

IPSAS: Contributing to Better Public Sector Governance

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Financial Reporting of governments in the perspective of IPSASs

- General Purpose Financial Reports (GPFRs)
- based on full accrual accounting information
- satisfying the information needs of resource providers and service recipients
- for accountability and decision-making purposes

IPSAS-based financial reporting: MORE information

GENERAL PURPOSE FINANCIAL STATEMENTS

- **ASSETS & LIABILITES**
 - Resources of the entity and claims to them
 - Financial capacity
 - Operational capacity
- **REVENUE & EXPENSES**
 - Cost of services
 - Amounts and sources of cost recovery
 - Deficit to be covered / Surplus available
- **CASH-FLOWS**
 - Liquidity
- **CONSOLIDATED ACCOUNTS**
 - Financial position and performance of the government as a whole



ACCOUNTABILITY & DECISION-MAKING

- Comprehensive view on financial position and performance
- Discharge of responsibilities for safekeeping and managing public resources
- Sustainability of public finances & continuity of the provision of services
- Inter-generational equity
- Economy, efficiency, effectiveness

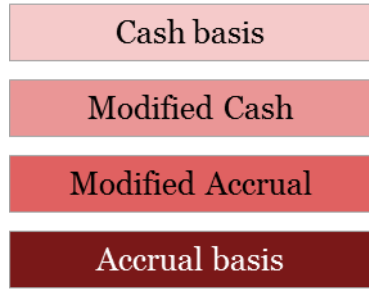
General Purpose Financial Reports broader than General Purpose Financial Statements

- Comparison with budget
- Service performance reporting
- Long term sustainability of public finances
- Financial statements discussion and analysis
- ...

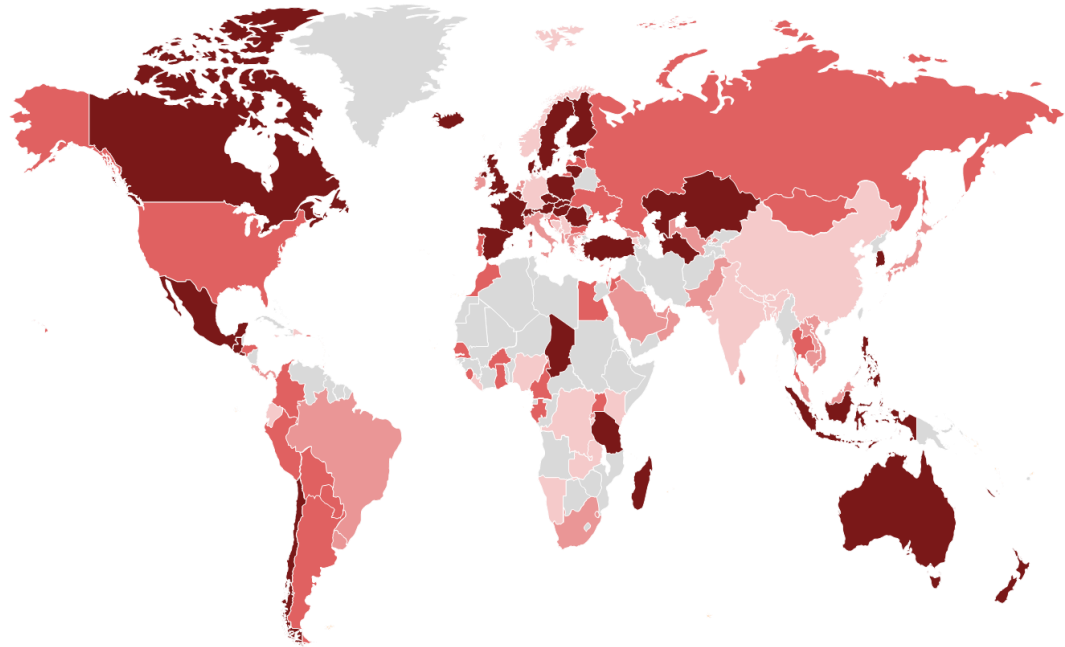
IPSAS-based financial reporting: BETTER information

- **High-quality standards** (IPSASB governance and terms of reference, rigorous due process)
- Information that meets the **Qualitative Characteristics** of relevance, faithfully representation, understandability, timeliness, comparability, verifiability and the **Constraints** of materiality and cost-benefit
- **Internationally consistent**

