

Is cash still king?
Maximising the benefits of accrual
information in the public sector

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Think Ahead

Our global reach in numbers

219,000
members
and
527,000
students
in **179** countries

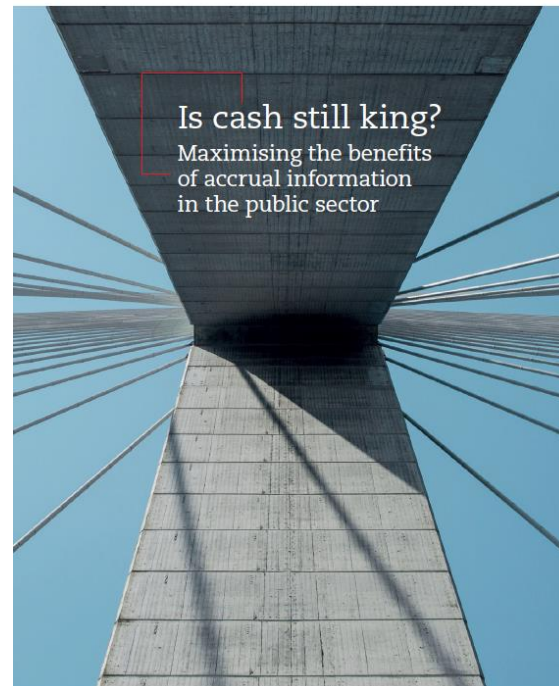
67,000 public
sector member
and students
around the world

110
offices and
centres
in **52** countries

Over **100** years'
of working with
governments to
support better
PFM.

