



INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject – First-Time Adoption of IPSASs

- 1.1. The IPSASB has identified a project on First-Time Adoption of IPSASs as a high priority towards the implementation of IPSASs. The absence of a standard focusing on the first-time adoption is viewed as a gap in the body of IPSASs.
- 1.2 The project proposes to develop an IPSAS based on IFRS 1, *First-time Adoption of International Financial Reporting Standards*, in order to provide guidance for entities adopting IPSASs for financial reporting for the first time.
- 1.3 IFRS 1 provides requirements and guidance for entities initially adopting IFRSs in the financial statements. The standard generally requires retrospective application of all IFRSs in effect at the date an entity adopts IFRS for the first time. IFRS 1 has a number of mandatory exceptions but also elective exemptions from full retrospective application in specific areas. IFRS 1 grants limited exemptions from the IFRS requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. IFRS 1 also prohibits retrospective application of IFRSs in some areas; particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.
- 1.4 A revised IFRS 1 was issued in December 2010. Now that the IASB has completed amendments to IFRS 1, IPSASB's staff considered that it would be appropriate to initiate a project on first-time adoption of IPSASs in the second half of 2011.

2. Project Rationale and Objectives

- 2.1 The objective of this project would be to explore the accounting treatment for the first-time adoption of IPSASs of public sector entities and to develop an IPSAS that provides guidance on first-time adoption.

International Guidance on this Topic

- 2.2 IFRS 1, *First-time Adoption of International Financial Reporting Standards*, provides requirements and guidance for entities initially adopting IFRSs in the financial statements. IFRS 1 was issued in June 2003 and replaced SIC-8, *First-time Application of IASs as the Primary Basis of Accounting*. IFRS 1 was originally developed to address concerns about the full retrospective application of IFRS required by SIC-8. Following considerable amendments to IFRS 1 to accommodate first-time adoption requirements from new or amended IFRSs, a revised IFRS 1 was issued in 2008.

IFRS 1 was further amended in 2009 and 2010. These amendments included:

- Changes to the derecognition exception and fair value measurement exemption from fixed date references to ‘the date of transition to IFRSs’
- providing an exemption that could be used when an entity resumes presenting financial statements in accordance with IFRSs after being subject to severe hyperinflation.

The revised IFRS was issued in December 2010.

National Guidance on this Topic

- 2.3 Only some National Standards Setters (NSSs) have guidance on the First-time Adoption of (accrual) IPSASs (see Par. 7). Currently, no NSS has been identified providing specific transitional provisions on the first-time adoption of the Cash Basis IPSAS.

Issues identified

- 2.4 As the IPSASB attempts to facilitate compliance with accrual based IPSASs it provides transitional provisions in certain standards. Typically, the transitional provisions under IPSAS allows an entity additional time to meet the full requirements of a specific accrual based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity shall apply all the accrual based IPSASs effective at that date and could choose to apply any transitional provisions in an individual accrual based IPSAS. After having decided to adopt accrual accounting in accordance with IPSASs, the transitional provisions govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity shall report in full in accordance with all accrual based IPSASs.
- 2.5 Currently, the IPSASB does not differentiate between the first-time adoption of accrual IPSASs of a public sector entity already applying the (non-IPSAS) accrual basis of accounting and the first-time adoption of IPSASs of an entity applying the (IPSAS/non-IPSAS) cash basis of accounting. Thus, the project explores whether the different context (either starting the transition from the cash or the non-IPSAS accrual basis of accounting) justifies specific consideration and therefore possibly requires different exceptions and exemptions. In addition, there is a question of whether an IPSAS covering first-time adoption of IPSASs should also include guidance on the first-time adoption of the Cash Basis IPSAS.
- 2.6 Due to the fact that the current transitional provisions as provided under IPSASs in some cases deviate from the regulations from IFRS 1 (e.g. provision of prior year comparative information in the opening statement of financial position) the question arises how the IPSASB deals with these differences in case that the board decides to perform a convergence project with IFRS 1.

