COVID-19 Interventions:

Impact Assessment

and the

Pathway to Accrual

International Federation of Accountants®

Zurich University of Applied Sciences

School of Management and Law

Knowledge Partner

International Public Sector Accounting Standards Board®

IFAC

IFAC (International Federation of Accountants) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of over 175 members and associates in more than 130 countries and jurisdictions, representing more than 3 million accountants in public practice, education, government service, industry, and commerce.

ZHAW

Zurich University of Applied Sciences (ZHAW) was founded in 1874 in Winterthur/Switzerland and nowadays includes eight disciplinary schools. The ZHAW School of Management & Law is the largest business school in Switzerland and one of only four which are internationally accredited by AACSB. Public Financial Management has been part of its curriculum for more than 50 years and became a key area of research in 1996.

IPSASB

The International Public Sector Accounting Standards Board (IPSASB) works to strengthen public financial management globally through developing and maintaining accrual-based International Public Sector Accounting Standards (IPSAS) and other high-quality financial reporting guidance for use by governments and other public sector entities. It also raises awareness of IPSAS and the benefits of accrual adoption. The Board receives support from the Asian Development Bank, the Chartered Professional Accountants of Canada, the New Zealand External Reporting Board, and the governments of Canada and New Zealand. The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

ISBN: 978-1-60815-446-3

COVID-19 Interventions:

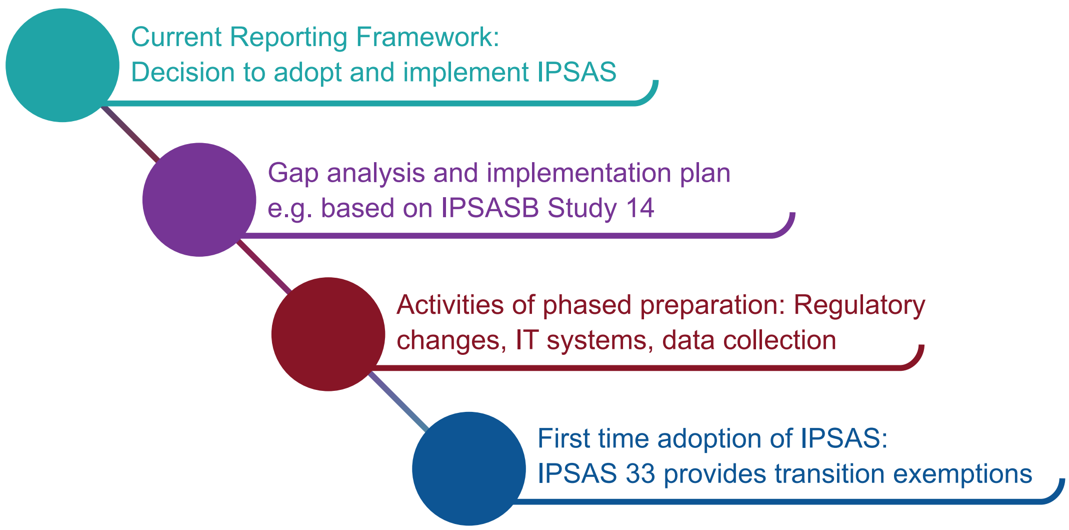
Impact Assessment and the Pathway to Accrual

The interventions implemented by governments globally to mitigate the economic effects of the COVID-19 pandemic will have both immediate and ongoing financial impacts. The nature and scale of these interventions vary widely across jurisdictions, as will their longer-term impacts. However, the significant fiscal interventions launched by many governments mean that high-quality accrual-based financial reporting is needed now, more than ever, as it provides better information for decision-making, improves transparency on how public resources are used, allows citizens to hold decision makers to account, and better positions governments to address the balance sheet impact of the pandemic.

The International Public Sector Accounting Standards (IPSAS) are financial reporting standards developed specifically for governments and other public sector entities around the world, with the aim of improving the quality and comparability of their General-Purpose Financial Reports. Full accrual accounting using IPSAS strengthens accountability by providing a comprehensive picture of government resources, and how they have been used, which contributes to better decision-making.

Typically, governments have a large amount of assets other than cash, some liabilities other than debt, as well as non-balance sheet items such as guarantees. These items have a significant effect on surplus or deficit. They also offer alternatives when designing government interventions to mitigate the impact of COVID-19 and can be used to make such interventions more sustainable. Although accrual accounting provides significantly better information for accountability and decision-making, depending on the starting point, it can be both time consuming and costly. COVID-19 offers an opportunity to start the process of adoption and implementation of IPSAS. The COVID-19 Intervention Assessment Tool provides an immediate way of evaluating the economic impacts of current and planned policy initiatives, which can be used independently of where a jurisdiction is on the path to accrual.

