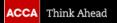
Is cash still king? Maximising the benefits of accrual information in the public sector

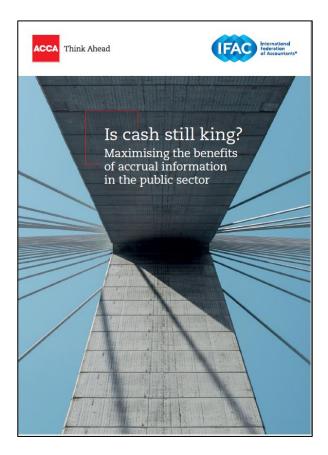
Alex Metcalfe

Head of Public Sector, ACCA



Content

- Overview of ACCA's global public sector work
- 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



Our global reach in numbers

227,000 members and 544,000 future members in 176 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.

ACCA's global public sector activities

ACCA Think Ahead



THE ROLE OF THE PUBLIC FINANCE PROFESSION IN ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS

Policy expertise and insights from an ACCA roundtable discussion

On 8 Devember 2020, ACCA and FMC convends a roundtable composed of high-level experts to discuss The field of the Finance Polession. A chaiving the Sustainable Development Goald (SOGI). This coundtable was a follow up event from our 10° Animismany Virtual Public Sector Centerence as a way to continue the conversation and bould a public sector community from our expert partners and stakeholders working on these issues atound the world.

From this discussion, the roundtable participants formulated a number of policy recommendations on how the public finance profession can, and should, play a pixotal role in driving national progress in achieving the SDGs.

The discussion can be viewed through three interconnected questions:

- What tools do we need to amplify the role of the public finance profession in monitoring and evaluating progress in achieving the SDGs?
- What is the purpose of our role in this critical area of national and international policy?
- Who should we be working with to do this better?



Our participant operation of the second s

public finance profession must not only focus on historic financial information, but also take a forward-looking approach to public finances and sustainability. Finance professionals must connect financial and **non**-

financial reporting techniques to account for broader value creation objectives beyond purely the financials to ensure progress is being achieved and should work within established sustainability frameworks.

A fundamental aspect of the role of public sector auditors is employing both compliance and performance audits to evaluate how governments are committed to progressing the goals, as well as ensuring they are allocating sufficient resources to these objections. It also requires filling the

gaps found in current accounting standards, such as financial reporting on the public sector's natural resource to ensure we are working with the most comprehensive information at all times.



Expert roundtables and policy briefs

Regional public sector spin-off conferences

Global public sector webinars

ACCA's public sector & global forum

Shaping international standards and government policy

Public sector focused CPD events



International public sector conference



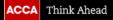


2019: Prague, Czech Republic

Reinvigorating the Public Sector: Transformation through crisis

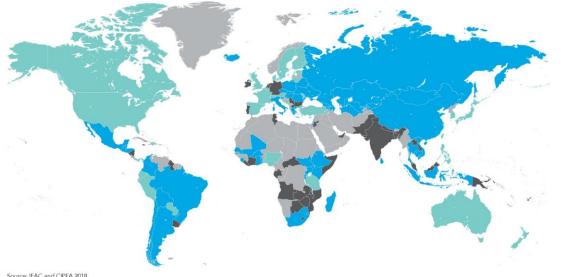
2020: Virtual Public Conference





2018: Singapore

A time of global transition: current reporting basis

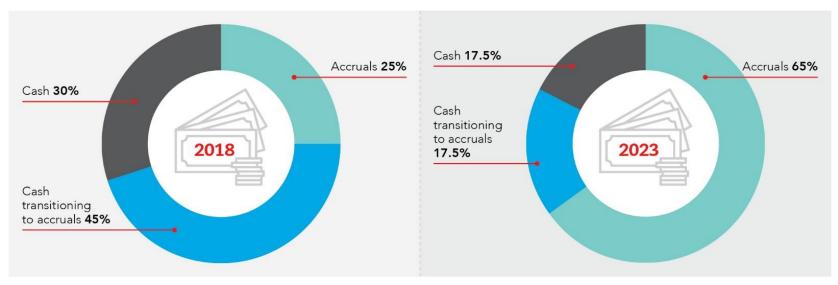


Accruals (37) Cash transitioning to accruals (67) Cash (46) No data (106)

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	 Provides basic fiscal discipline Simpler / intuitive for non- financial staff and the public 	 Facilitates public scrutiny Improved accountability Provides fiscal credibility Achieving value for money and financially sustainable decision-making 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 	The benefits in Column B PLUS Puts finance at the heart of decision- making • Embeds performance management • Improves medium-term forecasting and planning o 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

