

## IPSAS: Framework for accountability in the public sector



ICAN Annual Conference  
John Matheson  
Former President, CIPFA  
October 2016

## What I plan to cover

- The context for government accounting and financial reporting
- Case for accruals based financial reporting
- Benefits of IPSASs
- Realising full benefits of IPSASs
- Progress in IPSAS adoption in the last 3-5 years, and ... what remains to be done
- Practicalities of implementing IPSAS accruals based accounts
- Conclusions

# Context

- Global economy and interest rate environment
- Sovereign ratings, debt and net worth positions
  - Puerto Rico, Greece, Argentina
- Resolution processes
- Tax cooperation (BEPS)/ tax competition
- Trump, Sanders, Corbyn, Brexit, trust and globalization
- Germany, G-20 chairmanship, and focus on financial transparency



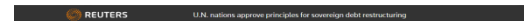
But mainland residents should not look smugly at Puerto Rico. Across America, dozens of cities, counties and states may be heading down the same financial rabbit hole. Illinois, New Jersey, Philadelphia, St. Louis and Jacksonville, Fla., to name just a few, are all facing their own slowly unpooling financial disasters.



The blame lies with what economists call "deferred costs." Generous pension promises made decades ago, without enough funding, are now



German Chancellor Angela Merkel said on Tuesday that ensuring financial transparency and fair taxation would be on the agenda for the German presidency of the Group of 20 (G20) major economies in 2017.



## U.N. nations approve principles for sovereign debt restructuring



By Louis Charbonneau | UNITED NATIONS

The United Nations General Assembly on Thursday approved what it described as global "basic principles" for sovereign debt restructuring processes to improve the global financial system, an initiative that was inspired by Argentina's debt crisis.

There were 136 votes in favour, six against and 41 abstentions in the vote on the resolution, which was submitted to the 193-nation General Assembly by South Africa.

Unlike the Security Council, which has the power to issue legally binding resolutions, General Assembly resolutions are non-binding. But they carry political weight.

The resolution urges debtors and creditors "to act in good faith and with a cooperative spirit to reach a consensual rearrangement" of sovereign debt.

"A sovereign state has the right ... to design its macroeconomic policy, including restructuring its sovereign debt, which should not be frustrated or impeded by any abusive measures," it added.

## The case for accruals based accounts

- The economic significance of governments – Big Business!
- Public accountability
- Participation of governments in the capital markets
- Efficiency and effectiveness in the allocation of resources
- Restoring public trust and confidence
- Financial resilience

## Benefits of accruals based financial reports

- Improves policy decision-making
- Provides valuable information about the value of assets and liabilities
- Allows for the identification of the cost of capital
- Highlights critical policy areas that cash accounting would not reveal e.g. private finance initiatives, long - term pension liabilities
- Gives the external users of accounts better quality information about debtors, creditors and assets
- Reduces the scope of selective accounting policies
- Shines a light on long-term financial sustainability

# Benefits of accruals based financial reports

Plus at whole of Government level:

Overall government financial position including:

- public sector employee liabilities
- government debt

Accountability for past decisions

Resulting future funding commitments

## Why publish whole of government accounts?

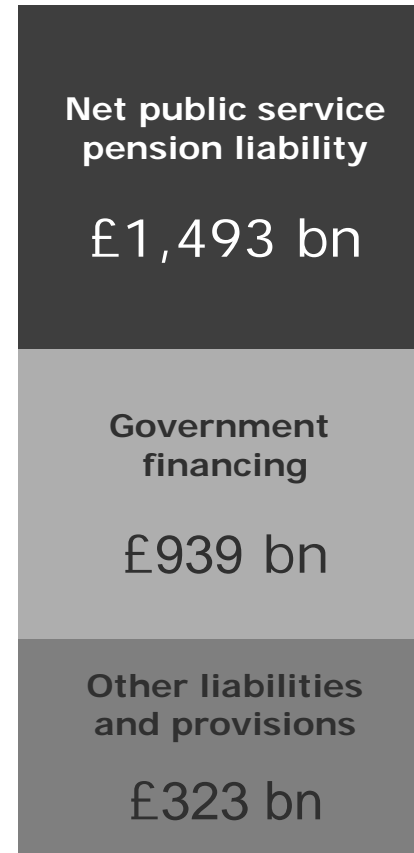


# UK WGA 2015 balance sheet

## Assets



## Liabilities





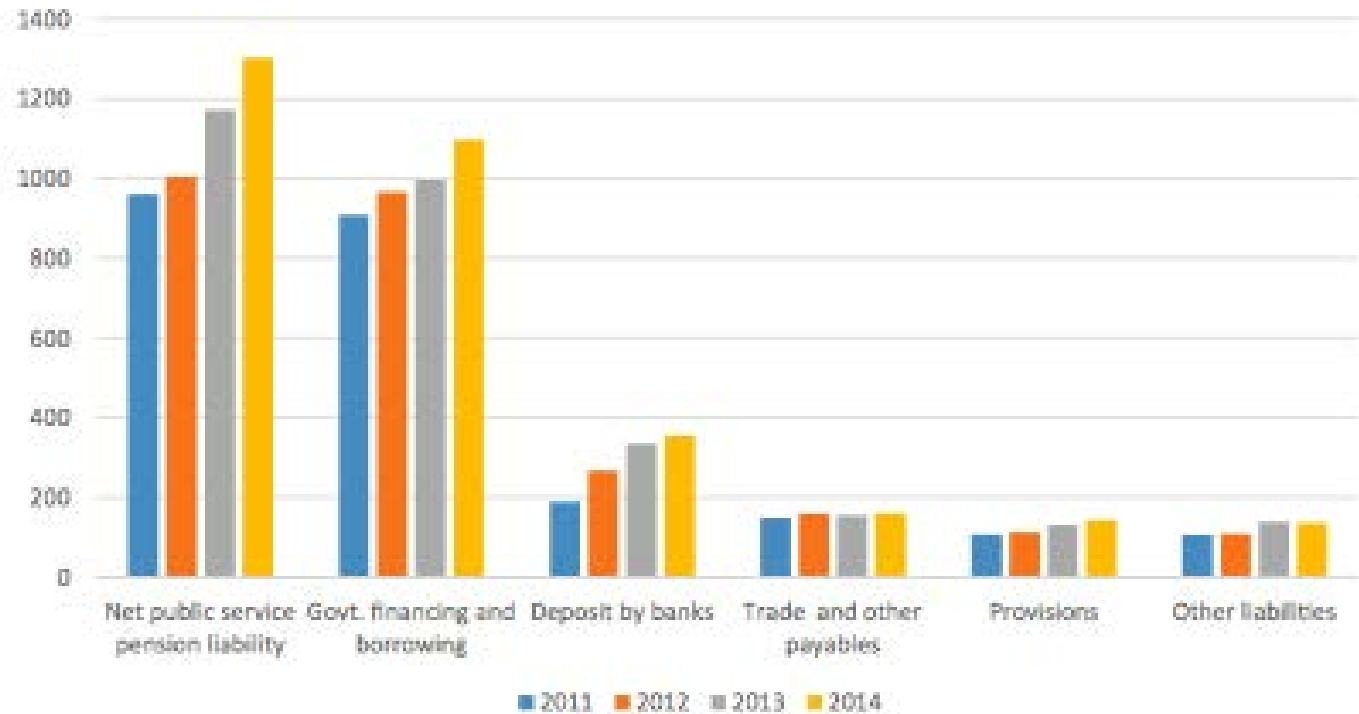
## Government tax and income 2015

### What does government receive from taxes and other income?

The primary source of revenue is taxation, being 86% of total public sector income. The primary purpose of the tax system is to raise revenue to fund public services and other government activities.

		2014-15	2013-14
		£bn	restated £bn
Income tax	Note 3	163.1	162.1
VAT	Note 3	113.9	108.2
National Insurance	Note 3	97.2	97.3
Local tax	Note 3	53.9	52.8
Corporation tax	Note 3	40.3	39.6
Other tax	Note 3	98.3	95.8
Sale of goods	Note 4	33.4	39.0
Other revenue	Note 5	59.2	58.1
<b>Total</b>		<b>659.3</b>	<b>652.9</b>

# Government liabilities



## Case for IPSASs

### **Enhanced financial credibility**

- Only internationally-recognised financial reporting standards for public sector
- Set by independent international board of public sector finance experts
- Based on private sector IFRS where appropriate
- Specifically addressing key public sector issues

### **Transparency and trust**

- Legislature and electorate
- Financial markets

### **Credibility demands comparability**

## IPSASs: Realising full potential benefits

- IPSAS-based financial reporting can only take you so far...
- Improved public expenditure control requires accrual budgeting too:
  - Better asset management
  - Improved liability and risk management
  - Full economic impact of decisions - fewer surprises
- At a Whole of Government level, accrual budgeting and reporting:
  - Creates space for fiscal choices
  - Earlier warning of longer term fiscal trends
  - Enhanced financial credibility – lower borrowing costs

