



INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject – First-time Adoption of IPSAS

- 1.1 The IPSASB has identified a project on First-time adoption of IPSASs as a high priority towards the implementation of IPSASs. The absence of a standard focusing on the first-time adoption is viewed as a gap in the body of IPSASs.
- 1.2 The project proposes to develop an IPSAS that will provide guidance for entities adopting IPSASs for financial reporting for the first time.

2. Project Rationale and Objectives

- 2.1 The objective of this project would be to explore the accounting treatment for the first-time adoption of IPSASs of public sector entities and to develop an IPSAS that provides guidance on first-time adoption.

International Guidance on this Topic

- 2.2 IFRS 1, *First-time Adoption of International Financial Reporting Standards*, provides requirements and guidance for entities initially adopting IFRSs in the financial statements. IFRS 1 was issued in June 2003 and replaced SIC-8, *First-time Application of IASs as the Primary Basis of Accounting*. IFRS 1 was originally developed to address concerns about the full retrospective application of IFRS required by SIC-8. Following considerable amendments to IFRS 1 to accommodate first-time adoption requirements from new or amended IFRSs, a revised IFRS 1 was issued in 2008.

IFRS 1 was further amended in 2009 and 2010. These amendments included:

- Changes to the derecognition exception and fair value measurement exemption from fixed date references to ‘the date of transition to IFRSs’;
- Providing an exemption that could be used when an entity resumes presenting financial statements in accordance with IFRSs after being subject to severe hyperinflation.

The revised IFRS was issued in December 2010.

- 2.3 In January 2011 the IPSASB has issued an updated and improved version of Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*. The third edition of Study 14 provides guidance to public sector entities on how to migrate to the accrual basis of accounting in accordance with IPSASs. Therefore, the recommendations made on first-time adoption of

IPSASs have to be considered in drafting an Exposure Draft. Especially, the issues not covered by Study 14 will have to be dealt with in this project.

National Guidance on this Topic

- 2.4 Only some National Standards Setters (NSSs) have guidance on the First-time Adoption of (accrual) IPSASs (see Par. 7). Currently, no NSS has been identified providing specific transitional provisions on the first-time adoption of the Cash Basis IPSAS.

Issues identified

- 2.5 As the IPSASB attempts to facilitate compliance with accrual based IPSASs it provides transitional provisions in certain standards. Typically, the transitional provisions under IPSAS allows an entity additional time to meet the full requirements of a specific accrual based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity shall apply all the accrual based IPSASs effective at that date and could choose to apply any transitional provisions in an individual accrual based IPSAS. After having decided to adopt accrual accounting in accordance with IPSASs, the transitional provisions govern the length of time available to make the transition and also indicate whether the IPSAS should be applied prospectively or retrospectively. On the expiry of the transitional provisions, the entity shall report in full in accordance with all accrual based IPSASs.
- 2.6 Currently, the IPSASB does not differentiate between the first-time adoption of accrual IPSASs of a public sector entity already applying the (non-IPSAS) accrual basis of accounting and the first-time adoption of IPSASs of an entity applying the (IPSAS/non-IPSAS) cash basis of accounting. Thus, the project explores whether the different context (either starting the transition from the cash or the non-IPSAS accrual basis of accounting) justifies specific consideration and therefore possibly requires different exceptions and exemptions.
- 2.7 Due to the fact that the current transitional provisions as provided under IPSASs in some cases deviate from the regulations from IFRS 1 (e.g. provision of prior year comparative information in the opening statement of financial position) the question arises how the IPSASB deals with these differences.

Objectives to be achieved

- 2.8 The objective of this project is to define the accounting treatment for the first-time adoption of IPSASs of public sector entities and to ensure that an entity's first financial statements contain high quality information that:
 - (a) supports accountability and decision-making and is comparable over all periods presented;

- (b) provides a suitable starting point for accounting in accordance with IPSASs;
- (c) can be generated at a cost that does not exceed the benefits.

As a result of this work a new IPSAS may be developed.

Link to IFAC/IPSASB Strategic Plans

i. Link to IPSASB Strategy

2.9 The IPSASB has articulated the following strategic priorities for the period 2010-2012:

- Public sector conceptual framework;
- Public sector critical projects; and
- Communications and promoting adoption and implementation.

2.10 Public sector critical projects are considered by the IPSASB as critical to be undertaken for the public sector either because existing standards are no longer appropriate or because there is no standard. These projects could be public sector specific or IASB convergence projects.

