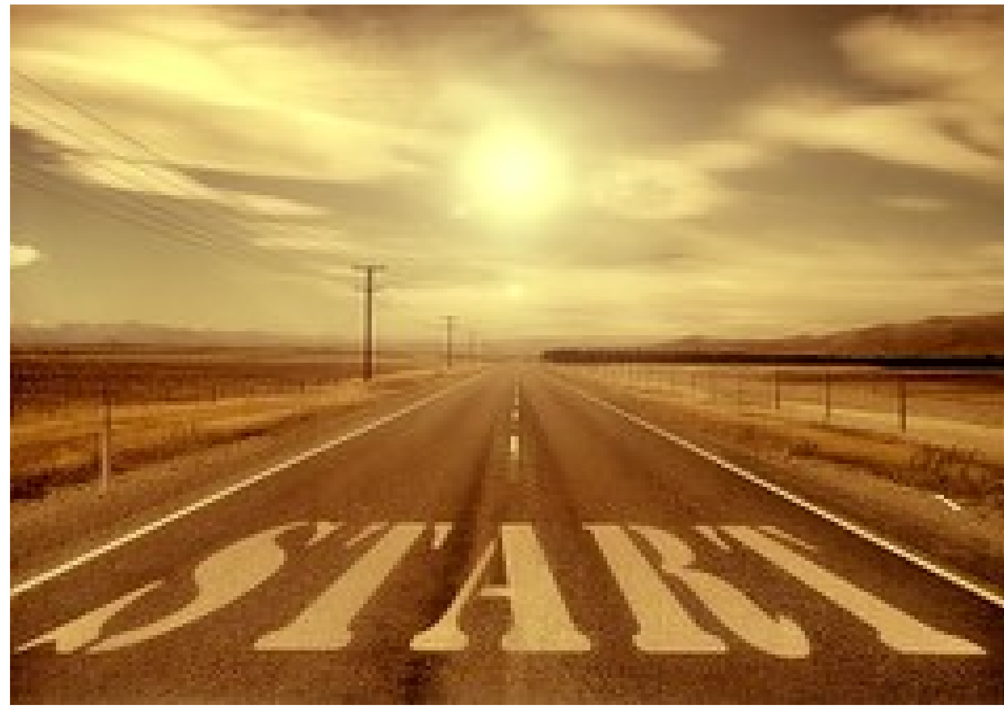
1. Support provided—includes IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*
2. The Roadmap—What happens before IPSAS 33
3. IPSAS 33—How it helps, and how it works

1. Support for IPSAS Adoption

- Study 14, *Transition to the Accrual Basis*
  - Guidance for governments and government entities
  - Practically oriented («How to do it»)
  - Includes suggestions on project management
  - Non-authoritative (Not an IPSAS)
- Training course: Introduction to IPSASs
- IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

2. Roadmap—What happens before IPSAS 33

- IPSAS 33 is the last stage of the adoption process
- IPSAS 33 applies from “date of adoption”
- You need a *road map* to reach that point



2. Roadmap—Before IPSAS 33

- Prepare for the transition to accruals IPSASs:
  - Policy and/or legislative reforms
  - Gap analysis – present versus future
  - Develop a plan – which entities affected, when, how
  - Resources required – people, systems, funding
  - Develop clear policies and processes
- Reach "date of adoption" and start applying IPSAS 33.

3. IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

- IPSAS 33's objective is to ensure that the first financial statements that use accrual IPSASs:
  - Provides consistent, credible information
  - Provide transparent reporting about the transition to IPSASs
  - Provide a suitable starting point for compliance with IPSASs, and
  - Are generated at a cost that does not exceed the benefits

3. IPSAS 33, First Time Adoption of Accrual Basis IPSASs

- IPSAS 33 provides:
  - Comprehensive coverage of transition issues experienced
  - Exemptions allow degree of flexibility to adopt based on individual circumstances
  - Guidance directs accounting requirements
- Meets needs of both preparers and users of financial statements during “*the transition period*”

3. IPSAS 33, First Time Adoption of Accrual Basis IPSASs

- Addresses different types of transition to accruals IPSASs
- Transition starting point may be reporting on:
  - A cash basis
  - An accrual basis under another reporting framework
  - A modified version of either the cash or accrual basis of accounting

3. IPSAS 33—How it helps

- Allows three years to recognise and/or measure specific assets, liabilities and revenues:
  - Enough time to develop reliable models for recognising and measuring assets and liabilities
- Concessions related to certain aspects of consolidation
- Addresses:
  - What to do when reliable historical cost information is not available
  - Presentation of comparative information in transitional financial statements

3. IPSAS 33—How it works: Scope

Applies to entities:

- In the transition period to full adoption of IPSASs; and
- Claiming full IPSAS compliance for first time.

