PATHWAYS TO ACCRUAL

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PATHWAYS TO ACCRUAL

This tool is intended to assist public sector entities, including national, regional, and local governments, and related governmental entities (other than government business enterprises) and international governmental organizations wishing to report on the accrual basis of accounting. It is primarily intended to assist public sector entities transitioning from cash to the accrual basis of accounting and:

- It may also be useful for entities currently reporting on an accrual basis and considering the adoption of IPSAS; and
- Some of the case studies and other material may help public sector professionals and professional accountants in the public sector in particular, who find themselves facing accounting and public financial management challenges, for the first time.

The tool includes:

- An overview of the wider context in which the transition to the accrual basis of accounting may occur;
- A discussion of various transition pathways that entities choosing an incremental implementation process may adopt;
- Identification of the main tasks associated with recognition of assets, liabilities, revenues, and expenses, including issues and challenges associated with the identification of, as well as measurement of, those elements in financial statements;
- Some implications of adopting accrual basis IPSAS;
- Practical suggestions based on the experience of other entities and jurisdictions; and
- Links to other useful guidance and resources.

The power of this tool in assisting public sector entities along their chosen pathway to accrual lies in the practical examples provided against the topics addressed in this tool. IFAC and the IPSASB welcome additional examples to help illustrate how practical challenges in initiating and managing an accrual implementation program have been overcome.

If you have a case study example or resource to share from your jurisdiction or organization, please let us know by completing this form: www.ifac.org/contact-pathways-to-accrual

THE WIDER REFORM CONTEXT

Sound public financial management (PFM) is fundamental to economic growth, international development and social stability, including improving living standards for citizens.

Strong PFM is the foundation for sustainable decision making, service delivery, and achievement of outcomes, as all policy decisions and activities have direct or indirect financial consequences, either immediate or at a future date.

Poor PFM has implications for accountability, transparency and decision-making, which impacts equity, as well as trust and confidence in government, while impacting service delivery outcomes, living standards, and quality of life overall; and affects investor confidence, economic performance, development and opportunity.

High quality financial reporting underpins strong PFM and facilitates external oversight of public expenditures, boosting trust in government and improving policy outcomes.

A transition to accrual accounting rarely occurs in isolation—often the introduction of accrual accounting will be merely a subset of a much larger reform program. Indeed, experience suggests that attempting to migrate to accrual-based financial accounting and reporting outside of a wider reform program results in failure because the project is seen as “just another accounting exercise”.

A wider reform program will often be in the context of a need to improve PFM – either because of domestic demands for reform or as a result of pressure from international organizations (perhaps linked to donor aid). A whole system approach brings together the main areas that are fundamental to strong PFM.

IFAC, its member organizations, and other international organizations such as the International Monetary Fund (IMF) and the World Bank have a wealth of material related to PFM and to the migration to an accrual-based accounting framework. Example material can be found under Resources and Links in the relevant sections of this tool.

Benefits of Accrual Accounting

Accrual-based financial information allows users of that information to evaluate performance—of an individual entity or the whole of government where consolidated financial statements are produced—in terms of inputs, outputs, and outcomes. Accrual-based financial information is the bedrock for decision making, transparency and accountability.

Transparency

Cash accounting can generate a lack of transparency and even potential for distortions of a government’s actual financial position. This arises as income is not counted until cash is actually received, as well as due to the exclusion of charges such as asset depreciation.

Under accrual-based financial accounting and reporting, full disclosure of government financial transactions takes place, when they occur. Additionally, the depreciation of assets is suitably taken into account to reflect the actual value of assets in the financial year under consideration. This results in a more accurate estimate of a government’s financial position. In turn, the implication is that future revenues and financial position can be predicted more easily.

Decision Making

Financial statements drawn up on the basis of accrual accounting provide the executive and legislature with better foundations for their decisions regarding the allocation of resources. A truer reflection of a government's financial position also ensures that additional pressures are not exerted on government resources, when its financial viability is under pressure.

Public sector entities need information about expenses in order to assess their revenue requirements, the sustainability of existing programs, and the likely cost of proposed activities and services. Accrual-based financial information provides public sector entities with information on the full costs of their activities so that they can take a longer-term view when making financing decisions. It also means that public sector entities may be held accountable for the financial impact of their decisions on both current and future net assets/equity, and, therefore, on inter-generational equity.

Accruals-based information on revenues is essential for assessing the impact of taxation and other revenues on the government's fiscal position. Information on revenues helps both users and public sector entities themselves to assess whether current revenues are sufficient to cover the costs of current programs and services.

Accountability

Increased disclosure of accounting indicators and reports means government will be held accountable for decisions, as they take effect. Actual costs are reflected through accrual accounting, enhancing accountability for expenditure.

Accrual accounting requires entities to maintain complete records of assets and liabilities. This facilitates better and more effective management of:

(a) Finances, and allows government to plan better for future funding requirements of asset maintenance and replacement. A truer reflection of a government's financial position enables public service managers to allocate resources to programs according to their cost effectiveness.

(b) Assets, including better maintenance, more appropriate replacement policies, identification and disposal of surplus assets, and better management of risks such as fluctuations in the value of liabilities. The identification of assets and the recognition of depreciation and amortization help managers to understand the impact of using fixed assets in the delivery of services, calculate service fees (where applicable), and encourage managers to consider alternative ways of managing costs and delivering services.

(c) Liabilities, and potential or contingent liabilities, enabling decision makers to determine, for example, whether they can continue to provide current services and the extent to which they can afford new programs and services.

Whole System Approach to Public Financial Management

Public financial management (PFM) drives the performance of the public sector through the effective and efficient use of public money. CIPFA's Whole System Approach to PFM advocates a holistic system-wide approach to the design and improvement of PFM.

PFM refers to the set of laws, rules, systems and processes by which "*financial resources are planned, directed and controlled to enable and influence the efficient and effective achievement of public service outcomes*" (CIPFA's definition) at national and sub-national government level. It is generally understood that PFM encompasses a broader set of functions than financial management, and different organizations define PFM in slightly different terms. For example:

- The World Bank describes PFM in terms of its component parts: "*For countries, financial management refers to the budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements by which they receive funds, allocate them and record their use.*" (Financial Management, World Bank, October 2015)
- The IMF states that "*The three major objectives of a public financial management system (PFM) are: fiscal discipline (expenditure control); allocation of resources consistent with policy priorities (strategic allocation of resources); and prudent management of the government's financial resources (economy, efficiency, and effectiveness).*" (PFM Technical Guidelines Note No. 3, IMF Fiscal Affairs Department, October 2007).

The areas that are fundamental to strong PFM are:

- Governance;
- External PFM elements (including legislation, standards, transparency and scrutiny); and
- Internal PFM elements (including strategy and planning, budget execution and performance monitoring).

The use of accrual-based information is crucial to the successful integration of these three areas. In terms of the migration to an accrual basis of financial accounting and reporting, the PFM concepts of governance, legislation, standards, transparency and scrutiny all need to be considered as the strategy and plan for the migration is developed. Budget execution in terms of how revenues and expenditure are accounted for and reported is considered in developing jurisdictional or entity-specific accounting standards and policies. Performance monitoring is considered in two ways – management of the reform program and projects, but also in terms of ensuring that internal controls (including internal audit) and external audit and parliamentary scrutiny are considered in the design of the outputs from the program.

GOVERNANCE

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. ***The International Framework: Good Governance in the Public Sector*** (CIPFA/IFAC, 2014) defines seven high-level principles:

- Behaving with integrity
- Ensuring openness and engagement
- Defining sustainable outcomes
- Optimizing interventions
- Building capacity
- Strong public financial management
- Delivering effective accountability

These principles are applicable both to the overall reform program for the successful migration to accrual-based financial accounting and reporting, and to the individual projects that make up that program.

The transition to accrual-based accounting and reporting is likely to be smoother and faster when there is strong leadership in the form of:

(a) Political commitment and a clear mandate;

(b) Commitment from senior officials;

(c) A reform champion; and

(d) Support from the accountancy profession.

There also needs to be an effective program management structure, proactive change management, and a communications strategy and plan.

Stakeholder buy-in is crucial to the success of the reform program. One of the first steps that will need to be taken is a comprehensive mapping of stakeholders who will be impacted by the reform program. Some will be affected directly because they are in key leadership positions or will be involved in the work streams associated with the reform program, including the migration to accrual-based accounting and reporting; others will be indirectly affected.

Leadership

One of the most essential elements for the successful implementation of a PFM reform program, including the migration to an accrual-based financial accounting and reporting framework is having the support and political will of elected representatives in the relevant constitutional bodies – national, regional or local, depending on the extent of the reform program.

In addition, senior officials across the entities need to lead the reform program, supported in turn by reform champions who are responsible for ensuring delivery. There may be one reform champion for a wide program, or there may be individual champions for elements of the program, such as the migration to accruals.

In the case of a change in the financial accounting and reporting framework, the national professional accountancy organization(s) and other regional and international organizations will need to play a role in supporting the reforms through their professional activities, including their professional qualification and continuing professional development programs.

Political

Political commitment from the central government or equivalent at regional or sub-national level (depending on the jurisdiction's constitutional structure) and from any opposition parties is generally required to secure initial approval for the proposed changes and to provide continuing support for the changes when obstacles or opposition are encountered.

If political commitment is not established early in the process, inability to overcome problems later in the process may result in scarce resources being wasted. Because transition may occur over a period of years there may be a change of government or changes within a government during the transition period. It is therefore important to continue to liaise with key politicians throughout the process.

Cross-party political support is often demonstrated by support from a parliament's public accounts committee. For example, the UK Public Accounts Committee held annual sessions to discuss the UK's move to an accrual accounting and reporting framework (known as resource accounting in the UK) and published a report. A link to a typical report from the 1997-98 parliamentary session is included in the resources and links section.

In some jurisdictions, it might be the legislature that is the initial force for change. However, reform will not occur unless there is also a clear mandate from the highest level of the government. Any PFM reform should have the support of government ministers and should be viewed as a wide-ranging reform that includes improvements in the way in which the public finances are managed, as well as accounted for and reported, not a reform that is only about a change in accounting framework.

It might be the minister of finance who is responsible for the delivery of the part of the reform program that brings about changes in the financial accounting and reporting framework, and who provides the detailed mandate for that part of the wider reform. The mandate should state what the reforms will encompass, the expected timing and the authority of various government bodies to initiate the changes required. A clear mandate gives relevant officials and entities the power to initiate change and oversee the reforms.