# IPSAS adoption

- Progress in past 5 years
  - Developed world
    - Expanded group of adoptees
    - EPSAS and IPSAS
  - Transition countries
    - Increased awareness about IPSAS
    - Increased demand for training
  - Developing world
    - Pockets of substantial progress - Malaysia, Botswana
    - But progress is slow
  
- Governance issue
  - CAG and PIC resolve cited barriers



Minister of Finance, Mrs. Kemi Adeosun

TFS Chartered Accountants

GST - Income Tax - Payroll - Auditing



Ifeanyi Onuba, Abuja

The Federal Government on Tuesday said the adoption of accrual based International Public Sector Accounting Standards would enable it provide full disclosure of all its financial transactions.

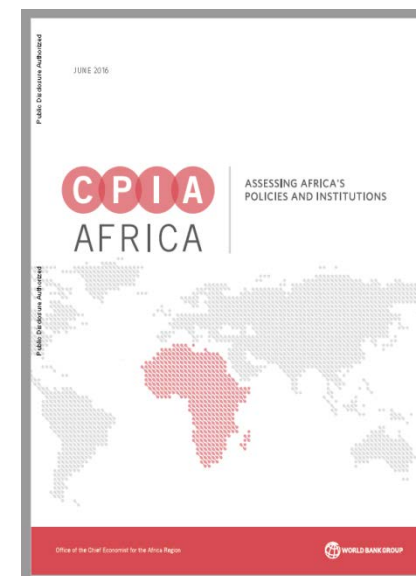
# Challenges

- Diversity in accounting practices around the world e.g. cash, modified cash etc.
- Budgets are still predominantly cash
- Lack of political will and leadership
- Shortage of qualified professional accountants in governments
- Limited guidance and support, particularly in areas such as change management
- Transition to accruals based accounts often seen as costly
- Inability to articulate the business case

Table D.1 Changes in Scores, by Indicator

Indicators	Number of increases	Number of decreases	Countries with increases	Countries with decreases
Property Rights and Rule-based Governance	3	1	Comoros, Ghana, Guinea	Burundi
Quality of Budgetary and Financial Management	3	4	Comoros, Ghana, Madagascar	Burundi, South Sudan, Tanzania, The Gambia
Efficiency of Revenue Mobilization	3	0	Chad, Ghana, Rwanda	
Quality of Public Administration	0	1		Eritrea
Transparency, Accountability and Corruption in Public Sector	1	3	Zimbabwe	Burundi, Mozambique, South Sudan

Source: CPIA database



But the number of governments moving to accruals based accounts are set to soar!

**Tanzania** – published its first set of Government consolidated accounts on an accruals basis for year ended 30 June 2015

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To: Permanent Secretary and Paymaster General,  
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11468 DAR ES SALAAM.

RE: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2015

**Introduction**

I have audited the Consolidated Financial Statements of the Government of the United Republic of Tanzania which comprises of the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Accounting Policies, Cash Flows Statement, Statement of Comparison of Budget and Actual Amounts and Notes to the Financial Statements for the year ended 30<sup>th</sup> June, 2015 as shown in Annexure I of this report.

**Management Responsibility for the Financial Statements**

The preparation of the Financial Statements is the responsibility of the management of the Ministry of Finance as per the Statement of Management Responsibility on the Financial Statements enclosed in this report as Annexure II.

But the number of governments moving to accruals based accounts are set to soar!

## Botswana

- A five year implementation plan for moving to accruals based IPSAS
  - A five year implementation plan - 2017
  - Investing in education and training
  - Up-skilling IPSAS knowledge and expertise



