

Governance Global Practice: Latin America and the Caribbean Region

## **Regional study on the management, control, and recording of fixed assets**

*Including a practical guide on the improved management,  
control, and accounting of nonfinancial assets*

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## Abstract

This report represents a series of studies on the status of the implementation of the International Public Sector Accounting Standards in the Latin America region. The first report of this series, *Public Sector Accounting and Financial Information in Latin America*, was developed by the World Bank team and issued in April 2015.

The general purpose of this second report is to document the current status of the management, control, and recording of fixed assets in the countries surveyed, and to propose a comprehensive asset management model to strengthen the region's public financial management systems in terms of public sector accounting, public investment, transparency, and accountability.

The report aims to address the following asset management challenges: (a) accounting methodologies that have been adopted or implemented in the surveyed countries do not necessarily capture all government fixed assets; (b) incomplete or unreliable information on infrastructure assets and projects and other fixed assets, as well as on the provisions related to their upkeep and replacement, creates obstacles to improving public investment policies and enhancing the region's ability to promote productivity and competitiveness; (c) greater control of fixed assets is directly related to the improvement of transparency and accountability indexes; and (d) governments' inability to obtain an objective picture of their financial position and performance limits the quality of analysis on the efficient use of public resources related to electoral commitments, fiscal stability, and economic growth in the medium and long term.

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## Abbreviations and Acronyms

AGPE	Audit General Office of the executive branch (Paraguay)
AIN	National Internal Audit Office (Uruguay)
AMCS	Asset Management and Control System
ASF	Superior Audit of the Federation (Mexico)
CGR	General Accounting Office of the Republic of Chile / Republic of Panama
CONAC	National Council of Accounting Harmonization
COSO	Committee of Sponsoring Organizations of the Treadway Commission
GDP	Gross domestic product
GFSM	Government Finance Statistics Manual of the IMF
GGS	General Government Sector
GPFR	General Purpose Financial Reports
IT	Information technology
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS(B)	International Public Sector Accounting Standards (Board)
ISSAI	International Standards of Supreme Audit Institutions
ISTMO	Technological Integration and Solutions for Operational Management model (Panama)
MEF	Ministry of Economy and Finances (Panama, Uruguay)
MoF	Ministry of Finance
PFM	Public financial management
PPE	Property, plant, and equipment
SAFWeb	Online Financial Management System (Panama)
SAI	Supreme audit institution
SCG	Public sector accounting System (Mexico)
SFP	Ministry of Public Administration (Mexico)
SICOGEN	General Accounting System of the Nation (Chile)
SIAF	Integrated Financial Management Information System (Paraguay)
SIAFPA	Integrated Financial Management Information System of Panama
SICO	Sistema Integrado de Contabilidad (Paraguay)
SIGFE	Financial Management Information System of the State (Chile)
SIIF	Integrated Financial Information System (Uruguay)
SHCP	Ministry of Finance Public Credit (Mexico)
SPFR	Special Purpose Financial Report
SWOT	Strengths, weaknesses, opportunities, and threats
UNSPSC	United Nations Standard Products and Services Code

## Executive Summary

1. The use of international good practices in public sector accounting and financial reporting strengthens governments' ability to efficiently manage limited resources, and improves their medium- and long-term decision-making capacity. In recent years, most Latin American countries have chosen to implement the International Public Sector Accounting Standards (IPSAS), including IPSAS 17 – Property, Plant, and Equipment, which introduces a new set of rules for accounting for and managing what makes up a major part of public sector investments. These changes represent an opportunity not only to improve the quality and usefulness of public financial information, but also to (a) review and modernize relevant policies, laws, and procedures; (b) update and reinforce the public investment planning and management processes, as well as budgeting and resource allocation; (c) enhance coordination among different stakeholders; and (d) achieve greater levels of transparency and accountability.

2. In this context, the main objectives of this study<sup>1</sup> were as follows:

- To document the current state of the management, control, and recording of fixed assets in five countries (Chile, Mexico, Panama, Paraguay, and Uruguay), and explore the extent to which robust management, control, and accounting regulations and practices can contribute to strengthening the public investment management processes; and
- To propose practical guidance on implementation reform to improve the management, control, and accounting of nonfinancial assets, and ultimately strengthen the region's public investment management systems.

3. A country-level survey that was designed for this study identified the following key challenges in the five respondent countries:

- (a) Outdated and obsolete legal and regulatory frameworks in the areas of (i) public sector accounting; (ii) management, control, and recording of fixed assets; (iii) audit and oversight; and (iv) transparency of and access to government financial information.
- (b) Overlap of responsibilities, and lack of communication and coordination among the regulatory and operational government functions dealing with the management, control, and recording of fixed assets.
- (c) Lack of computerized and integrated financial management systems, leading to the proliferation of multiple overlapping registries, and significantly complicating the consolidation of financial and administrative information.
- (d) Unreliable and outdated financial information that cannot be effectively used for decision-making.
- (e) Lack of periodic verification, reconciliation, and valuation of various categories of fixed assets.
- (f) Weak internal control and external oversight applied to the management of fixed assets, especially at the subnational government level. Existing controls focus more on legal compliance than on the efficiency of public investment management.

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<sup>1</sup> The study focuses on the General Government Sector, which, according to the Manual of Public Finance Statistics (GFSM) issued by the International Monetary Fund (IMF) in 2014, includes the central and subnational sectors but excludes state-owned enterprises.

(g) Absence of clearly defined strategies guiding the implementation of public sector accounting and asset management reforms, and insufficient attention to the change management process, including development and implementation of communication and training plans.

4. The main conclusions of the study, based on the findings of the survey and subsequent in-person interviews are as follows:

- (a) Asset accounting and management, including identification, recognition, and measurement, have not been considered a priority issue for most governments in the region, despite their significant impact on the sustainability of a country's fiscal policies and public finances.
- (b) Because governmental financial reports often do not reasonably reflect information on all public sector fixed assets, it is impossible for governments to have an objective picture of their financial position and performance. This affects their ability to effectively manage public resources, in line with their electoral commitments.
- (c) The lack or incompleteness of information on fixed assets, and, in particular, on public sector infrastructure projects, and of provisions related to their maintenance or replacement, contributes to the region's challenge of improving its public infrastructure and investment policies and promoting higher levels of productivity and competitiveness at the national and regional levels.

5. The study's recommendations aim to help governments improve and modernize the accounting, management, and control of fixed assets. The recommendations have been organized around seven key areas: (a) legal and regulatory framework, (b) organizational structure, (c) information systems, (d) management and control of fixed assets, (e) accounting records, (f) accountability and transparency mechanisms, and (g) change management processes.

- (a) **Legal and regulatory framework.** As governments embark on the public sector reforms of modernizing the accounting, management, and control of fixed assets, legal and regulatory frameworks need to be reviewed and updated to reflect new standards, processes, and organizational responsibilities. This may require the introduction of a new law, or the official adoption/adaptation of international standards/best practices, such as IPSAS, the Committee of Sponsoring Organizations of the Treadway Commission Internal Control-Integrated Framework, International Standards for the Professional Practice of Internal Auditing, and the International Standards of Supreme Audit Institutions. It may also require revising transparency laws, to ensure citizens' right to access government financial information.
- (b) **Organizational structure.** The roles and responsibilities of various regulatory and operational government units involved in the management, accounting, and control of fixed assets should be reviewed and clarified under the updated legal and organizational structure, and such key issues as ownership and control over specific assets defined. Establishing a steering committee, which would include representatives from the relevant public sector agencies and would be responsible for oversight of reforms implementation focused on fixed assets, will help achieve better results and will improve communication and coordination among the various stakeholders involved in this process.
- (c) **Information systems.** The government's integrated financial management information system may need to be updated/adjusted to integrate the management and control of fixed assets into its structure. This would require aligning and standardizing the main administrative, accounting, and budgetary classifications according to international standards and best practices, and using full or modified accrual accounting.

- (d) **Management and control of fixed assets.** To enable efficient management and control of fixed assets, the government will need to introduce the following operational processes: (i) periodic stocktaking, classification, and verification of physical inventories; (ii) initial and subsequent assets valuation (including depreciation and impairment); (iii) reconciliation of fixed assets accounting balances and assets registries; and (v) development of maintenance and replacement plans for strategically important fixed assets (e.g., public infrastructure). Both internal and external auditors should actively participate in this process, in collaboration with other government units.
- (e) **Accounting records.** To recognize the fixed assets in the financial statements, the government needs to introduce full or modified accrual accounting and, if necessary, amend existing accounting registers and manuals.
- (f) **Accountability and transparency.** Efficient management of public investments directly affects the quality of the services governments provide to their citizens, and improved access to information enables citizens to hold their governments accountable. This accountability can be achieved through (i) better-quality periodic financial audits; (ii) stronger collaboration and coordination among the entities responsible for internal control and external oversight; and (iii) public disclosure of audited financial statements and other relevant financial administrative information.
- (g) **Change management.** Change management is an important part of governments' strategy supporting the implementation of fixed assets reforms. Among other things, it should focus on the following issues: (i) the objectives and scope of the reform and the implementation methodology; (ii) key champions and composition of a team that is responsible for project implementation; (iii) internal and external communication plans, including dissemination and awareness campaigns; (iv) a comprehensive training and capacity-building plan; and (vi) feedback mechanisms, enabling timely identification of and attention to future challenges.

6. Besides providing specific recommendations, the team used the results of the study to design the Asset Management and Control System (AMCS), presented in Chapters IV and V of this report. The AMCS is a combination of administrative and accounting rules, processes, and procedures designed to optimize the management, control, and recording of assets and to improve the government's capacity to effectively use this information as part of its decision-making process. The AMCS provides a comprehensive menu of activities for use by governments as practical guidance in a variety of situations.

# I. Context and Objectives

## 1.1. Introduction and structure of the report

1. This report is the continuation of a series of studies carried out by the Financial Accountability and Reporting team of the World Bank’s Latin American and Caribbean Region on public financial management (PFM) systems. It draws on the findings of the report *Public Sector Accounting and Financial Information in Latin America*, published by the World Bank in April 2015, which assessed regional progress in implementing International Public Sector Accounting Standards (IPSAS).

2. The 2015 report identified the implementation of IPSAS 17 – Property, Plant, and Equipment as one of the key challenges facing governments as they embark on public sector accounting reforms. The current study was designed to assess the nature and scope of these challenges, and to propose a set of solutions linked to broader public investment management reforms.

3. The first chapter of the report sets the stage, connecting the management and accounting of fixed assets with the broader implementation of public sector accounting reforms at the regional level. The second chapter discusses the results of the country-based survey carried out as part of this study. The third chapter analyzes key challenges and opportunities associated with fixed assets management and accounting in the context of a broader public investment management agenda. The fourth and fifth chapters present the Asset Management and Control System (AMCS) and provide detailed practical guidance on its use by governments, and the sixth chapter summarizes the main conclusions and recommendations of the study.

## 1.2. Background to reforms

4. Historically, Latin American economies have been characterized by high indebtedness and a lack of control of government spending. However, in recent years, poverty rates in the region have declined significantly (from 42% in 2000 to 25% in 2012), while the middle class has grown by 50 percent.<sup>1</sup> Since 2003, real GDP growth rates have averaged 4 percent, compared with 2.5 percent in the previous two decades.<sup>2</sup> These developments have contributed to improving the well-being of millions of people and have increased the demand for better-quality public services and accountability of countries.

5. Different trends have characterized the development of countries in the region over the last half-century—among them, an expansion in the range of government services and a proliferation of state institutions that compete for scarce resources.<sup>3</sup> As the role of the state has evolved, so have the public’s expectations regarding accountability and transparency in public finances—including

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<sup>1</sup> According to data published by the World Bank: <http://www.worldbank.org/en/region/lac/overview>.

<sup>2</sup> Sosa, Tsounta, and Kim 2013.

<sup>3</sup> Marcel, Guzmán, and Sanginés 2014.

the demand for ongoing benchmarking of government activity while at the same time ensuring attention to social needs.

6. Although most reforms in Latin America have focused primarily on budget and fiscal policy issues, the 2008 financial crisis highlighted the fact that accounting and financial reporting are the basis for adequate budgeting and economic projections. Complying with fiscal rules makes sense only when policy decisions are based on reliable information. Governments that operate without taking into consideration information on available cash surplus, the impact of contingent liabilities, and the actual costs of their operations may fall into unsustainable increases in spending, unbudgeted liabilities, and consequently unrealistic economic projections.

7. At the same time, the quality of government administration is significantly influenced by the adequate management and control of assets—especially fixed assets, which often represent one of the largest items on the balance sheet of public sector entities. When information about fixed assets, and provisions for their maintenance and/or replacement, are incomplete or lacking, a country’s ability to improve public services, care for infrastructure, or promote productivity and competitiveness may be significantly weakened. However, in practice, the management, control, and recording of assets is one of the most difficult areas to handle in PFM; it represents a weakness and, at the same time, an opportunity for future reforms.<sup>4</sup>

8. A new approach can provide public entities with new capabilities and tools, enabling them to efficiently serve their constituents. This approach considers government entities to be “intelligent organizations,” capable of learning, adapting, and responding adequately to new requirements. Under this approach, the implementation of proposed reforms is a matter not only of analyzing how to improve asset management, but also of rethinking what is being done and how it is done and proposing different solutions, strategies, policies, and procedures.

9. From this perspective, implementing international accounting and financial reporting practices, such as IPSAS, is far more than an accounting reform; it is a way of fundamentally transforming public sector management so that transparency and accountability become the norm. Governments embarking on this reform should see it as an opportunity not only to improve quality and ensure the usefulness of public financial information, but also to (a) review and modernize relevant policies, laws, and procedures; (b) update and reinforce the public investment planning and management processes, as well as budgeting and resource allocation; (c) enhance coordination among different stakeholders; and (d) achieve greater levels of transparency and accountability.

### **1.3. Objectives and scope of the study**

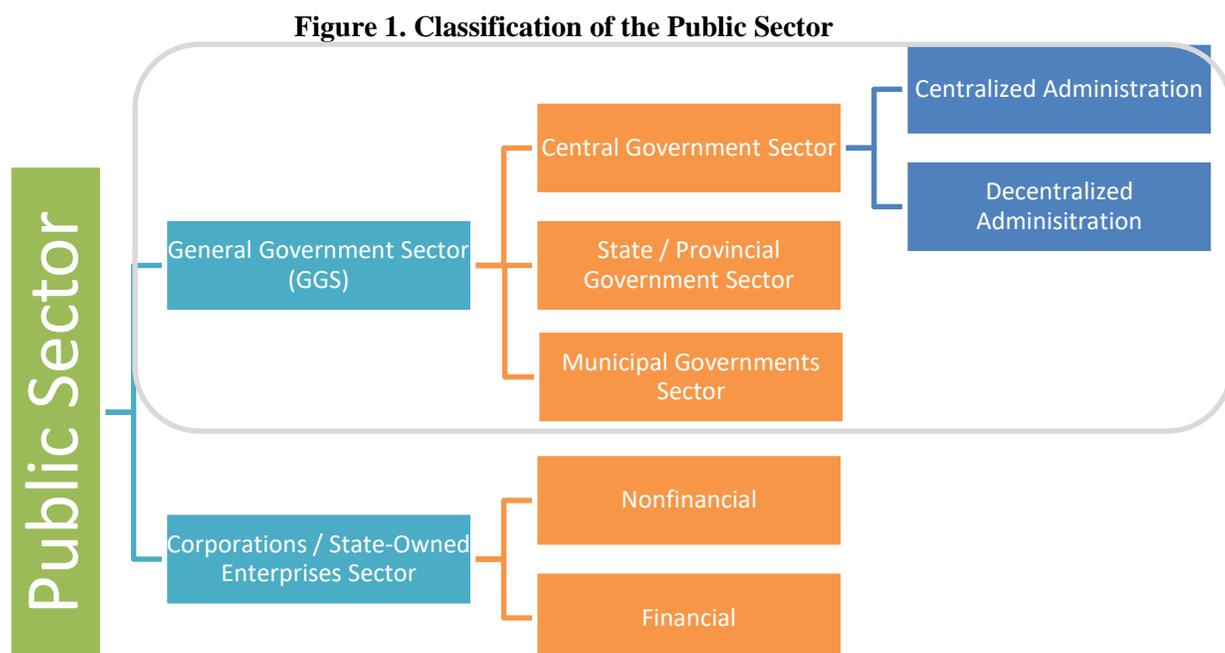
10. In this context, the main objectives of this study are as follows:

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<sup>4</sup> Latin America and the Caribbean is not an exception in this regard. A 2017 report published by the Organisation for Economic Co-operation and Development (OECD), *Accrual Practices and Reform Experiences in OECD Countries*, indicated that a few of the surveyed countries receive modified audit opinions because of issues related to the recognition of fixed assets.

- To document the current state of the management, control, and recording of fixed assets in five countries (Chile, Mexico, Panama, Paraguay, and Uruguay), and explore the extent to which robust accounting, control, and oversight regulations and practices can contribute to strengthening the public investment management processes; and
- To propose practical guidance on the implementation of reforms that will improve the management, control, and accounting of fixed assets and ultimately strengthen the region’s public investment management systems.

11. This study focuses on the General Government Sector (GGS). According to the 2014 IMF Government Finance Statistics Manual (GFSM), the GGS includes the central and subnational governments but excludes state-owned enterprises (see Figure 1).



Source: Government Finance Statistics Manual, IMF, 2014.

## 1.4. Methodology

12. The study used the following methodology and tools:

- (a) A survey of the practices used in five Latin American countries—Chile, Mexico, Panama, Paraguay, and Uruguay—using a questionnaire developed by the World Bank project team.
- (b) Validation of survey results and analysis of the additional feedback received through bilateral interviews and a virtual regional workshop that included the participation of more than 100 public officials and representatives of international organizations from 15 countries.
- (c) A comprehensive desk review of relevant bibliographic material and international best practices, including GFSM 2014, IPSAS, the International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework, and other IPSASB publications.

## II. Results of the Survey

13. This chapter documents the results of the questionnaire (presented in Annex 1), which was filled out by officials from all five countries that participated in the study. The questionnaire consisted of 50 open-ended questions in six areas: (a) legal and regulatory framework, (b) accounting education, (c) information technology, (d) supervision of compliance with governmental accounting regulations, (e) asset accounting, and (f) public-private partnerships.

### 2.1. Legal and regulatory framework

14. The responses to the survey indicate significant variations in the different countries' legal and regulatory frameworks in public sector accounting, and in their management and control of fixed assets. In Chile, for example, certain governmental accounting aspects are set out in the Political Constitution of the Republic, while in Paraguay, public sector accounting is treated as part of a more general national law. In Mexico, public sector accounting was part of the Federal Budget, Accounting, and Public Expenditure Law until January 1, 2008, when the General Law on Public Sector Accounting—which applies to all three levels of government (federal, state, and municipal)—took effect.

15. In most countries, both general and specific laws on accounting affect the entire public sector. However, Chile is an exception: general regulations apply only to the GGS and exclude universities, state-owned enterprises, and public financial sector institutions (see Table 1).

**Table 1. General and Specific Public Sector Accounting Regulations**

<i>Country</i>	<i>General law</i>	<i>Specific regulation</i>	<i>Scope</i>
Chile	Financial Management Act ( <i>Ley de la Administración Financiera</i> )	Resolution CGR N°16/2015	GGS
Mexico	General Law of Governmental Accounting ( <i>Ley General de Contabilidad Gubernamental</i> )	Government accounting manual and other provisions issued by the National Council of Accounting Harmonization (CONAC)	All public sector
Panama	Organic Law of the General Accounting Office ( <i>Ley Orgánica de la CGR</i> )	General Standards for the Recording and Control of State Patrimonial Assets	All public sector
Paraguay	Financial Management Act ( <i>Ley de Administración Financiera</i> )	Standards issued by the General Directorate of Public Accounting	All public sector
Uruguay	Accounting and Financial Management Text ( <i>Texto Ordenado de Contabilidad y Administración Financiera</i> )	Ordinance No. 81, issued by the National Court of Accounts (TCN).	All public sector

16. Most of the respondents stated that financial statements are prepared using the accrual basis of accounting. However, regardless of the legal frameworks in place, most of the countries in the region still use the modified accrual basis of accounting, recording some revenue and expenses when they become due, and others at the time cash is exchanged.

17. Results on the preparation and issuance of financial statements were mixed. In general, requirements for the preparation of financial statements are not included in the financial management legal frameworks and are addressed at the level of secondary regulations. The exception is Mexico, where the General Law on Public Sector Accounting specifies the particular characteristics that each of the financial statements must have.

18. Financial statements can be classified as (a) stand-alone—that is, issued by each individual public institution, and (b) consolidated—issued by a government as a whole. Except in Chile and Uruguay, individual financial statements are prepared by each public institution, while Ministries of Finance issue the consolidated financial statements (see Table 2). In Uruguay, the responsibility for preparing both the financial statements for the central administration and the consolidated statements falls under the General Accounting Office of the Nation.<sup>5</sup> In Chile, the financial statements are consolidated by sectors.<sup>6</sup>

**Table 2. Responsibility for the Issuance of Financial Statements**

<i>Country</i>	<i>Individual financial statements</i>	<i>Consolidated financial statements</i>
Chile	Prepared by each of the public entities	Comptroller General of the Republic through the Accounting Analysis Division
Mexico		Ministry of Finance and Public Credit through the Government Accounting Unit
Panama		Ministry of Economy and Finance through the National Accounting Directorate
Paraguay		Ministry of Finance through the General Directorate of Public Accounting
Uruguay	General Accounting Office of the Nation	

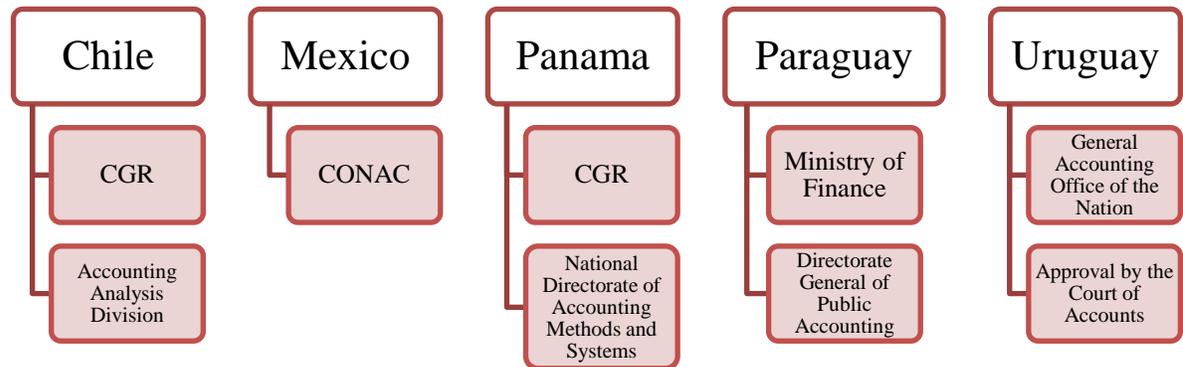
19. Most countries, except Uruguay, have specific accounting standards for the public sector (see Figure 2). Figure 3 presents a summary of the policy changes these five countries would need to make to advance the implementation of IPSAS and promote the modernization of the governmental accounting systems.

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<sup>5</sup> At present, only the Treasury statements and comparative statements of budget execution are prepared; financial statements are not prepared because accounting has not been incorporated into the financial administration of the State.

<sup>6</sup>Currently, the State Financial Management Report comprises four sets of financial statements—those for (a) the public sector, (b) the municipal sector, (c) public sector companies and technology institutes, and (d) higher education institutions of the state sector.

**Figure 2. Entities Responsible for Issuing Accounting Standards**



**Figure 3. Countries' Views on the Future of the Regulatory Framework**



20. Finally, as regards convergence with IPSAS, three of the countries chose indirect IPSAS adoption (see Table 3)—that is, adapting the international regulatory framework to the national context and circumstances—while public sector accounting in Uruguay and Mexico is based mainly on nationally developed standards and regulations. It is worth noting that in Mexico the evolution of public sector accounting since the approval of the General Law of Governmental Accounting has been focused on harmonizing accounting among the three levels of government in terms of regulations, accountability, and the content of financial statements.

