

IPSAS implementation: current status and challenges

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About this report

This report examines the progress being made, as well as the current challenges faced, with the implementation of International Public Sector Accounting Standards.

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Introduction

International Public Sector Accounting Standards (IPSAS) are the public sector equivalent of *International Financial Reporting Standards (IFRS)*. IFRS have been credited with providing a more transparent and accurate financial overview of listed companies around the world, using accruals accounting as opposed to cash accounting. The move towards using IPSAS in the public sector has the potential to radically change the practice of accounting and financial reporting in the sector, just as IFRS have accomplished with listed companies.

The adoption of IPSAS is gaining momentum across the world. In 2015, the European Union announced the establishment and adoption of European Public Sector Accounting Standards (EPSAS) based on IPSAS with adoption dates to be determined by the respective countries. Further afield, Australia and New Zealand have already converted from IFRS to IPSAS type standards for the public sector. In Africa, South-East Asia and South America, statements of support for IPSAS have also encouraged a trend of adoption across developing countries.

The need for greater transparency and accountability in government financial reporting was heightened by the global

financial crisis, which reduced the resources that governments had available. In some instances, information contained in cash based financial statements had been insufficient for countries to predict and prevent sovereign liquidity crises. To attract foreign direct investment, countries have initiated financial management reform programmes, including the adoption of accrual accounting as part of broader reform programmes.

These factors have encouraged countries across the world to make statements concerning the adoption of standards established on either cash basis IPSAS or accrual basis IPSAS, with various deadlines. Countries have used differing approaches in their adoption of IPSAS and are in different stages of adoption, with some having just started, while others have completed the process. The level of success has varied and is typically measured by the outcomes of the external audit process.

This report examines progress across a sample of developing countries where much of the recent IPSAS commentary has been focused. The list is not intended to be exhaustive, rather it aims to give select insights into the current status quo

of IPSAS adoption across a range of developing countries, identifying commonalities and emerging issues. Specifically the study considers the adoption of IPSAS focusing on:

- Date of announcement and date of adoption
- Overview of progress to date
- Success factors
- Challenges experienced

The study is based on desktop reviews of existing public information, including: annual reports of ministries of finance or supreme audit institutions; public expenditure framework assessment reports; IFAC, World Bank and IMF reports; and presentations at public sector conferences. We also reviewed published academic research papers studying the effects of implementing IPSAS.

Senior public sector leaders were consulted to validate the findings, analyse the reasons for IPSAS adoption and the benefits and costs involved, as well as the challenges and their solutions. We thank all those who participated in the study.



Executive summary

This study considers the current state of the adoption of IPSAS across the world. Our examination of different countries suggests IPSAS adoption has started to provide significant and common advantages across the public sector, yet important challenges remain in the roadmap to full adoption.

BENEFITS OF IPSAS ADOPTION

- 1. Greater accountability and transparency.** There is compelling evidence that IPSAS provide greater clarity on the financial position of public sector entities across the world. IPSAS are important in promoting transparency and thereby curbing fraud and corruption. Financial statements prepared in accordance with IPSAS capture what a government receives and allocates, as well as what it owns and owes.
- 2. Better decision-making.** Knowing both the financial position of an entity and the financial implications of a proposed policy measure helps decision-makers to make better financial judgements about an entity and its activities. Public bodies and other stakeholders are assisted in planning for the future.
- 3. Improved efficiency.** The adoption of IPSAS has become essential in improving efficiency and effectiveness in financial reporting and auditing processes across the sector. Increased standardisation supports the delivery of more effective audits and helps mitigate the risks of significant material misstatements. The use of IPSAS is instrumental in forging closer integration between financial and critical non-financial information, providing a more holistic understanding of the true performance of public sector entities. IPSAS can streamline standard reporting processes and support the consolidation of all the activities and accounts of various government entities and sub-entities; so providing a meaningful audit report. Consolidated accounts are the basis for more informed, and subsequently better, decision-making.
- 4. Data consistency and application.** Greater standardisation of the reporting processes and underlying data provides more opportunities to analyse data and improve decision-making. Supreme audit institutions can access standardised information created through the use of IPSAS to make meaningful judgements and comparisons through the application of techniques such as data analytics.
- 5. Sound financial management.** The adoption of IPSAS is instrumental in driving improved financial management practices in the public sector, providing a robust platform on which internal reporting practices can flourish, and acting as a catalyst for stronger financial capability and 'value add'. The pillars of sound financial management practices such as budgetary control, cost accounting, financial performance management, strategic investment planning and forecasting are better supported.
- 6. Professionalisation and access to talent.** The adoption of IPSAS plays a significant part in increasing 'professionalisation' of the finance function and accounting across the public sector. It presents significant opportunities to increase the influence of the finance organisation, while capitalising on the skills of younger entrants into the profession within the sector, ensuring that the public sector becomes a desirable career destination of choice for professional accountants.
- 7. Broader economic and social advantages.** A key driver for IPSAS adoption is the importance of attracting ongoing inward investment into the public sector, particularly in emerging economies. Financial statements prepared in accordance with IPSAS provide confidence and comparability for investors at an international level. These investments potentially create spin-off benefits for the broader economy in terms of jobs, welfare and societal improvement.

The level of awareness and understanding of the IPSAS framework varies significantly across jurisdictions, as does the level of stakeholder engagement in its adoption.

8. **Government stability.** Reforms brought about through IPSAS adoption can help create a more stable government, leading to a better investment climate, more jobs and higher incomes. Adoption of IPSAS can support policy makers in explaining, and generating support for, their plans for government. The reporting and consolidation process brings together all stakeholders in the reporting supply chain. Truer and fairer reporting, and greater disclosure, lead to more engagement from stakeholders and service users.
9. **International comparability.** Speaking the universal IPSAS language leads to better international comparability between public sector entities, while strengthening understandability through uniformity. The adoption of IPSAS also removes additional reporting requirements from donors, many of whom report using the standards.

FURTHER CONSIDERATIONS: A ROADMAP TO ADOPTION

Despite these strong benefits, there is a wide variation in the rate of progress made with IPSAS adoption. Taking our sample of countries as examples, our review suggests progress remains slower than is desirable. Specific, complex and consistent implementation challenges have faced adopting countries, which need to be overcome.

Here are further issues to consider in the transition towards successful full adoption of IPSAS:

1. **Stakeholder engagement.** The level of awareness and understanding of the IPSAS framework varies significantly across jurisdictions, as does the level of stakeholder engagement in its adoption. Public sector entities, ministries, parliaments, politicians and the public are accustomed to cash accounting principles. Successful IPSAS adoption requires the understanding, education and engagement of key stakeholders, including political office holders, auditor generals, accountants general, state banks and ministries. This is difficult and the executive arm of government needs to be engaged and supportive of the process, along with the public accounts committee (or equivalent), and the audit and finance functions. The change will not succeed if it is imposed: implementation requires political will and 'champions' to create momentum. Similarly, IPSAS adoption requires successful internal engagement too; there needs to be cross functional support - a strong partnership between finance and audit. The support of the audit function is particularly essential.

2. **Structural and legal transformation.** The task of structural reform to accommodate IPSAS implementation presents a significant challenge. Legal changes are required, as well as new regulations and governance practices; these may be complex and time consuming and will vary on a country-by-country basis. A government standards body and a finance committee will also be required, in order to consider and deliberate on country specific interpretations and applications. Some countries have opted for an advanced cash standard to be introduced as a helpful milestone towards full IPSAS implementation. Participants contributing to this study typically believe a 10-year time period for transition to full IPSAS is realistic, though countries operating a federal and state model may take longer – perhaps up to 20 years. Implementation plans need to reflect the constitutional, national, provincial, state and local circumstances.
3. **Transformation and change management.** Most countries that have adopted IPSAS benefited from a consequent and important transformation and change imperative. IPSAS programme adoption requires effective project management, supported by change management capability and relevant experience – effective communication is also essential. The cultural change that IPSAS necessitates is a significant challenge and can not be underestimated.

