



# *Status of IPSAS adoption in Latin American and Caribbean countries*



**IV FOCAL**

Foro de Contadurías Gubernamentales  
de América Latina

16 al 18 de agosto de 2017 | PANAMÁ

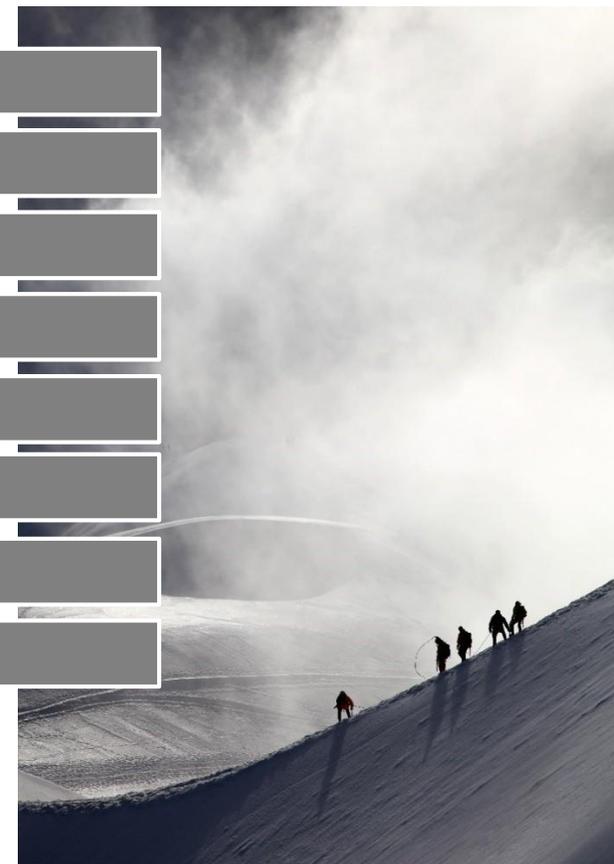
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*Chairman of the CAG to the IPSASB*  
*Ernst & Young Germany*





# Agenda

- 1 Objectives and timeline
- 2 Overall level of alignment
- 3 Illustration of results for selected IPSAS
- 4 Implementation support
- 5 Expected benefits
- 6 Recommendations and lessons learned
- 7 Conclusion and outlook
- 8 Annexes

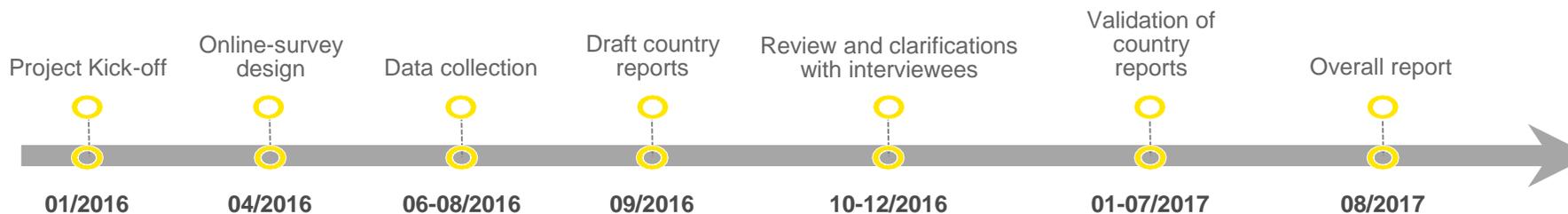




# 1. Objectives and timeline



- 1** Design and disseminate a survey and collect, review and analyze relevant information on the status of accrual IPSAS adoption.
- 2** Identify the level of alignment with accrual IPSAS
- 3** Compare the existing public sector accounting practices between the countries which responded to the survey and an advanced country in the world (New Zealand)





# 1. Objectives and timeline

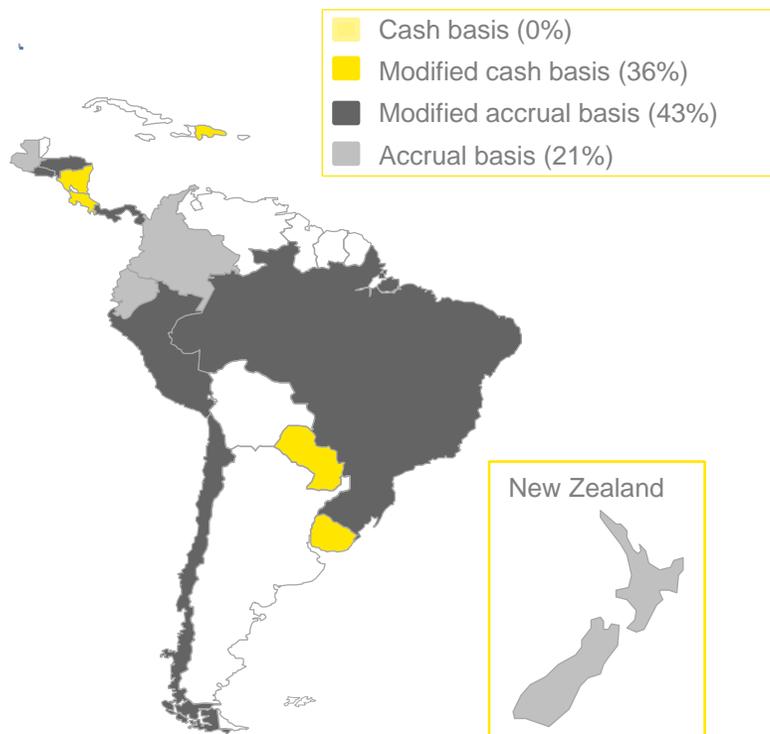
## Data capturing



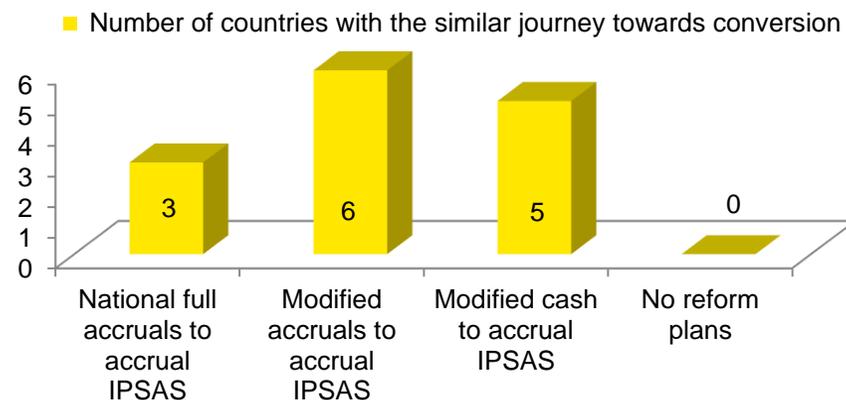


# 1. Objectives and timeline

## Current accounting model applied (starting point for the reform process to come)



- ▶ The self-assessment of the current accounting model shows that only 5 out of the 14 LAC countries are operating on a cash based accounting system.
- ▶ The majority of the selected countries already operate on either full accruals or modified accruals.
- ▶ All of the selected countries indicated that they plan to implement accrual IPSAS. None of them plans to remain at the status quo.

