

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** March 10–13, 2020

## Agenda Item 12

For:

☐ Approval

☒ Discussion

☐ Information

### UPDATING STUDY 14—TRANSITION TO THE ACCRUAL BASIS OF ACCOUNTING: GUIDANCE FOR PUBLIC SECTOR ENTITIES

#### Project Brief

<b>Project summary</b>		
<b><i>Meeting objectives</i></b>	<b><i>Topic</i></b>	<b><i>Agenda Item</i></b>
<b>Project management</b>	<a href="#">Instructions up to December 2019 Meeting</a>	<a href="#">n/a</a>
	<a href="#">Decisions up to December 2019 Meeting</a>	<a href="#">n/a</a>
	<a href="#">Project Roadmap</a>	<a href="#">12.1.3</a>
<b>Decisions required at this meeting</b>	Updating Study 14–Agree Project Brief	<a href="#">12.2.1</a>
<b>Other supporting items</b>	Updating Study 14, <i>Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities</i> , Project Brief	12.3.1

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### Updating Study 14–Project Roadmap

Meeting	Completed Actions or Discussions/Planned Actions or Discussions:
March 2020 (current meeting)	Review and agree Project Brief
June 2020	Report on progress and review of material
September 2020	Review and discussion of final draft product
December 2020	Review and agree publication of final product

### Updating Study 14—Agreeing the Project Brief

#### Questions

1. The Board is asked to review and agree the project plan for updating Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*.

#### Detail

2. Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*, was last updated during 2010, and therefore does not include material on IPSASB pronouncements issued since then (IPSAS 32 to IPSAS 42). Nevertheless, Study 14 remains an important reference point for jurisdictions contemplating a move to an accounting framework based on, or using directly, IPSAS.
3. In terms of the IPSASB suite of literature, Study 14 is 'non-authoritative' and, of course, is not an IPSAS; the IPSASB normally has little or no involvement in developing such material, which is not covered by the IPSASB's due process. However, given the part that an updated Study 14 can play in delivering against the IPSASB's role in inspiring IPSAS implementation through raising awareness of IPSAS and the benefits of accrual adoption (Themes D and E of the IPSASB Strategy and Work Plan 2019-23), the Board's views on the appropriateness of the proposals in the Project Brief (see agenda item 12.3.1) are important.
4. Anecdotal evidence suggested that the material in Study 14, whilst being theoretically sound, does not meet the detailed needs of practitioners as they start their migration from a cash accounting framework to an accrual-basis framework. This view has been supported by input from stakeholders at the Public Sector Standard Setters Forum in June 2019 and at the three Roundtables in August and October 2019.
5. An increasing number of jurisdictions plan to report on an accrual basis. The International Public Sector Financial Accountability Index, published in November 2018, reported that 98 jurisdictions will be reporting on an accrual basis by 2024—up from 37 in 2018. The Index is due to be updated during 2020, when progress against the reported migration plans will be assessed. This increase has resulted in requests for more practical guidance on how to plan the migration, how to transition, and what constitutes compliance with IPSAS.
6. With assistance from the UK's Department for International Development and through a contract with the UK's Chartered Institute of Public Finance and Accountancy, IFAC has funded the Scoping Phase of a project to update Study 14. The Scoping Phase culminates with this Project Brief.
7. An Advisory Group (comprising implementation advisors and implementers (including some serving IPSASB members) and a Target Group (a focus group comprising attendees from the Roundtables who expressed an interest in assisting in the development process for updating Study 14) have been established. Their role is in two parts:
  - Firstly, they contributed to the Project Brief by:
    - Commenting on the completeness of the proposed topics to be addressed in an updated Study 14;

- Identifying any other documents and/or linkages that should be considered during the Updating Phase (Appendix C of agenda item 12.3.1);
  - Considering the examples of the type of information jurisdictions seek when transitioning to an accrual basis of accounting (Appendix D of agenda item 12.3.1); and
  - Commenting on the suggested grouping of IPSAS (Appendix E of agenda item 12.3.1).
- Secondly, during the Updating Phase (which is anticipated also to be externally funded), the intention is that they, working with their networks, will provide examples of issues they have faced in implementing accrual-basis accounting and reporting and how these issues were resolved, and provide their view on the user-friendliness of the proposed access to the guidance.
8. It is anticipated that there will be only a limited call on IPSASB staff resources during any Updating Phase (perhaps in terms of circulating documents to members of the Advisory and Target Groups, or ensuring that deadlines are met). It is intended that the updated Study 14 will be issued by IFAC as part of IFAC's Adoption and Implementation work stream. However, because the updated Study 14 will assist the IPSASB in delivering against Themes D and E, it is proposed that the IPSASB should review the material to ensure that, in meeting the needs of practitioners, any examples of issues and solutions conform to the principles set out in IPSAS. In addition, should IPSASB members have any examples or material that they feel would be useful for users of an updated Study 14, these would be welcomed.

**Decision required**

9. Does the IPSASB agree the Project Brief for the update of Study 14?

## **UPDATING STUDY 14—*TRANSITION TO THE ACCRUAL BASIS OF ACCOUNTING: GUIDANCE FOR PUBLIC SECTOR ENTITIES***

### **PROJECT BRIEF**

#### **1. Introduction**

- 1.1 The International Public Sector Accounting Standards Board (IPSASB) last updated Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*, during 2010, with the 3rd Edition being published in January 2011. In terms of the IPSASB suite of literature, Study 14 is non-authoritative. Nevertheless, it remains an important reference point for jurisdictions contemplating a move to an accounting framework based on, or using directly, International Public Sector Accounting Standards (IPSAS). (Appendix A gives a brief overview of the content of Study 14.)
- 1.2 Study 14 does not include material on IPSAS pronouncements issued since the 3<sup>rd</sup> Edition was published (IPSAS 32 to IPSAS 42). Anecdotal evidence suggested that the material in Study 14, whilst being theoretically sound, does not meet the detailed needs of practitioners as they start their migration from a cash accounting framework to an accrual-basis framework.
- 1.3 An increasing number of jurisdictions plan to report on an accrual basis. The International Public Sector Financial Accountability Index, published in November 2018, reported that 98 jurisdictions will be reporting on an accrual basis by 2024—up from 37 in 2018. The Index is due to be updated during 2020, when progress against the reported migration plans will be assessed. This increase has resulted in requests for more practical guidance on how to plan the migration, how to transition, and what constitutes compliance with IPSAS.

#### **2. The Issues**

- 2.1 In order to test attitudes to Study 14, stakeholders were consulted:
  - At the Public Sector Standard Setters Forum in Niagara-on-the-Lake in June 2019, Regional Discussion Groups were invited to consider what they would like to see in any update to Study 14; and
  - A discussion with attendees at the Outreach Roundtable events in Brasilia (August 2019), Manila (October 2019) and Addis Ababa (October 2019). Delegates—some of whose jurisdictions are reporting on accruals, with others either transitioning or planning to migrate—were asked:
    - Whether they had used Study 14 and, if so, what aspects they had found useful;
    - What they had found less useful;
    - What they would like to see included in any updated Study 14; and
    - How they would like to see the material presented.

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- 2.2 Appendix B presents a synopsis of comments received. Responses to the general questions are summarized below.

### *Who had used Study 14?*

- 2.3 The anonymity of the individual feedback sheets means that the numbers of countries cannot be accurately ascertained. However, it is likely that the number of jurisdictions that have used Study 14 is lower than the number of individuals shown below.

Roundtable	Number of Attendees	Number who had used Study 14
Brasilia	90	12 (14%)
Manila	113	24 (21%)
Addis Ababa	161	8 (5%)
Total	364	44 (12%)

### *What aspects were useful?*

- 2.4 The table below summarizes the aspects of Study 14 identified as useful by attendees at the Roundtables.

Roundtable	Most useful aspects
Brasilia	A guideline for gradual implementation of accrual accounting
	For use by academics
	Organization, phase identification and responsibilities
Manila	Emphasis on training and capacity building
	Robust theory
	Split between Part I (critical elements for migrating to accrual basis of accounting) and Part II (elements of financial statements)
Addis Ababa	A guideline for gradual implementation of accrual accounting
	Shows examples of an IPSAS Implementation Plan/Strategy which could be replicated by countries when implementing IPSAS
	Highlights general financial reporting issues that countries should be wary of when migrating to IPSAS (for example, assets and foreign exchange)
	Emphasis on training and capacity building

### *What aspects were less useful?*

- 2.5 This table summarizes the views of Roundtable participants on what aspects of Study 14 are less useful. Most participants noted that the product title needs an update.

Roundtable	Less useful aspects
Brasilia	Study 14 is available only in English (no Portuguese version)
	Too theoretical
	Too long
Manila	Lack of clear interpretation issues
	Lack of detailed examples
	Lack of reference to Change Management
Addis Ababa	Study 14 is available only in English (no French or Portuguese versions)
	Too long

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*What should be included in any updates?*

- 2.6 There was a wide range of suggestions for what should be included in any update of Study 14 from both the Public Sector Standard Setters Forum and the Roundtables. More information is given in appendix B, but the common themes from these events are:

Objective	Audience	Content	Examples	Presentation	Linkages	Dynamism
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*How should the material be presented?*

- 2.7 Most participants in the Forum and Roundtables expressed a preference for the material to be available in a web-based format—although there are practical issues that need to be considered (see paragraph 4.2).

### 3. Project Rationale

- 3.1 The IPSASB committed in the Strategy and Work Plan 2019-2023, under Theme D, to working with others to update Study 14 to enhance its effectiveness as a tool for those undertaking a transition to accrual accounting.
- 3.2 In terms of options related to what to do in addressing Study 14, doing nothing is not considered to be a viable approach because Study 14 is not being used widely and is not seen as useful, based on the evidence from the Forum and Roundtables. The available options are, therefore, to withdraw it (and remove it from the website) or to update it.
- 3.3 The IPSASB could decide to withdraw Study 14 and leave other sources to provide guidance on transitioning to an accrual-basis accounting framework. By doing so, however, the IPSASB (and IFAC) could be seen as stepping back from their objectives of promoting the adoption and implementation of high quality standards. Such a move would also go against constituents' desire for more (and better) guidance from the IPSASB. Updating Study 14 appears, therefore, to be the only realistic option.
- 3.4 The IPSASB Strategy and Work Plan 2019-2023 established criteria against which to prioritize projects. These are considered below in the context of the proposal to update Study 14.
- **Prevalence:** As noted in paragraph 1.3, the issue of the availability of guidance necessary for transitioning to an accrual-basis accounting framework is becoming more prevalent as more jurisdictions are starting, or planning to start, the migration.
  - **Consequences:** Whilst an update of Study 14 does not of itself affect the ability of financial statements to provide useful information for accountability and decision-making purposes, there are consequences associated with not updating Study 14, which are mainly reputational.
  - **Urgency:** The issue of the usefulness of Study 14 as currently presented was gaining prominence and resulted in the reference in the IPSASB Strategy and Work Plan 2019-2023 that 'constituents globally have noted that adoption and implementation challenges are key issues for those considering a move to accrual-basis IPSAS and that an updated and perhaps re-formulated Study 14 could be an effective tool to help those starting that important journey'. This suggests that an updated Study 14 is needed sooner rather than later.

