Accounting & Auditing Board of Ethiopia (AABE)

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Briefing on International Accounting Standards (IPSAS)

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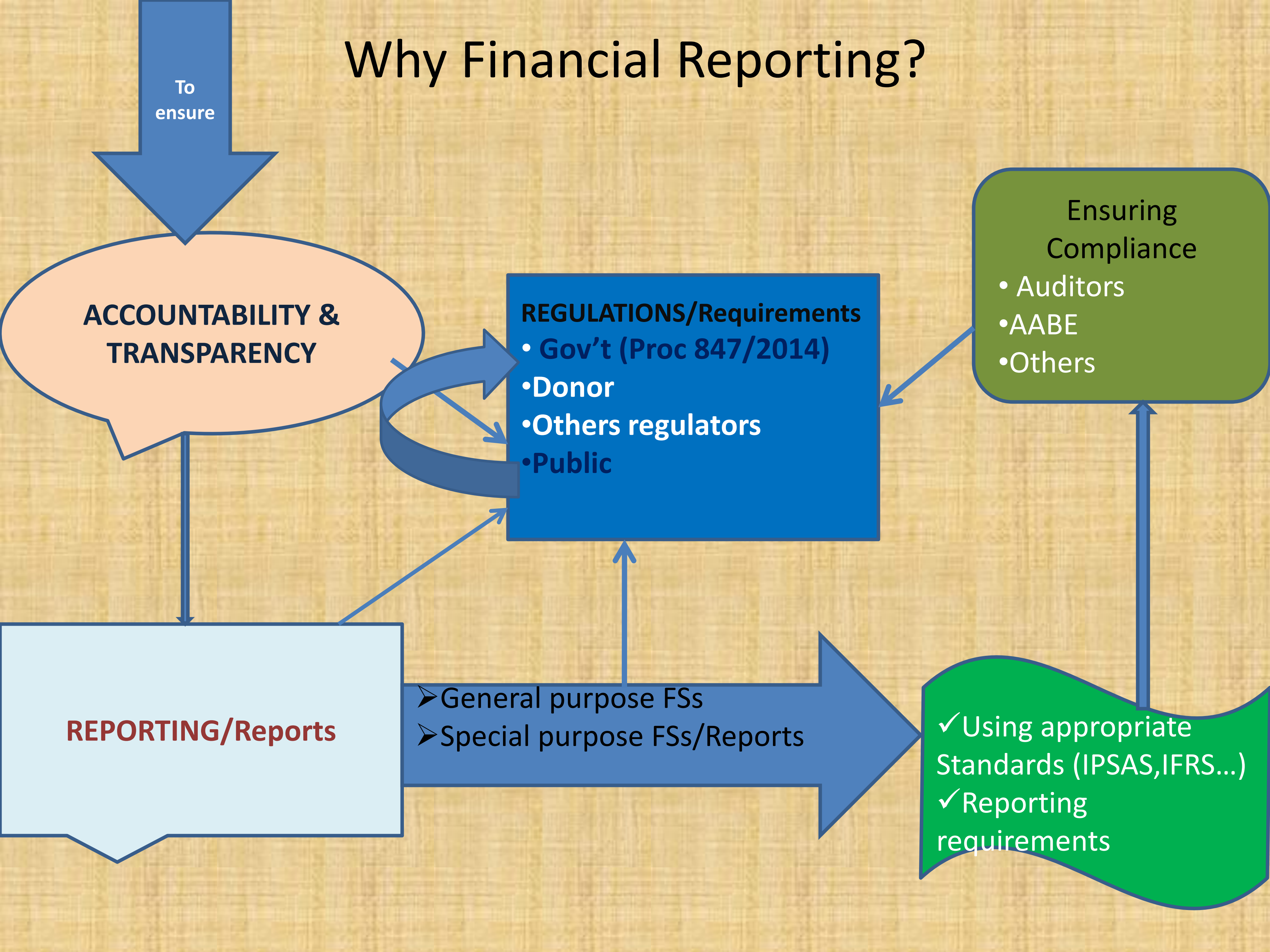
Presentation Outline

- Why standards nationally?
- Why Reporting?
- Reporting Requirements (GPFS Vs SPFS)
- Users of GPFS
- Reporting frameworks
- Background to IPSAS
- Key considerations to IPSAS
- Summary of IPSASs

Why standards nationally?

