



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.

Currently, Guatemala is in the process of implementing International Public Sector Accounting Standards (IPSASs). The implementation process is a long and gradual process and we hope the lessons we have learned up to this point (December 2013) will be helpful to other countries starting the process.

The current implementation plan calls for full implementation of IPSASs within the central government by 2020.

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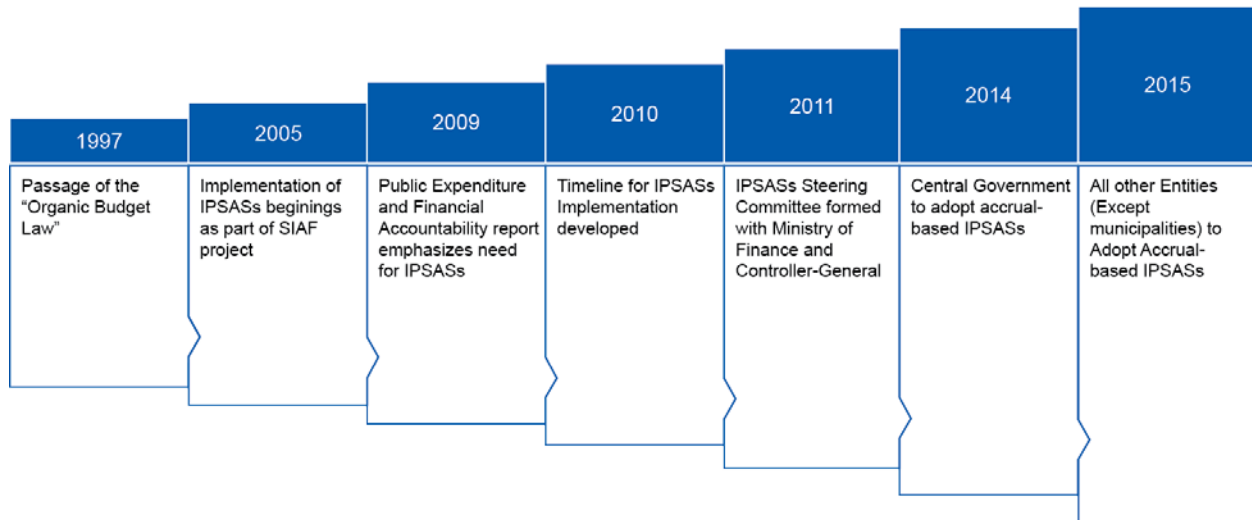
Background:

In 1997, the Organic Budget Law (Decree Number 101-97) was passed by Congress. The law included article 14 which states “The income and expenditure budgets should be formulated and executed using the moment of the accrual of transactions like an accounting base.” In addition, Article 49 says the Ministry of Public Finance through the State Accounting Department is responsible for prescribing, operating and maintaining the integrated accounting system which includes defining the accounting methodology to be applied.

IPSAS Implementation Begins

While accrual accounting began after the passage of the Organic Budget Law, the process of implementing IPSASs started in 2005 as part of the SIAF (the integrated financial management system) project. At that time, consultants prepared a manual that developed recognition and measurement policies and accounting treatment for each line item in the Chart of Accounts. While this was a good first step, the government was unable to continue the IPSAS implementation process due to a lack of commitment and resources. A Public Expenditure and Financial Accountability (PEFA) report from 2009 emphasized the need for Guatemala to adopt IPSASs for the preparation of financial statements, but this report did not create any momentum to implement IPSASs. The arrival of a US Treasury advisor in January 2011 to support the implementation of IPSAS caused the Ministry of Finance to focus on this project.

Original Timeline



In March 2011, the IPSAS Steering Committee was formed with representatives from the Ministry of Finance and the Controller-General's office. The objectives of the Steering Committee were to institutionalize international accounting standards in Guatemala and define the necessary rules, policies and procedures. As part of the Steering Committee function, it had several video conferences with other countries to learn about their IPSAS implementation processes. The video conferences were extremely helpful, as they confirmed that Guatemala was using the best practices for the implementation process and gave reassurance that the timeline for implementation was in line with other country's experiences.

Each country emphasized three key topics:

- The implementation process is a long and gradual one;
- It was necessary to update accounting policies to fully complete the implementation process; and
- It was necessary to train all applicable staff on IPSAS.

We also learned that several countries were implementing IPSASs with in-house staff while other countries were using consultants.

One of the most important concepts we learned from speaking to other governmental entities within Guatemala (decentralized, autonomous, and municipalities) was the importance of an integrated information technology system. The other governmental entities were unanimous in their praise of the current system, SIAF, but were concerned about whether the system would be able to adapt to IPSASs. The goal is for all IPSAS-compliant financial statements to be available to all entities within Guatemala through SIAF. As we continue to automate reports within SIAF, it is apparent the current integrated system will need to be updated to fully comply with IPSAS. We are currently in the process of determining whether to develop an in-house system or to purchase an "off-the-shelf" system.

At the beginning of the implementation process, the Steering Committee had several discussions about adopting or adapting IPSASs. This concept was originally introduced by staff from the Ministry of Finance attending accounting conferences as an idea that Latin American countries may want to use. While we

are proceeding forward with adoption of IPSASs, the question of adaption continues to resurface on occasion. This concept has complicated the discussion on the legal framework for adopting IPSASs.

The projected timeline for IPSAS implementation was developed in August 2010 by an IPSAS consultant. It called for the central government to adopt accrual-based IPSAS by January 2014 with all entities (except municipalities) using accrual-based IPSAS by January 2020.

