

International Public Sector Accounting Standards (IPSAS) & Nepal Public Sector Accounting Standards (NPSAS)

*Kaushlendra Jha*²⁵

What is IPSAS?

IPSAS refers to International Public Sector Accounting Standards which are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements. These standards are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The difference between the two IFRS and IPSAS is that IFRS is being adopted by corporate entities around the world either directly or through national standards convergent with IFRS whereas IPSAS are accounting standards for application by national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards and commissions). IPSAS standards are widely used by intergovernmental organizations. IPSAS do not apply to government business enterprises.

Need of IPSAS and Its emergence?

In the change of corporate world globalization has taken place where no any closed economy can function and grow surrounding by globalizing environments. Now any country/economy wants to grow cannot grow independently and consequently cross border transactions and investments have grown vastly.

Every country having its own accounting principles and presentation of financial statements which results into difficulties of comparison of cross boarder results of the companies.

²⁵ Kaushlendra Jha, is a practicing Chartered Accountant and Director, JKK Consulting Pvt Ltd, India & Nepal

To eliminate the difficulties and reaching to same set of reporting standards i.e. global financial reporting language, IFRS (International Financial Reporting Standards) emerged sourced from IAS (International Accounting Standards) issued by the International Accounting Standards Board (IASB).

By far success of IFRS is concerned; it's getting much acceptance worldwide among stakeholders which are for corporate sectors solely.

But need of IPSAS emerges to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

Now public sectors entities and one particulars governments have not remained isolated because of Bilateral, Plulaterals and Multilaterals relations among states and involvement of Multilaterals agencies like ADB,EU, IMF,UN, UNDP and world Bank etc in development of developing and under developing states.

Issuance of IPSAS and its observers

IPSAS are issued by IPSASB (International Public Sector Accounting Standards Board), an independent organ of IFAC (International Federation of Accountants). The IPSASB adopts a due process for the development of IPSAS that provides the opportunity for comment by interested parties including auditors, preparers (including finance ministries), standard setters, and individuals. Observers on the IPSASB meetings include ADB, EU, IASB, IMF, INTOSAI, OECD, UN, UNDP and the World Bank.

Convergence of IPSAS with IFRS

IPSAS are based on the International Financial Reporting Standards (IFRS), formerly known as IAS. IFRS are issued by the International Accounting Standards Board (IASB). **IPSASB adapts IFRS to a public sector context when appropriate.** In undertaking that process, the IPSASB attempts, wherever possible, to maintain the

accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure.

Till date there are **32 standards** on IPSAS out of which **31 standards** are on the accrual basis of accounting one **standard** is on the cash basis of accounting

Funding for adoption of IPSASs for developing and least developing country

Multilateral development banks (World Bank, ADB) provide a substantial amount of funding for the work of IPSASB. Other sources of revenue for the development of IPSASs include funding from international, national and regional government entities. In addition, IFAC (International Federation of Accountants) and the CICA (Canadian Institute of Chartered Accountants) support the IPSASB activity.

The impact of the credit crisis on public sector accounting

The credit crisis situations experienced have raised several public sector accounting issues around the World. Governments have extended credit to banks, guaranteed the liabilities of banks, purchased impaired debt instruments and in some instances have assumed control of banks. The unique nature of the credit crisis and the unprecedented response by governments around the world has reinforced the importance of high-quality standards for financial reporting by governments. The credit crisis has increased the need for accountability in the public sector and for transparency in its financial dealings.

IPSAS Adoption by intergovernmental organizations

The following intergovernmental organizations have adopted IPSAS or are in the process of adopting IPSAS:

Commonwealth Secretariat; CoE (Council of Europe); EC (European Communities); ESA (European Space Agency); EUMETSAT (European Organisation for the Exploitation of Meteorological Satellites); Aims to be in March 2013. INTERPOL (International Criminal Police Organization); NATO (North Atlantic Treaty

Organization); OECD (Organisation for Economic Cooperation and Development): Issues IPSAS-compliant financial statements since 2000, the first body in the world to do so.

United Nations System

UN (United Nations), Programmes and Funds (such as UNDP, UNICEF and UNHCR), Specialized Agencies (such as FAO, ICAO, ILO, UNIDO, UNESCO, UNOPS and WHO) and Related Organizations (such as IAEA, OPCW, the World Trade Organization, and the World Meteorological Organization) aim to be IPSAS compliant. Whereas **WFP (World Food Programme)**: WFP is the first United Nations agency to implement IPSAS. In its 2008 financial statements, WFP adopted all standards issued by the IPSAS Board including several standards prior to their effective date.

IPSAS Adoption by Country

Many governments say they are introducing IPSAS because it is considered to be good practice. However, very few governments have actually adopted the standards. In terms of the Cash Basis IPSAS not a single country in the world has actually adopted the standard. The main problem is the key requirement to produce consolidated financial statements for all controlled entities. Historically, consolidating government business entities with ministries and departments would be very time consuming and almost all governments consider that it is not worth the very real costs.

Adoption of IPSAS by NEPAL called NPSAS (Nepal Public Sectors Accounting Standards)

The current status of NPSAS implementation is as follows:

The ASB has developed Nepal Public Sector Accounting Standards (NPSAS) for financial reporting under cash basis of accounting in line with the International Public Sector Accounting Standards (IPSAS). The Government agreed to adopt NPSAS on 2009/09/16. However, necessary policy and guidelines for adoption are still in process.

A pilot implementation is ongoing by the FCGO in two ministries, i.e., Ministry of Physical Planning; and Ministry of Women and Child Development. Based on the results of the pilots, NPSAS will be implemented in all ministries/departments of Nepal.

Why it is necessary to adopt IPSASs by NEPAL?

Even if the IFRS has not adopted by Nepal Corporate sectors but the importance and emergence of IPSAS cannot be undermined.

