BETTER GOVERNMENT SERIES
ICAEW FRAMEWORK GUIDANCE

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Building blocks to better PFM

A CASH TO ACCRUALS ACCOUNTING TOOLKIT

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Foreword

ROSS CAMPBELL
Director, Public Sector
ICAEW

Governments spend nearly 50% of global GDP. In OECD countries the average spent by government is 46% of GDP. While the size of the 'public sector' varies from country to country – in some cases comprising as much as 65% of the domestic economy, in others forming as little as 20% – a healthy public sector is usually a critical factor in ensuring a healthy wider economy. Government spending, whether on education, infrastructure or research, underpins much economic activity and government officials often set the rules within which businesses and markets operate.

As countries around the world have developed and national income has increased, the business of successfully managing both the economy and the public finances has become more complex.

Governments increasingly enter into long-term agreements and incur obligations which require them to have a more sophisticated understanding of the financial consequences of their decisions. In parallel, citizens increasingly expect their governments both to do more for them and to demonstrate that taxation is fair and justified. Additionally, there is a need to support economic growth through developing public infrastructure and to provide security in an uncertain world.

In order to satisfy these demands on public financial management, the business of managing government is becoming as complex as that of any major company. As a consequence, more than ever, governments are turning to modern accounting techniques to help them understand their financial position – in particular, to ensure the public finances are sustainable and that future liabilities are properly understood.

It is no longer enough to simply think in terms of cash in and cash out. There is a fundamental need for the sophisticated accounting techniques and skilled professionals to ensure that the financial position of governments as a whole can be properly understood and managed. This trend is borne out by a recent survey by PwC which showed that 70% of governments that use cash accounting are planning to move to accruals accounting in the next five years.[1]

Our experience from around the world is that the process of making this change from cash to accruals accounting has the potential to deliver enormous benefits. It is also a significant exercise in change management requiring the coordination of a number of major projects across government departments. Not surprisingly, we are often asked by governments for advice on where they should begin. While there is some excellent technical guidance on standard setting available from IFAC and other parties, we have noticed there is a shortage of accessible, practical guidance on how to approach moving from cash to accruals accounting as a change project. This guide aims to address that shortage and help governments think through the practical steps they will need to take to put in place a system of modern public financial management.

1 PwC: Towards a new era in government accounting and reporting, July 2015
http://www.pwc.com/gx/en/psrc/publications/assets/second-edition-global-survey-government.pdf

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Executive summary

WHO IS THE CASH TO ACCRUALS TOOLKIT FOR?

This toolkit is intended for those government entities that have made the decision to implement accruals accounting, including potential sponsors of a project to make the transition to accruals accounting and all those charged with delivery of such a project. It is also a useful guide for policymakers, standard setters, senior administrative officials, auditors or regulators who will have some involvement in the project. It is relevant to countries whose governments are still planning their transition as well as those already part-way through the process.

The toolkit will:

- explain the six 'building blocks' that are needed to deliver a successful transition from cash to accruals accounting;
- provide an understanding of the elements of planning and project management required to deliver such a project;
- help countries work through the implications for resources and prepare for a successful transition; and
- provide some practical advice and guidance on how to approach such a significant change project.

This guide is intended to complement other guidance from international bodies on this subject such as the IFAC guide *Transition to the Accruals Basis of Accounting Guidance for Public Sector Entities (January 2011)*.

THE BIG PICTURE

There are many reasons why governments around the world are seeking to improve their approaches to public financial management. Whether it is the need to ensure that taxpayers' funds are spent effectively in times of fiscal constraint or to increase transparency and accountability to maintain the confidence of institutional investors, there is no shortage of compelling reasons. What is certain is that, in recent years, there has been a renewed focus on improving the content and quality of public sector financial reporting based on improving the trust between the providers of government revenues and investment capital and the government bodies who spend the money.

Governments have a duty to ensure they are accountable to taxpayers for the money they spend. This is an essential ingredient of the social contract between the state and its citizens that gives them the confidence their taxes are being wisely spent. As such, it has rightly been the focus of a number of global bodies. For example in its policy position paper 5, *Public Sector Financial Management Transparency and Accountability: the use of International Public Sector Accounting Standards,* (March 2012), IFAC said:

> **'It is critical that governments work to establish greater trust between themselves and their constituents; this should be one of the highest priorities for national leaders and public officials. To establish such trust, it is important that governments provide accurate and complete information on expenditures and transactions, in order to demonstrate accountability and stewardship, and to reinforce their own credibility.'**

IFAC also makes clear that this duty cannot be discharged solely through the provision of information about cash flows. In order to properly demonstrate good stewardship and accountability to citizens and investors governments should provide:

> **'… clear and comprehensive information regarding the financial consequences of economic, political, and social decisions. This information must also focus on the longer term impact of decision making; something that cannot be achieved through the reporting and disclosure of only cash flows. Furthermore, given the prominence of banks and private sector investors that hold government debt, there is strong demand for the same level of financial transparency and accountability from the public sector as is expected from the private sector.'**

It is important to remember however, that financial reporting is not an end in itself. Good quality and timely financial information is required to fully understand the financial position of the state and to make effective decisions in support of government policy. It is hard to govern effectively without good information about how money has been spent, what liabilities remain to be settled and the sources of funds available to make settlement.

With this in mind, and the global push for better accountability, transparency, governance and ethics, it is no surprise that many countries have already made changes, or are starting to make changes, to strengthen financial management within their governments, by moving from cash to accruals accounting.

We believe that the benefits from improved information, transparency and accountability are clear, and there is no doubt that making this change from cash to accruals is a major project for any government. The experience of those countries that have already made the transition indicates that there are many worthwhile lessons to be learned.

This guide draws upon the practical experience of ICAEW and its members in undertaking and advising on this transition. We have used generally accepted tools and standards of project management and distilled some of the complex information to create this practical 'how to' guide which brings together information that is relevant to the implementation of large projects. This toolkit sets out six practical 'building blocks' as the foundation to improve the quality of their financial reporting and public financial management.

The first, and probably most important, step is for governments to commit to the change and mandate this through legislation. This makes it easier to move forward with planning the process of implementation (setting strategic objectives, planning of key steps and milestones, considering capacity of existing systems, skills and capabilities and what needs to be developed in-house and outsourced or purchased, and most importantly, engagement and communication with all relevant stakeholders including external auditors). Some of these changes require a change in culture and mindsets. They require a will to make the changes happen. It is therefore important that donors, governments, national and local bodies, including regulators and professional accountancy bodies, collaborate and work together in partnership to help governments to achieve these long-lasting improvements that we are seeking for good financial management. These are:

- comprehensive records on the use of resources, cash and non-cash expenditure to have visibility of the full cost of delivering government policy;
- improvements to the reliability of budgets by taking account of commitments incurred but not settled;
- a stronger control environment to reduce fraud, error and waste;
- accurate and complete records of assets and liabilities to support better decision-making;
- improved asset management and more effective capital expenditure through better understanding of asset values and condition; and
- meeting the demands of institutional investors for improved transparency to gain access to capital markets and reduce the cost of finance.

THE BUILDING BLOCKS

This toolkit provide a framework for governments to use in making the transition from cash to accruals accounting.

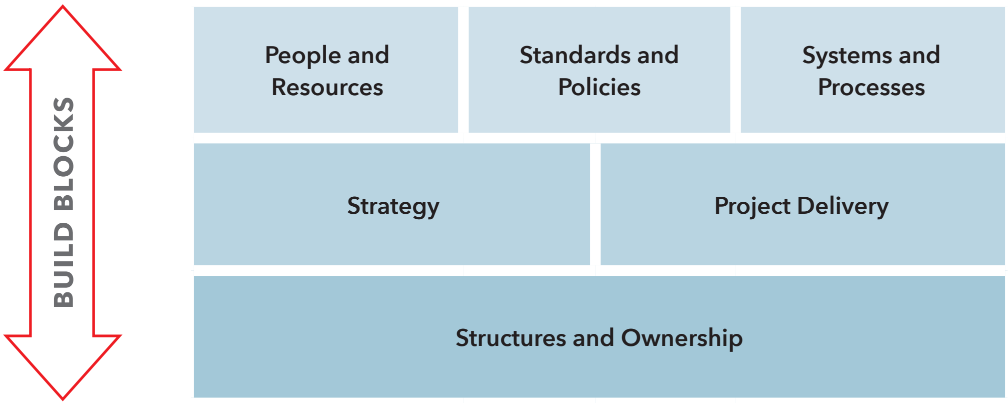
These building blocks are greater than simply putting in place a new accounting system and standards, they provide the framework to deliver a successful change programme. For such a project to be successful and deliver the benefits of better public accountability and better public financial management, our experience in this area indicates that there must also be changes in financial management culture and behaviours.

The six building blocks are.

1. **STRUCTURES AND OWNERSHIP** – the political and wider organisational and leadership structures that need to be in place to deliver the change.
2. **STRATEGY** – effective prioritised plan to deliver the change, manage critical dependencies and risks and to ensure staff and stakeholders understand what is required of them and when.
3. **PROJECT DELIVERY** – setting up the project team and running the project with appropriate governance and oversight.
4. **PEOPLE AND RESOURCES** – the right people, with the right skills, knowledge and approach to drive the reforms supported by adequate resources. We discuss how capacity can be built and strengthened in developing countries and emerging economies.
5. **STANDARDS AND POLICIES** – the standards in accordance with which accounts will be produced, the process for setting them and the policies that will be adopted.
6. **SYSTEMS AND PROCESSES** – putting in place the right infrastructure, corporate governance and business processes to enable high quality information to be provided so policymakers can make the right decisions to achieve the right outcomes.

Strong public sector financial management is critical to all parts of the public sector. Improving the quality of public services is vital to citizens and the economy. Managing public finances isn't easy, in any country, even in developed economies, but with better information and tools, it can be better managed. Better managed public finances lead to stronger economies and better lives.

FIGURE 1
The building blocks of strong public financial management



While we have drafted this guide from our knowledge and experiences of large projects, we are conscious that every government entity which adopts accruals accounting will have its own journey and experience. We are stronger as a professional community when we can share and learn from each other. We would therefore value hearing from government entities that use this toolkit on their experiences and, in particular, whether there are further best practice lessons and practical case studies that could usefully be added to future editions of this toolkit. If you would like to contribute, please contact ICAEW at frfac@icaew.com

SUMITA SHAH
Regulatory Policy Manager,
Public Sector
ICAEW

HENNING DIEDERICHS
Technical Manager,
Financial Reporting Faculty
ICAEW

Section 1: Structures and ownership

Making the change from cash to accruals accounting is like any other significant change project. For it to succeed, it is important to have clear objectives combined with strong leadership and ownership at senior levels. This is a project that will require the cooperation and involvement of all government departments and entities, so it will need to be led and owned by a person or organisation with all of the power, influence, interest and ability to commit resources to make it happen, the project sponsor (see Section 3). In many jurisdictions this is often the finance minister or their department; however the exact individual or entity will depend on the local context and constitutional arrangements. What is certain is that strong political support is needed and that legislators and policymakers agree that the project should be undertaken.

In order to build such support it is usually necessary for the project sponsor to build a consensus among politicians, officials and the broader range of stakeholders (such as central agencies, regulators, various audit and risk committees, internal and external auditors) based around a shared understanding of the need for change. These stakeholders will be the key to making the change happen and work. In this section we suggest a series of steps to follow to create an environment in which the cash to accruals project will have a high degree of success.

GETTING COMMITMENT TO CHANGE

When any reforms are carried out, there needs to be a cultural and behavioural change throughout the organisation. The drive to improve needs to be understood and come from the very top. So it is essential to get the ownership and commitment from government, ministers and the broader range of stakeholders at the very highest level. There needs to be engagement with politicians and a strong enough relationship to be able to challenge them. While a country might be fortunate in having political leadership eager to drive this process, it is more likely that a project sponsor who is likely to be an official will make the case for the reform on the basis of the benefits. Maintaining political support should not be treated as a one-off exercise. This is a long-term change project and will need support over several years.

