

Implementation of Accrual Accounting

Presentations followed by discussion

- Principles of Accrual Accounting in National Governments:
Prof. Rowan Jones, Chairman of the CIGAR Network
- Experience of the European Commission:
Brian Gray, Deputy Director General, EC-DG Budget
- Experience of France:
Nathalie Morin, Head of Services of the Public Accounting
General Directory of the French Ministry of Economy,
Finance and Industry
- Accounting reform in German Governments:
Prof. Klaus Lueder, Germany

Accrual Accounting in Government

Rowan Jones

Professor of Public Sector Accounting

University of Birmingham

R.Jones@bham.ac.uk

Chair of CIGAR (Comparative
International Governmental
Accounting Research network)

www.cigar-network.net

September 2006

Euro-CIGAR study:

Klaus Lüder and Rowan Jones (eds)

*Reforming Governmental Accounting and
Budgeting in Europe*

Frankfurt: Fachverlag Moderne Wirtschaft

2003, 1079 pages

[see: www.cigar-network.net]

Scope of Euro-CIGAR:

Budgeting and Accounting
National Government and Local
Government

Current system and Reforms
-in 9 European countries

(Finland, France, Germany, Italy, Netherlands, Spain,
Switzerland, Sweden, UK)

Central opinion of Euro-CIGAR
study:

“Cash accounting is too
parsimonious with the truth”

[Lüder and Jones, 2003, p5]

Central conclusion of Euro-
CIGAR study:

Diversity
of governmental accounting
between and within countries

Nature of diversity:

Cash-based systems are diverse:

Record-keeping

Bookkeeping

Budgeting

But what matters is the internal integrity of
these cash-based systems: it is not clear that
diversity itself is necessarily a problem

Added diversity of accrual accounting

Periodic measurement of revenues, expenses, assets and liabilities is, by its nature, arbitrary

[But this is controlled, and justified by relevance of additional information]

Added diversity of 'accrual accounting' cont'd

- In a financial accounting context, we need some comparability between governmental organisations
- Cash accounting can be manipulated
- Accrual accounting standards (including IPSAS) provide a basis for comparability but naturally allow diversity of measurement rules and disclosure requirements

Added diversity of 'accrual accounting'
cont'd

Between:

- Financial accounting and budgeting
- Definitions of reporting entity (including those of national accounting)
- Historical costs and current values (specific and general price changes), including opportunity cost of capital

In studying the implementation
of reforms in government
accounting it is important be
clear about what is meant by
'accrual accounting' in each case

11th Biennial CIGAR Conference
Coimbra

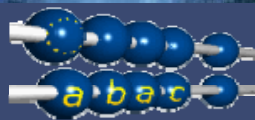
14-15 June 2007

“Implementing reforms in public
sector accounting:
problems, changes and results”

www.cigar-network.net

Modernisation of accounting system of the European Commission

Brian Gray



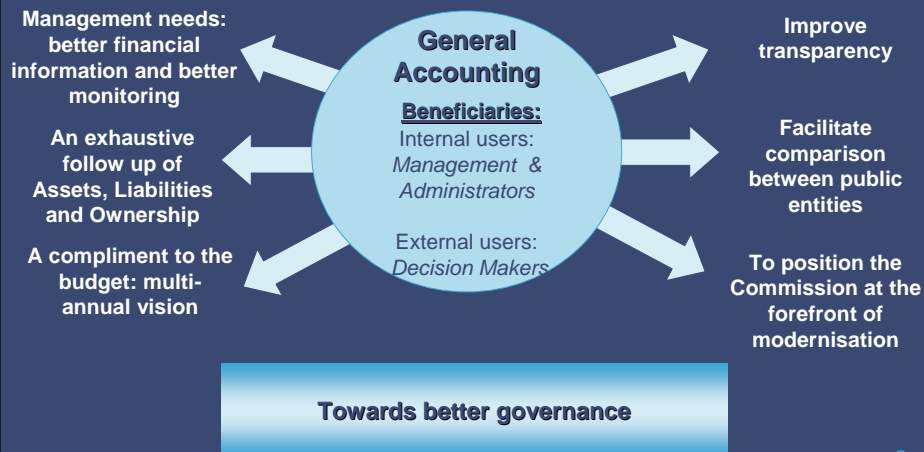
September 2006

Agenda

- The objectives of the project
- The implications of the project
- Where the EC are
- The main keys to the success of the project
- Important accounting issues during the project

Why modernise?

Internal needs and external expectations



The European Commission decided to provide the administration with a modern accounting system

Brussels, December 17, 2002

The European Commission adopts an ambitious plan to implement full accrual accounting by 2005.

"Today's action plan is the latest step in this long term strategy of modernisation: it maps the Commission's progress towards the wholesale implementation of the most up-to-date public sector accounting standards by 2005, taking into account all the constraints and necessary detailed changes. With these measures the Commission will be far ahead of most administrations in the world."