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- Feasibility: Most of the work underpinning this Project Brief has been funded through IFAC, with the support of the UK's Department for International Development, and carried out by the UK's Chartered Institute of Public Finance and Accountancy (CIPFA). Some Staff time was used to provide the analysis of input from the events referred to in paragraph 2.1. The intention is that, should the IPSASB agree the Project as presented in this Project Brief, the Updating Phase would also be funded externally and carried out by consultants.

### *Updating Study 14 aligns with the IPSASB and IFAC Strategies*

3.5 The IPSASB has, for some time, noted that Study 14 needs to be updated. There are two main drivers for undertaking this work now.

- Firstly, the strategic themes set out in the IPSASB's Strategy and Work Plan 2019-2023. Theme D focuses on 'Promoting IPSAS adoption and implementation'; Theme E focuses on 'Advocating the benefits of accrual in strengthening PFM'. A small part of Study 14 already refers to the benefits and this can be strengthened in an update (including by cross-referencing to other sources).
- Secondly, updating Study 14 aligns with one of the strategic objectives set out in IFAC's Strategic Plan 2019-2020: Contributing to and promoting the development, adoption, and implementation of high-quality international standards. By working with the IPSASB on the update of Study 14, IFAC would be able to meet one of its desired outputs of supporting the standard-setting Boards in achieving their wider objectives (such as the IPSASB's Themes D and E).

### *Other relationships*

3.6 Updating Study 14 has no direct relationship with, impact on, nor is impacted directly by, the IASB, or other IPSASB Standards (with the exception of IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*—see paragraph 4.5) or projects or proposed projects.

3.7 There will be a need to consider Government Finance Statistics (GFS). Fiscal reports prepared under the Government Finance Statistics Manual 2014 are required to be prepared on an accrual basis, but GFS accounting requirements differ in some areas from the requirements in IPSAS (for example, the accounting treatment of provisions; disclosure requirements for domestic and foreign financial assets and liabilities); these differences might affect chart of account design decisions. Using existing materials (some of which are listed in Appendix C), it will be useful to highlight any such differences in the updated Study 14 to help practitioners consider at the planning stage how best to maintain alignment where appropriate in the preparatory phase of their migration plan.

3.8 There are, however, wider relationships to consider. The IPSASB Strategy and Work Plan 2019-2023 states that the IPSASB's role in inspiring IPSAS implementation and the use of accrual-based information more broadly is a critical contribution to Public Financial Management reform. Table 1 below, taken from the Strategy and Work Plan, illustrates the different groups that might participate in the Public Financial Management (PFM) reform landscape in any jurisdiction.

3.9 Table 1 shows that each identified group has a role to play in promoting adoption of IPSAS, but that groups' involvement in implementation varies. For example, Professional Accountancy Organizations (PAOs) in some jurisdiction might use their resources to provide technical assistance and training,



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whilst that type of help might come from accountancy firms or the Supreme Audit Institution in other jurisdictions.

Table 1

Activity	IPSASB	PAOs	Governments	Consultants / Contractors	Supranational & Regional Organizations	Auditors
Promoting adoption	✓	✓	✓	✓	✓	✓
Supporting IPSAS implementation						
Financial Support			✓		✓	
Capacity Development		✓	✓	(✓)	(✓)	
Technical Guidance	✓	(✓)	✓			(✓)
Practical Guidance		(✓)	✓	✓	(✓)	(✓)
Continuing Professional Development		✓	✓			

(✓) denotes that this group does not have a primary role but has the potential for influence and involvement

- 3.10 Key development partners promote PFM reform. In particular, they provide financial and/or technical support. These partners include the IMF, the World Bank, the Public Expenditure and Financial Accountability (PEFA) program (which itself involves the European Commission, the IMF, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom), as well as IFAC through its many initiatives (for example, the PAO Capacity Building Initiatives funded under a UK Department for International Development program), and the aid programs of individual governments and other supranational or regional organizations such as the Asian Development Bank, the African Union, the Pan-African Federation of Accountants and the Confederation of Asian and Pacific Accountants.
- 3.11 Many of these organizations publish guidance that will be useful to jurisdictions as they transition to an accrual-basis accounting framework (see Appendix C), and the Updating Phase will work with these organizations to consider how best to reference these resources in an updated Study 14.

#### 4. Addressing the Issues—Objectives and Outputs

- 4.1 The objective of the project (and therefore of an Updated Study 14) is to provide stakeholders with a product that:
- Promotes the benefits of accrual accounting and reporting in the context of public financial management;
  - Explains how IPSAS might be adopted directly or indirectly and what that means in theory and in practice;
  - Provides guidance on the interpretation of accrual-basis financial statements—users' needs vary depending on their roles; and

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- Points to practical examples, either through links to separate documents or through links to the Implementation Examples or Application Guidance in IPSAS.

### 4.2 The update to Study 14 will address issues raised by stakeholders.

- *Audience:* A transition to accrual-basis accounting and reporting involves many different stakeholders, as shown in table 1. Their needs differ. Study 14 does not really reflect this. The audience for any guidance comprises not only preparers of financial statements (those responsible for the actual migration from cash to accrual), but the senior public officials and elected representatives who make the decision to transition to an accrual-basis accounting framework in the first place; other policy makers and decision makers; elected representatives; auditors; and internal and external stakeholders generally, including taxpayers and/or service beneficiaries other policy makers, and also users of financial information.

