

FIRST-TIME ADOPTION OF ACCRUAL BASIS IPSAS

PROJECT BRIEF AND OUTLINE

1. Introduction

- 1.1. IPSAS 33 represents the starting point and the first interaction between the new adopter and accounting in accordance with accrual basis IPSAS, both for entities moving from an accrual GAAP basis to IPSAS and those moving from a cash basis to IPSAS. IPSAS 33 considers the many complex accounting policy decisions for public sector entities on their first application of IPSAS. It is only used once by public sector entities adopting and implementing accrual-basis IPSAS.
- 1.2. Since IPSAS 33 was issued in January 2015, it has been amended several times, mostly as a result of IPSAS 33 being affected by the issuance of a new standard (such as the issuance of IPSAS 43, *Leases*, in January 2022) or by the issuance of minor improvements to IPSAS (such as the *Improvements to IPSAS, 2021* issued in 2022).
- 1.3. As IPSAS 33 is the first interaction first time adopters have with IPSAS, the fact the [International Public Sector Financial Accountability Index](#) (“the Index”) identifies a significant number of jurisdictions planning to adopt IPSAS by 2030, which will result in an increase in the use of IPSAS 33 in the coming years highlights the priority to update the guidance to ensure it is more user friendly and effective.

2. Project Rationale

- 2.1. In July 2022, the IPSASB sought stakeholder input to determine which projects to add to its work program for the 2019-2023 period.
- 2.2. The Index 2021 Status Report forecasts that by 2030 a total of 120 jurisdictions anticipate that they will be reporting on an accrual basis. Of these, 97 will be using IPSAS either directly or indirectly, an increase of 36 from the projected position at the end of 2025 and up from 28 jurisdictions in 2020.
- 2.3. The project to update IPSAS 33, *First Time Adoption of Accrual Basis IPSASs* was highlighted as a potential new project given the importance of how to adopt and implement accrual-basis IPSAS for the first time, and public sector entities’ transition to full adoption.
- 2.4. Respondents indicated strong support for revising IPSAS 33, to enhance the guidance on identifying and addressing specific challenges in applying IPSAS 33 to facilitate the adoption of IPSAS.
- 2.5. The IPSASB agreed that the Project was important as it supported its strategic objective of promoting the use of IPSAS. Based on the strong support received from respondents, in May 2022, IPSAS 33 was included in the limited-scope projects added as pre-commitments to the IPSASB’s work program to begin when resources become available in 2023 and onwards.

3. Project Objective

Project Objective

- 3.1. The objective of the project is to address stakeholder concerns with IPSAS 33 to make the pronouncement more user friendly and effective. This will be achieved by rearranging guidance by category and adding non-authoritative guidance and to clarify IPSAS 33’s role before the date of adoption, i.e., in the preparation phase; linking IPSAS 33 in some way with the Pathways to Accrual as necessary.

Links to the IPSASB's Strategic Objective

3.2. The IPSASB evaluates potential projects against the following criteria. Applying these criteria helps the IPSASB assess which project would provide the most significant public interest benefit when considering the needs of users of financial and sustainability reports:

- a) **Prevalence:** whether the issue is widespread globally amongst public sector entities. Data from the Index indicates that issues with IPSAS 33 are set to become prevalent.
- b) **Consequences:** whether the issue impairs the ability of the financial reports to provide useful information for accountability and decision making. IPSAS 33 as currently written impedes adoption and implementation of IPSAS, and therefore there are consequences for accountability and decision-making.
- c) **Urgency:** whether the emerging issue has recently gained prominence and therefore requires consideration in the near term. Accordingly, the issue is urgent because of the projections for 2030 and beyond.
- d) **Feasibility:** whether a technically sound solution to the issue can be developed within a reasonable time period and current resource constraints without impacting adversely on the completion of other projects. This project proposes to review the existing guidance and update based on experience from jurisdictions that have applied the standard in practice. A technically sound solution is expected.

