

**PRACTICAL APPROACH ON
CONVERSION TO
IPSAS ACCRUAL**

Paper Outline

- ❑ Objectives
- ❑ Introduction
- ❑ Financial Statements prepared by Public Sector Entities (PSEs) prior to IPSAS adoption
- ❑ IPSAS Cash (Cash Basis) Compliant General Purpose Financial Statements (GPFS)
- ❑ IPSAS -Accrual Basis Compliant GPFS
- ❑ Steps involved in Conversion to IPSAS Accrual
- ❑ Conversion Issues
- ❑ Conclusion

Objective of the Paper

At the end of the presentation of this paper,

Participants would be able to:

- ❖ Understand the difference between IPSAS compliant Financial Statements and any other Financial Statements
- ❖ Understand major components of IPSAS Compliant Financial Statements (both Cash and Accrual)
- ❖ Know steps involved in the Conversion
- ❖ Prepare and Interpret IPSAS Compliant Financial Statements

Introduction

- ❖ International Public Sector Accounting Standards (IPSAS) are high quality set of standards issued by IPSAS Board to regulate the practice of accounting in the Public Sector all over the World.
- ❖ Financial Statements are a collection of Reports about an Entity's Financial Results, Financial Condition and Cash flows. In other ways, they are final records that outline the activities of an Entity.

Introduction Cont'd

- ❖ IPSAS compliant Financial Statements are those intended to fulfill the information needs of wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
- ❖ These users include Taxpayers, suppliers, employees, voters, their representatives and other members of the public, etc.). These Statements are referred to as General Purpose Financial Statements (GPFS)

Why IPSAS Compliant Financial Statements?

IPSAS Compliant General Purpose Financial Statements (GPFS) provides to the users the following:

- ❖ Information about the sources, allocation and uses of financial resources;
- ❖ Information about how the entity financed its activities and met its cash requirements;
- ❖ Information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments

Why IPSAS Compliant Financial Statements? Cont'd

- Information about the financial condition of the entity and changes in it; and
- Aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

Preparation & Presentation of GPFS

The following steps are still been taken in preparation and presentation of Financial Statements under IPSAS:

- ❖ Posting of source of documents (Payment, Receipts , Journals, Stores etc.) to relevant Books of accounts,
- ❖ Balancing of the Books
- ❖ Postings to the General/Subsidiary Ledgers
- ❖ Balancing of General Ledger and Subsidiary Ledgers
- ❖ Extraction of Trial Balance from the General Ledger
- ❖ Preparation of Statements and Notes from the Trial Balance

The above Steps can be electronically followed in an Automated Accounting System

Financial Statements Prior to IPSAS Adoption

The following sets of Financial Statements were prepared up to 31 December, 2015 in line with timeline issued by FAAC implementation Committee PSEs:

For Core Public Sector Entities (Federal Government, States, Local Government Councils etc.)

- **Statement 1-** Statement of Cashflow
- **Statement 2-** Statement of Assets and Liabilities
- **Statement 3-** Statement of Consolidated Revenue Fund(CRF)
- **Statement 4-** Statement of Capital Development Fund (CDF)
- Notes to the Accounts

Financial Statements Prior to IPSAS Adoption Cont'd

For Other PSEs (Mostly on Modified Accrual Basis)

- Balance Sheet
- Statement of Income and Expenditure Account
- Statement of Cashflow
- Statement of Value Added (Optional)
- Notes to Accounts

IPSAS Compliant GPFS Vs Other Financial Statements

IPSAS compliant GPFS differs from any other Financial Statements in the following ways:

- ❖ Components of the two statements
- ❖ Disclosure requirements
- ❖ Compliances with Standards etc
- ❖ Range of Users

IPSAS Compliant Financial Statements

There are two types of IPSAS Compliant General Purpose Financial Statements:

IPSAS Cash Basis
Compliant GPFS
(2014 to 2015)

IPSAS Accrual Basis
Compliant GPFS
(Effective 1st January
2016)

Components of IPSAS Cash Compliant GPFS

Part 1 (Mandatory Disclosure Requirements) of Cash basis IPSAS provides presentation of the following statements in the GPFS:

- Statement of cash receipts and payments (Cash flow Statement);
- Accounting policies and explanatory notes;
- Comparison of budget and actual amounts (when the entity makes publicly available its approved budget)

However Entities are encouraged to disclose more information in addition to the above listed requirements (Part 2 Additional Disclosure Requirements)

Components of IPSAS Accrual Basis Compliant GPFS

A complete set of Accrual Based GPFS is made up of the following components:

- ❖ Statement of Financial Performance;
- ❖ Statement of Financial Position;
- ❖ Statement of Changes in Net Assets/Equity;
- ❖ Cash flow statement;
- ❖ Accounting policies;
- ❖ Comparison of budget and actual amounts (when the entity makes publicly available its approved budget),
- ❖ Notes to the GPFS and other disclosures

