

First-time Adoption

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Malta, September 17th, 2015 - *A Rising Tide: The Benefits of IPSAS to Government Accounting in Malta*

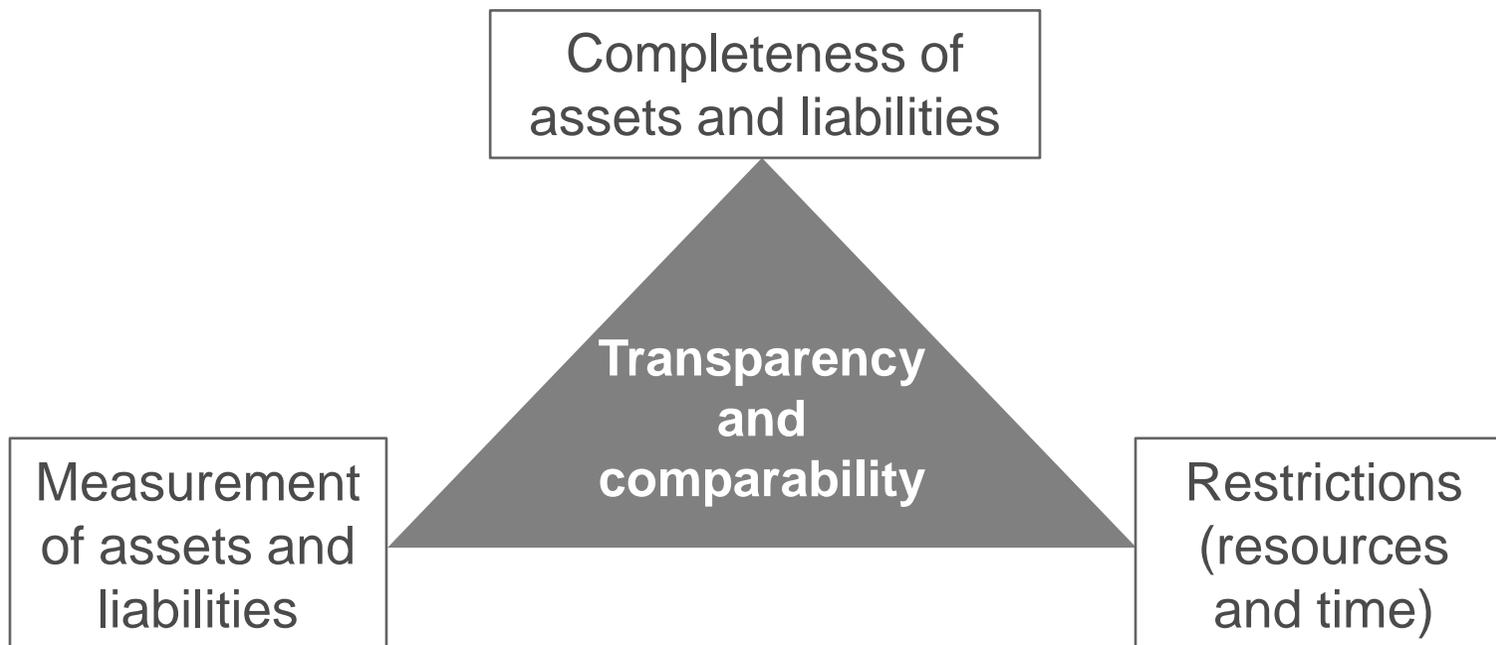
Agenda

- ▶ The first-time adoption dilemma and what is needed for first-time adoption of government accounting standards
- ▶ Overview on IPSASB's Approach to First-time Adoption
- ▶ Challenges of first-time adoption of IPSASs
- ▶ Lessons learnt

The first-time adoption dilemma and what is needed for first-time adoption of government accounting standards



The first-time adoption dilemma



▶ Completeness regarding **significant** assets and liabilities and **practical approaches** for measurement

What is needed for first-time adoption of government accounting standards?