Case study

In the UK, the initial move from cash to accruals-based budgeting to accruals accounting took nearly eight years. It has taken nearly 20 years, from the beginning to the subsequent more recent moves to adopt IFRSs, and finally to the consolidation of all public sector bodies into the Whole of Government Accounts. Given the scale of the UK public sector it has been a long process and one that could not have been done quickly. However, the reason it has been successful is that at each phase in the transition, there has been strong government support and commitment for improved transparency.

ESTABLISHING THE FRAMEWORKS FOR DELIVERY

Once government backing is obtained, the next step is for the project sponsor to consider the framework that needs to be in place to facilitate delivery. At a minimum, these should include the following:

- A **legislative and accountability framework** setting out the legal obligations of the entities involved including, for example:
  - identifying the government entities that are affected – eg, which entities will be included within the definition of 'government' for this purpose;
  - legislating for those government entities to produce financial statements and accounts (ie, consistent with the prevailing Generally Accepted Accounting Practice (GAAP));
  - scheduling the annual timetable for accounts completion and submission to the relevant authority (ie, legislative assembly or parliament) together with consequences for non-submission, including the date of first adoption;
  - legislating for the requirement (if chosen) for a consolidated set of accounts – eg, a 'Whole of Government Accounts' to be prepared; and
  - legislating requirements for audit.
- A **policy and guidance framework** setting out the overall policy and process including, for example:
  - the policy objectives of the reforms;
  - the overall timetable and key implementation dates such as system go-live dates, the opening balance sheet date, first full set of accounts;
  - the various parties involved in the process and their respective duties and obligations to the extent not set out in law;
  - the overall process for the change from cash to accruals accounting and how accountability will be managed during the project; and
  - how the accounting process will fit into the overall process of approving expenditure, budgeting and accountability and reporting back to the relevant body that scrutinises government activity.
- A **resource framework**, setting out how the change implementation will be resourced including, for example:
  - how the entity leading the change will allocate resources to support implementation of change – what activities will be covered by central budgets and what individual entities will have to fund from their own resources;
  - how expert groups (for example an overall coordination team, steering committee or project 'task force') will be established and resourced; and
  - the expectations on departments for contribution to cross-government activity.
- A **project management framework**, setting out the overall structure through which the project will be managed, including:
  - roles and responsibilities of the parties involved including the nature and composition of oversight boards, steering committees, that will be set up;
  - who has decision-making authority and what the reporting lines will be; and
  - the administrative process that will be used to run and govern the process.

Creating these frameworks usually falls to the project sponsor and they are an essential first building block to ensure the entities involved are clear about their legal obligations, the overall policy they must adopt, processes they should follow and how they will be resourced. Once completed, this should provide a firm foundation to proceed to the next steps.

NEXT STEPS

Once the legislative, policy, resource and project management frameworks are established the project sponsor will have created an environment in which to take forward the remaining building blocks. While these are listed in an order, in reality, some work will need to be done in parallel to ensure successful delivery of the overall project within a realistic time frame.

Section 2: Strategy

The success of a cash to accruals accounting project will depend largely on the quality of the overarching strategy and the plan for its implementation. It is worth investing time in developing both as these are important documents that can be used to explain the project to stakeholders as part of the process of securing support and coordinating execution of the plan across government.

ELEMENTS OF THE STRATEGY

The strategy sets out how a government or any public sector body can use its resources to secure the objectives. A strategy could be expected to cover:

- an explanation of why these changes are necessary;
- objectives and guiding principles;
- overall concept and the roles of government entities within it;
- activities to be undertaken and the resources required; and
- timescales and phases of activity.

The project strategy should therefore be communicated throughout the organisation and can also usefully serve as the 'business case' for the project – setting out the rationale for the change and the terms of how the change will be approached.

OBJECTIVES AND GUIDING PRINCIPLES

The objective of a cash to accruals project is usually much more than simply to implement a new way of accounting. It is usually to improve overall financial management of the public finances to achieve some or all of the outcomes listed at the beginning of the previous section. With that in mind, it is important to ensure from the outset that the strategy sets out clear objectives. Some examples of potential objectives might be:

1. to improve and measure public sector performance by enabling better use and management of assets, liabilities and cash flows;
2. to improve the quality and completeness of information to enable better planning, better financial management and decision-making; and
3. to enable the predictions of future cash flows and assess the resilience of risks.

To deliver those objectives the strategy should cover the following (more details are in Appendix 1):

- accountability and transparency;
- stewardship;
- standards and quality;
- consistent and reliable information over time;
- ethical behaviour; and
- sustainable public finances.

In general, there is a correlation between strong economic performance and a culture of strong transparency and accountability with government financial reports open to public scrutiny. Transparency and accountability enable governments to demonstrate effective stewardship. The use of international standards and the production of consistent, reliable reporting over time builds trust in the numbers. The ability to demonstrate ethical behaviour in relation to the public finances builds public trust in government which is an important element of tackling tax avoidance. Overall the improvements should be aimed at ensuring the public finances can be placed on a sustainable basis.

THE ROLE OF GOVERNMENT ENTITIES WITHIN THE OVERALL CONCEPT

For the successful delivery of a cash to accruals project, there will need to be significant commitment to the role of the finance function within the organisation. Financial management needs to be embedded through the organisation with all government entities committing to making the changes. For the reform to work, all parts of the organisation will need to be integrated and work together. A strong financial management framework needs to be integrated with strong performance management. There also needs to be a good planning process, and a top-down cross team approach to identify overall priorities and focus on the high-level things that matter.

A government has to do more than just account for money after it has been spent. It also needs to be able to plan, identify and prioritise the things that matter, formulate plans for setting budgets and consider how policies can be delivered economically, efficiently and effectively. The strong finance function[2] is therefore an important part of the reform process and needs to be involved at the start of the process, when funds are committed, as well as embedded in all aspects of decision-making.

ACTIVITIES TO BE UNDERTAKEN AND RESOURCES REQUIRED

A transition project conducted across government is a considerable undertaking. There are some choices to be made about how the project is managed – for example whether to plan and implement the project with a central team or whether to require each department to carry out its own project with a central person in a coordinating role. Both approaches have been proven to be successful, and whichever approach is chosen, the range of activities that will need to be conducted is likely to be similar.

The typical activities that are needed to successfully make the transition from cash to accruals accounting are:

- planning the activity, including preparation of a 'gap-analysis' to assess what specific people, processes and systems need to be put in place;
- project management activity (ie, through a project team or office) to set up, coordinate and manage the transition process;
- identifying and delivering the communications activity to ensure that all stakeholders understand the current status of the project and what their roles will be and when their input will be required;
- creating an accounting manual that sets out the standards that have been or will be adopted, any adaptations to, or interpretations of them and the range of acceptable accounting policies;
- adopting a set of accounting standards in a form that is suitable for local use;
- creating a governance framework that will include responsibility for maintaining the quality and coherence of the accounting manual and to consider how new standards will be adopted and/or adapted;

2 See ICAEW's *Better Government Series: Modern Finance Ministry*

- procuring and implementing a new accounting and management information system;
- identifying the staff resources and training needed to deliver the project;
- training of all other staff, senior management and ministers to understand the new financial management environment and how the new system operates – this is especially important if accruals budgeting is also to be adopted;
- gathering information about, and valuing, the assets and liabilities that will be included in the opening balance sheet; and
- the identity process by which the switch over from the previous cash-based accounting system to the new accruals-based system will operate – clarification whether there will be a number of 'dry-runs' and/or a period of parallel operation.

All of these activities will need to be resourced adequately in order to succeed, both through the expertise of staff as well as amounts of people and funding. A typical approach is for an initial resource allocation to be made in order to fund the project start up and initial work streams, with one of the initial tasks for the project team to be the development of a fully costed project plan.

TIMESCALES AND PHASES OF ACTIVITY

The strategy should also set out a realistic timetable for the project based on phases of activity. As a general rule, countries that have been through this process typically take between six and eight years depending on the level of professional expertise and the quality of existing systems and processes. The phase of activity usually breaks down into a chronology similar to, if not exactly like, the pattern in the table below.

TABLE 1
Timescales and phasing of activities

YEARS	ACTIVITY	PHASE
1–2	• Get commitment to change • Establish legislative and policy framework Draw up strategy	Pre-project phase
2–3	• Establish the project delivery and governance oversight • Create detailed project planning documents • Carry out gap-analysis (road map) • Establish transition path • Establish skills requirements and develop and execute a training and recruitment plan	Set-up phase
3–5	• Procure and implement accounting systems • Develop accounting manual	Early implementation phase
4–6	• Survey and value assets and liabilities to create opening balance sheet • Create user guides and manuals	Late implementation phase
6–7	• Dry run accounts production • Parallel running • Audit	Pre-launch phase
7–8	• Go live (timing may depend on results of dry run) • Publication of key outputs	Launch phase

The detailed activity and phases can be found in Appendix 2.

Section 3: Project delivery

The actual process of allocating resources to activities in order to deliver a strategy will require a detailed project plan and project management. We have treated it as a distinct activity from formulating a strategy as there are some important features of project management that are worthwhile to consider.

The project timeline and detailed steps are likely to be as follows:

SET-UP PHASE

- Project set up and mobilisation
- Governance and oversight
- Costed project plan – the 'road map'
- Transition path
- Phasing – approach
- Project planning documents

IMPLEMENTATION PHASE

- Technical capacity and current systems
- Future accounting system
- Accounting manual
- Staff training and any recruitment
- Opening balances

PRE-LAUNCH PHASE

- Dry runs
- Audit
- Preparing to go live

FURTHER CONSIDERATIONS

- Roll out to all government entities
- Whole of Government Accounts
- Accruals budgeting
- Harmonisation with statistical accounts

SET-UP PHASE

PROJECT SET UP AND MOBILISATION

This phase involves setting up the project (including the project scope, evaluating what needs to be done, considering the risks and issues and how they will be resolved and the implementation (work plan) aspects of the project) and the team that will deliver it.

The project set up considerations include not just the conversion of the systems and processes from cash to accruals, but all of the elements that need to be in place to deliver the plan to manage the change from cash to accruals.

Project advisory group

A project advisory group is a high-level group of advisers to the project sponsor who can provide advice and a steer to the overall project. The members of the group do not need to be part of the government or any of its entities. Usually they will be representatives from policy, practice, and academia. They should, however, have knowledge and experience that can contribute to the project and its objectives so that they can provide the expert advice. They may be able to provide advice on the overall structure of the project, share information about other similar work, thereby providing a context for the work, and they may even be able to provide support on how to report at the end of each key deliverable or key phase to ensure that the best outcomes are achieved.

Project sponsor

The role of the project sponsor in any project is to provide clear direction for the project and link up to the organisation's overall strategy. This role is the backbone for the entire project without whom the project wouldn't be started. The project sponsor will be responsible for:

- securing the project resources;
- ensuring that the project is on time, on budget and within the scope;
- approving any variances to the scope and getting agreement;
- providing feedback on status reports and making sure that they reach the necessary stakeholders; and
- championing the project at the organisation's board or executive level to ensure that there is support and commitment from across the organisation.

This role is key to the success of the project as organisations are usually under pressure to deliver more for less.

GOVERNANCE AND OVERSIGHT

A cash to accruals accounting transition is likely to be a long and complex project requiring coordination of a large number of government departments and other entities over a period of several years. Also, in any project of this scale there will be unforeseen difficulties, risks and conflicts of priorities. Recognising this, during the pre-launch phase there is a need for the **project sponsor** to set up an effective system of governance and oversight in order to deliver the project. This structure will be the framework for resolving issues and managing problems that arise during the project life cycle, and for considering recommendations on planning project deliverables.

