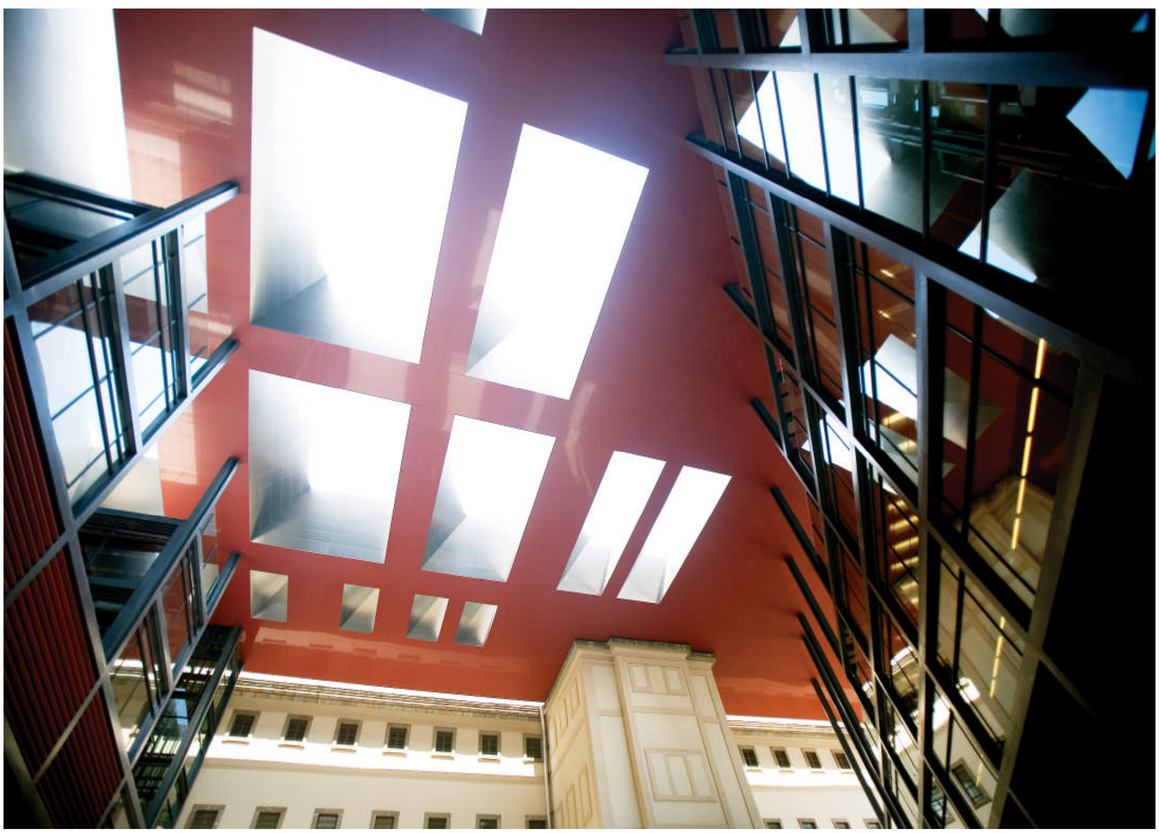
Adoption of IPSAS in Ghana - prospects, challenges and the way forward*



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Section A: Introduction

The International Public Sector Accounting Standards Board (IPSASB) held its meeting for the first time in Sub-Sahara Africa from March 20 to 23, 2007 in Accra and one of the issues that arose was the nation's preparedness to take advantage of such opportunities to fast track its attempt at keeping pace with International financial reporting.

On January 27, 2007 Ghana successfully launched the International Financial Reporting Standards (IFRS) --- a major event heralded by all as one of the greatest attempts at international accounting standards to conform to the ever increasing demands in the corporate reporting world. It requires that all Public interest entity companies (i.e. banks, listed companies, insurance companies etc) publish their financial statements for the periods covering on or after 1 January 2007 in accordance with IFRS. Despite the views raised by some opponents to the fact that the Institute rushed the process without further consultation, some still believe it is a step in the right direction as some put it, "it is not a matter of convenience but of convergence and therefore the more we delay …the world continues to move."

