

Supporting and empowering  
you every step of the way

## IMPLEMENTATION OF IPSASs FOR NGOs AND ASSOCIATIONS IN TANZANIA

### Introduction

The National Board of Accountants and Auditors (NBAA)'s governing board introduced the use of a common financial reporting framework for NGOs and Associations in Tanzania. In accordance with the technical pronouncement No. 3 of 2020, all NGOs and Associations are required to prepare their general purpose financial statements in line with International Public Sector Accounting Standards (IPSASs) effective for reporting periods beginning on or after 1 July 2021. However, early adoption is permitted and encouraged.

### Background

The financial reporting standards applicable in Tanzania have been outlined by NBAA in their Technical Pronouncement No. 1 of 2015 and its related subsequent Technical Pronouncement No. 1 of 2018.

IPSASs are designed to apply to public sector entities which meet all of the following characteristics:

- Are responsible for delivery of services to benefit the public/ or to redistribute income and wealth.
- Mainly finance their activities, directly or indirectly by means of taxes or transfer from other level of government, social contribution, debt or fees.
- Do not have capital providers that are seeking a return on their investment or a return of their investment; and
- Do not have a primary objective to profit.

NBAA have, however, decided that IPSASs should apply also to organizations registered under the NGO Act 2002 and the Societies Act (CAP 337).

### Way forward

While IPSAS are largely based on the principles of IFRSs, there are certain differences in accounting/reporting and some of the key differences have been outlined below:

- As part of accountability/stewardship, public sector entities adopting IPSAS are required to report on the budget versus actual results and provide commentary for the variances, where the budget is publicly available.
- IPSAS encourages entities to disclose a reconciliation of surplus/deficit to cash flow from operations, when the direct method is used in presenting the Cash Flow Statement.
- Under IFRS, the definition of an "asset" is a resource from which future economic benefits are expected to flow. However, under IPSAS, the criteria is the ability to provide a (public) service. For example: Whilst the construction of a bridge does not generate an economic benefit as no one pays to use the bridge, it has a potential to provide service. Hence, for a public sector entity this will be an "asset" as it has a service potential and meets the definition contained in the standard.
- IPSAS caters specifically for impairment considerations for non-cash generating assets. IFRS assumes all assets will be cash-generating while IPSAS assumes that the majority of a public sector entity's assets are likely to be non-cash generating, given that assets are recognized based on their service potential, as opposed to economic benefits.
- Under IPSAS, revenue is categorized into revenue from exchange transactions and revenue from non-exchange transactions.
- Recognition of revenue from Grants – Under IPSAS 23, the distinction between restrictions and

conditions is crucial in determining whether or not to recognize revenue from a non-exchange transaction {**Non-exchange** is where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. E.g.: taxes and levies, donations, grants, fines}. The amount collected will not be commensurate with services provided and therefore, income is not matched to expenses. As a result, the government grants are generally fully released to income earlier under IPSAS than under IFRS.

Entities currently reporting on a cash basis or modified cash basis in line with a different reporting framework and/or their group/internal accounting policies, including specific requirements by donors, will need to adopt the IPSAS accruals basis. The pathway for implementation of IPSAS would include, amongst others,

- performing a gap analysis;
- setting the strategy for implementation;
- converting from the current cash or modified cash to accruals basis;
- updating systems, controls and manuals;
- recognizing assets and liabilities in line with IPSAS;
- training and integrating the accounting team.

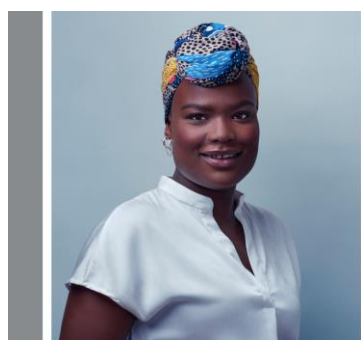
A first time adopter shall prepare and present an opening statement of financial position at the date of adoption of IPSASs. This is the starting point for its accounting in accordance with accrual basis IPSASs. Therefore, the financial statements will need to incorporate any assets that have not previously been recognised, liabilities and accruals will also need to be reflected in the financial statements. A first-time adopter shall claim full compliance with IPSASs only when it has complied with all the requirements of the applicable IPSASs effective at that date.

An entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs. Hence on the date of adoption of accrual basis of IPSASs, a first-time adopter shall apply the requirements of the IPSASs retrospectively.

**RSM Eastern Africa can be consulted for any assistance required with transition from your current reporting framework to IPSAS. For more information please call us on +255 22 2602714/74.**

**CAVEAT**

This newsletter has been prepared for general guidance, and does not constitute professional advice. Accordingly, RSM (Eastern Africa) Consulting Limited, its associates and its employees and agents accept no liability for the consequences of anyone acting, or refraining from acting, in reliance on the information contained herein or for any decision based on it. No part of the newsletter may be reproduced or published without prior written consent. RSM (Eastern Africa) Consulting Limited is a member firm of RSM, a worldwide network of accounting and consulting firms. RSM does not offer professional services in its own name and each member firm of RSM is a legally separate and independent national firm. Each member firm of RSM is a legally separate and independent national firm and is not a member of one international partnership, and member firms are not legal partners with each other. One-member firm is not responsible for the services or acts of any other member firm.



**Tax information at your fingertips!**

Download the RSM Tax App on Android or IOS to get the latest tax and accounting updates and timely reminders for your tax obligations, customized to your requirements

**Scan here:**

GET IT ON  
**Google Play**

Download on the  
**App Store**

THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING

