Five things you need to know about IPSAS

On 31 August 2017, the Public Accountants and Auditors Board (PAAB) hosted a roundtable discussion to gather views on whether Zimbabwe should adopt the International Public - Sector Accounting Standards (IPSAS). For those who have been advocating for improved transparency and accountability, the overwhelming support for IPSAS displayed at this roundtable could be a great relief. However, there is still a long way to go before Zimbabwe can successfully implement IPSAS and seeing a significant improvement in accountability and transparency.
In this article, we will share with you some basic information about IPSAS that could help paint a better picture of where Zimbabwe is headed.

1. Who should apply IPSAS?

IPSAS do not apply to all public-sector entities. In a nutshell, IPSAS only apply to non-commercial organisations which are specifically structured for serving public interest.
The IPSAS are designed to apply to public sector entities that meet all the following criteria, they:

- Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;
- Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and
- Do not have a primary objective to make profits.

Let us apply the criteria above to a couple of entities in Zimbabwe:

<u>Net-one</u>

- The entity is responsible for delivery of telecommunications services, which are meant to benefit the public;
- Net-one is **not** mainly financed directly or indirectly through taxes, social contributions or transfers from other levels of government; and
- Net-one's primary objective is not necessarily to make profits, but to provide services and be a market leader in the telecommunications sector.

Thus, Net-one should not be the IPSAS framework because an entity **must** meet all the criteria for IPSAS to be applicable to them.

<u>ZINARA</u>

- ZINARA **is** responsible for the delivery of services that are for the benefit of the public, which is the development and maintenance of roads;
- ZINARA is mainly financed through taxes which it collects through road tolls, fuel levies, and vehicle license fees, to name a few; and
- The primary objective of ZINARA is not to make any profits.

In the case of ZINARA, the IPSAS framework is applicable as they meet all the criteria.

2. Difference between IPSAS and IFRS

Currently, public sector entities are on different reporting frameworks ranging from International Financial Reporting Standards (IFRS), modified cash, modified accruals and cash basis. In our discussion with some of the entities that are applying IFRS, they are of the view that since they are on IFRS, they are not going to have any major issues when they migrate to IPSAS.

Whilst IPSAS are primarily based on IFRS and both of them accrual frameworks, there are still significant differences between the two frameworks. An example is, under IFRS, for any asset to be recognised in the books of accounts, the entity should demonstrate how they expect to derive economic benefits from the asset. However, in the public sector the entities acquire assets primarily for service delivery and not for economic benefits. This will see some assets under IPSAS having to be recognised on the financial statements that were not recognised under IFRS. Examples would include roads, bridges, collectively known as infrastructure assets and, also, heritage assets to mention just a few. For instance, the Great Zimbabwe Ruins can be recognised as an asset in the books of the council which has jurisdiction over that area.

3. IPSAS vs Cash-basis Accounting

At the moment, the central government in the Zimbabwe public-sector applies cash-basis accounting. Cash basis accounting is a method of accounting that recognises revenue and expenses at the time cash is actually received or paid out. This, contrasts accrual-based accounting which is used when applying IPSAS, it requires the recognition of income in a company's books when the revenue is earned, but not necessarily received, and records expenses when liabilities are incurred, but not necessarily paid.

The problem with cash basis accounting is that transactions are only recorded when there is an actual movement of cash. This is an inaccurate method of accounting as compared to the accrual basis of accounting as transactions can span different financial periods without being recorded. For example, Central Mechanical Equipment Department (CMED) sells car spares to Customer A in 2019. Customer A fails to pay in 2019, and only ends up paying in 2020. The revenue is only recognised in 2020 under cash basis accounting, however, the revenue was actually earned in 2019. The use of cash basis in this case would distort when exactly sales were made; using accrual basis, this transaction would have been recorded in 2019, showing when the sale actually occurred.

4. Benefits of IPSAS

The IPSASB's objective is to serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in preparation of general-purpose financial reports (GPFRs). The point is to improve the quality and transparency of financial reporting in order to provide better information for financial management and decision making within the public sector.

You ask, why do IPSAS matter, and how do they affect Zimbabwe? Many of us are aware that currently the Zimbabwean public sector lacks in governance, transparency, and accountability. This mainly stems from public sector entities failing to adhere to a uniform financial reporting framework. With the implementation of IPSAS, there would be improved governance, transparency, and accountability within the public sector; and improved information would be provided to stakeholders (taxpayers, decision makers etc). In applying IPSAS, assets would be more actively managed as it would be easier to recognise which assets are not performing at the required level if the assets are accounted for properly.

5. **Key considerations to successful implementation**

a. **Costs to implement**
Accounting manuals need to be written incorporating IPSAS, which are more complex than the current reporting methods being used. Experts will need to be hired to educate and train those in public finance.

b. **Availability of qualified accountants**
As it stands, the accountants in the public sector may not be well equipped to deal with the changes required to implement IPSAS. There is a need to recruit qualified accountants and intensify training of personnel.

c. **Need the support and political will of government**
Key decision makers including the presidency, cabinet, parliament public accounts committee (PAC) need to support such an agenda. There is also need for buy-in from the different entities which will be applying IPSAS.

<u>Who do you turn to?</u>

As it stands on the local market, TAS is the most experienced team of experts in IPSAS training and implementation. We believe that TAS is best poised to assist public sector entities with the implementation of IPSAS and training of personnel. TAS has trained the Office of the Auditor General (OAG) on IPSAS and International Standards of Supreme Audit Institutions (ISSAIs) – which are auditing standards specifically tailored for the audit of the public sector by Supreme Audit Institutions (SAIs). TAS has also been working, in partnership with the Institute of Chartered Accountants of Zimbabwe (ICAZ) to deliver an IPSAS online course which has, to date, trained over 300 delegates on the basics of IPSAS and high-level applicability to Zimbabwe and the public sector entities.