Commissioner Michael Schreyer

Basis: Financial Regulation of June 2002, art. 124 (Council Regulation 1605/2002)

"The Financial statements shall be drawn up in accordance with the generally accepted accounting principles"

Two types of accounts :



Priority: To develop a reference framework for general accounting that is in line with the private company accounting and that is internationally accepted.

Choice: The adoption of IPSAS

Consequence: Accrual accounting

Agenda

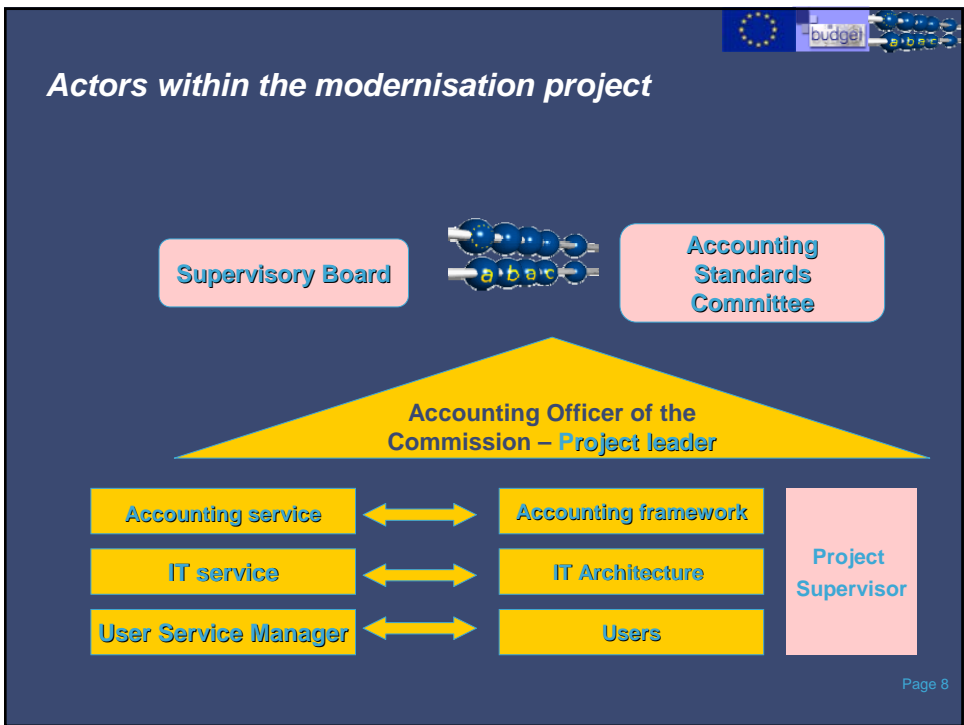
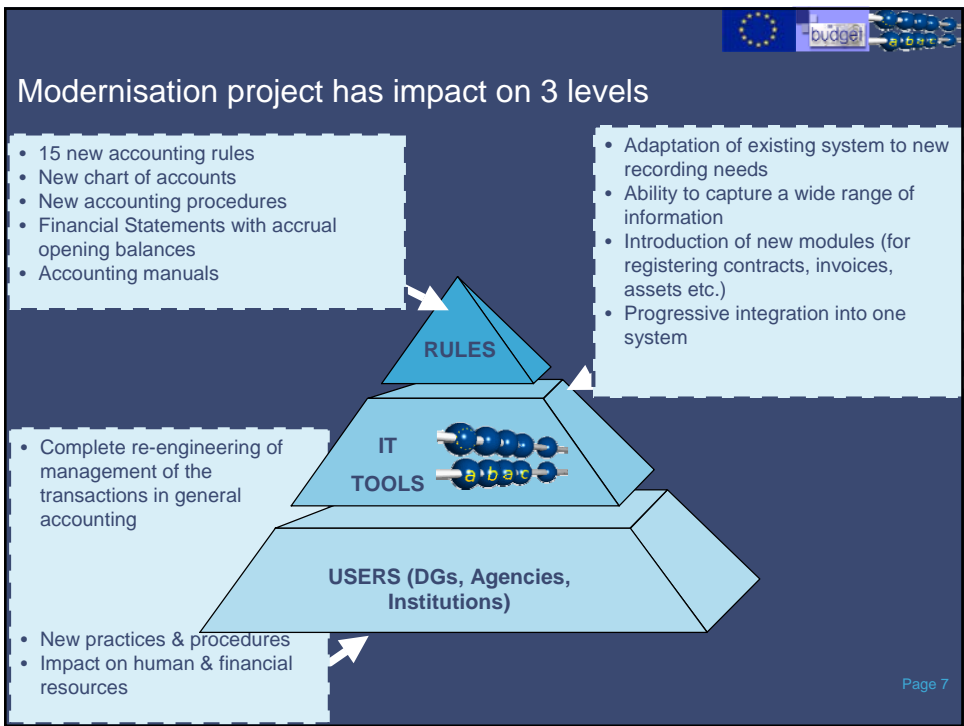
The objectives of the project

The implications of the project

Where the EC are

The main keys to the success of the project

Important accounting issues during the project



Agenda

- The objectives of the project
- The implications of the project
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Where are the EC ?

- **Steps accomplished**
 - Accounting framework
 - IT architecture
 - Transition towards 2005
 - Opening the new system on 7/01/2005
 - CFM module for financial activities
 - Development of Reporting
 - Provisional and final closure 2005
 - Accounts broken down by Directorate-General
 - Consolidation module (SAP ECCS)

Where are the EC ?



- **Steps postponed to 2006-7**
 - Deployment of ABAC for European Development Fund and Delegations
 - Improvement of Financial Reports
 - Better integration
 - accounting control framework

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Agenda



- The objectives of the project
- The implications of the project
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- Important accounting issues during the project

The main keys to the success of the project

- Rapid decision-making
- High level support from the hierarchy
- Availability of resources
- Good planning for the project
- Establishing communication/continuous dialogue
- Mobilising the different actors for the changes
- Explaining well the advantages of the new system

Agenda

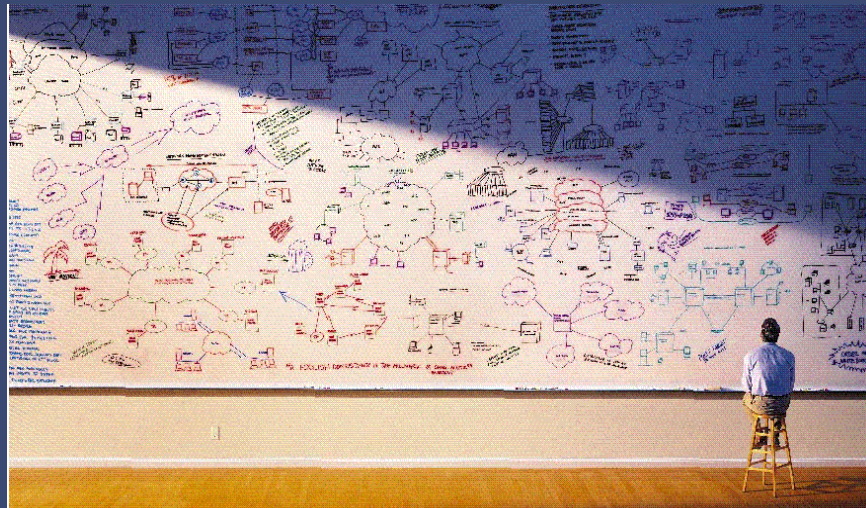
- The objectives of the project
- The implications of the project
- Where the EC are
- The main keys to the success of the project
- Important accounting issues during the project

Important accounting issues during the project

- Responsibilities on the accounts
- Quality of the accounting data
- Audit and opinion of the external auditors
- Pension obligation presentation
- How to present the increase in the pension obligation
- Non-consolidation of sickness scheme and agencies
- How to present and to explain the negative capital

BALANCE SHEET		31/12/2005 (EUR millions)
ASSETS:		
Fixed assets		4 168
Loans and Investments		5 711
Prefinancing: Structural funds		22 732
other		6 633
Other assets		7 608
Cash & cash equivalents		11,854
TOTAL ASSETS		58,706
LIABILITIES		
Employee benefits		33,156
Other liabilities		5167
Accounts Payable		82 528
TOTAL LIABILITIES		120,851
NET ASSETS		(62,145)
Reserves		2,808
Amounts to be called from Member States		
<i>Staff pensions (long-term)</i>		<i>(33,156)</i>
Guaranteed by the Member States		
<i>Other amounts (+/- payable in 2006)</i>		<i>(31,797)</i>
Budget adopted in December 2005		
Largely paid by February 2006		
NET ASSETS		(62,145)

Questions?





Introducing accrual based-accounting within French State accounts

Ministry of Economy, Finance and Industry

Nathalie MORIN



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Summary

- 1- Why should the French State accounts be based on accrual accounting?
- 2- What kinds of difficulties does the introduction of accrual-based accounting raise?
- 3- How to maximise the likelihood of a successful introduction of accrual based-accounting?