Nepal is the state of which budget structures occupies 26 % through foreign grants and Loan i.e. Nrs. 99.8 Billion Sourced to allocation of its whole budgets. The grant and loan are sourced from all bilateral/multilateral agencies and countries where and allocation and effective utilizations are required to be presented to all stakeholders in returns.

A more comprehensive plan is required for Nepal to adopt Cash Basis IPSAS as part of a longer-term program to adopt accrual-based reporting of expenditures for each government entity.

Previous timelines failed to adopt Cash Basis IPSAS and still in discussion of new timelines and development. The Government of Nepal accounts have been maintained on a cash basis of accounting since 1962 but not in line with Cash Basis IPSAS. The accounts of the local autonomous bodies, Village Development Committees and District Development Committees, are maintained on the cash basis of accounting while the municipalities can maintain accounts either on the cash basis or accrual basis of accounting. The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSAS. All government departments should eventually use Cash Basis IPSAS in preparing financial statements, and then gradually move toward accrual-based IPSAS. The revenue is to be accounted on the cash basis of accounting.

Need to have firm plan, new timelines with policy and guidelines to adopt IPSASs

Even if the government has not come up with definite policy and guidelines to adopt NPSASs which is based on cash basis of accounting and roadmap towards accrual basis

of accounting to come up for another IPSASs . As part of progressive plan to enhance the public sector accounting system in compliance with IPSAS, the finance legislation may be amended to make mandatory requirements for the general budget sector to maintain accounts and prepare a consolidated financial statement as guided by IPSAS. With regard to state-owned enterprises (SOE), the Auditor General has already issued directives to these entities to adopt the guidelines stated in the Company Act for presentation of financial statements. The Company Act specifies the Nepal Accounting Standards (NAS), but other applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are not specified. Even if the IFRS have not been implemented and converged for industry/corporate sectors, Adoption of IPSASs may not be differed long if the confidence of multilateral and bilateral agency if required to keep intact.

The Government may empower the Accounting Standards Board to set IPSAS-based public sector accounting standards.

It is believed that the Government of Nepal may empower the Accounting Standards Board through legal amendment or through appropriate decision, as required, to take a lead to introduce public sector accounting standards based on IPSAS. Currently, ICAN focus on raising awareness of IPSAS's, the impact of their use around the world and the progress that has been made particularly in the Africa region, subsequent to their adoption, reflects the possible benefits of their adoption and the implementation.

To facilitate the smooth functioning of the Board, to provide necessary resources and communicate the accounting requirement of the Government, a Steering Committee may be formed, chaired by the Finance Secretary and represented by the Financial Comptroller General Office (FCGO), Office of the Auditor General (OAG), ICAN and two standard setting Boards (Accounting and Auditing). The Auditor General may issue directives to state-owned enterprises specifying to adopt applicable IAS and IFRS, and relevant laws governing state-owned enterprises should be amended for adoption of these accounting standards. The Nepal Accounting Standards Board may prepare National Public Sector Accounting Standards on the basis of IPSAS.

An audit opinion needs to be provided on the consolidated government financial statement.

The consolidated financial statements of the Government of Nepal need to be improved by providing a separate audit opinion. While implementing the Cash Basis IPSAS, it is recommended that a separate audit opinion is also provided to the consolidated government financial statements.

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Over hundreds country in the world are in process of adoption of IPSASs out of which about **35 countries** have adopted accrual basis of IPSASs are New Zealand, Australia, USA, UK Canada, Colombia, France, South Africa, Switzerland, Russia, Israel, Slovakia, Austria, Brazil, Japan out of which some adopts directly or some adopts through national standards like south Africa, Brazil through national standards.

Some of the developing countries too are front runners in adoption process of IPSASs either in Cash Basis or accrual basis subsequent to cash Basis adoption are:

Albania ,Algeria ,Argentina ,Armenia ,Bangladesh ,Barbados ,Bhutan ,Cambodia ,Cayman Islands ,Chile ,Cyprus ,Colombia ,Costa Rica, East Timor, El Salvador, Estonia, Fiji, Gambia, Guatemala, Honduras Hungary ,India Indonesia, Italy ,Jamaica, Kyrgyzstan, Kuwait, Lao PDR ,Latvia ,Lebanon ,Lesotho ,Malaysia ,Malawi ,Maldives ,Mauritania Mauritius ,Moldova ,Montenegro ,Morocco ,Mozambique ,Namibia ,Nicaragua ,Nigeria, Norway ,Pakistan ,Palestinian Authority ,Peru ,Philippines ,Romania ,Russia ,Rwanda Saudi Arabia, Serbia, Slovenia, Solomon Islands, Sri Lanka, Tajikistan, Tanzania Turkey, Turkmenistan ,Uganda ,Ukraine , Uruguay ,Vanuatu ,Vietnam Yemen, Zambia, Zimbabwe many more;

Whether Nepal can successfully adopt IPSAS

There is general consensus among policy makers, accounting professionals, and international organizations on the need for Nepal to adopt the cash basis IPSAS. Nepal has already developed Nepal public sector accounting standards by referring to the cash basis IPSAS in a close collaboration between the professional accountants and government officials. Attempts are being made to change the accounting regulations in order to incorporate the mandatory use of IPSAS.

Currently Nepal is planning to pilot the NPSAS in two ministry and then after may come up with new time lines and policies to adopt cash basis of IPSASs with subsequent platform to adopt/go for accrual basis on accounting of IPSASs adoption.

It is viewed that implementing IPSAS will not change the accounting system at any level and will only provide add on information to bring the Whole of Government (WoG) accounts in the IPSAS reporting format. To this purpose IPSAS, will pave the way for WoG reporting as a good practice now adopted by only few select countries.

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