Statement of Financial Performance

- ❖ Statement of Financial Performance is a statement that shows income accrued to the entity from all sources and Expenditure incurred during a given accounting period.
- ❖ IPSAS 1 prescribed minimum disclosures on the face of the statement of financial performance:

Statement of Financial Position

- ❖ Statement of Financial Position is a Statement that shows Assets, Liabilities and Net Assets/Equity of an Entity. Both Assets and Liabilities of an entity are classified into:

Current

Non-Current

Statement of Cashflow

- ❖ Statement of Cash flow is a statement that shows how changes in Statement of Financial Position and Performance affect cash and a cash equivalent balance at the end of the period, and breaks the analysis down into operating, investing and financing activities.
- ❖ In other words, it is a Statement that identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date.
- ❖ Cashflow are basically reported under the following activities:
 - Operating
 - Investing
 - Financing

Statement of Changes in Net Assets/Equity

- ❑ Net Assets simply refers to Assets less Liabilities which is financed by Reserves, Accumulated surpluses/Deficit, Minority Interest etc.
- ❑ The Statement of Changes in Net Assets/Equity is important in GPFS because it enables users to ascertain possible causes of movement in Net Equity of an entity
- ❑ Changes in Net Assets/Equity are normally caused by the following:
 - ❖ Significant Changes in Accounting Policies
 - ❖ Correction of Prior years' errors
 - ❖ Revaluation of the Assets
 - ❖ Surplus or Deficit for the period
 - ❖ Changes in Currency Translation etc

Key practical Steps to Conversion to IPSAS Accrual basis

- ❑ Composition of IPSAS implementation Committee
- ❑ Adoption of NCOA for both Accounting and Budgeting. This is to ensure uniformity and comparability.
- ❑ Conversion of 2015 trial Balance to IPSAS compliance trial Balance,
- ❑ Preparation of opening statement of financial position (01/01/2016) using the guidelines issued by IPSAS implementation Committee

Composition of IPSAS Implementation Committee

IPSAS Implementation Committee with the following membership should be constituted in line with National Treasury Circular dated 23rd October, 2014 with reference No: OAGF/CAD/POL/C.0301/VOL. I/VOL.I

- ❖ Accounting Officer (Chairman)
- ❖ Director/Head of Finance and Accounts (Vice-Chairman)
- ❖ Head of Internal Audit (Member) iv. Head of Administration/Human Resources (Member)
- ❖ Head of Information and Communication Technology (Member), where applicable
- ❖ Head of Other Charges (Member)

Composition of IPSAS Implementation Committee

- ❖ Head of Capital Expenditure (Member), where applicable
- ❖ Head of Central Pay Office (Member)
- ❖ Head of Budget (Member), where applicable
- ❖ Head of Procurement (Member), where applicable
- ❖ Head of Store/Store Officer (Member)
- ❖ Head of Final Accounts (Secretary)

Preparation Of Opening Statement Of Financial Position (1st January, 2016)

- ❑ Opening Statement of Financial is first-time adopter's statement of financial position at the date of adoption of IPSASs.
- ❑ The existing Statement of Assets and Liabilities of PSEs on Cash basis of accounting, existing Balance Sheet of PSEs on Accrual basis of accounting and those that have not been preparing complete financial statements are to convert their respective statement of 31st December, 2015 to IPSAS accrual basis Opening Statements of Financial Position as at 1st January, 2016.
- ❑ .

Preparation Of Opening Statement Of Financial Position (1st January, 2016) Cont'd

- ❑ The converted statement becomes the Opening Statement of Financial Position of the PSE
- ❑ In preparation of opening Statement of Financial Position, a first-time adopter shall:
 - ✓ Recognize all assets and liabilities whose recognition is required by IPSASs;
 - ✓ Not recognize items as assets or liabilities if IPSASs do not permit such recognition;

Preparation Of Opening Statement Of Financial Position (1st January, 2016) Cont'd

- ✓ Recognize all assets and liabilities whose recognition is required by IPSASs;
- ✓ Not recognize items as assets or liabilities if IPSASs do not permit such recognition;
- ✓ Reclassify items that it recognized in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSASs; and
- ✓ Apply IPSASs in measuring all recognized assets and liabilities.

Conclusion

- ❖ Preparation and presentation of Financial Statements by Public Sector Entities (PSEs) in Nigeria is not new. What is new is compliance with all relevant provisions of IPSAS
- ❖ Steps explained in this presentation should be followed to ensure proper conversion to IPSAS Accrual.
- ❖ All hands must be on deck to ensure full implementation of IPSAS in Nigeria.



Thank You

Questions & Answers