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International trends

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CECCAR
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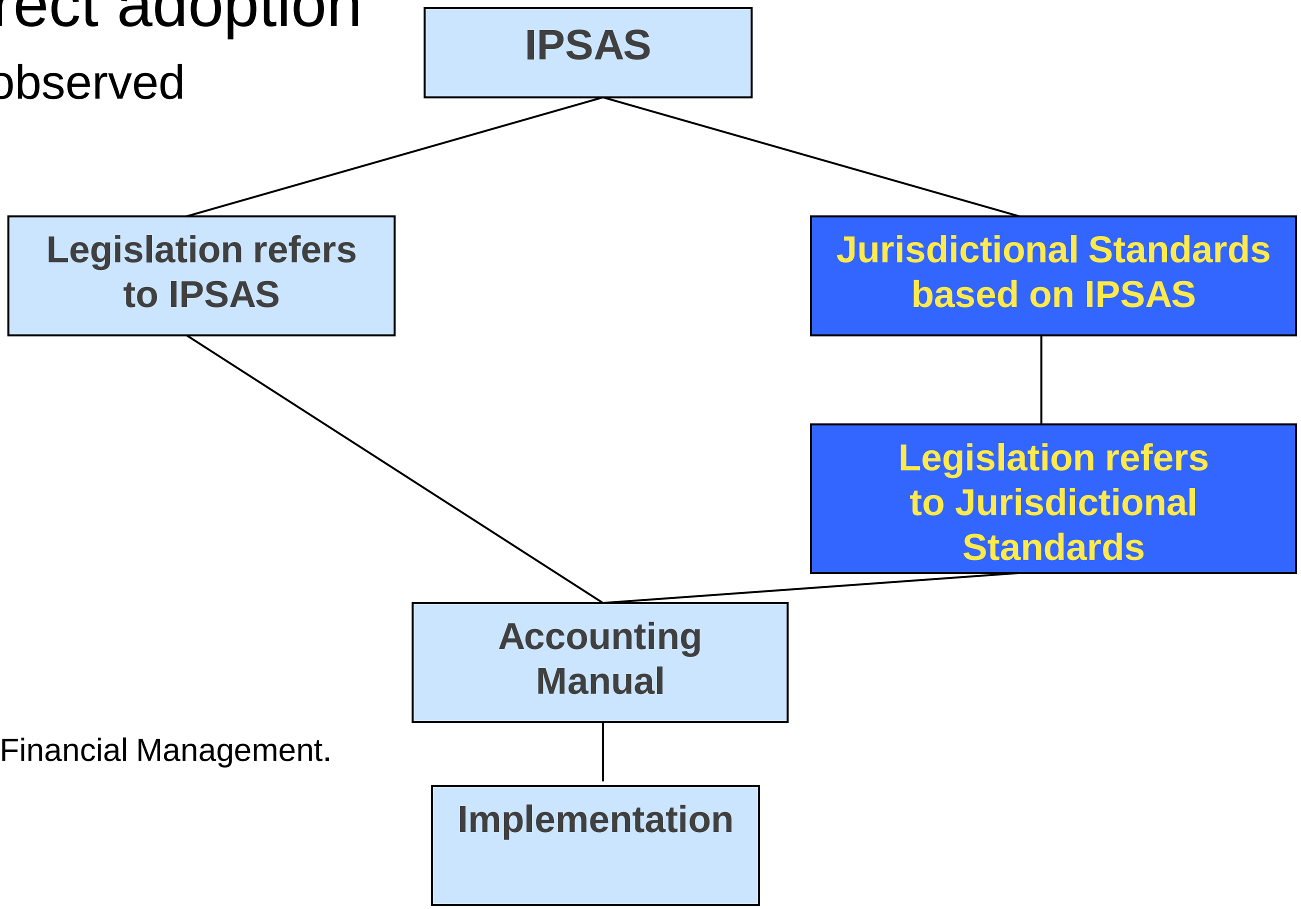
IPSASB has created a full suite of standards

- 32 Standards approved (accrual basis) covering all main areas of government activity, 1 cash basis standard
- The standards are designed for Public Sector entities other than Government Business Enterprises (which should use IFRS), i.e. IPSASs are for non-commercial organizations
  - International governmental organizations
  - National governments, including controlled entities such as ministries or agencies
  - Subnational governments, including controlled entities

IPSASB has created a full suite of standards

- Direct vs. indirect adoption
  - Same can be observed for IFRS



Source:
Bergmann, A: Public Sector Financial Management. FT Prentice Hall, 2009.