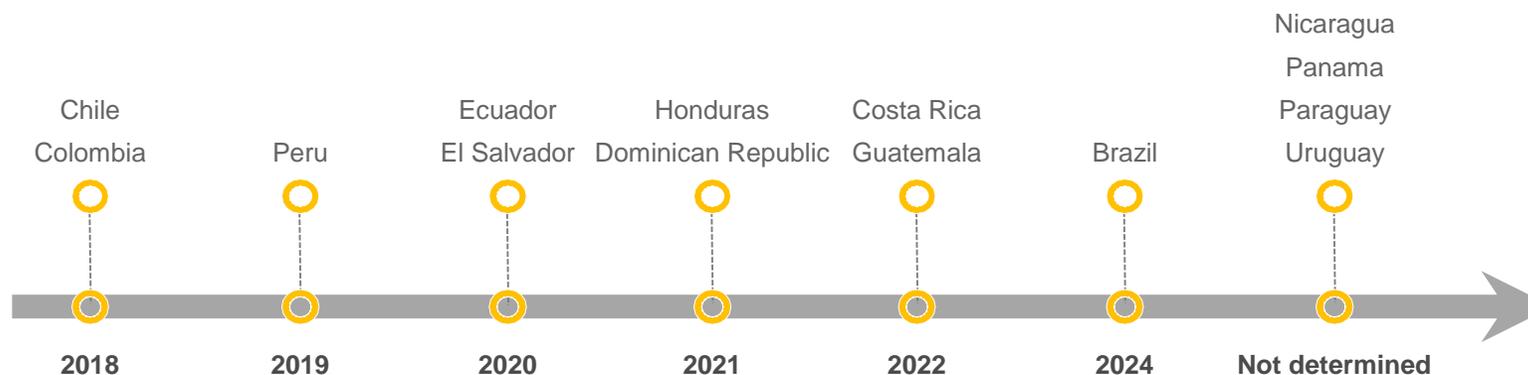




# 1. Objectives and timeline

## Timeline of expected full conversion with new accounting rules on central government level

- ▶ All 14 LAC countries plan to move towards accrual IPSAS. The majority aims at achieving full conversion to their new accounting frameworks within the next 5 years.
- ▶ The reform progress or plans have to be considered when looking at the results of the gap analysis. Even the 3 most advanced LAC countries in terms of the timeline below have not yet fully completed their reforms.
- ▶ Full conversion does not necessarily mean 100% alignment with accrual IPSAS. The majority of countries does not only plan for a gradual approach but also allow for a certain national tailoring of the accrual IPSAS.
- ▶ Gradualism: Some countries such as Chile have divided the reform timeline into subsequent stages for the different levels of government. Other countries such as Brazil have prioritized the accounting areas and implement selected standards prior to others. Another approach is the use of pilot entities from different levels of government.





## 2. Overall level of alignment

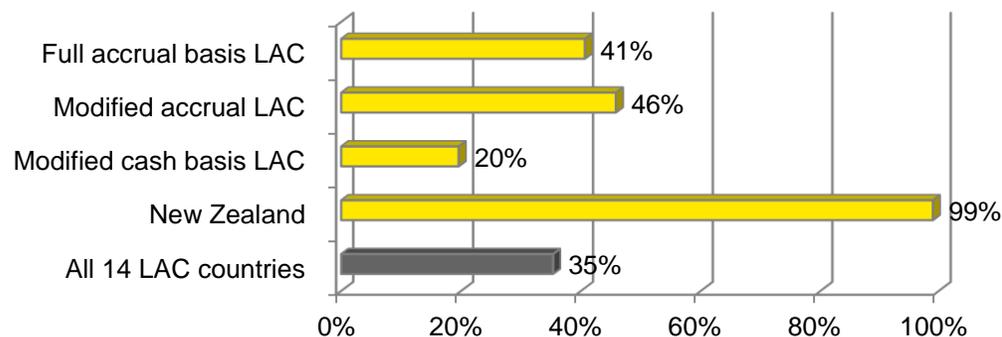
### Overall level of alignment with IPSAS per country

- 0 – 33 % alignment (71%)
- 34 – 66 % alignment (7%)
- 67 – 100 % alignment (21%)



- ▶ There is no geographical pattern to be observed within the region.
- ▶ The average level of alignment achieved for LAC is 35%.
- ▶ In LAC, Chile, Colombia and Peru are the most advanced.
- ▶ The level of alignment per LAC country varies between 11% and 84%.
- ▶ New Zealand achieves a remarkably high score.
- ▶ The five countries following a modified cash accounting model achieve 20% average alignment, with scores varying between 11% and 31%.
- ▶ The three countries applying full accruals score 41%. This reveals how different accrual accounting rules can be interpreted.

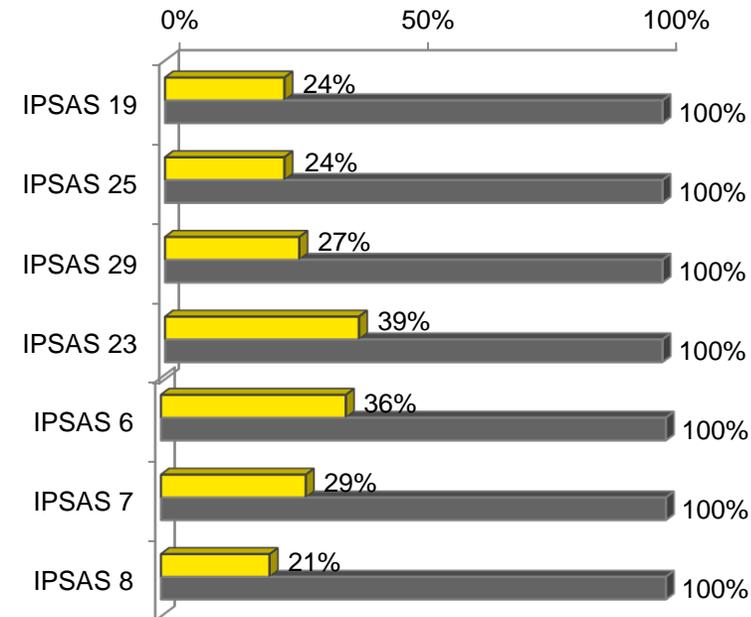
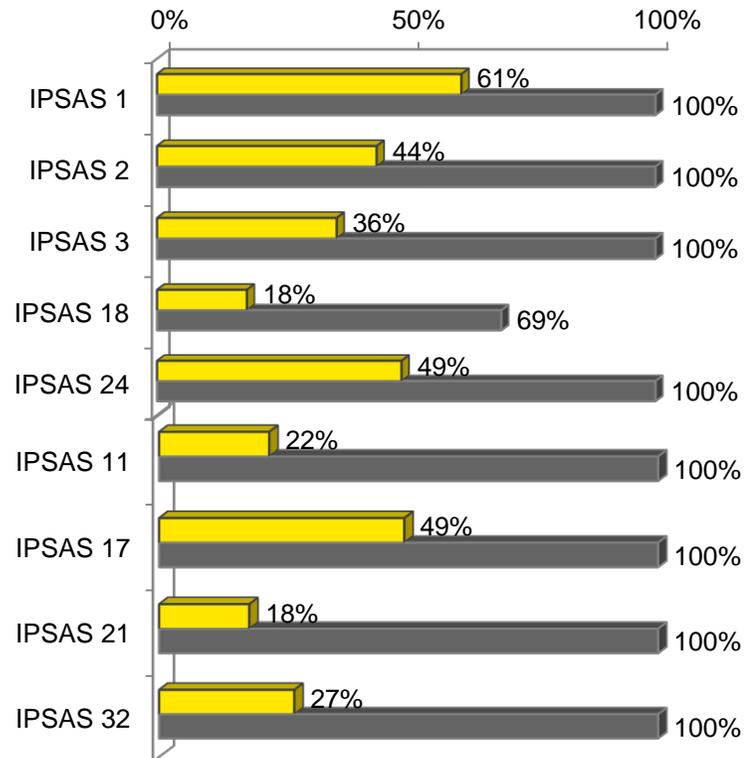
Average level of alignment with IPSAS compared to the accounting model