While IPSAS define the end product, the financial statements, there is no predetermined path to adopt and implement the standards. The IPSAS high-level principals and guidance leave significant scope for jurisdictional adaptations in the adoption and implementation of the standards. Whichever approach is taken, it is important that IPSAS adoption and implementation takes place in the context of strengthening public financial management.



Starting point

Adoption of IPSAS does not require entities to move directly to full IPSAS, but it requires a decision or a mandate to adopt and implement full accrual accounting. In such a transition, the starting point should be clear, including which current accounting standards are being used. These initial standards can be a national or international framework. Ideally, these standards should allow for some preliminary phased accrual implementation steps in order to smooth the transition path. The Cash Basis IPSAS is such a standard, prescribing the cash basis of accounting, but permitting gradual implementation of selected accrual elements, such as selected asset classes. However, it is not necessary to start with the Cash Basis IPSAS, and using it for any purposes other than as steppingstone is discouraged.

The COVID-19 Intervention Assessment Tool contrasts accrual accounting with cash basis reporting. In the context of COVID-19, it is important that government interventions are accounted for and reported in compliance with the standards currently applied in the jurisdiction. Even if these standards do not require full accrual accounting, all transactions related to government interventions should be appropriately documented and systematically recorded. This information is relevant for future accrual accounting and reporting and should be retained. Keep your receipts!

Gap analysis and implementation plan

Once a jurisdiction decides to adopt accrual IPSAS, it should take incremental steps to implement them, starting with a gap analysis. Based on this gap analysis, the government should develop a comprehensive implementation plan, defining the scope, phases, deliverables, and project timelines. The plan should be endorsed by senior staff and government decision makers to ensure the necessary commitment and resources are dedicated to the implementation. IPSASB Study 14[1] provides insights into the steps that are typically necessary and how they can be designed.

Nevertheless, each jurisdiction is different and Study 14 does not provide a "one size fits all" implementation plan. It is important that the implementation plan considers technical accounting considerations, as well as how the plan fits in a wider public financial management reform process. Consequently, the plan should also consider human resources and capacity, IT systems, and changes to processes to use accrual financial information to improve decision-making.

When a jurisdiction adopts IPSAS, it can do so directly or indirectly. Direct adoption requires the endorsement of IPSAS, without changing their content and structure. Indirect adoption involves the development of jurisdictional standards, which are based on IPSAS but include specific jurisdictional changes to their content and structure. Indirect adoption may lead to significant differences between IPSAS and jurisdictional standards depending on the nature and extent of adaptations.

Undertaking a gap analysis and developing an implementation plan is a manageable undertaking even in times of scarce resources. There are different options on how to adopt and implement IPSAS. Generally, there is strong evidence that the payback period of an implementation project is very short, given the large scale of benefits arising from accrual accounting.

1 IPSASB Study 14, Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities, Third Edition. provides practical guidance to deal with the implementation of an accrual system in the public sector. This guide is currently being updated.

Phased preparation

Unless the jurisdiction is applying a robust accrual accounting framework, several preparatory phases will be necessary. Almost all jurisdictions will require regulatory and legal changes. In addition, the standards need to be set, either directly by endorsing IPSAS or indirectly by developing jurisdictional standards. In most cases, IT systems need to be procured, developed, standardized, or updated. Generally, there is also a need to improve data collection, for example to develop accrual capital asset registers. Consequently, preparatory phases often take time to complete and need to begin before the IPSAS implementation transition period commences. It is also necessary to ensure that this preparatory work is IPSAS compliant.

IPSAS compliant accounting for COVID–19 interventions provides valuable information for future accrual reporting because at the time of a transaction, all the relevant information is available. For example, in case of nationalizations, loans, and the purchase of property, plant and equipment, transaction receipts contain a description of the assets purchased, liabilities incurred, transaction dates, cost information, etc. Such information should be retained and used to capture relevant data, as shown in the Assessment Tool.

First-time adoption of IPSAS: Transition

The actual period of transition and full implementation of IPSAS is prescribed in IPSAS 33. This standard allows specific exemptions from the requirements of IPSAS during the transition period. At the end of the three-year transition period, full IPSAS compliance is required.

Unless it was already planned beforehand, the first-time adoption of IPSAS is unlikely to be a priority during the COVID-19 crisis. Nevertheless, it remains important to make sure that information collected during the COVID-19 crisis, as described in the Assessment Tool, is available during the IPSAS 33 transition period.

International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
USA
T +1 212 286 9344
www.ifac.org

@IFAC IFAC International Federation of Accountants

International Federation of Accountants®

Zurich University of Applied Sciences

School of Management and Law

Knowledge Partner

International Public Sector Accounting Standards Board®