- Because we have no reporting standard
- Importance from the perspectives of:
    - Organizations
    - Professionals
    - Others
    - The Country

Why Financial Reporting?



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- **In general:**
- **No transparency/Accountability → No trust**
- **No trust → No grant/donation**
- **No grant/donation → No social service**
- **No social service → No community development, no poverty reduction, no economic development.....**

Reporting requirements
GPFR Vs SPFR

- General purpose financial statements are those that:
  - **aims to provide useful financial information about the reporting entity to primary users who can not command the reporting entity to provide information directly to them**
  - **are prepared inline with some reporting framework**

- **Financial reporting is not an end in itself, unless available to the user**
- **Reflect the qualitative characteristics of FRs (Understandability, relevance, reliability and compareability)**

- **To ensure accountability, transparency and for the purpose of decision-making purposes**

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- Special purpose financial reporting are those designed to:
  - responds to the requirements of :
    - prudential regulation reporting requirements
    - tax reporting requirements
    - Donors, and other regulators

A complete set of financial statements comprises:

- Statement of financial position,
- Statement of financial performance,
- Statement of changes in net assets/equity,
- Cash flow statement ,
- A comparison of budget and actual amounts and
- Disclosure, comprising a summary of significant accounting policies and other explanatory notes

Users of GPFS

- **Governments and other public sector entities raise resources** from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients.
    - These entities are **accountable** for their management and
    - to those that provide them with resources, and
    - to those that depend on them to use those resources to deliver necessary services.
    - Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes
- GPFS, primarily aim to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.
- The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers

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- Citizens receive services from, and provide resources to, the government and other public sector entities.
    - Therefore, citizens are primary users of GPFRs.
    - Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations
    - In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes

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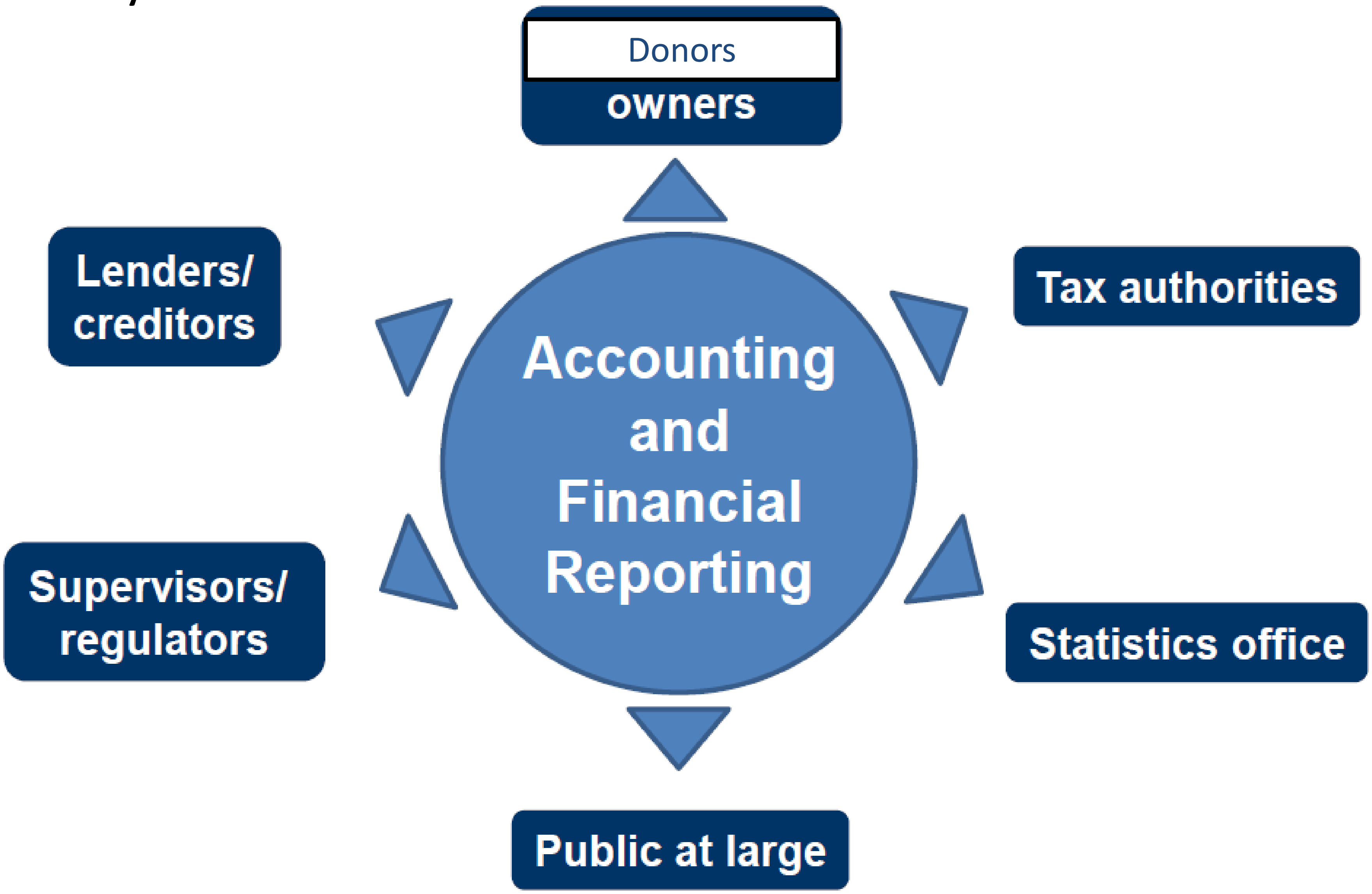
Generally users of FR are