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Why should State Accounts be based on accrual accounting : improving the effectiveness and the transparency of public action

- **Because cash-based accounting showed major limits**
 - ❖ A merely annual perspective
 - ❖ A perspective restricted to operations regarding cash-flows
- **Because accrual-based accounting provides the leverage for revamping public management**
 - ❖ Accrual accounting as a source of information
 - ❖ Accrual accounting as a steering tool

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Why should State Accounts be based on accrual accounting : improving the effectiveness and the transparency of public action

- **An asserted ambition to bring State accounting closer to private sector best practices:**
 - ❖ By drafting a reference framework inspired by the international standards
 - ❖ By Setting accounting quality requirements similar to those in practice in the private sector
 - ❖ Throughout the certification of the accounts by an independent entity: The Court of Accounts

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What kind of difficulties does the introduction of the accrual-based accounting system raise in the French administration?

- **Stabilising the core standards to be enforced for State accounts**
 - ❖ A complicated scope for their implementation
 - ❖ Debates were ended by the drafting of the standards but without consensus
- **Initialising the opening balance-sheet**
 - ❖ A major change into the accounting system requiring to reframe State accounting
 - ❖ As the schedule set was very ambitious :
 - adoption of the Organic Law on Finance Laws in 2001
 - Publication of the standards in 2004
 - enforcement of the reform on January, 1st 2006
 - delivery of the accounts for certification on June, 1st 2007

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What kind of difficulties does the introduction of the accrual-based accounting system raise in the French administration?

- **Having relevant IT system at disposal**
- **Reframing the traditional distribution of duties between the actors and the workflow**
 - ❖ Managers are directly acting on accrual-based accounting
 - ❖ Accountants have to ensure the quality of the accounts
 - ❖ Every actor of the reshaped accounting function have to learn how to behave in the framework of global processes

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How to maximise the likelihood of a successful introduction of accrual-based accounting ?

- Thanks to a strong political support and ownership
- By enhancing the assets of the French administration
 - ❖ A network of professional public accountants
 - who are aware of accrual-based accounting issues
 - who benefit from a deep culture of internal control and internal audit in accounting and financial activities
 - and who is able to share their experience with managers of other line ministries
 - ❖ An administrative framework facilitating the centralising process of State accounts

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How to maximise the likelihood of a successful introduction of accrual-based accounting?

- By inserting this introduction in the multiyear perspective based on an accurate assessment of risks and stakes:
 - ❖ An significant opening balance-sheet on January, 1st 2006 but not comprehensive: three methodology of evaluation
 - ❖ A perspective aiming at achieving comprehensiveness for the shorter deadlines
- By establishing a steady dialogue based on staunch confidence with the certification authority
 - ❖ By introducing exchanging and debates opportunities and means
 - ❖ A transparency principle

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CONCLUSION

- 1- The works implemented only in a few year is already spectacular and a virtuous dynamic is launched, although the distance to be covered is still important
- 2- The methodology adopted by the French State enables both the achievement of priority objectives and to convince the managers that accounting remains their working tool
- 3- Because the aim in it-self is not only to produce accounts, but also to use general accounting as a leverage to improve performance

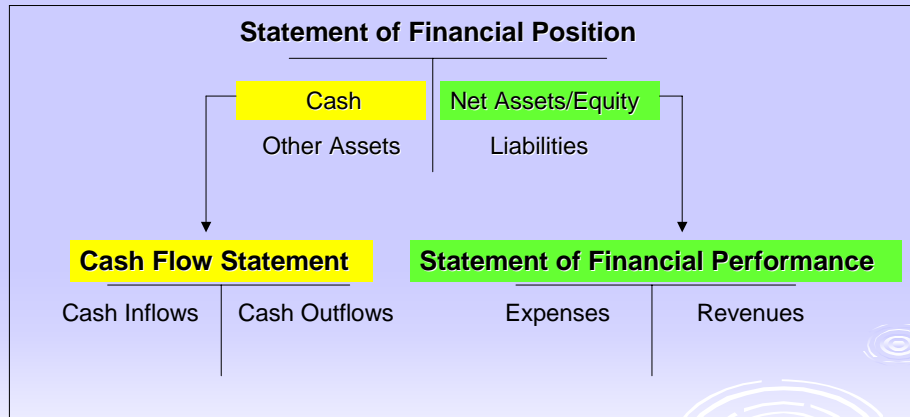
Accounting Reform in German Governments

Klaus Lüder
Deutsche Hochschule für Verwaltungswissenschaften Speyer

Overview

1. Elements of governmental accrual accounting and reporting
2. Local governments
 - Norm Setting
 - Implementation
3. Federal and Laender governments
 - Norm Setting
 - Implementation
4. Features of the reform
5. Conclusions

Elements of Governmental Accrual Financial Accounting and Reporting



Klaus Lüder EC/FEE 09/06

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Norm Setting for Accrual Financial Accounting Local Governments