- ▶ The three C's: “**C**ompromises that need to be done on a basis of **C**onsensus, outlined in a **C**ookbook.”
- ▶ Government accounting principles are not sufficient for preparing an opening balance sheet
- ▶ Therefore, it is essential to have guidelines for the preparation of an opening balance sheet
 - ▶ Clear guidance on the scope of assets and liabilities to be included in the opening balance sheet is needed
 - ▶ Also clustering of assets and liabilities according to their materiality for the OBS possible
 - ▶ Providing relief for measurement => measurement hierarchy

Overview on IPSASB's Approach to First-time Adoption



IPSASB's guidance for IPSAS adoption

- ▶ Study 14, *Transition to the Accrual Basis*
 - ▶ Guidance for governments and government entities
 - ▶ Practically oriented («How to do it»)
 - ▶ Includes suggestions on project management
 - ▶ Non-authoritative (not an IPSAS)

- ▶ IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

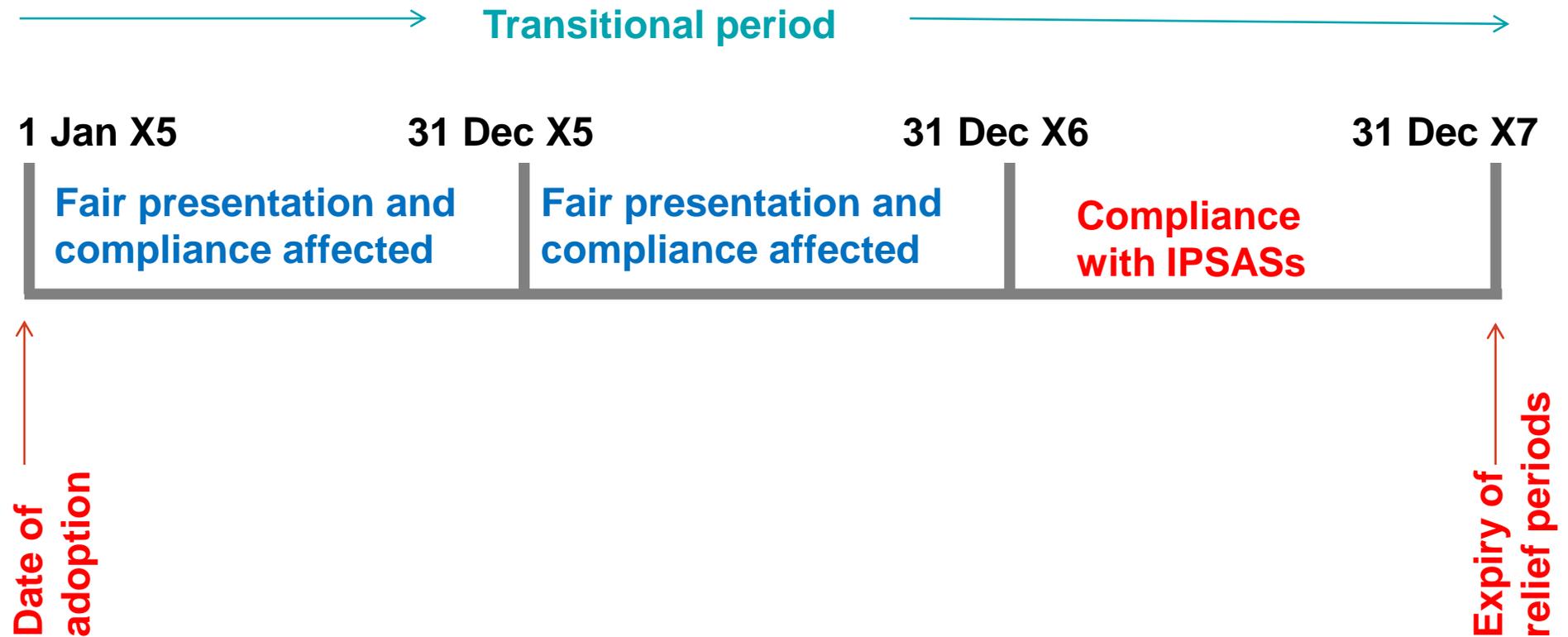
Roadmap – What happens before IPSAS 33?

- ▶ IPSAS 33 is the last stage of the adoption process
- ▶ IPSAS 33 applies from “date of adoption”
- ▶ You need a *road map* to reach that point
- ▶ Prepare for the transition to accrual-basis IPSASs:
 - ▶ Policy and/or legislative reforms
 - ▶ Gap analysis – present versus future
 - ▶ Develop a plan – which entities affected, when, how
 - ▶ Resources required – people, systems, funding
 - ▶ Develop clear policies and processes
- ▶ Reach “date of adoption” and start applying IPSAS 33

IPSAS 33 – In what respect does the standard help?

- ▶ Allows three years to recognise and/or measure specific assets, liabilities and revenues:
 - ▶ Sufficient time to develop reliable models for recognising and measuring assets and liabilities
- ▶ Concessions related to certain aspects of consolidation
- ▶ IPSAS 33 addresses:
 - ▶ what to do when reliable historical cost information is not available
 - ▶ presentation of comparative information in transitional financial statements.