**Table 3. Status of IPSAS Adoption**

Indirect adoption of IPSAS	<b>Chile</b>	Formalized through Resolution N° 16/2015 of the CGR.
	<b>Panama</b>	Formalized through the CGR's issuance of decree N° 220-2014-DMySC.
	<b>Paraguay</b>	Convergence is not yet formalized.
Own regulations	<b>Uruguay</b>	IPSAS may be used, but it is not mandated.
	<b>Mexico</b>	IPSAS may be applied on a supplementary basis if there are no specific regulations established by CONAC and if they do not contravene national regulations.

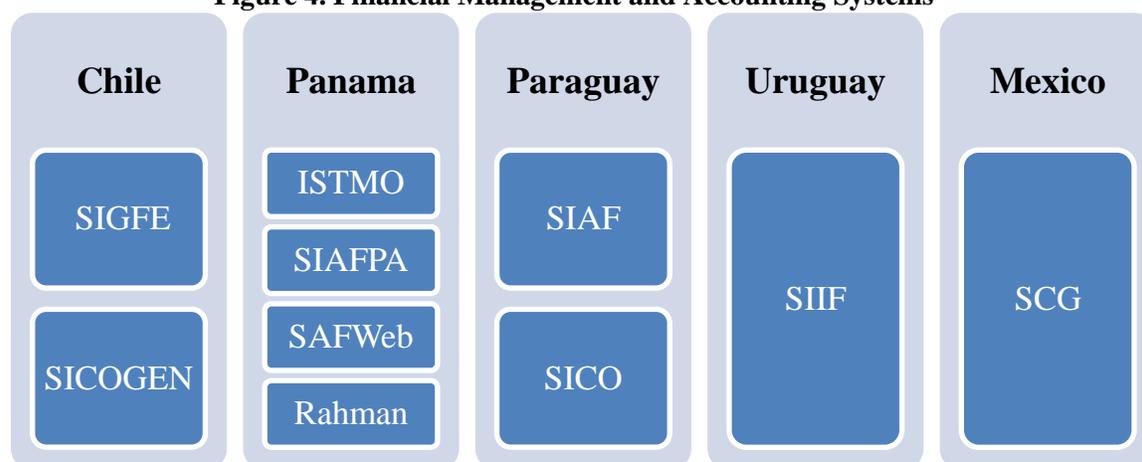
## 2.2. Accounting education

21. Most countries do not require, or provide specific guidelines for, professional certification or continuing professional education. The isolated programs and training courses do not represent requirements or credits for the continuing professional development of public officials. The surveyed countries also do not have an annual or multiyear training plan for public sector accounting. However, some countries, such as Chile, have launched an ambitious training program as part of the change management process associated with the implementation of IPSAS.

## 2.3. Information technologies

22. Several computer systems are available to countries that wish to make their financial management processes more efficient. Figure 4 shows the systems reported by the countries surveyed. Country-level integration of these systems varies.

**Figure 4. Financial Management and Accounting Systems**



23. As regards asset management and control systems, the majority of respondents stated that their country does not have a unique system for monitoring fixed assets, since each public entity has its own records systems. For example, Panama's public entities and municipalities send an Excel file with information on the inventories of different types of assets to the Directorate of Fixed Assets of the Ministry of Finance twice a year; however, this information is not integrated into a financial management system.

24. Respondents also generally agreed on the need to modernize their country's IT systems, despite the scarcity of material and financial resources. In some countries, this effort has already started (see Figure 5).

**Figure 5. Asset Management Systems Projects**

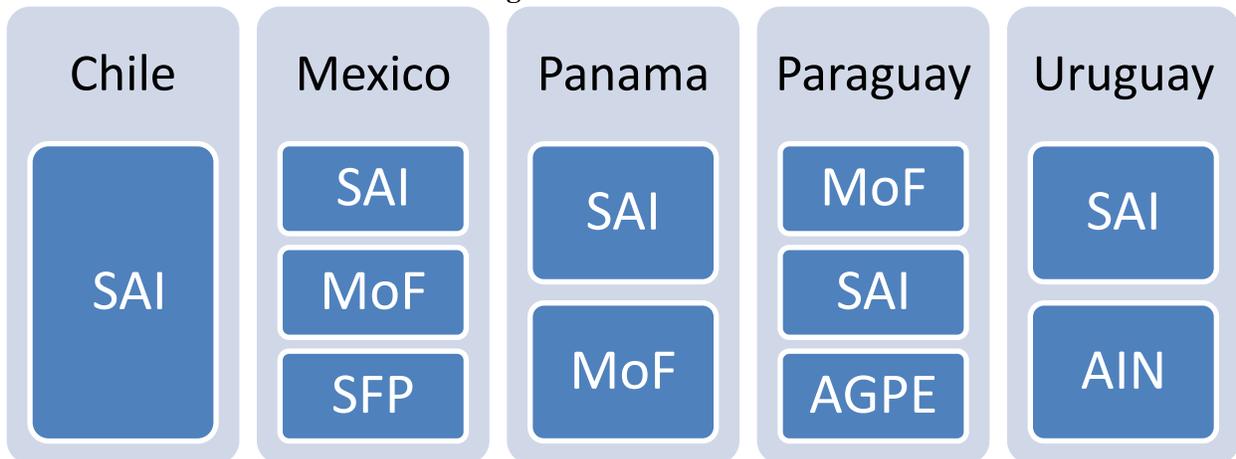


<b>Chile</b>	• Bank of assets as a SIGFE module, developed by the Budget Office, Ministry of Finance.
<b>Mexico</b>	• Government Accounting System, but there is no specific module for fixed assets.
<b>Panama</b>	• Recording and Control of Assets System (SIRCONAC) will facilitate the monitoring and control of fixed assets.
<b>Paraguay</b>	• System of Administration of Goods and Services (SIABYS) is being designed.
<b>Uruguay</b>	• The SIIF2 conceptual model includes two sub-modules: Warehouse Management and Asset Management (Fixed Assets and Other).

## 2.4. Supervision of compliance with government accounting regulations

25. For these five countries, the general oversight function and supervision of compliance with public sector accounting regulations is carried out by a few agencies (see Figure 6). External and internal audit functions generally focus on legal compliance and budget execution.

**Figure 6. Audit Entities**



## 2.5. Fixed assets accounting

26. Most countries surveyed reported using accrual-based accounting, including for the different categories of fixed assets, in accordance with their legal and regulatory frameworks. In practice, however, the accounting practices often follow the public expenditure execution regulations, which are aligned with the budget execution process.

27. The decision to implement IPSAS 17 represents a big challenge from the accounting and asset management point of view, in part because IPSAS 3 – Accounting Policies, Changes in Accounting Estimates, and Errors requires entities to retroactively apply accounting policies,

including the valuation and recording of physical assets. Therefore, when an entity initially recognizes a property, plant, or equipment (PPE) item at cost, in accordance with IPSAS 17, it must simultaneously recognize accumulated depreciation and impairment losses.

28. According to IPSAS 33 – First-time Adoption of Accrual Basis IPSAS, an entity has up to three years to reconcile differences between the current records and the accounting treatment prescribed by IPSAS. In practice, however, reaching full compliance with IPSAS—and particularly IPSAS 17—often may require more time, and involves such key challenges as (a) the identification and inventory of fixed assets in various categories; (b) legal regularization of certain real estate, such as buildings and lands that do not have a property title that accredits the government’s right of ownership; and (c) initial economic valuation or depreciation and write-off of assets that were not previously included in government records or no longer meet the recognition criteria. Moreover, the adoption process requires the design and implementation of accounting procedures for the valuation, recognition, and recording of each element of fixed assets that are going to be included in government financial statements.

29. As regards the entities responsible for the management and control of fixed assets, except in Paraguay these entities are not functionally dependent on the entity that governs public sector accounting (see Table 4). Asset management is not always centralized in a single unit; rather, several entities may be involved, raising issues of coordination and communication.

**Table 4. Entities Responsible for Asset Management and Control**

<i>Country</i>	<i>Legal responsibility</i>
Chile	<ul style="list-style-type: none"> <li>• Ministry of National Assets</li> <li>• Ministry of Lands and Colonization</li> <li>• Municipalities</li> </ul>
Mexico	<ul style="list-style-type: none"> <li>• Institute of Administration and Analysis of National Assets</li> <li>• Asset Management and Transfer Service</li> <li>• Secretariat of Public Function</li> </ul>
Panama	<ul style="list-style-type: none"> <li>• Patrimonial Asset Direction (MEF)</li> <li>• Administrative Unit of Returned Property (MEF)</li> <li>• Directorate of Investments, Concession and Risk (MEF)</li> <li>• National Land Administration Authority</li> </ul>
Paraguay	<ul style="list-style-type: none"> <li>• General Directorate of Public Accounting</li> <li>• State bodies and entities</li> </ul>
Uruguay	<ul style="list-style-type: none"> <li>• Ministry of Economy and Finance (MEF)</li> <li>• General Accounting Office of the Nation</li> </ul>

## 2.6. Public-private partnerships

30. National and subnational governments of the region are increasingly using public-private partnerships (PPP). As projects financed under PPPs usually include fixed assets, the survey was used to understand their legal and normative status. Except Uruguay, all of the countries surveyed have in place regulatory frameworks for the administration of PPPs. However, only Chile specified a relevant accounting regulation that is based on IPSAS 32 – Service Concession Agreements: Grantor. Table 5 shows the countries’ legal frameworks and the challenges they face with regard to PPP accounting.

**Table 5. Legal and Regulatory Frameworks for PPPs**

<i>Legal framework</i>		<i>Types of assets</i>
Chile	<ul style="list-style-type: none"> <li>• Law of Concession of Public Works - Decree N° 900/14</li> <li>• Accounting Record: Resolution CGR N° 16/15</li> </ul>	Airports
Mexico	<ul style="list-style-type: none"> <li>• Law on Public Private Partnerships and its Regulations</li> </ul>	Road and hospital infrastructure
Panama	<ul style="list-style-type: none"> <li>• Executive Decree No. 110 of August 4, 2009</li> </ul>	Jails
Paraguay	<ul style="list-style-type: none"> <li>• Law N° 5102, Promotion of Investment in Public Infrastructure and Expansion and Improvement of Goods and Services Charged by the State and its Regulations</li> <li>• Law No. 5074, which extends Law 1302/98 on Special and Complementary Modalities and Conditions of Law 1045/83 of the Public Works Regime</li> <li>• Law No. 1618/2000 on Concessions of Works and Public Services</li> </ul>	Social housing
Uruguay	<ul style="list-style-type: none"> <li>• None</li> </ul>	
<b>Challenges</b>		
Apply consistent accounting rules to each contract.	Implement IPSAS.	Work together with the sector ministries leading PPPs' implementation.
		Identify and record fixed assets managed under each PPP contract.

### III. Challenges and Opportunities in the Management of Fixed Assets

31. The team carried out a SWOT (strengths, weaknesses, opportunities, and threats) analysis on the results of the survey to identify the main challenges and opportunities to achieve a more efficient and effective public asset management in the region. The SWOT analysis covered seven dimensions: (a) legal and regulatory framework, (b) organizational structure, (c) IT systems, (d) asset management and control, (e) accounting records, (f) accountability and transparency, and (g) change management. This chapter presents the summary of the SWOT analysis results (Annex 2 provides the full table of the SWOT analysis results).

#### 3.1. Legal and regulatory frameworks

32. Legal and regulatory frameworks are important to the public sector because they define the actions of public officials; public officials are not empowered to perform functions that are not explicitly included in a legal or normative provision. Latin America's existing strong culture of legality and compliance can help to improve the process of asset management and control. However, the implementation of legal and regulatory frameworks is often a critical challenge: in

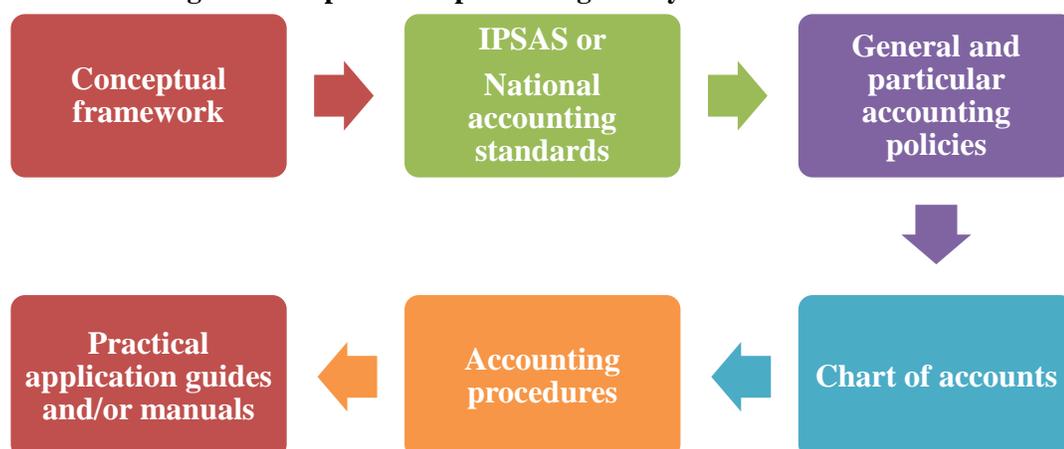
some countries, certain legal provisions are not carried out in practice. As regards public sector accounting and asset management, the countries surveyed faced such weaknesses or challenges as the following:

- (a) Outdated and obsolete general legal frameworks, which are sometimes repetitive, excessive, or incomplete in relation to the different levels and sectors of government.
- (b) The mechanisms of audit and oversight are outdated and mainly focused on legal compliance.
- (c) Lack of specific and updated regulatory frameworks regarding the management, control, and recording of fixed assets, including administrative procedures for verification, regularization, and cleaning-off of physical assets.
- (d) Legal and regulatory frameworks for financial management are focused on budget policies and systems rather than administrative and accounting aspects.
- (e) The process of issuing and approving legal and regulatory provisions on public sector accounting and asset management generally does not include sufficient consultations.

33. The following actions could address some of these problems:

- (a) Revise and strengthen countries' legal frameworks regarding (i) public sector accounting and management of fixed assets; (ii) audit and oversight at all levels of government, incorporating internal control and audit methodologies that are internationally recognized as good practices, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO); International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors; International Standards of Supreme Audit Institutions (ISSAI); and financial and performance audits; and (iii) transparency to ensure citizens' right to access their government's financial information.
- (b) Evaluate the feasibility of developing a general public sector accounting law, with chapters related to transparency, accountability, and management and control of assets and national patrimony. Such a law would strengthen and unify the public sector accounting function at all levels of government.
- (c) Revise or develop regulatory frameworks focused on public sector accounting and asset management, including manuals, guides, and accounting and administrative procedures. This effort should take into account international best practices and harmonize regulations used by different levels and sectors of government. (Figure 7 provides an example of the approach that could be used to revise these regulatory frameworks.)
- (d) Encourage greater participation by the different actors involved in preparing and approving legal and regulatory frameworks for public sector accounting. This could be done through public consultations or by creating committees or inter-institutional commissions.

**Figure 7. Scope of the Specific Regulatory Framework**



### 3.2. Organizational structure

34. The organizational structure for asset management and control should follow the approach of normative centralization and operational decentralization. The following key challenges were identified in this area:

- (a) Overlap and inconsistent division of functions between different agencies or administrative units involved in the management, control, and accounting of different types of assets.
- (b) Lack of communication and coordination between regulatory and management functions.

35. The following are some of the actions that could address these challenges:

- (a) Clearly define the responsibilities and functions of the entities responsible for the management, control, and recording of assets from an administrative and accounting point of view.
- (b) Encourage greater communication and coordination between the normative and operational functions/units, in terms of both public sector accounting and asset management and control.
- (c) Evaluate the feasibility of establishing a governing entity with the capacity to consolidate the functions related to the management and control of all fixed assets of the public sector, including issuing regulations and administering the AMCS.

### 3.3. IT Systems

36. Quality and timeliness of financial and administrative information depend to a great extent on the existence of integrated and automated IT systems. Therefore, development, implementation, and integration of financial and asset management systems is one of the key elements for the success of any reform in public sector accounting and asset management. This study has identified the following key weaknesses pertaining to the four countries' existing IT systems:

- (a) The records of the same economic transaction may be made at different times and in different modules, (e.g., material resources, budget, and accounting).
- (b) Budget classifications and processes may be considered more important than administrative and accounting systems and controls. Thus, assets may not be recorded at the time when the asset

is received, but rather when the invoice is received or the payment order is issued, sometimes without verifying whether the good has been physically received.

- (c) Lack of automated and integrated asset management IT systems, or isolated systems that are not linked with each other or with the financial management information system.
- (d) Lack of mechanisms for consolidating information on fixed assets.

37. This presents the following opportunities for improving the IT systems:

- (a) Implement or modernize the integrated financial management information system (IFMIS) to ensure a single record of each transaction for administrative, accounting, and budgetary purposes. This would also facilitate the generation of financial and administrative information online or in real time, enabling the timely issuance of financial statements.
- (b) Develop and implement the AMCS as an integral part of the national financial management system (see Chapter V).
- (c) Seek further standardization among administrative, accounting, and budgetary classifications based on international best practice: IMF GFSM, IPSAS, etc.

### **3.4. Management and control of assets**

38. As might be expected, asset management and control is one of the areas in which the greatest number of challenges and opportunities were identified. The main areas for improvement were the following:

- (a) Lack of regularization/legalization of some real estate, such as land and buildings, mainly in the health and education sectors of national and subnational governments.
- (b) Occasional errors and inconsistencies in administrative records, and between the physical inventories and accounting records of some assets.
- (c) Failure to periodically carry out verifications, reconciliations, and updates of the items in the different categories of physical assets.
- (d) Lack of plans for maintaining and replacing key public sector assets.
- (e) Lack of valuation of some of the assets that were donated, expropriated, or transferred to governments.
- (f) Inadequate or nonexistent internal and external controls for the management, control, and recording of assets, especially at the subnational level.
- (g) Internal and external controls primarily focused on legal compliance rather than financial compliance or efficiency.
- (h) Internal auditors reporting to the officials of the public entities to which they are assigned—a relationship that may limit the scope of their work.

39. The following are some of the actions that could address these challenges:

- (a) Develop and implement a program to identify, regularize, and, as appropriate, value assets for which the government does not have a property title.
- (b) Establish the following periodic actions as good practice: (i) physical stocktaking of the main fixed assets; (ii) reconciliation between administrative and accounting records; and (iii) development of plans for maintaining and replenishing fixed assets.
- (c) Carry out periodic accounting and administrative cleaning-off of the goods in the different categories of assets that are unidentifiable, obsolete, or deteriorated.

- (d) Strengthen and integrate the internal and external controls associated with asset management and accounting.
- (e) Ensure greater functional and operational independence of the internal auditors.

### **3.5. Accounting records**

40. According to the third edition of IPSASB Study 14, accrual accounting requires institutions to maintain complete records of their assets and liabilities. This practice facilitates better asset management, including improved asset maintenance, more appropriate replacement policies, identification and disposal of surplus assets, and better management of risks.

41. Key challenges related to the quality of accounting records that were identified through this study include the following:

- (a) Some of the accounting records are not made on an accrual basis, although the government claims to use full accrual accounting.
- (b) In some cases, the financial information produced by governments is not reliable, comparable, understandable, or timely, and, therefore, not useful for decision-making.
- (c) Some types of physical assets—such as infrastructure assets, natural resources, and historic and cultural assets—are not properly recognized or presented in financial statements or disclosed in the notes.

42. The following are a few actions to improve the quality of the accounting records:

- (a) Ensure that all assets are recorded according to the stated accounting methodology (accrual), regardless of the date of receipt or payment of the invoice.
- (b) Implement the IPSASB Conceptual Framework (or its national equivalent), ensuring that the financial information generated by governments complies with the qualitative characteristics of sound accrual accounting.

### **3.6. Accountability and transparency**

Transparency and accountability are essential elements of the AMCS (described in detail in Chapter V), whose main purpose is to (a) reduce uncertainty and improve the decision-making process of economic actors; (b) prevent and reduce acts of corruption; (c) recover the legitimacy and credibility of public institutions; and (d) establish strategy in a space of direct dialogue between public servants and citizens. The main accountability challenges identified in the management, control, and recording of fixed assets were the following:

- (a) In most cases, there is no financial audit of fixed assets (and of the government's financial statements).
- (b) There is little or no coordination between internal and external auditors.
- (c) Public entities responsible for the audit lack institutional capacity.
- (d) Accounting professionals are not sufficiently involved in PFM processes, including public sector accounting and, particularly, asset management.
- (e) Financial statements and other supplementary financial and administrative information, including information on fixed assets, are prepared annually, at best, and are not always available in a timely manner for consultation.

43. The key recommendations focused on this area include:

- (a) Strengthen accountability by conducting periodic financial audits, including assessments of internal control systems, which could facilitate the identification of untimely and incorrect asset records.
- (b) Promote greater coordination and communication among institutions responsible for internal control and external oversight.
- (c) Strengthen the capacity of supreme audit institutions (SAIs) and internal auditors by mandating targeted and general training. If necessary, involve private audit firms in the audit of government entities and state-owned entities.
- (d) Ensure that financial statements and other relevant information, including data linked to the management of fixed assets, are issued and regularly published on the websites of public entities and featured in other relevant media channels.

### **3.7. Change management**

44. The implementation of major reforms focused on the management, control, and recording of fixed assets requires good project management, with clear identification of the objectives, responsibilities, and deadlines for implementation. Thus, change management is of the utmost importance. The following are some of the main constraints to change management identified through this study:

- (a) Strategies to implement reforms in public sector accounting have not been defined.
- (b) The importance of communication plans as an integral part of the reforms to be implemented is largely underestimated.
- (c) Annual and multiannual training plans have not been defined.
- (d) Insufficient institutional support and time are allocated for training programs.
- (e) Professional development is not mandated for public sector accounting.

45. The following change management actions could help address these constraints:

- (a) Adopt established change management methodologies, such as John Kotter's "Eight Step Change Model" or Prosci's "Change Management Methodology."
- (b) Diagnose the current situation and problem before developing an implementation strategy.
- (c) Establish programs to monitor and address the main challenges identified in the diagnosis, and implement permanent mechanisms to monitor progress and results.
- (d) Develop a strategy for implementing reforms in public sector accounting, including aspects related to strengthening the management, control, and recording of assets. In addition to the technical aspects, such a strategy should include an internal and external communication plan, and a comprehensive training plan.
- (e) Develop and implement national and/or institutional communication plans that include measures to strengthen the awareness of senior and medium-level public officials on the issues and opportunities that could arise from the reforms.
- (f) Establish a multisectoral team to be responsible for the implementation of the project, composed of personnel from different areas involved in the management and control of fixed assets, including the administrative, accounting, legal, and control areas. This team could later form the governing entity of the AMCS.

- (g) Develop and implement programmatic training plans to enhance capacities. Alternatives to consider while developing and delivering such training: (i) contracting private sector firms; (ii) hiring public sector entities, including state universities; (iii) using advisers and consultants; (iv) developing courses, diplomas, or even master’s degrees at the university level; (v) engaging SAIs to carry out training activities; (vi) developing “training of trainers” programs; and (vii) developing virtual training programs and even virtual certifications.
- (h) Take advantage of technical and financial assistance and support from international financial institutions and the International Federation of Accountants (IFAC).

## **IV. AMCS: Premises, Types of Assets, and Processes**

46. One of the main objectives of this study is to contribute to the modernization of PFM systems by developing an Asset Management and Control System (AMCS)—a set of premises, resources, processes, and administrative and accounting procedures for asset management, control, and recording. The purpose of the AMCS is to generate useful information for decision-making and to strengthen transparency and accountability in government financial management. It is important to note that the proposed AMCS structure represents a combination of good practices that countries can consider when establishing their own asset management systems, rather than a “one size fits all” proposal.

47. This chapter explains three main dimensions of the AMCS: (a) the premise of the system; (b) the types of assets covered by the system; and (c) processes and activities associated with the management, control, and recording of fixed assets. The next chapter looks at the outputs generated by the system and the transparency and accountability features.

