

Workshop C:

Lessons Learned and Added Value of Modernisation of the Public Accounting for Public Sector Committee

Chair of Workshop: Ciaran Spillane
Director EC-DG Budget

Speakers:

Jim Libbey, Executive Director, Financial Systems Authority, Office of the Comptroller General, Treasury Board of Canada Secretariat

Ludo Goubert, Financial Controller, NATO Communication and Information Systems Services Agency

Prof. Stefano Zambon, Director, International Research Center on the Management of Public Administrations (CIRAMAP)

David Watkins, Head, Financial Reporting Policy, HM Treasury, UK

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MODERNISING ACCOUNTING IN THE PUBLIC SECTOR



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Lessons Learned and Added Value of Modernisation of the Public Accounting for Public Sector Committee

Chair of Workshop: Ciaran Spillane
Director EC-DG Budget

Issues for discussion:

- *Added Value of Accrual Accounting for Public Management*
 - *Benefits of Accrual Budgeting*
 - *Different Bases of Budgeting and Accounting*
- *Differences between Public Sector Accounting and Private Sector Accounting*

MODERNISING ACCOUNTING IN THE PUBLIC SECTOR





EC/FEE Public Sector Conference

28 September 2006

Modernisation of Accounting for Public Sector Management

Jim Libbey
Government of Canada

Canada



Overview

In my opinion:

- What we have done and what we are doing
- Value to date
- What we think we have learned
- Value yet to be earned
- Some challenges

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What we have done and what we are doing

- Financial Information Strategy 1995-2001 (Accrual accounting for reporting, new systems, development of people)
- Federal Budget on Accrual Basis
- Funding Submissions include supplemental accrual information
- Re-establish the Office of the Comptroller General of Canada December 2003
- Auditor General, Public Accounts Committee
- Management Accountability Framework

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What we have done and what we are doing (continued)

- Management, Results and Reporting Structure
- Study of the use of accrual accounting across the budget and expenditure cycle
- Committee on Government Operations and Estimates
- Assessing readiness for audit of financial statements
- Implement?? (design details, systems impacts, training, ...)

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Value to date

- A measure of credibility; unqualified audit opinion (based on a “substantive” audit)
- Asset management now a focus
- Improved understanding of costs, but still an emphasis on “near cash” appropriations
- Better systems and controls, but both need improvement

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What we think we have learned

- It can be done with political and senior support
- Find some incentives and investment money
- Engage affected communities in depth
- Accrual-based reporting is not enough
- Major systems were designed for accrual
- A “perfect storm” may be needed
- Patience is a virtue

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Value yet to be earned

- Appropriate, internally consistent information to support planning, budgeting, execution and reporting
- Better understanding of the business of government; better decisions, better budget execution
- Emphasis on managing costs of programs
- Matching costs and outputs / outcomes
- Ability to reallocate resources
- Transparency and accountability
- Efficiencies in bookkeeping
- Ability to recruit and retain staff

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Some Challenges

- How does Parliament want to control the public purse?
- Apparent complexity; the detailed design
- Readiness of departments and agencies
- Resistance: There are other ways ... Few other countries do it ...
- Cost to implement; savings?
- End the debate!


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Canada 

IPSAS Implementation Lessons Learned and Added Value



Ludo GOUBERT
Financial Controller
NATO CIS Services Agency
Mons - Belgium

Framework

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- NATO's organisation (www.nato.int)
 - Decision process on IPSAS

Objectives

- Lessons Learned
 - Reaching IPSAS has to be a prime objective
 - Staff rotation requires Public Relations effort
- Value Added
 - Better procedures for setting objectives
 - Accounting gets visibility

Staff

- Lessons Learned
 - IPSAS texts too difficult
 - Training is a challenge: internal - external
- Value Added
 - Organisation
 - Easier to hire qualified staff
 - Easier to test staff on knowledge required
 - Staff
 - Staff has found new challenges
 - Staff can get better opportunities

Systems and procedures

- Lessons learned
 - Not all available systems support IPSAS
 - All accounting manuals to be rewritten
 - Accounting manuals should combine IPSAS terminology and Vendor's accounting terminology
- Added value
 - Less customisation required with IPSAS than with organisation-specific accounting standards
 - Wider selection of systems possible

Technology

- Lessons Learned
 - Organisation-wide network has to be available
 - Organisation-wide accounting software limits the requirement for accounting skills to be hired
 - Organisation-wide PPE treatment is a need
- Value Added
 - Information integration is promoted
 - Automated reconciliation is promoted
 - Consolidation easier and more complete

Culture

- Lessons learned
 - Cultural change is huge
 - Resistance to change
- Added value
 - More common language
 - Better reference basis available for discussions and decisions

Work and Structure

- Lessons Learned
 - IPSAS Study 14 reflects all the problems and challenges
 - Incentive for permanent change
 - In 2000 many standards missing
 - In 2006 looking forward to
 - Non exchange revenue
 - Intangible Assets adapted to Governments
 - Budgeting
 - Cost accounting systems required
- Value Added
 - A comprehensive set of standards
 - More standardisation
 - Easily Acceptable in international organisations