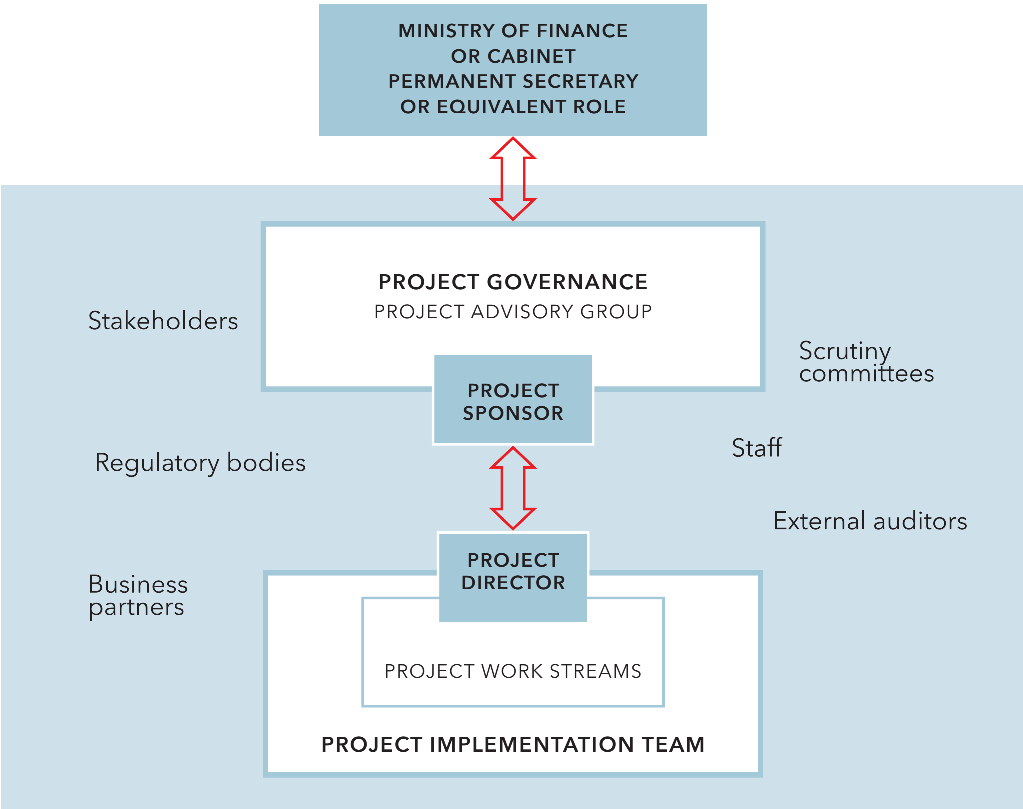


FIGURE 2
A governance structure for successful project management

Project board

A project board (or a project steering group) should be set up to ensure that the objectives of the project are met. It includes key stakeholders and subject matter experts who are not directly associated with delivery to provide oversight on the wider aspects of delivery of the project. Its role would be to:

- monitor and review progress on the project against the business case;
- monitor progress against the project management plan, reviewing and approving necessary changes over the project period;
- hold the project team accountable;
- direct the strategic activity across government;
- set priorities and resolve conflicts;
- resolve issues; and
- carry out risk management and allocate additional resources where necessary.

To carry out these activities successfully this board should include sufficiently senior members who are empowered to make key decisions, control resource and personnel allocation and influence policy in their respective departments. The project board should also have representation from across the functional areas that are likely to be involved in or affected by the project.

Chair to the project board

Ideally the project board should have a **chair** who, if not the project sponsor, should directly report to the project sponsor and be sufficiently independent of the project team in order to maintain perspective and constructively challenge the team.

Project implementation team

A central project implementation team (PIT) with the necessary technical and project management expertise is required to coordinate delivery of the project.

To lead the PIT, a **project director** role should also be set up. This is a key role in the successful delivery of the project as this person will be responsible for ensuring all of the strands of the work are carried out, ensuring that the risks and issues are identified and monitored, completed actions are mapped against the work plan, and activities are coordinated, performance is monitored and regular reports and feedback are maintained. The project director therefore has to have sufficient authority and resources to enable him/her to do the job. The project director should report to the project sponsor. While they will attend the project board, they should not be a voting member. Their role should be to present information and answer questions about the progress of the project.

The PIT will work under the project director to help deliver the project. Depending on the size and nature of the government, it may not be possible for a central project implementation team to carry out all of the project activity. With the complexity of public sector reform, it is likely that there will be a need for additional work streams that reflect the key steps or phases in the project. At a minimum, one person at senior manager level (within each department or function) should be nominated to become the project champion and take responsibility for delivery of the activity with that work stream.

The PIT is likely to require considerable administrative support to manage the administration for the various strands of work and pull the information of the detail work together. This support can be provided through the **project secretariat**.

The initial set-up tasks for the project implementation team are likely to include:

- development of a detailed project plan and set-up of a project management system;
- conducting a gap analysis to identify the detailed steps for successful implementation, assess what is already in place and therefore what is needed (ie, the gaps);
- development and submission of a business case to get the commitment and buy-in for resources required to deliver the project plan;
- development of a risk register and risk management system;
- initiation of procurement activity for systems and processes; and
- coordination of a training needs analysis.

COSTED PROJECT PLAN AND TIMELINE – THE 'ROAD MAP'

In order to budget and plan effectively it is necessary to know what is involved in the project, the time period that the project is planned for, how much the overall project will cost, and when the benefits are likely to materialise. The answers to these questions will depend to a large extent on the starting position of the country's financial reporting landscape. The table below shows high level action required to reach full accruals accounting, depending on the accounting bases – cash, modified cash, modified accruals or full accruals. The modified cash basis allows a short period of time after the year-end for settling liabilities of the year just ended and modified accruals is similar to full accruals but does not include the capitalisation of fixed assets (ie, no property, plant and equipment).

TABLE 2
Actions required to reach full accruals accounting

WHAT TYPE OF ACCOUNTING DOES THE ENTITY CURRENTLY APPLY?		KEY ACTION POINTS TO REACH FULL ACCRUAL ACCOUNTING
CASH ACCOUNTING – high quality, IPSAS cash standard compliant **CASH ACCOUNTING –** local cash accounting rules, not internationally recognised **MODIFIED CASH**	→	Detailed gap analysis required Changes to legislation Accounting policies and manuals to be developed New IT system Assets and liabilities to be identified and valued Extensive staff training **[6 – 10 years]**
MODIFIED ACCRUALS **FULL ACCRUALS**	→	Further recognition of assets and liabilites Adoption of different accounting policies Systems may need to be modified **[2 – 4 years]**

A government operating on a local GAAP cash basis with weak IT systems and low staff expertise will have a bigger transition to undergo and more costs to incur in comparison to a government that already has parts of the road map in place. There is also a possibility that governments with large property, land and heritage asset portfolios as well as complex and varied transactions will have a longer and more expensive transition period than smaller governments with less complex structures.

TRANSITION PATH

There are a wide number of transition paths available. The choice is between adopting accruals accounting in one go or through a phased approach.

A number of countries have recently moved to accruals accounting within their government providing a wealth of empirical evidence. Some countries, such as New Zealand and Australia had a direct and quicker approach to the transition, choosing to move to accruals accounting in one go. Most other countries have adopted a phased approach to the implementation of accruals accounting because of the scale and complexity in making the transition.

The transition path will depend on the complexity, size and scope of the government entities involved as well as the results of the gap analysis. Appendix 3 shows an illustrative example of the UK's phased transition path which uses trigger points as part of its phasing approach.

PHASING – APPROACH

Using a phased approach can:

- encourage the breakdown of work into understandable packages with each phase having a clear start point, a series of well-defined tasks and a defined end point;
- help to identify risks by working through the project step by step;
- ensure the involvement of the right people at the right time with the right tasks;
- reduce the complexity of planning and control by adopting a two-level planning approach;
- allow the organisation to be in control of the project by having formal phase reviews; and
- encourage careful specification of requirements at each phase.

Given the size and complexity of most governments, it is recommended that they take a phased approach to public sector reform to ensure that the resources and the project remains manageable. Lessons learnt from early waves of transition will be beneficial to latter stages and will help to improve the efficiency of the process.

The first steps are to:

- identify where, as an organisation, you are on your journey;
- confirm the systems that are in place, and whether they are sufficient;
- identify what needs to change and analyse where more work is needed; and
- identify more resources.

PROJECT PLANNING DOCUMENTS

A project plan

The project plan provides the direction for the project. It also connects to other detailed project planning documents. It is essential that the project's key stakeholders fully understand the nature of the project plan. This is an essential document for getting commitment and buy-in to the project. The project plan and the related set of documents need to be understood by the relevant stakeholders as they will be asked to review and approve some of these which are relevant to them. For the purpose of this toolkit, the relevant other documents are: a risk management plan, a staffing plan and a communications plan.

It is, therefore, also essential to know who on the project will need to review which parts of the planning documents. In addition to the parties mentioned above, some of the key players who would be expected to review key parts of the planning documents might be:

- Designated departmental experts, who will define their requirements for the final outcomes. They need to help develop the scope and timelines and approve the documents relating to scope.
- End users using the outcome of the project. In an ideal world, the end users of a project outcome would need to participate in the development and review of the plan; however, they are unlikely to have a role in the approval of any of the planning documents.
- Others such as auditors, risk analysts, procurement specialists, and so on, may also participate in the project. They may need to approve the parts that pertain to them, such as the quality or procurement plan.

The project initiation document

The project initiation document (PID) is probably the most important document in the project plan. It sets the foundation for the rest of the project. This is the statement of what the project is setting out to achieve based on the objectives and guiding principles of the project. It should make clear how each part of government will be involved and what their involvement is likely to be. If it is well written it will also set out the criteria by which success will be recognised.

The PID is the basis for getting the buy-in and agreement from the sponsor and other stakeholders and decreases the chances of miscommunication. This document will most likely grow and change with the life of the project. It should include:

- the business need and business problem;
- project background and objectives;
- benefits of completing the project, as well as the project justification;
- project scope (ie, the deliverables that will be included and excluded from the project and any interfaces);
- key milestones, the approach, and other components as dictated by the size and nature of the project;
- risks and issues; and
- detailed project information such as the organisations and reporting lines, stakeholder communications, work plans.

The PID can be treated like a contract between the project director and sponsor, one that can only be changed with sponsor approval.

A template is included in Appendix 4.

Detailed work plan

Once the deliverables and outputs are confirmed in the PID, they need to be developed into a detailed work plan, which is a breakdown of all the deliverables in the project. The work plan should:

- identify the deliverables/outcomes of the project, capturing all of the activities that need to be carried out; and
- break down the large deliverables into smaller manageable tasks.

In breaking down high-level deliverables into tasks and actions, the work plan should:

1. identify resources (people) for each task, if known;
2. estimate how long it will take to complete each task;
3. estimate cost of each task, using an average hourly rate for each resource;
4. consider resource constraints, or how much time each resource can realistically be devoted to this project;
5. determine which tasks are dependent on other tasks, and develop a critical path;
6. develop a schedule of all the tasks and estimates and, if possible, by chosen time period (week, month, quarter, or year) identifying which resource is doing which tasks, how much time they are expected to spend on each task, and when each task will start and end; and
7. develop the cost baseline, which is a time-phased budget, or cost by time period.

The work plan is not a static document and will most likely need to evolve throughout the project.

A template is attached in Appendix 5.

Staffing plan

The staffing plan is a chart that shows the time periods, usually month, quarter, year, that each resource will come onto and leave the project. It is similar to other project management charts, like a Gantt chart, but does not show tasks, estimates, begin and end dates, or the critical path. It shows only the time period and resource and the length of time that resource is expected to remain on the project.

Risk management plan

The risk management plan identifies the risks that may potentially occur at any stage of the project life cycle. It then evaluates those identified risks and outlines the actions that are needed to mitigate them. It will be periodically updated and expanded throughout the life cycle of the project, and as the project increases in complexity and risks become more defined.

The main phases of a risk management plan are to:

a) identify the risks;
b) assess and rank them;
c) identify actions and plans to mitigate the risks;
d) identify a level of priority for each risk;
e) monitor the risks and priority level on a regular basis; and
f) identify when something is no longer a risk and therefore has been mitigated or eliminated.

