PULSAR Benefits of Accrual Accounting in the Public Sector May, 23rd 2022

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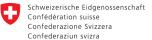




Public Sector Accounting and Reporting Program

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Benefits of Accrual Accounting in the Public Sector



- Benefits of Accrual Accounting For what and for whom?
- Accrual Accounting and Transparency
- Enabling Conditions for Accrual Accounting Implementation
- The Costs of Accrual Accounting Implementation

BENEFITS OF ACCRUAL ACCOUNTING FOR WHAT AND FOR WHOM?

DECISION MAKING

Decisions about the use of services

Electoral decisions

Granting of financial aid

Lending financial resources

Contracting out, outsourcing

Public-private partnerships

Monitoring the application of legislation and budget rules

Monitoring financial and fiscal sustainability



Citizens and their representatives

NGOs

NGOS

Donor agencies

Lenders and creditors

Rating agencies

International organizations

Regulatory and oversight bodies

Audit institutions

Subcommittees of the legislature

Budget controllers

ACCOUNTABILITY

Informs on the use of resources

Informs about performance

management

Accounts for fiscal and financial

sustainability

Facilitates public scrutiny

Provides fiscal credibility

Informs about cost of services and

creates responsibility

Informs electoral decisions

Reduces corruption

DECISION MAKING

Facilitates analysis and a focus on performance and achieving value for money decision-making

Drives efficiency of public resources

Provides information for budgeting and planning process

Supports fiscal decision

Financial sustainability decision making

Managing debt and liabilities and identifying fiscal risk

Reducing fiscal illusions and improving incentives

Supporting long-term thinking and decision making

Sound management of assets

Intergenerational equity decisions





INTERNAL USERS

Accountants

Internal Control /
Internal Audit

Managers

Governing bodies

Politicians

Fiscal statisticians

Macroeconomists

ACCOUNTABILITY

Accounts for responsibilities within the hierarchy in the organizations (e.g. managers towards political supervisors)

Discharges financial responsibilities

Provides credible data to fiscal statistics

Supports anti-corruption tools

Accountability of performance management

Accurate, reliable, timely and complete information

Accountability

Better allocation and use of public resources

Improves reporting

Better information on costs

More effective and targeted control and audit

Foreseeing long-term effects

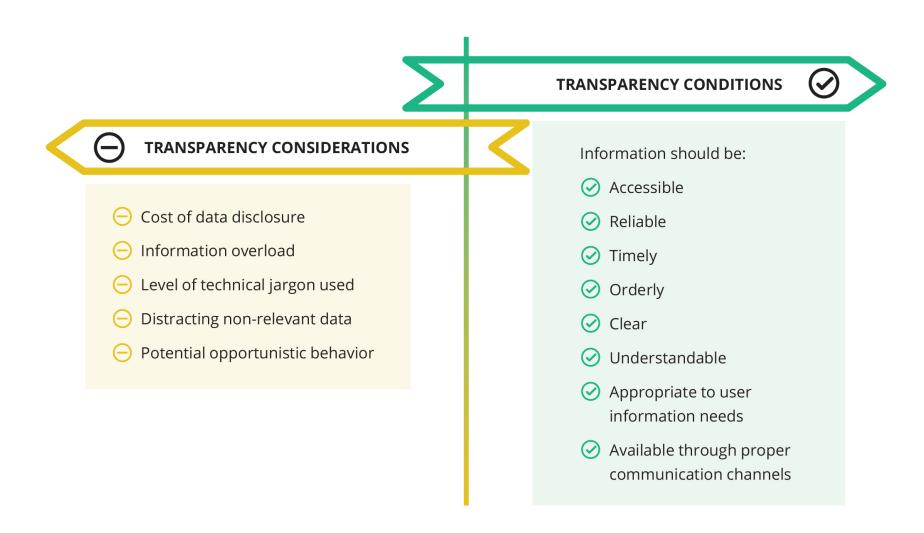
Risks are recognized or disclosed

Promotes intergenerational equity

More reliable national accounting data

Different benefits for different users

ACCRUAL ACCOUNTING AND TRANSPARENCY



Accrual Accounting and Transparency-Practical Insights



- Financial reports need to be simplified, more "popular", and to be effectively communicated to citizens
- The more informed the citizen, the better for **equity and justice** in the country
- The press (mass media) can play an intermediary role to translate and interpret the accounting numbers to citizens
- Attention should be paid to avoid overloads
- Standard reporting and financial statements should be visualized and made easily accessible on web sites.
- Full disclosure is especially challenging when **liabilities exceed assets**
- The increased transparency of full accrual financial reports helps disclosing information using **effective** accountability
- The level of financial literacy of politicians affects the way they understand the implications of own decisions and actions