3.3. The IPSASB's Strategy and Work Plan 2019-2023 *Delivering Global Standards. Inspiring Implementation* cites an overarching strategic objective as:

"Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-basis IPSAS.

Delivered through two main areas of activity, both of which have a public interest focus:

- Developing and maintaining IPSAS and other high-quality public sector financial reporting guidance for the public sector; and
- Raising awareness of the IPSAS and the benefits of their adoption."

3.4. The Project is consistent with the IPSASB's strategic objective because:

- a) IPSAS 33 considers the many complex accounting policy decisions for public sector entities on their first application of IPSAS. It is only used once by public sector entities adopting and implementing accrual-basis IPSAS. However, the one-time an entity uses IPSAS 33 can shape its experience, and the experience its users understand, long after this standard is applied.¹
- b) Some challenges and inconsistencies have been identified in its application, and with more jurisdictions adopting accrual-basis IPSAS, addressing the problems identified through a limited-scope project is important for both the IPSASB and potential IPSAS adopters and would support delivery of the Strategic Objective.

Achieving the Objective

3.5. Since it is a limited-scope project to identify and address specific challenges in applying IPSAS 33 to facilitate the adoption of IPSAS, the Project will make use of a Task Force.

¹ International Public Sector Accounting Standards Board (IPSASB), (July, 2021), "Strategy and Work Program 2019-2023: Mid-Period Work Program Consultation", the International Federation of Accountants (IFAC), P. 17

- 3.6. To achieve the objective, the IPSASB (assisted by a team from Ministry of Finance in Saudi Arabia with practical experience applying the standard) will:
- Determine what public-sector relevant issues should be addressed in the Project, given its scope;
 - Consider the links to other projects and IPSAS; and
 - Determine the management and phasing of the issues to be considered by the IPSASB.

4. Outline of the Project

Project Scope

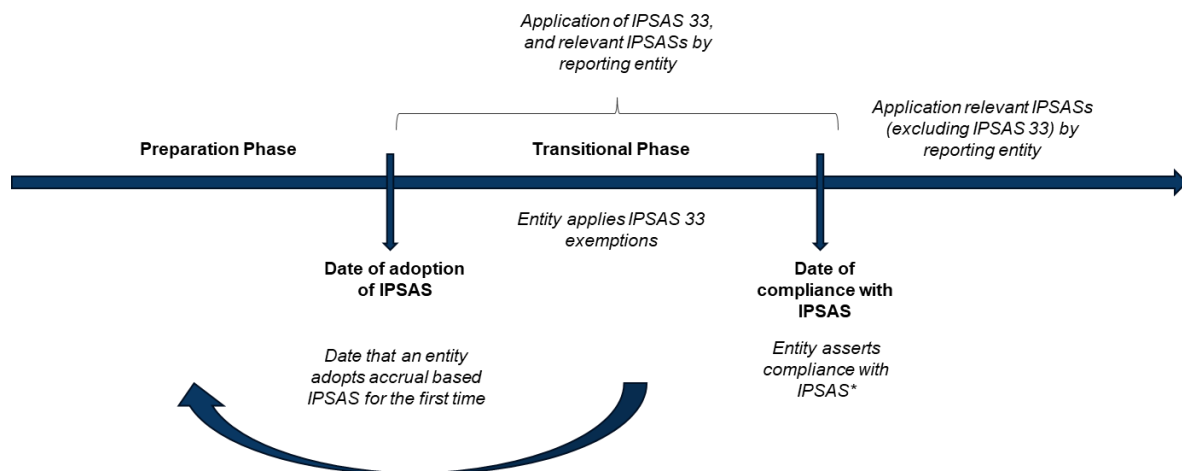
- 4.1. The scope of the Project is to develop IPSAS 33 by remodeling or rearranging it and adding non-authoritative guidance, which will result in a standard that provides both streamlined guidance for the accounting transition and a comprehensive reference point that would assist jurisdictions undertaking the reforms to forge their own paths towards accrual basis IPSAS in the face of their own unique challenges, as successful implementation cannot happen without proper planning and preparation.

