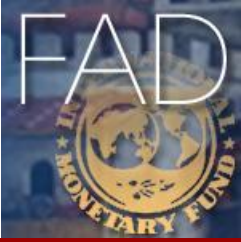


PUBLIC SECTOR EDUCATION COMMUNITY OF PRACTICE

Session 1: Implementing Accrual Accounting in the Public Sector

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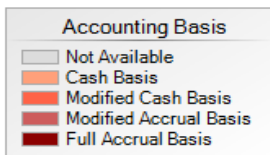
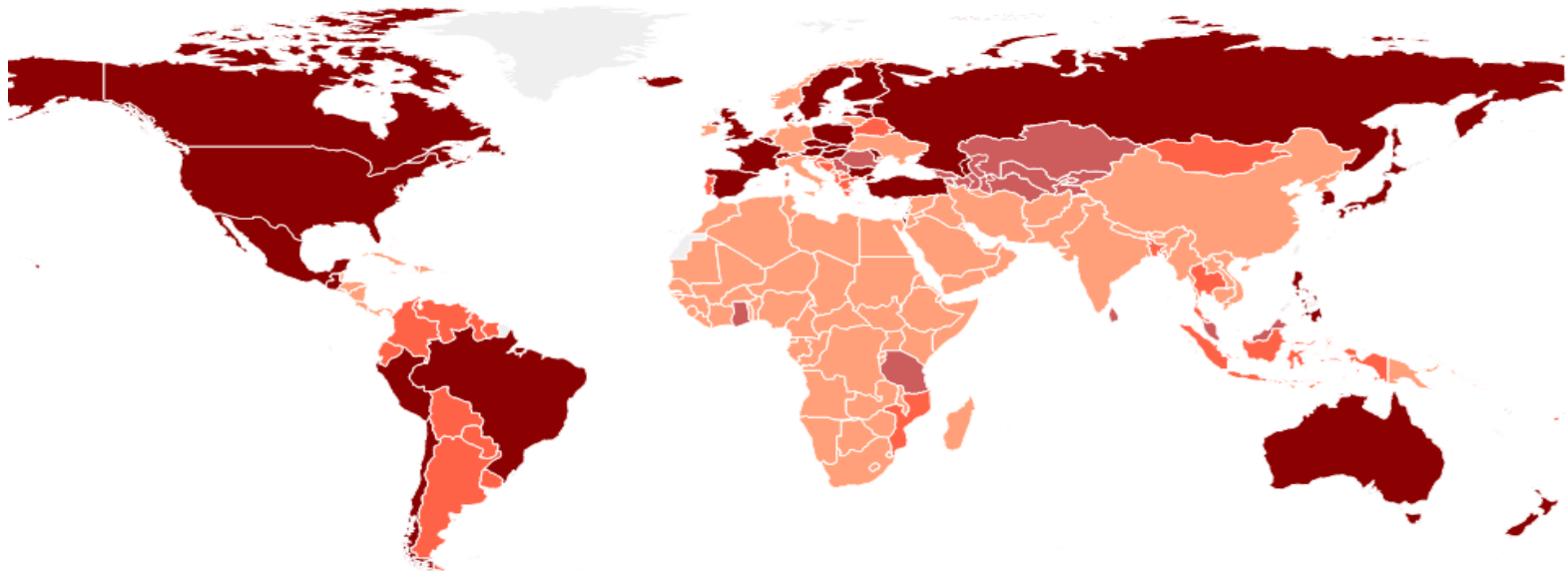


Outline of presentation

- I. Background**
- II. How to prepare for moving from cash to accrual accounting**
- III. Sequencing the move to accruals**
- IV. A staged approach**
 - I. Recognition of stocks and flows
 - II. Accounting policies and adoption of international standards
 - III. Accounting systems and practices
 - IV. Institutional coverage
- V. Conclusions**