Implementation plans should be considered on a country wide basis. Most countries we examined favoured a phased approach, as opposed to a 'big bang' implementation.

4. **Skills capacity.** Governments and public sector organisations may not have the skills, competence and staffing levels needed; adopting IPSAS has been a challenge in many countries. Implementation requires a programme of training to raise skills and there will be additional pressures to recruit and retain IPSAS-focused and skilled staff. The skills challenge goes beyond a lack of core IPSAS knowledge and understanding; other challenges will include the translation of standards and guidance materials. Skill gaps identified in this study include some reporting areas, particularly in the narrative reporting accompanying the financial statements to clarify what the financial data is telling the users. IPSAS adoption not only requires a paradigm shift in skills, but also a change in finance culture and mindset to exploit the opportunities presented by professional accountants to drive value. In addition to the technical skills required, there are country specific language challenges that need to be addressed. The overall accountancy capacity within a country will impact on its ability to recruit and retain qualified staff within government, and implementation will require up-skilling. This may lead to staff leaving the organisation, but can also be viewed as an opportunity to develop existing staff. A consideration here should be the balance between internal and also external resources. External consultants should be used with care, while ensuring the appropriate knowledge transfer to internal staff takes place in the longer term. Lengthy implementation timescales mean that entities must consider how to retain institutional memory and tacit organisational knowledge throughout the process as staff may not be involved for the duration. Implementation will also require new business models and charts of accounts.
5. **Cost.** The costs of implementation (both financial and resource based) should not be under-estimated from both a finance and audit perspective. Costs will be incurred for training, the use of specialised external consultants, IT upgrades and the development of appropriate guidance and translation tools. Adequate financial resources should also be devoted to targeted stakeholder engagement and for other engagement and awareness activities. Most countries in this study adopted IPSAS in conjunction with a wider public financial management improvement programme, which requires additional investment.
6. **Technology and infrastructure.** Existing technology will not necessarily support implementation. This can be costly and will require expert advice and consultancy to support configuration, training of users and transfer to business as usual. Adoption is likely to require the replacement or adaptation of some existing IT systems, data structures and charts of accounts. Reporting systems and structures may need to be updated as part of the transition process.
7. **Implementation approach.** Implementation plans should be considered on a country wide basis. Most countries we examined favoured a phased approach, as opposed to a 'big bang' implementation. A project management approach – including change management – was important for implementation. It is necessary to learn from others who have already undertaken the process and identify best and repeatable practices. Implementation of IPSAS may have a short-term adverse impact on service delivery and this risk must be managed.
8. **External support.** Governments and public sector entities can benefit from external support. Professional accountancy organisations can help to raise awareness of the need for transparent financial reports in the public sector, including – but going beyond – providing training on accounting standards. Donors can support the professionalisation of public sector financial management, while audit firms and other stakeholders can assist with public finance management training, expertise and capacity building.

1. Countries and stage of adoption of IPSAS: Asia













Following the Asia crisis of the late 1990s, countries in South Asia embarked on financial management reforms in the private and public sectors. Some of the hardest hit countries were Indonesia, Korea and Thailand, but other countries were affected including Malaysia and the Philippines. Funding from donors such as the IMF and the World Bank required

public finance management reforms, including the adoption of accrual accounting standards based on IPSAS.

India, Pakistan, Nepal and Bangladesh adopted standards aligned to cash based IPSAS, without announcing a commitment to adopting accrual based IPSAS. Middle East countries – including Abu Dhabi

– have adopted, or are in the process of adopting, accrual based IPSAS. Their primary motivation is to provide greater accountability and transparency to enable the countries to improve their public financial management, particularly as they adjust to changes in the commodity prices on which they depend.

COUNTRY	ADOPTION STATUS	UPDATE	PROPOSED IMPLEMENTATION DATE
 Abu Dhabi	In progress	Abu Dhabi is committed to adopting accrual basis IPSAS, but currently uses cash basis IPSAS.	Not announced
 Bangladesh	In progress	Bangladesh applies a cash basis of accounting based on IPSAS.	Not announced
 India	Not Started	India applies a mixture of cash and accrual based accounting.	Not announced
 Indonesia	Adopted	Indonesia has adopted IPSAS type standards, but central and local government accounts are currently prepared on a modified cash and partial accrual basis.	2015
 Jordan	Adopted	Jordan adopted IPSAS in 2015. But not all the standards are complied with and full implementation has not been achieved.	2016
 Malaysia	Adopted	Malaysia implemented accrual standards based on IPSAS in 2015 for the federal government and in 2016 for state governments.	2015/16
 Nepal	Partial	Nepal has adopted cash basis based IPSAS for its 16 government ministries. No announcement has been made regarding accrual basis IPSAS.	Not announced
 Pakistan	In progress	Pakistan has adopted cash basis IPSAS type standards as its reporting framework for central government. Disclosures around contingencies and accruals are not included.	Not announced
 Sri Lanka	In progress	Sri Lanka has adopted 10 IPSAS standards into its IPSAS type standards. It announced in 2006 that 21 IPSAS standards would be adopted by 2012, but this has not been completed.	2012, but not completed
 Vietnam	In progress	Vietnam is in the initial assessment stages of adopting IPSAS type standards. A revised Accounting Law came into effect in January 2017 mandating the adoption of accrual based standards.	2020



2. Challenges and success factors: Asia

Various challenges have faced countries in Asia that adopted IPSAS. Those challenges have been identified in national audit reports and other publicly available documents, including presentations, articles and research reports. Other documents reviewed include annual reports of supreme audit institutions and finance ministries/treasuries.

2.1 ABU DHABI

All of the Abu Dhabi government's financial statements as at 31 December 2016 were prepared using cash basis IPSAS as part of the progress towards the adoption of accruals IPSAS (Abu Dhabi Accountability Authority, 2017). Most entities included in the financial statements either adopted accruals IPSAS or (where appropriate, according to the nature of an entity's operations) IFRS. Abu Dhabi's phased approach is intended to assist the government to move towards the adoption of full IPSAS accrual standards.

The Abu Dhabi Accountability Authority issued an unqualified audit report on all government financial statements for 2016 (Abu Dhabi Accountability Authority, n.d). Despite this, challenges were encountered at the level of individual entities, where issues included: the impairment testing of goodwill and intangible assets; revenue recognition; depreciation of assets over their useful lives; preparation of consolidated financial statements; the accounting treatment of finance and operating leases; approved spending of

annual budgets; asset recognition; the presentation in financial statements of government contributions; the estimation of fair value of investment properties; the payment of annual bonuses and staff incentives; assessment of the likelihood of recovery of financial facilities and loans; and profit recognition, including of foreign investments and comparisons between budget and actual spend. There was an additional issue of the need to present financial statements in Arabic, as required by government.

2.2 BANGLADESH

Bangladesh applies cash basis IPSAS in its reporting after a period of public sector reform that has taken place over several years. Individual departments and public sector entities do not manage their own cash, which is held centrally by government. Consequently, the Bangladesh accounting function consists of a consolidated fund and a treasury single account. Parliament limits the financial authority provided through the annual budget. Responsibility for setting the accounting framework as well as auditing the framework lies with the Comptroller and Auditor-General.