48. The main objectives of the AMCS are to:

- (a) Support the administrative and financial management of the different types of assets in an integrated way, and generate, in a reliable and timely manner (ideally in real time), information that is useful for decision-making. This information should include at least (i) description and the quantity of the assets; (ii) their historical and accounting values; (iii) their current state; (iv) their institutional and geographical location; (v) administrative and accounting adjustments; (vi) ownership/custody.
- (b) Strengthen the internal and external control of fixed assets.
- (c) Facilitate the reliable and timely preparation of administrative and financial reports.

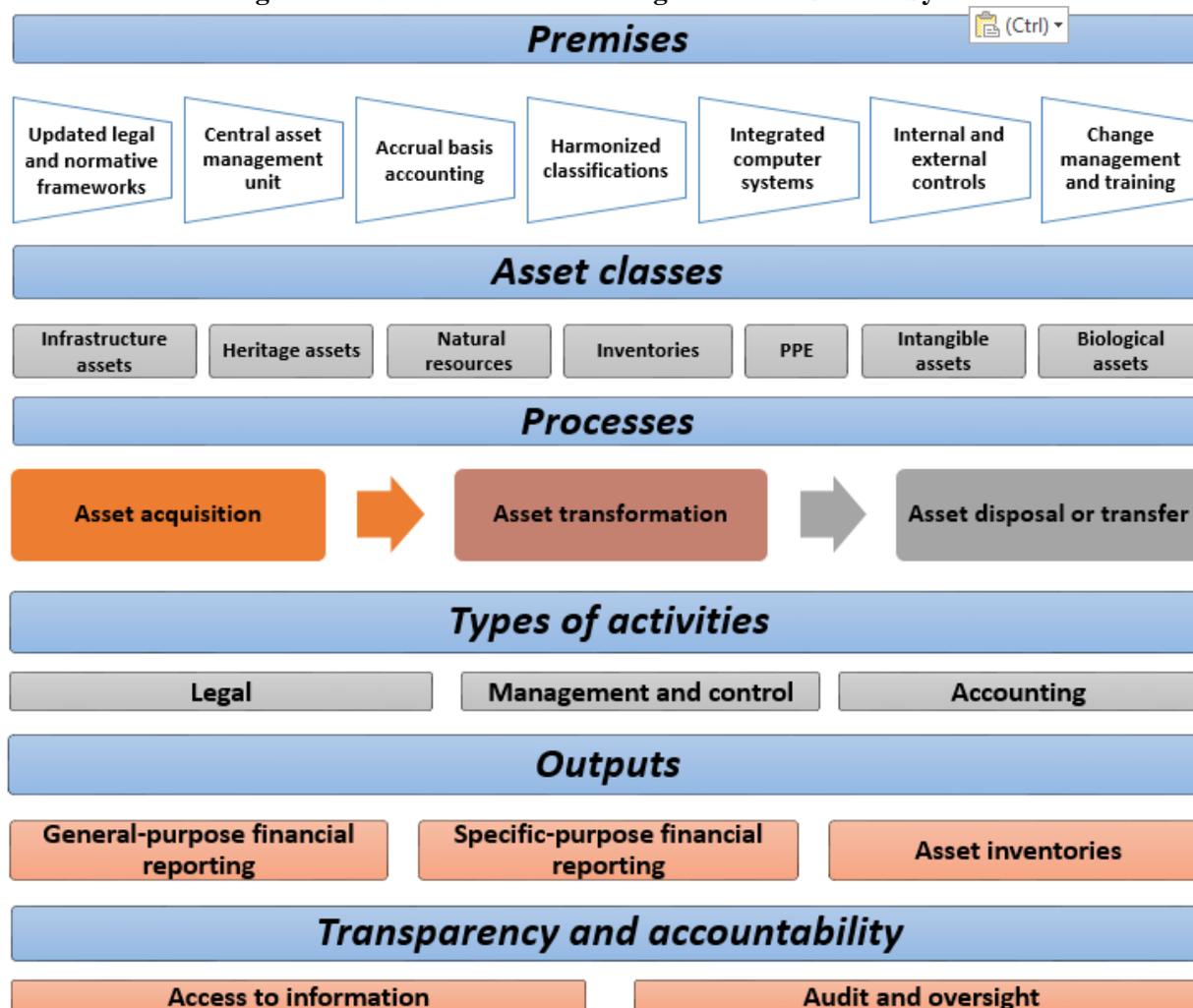
49. Key characteristics of the proposed system are (a) normative centralization, (b) operational decentralization, (c) existence of a conceptual framework, and (d) integration with other IT systems. (Figure 8 provides the conceptual model of the AMCS).

### **4.1. System premises**

50. The system functions most efficiently when (a) there are updated and consistent legal and regulatory frameworks; (b) the system is centrally managed; (c) operations are recorded using accrual accounting; (d) the administrative, budgetary, and accounting classifications are

integrated; (e) the IT systems are integrated; (f) internal and external controls are in place and operating; and (g) change management and training processes are adequate.

**Figure 8. Model of the Asset Management and Control System**



#### 4.1.1. Updated legal and regulatory frameworks

51. One of the objectives of modernizing the fixed assets accounting and administrative systems is to revise and update the legal and regulatory frameworks for PFM. This process should incorporate the following concepts: (a) use of international best practices; (b) consistency between the main legal provisions and the more specific regulatory frameworks at the national and subnational levels; (c) inclusion of the AMCS as an integrated part of the national PFM system; and (d) definition of responsibilities for each stakeholder and institutions involved. The following classifications of the legal and normative regulations should be revised or developed:

- (a) The general legal framework should include laws governing (i) public sector accounting and financial reporting, (ii) fixed assets, including heritage assets and natural resources, and (iii) accountability and information disclosure.

- (b) The thematic/secondary legal framework should include laws and secondary or complementary decrees supporting the laws in the general legal framework.
- (c) The regulatory framework should consist of (i) a manual governing the operation of the public sector accounting system, and (ii) an asset management manual that should at least include specific procedures for the verification, regularization, and write-off of physical assets, such as inventories and fixed assets.

52. The process of updating legal frameworks can pose the greatest challenge for AMCS creation and implementation, since it depends on factors that are outside the scope of PFM systems. The review of specific regulatory frameworks, for both management and accounting, is likely to be more easily attainable in the short or medium term.

53. The preparation of the two manuals should aim to promote administrative simplification and streamlining, and to ensure greater consistency among the many existing regulations. It should have the following main objectives:

- (a) To provide, in a systematic and integrated manner, detailed and structured information on the administrative and accounting policies and procedures that are necessary for the adequate management, control, and recording of assets.
- (b) To present a set of tools that could be used for reference, consultation, and action by the personnel responsible for the administration of the fixed assets.

#### **4.1.2. Organizational structure**

54. To be effective, the AMCS must have an appropriate organizational structure that is based on a systemic and integrated vision. To support the principles of normative centralization and operational decentralization, the organizational structure should consist of the following:

- (a) A steering committee, comprising representatives of the main stakeholders, such as the Ministry of Finance (MoF), state asset management agencies, relevant line ministries, and internal and external auditors. This committee will be responsible for the oversight of reform implementation, help achieve better results, and improve communications and coordination among various stakeholders involved in this process.
- (b) A centralized governing unit that is responsible for the issuance of administrative rules and procedures and AMCS administration.
- (c) Peripheral units set in various public sector entities/ministries, and responsible for the recording and management of assets under the responsibility/ownership of these entities, including specialized assets, such as defense and public security, cultural heritage, biological, and natural assets. These units would be responsible for applying the rules and procedures established by the AMCS centralized governing entity.

To ensure adequate controls/segregation of duties, the responsibilities of the asset management units would differ from the responsibilities of accounting units located in the same public entities/ministries, but the operations of these units should be closely coordinated to ascertain alignment of accounting and administrative processes.

### 4.1.3. Accrual-based accounting

55. Government accounting styles fall along a spectrum, ranging from pure “cash basis” through “modified accrual” to “full accrual.”

- (a) **Pure cash basis accounting:** transactions are recognized only when there is a cash flow. For pure cash basis accounting, the preparation of financial statements is simple, and the use of this type of accounting is effective in monitoring and evaluating compliance with authorized expenditure limits. However, this accounting base does not provide all the information about an entity’s financial situation since it does not recognize the rights or obligations that are *not* represented in cash.
- (b) **Modified accrual base accounting:** events and transactions are recognized at the time they occur, regardless of when payment is made or collected. This style is considered to be an approximation of pure accrual accounting. However, there are still some exceptions, such as cash-based recognition of income and lack of recognition of some physical and fixed assets.
- (c) **Full accrual accounting:** transactions and other economic exchanges are recognized when they occur, regardless of when payment is made or collected. In addition, full accrual accounting provides users with financial information on all of an entity’s economic resources, including financial assets and liabilities, fixed assets, and long-term liabilities and provisions. Information included in the financial reports prepared on an accrual basis is useful for decision-making and for strengthening levels of accountability. Public sector entities need this information to:
  - Make decisions about public investments and debt in the context of financing the provision of services.
  - Demonstrate their responsibility to the public for the management of assets and liabilities recognized in their financial statements.
  - Evaluate the impact of taxation and other income on the government’s fiscal situation;
  - Evaluate income requirements, the sustainability of existing programs, and the full cost of proposed activities and services.
  - Consider the medium- to long-term costs and benefits of specific policies and the cost of alternative mechanisms to achieve those goals.

Thus, besides being a basic premise for the operation of the AMCS, full accrual accounting is the recommended accounting method both for private companies and for public entities at all levels of government.

### 4.1.4. Integration of classifications

56. The integration and standardization of administrative, budgetary, and accounting classifications is another basic requirement of the AMCS. This measure ensures that the system can function efficiently and, at the same time, that asset management transactions are recorded through a unique record. To achieve this integration, the harmonization of the following specific classifications is recommended: (i) administrative classification of goods and services; (ii) budget classification by object of expenditure and, if applicable, revenue type; and (iii) chart of accounts.

57. Some countries have already begun integrating the accounting and budgetary classifications of certain items of fixed assets (movable and immovable property), income, and expenditure. However, integration with the administrative classification of goods and services—and even standardizing this classification between the different entities of the national public administration and subnational governments—remains a challenge.

58. In this context, the adoption of the United Nations Standard Products and Services Code (UNSPSC)<sup>7</sup> could be a good starting point—for example, for the standardization of administrative classifications of patrimonial assets and, subsequently, for their harmonization or at least integration, using a conversion matrix with the accounting-budget classifications (Annex 3 presents, by way of example, the UNSPSC code at the segment level). The adoption and use of UNSPSC as an official classifier for the entire public sector in each country would facilitate the following:

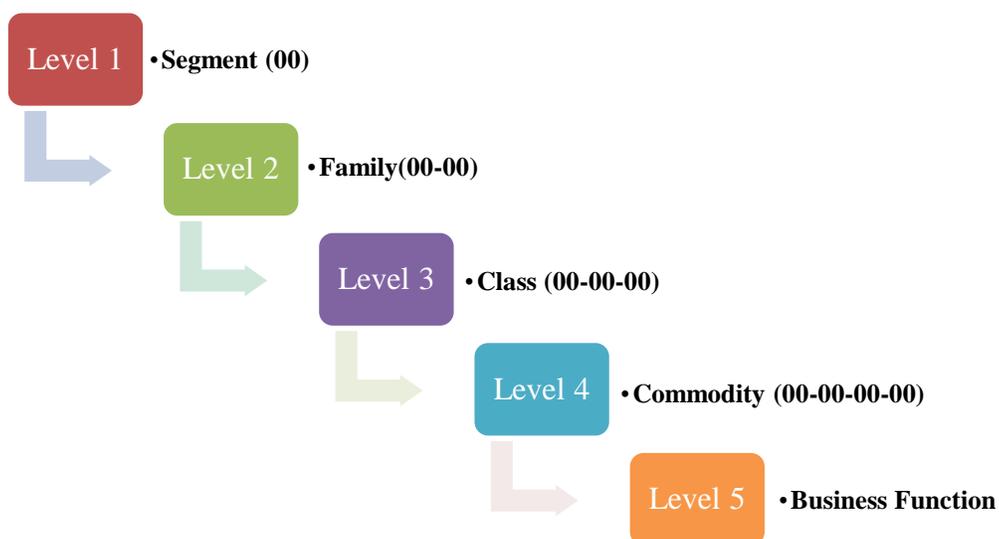
- (a) Preparation of annual procurement and contracting plans,
- (b) Greater transparency in the procurement of goods and services,
- (c) Better management and control of physical assets,
- (d) Greater integration and consistency among the different IFMIS modules, and
- (e) Greater comparability of asset management practices at the regional and global levels.

59. The UNSPSC has a hierarchy of four levels of two digits each, summing up to an eight-digit code. This can be expanded to a fifth level by adding two more digits, as shown in Figure 9 and Table 6.

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<sup>7</sup> The UNSPSC, created in 1998 by the United Nations Development Programme, represents an open, global, and multisectoral standard for the efficient, flexible, and accurate classification of products and services for their use in electronic commerce. The latest version of the code (19.0501), published in July 2016, covers more than 50,000 products and services. It is available free of charge in pdf format in 14 languages, including English, Spanish, and Portuguese (available at <https://www.unspsc.org/codeset-downloads>).

**Figure 9. UNSPSC Structure**



Source: United Nations Standard Products and Services Code, 2016.

**Table 6. UNSPSC Example**

Level	Code	Description	Code	Description
	Example 1		Example 2	
Segment	<b>10000000</b>	Live Plant and Animal Material and Accessories and Supplies	<b>44000000</b>	Office Equipment and Accessories and Supplies
Family	10 <b>100000</b>	Live animals	44 <b>120000</b>	Office supplies
Class	1010 <b>1500</b>	Livestock	4412 <b>1900</b>	Ink and lead refills
Commodity	10101 <b>506</b>	Horses	44121 <b>904</b>	Ink refills

Source: United Nations Standard Products and Services Code, 2016.

#### 4.1.5. Integrated IT systems

60. The modernization and integration of IT systems for national financial management processes and the existence of an e-government model is another of the AMCS’s basic premises: the AMCS must be an inherent part of the IFMIS.

61. According to USAID (2014), a significant number of IFMIS projects have been implemented in Latin America and the Caribbean over the past 30 years. Despite the considerable investment of resources and time, however, many of these reforms remain incomplete—and one of the most significant elements missing from most systems is IFMIS asset management modules. Therefore, in developing the AMCS, it is important to promote the proper integration of the system with the IFMIS to ensure the effective and efficient operation of the system as a whole. If there is no IFMIS, the AMCS should be integrated with at least the following functional systems: planning and budgeting, accounting, treasury, public credit, purchases and contracting, and public investments.

62. Integrating the AMCS with other systems has several advantages:

- (a) Minimizing manual intervention, reducing the number of manual reconciliations required;
- (b) Reducing the possibility of data damage or errors, avoiding duplicate data entry and processing; and
- (c) Allowing the automatic generation of calculations and accounting entries for depreciation and asset revaluations.

The AMCS could also be integrated with the human resources management information system, which would allow the monitoring of portable equipment, such as laptops used by public officials.

63. Finally, during the initial stages of AMCS implementation, governments may be limited by the scope of existing systems and by the time and cost required to redesign or replace them. In such cases, it would be necessary to establish computer interfaces between existing systems and the AMCS, keeping in mind that such interfaces represent a potential source of data updating delays, errors, and inconsistencies between the information recorded in the different systems.

#### **4.1.6. Internal and external control**

64. Internal and external control is another essential element of the AMCS. According to Del Barco (1996), in the public sector context, control ensures the achievement of a public entity's objectives in the general environment in which its management is developed.

65. Internal control consists of a set of interrelated regulatory and operational procedures aimed at addressing and mitigating risks and at protecting an organization's assets. Internal control also contributes to:

- (a) Promoting efficiency, effectiveness, transparency, and austerity in the operations of the entity, as well as in the quality of the public services it provides;
- (b) Protecting and safeguarding the resources and assets of the state from any form of loss, deterioration, improper use, and illegal acts, as well as against any irregular situations that could affect them;
- (c) Complying with the regulations applicable to the entity and its operations; and
- (d) Ensuring the reliability and timeliness of the financial and administrative information generated by the entity.

66. Among the elements of a good internal control system are the following:

- (a) Organizational plan that provides an appropriate functional distribution of authority and responsibility;
- (b) Accounting records, and adequate procedures to provide good accounting control over assets, liabilities, income, and expenses;
- (c) Adequate regulatory and operational procedures; and
- (d) Personnel who are duly instructed on their rights and obligations, which must be proportional to their responsibilities.

67. Some methodological proposals for internal and external control are presented below. Implementation of these proposals would strengthen not only the AMCS, but also the public administration system.

#### **4.1.6.1. The COSO model**

68. COSO was formed in 1985 to identify the factors that led to the presentation of false or fraudulent financial information and to issue recommendations that guarantee maximum information transparency. COSO's main function is to develop general frameworks and guidelines on internal control, corporate risk management, and fraud prevention to improve organizational performance and supervision and reduce the risk of fraud.

69. In September 1992, the Committee issued the first version of the Integrated Internal Control Framework Report, also known as COSO I. Its main objective was to establish a common definition of internal control and to provide guidance for the creation and improvement of entities' internal control structures. The COSO Report quickly became the standard of reference, and two updated versions have been published—in 2004 and 2013.

70. According to the latest version of the model, internal control consists of five interrelated components—control environment, risk assessment, control activities, information and communication, and supervision and monitoring—and 17 principles that the management of any public or private organization should implement (see Annex 4).

#### **4.1.6.2. Three lines of defense for an effective risk management and control**

71. In collaboration with the Institute of Internal Auditors, in July 2015 COSO published a paper “Leveraging COSO Across the Three Lines of Defense.” The three-lines-of-defense model (illustrated in Figure 10) clearly defines the responsibilities and functions for three essential aspects of risk: risk ownership, risk control, and risk assurance.

72. The first line of defense is risk ownership and management—that is, management controls and internal control measures. The operational units have the ownership and responsibility to evaluate, control, and mitigate risks, along with effective internal controls. The second line of defense includes risk controls and compliance functions for risk monitoring, overseeing compliance with internal and external laws, regulations, and standards. The third line is internal audit, which provides the security of the effectiveness of controls and functions of the risk assessment. When an organization appropriately structures all three lines of defense, it is more likely to effectively manage risks.

**Figure 10. Structure of the Three-Lines-of-Defense Model**



Source: Institute of Internal Auditors, 2013.

#### 4.1.6.3. External audit and the ISSAI

73. External control is an integral part of the two models mentioned above. For practical purposes and in the context of the development and implementation of the AMCS, this section focuses only on the importance of the role of SAIs in their capacity as the public sector’s main control entity and external audit.

74. According to the OECD report “Good Practices in Supporting Supreme Audit Institutions” (2011), SAIs’ primary task is to examine whether public resources are spent economically, efficiently, and effectively, and in accordance with the appropriate rules and regulations and with national priorities. The proper functioning of SAIs helps ensure that controls are operating effectively, identify irregularities, and suggest ways in which government entities can function better.

75. The objective of the ISSAI, developed by the International Organization of Supreme Audit Institutions (INTOSAI), is to safeguard the independence and effectiveness of the audit, and to support INTOSAI members in developing their professional capacity according to their mandate. The ISSAI contain the basic prerequisites for the proper functioning of auditing bodies and the fundamental principles of the auditing of public entities, along with recommendations on compliance with legal requirements for the organization and practice of the auditing profession.

76. Along with the ISSAI, INTOSAI has been making progress in developing Guidance for Good Governance (INTOSAI GOVs), an additional series of recommendations with the following main objectives:

- (a) To express INTOSAI recommendations to governments and other entities that are responsible for the management of public funds and publicly funded activities.

- (b) To disseminate good practices, including the establishment of effective internal control systems, reliable internal auditing, and adequate accounting and reporting standards in the public sector.
- (c) To serve as a guide for SAIs in evaluating such practices.

The INTOSAI GOVs will be of particular relevance to the implementation and operation of the AMCS, given its focus on internal audit and control and on accounting standards and reports that are applicable to the public sector.

#### **4.1.7. Change management and training**

77. According to McLean Bourda (2013), change management is a structured approach to ensuring that (a) changes are implemented more carefully and smoothly, and (b) the objectives of change are met. Change management focuses primarily on the impacts of change, and particularly on how people—whether as individuals or as teams—move from the current state to a desired future state. It is important to note that those who change are not “organizations,” but their staff. For this reason, success in implementing change is measured by the difference in the performance of each individual, multiplied by the total number of employees affected by the change.

78. Most change or reform processes face the challenge of limited resources and time. It is therefore essential to ensure that financial and human resources are used as effectively and efficiently as possible. Therefore, the implementation of important changes, such as reforms aimed at modernizing public sector accounting and asset management systems, requires good project management, with clear identification of reform objectives, responsibilities, and deadlines. This section describes some of the change management methodologies that could represent a good starting point for planning and implementing the reforms discussed in this study.

##### **4.1.7.1. John Kotter’s Eight-Step Change Model**

79. John Kotter is considered to be one of the most important and influential authors on contemporary management thinking. His contributions to the issues of leadership, organizational change, career development, and corporate culture continue to guide the management agenda of organizations with a practical and dynamic approach. His model of leading change (Kotter 1995) includes eight steps aimed at facilitating the transformation of organizations and ensuring the success of the reforms:

- (a) Create a sense of urgency.
- (b) Build a guiding coalition.
- (c) Form a strategic vision and initiatives.
- (d) Enlist a volunteer army.
- (e) Enable action by removing barriers.
- (f) Generate short-term wins.
- (g) Sustain acceleration.
- (h) Institute culture.

#### **4.1.7.2. Prosci's Change Management Methodology**

80. Founded in 1994, Prosci is the world's leading research and publishing company on change management aspects. Because Prosci is one of the few companies that do not offer consulting services, the company is renowned for its ability to maintain a neutral position in the market and concentrate its main offer on change management products and training courses. One of the findings of the company's research on change management good practices is that ineffective people management during change is the principal reason that projects fail.

81. Prosci introduced its three-phase model for organizational change management in 2002.

- (a) The first phase, "Preparing for change," involves (i) defining the change management strategy; (ii) creating and preparing the team responsible for change management; and (iii) developing the sponsorship model of the project.
- (b) The second phase, "Managing change," focuses on the creation and implementation of five change management plans that will be integrated into the project activities: (i) communication plan; (ii) sponsor roadmap; (iii) training plan; (iv) coaching plan (focused on the preparation of the management team to lead change in their groups); and (v) resistance management plan.
- (c) The third phase, "Reinforcing change," seeks to ensure the permanence of changes through (i) feedback collection and analysis; (ii) elaboration of breach diagnostics and change resistance management; and (iii) implementation of corrective actions and celebration of successes.

#### **4.1.7.3. IPSASB Study 14**

82. In 2011 IFAC's IPSASB published the third edition of its Study 14, designed to assist public sector entities in making the transition from cash accounting to accrual accounting and/or adopting the accrual basis IPSAS. The study is a source of important references, since good practices in the management, control, and recording of fixed assets are largely synthesized in several IPSAS, and particularly in IPSAS 17 – Property, Plant, and Equipment.

83. Chapters 2 and 3 of the study, "Managing the Process" and "Skills Assessment and Training," offer some elements that may be useful for the development and implementation of the AMCS: (a) characteristics of a successful transition, and (b) identification, design, and implementation of training activities (discussed below). For planning and managing large-scale reform projects, the study identified the following seven characteristics of a successful transition:

- (a) Existence of a clear mandate that empowers public officials and entities to initiate change and oversee reforms.
- (b) The use of legislation to provide formal authority and signal commitment to the changes.
- (c) Political commitment of the governing entity, the elected representatives overseeing the governing entity, and the opposition party, to ensure initial approval of proposed changes and provide ongoing support for changes in the event of obstacles or opposition. The implementation of the project can take several years, and it is important to maintain constant communication with key politicians throughout the process.
- (d) The commitment of central entities and key officials. One of the reasons it is necessary to have the active support and leadership of politicians and government officials is that financial

management reforms in general imply changes to the structure of power and the culture of public service. Senior official support can help ease these changes.