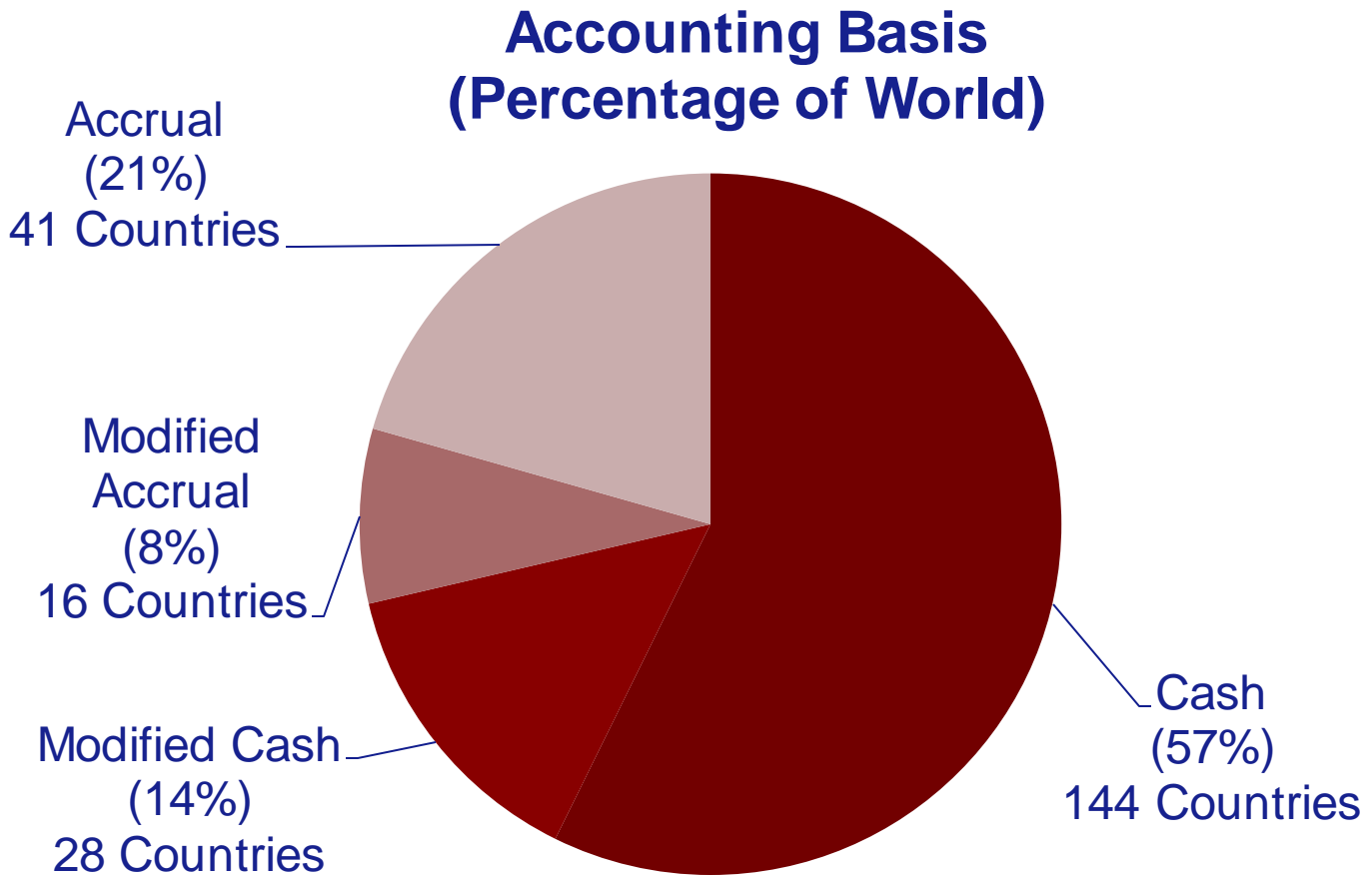
I. Background - Current accounting practices