Reporting frameworks/Standards

- IFRS
  - standard-setter = International Accounting Standards Board (IASB)
  - More Principle based
- IFRS for SME
  - standard-setter = International Accounting Standards Board (IASB)
  - More Principle based
- IPSAS
  - standard-setter = International Public Sector Accounting Standards Board (IPSASB)
  - More Principle based
- US-GAAP
  - Financial Accounting Standard Board (FASB)
  - Rule- based

Background to IPSAS

- The development of the IPSAS has its origins in the accounting profession as a way to improve the transparency and accountability of governments and their agencies by improving and standardizing financial reporting

- The IPSASB is an independent standard setting board supported by IFAC.

- The IPSASB issues IPSAS, guidance, and other resources for use by the public sector, including not-for profit orgns. around the world

- The IPSASB (and its forerunner, the IFAC Public Sector Committee) has been developing and issuing accounting standards for the public sector since 1997

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- As transactions are generally common across both the private and public sectors, there has been an attempt to have IPSAS converged with the equivalent International Financial Reporting Standards (IFRS).

- As a general rule, the IPSAS maintain the accounting treatment and original text of the IFRS, unless there is a significant public sector issue that warrants a departure.

- The IPSAS are also developed for financial reporting issues that are either not addressed by adapting an IFRS or for which no IFRS has been developed

- The IPSASB considers the development of its own conceptual framework to underpin its standard-setting activities to maintain its credibility in understanding the unique aspects of the public sector and to meet the financial reporting needs of entities in the public sector

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- **Therefore,**
- The IPSASs are a set of independently produced financial reporting standards:
  - ➢ Designed to apply to Public Sector and not-for-profit entities for preparation of **GPFSs**
  - ➢ Based on IFRS developed for private sector profit-making organizations, which are amended to reflect **public sector and not-for profit specific financial reporting issues**
  - ➢ Developed based on a due process
  - ➢ Issued by an independent standard setting body, the IPSAS Board (IPSASB), which was established by the IFAC

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- **The increasing importance of IPSAS**
- IPSAS) are being developed by the IPSASB, which focuses on the **accounting and financial reporting needs of governments and public sector entities and not-for-profit organizations**
- These public sector accounting standards set out
    - recognition, measurement, presentation and disclosure requirements dealing with transactions and events in the **general-purpose financial statements of all public sector entities**.
- This ensures that organizations in the public sector that adopt IPSAS have financial reports that are consistent and comparable with the private sector entities and at the same time also benefiting from guidance and interpretation for specific public-sector issues such as revenue from non-exchange transactions, presentation of budget information in the financial statements, etc.