A challenge for Bangladesh is with respect to the timeliness of reporting; that is the delayed production of these documents which are submitted late to the relevant authorities; and the fact that they are not made available to the public. This is due at least in part to the lateness of information being supplied by the

self-accounting entities (SAE) such as Defense and Railways which delays the preparation of a consolidated financial statement. SAEs report their financial transactions to Controller General of Accounts (CGA) for eventual incorporation in both monthly central accounts and annual finance accounts. However much of the delay in the production of these accounts is due to the delayed reporting of their transactions to CGA. In addition, the quality of their financial data is compromised by the limitations of their separate accounting systems and adversely affects the overall quality of financial reporting by CGA and the ability of Ministry of Finance to monitor budget implementation Government of the People's Republic of Bangladesh (2016) Public Finance Management (PFM) Reform Strategy 2016-2021.

Bangladesh experiences IPSAS implementation challenges that will take a number of years to overcome and the country will arguably find it difficult to achieve full compliance with IPSAS (Hakeem, 2012).

2.3 INDIA

India uses a cash basis of accounting, with certain accrual disclosures made in the financial statements (Asian Development Bank, 2013). The Government Accounting Standards Advisory Board of India (GASAB) has commissioned reports on the adoption of accrual accounting for the Indian Government and issued accrual based



The country decided to adopt the standards for all entities on the same date, so there was a scarcity of resources and initial consultancy costs were high.

standards based on the IPSAS standards (Kothari, 2013), but the standards need to be approved by government. IPSAS implementation is likely to take between 10 and 12 years and a project management task team would be needed to ensure appropriate leadership and political buy-in (Government Accounting Standards Advisory Board of India, n.d.). Implementation of full accrual accounting for India seems likely to be delayed until the challenges are overcome and a detailed roadmap has been agreed.

Identified challenges in India firstly include the differing states of readiness of entities within the Indian Government and across different public sector entities for IPSAS adoption. There are more specific core accounting challenges too – there is a paucity of information on assets and liabilities across many public sector entities in India at present. As part of a strong project management approach pilot studies will need to be conducted; accounting standards and policies and a chart of accounts will need to be developed; mapping will also be required to create a timetable for new processes; decisions will have to be made on IT requirements to support accrual accounting; organisational restructuring is also likely to be necessary; pilot implementation sites will have to be determined and prioritised; and a thorough implementation programme agreed for the whole of government financial statements.

2.4 INDONESIA

Indonesia began its public sector reform programme in 1999, giving itself several years to carry out the changes with full implementation of IPSAS planned from 2015 (EY, 2015). The programme included: the introduction of a unified budgeting system; introduction of performance based budgeting; a medium-term expenditure framework; cash management reform; establishing government accounting standards; creating a common, web based, chart of accounts; reforming government procurement processes; and assigning the Ministry of Finance (MOF) with the authority to implement administrative reform. Accountability for entities was transferred to their financial controllers from the Treasury. The government strengthened its technology systems, moving towards an integrated financial management information system and a fully centralised and integrated IT infrastructure in the MOF (Harjowiryo, 2016).

The Indonesian Government Accounting Standards (IGAS) are based on IPSAS (Asia Pacific Economic Co-operation, 2013), with IGAS set out in 13 statements – four interpretations and nine technical bulletins (Simanjuntak, 2016). However, this remains a work in progress in several specific areas. For example, disclosure standards on related parties and financial instruments have not yet been included and accounting standards have also not been specifically developed for employee

benefits and financial instruments to account for the complexities in the balances and transactions.

Lessons have been learnt from the reform programme however. Robust implementation and transition strategies were required, including: issuing the accounting standards with sufficient time for adoption; stakeholder involvement; the need to align accounting standards and policies with the legal framework; and the necessity to develop an integrated financial management system that supports the improvement of business processes and the requirements of the accounting standards. There was also a recognition of the need to build capacity among existing staff, recruit skilled staff and place them with those entities that needed assistance.

Yet other challenges also faced the Indonesia government. The country decided to adopt the standards for all entities on the same date, so there was a scarcity of resources, and initial consultancy costs were high. The lack of skills in accrual accounting also caused difficulty in producing timely and credible financial statements. Politicians and other stakeholders also questioned the benefits gained from IPSAS reports and have been reluctant to use the financial statements, placing more faith on the information contained in the budget and resource allocation processes (Chan, 2006).



Malaysia has undertaken a financial management reform programme over several years, with the implementation of accrual accounting as part of this process.

The audit outcomes for Indonesia government entities, especially at regional government level have, however, improved substantially from 2013 to 2014; the number of disclaimed or adverse opinions fell from 166 out of 577 audits, to 47 out of 626 audits (Simanjuntak, 2016). And, for the first time in 12 years, the central government consolidation accounts received an unqualified audit opinion for 2016.

2.5 JORDAN

Jordan's MOF officially endorsed the adoption and implementation of IPSAS in 2015, having previously used modified cash basis public sector accounting standards (IFAC: Jordan). A five-year IPSAS implementation roadmap is in place, with implementation assistance coming from the United States Agency for International Development (USAID) under Jordan's Fiscal Reform Project. Implementation has also been supported through the translation of IPSAS into Arabic by the International Arab Society of Certified Accountants, which also provides training events on IPSAS (IFAC, 2017).

Jordan had already undertaken a programme of public financial management reform, which included: the adoption of cash basis IPSAS; a review and consolidation of tax legislation; the adoption of results-oriented budgeting; applying a new chart of accounts; applying a common data standard; moving to a Treasury single account; and

establishing a government financial management information system. The MOF reported that the move to cash basis IPSAS itself faced challenges in the small number of qualified staff, difficulties in collecting data for payments made by third parties and administrative arrangements (Bashabsheh, n.d.).

The government's financial statement for 2015 was prepared using both cash basis IPSAS and accrual IPSAS, with Jordan claiming that this made it the first Arab country in the region to use full IPSAS – though several other Arab states are also in the process of implementing IPSAS. Al-Zubi (2015) concluded, however, that Jordan is applying IPSAS incorrectly and in a weak form. Al-Zubi also concluded that Jordan needs to strengthen its monitoring of IPSAS implementation, improve the efficiency of staff engaged in the process, collaborate more closely with 'competent authorities' – presumably the International Public Sector Accounting Standards Board (IPSASB) – and be more aware of IPSAS updates.

2.6 MALAYSIA

Malaysia has undertaken a financial management reform programme over several years, with the implementation of accrual accounting as part of this process. The Malaysian government announced in May 2011 that the country would adopt IPSAS type standards by 2015, with all public sector entities adopting IPSAS

on the same date (IPSASB, 2013a). Various initiatives were undertaken by the government to support the move, including: a gap analysis exercise between existing standards and IPSAS; development of Malaysian Public Sector Accounting Standards (MPSAS) based on IPSAS; revision of finance legislation to ensure MPSAS were embodied in the financial reform; development and selection of accounting policies; development of change management strategies; implementation of capacity building initiatives including on the job training and IPSAS class room training; adaption of policies, procedures and processes to accommodate IPSAS; and selection of IT infrastructure to accommodate IPSAS (Mahedi et al, 2014).

Malaysia experienced several challenges in IPSAS implementation; some of these related to specific accounting issues such as unavailable, incomplete and inaccurate records to determine opening balances, and difficulties in valuing particular asset types and complex financial instruments. Yet there were broader issues too – capacity issues resulting in over-reliance on donor funding and consultants, talent and skills issues with a paucity of appropriate IPSAS skills to move to accrual based accounting and the need to manage stakeholder expectations. Consequently the Accountant-General of Malaysia notes the following lessons from the implementation: the need to adopt practical implementation solutions;



There is also an issue of integration between accounting and budgeting, so that both frameworks are compatible and enable stakeholders to hold entities accountable for the manner in which they spend allocated resources.

ensuring there is sufficient IT capacity for the conversion process, particularly in relation to reporting the accounting treatment of assets; motivating entities to start the adoption process as early as possible; the need for relevant staff to understand which parts of the accounting system are most critical and the concept of materiality; to focus on long-term sustainable solutions, not just the short term; project management that adheres to a proper programme; and project management disciplines with agreed deadlines and clearly stated milestones (PwC, 2015).