a. 2015 Financial Statements



I. Background - Current accounting practices (2014)

b. Countries using accrual increasing

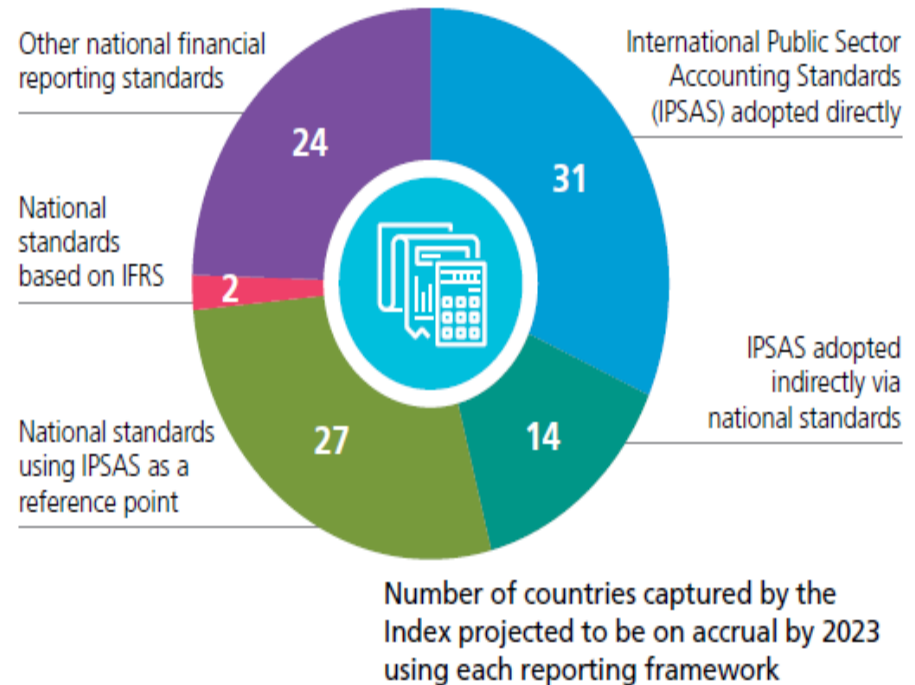


Source: IMF Staff Estimates based on various public sources including OECD Survey..

I. Background: Update

c. IFAC/CIPFA (2018) Use of IPSAS

- **Directly:** implementing IPSAS without alteration
- **Indirectly:** Implementing IPSAS through a national endorsement process
- **Reference point:** use IPSAS as a guide

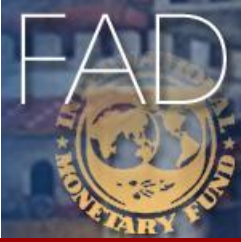




I. Background - Motivation

d. What has motivated the move?

- Growing recognition of limitations of cash accounting
- Development of international standards – IPSAS, GFSM
- Professionalization of government accounting
- Increasing use of computerized accounting systems



II. Preparing for the transition

a. Prerequisites

- An acceptable cash accounting based system
- High level leadership within executive
- Support from the legislature and SAI Senior officials
- Technical capacity to lead the reform
- Commitment of resources
- IT systems



II. Preparing for the transition

b. Steps to take

- Clarify Objectives of the reform
- Establish a representative reform team
- Survey existing accounting policies, systems, skills and practices
- Estimate the costs of reform
- Establish a mechanism for setting accounting standards
- Training and change management
- Develop an action plan



