

5th ICPAR Annual Seminar

First Time Adoption of
Accrual Basis IPSAS
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Agenda

Part one – Brief overview

Part two – First time adoption of accrual basis IPSAS

Part three – IPSAS financial statements

Part four – Experience sharing from MINECOFIN

Part one

Brief overview

Governments are shifting to accrual accounting

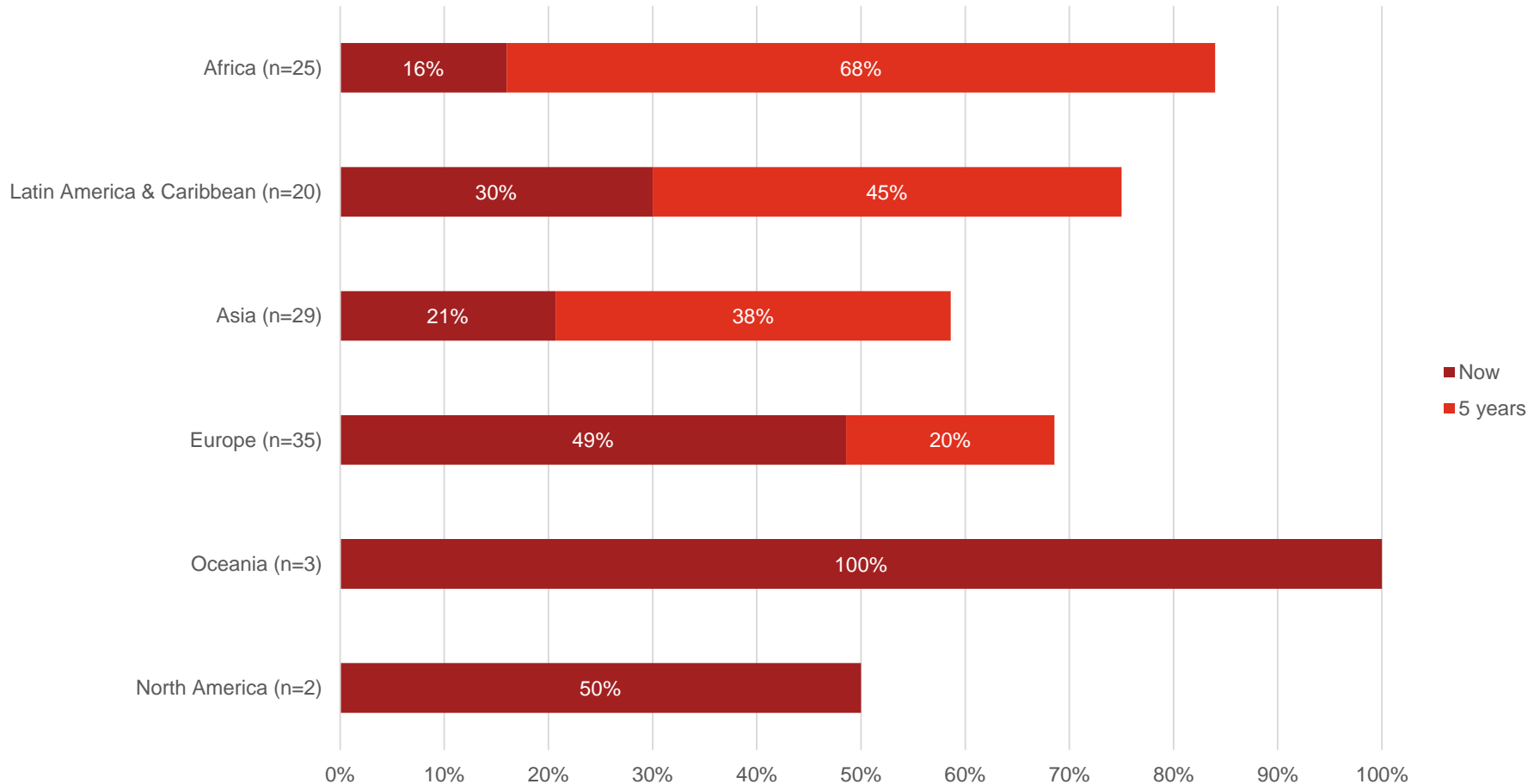
The trend towards accrual accounting is confirmed and even reinforced

+8%

31% of governments applied accrual accounting in 2015 as compared to 26% in 2012.