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- Lessons learned from the sovereign debt crisis and the increasing pressure on governments and public sector organizations to better manage public resources, have made a global case for action, **highlighting** the need for **more transparent, consistent and globally comparable financial reporting in the public sector**

- IPSAS are being adopted by a large number of public sector entities all over the world

- International organizations have been at the forefront of the move towards IPSAS, but the trend is also clear for governments, with an increasing number of them adopting accrual accounting practices with IPSAS serving as a reference point.

- Understanding IPSAS and being able to apply them is therefore key for all public sector accounting, not-for profit organizations and finance professionals

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- Currently the IPSASs are the only internationally recognized set of public sector accounting standards. They are developed on the basis of the IFRS, which are generally applied in the real economy

Hence, the IPSAS aims are:

- ✓ to improve financial management;
- ✓ to improve the quality of financial reporting;
- ✓ to increase the transparency and to achieve a higher credibility of financial reports;

Key considerations to IPSAS

1. Service potential as part of the definitions and recognition criteria
   - Many of the assets and liabilities of entities within the public sector are acquired or incurred as a result of the entity's service delivery mandate, for example, heritage assets and parks maintained for public access.
   - IPSAS introduces the concept of service potential into the definition of assets, liabilities, revenue and expenses
   - Service potential is also a supplementary recognition criterion to account for items that do not result in the inflow or outflow of economic benefits, where an item either contributes to or detract from the entity's ability to deliver its services
2. Exchange vs non-exchange transactions
   - Non-exchange transactions are those transactions where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange
   - Within the public sector non-exchange transactions are prevalent. IPSAS provides principles to guide the measurement

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3. Recognition of revenue from government grants/Donation
   - IPSAS focuses on whether there is entitlement to the revenue from government grants (even though there may be restrictions on how the funds are spent), or an obligation to meet certain conditions, which is recorded as liability.
   - The distinction between restrictions and conditions is crucial in determining whether or not to recognize revenue from a non-exchange transaction.
   - As a result, grants are generally fully released to income earlier under IPSAS than under IFRS
4. Income tax
   - IPSAS presumes that entities that operate within the public sector are generally exempt from income taxes and therefore does not cater for the accounting of income taxes.
   - In the unlikely event that an entity reports using IPSAS but is liable for tax, reference should be made to IFRS (IAS 12 *Income Taxes) for guidance*

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5. Consolidations and interests in associates and joint ventures
    - With the introduction of IFRS 10 *Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities,* ***there are significant differences between IFRS and IPSAS****.*
    - *IPSAS is still based on IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interest in Joint Ventures.*
    - *The main difference that* arises with the introduction of IFRS 10, IFRS 11 and IFRS 12 is the manner in which control is determined for the purpose of consolidations (there are projects by IPSASB on these difference)
6. **Financial instruments classification and measurement**
    - With the introduction and ongoing development of IFRS 9 *Financial Instruments, the classification and measurement of financial* instruments under IFRS is changing from IAS 39.
    - Prior to IFRS 9, the recognition and measurement of financial instruments were similar under IFRS and IPSAS.
    - Until the IPSASB finalizes its project to consider these new developments in IFRS, this could become a major source of difference between the two frameworks

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7. Reporting of budgets vs actual
    - With the increased focus on stewardship, service delivery and budget management in the public sector, IPSAS requires a comparison of the actual financial performance of an entity with the approved budget of that entity, where the budget is publicly available. There is no equivalent requirement in IFRS
8. Impairment of non-cash-generating assets
    - In light of the assets recognized based purely on their service potential (as opposed to economic benefits), IPSAS also caters specifically for impairment considerations for non-cash-generating assets.
    - IFRS assumes that most assets will be cash-generating; whereas IPSAS assumes that the majority of a public sector entity's assets are likely to be non-cash generating.
    - IPSAS 21 *Impairment of Non-cash-generating Assets provides specific guidance on how to determine the value-in-use of such assets*

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9. Elimination of private sector specific concepts
    - IFRS provides principles for certain economic phenomena that are irrelevant to the operations of a public sector entity, such as accounting for share-based payments and earnings per share disclosures.
    - IPSAS excludes such guidance and refers reporting entities back to IFRS if and when applicable
10. Growing divergence in the conceptual framework of the IPSASB and IASB
    - The IPSASB is in the process of developing its own conceptual framework, proposing concepts that may be more suitable in the public sector context
    - We may see further differences in the outlook and focus of the IPSASB and IASB in the future