## 2. Overall level of alignment

### Average level of alignment per individual IPSAS



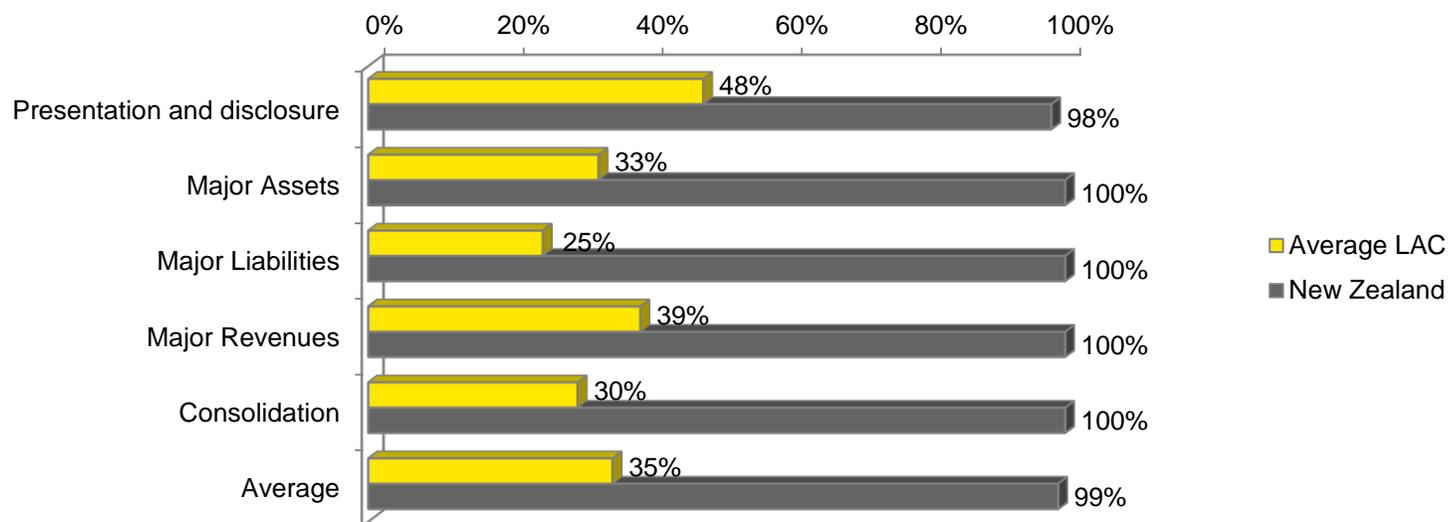
- ▶ The highest alignment is achieved for IPSAS 1 (61%), IPSAS 24 (49%) and IPSAS 17 (49%).
- ▶ The IPSAS less reflected in national rules are IPSAS 11 (22%), IPSAS 18 (18%) and IPSAS 21 (18%).





## 2. Overall level of alignment

### Overall level of alignment per accounting dimension



- ▶ The comparison highlights those accounting dimensions which will represent the major challenges in the region. These are namely the accounting for major liabilities and consolidation. However, a huge diversity can be observed (e.g. in consolidation some LAC countries show 0% and do not perform any consolidation while others score 98%)
- ▶ Regarding accounting for major assets the regional average achieved is 33%, but for the most essential standard, IPSAS 17 (49%) significant progress has already been made in the field of recognition and measurement of PPE.
- ▶ Considering that the transition periods allowed for IPSAS 17 (Property, Plant and Equipment) and IPSAS 25 (Employee Benefits) are currently ongoing in the most advanced LAC countries, the overall level of alignment will certainly further increase within the next five years.

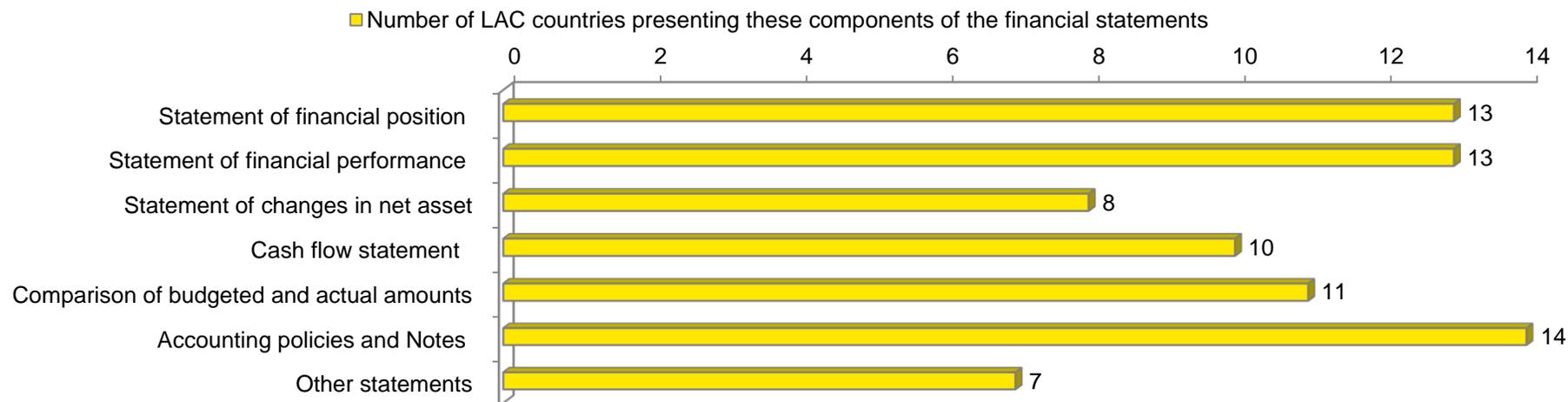


### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 1: Components of the financial statements



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- ▶ All LAC countries except one present a statement of financial position and a statement of financial performance.
- ▶ All countries publish a summary of significant accounting policies and notes.
- ▶ The component “Statement of changes in net assets” is the least popular and is only presented in eight of the 14 countries.
- ▶ All countries publish their financial statements at least annually. None of the countries has set itself a duration greater than six months for the reporting process. Taking the statement of financial position for example: Five countries have monthly (Costa Rica, El Salvador, and Peru) or quarterly (Brazil and Panama) interim reports.



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### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 1: Components of the financial statements