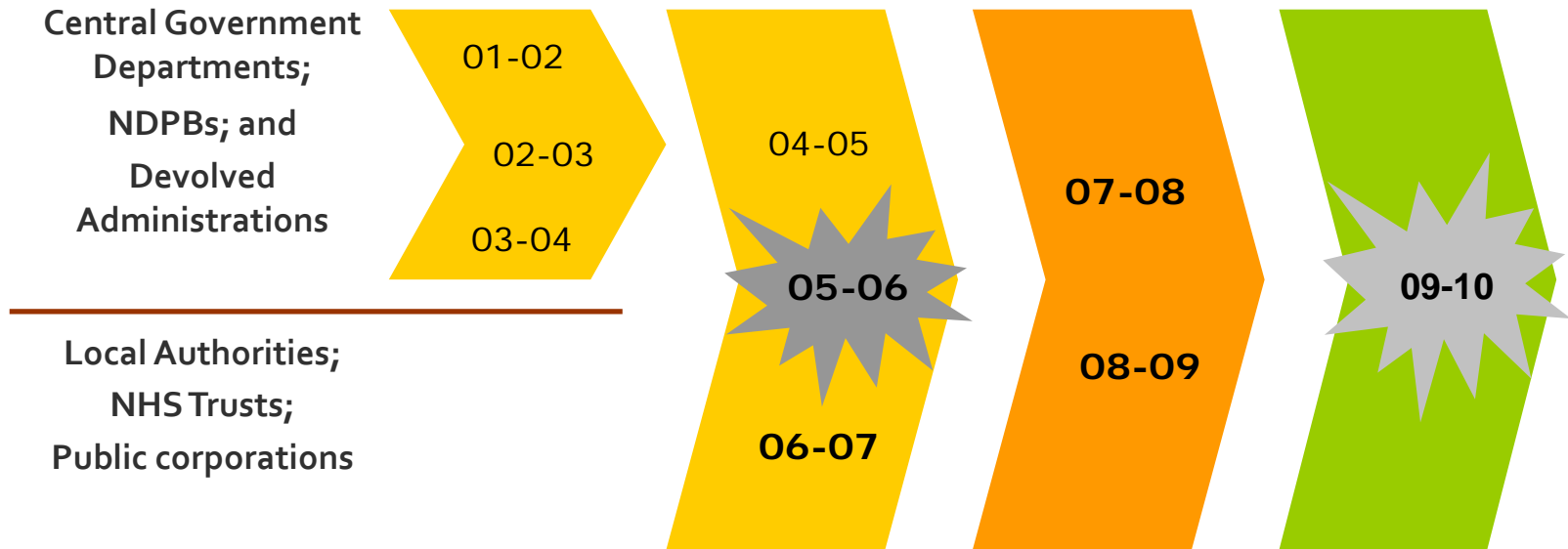


## Successful features of implementing an accruals programme

- ✓ Clear mandate
- ✓ Political commitment – major project
- ✓ Commitment of central entities and key officials
- ✓ Use of legislation
- ✓ Effective project management structure
- ✓ Adequate technological capacity and information systems; and
- ✓ Adequate resources (human and financial)