The National Audit Office Malaysia (NADM) audit on the Federal Government's Financial Statement for the Year 2016 revealed that the statement as a whole reflected a true and fair view on the financial position of the Federal Government, its operations and cash flows for the year ended 31st December 2016. Its accounting records were properly maintained and updated accordingly. The NAO noted that there was an improvement in financial management when comparing 2015 to 2016: however, the financial management audit revealed that several ministries and departments did not fully comply with financial regulations, with weaknesses including negligence in complying with stipulated financial rules and procedures, insufficient staff, lack of financial management training and inadequate supervision and management (NADM 2016).

2.7 NEPAL

Nepal's Accounting Standards Board has developed Nepal Public Sector Accounting Standards (NPSAS), which are similar to cash based IPSAS and contain mandatory and non-mandatory parts for enhanced disclosures. In 2009, the government gave executive approval for these to be applied by all public sector entities. An implementation process was initiated by the Financial Comptroller General Office (FCGO), under which central government was first to adopt NPSAS, before operational entities did the same. A steering committee for implementation was established, led by the Joint Financial Comptroller General, the Auditor-General, MOF, Institute of Chartered Accountants and the Accounting Standards Board. Implementation and reform was funded by the World Bank (Prasad, 2016).

NPSAS was piloted by two ministries in 2011/12 and 2012/13. Roll-out took three years and financial statements for 16 economic entities for the financial year end 2015/16 were submitted for audit to the Auditor General. Several implementation issues were identified relating to the transition process: weak capacity of staff, especially in finance and audit; lack of qualified staff, resulting in non-accountants being involved in government accounting; lack of stakeholder engagement; insufficient

change management to enable entities to take responsibility for the reform and be accountable for the results; and difficulty in collecting the data required for disclosures of third party information. Further initiatives are required to address these issues along with the need for legislation to require NPSAS adoption, the professionalisation of the accounting profession and the computerisation of the Government Accounting System (Prasad, 2016).

2.8 PAKISTAN

Pakistan has made initial steps towards IPSAS conversion by aligning cash based accounting standards with cash basis IPSAS; however, there are significant differences. Reform began with the development and implementation of the New Accounting Model (NAM). Pakistan's accounting reform has continued through a phased programme, which began the adoption of IPSAS. Since 2006/07, the state and federal Financial Statements of Accountants General have been prepared using cash basis IPSAS. At present, financial statements blend the reporting formats under NAM and IPSAS cash basis by reporting cash flow statements over and above the requirements of cash basis IPSAS, with a focus on budgetary compliance for the financial year in line with the procedure established in the constitution (World Bank, n.d.).



Sri Lanka has followed a phased approach towards the implementation of IPSAS. The country has issued 10 accounting standards out of 32 IPSAS currently in issue across the world.

Pakistan has faced a number of challenges in moving to IPSAS. These include: the accuracy, reliability, completeness and timeliness of information; inconsistency of processes across government entities in recognising and recording transactions; and the capacity of finance staff at government entities to deal with the requirements of the standards, particularly as they change. There is also an issue of integration between accounting and budgeting, so that both frameworks are compatible and enable stakeholders to hold entities accountable for the manner in which they spend allocated resources (Babar, 2012).

2.9 SRI LANKA

Sri Lanka has followed a phased approach towards the implementation of IPSAS. The country has issued 10 accounting standards out of 32 IPSAS currently in issue across the world. But adoption of the 10 Sri Lanka Public Sector Accounting Standards (SLPSAS) which are equivalent to IPSAS is not currently mandatory and, as a result, most public sector financial statements do not fully comply with SLPSAS. The 10 SLPSAS include: presentation of financial statements; cash flow statements; accounting policies; property, plant and equipment; inventories; and provisions. Some important transactions and activities are not covered by SLPSAS, including revenue from non-exchange transactions, employee benefits and financial instruments. (World Bank, 2017; Sri Lanka Institute of Chartered Accountants, 2012; Harasgama, 2015).

2.10 VIETNAM

Vietnam is in the initial assessment stages of adopting IPSAS-type standards. A revised accounting law came into effect in January 2017 (Vietnam Ministry of Justice, 2017) mandating the adoption of accrual basis standards, but these standards for public sector accounting have not yet been issued. As far back as 2007, IFAC reported that Vietnam was in the process of moving to IPSAS with the support of the World Bank and translation of IPSAS standards underway (IFAC, 2007). In 2011 an Action Plan was developed by the Vietnam Association of Accountants and Auditors (VAA), which included the promotion of IPSAS to the MOF, but it also reported that there were 'currently no plans to convert to IPSAS'. In 2013, the World Bank reported that Vietnam had an ongoing public financial management reform programme, but despite this there was a lack of transparency in its financial reporting that prevented account users understanding resource allocation. The World Bank's report strongly recommended Vietnam should move to accruals based standards for reporting government finances (World Bank, 2013).

In 2016, the Asian Development Bank reported the lack of progress in developing public sector standards (Asian Development Bank, 2016). There remain a number of differences between IFRS and Vietnamese Accounting Standards (VAS) for the private sector, including VAS continuing to use the historic value principle for asset valuations. The Asian Development Bank reported that the

MOF 'is expected in the next few years to issue new VAS that are closer to IAS'. It added: 'The VAS are used for corporate accounting but not public accounting.' There remain significant differences between the accounting practices used in Vietnam by the public sector and cash basis IPSAS, including: recognition of receipt of funds as revenue; recognition of expenditure on assets at time of procurement; the use of MOF exchange rates to record revenue and expenditure in foreign currency; and the absence of specific guidelines on recording real estate investment, contingent liabilities and financial instruments.

An academic study concluded that while the Vietnamese government has implemented a reform of public financial management which, among other things, means that the accounting regime now meets the requirements of budget management, it provides very little information of financial position and performance (Trang, 2012). That study concludes that Vietnam is not in a position to apply full IPSAS at present and will instead have to apply modified IPSAS. It argued that additional public sector management reform is necessary, along with the training of highly qualified professional accounting staff and the development of accounting information systems, for the country to move to a point where full IPSAS implementation is possible.

3. Countries and stage of adoption of IPSAS: Africa

Africa has been at the forefront of IPSAS adoption, with several countries intending to formally adopt the standards as part of financial management reform programmes. Some of the incentives and programmes for IPSAS adoption in Africa have been funded by donors.

COUNTRY	ADOPTION STATUS	UPDATE	PROPOSED IMPLEMENTATION DATE
 Ghana	Partially adopted	Ghana announced in 2014 that the country would implement accrual basis IPSAS from 2016, with full roll-out expected to take five years.	2016 to 2021
 Nigeria	Partially adopted	Nigeria began IPSAS implementation in 2016. Each of Nigeria's 36 independent states will determine its own implementation period.	2016
 South Africa	Partially adopted	Completed at local government level in 2009 using Generally Recognised Accounting Practice (GRAP). National and provincial public entities report on modified cash basis using either adopted IFRS or GRAP.	2009
 Tanzania	Completed	Tanzania adopted accrual IPSAS at all levels of government.	2013
 Zambia	In progress	Zambia began adopting cash basis IPSAS in 2016 and is committed to fully adopting cash basis IPSAS in 2020.	2016 to 2020
 Zimbabwe	Planned	Zimbabwe has announced it will adopt accrual basis IPSAS by 2021. Central government and local authorities are currently using cash accounting.	2021



4. Challenges and success factors: Africa

Various challenges have faced countries in Africa that adopted IPSAS. Those challenges have been identified in national audit reports and other publicly available documents, including presentations, articles and research reports. Other documents reviewed included annual reports of supreme audit institutions and finance ministries/treasuries.