2.11 A project on First-time Adoption will be a public sector critical project because there is currently no standard on the First-time adoption of IPSASs. A project on that topic could either be a public sector specific, an IASB convergence or a hybrid project. A hybrid project could contain elements of both a public sector specific as well as an IASB convergence project.

ii. Link to IFAC Strategic Plan

2.12 The IFAC Strategic Plan for 2011-2014 identifies 2 specific strategies that are relevant. The first is IFAC's commitment to the development, adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Developing requirements and guidance for first-time adoption of IPSASs supports both of these strategies.

3. Outline of the Project

(a) Project Scope

3.1 The project applies to all public sector entities (except Government Business Enterprises (GBEs)), which are in the transition from the cash (references in cash in this project brief refer to cash, modified cash or modified accrual) or the Non-IPSAS accrual basis to the IPSAS accrual basis of accounting. The IPSAS would apply when a public sector entity adopts IPSASs for the first time.

3.2 The current transitional provisions for public sector entities which are in the process of adopting accrual IPSASs will then be included in an IPSAS on First-time

Adoption. In analogy to IFRS, the transitional provisions that apply to changes in accounting policies made by an entity that already uses IPSASs would be kept in each IPSAS containing such provisions.

(b) Major Problems and Key Issues that Should be Addressed

Key Issue # 1 – Nature of Project

- 3.3 Due to the fact that in the public sector various forms of accounting bases (cash, modified cash, modified accrual, full accrual basis) are applied and due to the fact that the IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting the approach to the project needs to be considered. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, will need to be reviewed and considered but it is uncertain that this is an IASB convergence project. At this stage it seems more likely to be a public sector specific project or a hybrid project, which might use IFRS 1 as a starting point and adapt and enhance it by public sector specific issues. An analysis will be conducted at the start of the project to identify public sector specific issues and to determine the appropriate approach.
- 3.4 A public sector specific project would allow the IPSASB to keep the existing transitional provisions for first-time adoption, but to possibly ‘centralize’ them in a Standard. Using a hybrid approach, i.e. converging with IFRS 1 but also incorporating the existing transitional provisions under IPSAS in a first-time adoption IPSAS, would possibly allow combining the advantages of both approaches.

Key Issue # 2 – Missing Guidance for First-time Adoption of IPSAS

- 3.5 Despite the transitional provisions provided under IPSASs specific guidance on the first-time adoption of IPSASs is missing. In reviewing IFRS 1, the following matters that are either not dealt with in the IPSASs or, are dealt with differently:
- the principle of retrospective application of the accounting standards at first-time adoption (see IFRS 1.7);
 - guidance regarding the opening IFRS statement of financial position (e.g. definition of the date of transition to IFRSs (see IFRS 1.8 (example) as well as Appendix A, the use of accounting policies in the opening IFRS statement of financial position (e.g. the use of estimates (see IFRS 1.14), recognition, ‘derecognition’, reclassifications and measurement of assets and liabilities (see IFRS 1.10), treatment of adjustments (see IFRS 1.11));
 - exceptions to the retrospective application of other IFRSs (see IFRS 1.13);
 - exemptions from other IFRSs (see IFRS 1.18 and Appendices C-E);
 - disclosures that explain how the transition from previous GAAP to IFRSs affected the entity’s financial position, financial performance and cash flows (see IFRS 1.23 ff)

Key Issue # 3 – Scope of Exemptions

- 3.6 For the public sector there is a need to develop guidance both on adopting accrual IPSASs when the cash (or modified cash) basis of accounting was previously used as well as on adoption of accrual IPSASs when a different accrual basis financial reporting framework than IPSASs was used. Public sector entities moving from the cash/modified cash basis towards accrual IPSASs often face the challenge of not having sufficient information for fulfilling the requirements under IPSASs (e.g. determining of cost and/or fair value of property, plant and equipment). Currently, IPSASs do not differ between the two situations for adoption of accrual IPSASs. The situation of an entity moving from the cash to the IPSAS accrual basis will need to be addressed and possible exemptions considered.
- 3.7 As described above, due to the fact that public sector entities face a transition from the cash/modified cash basis to the accrual basis they might have different needs regarding exemptions from other IPSASs than entities moving from the non-IPSAS accrual basis to the accrual basis IPSASs. Furthermore, it has to be considered that the exemptions currently provided by the transitional provisions under IPSASs differ from the exemptions as stipulated by IFRS 1. Therefore, these differences have to be considered and aligned.