The risk management plan is a key document in the project life cycle; and should be created at the beginning of the project itself.

Complex projects such as the move from cash to accruals accounting require a thorough risk analysis and planning. Moreover, each risk outlined in the risk management plan will itself need a thorough analysis of the possible consequences and, consequently, what the mitigating actions will need to be.

The main goal of creating the risk management place is to prioritise the risks. All risks will never be eliminated, but they can be documented and prioritised in an attempt to manage them and eliminate them.

A template for a risk management plan is included in Appendix 6.

Communications plan

Communication and engagement is very important in implementing a strong public sector financial management framework. A communications plan is necessary to provide stakeholders with information about a project. The **plan** formally defines who should be given specific information, when that information should be delivered and what **communication** channels will be used to deliver the information.

Two-way communication is important with strong communication and engagement between leaders and staff at all levels and **clear lines of accountability** for those making decisions. Communicating the **right information to the right people** at the right time in the right way will enable the **right decisions** to be made.

Stakeholder engagement and buy-in is very important. There need to be clear, consistent messages to improve understanding of the finance management agenda. Stakeholders need to understand why something is being done and who the users and recipients of services are and leaders and staff need to be open to challenge by stakeholders and respond to it. It is, therefore, crucial to understand the role of stakeholders and be open and responsive to stakeholder expectations.

A typical communications plan will include the following:

- the information to be communicated, including the level of detail and format;
- the method of communication, for example, in meetings, email, telephone, web portal, etc.;
- the timing of information distribution including the frequency of project communications, both formal and informal;

- who has overall responsibility on the project for communicating project information;
- communication requirements for all project stakeholders;
- how any sensitive or confidential information is communicated and who must authorise the release of the communication;
- how changes in communication or the communication process will be managed;
- the flow of project communications;
- any constraints, internal or external, which affect communications from the project implementation team; and
- any standard templates, formats, or documents the project must use for communicating.

A template for a communications plan is included in Appendix 7.

IMPLEMENTATION PHASE

During this phase, the organisation should identify the key steps that it needs to have in place to move to the new model in a coordinated and structured way. While unforeseen events are inevitable with large projects, part of the value in carrying out thorough planning in the set-up phase is to help to identify critical points and mitigate and minimise the risks. Embedding the changes will involve training throughout the organisation, finalising systems design, building and testing, refining and/or setting up new processes and procedures, building in corporate governance and risk management and modifying the budgets.

In reality, there will be parts of the project that can be carried out simultaneously. For example:

- an assessment of the current technical capacity and reporting and management systems;
- future accounting system needs should be planned and either procured or upgraded;
- an accounting manual needs to be developed setting out accounting standards and policies that have been adopted;
- staff training and any recruitment of specialist skills needs to be undertaken;
- the transition path needs to be developed; and
- the opening balances for assets and liabilities need to be established.

TECHNICAL CAPACITY AND CURRENT SYSTEMS

Where a government is planning to adopt a new financial reporting/management system, it is important that the current processes are well understood and documented. Unless the current systems are documented, an assessment of the existing systems will be required to ensure that current and future financial reporting/management requirements will be met. Having the technical capacity and modern IT systems will play a key role in deriving tangible benefits from the transition. A new IT system is likely to be one of the most expensive elements of transition. It is worth remembering that all IT becomes obsolete eventually and even remaining on a cash basis would require IT expenditure at some point. Key aspects of assessing technical needs will probably include, but are not limited to:

- review of all information currently held within the systems;
- review of future requirements under an accruals system;
- inter-connectivity between different systems;

- the interfacing that is taking place across government and whether functions are more centralised or decentralised in nature;
- the management information required over and above financial reporting requirements (in line with international accounting standards);
- assessing the need to have bespoke system requirements or off-the-shelf packages that could be modified;
- the number of bespoke reports that are used;
- the statistical requirements; and
- whether budgets, management accounts and annual reports are to be created using one system.

The recording of accruals data is a continuous process and having the necessary IT systems to facilitate this task is important. Not only will a modern IT system enable the provision of timely data, it will also help identify anomalies (both human error and fraud) as well as speed up the audit process.

Having in-house finance professionals capable of recording, understanding and communicating accruals-based data cannot be overemphasised – obtaining this organically will take time and obtaining the people from external sources can be expensive.

FUTURE ACCOUNTING SYSTEM

The IT system to support accruals accounting is a key component and will to a large extent depend on the initial scope of the project. There are a few considerations to bear in mind:

- The scope of the project will impact on the number of entities either using the system directly or indirectly by providing information to feed into the process (interfacing). For example, the scope may only include central government entities or it may include both central and local government entities. The number of entities involved could, potentially, be very large.
- Thought needs to be given to whether there should be one central system or whether local entities can use their own IT systems which would then need to feed into the central system. This decision will largely depend on the number of entities involved and logistics.
- Development of a chart of accounts that can accommodate current and future requirements such as budgeting data and statistical information. Will the chart of accounts be applied across different entities ie, a ‘common chart of accounts’ or will local variations be permitted?
- Applying generally accepted accounting standards will involve the requirement to consolidate entities under common control. The IT system has to support this process.
- It is essential to ensure that control requirements such as user restrictions, unique reference generators and the ability to generate relevant management information reports are met.
- The more bespoke the requirements, the higher the cost. Furthermore, the more complicated the system, the more training will be required. However, accounting and consolidations are complex so the system will have to deliver what is ultimately required.

Lastly, it is worth bearing in mind that having a relevant ‘off-the-shelf’ financial management system rather than a bespoke one, will help with the recruitment of both IT specialists and accountants as there will be a greater ‘pool’ of people with expertise in using that system. It will also make support straightforward.

ACCOUNTING MANUAL

The accounting manual is the technical guide for the preparation of the government's financial statements. It should set out the accounting standards that are applicable and provide information on the accounting policies and how to disclose figures and information in the financial statements. The content will depend in the first instance on which accounting standards are to be adopted. Most governments base their accounting standards on existing standards (such as IFRS, IPSAS or national GAAP) with varying degrees of adaptions. In theory, a government could produce its own set of standards although this would be a time-consuming and resource-intensive exercise.

As a starting point, we recommend that the organisation implements high-quality accruals accounting standards, adapting them to the set of standards that it wants to implement within the jurisdiction. For example, governments that have adopted International Public Sector Accounting Standards (IPSAS) have adapted them to their own local requirements.

Once the basis of accounting standards is agreed, the manual will show the following:

- objectives and scope of the standards;
- adaptations to the accounting standards adopted;
- specific accounting policies to be adopted by the entities in scope; and
- the types of disclosure that will be necessary.

To further help in the improvement of comparability across government, the organisation may wish to consider issuing a disclosure template to ensure that various government entities follow the same basic disclosures. A template is easier to follow and understand than accounting standards and their adaptations.

Lastly, to ensure that the government produces robust accounts that are true and fair, the accounting manual should be reviewed and updated annually and approved by an independent accounting standards setting board. There must be no political interference with this process as this would undermine the legitimacy of the accruals-based account.

More information about accounting standards and accounting policies is in Section 5.

STAFF TRAINING AND RECRUITMENT

In order to realise the benefits of adopting an accruals accounting system, it is important to have staff, both preparers and users, who have the technical expertise to operate it. This may require a programme of staff recruitment and training to build a workforce with the necessary expertise or fill any gaps in the skills of the existing workforce.

In order to evaluate the skills gap of the workforce and to prioritise which groups should be trained, it is necessary to first carry out a workforce survey which should collect information on:

- the staff already within the organisation who may potentially be involved in the project;
- their level of skills and experience (based on their previous work and training); and
- the qualifications that they may already have.

Once this data is collected, it should be possible to create a set of priorities for workforce recruitment and training to support the transition phase which, in itself, will determine the size and complexity of the training required.

Staffing, training and recruitment is discussed further in Section 4.

OPENING BALANCES

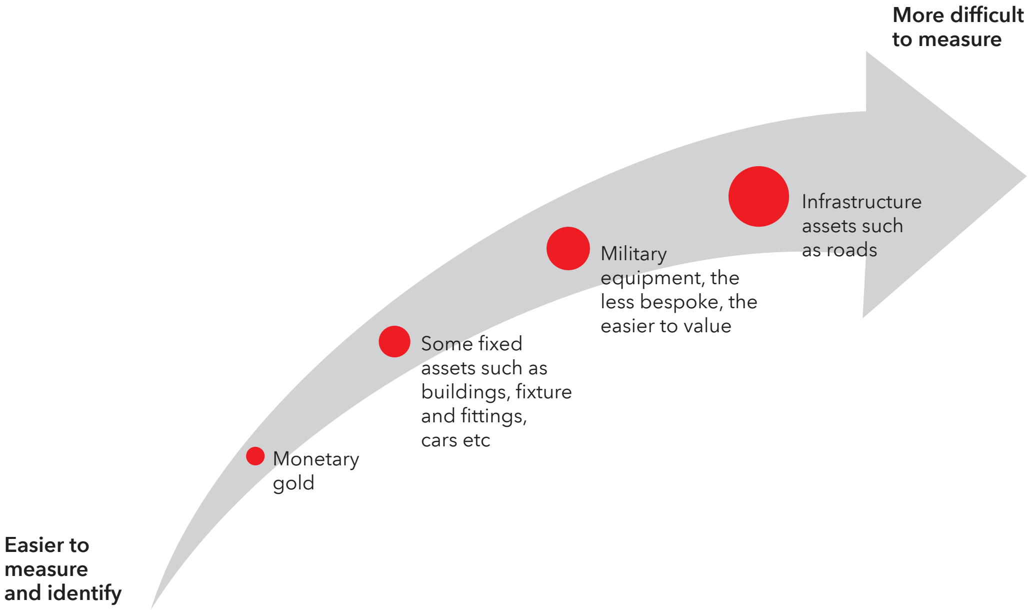
The major difference between cash and accruals accounting is the creation of a statement of financial position.

To create the statement of financial position, those assets and liabilities need to be identified, measured and recorded. This is potentially a large exercise which will require careful planning and management. The level and quality of government's previous record keeping will have an impact as well as the size of the government.

Appendices 8 and 9 touch upon the most common assets and liabilities and the required supporting documentation.

The opening balances should be audited to obtain the necessary confidence over completeness and accuracy and thus need to be supported by reliable records and appropriate valuations. A suitable strategy should be developed to ensure continuous progress, for example some asset classes could be determined on a sample basis. The application of materiality will be important. In order to capture the largest amount of assets and liability values as quickly as possible, it can be useful to have a phased approach that focuses on measuring large and easily measured assets and liabilities first. Later phases will capture more difficult to measure assets.

FIGURE 3:
Examples of assets that are difficult to measure



Governments which have departments that routinely deal with the valuation of assets and liabilities (such as a Valuations Office, Land Registry, Actuary Departments etc) will have some ready-made sources of information which should be used. Where no records exist, or assets are intrinsically difficult to value (eg, heritage assets) then some judgements may be required. In some cases, it may be necessary to estimate a number, however the process for this needs to be documented to explain how the numbers have been estimated and that they are realistic.

Equally important are the accounting policies to be applied to assets and liabilities recorded. It is important that different entities under common control adopt and apply the same accounting standards to ensure comparability and to also facilitate consolidations. Accounting policies will impact on depreciation rates to be applied, impairments, revaluations and many other facets (see Section 5).

PRE-LAUNCH PHASE

DRY RUNS

The production of timely and high quality government financial reports is a very important exercise and many key decisions are based on those reported figures. It is vital that parliament, government and wider stakeholders, such as citizens, do not lose confidence in the new accruals-based outputs.

For this reason, it is prudent to keep the old, tried and tested procedures in place alongside the new ones while the new system is tested through a series of 'dry runs' before it goes 'live'. Although this parallel running may be more resource intensive, it will give the project team time and space to iron out any errors or malfunctions. It will also enable the auditors to review the new system and feed into the process effectively.