Objectives to be achieved

2.7 The objective of this project is to define the accounting treatment for the first-time adoption of IPSASs of public sector entities and to ensure that an entity's first financial statements contain high quality information that

- (a) is transparent for users and comparable over all periods presented;
- (b) provides a suitable starting point for accounting in accordance with IPSASs;
- (c) can be generated at a cost that does not exceed the benefits.

As a result of this work a new IPSAS may be developed.

Link to IFAC/IPSASB Strategic Plans

i. Link to IPSASB Strategy

2.8 The IPSASB has articulated the following strategic priorities for the period 2010-2012:

- Public sector conceptual framework;
- Public sector critical projects; and
- Communications and promoting adoption and implementation.

2.9 **Public sector critical** projects are considered by the IPSASB as critical to be undertaken for the public sector either because existing standards are no longer appropriate or because there is no standard. These projects could be **public sector specific** or **IASB convergence projects**.

2.10 A project on First-time Adoption will be a public sector critical project because there is currently no standard on the First-time adoption of IPSASs. As outlined above, a project on that topic could either be a public sector specific, an IASB convergence or a hybrid project.

ii. Link to IFAC Strategic Plan

2.11 The IFAC Strategic Plan for 2011–2014 identifies 2 specific strategies that are relevant. The first is IFAC's commitment to the development, adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Developing requirements and guidance for first-time adoption of IPSASs supports both of these strategies.

3. Outline of the Project

(a) Project Scope

- 3.1 The project applies to all public sector entities (except Government Business Enterprises (GBEs)), which are in the transition from the cash/modified cash or the Non-IPSAS accrual basis to the IPSAS accrual basis of accounting. Following the regulations of IFRS 1, the IPSAS would apply when a public sector entity adopts IPSASs for the first time by an explicit and unreserved statement of compliance with IFRSs (see IPSAS 1.28).
- 3.2 The IPSASB has to discuss whether this project should also include the transition to the Cash Basis IPSAS (see also Par. 3.13 of the Project Brief).
- 3.3 Current indications are that while there are some public sector specific issues, it may be possible to develop an IPSAS on first-time adoption that is substantially converged with the IASB standards.
- 3.4 The IPSASB has to decide whether the current transitional provisions for public sector entities which are in the process of adopting accrual IPSASs will be retained in each IPSAS or will be included in an IPSAS on First-time Adoption. In analogy to IFRS, the transitional provisions that apply to changes in accounting policies made by an entity that already uses IPSASs would be kept in each IPSAS containing such provisions.

(b) Major Problems and Key Issues that Should be Addressed

Key Issue # 1 – Nature of Project

- 3.5 Due to the fact that in the public sector various forms of accounting bases (cash, modified cash, modified accrual, full accrual basis) are applied and due to the fact that the IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting it needs to be considered if a project on IFRS 1, *First-time Adoption of International Financial Reporting Standards*, should be addressed as an IASB convergence project, as a public sector specific project or as a hybrid project. A hybrid project will likely follow the approach to use IFRS 1 as a starting point and adapt and enhance it by public sector specific issues. A “Rules of the Road” analysis will be conducted at the start of the project to identify public sector specific issues.
- 3.6 Classifying the First-time Adoption of IPSASs project as an IASB convergence project could imply that existing transitional provisions under IPSASs would be overruled by provisions as provided by IFRS 1. A public sector specific project would allow the IPSASB to keep the existing transitional provisions for first-time adoption, but to possibly ‘centralize’ them in a Standard. Using a hybrid approach, i.e. converging with IFRS 1 but also incorporating the existing transitional provisions under IPSAS in IFRS 1, would possibly allow combining the advantages of both approaches.