4.1 GHANA

Ghana has adopted IPSAS for all public sector accounts, beginning from 2016 (Government of Ghana, 2016). However, in recognition of the complexities involved it has encouraged a step-by-step approach to implementation, spanning a five-year period from 2016. The adoption was recommended by the Institute of Chartered Accountants Ghana (ICAG), the Controller and Accountant-General's Department (CAGD) and the Audit Service. The ICAG has partnered with the Accountant-General's Office to boost Ghana's public sector accounting capacity, while the Chartered Institute of Public Finance and Accounting (CIPFA) has partnered with ICAG for the IPSAS roll-out.

4.2 NIGERIA

Nigeria's federal government fully adopted IPSAS from January 2016 (Ugwumadu, 2015), but each of Nigeria's 36 independent states will determine its own implementation period. Under the Financial Reporting Council of Nigeria Act of 2011, Nigeria's Financial Reporting Council (FRC) is responsible for setting public sector accounting standards which are in line with IPSAS. The FRC developed a roadmap for the phased adoption and implementation of IPSAS at all levels of Nigeria's federal government

(IFAC: Nigeria). Nigeria says it expects IPSAS to assist with attracting foreign investment, improving financial management, transparency and accountability, and in tackling corruption.

While Nigeria is committed to the improvement of financial reporting and accountability, there is more to be done in terms of best practice. Some government agencies have failed to move to IPSAS as required (Premium Times, 2016) and Nigeria's Accountant General has conceded that the country needs to build accountancy capacity to cope with the demands of IPSAS implementation (World Stage, 2017). One academic study concluded that the quality of financial reporting and accountability in Nigeria's public sector 'leaves a lot of room for improvement' (Akhidime, 2012). There are also on-going challenges in terms of the internal audit function in some entities.

4.3 SOUTH AFRICA

South Africa has partially adopted IPSAS, but is awaiting completion of the Financial Management Information Systems project that supports Generally Recognised Accounting Practice (GRAP) before full implementation can be enabled. Current reporting uses accruals, but is not fully compliant with GRAP standards.

There remain significant problems with the quality of public sector accounts in South Africa, though the number and proportion of qualifications is reducing. The Auditor-General of South Africa (AGSA) has noted that the main reason for qualified, adverse and disclaimed opinions is inadequate or missing documentation for amounts disclosed in the financial statements (Auditor-General of South

Africa, 2017). In particular, infrastructure assets, revenue and receivables were identified as problem areas. A sample of the qualification paragraphs of the 92 municipalities and municipal entities that received qualified audit opinions suggests the qualifications are primarily related to financial management, rather than financial reporting standards. Common areas of qualification related to property, plant and equipment; revenue and debtors; provisions; irregular and wasteful expenditure; and investment property. Common qualification themes included the lack of supporting documentation and misstatements arising from inconsistent presentation of documents. Technical accounting issues and challenges include valuation, depreciation, impairments, the accounting of infrastructure assets and fair value of investment property. Staffing challenges have also been identified.

4.4 TANZANIA

Tanzania adopted IPSAS in 2012/13 for the entire government. A number of implementation problems have been observed by the National Audit Office of Tanzania (NAOT). For the year ending 30 June 2016, of 222 audited financial statements, 24 had qualified opinions, three had adverse opinions and five had disclaimers (Central Government Annual General Report, 2015-16). Specific accounting areas that needed improvement included the identification and recognition of intangible assets and reconciliation between cash book and bank statements. Weaknesses in the IT system resulted in IPSAS cash accounting being used instead of IPSAS accrual accounting. Moreover, the financial reporting framework used IPSAS accrual accounting, while the budget was



Zambia's government announced in 2013 that, as part of its public finance management reform, IPSAS will be adopted as its reporting framework by 2020.

compiled under a cash basis, so financial statements contained some entries based on accruals and others on cash. Another problem was inadequate capacity building through training of staff involved in the preparation of financial statements.

The initial adoption of IPSAS in Tanzania was based on legislation that was inconsistent with accrual basis IPSAS and as a result significant accounting issues were identified (Central Government Annual General Report, 2015-16). Consolidated financial statements did not include the revenue, expenditure, assets and liabilities of local government authorities (LGAs) and parastatal institutions. This was contrary to IPSAS 6 requiring a controlling entity to issue consolidated financial statements of all government controlled entities and resulted in a disclaimer of audit opinion on the accounts. The government also lacked actuarial valuation of benefits plans for government retirees, contrary to IPSAS 25. Without performing actuarial valuations, the government was unable to report the initial liability for the defined benefit plans, the amount of actuarial gains and losses, past and current service, or the interest cost of the benefit plan. Intangible assets also did not meet the definition and recognition criteria under IPSAS 31; inventory valuations breached IPSAS 12 (44); debts were incurred but not reported in the statement of financial performance, understating reported expenses; not all income received was disclosed in cash flow statements; land and building assets were not separated in

financial reports as required by IPSAS 17; there were errors in asset valuations; and grant and borrowing were not properly separated in financial reports (Central Government Annual General Report, 2015-16).

4.5 ZAMBIA

Zambia's government announced in 2013 that, as part of its public finance management reform, IPSAS will be adopted as its reporting framework by 2020 (Government of the Republic of Zambia, 2013; IMF, 2015). Preparation for IPSAS is underway, with the Zambian Institute of Chartered Accountants (ZICA) holding sensitisation workshops in 2016 and 2017 on IPSAS implementation (ZICA, 2017). Funding has been allocated by the World Bank to assess the 'Road Map for Zambia' (World Bank n.d.). The accounts of the Republic of Zambia for the financial year ended 31 December 2016 were not prepared in accordance with cash or accrual basis IPSAS.

Challenges facing IPSAS implementation and the transition to sound financial management practices have been recognised in the country. The Auditor-General of Zambia reported that failure to collect and account for revenue was a consistent problem, as was a paucity of information on expenditure, assets and liabilities (Auditor General, 2015). Basic financial management controls seem to be lacking including expenditure that exceeded the budget and spending incurred in the contravention of

procurement prescripts were also consistent failings; assets were also not adequately safeguarded, bar coded or recorded in fixed asset registers.

4.6 ZIMBABWE






Zimbabwe has announced that it will adopt IPSAS by 2021 – central government and local authorities are currently using cash accounting. Zimbabwe is being supported by a range of international institutions in moving to IPSAS. The World Bank offered a \$20m grant to improve the country's public finance management system (The Herald, 2015), while IFAC has been funded by the UK's Department for International Development for capacity building undertaken by professional accountancy organisations. IFAC, through CIPFA, is funding the Institute of Chartered Accountants Zimbabwe to do this, with the Institute holding a sensitisation workshop in 2016 on IPSAS implementation (IFAC, 2016).

There are weaknesses in the quality of accounts at present, though the Auditor-General has found improvements in transparency and accountability in the 2016 year. There was a reduction in the proportion of audited fund accounts with material audit findings that warranted management attention, falling from 85% in 2015 to 76% in 2016. Outstanding issues include governance weaknesses, reconciliations, lack of invoices and receipts, delays in submitting accounts and weak debt recovery systems, which meant that debts were often uncollected for many years (Auditor General, 2016).

5. Countries and stage of adoption of IPSAS: South America



Much of South America is moving towards adopting IPSAS, included as part of financial management reform programmes promoted and funded by donors. Chile and Peru have taken the lead, with other countries looking to adopt by 2021. One common challenge is that IPSAS standards have not been translated into Spanish and Portuguese.