IPSASB has created a full suite of standards

- Increase in adoption and implementation
  - Over 40 Countries apply Accrual IPSAS; including South Africa, Switzerland, Russia, Israel, Slovakia, Brazil, Indonesia
    - Some apply it directly (e.g. Switzerland, Austria, Estonia, Lithuania, Chile)
    - Some others indirectly through National Standards (e.g. Sout Africa, Brazil, Indonesia, Malaysia, Spain, New Zealand)
  - Some apply it for lower levels of government, e.g. Prefecture of Tokyo, State of Geneva
  - Entire UN System, OECD, NATO, Interpol and EC
  - Eurostat: IPSAS indisputable reference for a EU framework

Key characteristics require accrual accounting

- Public sector assets, liabilities, revenues and expenses need to be accounted for – completely!
- Contingent liabilities need to be disclosed
- Economic value comes through service potential, not cash generation – but there are no «easy and quick» solutions such as bankruptcy, they still need to finance their activities

- GFS Analytic Framework is on accrual basis

- Citizens and other resource providers want accountability
- Decision makers need a reliable basis for their decisions

And who is IPSAS Board?

- Independent Accounting Standards Setter under IFAC
- Governance is the same as for other independent standard setters (e.g. IAASB), except for the lack of a public interest oversight board
- 18 members, thereof 6 from Europe, 14 from Public Sector, 2 from NPO, 2 from firms
- 10 international organizations with observers status, including IMF, World Bank, EC DG BUDG, Eurostat
- 8 staff, mainly based in Toronto/Canada
- Diverse funding by IFAC (approx 50 percent) and various Voluntary Contributions from Governments and Observers

IPSASB Strategic Themes

- Development of Public Sector Conceptual Framework
- Public Sector Critical Projects (public sector specific, maintenance of alignment with IFRS, alignment with GFS/statistical accounting)
- Communications and promotion including adoption and implementation

Governance not a strategic theme, but an area for discussion, consultation and change