- (e) Adequate human and financial resources, as a variety of skills are required to ensure the success of the reform. Proper funding is needed to provide such necessary resources as additional staffing, acquisition of specialized skills, and the development and installation of IT systems.
- (f) An effective project management and coordination structure should include the following elements: (i) a project philosophy that helps staff understand the reasons for the changes and the approach adopted; (ii) a diagnosis of the current situation before an implementation plan is developed; (iii) a formal implementation plan; (iv) a clear assignment of responsibilities for each task and a description of the roles of key officials and entities; (v) an approval process that details who has the authority to make particular decisions, and (vi) formal coordination and communication mechanisms to distribute information to and obtain information from the entities involved.
- (g) Adequate technological capacity and information systems to ensure the success of reforms. This feature may involve making changes to existing systems or developing and implementing a new IFMIS.

#### **4.1.7.4. Asset management plan**

84. One of the central axes of the change management process is the development of a fixed assets management plan to optimize the management and use of the different types of fixed assets. The following asset management procedures could be included in such a plan:

- (a) Establish performance indicators—for example, to estimate the level of underused space.
- (b) Develop strategic operations and maintenance plans including timeline and cost estimates.
- (c) Put in place procedures to control the state and use of assets.
- (d) Put in place procedures to safeguard and protect assets, especially high-value, mobile ones.

#### **4.1.7.5. Training**

85. As part of change management activities, it is important to develop and implement a training plan to reduce skills gaps. The development of such a plan should consider at least the following elements (which are also discussed in IPSASB Study 14):

- (a) Identification of the target groups.
- (b) Identification of training needs and development of training strategies.
- (c) Delivery of training.
- (d) Evaluation and assessment.
- (e) Ongoing training and continuous professional development.
- (f) Assessment of lessons learned and dissemination of the results achieved among various stakeholders, including policymakers, and, as appropriate, the media.

86. As regards the specific training activities to be added to the training plan, it is necessary to consider costs, time constraints, and the need to excuse staff from work. For this, it is important to select training modalities that can have the greatest impact on public entities and achieve training objectives more effectively and efficiently. Common modalities, which could be offered simultaneously, include the following:

- (a) In-person training, including instructor-led classroom training activities, hands-on workshops, or on-the-job training (internships);
- (b) Mixed in-person and online training using interactive multimedia tools, guided by an instructor; and
- (c) Online distance education programs, also known as e-learning.

87. The AMCS project implementation framework recommends the following minimum training contents: IPSAS, management of the catalogs of fixed assets, integrated financial management systems, and internal control systems.

## 4.2. Types of assets

88. Assets of the public sector comprise a great variety of items with different characteristics. It is important to define the main types of these assets to delineate the scope of the AMCS.

89. Even before identifying the different types of assets, however, it is important to define the concept of an asset from an accounting perspective. According to IPSAS 1 – Presentation of Financial Statements, assets are “resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.” Assets are recognized for financial reporting purposes only when they comply with all elements of this definition. An asset is recognized and included in the statement of financial position or balance sheet when it is probable that the future benefits associated with the asset will materialize or transfer to the entity, and the asset’s value can be measured reliably. Items that do not meet the recognition criteria cannot be recognized as assets in the financial statements, however, they could meet the definition of contingent assets, defined by IPSAS 19 – Provisions, Contingent Liabilities, and Contingent Assets as “a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity.”

90. Another key aspect of the definition of an asset is the control of the asset by an entity. The existence of control can be obvious (for example, if there are documents proving ownership of the asset), but in some cases—especially when an asset is the subject of a lease or a service concession agreement—confirmation of the existence of control may require professional analysis.

91. There are distinct types of assets (see Annex 5 for a graphic visualization of such classifications). For the purposes of this study, the following classification, defined by IPSASB Study 14, is a good starting point.

- (a) **Financial assets:** generally includes cash and cash equivalents, investments, and other financial instruments such as derivatives, loans and advances, and receivables.
- (b) **Nonfinancial assets:** also often referred to as (i) nonmonetary assets, (ii) fixed assets, (iii) physical assets, (iv) capitalizing asset, (v) long-term assets, or (vi) assets for use. This kind of asset includes inventories, investment property, PPE (including infrastructure and defense equipment or military assets), cultural heritage assets, biological assets, and natural resources.
- (c) **Intangible assets:** generally includes such things as software, databases, capitalized research and development costs, patents, copyrights, trademarks, and intellectual property.

92. The scope of this study is limited mainly to the accounting and administrative treatment of nonfinancial and intangible assets. Annex 6 presents a table summarizing the characteristics and examples of the main types of assets included under the scope of the AMCS, and maps them to the different IPSAS.

### **4.3. AMCS processes**

93. An administrative process is a series or sequence of acts governed by a set of rules, policies, and/or activities established in an organization to achieve its objectives. It is important that administrative processes be carried out effectively and efficiently.

94. The following are the main AMCS processes:

- (a) **Entry/recognition of assets.** This category includes recognition/addition of assets to the AMCS, including purchases and acquisitions, completion of works under construction, financial leases, expropriation, concessions, and receipt of transfers or donations, both from public institutions and from entities outside the public sector.
- (b) **Modification of assets.** This category refers to the modification of existing assets, including improvements, transfers, maintenance, partial impairments, and revaluations.
- (c) **Removal/write-off of assets.** This category refers to the removal of assets from the AMCS, including disposal, loss or theft, destruction, recognition of total impairment, exchange, concession, granting of transfers, and internal or external donations.

## **V. AMCS: Activities, Outputs, Transparency, and Accountability**

95. The second part of the AMCS description explains the main activities and outputs of the system, as well as the main aspects associated with transparency and accountability—the cross-cutting dimension of the system.

### **5.1. Activities**

96. This section presents a logical sequence of some of the AMCS’s main activities, with a focus on the first-time adoption of international best practices in asset management. The main challenge of this exercise is the need to recognize a large number of assets that previously have not been recognized in accounting or administrative terms.

97. Given a wide variety of activities associated with the development and operation of the AMCS, this study classifies them into three groups: legal, management and control, and accounting (see Figure 11).

**Figure 11. AMCS Activities**



### **5.1.1. Legal activities**

98. Legal activities are the actions or tasks necessary to address legal matters related to the management and control of fixed assets. For the assets to be recognized as government property, it is necessary to confirm the ownership by verifying their legal status. In practice, some assets, especially real estate (land and buildings), do not always “legally” belong to governments. Thus, in addition to verifying their legal status, it is sometimes necessary to carry out a process of legal recognition of these goods.

99. The following types of assets may require special attention:

- (a) Real estate for which there is no deed or other documentation proving ownership;
- (b) Real estate located in community territories;
- (c) Confiscated property that may or may not belong to the public entity; and
- (d) Assets donated and administered by a trust.

100. At times, efforts to legalize assets may turn into a complicated legal processes, and even become political or social issues. In such cases, or for other issues related to the status of assets (such as their jurisdiction, quantity, and location), the following actions can be taken:

- (a) Register/record the asset, noting the issues and problems to be resolved; and
- (b) Refer this case to relevant specialists (e.g., legal counsel) for follow-up and resolution.

### **5.1.2. Management and control activities**

101. Management and control activities are the actions and processes designed and applied to manage assets effectively and efficiently, to achieve optimal results in their use. These activities are focused on the prevention, minimization, and mitigation of risks.

102. The following are some of the main areas of focus related to the management and control of assets, a few of which are discussed in detail below:

- (a) Addition and disposal of assets;
- (b) Stocktaking and verification of physical existence of assets;
- (c) Storage and safeguarding of assets;
- (d) Periodic reconciliations of accounting and administrative information.

#### **5.1.2.1. Physical stocktaking**

103. One of the most critical activities in adopting international best practices in asset management and control is the physical stocktaking of various types of assets. Although information pertaining to some classes of assets may already exist, the identification and stocktaking of certain classes, such as cultural heritage, infrastructure works, biological assets, and natural resources, can be much more challenging. Stocktaking should not be a one-time exercise; rather it should be done periodically with the participation of internal and external auditors.

104. The stocktaking exercise consists of four stages:

- (a) **Planning and preparation:** scheduling the process and compiling the administrative and accounting documentation about assets to be inventoried, such as invoices, receipts, results of previous stocktaking, and accounting records.
- (b) **Execution:** the process of physical stocktaking/verification.
- (c) **Compilation and closing:** comparing and reconciling the results of physical stocktaking with existing administrative and accounting records, then documenting observed inconsistencies.
- (d) **Regularization and updating:** updating the administrative records and, as appropriate, making accounting adjustments.

105. Some of the data that should be physically verified and confirmed during the stocktaking process, and then reflected in the accounting and administrative records, are as follows:

- (a) Title and description of the assets.
- (b) Inventory number and, if applicable, brand, model, color, serial number, etc.
- (c) Acquisition date.
- (d) Original value of the invoice (also known as historical cost) and book value.
- (e) Location and physical condition of the asset.
- (f) Person or position responsible for the custody and maintenance of the asset.
- (g) Deadline for replacement.

#### **5.1.2.2. Safeguarding assets**

106. A key step in developing asset management and control policies and procedures is determining who will be responsible for the safeguard, use, and performance of the assets. This person should perform at least the following functions:

- (a) Verify that all assets that arrived at the warehouse, whether through acquisition, donation, transfer, or exchange, agree with the description, quantity, condition, and quality established in the contract or delivery/receipt document.
- (b) Ensure the quality and reliability of the recording of the delivered assets. Prepare the documentation ascertaining delivery/receipt of the asset.
- (c) Assign an inventory number to the assets.

(d) Supervise and continually monitor the optimal use and upkeep of the safeguarded assets.

107. Periodic checks on the physical existence of the assets should be carried out by personnel independent of the people responsible for the custody and safekeeping of the assets.

### 5.1.2.3. Inventory management

108. To achieve the objectives of inventory control in the context of the AMCS, it is necessary to develop a specific system or module for the requisition, storage, and use or sale of assets, and accountability for activities related to inventory management. To ensure the automatic reconciliation of inventory transactions, this system needs to be integrated with the accounting module of the IFMIS.

109. According to IPSASB Study 14, the main objectives of inventory management are to ensure that inventories are (a) adequate to meet the needs of ongoing activities without disruption; (b) managed so as to reduce the amount of funds tied up in inventories and storage costs; and (c) subject to a good system of internal controls to minimize loss through damage, deterioration, unauthorized use, or theft.

110. In developing an accounting system for inventory management, it is necessary to decide whether to operate a perpetual or a periodic system. In a perpetual system, inventory records are updated every time goods are received, used, or sold; in a periodic system, information about the levels of goods held is obtained through periodic stocktaking (see Table 7).

**Table 7. Characteristics of Inventory Management Systems**

<i>Perpetual inventory system</i>	<i>Periodic inventory system</i>
The inventory account and the cost balance of the goods sold exist at all times.	The inventory account and the cost of goods sold are nonexistent until the physical count is made at the end of the period.
There is no separate account for purchases and returns; both are recorded directly in the inventory account.	A separate account is used to record purchases and returns.
The cost of goods sold or cost of sale is available each time a sale is made.	The cost of goods sold or cost of sale is calculated from the final inventory figure.
Customer returns are recorded by reducing the cost of goods sold and adding it back to inventory.	There are no inputs in the inventory for goods returned by customers.

*Source:* IPSASB Study 14, Third Edition, 2011.

### 5.1.3. Accounting activities

111. Accounting activities are tasks and processes associated with the measurement, recognition, and disclosure of the financial information related to the different classes of assets. Annex 7 discusses in detail the key inputs linked to this process and analyzes such key technical concepts as (a) fair value and the use of appraisers; (b) asset depreciation and impairment; (c) componentization and recognition thresholds; and (d) capitalization of additions and improvements. Much of the content of the annex draws on the IPSASs and other documents issued by the IPSASB. Some of the activities described in the annex should be implemented by accounting units that are independent of the asset management units. Responsibility for the

development of the accounting methodology should be assigned to the centralized unit for governmental accounting, usually located at the MoF.

## **5.2. Information outputs**

112. According to the IPSASB Conceptual Framework and IPSAS, financial information can be classified into two major groups: General Purpose Financial Reports (GPFs), and Special Purpose Financial Reports (SPFRs). The AMCS's main outputs are (a) GPFs, including notes to the financial statements; (b) SPFRs, both quantitative and qualitative; and (iii) inventories of different classes of assets.

### **5.2.1. General Purpose Financial Reports and their notes**

113. GPFs and their notes provide information about an entity's financial position, financial performance, and cash flows that can be used by a wide range of users to make and evaluate decisions about resource allocation. They generally include the following information:

- (a) Sources of funding, as well as allocation and use of financial resources.
- (b) The manner in which the entity has financed its activities and covered its cash needs.
- (c) The financial condition of the entity and its modifications.
- (d) Assessments of whether the entity has acquired resources economically and used them efficiently and effectively to achieve its service delivery objectives.
- (e) Evaluations of the entity's financial performance, liquidity, and solvency.
- (f) The capacity of the entity to finance its activities and fulfill its obligations and commitments.

114. The GPFs may also provide useful information to forecast the level of resources required by current operations, the resources that these operations can generate, and the risks and uncertainties associated with them. According to the IPSASB, the financial information provided in the GPFs must meet certain qualitative characteristics: relevance, faithful representation, comprehensibility, timeliness, comparability, and verifiability. Each of these characteristics is closely related to the others. However, in practice, it is difficult to simultaneously comply with all qualitative characteristics (see Annex 12).

#### **5.2.1.1. Financial statements**

115. Financial statements are generally prepared at least annually, and entities are expected to issue their financial statements within six months after they are prepared; failure to do so impairs the usefulness of the financial information. The responsibility for preparing and presenting financial statements varies within and between jurisdictions. In addition, a jurisdiction may distinguish between who is responsible for preparing the financial statements and who is responsible for approving them. Often the person or position responsible for preparing and approving financial statements in individual entities (such as government ministries or departments) is the head of the entity or the highest-ranking finance officer, such as the controller or general accountant. The responsibility for preparing and approving the consolidated financial statements of the government as a whole generally rests with the head of the central financial agency—the controller or the general accountant and the finance minister, or the equivalent.

116. Financial statements fully comply with IPSAS only if they meet all the requirements of each applicable IPSAS. IPSAS 1 lists the elements that should be included in a complete set of GPFs and sets out how each component is to be identified.

117. In accordance with IPSAS 17, the financial statements or their notes must disclose at least the following information when it comes to the recognition of PP&Es:

- (a) The measurement bases used to determine the gross carrying amount.
- (b) The depreciation methods used.
- (c) The useful lives or the depreciation percentages used.
- (d) The gross carrying amount, the depreciation for the period and accumulated, and the accumulated impairment losses at the beginning and end of the period.
- (e) A reconciliation between the book values at the beginning and end of the period, showing at least the following (see also Annex 12):
  - Additions and provisions.
  - Depreciation for the year and accumulated.
  - Increases or decreases resulting from revaluations, as well as any impairment losses recognized or reversed directly in net assets/equity or in the result of the period.

118. The financial statements should also present the following information for each class of fixed assets:

- (a) The existence of, and amounts corresponding to, restrictions on ownership, as well as the assets that are used as collateral to fulfill obligations.
- (b) The amount of the disbursements recognized in the carrying amount of a fixed asset in the construction process.
- (c) The amount of contractual commitments for the acquisition of new assets.

119. When using a revaluation method for subsequent measurement, the following information must be disclosed:

- (a) The effective date of the revaluation.
- (b) Any use of the services of an independent appraiser.
- (c) Methods and significant assumptions used in estimating the fair values of the assets.
- (d) The revaluation result, indicating the changes during the period.
- (e) The sum of all revaluation surpluses and deficits for the individual elements of each asset class.

120. Users of financial statements may also find the following information relevant:

- (a) The carrying amount of assets that are temporarily idle.
- (b) The gross carrying amount of any asset that is fully depreciated and is still in use.
- (c) The carrying amount of asset items that are withdrawn from active use and held for disposal.
- (d) The fair value of assets when their cost is significantly different from their carrying amount.
- (e) Physical descriptions of certain assets, such as state roads, national forests, and recognized and unrecognized mineral deposits.
- (f) Descriptions of historical, artistic, and cultural heritage assets.

121. Unless IPSAS permits or requires otherwise, comparative information from the prior period is presented for much of the quantitative information in the financial statements. The comparative

information should also be included in the descriptive and narrative information, if it is relevant for an adequate understanding of the financial statements of the current period.

#### **5.2.1.2. Notes to the financial statements**

122. The notes are an integral part of the financial statements and should be read in conjunction with them. Their main purpose is to explain, clarify, and expand on the figures presented in the financial statements. They contain information additional to that presented in the different financial statements, provide narrative descriptions or disaggregation of items disclosed in the statements, and contain information on items that do not meet the conditions to be recognized directly in the financial statements. In short, they help users (a) better understand the financial information, (b) obtain greater usefulness from the analysis, and (c) make decisions on a clear and objective basis.

123. The notes typically have the following structure and are presented in the following order:

- (a) Information on the entity, if this has not been disclosed elsewhere in the financial statements:
- Address, legal form of the entity, and jurisdiction in which it operates.
  - Description of the nature of the entity's operations and main activities.
  - Reference to the relevant legislation governing the operations of the entity.
  - The name of the direct supervising institution and the highest supervising institution of the economic entity (if applicable).
  - Indication of whether it is a limited-life entity and, if so, information about the duration of that life.
- (b) A summary of significant accounting policies applied, including:
- i. The measurement basis used in preparing the financial statements, such as historical costs, net realizable value, fair value, recoverable amount, or recoverable service amount, since those bases significantly affect the capacity for analysis.
  - ii. Key assumptions for the estimation of uncertainty, including key assumptions about the entity's future and other key data for the estimation of uncertainty at the reporting date, provided there is a significant risk of making material adjustments in the book value of the assets or liabilities within the next year. Examples of the types of information disclosed in this section:
    - The nature of assumptions or other estimates relating to uncertainty.
    - The sensitivity of the book value and the methods, assumptions, and estimates implicit in its calculation, including the reasons for such sensitivity.
    - The valuation of assets to determine the existence of impairment losses.
    - The useful life of physical and intangible assets.
    - The recoverable amount of the different classes of fixed assets.
    - The effect of technological obsolescence of inventories.
    - Provisions contingent upon future outcomes of lawsuits in progress.
    - The expected resolution of an uncertainty, as well as the range of reasonably possible results within the next accounting period, with respect to the book value of the assets and liabilities affected.
    - If uncertainty remains unresolved, an explanation of the changes made in past assumptions referring to such assets and liabilities.

- iii. Professional judgments that management has made in applying the accounting policies of the entity that have a significant effect on the amounts recognized in the financial statements, including the determination of whether:
  - Assets are investment property;
  - Agreements for the provision of goods or services, which involve the use of specialized assets, are leases; and
  - Certain sales of goods are financing agreements and therefore do not result in income.
- iv. The degree to which the entity has applied any of the transitional provisions of IPSAS.
- v. Other accounting policies used that are relevant to understanding the financial statements.
- (c) Regulatory information required and other additional information not presented directly in the financial statements, but relevant to understanding them.
- (d) Other information to be disclosed, including:
  - i. Information on contingent liabilities and unrecognized contractual commitments.
  - ii. Nonfinancial information, such as financial risk management objectives and policies.
  - iii. Events subsequent to the date of the financial statements.

124. In general, in deciding whether a particular accounting policy should be disclosed, the management of the reporting entity should consider whether it could help users understand how transactions and other events and conditions have been reflected in financial information. For example, disclosures about specific accounting policies would be particularly useful to users when a policy is selected from among several alternatives allowed in IPSASs. Each entity should also consider what information the users of its financial statements would expect to be disclosed, given the type of the entity's operations. For example, for public sector entities, users would expect the disclosure of the accounting policies related to the recognition of taxes, transfers, subsidies, donations, and other forms of non-exchange revenue.

### **5.2.2. Specific Purpose Financial Reports**

125. The SPFRs are intended for users—such as the entity's own management and control bodies—that have the right to request additional information. They offer information that is supplementary to that provided in the GPFRs. The following are some of the key objectives of an SPFR:

- (a) To provide complementary and detailed information regarding the transactions and movements of the different classes of fixed assets.
- (b) To strengthen the management and control of assets.
- (c) To estimate future investment and replacement needs of existing fixed assets.
- (d) To provide inputs to the physical assets maintenance plan.

126. The most common SPFRs include the following:

- (a) Interim financial statements.
- (b) Cost-analysis statements, which allow for a detailed disaggregation of expenditures and charges made in the production of goods and services from which the entity derives its income.
- (c) Extraordinary financial statements, which are prepared during the period following special events, such as acquisition, restructuring, merger, or public offering of securities.

- (d) Settlement statements, which are presented on the termination of operations, to report on progress in realizing assets and cancelling liabilities.

A good example of an SPFR that could be useful for the management and control of fixed assets is the reconciliation between the current value at the beginning and end of the period for the main classes of physical and intangible assets (see Annex 13).

### **5.2.3. Asset Inventory Records**

127. Inventory records for different types of assets are presented here as a third set of the AMCS's information outputs. It is important to ensure that the AMCS has the capacity to (a) periodically and automatically generate inventory records for different types of assets, and (b) carry out periodic reconciliations between the administrative and accounting records of the assets.

128. The main objective of inventory records is to record the quantity, characteristics, conditions of use, and value of the different types of assets that make up an assets class, including movable and immovable assets. In its final form an inventory record represents a detailed list of the elements that make up the class of assets held by an entity at a given time. Inventory records should include quantitative and monetary values and should be:

- (a) Detailed, because they specify the characteristics of each of the elements;
- (b) Organized by subgroups comprising each class of assets; and
- (c) Searchable.

129. The content of asset inventory records is verified and confirmed through periodic inventory counts, which, among other things, help to:

- (a) Confirm the physical existence and conditions of assets, and compare them to existing records.
- (b) Ensure that all assets are duly recorded for administrative and accounting purposes.
- (c) Identify assets that are obsolete or are no longer being used.

## **5.3. Transparency and Accountability**

130. One of the AMCS's objectives is to facilitate and automate some of the processes related to transparency and accountability. In this regard, it is important to ensure that certain information generated by the AMCS is made regularly available to the public (ideally, each month) and in a timely way (ideally, within the first seven days of the reporting period). This information should include at least the GPFs, their notes, and some SPFRs: (a) inventories of different classes of fixed assets (except, perhaps, for national security issues, specialized military equipment, etc.); (b) reconciliations of movements in the main asset records; and (c) other quantitative and qualitative reports that may be of interest to general users of financial information.

131. It is important to make sure that efficient tools and methodologies—e.g., audit mechanisms— are available and in place to verify and supervise not only the use of public resources, but also the personnel actions and levels of control over that use. This section discusses how these functions could be performed in the context of the public sector.

### 5.3.1. Audit of fixed assets

132. Public entities can conduct special audits of their fixed assets to verify that the information generated by the systems offers them reasonable assurance that:

- (a) The assets recorded exist and are owned (or leased) by the entity;
- (b) Acquisitions and disposals were duly authorized and recorded correctly;
- (c) No major items that should have been capitalized or vice versa have been charged;
- (d) The method of measurement used is adequate; and
- (e) Correct methods of depreciation and/or amortization, consistent with the previous year, have been applied to all applicable asset items.

133. The following are some of the most common asset audit procedures:

- (a) Physical and documentary inspection of fixed assets;
- (b) Verifications, reconciliations, confirmations of balances, and interviews;
- (c) Verification of accounting policies and records, including measurement, depreciation, and impairment; and
- (d) Verification of the proper use, maintenance, and conservation of the different types of fixed assets.

134. According to the IPSASB Study 14, the management and staff of a public entity should take certain steps to help ensure that a financial or special purpose audit is carried out efficiently, and that auditors receive all necessary information.