To ensure that political leadership and support is maintained, a jurisdiction might consider requiring regular reports to Cabinet (or equivalent) as well as to the legislature.

Senior Officials

The active support and leadership of top governmental officials is required to ensure the successful implementation of any reform programs initiated by governments with the support of the legislature. PFM reforms often see significant and widespread changes to the way public finances are managed and services delivered, as well as changes to the basis of accounting, together with other financial management reforms such as the devolution of authority for resources.

Support can be reinforced through regular briefings and demonstrated through attendance at events with key stakeholders.

Reform Champion

Introduction

Successful migration to accrual-based financial accounting and reporting will be facilitated by the appointment of a reform champion. Depending on the nature and scope of the program, this may need to be a full-time role. The reform champion will need to be supported by an appropriately resourced program oversight management team (PrOMT).

The Reform Champion

The reform champion might be called by a different name but, whatever the title, the role is to lead the successful delivery of the implementation strategy and plan (ISP). The ISP covers different strands, and it is unlikely that the reform champion will be an expert in all areas, which is why the composition of the PrOMT is so important since those officials will be accountable to the reform champion for delivery of the various strands.

Given the output of the migration program is the delivery of accrual-based financial reports, it is likely that the reform champion will be a senior official from the Ministry of Finance–perhaps an Accountant General, or a Permanent Secretary–and certainly from central government even if the reform program covers more than the central government sector.

Accountancy Profession

Introduction

In many jurisdictions, the public sector has not been seen traditionally as a career option for professionally qualified accountants and, therefore, not an area on which professional accountancy organizations (PAOs) have focused. The adoption of IPSAS is often a trigger for increasing the professionalization not only of a public sector entity's finance function but also across the public sector more widely. Governments generally cannot capacitate without support from other players and PAOs have a key role to play in the professionalization of the finance-oriented workforce.

Role of Professional Accountancy Organizations

PAOs can assist in the migration to accrual-based financial accounting and reporting in a number of ways, including:

(a) Professional qualifications either for the public sector or with public sector content;

(b) Continuing professional development courses and events;

(c) Partnering with training providers; and

(d) Providing technical support during and after the migration period.

In addition, regional organizations, such as the Pan-African Federation of Accountants and the Confederation of Asian and Pacific Accountants, can play a vital leadership role and assist in building the capacity of PAOs as they seek to engage more widely with the public sector.

Overall Program Management

A transition to an accrual-based financial accounting and reporting framework involves many entities, all of which will be starting from different levels in terms of skills and capabilities, existing standards of financial

management and of financial accounting and reporting, and available resources. It is also likely to involve development and implementation of new accounting systems, processes and policies.

Strong program management is essential to successful reform. It implements the principles set out in *The International Framework: Good Governance in the Public Sector* by ensuring:

- Outputs and outcomes are defined
- The interventions necessary to optimize the intended outputs and outcomes are determined
- The necessary capacity to develop these is developed
- Risks and performance are managed
- Good practices in transparency and reporting are implemented.

The overall program will impact differently in each entity. In order to ensure that the entity specific changes needed to deliver the overall program in a timely and effective manner, local implementation plans are needed, supported by strong local leadership at both program and individual project levels.

Program Oversight

Introduction

Program oversight is not the same as program management, although the two are closely related. Program oversight is carried out by people at a level appropriate to the scope of the reform program.

Parliament

It will usually be appropriate for the legislature to be involved in oversight. In the case of a migration to accrual-based financial accounting and reporting, that oversight function might be delegated to a public accounts committee or equivalent committee of the national legislature.

National Steering Committee

It will also be appropriate to consider how those who have strategic responsibility for program delivery will be involved in program oversight. This might take the form of a national steering committee comprising senior officials. These senior officials need not be 'subject experts' in all areas of the reform program, but they do need to be committed to ensuring the successful delivery of the program.

Central Program Management Team, Program Structure, and Project Leadership

Introduction

A migration from a cash-based accounting framework to an accrual-based financial accounting and reporting framework involves more than implementing new accounting standards. In addition to work on accounting standards and policies, the program might typically need to consider changes to IT systems, changes to processes and procedures, and training. There might also be links to other parts of the reform program that will need to be taken into consideration.

Program Oversight Management Team

Jurisdictions that have completed the migration have generally found that a dedicated team to work on the program is necessary to ensure success. The team, perhaps called a program oversight management team

(PrOMT), would need to understand the interrelationships between the different elements of the reform process, and should report to the reform champion, although the day-to-day leadership of the team might be delegated appropriately. To give effective leadership in program delivery, PrOMT would need to comprise

(a) Individuals with project management and change management skills;

(b) A member who has an understanding of, and experience in, accounting policy issues;

(c) An IT systems expert;

(d) Individuals with an understanding of, and experience in, any other areas that are part of the reform program (education and training, for example); and

(e) Adequate funding, or the authority to seek funding from donors, for additional resources required across the program, which might include additional staffing, acquisition of specialist skills, and the development and installation of financial information systems.

The creation of PrOMT (or something similar) is assumed throughout this tool.

An Effective Program Management Structure

Program management generally involves splitting the program into separate projects that can then be managed by individuals with the appropriate skills and experience. A reform program should have:

(a) A documented framework or approach to form a consistent base for the communication of the reforms, to assist staff to understand the reasons for the changes and the approach being taken, and to ensure that actual implementation is in accordance with these decisions. This might be linked to the implementation strategy and plan.

(b) A formal implementation plan, the nature of which will vary depending upon the type and scale of the reforms.

(c) A clear allocation of responsibility for each task and the respective roles and responsibilities of key entities and officials.

(d) Project milestones together with procedures for monitoring the performance of entities and individuals against those milestones. Some jurisdictions (for example, the Philippines and Thailand) have developed "trigger points," which are a series of documented criteria that entities must meet at certain stages of the project. These trigger points form the basis for deciding whether devolution of resources will occur, and the audit report on each stage highlights areas where risks exist and where remedial action may be necessary.

(e) An approval process detailing who has authority for particular decisions.

(f) Formal communication and coordination mechanisms to distribute information to, and collect information from, entities.

(g) Budget/funding - Entities need to know which, if any, additional costs they will receive additional funding for. At a whole-of-government level the additional cost of a major project will need to be incorporated in the budget process.

Central Project Leadership

A national implementation strategy and plan will provide detail on the role and responsibilities of the PrOMT. In order to deliver the implementation strategy and plan, a project implementation team (PIT) might be established, each led by a member of PrOMT, with the responsibility to oversee proposed projects within the program. Each PIT is likely to comprise representatives from sectoral or entity-level PIT responsible for delivery of the relevant strand of the implementation work (IT, accounting policies and standards, for example).

Change Management

All stakeholders, particularly those in key leadership positions as politicians or senior officials, need to understand the important role they should play in setting the correct tone. Public financial management reform and a migration to accrual-based accounting and reporting is essentially a big change management program. It is likely to involve revised reporting structures, amended policies and procedures, and new job descriptions, for example – all of which, experience shows, can be disruptive and divisive particularly when stakeholders with many years' experience of the existing structures are reluctant to embrace the changes.

The success of any reform program depends on the necessary changes being embedded in target organizations. Careful planning will be required on how to make and maintain the desired changes and how the inevitable resistance to these changes will be managed.

Migration from a cash accounting framework to an accrual-based financial accounting and reporting framework involves a wide variety of change including not only changes in the way transactions and events are reported but changes in how and when they are recorded in the entities' systems; in the role of non-financial managers; the need for more judgement in recording some events and thus the use of, and reliance on, other experts; and changes in the type of information presented for accountability and decision making purposes.

Migration projects will need to include change management plans in their reform projects, and should plan to use one of the many change management approaches available, but tailored for their particular environment and circumstances.

No specific resources are provided here, but most general guidance on change management is likely to be applicable in the public sector context. Designing reform programs should always include specific considerations related to managing change.

Communications Strategy and Plans

Public sector entities require clear, trusted channels of communication to engage effectively with all groups of stakeholders. All stakeholders, including service recipients, must be able to feedback and influence the way the entity uses public resources and the services it provides.

Clear communication will be essential to the success of any accrual implementation reforms. There needs to be an overall strategy for how to reach all stakeholders effectively. This needs to be supported by more detailed plans for specific project elements and for particular stakeholder groups.

Stakeholder engagement is not just about public access to information but the active involvement of service recipients, stakeholders and partners in decisions about budgets, services, resource allocation and taxes.

Communication methods, including consultations with stakeholders should be balanced and fair. An entity's evaluation processes should enable the interests of more vocal stakeholder groups to be balanced with other stakeholders' interests to ensure that no one group becomes too dominant.

Identifying the Audiences

A transition to accrual-basis accounting and reporting involves many different stakeholders. Their information needs differ. A jurisdiction/entity will need to identify their audiences and assess their information needs and, therefore, the best mechanism to communicate with them and the level of information that needs to be conveyed.

The audiences include:

(a) Elected representatives;

(b) Policy makers, decision makers, and senior public officials;

(c) Preparers of financial statements;

(d) Auditors;

(e) Internal stakeholders; and

(f) External stakeholders generally, including taxpayers and/or service beneficiaries, donors and any other users of financial information.

Setting the Timelines

A transition to accrual-basis accounting and reporting involves many different stakeholders. Having identified their audiences and assessed their information needs, a jurisdiction/entity will need to determine the timelines for communications.

Factors to Consider in Setting the Timelines

The timing of any communications might be determined as part of a regular reporting cycle (for example, the program oversight requirements may include a need for annual updates to parliament to report progress against key delivery milestones), or the timing might reflect progress of a particular project within the program, or there may be other communication needs arising at a particular stage in the program. Factors to consider include the following.

(a) The audience for the particular communication;

(b) The message(s) that need(s) to be conveyed;

(c) The reason for the communication; and

(d) The urgency of the communication—is it routine? Or is it needed for a specific purpose? For example, to clarify a particular part of the program or project.

How to Communicate

The Method of Communication

The method of any communications will often be specific to a jurisdiction or entity and is dependent on the audience.

For example, email communication in some jurisdictions is not considered to be a formal communication to certain types of entities (such as ministries) and, in the absence of any change to that situation, communications will need to be in hard copy report, letter or other format.

In addition, a jurisdiction might need to consider the effectiveness of different methods of transmission. If electronic communication is acceptable, how reliable is the IT infrastructure or IT system? For example, in some jurisdictions, public sector officials prefer not to use an official email address because the underlying system is unreliable. In some jurisdictions, too, the reliance on mobile telephones rather than desktop or laptop computers means that the size of any communication needs to be considered.