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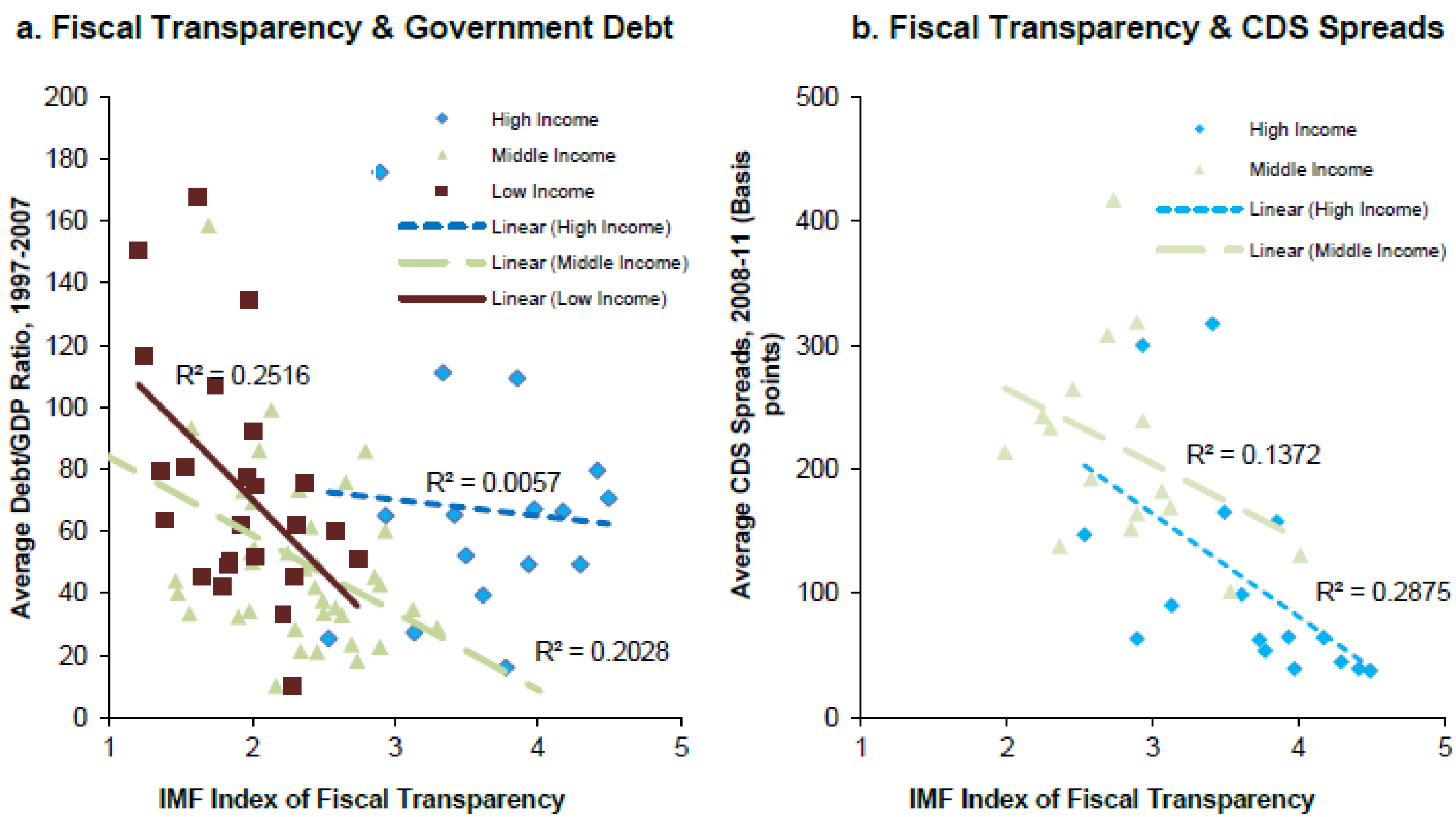
Government Financial Reporting is relevant

- IMF-FAD addressing issue of transparency in a comprehensive paper
  - Fiscal transparency does matter
  - Harmonization of Accounting and Statistics needed
  - ROSC initiative should be followed up
- Eurostat Report
  - IPSASs as undisputable reference for EPSASs
  - Alignment with GFS is an emphasis
  - Risk of “IPSAS light” and of a backward step for those on IFRS/IPSAS (e.g. UK, Spain, Czech Rep., Slovakia, Austria, Baltic countries, Malta, Romania)
- G20 Finance Ministers press release February 2013
  - Strengthening government balance sheet → looking at financial reporting to improve debt management

Government Financial Reporting is relevant

- Less debt and lower interest rates



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But implementation cost is substantial

Implementation of IPSASs requires

- Normative change: Legislative basis, endorsement of standards, development of operational guidance («manual»)
- Configuration of IT/ERP-Systems
- Collection and verification of data, especially in areas not accounted for previously (e.g. asset register)
- Verification/audit

- Cross cutting: Training

But implementation cost is substantial

Cost of Implementation

- Normative change: 5%
- **IT/ERP-Systems: 75%**
- Collection and verification of data: 10%
- Verification/audit: pro memo
- Cross cutting: Training 10%
- The need to implement a new IT/ERP (or not!) largely determines the total cost and explains the substantial variance observed