Drawing on the content of the existing Study 14 and other documents (see Appendix C), the updated Study 14 will provide information that can be used as the basis for developing policy papers to support decisions to transition to the accrual basis of accounting, including the issues to include in an Implementation Strategy and Plan, factors to consider when deciding on the cost model or revaluation model, and, using the experience of compiling the International Public Sector Financial Accountability Index, what the IPSASB means by adoption of IPSAS and compliance with IPSAS (see also paragraph 5.1).

- *Content:* There was some support for the existing content in terms, for example, of the split between the critical elements for the migration and the elements of financial statements. But there was also general consensus that the content is insufficient to meet users' needs. The content of any update to Study 14 (which needs to be renamed) must consider the needs of the audience. The current coverage (see Appendix A) does not address issues and provide examples in areas that are more often raised by jurisdictions transitioning to accrual-basis accounting and reporting—not only in relation to individual standards, but also to broader topics such as the links with improving PFM, capacity development, training, and change and risk management (see also the section on 'Thematic Presentation—Other Topics' later in this paragraph).
- *Examples:* Stakeholders want examples—of how to interpret and implement a standard, of lessons learned by other implementers. Appendix D gives examples, based on information provided by the Advisory and Target Groups (see section 6) and on the author's experience, of the type of information<sup>1</sup> that jurisdictions seek when transitioning to accrual basis accounting and reporting.
- *Presentation:* Study 14 is a text-only document of over 300 pages, with the bulk of it addressed to preparers of financial statements at a technical rather than practical level. Stakeholders support the idea of web-based material available through an on-line portal, in a prominent position on the IPSASB website, with links on the IFAC website, and with as little use of dense text as possible without losing the messages in the current document. They agreed that material needs to be:

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<sup>1</sup> The examples are: IPSAS 17, IPSAS 23(taxes), IPSAS 19 and opening balances—liabilities, and IPSAS 24

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- Easy to find;
- Easy to access;
- Easy to navigate; and
- Available in languages other than English.

The proposal is that there would be two, inter-linked products: a short document to present some of the overarching material, and an interactive portal to give users easy access to the material they are looking for.

- The short document will contain material on:
  - The use and benefits of accrual accounting for Public Financial Management;
  - The links between fiscal reporting under GFS and financial reporting under IPSAS;
  - IPSAS—direct or indirect adoption and what that means in theory and in practice; and
  - Factors to consider when deciding on the cost model or revaluation model.
- The Interactive Portal will be the gateway to the practical help that implementers are seeking. The Advisory and Target Groups will play an essential role in ensuring that the website provides the right level and amount of guidance, but that it does not stray into being seen as prescriptive, thereby falling into the trap of a 'one size fits all' approach. There is a caveat here, though, in that internet infrastructure and availability and associated needs (such as availability of internet/broadband facilities, computer hardware/software, and dependable electricity supplies) must be considered in the context of use by developing countries.

### Thematic presentation—IPSAS

- Parts III and IV of the existing presentation (see Appendix A) provide information about Elements (Part III) and Specific Topics (Part IV). Part III material examines certain aspects of IPSAS (for example, asset classification and recognition and measurement), while Part IV material looks at topics (for example, types of asset, or other asset related issues such as impairment). In terms of implementation, however, experience suggests that practitioners look for guidance by topic or theme. For example, IPSAS might be implemented in groups such as (see Appendix E for the IPSAS associated with each group):
  - *Accounting Policies, Changes in Accounting Estimates and Errors*
  - *First-time Adoption of Accrual Basis IPSASs*
  - *Presentation of financial statements*—this section considers issues associated with the statements of financial position and performance and cash flow statement and might include discussion about:
    - ❖ the chart of accounts;

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- ❖ consolidation of Whole of Government Financial Statements; and
- ❖ the links between financial reporting (IPSAS) and fiscal reporting (GFS);
- *Accounting boundaries*—this grouping of IPSAS considers separate and consolidated financial statements, associates and joint ventures, etc.;
- *Assets*—this group deals with all the IPSAS and issues associated with all types of assets (other than leases)—financial and non-financial;
- *Liabilities*—this section looks at the IPSAS dealing with liabilities including employee benefits and provisions and contingent liabilities;
- *Revenue*—any IPSAS dealing with revenue transactions;
- *Expenses*—any IPSAS dealing with expense transactions; and
- *Other*—miscellaneous IPSAS that do not fit into the other groups.

### Thematic presentation—other topics

- In addition to the addressing IPSAS by thematic groups, other issues that warrant attention in an updated Study 14 include the following, as identified with the help of the Advisory and Target Groups. They are not listed in order of importance.
  - Implementation Strategy and Plan;
  - Applicability of IPSAS to government entities;
  - Gap Analysis
  - Governance
  - Project Management
  - The regulatory environment;
  - IT systems;
  - IT training;
  - Chart of Accounts;
  - Processes and procedures—addressing existing issues
  - Processes and procedures—business re-engineering;
  - Internal control;
  - Involving the auditors (external and internal);
  - Capacity building, covering accountants, financial managers and non-financial managers;
  - Building Implementation Strategies and Plans;
  - Communication Strategy;

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- Change management (including risk management); and
- Basis of preparation of financial statements during the migration period.
- *Linkages*: Any update to Study 14 needs to reflect developments since the 3<sup>rd</sup> Edition was published. Some delegates at the Forum and Roundtables also made the point that other organizations have published helpful material, and this should be referenced where possible, which will mean assessing how to provide a variety of linkages. Appendix C lists some of the linkages that will need to be considered; the list is not exhaustive and it is expected that others will be identified during the Updating Phase. For example, multilateral organizations such as the IMF, the World Bank, development banks, accountancy firms, PAOs, and government organizations have all developed products that could be useful. It will also be important to consider how to, and what, material to present in languages other than English.
- *Dynamism*: Study 14 should be kept up-to-date. Not only for new standards (to ensure that any appropriate changes are included in Study 14) but also for new examples as jurisdictions' experiences become available. Thought will need to be given to how this can be achieved efficiently, effectively and economically.