ENABLING CONDITIONS FOR ACCRUAL ACCOUNTING IMPLEMENTATION





GOAL SETTING AND PROCESSES

- × Political support and ownership
- × Implementation plan
- × Accrual accounting integrated in decisionmaking and performance management



HUMAN CAPITAL

- × Training and educating public sector accountants
- × Human capacity (Adequate number of qualified staff)
- × Expert support



TECHNICAL

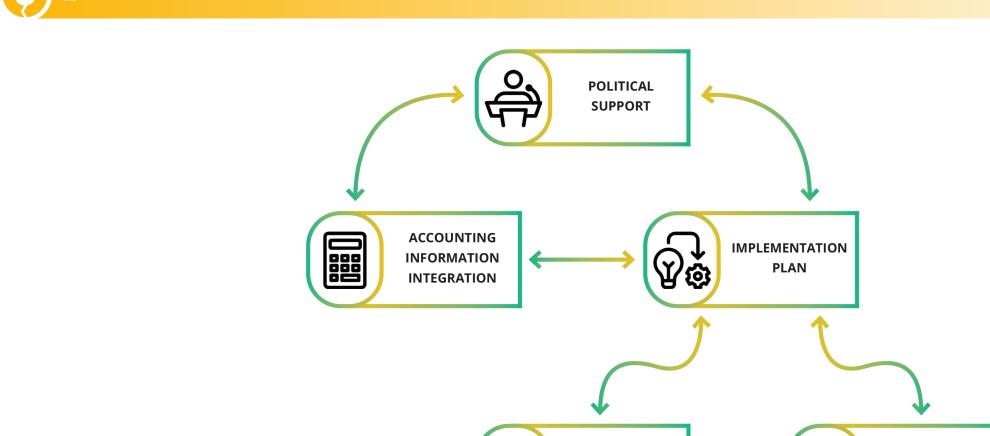
- × IT financial management systems
- × Chart of accounts
- × Accounting standards and policies

Interaction among Enablers of Accrual Accounting Implementation

HUMAN

CAPITAL

TECHNICAL



Interaction among Enablers of Accrual Accounting Implementation





POLITICAL SUPPORT

Political support, especially from the ministry of finance, is a prerequisite for a political reform to be successful. Political support secures human resources and other necessary resources for the reform.



ACCOUNTING INFORMATION INTEGRATION

Embedding accrual in PFM. This includes the introduction of rules and incentives to work with accruals, analyzing problems and decision-making using accrual data, alignment of performance measures with accruals, embedding accruals in the fiscal rules, key performance indicators, and demand for accrual information from supervisory bodies and auditors.



IMPLEMENTATION PLAN

A dedicated reform team with skills and vision is absolutely necessary. The reform needs very good project management, and a clear plan.



HUMAN CAPITAL The new logic can attract professionals with fresh views who understand modern financial management, costing, and performance management. Private sector experts in financial accounting may also support public sector entities in the transition to accrual accounting.



TECHNICAL

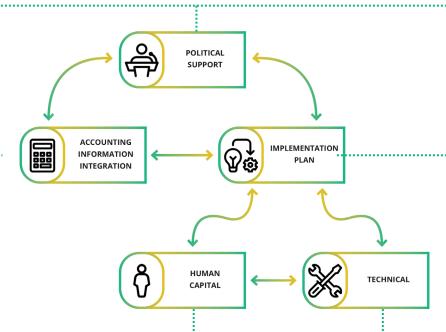
The IT system needs to embed the changes related to the accrual accounting processes