IPSAS 33 – How it works: Illustration



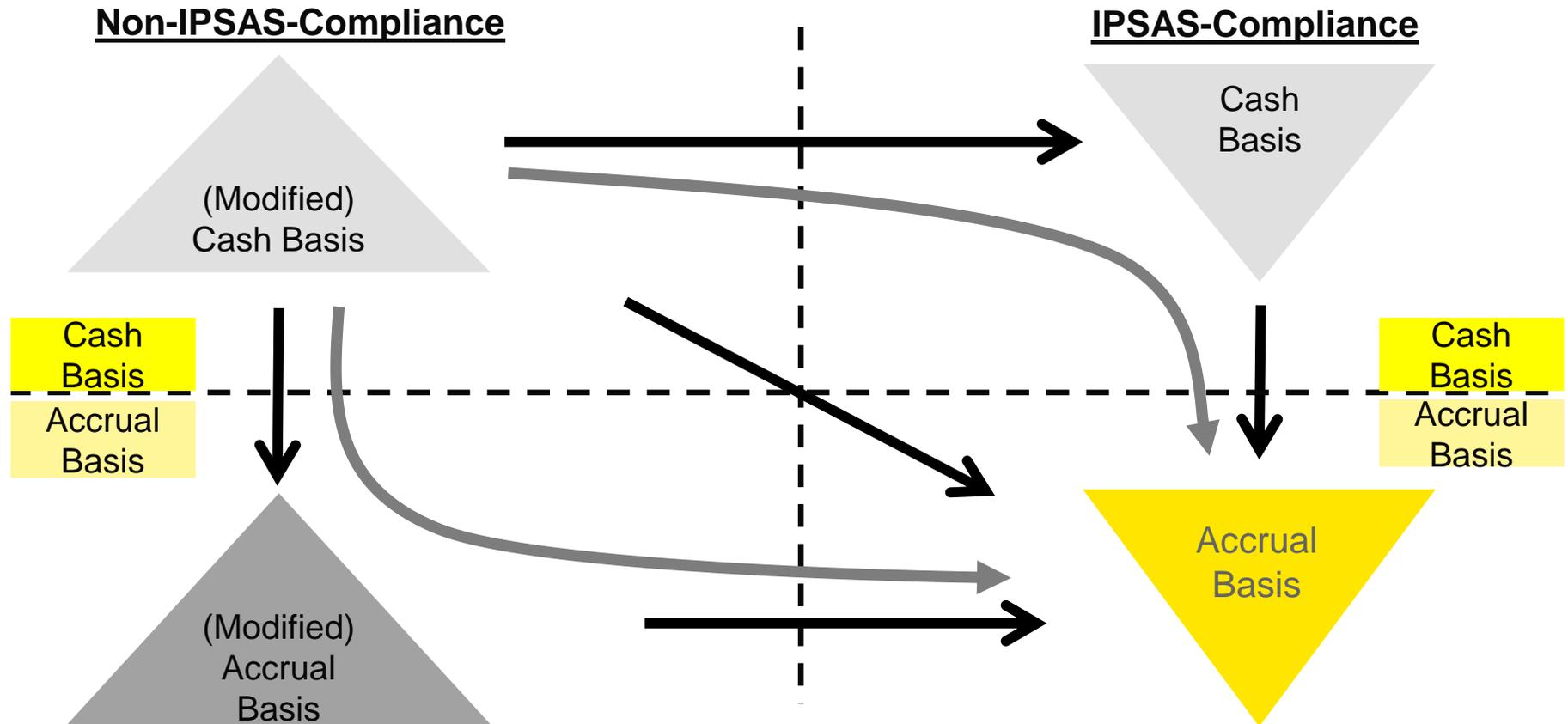
IPSAS 33 – How it works: Exemptions

- ▶ Two types of exemptions:
 - ▶ Those that do affect fair presentation and IPSAS-compliance with IPSASs
 - ▶ Usually relate to time relief for the recognition and/or measurement of items, specific accounting requirements and disclosures
 - ▶ Indicate this fact in the financial statements while exemptions applied
 - ▶ Optional, can be applied based on specific needs
 - ▶ Those that do not affect fair presentation and compliance
 - ▶ Some optional, some outline specific transitional arrangements.
 - ▶ No statement required in financial statements.