71% of governments will apply accrual accounting in five years' time (as compared to 63% in 2012).

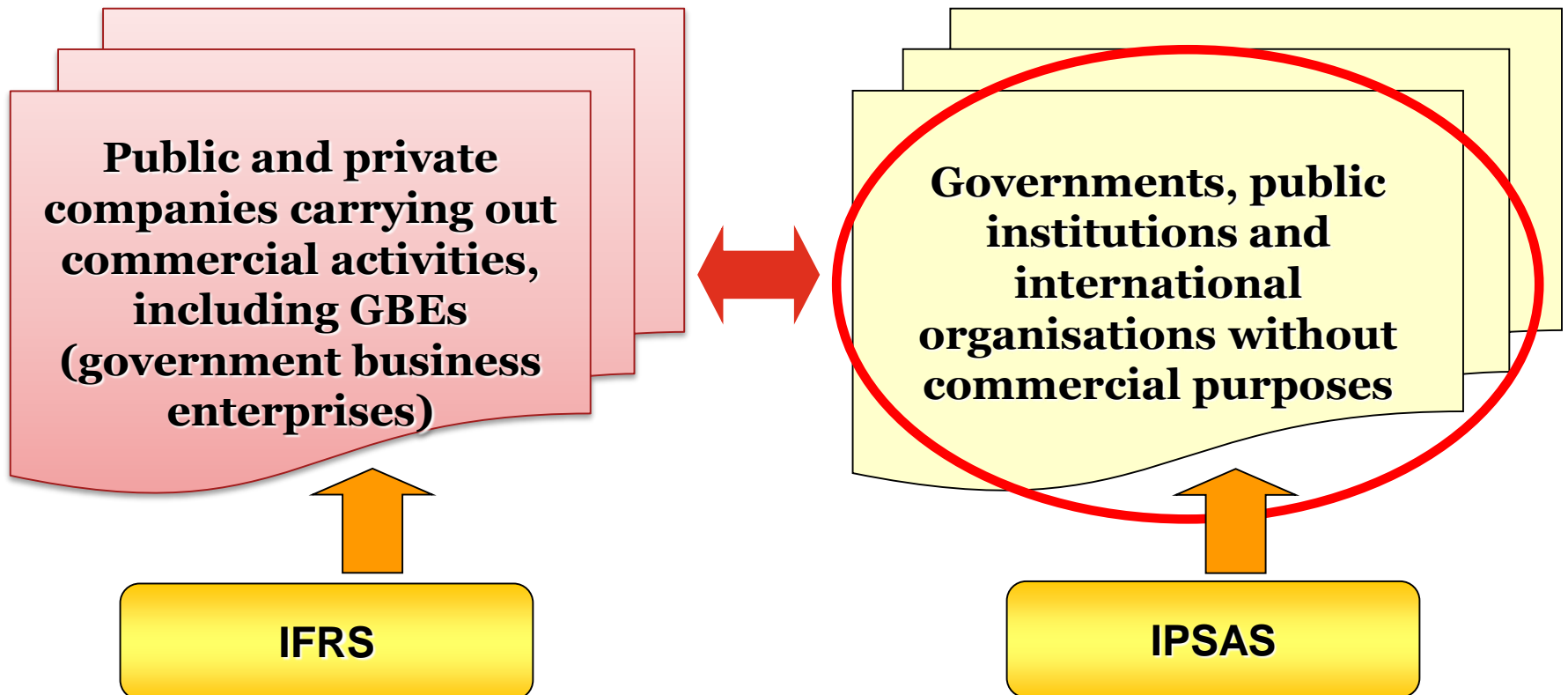
The trend is visible across all continents, with the biggest shift expected in Africa, Latin America and Asia