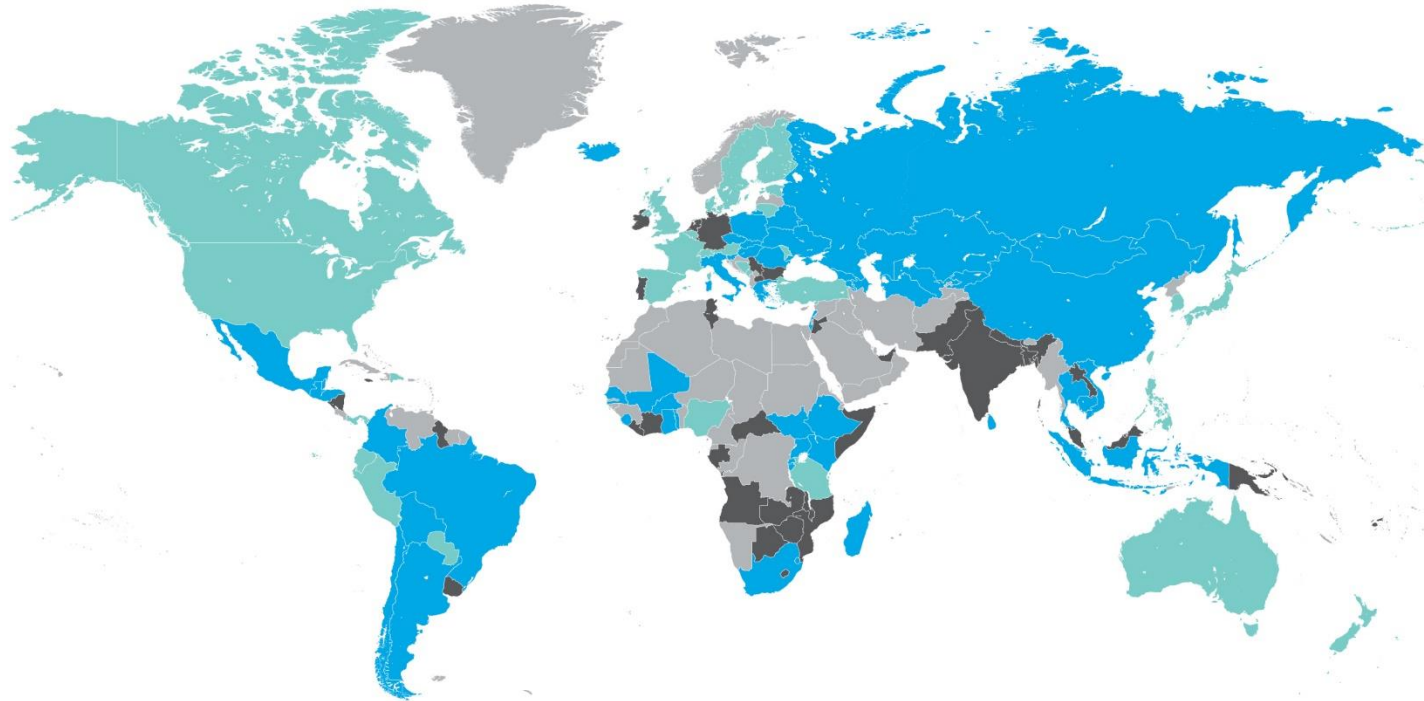
Content

- Global transition: changes to reporting bases
- The benefits of accruals in the public sector
 - Accrual accounting, cash budgeting
 - Accrual accounting and budgeting
- Creating decision-useful information
- IFAC perspectives and ways to engage
- Q&A



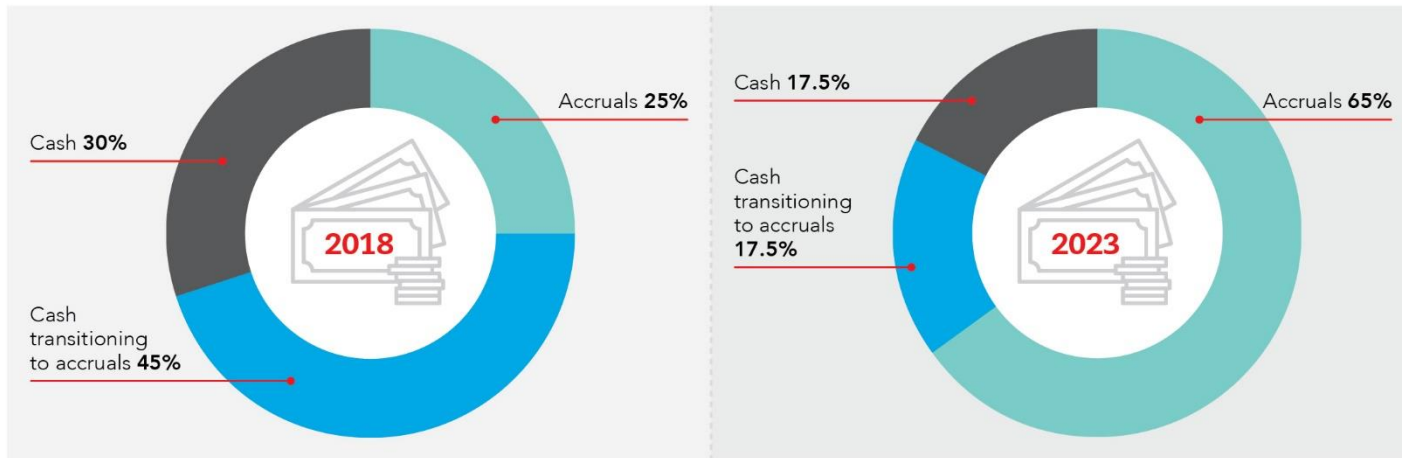
A time of global transition: current reporting basis

■ Accruals (37) ■ Cash transitioning to accruals (67) ■ Cash (46) ■ No data (106)



Source: IFAC and CIPFA 2018

A time of global transition: projected reporting basis



Source: IFAC and CIPFA 2018

The benefits of accruals in the public sector

	(A) CASH ACCOUNTING AND CASH BUDGETING	(B) ACCRUAL ACCOUNTING AND CASH BUDGETING	(C) ACCRUAL ACCOUNTING AND ACCRUAL BUDGETING
BENEFITS	<ul style="list-style-type: none"> Provides basic fiscal discipline Simpler / intuitive for non-financial staff and the public 	<p>Facilitates public scrutiny</p> <ul style="list-style-type: none"> Improved accountability Provides fiscal credibility <p>Achieving value for money and financially sustainable decision-making</p> <ul style="list-style-type: none"> Managing assets well and accounting for the maintenance backlog Managing liabilities and identifying fiscal risks Reducing fiscal illusions and improving incentives Supporting long-term thinking 	<p>The benefits in Column B</p> <p>PLUS</p> <p>Puts finance at the heart of decision-making</p> <ul style="list-style-type: none"> Embeds performance management Improves medium-term forecasting and planning <ul style="list-style-type: none"> Further enhances fiscal credibility Effective project management across government Embeds the finance function in day-to-day decision-making
LEVEL OF COMPLEXITY	LOW	HIGH	MEDIUM