The Public sector has over the years been in the dark when it comes to issues of Internationalisation of accounting standards since each country's governments and public sector is unique in its policies and strategies aimed at achieving national goals.

The Institute of Chartered Accountant-Ghana concluded during the convergence project for IFRS that all Public sector Organisations except government business enterprises will be adopting IFRSs until the International Public sector Accounting Standards (IPSAS) issued by International Federation of Accountant's (IFAC) International Public Sector Accounting Standards Board (IPSASB) are ready. This article will therefore highlight the following:

Roles and objectives of the IPSASB	Section	B
Which Public sector entities can adopt IPSAS	"	C
The various accounting basis available for adoption	"	D
IFRS convergence/alignment with IPSAS	"	E
Why adopt IPSAS	"	F
Key challenges	"	G
What needs to be done going forward	"	H

Section B: The IPSAB and its objectives

The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs). The IPSASB's Consultative Group is appointed by the IPSASB. The Consultative Group is a non-voting group. It provides a means by which the IPSASB can consult with and seek advice as necessary from a broad constituent group. The Consultative Group is chaired by the Chair of the IPSASB.

The IPSASB comprises 18 members, 15 of whom are nominated by the member bodies of IFAC and three of whom are appointed as public members. Public members may be nominated by any individual or organisation.

The objectives of the IPSASB are to serve the public interest by developing high quality public sector financial reporting standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of financial reporting throughout the world.

The IPSASB achieves its objectives by:

- Issuing International Public Sector Accounting Standards (IPSASs);

- Promoting the acceptance and the international convergence to these standards; and

- Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.

- The IPSASs are the authoritative requirements established by the IPSASB.

Apart from developing IPSASs, the IPSASB issues other non-authoritative publications including studies, research reports and occasional papers that deal with particular public sector financial reporting issues.

Section C: The Public Sector and Non-Governmental Organisations (NGOs) - WHICH ENTITIES CAN ADOPT IPSAS?

The term Public Sector refers to national governments, regional (e.g. state, provincial, territorial) government, local (e.g. city, and town) governments and related government entities (e.g., agencies, boards, commissions and enterprises). All public entities and NGOs other than government business enterprise qualify as a public entity to use International Public Sector Accounting Standards (IPSAS) issued by International Federation of Accountant's International Public Sector Accounting Standards Board (IPSASB)

- Government Business Enterprises

- Government Business Enterprise means an entity that has all the following characteristics:

    - An entity with the power to contract in its own name;

    - Has been assigned the financial and operational authority to carry on a business;

    - Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;

    - Not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

    - Controlled by a public sector entity.

Government Business Enterprises (GBEs) include both trading enterprises, such as Ghana Water Company (GWC) Electricity Company of Ghana (ECG), and financial enterprises or institutions such as Ghana Commercial Bank, National Investment Bank, Agricultural Development Bank. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. Most GBEs have to comply with IFRS due to the regulatory requirements such as the Security and exchange Commission (SEC), Bank of Ghana (BoG) etc.

Section D: Accounting basis available for adoption: - Cash and/or Accrual?

IPASB provides countries with the option to adopt either cash and or accrual basis depending on the specific needs and systems of financial operation in place for the government or the countries in question.

The cash basis allowed providers of external assistance, particularly providers of development assistance to follow a variety of accounting practices. Many recipients of external assistance therefore maintain their accounts on the cash basis of accounting and the development of a cash basis standard was therefore a step in the right direction.

Accrual accounting focuses on revenue, cost, assets, liabilities and equity – instead of cash flows only. The capitalisation of assets, such as computers and machines, makes it possible to calculate depreciations and account for them in each period during which the machine is used. Most of the IPSAS are based on accrual basis which is in line with IFRS.

Section E: IFRS convergence/alignment with IPSAS

IPSASB's / International Financial Reporting Standards (IFRSs) Convergence Program is an important element in the boards work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Illustrated below are the IPSAS and the equivalent IAS or IFRS where applicable. In addition four specific standards have been rolled out for the Public Sector which there is no equivalent IAS/IFRS.