Accrual implementation – Position in 2015



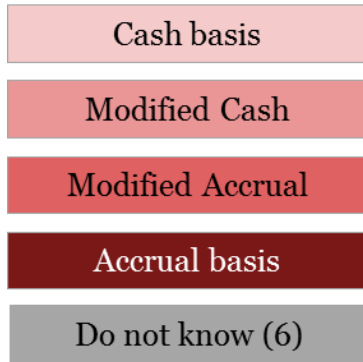
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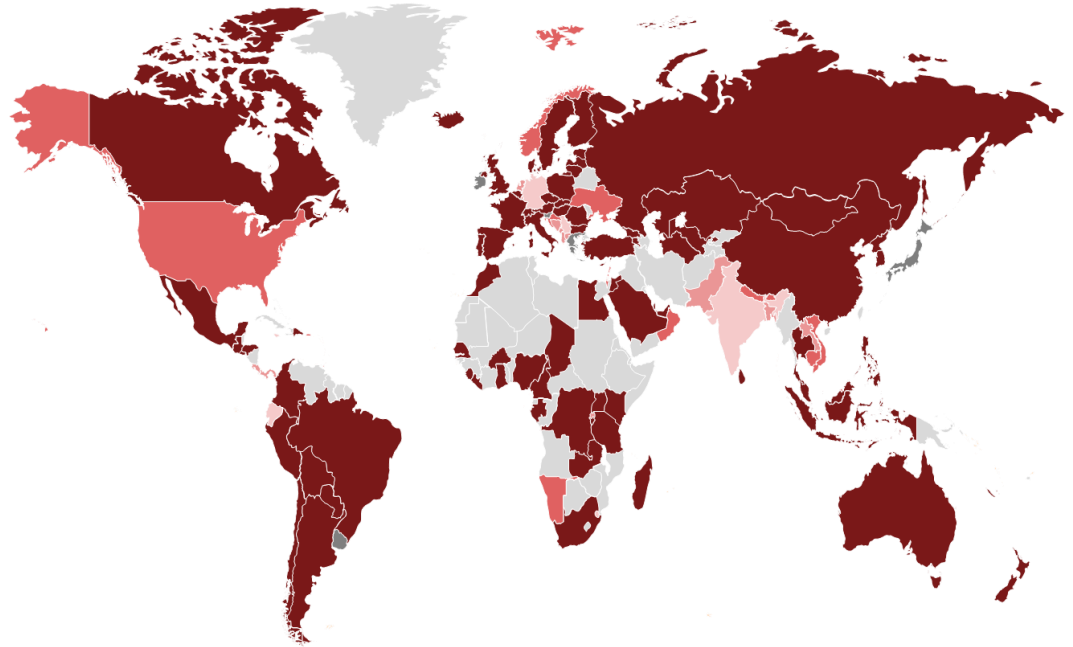
Source: *PWC Global Survey on Accounting and Reporting by Central Governments (2nd edition)*

Accrual implementation - Future plans

The 5-year trend toward accrual accounting is clear.....



71%



Source: PWC Global Survey on Accounting and Reporting by Central Governments (2nd edition)

Success features in transitioning to IPSASs

- Clear scope and mandate
- Commitment:
 - Political
 - Key officials
 - Legislation
- Adequate resources:
 - IT / information systems
 - Human
 - Financial
- Effective project management

Clear scope and mandate

- Reform focus – accounting or broader Public Financial Management?
 - Budgeting changes too?
 - Information usage for macroeconomic / fiscal management?
- Extent and nature of changes:
 - Types of entities / sectors involved?
 - ‘Whole of Government’ consolidation?
 - Voluntary or mandatory?
- Institutional framework:
 - Federal or centralised government?
 - Legislation / regulation embedded in constitution or very detailed?
 - Existing frameworks and levels of authority?

Commitment: Political and official

- Presidential or parliamentary system?
- Governing body / elected representatives and opposing party
- Ongoing communication throughout reform process
- Changes in appropriation / accountability processes?
- Changes to power structures
- Need to strengthen standard setting and regulatory bodies?
- Need for 'fixers' when things go wrong
- Legislation as demonstration of commitment and change driver

Commitment – Politicians and key officials

Malaysia		Project launch by Malaysian Prime Minister New Economic Model (NEM) policy measure Sufficient to gain commitment in federal structure?
Portugal		IMF Fiscal Transparency Evaluation recommendation Integral part of fiscal and public management reforms
UK		Cross party support ensured continuity with Government change 'Green' & 'White' Papers for Resource Accounting & Budgeting (RAB) WGA programme started without full policy approval