Summary of IPSASs

IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 1	Presentation of Financial Statements	• Sets out the manner in which general-purpose financial statements shall be prepared under the accrual basis of accounting, including guidance for their structure and the minimum requirements for content • Prescribes fundamental principles underlying the preparation of financial statements, including going-concern assumption, consistency of presentation and classification, accrual basis of accounting, and aggregation and materiality **A complete set of financial statements comprises:** •Statement of financial position, •Statement of financial performance, •Statement of changes in net assets/equity, •Cash flow statement , • A comparison of budget and accrual amounts and •Disclosures comprising a summary of significant accounting policies and other explanatory notes	IAS 1

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 2	Cash flow statements	• Deals with the presentation of information about historical changes in a public sector entity's cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period according to operating, investing, and financing activities	IAS 7
IPSAS 3	Accounting policies, changes in accounting estimates and errors	• Prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors	IAS 8
IPSAS 4	The effect of changes in Foreign exchange rates	• Prescribes the accounting treatment for an entity's foreign currency transactions and foreign operations • Deals with the accounting for foreign currency transactions & foreign operations, •Sets out the requirement for determining which exchange rates to use for the recognition of certain transactions and balances, & prescribe how to recognize the financial effects of changes in exchange rates within the FSs	IAS 21

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IAS 5	Borrowing Cost	• Prescribes the accounting treatment for borrowing costs and require either the immediate expensing of borrowing costs or as an allowed alternative treatment, the capitalization of BCs that are directly attributable to the acquisition, construction or production of a qualifying asset	IAS 23
IPSAS 6	Consolidated and Separate FS	• Prescribes requirements for preparing and presenting consolidated financial statements for an economic entity under the accrual basis of accounting. • Prescribe how to account for investments in controlled entities, jointly controlled entities and associates in separate financial statements Note: This is superseded by IPSAS 34 & 35 From Jan. 1, 2017	IAS 27

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 7	Investment in Associates	• Prescribes the investor's accounting for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure •**Note**: It is superseded by IPSAS 36 from Jan. 1, 2017	IAS 28
IPSAS 8	Interest in Joint ventures	• Prescribe the accounting treatment required for interests in joint ventures, regardless of the structures or legal forms of the joint venture activities • **Note**: Replaced by IPSAS 37 from Jan. 1, 2017	IFRS 11
IPSAS 9	Revenue from exchange transactions	• Prescribe the accounting treatment for revenue arising from exchange transactions and events and requires such revenue to be measured at the FV of the consideration received or receivable	IFRS 15
IPSAS 10	Financial Reporting in Hyperinflationary Economies	• Prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful	IAS 29
IPSAS 11	Construction Contracts	• Prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor	IFRS 15

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 12	Inventories	• Prescribes the accounting treatment of inventories, including cost determination and expense recognition, including any write-down to net-realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories	IAS 2
IPSAS 13	Leases	• Prescribes, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases	IFRS 16/IAS 17
IPSAS 14	Events after reporting period	• Prescribes when an entity shall adjust its financial statements for events after the reporting date. • Prescribes disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date	IAS 10
IPSAS 16	Investment property	• Prescribes the accounting treatment for investment property and related disclosures	IAS 40
IPSAS 17	PPE	• Prescribes the principles for the initial recognition and subsequent accounting (determination carrying amount and the depreciation charges and impairment losses) for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its PPE and the changes in such investment	IAS 16

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 18	Segment reporting	• Establish principles for reporting financial information by segments to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity, and enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations	IFRS 8
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	• Prescribe appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. • Aims to ensure that only genuine obligations are dealt with in the financial statements	IAS 37
IPSAS 20	Related party disclosure	• Ensure that financial statements disclose the existence of related party relationships and transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity	IAS 24
IPSAS 21	Impairment of Non-cash generating assets	• Ensure that non-cash-generating assets are carried at no more than their recoverable service amount, and to prescribe how recoverable service amount is calculated	IAS 36

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 22	Disclosure of Financial Information About the General Gov't or public sector	• Prescribe disclosure requirements for governments/public sectors which elect to present information about the general government sector (GGS), Public sector, in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can provide a better understanding of the relationship between the market and non-market activities of the government and between financial statements and statistical bases of financial reporting	NA
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	•Deals with issues that need to be considered in recognizing and measuring revenue from non- exchange transactions	NA
IPSAS 24	Presentation of Budget Information in Financial Statements	• Ensure that public sector entities discharge their accountability, obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget for which they are held publicly accountable • Sets out the requirement for a comparison of budget amounts & the actual amounts arising from execution of the budget to be included in the financial statements	NA