## Successful features of implementing an accruals programme - phasing

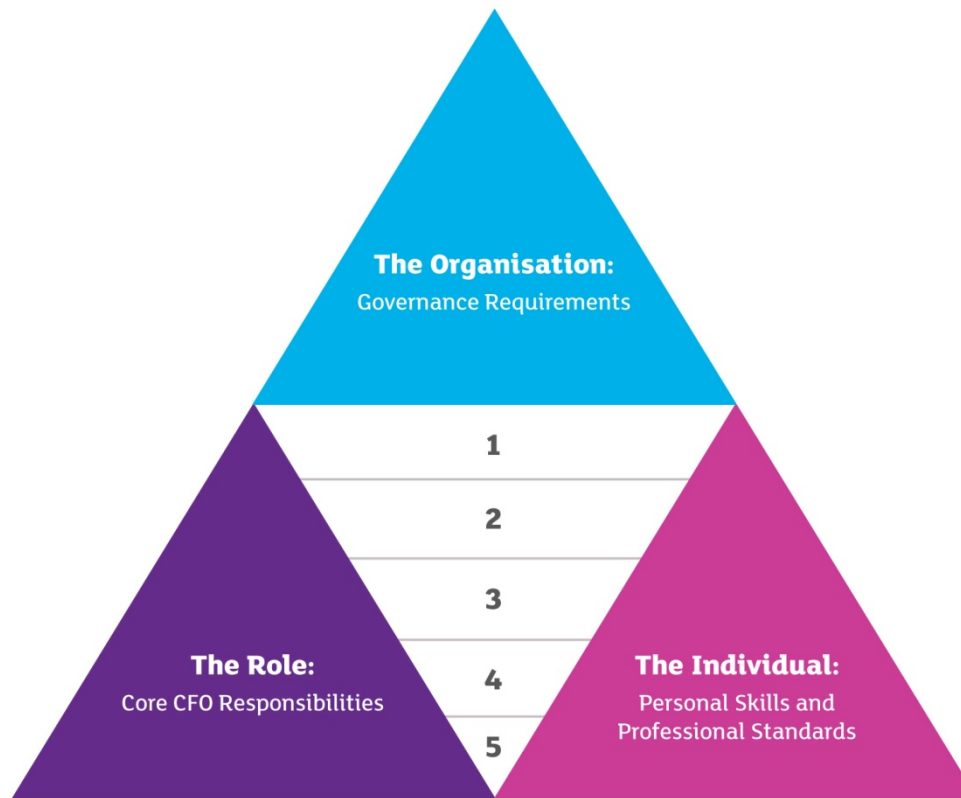
### UK experience



## Successful features of implementing an accruals programme - skills

- Limited accounting expertise initially
- Training decentralised
- Some centrally-written guides
- Gradual management and external financial reporting improvements: Quality and timeliness.
- Mainstream role for finance teams
- Increased number of qualified accountants
- Qualified Finance Directors on Department Boards (by 2007)

## Successful features of implementing an accruals programme – culture change



## Conclusions

- Compared with cash accrual provides:
  - Complete financial overview of an entity – full accountability
  - Reliable basis for decision making
- IPSASs as public sector standards set by independent global standard setter – credibility and comparability
- Full benefits of accrual IPSASs delivered through accrual budgeting as well as reporting
- Strong IPSAS-based PFM has real economic benefits – Government and economy as a whole.

## CIPFA expertise in IPSAS

### **CIPFA SUITE OF IPSAS QUALIFICATIONS**

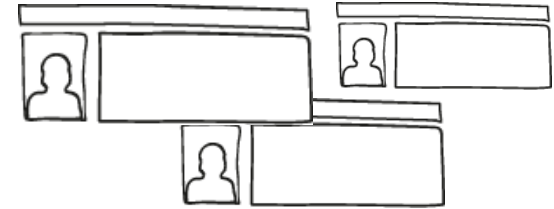
As the first professional accountancy organisation to have developed an IPSAS qualification, our focus is to support governments and public sector organisations at any stage of adopting IPSAS including; moving from cash to accruals and helping to prepare for the adoption of IPSAS.

CIPFA has developed IPSAS qualifications which are accessible anywhere through a flexible online learning and assessment programme.

**CIPFA Certificate in IPSAS**

**CIPFA Diploma in IPSAS**

# IPSAS qualifications



## CIPFA Certificate in IPSAS

Foundation knowledge of some published IPSASs, and important related documents. Successful completion will demonstrate knowledge of the basic technical content of IPSASs and ability to explain how certain events and transactions to public service organisations should be treated.

The CIPFA Cert IPSAS is suitable for:

- Those with knowledge of double entry book-keeping or basic accounting knowledge
- Accountants and finance staff
- Trainers
- Internal auditors
- Consultants who only need a basic knowledge of IPSAS.

## CIPFA Diploma in IPSAS

Designed to provide trainees with a thorough knowledge of the published IPSAS and related documents and covers all the IPSAS standards providing comprehensive guidance on applying the accounting requirements of the Standards.

The CIPFA Dip IPSAS is suitable for:

- Professional accountants
- Finance staff
- IPSAS implementation and maintenance teams
- Internal auditors
- Consultants dealing with financial reporting
- Trainers wishing to refresh their knowledge of the standards

## Conclusion: What remains to be done?

- Much!
  - Adoption of accrual accounting and IPSAS remains a challenge
  - Accrual budgeting and appropriations
  - Financial and performance management
    - Cost management
    - Asset management
    - Generally still weak
  - Fiscal management
    - Accrual/ balance sheet approach
  - Integrated reporting in the public sector

*More specifically, the use of accrual based statements and the integration of balance sheets with flows are consistent with the need for government behavior to be determined in the context of its intertemporal budget constraint. For example, a government's policies will not be sustainable if they significantly reduce its net worth.*

Net Liabilities	1,185.7	1,346.9	1,627.9	1,840.6	2,103.2
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<sup>1</sup> Restated due to the inclusion of Network Rail and Pension Protection Fund.



## Martin Wolf sums it up...

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April 15, 2016 5:42 am

#### Public sector needs to do a better job with assets

 Martin Wolf

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Professional management might raise an annually



**W**hat is not measured does not count. This is dramatically true in discussion of the public sector. A few numbers — the annual financial deficit and the stock of debt — dominate the debate. The result is chronic mismanagement. The current UK debate, for example, largely ignores assets and makes little distinction between current and capital spending. The present focus also ignores many liabilities and pays little attention to management of assets.

## Questions and discussion