To inform a wider group of stakeholders (taxpayers and wider civil society, for example), other forms of communication channels can be considered, including:

(a) Written media, such as newspapers, magazines and other journals;

(b) Social media;

(c) Radio and television interviews and phone-in sessions; and

(d) Using other organizations' networks (for example, professional accountancy organizations and regional and international organizations).

Managing the Message

A transition to accrual-basis accounting and reporting involves many different stakeholders. Having identified their audiences, assessed their information needs, determined the timelines for communications, and how to communicate, a jurisdiction/entity will need to manage the message.

The Message

Too much raw information can lead to a lack of communication through 'information overload' and thus a tendency on the part of stakeholders to ignore the information.

Information needs to be communicated to the different audiences intelligently. This means extracting the key messages from the information that are appropriate for the audience and communicating to that audience using an appropriate communication channel.

In terms of informing a wider group of stakeholders (taxpayers and wider civil society, for example), other forms of communication can be considered, including:

(a) Written media, such as newspapers, magazines and other journals;

(b) Social media;

(c) Radio and television interviews and phone-in sessions; and

(d) Using other organizations' networks (for example, Professional Accountancy Organizations and regional and international organizations).

PFM FRAMEWORK

The core objective of public financial management (PFM) is to improve citizens' lives through better management of public money. Strong PFM processes and systems are essential for effective and efficient delivery of public services, transparent public finances, and trust between government and citizens.

PFM works within a framework of external elements that comprise legislation, standards, assurance and scrutiny, and continuous learning and growing. This framework provides the basis for the internal processes of an entity in strategy and planning, service delivery, and, through monitoring and control, accountability to citizens.

Understanding the true economic impact of a government's past and current transactions is at the heart of sound PFM. Accrual based information is essential for this.

The resources and links in this section provide information about some of these important areas as they apply to a migration from a cash basis to an accrual basis of financial accounting and reporting.

Legislation

Legislation covers a range of activities, including tax raising powers, budget law, approved service expenditure, and may also include accounting, auditing and reporting requirements. Some jurisdictions also have specific legislation relating to PFM requirements.

Legislation might provide general powers to a government or individual public sector entity or it might place specific responsibilities and accountabilities on an entity to deliver clearly defined services to the public. Legislation can take different forms. It might be primary or secondary legislation passed by a parliament, but equally it can take the form of decrees or charters, or regulations issued by an authorized person.

Primary legislation is a form of law created by the legislative branch of government. Primary legislation may consist of statutes that set out broad outlines and principles, delegating authority to an executive branch – such as a public sector entity.

Secondary legislation, sometimes referred to as regulations, is subordinate law made by an executive branch within the boundaries laid down by the primary legislature. Secondary legislation has the same legal force as primary legislation. The powers to make secondary legislation are usually conferred or delegated to ministers or public entities.

Standards

To achieve the highest levels of PFM, the public sector needs to demonstrate that it is governed by standards that cover ethical behavior, human resource management, procurement, internal controls, and accounting and auditing. Increasingly, governments are turning to internationally developed standards that have been drawn up by independent experts. The use of international standards promotes consistency and comparability and facilitates the exchange of experience and practice across jurisdictions.

Adoption could be through legislation or policy and this will depend on the particular jurisdiction. Whatever adoption mechanism is used, it will be important to understand who in the jurisdiction is responsible for setting public sector standards. These should encompass:

- Financial reporting standards, e.g., IPSAS applied directly or modified for the local context.

- Professional standards on ethics (e.g., The International Code of Ethics for Professional Accountants) and education (e.g., International Education Standards), that drive many fundamental requirements, e.g., the nature and extent of the training need in each country.
- External auditing standards defined by the International Organization of Supreme Audit Institutions (INTOSAI) which are based on International Standards on Auditing (ISA) as promulgated by the International Audit and Assurance Standards Board (IAASB).
- Internal auditing standards, many set de facto by The Institute of Internal Auditors (IIA), assumed to be relevant to the needs of public sector bodies, although in many cases these have been developed in a private sector environment.
- Human resource management standards, e.g., those issued by the International Organization for Standardization (ISO) Technical Committee 260.

Strategic Approach to Setting Accounting Policies

Asserting Compliance with IPSAS

IPSAS 1, paragraph 28, states that "An entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs." An entity therefore needs to decide at what point it intends to assert full compliance with IPSAS and the impact of this date on the delivery of the various projects comprising the migration program.

The Development and Approval of Accounting Policies

The Standard Setter

In some jurisdictions, a regulator external to government will be responsible for promulgating the accounting standards that must be used in that jurisdiction, including the public sector. In other jurisdictions, the ministry of finance (or equivalent) might reserve to itself the power to determine the standards and policies that must be applied across all entities in the public sector; and in some other jurisdictions, there may be a difference in the approach taken for central government, local government and state owned enterprises (or government business enterprises).

The Accounting Framework and Accounting Standards

The steps outlined below are written on the assumption that the migration is to IPSAS or to an accrual-based financial accounting and reporting framework based on IPSAS, either by issuing jurisdictional public sector accounting standards or by writing an accounting policies manual (or equivalent) that are IPSAS adjusted for the country context.

Accounting policies might be set at two levels. A decision might be taken at a strategic level on, for example, whether property, plant, and equipment should be measured under the historical cost model or the current value model. Individual entities will develop more detailed accounting policies or policies for transactions and balances that are specific to their entity. The steps below are written in the strategic context.

Development of Accounting Policies

The development of accounting policies in most instances will include the following steps to some degree (steps not indicative of the order an entity might taking to develop and/or approve accounting policies):

(a) Identify who has the authority to approve (set) the policies.

(b) Identify those responsible for developing and reviewing the policies prior to final approval.

(c) Establish time frames for development, consultation and approval.

(d) Consult with appropriate groups as part of due process. The following groups may be appropriate:

   (i) Auditors;

   (ii) Heads of government entities (e.g. ministries and/or departments);

   (iii) Finance staff from individual entities within the wider reporting entity;

   (iv) The local accounting profession;

   (v) Elected or appointed representatives including legislative committees; and

   (vi) Academics.

(e) Decide whether legislative backing for the accounting standards is desired, and if so, initiate legislative changes.

(f) Identify any conflicts between accounting standards and legislation, and develop approaches to address these.

(g) Identify any specific statutory disclosures that would require accounting policies.

Reporting Requirements

Reform Program Reporting

In the context of Pathways to Accrual, ‘reporting requirements’ refers to the need to report to all stakeholders, achievement (or otherwise) of the objectives set for the reform program. This reporting might be done by a central ministry (such as the ministry of finance), by individual entities at a national or sub-national level, or both centrally and individually, and by the Auditor General. The timing of such reporting might be tied to other events, such as a budget statement, for example. An accrual reform program plan should set out the frequency of reporting on the progress of reforms and to whom such reports should be addressed.

Reporting Bases-Financial and Statistical

The need for annual or more regular financial reporting of expenditure and revenues is a key feature of the accountability of government to citizens. In practice, in many jurisdictions, financial and other relevant information about delivery is presented by individual public sector entities and, in some cases, is consolidated into whole of government reports.

Those reporting requirements may be set in legislation and are considered under the sections on legislation and implementation strategy and plans.

Governments are generally required to report against two bases – financial and statistical. Much of the data can be produced from the same system so long as the chart of accounts has been appropriately configured.

External Audit

Most jurisdictions establish overall external audit arrangements for public sector entities through legislation, including the remit of the supreme audit institution. It is less usual for a jurisdiction to prescribe through legislation the more detailed standards that the auditors should follow in carrying out their work.

Many supreme audit institutions apply international auditing standards that have been adapted to meet specific constitutional requirements in their jurisdiction. These may be based on ISAs developed by the International Assurance and Auditing Standards Board for private sector audits, or on the International Standards of Supreme Audit Institutions (ISSAIs) developed by INTOSAI, which provide detailed guidance on public sector audit.

The external auditor will play a number of roles in a migration to an accrual-based accounting and reporting framework. The auditor general will:

(a) Be a critical partner in the development of accounting policies;

(b) Review overall progress of the reform program and review progress in implementing IPSAS in individual entities;

(c) Report to elected representatives (parliament or other body) on progress in line with the process set out in the implementation strategy and plan.

In order to be able to undertake financial audits of accrual based financial statements, the staff complement in the supreme audit institution may need capacity building.

Critical Partner Role

Introduction

The auditor general acts as a critical partner during discussions about strategic accounting policy decisions. At this stage, the auditor general is agreeing only to the general policy. Audit review of entities' financial statements will determine whether the auditor general agrees that the policy has been appropriately applied.

Strategic accounting policy decisions

Strategic accounting policy decisions might typically include:

(a) The format of the financial statements.

(b) Determination of whether the jurisdiction will apply the historical cost model or the current value model for subsequent measurement.

(c) Classes of asset and, where the current value model has been adopted, any dispensation for any class of asset to be accounted for under the historical cost model.

Review Role

The auditor general may have a review role, distinct from the audit role, depending on the approach the jurisdiction takes to the migration to accruals-based financial accounting and reporting.

Where a jurisdiction adopts an approach that involves the use of dry-run accounts, prepared in tandem with the statutorily required accounts, the external auditor might provide a review function to assess:

(a) Individual entities' progress against key delivery milestones.

(b) Compliance with strategic accounting policies.

(c) Appropriateness of detailed accounting policies set in the context of an entity's operations.

Audit Role

The auditor general may have an audit role during the migration to accruals-based financial accounting and reporting.

Where a jurisdiction adopts an approach that involves the use of the transitional reliefs provided by IPSAS 33, *First-Time Adoption of Accrual Basis IPSAS*, perhaps in conjunction with the use of pilot entities, without the preparation of financial statements as required under the previous accounting framework, the external auditor will carry out an audit that, as part of the application of auditing standards, is likely to include assessment of:

(a) Compliance with IPSAS in accordance with the transitional timetable.

(b) Appropriateness of detailed accounting policies set in the context of an entity's operations.

In addition, the external auditor might review progress against the key delivery milestones.

Capacity Building

Introduction

The audit of accrual-based financial statements is more complex and requires more judgments to be made by the auditor than the audit of cash based financial statements. Some auditor generals may have statutory responsibility for the external audit of public sector entities whose current accounting and reporting frameworks are accrual-based and so have some staff proficient in the audit of accrual-based financial statements. However, it is likely that a migration to an accrual-based financial accounting and reporting framework across the public sector will lead to a need for additional experienced staff.