Interaction among Enablers of Accrual Accounting Implementation



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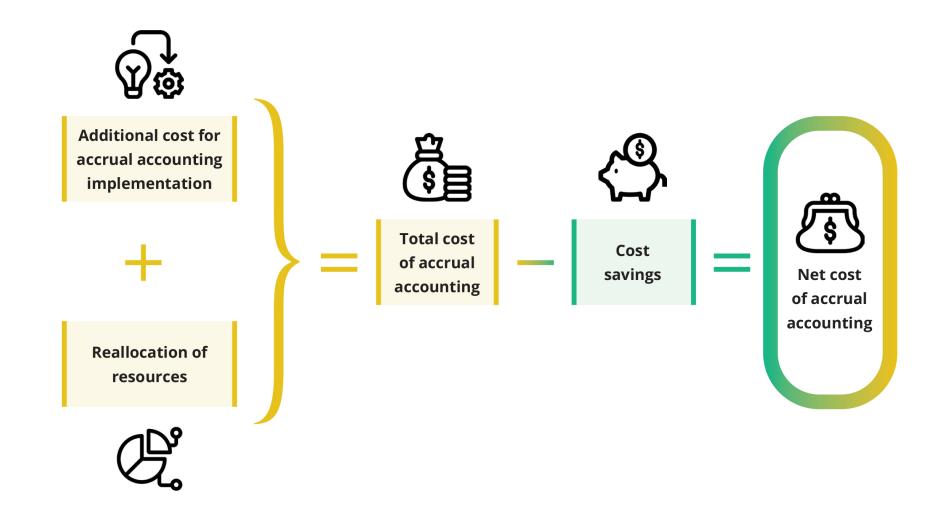
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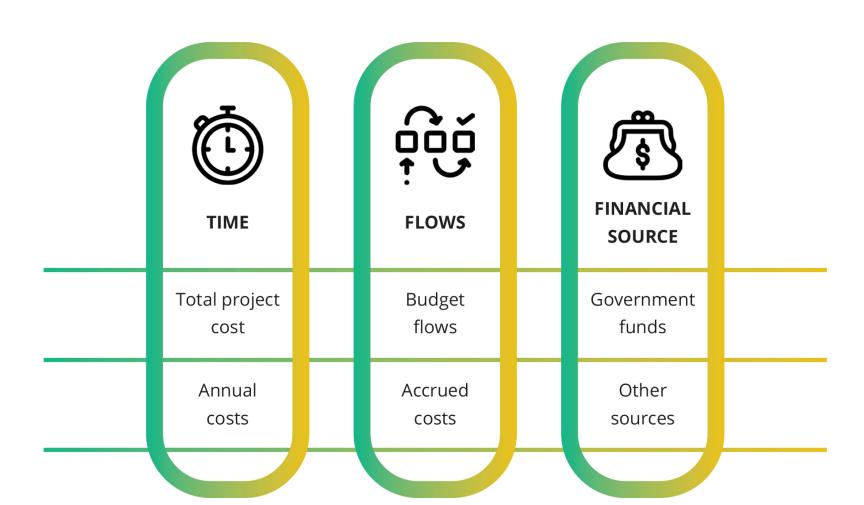
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THE COSTS OF ACCRUAL ACCOUNTING IMPLEMENTATION

Cost of Accrual Accounting Implementation

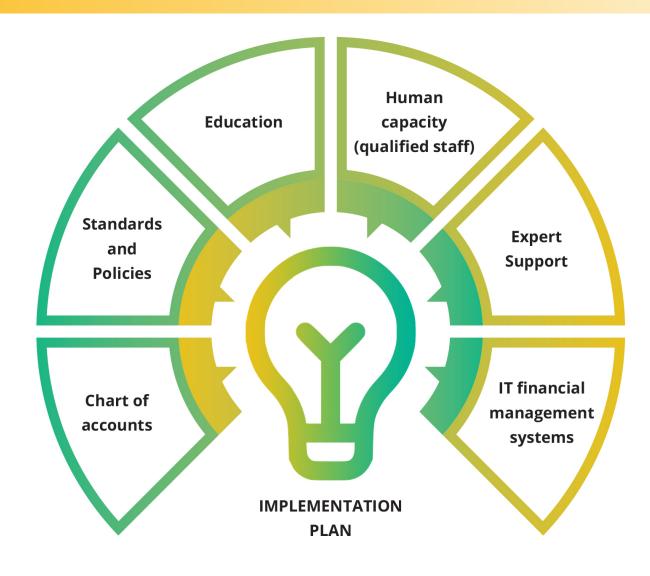






Human Capital and Technical Tools in Implementation Plan









Thank you for your attention