Our experience shows that the implementation of a new approach to accounting usually takes a few years of trial and repetition to become fully functional and free from error. As a consequence, the auditors may continue to qualify the new accruals-based accounts depending on the transition path as there may be some years where neither pure cash nor full accruals accounts are produced. These hybrid years may be mitigated by the parallel running of the old cash systems. A close working relationship and open dialogue with both internal and external auditors is therefore important.

AUDIT

Audit is an important element in the publication cycle of public sector financial statements and involving the state auditor in the transition phase can be extremely beneficial. Auditors will, in any case, need to be involved at various stages of the project to understand the implications for their audit work and to develop an understanding of the systems that they will audit. Key aspects that the auditor can help with throughout the project are:

- review of project plans and scheduling of activities;
- internal controls and processes;
- audit of IT systems;
- review of any fixed asset registers; and
- check of opening balances.

PREPARING TO GO LIVE

Preparing to go live will entail a lot of detailed considerations and assessments. Below are some of the main considerations to take into account:

- system readiness;
- timetable in place for data input from government bodies;
- staff in place, including right mix of experience and technical know-how;
- sign off from local government entities that they are ready;
- agreed application of accounting standards (ie, which ones); and
- opening balances identified and recorded.

FURTHER CONSIDERATIONS

ROLL-OUT TO ALL GOVERNMENT ENTITIES

If a phased approach is adopted for the project, then after the initial group of government entities has adopted accruals accounting, it will need to be rolled-out to other entities. The transition path and planning documents will need to set out the various phases and timing of the roll-out together with information about which entities will be involved at what stage.

WHOLE OF GOVERNMENT ACCOUNTS

Whole of Government Accounts (WGA) is a consolidation of all public sector entities under government's control. The consolidated financial statement at a WGA level would effectively provide users with a statement of financial performance and position that represents the country as a whole. This provides unique insights to help shape macro-economic fiscal policies.

There are a few countries performing this consolidation already: New Zealand, Australia and the UK. It is recommended that a phased approach is used for this complex and technical task.

ACCRUALS BUDGETING

To gain the full benefit of accruals accounting and the associated benefits for public financial management, it is usually necessary to align the whole public financial management system on an accruals basis. This is particularly relevant for the budgeting process as most governments base their spending allocation on budgets. If these are not on an accruals basis, budget and actual expenditure will not align. Without alignment, it is very difficult to follow through budgeted expenditure to what was actually spent for accruals purposes.

In practice, however, countries have delayed the adoption of accruals budgeting by a few years to provide assurance to those responsible for authorisation of budgets that the new financial systems can provide reliable information.

The introduction of accruals budgeting requires careful consideration. In particular, if prepared on an accruals basis, budgets will need to take account of non-cash items such as depreciation and provisions for future expenditure.

HARMONISATION WITH STATISTICAL ACCOUNTS

There are requirements in place for governments to periodically provide statistical data to organisations such as the World Bank, OECD and IMF. In Europe, statistical data is used to decide payments of supporting grants, the size of member contributions to EU funding as well as for overall budget control. In recent years, the statistical frameworks have also adopted accruals-based measures which presents an opportunity for governments to provide accruals-based government data in a more effective and timely manner with increased quality since the data is already being collected and recorded on a daily basis under an accruals-based accounting framework.

Section 4: People and resources

PEOPLE AND RESOURCE GAP ANALYSIS

Government business is complex and requires the right people with the right skill sets at all levels. In general, in the private sector, organisations usually have a strategy to define, attract and develop the right mix of people and resources to support and grow their businesses. The public sector is no different and also needs an effective 'people' strategy to be able to ensure effective financial management that matches resources to strategy to deliver policies. Given the large sums of taxpayers' money at stake, it is not unreasonable to expect the same degree of professionalism for government officials as governments impose on the management of companies to protect shareholders.

The range of skills required to deliver a successful implementation and subsequent operation of accruals accounting will include:

- project and risk management capabilities;
- accounting policy and technical accounting knowledge;
- planning, budgeting and forecasting knowledge;
- business analysis and evaluation techniques; and
- financial systems design and development;

The first step, therefore, in this process is to carry out a 'people and resource' gap analysis to:

- determine what skills and level of resources are needed at each stage of the project;
- identify the level of existing skills and resources;
- identify the gaps; and
- identify what actions need to be taken to fill the gaps:
  - by other internal resources from around government, through redeployment and restructuring;
  - through training to increase the level of skills;
  - developing a training and qualification plan;
  - recruitment from external sources; or
  - outsourcing for functions that require specialist skills.

For many government employees, using a cash or modified cash basis will have been the way they have always operated. Certain 'ways of doing things' may be entrenched and one of the key challenges faced by the staff will be to change how they think about transactions. In particular, staff will need to:

- understand non-cash transactions and their impact;
- record economic events after the transfer of risk and rewards has taken place, not the movement of cash; and
- look at the bigger picture and manage risks using on- and off- balance sheet information.

Another way to close the gap between capabilities of existing staff and the capabilities required is to recruit the necessary expertise from outside government. In particular, to recruit people with experience of accruals accounting in large companies where there are large transactions and experience of the consolidation of complex intra-group transactions and balances.

In the short term, many governments have found it necessary to rely on consultants and contractors to fill gaps in expertise. This is, however, usually only viable as a short-term solution as it is expensive and does not, in general, improve the skills of the existing workforce.

TRAINING AND QUALIFICATION PLAN

QUALIFICATIONS AND DEVELOPMENT

To build an effective workforce capable of operating in an accruals accounting environment it can be helpful to think in terms of building 'a government finance profession'. This profession can have its own training and qualification plan specific to local requirements which caters for the wide range of employees' training needs. These may range from basic accounting skills through to accounting technicians, to those who will need a full professional accountancy qualification.

While it is desirable in principle for all staff responsible for finance within government to have a relevant **professional accountancy qualification,** in practice, it can be hard to recruit and retain sufficiently qualified staff. It is important to have staff with professional accountancy qualifications in key leadership roles or those requiring professional judgements, for example, finance director and chief accountant roles.

Professional qualifications do not need to be a specific public sector qualification as the skills needed to be an effective financial leader are often shared with the private sector. In general, our experience is that, the **skills and competences** provided by a professional qualification are the type of skills necessary in carrying out public sector reforms.

> The Austrian Government recognised the need for relevant skills within government as part of the transition to accruals, with a three year period during the accrual implementation dedicated to training and professionalising staff. It was further recognised that to improve the knowledge of all stakeholders, a wider programme of outreach was required, with resources directed to improving understanding of accrual information amongst the wider public administration, Parliament, the media, and citizens.
>
> Source: OECD 14th Annual Public Sector Accruals Symposium – Implementing Accruals: the Lessons from Experience – Sandra Kaiser & Bernhard Schatz

RECRUITMENT AND RETENTION

One of the key objectives of successful **recruitment and retention of staff** is for the organisation to identify and retain key staff who have business-critical skills and develop them further so that they can be the leaders of the future.

Drawing on the UK experience, we have found that public sector organisations very often have career structures that are designed to suit generalist or policy-based civil servants which do not recognise the needs of specialist or expert members of staff. This can give rise to a number of difficulties in recruiting and retaining specialist staff. In particular, organisations that mainly employ generalist staff often base their employment offer around several assumptions, such as:

- employees do not have transferrable skills, so are less able to move to alternative roles if they are dissatisfied;
- training and development opportunities, including fast-track management schemes, are geared up to the needs of generalist staff;
- technical or specialist staff are often too narrow in their expertise to be suited to senior management roles requiring a broad grasp of the organisation and wider context in which it operates; and
- specialist staff are an 'add-on' to the organisational structure, so exist in an advisory capacity rather than being part of the core decision-making process.

These factors can combine to produce an environment that does not offer sufficient reward or opportunity to attract or retain employees from strong professional backgrounds. Consequently, in order to effectively recruit and retain finance professionals into public sector roles it is important to ensure they receive both appropriate **reward and recognition**.

REWARD

The main attraction of a career in the public sector is that it can provide an interesting overview of the public finances, the ability to feel involved in activity that is of national importance and the sense of doing something worthwhile and of benefit to the nation. All of these attractions mean that finance professionals do not necessarily expect to be paid in line with the top opportunities in the private sector.

- **REMUNERATION** – the skills of finance professionals are usually transferable between the public and private sectors and, despite the non-financial rewards of working in the public sector mentioned above, if there is a significant difference in remuneration it is very difficult to attract or retain sufficient skilled people. Consequently, public sector employers need to recognise that while they don't have to offer a reward package in the upper quartile, they do have to keep the level of overall reward close to the median 'going rate' for finance professionals or risk losing them. A career in the public sector needs to be rewarding to attract the brightest and the best staff.
- **CONTINUING PERSONAL DEVELOPMENT** – the nature of their expertise means that finance professionals have to undertake continuing professional development to maintain their qualifications, so offering training and development opportunities is attractive to them. Finance professionals also tend to welcome opportunities to maintain and develop their wider professional and personal skills, so provision of training targeted at them (eg, commercial skills for finance professionals) can considerably enhance the employment offer.
- **JOB SATISFACTION** – one of the most important factors of employee satisfaction in any job is the sense that what you are doing is worthwhile. In situations where other types of employment can offer better financial reward, this is an important factor in retaining staff.

RECOGNITION

An important component of attracting and retaining is ensuring staff feel that what they are doing is worthwhile, valued and an important part of the activities of the organisation they work for. There are a number of components of 'recognition' which are worth considering.

- **STATUS** – finance professionals need to be recognised as an integrated part of the management function of any public sector organisation. This means they need to be treated as full members of the management team and given suitable job titles, roles and responsibilities that affirm their status as part of the management team.
- **INCLUSION** – it is important to include finance professionals in core business activities such as strategy forming, planning, budgeting and review. Bringing finance skills to these activities is not only of enormous benefit to the business, but it also means that finance professionals feel valued and included as part of the management team and gain a strategic understanding of business. It also means that other departments/colleagues can immediately see the value the finance professionals bring to the project which makes it easier for them to work together and supports more efficient working practices and seamless movement from earlier to later phases of the project.
- **REPRESENTATION** – finance professionals should be included as full members of management boards and committees with an equal say to their peers. This helps them feel valued by ensuring their contribution is taken into account in decision-making processes and increases their feeling of identity with the organisation. It also means that any risks they identify can immediately be shared and addressed by management which is crucial to the viability of the project.
- **WORKING ENVIRONMENT** – public sector employers also need to ensure that the status of specialist employees is recognised and that their workplace meets reasonable standards of convenience and comfort. This extends to providing them with the right tools for the job in terms of IT and ensuring the environmental conditions do not distract staff from being able to focus on their work.

TRAINING ACADEMY CONCEPT

In the UK, the government has set up the concept of a Government Finance Academy to provide training to accountants and internal auditors within the UK Government. It tries to provide training to its membership to help develop their knowledge and skills and increase its capabilities. However it cannot do this alone and often uses the accountancy bodies to help it provide the training. For example, ICAEW has developed a Public Sector Training Academy which provides specific tailored programmes addressing key challenges relevant to the public sector.

icaew.com/en/learning-and-development/talent-development-programmes/public-sector

ICAEW also has a wider academy for all professionals which provides post-qualification professional development from its most experienced trainers; they deliver practical training with a level of knowledge that professionals need to improve and enhance their impact on their business and on their individual performance.

icaew.com/en/learning-and-development/cpd-courses

One of the most relevant qualifications in this offering is the ICAEW IPSAS Certificate which helps to strengthen the professional's understanding of current developments in public sector accounting and explains key accounting and operational implications of IPSAS adoption. The certificate provides public sector accountants with a rich e-learning programme for all stages of the implementation process and beyond. It follows a hands-on approach, taking the principles of IPSAS and putting them into practice, providing concise technical guidance, practical examples and tips, practice questions, planning and revision material.

icaew.com/en/learning-and-development/specialist-qualifications/ipsas

SUCCESSION PLANNING

No work force is static and, over time, staff will leave either through promotion, retirement or to pursue other opportunities. It is important, therefore, to ensure that business-critical finance posts which become vacant can be filled by candidates with the necessary skills and experience to ensure that the smooth operation of the accounting and finance functions are not interrupted. It can be helpful for government departments to develop a career path for the finance and accountancy staff to ensure there is a 'pipeline' of suitable staff coming through the organisation, to fill business-critical posts and to encourage them to stay within the organisation. Having an identified career path can also provide the following benefits:

- CAREER PROGRESSION – finance professionals tend to enjoy working in clear and structured environments so value the ability to look ahead and understand the opportunities for progression and the criteria for advancement. A clear 'finance' career path with opportunities for progression and career development will help to recruit and retain finance professionals.