Key Issue # 4 – Reconciliations (see IFRS 1.23 ff)

- 3.8 IFRS 1.23 requires that an entity shall explain how the transition from previous GAAP to IFRS affected its reported financial position, financial performance and cash flows. The requirement to include a reconciliation of the entity's net position reported in accordance with previous GAAP to its net position in accordance with IPSASs will need to be considered in the context of whether it is appropriate.

Key Issue # 5 – Use of comparative information

- 3.9 IPSAS 1.151 states that comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs. This is in direct contrast to IFRS 1 which requires an opening balance sheet. This and other exemptions under IPSASs, would need to be considered by the Board in the context of promoting adoption of IPSASs, but still providing information that supports accountability and decision-making.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 The IASB has existing standard IFRS 1, First-time Adoption of International Financial Reporting Standards. In December 2010 the IASB completed its deliberations on the amendments to IFRS 1. There are a few minor revisions to

IFRS 1 in the improvements for 2011 but currently there are no indications that any major revisions are expected.

(b) Relationship to Other Standards, Projects in Process or Planned

4.2 There are linkages with the following IPSASB projects in progress:

- Entity Combinations;
- Service Concession Arrangements;
- Improvements.

4.3 A project on the First-time Adoption will also have linkages with the following projects committed but not yet commenced by the IPSASB:

- Financial Instruments (public sector);
- IAS 39 Amendments;
- Revision of IPSASs 6-8.

5. Development Process, Project Timetable and Project Output

(a) Development process

5.1 The development of outputs will be subject to the IPSASB’s formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

5.2 The initial output will be an Exposure Draft of an IPSAS. Following analysis of submissions on the Exposure Draft, an IPSAS or amendments to existing IPSASs would be developed.

(b) Project timetable

The project timetable identifies the major project milestones and the expected timeline for achieving the objectives.

Major Project Milestones	Expected Completion
Present Project Brief	June 2011
Discussion of issues and development of an Exposure Draft (ED)	March 2012
Approve Exposure Draft	June 2012 Response date October 31, 2012

Review of responses to ED and development of amendments to IPSASs	February 2013
Approve IPSAS or amendments to IPSASs	June 2013

(c) Project output

The expected output will be an IPSAS or amendments to existing IPSASs.

6. Resources Required

(a) Task-based Group

If the IPSASB decides to pursue a project, a Task Based Group is required. However, in any case, members may need to assist the Technical Staff with first-time adoption standards or guidelines that have been set in the public sector as well as any a broad understanding of current practices in both English and non-English speaking countries.

(b) Staff

It is anticipated that approximately two-third of an FTE would be needed. A FTE staff member will be required on this project for the period of the review (November 2011 – February 2012).

(c) Factors that might add to complexity or length

- Wide range of different accounting bases.

7. Important Sources of Information that Address the Matter being Proposed

Australia – Australian Accounting Standards Board, First-time Adoption of Australian Accounting Standards (sector-neutral):

http://www.aasb.com.au/admin/file/content105/c9/AASB1_05-09_COMPoct10_01-11.pdf

Canada – Public Sector Accounting Board of the Chartered Accountants of Canada, Project page on First-time Adoption of Public Sector Accounting Standards by Government Organizations

<http://www.psab-ccsp.ca/projects/completed-projects/item31016.aspx>

IASB - Amendment to IFRS 1, First-time Adoption of IFRS Project Page:

<http://www.ifrs.org/Current+Projects/IASB+Projects/Additional+Exemptions+for+First-time+Adopters+-+Amendments+to+IFRS+1/Amendments+to+IFRS+1.htm>

IPSASB – Study 14: Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities, Third Edition, January 2011

<http://web.ifac.org/media/publications/1/study-14-transition-to-th/study-14-transition-to-th.pdf>

South Africa – Accounting Standards Board – Various Directives on Transitional Provisions:

<http://www.asb.co.za/documents/directives>

United Kingdom – FReM Government Financial Reporting Manual:

http://www.hm-treasury.gov.uk/frem_index.htm

United Nations Task Force on Accounting Standards - Various guidance notes on transitional provisions (e.g. first-time recognition of property, plant & equipment, determination of intangible assets)