



INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS (IPSAS)

**IMPLEMENTATION
ROAD MAP FOR AFRICA**

ABOUT PAFA

The Pan African Federation of Accountants (PAFA) is the continental body representing Africa's Professional Accountants. Established in May 2011, PAFA is a non-profit organisation with 54 Professional Accountancy Organisations (PAOs) from 43 countries. Our mission is to accelerate and strengthen the voice and capacity of the Accountancy profession to work in the public interest, facilitate trade, and enhance benefits and quality services to Africa's citizens.





ACKNOWLEDGEMENT

The Pan African Federation of Accountants (PAFA) acknowledge that there are other entities and organizations that have delved into the subject of IPSAS implementation and have put together guidelines for the standards' adoption and implementation in different jurisdictions around the world. The federation would like to give credit to the International Federation of Accountants (IFAC) whose publication entitled Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities (Study 14) and the Institute of Chartered Accountants of England and Wales (ICAEW) for their guide entitled Building Blocks to Better PFM: A Cash to Accruals Accounting Toolkit have served as key sources for the information in this roadmap.. We have also made reference to PricewaterhouseCoopers' (PwC) Global survey on accounting and reporting by central governments: Towards a New Era in Government Accounting and Reporting as well as the International Public Sector Financial Accountability Index 2018 Status Report that was jointly prepared by IFAC and The Chartered Institute of Public Finance and Accountancy (CIPFA).

We sincerely appreciate the contribution and review made to the initial drafts of this guideline by members of PAFA's Technical and Standards Setters' Forum (TSSF) public sector group.

FORWARD

Governments around the world continue to face pressures to improve their reporting infrastructure so as to facilitate better financial management and achieve greater transparency and accountability. For many governments in the developing world this has taken the form of moves to adopt International Public Sector Accounting Standards (IPSAS), as part of their public sector financial management reforms. As governments make the transition to IPSAS, they are keen to understand good practices and identify the lessons learned from other jurisdictions¹

Whereas mere pronouncement of IPSAS adoption by governments may be the easier part, successful implementation of these standards is a complex resource-intensive, multi-stakeholder endeavour requiring expertise and adequate infrastructure. Adoption is not a one-time effort. Adoption requires ongoing support to keep standards and best practices up-to-date.

Better accounting leads to better reporting, which provides the information necessary for better decision-making, which in turn should lead to better use of public resources. Public sector entities and their stakeholders need to understand the full, long-term economic impact of their decisions on financial performance, financial position and cash flows. This is the key reason for introducing accrual accounting in the public sector.

Cash accounting systems fail to capture information on public sector assets and liabilities and present a very short-term view of public finances in primary financial reports. Weak financial reporting practices may present the illusion of positive financial results in the short term, at the expense of longer-term fiscal stability.

Applying financial reporting standards such as the International Public Sector Accounting Standards (IPSAS) or similar standards further improves the quality of financial information and facilitates comparison across governments and organisations.

The full benefits of implementing accrual accounting can be captured as part of a wider finance reform, serving as a catalyst to provide high-quality financial information thus, and even more importantly, improving operational and service performance and contributing to the long-term sustainability of public finances.

This publication provides an easy to follow step-by-step guideline for governments intending to embark on an accrual reporting journey in Africa. The IPSAS Implementation Roadmap for Africa complements other technical standard setting guidelines provided by IFAC and other parties. Governments intending to use this guideline are encouraged to customise their approach to meet their specific circumstances at the point of adopting the standards. Professional Accountancy Organizations (PAOs) across the continent, who are members of PAFA, will be the first point of call for providing any technical support that may be required to achieve the desired outcomes.

COSME GOUNDÉTÉ
PAFA PRESIDENT



MESSAGE BY PAFA CEO

The Pan African Federation of Accountants (PAFA) continues to play a key role in accelerating and strengthening the voice and capacity of the Accountancy profession to work in the public interest, facilitate trade, and enhance benefits and quality services to Africa's citizens.

PAFA takes a multi-pronged approach to engaging with stakeholders at continental, regional and national levels, working collaboratively to drive Africa's agenda. Our mandate is founded on the premise that national Professional Accounting Organisations (PAOs) have the capacity to drive good financial management practices, accountability, transparency and good governance across public and private entities.