### 5. Consequences associated with updating Study 14

- 5.1 Addressing the issues raised by stakeholders in an updated Study 14 (renamed) will have other consequences that the IPSASB will need to consider—preferably before the Updating Phase concludes in later 2020.
- *Placement of practical examples*: in determining the content of an update to Study 14, the IPSASB will need to consider the question of the placement of practical examples illustrating the application of the principles contained in IPSAS. Work on current IPSASB projects (particularly Measurement, Infrastructure and Heritage) have brought to the fore the idea that some of the guidance that constituents are requesting might not be material that is appropriate to, or best located in, individual IPSAS (see also Appendix D). If that is so for these projects, there may be implications for the existing suite of standards.
  - *Amendments to IPSAS 33*: a likely consequence of an update to Study 14 is the need for amendments to IPSAS 33, particularly in relation to the use of terms such as 'adoption', 'implementation' and 'compliance'. This issue has also been highlighted by the work on developing the International Public Sector Financial Accountability Index. Given that any such amendments will have arisen from work on a non-authoritative document, it is considered unlikely that they could be dealt with as part of an annual improvements project and so will need to be considered as a separate project and potentially included in the IPSASB's mid-period Work Plan review.

### 6. Advisory and Target Groups

- 6.1 An Advisory Group has been established, comprising implementation advisors and implementers (all with links to IPSASB in one form or another and including some serving Board members), to provide input to the development of the updated Study 14.

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- 6.2 All attendees at the Roundtable events in Brasilia, Manilla and Addis Ababa were invited to volunteer to provide input into any of the IPSASB's new projects or research topics. Most of those who volunteered to help with the update of Study 14 were asked to participate in a Target Group, which is similar to a focus group in that the group has been used to provide feedback about the project. A list of the groups' membership is given in Appendix F.
- 6.3 Although the Groups comprise individuals, each has a network of contacts that they will draw on during the development of an updated Study 14. The groups' role is in two parts. Firstly, they contributed to the Project Brief by reviewing it and adding to the list of material that will need to be considered (Appendix C), provided some additional material for Appendix D (examples of the type of information jurisdictions seek when transitioning to an accrual basis of accounting) and commenting on the completeness of the proposed topics to be addressed in an updated Study 14 (section 4 above and Appendix E for the suggested IPSAS groupings).
- 6.4 Their main input is expected to be during the Updating Phase, by providing:
- Examples of issues they have faced in implementing accrual-basis accounting and reporting and how these issues were resolved; and
  - Their view on the user-friendliness of the proposed access to the guidance.

### 7. Updating Phase–Project Timetable

- 7.1 The chart below shows a pictorial representation of the expected timing of the development of the updated Study 14, subject to funding being made available. Product design refers to the work on developing the interactive portal (see paragraph 4.2 (Presentation)); development of the material would continue from April to August with input from the Advisory Group; it is proposed that a final draft of the new product will be demonstrated to the IPSASB at the September meeting and then at the planned Public Sector Standard Setters Forum in Portugal after that meeting with an invitation to wider stakeholders to input to the final product that would be launched in December 2020. All dates are contingent on IFAC obtaining external funding for the Updating Phase.

	2020									
Study 14 Updating Phase	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Product Design	→									
Development of new/revised material	→									
Finalization of new/revised material						→				
Advisory and Target Groups input	→							→		
IPSASB discussion and review							→			
Further consultation							→			
Agree product and launch										→

### 8. IPSASB Input to the Updating Phase

- 8.1 As noted in paragraph 1.1, Study 14 is non-authoritative. In terms of due process, this means that the IPSASB is not required to approve the material, nor does the project need to be developed in accordance with the IPSASB due process. IFAC will issue the updated Study 14 as part of IFAC's Adoption and Implementation work stream. However, the importance of Study 14 is such that the

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IPSASB needs to be confident that the material is consistent with the principles set out in IPSAS—hence the inclusion of IPSASB discussions and review in September and December 2020. In addition, outside the formal meetings, IPSASB members are encouraged to provide any examples or documents that will be useful to users of Study 14.

## Appendix A—Brief Overview of the Content of Study 14

### *PART I—Introduction*

#### Introduction

This chapter outlines the objective of Study 14. It includes a section on the benefits of accrual accounting

#### Managing the Process

This chapter:

- Outlines some of the broader issues that can affect the speed and style of transition to the accrual basis;
- Discusses possible transition paths, including options for dealing with audit requirements during the transition period;
- Discusses features of a successful transition;
- Suggests that an entity have regard to the materiality of various assets and liabilities in determining its short-term strategy and consider alternative ways of generating the information required about other assets and liabilities;
- Identifies a number of issues relating to the adoption of accrual budgeting; and
- Discusses considerations in developing a chart of accounts to support the preparation of accrual financial statements.

#### Skills Assessment and Training

This chapter notes that:

- All personnel involved in the transition to accrual accounting should understand the reasons for the change, be capable of implementing the changes they have responsibility for, operate the new systems and procedures, and understand the information produced.
- Entities need to assess the impact of the changes on the competencies required in relevant positions, and develop a strategy which includes, but is not confined to, training for upgrading skills.
- Options for addressing gaps in competency include recruitment, consultants, development of external courses, and training for existing staff.
- Separate outreach activities and information materials are required for educating and creating awareness in groups such as politicians and the media.