Key Issues

Key issue – Applicability of IPSAS 33, First-time adoption of Accrual Basis IPSASs, to the IPSAS Implementation process

- 4.2. One of the concerns raised by stakeholders is that IPSAS 33 does not cover the entire period of IPSAS implementation, specifically the all-important planning and preparation phase: IPSAS 33 applies when much of the planning has already been done and the entity is in the final stages of moving towards full accrual basis IPSAS compliance.

The following diagram illustrates the accrual transitional journey from the preparation phase until the date of compliance with IPSAS:



Key issue:

- Should the exemptions that affect fair presentation become encouraged OR required accounting practices prior to the date of adoption of IPSAS?

- 4.3. IPSAS 33 in its current form focuses on providing guidance to a first-time adopter that prepares and presents financial statements following the adoption of accrual-basis IPSASs in order to present high quality information.

4.4. The role of IPSAS 33 in the preparation phase, during the transition period, and after the transformation period is as follows:

- a) In the preparation phase and **before** the date of adoption, there is no role for IPSAS 33 in this long and important phase, and there are no guidelines for the new adopter to enlighten the way for it so that he can reach the adoption date of accrual basis IPSAS. There are limited references in the Basis for Conclusions in IPSAS 33 to the preparation phase.

While IPSAS 33 has some Implementation Guidance, it is not within the scope of this project to develop more detailed practical guidance on the first-time adoption of IPSAS. Because specific issues relating to first-time adoption are likely to vary from one jurisdiction to the next, and because that starting point for the first-time adopters varies depends on their previous of accounting, individual jurisdictions need to play a role in the development of additional implementation guidance to assist first-time adopters in their transition to accrual basis IPSAS.²

- b) **During** the transitional period, IPSAS 33 allows a first-time adopter to take advantage of various exemptions.
- c) **After** the transitional period, jurisdictions should present financial statements in full compliance with IPSAS.

4.5. Most public sector entities/jurisdictions on the migration to reporting under accrual-basis IPSAS are transitioning from a cash-basis. The preparation phase for the transition to implement accrual accounting is a new experience for the public sector, which it has never gone through and most likely will not go through again, so guidance is needed in this long phase.

4.6. The flexibility that IPSAS 33 provides to the first-time adopter in accounting practice is undoubtedly a good thing, but it could be argued that it is not sufficient for the role that IPSAS 33 should play in the journey of transition to accrual, considering that IPSAS 33 is the standard that represents the starting point for transition to accounting in accordance with accrual basis IPSAS.

4.7. This raises a question that the IPSASB needs to consider: should IPSAS 33 contain a limited amount of Implementation Guidance to assist First-Time Adopters plan the transition?

Key issue – A First-Time adopter is encouraged, but not required to recognize and measure certain assets and liabilities

4.8. A first-time adopter's IPSAS financial statements shall fairly present the financial position, financial performance, and cash flows of the entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.

4.9. IPSAS 33 paragraph 36 states that "Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, **it is not required to recognize and/or measure** the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

- a) Inventories (see IPSAS 12, *Inventories*);
- b) Investment property (see IPSAS 16, *Investment Property*);
- c) Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);
- d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, *Employee Benefits*);
- e) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);
- f) Intangible assets (see IPSAS 31, *Intangible Assets*);

² *First time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) – Basis of Conclusions