The adoption of IPSAS is gaining momentum across the world. This is driven by the need for greater transparency and accountability in the management of public resources. Africa has been at the forefront of IPSAS adoption, with several countries intending to formally adopt the standards as part of financial management reform programmes. It therefore follows that African countries are at different levels of IPSAS implementation. The way in which a government adopts and/or implements an accrual reporting framework will therefore depend on local circumstances and a host of other factors.

The development of this guideline is one of PAFA's practical approach to influencing and facilitating the adoption and implementation of International Standards and best practice in Africa in order to improve the quality of financial and corporate reporting. This publication also serves as a guide to PAOs in providing the much needed technical support to governments that have already or are about to embark on an IPSAS implementation journey. This is in line with PAFA's strategic objective of facilitating the accountancy profession to contribute in strengthening Public Value Management (PVM) systems in order to achieve fiscal discipline, effective resource allocation and effective service delivery to citizens.

We hope that our stakeholders and other users will find this guide useful. We look forward to receiving any feedback that will help refine subsequent publications in order to address any gaps that may still exist in reforming the public sector in Africa through the adoption and implementation of IPSAS.

ALTA PRINSLOO
"CEO of Company"



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INTRODUCTION

There are many reasons why governments around the world are seeking to improve their approaches to Public Financial Management (PFM). Whether it is the need to ensure that taxpayers' funds are spent effectively in times of fiscal constraint or to increase transparency and accountability to maintain the confidence of institutional investors, there is no shortage of compelling reasons. What is certain is that, in recent years, there has been a renewed focus on improving the content and quality of public sector financial reporting as one of the means to improve the trust between providers of government revenues and investment capital and the government bodies who spend the money.

Governments have a duty to ensure that they are accountable to taxpayers for the money they spend. It is critical that governments work to establish greater trust between themselves and their constituents. One way to do this, is for governments to provide accurate and complete information on expenditures and other transactions, thereby demonstrating accountability and stewardship and to reinforcing their own credibility.



HOW AFRICAN COUNTRIES CAN BENEFIT FROM ADOPTING INTERNATIONAL STANDARDS

In the recent past, there has been much focus on adoption of International Public Sector Accounting Standard (IPSAS) by governments. IPSAS were prepared by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body within the International Federation of Accountants (IFAC). This initiative was part of the board's strategy for the development of comprehensive high quality financial reporting standards for use by public sector entities around the world.

The PwC's Global survey on accounting and reporting by central governments dubbed 'Towards a new era in government accounting and reporting' carried out in 2013, identified the following as the top three benefits of adopting accrual accounting standards based on IPSAS:

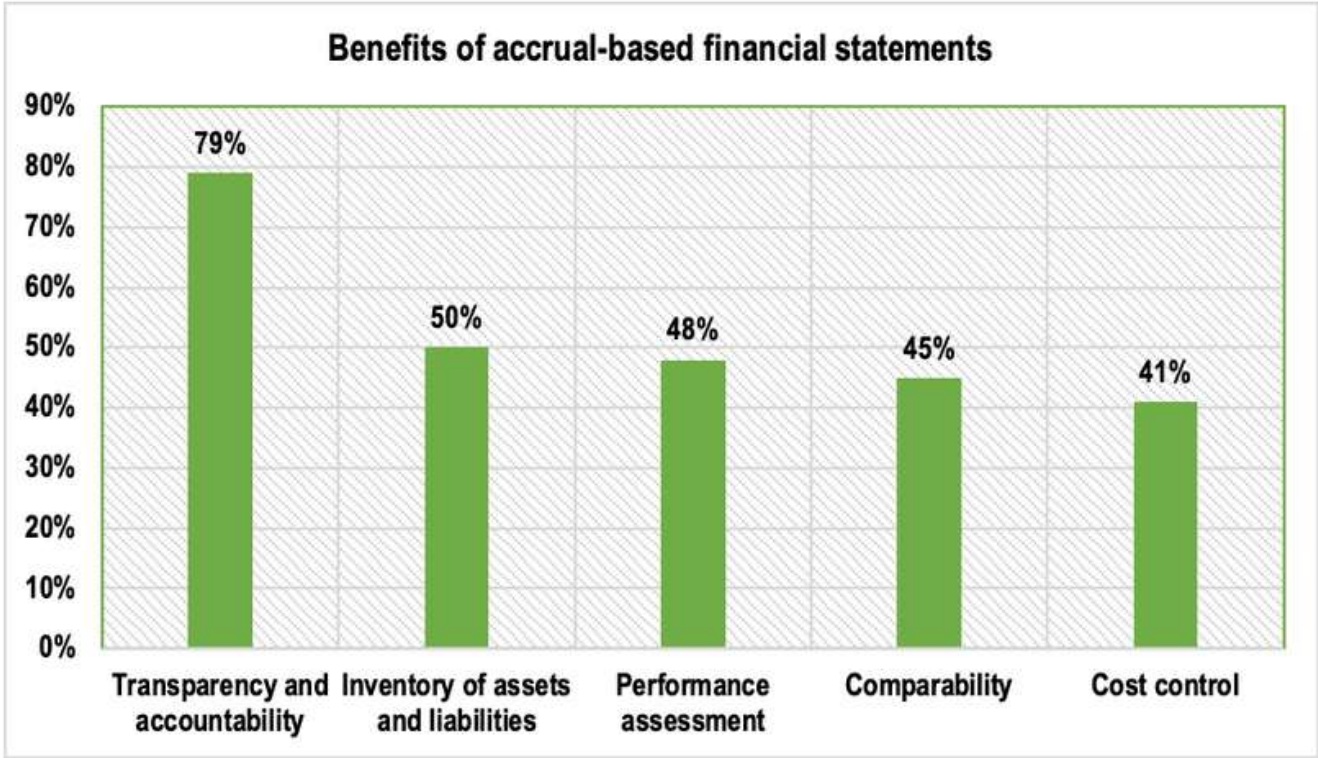
Transparency and accountability - Greater transparency and accountability stands out as the greatest benefit of adopting IPSAS or equivalent standards. Information prepared in accordance with internationally recognised accounting standards provides a basis for comparing governments with one another and making comparisons across individual government units. Transparent accrual-based financial statements help government to demonstrate, and users to evaluate, accountability for the use of public funds.

Inventory of assets and liabilities - A comprehensive inventory of government assets and liabilities provides a view of government resources and future obligations. Almost half of the governments surveyed recognise the value of adopting accrual accounting for better management of government resources. It provides a basis for building more-effective administrative processes and controlling costs. Equally, bringing liabilities onto the government balance sheet provides a view of the long-term implications in terms of spending commitments and borrowing needs.

Performance - Adoption of IPSASs would also encourage governments to present additional information to assist users assess the performance of the government. This would include information on whether resources were obtained and used in accordance with the legally adopted budget, compliance with other regulations and legislation, information on the basis of allocation of resources, information on outputs and outcomes related to key performance indicators, and information on service delivery. This information is important for users of financial statements or key stakeholders in determining the government's achievements in the reporting period.



140 countries were targeted to participate in the PwC global survey covering all geographic regions and levels of development and their responses on the key benefits of adopting accrual accounting standards were as shown in the figure below:



Source: Towards a New Era of Government Accounting and Reporting: PwC Global survey on Accounting and Reporting by Central Governments.

In addition to the top five benefits shown above, respondents identified benefits in terms of access to better funding sources and reduced risk of fraud and corruption.

Apart from the government, there are several other users of financial statements prepared by public entities. These users include taxpayers, members of the legislature, creditors, suppliers, the media, and employees. A comprehensive accounting framework such as IPSAS enables the information requirements for all these users to be met and adoption of these standards guarantees high quality reliable information that can be used for decision making.

The adoption of IPSASs by public entities should be supported by a strong accounting system that is able to accurately capture and record information necessary to produce high quality financial statements, and adequately skilled accountants able to operate the system as well as interpret and apply the requirements of the standards.

KEY FACTORS FOR SUCCESSFUL IMPLEMENTATION OF IPSAS IN AFRICA

This document aims to provide users with guidelines to implementing accrual accounting in Africa. It sets out six (6) key factors that need to be critically considered before embarking on an elaborate project such as accrual accounting in the public sector.