### *PART II—General Financial Reporting Issues*

#### Accounting Policy Issues

This chapter outlines the process that needs to be undertaken to develop accounting policies. The key points are:



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- IPSASs specify the required accounting treatment for certain transactions and events. In the absence of an IPSAS, an entity needs to develop policies based on other authoritative guidance in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- The development of accounting policies includes identifying those bodies and individuals with the authority to develop and approve policies for various reporting entities, and establishing an appropriate process for the development and approval of such policies.
- Consultation on proposed accounting policies is a useful quality check and assists with communication.

### Reporting Entity Issues

This Chapter looks at the question of how to decide which individual entities and groups of entities should prepare general purpose financial statements as reporting entities.

#### *PART III–Elements*

This part of Study 14 outlines the main types of assets, liabilities, revenues, and expenses that occur in public sector entities. It identifies the IPSASs dealing with the definition, recognition, measurement, and disclosure of these items. The Study outlines the requirements of key IPSASs (or, in the absence of an IPSAS, other sources of authoritative guidance in accordance with IPSAS 3) and the types of implementation tasks associated with recognizing these items and complying with IPSASs or other accounting standards.

#### *PART IV– Specific topics*

This part of Study 14 discusses implementation issues arising from the recognition of certain assets, liabilities, revenues, and expenses that are not covered in Part III. The topics are considered in more detail than is the case for the topics considered in Part III. This part of Study 14 contains separate chapters on:

- Cash
- Intangible Assets
- Agricultural Produce and Biological Assets
- Impairment of Assets
- Financial Instruments (*Note: this chapter predates IPSAS 41, Financial Instruments*)
- Employee-related Liabilities (*Note: this chapter predates IPSAS 39, Employee Benefits*)
- Liabilities arising from Social Policy Obligations (*Note: this chapter predates IPSAS 42, Social Benefits*)
- Non-Exchange Revenue (*Note: this chapter predates the Revenue and Non-Exchange Expenses projects*)
- Foreign Currency
- Segment Reporting
- Related Party Disclosures
- Disclosure of Financial Information about the General Government Sector

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- Presentation of Budget Information in Financial Statements
- Entity Combinations (*Note: this chapter predates IPSAS 40, Public Sector Combinations*)

These chapters also predate IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*

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### Appendix B—Synopsis of Comments Received During the June 2019 Public Sector Standard Setters Forum and Subsequent Outreach Roundtables

This Appendix provides a synopsis of the comments received during the Forum and Roundtables.

#### Public Sector Standard Setters' Forum, Niagara-on-the-Lake, June 24<sup>th</sup> and 25<sup>th</sup>, 2019

##### Study 14 Update Suggestions

This Table does not include all the detailed comments made by delegates at the Forum, but is intended to provide a flavor of the issues raised and suggestions made. The comments are presented as written by attendees.

Africa	Europe	North America	South America	Asia/Oceania
Break it up into different components	Needs clear objectives. Should not be wide guidance	Stakeholder engagement	Political support – implementation and funding	Acknowledging guidance from other jurisdictions (technical guidance)
Add more detail (e.g. examples, change management, training and capacity development)	Who is the intended audience? Senior politician vs technical auditor	Find champions	Current version – bit of a tough read. Information flow is important	Think about how info in study 14 is delivered
Link it to IPSAS 33	More examples of lessons learnt from others	Timing– could it be sped up using IT?	Interactive (with standards); on-line, shorter	Practical vs technical guidance
Explain adoption to politicians	More practical, less exhaustive		Governance	
Roadmap of accounting elements to adopt moving from cash to accrual (maybe easiest to hardest)	Several documents depending on target groups (decision-makers' level, preparers' level)?		Do by region (to take into account conditions)	
Users – politicians, practitioners, implementers	Enable it to be up to date making it dynamic, think about accessibility		By level of government (e.g. federal)	
	Translation		Translation	
			Keep real life examples – explain what they show	

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### Outreach Roundtables

	Brasilia, August 19th, 2019	Manila, October 9 <sup>th</sup> and 11 <sup>th</sup> , 2019	Ababa, October 16 <sup>th</sup> , 2019
<b>Statistics</b>	Participants: 90 Organizations: 46 Countries: 15	Participants: 113 Organizations: 51 Countries: 36	Participants: 161 Organizations: 118 Countries: 53
<b>Usage of Study 14</b>	14% of participants	21% of participants	5% of participants
<b>Useful aspects</b>	As a guideline for gradual implementation of accrual accounting and for use by academics.  Organization, phase identification and responsibilities.	Emphasizes training and capacity building as important exercises to be conducted when migrating to IPSAS.  Robust theory.  Part I discusses the critical elements for migrating to accrual.  Part II discusses the elements of financial statements.	Used as a guideline for gradual implementation of accrual accounting.  Shows examples of the IPSAS Implementation Plan/Strategy which could be replicated by countries when implementing IPSAS.  Highlights general financial reporting issues which countries should be wary of when migrating to IPSAS (for example assets and foreign exchange).  Emphasizes training and capacity building as important exercises to be conducted when migrating to IPSAS.
<b>Less useful aspects</b>	Lack of translation for Portuguese.  Too much theory.  Too big.	Lack of clear interpretation issues and detailed examples.  Change Management.	Lack of translation to other languages (French and Portuguese).  Document is voluminous and should be summarized.
<b>Update suggestions</b>	[Question not asked]	IPSASB should work with the Professional Accounting Bodies and Government Officials to encourage IPSAS Adoption in jurisdictions.  Political Will.  Knowledge and awareness amongst professionals.  Capacity Development.  Learning other country experiences.  Explanation of transition from cash to accrual.  Describing the accounting issues for assets, Consolidation of Government Business Enterprises (GBEs) and preparation of Whole of Government Accounts.	General financial reporting issues.  Commonly agreed Terminologies.  Steps and phases of IPSAS implementation.  Highlight impact of IPSAS implementation on Budgeting.  Benchmark International best practices.  Show IPSAS compliant illustrative financial statements.  Provide checklists for complying with cash and accrual IPSAS.  Reduce the size of the document.