Column B: Accrual accounting, budgeting on a cash basis

- Transparency and facilitating public scrutiny
- Fiscal credibility
- Achieving value for money
 - Managing assets & accounting for the maintenance backlog
 - Managing liabilities & identifying fiscal risks
 - Reducing fiscal illusions & perverse incentives
 - Supporting long-term thinking



Reducing fiscal illusions

Identifying fiscal illusions

- Accounting boundary
- Timing of payments
- Classification and recognition
- Reducing net worth (eg, sale of assets)

Recommendation 11: plan to produce a fully consolidated balance sheet

Figure: UK WGA 2017–18 PSND to total WGA net liabilities

	2017-18 £bn	2016-17 £bn	2015-16 £bn
Public Sector Net Debt (National Accounts)	1,779	1,727	1,603
Add liabilities not recognised in National Accounts:			
Net public sector pensions liability	1,865	1,835	1,425
Provisions	422	322	306
PFI contracts	33	33	33
Adjust assets measured differently in national accounts:			
Asset Purchase Facility	(200)	(127)	(50)
Unamortised premia on gilts	54	51	38
UK Asset Resolution (UKAR) net impact on net debt	(10)	(24)	(30)
Add assets & liabilities excluded from measure of PSND:			
Property, plant and equipment	(1,208)	(1,168)	(1,120)
Investment property	(20)	(18)	(16)
Intangible assets	(36)	(35)	(33)
Trade and other receivables	(42)	(49)	(37)
Prepayments and accrued income	(103)	(91)	(87)
Inventories	(10)	(9)	(10)
Investments	(52)	(51)	(50)
Trade and other payables	53	51	51
Accruals and deferred income	62	59	55
Deduct liabilities not yet recognised in WGA			
Housing associations	-	(70)	(67)
Other adjustments including eliminations	(22)	(15)	(25)
Net liabilities (WGA)	2,565	2,421	1,986

Source: HM Treasury 2019: 237

Column C: Accrual accounting and budgeting

The benefits of Column B and,

- Putting finance at the heart of decision-making
 - Embeds performance management
 - Improves medium-term forecasting and planning
 - Supports effective project management across government

“Managing the budget strengthens the hand of finance. If you want the finance function to be drivers of decisions, then accrual budgeting is critical to making sure that the function is a key element of decision making”

Vicky Rock, Director Public Spending, UK Treasury



Embedding performance management

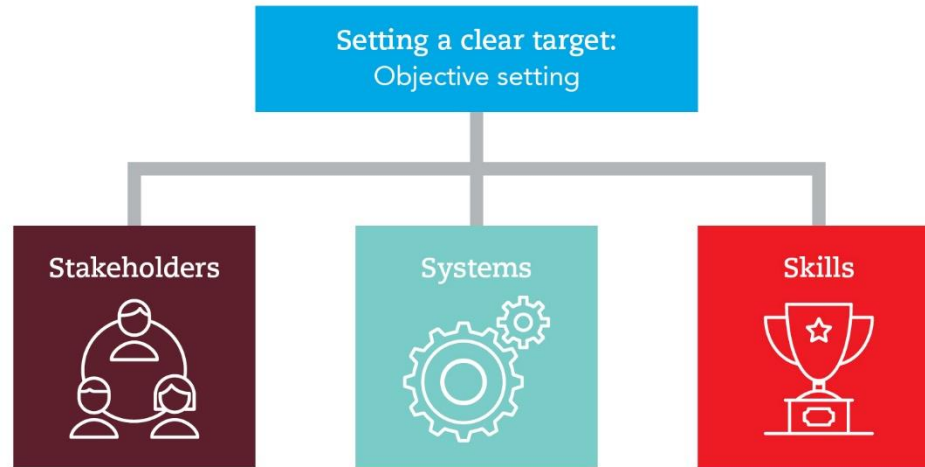
Figure: Performance management – a New Zealand perspective



Recommendation 7: implement accrual budgeting in order to put finance at the heart of decision-making, while embedding performance management across government.