COUNTRY	ADOPTION STATUS	UPDATE	PROPOSED IMPLEMENTATION DATE
 Argentina	None	Argentina uses government-set standards that do not comply with IPSAS.	None
 Brazil	In progress	Brazil aims to adopt IPSAS by 2020. It currently applies modified accrual basis standards.	2020
 Chile	In progress	Chile intends to fully adopt accrual accounting based on IPSAS by 2019. It currently applies modified accrual basis standards.	2019
 Colombia	In progress	Colombia adopted accrual accounting for its public sector accounts in 2007. It has agreed to implement full IPSAS in 2017.	2017
 Peru	In progress	Peru began adopting IPSAS in 2006, but was initially unable to complete the process. It adopted IPSAS in 2016.	2016



6. Challenges and success factors: South America

Various challenges have faced countries in South America that adopted IPSAS. Those challenges have been identified in national audit reports and other publicly available documents, including presentations, articles and research reports. Other documents reviewed include annual reports of supreme audit institutions and finance ministries/treasuries.

6.1 ARGENTINA

Argentina uses public sector accounting standards set by the federal government. IPSAS have not been adopted, but the National Accounting Office (CGN) has begun to develop public sector accounting standards that are harmonised with accrual basis IPSAS – although there is no clear timeframe for doing so (IFAC: Argentina). Public listed companies, other than banks, are required to use IFRS, while state-owned enterprises are required to apply accrual basis Argentine Generally Accepted Accounting Principles (GAAP) for their financial statements (IFRS: Argentina).

Argentina has been involved in international legal disputes regarding non-payment of government debt. IFAC has previously suggested that sovereign debt crises of this kind has emphasised the need for countries to adopt IPSAS. It has previously criticised Argentina's government for not using accrual-based

financial statements, 'which are essential for effective management', and argued that it is inconsistent for a country to require IFRS to be used for public listed companies, but not for a government's own accounts (Ugwumadu, 2014).

6.2 BRAZIL

Brazil enacted a transparency law in 2009 to mandate the convergence of the country's accounting standards with IPSAS (Cardosa et al. 2014). The national chart of accounts was issued in 2014, with gradual and full implementation of IPSAS scheduled by 2020 (EY, 2015). The process has encountered a number of implementation challenges, however, in part because of the size and complexity of Brazil – it has a federal government, 26 states and 5,564 local authorities, which makes the consistent application of standards by a given date more difficult (EY, 2015). Brazil has needed to improve public financial management processes alongside the implementation of IPSAS, and increase resources and expand staff capacity. The country's budget is cash based, but financial statements are accrual based, requiring a dual ledger to serve budget reporting and accrual accounting. Specific accounting issues have related to infrastructure assets, intangible assets, financial instruments, social benefits and revenue from non-exchange transactions (Cardosa et al. 2014).

6.3 CHILE

Chile announced in 2010 that it would adopt IPSAS and it developed a methodology of indirect adoption of the standards (Gourwinkel, 2016). The Comptroller General of Chile was instrumental in reforming the country's public finance management function. A process of analysing each IPSAS standard and prioritising these into high, medium, low and no impact was undertaken, providing timelines for the implementation of each standard. High priority (for implementation in 2012) comprised fixed assets, transfers, property investments, taxes, financial assets and liabilities; medium priority (2013) comprised revenue from exchange transactions, associates and joint ventures, provisions and contingencies, intangible assets, leases and concession arrangements; low priority (2014) comprised financial statements, inventories, segment reporting, employee benefits, related parties, foreign exchange agriculture and accounting policies; and no priority (2014) comprised hyperinflationary economies and construction contracts. Chile planned to use the transitional provision in IPSAS 33 with effect from January 2016, to adopt IPSAS type standards by 2019 and recognise and measure certain assets and liabilities (Gourwinkel, 2016).



In Peru, IPSAS implementation was not achieved initially because sufficient resources were not made available, but implementation was legislated for in 2013 and Peru formally adopted IPSAS in 2016.

Chile faced a number of implementation issues (Alonso et al, 2015). These included: the preparation for the first time of financial statements by public sector entities; increased responsibility for maintaining accounting records; resistance from financial services authorities to implement some standards, especially IPSAS 17 (property, plant and equipment); the need for finance officials to have greater skills and knowledge on the application of accounting principles, such as the use of judgment to recognise and depreciate assets, where in the past, a formula was used; relationships with other authorities and stakeholders in the process, including the MOF, budget office, universities; and the modification of computer systems to meet the needs of IPSAS (Pimenta et al, 2015).

6.4 COLOMBIA

Colombia adopted accrual accounting for the public sector in 1996 (EY, 2015). Some IPSAS recognition, measurement and disclosure requirements were incorporated into the domestic accounting standards applied by public sector entities in 2007 before Colombia committed to the transition and full implementation of

IPSAS by 2017 (EY, 2015). Colombia established in 2015 the Regulatory Framework for Government entities and faced a number of implementation challenges including the need to change information systems environments to support IPSAS disclosure and consolidation requirements, the technical challenges of consolidating state owned entities that are applying IFRS, not IPSAS, and the need for capacity building of staff applying IPSAS.

Despite this progress, Colombian government accounts have had qualified audit opinions on a regular basis from the NAO (Brusca et al, 2016). Issues have included: the recognition and measurement of taxes under IPSAS 23, in particular income taxes; recognition, measurement and subsequent measurement of assets in terms of IPSAS 16, 17 and 31 with regard to property, plant and equipment, investment property and intangible assets, including complications around estimating depreciation and amortisation, including useful life; recognition of specific assets such as heritage assets and infrastructure assets, including determining fair value; budgetary processes and financial

information; and the criteria for consolidation and the usefulness of the consolidated numbers.

6.5 PERU





Peru adopted accrual accounting standards based on IPSAS in 2002, with a particular focus on IPSAS 1-21 between 2004 and 2006. IPSAS implementation was not achieved initially because sufficient resources were not made available, but implementation was legislated for in 2013 and Peru formally adopted IPSAS in 2016 (Brusca et al, 2016).

Elements of the annual financial statements are not fully adapted to IPSAS. Peru has been issued with modified audit opinions by the National Audit Office of Peru since 2002, including a Disclaimer of Opinion in 2014. The Comptroller concluded that the Peru government had not adopted a General Purpose Framework as defined by the International Standards of Auditing. There were also errors in the reporting of some assets and liabilities, including in relation to fair value, depreciation, service concessions and pension liabilities (Ramirez, 2015).

7. Countries and stage of adoption of IPSAS: Caribbean and Central America

Many Caribbean countries are in the process of adopting IPSAS.

The report '*Accrual Practices and Reform Expectations in the Caribbean, IFAC Global SMP Survey, Public Sector Financial Accountability Survey*' provides detailed information on the progress these countries have made on IPSAS implementation, including the auditing standards that the supreme audit institutions are adopting.

COUNTRY	ADOPTION STATUS	UPDATE	PROPOSED IMPLEMENTATION DATE
 Barbados	Adopted	Barbados adopted IPSAS in 2010 and is pursuing further government reforms.	2010
 Guatemala	In progress	Guatemala began using accrual accounting for public accounts in 1997 and began adopting IPSAS in 2005.	2005 to 2015
 Jamaica	In progress	Jamaica uses modified cash accounting standards across central government.	2021
 Mexico	None	Mexico uses modified accrual standards for its public sector accounts and has no plans to adopt IPSAS.	None



8. Challenges and success factors: Caribbean and Central America

Various challenges have faced countries in the Caribbean and Central America that adopted IPSAS, or have tried so far unsuccessfully to do so. Those challenges have been identified in national audit reports and other publicly available documents, including presentations, articles and research reports. Other documents reviewed include annual reports of supreme audit institutions and finance ministries/treasuries.