The international context

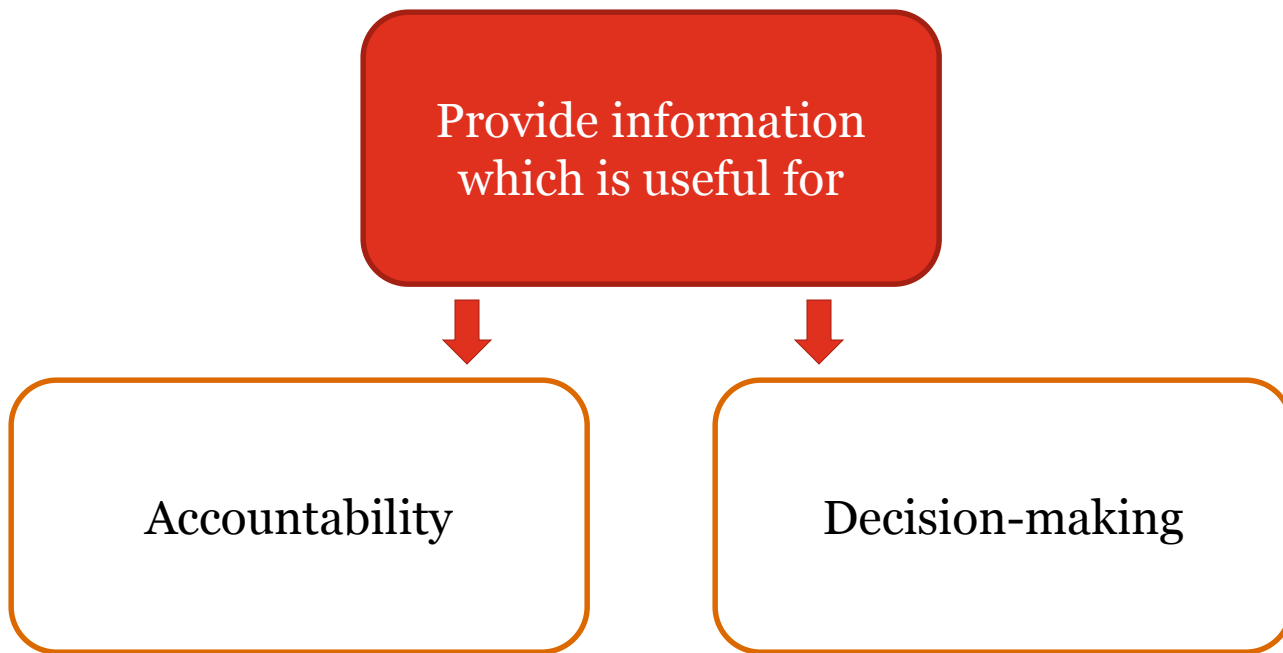
What is IPSAS

- The International Public Sector Accounting Standards (IPSAS) constitute the international accounting framework for public sector entities.



Why accrual-based IPSAS?

Objectives of IPSAS financial statements



Why accrual-based IPSAS?

Benefits of IPSAS

Presentation of assets and liabilities, risk assessment (impairment, cut off, ...)

+

Improve transparency, new financial indicators

+

Standard presentation, notes to the financial statements, cash flows,...



Improved management and stewardship of resources

+

Support to result based management and improvement of governance

+

Improved comparability of financial statements over time and between public sector entities

Overview of Accrual Basis IPSAS

IPSAS	Title	Effective Date
IPSAS 1	Presentation of Financial Statements	01-Jan-08
IPSAS 2	Cash Flow Statements	01-Jul-01
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and errors	01-Jan-08
IPSAS 4	The Effect of Changes in Foreign Exchange Rates	01-Jan-08
IPSAS 5	Borrowing Costs	01-Jul-01
IPSAS 6	Consolidated Financial Statements and Accounting for Controlled	01-Jan-08
IPSAS 7	Accounting for Investments in Associates	01-Jan-08
IPSAS 8	Financial Reporting of Interests in Joint Ventures	01-Jan-08
IPSAS 9	Revenue from Exchange Transactions	01-Jul-02
IPSAS 10	Financial Reporting in Hyperinflationary Economies	01-Jul-02
IPSAS 11	Construction Contracts	01-Jul-02
IPSAS 12	Inventories	01-Jan-08
IPSAS 13	Leases	01-Jan-08