Joint European Commission-FEE Conference
"MODERNISING ACCOUNTING IN THE PUBLIC SECTOR –
Exchange of Experience"

Workshop C

Public Sector Accounting Change in Italy and New Zealand: A Few Comparative Lessons

Prof. Stefano Zambon

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Director of CIRAMAP
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European Parliament
Brussels, 28 September 2006

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The International Research Centre on the Management of Public Administration (CIRAMAP)

- Born in 2001, it is a inter-university Centre with a strong international orientation
- Institutional partners are the University of Ferrara, the University of Bologna (Forlì Campus), and the Faculty of Economics & Commerce of the University of Melbourne
- Its aim is to carry out research in the field of management, accounting and reporting of public sector entities in an international and comparative perspective

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Aim of the Speech

Examining the state-of the-art of public sector accounting reforms in two countries that have taken quite different paths so far:

Italy vs. New Zealand

in order to draw some lessons and identify the issues and value added

Agenda

- Situation of the accounting reforms in Italy
- Situation of the accounting reforms in New Zealand
- Issues and value added
- Comparative lessons



ITALY:

The Approach to Accounting Change

- Process of accounting reform of Italian public sector started in the early '90s by adopting a piecemeal approach
- At present, the resulting situation is variegated and somewhat contradictory
- Since the late '90s accounting of local authorities (communes and provinces) is characterised by a twofold approach → modified cash- & accruals-based carried out at the same time (but only cash for budget)

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ITALY:

The Strength of Accounting Inertia

- However, central administrations, regions and a large number of other public sector bodies (e.g. social security funds) still use traditional modified cash-based accounting, even if cost and management accounting is compulsory for all public administrations since 1997
- Virtually all state universities still adopt traditional cash-based accounting
- Strong feeling that traditional public sector accounting can still do a better job in authorisation/limitation terms (in budgets)

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ITALY: The Beginnings of Accounting Standards

- In 2000 an Observatory on Accounting and Finance has been set up within the Ministry of Interiors with the task of producing and promoting accounting standards only for the accounting needs of communes and provinces
- Conceptual Framework + Standards on:
 - 1) Planning and programming
 - 2) Operations management
 - 3) Financial reporting
 - 4) Social reporting

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ITALY: The Way Ahead

- In February 2006 a Government Bill on the standardisation of public bodies' accounting systems was approved by only one of the two Parliament Chambers
- In the Bill reference as accounting rules to ESA 95 as well as to international accounting standards "if and to the extent they are applicable to public sector bodies"
- The Bill sets up a unified Accounting Standards Committee for the Public Sector (no professionals in)
- The Bill will be re-proposed by the new Government

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ITALY: A Forward-Looking Discussion Forum

On 19-20 October 2006, the CIRAMAP co-organises in Rome an International Congress with a strong institutional vein on:

“Public Sector Accounting Between Standardisation and Governance: Towards an International Harmonisation of Rules”

under the auspices of the Italian General State Accountancy Department

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NEW ZEALAND: A Unitary Approach to Accounting Change

- From 1989 compliance with NZ GAAP was made mandatory for Government and, progressively, for all levels of public sector
- Adoption of a pioneering and unitary strategy of public sector accounting change
- In 2002 choice taken to adapt and apply IASB's IAS/IFRS to the public sector from 1st January 2007 at the latest → comparability as prime driver → for the Government, reporting should be neutral irrespective of type, size and sector of the entity

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NEW ZEALAND: Reasons for the Choice

- Choice of adoption of private sector IAS/IFRSs is explained by the refusal of the two likely alternatives:
 - IPSAS were rejected in 2002 because they do not apply to voluntary/non-profit organisations, and of their lack of international adoption
 - General Financial Statistics (GFS) was rejected because they are not suitable to entity level management, control and accountability

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ITALY: Issues and Value Added

- The resulting situation is highly differentiated and to some extent confusing →
 - serious risks of poor mutual understanding → a sort of “public sector accounting Babel tower”
 - potentially harmful consequences in control and policy making terms
- Risks of imposing burdensome double or triple accounting systems to public sector bodies
- Increasing “polarisation” of accounting references:
 - accruals accounting for managerial purposes, vs.
 - ESA 95 for political control of public expenditure

NEW ZEALAND: Issues and Value Added



- Much more homogeneous situation in terms of rules, but a few issues started emerging:
 - Sector-neutral approach has “removed” public sector specificities
 - Emerging technical issues (e.g. fair value application to heritage assets) → nature and usage of assets different in the public sector
 - Lack of guidance for non-reciprocal transactions
 - Meaning of income is ambiguous
 - De facto delegation of sovereignty
 - Locked-in system for the future

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Some Comparative Lessons



- Should the specificities of public sector be recognised (conceptually and practically)?
- If so, how to best respect them? Are the IAS/IFRS the best basis?
- Need for European and international convergence in public sector accounting rules, but how to assure the widest possible representativeness and participation in this process? IPSASB perceived often “only” as a professional body
- What should be the relation with ESA 95?