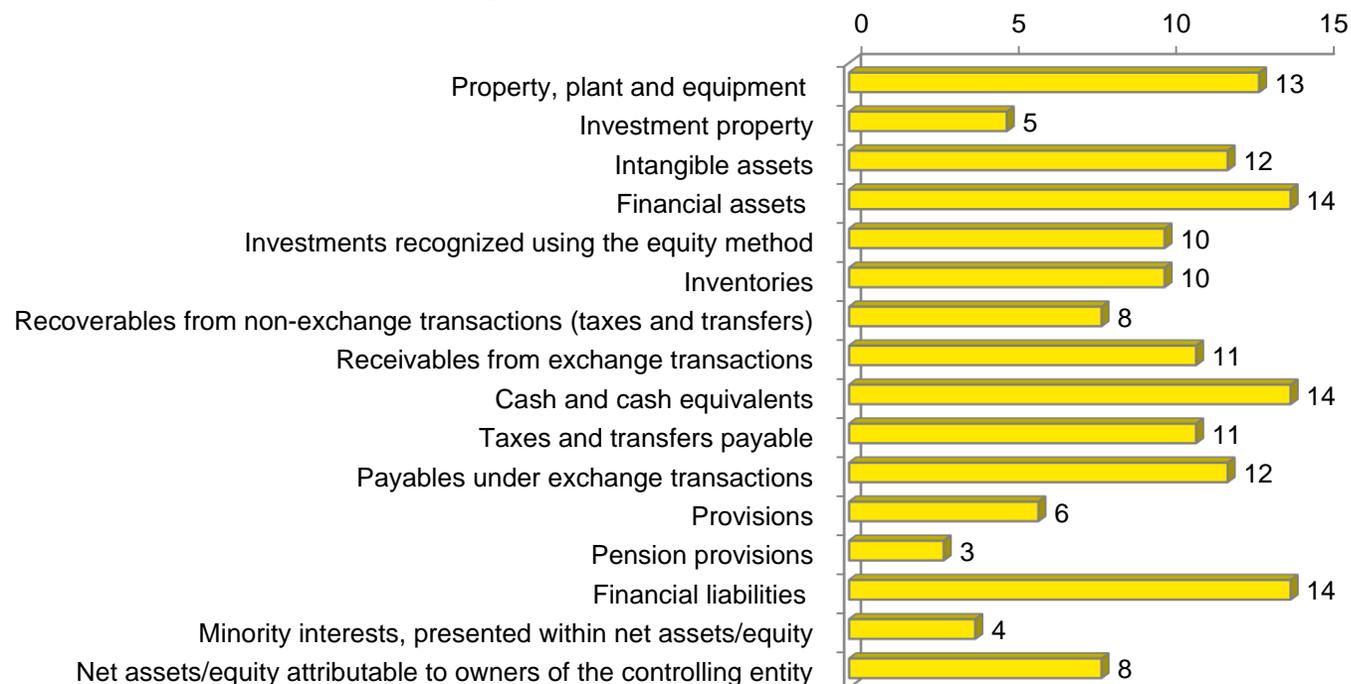


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■ Number of LAC countries presenting this information in the statement of financial position



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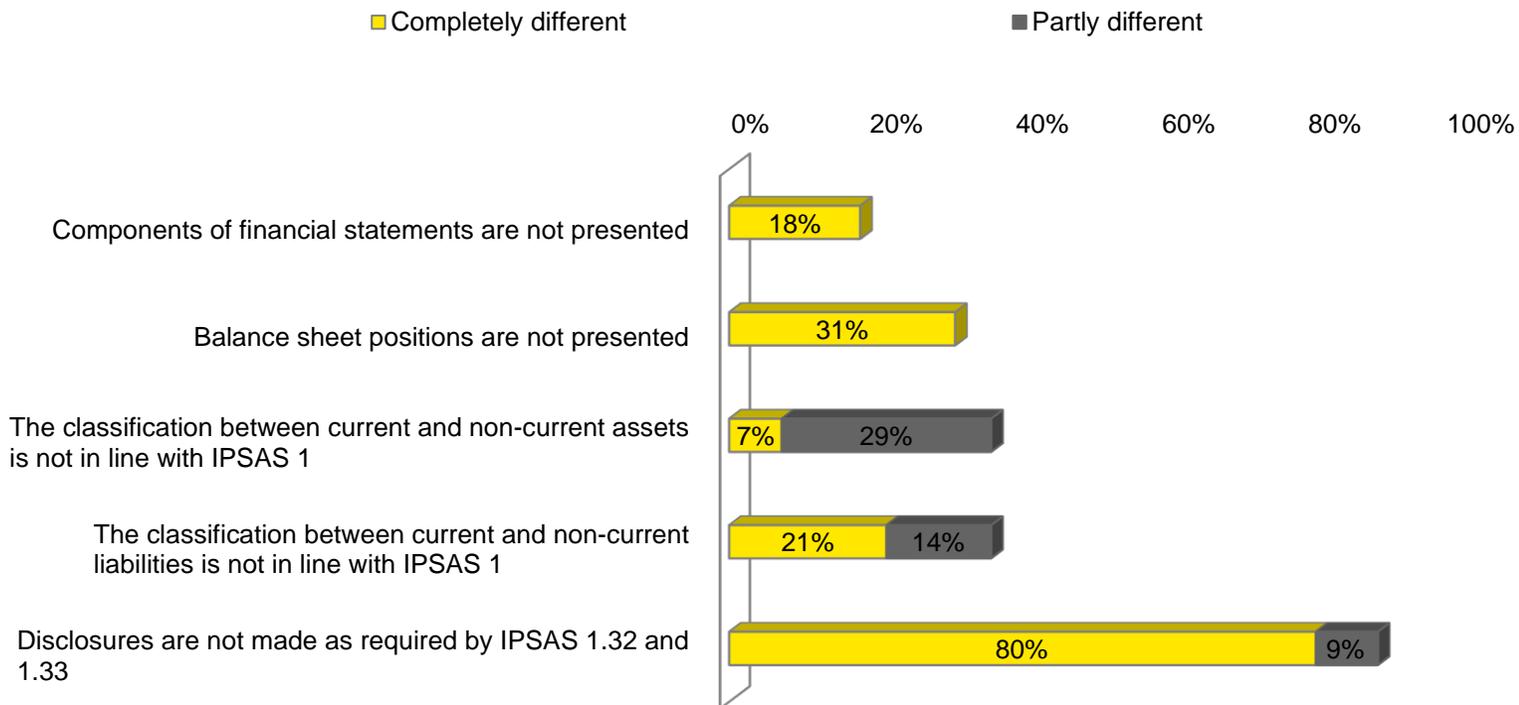
### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 1: Frequency of gaps to the IPSAS 1 requirements



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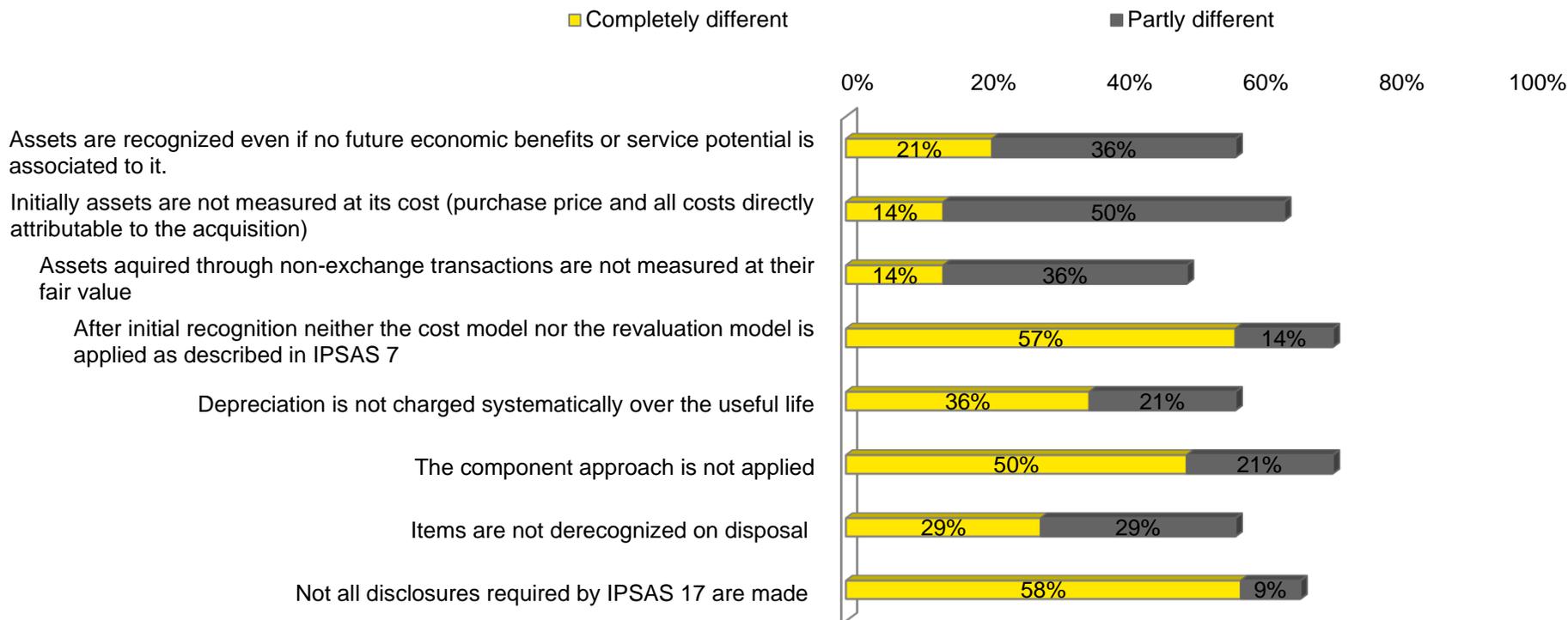