- (a) ***Understand the auditor's objectives.*** For a special-purpose audit focused on assets, the auditor's objectives will be to assess whether the entity's management systems, processes, and controls provide sufficient assurance with regards to the following:
  - (i) *Existence:* the asset exists;
  - (ii) *Rights and obligations:* status of the entity ownership and controls of the asset;
  - (iii) *Completeness of records:* all assets that should have been recorded have been recorded;
  - (iv) *Valuation and allocation:* the asset is recorded at an appropriate amount, and any resulting valuation or allocation adjustments are appropriately recorded; and
  - (v) *Presentation and disclosure:* an item is disclosed, classified, and described in accordance with IPSAS.
- (b) ***Supporting information and audit trail.*** Supporting schedules required for the preparation and audit of assets and for enabling the creation of a credible audit trail include the following:
  - (i) A copy of the asset registry by asset class;
  - (ii) A reconciliation of the opening and closing balances of each class of asset;
  - (iii) A copy of the asset verification procedures and the final report;
  - (iv) A list of adjustments, including write-offs/write-downs;
  - (v) A schedule of spending after purchase, showing which spending has been capitalized in accordance with the accounting policy;
  - (vi) A schedule of any revenue or expense to be recognized in the statement of financial performance resulting from the sale of assets; and
  - (vii) Valuation reports, where applicable, including the basis, date, name, and qualifications of the appraiser.

- (c) ***Be aware of common audit issues and take steps to avoid their occurrence.*** The following are some of the most common problems that auditors have identified in audits of fixed assets in different jurisdictions:
- (i) Physical asset verification procedures not being performed per instructions (including breach of internal control by using staff responsible for assets to perform the verification).
  - (ii) Deficiencies in verification procedures, and unresolved discrepancies.
  - (iii) Difficulties obtaining assurance about transactions that have occurred between the time of the asset verification and the end of the period (when the asset verification occurs before the end of the period).
  - (iv) Verification of opening balances occurring at a later date—for example, at the end of the period. This can lead to questions about the accuracy of opening balance.
  - (v) Items that form part of a larger asset (e.g., a building) are recorded as single assets.
  - (vi) The stickers/bar-codes used for recording asset register references on assets, such as furniture and equipment, being incorrect or not visible.
  - (vii) Depreciation rates and useful lives not reviewed regularly (so that assets are fully depreciated, although they have future value).
  - (viii) Acquisitions and disposals not recorded in a timely manner in asset registers or not processed in the general ledger; missing disposal documentation.
  - (ix) Lack of documentation to support the entries in the asset registry, and incomplete data on acquisition dates and values (required for depreciation calculations).
  - (x) Figures presented for audit not subjected to any prior management review.
  - (xi) Consolidated asset registry not regularly reconciled to subsidiary records; and asset registry not regularly reconciled to the general ledger.

## **VI. Conclusions and Recommendations**

### **6.1. Conclusions**

135. Although the lack of adequate asset management, control, and accounting practices may have a significant negative impact on the efficiency of a government's fiscal policies, this issue has not been considered a priority in the public policy agenda of most of the surveyed governments of the Latin America region. As a result, government financial reports sometimes do not reasonably reflect information on all public assets, liabilities, rights, and obligations. This makes it difficult for governments to have an objective picture of their position and financial performance, and affects their ability to use public resources efficiently, in line with their electoral commitments. Similarly, lack of or incomplete information on, and provisions for the maintenance or replacement of, infrastructure works contributes to the region's challenge to improve its public investment policies and promote higher levels of productivity and competitiveness.

136. In recent years, most Latin American countries have chosen to move forward in implementing IPSAS, and in particular, IPSAS 17 – Property, Plant and Equipment. This decision presents an opportunity for governments not only to improve the quality and utility of public financial information, but also to (a) strengthen public investment policies, (b) ensure fiscal stability, (c) promote national economic growth, (d) strengthen the public investment planning and

decision-making processes, (e) increase the quality of public services provided, and (f) achieve greater levels of transparency and accountability.

137. The results of a survey administered as part of this study helped identify the main challenges faced by countries, which centered around the following themes: legal and regulatory framework; organizational structure; IT systems; asset management and control; accounting records; accountability and transparency; and change management. The following are among the main challenges identified:

- (a) Outdated and obsolete legal and regulatory frameworks in the areas of (i) public sector accounting; (ii) management, control, and recording of fixed assets; (iii) audit and oversight; and (iv) transparency of and access to governmental financial information.
- (b) Overlap of responsibilities, and lack of communication and coordination among the regulatory and operational government functions involved in the management, control, and recording of fixed assets.
- (c) Lack of computerized and integrated financial management systems, leading to the proliferation of multiple overlapping registries, and significantly complicating the consolidation of financial and administrative information.
- (d) Unreliable and outdated financial information that cannot be effectively used for decision-making.
- (e) Lack of periodic verification, reconciliation, and valuation of various categories of fixed assets.
- (f) Weak internal and external controls applied to the management of fixed assets, especially at the subnational government level. Existing controls focus more on legal compliance than on the efficiency of public investment management.
- (g) Outdated oversight and accountability mechanisms, which suffer from the following limitations: (i) lack of responsibility to audit government financial statements, (ii) little or no coordination between internal and external auditors, (iii) lack of institutional capacities in SAIs and lack of international best practices in the areas of internal audit and control, and (iv) failure to make the financial information and results of audits available for public consultation.
- (h) Absence of clearly defined strategies guiding the implementation of public sector accounting and asset management reforms, and insufficient attention to the change management process, including development and implementation of communication and training plans.

138. To help countries address these challenges, a large part of the study focused on the design of the AMCS—the set of administrative and accounting premises, resources, processes, and procedures that are applicable to the processes of management, control, and recording of the different types of assets. The purpose of the AMCS is to generate useful information for decision-making and to strengthen the transparency and accountability of PFM.

139. The AMCS requires (a) normative centralization, (b) operational decentralization, (c) existence of a conceptual framework, and (d) integration with other computer systems. The main premises for the efficient functioning of the system are the following: (a) there are updated and consistent legal and regulatory frameworks; (b) the system is centrally managed; (c) operations are recorded according to accrual accounting; (d) the administrative, budgetary, and accounting

classifications are integrated; (e) the IT systems are integrated; (f) internal and external controls are in place and operating; and (g) change management and the training processes are adequate.

140. The implementation of international good practices in public sector accounting and financial reporting, as well as the management and control of assets, will undoubtedly contribute to increased levels of government efficiency and credibility, better quality of public services, improvements in the public investment decision-making process, and stronger transparency and accountability mechanisms.

## 6.2. Recommendations

141. Given the cross-cutting impact of the management, control, and recording of fixed assets on the public administration and management of public resources in general, the recommendations of this study are classified in the seven dimensions discussed throughout this work. The recommendations, summarized in Table 8, are intended to assist public officials at all levels of government in strengthening the management, control, and recording of fixed assets and in developing and implementing the AMCS.

**Table 8. Summary of Recommendations**

#	
<b>Legal and regulatory framework</b>	
1.	Review and, if necessary, update existing legal frameworks regarding (a) public sector accounting, asset management, and control (evaluate the possibility and rationale for enacting specific laws focused on these areas); (b) oversight and accountability at all levels of government, including internal and external audit; and (c) transparency to ensure citizens' right to access government financial information.
2.	Develop a general law on public sector accounting, with chapters focused on the issues of transparency, accountability, and management and control of assets and national heritage. The main objective should be to strengthen and harmonize the public sector accounting function at all levels of government.
3.	Standardize and update regulatory frameworks for public sector accounting, asset management, and control, including manuals, guides, and accounting and administrative procedures. Take into consideration international best practices and the principles of homogeneity, given their importance for the consolidation of financial information among different levels and sectors of government.
4.	Review and/or develop specific procedures related to the recognition, verification, and measurement of different assets, to ensure the reliability and consistency of the administrative and accounting information.
5.	Use inter-institutional committees or public consultations to collect the inputs of various stakeholders involved in and affected by the public sector accounting process, including the development and approval of legal and regulatory frameworks.
<b>Organizational structure</b>	
6.	Effectively implement the principle of normative centralization and operational decentralization by clearly defining the responsibilities and functions of the areas responsible for the management, control, and recording of fixed assets from an administrative and accounting point of view.
7.	Achieve greater communication and coordination between the normative and operational management areas, in the areas of both public sector accounting and asset management and control.
8.	Establish a steering committee, which will be responsible for the oversight of reforms implementation, help achieve better results, and improve communications and coordination among various stakeholders involved in this process.
9.	Establish a governing unit with the capacity to consolidate the functions related to the management and control of all fixed assets of the public sector, from the perspective of regulatory issuance and administration of the AMCS.

<b>IT systems</b>	
10.	Implement and/or modernize IFMISs to ensure a single record of each transaction for administrative, accounting, and budgetary purposes. This would also facilitate the generation of financial and administrative information online or in real time, as well as the timely issuance of financial statements.
11.	Develop and implement the AMCS as an integral part of the national financial management system.
12.	Standardize administrative, accounting, and budgetary classifications based on international best practices (UNSPSC, IMF GFSM, and IPSAS).
<b>Management and control of fixed assets</b>	
13.	Develop and implement a program for the identification, regularization, and, where appropriate, valuation of assets for which the government does not have property titles.
14.	Periodically carry out (a) a physical stocktaking of the main items of fixed assets, (b) reconciliation between administrative and accounting records, and (c) development/review of maintenance, replacement, and acquisition plans for fixed assets.
15.	Conduct the accounting and administrative “cleaning-off” of fixed assets that are unidentifiable, obsolete, or deteriorated beyond use.
16.	Strengthen and integrate internal and external controls associated with the management, control, and recording of assets by involving internal and external auditors in the asset management process.
17.	Promote participation of internal auditors in stocktakings and in the verification and reconciliation of inventories of the different asset items.
18.	Strengthen the internal auditors’ functional and hierarchical independence from the directors of the public entities to which they are assigned.
<b>Accounting records</b>	
19.	Use accrual accounting to record all assets.
20.	Implement the IPSASB Conceptual Framework, ensuring that financial information generated by governments meets the qualitative characteristics.
21.	Analyze the impact (full cost) of the use of physical assets for the purposes of (a) providing services; (b) calculating service fees (when applicable); and (c) evaluating other asset management alternatives.
<b>Accountability and transparency</b>	
22.	Conduct periodic financial audits, including assessments of existing internal control systems for fixed assets.
23.	Achieve greater coordination and communication among the entities responsible for internal control and external oversight.
24.	Strengthen the capacities of SAIs and internal auditors by providing training in the areas of evaluation of internal control systems, asset and risk management, and financial and performance auditing.
25.	If necessary, delegate financial audits, including audits of fixed assets, to independent private firms.
26.	Issue, and periodically publish on the websites of public entities, financial statements and other relevant financial and administrative information.
<b>Change management</b>	
27.	Adopt change management methodologies, such as John Kotter’s “Eight-Step Change Model” or Prosci’s “Change Management Methodology.”
28.	Diagnose the existing situation and issues before developing the implementation strategy.
29.	Put in place mechanisms to monitor and address the main challenges identified during diagnostics.
30.	Develop a strategy for implementing reforms in public sector accounting, including aspects related to strengthening the management, control, and recording of assets. The strategy should include at least the following elements: <ul style="list-style-type: none"> <li>● Definition of scope and coverage of reforms;</li> <li>● An internal and external communication plan;</li> <li>● A comprehensive training plan;</li> <li>● A fixed assets management plan that describes mechanisms for regularization, verification, write-off, and maintenance of the different types of assets.</li> </ul>
31.	Create a team to be responsible for developing and implementing the AMCS project. The team should be composed of personnel from different areas involved in the management, control, and recording of assets in the administrative, accounting, legal, and control areas, and it could eventually form the centralized governing entity of the AMCS.

32.	Raise awareness among senior public officials about the challenges and opportunities associated with the implementation of reforms. This could be done through the development and implementation of national and/or institutional communication plans.
33.	Develop and implement comprehensive training plans to address gaps in capacity. Issue guidelines for mandatory professional development for public sector accounting officers.
34.	Participate in and, where appropriate, develop “training of trainers” programs; also, take advantage of virtual training and certification programs focused on IPSAS.

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## **Annex 1. Questionnaire**

### **I. Legal and regulatory framework**

1. What are the laws governing the preparation of the financial statements of public sector entities? Please include information on the date of enactment, content, and recent modifications.
2. Are there different laws or regulations for different levels of government? Are there different laws or regulations for government companies? If yes, please specify.
3. In accordance with the current regulations, which entity/entities of the public administration is/are responsible for carrying out the functions of management of fixed assets?
4. Is there an estimate of the number of staff currently involved in the functions of public sector accounting?
5. In the case of multiple laws or regulations related to public sector accounting and reporting of financial information, what are the main legislative and regulatory challenges that affect the implementation and enforcement of such laws?
6. Does the accounting legislation specify the accounting bases that should be used in the preparation of financial statements of public sector entities?
7. Does the accounting legislation require (total or partial) convergence with International Public Sector Accounting Standards (IPSAS), or, where applicable, with specific standards or normative criteria?
8. Are there planned and/or proposed changes in the legal and regulatory framework of public sector accounting?

### **II. Legal and regulatory framework for fixed assets**

9. What are the laws governing the management and administration of fixed assets in the public sector? Please include information on the date of enactment, content, and recent modifications.
10. Are there different laws or regulations for different levels of government, sectors, or industries? Are there different laws or regulations for government companies? If yes, please specify.
11. In accordance with the current regulations, which entity of the public administration is responsible for carrying out the functions of management of fixed assets?
12. In the case of multiple laws or regulations related to the management of fixed assets in the public sector, what are the main legislative and regulatory challenges that affect the implementation and enforcement of such laws?
13. Are there laws that give responsibilities to different government entities to oversee the management of government fixed assets?
14. Which entity/entities is/are responsible for the public management of fixed assets? What are their challenges and how are their roles and responsibilities different?
15. Are there planned and/or proposed changes in the legal and regulatory framework?
16. Are implementation guides prepared and disseminated to assist the management of fixed assets in the public sector?
17. Which entity/entities are responsible for the preparation and dissemination of guidelines for the management of fixed assets in the public sector?

### **III. Establishment of standards**

18. Are there specific accounting standards for the public sector? If so, what is the process of developing, approving, and adopting these standards?

19. Which entity/entities are responsible for establishing public sector accounting standards?
20. If IPSAS have not been adopted, are there any plans to adopt or converge with IPSAS?
21. Are implementation guides prepared and disseminated to assist with the implementation of public sector accounting standards? Please explain what these guides are and who is responsible for developing, approving, and issuing them.
22. Which entity/entities are responsible for the preparation and dissemination of practical guidelines on the application of public sector accounting standards?

#### **IV. Accounting education**

23. Are there educational requirements for public sector employees at the technical and managerial levels responsible for carrying out tasks related to public sector accounting? If yes, please indicate the requirements.
24. Is there a requirement for professional certification (local or international, e.g., CIPFA) for public accountants and government auditors?
25. Are there mandatory continuing professional development requirements for public sector accounting professionals? If these requirements are met, how are they promoted? Are incentives provided? What is the level of compliance?

#### **V. Information technologies**

26. What are the main IT systems (hardware, software, database) used by public sector entities in relation to financial and accounting reporting?
27. Does the software currently in place have the ability to handle accrual based accounting needs including property, plant, and equipment?
28. Would significant changes or reconfigurations of the existing IT system be necessary if IPSAS (or IPSAS-based national standards) were adopted in your jurisdiction? Would the system have to be replaced instead of being modified or reconfigured?
29. Is the system integrated with other functions of government financial management such as treasury, budgets, payments, etc.?

#### **VI. Information technologies for fixed assets**

30. What are the main IT systems (hardware, software, database) used currently to monitor public sector fixed assets? Is there any link with the fixed asset accounting system?
31. Are sufficient IT resources available to assist in the management of fixed assets? What are the main challenges faced in this area?
32. Would significant changes or reconfigurations of the existing IT system be necessary to improve the management of fixed assets in the public sector? If so, would the current system have to be replaced instead of being modified or reconfigured?

#### **VII. Supervision of compliance with public sector accounting regulations**

33. Are there entities responsible for monitoring compliance with public sector accounting standards? Please identify them and specify their roles and responsibilities.
34. Are there mechanisms to ensure effective monitoring of compliance with public sector accounting requirements?
35. Are the financial statements prepared on an accrual, cash, or another basis?
36. Have measures to improve financial accounting and reporting in the public sector been identified?

37. Are there entities responsible for monitoring compliance with the rules and legal requirements in relation to the management of fixed assets in the public sector? Please explain.
38. Are the resources allocated to monitoring and verifying compliance with applicable requirements and conditions considered sufficient? If not, what are the main areas in which a greater allocation of resources is required?
39. What are the main problems experienced with the management of fixed assets in the public sector in your jurisdiction? What measures are envisaged to solve them?
40. Are there reforms or measures planned to improve the management of fixed assets in the public sector? If so, please explain.
41. What are the main controls that have been developed for the management of fixed assets in the public sector?
42. What are the main risks that have been identified for the management of fixed assets and the main mitigation measures that have been developed in this regard?

### **VIII. Accounting for property, plant, and equipment (PPE)**

43. Is PPE accounted for on a cash or accrual basis?
44. Has IPSAS 17 on PPE been adopted as a national standard? If not, are there any plans to change national PPE standards in the near future?
45. How do you ensure full compliance with the requirements of accounting standards related to PPE, and what are the major challenges identified in its implementation? On this same question, please emphasize the following topics:
  - a. Initial and subsequent recognition
  - b. Estimation and/or write-offs for loss or impairment
  - c. Depreciation (including calculation of acquisition cost, disposal values, and useful life)
  - d. Decrease in assets
46. What are some of the measures that could be taken in your jurisdiction to improve the accounting of fixed assets on an accrual basis in the public sector?

### **IX. Public-private partnerships (PPPs)**

47. Is there a specific regulatory framework for the accounting of operations under the PPP scheme? Please state it.
48. Is there a team specialized in managing operations under the PPP scheme?
49. Could you provide one or two representative examples of PPPs in your jurisdiction and explain what accounting treatment was used for them?
50. What are the main challenges that have been encountered in the accounting of operations under the PPP scheme, and in particular the recording of fixed assets?

## Annex 2. Results of the Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis

<i>Strengths</i>	<i>Weaknesses/challenges</i>	<i>Opportunities</i>	<i>Threats</i>
<b>Legal and regulatory framework</b>			
<ul style="list-style-type: none"> <li>✓ Existence of a strong culture of legality.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Legal and regulatory frameworks are outdated.</li> <li>✓ Legal and regulatory frameworks are repetitive, excessive, incomplete, and heterogeneous at different levels and sectors of government.</li> <li>✓ The mechanisms of oversight and accountability are outdated and mainly focus on legal compliance.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Review and modernization of existing legal frameworks with the focus on (i) public sector accounting and asset management; (ii) audit and accountability at all levels of government, including adoption of internationally recognized standards and methodologies, such as COSO and ISSAI, with a particular focus on financial and performance audits; and (iii) transparency to ensure the right of citizens to access government financial information.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Complexity of legal framework, sometimes at the constitutional level, can make it difficult to adopt international practices focused on public sector accounting and accountability.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Progress made by some countries in the development of regulatory frameworks for asset management, control, and recording, as well as public sector accounting, which can be used as a reference by other countries.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of comprehensive, integrated regulatory frameworks focused on management, control, and recording of assets, including administrative procedures for verification, regularization, and write-off of fixed assets.</li> <li>✓ Existing legal and regulatory frameworks for financial management are focused on budget policies and systems.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Development and implementation of comprehensive regulatory framework for public sector accounting and asset management and control, based on international best practices, and including manuals and guidelines.</li> <li>✓ Revision and/or development of specific regulatory procedures related to regularization, verification, recognition and write-off of the various nonfinancial assets, to ensure the reliability and consistency of administrative and accounting records.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Poor quality of administrative and accounting records, because of the lack of specific regulations.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Significant interest to the implementation of IPSAS.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Delays in the adoption of IPSAS.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Use flexible approach while defining modality and processes for IPSAS implementation. Use international experience, and seek support of international organizations engaged in this agenda.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Quality of financial information produced by public entities or governments as a whole is inadequate, and cannot be efficiently used for decision-making.</li> </ul>

<b>Organizational structure</b>			
<ul style="list-style-type: none"> <li>✓ Separation of public sector accounting and asset management functions.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Overlap of responsibilities between different agencies or administrative units involved in these processes, resulting in confusion and inefficiencies.</li> <li>✓ Lack of communication and coordination between regulatory and operational units.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Implementation of the principle of normative centralization and operational decentralization through clear definition and assignment of responsibilities and functions related to public sector accounting and the management, control, and recording of assets.</li> <li>✓ Better communications and coordination between the regulatory and operational functions, both in public sector accounting and in asset management and control.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of political will to formalize the required legal, regulatory, and organizational changes.</li> <li>✓ Inconsistency of issued regulations with day-to-day operation and management.</li> </ul>
<b>Information systems</b>			
<ul style="list-style-type: none"> <li>✓ A few countries in the region have ongoing IFMIS reforms. Governments are aware of the importance of such reforms and of the opportunities they present.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of automated and integrated asset management IT systems, or isolated systems that have no interfaces with the financial management information system.</li> <li>✓ Depending on the state of the system integration, economic transactions may not be recognized adequately and on time.</li> <li>✓ Prevalence of budget systems and classifications over administrative and accounting systems and classifications.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Implementation and/or modernization of IFMIS to ensure a single, timely record of each transaction for administrative, accounting, and budgetary purposes, and preparation of financial and administrative information online, and in real time.</li> <li>✓ Harmonization and standardization of administrative, accounting, and budgetary classifications based on international best practices (UNSPSC, IMF GFSM and IPSAS).</li> </ul>	<ul style="list-style-type: none"> <li>✓ High costs of implementing new computer systems or modernizing existing IFMIS.</li> <li>✓ Lack of integration and coordination among administrative, accounting, and budgetary classifications and functions.</li> <li>✓ Inability to prepare reliable, timely, and comparable administrative and accounting information at the entity and consolidated levels.</li> </ul>
<b>Fixed assets management</b>			
<ul style="list-style-type: none"> <li>✓ Strong culture of legality and compliance that can help to improve the process of asset management and control.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Gaps in existing processes. Existence of “unregularized” assets, (i.e., unrecorded or with questionable ownership status), including land and buildings, particularly in the health and education sectors.</li> <li>✓ Lack of periodic verification, reconciliation, and updating of different types of nonfinancial assets.</li> <li>✓ Lack of maintenance and replacement strategies/plans for systemically important assets.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Development and operationalization of a comprehensive set of procedures covering the entire spectrum of asset management, control and accounting.</li> <li>✓ Development and implementation of identification, regularization, and, where appropriate, valuation procedures for the “unregularized” assets.</li> <li>✓ Periodically conduct (i) a physical stocktaking of assets; (ii) reconciliation between administrative and accounting records; and</li> </ul>	<ul style="list-style-type: none"> <li>✓ Possibility of losing control over “unregularized” assets.</li> <li>✓ High financial costs to regularize these assets.</li> <li>✓ Difficulties to appraise assets with unassigned value, or incorrect valuation of existing assets that may jeopardize the quality of fiscal analysis and decision-making process.</li> </ul>

	<ul style="list-style-type: none"> <li>✓ Lack of valuation of some assets that were donated to, expropriated by, or transferred to the government.</li> <li>✓ Weak or nonexistent internal and external controls of asset management, especially at the subnational level.</li> <li>✓ Internal auditors' hierarchical dependence on the officials of the public entities to which they are assigned may affect their approach and quality of results.</li> </ul>	<ul style="list-style-type: none"> <li>(iii) review and update of maintenance and replacement plans for fixed assets.</li> <li>✓ Regularly carry out accounting and administrative write-offs of nonfinancial assets that are not identifiable, are obsolete, or are completely deteriorated.</li> <li>✓ Strengthen and integrate the internal and external controls associated with asset management, control, and recording.</li> <li>✓ Participation of internal auditors in the assets stocktaking, verification, and reconciliation.</li> <li>✓ Promotion of internal auditors' greater functional and hierarchical independence from the officials of the public entities to which they are assigned.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Excessive controls and permanent audits that require constant attention and divert management and staff from their primary responsibilities.</li> </ul>
<b>Accounting records</b>			
<ul style="list-style-type: none"> <li>✓ Growing use of accrual accounting, and governments' awareness about the associated benefits, including recognition of nonfinancial assets.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Inconsistencies in the application of accrual accounting. As a result, sometimes financial information produced by governments is not reliable, comparable, understandable, and timely, and therefore is not useful for decision-making.</li> <li>✓ Some classes of nonfinancial assets, such as infrastructure assets, natural resources, and historic and cultural heritage assets, are not properly recognized or presented in the financial statements and are not disclosed in the notes.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Consistent application of the chosen method of accounting. Recognition of all fixed assets based on the stated criteria.</li> <li>✓ Implementation of the IPSASB Conceptual Framework, ensuring that the financial information generated by governments complies with the qualitative characteristics set out in the Framework.</li> <li>✓ Strengthening of the public investment management function, and governments' decision-making processes anchored in the availability of comprehensive and accurate financial information.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of reliable financial information on assets owned by the government, leading to suboptimal economic, financial, and policy decisions.</li> </ul>
<b>Transparency and accountability</b>			
<ul style="list-style-type: none"> <li>✓ Growing citizen demand for transparency and information disclosure. Existence of established public institutions specialized</li> </ul>	<ul style="list-style-type: none"> <li>✓ External audit processes mostly focus on legal compliance, rather than on financial information and organizational performance.</li> <li>✓ Little or no coordination between internal and external auditors.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Improved accountability, supported by the introduction of periodic financial audits, including assessments of existing internal control systems.</li> <li>✓ Increased coordination and communication among the entities responsible for internal control and external oversight.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The financial statements are not audited and do not reliably reflect the financial situation of public entities or governments as a whole.</li> </ul>