- **1998:** Sub-Committee of the Standing Conference of the Interior Ministers on reforming local government budgeting and accounting established
- **November 2003:** Sub-Committee submitted and Conference passed recommendations for amending Laender law on local government budgeting and accounting. It suggests two alternative accounting models: accrual and “enlarged” cameralistic accounting
- **2004:** Laender started to amend law. Until mid 2006, new law became effective in 5 of the 13 Laender

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Implementation of Accrual Financial Accounting Local Governments

Mandatory accrual accounting

Baden-Württemberg	2008 to 2014 (2019)
Brandenburg	2007 to 2009 (2011)
Mecklenburg-Vorpommern	2008 to ?
Nordrhein-Westfalen (1.1.2005)	2005 to 2008
Niedersachsen (1.1.2006)	2006 to 2011
Rheinland-Pfalz (2. 3. 2006)	2007 to 2008
Saarland	2007 to 2008
Sachsen	2008 to 2013
Sachsen-Anhalt (22. 3. 2006)	2006 to 2010

Optional accrual accounting

Hessen (31.1.2005)	2005 to 2011 Enl. Cam./ Accrual
Schleswig-Holstein	from 2007 Enl. Cam./ Accrual
Bayern	Trad. Cam./ from 2007 Accrual
Thüringen	Trad. Cam./ from 2009 Accrual

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Norm Setting for Accrual Financial Accounting Federal and Laender Governments

- **Budgetary Principles Act** as amended by Budget Law Development Act of 22 December 1997: **accrual based accounting** and financial reporting **in addition** to the traditional cash based system is permitted (sec. 33a)
- Most governments have included a provision according to sec. 33a in their Budgetary Acts but the federal government did not adopt it
- **New amendment of the Budgetary Principles Act** initiated by Hamburg and Hessen and presumably supported by Nordrhein-Westfalen, Schleswig-Holstein and Bremen aimed at allowing federal and Laender governments to keep their accounting system either on an accruals or a cash base. Deliberations commenced on 22 September 2006

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Implementation of Accrual Financial Accounting Federal and Laender Governments

- **Hessen:** Implementation of accrual accounting and budgeting is under way; to be completed in 2008+x
- **Hamburg:** Implementation of accrual accounting and budgeting is under way; accounting project to be completed in 2008
- **Bremen:** Implementation of accrual accounting under way; to be completed in 2008
- **Northrhine-Westfalia:** Project aimed at implementing accrual accounting and budgeting launched; still strong opposition of political and senior administrative actors: open end

Federal Government: So far no intention to abandon cash based accounting and financial reporting

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Accrual →	Budgeting	Accounting	FR (CG)	FR (WoG)	FR (WoP)
CH	2006	2006		2007	—
D*	—	—	—	—	—
E	—	1986/1995	1986/95		—
F	—	2006 ?		1999/2006	—
FIN	—	1998	1998		—
I	—	—	—	—	—
NL*	—	—	—	—	—
S	—	1994		1984/1994	—
UK	2001/2002	2001/2002		(2003/04)	(2006/07)
EC	—	2005		2005	X

Features of the German Reform Process

- Late and slow
 - Local governments: 1994 → 2019
 - Laender governments: 1998 → ?
 - Federal government: ?
- Extensive and uncoordinated piloting*
- Diverse approaches owing to
 - lacking standard setting body for the whole of public sector
 - influence of different consultants preferring different concepts
 - vague recommendations of intergovernmental bodies
 - varied, incomplete and/or inappropriate legal bases for the new system

In general: Poorly guided, „chaotic“ reform process

Features of a Well-Structured Reform Process

- Early (political) agreement on basics of reform
- Independent conceptual advice for all levels of government
- Sufficiently precise and concrete concept
- Limited and well structured pilot projects
- Timely amendment of relevant laws and regulations
- Centrally guided, continuous implementation in a reasonable period of time

Perspectives on Accrual Accounting in Germany

Local Governments

- Varied accrual budgeting and accounting approaches are being implemented
- Amended law will be effective by 2007 in most of the Laender
- Enlarged cameralistic accounting will eventually be abandoned
- Extended implementation period (until 2019) bears the danger of further diversification of approaches

Perspectives on Accrual Accounting in Germany

Federal and Laender Governments

- Federal government still hesitates to take the lead in reforming governmental accounting
- There is still a strong opposition against accrual accounting; some Laender even argue accrual accounting would be unconstitutional
- Some Laender nevertheless are implementing accrual accounting (and budgeting), others have declared their intention to do so

Final Remark

A highly diversified accounting landscape will presumably predominate in German governments for the foreseeable future

WELCOME TO THE EUROPEAN COMMISSION/FEE CONFERENCE

MODERNISING ACCOUNTING IN THE PUBLIC SECTOR:
EXCHANGE OF EXPERIENCE

Thursday 28 September 2006, European Parliament, Brussels

International Public Sector Accounting Standards Setting:

Philippe Adhémar

Chair of IFAC IPSASB

MODERNISING ACCOUNTING IN THE PUBLIC SECTOR



WELCOME TO THE EUROPEAN COMMISSION/FEE CONFERENCE

MODERNISING ACCOUNTING IN THE PUBLIC SECTOR:
EXCHANGE OF EXPERIENCE

Thursday 28 September 2006, European Parliament, Brussels

Results of FEE Survey:

Bryan Ingleby

Member FEE Public Sector Committee

MODERNISING ACCOUNTING IN THE PUBLIC SECTOR





International Public Sector Accounting Standards Board (IPSASB)

*Joint European commission/FEE
Conference*

September 2006

Philippe Adhémar – IPSASB Chair

IFAC IPSASB

Presentation Overview

- Background on the IPSASB
- Current Status of IPSASB Standards Program
- Likely Future Developments

IFAC IPSASB

IFAC

- IFAC – over 160 member bodies, 120 countries
- Operates through Technical Committees including:
 - International Audit and Assurance Standards Board (IAASB)
 - **International Public Sector Accounting Standards Board (IPSASB)**
 - International Education and Ethics Boards
 - Developing Nations Committee
 - Professional Accountants in Business Committee

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IFAC IPSASB

Background to Standards Program

- Standards program established late 1996
 - by public sector committee (PSC)
- IPSASB established Nov. 2004
 - IPSASB mandate to issue IPSASs in own right
- Objectives:
 - Strengthen governance framework,
 - Enhance accountability and transparency,
 - Provide framework for audit
- IPSASs - A “resource” for national standards setters and others to use

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IPSASB Members 2006

- **Accounting Profession (15 members)**
France (Chair), UK (Deputy Chair), Australia, Argentina, Canada, India, Israel, Japan, Malaysia, Mexico, New Zealand, Netherlands, Norway, South Africa, USA
- **Public Members (3 members)**
Prof A Bergman (Switzerland), Prof S. Pozzoli (Italy), Mr J. Peace (USA)
- **IPSASB Observers**
ADB, EU, IASB, IMF, INTOSAI, OECD, UN, UNDP, World Bank

IPSASB Approach

- Promote adoption of an accrual basis
- Acknowledge wide use of cash basis
 - Develop/Support Cash Basis IPSAS
- Develop guidance on transition to accrual basis (Study 14)

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IPSASB Current Work Program

- 3 priority categories:
 - 1st – Public sector specific issues (including cash and accrual basis issues)
 - 2nd – Convergence with IFRSs where appropriate
 - 3rd – Convergence with statistical bases where appropriate
- **Resource constraints has limited progress on aspects of the program.**

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Transparent “Due Process”

- Consultative documents - for comment
- Exposure drafts: at least 4 months for comment
- Meetings in public, agenda materials on web
- Steering Committees and Task Forces
- Project Advisory Panels (PAP) – input to IPSASB
- Consultative Group (CG)
- Regional Seminars/round table discussions in conjunction with each IPSASB meeting

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Pronouncements /Publications

- 21 accrual IPSASs (based on IASs where appropriate for Pub. Sec. - some are Aug 97 IASs)
 - IPSAS on Disclosure of Fin. Info about the Gen Gov. Sector (GGS) **approved for issue**
 - Improvements to IPSASs approved/in process
- Comprehensive Cash Basis IPSAS
- Studies, Research Reports, Invitations to Comment, etc
- **See Attachment for IPSASs, EDs, Research Reports on issue**

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Recent Exposure Drafts (ED)

- ED 24 “Cash Basis...Disclosures about External Assistance Received...”
- ED 25 “Amendment to the Preface to IPSASs”
- ED 26 “Improvements to IPSASs”
- ED 27 “Presentation of Budget Information in Financial Statements”
- ED 28 “Disclosure of Financial Information About the General Government Sector” **(IPSAS approved)**
- ED 29 “Revenue from Non Exchange Transactions (including Taxes and Transfers)”

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Other Recent Publications

- Accounting for Heritage Assets Under the Accrual Basis of Accounting (Issued February 2006)
- Occasional Paper – The Road to accrual Accounting in the USA (Issued March 2006)
- Research Report on IPSASs and statistical bases of financial reporting (Issued January 2005)

Available on the IPSASB Web Site

- All IPSASs
 - (including Spanish and French translations)
- All current Exposure Drafts and ITCs
- IPSASB Update on most recent IPSASB meeting
- IPSASB meeting papers (before each meeting)

FREE OF CHARGE AT: WWW.IPSASB.ORG

IFAC IPSASB

ED 24 Disclosure of External Assistance (Cash Basis) (1st Priority Project)