- VARIETY OF EXPERIENCE – public sector organisations tend to be large, so they can also offer staff personal development through the variety of roles and activities they undertake. Being able to offer finance professionals the opportunity to work in other areas of the organisation as part of an overall finance career has the benefit of broadening their skills. It can also give them a better understanding of the business activities of the organisation. All of which increases their value to the organisation.

Section 5: Standards and policies

ESTABLISHING A FRAMEWORK

As part of implementing an accruals accounting framework, the government needs to set out the accounting standards that will be applied, with interpretations or adaptations of those standards, first time adoption provisions and disclosures. Some accounting standards also offer choices of accounting treatment, which require a set of accounting policies to be set out to avoid unnecessary non-conformity across different government entities.

In adopting a new set of accounting standards, it is important to have **consistency and transparency** in the approach at all levels. In New Zealand, the Treasury provided guidance and developed a set of accounting policy parameters based on GAAP to constrain individual departments and ensure consistency of application throughout government.[3]

Adopting a new set of standards is a complex process, therefore in practice, many countries find it useful to move from cash to accruals accounting in a series of steps. For example, in the UK, the following phases occurred:

- cash to modified cash;
- to accruals based-budgeting;
- to accruals-based accounting;
- to GAAP-based accounting (this was phased in with the health service taking the lead in implementing first);
- IFRS-based accounting; and
- Whole of Government Accounts consolidation.

In other countries, particularly those EU member states that have recently begun the transition to accruals, a staged approach has seen the gradual expansion of the coverage of economic events recognised in the financial statements until the adoption of full accruals accounting is possible. This has seen these countries adopt a number of standards based on IPSAS, but they have delayed the application of more technical standards such as consolidation, employee pensions and financial instruments until reforms are embedded. Sri Lanka is an example of another approach, where financial statements based on IPSAS 1 have been developed but initially these have been on a modified cash basis with valuation at historic cost. All moveable assets acquired since 2004, for instance, are recognised in the accounts, and a process is underway to value land and buildings that will enable the disclosure of all fixed assets on an accrual basis.[4]

3 IMF – Implementing Accrual Accounting in the Public Sector – September 2016 – https://www.imf.org/external/pubs/ft/tnm/2016/tnm1606.pdf

4 IMF – Implementing Accrual Accounting in the Public Sector – September 2016 – https://www.imf.org/external/pubs/ft/tnm/2016/tnm1606.pdf

EY – Overview and Comparison of Public Accounting and Auditing Practices in the 27 EU Member States – December 2012

A phased approach allows there to be development of methodology at each step, and an opportunity to digest the lessons and experiences from each phase before moving on to the next phase.

Because standards change over time, it is also necessary to have a process for considering new and revised standards and implementing them.

ACCOUNTING STANDARDS

The objectives of financial reporting are to provide information that is useful to the users of the accounts. Accruals-based accounts will improve transparency and accountability as well forming a good basis for informed decision-making.

Many countries have their own accounting standards setting board that produces a collection of commonly-followed accounting rules and standards for financial reporting. These are referred to as GAAP (Generally Accepted Accounting Principles).

In the US, accounting standards are produced by the Financial Accounting Standards Board (FASB). The standards are called Accounting Standards Codification (ASC) and are mandatory for public companies but not for private companies. Private companies can chose not to follow GAAP.

The governments of the UK and US follow an adapted form of IFRS and ASC respectively. Both these standards have been designed for the private sector and some elements are not applicable or suitable for government entities to adopt.

Applying accounting standards means to adhere to a pre-determined set of rules that produce consistent and comparable information year on year. There are a number of options available in adopting relevant accounting standards suitable for accruals accounting. The main question faced by governments will be whether to amend or create their own, country-specific GAAP or whether to adopt internationally-accepted GAAP.

Creating or amending a country's own GAAP or adopting international GAAP will depend on:

- the starting point – how well-developed the current standards in use are;
- how well-developed the standard setting process is (see below for detail); and
- how the GAAP adopted compares to other countries and would they be widely considered to provide users with the information they require.

This toolkit assumes that the country will adopt international GAAP. There are two broad options, both of which come with advantages and disadvantages: to either adopt International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (IPSAS).

TABLE 3
IFRS and IPSAS – some pros and cons

IFRS		IPSAS	
PROS	**CONS**	**PROS**	**CONS**
Widely used in private sector	Designed primarily for large for-profit entities	Only standards designed specifically for the public sector	Not as widely adopted as IFRS so smaller user base
Strong standard-setting infrastructure	One size fits all – no exemptions for smaller entities applying full IFRS	Gaining traction among public sector financial reporting community	Fewer standard-setting resources than IASB
Well established standards with large amounts of expertise surrounding them	Unlikely to put the needs of the public sector first	Conscious of public sector-specific requirements	Some notable gaps currently in the suite of standards

While there is a growing list of countries that have adopted IPSAS, all of them have chosen to adapt the standards to suit their specific needs in accordance with local legislation and regulations. Moreover, not all countries that use IPSASs have fully adopted them. The South African Government applies IPSAS (and IFRS for Government Business Enterprises) but adapts these standards to eliminate alternatives, reduce complexity and respond to local circumstances such as legislation.[5]

Where IPSAS' are to be followed, the country would require strong standard-setting capabilities in order to effectively adapt these to local needs. The government would need to set up an independent standards-setting board consisting of both government and non-government experts, including the national auditor, that would be responsible for amending any IPSAS standards to suit local needs and for producing the accounting manual. The board's independence is essential to ensure trust and credibility in the standards adopted by the jurisdiction. No other organisation or government body should be able to easily change standards to suit itself without a clear and transparent process. See Maintenance of Standards below for more detail.

Lastly, whatever standards are to be adopted, they need to be aligned, as far as possible, with statistical requirements to support global requirements on providing statistical data.

The World Bank has developed a diagnostic assessment tool called the 'Gap Analysis' which facilitates a comparison of a country's public sector accounting and auditing standards and practices with international standards.[6]

ACCOUNTING POLICIES

Accounting policies detail the specific accounting treatment and procedures adopted in the creation of the financial statements. Disclosure of accounting policies is important because many accounting standards allow alternative treatments for the same transaction or item.

IPSASs are mainly based on IFRS which, in turn, are principles-based standards as opposed to rules-based standards. Governments would, in all likelihood, need to adopt accounting policies that restrict some of the options available in the standards to ensure that each government entity produces comparable accounts and to facilitate the consolidation process.

5 OECD Accruals Accounting Symposium 2012 - Jeanine Poggiolini, South African Accounting Standards Board - http://www.oecd.org/gov/budgeting/49845125.pdf

6 http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1192413140459/4281804-1209417227555/GAPframework2009.pdf

For example, stipulating that property, plant and equipment be accounted at fair value (as opposed to having the option of either fair value or historical costs) would be a major intervention but one that would ensure comparability across government. It would be expensive and time consuming if entities had to make avoidable adjustments to their financial statements simply for consolidation purposes. Some adjustments will be avoided by ensuring a homogeneous accounting policy across government.

The Ministry of Finance or equivalent will act as the 'group finance' function similar to the way in which a large private company would work. It would set out policies and rules to be adhered to by all involved. Acting as a group finance function may be difficult in practice if the other entities are individually responsible for their financial statements. It is, therefore, highly recommended that the government set up appropriate governance and oversight mechanisms that allow independent and competent standard setting with strong representation of the various stakeholders. Please see below for further detail.

MAINTENANCE OF STANDARDS

Governments implementing accruals accounting will most likely adopt standards that are created externally (see section on Accounting Standards above). As such, not all elements of each accounting standard will be relevant. In order to remain credible and to ensure the financial statements remain true and fair as well as providing information that is useful, the government should implement strong governance and oversight functions of the accounting standard setting and maintenance process.

Below is a generic governance and oversight model which is widely used with slight modifications.

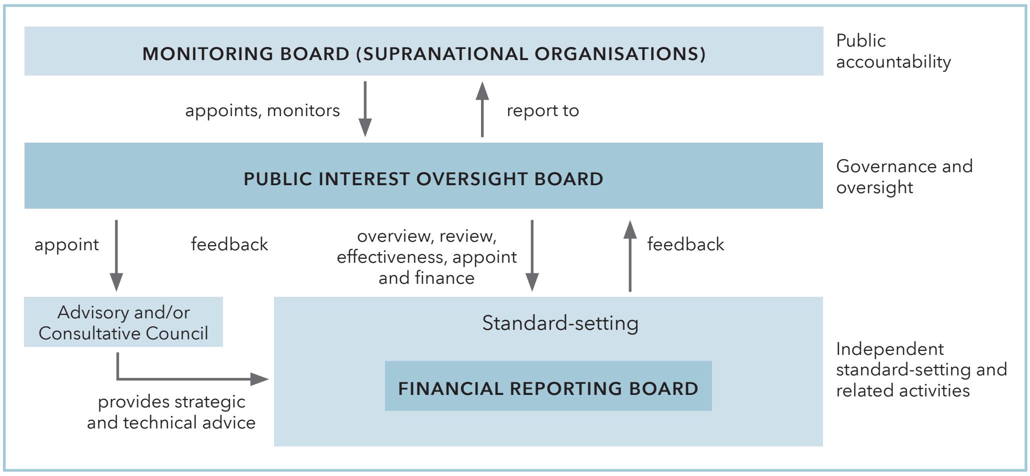


FIGURE 4
Standard-setting governance and oversight model

The above diagram shows the possible oversight elements, ranging from public accountability by the monitoring board, governance and oversight by an oversight board and finally the financial reporting board for the actual account standard setting.

Any government that is considering adoption of IFRS or IPSAS as a reference point for its own accounting standards could implement aspects of the governance arrangements shown in the diagram above, to fit in with its own structures and processes.

The French Government uses three sets of converging standards as its reference point. These are French Business Accounting Standards (Plan Comptable Général), IFRS, and IPSAS. Le Conseil de Normalisation des Comptes Public (CNoCP) was created to provide an opinion before the adoption of accounting rules for government bodies to follow. Composed of government representatives and technical members, a large part of CNoCP's remit is review the appropriateness of the adoption of IFRS/IPSAS. For each standard, CNoCP determines through review and consultation if the standard is directly applicable, if it requires adaptation for the specific nature of government activity, and if specific rules under the standard must be defined. Le Ministère de l'Economie et des Finances is then responsible for putting their recommendations into practice.[7]

The key output of the project is the 'accounting manual' which contains, among other things, the adapted international accounting standards that are to be applied by the government. These manuals will typically say whether to apply the full standard without amendment or whether standards need to be adapted and how. Please refer to Section 3 for more detail.

PARTICULAR ISSUES FOR FIRST-TIME ADOPTION

There are a number of areas where governments often encounter difficulties in the first-time adoption of accruals accounting standards. These tend to fall into the categories of 'what to include' within the government accounting boundary and the valuation of assets that are unique to government and often do not have private sector equivalents, such as military equipment and heritage assets.

