European Accounting Association
Public Sector Accounting Committee (EAA PSAC)

Comments to:

Exposure Draft (ED) 91, Limited-scope Updates to First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) (Amendments to IPSAS 33)

10 December 2024

The mission of the European Accounting Association Public Sector Accounting Committee (EAA PSAC) is to embed public sector accounting at the core of the accounting ecosystem by providing a nexus between academics, research networks, practitioners and standard setters in the public sector accounting arena, to promote high-quality research, standard-setting and public financial management and policymaking. Among the main objectives of the EAA PSAC is to participate in public consultation processes that are relevant to public sector accounting and public sector accounting standard-setting. Information about the EAA PSAC is available at https://eaa-online.org/public-sector-accounting-2/. Providing comments to the exposure draft falls within the scope of its works.

The EAA PSAC is currently chaired by Sandra Cohen (Athens University of Economics and Business, Greece), with members Eugenio Anessi-Pessina (Università Cattolica del Sacro Cuore, Italy), Isabel Brusca (University of Zaragoza, Spain), Susana Jorge (University of Coimbra, Portugal), and Mariafrancesca Sicilia (University of Bergamo, Italy). The documents issued by the EAA PSAC reflect only the views of their signatories, not the collective perspective of the wider research community nor the opinions of the institutions affiliated with such signatories or of the European Accounting Association.

First adoption of IPSAS Accrual Basis: Main Challenges

The transition from the cash or the modified cash basis to accrual accounting entails several challenges that deserve attention in order to ensure that public sector entities that embark on these reforms can achieve successful implementation without delays and failures. It requires strategic planning and must be embedded at the core of the public financial management systems (Saleh et al., 2023). The introduction of accrual accounting means that technologies will change, but also that the knowledge and culture of departments must be adapted to the new system, demanding human and financial resources (Fuentes & Borreguero, 2018).

One of the main challenges identified in the literature is the recognition and measurement of assets and liabilities to produce the initial opening balance sheet, with heritage assets, infrastructure assets, and community assets being particularly problematic (Arnaboldi & Lapsley, 2009; Lapsley et al., 2009; Adam et al., 2011; Anessi-Pessina et al., 2020). This process can be difficult and costly (Christiaens & Vandendriessche, 2015), also because public sector entities may not have taken stock of all their assets and liabilities.

When accrual accounting is first implemented, moreover, it is necessary to change the timing of recognition of transactions (Adhikari & Gårseth-Nesbakk, 2016). Expenses must be recorded in the period in which they are incurred rather than paid, and revenues must be recorded when they accrue independently of when they are collected in cash. This requires that financial management systems provide more complicated data to the accounting system, such as properties and their states, debts, receivables, and payables.

Furthermore, for countries that maintain budgetary systems based on the cash or the modified cash basis of accounting, accounting systems must be integrated with budgetary systems with a mixture of cash and accrual entries for both subsystems, and data should be reconciled (Jorge et al., 2019).

Overall, the application of accrual-based IPSAS may thus involve different complications, depending on whether the entity previously applied accrual accounting or cash/modified cash accounting, especially with respect to the opening financial statements. Resource requirements will similarly be significantly different because public sector entities applying cash or modified cash accounting will probably lack systematic and sufficient records of accounting information (Manes-Rossi et al., 2016).

IPSAS 33 aims to support the first application of accrual-based IPSAS. We consider it a valuable standard for public sector entities that have decided and planned to start implementing accrual-based IPSAS.

ED 91 and Specific Matters for Comments

ED 91 proposes some updates to IPSAS 33 "First Time Adoption of Accrual Basis IPSAS". The scope and aims of IPSAS 33 are not affected and neither are the exemptions stated for first adopters. The aim of ED 91 is to make IPSAS 33 more useful and effective for first-time adopters.

The main changes can be summarized in the following:

- **Clarification and restructuring of existing guidance**. ED 91 groups the possible exemptions by areas, such as general principles, accounting policies, non-financial assets;
- **Application of exemptions**. ED 91 encourages first-time adopters to apply the exemptions for the shortest period possible, independent of the maximum 3 (three) years stated in the IPSAS;

- **Non-authoritative guidance**. Implementation guidelines are provided to support the application of IPSAS 33 as well as the overall adoption of IPSAS; and
- **Guidance in the application of the deemed cost concept**.