Creating decision-useful information

Figure: Key enablers of decision-useful information



Setting a clear target: objective setting

Lessons learned on objective setting included:

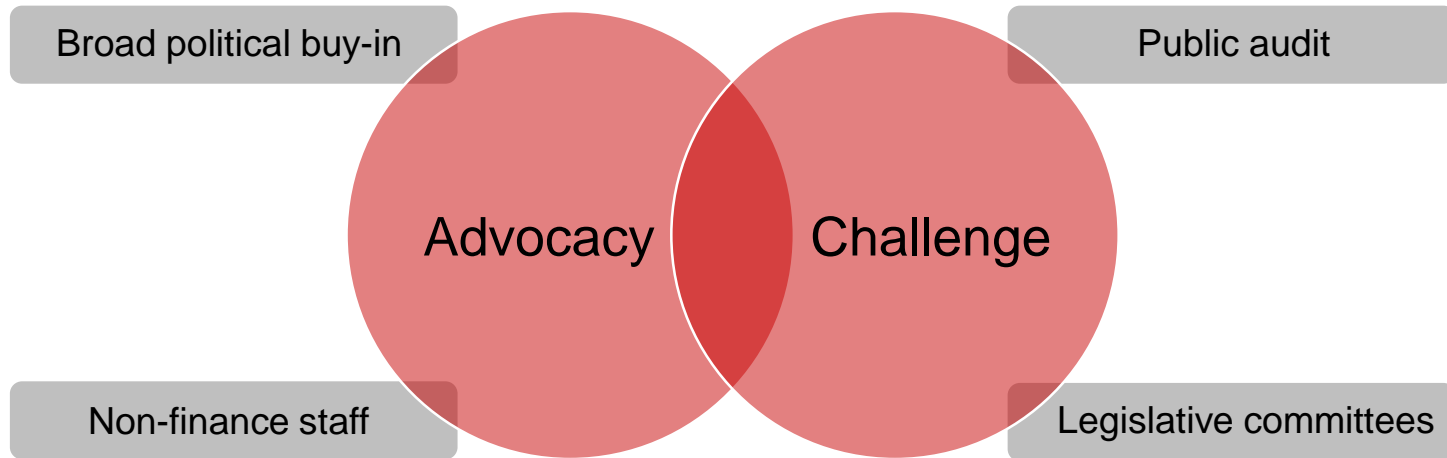
- taking a whole-system approach
- building a long-term roadmap
- creating multiple checkpoints at which to measure success.

“An added benefit to the improved information an accrual accounting reform exercise brings, are the broader PFM improvements, when they are part of a comprehensive reform project’.

Ross Smith, Program and technical director, IPSAS Board



Stakeholders



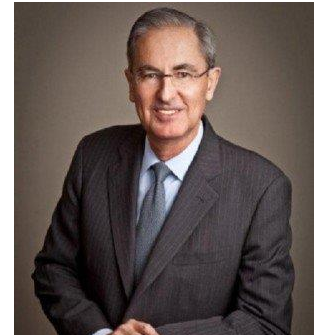
Systems

Lessons learned on systems included:

- Central vs devolved implementation
- Reporting flexibility
- Building in incentives

“We were conscious of the incentives [for] departmental managers and indeed, on ministers. We introduced the capital charge because to give organisations the incentive to use capital more efficiently”

Ian Ball, ex-CEO IFAC



Skills

Lessons learned on skills included:

- build internal capacity within the public sector
- establish clear career paths, and
- receive the right external support.

ACCA's certificates in:

- [Public Financial Management](#), and
- [International Public Sector Accounting Standards](#)



Final consideration: balance the right systems with the skills available

Perspectives from IFAC

- After COVID-19: how accounting transparency can help with the tough decisions ahead
- [New approach](#) to accountancy education
 - Accountancy Education E-Tool
 - Revised International Education Standards
 - [Illustrative learning outcomes for the public sector accountancy curricula](#)
 - Sign up to stay informed, send an email to AltaPrinsloo@ifac.org
- We need your help (post COVID-19)
 - IPSAS train the trainer originally developed by IPSASB staff—update?
 - Transition to the accrual basis of accounting: guidance for governments and government entities—project brief to update the [2010 version](#)
 - International Public Sector Financial Accountability [Index](#)—update postponed

What's Next – Public Sector Professional Insights for 2020/21



1. Public sector financial health after COVID-19
 - June / July 2020
2. New Models of Public Procurement
 - November 2020
3. Accounting Standards for SOEs
 - March 2021



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Q&A





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Thank you for joining us today.

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