- 3.7 For the public sector there is a need to develop guidance both on adopting accrual IPSASs when the cash (or modified cash) basis of accounting was previously used as well as on adoption of accrual IPSASs when a different basis of accrual accounting than IPSASs was used. Public sector entities moving from the cash/modified cash basis towards accrual IPSASs often face the challenge of not having sufficient information for fulfilling the requirements under IPSASs (e.g. determining of cost and/or fair value of property, plant and equipment). Currently, IPSASs do not differ between the two situations for adoption of accrual IPSASs. A public sector specific (or a hybrid) project would specifically address the situation of an entity moving from the cash to the IPSAS accrual basis and to think of possible exemptions.
- 3.8 The central question to the IPSASB with regard to the transition to the accrual basis is whether IFRS 1 is an appropriate starting point for the project, as IFRS 1 does not deal with the specific situation of a transition from the cash/modified cash basis to accrual IPSASs. It has to be discussed whether the transitional provisions provided under IPSASs could be used to fill this gap.
- 3.9 A public sector specific (or a hybrid) project could offer the chance to consider the specific situation that public sector entities face when adopting the accrual IPSASs. Currently, IPSASs do not differ in its transitional provisions between public sector entities that transition from the cash/modified cash basis to the IPSASs accrual basis and public sector entities that have applied an accrual basis different to IPSASs and now move to accrual IPSASs. The exemptions made in the transitional provisions of IPSASs apply to both types of entities equally. In many cases, public sector entities that formerly applied the cash basis of accounting and are starting to apply the accrual basis IPSASs often do not have the same amount of information as public sector entities that have applied the accrual basis before. In addition, guidance regarding disclosure requirements with regard to a reconciliation from the cash/modified cash to the accrual basis IPSASs and with regard to a reconciliation from the non-IPSASs accrual basis to the IPSASs accrual basis could be incorporated in such a standard.
- 3.10 Furthermore, the project on first-time adoption of IPSASs could be used to centralize the provisions provided under IPSASs for first-time adoption. In analogy to the approach under IFRS, only those transitional provisions in IPSASs will remain which refer to changes in accounting policies according to IPSAS 3.

Key Issue # 2 – Missing Guidance for First-time Adoption of IPSAS

- 3.11 Despite the transitional provisions provided under IPSASs specific guidance on the first-time adoption of IPSASs is missing. Matters covered under IFRS 1 such as
- the principle of retrospective application of the accounting standards at first-time adoption (see IFRS 1.7);
 - guidance regarding the opening IFRS statement of financial position (e.g. definition of the date of transition to IFRSs (see IFRS 1.8 (example) as well as Appendix A, the use of accounting policies in the opening IFRS statement of

financial position (e.g. the use of estimates (see IFRS 1.14), recognition, ‘derecognition’, reclassifications and measurement of assets and liabilities (see IFRS 1.10), treatment of adjustments (see IFRS 1.11));

- exceptions to the retrospective application of other IFRSs (see IFRS 1.13);
- exemptions from other IFRSs (see IFRS 1.18 and Appendices C-E);
- disclosures that explain how the transition from previous GAAP to IFRSs affected the entity’s financial position, financial performance and cash flows (see IFRS 1.23 ff)

are currently not covered by IPSASs. In case of doubts related to first-time adoption of IPSASs constituents may refer to IFRS 1 according to the hierarchy of IPSASB’s pronouncements (see IPSAS 3.15). This shows that there is a gap in the current suite of IPSASs.

- 3.12 In addition, there might also be a need to develop guidance for the first-time adoption of the **Cash Basis IPSAS**. Currently, the transitional provisions for the adoption of the Cash Basis IPSAS are included in the Cash Basis IPSAS but are spread over the Cash Basis IPSAS according to the respective topic. It is proposed here that the current approach used for transitional provisions under the Cash Basis IPSAS will be retained. The need for more detailed transitional provisions might be considered by the IPSASB task force on the “Review of the Cash Basis IPSAS”.

Key Issue # 3 – Scope of Exemptions

- 3.13 As described above, due to the fact that public sector entities face a transition from the cash/modified cash basis to the accrual basis they might have different needs regarding exemptions from other IPSASs than entities moving from the non-IPSAS accrual basis to the accrual basis IPSASs. Furthermore, it has to be considered that the exemptions currently provided by the transitional provisions under IPSASs differ from the exemptions as stipulated by IFRS 1. Therefore, these differences have to be considered and aligned.

Key Issue # 4 – Reconciliations (see IFRS 1.23 ff.)