Accounting boundary and consolidation

International accounting standards (like IPSAS and IFRS) look at control factors to determine whether an entity should be consolidated or not. This can cause some issues if the political boundary is not in line with the accounting standards, for example:

a) Budgets may be set for a group of entities that differ from the consolidation boundary. This means that budgets and outturn as shown in the accounts will not be aligned since the individual entities that make up the group for budgeting and accounting purposes differ.
b) In some countries, the national statistical body sets the government sector boundary for statistical accounts purposes. The statistical boundary may not be the same as if international accounting standards were applied, which would lead to differences.
c) During the financial crises, a number of governments chose to bail out nationally important institutions such as banks. These should theoretically be consolidated after governments obtained control. However, many governments argue that the banks would distort the balance sheet too much and are only temporarily under government control. They concluded that bringing banks onto the balance sheet would not provide users with useful information about the public sector, nor would the expense of doing so be justified. Political decisions may make it difficult to always comply with accounting standards.

Liabilities – which ones to includes

Many first-time adopters of accruals accounting will not be familiar with the recording of provisions and contingent liabilities. The recording of a liability occurs when a present obligation is established due to a past event that gives rise to an outflow of resources. The probability of such outflow of resources and the level of accuracy with which they can be determined impacts on the accounting treatment.

7 https://www.economie.gouv.fr/cnocp

One major liability that most governments face is the state pension obligation, yet these have been subjected to different accounting approaches. For example, it could be argued that when a person is born, this (past) event triggers the recording of a liability by assuming that person will reach retirement age and lead to an outflow of resources. However, it could also be argued that there are too many unknown variables and since most state pensions are not legally binding, no liability is shown, since there is no guaranteed future outflow of resources. This topic is currently subject to debate in the development of an accounting standard on social benefits.

The lack of an obligation to pay state pensions is why these are not recorded on the balance sheet. This differs to public sector employee pensions which, although subjected to similar uncertainties as a national state pension, are underpinned by a legal obligation (such as employment contract). Nevertheless, many governments are still not showing these liabilities on their balance sheet.

For some there is an expectation that public sector employee pensions will be recognised later as transition to accruals matures. Other countries, however, have amended the accounting standards they apply in order to do so even though accounting standards require these to be recognised. The UK Whole of Government Accounts shows public sector employee pension liabilities, which is the biggest single liability, in its financial statements. The French Government, however, doesn't show this liability, on the basis that in their opinion such pension obligations are equivalent to social security payments and do not reflect a contractually binding arrangement.[8]

Valuation of assets

Testimonies from countries that have adopted accruals accounting and international accounting standards share a common theme of challenges in valuing assets, in particular infrastructure, military and heritage assets.

One of the main difficulties with initial adoption is the requirement to separately identify and value individual components that make up the asset. For example, a road has many different layers that need to be separately identified because they have different useful economic lives and thus need to have different depreciation rates applied to them. The top layer, for example, wears out the quickest and may only have a useful lifespan of three to five years (depending on traffic flows). The layers beneath, however, will generally wear out less quickly and may have a useful economic life of 20 years.

The valuation of complex assets such as infrastructure assets, military equipment and heritage assets will require the input of experts such as engineers and other valuation services. Many countries however, do not have the necessary skills in place to value assets.

Austria stressed the difficulties in valuing their fixed assets; some key statistics show the scale of the issues:

- > 9.3 billion square metre land (in Austria and abroad), many forests;
- > 6,400 buildings (solid construction, garages, warehouses, sheds, stables etc); and
- Many historical buildings.

8 https://www.economie.gouv.fr/files/files/directions_services/cnocp-en/international/CNOCP_-_ED59.pdf

Section 6: Systems and processes

The move from cash to accruals accounting needs the right infrastructure in place to help the transition to go smoothly. Corporate governance, internal controls and high-quality systems and processes are needed to enable the move to happen and to generate timely, high-quality and relevant information for key decisions-makers which will in turn drive the performance of the organisation as a whole.

CORPORATE GOVERNANCE

Corporate governance is the system of rules, practices and processes by which an organisation is directed and controlled. Corporate governance essentially involves balancing the interests of the organisation's many stakeholders. Risk management and internal control systems help organisations understand the risks they are exposed to, and enable them put controls in place to counter these risks, and effectively help the organisation to pursue its objectives. They are, therefore, an important aspect of an organisation's governance, management and operations.

As part of their risk management and internal controls, governments will need to assess what they already have in place and whether existing systems and processes are sufficient for the reforms that they are planning. If the systems do not deliver the necessary functionality to support accruals accounting, then it will be necessary to develop a plan to:

- establish what systems and processes will need to change or be bought in;
- how they will make the changes or buy in new systems;
- how the changes will be resourced and managed; and
- who will be responsible for the changes.

NEW SYSTEMS

The acquisition, configuration and implementation of a financial management information system (FMIS) is a major project in its own right. As such it is outside the scope of this toolkit to provide a full guide to the acquisition of such a system. Furthermore, very often, the design of such a system is particular to the needs of an individual government. In this section, we set out some of the key issues and potential pitfalls associated with the development of a FMIS and provide some guidance to governments about how to proceed.

SCOPE OF A POTENTIAL SYSTEM

When planning the nature and scope of the FMIS to support accruals accounting, there are some important points to consider:

1. **WHAT WILL THE FMIS BE USED FOR?**
   - accounting
   - budgeting or forecasting
   - procurement

All of these functions will have an impact on system design and capabilities. They will also drive data input requirements and frequency. The more functions that are added, however, the greater are the complexities of the system.

2. **WHO WILL USE THE FMIS?**
   - Finance Ministry
   - central government departments
   - other government bodies
   - statistics offices etc

The nature of the users will drive accessibility and control requirements as well as impacting on the nature of the input data.

3. **WHAT REPORTS WILL BE PUBLISHED?**
   - annual report to the accounts
   - management information reports
   - budgets
   - government statistical reports (which have an impact on various other things)

It is important to ensure that the system:

- maintains the integrity of data across government;
- is compatible with the required range of data sources;
- is manageable ie, it is not so complex or bespoke that maintenance and updates are burdensome (this is very often the case with government systems);
- can be audited to confirm the integrity over the information; and
- operates to a consistent set of accounting segments and chart of accounts to ensure inter-operability and compatibility.

KEY FEATURES OF A SYSTEM

When the systems are being designed or purchased, it is important that the users of the systems are involved in specifying the requirements. The following key features should be considered.

- The ability to capture data from multiple sources. It is desirable to have automatic feeds from other government entities but as a minimum should be able to upload data via compatible files. File compatibility is very important and should not be overlooked.
- External access, data upload and interface facility. Ensure that any licence agreements cover the number of expected users.
- The ability to produce monthly management accounts as well as annual reports. The more versatile the system, the better.
- Be able to consolidate a high volume of data quickly.

- Link widely-used spreadsheet products with the system so that bespoke reports can be 'built' and executed in a spreadsheet by the preparers.
- Ability to create and amend accounting tests to ensure data integrity such as the creation of certain tests at month end, quarter end and year end.
- Creation of different journal types.
- Quick data roll-forward from period to period.

RESTRICTIONS AND CONTROLS

Security of the system will also be a key factor. Users should:

- be able to restrict access to the system, for example, access to types of journals, certain reports etc, so that preparers and users can be given access to what they need;
- create various logs such as journal logs, access and running of functions so that, at all times, there is a log of who did what and when;
- be able to include restrictions on data input to support segregation of duties and responsibilities, for example no journals can be posted by the preparer, only by the reviewer (segregation of duty);
- be able to create unique reference numbers for each journal created; and
- have the ability to lock the system for data entry by individual entity and also by periods so that data can't be changed without complete control.

OTHER CONSIDERATIONS

Other things to consider when developing the systems are:

- Chart of accounts – how versatile does this have to be (ie, should it be able to capture data for statistical as well as accounting purposes)? There is a trade-off between usefulness and complexity. It is important to maintain a chart of accounts although it is also important to keep the chart as simple as possible.
- Off-site back-ups and different data servers to minimise disruption.
- Will cash reports still need to be created? There may still be a need for cash reports and if this is the case, the requirements will need to be included in the chart of accounts coding.
- To ensure that there is adequate 24/7 IT support from the supplier.

Statistical requirements are not included in the above list as it concentrates on financial reporting related matters. It will be rare that one system will be able to provide for all the needs of both statisticians and accountants.

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Appendix 1: Strategy

High level principles should underpin a strategy to deliver a strong public sector financial management framework. Here are some examples of overall principles that will help build high quality:

1

ACCOUNTABILITY AND TRANSPARENCY
Government should be able to explain to all stakeholders how it has used public money and the outcomes that have resulted. The strategy should seek to deliver open, transparent financial information. This includes preparing accurate, complete, timely and reliable financial and performance reports.

2

STEWARDSHIP
Government should take good care of the public monies that it is responsible for and make sure that they are used for the purposes intended. In practice, this will be achieved by having prudent strategic and operational planning, effective risk management, strong corporate governance and internal controls, and adequate systems and procedures.

3

STANDARDS AND QUALITY
Government should maintain proper accounting records and documentation observing, wherever possible, international accounting standards (or jurisdictional standards if there are any). The accounting systems should be such that any trained accountant from anywhere in the world should be able to understand the accounting records and documentation.

4

CONSISTENT AND RELIABLE INFORMATION OVER TIME
The financial policies and systems should, wherever possible, remain consistent over a period of time, promoting efficiency and transparency in the financial information. Of course, they should be capable of being updated for changing needs but as far as possible the changes should be documented to enable the approach to remain open and transparent.

5

ETHICS
Individuals within government must operate with honesty, integrity and propriety. There should be a top-down approach with the management board and senior staff members leading by example in following the systems and processes – declaring any personal interests that may conflict with their official duties. The integrity of the financial reporting will depend on the accuracy and completeness of financial records.

6

SUSTAINABLE FINANCES
Government should aim to operate within the constraints of the overall income at both a strategic and an operational level. This will enable it to remain stable and manage its finances sustainably. A strategic financial strategy should be prepared to outline how the finances align with the operational strategy – ie, will there be enough money coming in to meet all the financial obligations.

Appendix 2: Timelines

	YEAR 1	YEAR 2	YEAR 3	YEAR 4
PHASE 1 PRE-PROJECT	• Establish mandate. • High level business case, objectives and gains. • Capital and human resources available.	• Political buy-in. • Identify project sponsor. • Establish legilslative framework to underping legality of accounts production and the subsequent accountability.		
PHASE 2 SET-UP		• Establish project board. • Create project team that includes project manager, team leaders, technical experts (both IT and accounting) and communications team. • Evaluate current systems and processes - GAP analysis. • Document current system - if not already. • Create detailed plan - road map including transition path which determines the scope ie, which entities are transitioning. • Ensure user buy-in such as auditors and local preparers.	• Discuss output objectives with management, document. • Governance requirements - segregation of duties, private information. • Establish valuation office and other specialist units such as actuaries for pension valuations. • Mindful of any statistical requirements such as production of GFS (Government Finance Statistics). • Creation of independent accounting standard setting board.	
PHASE 3 EARLY IMPLEMENTATION			• Procure or upgrade accounting system. • Accounting system, off the shelf or bespoke. Allow time for system build and or adaptations. Review reporting requirements, both statutory and non-statutory. Auditor engagement recommended. • Interface preferences - how many entities need to feed into consolidation process. Can be manual or automated process.	• Accounting policies - adopt or create. If adopt, think about adaptations specific to jurisdiction. • Start to identify assets (and liabilites) to be valued. Does a central register of assets exist? If not, surveys maybe required. • Chart of accounts, complexity will depend on scope of transition. • Establish key dates to measure progress.
PHASE 4 LATE IMPLEMENTATION				• Communication with key stakeholders to ensure accounting standards, manuals and user guides meet local requirements. • Create accounting manuals.
PHASE 5 PRE-LAUNCH DRY RUN				
PHASE 6 LAUNCH - GO LIVE				

YEAR 5	YEAR 6	YEAR 7	YEAR 8
• Ensure parallel running of systems is working. • Recruit relevent personnel if required. • Strategy for opening balance sheet to be documented. Phased approach thinking about materiality and complexity. Accounting standards will also need to be adhered to.			
• Initiate staff training - think of approach such as 'train the trainer'. • Create user guides and training manuals - multi lingual if necessary.	• Government-owned assets and liabilites need to be identified and valued to create opening balance sheet. • Creation of risk register, in part to guard against senstive data being lost or abused.		
	• Ensure parallel running is satisfactory ie, key data still available during transition period. • Continuous data collection to enable accrual accounting.	• Close communication with stakeholders and auditors vital. Key milestones and dates understood and agreed upon. • Publish unaudited accounts.	
		• Publish audited accounts. • Review for timeliness and audit qualifications.	• Stakeholder feedback and assessment of process. • Consolidation.