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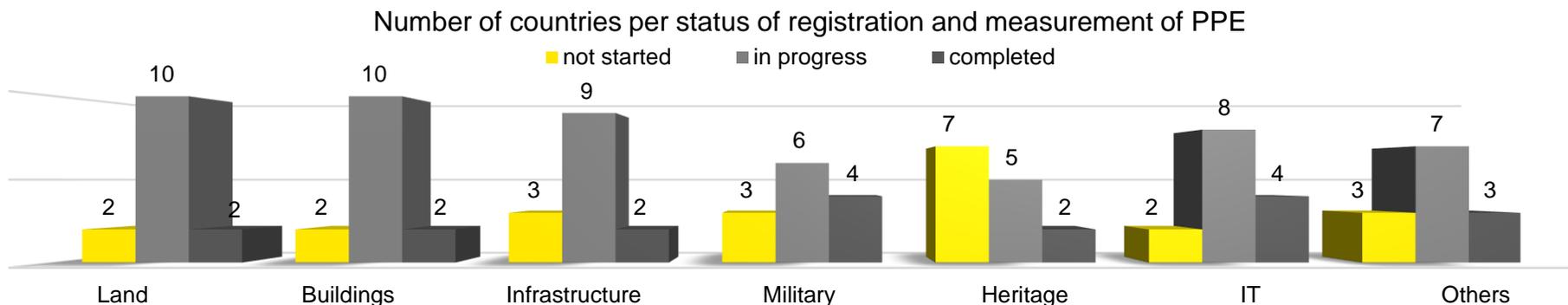
### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 17: Frequency of gaps to the IPSAS 17 requirements

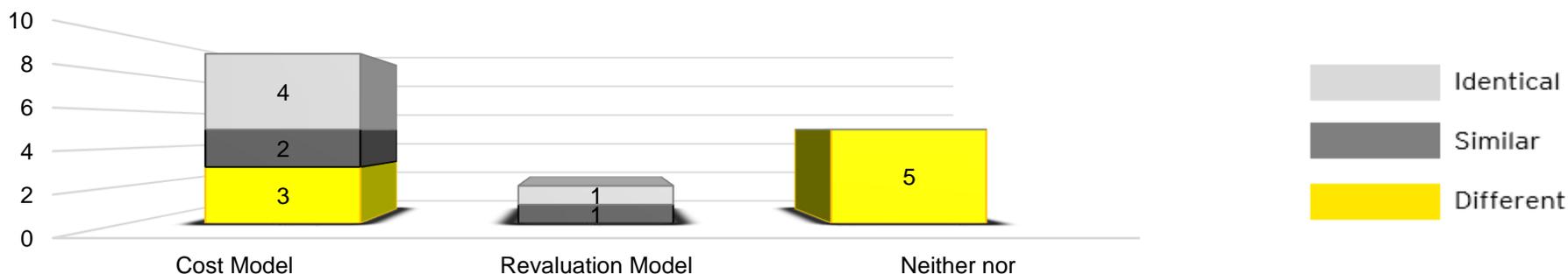


### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 17: Further details on the accounting for PPE



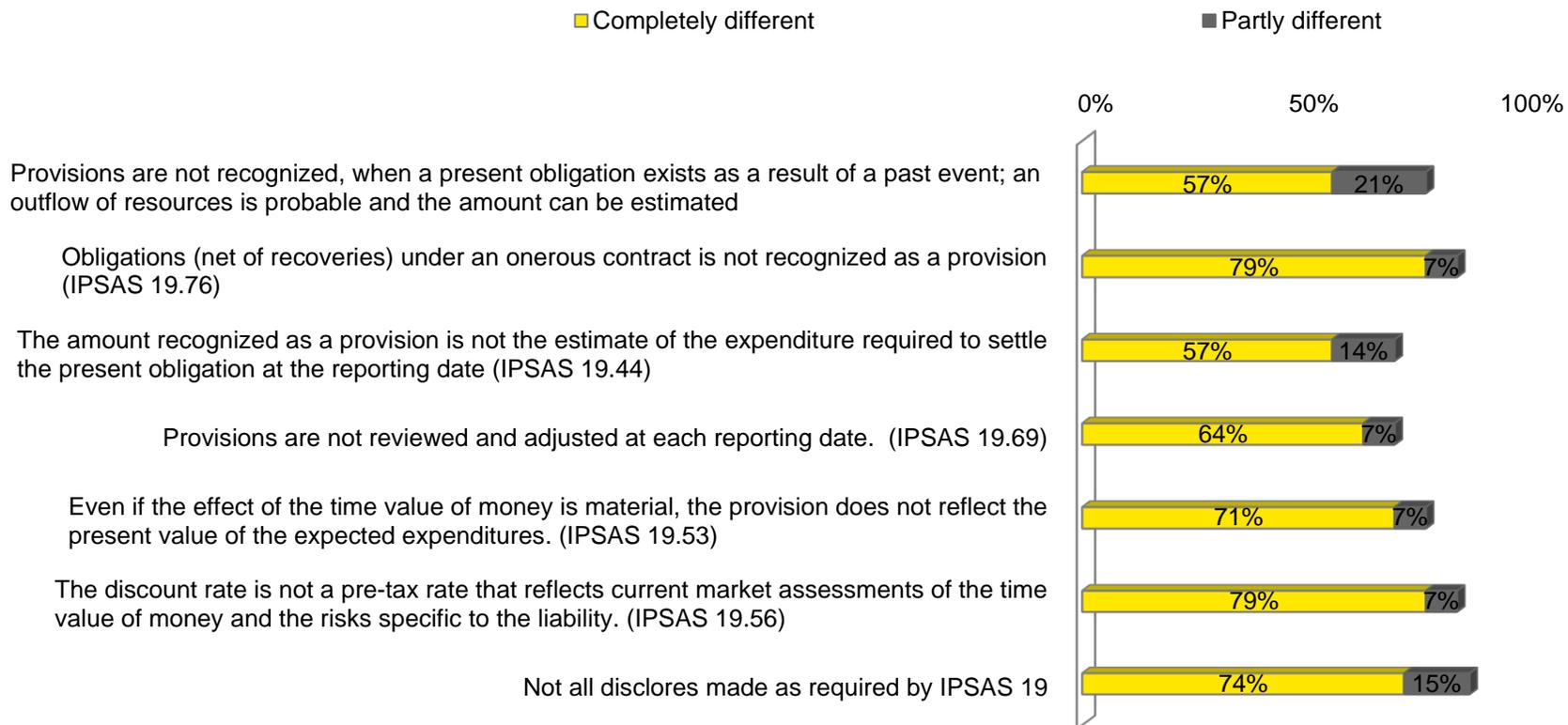
#### Nº of national rules covering the Cost or the Revaluation Model





### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 19

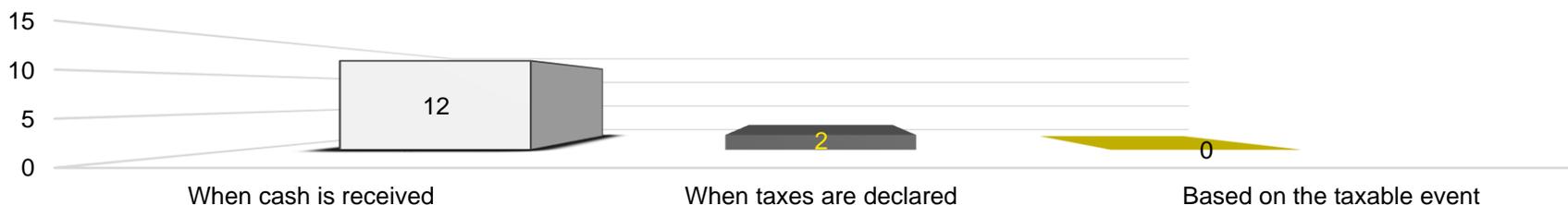




### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 23

New Zealand applies the concept of the taxable event as required by IPSAS 23. The following chart provides an overview of the application of the concept of the taxable event in the selected LAC countries

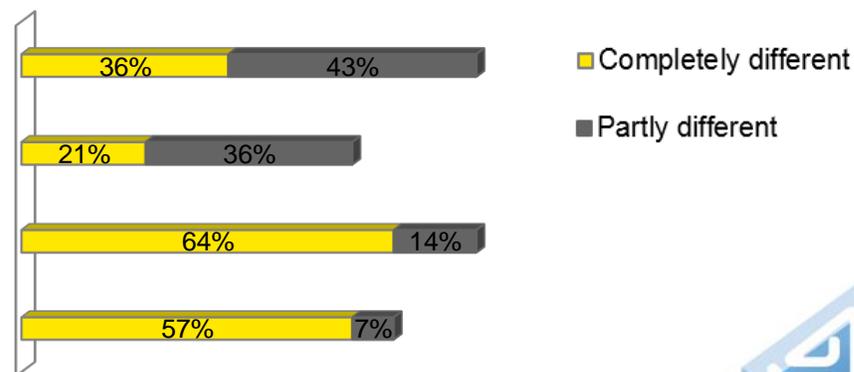


Inflows from non-exchange transactions are not recognized only when future economic benefits are probable and fair value is measurable.

Initial measurement of assets acquired through a non-exchange transaction is not at fair value

When recognizing revenue from non-exchange transactions liabilities related to the same inflow are not offset (IPSAS 23.44)

When satisfying present obligations a reduction of the carrying amount of the liability is not accounted against revenue recognition. (IPSAS 23.45)

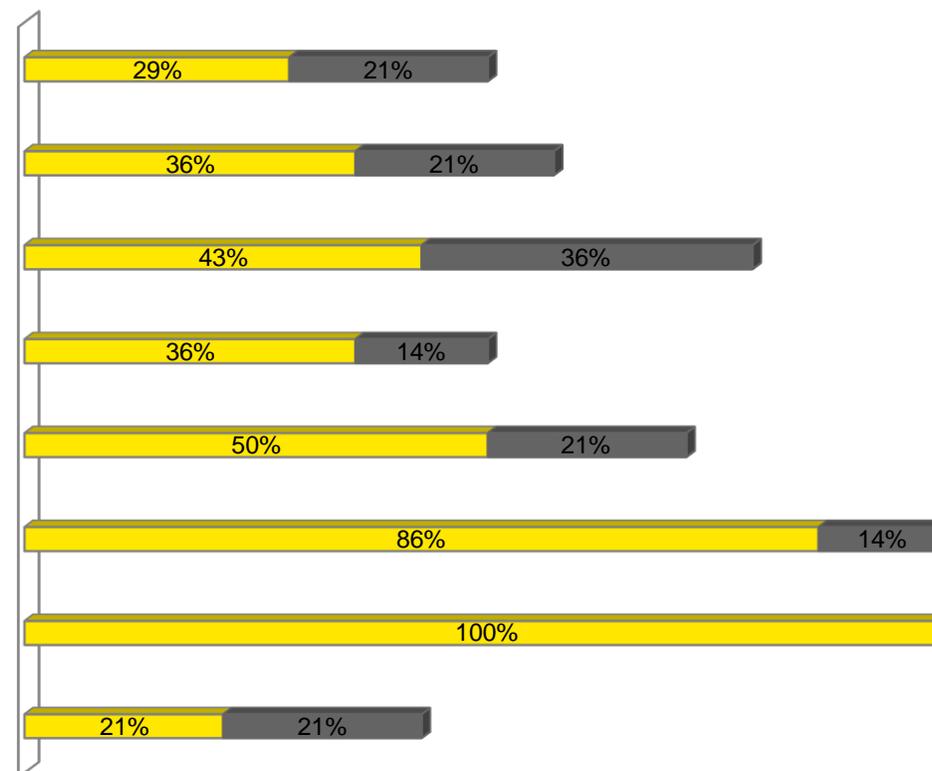




### 3. Illustration of results for selected IPSAS

#### Survey results for IPSAS 23

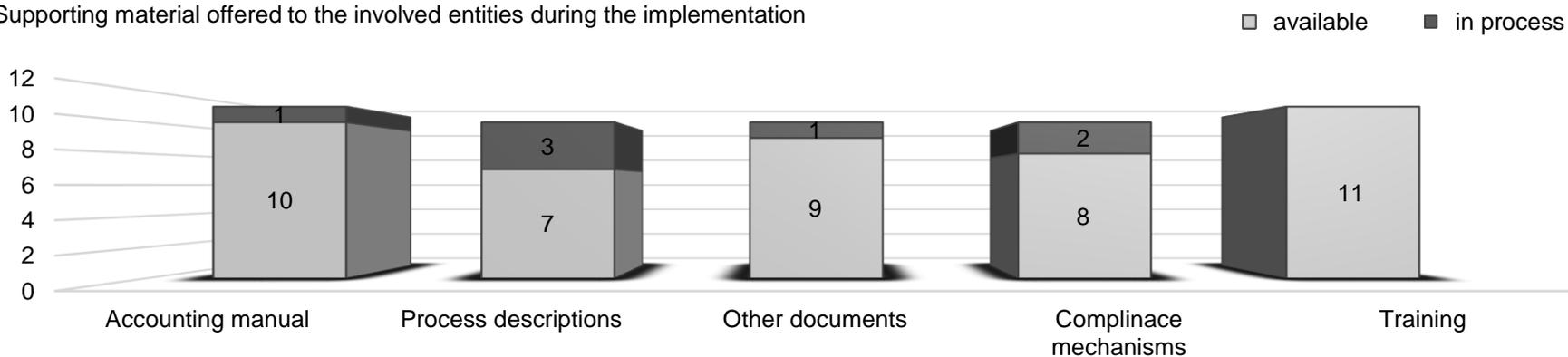
- Revenue is not measured in line with the increase in net assets. (IPSAS 23.48)
- The amount recognized as liability does not correspond to the estimated amount required to settle the present obligations at the reporting date.
- The recognition criteria for assets in respect of taxes set by IPSAS 23.59 - 23.61 are not respected
- Taxation revenue is not measured at a gross amount; expenses paid through the tax system are deducted. (IPSAS 23.71 to 23.73)
- Regulations allow taxation revenue to be grossed up for the amount of tax expenditures. (IPSAS 23.73)
- No statistical models are applied to measure assets if taxable event and collection of taxes do not occur at the same time. (IPSAS 23.68)
- The statistical model doesn't consider factors such as tax laws allowing taxpayers a longer period to file returns than government is permitted for publishing financial statements.
- The criteria for recognition of assets in respect of transfers and services-in-kind set by IPSAS 23.76 are not respected.