Challenges of first-time adoption of IPSASs



Challenges depend significantly on the starting position



Challenges public entities are facing when converting to the IPSAS framework

Main Challenges

Change Management

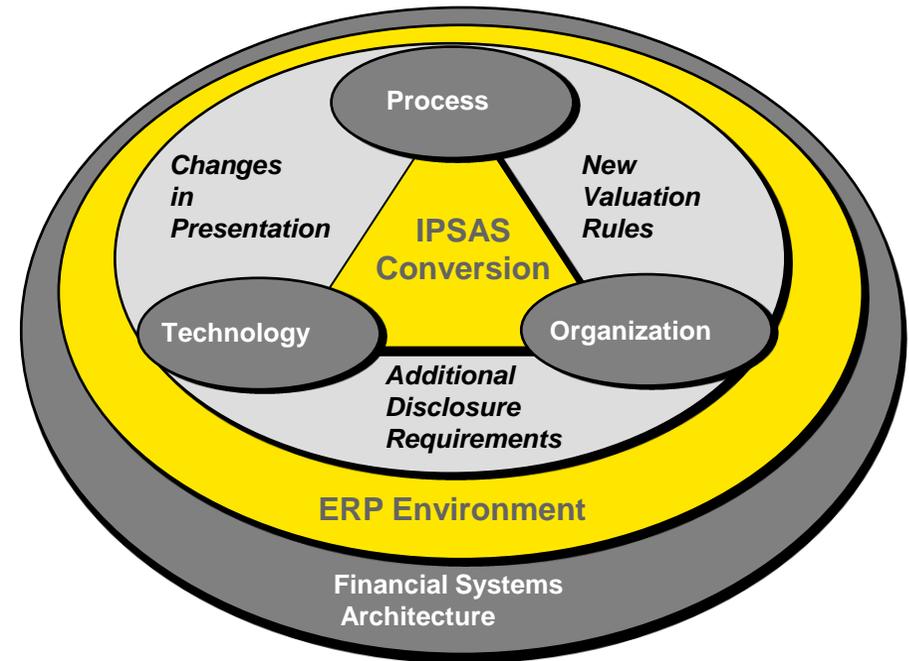
- Political/Executive support
- Climate of change, mind change for public officials
- Length of reform/”reform fatigue”
- Detailed time line missing

Resources

- Accrual accounting know-how/capacity building
- Staff capacities/skills for reform
- Time and costs associated with conversion substantial but often unclear