For such a project to be successful and deliver the benefits of better public accountability and better public financial management, there must also be changes in financial management culture and behaviours. The six factors are as outlined below:

Structures and ownership – the political and wider organizational and leadership structures that need to be in place to deliver the change from cash to accrual basis of accounting and reporting

Strategy – effective prioritised plan to deliver the change, manage critical dependencies and risks and to ensure staff and stakeholders understand what is required of them and when

Project delivery – setting up the project team and running the project with appropriate governance and oversight

People and resources – the right people, with the right skills, knowledge and approach to drive the reforms supported by adequate resources

Standards and policies – the standards in accordance with which accounts will be produced, the process for setting them and the policies that will be adopted; and

Systems and processes – putting in place the right infrastructure, corporate governance and business processes to enable high quality information to be provided so policymakers can make the right decisions to achieve the right outcomes.





SECTION 1 STRUCTURES AND OWNERSHIP

When any reforms are carried out, there needs to be a cultural and behavioural change throughout the organization. The drive to improve needs to be understood and come from the very top. It is therefore essential to get the ownership and commitment from government, ministers and the broader range of stakeholders at the highest level.

There needs to be engagement with politicians and a strong enough relationship to be able to challenge them. While a country might be fortunate in having political leadership eager to drive this process, it is more likely that a project sponsor, possibly an official, will make the case for the reform on the basis of the benefits thereof. Maintaining political support should not be treated as a one-off exercise. This is a long-term change project and will need support over several years.

Once government backing is obtained, the next step is for the project sponsor to consider the framework that needs to be in place to facilitate delivery. At minimum this should include the following:



A legislative and accountability framework
setting out the legal obligations of the entities involved



A policy and guidance framework
setting out the overall policy and process



A resource framework
setting out how the change implementation will be resourced



A project management framework
setting out the overall structure through which the project will be managed.

Creating these frameworks usually falls to the project sponsor and they are an essential first building block to ensure the entities involved are clear about their legal obligations, the overall policy they must adopt, processes they should follow and how they will be resourced. Once completed, this should provide a firm foundation to proceed to the next steps.

SECTION 2: **STRATEGY**



Successful implementation of an accrual accounting project in the public sector will depend largely on the quality of the overarching strategy and plan. It is worth investing time in developing both as these are important documents that can be used to explain the project to stakeholders as part of the process of securing support and coordinating execution of the plan across government.

Key Elements of the Strategy

The strategy sets out how government or any public sector body can use its resources to secure the objectives. A strategy could be expected to cover:

- **An explanation of why these changes are necessary** – the project strategy should be communicated throughout the organization and can also usefully serve as the ‘business case’ for the project i.e. setting out the rationale for the change and the terms of how the change will be approached;
- **Objectives and guiding principles** – the objective is to improve overall financial management of the public finances. It is therefore important to ensure from the outset that the strategy sets out clear objectives;
- **Overall concept and the roles of government entities within it** – there will need to be significant commitment to the role of the finance function within the organization. Financial management needs to be embedded through the organization with all government entities committing to making the changes. All parts of the organization will need to be integrated and work together. There needs to be a good planning process, and a top-down cross team approach to identify overall priorities and focus on the high level things that matter.
- **Activities to be undertaken and the resources required** – typical activities that need to be undertaken revolve around:
 - Planning;
 - Project management;
 - Communication;
 - Creating an accounting manual;
 - Adopting a set of accounting standards;
 - Creating a governance framework;
 - Procuring and implementing an appropriate accounting system;
 - Identifying staff resources and training needed to deliver the project;
 - Training of all other staff including senior management to understand the new financial management environment and how the new system will operate;
 - Updating records on assets and liabilities that will be included in the opening balance sheet; and
 - The process of change over to the new system – whether there will be dry-runs and/or periods of parallel operation, etc.

Timescales and phases of activity – the strategy should also set out a realistic timetable for the project based on phases of activity. As a general rule, countries that have been through this process typically take between six and eight years depending on the level of professional expertise and the quality of existing systems and processes.

The phase of activity usually breaks down into a chronology similar to, if not exactly like, the pattern in the table below:

YEARS	ACTIVITY	PHASE
1 – 2	• Obtain commitment to change • Establish legislative and policy framework • Develop an implementation strategy	Pre-project phase
2 – 3	• Establish the project delivery and governance oversight • Create detailed project planning documents • Carry out gap-analysis (road map) • Establish transition path • Establish skills requirement and develop and execute a training and recruitment plan	Set-up phase
3 – 5	• Procure and implement accounting systems • Develop accounting manual	Early implementation phase
4 – 6	• Survey and value assets and liabilities to create opening balance sheet • Create user guides and manuals	Late implementation phase
6 – 7	• Dry run accounts production • Parallel running • Audit	Pre-launch phase
7 – 8	• Go live (timing may depend on results of dry run) • Publication of key outputs	Launch phase