The timeline had two significant problems: it assumed Guatemala would implement cash basis IPSASs first, then accrual basis; and it assumed an immediate start to implementing IPSASs. By the end of 2011, it was apparent the original timeline could not be implemented as planned. As a result, the timeline was updated in 2012 with more achievable implementation dates. While the dates are subject to the availability of necessary resources, both staff and IT, we anticipate implementation of all accrual-based IPSASs for the central government by 2020.

Anticipated Challenges

Even with a revised timeline, there are several major challenges Guatemala faces in implementing IPSASs.

Accuracy of Accounts

The Controller-General's Office issued findings about the accuracy of the accounts in the financial statements. Many accounts include incorrect amounts, often from many years ago. A commission has been formed to analyze this issue and has developed a work plan. The commission's initial goal is to develop specific policies to correct each account and then develop an IT tool which will allow the ministries to correct the accounts.

Information Systems

The existing integrated financial system (SICOIN) cannot accommodate a more detailed chart of accounts, which is necessary to implement IPSASs. While subsidiary accounts are available within the system, they cannot be utilized for many of the accounting line items. A new computer system which accommodates IPSASs is needed and will either be developed in-house or purchased, as it is difficult to make improvements without a new information system.

Lack of Resources

The existing staff is overloaded with work and has little time to devote to IPSAS implementation. Work on IPSAS is done in addition to current assignments. Due to circumstances including a lengthy hiring process and low salaries, it is difficult to hire additional staff. We have also tried hiring consultants, but that is limited by available funding, restrictions on the amount a consultant can be paid, and the difficulty in finding qualified people. Adding to the problem are the current budget limitations that limit available funds, even if additional staff with the necessary skills to implement IPSASs can be identified.

Time

Our conversations with other countries show it takes approximately seven years to implement IPSASs in the central government. The current implementation plan calls for full implementation of IPSASs within the central government by 2020. However, the higher authorities hoped to implement IPSASs in a much

shorter time and it can be difficult to sustain the needed momentum for long-term projects like the implementation of IPSASs.

Legal Framework

The Organic Budget Law (OBL) in Guatemala provides sufficient legal authority for the Ministry of Finance through State Accounting to implement IPSASs. This law was recently strengthened to specifically state that all public entities within Guatemala are required to use international accounting standards. We would also like to see an accounting law developed as a complimentary law to the OBL, since the OBL focuses on the budget processes, not accounting processes.

The budget that has been developed for the implementation of IPSASs is approximately \$20 million, which includes the purchase of a new IT system.

We have not used Study 14, Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities, as the government is on an accrual basis. However, revenues are not fully accrued due to the political environment and it will take changes in the law before full accrual occurs. Therefore, in the case of Guatemala, this guidance is not applicable.

International Support

A number of international agencies have provided assistance to the Guatemalan government. The World Bank supported the development and implementation of the SIAF system for 15 years. BID has financed the ongoing work of consultants for three years, some who directly and indirectly are supporting the implementation of IPSASs. AGEP and GIZ have also provided support to the government.

The US Treasury advisor has provided support and focus to the IPSAS implementation project. Given the number and variety of high priority projects the Ministry of Finance has to address, having an advisor to get the “behind-the-scenes” momentum going has been vital for the success of this project. The plan calls for the appointment of an IPSAS “champion” after the advisor leaves to continue the support she has provided.

Although the Organic Budget Law now states that Guatemala must use IPSASs, this change is very recent and the implementation process is in its early stages. The process has been slow, but very positive improvements have been made such as the development of a cash flow statement, statement of net assets/equity and improvement to the notes to the financial statement.

The original plan for the implementation of IPSASs was to implement cash basis first and move to the accrual based standards. However, the Steering Committee decided against implementing the cash basis standard and, instead, dedicating all resources to implementing the accrual based standards.

Looking back, it would have been better if the decision to abandon the implementation of the cash basis standard had been made earlier in the process. Some of the other lessons we have learned are:

- Having a commitment by the top leadership within the Ministry is important. Due to the political environment, the top leadership continues to change with the result that not all leaders were equally committed to this project
- Once it became apparent the original implementation plan was not working, it should have been redone sooner with more detailed tasks included in the work plan.

- A task force for IPSAS 17 issues should have been formed earlier in the process as there are significant issues to implementing that standard. Some of the issues Guatemala is dealing with include; updating fixed asset policies, developing a complete list of assets, implementing depreciation, reviewing capitalization guidelines and useful lives of asset classes, and determining whether to use the cost or reevaluation model for different asset classes.
- Meeting away from the office for concentrated periods of time (a “retreat”) to work on projects is an excellent way to encourage success. Having the right people in one room without the distraction of day-to-day work has allowed us to complete several projects.

Accurate financial statements that comply with international accounting standards provide accurate and timely financial information to enhance economic growth and stability. The preparation and publication of annual financial reports is one of the major components of a strong foundation in government finance and transparency. IPSAS-compliant financial statements enhance economic growth and stability as governments can use these documents to value the impact of financial decisions today rather than passing them on to future generations.

These enhanced financial statements will provide for increased fiscal transparency which should lead to greater confidence from investors and lower interest rates on Guatemala’s debt. Accurate financial statements will also give better decision making information to the policy makers allowing them to fund important national priorities such as security, health care, and education.

Guatemala has been active in attending international IPSAS conferences such as CReCER, where we can share our experiences and learn from other countries. In addition, as there is also a Treasury advisor in Honduras supporting their implementation of IPSAS, our two countries have held many informal conversations about IPSAS implementation issues and have been able to serve as a resource for each other. We are not formally serving as a mentor for another governmental body, but would be happy to consider sharing our experiences with another country.