Building Capacity

The skills required to audit accrual-based financial statements are not acquired solely by gaining a certificate in public sector accounting standards. Because of the complexities and judgements involved, an auditor needs to gain supervised, practical experience in auditing a set of accrual-based financial statements.

In developing the institutional capacity of the Auditor General's Office (and, as a result, the capacity of the individuals), the following points might be considered:

(a) Professional accountancy organizations may need to review professional syllabi to ensure that they meet the needs of public sector audits, including coverage of appropriate professional standards related to financial accounting, auditing and ethics.

(b) The auditor (whether private or public sector auditor) should have the relevant public sector and audit knowledge.

(c) A staff exchange program between Auditor General's Offices (secondment of staff for a period of time to develop experience), as well as between Auditor General Offices and private sector audit firms involved in public sector auditing, as a means of building up skills of the Auditor General's staff in respect of auditing accrual-based financial statements, and to provide a knowledge exchanges between different auditors.

(d) Ideally auditors will be responsible for auditing a number of similar entities as this will allow them to obtain appropriate experience of those types of entities.

(e) Quality control procedures in audit bodies may need to be enhanced with the introduction of accrual based financial statements, as audit judgments become more significant.

(f) Subcontracting all or part of public sector audits to third parties (usually private sector audit firms) can help to bring specialist skills to those audits where those skills are not present in the public sector audit body. It can also ensure that public sector audit bodies maintain their audit methodologies in line with best practice in the private sector.

IMPLEMENTATION STRATEGY

The adoption of accrual accounting does not occur in isolation and the style of transition is affected by the context within which it occurs.

Once the decision has been taken to migrate to an accrual-based financial accounting and reporting framework, and the overall program management framework has been established, implementation strategy and plans (ISPs) need to be prepared.

Different groups of stakeholders will have differing requirements in terms of communications and capacity building, and this will need to be considered when designing the implementation strategy, the communications strategy, and when focusing on how to build the necessary capacity.

The national ISP should be written at a strategic level, with more detailed ISPs prepared at individual entity level. There may also be a need for sectoral ISPs (for example, central, sub-national or local government) depending on the scope of the reform.

The national ISP will cover the scope of the reform, the migration approach, and the reform timetable. The content of the national ISP will also incorporate appropriate sections on program leadership, oversight and management, and key deliverables.

The program oversight management team (PrOMT) will need to ensure that the lower level ISPs are consistent with the overall approach set out in the national ISP.

A typical implementation strategy comprises five phases:

- Phase 1: Outline strategy and plan
- Phase 2: Detailed planning
- Phase 3: Design
- Phase 4: Implementation
- Phase 5: Sustain

The national and other ISPs and the planning work associated with, and outlined in, them brings together phases 1 to 3.

National Implementation Strategy and Plan

The program oversight management team (PrOMT), working to the reform champion, will develop the national implementation strategy and plan (ISP).

The national ISP will consider, in the context of the agreed approach to the migration to an accrual-based financial accounting and reporting framework, and decisions on the sectors affected by the reform, the following work streams:

- Program governance and project management
- Accounting policies
- ICT systems

- Operational processes
- Implementation
- Training

The national ISP will also consider links with other, interlinked projects such as a review of PFM legislation, the review of state-owned enterprises, and wider education and training and other capacity building programs.

Existing legislation may determine the accounting boundary. For example, in some jurisdictions the Accountant General is required to prepare statements of accounts showing the transactions of a central consolidated fund and the financial position of the jurisdiction on the last day of a financial year. This type of requirement is often interpreted as meaning a consolidation of central government entities.

Scope of the Reform

Introduction

The national ISP needs to be explicit about the scope of the reform in terms of the migration to an accrual based financial accounting and reporting framework: for example, does the reform apply across all public sector entities within a jurisdiction or to a particular sector(s)? Most jurisdictions follow the sector classification laid out in the Government Finance Statistics Manual 2014: central government, state government, local government, social security funds, and public corporations (nonfinancial and financial). Further, the jurisdiction will need to consider the financial reporting framework and the guidance it includes on consolidation for a financial reporting perspective.

The national ISP will also need to consider whether individual entities will be required to prepare separate financial statements and/or consolidated financial statements and the position regarding sectoral consolidated financial statements. For example, in some jurisdictions the Accountant General is required to prepare statements of accounts showing the transactions of a central consolidated fund and the financial position of the jurisdiction on the last day of a financial year. This type of requirement is often interpreted as meaning a consolidation of central government entities.

Separate Financial Statements

Many jurisdictions have a central government organization that is divided into ministries, departments, and agencies. Departments are part of a ministry, and so are not separate reporting entities–the transactions and balances relating to the departments are included in the ministry's financial statements. In many cases, although ministries produce separate financial statements that are audited, these are not published because they are consolidated into the central government consolidated financial statements. Agencies, however, are generally separate from the ministry and produce their own financial statements. These financial statements might or might not be consolidated into the ministry financial statements or into the consolidation of central government entities.

In some jurisdictions, local authorities may prepare separate financial statements that are not consolidated into a sector consolidation. IPSAS 34, *Separate Financial Statements* provides guidance for entities preparing separate financial statements.

Consolidated Financial Statements

IPSAS 35, *Consolidated Financial Statements*, requires any entity that is a controlling entity to produce consolidated financial statements. IPSAS 35 defines when an entity controls another entity. In general, it is when one entity has power over another entity in terms of directing the activities of that entity. Experience suggests that, in terms of IPSAS 35, a ministry controls an agency within its portfolio and so should prepare consolidated financial statements accordingly. If an accountant general prepares consolidated financial statements for central government, ministries, departments, and agencies would be included in those financial statements.

However, in many jurisdictions, control as defined in IPSAS 35 is also exercised over entities outside the central government sector. In most cases, control is exercised over public corporations (often called, government business enterprises, parastatals, or state-owned enterprises). In some jurisdictions, central government can also direct the activities of local authorities and thus local authorities' financial statements would need to be consolidated into the controlling entity's financial statements to comply with IPSAS 35.

A jurisdiction will need to decide, based probably on how the jurisdiction manages its economy, on what approach (if any) to consolidation it wishes to take, ensure that this approach complies with legislation, and be clear in the national ISP.

Whole-of-Government Reporting

Consolidation of central government entities' financial statements alone does not give a complete overview of the public finances of a jurisdiction. Jurisdictions will need to consider whether and, if so how, jurisdiction-wide consolidated statements should be produced— for example, to cover general government (central and local governments) and/or at whole of government level (general government and public corporations). Decisions will need to be taken early in the detailed implementation planning phase to ensure that any IT (specifically chart of account) requirements are incorporated into the financial management information system and any appropriate legislative changes introduced.

Where a government decides to implement whole-of-government reporting, it might choose to do so at the same time as the first accrual reports from individual entities or delay for a period to allow more time to focus on the transition to accrual by individual entities, the boundaries of the reporting entity, and other consolidation issues. Consolidated accrual reports for various sub-sectors of the whole-of-government reporting entity could be produced as an interim step, followed by complete whole-of-government reports.

Migration Approach

Introduction

The importance of political support and the leadership of senior officials have been considered in the section on **Governance**. It is assumed that a national ISP will be developed only when a political commitment has been made to migrate to an accrual-based financial accounting and reporting framework. Factors that may influence the nature and speed of the migration that should be considered in drawing up the national ISP include:

(a) The system of government and the political environment;

(b) Whether the changes are mandatory for all public sector entities within the jurisdiction;

(c) Whether a time frame for the migration has been set;

(d) The current basis of accounting used across the public sector, the capability of existing information systems, and the completeness and accuracy of existing information, particularly in relation to assets and liabilities;

(e) Any change to the basis of accounting for budgeting; and

(f) The capacity and skills of the people and organizations responsible for implementing the changes and the need for any capacity building and strengthening.

The Economy and the System of Government

The factors influencing the transition vary greatly. Some jurisdictions have bi-cameral systems of government; some operate more by decree. Some jurisdictions might operate under systems where the legislation and regulations underpinning government budgeting and reporting are particularly detailed and are regarded as fundamental aspects of the constitution; others might operate under a system that has evolved through custom and practice based more on administrative requirements. These varying approaches can have an impact on the transition: on, for example, the strength of political commitment; whether or not legislation needs to be amended or introduced for the first time; whether regulations should be administrative or have statutory force; and on the timing of any changes to legislation or regulation.

Gap Analyses

Before considering alternative transition paths it is necessary to have:

(a) A clear understanding in general terms of the gap between the current system of financial reporting and the desired system of full accrual-based financial accounting and reporting; and

(b) A view on capacity gaps in terms of whether staff and the existing systems will be able to cope with the change and what resources are available within or outside government to develop capacity.

Although the national ISP will focus on the jurisdiction's migration to an accrual-based financial accounting and reporting framework, often each sector will be starting from a different place in terms of:

(a) The existing accounting framework. For example, in central government, this might be a form of cash accounting; in local government, a form of accrual accounting; and in public corporations, accrual accounting based either on national standards or on International Financial Reporting Standards;

(b) Current accounting record keeping systems. These might include paper-based accounting record keeping, particularly in jurisdictions with large geographic, and mainly rural, areas poorly served by infrastructure such as electricity supply; some computer based accounting record keeping, perhaps based on spreadsheets; old IT systems configured for cash-based reporting; and IT systems configured for cash-based reporting, but capable of being re-configured for accrual-based accounting and reporting;

(c) Skills. Where the existing accounting framework is accrual (or partially accrual) based, it is likely that an entity will employ appropriately qualified accountants who can help lead the reform implementation either only in their own entities or as part of a wider group leading the reforms across the sector or jurisdiction. In other entities, however, there may also be a lack of appropriately qualified staff.

Migration Approach

The factors set out above might have an impact on the selection of one of the pathways to accrual. Transition to accrual-based accounting is often depicted as either a 'big-bang' approach or a phased approach. In practice, however, there are variations that can usefully be considered when developing the national ISP.

The 'big-bang' approach entails requiring all entities within the program to adopt all of the requirements of IPSAS and publish audited financial statements. The phased approach is one where IPSAS are implemented in stages – the stages depending on the institutional and individual capacity with a jurisdiction or within sectors. For example, accrual accounting requires the recognition of all assets and liabilities which meet the definition and satisfy the criteria for recognition. Under the phased approach, an entity might be permitted to move to the full accrual basis by recognizing assets and liabilities in stages, for example:

- First focusing on the recognition of short-term assets and liabilities such as debtors and creditors.
- Next, recognition of property, plant and equipment assets—sometimes in stages with those classes of assets that are readily identified and measured being recognized first.

Similarly, the recognition of pension and other long-term liabilities can occur in stages.