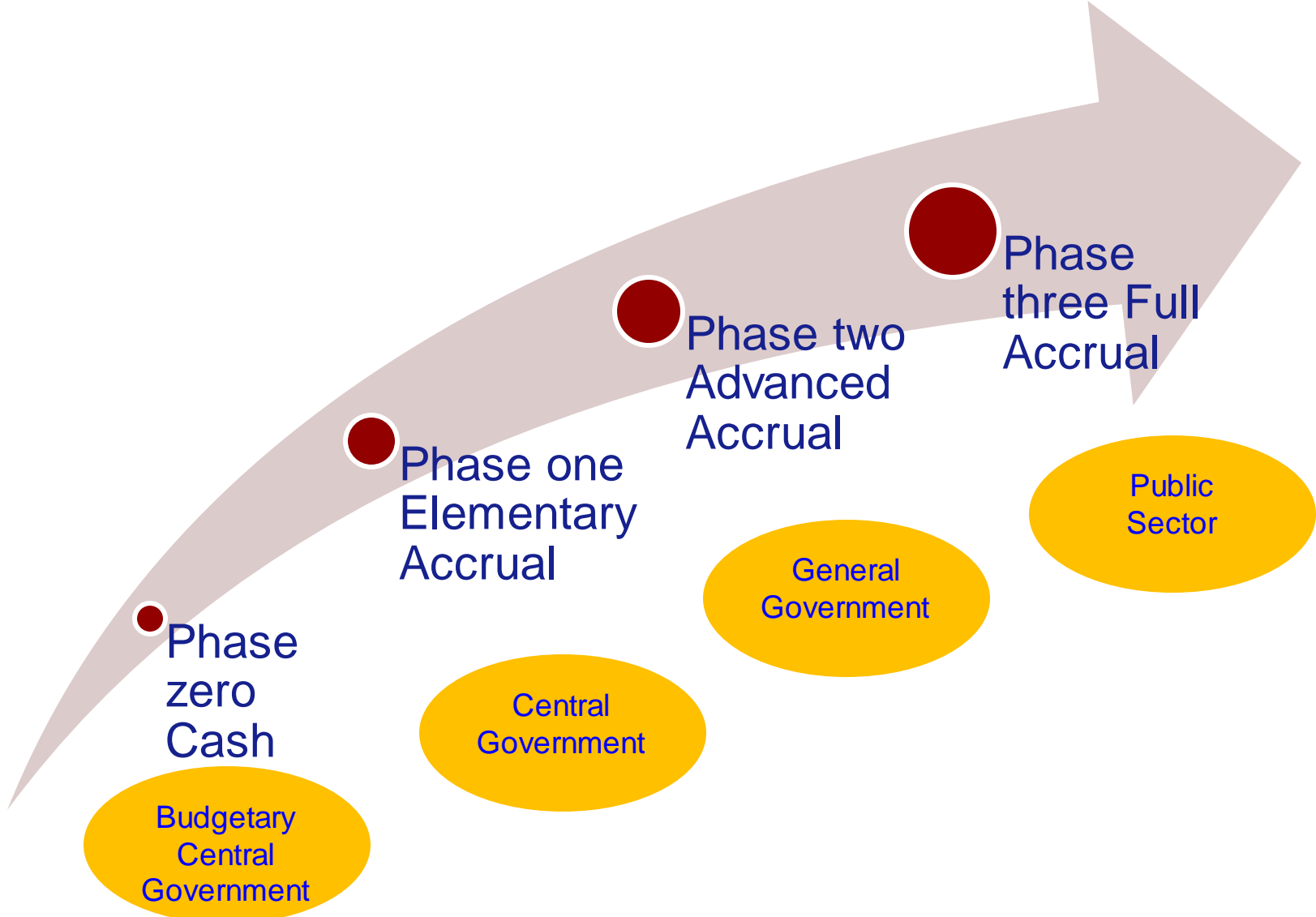
III. Sequencing the Transition

a. Issues to consider

- **Countries have a range of starting points, each level of government needs to be assessed:**
- **What is already recorded?**
- **What are the government's objectives?**
 - Controlling arrears?
 - Oversight of state owned companies?
 - Long term sustainability?
- **Materiality of transactions and balances – focus on the largest**
- **Duration of each stage**
 - Level of commitment
 - Resources available
 - Systems
 - Accounting capacities

IV: Sequencing the transition

b. Four Stylized phases



IV: Sequencing the move

c. Main elements at each stage

	Balance Sheet		Operating Statement			Institutions
	Assets	Liabilities	Revenues	Expenses	Other Flows	
Phase 0: Cash Accounting	Cash balances	Bank overdrafts Debt	Cash receipts	Cash payments	None	Budgetary Central Government
Phase 1: Elementary Accrual Accounting	Trade receivables Prepayments	Trade payables	Accrued trade revenue	Accrued expenses excluding depreciation	None	Central Government
Phase 2: Advanced Accrual Accounting	Equity Investments	Other financial liabilities Long-term liabilities (e.g., pensions)	Accrued non-tax receivables	None	Valuation changes in financial assets and liabilities Provisions	General Government
Phase 3: Full Accrual Accounting	Fixed and intangible assets Inventories Tax receivables	Monetary financial instruments	Accrued receivables	Depreciation	Valuation changes in non-financial assets	Public Sector



III. Phase 0: Cash accounting

a. Financial statements and operational issues

Balance Sheet		Operating Statement			Institutions
Assets	Liabilities	Revenues	Expenses	Other Flows	
Cash balances	Bank overdrafts Debt	Cash receipts	Cash payments	None	Budgetary Central Government

Operational considerations

- Accounts outside the Treasury Single Account – e.g. donor funded projects, extra-budgetary agencies
- Double entry bookkeeping in a General Ledger
- Comprehensive register of debt required
- Donor funded accounts outside government systems