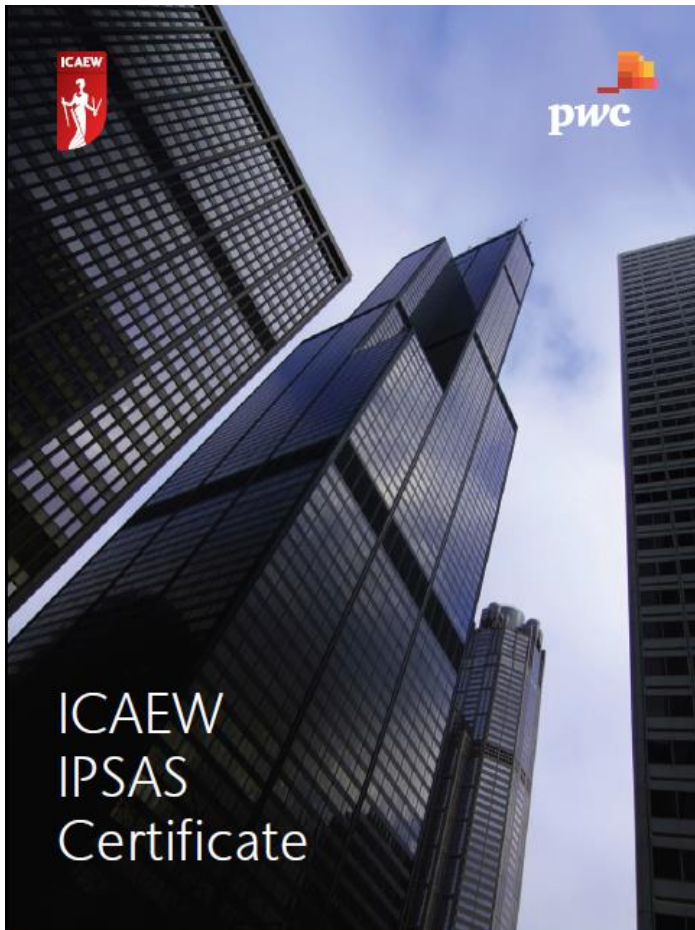
Overview of Accrual Basis IPSAS (contd.)

IPSAS	Title	Effective Date
IPSAS 14	Events After the Reporting Date	01-Jan-08
IPSAS 15	<i>Financial Instruments: Disclosure and Presentation (Superseded by</i>	01-Jan-03
IPSAS 16	Investment Property	01-Jan-08
IPSAS 17	Property, Plant and Equipment	01-Jan-08
IPSAS 18	Segment Reporting	01-Jan-03
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	01-Jan-04
IPSAS 20	Related Party Disclosures	01-Jan-04
IPSAS 21	Impairment of Non-Cash Generating Assets	01-Jan-06
IPSAS 22	Disclosure of Financial Information about the General Government	01-Jan-08
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	30-Jun-08
IPSAS 24	Presentation of Budget Information in Financial Statement	01-Jan-09
IPSAS 25	Employee Benefits	01-Jan-11
IPSAS 26	Impairment of Cash-Generating Assets	01-Apr-09

Overview of Accrual Basis IPSAS (contd.)