It is possible to design different transition paths for different types or sizes of entities, although for accountability purposes a differential approach is probably better approached from a sector perspective–for example, all local government entities take the same pathway.

A variation is that the migration may be based on the use of pilot entities. Depending on the time frame allowed for the reform program, the pilots may be required to adopt a 'big bang' approach or permitted to use a phased approach. Using pilots in this way allows issues to emerge from a small group of entities that can then be resolved, and lessons applied across the other entities as they start on the migration pathway. These issues could be about the implementation of IPSAS, but could also cover other areas such as dealing with change, communications, training, or other capacity building issues. This approach also assists in developing a core of trained personnel who can become a 'center of excellence', bringing benefits to the implementation program.

Using Dry Run Accounts

Initial implementation of accrual-based standards presents a challenge, particularly in the presentation of an opening balance sheet that complies with IPSAS requirements. The use of 'dry-run accounts' during the implementation phase can assist in addressing that challenge. Where a jurisdiction uses a 'dry-run' approach, this should be built into the key delivery milestones.

Dry-run accounts are illustrative accounts – in effect, a practice run where the reform champion and the auditor general recognize the possibility that not all will be perfect first time round and it will take those government entities with more complex transactions and balances longer to apply a particular IPSAS than those with more straightforward transactions and balances. These dry-run accounts are produced alongside the existing entity accounts and should not, at this stage, have legal force.

In preparing 'dry-run' accounts, entities should seek to comply with all the requirements of each IPSAS in terms of recognition, measurement and disclosure as set out in the accounting policies manual, following the sequencing set by the program oversight management team and, where relevant, the project implementation team. The sequencing might differ between sectors. A full suite of financial statements

should be prepared – a consolidated statement of financial position, a consolidated statement of financial performance and a consolidated cash flow statement, together with supporting notes.

Using a dry-run approach could be:

(a) Restricted to pilot entities. This might depend on the time frame for the reform program, because the entity is likely to need to produce two years' sets of financial statements in order to make best use of the approach. If this approach is used, it might be better adopted if the remaining entities are then required to adopt a 'big bang' approach to avoid a risk of creating reform fatigue; or

(b) Used as part of a 'big-bang' approach by all entities.

The use of dry-run accounts has advantages in that:

(a) The financial statements prepared, audited, and published during the implementation phase will not change in terms of the accounting framework, providing comparability to, and creating less confusion for, the users of the accounts; and

(b) The reform champion (and the auditor general) can use the dry-run account process as well as the key delivery milestones as their basis for reporting on progress to parliament.

The dry-run accounts should be submitted for review by the auditor general. The auditor general's report could usefully provide feedback on general problem areas. The dry-run accounts and the auditor general's report might be submitted to parliament as part of the final reports on the national trigger point process if parliament would find this useful.

Migration and Audit Requirements

Where an entity is currently required, or will be required, to present audited financial statements, the entity will need to consider possible options for meeting audit requirements during the transition period. The acceptability of options will depend upon current and proposed audit requirements including relevant legislative requirements. Options for dealing with audit requirements during the transition period include:

(a) Continuing to prepare audited financial statements under the existing basis of accounting until the transition is complete. This would involve the preparation of parallel reports for a period of time;

(b) An audit report which states compliance with the stated basis of accounting. This option allows an entity to phase in the requirements of accounting standards over a period of time;

(c) Preparing an unaudited and unpublished set of financial statements as a trial run (often in parallel with the production of a set of audited financial statements under the existing basis of accounting);

(d) Publishing an unaudited set of financial statements as an interim step and for a limited number of reporting periods; and

(e) Publishing an audited set of financial statements with some audit qualifications. A government may choose to give a public commitment to resolve these issues over a set period of time.

The nature of the relationship between the executive and an external or independent auditor will vary across jurisdictions. Although it is essential that auditors maintain their independence, there are many benefits to

be obtained from establishing a cooperative working relationship with the auditor at the beginning of the transition process. This could include formally consulting the external auditor over proposed transition paths. An auditor would be unlikely to give an absolute assurance that a particular system or process would meet audit requirements. However, the auditor may be able to provide helpful advice regarding the criteria that would be used in assessing the system or process. If an entity has an internal audit function, that function may be given responsibility for overseeing aspects of the transition and liaising with external auditors.

Reform Timetable

Introduction

The length of the reform period may differ from jurisdiction to jurisdiction. In determining the reform period, decisions will be needed on the balance between the time taken for preparatory work and the time required for the actual transition in line with the requirements of IPSAS 33.

(a) A short reform period (up to three years) may be appropriate where there is strong political support, a limited number of entities, and good professional and institutional capacity.

(b) Medium reform periods (three to five years) provide more time for the preparation of detailed implementation plans, the development of accounting policies, the implementation and testing of new systems, and time for the education of groups such as government employees and politicians regarding the changes.

(c) The benefits of a long implementation period (more than six years) need to be balanced against the risks of "reform fatigue." Reform fatigue occurs when those at the forefront of the changes in government entities lose the sense of urgency and enthusiasm needed to implement the reforms, particularly if no benefits emerge early in the process.

In preparing the national ISP, the length of the reform program will need either to be:

(a) Incorporated into the national ISP because it has been set by, for example, government policy; or

(b) Calculated, based on the various considerations included in determining the migration approach. Explicit approval for the proposed time frame will need to be sought as part of the overall approval of the national ISP.

Using Key Delivery Milestones

Key delivery milestones, against which progress can be monitored for program and project management to be effective, need to be set in the context of the overall time frame of the reform program. The implementation phase of the program will be designed to focus on achieving the key delivery milestones. In setting these key delivery milestones, the PrOMT and the relevant individual project implementation teams (PIT) will need to:

(a) Understand the different starting positions for central government, local government and any state-owned enterprises required to move to IPSAS (where appropriate using pilot entities as a reference point) to determine whether the approach and/or sequencing might differ between sectors;

(b) Identify government entities that are most affected by the IPSAS;

(c) Use any technical advisory group to determine the approach to implementing the IPSAS;

(d) Determine the sequence of IPSAS implementation based on the materiality and complexity of the transactions and balances dealt with by the IPSAS;

(e) Ensure that the restructured chart of accounts meets IPSAS reporting requirements;

(f) Set out a timetable for the work in order to achieve relevant key delivery milestones; and

(g) Communicate the timetable and requirements.

Some of the key delivery milestones might require entities to report or otherwise confirm various statements. To achieve consistency of information to facilitate reporting to stakeholders, the PrOMT should design a pro-forma report to collect the necessary data and circulate it to the entities with a timetable of required inputs.

Where dry-run accounts are being used as part of the migration approach, the key delivery milestones should provide an outline timetable for the presentation of provisional balance sheets to test the assertion that the entity has everything in place to produce a balance sheet. Lessons learned from that exercise are used a year later to prepare balance sheets to form the opening point for dry-run accounts for the ensuing year. Allowance might be made in the ISP for two dry-run years. Where the implementation phase is based on the use of pilot entities, the sequence would be for the pilot cadre to be slightly ahead of the remaining government entities.

A timetable for provisional balance sheets and dry-run accounts for the revenue (taxes and duties) collecting entities might also be set.

Risk Management

One of the early responsibilities of the PrOMT will be to establish a risk management system, which will identify risks to the successful delivery of the national ISP, assess the likelihood of the risks occurring and the impact they would have on delivery, and outline the mitigating factors or actions that need to be taken to minimize, monitor, and control the probability or impact of those risks occurring. The risks will need to be managed against the successful delivery of the key delivery milestones.

Content of the National Implementation Strategy and Plan

Introduction

The national ISP sets out the overall approach to the migration to an accrual-based financial accounting and reporting framework, including the reform timetable and key delivery milestones. A national ISP will be written at a strategic level and may be supported by other ISPs written for sectors (central or local government, for example, if it is expected that one sector might migrate more quickly than the other) and at entity level, where an entity will operationalize a national or sectoral ISP for its own purposes. The contents of the national ISP will be adapted as appropriate for the other ISPs, but the ISPs should be consistent in terms of deliverables within the overall program timetable.

Contents

The contents of a national ISP might include:

(a) The scope of the reform

(b) The role of the national steering committee (NSC)

(c) The role of the program oversight management team (PrOMT)

(d) The establishment of project implementation teams (PIT), led by a member of PrOMT, to oversee proposed projects within the program

(e) Existing processes, procedures, and legislative requirements (including any existing accounting policies and systems)

(f) Proposed projects that will form part of the planning phase of the migration program, which might include:

  (i) ICT infrastructure and systems

  (ii) Proposed accounting policies and systems

  (iii) Reporting requirements

  (iv) Communications strategy and plan, including liaison activities with key partners such as the Auditor General, internal audit and, if appropriate, development partners

  (v) Change management

  (vi) Training

(g) Proposed projects that will form part of the wider program, or links to existing projects, which might include:

  (i) Wider education, training, and capacity building strategies

  (ii) Wider IT infrastructure issues

(h) The implementation phase, to include:

  (i) The timetable for implementation of the proposed projects

  (ii) Key delivery milestones

  (iii) Sustaining the reform

Sectoral Implementation Strategies and Plans

The National ISP sets out the overall approach to the migration to an accrual-based financial accounting and reporting framework, including the reform timetable and Key Delivery Milestones. In developing the National ISP, a jurisdiction might acknowledge that entities within the various parts of the public sector (central government or local government, for example) will be starting the migration from different points in terms of the existing accounting framework, systems, and capacities.

Although the overall reform timetable and key delivery milestones in a national ISP mark the end date by which the reform program must be delivered, earlier completion of the program in certain sectors might be encouraged where this is achievable.

Thus, some jurisdictions might feel it appropriate to develop sectoral ISPs to cover, for example, central government or local government. A jurisdiction might determine that further sub-classifications are appropriate–for example, the local authority section might be divided into city, other urban, and rural depending on the circumstances.

In most jurisdictions, state-owned enterprises (SOEs) adopt private sector accounting standards. However, it is important that the accounting and reporting framework for each SOE is appropriate to its funding arrangements and business model, which might mean that some SOEs might more appropriately apply IPSAS.

It may also be appropriate, therefore, to draw up an ISP to cover any SOEs that will be required to migrate to IPSAS.

Entity Level Implementation Strategies and Plans

Individual entities are likely to need their own strategies and plans to deliver their part in the migration to an accrual-based financial accounting and reporting framework.

The National ISP sets out the overall approach to the migration to an accrual-based financial accounting and reporting framework, including the reform timetable and key delivery milestones. Sectorial ISPs may also be developed in recognition that different parts of the public sector will often be starting the migration from different points in terms of the existing accounting framework, systems, and capacities.