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		<p>How to deal with State Owned Entities (SOEs) that report on a different Framework to the IPSAS Framework.</p> <p>Illustration of what an IPSAS implementation roadmap should look like.</p> <p>Explanation of impact of IPSAS on Budgeting, Chart of Accounts and ERP Systems.</p> <p>Practical evidence or experience of IPSAS Adoption in Developed Countries (Example G7 Countries).</p> <p>Latest IPSAS Updates should be shared amongst jurisdictions.</p> <p>Involving IPSAS Experts/Consultants in the IPSAS implementation.</p>	<p>Translate the document to other languages (French and Portuguese).</p> <p>IPSASB should provide all updates that occurred since 2011 when the current Study 14 was published.</p> <p>Provide guidance on how governments can move from cash to accrual.</p> <p>Provide reviews on the status of IPSAS implementation in certain jurisdictions.</p> <p>Provide practical implementation experiences (show real life scenarios).</p> <p>Political ownership from the highest level of government and cabinet.</p> <p>Benchmarking International best practices.</p> <p>IPSAS adoption driven by public sector issues and rather than copying IFRS.</p> <p>Involvement of professional accountancy bodies such as PAFA, and IFAC</p> <p>Showcase minimum requirements to comply with IPSAS.</p> <p>Showcase impact of IPSAS adoption on budgeting.</p> <p>Capacity Building.</p> <p>Jurisdictions should have dedicated IPSAS project teams supported by Governance and Oversight bodies.</p> <p>IPSAS implementation roadmaps should be tailor made for Africa.</p> <p>IPSAS interpretations and clarifications.</p>
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## Appendix C—Existing Documents and Other Linkages to be considered

Note: This list is not exhaustive. Additional data sources will be sought during the Updating Phase

The IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*

IPSASB Strategy and Work Plan 2019-2023

IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*

IPSASB's *Financial Reporting under the Cash Basis of Accounting*

IPSASB's Recommended Practice Guidelines

RPG 1, *Reporting on the Long-Term Sustainability of an Entities Finances*

RPG 2 *Financial Statement Discussion and Analysis*

RPG 3 *Reporting Service Performance Information*

CIPFA's *Stepping Stones to Accrual Accounting*

ICAEW's *Building blocks to better PFM: A Cash to Accruals Accounting Toolkit*

ACCA and IFAC) *Is cash still king? Maximising the benefits of accrual information in the public sector*

CAPA's *Improving Financial Management in the Public Sector: the Eight Key Elements of PFM Success*

IMF Technical Notes such as *Implementing Accrual Accounting in the Public Sector* (IMF Fiscal Affairs Department, September 2016)

*Implementing Accrual Accounting in the Public Sector—Understanding Your Technology Is Vital* (IFAC)

*The Role of the Global Accountancy Profession in Addressing 21st Century Public Sector Challenges* (IFAC)

HM Treasury *Managing Resources* series of publications

Ministère de l'Économie des Finances et de l'Industrie, (France) *La réforme des comptes de l'Etat*

Accrual Practices and Reform Experiences in OECD Countries: Results of the OECD 2016 Accruals Survey

Accrual Based Accounting Core Competency Framework (PULSAR, International Bank for Reconstruction and Development / The World Bank)

The Public Expenditure Financial Accountability (PEFA) Framework

Discussion papers prepared for the European Public Sector Accounting Standards project

UK National Audit Office *IPSAS – Preparing for Audit*

*Case Study: Adoption of International Public Sector Accounting Standards in the Philippines* (IFAC)

Other linkages that might need to be considered include:

- The links between IPSAS and IFRS
- The similarities and differences between IPSAS and the Government Finance Statistics Manual 2014/the System of National Accounts/European System of Accounts

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- Benchmarking Guide: Integrating Public Sector Accounting and Government Finance Statistics (PULSAR, International Bank for Reconstruction and Development / The World Bank)
- Public Sector Debt Statistics : Guide for Compilers and Users (IMF)
- Implementation Examples/Application Guidance in IPSAS
- Current IPSAS projects addressing recognition and/or measurement issues
- The International Public Sector Financial Accountability Index
- International Standards of Supreme Audit Institutions (ISSAI)
- International Standards on Auditing (ISA)
- Links between ISSAI and ISA
- International Valuation Standards

## Appendix D—Examples of the Type of Information Jurisdictions seek when transitioning to an Accrual Basis of Accounting

### Implementing IPSAS 17, *Property, Plant and Equipment*

1. The difference between an asset register and an asset inventory and the links between them and an Integrated Financial Management Information System
2. The criteria for distinguishing property held for investment and accounted for under IPSAS 16 and property to be accounted for under IPSAS 17
3. Developing an asset recognition accounting policy
  - Capitalization threshold and what to consider when setting one (including the issue of materiality)
  - The distinction between capital expenditure and other expenditure
  - Distinguishing different classes of assets
  - Defining networked assets and how to account for them
  - Infrastructure assets and how to account for them
4. Componentization
5. How to apply the cost model or the revaluation model for subsequent measurement (assuming the factors are considered in the short document – although a link to that document will be needed here)
6. Using other experts for asset valuations
7. Understanding when to use fair value/current value/(depreciated) replacement cost
8. The meaning of ‘deemed cost’ and how to apply it in practice
9. The information that should be recorded on an asset register
10. Depreciation policies
11. Impairment indicators
12. Similarities and differences between capital expenditure in the financial statements and capital budgets
13. Links between an Asset Management Plan and asset accounting
14. Links between information on the asset register and other databases (for example, residential buildings and rental income)
15. Developing relevant asset management performance indicators



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### **Implementing IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)***

(This example refers to taxes only.)