IPSAS	Title	Effective Date
IPSAS 27	Agriculture	01-Apr-11
IPSAS 28	Financial Instruments: Presentation	01-Jan-13
IPSAS 29	Financial Instruments: Recognition and Measurement	01-Jan-13
IPSAS 30	Financial Instruments: Disclosures	01-Jan-13
IPSAS 31	Intangible Assets	01-Apr-11
IPSAS 32	Service Concession Arrangements	01-Jan-14
IPSAS 33	<i>First-time Adoption of Accrual-Basis IPSAS</i>	<i>01-Jan-17</i>
<i>IPSAS 34</i>	<i>Separate Financial Statements</i>	<i>01-Jan-17</i>
<i>IPSAS 35</i>	<i>Consolidated Financial Statements</i>	<i>01-Jan-17</i>
<i>IPSAS 36</i>	<i>Investments in Associates and Joint Ventures</i>	<i>01-Jan-17</i>
<i>IPSAS 37</i>	<i>Joint Arrangements</i>	<i>01-Jan-17</i>
<i>IPSAS 38</i>	<i>Disclosure of Interests in Other Entities</i>	<i>01-Jan-17</i>

IPSAS Certification



- The ICAEW IPSAS Certificate has been developed in partnership with PwC's leading international experts on public sector accounting.
- The certificate includes 8 learning modules which are delivered through an online course
- The online course will allow you to study for this certificate in your own time and includes all the materials you need.
- To register for the course, please contact florence.w.gatome@rw.pwc.com

Part two

First time adoption of accrual basis IPSAS

International Public Sector Accounting Standard

33, First-time Adoption of Accrual Basis IPSAS

- This IPSAS applies when an entity first adopts accrual basis IPSASs and during the transitional period allowed in this IPSAS.
- IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs.
- A first-time adopter shall prepare and present an opening statement of financial position at the date of adoption of IPSASs. This is the starting point for its accounting in accordance with accrual basis IPSASs.
- A first-time adopter's first IPSAS financial statements shall fairly present the financial position, financial performance, and cash flows of the entity.

Recognition and/or Measurement of Assets and/or Liabilities

Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date **within three years** following the date of adoption of IPSASs:

- (a) Inventories (IPSAS 12);
- (b) Investment property (IPSAS 16);
- (c) Property, plant and equipment (IPSAS 17)
- (d) Defined benefit plans and other long-term employee (IPSAS 25);
- (e) Biological assets and agricultural produce (IPSAS 27);
- (f) Intangible assets (see IPSAS 31);
- (g) Service concession assets and the related liabilities (IPSAS 32); and
- (e) Financial instruments (IPSAS 29).

Other exemptions

IPSAS	Exemption
Non exchange revenue	Not required to change accounting policy during transition period
IPSAS 5, Borrowing Costs	Not capitalized until relevant assets are recognized inline with IPSAS
IPSAS 13, Leases	Requirements not applied until relevant assets are recognized inline with IPSAS
IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets	Not applied until relevant assets are recognized inline with IPSAS
IPSAS 20, Related Party Disclosures	Not required to disclose related party relationships but encouraged to disclose information
IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures	Not required to allow the first time adopter time to identify and appropriately classify its interests in other entities

