

Federation of European Accountants Fédération des Experts comptables Européens

The Benefits of Implementing Accrual Accounting in the United Kingdom

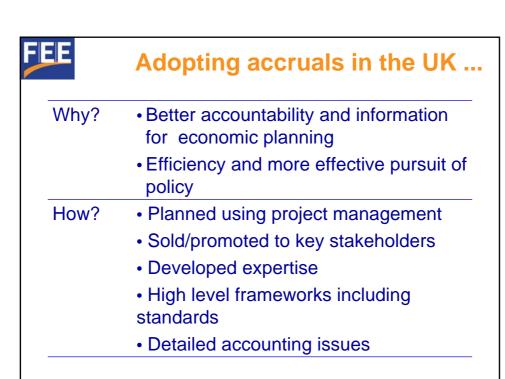
11 January 2011
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Chair FEE Public Sector Committee

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Background to Accrual Accounting

- Decision to Implement in Central Government 1997
- Local Government had accrual accounting for several years
- Significant project in planning and cost



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PLAN/SELL THE PROJECT

PLANNING

- > Define scope, and produce overall project plan
- > Use formal project management disciplines
- > Use dry runs

SELLING

- ➤ Secure political support
- > Engage non-accountants
- > Emphasise benefits for users
- > Leadership and communication are vital

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EXPERTISE & FRAMEWORKS

DEVELOPING EXPERTISE

- > Recruiting staff with accruals experience
- > Training
 - ♥ Cascading in-house knowledge
 - ♥ Using expert trainers
- > Involve auditors

FRAMEWORKS

- > Accounting manuals
 - **♥** Standards
 - ♥ Charts of accounts
- > Budgeting Framework
- > Procedures and IT systems

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Underlying	IFRS)
standards	IPSAS overall similar to IPSAS
	UK GAAP
Public sector	Manuals setting out application of
accounting	standards to UK public sector bodies
framework	developed by finance ministry and
	reviewed by the independent Financial
	Reporting Advisory Board (FRAB)
Budgetary	New processes and procedures
framework	developed by the UK Finance Ministry



ACCOUNTING ISSUES

Fixed assets: lack of data on asset value/condition/components, intra-group transactions and balances

Consolidation: existing systems and procedures do not collect right data

Leases and Service Concessions: existing systems and procedures do not collect right data. Valuation and accounting issues

Preparation of financial statements: existing systems do not produce accruals information or statements. Lack of experience in preparing and understanding accruals accounts

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AUDITOR ISSUES / ADDED VALUE

	- extra work during parallel running	
resource issues	- lots of opening balance sheet work	
	- technical updating on financial reporting	
training issues	- some audit training required	

	- extra work during parallel running
ADDING VALUE THROUGH AUDIT	
advisory role	- well placed to advise on technical and implementation issues
	 encourage clients to raise issues early, so auditable solutions can be developed
	provide support during transition BUTbodies need to be able to produce their own accounts
share good	- share knowledge with other auditors and other

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BENEFITS OF ACCRUAL ACCOUNTING

- ➤ Better accountability and control
- > Opportunities for efficiency gains
- > More effective pursuit of policy
- > Better information for economic planning
- > Valuation of assets and liabilities
- > ACCRUAL ACCOUNTING IS BETTER THAN CASH BASED SYSTEMS

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FACTORS WHICH LED TO SUCCESS

Moving from cash to accruals was a major project needing commitment from politicians, senior officials and funding providers

- buy-in was obtained at the highest levels
- work was started early
- planned and project managed
- expertise and resources were made available

It still took longer than expected!

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