

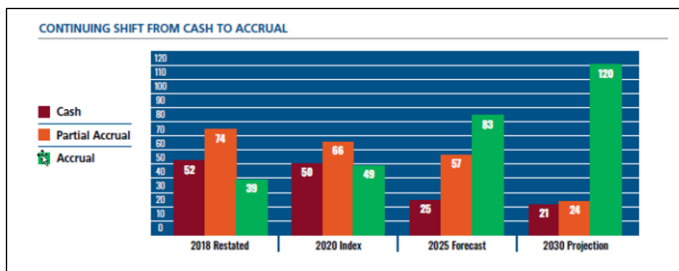


## Asset Accounting and implementing accrual IPSAS

### Introduction

Over the past decade more and more governments around the world have committed to implementing accrual-based accounting with most opting for a model based on the International Public Sector Accounting Standards (IPSAS).

Recently IFAC and CIPFA issued their 2021 update of the international public sector financial accountability index. This indicates progress on international efforts to move to accrual accounting is about to increase significantly.

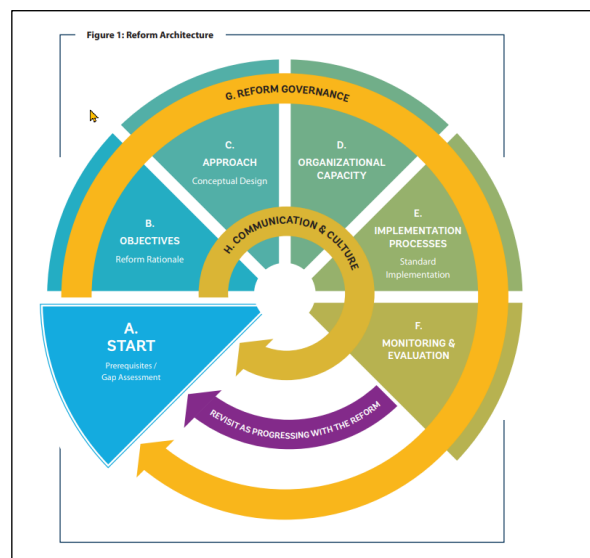


The process to move to accrual is of course a time consuming and complex process which can take many years. There are many phases involved and key foundations that must be laid first. These include -

- Understanding the current environment and challenges
- the development of a framework, policies, regulations, legislation, etc
- building capability across all aspects
- development of appropriate process and system (including technology)
- adopting a controlled phased approach

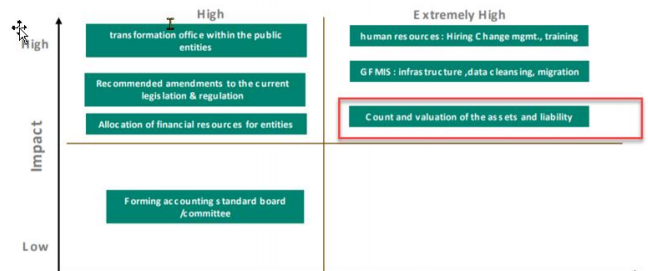
The World Bank's 2018 Public Sector Accounting Reform Roadmap described the process required by way of the necessary 'reform architecture'. From this, it is clear that huge efforts need to be made to building the foundation and building organisational capacity prior to commencement of the implementation process.

From working with numerous countries to develop their asset accounting frameworks as part of the implementation of accrual accounting process, our experience is that this process often takes ten or more years.



Many governments around the world are now at the stage of commencing implementation. The diagram below shows an assessment by one government of the most significant challenges that would be faced during the implementation phases.

Based on Current situation assessment, the most significant challenges during the implementation



This highlights the high impact and long amount of lead and implementation time required to address the asset accounting aspects of the process.

While every aspect of the process is important those relating to asset accounting are critical and highly material. Once valued, the non-current assets typically make up 95% or more of the balance sheet and the associated depreciation expense usually comprises between 15% and 25% of total expenses.

**Given the high materiality and high levels of subjectivity and professional judgement involved in both valuation and depreciation it is critical that this aspect of the overall project is done well and in full compliance with the accounting standards right from the beginning. Unfortunately, some governments naively opt for overly simplistic, quick and easy solutions (based on what other jurisdictions have done) in order to get a quick outcome. This typically results in -**

- fundamental errors,
- significantly increased costs over the mid-term,
- increased audit issues,
- breaking the nexus between asset accounting and strategic asset management and ultimately
- years or even decades to correct.

## Key Asset Accounting Elements

Just like the rest of the accrual implementation process, there is a need to lay the right foundations for asset accounting. This includes development of -

- **Valuation Strategy:** Considers the various options on how best to undertake the valuations while building internal capability. While it is easy to appoint external valuers this approach will be extremely expensive in the long-term and will deliver vastly different approaches and methodologies.
- **Non-Current Assets Policy:** Covers the requirements of the accounting standards as well sets policies around valuation requirements, processes, asset management, asset registers, etc
- **Valuation Methodology:** Provides for a methodology which satisfies the requirements of the accounting standards (including aspects relating to depreciation) but also enables the information collected to be used to drive good asset management planning. For example - determining the current value for each part of each component of each asset. This satisfies the requirements of the accounting standards but also enables whole of lifecycle asset management planning and optimisation.
- **Building capability:** Includes understanding regarding the requirements as well practical capability in the conduct of data collection, condition assessment, etc
- **Guidance material:** Provides clear guidance and ensures consistency in application of the prescribed requirements. Without

clear guidance it is highly likely significant variations will result from year-to-year which in turn will raise audit concerns.

- **Well-designed inspection and data collection program:** Most entities starting out for the first time fall into the same common traps as other entities. If it is a government wide process, there is even greater risk attached with a poorly designed data collection process. For most entities, a robust complete and accurate data repository is usually only achieved after three comprehensive valuation process. i.e. It is very common in the first 10 years to find assets that were previously missed or make major changes to key attributes and dimensions.
- **Asset Register and Data Repository:** Different from a financial reporting asset register. This includes the key data (such as dimensions, material types, condition, etc) that enables the development of asset valuations as well as development of asset management plans. It is critical that this register is well structured based on a sound asset hierarchy and can be used to consistently apply assumptions across the asset portfolio.
- **Quality Assurance process:** Once draft figures are delivered it is critical that a process is put in place to challenge and validate the results as well ensure all relevant documentation and evidence is provided to satisfy the audit requirements. This includes detailed analysis of the completeness and accuracy of asset register and ensuring the level of error is significantly reduced over time.

## How can we help?

With over 30 years of extensive experience undertaking the valuation and depreciation of public sector assets under the accounting standards our process and methods are well proven, efficient and fully compliant. We have also worked with a number of governments around the world with the implementation of accrual accounting including all aspects as detailed above.

With this specialist knowledge and capability, we can lead governments and agencies through the entire process, provide mentoring and guidance material and even develop local teams to undertake their valuations internally with minimal external assistance. This may include development of a government's own valuation unit.

**No matter where you are located or what stage you are in the accrual accounting process .... We can provide the capability to minimise the risk and cost while building internal capability.**

**Interested in finding out more? .... Just email us at [info@assetvaluer.net](mailto:info@assetvaluer.net) and we will be happy to arrange a no obligation free chat to better understand your needs and provide some free advice.**