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 25	Employee Benefits	• Prescribe the accounting and disclosure for employee benefits, including short-term benefits (wages, annual leave, sick leave, bonuses, profit-sharing and non-monetary benefits); pensions; post-employment life insurance and medical benefits; termination benefits and other longterm employee benefits (long-service leave, disability, deferred compensation, and bonuses and long-term profit-sharing), except for share based transactions and employee retirement Benefit plans • Note: This is replaced by IPSAS 39 from January 1, 2018	IAS 19
IPSAS 26	Impairment of Cash-Generating Assets	• Prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognized • This Standard also specifies when an entity shall reverse an impairment loss and prescribes disclosures	IAS 36
IPSAS 27	Agriculture	• Prescribes the accounting treatment and disclosures for biological assets & agricultural products at the point of harvest when they relate to agricultural activity	IAS 41

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 28	Financial Instruments: Presentation	• Prescribe principles for classifying and presenting financial instruments as liabilities or net assets/equity, and for offsetting financial assets and liabilities	IAS 32/IFRS 7
IPSAS 29	Financial Instruments: Recognition & Measurement	• Establishes principles for recognizing, derecognizing and measuring financial assets and financial liabilities	IFRS 9
IPSAS 30	Financial Instruments: Disclosure	• Prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks	IFRS 7
IPSAS 31	Intangible Assets	• Prescribes the accounting treatment for recognizing and measuring intangible assets	IAS 38
IPSAS 32	Service concession arrangements: Grantor	• Prescribes the accounting for service concession arrangements by the grantor, a public sector entity • Does not address the accounting for the operator side of such arrangements. The standard provides a mirror image of IFRIC 12 Service concession arrangements, which addresses the accounting for the operator side	IFRIC 12

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 33	First-Time adoption of Accrual basis of IPSAS	• Deals with granting transitional exemptions to entities adopting accrual basis IPSAS for first time, providing a major tool to help entities along their journey to implement IPSAS • An entity shall apply those amendments for annual FS covering periods beginning on or after 1, January 2017	IFRS 1
IPSAS 34	Separate Financial Statements	• Requires all controlling entities to prepare consolidated FSs, which consolidate all controlled entities on a line-by-line basis •An entity shall apply this standard for annual FSs covering periods on or after 1 January 2017	IAS 27
IPSAS 35	Consolidated FSs	• This standard still requires that control be assessed having regard to benefits and power, but the definition of control have changed and the standard now provides considerably more guidance on assessing control •An entity shall apply this standard for annual FSs covering periods on or after 1 January 2017	IFRS 10
IPSAS 36	Investments in Associates & joint ventures	• Explains the application of the equity method of accounting which is used to account for investments in associates and JVs •An entity shall apply this standard for annual FSs covering periods on or after 1 January 2017	IAS 28

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IPSAS #	Name of Standard	Description	Related IFRS /IAS
IPSAS 37	Joint Arrangements (JA)	• Establishes requirements for classifying Jas & accounting for those different types of Jas •Are classified as either joint operations or JVs • An entity shall apply this standard for annual FSs covering periods on or after 1 January 2017	IFRS 11
IPSAS 38	Disclosure of interests of other entities	• Brings together the disclosure previously included in IPSAS 6-8 •It also introduces new disclosure requirements including those related to structured entities that are not consolidated and controlling interests acquired with the intention of disposal •An entity shall apply this standard for annual FSs covering periods on or after 1 January 2017	**IFRS 12**
IPSAS 39	Employees Benefits	• Prescribes the accounting treatment & disclosure requirements of employee benefits, including the timing for recognition of liabilities and expenses •Effective date is January 1, 2018 with encouraging earlier application	IAS 19
IPSAS 40	Public sector combinations	• Classifies public sector combinations as either amalgamations or acquisitions taking in to account control and other factors and sets criteria for recognition and measurement of amalgamations •Effective date is January 1, 2019 with encouraging earlier application	IFRS 3

THANK YOU!!!

Questions or Comments?