Appendix 3: UK use of trigger points

This is an example of a UK use of trigger points in a phase transition approach

YEAR	CASH ACCOUNT	SHADOW ENTITIES ANNUAL REPORT			LIVE ACCRUALS-BASED ANNUAL ACCOUNT
		Unaudited and Unpublished	Audited and Unpublished	Audited and Published	
1	✓				
2	✓				
3	✓				
4	✓	✓			
5	✓		✓		
6	✓			✓	
7	✓			✓	
8					✓
9					✓
10					✓

The UK's HM Treasury, the department responsible for implementing accruals accounting, adopted a four-point trigger strategy which proved useful both in terms of assuring parliament that the risks of transition would be minimised and of putting pressure on departments to meet particular trigger points – ie, milestones – on time. (Please note that the UK adopted financial accounting and budgeting in quick succession and hence trigger four would not relate to all countries not following a similar pattern.)

TRIGGER ONE: The project team to receive meaningful illustrative accruals-based financial accounts, an entity-specific accounting manual, confirmation from the entity's finance director about the adequacy of accounting systems (including the national auditors preliminary view) and a project implementation plan.

TRIGGER TWO: Assessment of entity's opening balance sheets.

TRIGGER THREE: The audit by national auditors of entity's dry run accruals-based annual accounts, upon which the entity's finance director will provide the Treasury with a 'letter of assurance' about the progress of implementing accruals-based accounts.

TRIGGER FOUR: This will involve 'shadow' estimates being produced which will be made available for parliamentary scrutiny.

Appendix 4: Project initiation document

This is a template for users to fill out the information under each heading using the summary under each heading as guidance for what should be included.

EXECUTIVE SUMMARY

A summary of the whole document.

PROJECT BACKGROUND

What is the background to the project, what will be done and why is it important?

PROJECT OBJECTIVES

What are the detailed objectives of the project?

INITIAL BUSINESS BENEFITS/BUSINESS CASE

What are the benefits of the project?

PROJECT SCOPE, EXCLUSIONS AND INTERFACES

Identify what is included within the project scope, what is specifically excluded and whether there are interfaces with other existing projects.

OUTLINE DELIVERABLES (PRODUCTS)

Identify what the project deliverables and timescales are.

ACCEPTANCE CRITERIA

Specific measurable criteria. Make sure the customer defines these, not the project manager! For the project to be acceptable to the customer, what are the things that need to be achieved?

[for each phase if appropriate]

TIMESCALE

An overview timetable for implementation shows a proposed structured timeline.

BUDGET

Estimated budget required for the project, source of budget and approvals required. Budget timing.

RESOURCES

What are the resources to specifically dedicate to this project? A project team will be initiated comprising staff who will give part of their time to the project. Resources required with high level responsibilities.

CONSTRAINTS

Possible constraints that should be considered are:

- Internal resource availability (including staff already allocated to the existing projects and other key staff in various departments).
- External resource availability (potential trainers, legal advisers, research and recruitment support).
- Meeting established timetables for example, board meetings may only take place at certain times of the year.
- Budgets for relevant years.

ASSUMPTIONS

Any key assumptions that have been made about the project.

RISK LOG

ID	RISK	RISK REDUCTION STRATEGY/ CONTINGENCY	IMPACT	LIKELIHOOD	OWNER

PROJECT CONTROLS

The project will be delivered in [how many] phases as per this project initiation document.

A project board and implementation team will be set up. The teams will meet on a monthly basis. The frequency of meetings may change throughout the project life cycle, but will be documented with the project folder.

PROJECT ORGANISATION STRUCTURE

Project sponsor
Project board
Project implementation team

STAKEHOLDER COMMUNICATIONS

Identify internal and external stakeholders.

INITIAL PROJECT PLAN

High level milestones and schedule is outlined in the Timescales section. The full project plan will be located on a shared drive [add link to location here]

CONTINGENCY PLANS

As per the risk log and project plan and are the responsibility of the project board.

QUALITY PLAN

Approvals/sign offs will be documented and built into each milestone of the plan. The project board and implementation team will regularly review progress of the project.

Appendix 5: Work plan

ID	PROJECT/TASK NAME	START	FINISH	WHO	ESTIMATED COST	PROGRESS	NEW FINISH DATES
PHASE 1:	**NAME OF PHASE**						
1	Get commitment from highest level						
	a) arrange meeting with Minister	date	date	name of person responsible		Meeting took place on [date]	date of completion
	b) arrange meeting with [stakeholder]	date	date	name of		in progress - description of progress status	
	c) detailed action						
	d)						
2	Legislative framework						
	a) identify government entities	date	date	name		Meeting took place on [date]	date of completion
	b) set the annual timetable for accounts completion	date	date	name		in progress - description of progress status	
3	Policy and guidance framework						
	a) identify and set the policy objectives						
	b) detailed action						
	c) detailed action						
	d)						
PHASE 2:	**NAME OF PHASE**						
1	Key deliverable						
	a) detailed action			Name		completed	date of completion
	b) detailed action			name		in progress - description of progress status	
	c) detailed action						
	d)						
	e)						
2	Key deliverable						
	a) detailed action						
3	Key deliverable						
	a) detailed action						
	b) detailed action						
	c) detailed action						
	d)						
	e)						

Appendix 6: Risk issues log

ID	RISK	RISK REDUCTION STRATEGY/ CONTINGENCY	IMPACT	LIKELIHOOD	OWNER
	STRATEGIC				
1	Political risks				
2	Legislative risks				
3	Reputational risk				
4					
	OPERATIONAL				
5	What are the key risks that can affect the operational logistics of the project				
6					
7					
8					
	RELATIONSHIP RISKS				
9	External stakeholder management risks				
10	Internal stakeholder management risks				
11					
12					
	OTHER RISKS				
13					
14					
15					
16					

Appendix 7: Communications plan

STAKEHOLDER	RELATIONSHIP TO PROJECT						COMMUNICATION/INVOLVEMENT STRATEGY					
												Other

Appendix 8: Common assets and related documentation

These are the common assets and related documentation required for accruals accounting: asset type

ASSET TYPE	DESCRIPTION	SUPPORTING DOCUMENTATION AND OTHER POINTS TO NOTE
TRADE RECEIVABLES	Entity sells goods and services to customers. If customers don't pay for those goods on point of delivery, then a receivable is recorded. In government, the largest receivable tends to related to tax (VAT, corporation and personal or income tax).	Good bookkeeping will involve the gathering of the following: • Creation of unique sales reference numbers • Name and ref of debtor (ref will be the customer code for system entry) • Nature of sale – to allow the allocation of any obligations over the relevant time period • Payment due date • Maintenance of memorandum account to review activity on individual customer accounts • Policy on providing for and writing off bad debt • Transparent strategy on debt collection
PROPERTY, PLANT AND EQUIPMENT	Tangible assets that are used in more than one accounting period (ie, long term) and that are used in production, for rental or for administration.	To facilitate good management of assets as well as providing useful information to users, the following documentation is required: • Accounting policy on depreciation • Valuation techniques employed ie, show at historical cost/revaluation model. Think of users needs • Original documentation to prove ownership and original cost
INVENTORIES	Tangible assets that are the raw materials, work in progress and finished goods that are ready or will be ready for sale. Examples for government include health products such as vaccines and defence products such as ammunition.	• List accounting policy ie, account for at lower of cost and net realisable value • Ability to obtain reliable information about consumption of existing inventory and component costs of work in progress • Controls in place to facilitate stock take for year-end audit
EQUITY (AND DEBT) INVESTMENTS	Government will have strategic investments (national interest) and other assets to underpin stability and maintain liquidity in the market. In general, financial assets can be quite varied and complex in nature.	• Price paid for the assets • Date of when assets were purchased • Data on any fair value movements and what fair value is defined as (category 1, 2 and 3) • Nature of holding ie, long term investment, held for trading/sale etc • Accounting policy and impairment models need to be well documented
LOANS AND DEPOSITS	Governments will make loans to support the community and to invest any excess cash in bank accounts to earn interest.	• The body to which loans are made • Relationship (if any) between recipient of loan and government entity making the loan (think related parties transactions here) • Interest rates received • The term of the loan • What value of repayments have already been made • Any amounts outstanding (past due but not impaired) • Accounting policy including impairments
CASH AND CASH EQUIVALENTS	The balances included are the bank accounts and high liquidity/short-term investments with maturity date of three months or less such as short term gilts.	• Bank reconciliation • Independent letter from the bank confirming the amounts

Appendix 9: Common liabilities and related documentation

These are the common liabilities and related documentation required for accruals accounting: liabilities

LIABILITY TYPE	DESCRIPTION	SUPPORTING DOCUMENTATION AND OTHER POINTS TO NOTE
TRADE CREDITOR	Entity purchases goods and services from a supplier. Payment terms can range from a few months to over one year. Health and military type entities tend to have most trade creditor balances.	Good housekeeping will involve the gathering of the following information: • Creation of purchase order with each purchase • Name and ref of creditor (ref will be the creditors code for system entry) • Nature of purchase - to allow the purchase to be allocated to appropriate account code • Payment due date • Attention needs to be paid to the timing of any services so that expenses get allocated to the correct period (ie, accruals accounted)
GOVERNMENT BORROWING AND FINANCING	Most governments need to borrow money to fund the shortfall between tax receipts and government expenditure. Governments raise money by issuing bonds, most commonly offering a fixed rate of return with a redemption at par at the end of the term. In the UK, government bonds are called gilts and in the US they are referred to as Treasury Bills.	The issuing of government bonds will be highly regulated since the bonds trade on the secondary market. Information required: • Interest rates • Term length • Any discount or premiums at outset • Frequency of interest payments • Calculation details for the effective interest rate for amortised cost • Details of indices if linked to such
ACCRUALS AND DEFERRED INCOME	Accruals are the recording of expenditure where payment has not yet been made and deferred income is the receipt of funds in advance for a particular service (most commonly grant receipts that have not yet been paid out).	• The nature of the receipts • The timing of the receipts • The nature and timing of payments • Performance obligations vs the dates of payment/timing of receipt (applying of accruals principles) • Documentation on accounting polices regarding cut-off dates, estimates etc
LEASES INCL PFI	IFRS 16, the new leasing standard is paving the way for all leases to come on balance sheet. Leases can be short or long-term agreements by which one party conveys land, property, services etc to another for a specified period of time.	• The body which provided the lease • The term of the lease such as length of contract, frequency of payments, value of underlying asset etc • What value of repayments have already been made • Details covering what assets are being leased or funded via PFI • Repayments analysed between interest, repayment of liability and any service costs • The value of interest paid and outstanding • Cash flow analysis of remaining repayments for disclosure purposes
LOANS	Most common loan will be a bank loan but loans could also be from other countries, the World Bank or IMF.	• The body which provided the loan • The term of the loan • What value of repayments have already been made • The frequency of the payments • The value of interest paid and outstanding
PROVISIONS	Provisions are liabilities that represent an obligation of uncertain timing as a result of a past event. It must be probable that settlement will be required and that the settlement can be reliably estimated. Most common provisions for government will be around legal court cases (tax, health, military, housing etc).	• Judgement will be required to estimate future liabilities to settle obligations that result of a past event. These need to be documented. • Details of court cases, why, historic judgements etc • Third party evidence such as lawyers analysis or surveyors.

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ICAEW
Chartered Accountants' Hall
Moorgate Place
London
EC2R 6EA UK

T +44 (0)20 7920 8516
E frfac@icaew.com
icaew.com/publicfinances

£30

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