III. Phase 0: Cash accounting

b. Accounting Policies

Presentation of financial statements

- IPSAS 2: Cash flow statement, Cash basis
IPSAS

Foreign currency transactions

- Gains/losses on forex transactions

Grant Revenues

- IPSAS 23: Non-Exchange revenues

Disclosures

- Arrears, domestic and foreign debt



III. Phase 1: Elementary accrual

c. Financial statements and operational issues

New elements:

Balance Sheet		Operating Statement			Institutions
Assets	Liabilities	Revenues	Expenses	Other Flows	
Trade receivables Prepayments	Trade payables	Accrued trade revenue	Accrued expenses excluding depreciation	None	Central Government

Operational considerations

- Reporting on the same basis as the Budget - Systems for recording on a dual basis
- Chart of Accounts (restatement may be required for some entities)
- Opening balances – inventory of payables and receivables
- Audit – dry-runs?
- Consolidation – timing of financial statements, materiality, software

III. Phase 1: Elementary Accrual

d. Accounting Policies

Presentation of Financial Statements

- IPSAS 1: Presentation of Financial Statements

Non-tax revenues

- IPSAS 9: Revenue from exchange transactions

Grants and subsidies

- IPSAS 23: Non-Exchange revenues

Consolidation

- Materiality; harmonization across entities; IPSAS 35: Consolidation of Financial Statements; materiality



IV. Phase 2: Advanced accrual

e. Financial statements and operational issues

Balance Sheet		Operating Statement			Institutions
Assets	Liabilities	Revenues	Expenses	Other Flows	
Equity Investments	Other financial liabilities Long-term liabilities (e.g., pensions)	Accrued non-tax receivables	None	Valuation changes in financial assets and liabilities Provisions	General Government

Operational Considerations

- Inventory of financial instruments
- Contracts, Public-Private partnerships (PPPs), Leases, Equity investments, pensions liabilities
- Market values, actuarial estimates

IV. Phase 2: Advanced Accrual

f. Accounting Policies

Post employment benefits

- IPSAS 25: Employee benefits

Other social benefits

- Future IPSAS, GFSM 2014

Public-Private Partnerships

- IPSAS 32: Service Concession Arrangements: Grantor, IPSAS 13: leases

Investments

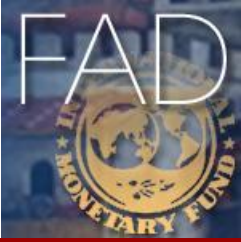
- IPSAS 28: Financial Instruments: Presentation, 29: Financial Instruments: Recognition and Measurement, 30: Financial Instruments: Disclosures, 36: Investments in Associates and Joint Ventures

Financial Instruments

- IPSAS 28,29,30,36

Provisions and Contingent Liabilities

- IPSAS 19: Provisions, contingent liabilities, contingent assets



IV. Phase 3: Full accrual

f. Financial Statements and operational issues

Balance Sheet		Operating Statement			Institutions
Assets	Liabilities	Revenues	Expenses	Other Flows	
Fixed and intangible assets Inventories Tax receivables	Monetary financial instruments	Accrued receivables	Depreciation	Valuation changes in non-financial assets	Public Sector

Operational considerations

- Up to date assets registers
- Asset values
- Tax recognition points
- Consolidation – what to consolidate
- Templates/systems for intra-public sector eliminations - Transfers – grants, subsidies, loans, equity; Intra-entity sales; Payables/Receivables

IV. Phase 3: Full Accrual

g. Accounting Policies

Physical Assets

- Valuation – cost/revaluation, depreciation, thresholds, disclosures, control.
- IPSAS 17: Property, plant and equipment, 21: Impairment of non-cash generating assets, 26: Impairment of cash generating assets, 13: Leases, 31: Intangible Assets

Inventories

- IPSAS 12: Inventories

Tax receivable and revenue

- Triggering events, provisions for uncollectable amounts, IPSAS 23: Revenue from Non Exchange Transactions (Taxes and Transfers)

Heritage Assets, natural resource and biological assets

- No specific IPSAS, but principles in other standards, e.g. GFSM 2014

Consolidation

- IPSAS 18 Segment reporting, GFSM 2014



V. Conclusions: Lessons from Experience

- Pace, scope and sequencing depends on the desired objectives
- Reforms require additional data, business process changes, modernization of IT systems, and capacity building within and outside government
- Important to preserve benefits of cash and budgetary accounting
- Integrated set of data important at each stage
- The reform takes time, countries usually take 3-10 years and continually improve the first set of accrual accounts.