- 3.14 IFRS 1.23 requires that an entity shall explain how the transition from previous GAAP to IFRS affected its reported financial position, financial performance and cash flows. For entities moving from the cash to the accrual basis the requirement to include a reconciliation of the entity’s equity reported in accordance with previous GAAP to its equity in accordance with IFRSs will need to be considered in the context of whether it is appropriate.

Key Issue # 5 – Use of comparative information

- 3.15 IPSAS 1.151 states that comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs. This is in direct contrast to IFRS 1 which requires that. It has to be considered that the current provision in IPSAS 1 lowers the barrier to implementing IPSASs.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 The IASB has existing standard IFRS 1, First-time Adoption of International Financial Reporting Standards. In December 2010 the IASB completed its deliberations on the amendments to IFRS 1. Currently, there are no indications that IFRS 1 will be revised.

(b) Relationship to Other Standards, Projects in Process or Planned

- 4.2 There are linkages with the following IPSASB projects in progress:

- Entity Combinations (public sector);
- Service Concession Arrangements;
- Improvements; and
- Review of the Cash Basis IPSAS (depending on the decision of the IPSASB).

- 4.3 A project on the First-time Adoption will also have linkages with the following projects committed but not yet commenced by the IPSASB:

- Financial Instruments (public sector);
- IAS 39 Amendments;
- Consolidations (update of IPSAS 6); and
- Joint Arrangements (update of IPSAS 8).

5. Development Process, Project Timetable and Project Output

(a) Development process

- 5.1 The development of outputs will be subject to the IPSASB's formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.
- 5.2 The initial output will be an Issues Paper and Rules of the Road Analysis. The next step will then be an Exposure Draft of an IPSAS, possibly based on a marked-up version of IFRS 1 and amended appropriately, with a consultation period of at least four months. Following analysis of submissions on the Exposure Draft, an IPSAS or amendments to existing IPSASs would be developed.

(b) Project timetable

The project timetable identifies the major project milestones and the expected timeline for achieving the objectives.

Major Project Milestones	Expected Completion
Present Project Brief	June 2011
Issues Paper and Rules of the Road Analysis – Discussion of issues	December 2011
Approve Exposure Draft	June 2012 Response date October 31, 2012
Review of responses to ED and development of amendments to IPSASs	December 2012
Approve IPSAS or amendments to IPSASs	March 2013

(c) Project output

The expected output will be an IPSAS or amendments to existing IPSASs.

6. Resources Required

(a) Task Force

If the IPSASB decides to pursue a project, a Task Based Group is required. However, in any case, members may need to assist the Technical Staff with first-time adoption standards or guidelines that have been set in the public sector as well as any a broad understanding of current practices in both English and non-English speaking countries.

(b) Staff

It is anticipated that approximately two-third of an FTE would be needed. A FTE staff member will be required on this project for the period of the review (November 2011 – February 2012).

(c) Factors that might add to complexity or length

- Decision of IPSASB on the nature of project: converged or public sector specific
- The future development of IFRS 1

7. Important Sources of Information that Address the Matter being Proposed

Australia – Australian Accounting Standards Board, First-time Adoption of Australian Accounting Standards (sector-neutral):

http://www.aasb.com.au/admin/file/content105/c9/AASB1_05-09_COMPOct10_01-11.pdf

Canada – Public Sector Accounting Board of the Chartered Accountants of Canada,
Project page on First-time Adoption of Public Sector Accounting Standards by
Government Organizations

<http://www.psab-ccsp.ca/projects/completed-projects/item31016.aspx>

IASB - Amendment to IFRS 1, First-time Adoption of IFRS Project Page:

<http://www.ifrs.org/Current+Projects/IASB+Projects/Additional+Exemptions+for+First-time+Adopters+-+Amendments+to+IFRS+1/Amendments+to+IFRS+1.htm>

South Africa – Accounting Standards Board – Various Directives on Transitional
Provisions:

<http://www.asb.co.za/documents/directives>

United Kingdom – FReM Government Financial Reporting Manual:

http://www.hm-treasury.gov.uk/frem_index.htm