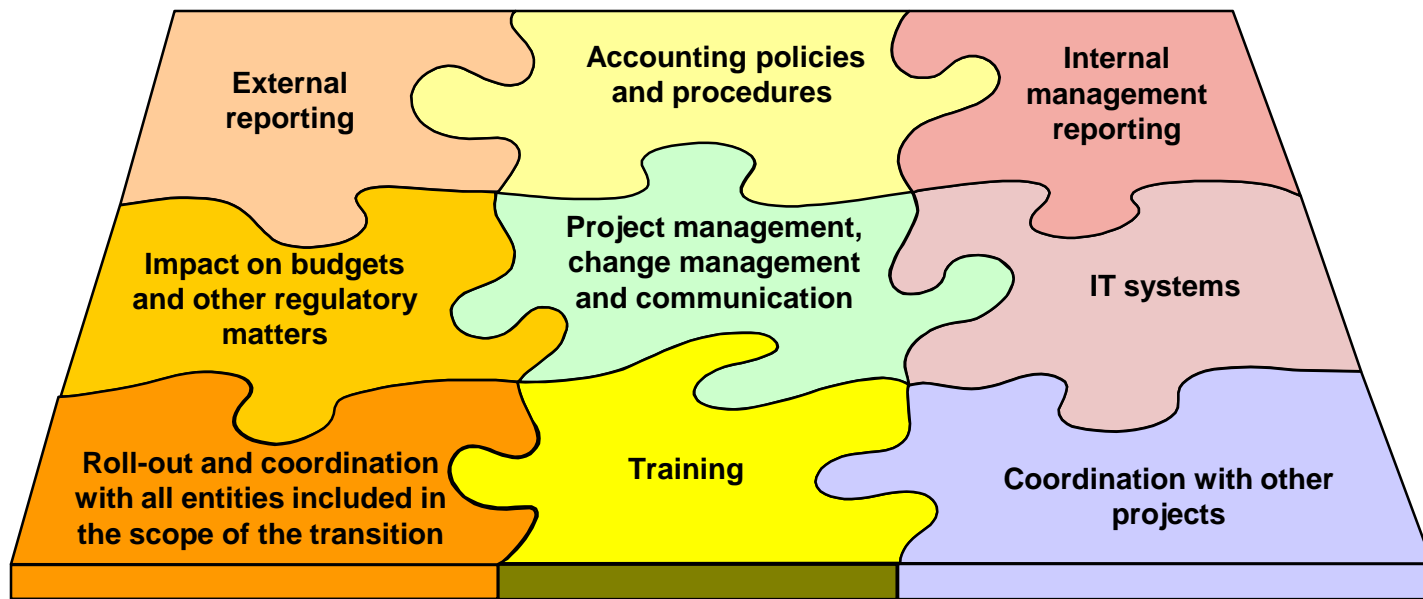
Comparative information and disclosures

- A first-time adopter is encouraged, but not required, to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this IPSAS.
- Where a first-time adopter takes advantage of the transitional exemptions, they must disclose the extent to which it has taken advantage of the transitional exemptions and progress towards meeting IPSAS requirements.
- A first-time adopter must include a statement that the financial statements do not fully comply with accrual basis IPSASs.
- The financial statements presented during the period of transition will be referred to as the “transitional IPSAS financial statements”

Making the change to IPSAS

A full transformation project

Making the change to accrual-based IPSAS is much more than a change in accounting rules. The various dimensions of the project need to be well managed and coordinated.



Part three

Format of financial statements

Elements of financial statements

Combined picture of financial position and performance

Assets	Net Assets
	Liabilities

- Complete information on the utilisation of resources (assets)
- Complete information on total borrowing and indebtedness

Revenues
<Expenses>
Net surplus/ (deficit)

- Information about the total cost of policies and activities
- Comparison of revenue from «contributors» and the cost of policies and activities

Components of financial statements

Statement of financial position

As at December 31, 2012

(in thousands of currency units)

	2012	2011		2012	2011
ASSETS			NET ASSETS/EQUITY		
Non-current assets			Capital	X	X
Intangible assets	X	X	Reserves	X	X
Land and buildings	X	X	Accumulated surpluses/(deficits)	X	X
Infrastructure, plant and equipment	X	X	Minority interest	X	X
Investments in associates	X	X	Total net assets/equity	<u>X</u>	<u>X</u>
Recoverables from non-exchange transactions	X	X			
Receivables from exchange transactions	X	X	LIABILITIES		
Other financial assets	X	X	Non-current liabilities		
	<u>X</u>	<u>X</u>	Employee benefits	X	X
			Long-term borrowings	X	X
Current assets			Long-term provisions	X	X
Inventories	X	X	Payables	X	X
Recoverables from non-exchange transactions	X	X		<u>X</u>	<u>X</u>
Receivables from exchange transactions	X	X			
Prepayments and other current assets	X	X	Current liabilities		
Cash and cash equivalents	X	X	Current portion of long-term borrowings	X	X
	<u>X</u>	<u>X</u>	Short-term borrowings	X	X
Total assets	<u>X</u>	<u>X</u>	Employee benefits	X	X
			Short-term provisions	X	X
			Payables	X	X
				<u>X</u>	<u>X</u>
			Total liabilities	<u>X</u>	<u>X</u>
			Total equity and liabilities	<u>X</u>	<u>X</u>

Components of financial statements

Statement of financial performance

Year ended December 31, 20XX

(Illustrating the classification of expenses by function)

(in thousands of currency units)