IPSAS	**Detailed standard**	***IFRS / IAS**
1	Presentation of Financial Statements	IAS 1
2	Cash Flow Statements	IAS 7
3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
4	The Effects of Changes in Foreign Exchange Rates	IAS 21
5	Borrowing Costs	IAS 23
6	Consolidated and Separate Financial Statements	IAS 27
7	Investments in Associates	IAS 28
8	Interests in Joint Ventures	IAS 31
9	Revenue from Exchange Transactions	IAS 18
10	Financial Reporting in Hyperinflationary Economies	IAS 29
11	Construction Contracts	IAS 11
12	Inventories	IAS 2
13	Leases	IAS 17
14	Events After the Reporting Date	IAS 10
15	Financial Instruments: Disclosure and Presentation	IFRS 7
16	Investment Property	IAS 40
17	Property, Plant and Equipment	IAS 16
18	Segment Reporting	IFRS 8
19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
20	Related Party Disclosures	IAS 24
21	Impairment of Non–Cash Generating Assets	IAS 36
22	Disclosure of Information About the General Government Sector	N/A
23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	N/A
24	Presentation of Budget Information in Financial Statements	N/A
Cash	Financial Reporting Under the Cash Basis of Accounting	No IFRS/IAS equivalent

**The IAS are gradually being replaced with the corresponding IFRS and this table will be amended as these changes takes place.*

Section F: Why adopt IPSAS?

The Public Sector Accounting Board has as part of its goal - better information for decision-making and accountability. The new requirement to use full accrual accounting, and the approval of a new model that provides a comprehensive set of indicators that describe a government's financial position and results, are significant improvements in government financial reporting. The prospects and benefits to the nation are enormous based on the following driving force.

International trends

The last few years have seen dramatic developments and changes on the International Standards setting scene. Along with this has come a rapid adoption of International Standards in a number of countries, which previously had their own national Standards.

Countries that are already applying full accrual accounting standards and applying accounting standards that are broadly consistent with IPSAS requirements include:

- Australia
- Canada
- New Zealand
- United Kingdom
- United States of America

Other countries and the adoption progress made are as follows.

Countries	Adoption details
Switzerland	Adopted accrual basis and full set of financial reports in line with IPSAS expected in 2008.
India	Adopted IPSAS with specific local requirements and alignment under consideration
Afghanistan	Legislation passed to adopt the cash basis and subsequently the accrual basis
Azerbaijan	Appears to have adopted IPSAS accrual
Cayman Island	Adopted accrual IPSAS
Cyprus	Has adopted cash basis accounting standards
Philippines	Accrual basis

This list is not exhaustive and more are added to it each passing day.

Regional considerations

The European Commission (EC) and North Atlantic Treaty Organization (NATO) organizations have adopted IPSAS for their financial reporting. Where a public sector organization operates as a financial institution, IPSAS requires that the organization apply IAS/IFRS. Consistent with that requirement, development banks such as the World Bank, Asian Development Bank and International Fund for Agricultural Development (IFAD) apply IAS/IFRS. More than 30 countries have either already adopted or are in process of adopting IPSAS for financial reporting by all or part of their public sectors.

Ghana as the current head of the AU and a dominant force in developing successful policies is also seen as a leading light in Africa cannot but follow suit. Ghana is a member of IFAC an organizations that strongly support adoption, rather than adaptation, of International Standards.

With the current trend in which most countries in the region have decided to adopt the International Pubic Accounting Standards, Ghana will be risking its leadership role if it lags behind on these issues.

African Countries which have already adopted IPSAS include:

Countries in Africa	**Adoption**
Algeria	World bank project for accounting and other reforms includes IPSAS standards
East and Southern Africa- Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe	The countries are members of the Association of East and Southern African Association of Accountant. The aims of the member states include the adoption of the IPSASs.
Uganda	Adopted IPSAS
Zambia	Cash basis IPSAS adopted
South Africa	Adoption of IPSASs (accrual , with South African amendments) in process

Pressure from Donor community

In its resolution 60/283, the United Nations General Assembly approved the adoption of IPSAS, together with the requisite resources. This means that all UN agencies will comply with IPSAS by 2010. In a related development, the World Bank and its agencies, World Health organisation (WHO), World Bank, OECD, European Commission, NATO and OPEC have also adopted the IPSAS.