Although the overall reform timetable and key delivery milestones mark the end date by which the reform program must be delivered, earlier completion of the program in certain sectors might be encouraged where this is achievable.

Individual entities will need to work within the reform timetable and deliver against the key delivery milestones set out in the national ISP and, where appropriate, any subordinate requirements set out in a sectoral ISP.

The main accounting policy requirements for significant transactions and balances will often be set centrally, but an individual entity will need to have a plan to make the necessary changes in its own systems, processes and procedures.

BUILDING CAPACITY

A successful reform program will see capacity building in a broader context. It will look at all stakeholder groups and consider their needs in terms of education and training and will address short, medium and longer-term needs.

Different types of intervention will be required at different stages of the reform program: planning the reform, implementing the reform, and sustaining the reform.

Education provides stakeholders with the general knowledge they need to understand the purpose, inputs, outputs, and outcomes of the reform program. Training is the provision of the skills necessary to deliver the reform program.

Education within the public sector will need to be considered as part of a project to build capacity of institutions and individuals. Educating some stakeholder groups (elected representatives and civil society, for example) will be carried out in line with the communications strategy.

Planning the Reform

Public sector entities need appropriate structures and leadership, as well as people with the right skills, qualifications and mindset, to operate efficiently and effectively. The governing body must ensure that the entity has both the capacity to fulfil its own mandate and that management, including the senior leadership, has the operational capacity for the entity as a whole.

Different sectors may be at differing levels of maturity in approaching the migration to accrual-based accounting and reporting and, within sectors, individual entities may be at different maturity levels. These considerations will need to be borne in mind when gap analyses are carried out, because this will impact on the type of education and/or training required, its timing, and how it might be provided.

The gap analysis carried out at the institutional level translates into the need for individuals with particular skills to meet the institutional needs. An entity will need a training framework, based around a set of competencies, to assist in planning the interventions needed throughout the implementation phase and in order to ensure that the reform is sustained.

Successful delivery of the program requires the appropriate structures, leadership, and staff in place, as well as strategies and resources for addressing existing gaps, and filling those that emerge over time. Careful planning is therefore essential to ensure not only that the reform can be implemented but also sustained.

Building capacity to meet these requirements may need external capacity building partners as well as internal input.

Identify Needs

Introduction

Although some of the needs at the institutional level will be the same for different types of entity both for the migration to an accrual-based financial accounting and reporting framework and for sustaining the reform, differences in function will lead to some needs being unique to the public sector entity.

Developing an Entity's Leadership

All members of the governing body of a public sector entity should have the appropriate skills and knowledge to exercise leadership and to fulfil their roles and responsibilities. All members of the governing body should receive appropriate introductory training tailored to their role and opportunities to develop their skills further. But leadership is not exercised by only those at the top of the organization.

The Chief Financial Officer is a Key Member of the Leadership Team

The chief financial officer (CFO) must be a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the entity's strategic objectives sustainably and in the public interest.

The CFO and professional finance staff set the tone for leadership and individuals throughout the organization in delivering their responsibilities for PFM.

All Decisions Have a Financial Consequence

Finance functions are not carried out solely by a finance department. Depending on the configuration of IT systems and on the processes and procedures in place (including delegated authorities for making, for example, purchasing decisions), a finance department generally only becomes involved towards the end of a process that probably started with an official making a decision.

The Finance Department

Migrating to an accrual-based financial accounting and reporting framework necessarily leads to changes in the mix of skills that a finance department will require. The amount of change may depend in part of the maturity of public financial management in a jurisdiction. For example, some jurisdictions may comply with a requirement to keep up-to-date asset inventories or debtor records, whereas reports of the auditor general in other jurisdictions show this not to be the case.

In most jurisdictions, the migration to an accrual framework requires professionally qualified accountants although the entire finance department does not need to be professionally qualified. The nature and number of transactions passing through an entity's finance department will influence the shape of the department in terms of the proportions of qualified/part qualified/technician/general staff that will be required.

Internal Audit

Internal audit is a vital part of ensuring good PFM. It may be that the existing internal audit function is already sufficiently staffed with the necessary knowledge, skills, and competencies to meet an entity's needs. However, changes in processes and procedures that accompany a migration to an accrual-based financial accounting and reporting framework are likely to have an impact on internal audit's approach to their work.

Ministry of Finance—A Center of Excellence

The migration to an accrual-based financial and reporting framework might be used as an opportunity to create a center of excellence within the ministry of finance or accountant general's department. Comprising professionally qualified accountants, the center of excellence could develop into a virtual team of technical and practical experts (some members of the team might work together as a physical team).

Gap Analysis

Introduction

The transition to accrual accounting will necessitate a re-definition of role profiles, job descriptions and person specifications in line with the accrual-based operational environment. Any changes that will be introduced in business processes may lead to a revision of the organizational structure. Having identified the skills needed at the institutional level, an entity will need to compare the existing skills with the required skills.

The PrOMT (or equivalent) will need to ensure that gap analyses are carried out across all public sector entities to determine how existing skills match requirements. The result may be some staff reallocations, but there will undoubtedly be a need for training in order to capacitate individual staff to carry out their functions under the new financial accounting and reporting framework.

An Entity's Leadership

All members of the governing body need to have received appropriate introductory training tailored to their role and opportunities to develop their skills further. It is also vital that all other staff in leadership roles have the requisite skills to provide direction, support and challenge in the delivery of the entity's public service delivery objectives.

The Chief Financial Officer

The CFO of a public sector entity might have any one of a number of different titles (Finance Director, Head of Finance, for example). Some jurisdictions have a concept of accounting or accountable officer. This role might or might not be the same as a CFO. An accounting officer might be the most senior permanent official of a public sector entity with wide ranging responsibilities for the delivery of the entity's service and policy delivery objectives.

It is beneficial to have a professionally qualified CFO (that is, be a full member of a professional accountancy organization through the examination route and must adhere to a code of professional ethics). A CFO should have sufficient experience at the time of appointment to be able to demonstrate sufficient competence to fulfil the duties and responsibilities of a CFO required by the employing entity. If the CFO is not professionally qualified, an entity might seek opportunities to facilitate the gaining of such a qualification. This might be through a fast track to membership of a Professional Accountancy Organization.

The Wider Finance Function

As part of their development policies, public sector entities should ensure that managers receive the right financial training and that all staff understand their responsibilities in relation to public financial management. For public financial management concepts and practices to permeate the organization, its managers need to take responsibility for, and possess the right skills to take the lead in, their own areas.

The Finance Department

The finance department should not be confused with the finance function. The finance department is a sub-set of the finance function. The finance department will need an appropriate mix of:

(a) Professionally qualified staff and those undergoing professional training;

(a) Accounting technicians and trainee technicians;

(b) General accounts clerks.

The overall mix will depend on the responsibilities of the finance department. For example, in a jurisdiction that has a centralized payments function or uses shared services, the finance department in an individual entity is likely to need fewer staff and a different mix than a finance department that has to process payments and carry out the ancillary tasks (such as bank and other reconciliations) associated with a payments function. Where a finance department has its own payments function, then it is possible that no more than about 30 per cent of the staff need to be professionally qualified or undergoing professional training; the remaining 70 per cent will comprise technicians and general accounts clerks.

Internal Audit

The internal audit function performs a vital role for an entity's leadership and is integral to a sound system of internal controls. In some jurisdictions, internal audit units operate within individual public sector entities; in others, internal audit services might be provided by a central team perhaps working for an internal auditor general. Internal auditors need to be appropriately qualified; in some jurisdictions, internal auditors will belong to the local Institute of Internal Auditors. Strong internal audit functions will also employ – perhaps on short term contracts or on secondment from other entities or other areas of their own entity – other specialists to assist in particular audit assignments.

Ministry of Finance—A Center of Excellence

The application of accounting standards brings challenges that are often best resolved through discussion with colleagues whose role might be called a center of excellence. Such a unit might:

(a) Maintain the national accounting policies manual or equivalent by ensuring that any new, or amendments to existing, IPSAS are reviewed and incorporated, adapted or interpreted as necessary, into the manual;

(b) Provide advice and guidance, on request, to accounts preparers and any other stakeholders on the interpretation and application of requirements in the manual – not only during the migration to accrual-based accounting and reporting, but thereafter;

(c) Ensure that the accountancy needs of the public sector are met through the appropriate use of accountancy professionals both in day-to-day operations and also where specific issues arise and need to be addressed; and that accountancy staff are developed in their careers;

(d) Support and advise the CFOs; and

(e) Ensure that appropriate events are held on a frequency and in locations, and cover the topics, that best serve the needs of the accountants in the public sector.

Meeting Training Needs

Introduction

The successful adoption of accrual accounting (in part or in full) and the associated systems changes cannot occur without appropriately trained personnel. In addition, educating key groups of stakeholders on the benefits of accrual accounting and general awareness of the reforms and expected benefits is crucial—people need to be convinced of the benefits or they will not see the purpose of the reforms—and must occur at all levels of government and be at least partially driven and "owned" by individual entities.

The development of an effective training strategy and delivery of appropriate training in accordance with that strategy are essential elements of transition risk management. The key risks associated with a transition to accrual accounting are that the project will fail to deliver the expected benefits, be over budget or behind schedule. The development of training strategies and the implementation of training programs should therefore be identified as key delivery milestones.

Like any major reform or systems change, in order to reap the full benefits of the change, it is important that personnel:

(a) Understand the reasons for the changes, the reform design, the implementation approach and reform implications;

(b) Understand the practicalities of implementing the reforms in their own entity and are able to implement the changes;

(c) Are able to operate systems and procedures following implementation (at both a centralized and decentralized level); and

(d) Are able to use the information generated by new systems.

Entities undergoing widespread changes such as those associated with a transition to accrual accounting will need a change management project, which must include the need for training. It is important that both the technical and the cultural aspects of change are addressed in the development of the training strategy (and, indeed, of the communications strategy).

Identification of Target Groups

The identification of target groups and the development of education or training strategies for each target group mean that training can be customized to the needs of specific groups. For example, raising the awareness of elected representatives or public oversight bodies regarding the role, purpose, and objectives of the reform will help reinforce political support; training management and other staff will assist them to understand their roles and responsibilities within the context of the reforms, their responsibilities within their sub-systems, and the relationships between the various sub-systems.