SECTION 3: PROJECT DELIVERY

The actual process of allocating resources to activities in order to deliver a strategy will require a detailed project plan and project management. The project timeline and detailed steps are likely to be as follows:

A. Set-up phase



B. Implementation phase

- ✓ **Technical capacity and current systems** – where a government is planning to adopt a new financial reporting/management system, it is important that the current processes are well understood and documented.
 - ✓ **Future accounting system** – the IT system to support accrual accounting is a key component and will to a large extent depend on the initial scope of the project.
 - ✓ **Accounting manual** – the accounting manual is the technical guide for the preparation of the government's financial statements. It should set out the accounting standards that are applicable and provide information on the accounting policies and how to disclose figures and information in the financial statements.
 - ✓ **Staff training and any recruitment** – in order to realise the benefits of implementing an accrual accounting system, it is important to have staff, both preparers and users who have the technical expertise to operate it. This may require a programme of staff recruitment and training to build a workforce with the necessary expertise or fill any gaps in the skills of the existing workforce.
 - ✓ **Opening balances** – to create the statement of financial position, assets and liabilities of the government need to be identified, measured and recorded. This is potentially a large exercise which will require careful planning and management. The level and quality of government's previous record keeping will have an impact as well as the size of the government.
- The opening balances should be audited to obtain the necessary confidence over completeness and accuracy and thus need to be supported by reliable records and appropriate valuations.**



C. Pre-launch phase

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- ✓ **Dry runs** – it will be prudent to keep the old, tried and tested procedures in place alongside the new ones while the new system is tested through a series of ‘dry runs’ before it goes ‘live’. Although this parallel running may be more resource intensive, it will give the project team time and space to iron out any errors or malfunctions. It will also enable the auditors to review the new system and feed into the process effectively.
 - ✓ **Audit** – key aspects that the auditor can help with throughout the project are; review of the project plans and scheduling of activities, internal controls and processes, audit of IT systems, review of any fixed asset registers and check of opening balances.
 - ✓ **Preparing to go live** – this will entail a lot of detailed considerations and assessments among them; system readiness, timetable in place for data input from government bodies, staff in place, sign-off from decentralised/lower levels that they are ready, agreed application of accounting standards and opening balances identified and recorded.

D. Further considerations

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- ✓ **Roll out to all government entities** – if a phased approach is adopted for the project, then after the initial group of government entities has implemented IPSAS, it will need to be rolled out to other entities.
 - ✓ **Whole of Government Accounts** – this is a consolidation of all public sector entities under government’s control. The consolidated financial statements would effectively provide users with a statement of financial performance and position that represents the country as a whole.
 - ✓ **Accruals budgeting** – to gain the full benefit of accrual accounting and the associated benefits for public financial management, it is usually necessary to align the whole public financial management systems including budgeting on an accrual basis. In particular, if prepared on accrual basis, budgets will need to take account of non-cash items such as depreciation and provisions for future expenditure.
 - ✓ **Harmonization with statistical accounts** – there are requirements in place for governments to periodically provide statistical data to organisations such as the World Bank, OECD and IMF. In recent years the statistical frameworks have also adopted accruals-based measures which presents an opportunity for governments to provide accruals-based government data in a more effective and timely manner with increased quality since the data is already being collected and recorded on a daily basis under an accruals-based accounting framework.



SECTION 4: PEOPLE AND RESOURCES

Government business is complex and requires the right people with the right skill sets at all levels. The public sector therefore needs an effective 'people' strategy to be able to ensure effective financial management that matches resources to strategy to deliver policies.

The first step, therefore, in this process is to carry out a 'people and resource' gap analysis to:

- **Project and risk management capabilities**
- **Accounting policy and technical accounting knowledge**
- **Planning, budgeting and forecasting knowledge**
- **Business analysis and evaluation techniques and**
- **Financial systems design and development**

The range of skills required to deliver a successful implementation and subsequent operation of accrual accounting include:

- **Determine what skills and level of resources are needed at each stage of the project**
- **Identify the level of existing skills and resources**
- **Identify the gaps**
- **Identify what actions need to be taken to fill the gaps**



Another way to close the gap between capabilities of existing staff and the capabilities required is to recruit the necessary expertise from outside government. In particular, to recruit people with experience of accrual accounting in large companies where there are large transactions and experience of the consolidation of complex intra-group transactions and balances. In the short term, many governments have found it necessary to rely on consultants and contractors to fill gaps in expertise. This is, however, usually only viable as a short-term solution as it is expensive and does not, in general, improve the skills of the existing workforce.