Does not apply to:

- Entities that have previously claimed full IPSAS compliance
- Government Business Enterprises (GBEs).

3. IPSAS 33—How it works: When

- IPSAS 33 applies during “period of transition:
  - From “date of adoption”—start of first accrual based IPSAS financial statements
  - To when entity first claims full compliance with IPSASs
- Entity can apply IPSAS 33 exemptions during “period of transition”

3. IPSAS 33—How it works: Exemptions

- Two types of exemptions:
  - Those that *do* affect fair presentation and compliance with IPSASs
  - Those that *do not* affect fair presentation and compliance

3. IPSAS 33—How it works: Exemptions

- Exemptions that *do* affect fair presentation and compliance:
  - Usually relate to time relief for the recognition and/or measurement of items, specific accounting requirements and disclosures
  - Indicate this fact in the financial statements while exemptions applied
  - Optional, can be applied based on specific needs

3. IPSAS 33—How it works: Exemptions

- Exemptions that *do not* affect fair presentation and compliance:
  - Some optional, some outline specific transitional arrangements.
  - No statement required in financial statements.

3. IPSAS 33—How it works: Exemptions

Exemptions that *do* affect fair presentation and compliance:

- Three year transitional relief period for recognition and measurement of specific assets and/or liabilities.
  - Assets: inventories, property, plant and equipment, investment property, biological assets, financial assets, service concession assets and intangible assets
  - Liabilities: financial liabilities, certain pension liabilities and employee benefit liabilities

3. IPSAS 33—How it works: Exemptions

Exemptions that *do* affect fair presentation and compliance:

- Three year transitional relief period for recognition and measurement of specific assets and/or liabilities.
  - Class by class, or category by category
  - To qualify for recognition & measurement exemption → assets and liabilities not previously recognized
  - If previously recognized, measurement only
  - Other exemptions provided because of delay in recognition or measurement.

3. IPSAS 33—How it works: Exemptions

Exemptions that *do* affect fair presentation and compliance:

- Three year relief for the recognition and measurement of non-exchange revenue
- Apply to different classes of revenue

3. IPSAS 33—How it works: Exemptions

Exemptions that *do* affect fair presentation and compliance:

- Three year relief for the recognition and measurement of investments in other entities (controlled entities, joint ventures and associates);
- Three year relief for the elimination of balances, transactions, revenues and expenses between entities (controlled entity, joint venture and associates).

3. IPSAS 33—How it works: Exemptions

Exemptions that *do* affect fair presentation and compliance:

- Three year relief for the disclosure of information about related party relationships, transactions and key management personnel.

3. IPSAS 33—How it works: Exemptions

Exemptions that do <u>not</u> affect fair presentation and compliance:

- Using deemed cost to measure assets and liabilities
  - Can use fair value as proxy for cost
  - If using three year relief period, anytime during period
- Comparative information not required, but present opening statement of financial position
- Segment reporting not required

3. IPSAS 33—How it works: Exemptions

Exemptions that do <u>not</u> affect fair presentation and compliance (*continued*):

- Specific requirements for initial adoption—main areas:
  - Employee benefits
  - Financial instruments
  - Intangible assets
  - Service concession arrangements
  - Consolidated financial statements
  - Joint arrangements

3. IPSAS 33—How it works: Disclosures

- Information for users of the transitional financial statements
- Disclosures during the transition period:
  - Explanation of transition to IPSASs
  - Reconciliations
  - Disclosures where deemed cost is used
  - Exemptions from disclosures in IPSASs

3. IPSAS 33 - How it works: Illustration

Background

- Government A initiated accounting reforms – relevant legislation issued and amended.
- Migrating from modified cash basis of accounting – recognises only financial assets and financial liabilities – to accrual basis.
- Developed plan, calls for full adoption by end 2017.