Specific Matter for Comment 1:

The IPSASB agreed to undertake this limited scope project to address stakeholder concerns in the application of IPSAS 33, to improve its effectiveness and user-friendliness. In response, the IPSASB proposes to amend IPSAS 33 as follows:

(a) To revise authoritative text and Basis for Conclusions by rearranging the guidance by topic;

(b) To revise guidance to improve understandability and reduce duplication;

(c) To revise relevant guidance to encourage the first-time adopter to apply IPSAS incrementally and as soon as possible by emphasizing the choice to elect to apply or not apply the available exemptions;

(d) To add non-authoritative guidance (particularly under implementation guidance) to support the understanding and application of IPSAS 33; and

(e) To add non-authoritative guidance on the pre-adoption planning and preparation phase of the transition to accrual basis IPSAS.

Do you agree with the proposed amendments? If not, please explain your reasons.

Comment:

We agree with the proposed amendments to IPSAS 33 as they make it more helpful and user-friendly to professionals, managers, and other stakeholders who are responsible for the first-time implementation of accrual basis IPSAS.

More specifically, the rearrangement of guidance by topic is particularly useful as it makes it easier to understand how this guidance can be applied to the various elements and what exemptions can be applied to each type of accounting element. Furthermore, removing redundant information will help users understand and apply the standard, as repetitions may induce misinterpretation or mistakes in its application. In fact, the literature points out that IPSAS implementation varies from one country to another, and often, some IPSAS are not implemented (Schmidthuber et al., 2022).

As the standard and its exemptions are intended to be applied only for a restricted period of time, with a limit of three years, encouraging organizations to abandon the exemptions as soon as possible and apply IPSAS incrementally is fundamental to making the transition. Otherwise, entities may extend the exemptions for several years, making it more difficult to abandon them and abide by the full suite of accrual basis IPSAS. Long transitional periods may lead to the postponement and cancellation of any immediate changes (Christiaens & Vandendriessche, 2015), leading to delays in the implementation process or even to its abandonment (Jorge et al., 2021).

Regarding the inclusion of additional implementation guidance, we appreciate the proposal as it will provide valuable information for the practical application of IPSAS, helping preparers to understand and apply the most complex criteria in the various accounting areas, increasing effectiveness in the application of the standard.

Similarly, adding non-authoritative guidance on the pre-adoption planning and preparation phase for transitioning to accrual basis IPSAS will greatly assist in organizing the implementation process and preparing for the challenges it entails, namely regarding technical requirements (Jorge et al., 2021).

Nevertheless, as we stated before, technical challenges can be different for entities that have already some experience with accrual accounting compared to those currently using only cash or modified cash. The latter will need to recognize and measure all their assets and liabilities to prepare the initial opening balance sheet, whereas the former will probably just need to adjust some items due to different measurement criteria required by IPSAS. Therefore, it may be appropriate for the non-authoritative guidance to differentiate between these two types of entities. This distinction could be even more justified considering that many first-time adopters are small entities with evident capacity restrictions (Adam & Heiling, 2023).

Specific Matter for Comment 2:

The definition of "deemed cost" was previously deleted from the IPSAS 33 as a consequential amendment through IPSAS 46, Measurement. The IPSASB agreed that the definition of "deemed cost" is important for the understanding of the exemptions in the Standard relating to the use of deemed cost, and therefore propose to include a copy of the IPSAS 46 definition of deemed cost in IPSAS 33.

Do you agree with the inclusion of the definition of "deemed cost"? If not, please explain your reasons.

Comment:

Yes, we agree. IPSAS 33 aims to provide guidance for public sector entities in any country or jurisdiction to start preparing financial reports according to accrual-based IPSAS. It is supposed to be applied only temporarily, during a transition phase, while entities prepare themselves to fully apply the accrual-based IPSAS.

Therefore, all the criteria and procedures to be implemented by first-time IPSAS adopters should be consistent with full accrual-based IPSAS. Alignment with the Conceptual Framework and *IPSAS 46 – Measurement* is of utmost importance.

Under these circumstances, the inclusion in IPSAS 33 of the IPSAS 46 definition of deemed cost – referring to the transaction price rather than the acquisition cost or depreciated cost –is desirable for a matter of consistency and also as an incentive to start applying full accrual-based IPSAS.

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This comment letter has been prepared by the European Accounting Association Public Sector Accounting Committee (EAA PSAC).