- At request of OECD and Multilateral Development Banks to harmonize/reduce compliance costs
- Comment period closed June 05 - 30 responses
- Differing views-some ED 24 too onerous, others not
- Availability of information? - Donors need to provide
- Follow up with Consultative Group, OECD, and with donors in member countries re field test/additional input
- Approved for issue revised ED:
 - required and encouraged disclosures
 - field test ED

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ED 25 + 26 – Improvements to IPSASs (2nd Priority Project)

- ED 25 - black and grey letters have “equal authority”
 - Implement progressively
- ED 26 - improve 11 accrual IPSASs (see attachment)
 - Based on improved IFRSs as at Dec 03
 - Restructuring of IPSASs, remove some options
 - Elevate “hierarchy” of guidance
 - Clarify certain requirements
- Approved IPSAS 1, 3, 4
- Anticipate approve remainder in Nov 06

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ED 27 Presentation of budget information in Fin. Statements (Cash and Accrual Basis) (1st Priority Project)

IPSASB still finalising IPSAS

Applies to public sector entities which make publicly available their approved budgets

- To discharge accountability/enhance transparency
- Disclose original and final budget by major class
- Disclose actual (on budget basis)
 - Reconcile to key amounts in Fin. St.
- Explain budget basis, period, scope

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Presentation of Budget Information

Major issues include:

In Fin. St. or reports in conjunction with:

- Explanation of variance
- Explanation of change original to final budget
- Next meeting finalise

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Disclosure of Fin. Info about the Gen Government Sector (ED 29 now approved for issue)

Applies to whole of government - accrual basis

- Disclosure not required but “Rules” if elect to disclose
 - apply IPSASs except IAS 6 Consolid’n
- Disaggregate Gov Consolidated Fin Statements
- “GGS” as defined in statistical reporting bases
- Reconcile GGS to the IPSAS financial statements
- Does not require/preclude reconcil’n to GFS numbers
- Anticipate issue September 06
- Applies for periods commencing 1 January 2008

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ED 29 Revenue from Non-Exchange Transactions – (1st Priority Project)

- Comments period ended June 30 2006
- Deals with Taxes, and Transfers including Gifts, Donations, and Fines – on accrual basis
- Adopts an Assets and liabilities approach
- Major Issues likely to be:
 - Conditions on transfers – a liability?
 - Tax expenditure and expenses paid through tax system
 - Reliable estimate of accrued tax revenue
 - Next meeting: analysis of responses

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ED 30 Impairment of “for-cash” assets
ED 31 Employee Benefits (accrual basis)

- Approved for issue:
- ED on Impairment of cash generating assets
 - Based on IAS 36 where appropriate for public sector
 - Complements IPSAS 21-impairment of non-cash-assets
- ED on employee benefits
 - based on IAS 19 where appropriate for public sector
 - Discount rate: government bonds unless high quality corporate bonds better reflection of risk free rate
 - 5 years “transition” period for adoption

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Work in progress
Social Policy Obligations (accrual basis)

- WIP - under development
- Consider single ED including social security pensions and other social benefits (monetary and goods and services)
 - Liability when satisfy eligibility criteria
 - Amount of liability- accrued amount of next payment (usually)

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Significant Developments

Collaborative projects with standards setters/similar organizations on:

- Conceptual Framework for Public Sector
- Public-Private Partnerships (Service concession arrangements)
- IPSASB Review of strategy

Longer Term Strategy

IPSASB discussions to continue but priorities:

- Other public sector specific including stat. basis convergence
- Conceptual Framework
- IFRS convergence
- Other activities - promotions/communications
- Next IPSASB meeting consider implications for specific projects, IFRS convergence strategy, etc

Other Potential Projects when resources allow **UNDER CONSIDERATION- SUBJECT TO CHANGE**

- Review implementation of Cash Basis IPSAS
- Budget reporting – prospective information
- Reporting financial performance
- Non-financial performance reporting
- Operations review (MD&A)
- Kyoto protocols
- Restructuring of government activities
- Applicability of fair value to governments
- Reporting long term fiscal sustainability
- Survey on adoption of IPSASs and implementation issues

IPSASB Funding and resources

- Ongoing Issues
 - funding - update
 - staff resources - update
 - liaison with constituents
 - input on issues/projects
 - communicating the message
 - encouraging input and convergence on an international basis



International Federation of Accountants

www.ifac.org

IFAC IPSASB

ATTACHMENT

Accrual Basis IPSASs Issued/finalized

(* *Indicates IPSASs included in ED 26 "improvements"*)

* **IPSAS 1, "Presentation of Financial Statements"**

IPSAS 2, "Cash Flow Statements"

* **IPSAS 3, "Net Surplus or Deficit for the Period,
Fundamental Errors and Changes in
Accounting Policies"**

* **IPSAS 4, "The Effects of Changes in Foreign
Exchange Rates"**

IPSAS 5, "Borrowing Costs"

* **IPSAS 6, "Consolidated Financial Statements and
Accounting for Controlled Entities"**

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ATTACHMENT: Accrual IPSAS (cont.)