1. Developing an accounting policy for recognition of taxes
  - The taxable event for the tax types
  - The revenue recognition point by tax revenue types
  - Measurement of assets arising from taxation transactions
2. How tax laws and regulations operate
3. Workflows and processes and instructions
4. How is the information on the IFMIS system updated?
5. What is the refund and discount process?
6. How to develop estimation policy for taxes due at year end
7. How to deal with impairments for each tax regime
8. Recognition of credits related to indirect taxes
9. How to distinguish between tax deposits and tax revenue
10. How to recognize taxes on gross basis – tax expenses vs expenses paid through the tax system

### **Implementing IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets, and Opening Balances–Liabilities***

1. How to identify present obligations at the reporting date
  - Contracts register
  - Review of invoices and orders
  - Review of legislation for any obligations
2. How to measure the obligations
  - Outstanding contract value
  - Accruals for goods/services received and not paid
  - Invoices received
  - Estimations
3. Guidance on an amortization schedule (how to calculate the implicit interest rate and to determine the balance at each reporting period)
4. How to capture information about contingent liabilities
  - Difficult to capture due to various types and various measurement techniques
  - Some contingent liabilities rely on estimation, professional judgement and, in some cases, complicated modelling techniques to generate a reliable measure

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### **Implementing IPSAS 24, *Presentation of Budget Information in Financial Statements***

1. Where the budget information is prepared on a different basis to the financial statements, an entity adjusts the financial statement information to make it comparable to the basis used to prepare and present the budget.
  - What are common adjustments made?
  - How to determine cash and cash equivalents
  - Relationship between the Statement of Cash Flows and the adjusted actual cash information used in the Statement of Comparison of Budget and Actual Information.

## Appendix E—IPSAS Grouping

IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> IPSAS 33, <i>First-time Adoption of Accrual Basis IPSASs</i>	
<u>Presentation and Disclosure</u> IPSAS 1, <i>Presentation of Financial Statements</i> IPSAS 2, <i>Cash Flow Statements</i> IPSAS 14, <i>Events after the Reporting Date</i> IPSAS 18, <i>Segment Reporting</i> IPSAS 20, <i>Related Party Disclosures</i> IPSAS 22, <i>Disclosure of Financial Information about the General Government Sector</i> IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i>	<u>Accounting Boundaries</u> IPSAS 34, <i>Separate Financial Statements</i> IPSAS 35, <i>Consolidated Financial Statements</i> IPSAS 36, <i>Investments in Associates and Joint Ventures</i> IPSAS 37, <i>Joint Arrangements</i> IPSAS 38, <i>Disclosure of Interests in Other Entities</i> IPSAS 40, <i>Public Sector Combinations</i>
<u>Assets</u> <u>Non-financial assets</u> IPSAS 12, <i>Inventories</i> IPSAS 16, <i>Investment Property</i> IPSAS 17, <i>Property, Plant, and Equipment</i> IPSAS 21, <i>Impairment of Non-Cash Generating Assets</i> IPSAS 26, <i>Impairment of Cash-Generating Assets</i> IPSAS 27, <i>Agriculture</i> IPSAS 31, <i>Intangible Assets</i> <u>Financial assets:</u> IPSAS 28, <i>Financial Instruments: Presentation</i> IPSAS 30, <i>Financial Instruments: Disclosures</i> IPSAS 41, <i>Financial Instruments</i>	<u>Revenue</u> IPSAS 9, <i>Revenue from Exchange Transactions</i> IPSAS 11, <i>Construction Contracts</i> IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>
	<u>Liabilities</u> IPSAS 19, <i>Provisions, Contingent Liabilities, and Contingent Assets</i> IPSAS 39, <i>Employee Benefits</i> IPSAS 28, <i>Financial Instruments: Presentation</i> IPSAS 30, <i>Financial Instruments: Disclosures</i> IPSAS 41, <i>Financial Instruments</i>
<u>Expenses</u> IPSAS 42, <i>Social Benefits</i>	<u>Other</u> IPSAS 4, <i>The Effects of Changes in Foreign Exchange Rates</i> IPSAS 5, <i>Borrowing Costs</i> IPSAS 10, <i>Financial Reporting in Hyperinflationary Economies</i> IPSAS 13, <i>Leases</i> IPSAS 32, <i>Service Concession Arrangements – Grantor</i>

## **Appendix F—Advisory and Target Groups: Membership**

### **Advisory Group**

#### **Implementation Advisors**

Andreas Bergmann

Thomas Müller-Marqués-Berger

Bernhard Schatz

Tim Youngberry

#### **Implementers**

Lindy Bodewig (South Africa)

Luzvi Chatto (Republic of the Philippines)

Neema Kiure-Mssusa (Tanzania)

Admire Ndurunduru (Zimbabwe)

Rasmimi Ramli (Malaysia)

### **Target Group**

Mongolia – Mr. Batbayar Baatarkhuu

Vietnam – Ms. Do Thi Thu Hien

Brazil – Celia Carvalho

Brazil – Lucy Freitas

African Roundtable attendee – Bashir Mohamed Warsame

African Roundtable attendee – Abdulkadir Ahmed Hashi [To be confirmed]

PAFA – Reuben Orwaru