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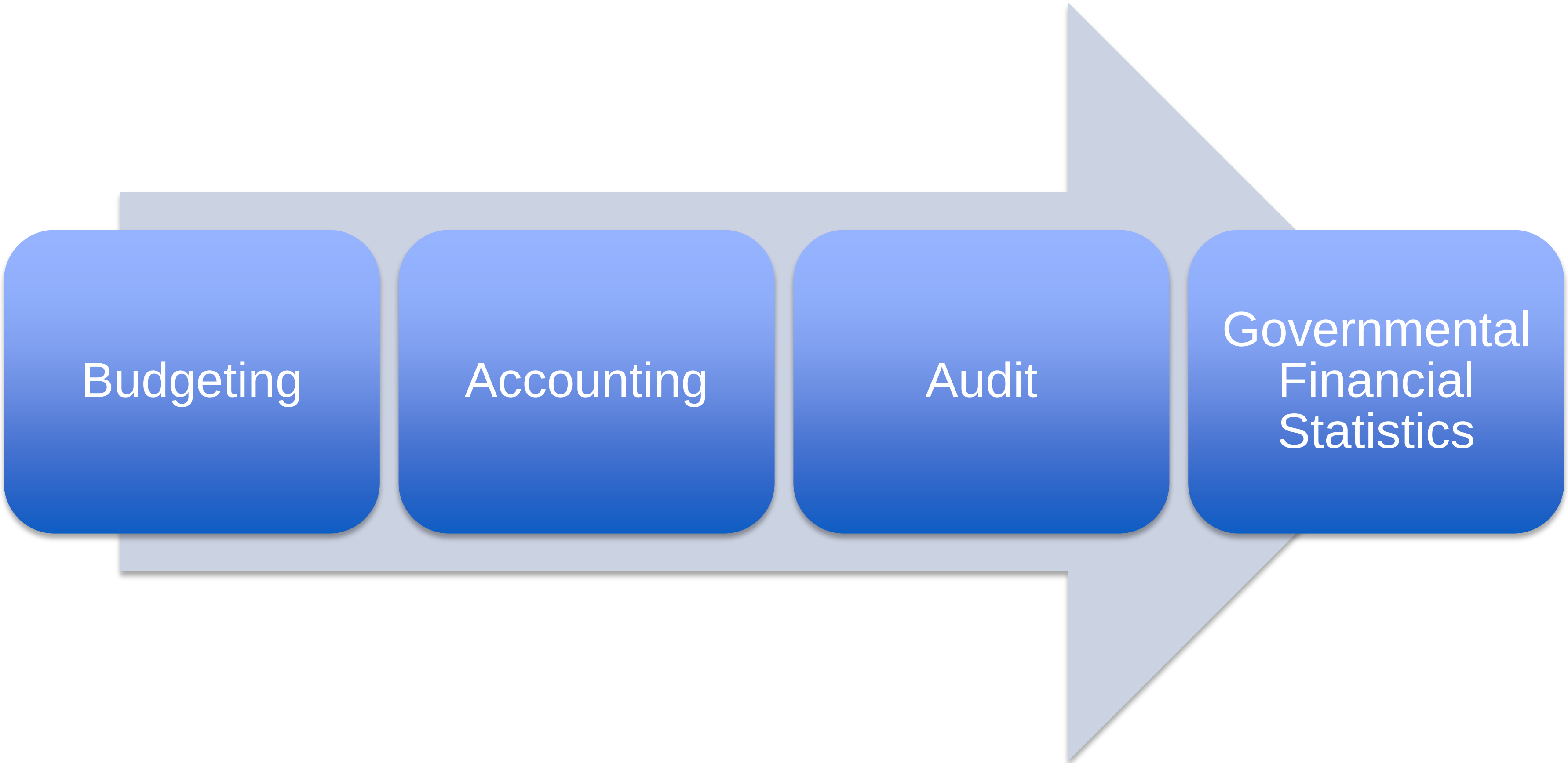
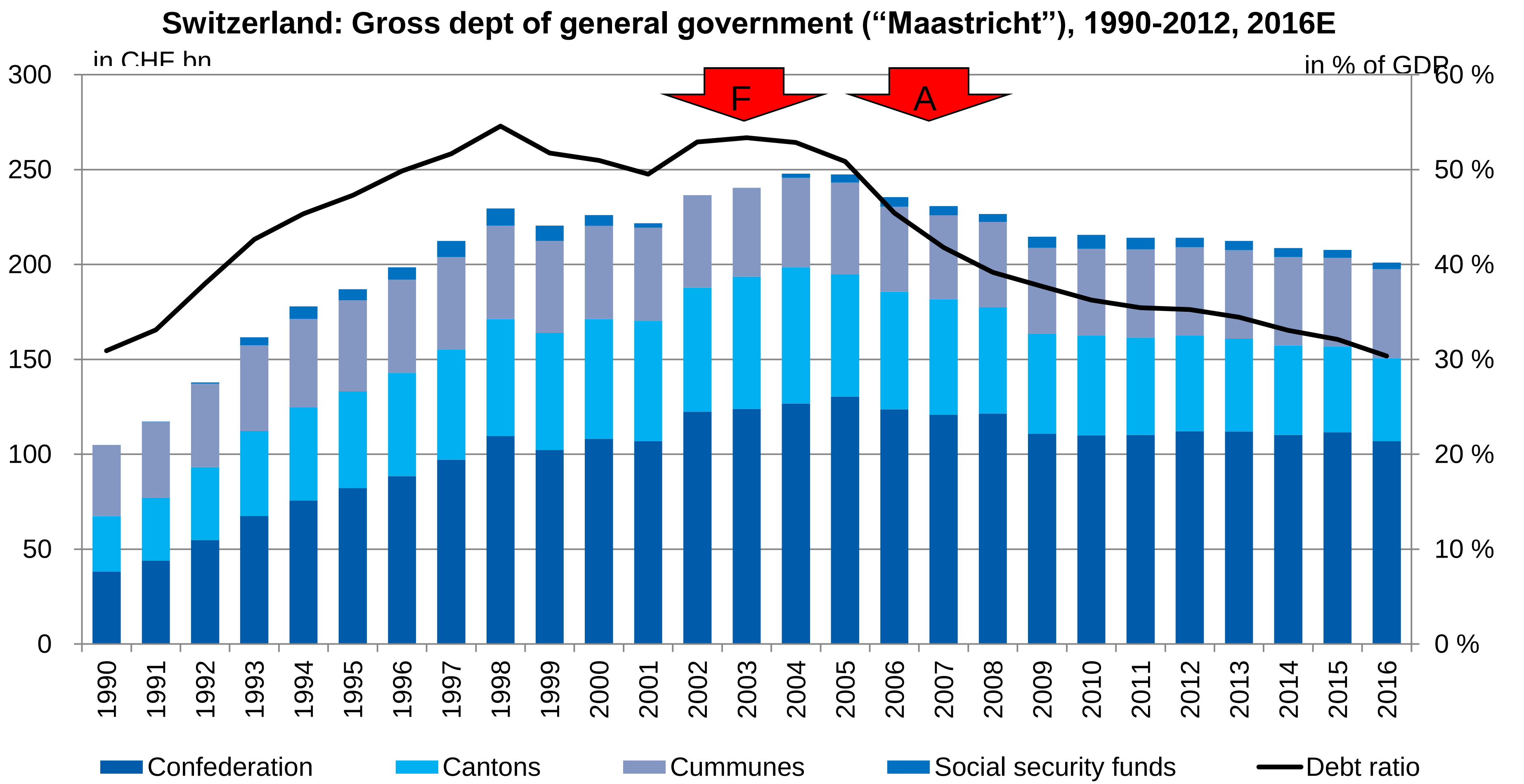
Urgent need for an integrated system



But return is easily higher than cost

- Direct returns to projects: Assets «found», risks identified – easily add up to about half of the project cost
- Returns from accrual reporting:
  - Debt management policy can identify non-bond types of debt more easily and limit/reduce that; debt «shifting» is effectively prevented
  - Assets are more actively managed, leading to disinvestment or better usage
  - Lower interest rates (e.g. State of Geneva -0.5%/Hiler 2012)
  - Accrual accounting (A) assists debt breaks/fiscal rules (F) as it keeps track and helps to prevent «workarounds», especially Financial Instruments

But return is easily higher than cost



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Conclusion

- IPSASs are a full suite of standards, designed for the public sector
- They are set by an independent, international standard setter with substantial European membership
- They can implemented directly or – more likely – indirectly through standards set at jurisdictional level, e.g. EPSAS
- Time and cost required for implementation are substantial – but returns are higher

Questions Discussion & Further Information

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