<p>in government audit and oversight.</p>	<ul style="list-style-type: none"> <li>✓ Weak institutional capacity of public entities specialized in auditing, and insufficient use and understanding of international good practices in this technical area.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Capacity building of SAIs and internal auditors, including trainings focused on best international practices in such areas as evaluation of internal control, financial audits, and asset management and performance.</li> <li>✓ If necessary, greater involvement of private audit firms in the audit of public entities. This would require establishing a system for the selection, designation, contracting, and evaluation of private audit firms by SAIs or other government control entities.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ IFMIS reforms and access to Internet help promote a culture of transparency.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Financial statements and other supplementary financial and administrative information, including information on assets, is prepared annually, at best, and is not always available in a timely manner for consultation and disclosure.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Regular issuance and disclosure (e.g. on the websites of the public entities) of the financial statements and other relevant financial-administrative information, including assets registry.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Possible resistance to change on part of the public servants.</li> </ul>
<b>Change management</b>			
<ul style="list-style-type: none"> <li>✓ Existence of relatively well-defined organizational structures that could facilitate the implementation of reforms.</li> <li>✓ Flexibility in defining the scope and implementation approach (direct versus indirect).</li> </ul>	<ul style="list-style-type: none"> <li>✓ Absence of comprehensive strategy to implement reform in public sector accounting. Key stakeholders' limited understanding of the benefits of such a strategy.</li> <li>✓ Underestimation of the importance of communication plans as an integral part of the reforms to be implemented.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Adoption of established change management methodologies, such as John Kotter's "Eight-Step Change Model" or Prosci's "Change Management Methodology."</li> <li>✓ Assessment of the current situation, challenges, and opportunities before developing the implementation strategy.</li> <li>✓ Development of a comprehensive strategy to implement public sector accounting and asset management reforms, including communications plan, monitoring and evaluation system, staff training program.</li> <li>✓ Creation of an integrated team responsible for implementing the reform, and representing different government areas/units that are involved in public sector accounting and asset management (i.e., operations, administration, accounting, legal, oversight).</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of vision, leadership, and support in the implementation of the reforms.</li> <li>✓ Lack of financial, human, and material resources required to implement reforms in public sector accounting and asset management.</li> </ul>

<ul style="list-style-type: none"> <li>✓ Low staff turnover, and accumulated “institutional memory.”</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of training and outdated technical skills of staff and management.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Development of short- and medium-term technical training plans.</li> <li>✓ Delivery of training programs targeting different groups/levels of staff and management.</li> <li>✓ Use of virtual training programs and support from international organizations focused on these technical areas.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of resources to develop/acquire and deliver training programs.</li> <li>✓ Limited availability of technical training programs focused on public sector accounting, asset management, oversight, and controls.</li> </ul>
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### Annex 3. United Nations Standard Products and Services Code – Segment level

<i>Concept</i>	<i>Code</i>	<i>Segment description</i>
<b>Raw materials</b>	<b>10.00.00.00</b>	Live Plant, Animal Material, Accessories and Supplies
	<b>11.00.00.00</b>	Mineral, Textile, Inedible Plant and Animal Materials
	<b>12.00.00.00</b>	Chemicals including Bio Chemicals and Gas Materials
	<b>13.00.00.00</b>	Resin, Rosin, Rubber, Foam, Film and Elastomeric Materials
	<b>14.00.00.00</b>	Paper Materials and Products
	<b>15.00.00.00</b>	Fuels, Fuel Additives, Lubricants and Anti Corrosive Materials
<b>Industrial equipment</b>	<b>20.00.00.00</b>	Mining, Well Drilling Machinery and Accessories
	<b>21.00.00.00</b>	Farming, Fishing, Forestry, Wildlife Machinery and Accessories
	<b>22.00.00.00</b>	Building and Construction Machinery and Accessories
	<b>23.00.00.00</b>	Industrial Manufacturing and Processing Machinery and Accessories
	<b>24.00.00.00</b>	Material Handling, Conditioning and Storage Machinery and their Accessories and Supplies
	<b>25.00.00.00</b>	Commercial, Military and Private Vehicles and their Accessories and Components
	<b>26.00.00.00</b>	Power Generation and Distribution Machinery and Accessories
	<b>27.00.00.00</b>	Tools and General Machinery
<b>Components and supplies</b>	<b>30.00.00.00</b>	Structures, Building, Construction and Manufacturing Components and Supplies
	<b>31.00.00.00</b>	Manufacturing Components and Supplies
	<b>32.00.00.00</b>	Electronic Components and Supplies
	<b>39.00.00.00</b>	Electrical Systems and Lighting
<b>End-use products</b>	<b>40.00.00.00</b>	Distribution and Conditioning Systems and Equipment and Components
	<b>41.00.00.00</b>	Laboratory, Measuring, Observing and Testing Equipment
	<b>42.00.00.00</b>	Medical Equipment and Accessories and Supplies
	<b>43.00.00.00</b>	Information Technology Broadcasting and Telecommunications
	<b>44.00.00.00</b>	Office Equipment and Accessories and Supplies
	<b>45.00.00.00</b>	Printing, Photographic, Audio and Visual Equipment and Supplies
	<b>46.00.00.00</b>	Defense, Law Enforcement, Security, Safety Equipment and Supplies
	<b>47.00.00.00</b>	Cleaning Equipment and Supplies
	<b>48.00.00.00</b>	Service Industry Machinery, Equipment and Supplies
	<b>49.00.00.00</b>	Sports, Recreational Equipment, Supplies and Accessories
	<b>50.00.00.00</b>	Food Beverage and Tobacco Products
	<b>51.00.00.00</b>	Drugs and Pharmaceutical Products
	<b>52.00.00.00</b>	Domestic Appliances, Supplies and Consumer Electronic Products
	<b>53.00.00.00</b>	Apparel, Luggage and Personal Care Products
	<b>54.00.00.00</b>	Timepieces, Jewelry and Gemstone Products
	<b>55.00.00.00</b>	Published Products
<b>56.00.00.00</b>	Furniture and Furnishings	
<b>60.00.00.00</b>	Musical Instruments, Games, Toys, Arts and Crafts, Educational Equipment, Materials, Accessories and Supplies	
<b>Services</b>	<b>70.00.00.00</b>	Farming, Fishing, Forestry and Wildlife Contracting Services
	<b>71.00.00.00</b>	Mining, oil and gas services
	<b>72.00.00.00</b>	Building and Facility Construction and Maintenance Services
	<b>73.00.00.00</b>	Industrial Production and Manufacturing Services
	<b>76.00.00.00</b>	Industrial Cleaning Services
	<b>77.00.00.00</b>	Environmental Services
	<b>78.00.00.00</b>	Transportation, Storage and Mail Services
	<b>80.00.00.00</b>	Management, Business Professionals and Administrative Services
	<b>81.00.00.00</b>	Engineering and Research and Technology Based Services
	<b>82.00.00.00</b>	Editorial, Design, Graphic and Fine Art Services

<i>Concept</i>	<i>Code</i>	<i>Segment description</i>
	<b>83.00.00.00</b>	Public Utilities and Public Sector Related Services
	<b>84.00.00.00</b>	Financial and Insurance Services
	<b>85.00.00.00</b>	Healthcare Services
	<b>86.00.00.00</b>	Education and Training Services
	<b>90.00.00.00</b>	Travel, Food, Lodging and Entertainment Services
	<b>91.00.00.00</b>	Personal and Domestic Services
	<b>92.00.00.00</b>	National Defense, Public Order, Security and Safety Services
	<b>93.00.00.00</b>	Politics and Civic Affairs Services
<b>Other</b>	<b>94.00.00.00</b>	Organizations and Clubs
	<b>95.00.00.00</b>	Land, Buildings, Structures and Thoroughfares

## **Annex 4. COSO Framework's 17 Principles of Effective Internal Control**

### **Control environment**

Principle 1: Demonstrate commitment to integrity and ethical values

Principle 2: Ensure that board exercises oversight responsibility

Principle 3: Establish structures, reporting lines, authorities, and responsibilities

Principle 4: Demonstrate commitment to a competent workforce

Principle 5: Hold people accountable

### **Risk assessment**

Principle 6: Specify appropriate objectives

Principle 7: Identify and analyze risks

Principle 8: Evaluate fraud risks

Principle 9: Identify and analyze important changes

### **Control activities**

Principle 10: Select and develop control activities

Principle 11: Select and develop technology controls

Principle 12: Deploy control activities through policies and procedures

Principle 13: Use relevant, quality information

### **Information and communication**

Principle 14: Communicate internal control information internally

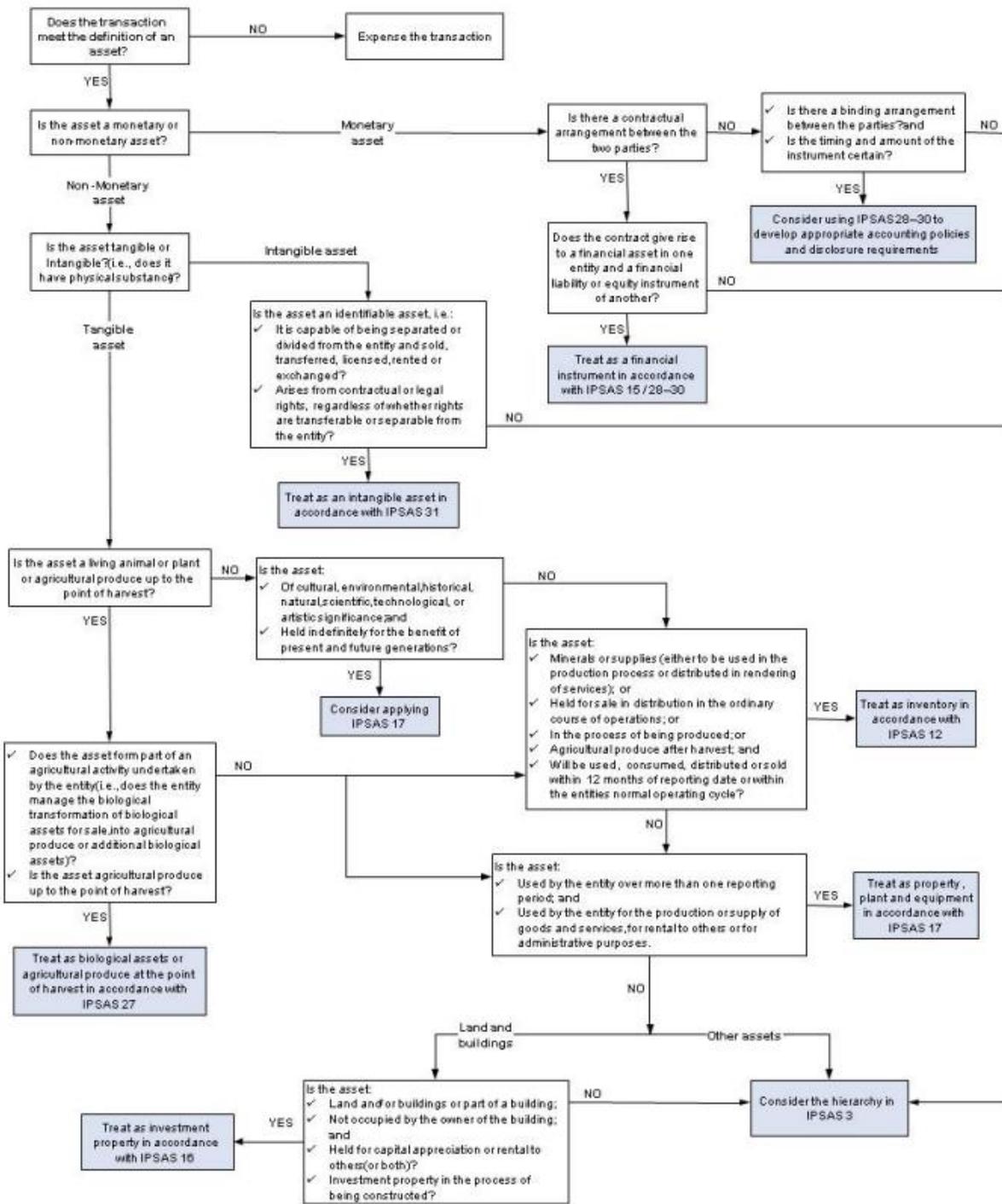
Principle 15: Communicate internal control information externally

### **Monitoring**

Principle 16: Perform ongoing and/or independent evaluations

Principle 17: Evaluate and report deficiencies

## Annex 5. Classification of Fixed Assets According to IPSASB



Source: IPSAS Study 14, Third Edition.

## Annex 6. Characteristics of the Main Types of Nonfinancial Assets

<i>Type of asset</i>	<i>Definition</i>	<i>Examples</i>	<i>IPSAS referenced</i>
<b>Inventories</b>	<p>Assets:</p> <ul style="list-style-type: none"> <li>✓ In the form of materials or supplies to be consumed in the production process;</li> <li>✓ In the form of materials or supplies to be consumed or distributed in the rendering of services;</li> <li>✓ Held for sale or distribution in the ordinary course of operations; or</li> <li>✓ In the process of production for sale or distribution.</li> </ul> <p>For the purposes of external reporting, entities may choose to classify inventories by:</p> <ul style="list-style-type: none"> <li>✓ Type or by the termination stage (e.g., raw materials, work in process, and finished products).</li> <li>✓ Current and non-current;</li> <li>✓ Inventories held for sale and not held for sale.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Ammunition</li> <li>✓ Consumable stores</li> <li>✓ Maintenance materials</li> <li>✓ Strategic stockpiles (e.g., energy reserves)</li> <li>✓ Stocks of unissued currency</li> <li>✓ Postal service supplies held for sale (e.g., stamps)</li> <li>✓ Work in progress</li> <li>✓ Land/property held for sale</li> </ul>	IPSAS 12
<b>Investment property</b>	<p>Investment property is property (land, or a building, part of a building, or both) held to earn rentals or for capital appreciation or both, rather than for:</p> <ul style="list-style-type: none"> <li>✓ Use in the production or supply of goods or services or for administrative purposes; or</li> <li>✓ Sale in the ordinary course of operations.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations.</li> <li>✓ A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis.</li> <li>✓ Properties that are being built or upgraded for future use as investment properties.</li> </ul>	IPSAS 16
<b>Property, plant, and equipment</b>	<p>Tangible items that:</p> <ul style="list-style-type: none"> <li>✓ Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and</li> <li>✓ Are expected to be used during more than one reporting period.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Land</li> <li>✓ Operational buildings</li> <li>✓ Roads</li> <li>✓ Machinery</li> <li>✓ Electricity transmission networks</li> <li>✓ Ships</li> <li>✓ Aircraft</li> <li>✓ Specialist military equipment</li> <li>✓ Motor vehicles</li> <li>✓ Furniture and fixtures</li> <li>✓ Office equipment</li> <li>✓ Oil rigs</li> </ul>	IPSAS 5, 11, and 17
<b>Infrastructure</b>	<p>Assets that usually display some or all of the following characteristics:</p> <ul style="list-style-type: none"> <li>✓ They are part of a system or network;</li> </ul>	<ul style="list-style-type: none"> <li>✓ Road networks, bridges, canals, and dikes</li> <li>✓ Sewer systems</li> </ul>	IPSAS 5, 11, and 17

<i>Type of asset</i>	<i>Definition</i>	<i>Examples</i>	<i>IPSAS referenced</i>
	<ul style="list-style-type: none"> <li>✓ They are specialized in nature and do not have alternative uses;</li> <li>✓ They are immovable; and</li> <li>✓ They may be subject to constraints on disposal.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Water and energy supply systems</li> <li>✓ Communication networks</li> <li>✓ Railways</li> </ul>	
<b>Defense and public security</b>	Assets used to carry out actions related to national defense, to the maintenance of the internal public order, and in the borders, coasts, and airspace, and actions related to the penal system.	<ul style="list-style-type: none"> <li>✓ Weapons</li> <li>✓ Police vehicles</li> <li>✓ Specialized military vehicles</li> <li>✓ Military vessels</li> <li>✓ Military aircraft</li> </ul>	IPSAS 5, 11, and 17
<b>Artistic and/or cultural heritage</b>	<p>Some assets are described as “heritage assets” because of their cultural, environmental, or historical significance. Heritage assets often display such characteristics as the following:</p> <ul style="list-style-type: none"> <li>✓ Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;</li> <li>✓ Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;</li> <li>✓ They are often irreplaceable, and their value may increase over time even if their physical condition deteriorates; and</li> <li>✓ It may be difficult to estimate their useful lives, which in some cases could be several hundred years.</li> </ul> <p>Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.</p>	<ul style="list-style-type: none"> <li>✓ Historical buildings and monuments</li> <li>✓ Archaeological sites</li> <li>✓ Conservation areas and nature reserves</li> <li>✓ Works of art</li> </ul>	IPSAS 17
<b>Biological assets</b>	<p>Living animals or plants whose management of biological transformation is managed directly by the human hand. Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.</p> <p>IPSAS 27 applies only to biological assets and agricultural products at the point of harvest. Agricultural produce is the harvested product of the entity’s biological assets.</p>	<ul style="list-style-type: none"> <li>✓ Agricultural or animal products and plants at the point of harvest, such as wool, milk, meat, fruit, or cereals</li> </ul>	IPSAS 27
<b>Natural resources</b>	<p>Assets of natural origin, not cultivated, that are obtained from nature directly, without the intervention of man for its production.</p> <p>They can be classified as (a) renewable natural resources, and (ii) nonrenewable natural resources.</p>	<ul style="list-style-type: none"> <li>✓ Water resources</li> <li>✓ Forests</li> <li>✓ Mining rights</li> <li>✓ Mineral reserves such as oil, natural gas, and similar nonrenewable resources</li> </ul>	Not applicable
	An identifiable asset that is nonmonetary and without physical appearance. An	<ul style="list-style-type: none"> <li>✓ Software purchased.</li> </ul>	IPSAS 31

<i>Type of asset</i>	<i>Definition</i>	<i>Examples</i>	<i>IPSAS referenced</i>
<b>Intangible assets</b>	<p>intangible asset must have a useful life of more than one year.</p> <p>If an item does not meet the definition of an intangible asset under IPSAS 31—identifiability, control over a resource, and existence of future economic benefits or service potential—the necessary expenditure to acquire or generate it internally is recognized as an expense when it is incurred.</p> <p>An asset is identifiable if it either:</p> <ul style="list-style-type: none"> <li>✓ Is separable—that is, it is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so; or</li> <li>✓ Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Databases and software for the management of databases created and maintained by governmental entities.</li> <li>✓ Rights acquired under license agreements for films, videos, plays, and manuscripts, in entities dedicated to broadcasting or television, tourism, arts and culture.</li> <li>✓ Capitalized research and development costs.</li> <li>✓ Acquired rights of exploitation or use, such as rights or licenses to extract mineral resources, access rights, rights to operate a radioelectric spectrum, import and export licenses, airport landing fees, fishing quotas.</li> <li>✓ Patents and copyrights acquired that are maintained by governmental entities.</li> <li>✓ Agreements with other entities that grant them the right to provide public services.</li> <li>✓ Assets for service concessions.</li> <li>✓ Trademarks and intellectual property.</li> </ul>	

## Annex 7. Accounting Activities

### Implementation Plan for Asset Recognition

1. The effort required to recognize assets and prepare opening balances depends primarily on the current state of progress, as well as the availability of information on assets to be recognized. The implementation plan must address at least the following issues:
  - (a) Scope of necessary tasks, including development of accounting methodologies, asset identification, and valuation, as well as the development of asset management policies and procedures. Asset identification and valuation are more difficult when there are no records of existing assets.
  - (b) Assignment of responsible staff.
  - (c) Milestones and deadlines.
  - (d) Mechanisms for solving identified problems and issues, some of which may be outside the accounting realm.
  
2. The following are the general steps that should be followed as part of the asset recognition process:
  - (a) Document all assets owned by the entity.
  - (b) Evaluate the accuracy and completeness of existing information.
  - (c) Determine the asset categories to be used in the chart of accounts and the financial statements.
  - (d) Establish accounting policies for each category in accordance with applicable regulations.
  - (e) Determine precise opening balances for each asset.
  
3. Box 7-1 shows some of the tasks associated with the recognition and evaluation of assets. Although the steps are shown sequentially, some could and should be taken simultaneously.

#### **Box 7-1. Assets Recognition and Evaluation Process**

<b>Step 1. Develop policies</b>
<ul style="list-style-type: none"> <li>• Identify authoritative standards and regulations in accordance with IPSAS 3, including definitions and recognition criteria.</li> <li>• Identify asset classes and components.</li> <li>• Develop policies for asset componentization.</li> <li>• Develop capitalization thresholds for each asset class.</li> <li>• Identify measurement policies (including revaluation policy, if applicable) for each asset class.</li> <li>• Develop policies for expensing or capitalizing subsequent expenditure on upgrades, improvements, and repairs and maintenance</li> <li>• Develop depreciation policies, estimate asset life, and select a depreciation method for each asset class.</li> <li>• Develop impairment policies.</li> </ul>
<b>Step 2. Development and implementation of systems</b>
<ul style="list-style-type: none"> <li>• Identify information requirements associated with these policies and other related information desired for internal management purposes.</li> <li>• Plan timeframes for the collection and verification of data and the development and implementation of systems. This may require external assistance and professional experience.</li> </ul>
<b>Step 3. Develop asset register and determine opening balances</b>
<ul style="list-style-type: none"> <li>• Identify assets.</li> <li>• Develop methods of obtaining, and obtain historic cost information or valuations.</li> <li>• Validate data and resolve issues.</li> </ul>

#### **Step 4. Ongoing matters**

- Maintain systems, including a record of all asset movements (e.g., purchases, sales, revaluation changes, impairment, write-offs) and information required for additional disclosures.
- Develop processes to evaluate residual values, asset life, and depreciation methods.
- Calculate depreciation for each accounting period.
- Perform regular revaluations (if applicable).
- Perform regular impairment reviews.

*Source: IPSASB Study 14, Third Edition, 2011.*

4. International experience in the recognition of fixed assets has yielded the following lessons:
- (a) Start early; it is essential to have enough time for implementation.
  - (b) Obtain the support of all the actors involved, both internal and external.
  - (c) Work closely with internal and external auditors.
  - (d) Be prepared to make some mistakes.
  - (e) Be pragmatic and practical, especially when adopting IPSAS for the first time, paying attention to the cost-benefit criterion in generating financial information.
  - (f) Remember that the implementation process is evolutionary.
  - (g) Having integrated systems avoids a number of problems when conducting audits.
  - (h) Ensure the existence of a solid audit trail that includes documentation of estimates and assumptions.

#### **General Measurement Criteria**

5. In accordance with IPSAS 17, a PPE item or similar fixed asset is recognized as an asset only if (a) it is probable that economic benefits or service potential associated with the asset will flow to the entity, and (b) the cost or fair value of the asset can be measured reliably.
6. For purposes of the valuation or measurement of assets that meet the applicable recognition criteria, this study classifies the measurement rules into two groups (see also Annex 8): (a) initial measurement, which includes initial adoption and subsequent periods, and (b) subsequent measurement.