SECTION 5: STANDARDS AND POLICIES



In adopting a new set of accounting standards, it is important to have consistency and transparency in the approach at all levels. Adoption of IPSAS, in particular, is a complex process and for that reason many countries find it useful to move to first adopt IPSAS cash then move to IPSAS accruals in a series of steps.

A phased approach allows there to be development of methodology at each step, and an opportunity to digest the lessons and experiences from each phase before moving on to the next phase.

Accounting Standards

Applying accounting standards means to adhere to a pre-determined set of rules that produce consistent and comparable information year on year. While there is a growing list of countries that have adopted IPSAS, all of them have chosen to adapt the standards to suit their specific needs in accordance with local legislation and regulations.

Where IPSASs are to be followed, the country would require strong standard-setting capabilities in order to effectively adapt these to local needs. The government would need to set up an independent standards-setting board consisting of both government and non-government experts, including the national auditor, which would be responsible for amending any IPSAS standards to suit the local needs and for producing the accounting manual.

Accounting Policies

Accounting policies detail the specific accounting treatment and procedures adopted in the creation of the financial statements. Disclosure of accounting policies is important because many accounting standards allow alternative treatments for the same transaction or item.

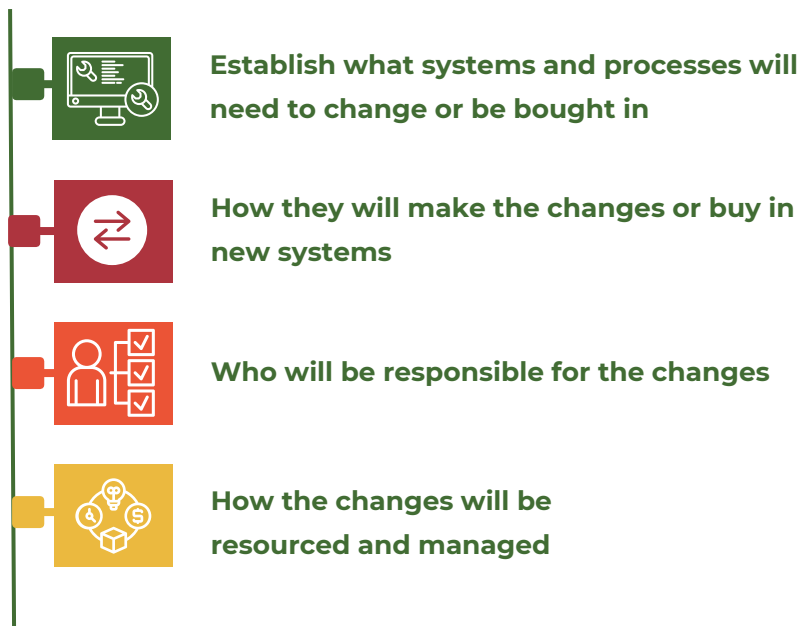
IPSAS are mainly based on IFRS which, in turn, are principles-based standards as opposed to rules-based standards. Governments would, in all likelihood, need to adopt accounting policies that restrict some of the options available in the standards to ensure that each government entity produces comparable accounts and to facilitate the consolidation process.