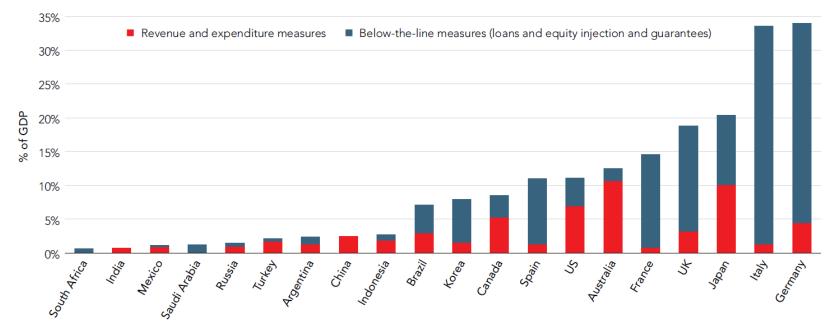
Figure: UK WGA 2017–18 PSND to total WGA net liabilities

	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 Provisions PFI contracts	1,865 422 33	1,835 322 33	1,425 306 33
Adjust assets measured differently in national accounts: Asset Purchase Facility Unamortised premia on gilts UK Asset Resolution (UKAR) net impact on net debt	(200) 54 (10)	(127) 51 (24)	(50) 38 (30)
Add assets & liabilities excluded from measure of PSND: Property, plant and equipment Investment property Intangible assets Trade and other receivables Prepayments and accrued income Inventories Investments Trade and other payables Accruals and deferred income	(1,208) (20) (36) (42) (103) (10) (52) 53 62	(1,168) (18) (35) (49) (91) (9) (51) 51 59	(1,120) (16) (33) (37) (87) (10) (50) 51 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

'Below-the-line' interventions dominate the fiscal policy response to COVID in many countries

Figure: G20 fiscal response to COVID-19, above-the-line & below-the-line measures



Source: IMF 2020a



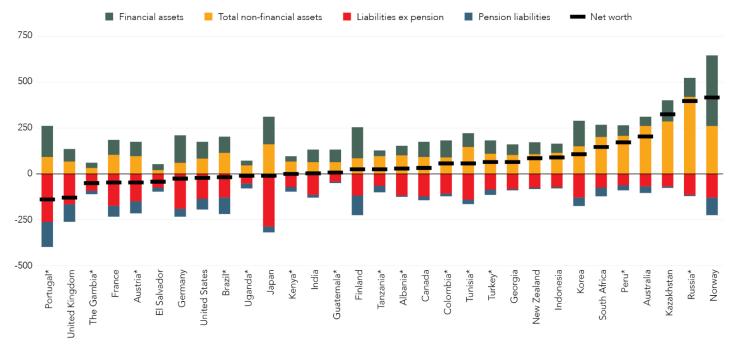
It's time to drop debt-to-GDP ratios...



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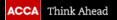
TREFEE

... and focus on public sector net worth



Source: Reproduced from IMF 2018.

*Based on a single year of data, in most cases compiled as part of the Fiscal Transparency Evaluation: Albania, 2013; Austria, 2015; Brazil, 2014; Colombia, 2016; The Gambia, 2016; Guatemala, 2014; Kenya, 2013; Peru, 2013; Portugal, 2012; Tanzania, 2014; Tunisia, 2013; Turkey, 2013; Uganda, 2015.



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

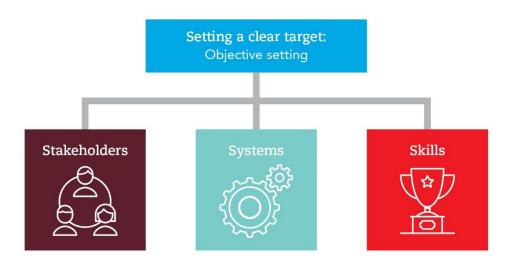


Recommendation 7:

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.

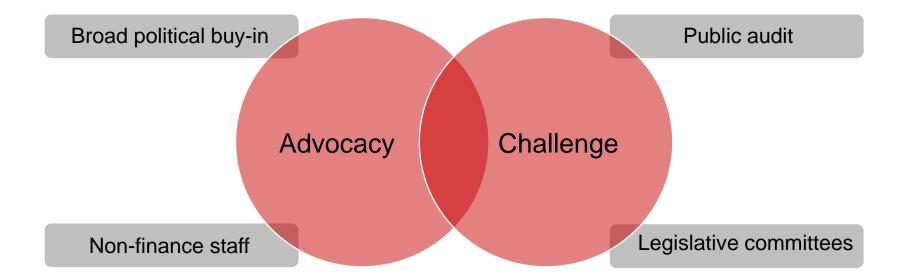
"An added benefit to the improved information an accrual accounting reform exercise brings, are the broader PFM improvements, when they are part of a comprehensive reform project'.

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



Relevant Resources

Joint ACCA, World Bank, IFAC Webinar – 12 August 2020
 https://register.gotowebinar.com/register/793990372622415694

IFAC COVID-19 Intervention Assessment Tool

https://www.ifac.org/knowledge-gateway/supporting-internationalstandards/discussion/covid-19-intervention-assessment-tool

IMF's Managing Public Wealth

https://www.imf.org/en/Publications/FM/Issues/2018/10/04/fiscal-monitor-october-2018

IPSAS Board's COVID Guidance

https://www.ipsasb.org/publications/covid-19-relevant-ipsasb-accounting-guidance