- g) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*);
 - h) Financial instruments (see IPSAS 41, *Financial Instruments*); and
 - i) Social benefits (see IPSAS 42, *Social Benefits*)."
- 4.10. A first-time adopter is encouraged, but not required, to recognize asset(s), liability(ies), revenue and expense(s), and other exemptions in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this IPSAS.
- 4.11. Several challenges have been identified with these exemptions for recognizing assets and liabilities and with some of the other reliefs. Some of the topics identified by stakeholders are the following, but not limited to:
- a) **Confusion.** The effect on the usefulness to users of financial information where the increasing or decreasing amount of assets and/or liabilities creates confusion about the equity/net assets position and calls into question the credibility of the financial information presented;
 - b) **Procrastination.** A first-time adopter may not start the work to recognize assets, liabilities or the other reliefs until the last moment;
 - c) **Difficulty in achieving full compliance.** The granting of exemptions and reliefs may, where a public sector entity has procrastinated (see point (b) above), mean that entities are unable to achieve full compliance with IPSAS within the transition period.
- 4.12. This raises a question that the IPSASB needs to consider: should a transition period be granted, or should more focus be given to the planning and preparation phase?

5. Describe the Implications for any Specific Persons or Groups

Relationship with IASB

- 5.1. IPSAS 33 is based on IFRS 1, *First-time Adoption of International Financial Reporting Standards*, with significant departures for the public sector context. In December 2010 the IASB completed its deliberations on the amendments to IFRS 1. There are a few minor revisions IFRS 1 in the improvements for 2011 but currently there are no indications that any major revisions are expected.

Relationship with GFS

- 5.2. The IPSASB supports the reduction of unnecessary differences between GFS and IPSAS in the development of new IPSAS and revisions to existing IPSAS. The IPSASB's policy paper *Process for Considering GFS Reporting Guidelines during the Development of IPSASs (2014)* guides the process.
- 5.3. This project will assess the extent to which any differences arising between GFS and IPSAS can be addressed.

6. Development Process, Project Timetable and Project Output

Development Process

- 6.1. The project will be completed in two distinct stages of development:
- a) **Stage 1** involves building on work already done to develop a formal ED and any proposed consequential amendments to other IPSAS, taking into account constituents' feedback received to date.
 - b) **Stage 2** involves the development of the Final Pronouncement based also on constituents' feedback to the ED and finalization of any consequential amendments to other IPSAS.

- 6.2. The development of outputs will be subject to the IPSASB’s formal due process, with input from the Consultative Advisory Group (CAG). The approval of the ED and final pronouncement will be subject to the usual IPSASB voting rules. As the Project progresses, regular assessments will be made to confirm the proposed path and that the Project Timetable remains appropriate.

Project Timetable

- 6.3. Given the projections in the Index, and indications that there are other jurisdictions (mainly in Africa) that are likely to implement accrual-basis IPSAS in the same timeframe, the indicative timeline for the Project is taut, with an expectation that the project will be delivered as follows:

Expected Completion		Major Project Milestone
2023	December	Approve project brief
2024	March	Exposure Draft
2024	June	Approve ED
2024	December	Discussion of responses to ED
2025	March	Review Draft of IPSAS 33 Revised
2025	June	Approve IPSAS 33 Revised

7. Project output

- 7.1. The initial output is expected to be an ED with recommendations on the appropriate output.

8. Resources Required

Task Force

- 8.1. A Task Force, comprising the members of the Working Group that developed the Options for the September 2023 meeting, will oversee the project.³

Staff

- 8.2. It is anticipated that the project will involve 1 FTE.

9. Useful Sources of Information

- 9.1. The principal information sources will:
- IFRS 1, *First-time Adoption of International Financial Reporting Standards*.
 - IPSAS 33, *First time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSASs)
 - [Pathways to Accrual](#) – IFAC publication

³ The Task Force will be comprised of members of the Working Group that developed options for the September meeting:

- Abdullah Al-Mehthil, Task Force Chair, IPSASB Member
- Kamira Sanchez Nicosia, IPSASB Member, Panama
- Nor Yati Ahmad, IPSASB Member, Malaysia
- Lindy Bodewig, IPSASB Alumna, South Africa
- David Watkins, IPSASB Technical Advisor
- Admire Ndurunduru, Pan African Federation of Accountants
- Paul Sama, Sub-Director for the Regulation of State Budget and Accounts, Ministry of Finance, Cameroon