3. IPSAS 33 - How it works: Illustration

Background

- Has started building models for the recognition of tax revenue, but data needs refinement.
- Has cost information for moveable assets.
- Had developed asset registers for immoveable assets, but has no cost information.
- Systems not well enough developed to provide asset and liability information for segments.
- Given lack of key data, adjustment of comparative information not possible.

3. IPSAS 33 – How its works: Illustration

Based on reform plan, and own circumstances:

- Take advantage of relief period offered in IPSAS 33 (maximum) 3 years:

  18 months for land and buildings.

  24 months for infrastructure.

  30 months for tax revenue.

- Use deemed cost for immoveable assets.
- To comply by 31 December 2017, date of adoption 1 January 2015.
- No comparative information.
- No segment reporting.

3. IPSAS 33 – How it works: Illustration

Transitional period

1 Jan '15

31 Dec '15

31 Dec '16

31 Dec '17

Fair presentation and compliance affected

Fair presentation and compliance affected

Compliance with IPSASs

Date of adoption

Expiry of relief periods

3. IPSAS 33 – How it works: Illustration

Transitional period

1 Jan '15 | **31 Dec '15** | **31 Dec '16** | **31 Dec '17**

Fair presentation and compliance affected

Fair presentation and compliance affected

Compliance with IPSASs

Date of adoption

Opening statement of financial position, showing financial assets, financial liabilities, moveable assets & any other assets and liabilities

Statements of:
- Financial position
- Financial performance
- Net assets/equity
- Cash flows
- Budget and actual comparison

Expiry of relief periods

3. IPSAS 33 – How it works: Illustration

Transitional period

31 Dec '15

31 Dec '16

31 Dec '17

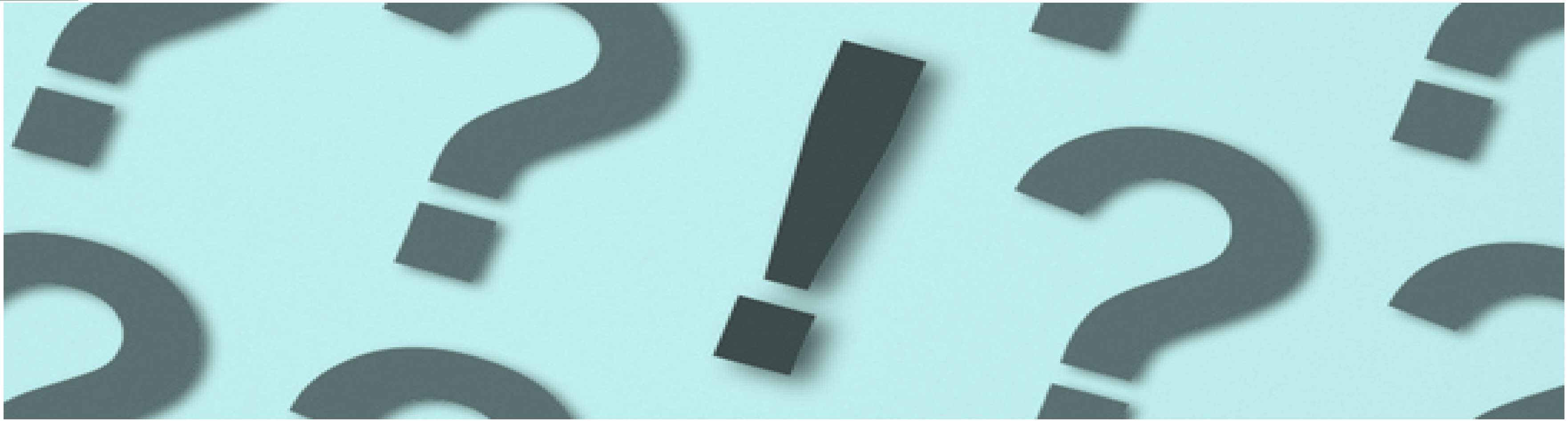
Recognise and measure land and buildings using deemed cost.

Adjust from begin of period.

No comparative required.

Current and prior year information for previously R/M assets.
Include land and building for current year.

Questions, discussions & further information



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