8.1 BARBADOS

Barbados has been engaged in public financial management reform since 1993 (Alleyne, 2014). In 2005 it began moving towards implementation of full accrual accounting, effective from 2010. Early stage reforms included multi-year budgeting; computerisation of accounting and reporting systems; improved reporting and management of public debt; and establishing a central revenue authority to collect income tax, VAT, licence income and land tax. Barbados is currently in the second phase of its reform, which is aimed at consolidating the accounts of all state-owned enterprises and producing a Barbados annual financial statement.

Barbados has adopted IPSAS, but there are ongoing issues which need attention and intervention. A qualified opinion was issued by the Auditor-General of Barbados on the financial statements for 2016. The accounts did not fully comply with IPSAS in terms of presenting a true and fair view and several misstatements were identified. Not all entities were consolidated, which

meant that government guarantees and liabilities were understated. Financial instruments and infrastructure assets were not properly accounted for in terms of impairment and depreciation; pension liabilities were not accounted for; and not all revenue was recognised and recorded (Barbados Audit Office, 2017).

During the IPSAS implementation process, a number of challenges were identified. Management of the change process was difficult, including getting buy-in from staff and stakeholders and developing an effective communication strategy. Significant investments of money and human resources were required to support the introduction of accrual based computerised systems. The need for training of staff on the standards and systems use was greater than expected and a lack of relevant expertise and skills within the public sector was found, meaning manuals had to be prepared. Accounting for fixed assets was a specific challenge as fixed asset registers had not been kept under the old cash basis accounting system (Alleyne, 2014).

A number of lessons were learnt from the process. It was best to adopt a phased approach, with specified deadlines and milestones. Programme management was critical during the process to ensure that deadlines were met. Here, pilot schemes are useful to help overcome challenges when full implementation takes place. The appointment of project 'champions' – both political and administrative – is also a crucial success factor.

8.2 GUATEMALA

Guatemala began the reform of its public sector financial management through the Organic Budget Law, 1997 (IPSASB, n.d.). The process of implementing IPSAS started in 2005 as part of an integrated financial management system project, but a lack of government resources and commitment put a halt to IPSAS implementation. A US Treasury advisor persuaded the government in 2011 that IPSAS implementation was important and this led to the MOF focusing on IPSAS implementation, forming an IPSAS steering committee with the Controller-General's office. An external consultant developed a projected timeline for adoption for central government by 2014, with all entities – except municipalities – adopting accrual based IPSAS by 2020. Implementation problems led to central government adoption slipping to 2020. The US Treasury and the World Bank have provided support for the strengthening of Guatemala's public sector financial management (IPSASB, 2013; World Bank, 2014).

A number of lessons have been learnt, and challenges identified, from the process so far (IPSASB, 2013). Legacy accounts contained errors, some of which were from many years earlier. A policy was needed to deal with these past errors and new technologies required to enable ministries to correct accounts. The integrated financial system could not accommodate the detailed chart of accounts necessary to implement IPSAS. A new computer system was required.



Jamaica's government revised its approach and expects its 10-year strategy to reform the public sector, with accrual accounting playing a pivotal role in the five years beginning 2016.

Staff were already overloaded and could not devote the necessary time for IPSAS implementation, while low wages and slow hiring processes made specialist recruitment difficult. Even with implementation delay, the timetable remains difficult to achieve. Additional legislation was required as the Organic Budget Law related to budget processes as opposed to accounting processes. The implementation of an interim cash basis IPSAS was abandoned and regarded as a waste of time and resources. Frequent changes in the political leadership of Guatemala caused problems too, with not all leaders equally committed to IPSAS implementation. A task force for IPSAS 17 issues (property, plant and equipment) should have been formed earlier in the process as there were specific implementation issues. Project work away from the office was a positive experience, which enabled greater project focus and team building.

8.3 JAMAICA

Jamaica uses a modified cash basis of accounting for its ministries, but recording and reporting is hampered by significant delays. Jamaica had intended to implement accrual accounting over a 10-year period from 2002-12, but this did not happen because of major challenges (ICIJ, 2014). There was a lack of stakeholder engagement and buy-in, which meant that key stakeholders did not participate. There was no political support

from parliament, the MOF, or the financial secretary. There was a lack of capacity, expertise and skills within the Accountant-General's office, resulting in the office not regulating accounting policy or guidelines. Other problems included a lack of project management and defined milestones, absence of a legislative framework for the implementation of IPSAS and a shortage of resources and investment in the process.

Jamaica's government revised its approach and expects its 10-year strategy to reform the public sector, with accrual accounting playing a pivotal role in the five years beginning 2016. IPSAS implementation is part of a broader public financial management reform programme, which includes: the adoption of policy-based planning and budgeting; improved tax and customs administration; upgrades to the financial management systems; and improved accounting data management and budget execution. Reform priorities include the adoption of a results-based approach, improving programme governance and allocating sufficient staff and other resources to achieve implementation (Monroe-Ellis, n.d.).

The Auditor-General of Jamaica's 2015 audit report underlines the need for continued improvement. The audit found asset management recording errors and a failure to maintain records of transactions (Auditor General, 2015).

Several audits were completed very late because of delays in preparing annual financial statements. The audit backlog needs to be removed to ensure sustainable financial management improvement.

8.4 MEXICO

Mexico has been a leader in the adoption of IFRS. However, IPSAS have not been adopted and Mexico has no intention of doing so presently (IFAC Country Report, Mexico). State-owned enterprises are required to apply the Government Accounting Standards, which use accruals, in the preparation of their financial statements. Mexico has enacted constitutional reform since 2006, including through the passing of the Law on Budget and Fiscal Responsibility. Mexico's accounting system was reformed in 2007 by the Government Accounting Act (LCG). The LCG was initiated in 2012 with the aims of building a link between budget and accounting to improve decision-making, to standardise content and disclosures in annual financial statements and to promote transparency and accountability in the public sector. The LCG has proposed that all assets and liabilities are presented in the same accounting format to enable states' accounts to be compared. A National Accounting Harmonisation Council comprising of federal, state and local authorities was given the task of harmonising accounting practices for the three spheres of government to meet the requirements of the LCG (Sour, 2012).





9. Countries and stage of adoption of IPSAS: Europe

The European Union announced the formal adoption of *European Public Sector Accounting Standards (EPSAS)* in 2015. However, it has not specified the date that each country is required to adopt EPSAS. The main driver behind the EPSAS implementation is to ensure uniform and comparable accrual basis accounting practices for all sectors of general government within the EU. This

will enhance the quality of the data on which *European System of Accounts (ESA)* reporting is based, and consequently improves budget surveillance and fiscal monitoring at macro level to enable sound fiscal policy decision-making. Comparability will be improved across Member States, government levels and individual government entities. This is crucial to meet the objectives of fiscal

stability and deeper economic and financial integration within the EU.

Certain countries within the EU had already decided to adopt IPSAS prior to the pronouncements of EPSAS and have made substantial progress towards full adoption. The United Kingdom has been applying accrual based standards using IFRS as the basis for a number of years.

COUNTRY	ADOPTION STATUS	UPDATE	PROPOSED IMPLEMENTATION DATE
 Estonia	Fully adopted	Estonia adopted IPSAS type standards in 2004.	2004
 Latvia	In progress	Latvia has adopted accrual accounting, but some standards need to be assessed and a project plan developed for full compliance.	2019
 Lithuania	Fully adopted	Lithuania adopted IPSAS type standards in full for the entire country.	2014
 Malta	In progress	Malta is committed to adopting IPSAS in 2019. Malta currently uses a modified accrual accounting basis defined as cash accounting supplemented with accrual disclosures.	2019



10. Challenges and success factors: Europe

The introduction and impact of EPSAS have not been included in this report as there is significant available material from other sources. Some relatively new EU Member States have made significant progress in the adoption of IPSAS.