***IPSAS 7, “Accounting for Investments in Associates”**

***IPSAS 8, “Financial Reporting of Interests in Joint Ventures”**

IPSAS 9, “Revenue from Exchange Transactions”

IPSAS 10, “Financial Reporting in Hyperinflationary Economies”

IPSAS 11, “Construction Contracts”

***IPSAS 12, “Inventories”**

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ATTACHMENT: Accrual IPSASs (Cont.)

***IPSAS 13, “Leases”**

***IPSAS 14, “Events After the Reporting Date”**

IPSAS 15, “Financial Instruments: Disclosure and Presentation”

***IPSAS 16, “Investment Property”**

***IPSAS 17, “Property, Plant and Equipment”**

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ATTACHMENT: Accrual IPSASs (Cont.)

IPSAS 18, “Segment Reporting”

IPSAS 19, “Provisions, Contingent Liabilities and
Contingent Assets”

IPSAS 20, “Related Party Disclosures”

IPSAS 21, “Impairment of Non-cash-generating Assets”

***ATTACHMENT (Cont.)
Cash Basis IPSAS and ED***

Cash Basis IPSAS, “Financial Reporting Under the
Cash Basis of Accounting”

Exposure Draft, “Financial Reporting Under the
Cash Basis of Accounting – Disclosure
Requirements for Recipients of External
Assistance” (revised ED approved. Anticipate
issue September 06)

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ATTACHMENT (Cont.)
Research Reports and Consultative Papers

- Budget Reporting (May 04)
- Comparison between GPFS and GFS/SNA (Jan05)
- Occasional Paper “Accounting for Heritage Assets under the Accrual Basis” (Feb 05)
- Occasional Paper “The Road to Accrual Accounting in the USA” (March 05)

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IPSASB UPDATE

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**Modernising Accounting in the Public Sector:
Exchange of Experience
28 September 2006**

**Implementation of Accrual Accounting
Results of the FEE Survey**

Bryan Ingleby
FEE Public Sector Committee



Accruals Accounting: Results of FEE Survey

Contents of Presentation

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Objectives

- *To understand the extent to which accrual accounting principles are being applied in European countries*
- *To contribute to the accrual accounting debate*
- *To share our findings with the wider audience*



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Methodology

- *FEE Public Sector Committee issued the questionnaire in March 2005 and re-issued it in December 2005*
- *Covered technical issues and debatable cases*
- *Invited comment from five levels of government*
- *Responses were collated and analysed*
- *Report drafted for FEE Public Sector Committee*



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Coverage part one – Technical Issues

- *Assets and depreciation*
- *Opening balance sheets*
- *Income and expenditure*
- *Tax revenues and provisions*

Coverage part two – Debatable Issues

- *Policy on asset valuation and depreciation*
- *Recognition of gains and losses in the Statement of Performance*
- *Recognition of variances against budgets*
- *Recognition of state pension liabilities*



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How far is accrual accounting being implemented?

- *Some countries are well advanced with the use of accrual accounting at all levels of government*
- *A group of countries operate accruals at certain levels of government and cash at other levels*
- *Some countries are undergoing the transition from the cash basis to the accruals basis*
- *Other countries continue to operate a mainly cash based accounting system*



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What can we learn from this data?

- *There is some evidence of a 'North / South' divide in the levels of implementation of the accruals principles*
- *Accruals accounting is more advanced at local and regional government level than national government*
- *There is a link with New Public Management reforms*



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What are the results on the technical issues?

- *Consistent responses on the application of accruals principles for fixed assets, stocks and operating income and expenditure*
- *However, there were significant variation on the detail (valuation, depreciation, year end accruals)*
- *A much lower proportion of the respondents apply accruals principles to tax revenues and provisions*



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What are the results on the debatable issues?

- *Should legal and financing considerations be taken into account when charging depreciation?*
- *How should gains and losses be recognised?*
- *Should variances from budget be recognised in the financial statements?*



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Recognition of state pension liabilities

- *Should pension liabilities be recognised as they are accrued through contributions and/or years of work?*
- *Should pension liabilities be recognised as they crystallise at pensioners' retirement ages?*
- *Should pension liabilities be recognised only when paid?*



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Key Messages

- *Northern European countries more likely to use accruals than Southern European countries*
- *Local and regional governments are more likely to use accruals than national governments*
- *Where accruals principles are applied, tax revenues in particular lag behind in terms of accruals*
- *There is no consistent message on the debatable cases, especially state pension liabilities. International guidance and a Public Sector Framework would be beneficial*



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Next Steps

- *Publication of the Report*
- *Follow up work at FEE*