Enhance Government Financial Reporting.

Over the years, several governments in the Public sector have no standardised way of reporting financial performance. The adoption of the IPSAS will be seen as a step towards uniform financial reporting and better communication to the public and other donor agencies. Government will be able to use IPSAS 22, 23 and 24 on Disclosure of information about the General Government Sector Revenue from non exchange transaction and presentation of budget information in the financial statement respectively to communicate issues of policy and financial performance in the Public sector.

Section G: Key challenges

Cost to implement

Accounting manuals need to be rewritten; manuals must incorporate IPSAS terminologies and also conform to local requirement. The Controller and Accountant General Department is drafting an accounting manual to assist the public sector which is likely to set the stage for the gradual and smooth take off of IPSAS in Ghana. Education and training will also constitute a substantial amount of government outlay as the nation prepares to adopt IPSAS.

Availability of qualified accountants

Most of the Public sector and government agencies lack the necessary personnel to adequately carry out the changes in IPSAS as opposed to the financial reporting framework currently existing in the Public Sector

Apparent complexities

The use of common language to bring uniformity across cultures and governments in the Public sector is also very key. Some terminologies' used in the IPSAS may not apply to the country or Governments financial reporting system due to some uniqueness in its financial operations.

Readiness of government departments and agencies-

Some organisations including central admin, regions and a large number of other public sector bodies still use traditional modified cash based accounting even if cost and management accounting is compulsory.

Resistance

Not all government systems and administrative machinery will support IPSAS. Currently most of the Government agencies and departments have the Budget and Performance Monitoring Software (BEPEM) which is yet to be put to full use.

Section H: What needs to be done?

Need the support and political will of government

Key decision makers including the presidency, cabinet, parliamentary select committee on finance need to support such an agenda.

Strengthening of standard setters and regulatory bodies

The Institute of Chartered Accountant (ICA) is the main body mandated to ensure the applicability of IPSAS in Ghana. The ICA needs to be supported by all in discharging such challenging task. The experience and challenges encountered during the adoption of IFRS will be of immense benefit to ensure the successful and smooth adoption of the standards.

Bodies such as the Security and Exchange Commission in Ghana (SEC) should be up to its feet in the campaign aimed at ensuring that Government agencies are applying the rules on submission and compliance as required.

Recruit and train qualified staff

Some Public sector entities have low capacity in financial management and training. There is a need to recruit qualified accountant and intensify training of personnel. This should include sponsoring finance officers or accountants in the government sector in professional accounting qualification such as the Institute of Chartered Accountants (Ghana), the Association of Certified Chartered Accountant (ACCA) or any recognise accountancy body. There should be a well-structured training program for all the Public sector organisations, NGOs and the donor communities on the key issues and requirements that needs to be addressed before the adoption of the standard. Currently the big four firms like PricewaterhouseCoopers organises such training programs for clients across the sub region in both IFRS and IPSAS. PricewaterhouseCoopers was involved in the rollout and training of clients in the various industries during the IFRS adoption process.

Development of accounting manual

There is a need to develop an accounting manual which will integrate the basic requirement and treatment of some key transactions in line with the IPSAS.

Learning from other countries

Countries such as Switzerland, New Zealand, and South Africa have already made it and taping experience and lessons from these countries will be of help to Ghana to fast track the adoption process of IPSAS.

Conclusion

The adoption and implementation of IPSAS in Ghana and Africa in general will help in the harmonisation of financial operation and uniformity in the reporting of public sector accounting information and disclosure

The adoption of IPSAS will ensure better financial information supports, Improvements to accountability, transparency and governance, better financial management, better information to donors and countries providing external assistance, better quality and credibility of financial reports

We need to catch up with the trend in the global financial reporting environment and there is no time to wait, however we should not take the speed boat approach else we sink immediately after take off. Proper planning is therefore required and involvement of all stakeholders is a must to ensure that the nation is adequately resourced to achieve this goal.

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