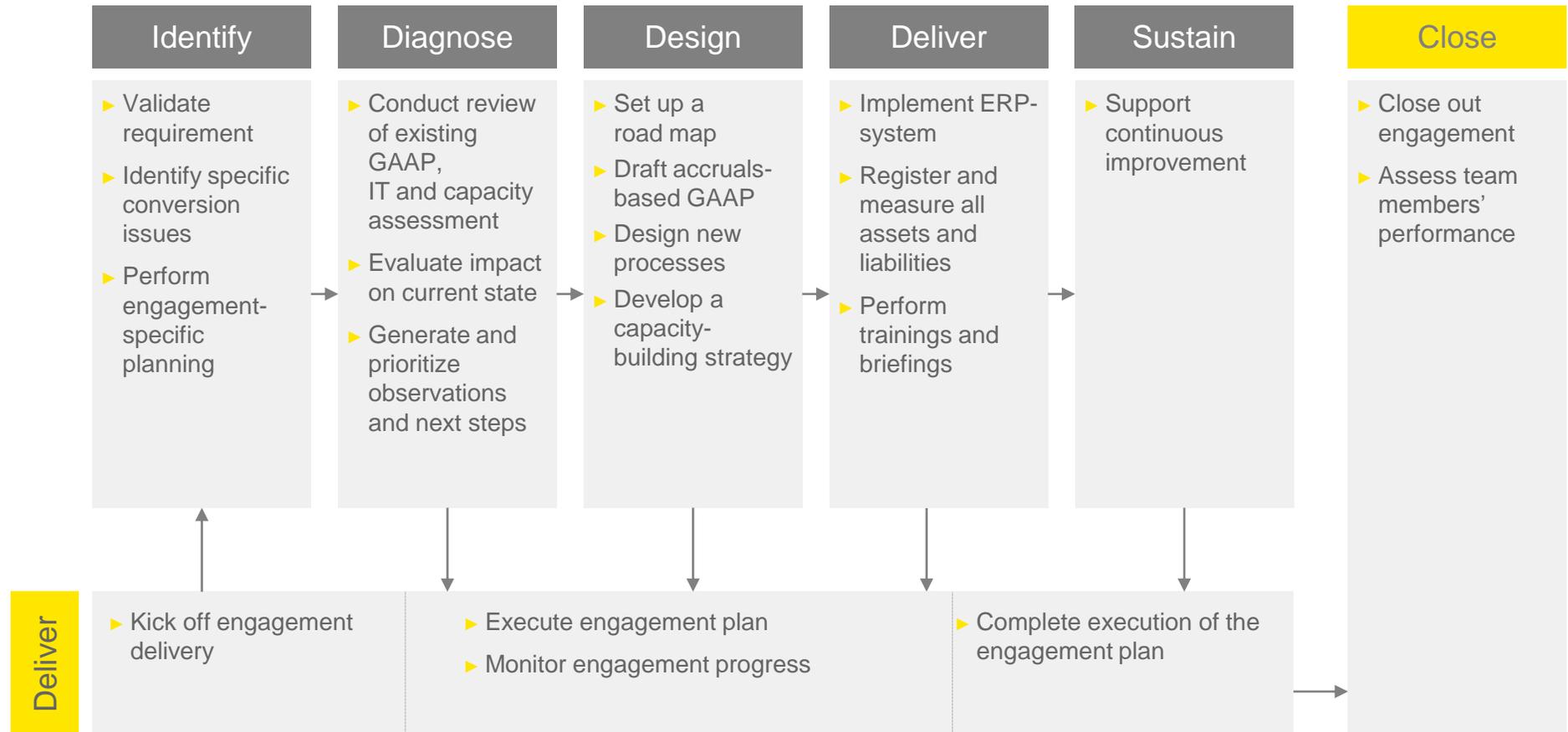
IT and Tools

- IT/ERP system implementation
- Impact of reform on the organisation, i.e. changes to processes and systems
- Registration and measurement of assets and liabilities/opening balance sheet
- Data quality and consistency



1. IPSAS conversion will impact all levels of accounting in an entity!
2. IPSAS conversions will impact several areas of the entity outside of the accounting function!
3. A top level conversion to IPSAS may not be sufficient

A possible conversion methodology



Lessons learnt



Lessons learnt

IPSAS conversions – Do's

▶ **Scope of reform**

- ▶ Recognize the **importance of budgeting** => consider reform scope carefully
- ▶ make the project relevant - reform needs to be **linked to decision-making**

▶ **Project Management**

- ▶ **Plan and manage** the conversion project **carefully** – project hides multiple interrelations and complexities
- ▶ Invest time in the **gap analysis** and development of a **realistic roadmap**
- ▶ Identify the entities which will **determine the majority of the values** regarding the items in the government's balance sheet (materiality)
- ▶ Involve **technical expertise** in the conversion (auditors, statistical offices)

▶ **Organisation**

- ▶ Establish a **conversion project steering committee** (milestones, com. protocols)
- ▶ **Anticipate the major challenges** around a successful conversion
- ▶ Think of having a **trial opening balance sheet** and **dry run** accounts

▶ **Communication**

- ▶ Aspire stakeholder-specific **explanation of benefits of IPSAS conversion** in order to obtain buy-in of all groups concerned, esp. political commitment.

Lessons learnt

IPSAS conversions – Don'ts

▶ **Scope of reform**

- ▶ Do not limit the project to an **accounting reform**
- ▶ Do not assume that it is a **desktop exercise**
- ▶ Don't aspire to be **100% IPSAS compliant** in the first stage of the reform; there will also be a learning curve

▶ **Project Management**

- ▶ Don't be **over ambitious** in terms of timing -> damage of **lost trust** is higher than initial increase in confidence after having announced great plans
- ▶ The conversion should not be undertaken without **adequate training of accounting personnel** on accrual accounting and IPSAS standards
- ▶ Don't do without an **early assessment of IT system conversion readiness**

▶ **Organisation**

- ▶ Don't assume all **documentation will be in place** – plan time for stock take

▶ **Communications**

- ▶ Don't **underestimate communication** – get especially the media involved

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Thomas, global leader of EY’s IPSAS Sector Group, was the German Board Member of the IPSASB (2009-2014), and is Chairman of the Public Sector Committee (PSC) of the Federation of European Accountants (Fédération des Experts Comptables Européens - FEE). Thomas has many years of worldwide experience in auditing and advising governments as well as public and municipal companies, and European organisations including Eurostat. In 2009-2010 he was also appointed as external IPSAS expert for the temporary “DAS Think Tank” of the European Court of Auditors. Since 2013, Thomas is a member of the Accounting Advisory Group of the European Commission. As FEE PSG chair, he contributes to both Eurostat Task Forces “EPSAS Governance” and “EPSAS Standards”.

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