

PUBLIC SECTOR ACCRUAL ACCOUNTING

A key tool for governments

Government activity accounts for a major part of gross domestic product (GDP). It is therefore important that public funds and assets are effectively managed and that governments are accountable for this management to their citizens, their representatives, investors and other stakeholders. In the private sector, accrual accounting has been the modus operandi for over a century, whereas in the public sector the cash approach has been used as the primary method. Accrual accounting is increasingly being implemented in the public sector, as noted in various studies, such as the 2016 OECD Accruals Survey which reported that around three-quarters of OECD countries have adopted accrual accounting for their year-end financial reports.

Public sector accrual accounting based on international standards and good practice is a key tool for governments because it:

- allows for objective, comparable and transparent presentation of financial information, including the cost of government activities;
- captures in full the assets and liabilities as well as revenue and expenses of an entity including the whole-of-government while at the same time providing comprehensive information on cash flows;
- entails the recognition of economic events such as the creation, transfer, or destruction of economic value at the time at which they occur;
- offers a number of benefits over traditional cash accounting from the point of view of government transparency, accountability, financial management and delivery of public services.

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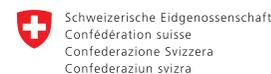
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HIGH-LEVEL GUIDE ON BENEFITS OF PUBLIC SECTOR ACCRUAL ACCOUNTING



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BENEFITS OF PUBLIC SECTOR ACCRUAL ACCOUNTING

ACCOUNTABILITY



Objectified financial information

Accrual accounting based on international standards and good practice systematize otherwise disparate accounting policies, allow for the presentation of comparable and transparent financial information, and minimize subjectivity and opacity in financial reporting.

Enhanced political participation and inclusiveness

Comprehensive financial information allows for more informed, inclusive debates about the impacts of budget policy on the lives of civil society. Citizens are empowered to engage in evidence-based discussions with their elected national representatives on government spending priorities and petition for policy changes based on hard data.

Boosting trust in governments

High quality financial reporting facilitates external oversight of public expenditures, boosting trust in government and improving policy outcomes. Transparency and participation have been shown to promote greater accountability around the use of public funds and assets and help prevent corruption by maintaining high standards of integrity.

TRANSPARENCY



Complete picture of public finances

Accrual-based accounting generates a more comprehensive set of financial information than mere cash flows and facilitates a longer-term perspective of government finances. All assets and liabilities of the public sector are recognized, including financial and non-financial assets, liabilities other than debt securities and bonds, such as payment arrears and pension obligations, as well as otherwise hidden costs such as contingent liabilities.

Better quality of fiscal statistics

Government finance statistics are an important tool for policymaking and monitoring macroeconomic stability. Having entity-level audited financial reports based on accrual accounting standards consistently applied across the entire public sector and its entities would substantially reduce the risk of systematic errors in the data used for preparing fiscal statistics.

PERFORMANCE



Enhanced public service delivery

Accruals-based accounting establishes a clear link between resource allocation and service delivery by providing information on how resources have been deployed for the benefit of the citizens. Improved reporting of accurate financial information from decentralized public service delivery units is instrumental in assessing government's performance, address bottlenecks, and improve the quality and coverage of public service delivery.

FINANCIAL MANAGEMENT



Improved basis for decision making

Public sector accrual accounting provides a comprehensive view of the government's financial performance, the full cost of government activities, information on social obligations and future service potential ensuring more accurate planning of the imminent needs of public funds.

Improved management of fiscal risk

The accruals concept, making transparent future obligations and hidden liabilities, provides governments with the true and fair view of the financial position and whether it is sustainable and manageable.

Higher return on assets

Public investment creates assets, public wealth and economic value. Taking stock of the public assets will improve government's understanding of their size and nature which leads to more efficient management, more targeted usage, and potential higher return on public assets.