10.1 ESTONIA

Estonia adopted IPSAS type standards from 2004, with a short implementation period beginning in 2003. The process included: amending legislation; creating a unified chart of accounts and a reporting database for the MOF; acquiring accounting software for automatic reports; and setting-up guidelines, additional explanations, examples, a help desk and the delivery of training. The public sector accounting reform took two years from 2004-05, with consolidation of government business enterprises and revaluation of fixed assets occurring in 2005. In 2009, Estonia decided that all state agencies should use one software platform (SAP) to allow the country to consolidate and prepare national accounts while introducing a number of shared services. The MOF introduced several electronic initiatives, including e-invoices, e-reports and a self-service portal (PwC, 2016).

Estonia's accounting under IPSAS is relatively mature and the NAO is now focusing on specific technical issues rather than financial management issues. Estonia has produced an annual report of the state since 2005, audited by the NAO (Maar, 2013). The 2014 report highlighted various issues relating to IPSAS compliance and financial management, including: the consolidation process in terms of sign-off from private sector auditors, which was not completed in a timely manner; the lack of disclosure of reasons for unspent funds that were carried forward; and separate treatment of finance and operating leases.

10.2 LATVIA

Latvia adopted accrual accounting basis for the public sector in 2007 and began IPSAS implementation in 2015. It is in the process of assessing IPSAS standards with a view to adopting national standards based on IPSAS by 2019. However, it needs to make progress in its assessment and implementation of accruals for tax accounting, financial instruments and consolidations. Challenges in adopting accrual accounting have included researching IPSAS implementation from other countries to assess experiences and best practice; selecting a single approach

where multiple options are provided in IPSAS; assessing how taxes and levies should be measured and recognised in terms of IPSAS 23 (Latvia recognises revenue from taxes on a cash basis); assessing consolidation principles and their impact, especially government business enterprises (which are currently accounted for on the equity method); and assessing whether any transitional periods and provisions are necessary (EY, 2016).

The State Audit Office 2016 Annual Report raised several concerns. These included: the verification of fixed assets; justification of additional staff pay; and end of year spending value for money (Latvia, State Audit Office 2016).

10.3 LITHUANIA

All public bodies in Lithuania were told by the MOF to adopt full accrual accounting from January 2010 (Lithuania Ministry of Finance, 2013). More than 4,500 entities – including hospitals, municipalities and universities – were to prepare financial statements in accordance with Lithuanian National Public Sector Accounting Standards. The project was planned in 2005 and the government knew that there



Realistic long-term planning was essential and training was needed to provide the necessary skills in the public sector, with a recognition that there were insufficient resources within the MOF for the reform.

would be implementation issues having completed research into other countries and a thorough assessment of what was required. Lithuania followed a very structured approach in terms of adopting accrual accounting including: the passing of necessary legislation; issuing of national standards based on IPSAS; establishing a unified chart of accounts; drafting and issuing accounting manuals; training staff; assessing IT requirements; standardizing IT systems for entities and consolidation; and establishing a centre to support implementation (EY, 2015d).

A number of lessons were learnt during implementation, not least that there was strong resistance to change. It was essential to optimise the accounting and financial reporting function to ensure that the government received value for money from public entities and to encourage entities' management to use financial statements effectively. Realistic long-term planning was essential and training was needed to provide the necessary skills in the public sector, with a recognition that there were insufficient resources within the MOF for the reform. Clear communication was required regarding the transition plan, backed by a database

acting as a single source of information, and the transition period had to focus on data quality. EU funding was important (EY, 2015d).

Although Lithuania has adopted NPSAS, it is still faced with challenges and account qualifications. Consolidated national accounts have been qualified because of underlying issues at entities and technical matters relating to which entities to consolidate. Other qualifications relate to the recognition and measurement of tax revenues, the treatment of property, plant and equipment by some entities and accounting practices in municipalities, including for finance leases, consolidation, accounting for infrastructure assets and for transfers with conditions attached (EY, 2015d).



10.4 MALTA

Malta announced in 2012 that it would adopt IPSAS, and conducted a gap analysis in 2013 to plan the conversion process (Camilleri, 2014). Steps taken by the Malta government for conversion included: reviewing the accounting framework against the IPSAS framework and aligning and selecting accounting

standards that were appropriate for Malta; assessment of the legacy IT systems for potential use with the IPSAS requirements; revision of all financial and related processes; capacity building of staff, not just finance staff, so that changes could be embedded across all employees to ensure they have the skills, knowledge and experience required; legislative changes required to reflect the change in accounting systems; stakeholder management, including politicians; and change management processes to encourage all stakeholders to respond positively to the change.

Malta is still in the process of adopting IPSAS, with conversion beginning from the 2014 audit cycle onward. Issues identified so far by the NAO include: the recording of capital expenditure and the absence of verification; weaknesses in internal controls related to payroll payments, including unreliable leave records; collection of outstanding balances of amounts due to the government; collection of outstanding balances of amounts due to the government; disclaimed and qualified audit opinions of local councils; and the inability to produce financial statements (Camilleri, 2014).



Conclusions

The global financial crisis of 2008 became the catalyst for a number of public sector challenges. One of the most worrying was the sovereign debt issue. Creditors worried to what extent they could trust debtor governments' financial reports and their capacity to meet their liabilities – including those for newly issued bonds. However, one positive outcome from this crisis was the widespread recognition of the need to adopt transparent and reliable financial reporting. For public listed companies the move towards IFRS was accelerated.

In the public sector there was a similarly clear need for the adoption of the IFRS equivalent, IPSAS. Broadly, there have been two reasons why developing countries have looked to transition to IPSAS. The first has been the establishment of a new government, or a transfer of political power within government leading to a desire to strengthen transparency, accountability and general financial management practices. The second has been the growth of donors and funders stipulating a funding requirement for the country to improve its financial management and financial reporting practices.

Many developing countries have in recent years announced their intention to adopt IPSAS standards. This report, however,

suggests comparatively few have completed the process successfully and seamlessly – particularly as measured by the outcomes of government audits. Fully adopting and complying with IPSAS standards has been difficult for many countries, and it remains at best what can be described as 'work in progress'. The transition to IPSAS type standards in many developing countries in South America, South Asia, the Caribbean and Africa has been ongoing for several years, and countries in Eastern Europe that emerged from the former Soviet bloc – for example, Latvia and Lithuania – have sought aggressively to adopt IPSAS type standards too.

This study has illustrated the need for countries adopting and implementing IPSAS to have a clear strategy, with realistic timescales, milestones and resources. Some of the current challenges pertaining to IPSAS adoption are broader change management and programme management issues; others are more basic, such as poor IT infrastructure, bad record keeping, and paucity of core accounting information under previous financial reporting practices. Yet governments and their public sector entities do not have to act on their own – the accountancy profession can, and should, assist. Professional accountancy organisations should consider what role

they can play in increasing awareness of the need for transparent financial reports in the public sector, including – but going beyond – providing training on accounting standards. IFAC has played its important part too, launching the 'Accountability Now' initiative focusing on PFM reform and assisting users of financial statements to understand them (IFAC, n.d.). Arguably donors could also do more to support the professionalisation of public sector financial management as we move forward. Other stakeholders, including the audit firms, can also assist with improving the public finance management training environment.

Users need guidance to understand the information contained in financial statements, whether cash based IPSAS or accrual based IPSAS. The accountancy profession needs to play a fundamental role in assisting them in understanding financial reports. A partnership between governments, their public sector entities, the users of financial reports and the accountancy profession can achieve much. Transparent financial reports that increase accountability, improve public sector financial management and better decision-making and ultimately superior value for money for taxpayers should be the ultimate goals.

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