#### **Initial measurement**

7. PPE or other similar assets—such as inventories, investment property, infrastructure works, and intangible assets—are often measured at cost at the time of initial recognition, according to IPSAS 17. Assets acquired through a non-exchange transaction are initially measured at fair value. At the same time, according to IPSAS 33 – First-time Adoption of Accrual Basis IPSASs, an entity adopting IPSASs for the first time may choose to:
  - (a) Measure the following assets at fair value when reliable information on the cost of assets is not available, and use that fair value as the attributed cost for them: (i) inventories, (ii) investment properties, (iii) PPE, and (iv) intangible assets.
  - (b) Use the revaluation amount of PPE according to its previous accounting basis as attributed cost if the revaluation was comparable to fair value and cost or depreciated cost.
8. The following cost components make up the initial cost:

- (a) The acquisition price, including import duties and non-recoverable indirect taxes levied on the acquisition, after deducting any discount or price reduction.
- (b) All costs directly attributable to the location of the asset, in the place and under the conditions necessary for it to operate in the manner provided by management.
- (c) The initial estimate of the costs of dismantling and withdrawing the asset. Additionally, the rehabilitation of the place where it is based and the obligation incurred by an entity when it acquires the asset or after having used that asset during a certain period for purposes other than the production of inventories during such period.

9. Examples of directly attributable costs:

- (a) Costs of preparing the physical location.
- (b) Costs of initial delivery and of manipulation or subsequent transport.
- (c) Installation and assembly costs.
- (d) Costs to verify that the asset functions properly, after deducting the net proceeds from the sale of any items produced during the asset's installation and set-up process (such as samples produced while testing the equipment).
- (e) Professional fees and employee costs arising directly from the construction or acquisition of an asset item.

10. Examples of costs that are not part of the cost of a PPE asset:

- (a) Costs of opening a new production facility.
- (b) Costs of introducing a new product or service (including costs of advertising and promotional activities).
- (c) Costs of opening the business in a new location or directing it to a new customer segment (including staff training costs).
- (d) Administrative costs and other general indirect costs.

**Measurement subsequent to recognition**

11. According to IPSAS 17, subsequent measurement of all PPE or similar assets is carried out according to the cost or revaluation model, as follows:

- (a) In the cost model, an asset item is recorded at historical cost (as explained above), subtracting the accumulated depreciation and impairment losses.
- (b) In the revaluation model, an asset item whose fair value can be reliably measured is accounted for at its revalued value—that is, its fair value at the time of revaluation less the subsequent accumulated depreciation and impairment losses. Elements belonging to the same asset class should be revalued simultaneously to avoid selective revaluations and the inclusion of amounts in financial statements that mix costs and values from different dates.

12. When the value of an asset class increases as a result of a revaluation, that increase must be credited directly to a revaluation surplus account in the equity. In the income statement, however, the increase is recognized to the extent that it implies a reversal of a devaluation of the same asset class, previously recognized in the income statement (surplus or deficit). If the value of an asset class is reduced as a result of a revaluation, that decrease should be recognized directly in the income statement for the year. The decrease can be charged against the

revaluation surplus to the extent that it does not exceed the balance of that account with respect to that class of assets.

13. Revaluations should be made with sufficient regularity to ensure that the current value does not differ significantly from what could be determined using the fair value at the reporting date. The frequency of revaluations depends on the changes in the fair values of the assets. When the fair value of the revalued asset differs significantly from its current value, a further revaluation is required. Some asset items experience significant and volatile changes in their fair value, requiring annual revaluations; in other cases, revaluations every three to five years may be sufficient.

#### **Fair value**

14. Paragraph 12 of IPSAS 17 defines fair value as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.” In this context, fair value is usually the market value, which is determined by an appraiser or evaluator with recognized and significant professional qualifications. For many assets, fair value is readily determinable by reference to prices established in an active market. However, for some types of public sector assets, the absence of market transactions makes it difficult to establish their market value.
15. When there is no evidence available to determine the market value of an asset, the fair value may be established by referring to the purchase price of other assets with similar characteristics and location, and using the depreciated replacement cost, rehabilitation cost, or the service unit method, under the terms of IPSAS 21:
  - (a) The depreciated replacement cost of an asset may be established by reference to the market purchase price of the components used to produce the asset or the indexed price of a similar asset, based on its price for an earlier period.
  - (b) The cost of rehabilitation consists of the cost of rehabilitating the service potential of an asset, at the level it had before the impairment of its value.
  - (c) The present value of an asset’s remaining service potential is determined by reducing the current cost of the remaining service potential of the asset before impairment, to match with the reduction in the number of service units that are expected of the asset in its deteriorated state.

#### **Use of appraiser or evaluator**

16. The use of an appraiser or evaluator to determine the fair value of certain assets may be particularly helpful during the initial measurement when adopting IPSAS for the first time. Using a qualified external appraiser is generally recommended to ensure reliable and independent valuations; however, because of the high cost of external valuations, entities may choose to use internal staff or national valuation agencies to value certain types of assets. When using government appraisers, it is important to ensure that they are adequately trained in the application of national and international best practices.

17. In the absence of national valuation standards, an entity can use the International Valuation Standards published by the International Valuation Standards Board. These standards identify the concepts and principles that are applicable to all types of valuations.
18. The IPSASB Study 14 recommends the following steps for the valuation of assets:
- (a) Formulate appropriate valuation policies that include the valuation method for each class of asset.
  - (b) Decide whether or not assets of each class should be valued.
  - (c) Prepare instructions and collect information that may be required by appraisers.
  - (d) Select the appraisers.
  - (e) Conduct a management review of the conducted valuation.
19. The IPSASB recommends the following when preparing instructions for appraisers:
- (a) Require appraisers to validate the completeness of the list of assets at a given site.
  - (b) Require appraisers to provide a value and an estimated useful life for each asset.
  - (c) Use a relatively low capitalization threshold for valuations and apply this threshold to gross values (as opposed to net values).
  - (d) Be explicit about whether valuations should include or exclude relevant taxes or duties.
  - (e) Indicate the professional valuation guidelines that may apply.
20. Finally, it is important to remember that, even though valuations are performed by external appraisers, the accuracy of results is the responsibility of management. Therefore, before valuation results are entered in the accounting and administrative records, management should review those results to determine their integrity and rationale, documenting any problems identified and actions taken. It should also be noted that reconciliation of the administrative, accounting, and valuation records helps to ensure their completeness and consistency.

### **Recognition of depreciation**

21. According IPSAS 17, depreciation is the systematic allocation of the depreciable amount of an asset over its useful life, whereas the depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Recognizing depreciation and amortization helps to understand the impact and cost of the use of assets in delivering services in order to:
- (a) Plan future financing requirements associated with asset maintenance and replacement.
  - (b) Recognize the total costs related to the use of assets, including the depreciation of physical assets and the amortization of intangible assets generated by specific activities.
  - (c) Evaluate the most efficient way to produce goods and services, and to manage the resources.
  - (d) Calculate service fees and determine the appropriateness of cost recovery policies.
22. The depreciation charge for a period is usually recognized in the result (surplus or deficit) of the year. However, at times, the future economic benefits or service potential embodied in an asset is absorbed in the production of another asset, and the depreciation charge becomes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of a PPE element used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31 – Intangible Assets.

23. Each part of a PPE asset that has a significant cost in relation to the total cost of the asset is depreciated separately. For example, in most road systems it would be mandatory to separately depreciate pavements, structures, edges and canals, footpaths, bridges, and lighting. Similarly, it might be appropriate to separately depreciate the structure and engines of an aircraft, whether such engines are owned or leased.
24. The depreciation of an asset generally begins when the asset is available for use—that is, when it is in the location and under the conditions necessary to operate in the manner provided by management. Similarly, the depreciation of an asset ceases when the asset is withdrawn. It does not cease when the asset is unused or retired from active use and held for disposal, unless it is fully depreciated. However, if use-based depreciation methods are used (e.g., the units of production method), then the depreciation charge could be null when no production activity takes place.
25. As was stated, the depreciable amount of an asset is determined after deducting its residual value. However, in practice, the residual value of an asset, which may also change over time, is often insignificant and therefore irrelevant in calculating the depreciable amount. Moreover, some public sector assets—particularly infrastructure assets—may have no residual value.
26. According to IPSAS 17, the residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, less the estimated costs of disposal if the asset were already of the age and in the condition expected at the end of its useful life. The useful life of an asset is defined as (a) the period over which an asset is expected to be available for use by an entity, or (b) the number of production or similar units the entity can expect to obtain from the asset. However, the useful life of an asset may vary according to the nature of the asset, the purpose for which it is used, the level of use, the amount of maintenance, and climatic conditions. For example, the useful life of buildings is often shorter in tropical areas than in temperate climates, because of the effect of high humidity. Therefore, estimating the useful life of an asset is a matter of criterion drawing on the entity's experience with similar assets.
27. By using an asset, the entity reduces the future economic benefits or service potential inherent in it. Other factors, such as technical or commercial obsolescence and deterioration resulting from the lack of use of the good, could also bring about a decrease in the amount of economic benefits or service potential that could have been obtained from the asset. Consequently, to determine the useful life of an asset, the following factors should be taken into account:
- (a) The intended use of the asset in terms of the capacity or physical product expected from it.
  - (b) Expected physical wear and tear, which will depend on operating factors: the number of shifts in which the asset will be used, the repair and maintenance program, and the degree of care and preservation while the asset is not being used.
  - (c) The technical or commercial obsolescence of the asset resulting from changes or improvements in production or changes in the market demand for the products or services that are obtained as a result of the asset.
  - (d) Legal limits or similar restrictions on the use of the asset, such as the expiration dates of service contracts related to the asset.

28. Both the residual value and the useful life of an asset should be reviewed at least annually, when the financial statements are presented. If the expectations differ from the previous estimates, the changes are accounted for as a change in an accounting estimate, in accordance with IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.
29. The chosen depreciation method depends largely on how the entity expects to consume the future economic benefits or service potential of its assets. It should be applied uniformly from period to period and reviewed at least annually. If there is a change in the expected pattern of consumption of such economic benefits or service potential, the method may be changed; such a change is accounted for as a change in an accounting estimate, in accordance with IPSAS 3. The following are some of the most common depreciation methods:
- (a) **Linear depreciation:** a constant charge over the useful life of the asset, as long as the residual value does not change.
  - (b) **Decreasing depreciation,** which results in a charge that will decrease over the useful life of the asset.
  - (c) **The method of production units,** which yields a charge based on the expected use or production.

### **Recognition of impairment**

30. According to IPSAS 21 – Impairment of Non-cash-generating Assets and IPSAS 26 – Impairment of Cash-generating Assets, impairment is “a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation.” To determine whether the terms of IPSAS 21 or 26 apply, the following steps should be taken annually (see also Annex 10):
- (a) Identify asset classes within the scope of IPSAS 21 or IPSAS 26.
  - (b) Classify assets as cash generators or non-cash generators. Assets held for the primary purpose of generating an economic benefit are classified as cash-generating assets; all others are classified as non-cash generators.
  - (c) Determine the cash-generating units to which the cash-generating assets belong and, if necessary, determine the cash-generating units to which the non-cash-generating assets need to be allocated.
  - (d) Review assets to detect evidence of impairment (or evidence that impairment of the former value has been reversed) by considering at least the following potential signs of impairment:
    - (i) Significant changes in the demand or need for services provided by the asset.
    - (ii) Significant changes that occur or are expected to occur in the technological or legal environment or government policies, where the entity operates.
    - (iii) Evidence of physical damage to an asset.
    - (iv) Significant changes in the extent to which an asset is used or expected to be used.
    - (v) A decision to cease construction of an asset before it is complete or can be used, or a decision to resume the construction of an asset that had previously been discontinued.
    - (vi) Evidence from internal reports indicating that the service performance of an asset is or will be very different from that previously expected.

- (e) If there is any indication of impairment, determine the assets' recoverable amounts and/or recoverable service amounts to determine whether to recognize an impairment loss of value (or whether or not an impairment loss recognized in an earlier accounting period should be reversed), as follows:
- (i) To check the impairment of a non-cash asset, its recoverable service amount is estimated and compared to its carrying amount. The following main values are required to corroborate impairment:
    - The carrying amount, also known as book value, is the value under which an asset is recorded in the accounting records.
    - The recoverable service amount is the greater of a non-cash-generating asset's fair value less costs to sell and its value in use.
    - The fair value less costs to sell is the amount that can be obtained from the sale of an asset in a mutually independent transaction between interested and informed parties, less disposal costs.
    - The value in use of a non-cash-generating asset is the present value of the remaining service potential of the asset.
    - The present value of the remaining service potential of the asset is determined by any of the following methods: (i) depreciated replacement cost method, (ii) rehabilitation cost method, or (iii) method of service units.
  - (ii) The impairment of a cash-generating asset is demonstrated by estimating its recoverable amount and comparing that to its carrying amount.
    - The recoverable amount of an asset or a cash-generating unit is defined as the greater of its fair value less costs to sell and its value in use.
    - The value in use of a cash-generating asset is the present value of the estimated future cash flows that are expected to arise from the continued use of the asset and its disposal at the end of its useful life. The estimation of the value in use of an asset entails the following steps: (a) estimating the future inflows and outflows of cash to be derived from the continued use of the asset and its sale or disposal by another final method; and (b) applying the appropriate discount rate to these future cash flows.The impairment of assets accounted for at the revalued amounts is not reviewed or verified.
- (f) Consider whether it is necessary to review and adjust the remaining useful life, the depreciation method (amortization), or the residual value for the asset.
- (g) Conduct checks to detect the impairment of intangible assets that have an indefinite useful life or intangible assets that are not yet available for use, by determining their recoverable amounts or their recoverable service amounts.
- (h) Collect the data required to comply with the information requirements.
- (i) Document the asset review for evidence of impairment, the checks carried out, and the information collected in support of the information requirements as part of the supporting documents of the financial statements, so that entity auditors can analyze them.

31. In short, an asset is impaired when its carrying amount exceeds its recoverable amount or the recoverable service amount. If there is no reason to believe that an asset's value in use significantly exceeds its fair value less costs to sell, the asset is recognized at its recoverable amount. If the recoverable amount of a cash-generating asset or the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset

should be reduced to the recoverable or recoverable service amount. The amount of this reduction is recognized as an impairment loss in the statement of financial performance. When the recoverable amount of an asset has increased since the recognition of the last impairment loss and certain conditions are met, the impairment loss is reversed and the carrying amount of the asset is increased up to its recoverable amount. The amount of the reversal is recognized immediately in the statement of financial performance.

### **Componentization**

32. Some components of assets can be recognized as independent assets when they are significant and have useful lives that are different from those of the PPE elements to which they relate. For example, components of a water system may include pipes, reservoirs, the pumping station, and service connections.
33. Provided that the recognition criteria for an asset are met, an entity may decide whether it is appropriate to recognize the components of an asset as independent assets, accounting for their replacement or renewal as for an independent asset. The recognition of components is influenced by the following factors:
  - (a) The extent to which the component is a significant part of the asset.
  - (b) The threshold for presentation of financial information.
  - (c) The relative importance of the recognition (for example, whether individual recognition of a component will affect depreciation).
  - (d) The extent to which the component performs an independent function.
  - (e) The extent to which the useful life of the component differs from that of other components.
34. As part of the recognizing the “network” or system assets, an entity needs to:
  - (a) Identify the appropriate components of the network or system.
  - (b) Check the age and condition of the components.
  - (c) Evaluate the remaining useful life of existing asset components.
  - (d) Identify characteristics of the component—for example, the type of surface or method of construction for a road.
  - (e) Identify the level of use to which particular parts of the system or network are subject.
  - (f) Establish a method to distinguish between maintenance and upgrades or improvements for that component.
  - (g) Determine the valuation of assets for inclusion in financial records.
  - (h) Calculate the amount of impairment in the service potential (depreciation) for the financial period.
  - (i) Link the underlying data to asset management plans and link the information of the asset management plans with the financial records and financial statements by reconciling administrative and accounting information.

### **Asset Recognition Thresholds**

35. To reduce the total number of assets that are subject to recognition and controls, it is recommended that entities determine capitalization thresholds—that is, a value above which assets are recognized, capitalized, and included in the statement of financial position or balance

sheet (see Annex 9). Assets below the relevant threshold are reflected as expenses in the period in which they were purchased.

36. Different thresholds can be set for different asset classes, as long as these definitions add value to the users of financial statements. Internationally, an average threshold of US\$500 is often used; however, each entity or government can define thresholds that best respond to the national context and their institutional needs. Different thresholds may be appropriate for different entities; however, for consolidation purposes, it is recommended that the governing entity establish a single threshold (or set of thresholds) for all controlled entities.
37. Entities or governments could determine that certain asset classes—for example, land—are recorded whether or not their book value is below the capitalization threshold. There are also some assets, such as chairs or tables (also known as group assets), whose acquisition value per unit is lower than the capitalization threshold. However, if such assets are relatively important as a group, they can be reported as a single asset with a combined value. An entity needs to use common sense in deciding how to apply the threshold for this type of asset in its financial reporting.
38. Finally, an entity may choose to register, (and bar-code), certain assets administratively, but not recognize them as assets from an accounting perspective. This type of control and recording may be appropriate for “portable” items such as electronic equipment—video recorders, scanners, fax machines, telephones, and the like.

### **Capitalization of upgrades and improvements**

39. According to IPSAS 17, subsequent spending on PPE are recognized as an addition to an asset only when they improve the condition of the asset (in terms of its total useful life, rather than its most recently evaluated performance standard). The capitalization of upgrades and improvements could also be defined in terms of a monetary threshold or other type of threshold—not necessarily the same threshold used for the initial capitalization of the asset (see Annex 11). Any asset or asset component that is replaced as part of an upgrade or improvement program must be removed from the asset record.

### **Accounting records**

40. An asset registry is a complete, accurate, updated, and regularly validated list of assets held by an entity. The registry serves mainly to register the opening and closing balances of different types of assets and to support the figures reported in the financial statements. The asset registry, combined with the prior administrative record of fixed assets, is a fundamental part of an asset management information system. The size and complexity of an asset registry depend on the number and type of assets held by the entity, and the volume of purchases, transfers, and provisions made in a given period.
41. The format of an asset registry can range from a manual document or a spreadsheet to computerized systems that interconnect directly with the general ledger. An asset registry does not have to be a single computerized document or system, however, it should be a series of interconnected subsystems.

42. Key issues in the design and development of an asset registry are the information it must contain, and whether it should be integrated within the general ledger or other systems. For each asset, it must include, as appropriate, at least the following details:

- (a) Name and physical description of the asset.
- (b) Serial number.
- (c) Date of acquisition (purchase, creation, donation, or confiscation).
- (d) Location and physical condition of the asset.
- (e) Person or position responsible for the custody and maintenance of the asset.
- (f) Expected, original, overdue, and remaining useful life and deadline for replacement.
- (g) Date of last revision of the useful life of the asset.
- (h) Date of the last impairment test and any evidence of impairment.
- (i) Valuation or historical cost (initially, if known, and, subsequently, as valuations are carried out).
- (j) Method and rate of depreciation.

43. The following are some of the characteristics of a good asset registry:

- (a) Asset information are updated as transactions and events occur.
- (b) Information is reconciled with the acquisition data, administrative records and/or any other subsidiary system, and the general ledger.
- (c) Information is available to asset managers at the level of detail they require, preferably online or in real time.
- (d) Information is structured by assets classes.

44. The following are possible sources of data for the recognition of assets that have no records:

- (a) Existing asset management systems and other records.
- (b) Insurance policies.
- (c) Tax assessment records.

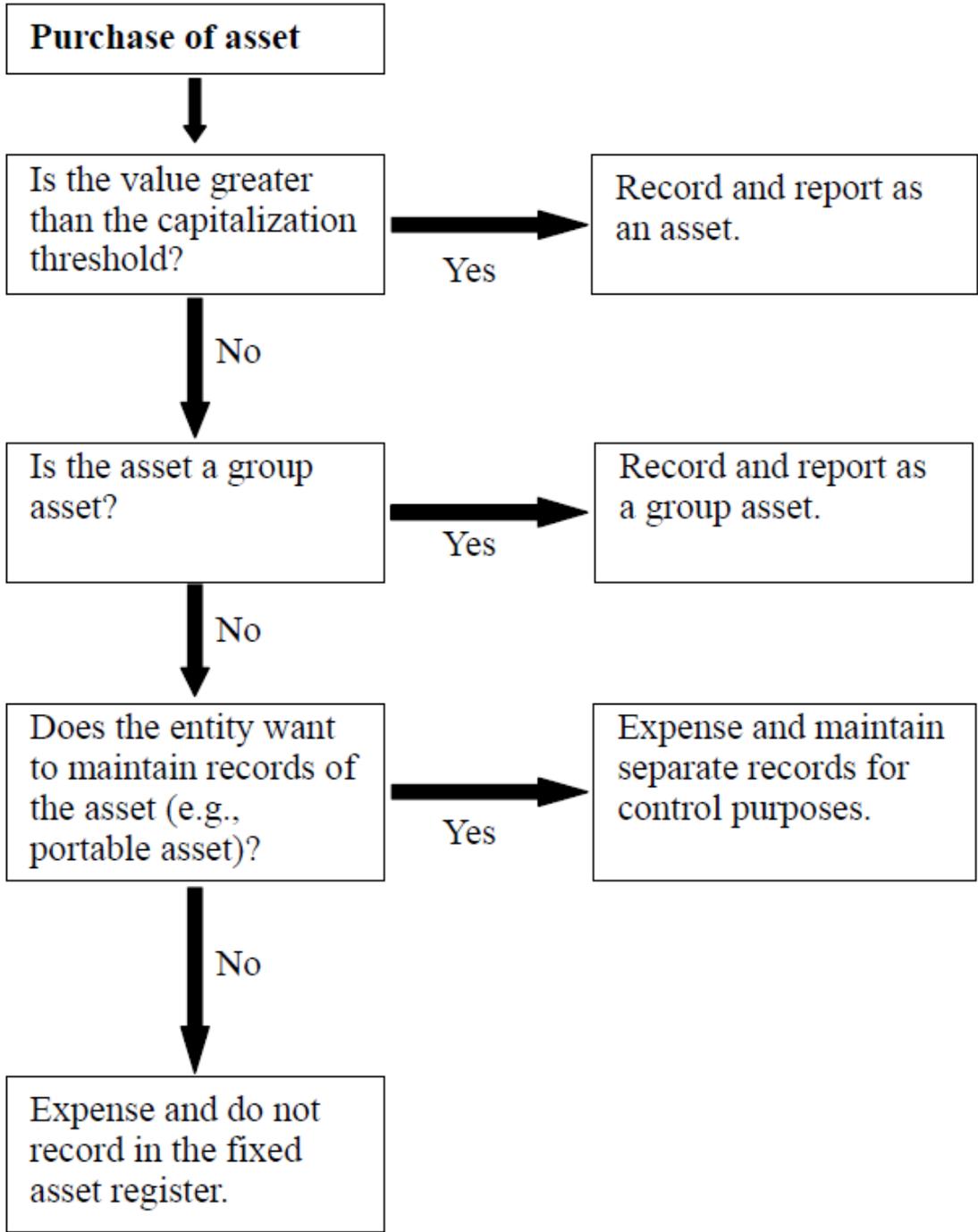
45. However, it is important to remember that such records are generally not an integral part of an accounting system and are not systematically updated, so they may contain incomplete or inaccurate information. Thus it is essential to routinely control the accuracy and completeness of these records, especially if they are used as a source for the accounting records.