Examples of target groups—education:

- Elected representatives
- Public oversight bodies
- The senior permanent official or officer of public sector entities
- Senior managers
- Operational managers

Examples of target groups—training:

- Finance managers
- Finance staff
- Functional groups (for example, procurement or administrative support (for finance related matters)
- Asset managers

- Budget/finance analysts
- Program or project implementation team
- Program or project managers
- Internal auditors
- System operators and IT support

Gap Analysis and Identification of Training Needs

In order to identify training needs, it is necessary to look at the impact of the reforms on the type of skills, knowledge, and behaviors (referred to collectively as competencies) required to carry out the various processes and procedures under an accrual-based accounting and reporting framework, understand the competencies that exist, and perform a gap analysis. Decisions will then need to be taken on how to fill the identified gaps. In taking those decisions, it will be important to consider across–the finance function–the balance required between professionally qualified accountants, accounting technicians, and accounts clerks. And the finance function might also usefully include key finance-related administrative functions in operational/service delivery areas.

Filling the gaps could be achieved in a number of ways and the approach taken will depend on circumstances such as the availability of funding, and any constraints on the size of the public service. Options include:

(a) The provision of training to existing staff;

(b) A general recruitment and training program;

(c) Recruitment from the private sector;

(d) Recruitment from other public sector entities; and

(e) Use of consultants/contractors;

Training is About More Than Accounting

Whatever route is taken to fill the identified gaps, it is inevitable that some form of training will need to be provided. It will need to focus on more than accounting skills. In the public service, training generally has two different components:

(a) A technical component that reflects the knowledge and skills to be mastered; and

(b) An environmental or organizational component that reflects the values, policies, and practices of the public service.

Training—The Approach and Timing

The resources available will determine the appropriateness of various training strategies. For example, limited resources may mean that training takes place over a longer time frame and that existing staff are used to develop and deliver training programs, in which case investment in 'train the trainers' courses may be required. The types of systems and software chosen will also impact on training strategies. For example, if "off-the-shelf" software solutions or "industry standard" approaches are used, it is likely that either the manufacturer or other private providers will already have developed training material to support the product

or approach. It may also be possible to use distance learning, online courses and IT-based resources to deliver the training.

Training can be provided through:

(a) Seminars and workshops provided by professional accountancy organizations;

(b) Formal courses offered by academic and other training institutions (such training may be available as part of a formal study leave program);

(c) Courses developed and offered by government training facilities (these courses may also be made available to individual entities who wish to customize the materials); and

(d) Internal seminars, workshops, and conferences by individual entities.

The timing of training is important. If it is too early in the transition process, staff may forget what they learned and need refresher courses. Although general training may commence up to a year prior to implementation, some training (for example, systems training) will be best delivered just prior to implementation. Topics such as using the financial information generated by the new systems may be required both before and after implementation.

Ongoing Training

Ongoing financial management training is generally required. A summary of the new system and the financial management responsibilities of various staff need to be built into induction programs for new staff and regular refresher courses for other staff; some of these might be provided through seminars and workshops given by external audit entities or by PAOs.

Pitfalls to Avoid

Whether filling gaps by recruiting new staff or using consultants or contractors, an entity needs to be aware of the pitfalls to avoid, such as:

(a) Focusing a recruitment campaign on salary alone, which in the public sector might not be effective. When recruiting, an entity might consider what would motivate a potential recruit to apply for a position. It is not generally solely the salary on offer. It is likely to depend upon various factors, including the state of the labor market at the time, the remuneration package on offer (which might include a pension), a commitment to training and personal development, and the ability of the public sector to demonstrate that it is possible to have a fulfilling career in public finance. Increasingly, too, potential recruits are looking at employers' approaches to environmental issues.

(b) Consultants often leave without transferring knowledge. This might be because the employer has not:

    (i) Made the transfer of knowledge a specific contractual requirement;

    (ii) Identified the appropriate staff to work alongside the consultants to learn from them;

    (iii) Developed teams and mechanisms to ensure that knowledge transfer can occur; or

    (iv) Monitored staff development to ensure that knowledge transfer is happening throughout the period of the consultant/contractor's contract.

Capacity Building Partners

Introduction

Having carried out a gap analysis, and identified where skills need to be developed, individual entities will need to determine how best to develop those skills. The resources for addressing needs might be available internally, but experience suggests that most entities will need to look for external partners to assist in building capacity, certainly at an individual level and perhaps at the institutional level.

Methods of capacity building

There may be an overlap between capacity building partners and training partners where the capacitation needs are focused on training existing staff. Other methods include

(a) Exchange programs under which one entity swaps staff with another entity in order to import experience and knowledge sharing from the second entity and exports staff to the second entity for learning purposes;

(b) One-way, short-term secondments to another entity in order to gain knowledge and experience and bring it back to the home entity; and

(c) Buying in or receiving donated consultancy services.

Internal to a jurisdiction

Partners within a jurisdiction might include:

(a) Public sector entities that prepare their financial statements on an accrual basis (for example, in some jurisdictions, local authorities prepare financial statements on, or partly on, an accrual basis and might be able to offer assistance to central government entities);

(b) In terms of auditing financial statements, accountancy firms—particularly those that are contracted by the supreme audit institution to carry out public sector audits, where exchange programs or secondments might be of mutual benefit; and

(c) Professional accountancy organizations.

External to a jurisdiction

Partners external to a jurisdiction might include regional and international organizations, including donor agencies that provide technical assistance in public financial management issues.

Implementing the Reform

Having identified the required individuals, an entity will need to ensure that it employs the right people. The implementation strategy and plan will assist an entity to determine what is needed. For example, if the entity is already preparing its financial statements on, or partly on, an accrual basis, then it is likely that its finance department has most if not all of the skills required. Where an entity's existing financial statements are based on cash, there is likely to be a greater need for capacity building.

An entity will also need to consider, in the context of the training framework and the required competencies, the education needs of policy and decision makers and the education and/or training needs of non-financial managers.

Where the entity is using external partners as part of its capacity building during the implementation phase, it must ensure through appropriate monitoring that knowledge and skills are being transferred to the entity's staff. This is essential not only to the successful implementation of the project but also to the sustainability of the reforms.

Sustaining the Reform

Individuals and the environment in which an entity operates will change over time. There will be a continuous need to develop the entity's capacity through the skills and experience of the leadership and of individual staff members.

Universities and public sector training centers have a part to play in both education and training.

Professional accountancy organizations need to be encouraged to include the public sector in their forward strategies and plans as accrual based financial accounting and reporting becomes more widespread in the public sector.

Building a government finance profession, bringing a sense of career paths and career support, is worth considering as a means of attracting the right candidates, and helping to retain them.

Recruitment, retention, and reward need to be addressed.

The CFO and other finance leaders will play a key role in coordinating the implementation of the above.

Recruitment, Retention, and Reward

Attracting and retaining quality staff can be a challenge for public sector entities, as working in the public sector is sometimes perceived as less attractive in terms of financial reward and career progression when compared to other sectors. Creating attractive benefits, personal development opportunities, and for potential career progression should be key considerations for building an engaged and competent work force.

Professionalism of the public service is ensured by good managerial standards and human resource management practices. The employing public sector entity needs to ensure that it has in place appropriate remuneration, performance appraisal, professional training and development, integrity measures and disciplinary procedures. These are needed not only to attract valuable employees to the public service, but also to retain them and motivate them.

Universities

Introduction

Some professional accountancy organizations will only accept as trainees in their professional accountancy qualifications programs people with an accountancy degree. Universities, therefore, may have a role to play in the teaching of public sector financial accounting and reporting based on IPSAS.

Development of University Courses

The accounting standards content of an academic accountancy qualification is likely to concentrate on private sector accounting standards—generally International Financial Reporting Standards—with limited or no teaching about public sector accounting. Universities in some jurisdictions, however, have recognized the importance of the public sector to a country's economy and therefore offer public sector specific accounting courses or modules. For example, in Zimbabwe:

(a) The University of Zimbabwe offers the following courses:

    (i) At Undergraduate level, BSc Honours Public Sector Accounting and Finance;

    (ii) At Postgraduate level, Postgraduate Diploma in Public Sector Accounting and Finance or an MSc in Public Sector Accounting and Finance.

(b) Bindura University of Science Education offers a Bachelor of Accountancy Honours Degree which includes modules on:

    (i) Public Finance in part II; and

    (ii) Public Sector Accounting in part III.

(c) Midlands State University offers a Bachelor of Commerce Accounting Honours Degree which includes two modules in level 4 that have the aim of ensuring "that students gain knowledge and skills relating to accounting for public sector entities in compliance with the requirements of International Public Sector Accounting Standards".

(d) The Zimbabwe Open University Bachelor of Commerce in Accounting (Honours) degree course includes a compulsory module on public sector accounting in academic year 3.

Academic attention in other jurisdictions includes:

(a) An undergraduate course 'Public Sector Accounting' offered by the Australian National University;

(b) A Bachelor's Degree course and a Master's Degree course in Financial Administration and Public Sector Accounting offered by Tampere University, Finland; and

(c) A mixed picture of some short modules offered as part of post-graduate studies in, for example, the United Kingdom, Australia, Italy and Malta.

Public Sector Training Centers

Introduction

Many jurisdictions have public sector training centers. They exist to equip public servants with requisite skills, knowledge and attitudes that would ensure high quality performance and service delivery in the public sector. Some may be specifically for central government public servants; others might cater for the whole of the public sector.

The Role of Training Centers

The development of customized public sector courses to be offered by any training institution requires a significant investment in time and other resources. However, where the number of staff requiring training warrants the development of customized courses, the following benefits can occur:

(a) Increased relevance of training for participants, such that knowledge learned may be directly applied—the learner is not required to assess the extent to which the course material is applicable to the public sector environment;

(b) Following the initial investment in time and other resources, little effort is required by the government; and

(c) The course is a long-term resource which can be developed and refined to keep pace with further public sector changes.

Role of Professional Accountancy Organizations

Introduction

Professional accountancy organizations (PAOs) are membership bodies comprised of individual professional accountants, auditors, and/or accounting technicians who perform a variety of roles in the accountancy field and adhere to high-quality standards of practice. Most jurisdictions have at least one PAO. The primary, if not sole, focus of most of these bodies is the private sector and in many there is little if any public sector expertise. IFAC has sought to expand the profession to include the public sector and has provided guidance to assist PAOs to accomplish this successfully, including publishing a toolkit on 'Establishing and Developing a Professional Body'.

The Functions of PAOs

PAOs' functions include:

(a) Awarding qualifications by examination;

(b) Requiring continuous professional development;

(c) Maintaining a code of ethics and discipline;

(d) Interpreting and maintaining uniform standards of accounting; and

(e) Enabling and supporting accountability.