SECTION 6: SYSTEMS AND PROCESSES



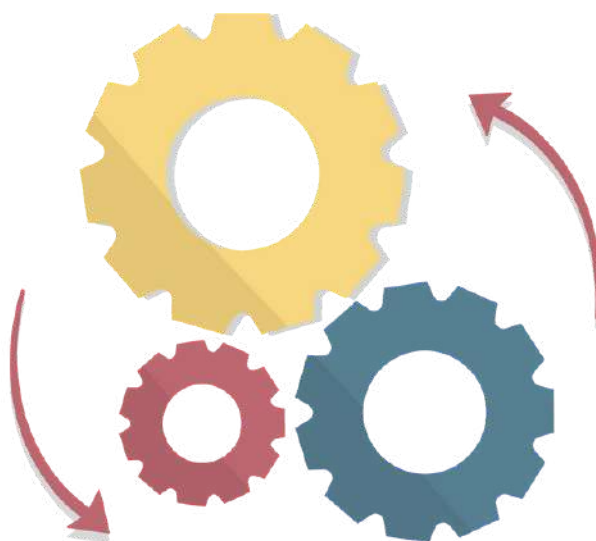
Implementation of IPSAS needs the right infrastructure in place to facilitate a smooth transition. Corporate governance, internal controls and high-quality systems and processes are needed to enable the move to occur and to generate timely, high-quality and relevant information for key decisions-makers which will in turn drive the performance of the organization as a whole.

As part of their risk management and internal controls, governments will need to assess what they already have in place and whether existing systems and processes are sufficient for the reforms that they are planning. If the systems do not deliver the necessary functionality to support accruals accounting, then it will be necessary to develop a plan to:



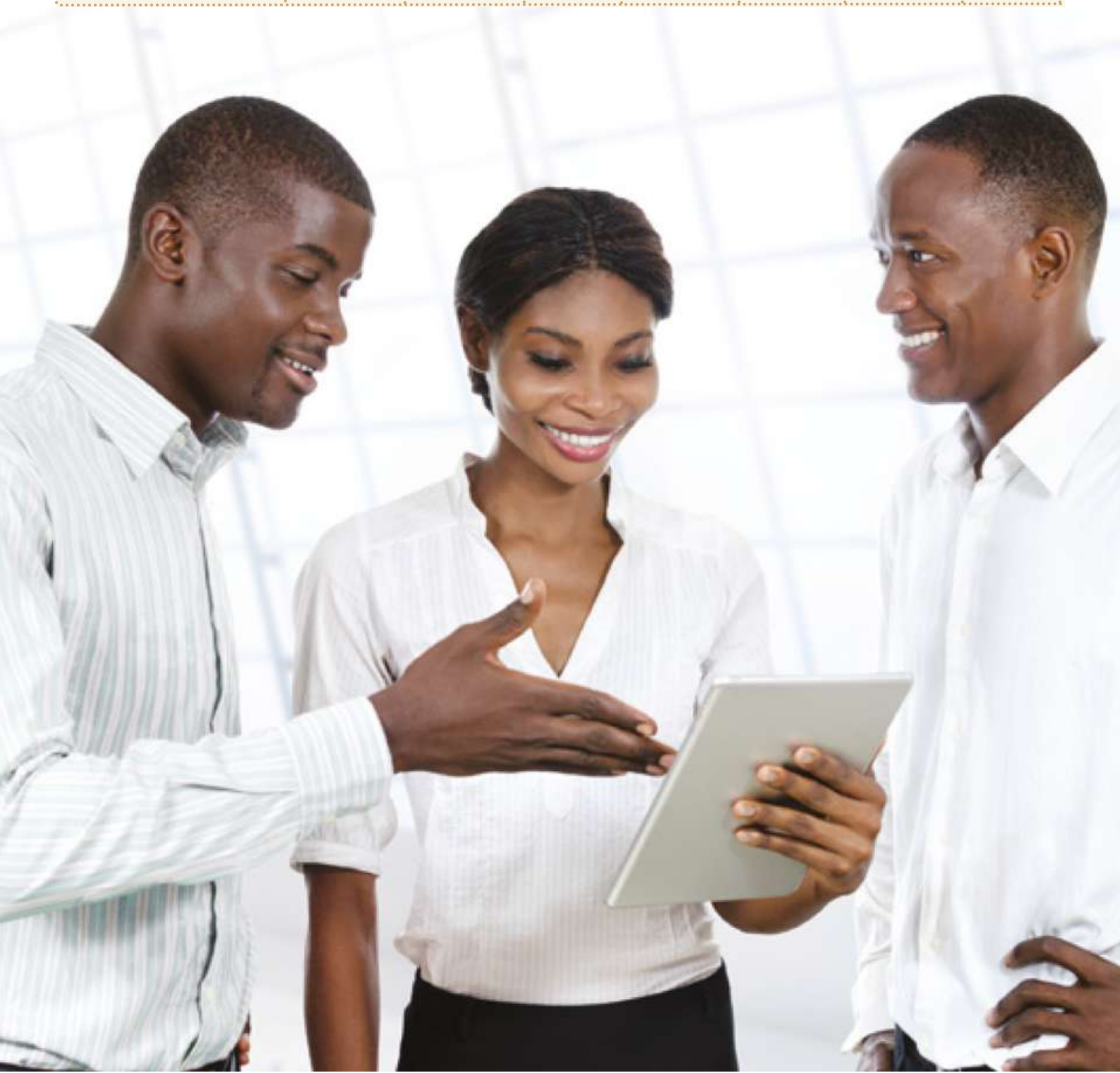
IMPLEMENTATION TIMELINES

Based on the six key implementation pillars that have been highlighted above, the ideal IPSAS implementation timelines are as illustrated below:



	YEAR 1	YEARS 2	YEARS 3	YEARS 4	YEARS 5	YEARS 6	YEARS 7	YEARS 8
Phase 1 Pre-Project	- Establish mandate - High level business case, objectives and gains - Capital and human resources available	- Political buy-in - Identify project sponsor - Establish legislative framework to underpin legality of accounts production and the subsequent accountability						
Phase 2 Set-up		- Establish project board - Create project team that includes project manager, team leaders, technical experts and communications teams - Evaluate current systems and processes - Document current systems - Create detailed plan – roadmap including transition path which determines the scope - Obtain user buy-in	- Discuss output objectives with management, document - Governance requirements - Establish valuation office and other specialist units such as actuaries for pension valuations - Mindful of any statistical requirements such as production of GFS - Creation of independent accounting standard setting board					
Phase 3 Early Implementation			- Procure or upgrade accounting system - Accounting system, off the shelf or bespoke. Allow time for system build and or adaptations. Review reporting requirements. Auditor engagement recommended - Interface preferences – how many entities need to feed into consolidation process.	- Accounting policies – adopt or create. If adopt, think about adaptations specific to the jurisdiction - Start to identify assets and liabilities to be valued. - Chart of accounts, complexity will depend on scope of transition - Establish key dates to measure progress	- Ensure parallel running of systems is working - Recruit relevant personnel if required - Strategy for opening balance sheet to be documented. - Phased approach thinking about materiality and complexity. Accounting standards will also need to be adhered to			
Phase 4 Late Implementation				- Communication with key stakeholders to ensure accounting standards, manuals and user guides meet local requirements - Create accounting manuals	- Initiate staff training – think of approach such as 'train the trainer' - Create user guides and training manuals – multi lingual if necessary	- Government owned assets and liabilities need to be identified and valued to create opening balance sheet - Creation of risk register, in part to guard against sensitive data being lost or abused		

	YEARS 1	YEARS 2	YEARS 3	YEARS 4	YEARS 5	YEARS 6	YEARS 7	YEARS 8
Phase 5 Pre-Launch Dry run						• Ensure parallel running is satisfactory i.e. key data is still available during transition period • Continuous data collection to enable accrual accounting	• Close communication with stakeholders and auditors vital. Key milestones and dates understood and agreed upon • Published unaudited accounts	
Phase 6 Launch – Go live							• Publish audited accounts • Review for timeliness and audit qualifications	• Stakeholder feedback and assessment of process • Consolidation



DISCLAIMER

This document has been prepared for use by PAFA members with the sole purpose of providing high level guidance on how to approach the implementation of IPSAS. It highlights the requirements of IPSASs, issues to be addressed in the adoption of the accrual basis of accounting and alternate approaches that can be adopted in implementing the accrual basis of accounting in the public sector. While every effort has been made to ensure that this IPSAS implementation roadmap remains as objective and practical as possible, PAFA is not guaranteeing this as the only approach to follow in order to implement IPSAS in any jurisdiction within the African continent. It is important to note that African countries are at various levels of efficacy on PFM policy and initiative development, therefore, an assessment for each country should be carried out to establish the country's readiness to adopt IPSAS and choose an approach that will yield maximum benefits within the context of any resource constraints (both financial and non-financial) that may exist. The information contained in this publication therefore should not be treated as a substitute for advice concerning individual situations or circumstances that each country may face. Furthermore, this guideline does not seek to establish new or additional authoritative requirements and should not be considered a substitute for the IPSASs themselves.



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BUILDING A BRIDGE TO A
BRIGHTER AFRICA