	2012	2011
Revenue		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	<u>X</u>	<u>X</u>
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural, and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	<u>(X)</u>	<u>(X)</u>
	<u>X</u>	<u>X</u>

	2012	2011
Share of surplus of associates	<u>X</u>	<u>X</u>
Surplus/(deficit) for the period	<u><u>X</u></u>	<u><u>X</u></u>
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	X	X
	<u>X</u>	<u>X</u>

(Illustrating the classification of expenses by nature)

	2012	2011
Expenses		
Wages, salaries, and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	<u>(X)</u>	<u>(X)</u>

Components of financial statements

Cash flow statement

Year ended December 31, 20XX

(in thousands of currency units) (direct method)

	2012	2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Taxation	X	X		
Sales of goods and services	X	X		
Grants	X	X		
Interest received	X	X		
Other receipts	X	X		
Payments				
Employee costs	(X)	(X)		
Suppliers	(X)	(X)		
Interest paid	(X)	(X)		
Other payments	(X)	(X)		
Net cash flows from operating activities	X	X		
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of plant and equipment	(X)	(X)		
Proceeds from sale of plant and equipment	X	X		
Proceeds of sale of investments	X	X		
Purchase of foreign currency securities	(X)	(X)		
Net cash flows from investing activities	(X)	(X)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings			X	X
Repayment of borrowings			(X)	(X)
Distribution/dividend to government			(X)	(X)
Net cash flows from financing activities			X	X
Net increase/(decrease) in cash and cash equivalents			X	X
Cash and cash equivalents at beginning of period			X	X
Cash and cash equivalents at end of period			X	X

Components of financial statements

Changes in net assets

Year ended December 31, 20xx
(in thousands of currency units)

	Attributable to owners of the controlling entity					Minority interest	Total net assets/equity
	Contributed capital	Other reserves	Translation reserve	Accumulated surpluses/ (deficits)	Total		
Balance at December 31, 2010	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Changes in net assets/equity for 2011							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		X	(X)		X	X	X
Surplus for the period				X	X	X	X
Total recognized revenue and expense for the period		X	(X)	X	X	X	X
Balance at December 31, 2011 carried forward	X	X	(X)	X	X	X	X

	Attributable to owners of the controlling entity					Minority interest	Total net assets/equity
	Contributed capital	Other reserves	Translation reserve	Accumulated surpluses/ (deficits)	Total		
Balance at December 31, 2011 brought forward	X	X	(X)	X	X	X	X
Changes in net assets/equity for 2012							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		X	(X)		X	X	X
Surplus for the period				X	X	X	X
Total recognized revenue and expense for the period		X	(X)	X	X	X	X
Balance at December 31, 2012	X	X	(X)	X	X	X	X

Components of financial statements

Notes to the financial statements

- Accounting principles, rules and methods:
 - Statement of compliance with IPSAS (the financial statements should comply with the requirements of applicable standards).
 - Where no specific guidance, accounting policies need to be developed and applied consistently year on year.

- Notes contain ***information in addition*** to that presented in the statement of financial position, the statement of financial performance, the statement of changes in net assets/equity and the cash flow statement.
 - financial and non-financial information (narratives, etc.).