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Some Comparative Lessons (cont'd)



- Changing accounting in public sector may seem to be a merely technical exercise, but it is:
 - a deeply cultural process → e.g. perceived clearer sense of limit provided by the traditional public sector accounting in Italy
 - a deeply political process → e.g. recognition of local/regional autonomies (Italy) vs. uniform/"sector neutral" accounting rules (NZ); or adoption of nationally vs. internationally derived standards

Lessons Learned and Added Value of Modernisation of the Public Accounting for Public Sector Management

David Watkins
Head, Financial Reporting Policy, HM Treasury, UK



HM TREASURY

Lessons learned

- Identify users' needs
- Central guidance is critical
- Need to understand effects of proposals
- Departmental management must be an owner of the reform
- Need the right staffing skills and levels
- Importance of cash management needs to be emphasised



HM TREASURY

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Added value

- Improved accountability
- Understanding the 'business'
- Improving financial management
- Aligning budgets and accounts
- Aligning management and external reporting
- A link to objectives and performance



HM TREASURY

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Workshop C:

"Lessons learned and Added Value of Modernisation of the Public Accounting for Public Sector Management"

Summary

1. Jim Libbey, spoke of the Canadian experience.

The Value Added as a result of the implementation of Accrual Accounting was (i) measure of credibility by having audited financial statements, (ii) improved understanding of costs, (iii) better financial systems and internal controls and (iv) ability to reallocate resources on basis of financial information.

The Lessons learned mentioned included (i) the imperative of political support within the organisation, (ii) the need to engage the affected community in an in-depth manner, (iii) the need to find the necessary funds and (iv) the need to recruit and retain qualified financial staff.

The Challenges mentioned were the need to overcome the resistance to change as well as the relatively high cost of implementation.

2. Ludo Goubert spoke of his experience within the NATO organisations.

The Value Added as a result of the implementation of Accrual Accounting was (i) better procedures for setting objectives, (ii) easier to hire and test qualified financial staff (as systems now compliant with IPSAS), (iii) motivational effect on staff, (iv) easier introduction of standard accounting software being in most cases compliant with IAS/IPSAS requirements (v) information integration is promoted and (vi) reconciliations are now automated. In general, a common accounting language exists, based on IPSAS.

The Lessons learned mentioned included (i) the IPSAS texts are often too difficult to interpret, an organisation-specific accounting manual should “translate” the standards into more practical terms, (ii) the differences in terminology employed can be confusing (IPSAS, Software Supplier, Internal to organisation), (iii) the need to develop a Cost Accounting system to enable proper comparison of costs and data. It was mentioned that IPSAS Study N° 14 was of particular help to the project team in the planning stages of their project.

3. Prof. Stefano Zambon presented a short comparative analysis of the developments in Italy and New Zealand.

We were informed that in 2002 the New Zealand Authorities chose IASB's IAS/IFRS over IPSAS as the reporting model to be applied from January 2007. Government wanted to have a “sector-neutral” accounting framework.

Prof. Zambon used the phrase the "Strength of Accounting Inertia" to describe traditional resistance to change within the Public sector in Italy.

The Lessons learned mentioned that the existence of too many different accounting standards within the public sector was impeding progress (IPSAS, ESA95, National Standards based on Cash Accounting). In mitigation it was pointed out that the adoption of a single conceptual framework might create too rigid a structure.

4. David Watkins briefed us on the situation within the UK.

The Value Added as a result of the implementation of Accrual Accounting was (i) improved accountability (Assets/Creditors/Debtors), (ii) an emphasis on Financial Management, (iii) an alignment of management and external reporting, (iv) aligning budgets and accounts and (v) a link to objectives and performance.

The Lessons learned mentioned included (i) the imperative of identifying users' needs (e.g. in UK the users of financial reporting are primarily the Treasury and Parliament), (ii) the critical need to ensure central guidance, (iii) the importance of I.T. support (UK provides compliance guidelines to reduce cost to implementing department), (iv) the Department Manager must be the owner of the reform, (v) the need for correct staffing skills and levels and (vi) the importance of Cash management.

The common themes identified were:

Value Added

- A measure of credibility
- Improved understanding of costs
- Development of a common accounting language on the basis of IPSAS

Lessons learned

- Need for political support
- Cultural change within the organisation is huge
- Engagement of affected communities in an in-depth manner (communication)
- Need to recruit and train financial staff

A debate took place where the speakers gave their views on (i) Accrual Budgeting and (ii) the ability to measure "Added Value" as a consequence of the introduction of Accrual Accounting.

There was a general consensus that the introduction of Accrual Accounting does not, on its own, lead to improved Public Sector Management. However its introduction provides the tools and enhances the financial management environment that lead to a noticeable improvement in Public Sector Management.