Project management: Accrual reform periods

IPSASB Study 14:

- Short (1-3 Years) – strong political support; few entities
- Medium (4-6 years) – increased preparation and implementation time
- Long – (6+ years) – risk of ‘reform fatigue’

IPSAS 33 – First Time Adoption:

- Use of ‘dry run’ periods
- Date of IPSAS adoption
- 3 year transitional relief period for certain requirements
- First IPSAS financial statements (full accrual IPSAS compliance)

Reform periods

Malaysia		Launched 2011 – Federal 2015, States 2016 2015 later designated as ‘dry run’ year Implementation now delayed until 2018 due to IT problems
Portugal		Started Oct 2015 – Feb 2017 pilot implementation Pilot delayed until Jan 2018 to address systems issues Roll-out plans yet to be announced
UK		RAB policy decision 1996 for 2000 departmental accrual accounts 2001 accrual budget implementation, but new elements delayed 2 years Initial WGA 7 year timetable – central government as interim target First publication took 11 years – required change in Government

Conclusion: IPSAS-based information potentially leads to better governance...

- Brings to light items to be managed (i.e. property assets) and the full effects of decisions (i.e. sales of assets)
- Reduces scope for fiscal illusions (i.e. order now pay later)
- Helps to steer public finances according to fiscal reality (i.e. doubtful receivables, financial risks)
- Makes it harder to ignore future budget challenges and longer-term effects of public policies
- Enhances accountability of governments

...but the “actual” use of accounting information depends upon several surrounding conditions

- **Pressure from oversight authorities and upper levels of government**
- **Commitment to accounting change of key-players**
- **Accounting and financial maturity**
(civil servants; politicians; media; citizens; etc. – skills need to be enhanced)
- **Administrative culture**
(outcome-oriented vs. compliance with law-oriented; long term-oriented vs. short term-oriented; etc.)
- **Balance between complexity and relevance to users of the accounting system**
- **Accounting function structure within government**
- **Governance and management adjustments**
(links between financial reporting, budgeting & management control systems, GFS, auditing)



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Adequate resources: IT / information systems

- Current accounting basis – cash or accrual?
- Approach to IPSASs implementation – direct, indirect, phased?
- Information currently held:
 - Revenue / receivables
 - Expenditure (procurement, payroll, travel etc)
 - Assets and inventory
 - Liabilities (debt management, employee pensions, etc.)
- Information systems architecture:
 - Centralised or decentralised?
 - Degree of integration?

Adequate technology / IT resources

Malaysia		New central system covering federal government and states Need for parallel running Overambitious functionality and number of users (50,000)? 'Train the trainer' approach problems – lack of expertise and too early?
Portugal		New Central Accounting and Reporting System Integrated Standard Chart of Accounts (budget and GFS / macro data) Use external consultants to provide technical expertise
UK		Departments chose own systems and charts of accounts Central system initially implemented for WGA consolidation only Re-implementation for estimates, budgets and GFS / macro data later External consultants provided implementation expertise - central systems

Adequate resources: Building capacity

- Project team:
 - Project and change management skills
 - Experience in accounting policy issues and systems implementation
 - Requirements change over programme lifetime
- Entity staff:
 - Appropriate level of technical and systems knowledge
 - Skills assessment and integrated training / development – ‘train the trainers’?
 - Internal development or external recruitment?
- External auditors:
 - Appropriate level of technical and systems knowledge
 - Skills assessment and integrated training / development
 - Judgements, quality control and coordination processes

Adequate human resources

Malaysia		Professionalisation key part of programme – accountants in ministries Central Accountant General training institute Close links with accountancy profession Build on earlier adoption of Cash Basis IPSAS
Portugal		Training and change management integrated into programme Centralised through a specific PFM Reform Unit
UK		Seen as technical reform rather than change programme No centralised training programme Need for CFOs and stronger Government Finance Profession only recognised later

Effective project management

- Formal implementation plan:
 - ‘Big bang’?
 - Phased across entities?
 - Consolidation later?
 - ‘Step-by-step’ rather than full accrual immediately?
- Clear delivery responsibilities
 - entities and officials
- Project milestones:
 - Deliverables and /or criteria to be met at specific points
 - Monitoring processes
 - Fix emerging issues quickly
- Formal communication and coordination mechanisms

Resources: Project management 'trade-offs'