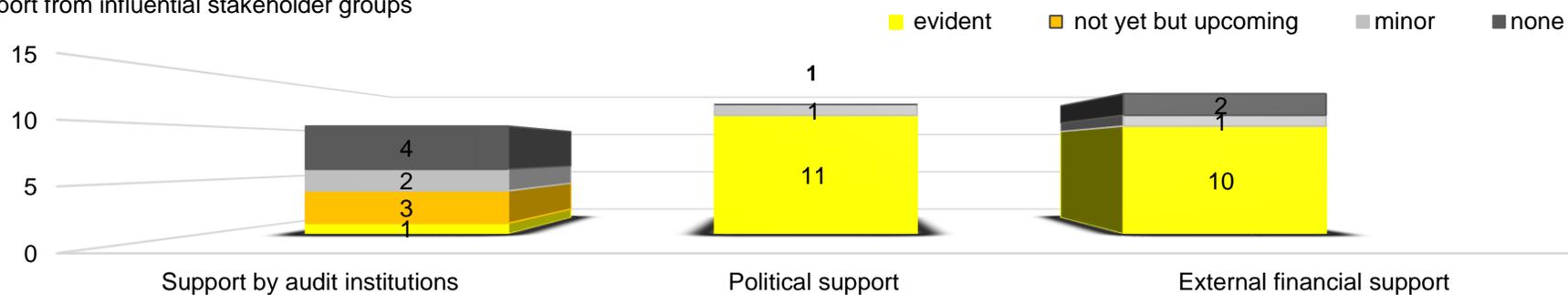


## 4. Implementation support

Supporting material offered to the involved entities during the implementation



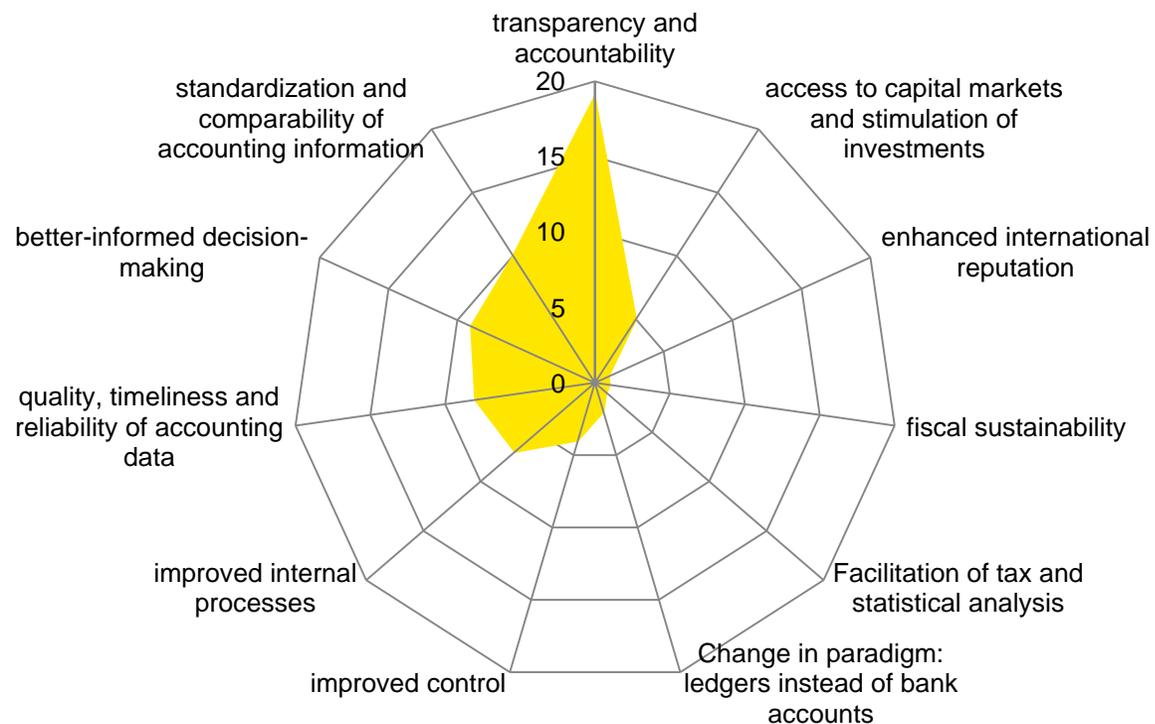
Support from influential stakeholder groups





## 5. Expected benefits

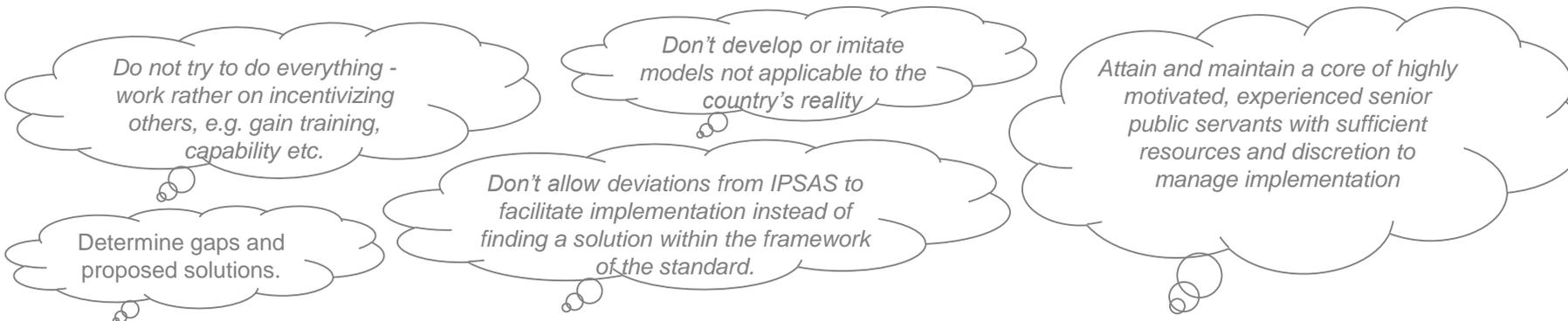
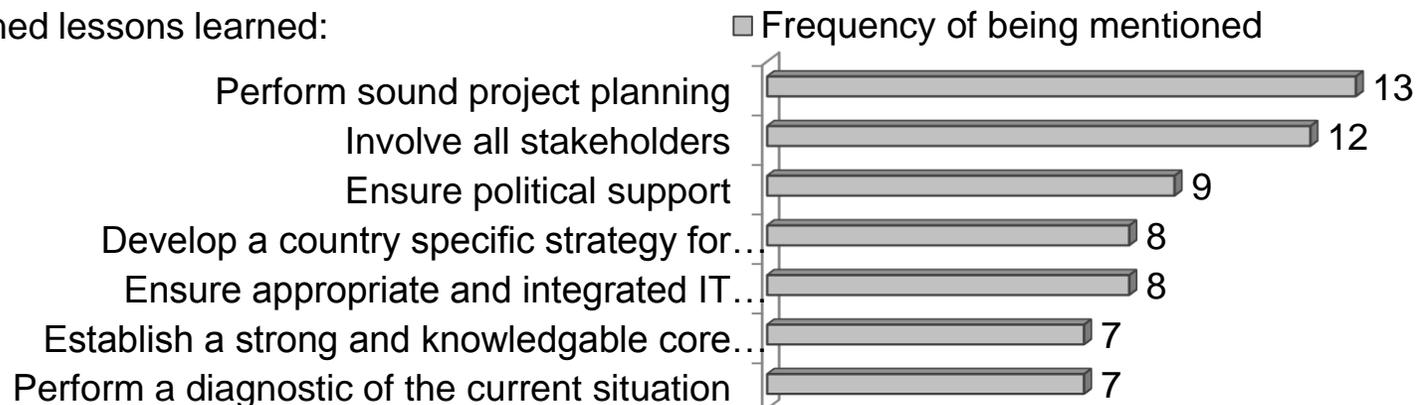
Frequency of the benefits named by the interview partners among the 5 most important benefits