Audit process

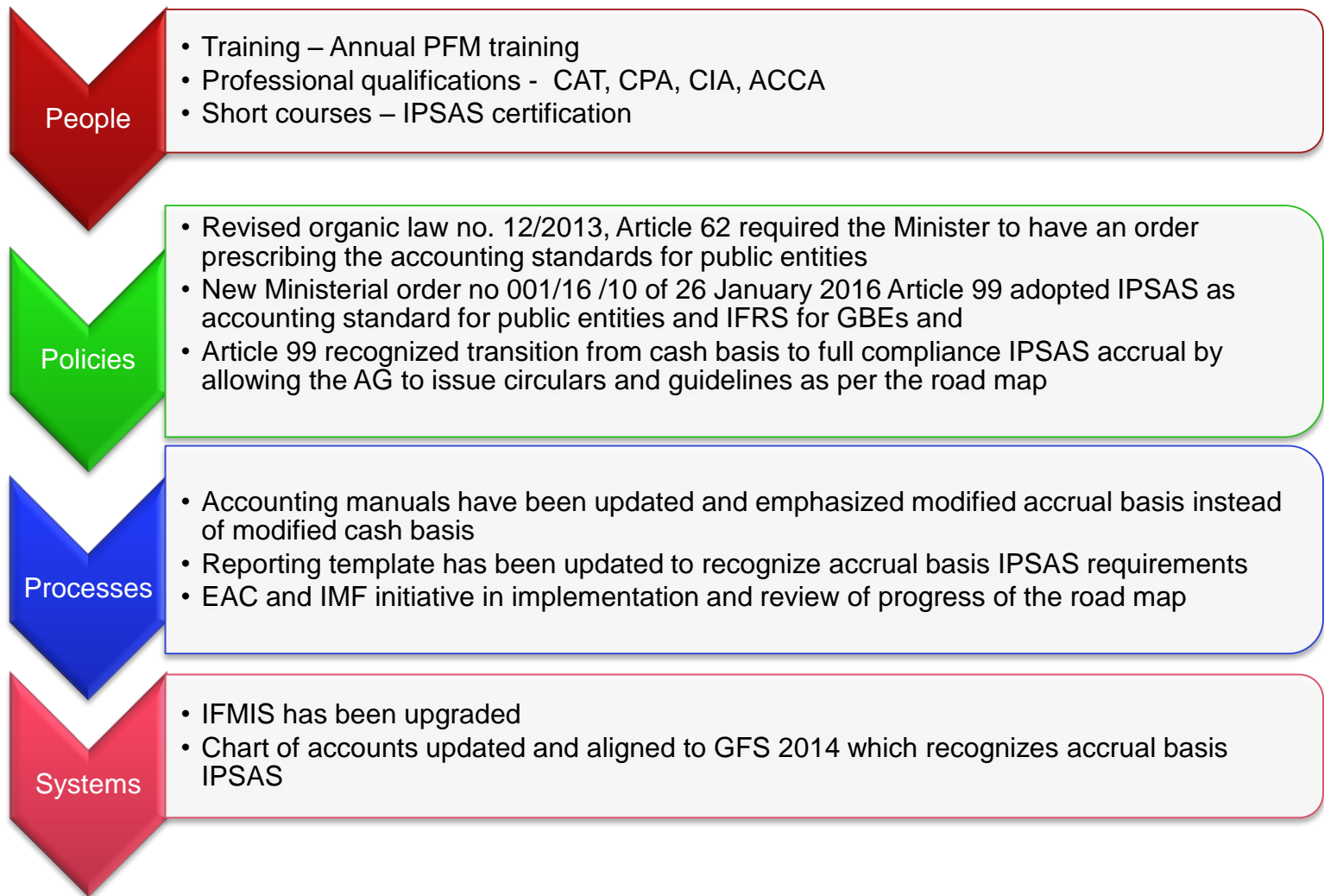
- Auditors make the final call on whether a general purpose financial statement is IPSAS compliant through their audit opinion.
- They must therefore be part of the implementation process and must understand IPSAS in order to audit and provide an audit opinion.

Experience sharing

MINECOFIN

Making the change to accrual basis IPSAS

Government of Rwanda Initiatives



Progress in implementation

Current status

- Modified cash basis being applied aligned to cash basis IPSAS at 80%
- 126 entities under central government
- 30 districts and City of Kigali under local government
- 121 self accounting projects under development budget
- Around 5,000 subsidiary entities disclosed as NBAs (non budgetary agencies)

Entity mapping/clustering

- Cost benefit analysis in implementing IPSAS hence some entities are of higher priority than others
- Extra budgetary entities (schools, hospitals and boards)
- Ministries, agencies, embassies and provinces
- Districts
- National revenue and treasury
- Subsidiary entities which are NBAs

Road map

- 7 year road map
- Aligned to EAC high level road map for partner states
- Groups accounting standards per accounting sub topics

Thank you



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