## Annex 8. Measurement of Fixed Assets

Asset category	Initial measurement		Subsequent measurement
	First-time adoption	Subsequent periods	
<b>Inventories</b>	Deemed cost – actual cost where historical records are available, or estimated fair value (net realizable value/current replacement cost) ( <i>applied retrospectively</i> ).	Cost or fair value if acquired in a non-exchange transaction.	The lower value between cost or net realizable value/current replacement cost.
<b>Investment property</b>	Deemed cost – actual cost where historical records are available, or estimated fair value ( <i>applied retrospectively apart from impairment of non-cash-generating assets</i> ).	Cost or fair value if acquired in a non-exchange transaction.	Cost less accumulated depreciation and impairment losses, or fair value.
<b>Property, plant, and equipment, including infrastructure works and specialized military equipment</b>	Deemed cost – actual cost where historical records are available, or estimated fair value ( <i>applied retrospectively apart from impairment of non-cash-generating assets</i> ).	Cost or fair value if acquired in a non-exchange transaction.	Cost model (cost less accumulated depreciation and impairment losses) or revaluation model (fair value at date of revaluation less subsequent accumulated depreciation and impairment losses).
<b>Biological assets</b>	Fair value less costs to sell. If fair value cannot be measured reliably, cost ( <i>applied prospectively</i> ).	Fair value less costs to sell. If fair value cannot be measured reliably, cost.	Fair value less costs to sell. If cost is used at initial recognition, and the fair value is still not reliably measurable, measure at cost less any accumulated depreciation and impairment losses.
<b>Agricultural produce</b>	Fair value less cost to sell, at the point of harvest ( <i>applied prospectively</i> ).	Fair value less cost to sell, at the point of harvest.	Generally accounted for as inventory – refer to IPSAS 12.
<b>Intangible assets</b>	Deemed cost – actual cost where historical records are available, or estimated fair value ( <i>applied retrospectively apart from impairment of non-cash-generating assets</i> ).	Cost or fair value if acquired in a non-exchange transaction	Cost less accumulated amortization and impairment losses, or fair value at date of revaluation less subsequent accumulated amortization and impairment losses
<b>Natural resources</b>	IPSAS currently does not provide specific measurement or recognition rules for this type of asset. However, there is a draft of a specific IPSAS to address this issue.		
<b>Artistic and/or cultural heritage</b>	The provisions of IPSAS 17 do not require the recognition of assets of historical, artistic, or cultural heritage. When an entity recognizes this type of asset, it is not necessary to apply the measurement requirements of this standard. However, when the entity recognizes and measures historical, artistic, or cultural heritage assets, it discloses the information in accordance with IPSAS 17. Some historical and/or cultural heritage assets have future economic benefits or service potential other than their historical and/or cultural value; for example, a historic art building can be used for offices. Such assets can be recognized and measured on the same basis as other items belonging to PPE.		

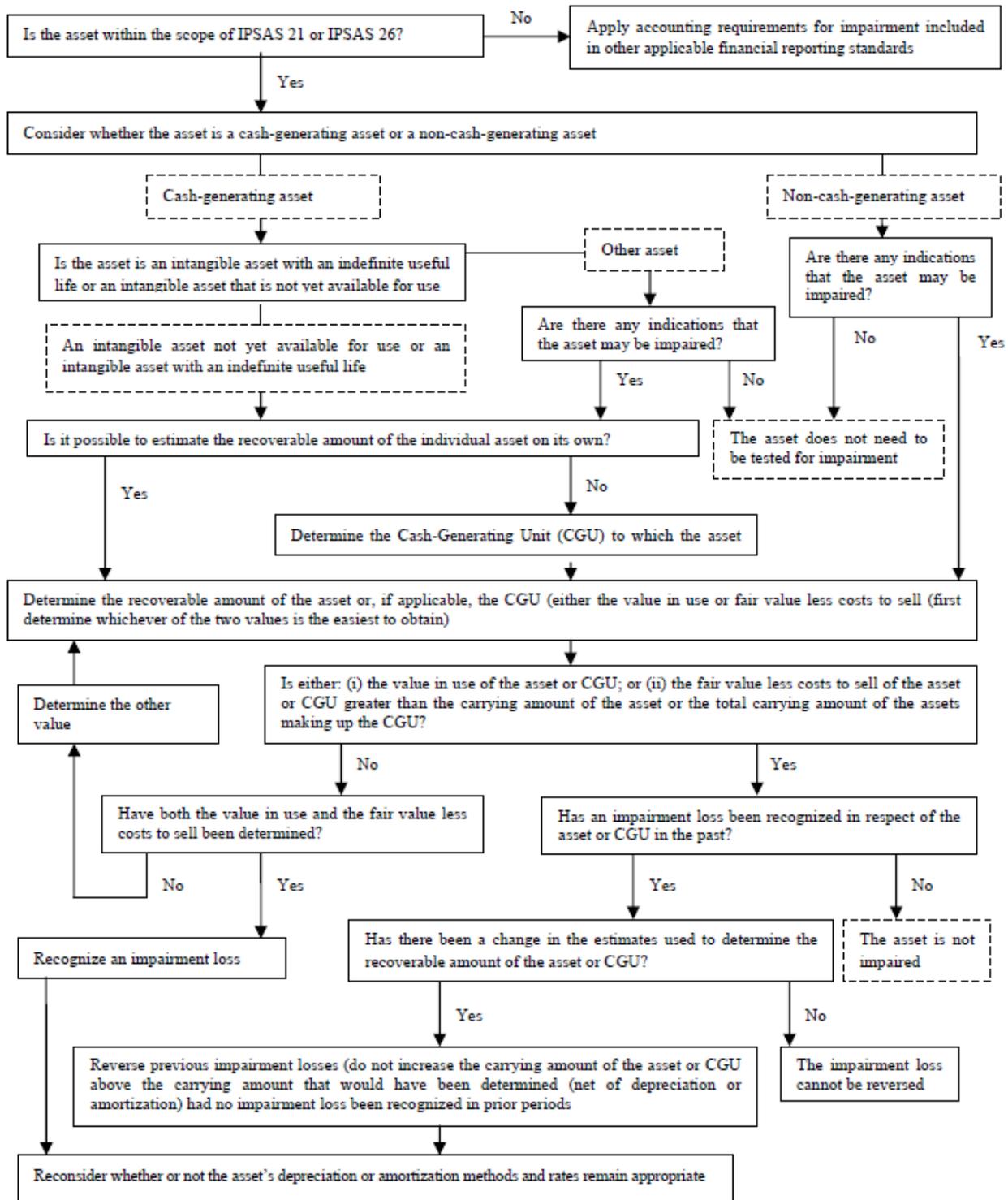
Source: IPSAS Study 14, Third Edition.

**Annex 9. Asset Recognition Thresholds**



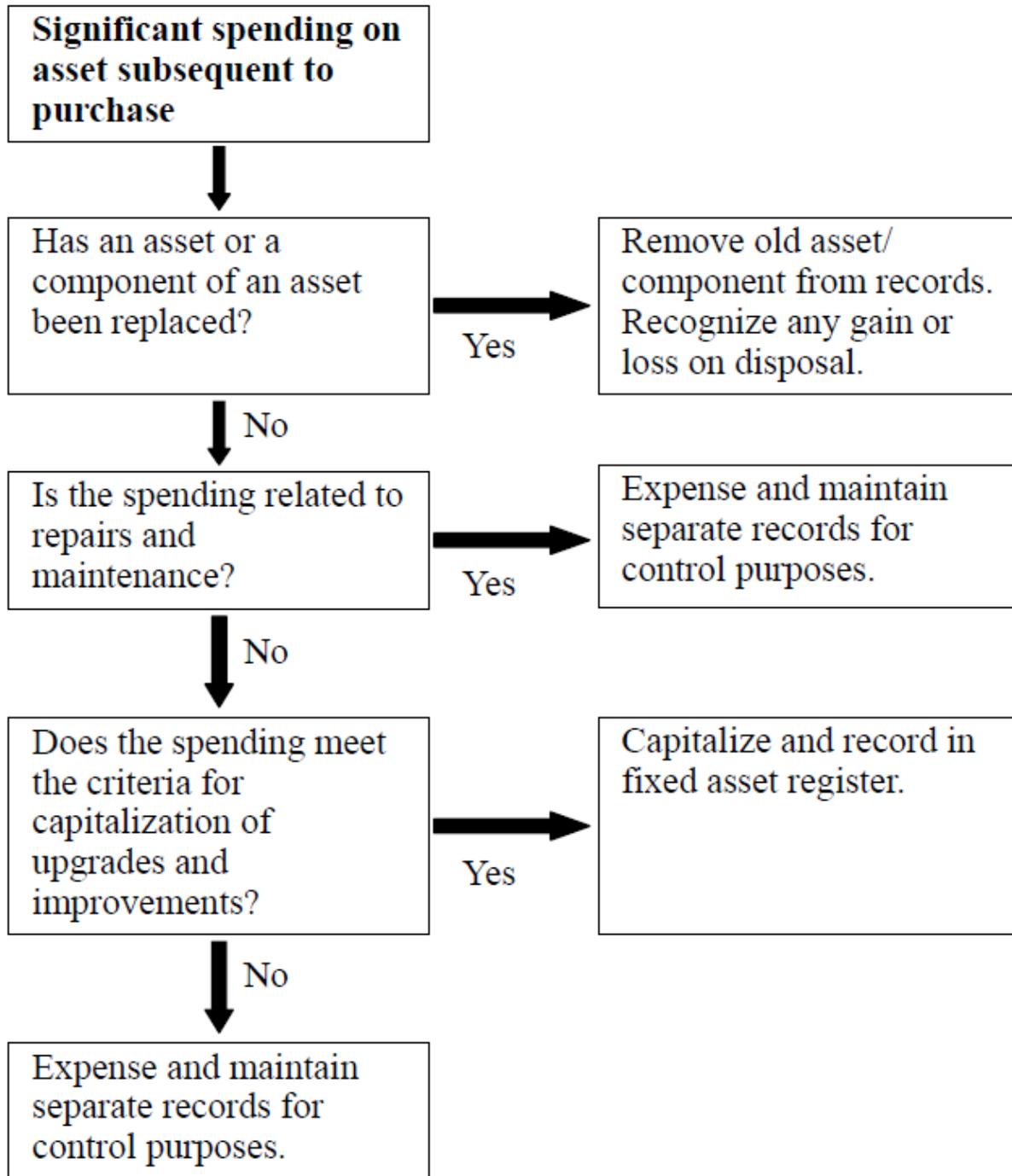
Source: IPSAS Study 14 Third Edition.

## Annex 10. Decision Tree: Impairment of Assets



Source: IPSAS Study 14 Third Edition.

## Annex 11. Capitalization of Upgrades and Improvement



Source: IPSAS Study 14 Third Edition.

## Annex 12. Qualitative Characteristics of information<sup>9</sup>

### Relevance

1. Financial and nonfinancial information is relevant if it can make a difference in achieving the objectives of financial reporting. Financial and nonfinancial information can make a difference when it has confirmatory value, predictive value, or both. It can make a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
2. Financial and nonfinancial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information is relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative, and other requirements.
3. GPFs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future-oriented information has predictive value and is relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.
4. The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFs.

### Faithful Representation

5. To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity, or circumstance—which is not necessarily always the same as its legal form.
6. In practice, it may not be possible to know or confirm whether information presented in GPFs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as possible.
7. An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFs. For example, a complete depiction of the item “plant and equipment” in GPFs includes a numeric

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<sup>9</sup> Source: IPSASB Conceptual Framework, 2016.

representation of the aggregate amount of plant and equipment along with other quantitative, descriptive, and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might affect their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and nonfinancial information and information about the achievement of service delivery objectives and outcomes included in GPFRs needs to be presented with the key assumptions that underlie that information and any explanations that are necessary to ensure that its depiction is complete and useful to users.

8. Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and nonfinancial information is not made with the intention of attaining a predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.
9. Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require that information in GPFRs be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.
10. The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Therefore, information in GPFRs often includes estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. It is important to exercise caution when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and nonfinancial information to faithfully represent economic and other phenomena.
11. Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, the volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program. In such cases, the estimate is free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

## **Understandability**

12. Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to users' needs and knowledge base, and to the nature of the information presented. For example, explanations of financial and nonfinancial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language and presented in a manner that is readily understandable by users.

Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

13. Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to understand them. All efforts should be made to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

### **Timeliness**

14. Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
15. Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, it may not be possible to determine, until a future time, the outcome and effects of some service delivery programs—for example, programs to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase the literacy levels of certain age groups.

### **Comparability**

16. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.
17. Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal; consistency helps in achieving that goal. In some cases, an entity may revise the accounting principles or policies it uses to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
18. Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An overemphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.
19. Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets, and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and future plans is necessary for

accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- ✓ Prospective financial and nonfinancial information previously presented for that reporting period or reporting date;
- ✓ Similar information about the same entity for some other period or some other point in time; and
- ✓ Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

20. Consistent application of accounting principles, policies, and basis of preparation to prospective financial and nonfinancial information and actual outcomes enhances the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

### **Verifiability**

21. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied to explanatory information and prospective financial and nonfinancial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that this information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- ✓ The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- ✓ An appropriate recognition, measurement, or representation method has been applied without material error or bias.

22. To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

23. Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology—for example, verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

24. The quality of verifiability or supportability is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more users will understand that it faithfully represents the economic and other phenomena that it purports to represent.

25. GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the

reporting period, and (c) prospective financial and nonfinancial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

26. To help assure users that prospective financial and nonfinancial quantitative information and explanations included in GPFRs faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies used in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compiling, measuring, representing, and interpreting the information.

## **Constraints on Information Included in General Purpose Financial Reports**

### *Materiality*

27. Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.
28. Assessments of materiality are made in the context of the legislative, institutional, and operating environment in which the entity operates and, in respect of prospective financial and nonfinancial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or noncompliance with legislation, regulation, or other authority may be material because of its nature, irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration is given to such matters as the nature, legality, sensitivity, and consequences of past or anticipated transactions and events, the parties involved in any such transactions, and the circumstances giving rise to them.
29. Materiality is classified as a constraint on information included in GPFRs in the Conceptual Framework. In developing IPSAS, the IPSASB considers the materiality of the consequences of the application of a particular accounting policy, a basis of preparation, or the disclosure of a particular item or type of information. Subject to the requirements of any IPSAS, entities preparing GPFRs also consider the materiality of, for example, the application of a particular accounting policy and the separate disclosure of particular items of information.

### *Cost-Benefit*

30. Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify or quantify all the costs and all the benefits of information included in GPFRs.
31. The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation.

Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

32. Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts, because resources are redirected from service delivery activities to the preparation of information for GPFRs.
33. Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management to inform their decision-making. The disclosure of information in GPFRs in accordance with the concepts identified in the Conceptual Framework and IPSAS and RPGs derived from them enhances and reinforces perceptions of the transparency of financial reporting by governments and other public sector entities and contributes to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.
34. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
35. In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements that result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs when the IPSASB judges that the benefits of compliance with those disclosures and other requirements justify their costs.

#### *Balance among the Qualitative Characteristics*

36. The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.
37. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics to meet the objectives of financial reporting.

## Annex 13. Example of the Reconciliation of Fixed Assets

**Reconciliations**  
(in '000 of currency units)

	Land		Buildings		Machinery		Furniture and Fixtures	
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
Reporting Period								
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	-	-	250	100	120	200	20	100
Disposals	-	-	150	40	60	80	20	-
Depreciation (As per Statement of Financial Performance)	-	-	160	180	145	135	50	50
Revaluations (net)	250	225	- 30	- 50	-	-	-	-
Closing Balance (As per Statement of Financial Position)	2,500	2,250	2,000	2,090	1,000	1,085	150	200
Sum of Revaluation Surpluses (Paragraph 92(f))	750	500	250	250	-	-	-	-
Sum of Revaluation Deficits (Paragraph 92(g))	25	25	380	350	-	-	-	-
Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	-	-	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Source: IPSAS 17, IPSASB, 2016.

## **Annex 14. Principal Elements of Internal and External Audit**

### **Internal audit**

1. The internal audit is part of internal control. One of its fundamental objectives is the improvement and protection of implemented internal controls. Internal auditing arises from the need to maintain a permanent and more effective control within a company and to make the external auditor's role quicker and more efficient.
2. Internal auditing is an independent and objective assurance and consultation activity designed to add value and improve the operations of an organization. It is performed in accordance with established technical standards and procedures, to:
  - i. Examine and verify the following in a systematic and disciplined way within an organization:
    - a. The achievement of goals and objectives set by management;
    - b. The economic and efficient use of resources;
    - c. The efficiency and effectiveness of the operational and administrative processes;
    - d. Adequate and effective application of internal control and risk management systems;
    - e. Reliability and integrity of financial and administrative information; and
    - f. Compliance with applicable legal and regulatory frameworks.
  - ii. Safeguard the assets and resources of an organization, verifying their physical existence.
  - iii. Assist the management in the fulfillment of its functions and responsibilities, proposing, where appropriate, pertinent corrective actions.
3. The International Standards for the Professional Practice of Internal Auditing, which was recently updated by the Institute of Internal Auditors, defines the following 10 key principles articulating the effectiveness of internal audit:
  - i. Demonstrates integrity.
  - ii. Demonstrates competence and professional diligence.
  - iii. Is objective and free of influence (independent).
  - iv. Aligns with the strategies, objectives, and risks of the organization.
  - v. Is appropriately positioned and has the right resources.
  - vi. Demonstrates commitment to the quality and continuous improvement of its work.
  - vii. Communicates effectively.
  - viii. Provides risk-based assurance.
  - ix. Makes deep analyses, is proactive, and is oriented to the future.
  - x. Promotes the improvement of the organization.
4. The elements of internal audit work, except for special assignments, may be classified as:
  - i. Compliance: the extent to which laws, policies, rules, good practices, and generally accepted accounting principles are followed.
  - ii. Verification: the management of an organization must receive permanent assurance of the validity of the information and reports generated by the organization.
  - iii. Evaluation: constant revision of the operation and acceptability of the control system.
5. Some of the main requirements of internal auditing, whose objectives are to ensure the effectiveness and objectivity of the internal auditor's work, are the following:

- i. The reviews are carried out by persons with adequate technical knowledge and training as auditors
- ii. At all times the auditors maintain professional rigor, both in the conduct of examinations and in the preparation of their reports.
- iii. Adequate planning of their work through proper supervision by a more experienced auditor.
- iv. Obtaining—through observation, inspection, investigation, and confirmations—of sufficient information as the basis of the work performed.
- v. The independence of the internal auditor in both the private and public sectors. The concept of independence is probably the most important requirement. It is critical for the internal auditor to be appointed and report to the Audit Committee or directly to the Board of Directors in a private organization, or to the highest-ranking official or a ministry or public body independent of the assigned entity, in the government sector. This minimizes the conflict of interest that may exist in its relationship with the audited entity.

### **External audit**

6. The external or independent audit is a critical, systematic, and detailed review of reports, records, documents and other information produced by an entity's systems. It is performed by a public accountant who has no employment relationships with the audited entity, through the use of techniques determined by the applicable auditing standards. Generally, the main objectives of an external audit are to:
  - i. Issue an independent professional opinion on the way the audited system or systems and their internal controls operate. In a financial audit, an opinion is also issued on the reasonableness of the information presented in the financial statements of the audited entity.
  - ii. Publicly demonstrate the reasonableness, integrity, and authenticity of the information examined and validate the information produced by the organization to third parties.
  - iii. Identify possible areas of opportunity and any irregularities.
  - iv. Formulate recommendations, as well as preventive and corrective actions, focused on strengthening the systems and internal controls implemented.
  - v. Provide a basis on which information users can make decisions related to the operation of the audited organization.
7. In addition, the objectives of government external audit could include the following:
  - i. Verification of compliance with the legal and normative provisions that regulate the activity of the entity.
  - ii. Determination of the degree of compliance with the goals and objectives proposed, taking into account the programs and plans approved as well as the results achieved in relation to the resources allocated.
  - iii. Verification of whether public resources have been used and managed economically, efficiently, and effectively.
8. For external audit, as for internal audit, one of the criteria or working conditions is the independence of the auditors. Thus, to give credibility to the results and status of the system(s) examined for interested third parties, the external audit must be performed by a

person or entity outside the audited entity, with the professional specialization and capacity necessary to issue an independent and impartial report and opinion.

9. The main differences between internal and external audit are the following:
  - i. In the internal audit, there is an employment relationship between the auditor and the audited organization, while in the external audit the relationship is purely commercial.
  - ii. In the internal audit, the results of the auditor's work are internal, since they are intended for the internal consumption of the audited entity. In external audits, the reports are generally intended for third parties.
  - iii. The internal audit is not authorized to publicly disclose the information, because of its contractual employment relationship with the audited organization, while the external auditor usually has the legal power to give public disclosure.
  - iv. Internal audit work, including the evaluation of the entity's internal controls, is carried out continuously; external auditors perform their work on a recurring basis and, generally, after the events occurred.
  
10. External audit work is not carried out exclusively by public accountants, but may also involve specialists in other matters. For audits of public works or performance, engineers or lawyers requiring a high degree of specialty may be used. The following are some of the main types of audit that are typical of the public sector.
  - i. *Financial audit*. Financial audit, which is similar to external audit, is a critical, systematic, and detailed examination of the transactions, operations, and financial records of a public organization or entity, carried out by an independent public accountant. Its objective is to (a) determine whether the financial information that is produced is reliable, timely, and useful for decision-making; (b) issue a professional opinion on the reasonableness of the information presented in the financial statements of the audited entity at a given date; and (c) confirm whether the financial statements are prepared and presented in accordance with applicable accounting standards.
  - ii. *Compliance or legal audit*. This type of audit reviews whether the public entity, in developing its responsibilities, technical functions, and financial, administrative, and economic operations, has complied with legal and regulatory provisions applicable to it, including laws, regulations, decrees, agreements, and other norms in force.
  - iii. *Performance audit*. This type of audit, also known as a results, management, or the three E's (Effectiveness, Efficiency and Economy) audit, analyzes the effectiveness and congruence achieved by the audited entity with the objectives and goals previously established, in relation to the progress of budget execution.
  - iv. *Audit of public works*. This type of audit examines, inspects, and evaluates the following aspects, among others: (a) whether the public work carried out corresponds to the social need that led to its execution; (b) whether it was carried out in accordance with approved plans and projects; (c) whether the applicable legislation was complied with in the contracting of the work and acquisition of materials and supplies; (d) whether the progress and conclusion of the work was in accordance with the agreed times; (e) whether the management and delivery of resources was consistent with the physical progress; and (vi) whether it was delivered to the satisfaction of the contracting authority and/or community benefiting from the work.

- v. *Budgetary audit.* This audit consists of an examination and review of the implementation of the approved budget allocation in terms of efficiency, effectiveness, economy, and compliance with applicable legal provisions.
- vi. *Environmental audit.* The environmental or ecological audit evaluates the correct functioning of environmental policies adopted, in accordance with current legislation.

## **Annex 15. List of IPSAS**

- IPSAS 1: Presentation of Financial Statements
- IPSAS 2: Cash Flow Statements
- IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors
- IPSAS 4: The Effects of Changes in Foreign Exchange Rates
- IPSAS 5: Borrowing Costs
- IPSAS 6: Consolidated and Separate Financial Statements
- IPSAS 7: Investments in Associates
- IPSAS 8: Interests in Joint Ventures
- IPSAS 9: Revenue from Exchange Transactions
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 12: Inventories
- IPSAS 13: Leases
- IPSAS 14: Events after the Reporting Date
- IPSAS 15: Financial Instruments: Disclosure and Presentation
- IPSAS 16: Investment Property
- IPSAS 17: Property, Plant and Equipment
- IPSAS 18: Segment Reporting
- IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets
- IPSAS 20: Related Party Disclosures
- IPSAS 21: Impairment of Non-Cash-Generating Assets
- IPSAS 22: Disclosure of Financial Information about the General Government Sector
- IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)
- IPSAS 24: Presentation of Budget Information in Financial Statements
- IPSAS 25: Employee Benefits
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 28: Financial Instruments: Presentation
- IPSAS 29: Financial Instruments: Recognition and Measurement
- IPSAS 30: Financial Instruments: Disclosures
- IPSAS 31: Intangible Assets
- IPSAS 32: Service Concession Arrangements: Grantor
- IPSAS 33: First-time Adoption of Accrual Basis IPSASs
- IPSAS 34: Separate Financial Statements
- IPSAS 35: Consolidated Financial Statements
- IPSAS 36: Investments in Associates and Joint Ventures
- IPSAS 37: Joint Arrangements
- IPSAS 38: Disclosure of Interests in Other Entities
- IPSAS 39: Employee Benefits (replacing IPSAS 25 beginning 1 January 2018)
- IPSAS 40: Public Sector Combinations