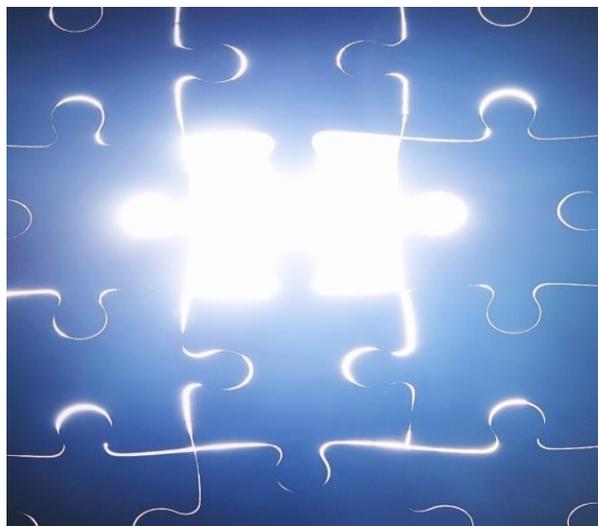
## 6. Recommendations and lessons learned provided by the interview partners

Most frequently mentioned lessons learned:





## 7. Conclusion and outlook



- ▶ Even though the average overall level of alignment with accrual IPSAS in the region is still relatively low at 35%, there are dynamic reform movements underway in the selected LAC countries.
  - ▶ Governments are under pressure from within and without their jurisdictions to provide more transparency and accountability.
  - ▶ Looking at the overall level of alignment with IPSAS per country, a wide range can be observed varying between 11% and 84%.
  - ▶ Three countries have already reached an advanced status of implementation, two of them making use of the transition period. The overall level of alignment will continue to increase within the next years.
  - ▶ However, a tendency towards an indirect adoption method and a certain tailoring of the standards to country-specific circumstances can be observed.
- 
- ▶ Challenges such as limited capabilities of existing IT systems, limited capacities in the affected entities, lack of resources or political instability will likely cause further delays in the planned conversion timeline.
  - ▶ The adoption of accrual IPSAS is a complex, cost-intensive and long-term project. In the LAC region there appears to be a growing awareness that standardizing and modernizing public sector accounting and reporting might be an important piece in the puzzle contributing to better-informed decision making, transparency, accountability, and increased trust among business partners.



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# Thank you for your attention!



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# Annex 1: General survey approach



Brazil	Dominican Republic	Honduras	Paraguay
Chile	Ecuador	Nicaragua	Peru
Colombia	El Salvador	New Zealand	Uruguay
Costa Rica	Guatemala	Panama	

- ▶ 14 FOCAL member countries participated in the survey.
- ▶ New Zealand was chosen as a reference basis.
- ▶ The survey focus was on central government level
- ▶ The survey covers five major accounting dimensions and 16 out of 31 IPSAS being effective as per 1 January 2016

Presentation and Disclosure	Major Assets	Major Liabilities	Revenue	Consolidation
▶ IPSAS 1	▶ IPSAS 11	▶ IPSAS 19	▶ IPSAS 23	▶ IPSAS 6
▶ IPSAS 2	▶ IPSAS 17	▶ IPSAS 25		▶ IPSAS 7
▶ IPSAS 3	▶ IPSAS 21	▶ IPSAS 29		▶ IPSAS 8
▶ IPSAS 18	▶ IPSAS 32			
▶ IPSAS 24				



# Annex 1: General survey approach

- ▶ The survey is designed to gather data for a gap analysis.
- ▶ A gap analysis aims to express the proximity of the national accounting framework with the accrual basis IPSAS in percentage terms. This approach allows comparing the national accounting practices at an international level.
- ▶ The analysis is based on the result of structured interviews held with the Accountant General / Ministry of Finance.
- ▶ The determination of the level of alignment is based on the assessment of the interview partner when comparing the national accounting practices to selected passages of the IPSAS texts (self-assessment).
- ▶ General questions on the overall reform progress and the maturity of the current national accounting practices are added to better understand country specifics (not included in the calculation of the alignment level).
- ▶ An online-questionnaire is sent in advance to allow for preparation.
- ▶ A face-to-face interview situation ensures the correct understanding
- ▶ Individual country reports are drafted by local EY teams based on interview results. They are reviewed by local IDB officials and validated by national governments.



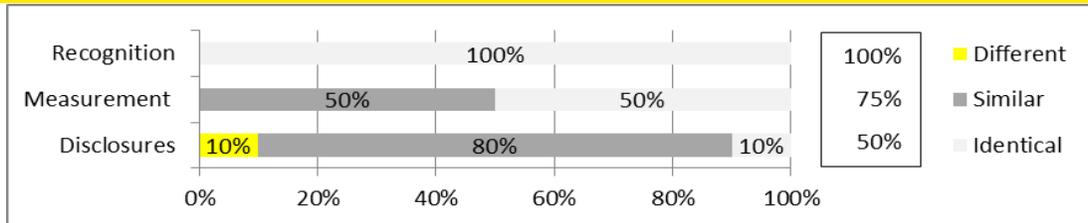


## Annex 2: Methodology of the gap analysis

- ▶ Three answer categories are provided for the analysis of the proximity to IPSAS. The underlying assumption to calculate the level of alignment is as follows:

“Different” = 0%                      “Similar” = 50%                      “Identical” = 100%

- ▶ In a first step all questions are weighted equally
- ▶ To avoid a pre-dominance of questions related to disclosures, the IPSASs were clustered into sub-categories. The level of alignment is the average of those predefined categories.



Example for a level of alignment of 75% =  $(100\% + 75\% + 50\%) / 3$

	Different	Similar	Identical	
Disclosures	10%	80%	10%	10 questions > N° of tickmarks to be divided by 10
Measurement	0%	50%	50%	4 questions > N° of tickmarks to be divided by 4
Recognition	0%	0%	100%	2 questions > N° of tickmarks to be divided by 2





## Annex 2: Methodology of the gap analysis

- ▶ A weighting factor in a range from 1 to 5 is applied to the degree of alignment per individual standard when calculating the overall alignment level.
- ▶ This weighting factor reflects the relative importance of the standard compared to others in terms of reporting, the significance of the balance sheet position concerned and the fact if the standard is applicable to all or only a limited number of public sector entities.

Selected accounting areas	Factor
IPSAS 1	5
IPSAS 2	4
IPSAS 3	2
IPSAS 18	1
IPSAS 24	3
IPSAS 11	1
IPSAS 17	5
IPSAS 21	3

Selected accounting areas	Factor
IPSAS 32	4
IPSAS 19	4
IPSAS 25	5
IPSAS 29	3
IPSAS 23	5
IPSAS 6	4
IPSAS 7	2
IPSAS 8	3





## Annex 2: Methodology of the gap analysis

Accounting areas	Alignment per IPSAS	Factor	Subtotal
IPSAS1	100%	5	500%
IPSAS2	70%	4	280%
IPSAS3	60%	2	120%
IPSAS18	0%	1	0%
IPSAS24	100%	3	300%
IPSAS11	0%	1	0%
IPSAS17	50%	5	250%
IPSAS21	80%	3	240%
IPSAS32	10%	4	40%
IPSAS19	90%	4	360%
IPSAS25	30%	5	150%
IPSAS29	20%	3	60%
IPSAS23	30%	5	150%
IPSAS6	100%	4	400%
IPSAS7	100%	2	200%
IPSAS8	100%	3	300%
	Subtotal	54	3350%

**Overall level of alignment:**

$3350\% / 54 = 62\%$