The Professional Accountancy Qualification

There are very few professional accountancy organizations that provide qualifications either specializing in, or offering modules in, public sector accounting. However, developments such as the IFAC PAO Capacity Building initiative and the publication of the IMF Fiscal Monitor have raised awareness of the importance of the public sector to a jurisdiction's economy and to the global economy more widely. PAOs are starting to see opportunities in the public sector market place.

A PAO needs to consider whether to develop a stand-alone public sector qualification or whether to incorporate public sector modules into its existing professional qualification. The size of the economy, the balance between public and private sectors, the practice of (or need for) interchangeability of professional accountants between sectors, and considerations of recruitment, retention, reward and career progression might all play a part in determining how best to provide for a qualification in public sector accounting.

Whichever approach is chosen, it is essential that a PAO uses a recognized competency framework. This might be the PAO's competency framework for its existing accountancy qualification. The PAO will also need to consider whether it will provide training through its established training program and providers or whether to work with, for example, the public sector training centers.

It is possible that a PAO might need to accredit public sector entities as accredited training offices to oversee the training for their own staff; candidates might include the supreme audit institution, the ministry of finance, large government ministries or large local authorities.

Routes to Membership

The route to membership of a professional accountancy organization is traditionally through a process of examination, and in some jurisdictions only open to trainees that have a bachelor's degree in accounting, and appropriate work experience. The trend towards adoption of an accrual based financial accounting and reporting framework in the public sector has highlighted the importance of addressing how existing employees experienced in financial management but without a professional qualification might obtain membership of a PAO.

Examination Route to Membership

New or potential recruits to the public sector who wish to follow a financial route might be expected to follow a traditional examination route to obtain either a public sector professional accountancy qualification or, having taken the relevant public sector modules, a PAO's accountancy qualification, complete the relevant work experience and so be admitted to membership of the PAO.

Fast Track to Membership

A PAO rightly needs to safeguard its national and international standing.. At the same time, it needs to support the migration to accrual based financial accounting and reporting by looking at ways in which it might offer membership to experienced, existing public sector employees.

Some PAOs have established a 'Fast Track' to membership. This route is generally a carefully designed and targeted program for senior finance managers and leaders who have a minimum number of years' experience in financial management, which would normally be in excess of the number of years' work experience required for trainees undertaking the full examination route to membership.

The program often takes the form of a requirement to sit the final level examinations only, the assumption being that experience has given the candidates the necessary background knowledge to be able to complete them successfully. Experience has shown that this is not always been the case. Because of this, PAOs might usefully consider how many attempts at the examinations would be allowed. It also reinforces the need for a public sector employer not only to be realistic in selecting candidates for any 'Fast Track' to membership program but also to be prepared for failure and any implications for ensuring the right skill set in a financial management or leadership role.

ACCOUNTING STANDARDS AND POLICIES

A jurisdiction planning to migrate its public sector to an accrual basis financial accounting and reporting framework might select to:

- Apply International Public Sector Accounting Standards (IPSAS) without any adaptation or interpretation for the jurisdictional context;
- Apply IPSAS adapted or interpreted for the jurisdictional context;
- Use other accounting standards that might or might not be based on IPSAS.

Information about the IPSASB can be found on its website www.ipsasb.org. Individual IPSAS are available in the Handbook and contain implementation guidance and examples. This tool provides practical examples to assist jurisdictions and entities as they migrate to accruals.

This section assumes that a jurisdiction plans its migration using IPSAS. Whilst acknowledging that a jurisdiction may seek to make some adjustments to IPSAS (for example, to remove options), the fewer the adaptations, the less onerous will be the accounting policies work stream.

The work on accounting standards and policies encompasses a range of activities – and these are introduced in the section on the accounting policies work stream.

The IPSASB publishes annually a Handbook of International Public Sector Accounting Pronouncements (Handbook). The Handbook includes the official text of IPSAS and other publications of the IPSASB. IPSAS are principle-based standards that provide guidance on the accounting for different transactions. The IPSAS are numbered and arranged in the Handbook based on the sequence in which the IPSASB has approved each pronouncement. However, it is generally appropriate and helpful to consider implementing IPSAS in generic groups, and these are discussed under the headings of:

- Content and Presentation of Financial Statements
- Accounting Boundaries
- Non-Financial Assets
- Financial Assets
- Revenue and Debtors and Other IPSAS
- Liabilities and Expenses

Examples of how jurisdictions have addressed issues when applying standards can be accessed from the sections dealing with groups of IPSAS.

Links to examples of some jurisdictions' financial statements that comply with IPSAS are provided under Resources.

The Accounting Policies Work Stream

The accounting policies work stream encompasses a range of activities – identifying the most appropriate recognition and/or measurement model(s) in an IPSAS, setting detailed accounting policies, determining

the sequencing of implementation and application of individual IPSASs, and finalizing an accounting policies manual.

Accounting policies and financial management policies are interrelated. Entities making the transition from cash to accrual accounting will need to establish a new set of accounting policies and review existing financial management policies in areas such as debt management, cash management, asset management, and financial authorities/delegations.

The accounting policies work stream is about more than applying an IPSAS to an event or transaction. It covers the planning of the initial implementation of IPSAS, first time adoption of IPSAS, and how to address subsequent accounting policy issues.

Most jurisdictions do not apply IPSAS directly without some form of contextualization for the jurisdiction. Many jurisdictions will seek to ensure consistency of application of IPSAS across entities (and perhaps between sectors) by, for example:

Requiring all entities to apply the same measurement model for non-financial assets; or

Determining classes of asset.

Centrally determined policies might be set out in an accounting policies manual or equivalent document.

Some jurisdictions might also set a common materiality threshold, whilst others require entities to set materiality thresholds in the context of their operations.

The Accounting Policies Work Stream: Initial Planning, First-Time Adoption, And Addressing Subsequent Issues

Introduction

An early focus on accounting policies is necessary, as accounting policies affect the subsequent requirements of information systems, training strategies, and communication strategies. An early decision is required on how a jurisdiction will promulgate the accounting policies which entities will be expected to follow.

As noted in the section on state owned enterprises (SOEs), the program oversight management team might need to commission a review of the business models and accounting frameworks of SOEs to determine which accounting framework is better suited to their and their stakeholders' needs.

Jurisdictions and entities will need to consider, in the context of the national implementation strategy and plan, the approach to migration and thus how IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* might apply.

The initial identification of accounting policies is not necessarily the only time that new accounting policies will be needed. New or different transactions and events that are not obviously covered by existing IPSAS may need to be considered in accordance with the requirements set out in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Accounting Policy Framework

A jurisdiction might pick one of a number of approaches to its accounting policy framework. Examples are:

(a) Direct adoption of IPSAS without any jurisdictional contextualization (in relation, for example, to regulatory requirements or to which option in an IPSAS should be applied) and without any additions or deletions;

(b) Indirect adoption of IPSAS by issuing country public sector accounting standards that are IPSAS, but with interpretations for the jurisdictional context–examples are the removal of paragraphs that refer to types of transactions that do not exist in the jurisdiction or the removal of optional accounting treatments, or the removal of options;

(c) Indirect adoption of IPSAS by issuing national public sector accounting standards that are based on IPSAS; and

(d) Issuing an accounting policies manual that might

    (i) Be similar to indirect adoption but by listing in the manual the interpretations for the jurisdictional context; and

    (ii) Add guidance on topics where the jurisdictional context or experience has shown that preparers of financial statements need additional support – examples might include accounting for third party (usually donor) expenditure on behalf of government entities; the accounting treatment of community assets; and detailed accounting guidance in respect of property, plant and equipment.

Policy formulation

The published IPSAS only provide the basic principles to be followed when preparing accrual based financial information. They will need to be interpreted for general jurisdictional public sector requirements, as well as specific service delivery aspects found in individual entities. Policy decisions will include, for example, the valuation policies and depreciation methodologies to be adopted for different classes of assets, treatment of revenues, social benefit payments, non-exchange transactions and existing financial commitments. With the differing policy considerations of operational areas, it will be important to ensure that policy formulation is an inclusive activity rather than carried out in isolation in, for example, a ministry of finance. This could be achieved through the establishment of a technical advisory group.

Using an Accounting Policies Manual

Individual entities might then use an accounting policies manual as issued or develop a more tailored manual for the entity's own use. If the latter course is followed, an entity might:

(a) Identify the transactions and balances for which accounting policies will be required (both as controlling entity and consolidated entity if relevant).

(b) Review existing accounting policies. Ensure that existing practices are documented so that the financial impact of changes in policies can be assessed – and, where applicable, determine whether the existing policies would be appropriate under accrual-basis IPSAS.

(c) Apply relevant accounting standards and other sources of authoritative guidance in accordance with IPSAS 3 to determine which accounting policies are appropriate to the entity's circumstances under the accrual basis of accounting.

(d) Draft new accounting policies under the accrual basis of accounting in consultation with relevant individuals and groups (including employees with responsibility for managing transactions and balances).

(e) Review and approve accounting policies internally. Ensure the new policies are documented.

Impact of Accounting Policies on the IT System

Entities will need to identify the IT system requirements of the new accounting policies and, in particular, the impact on the chart of accounts. Depending on the degree of centralization of IT services or the use of shared service centers it may be that this work will be done by a central organization. The features of the existing IT systems may also be such that configuration for an accrual based accounting and reporting framework is possible.

Materiality

The application of the requirements of all IPSAS is subject to the concept of materiality (materiality is defined in IPSAS 1 and is discussed in the IPSASB *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*).

An item is material if its omission from, or misstatement in, the financial statements could influence a user's judgments made on the basis of the statements.

The concept of materiality is used in a number of ways, including:

(a) Deciding whether certain items need to be recognized;

(b) The amount of effort that should be directed towards measurement of certain items; and

(c) Whether certain items should be disclosed in the financial statements.

IPSAS 1 states that an entity does not need to make disclosures specified by a standard if the information is not material. In addition, the concept of materiality can be used to decide whether the application of a particular financial reporting treatment to a transaction or balance, as opposed to an alternative treatment, has a material impact on the financial statements.

Judgment is required in deciding whether an item is material. In general, the larger the item, the more material it is likely to be. However, some items are material because of their nature, such as amounts paid to related parties (for example, remuneration of auditors or trustees). The concept of materiality does not apply to legislative disclosure requirements—an entity must disclose information required by legislation regardless of the amount of the item.

Significant professional judgement is required when determining the materiality of items and could be influenced by:

(a) The nature of the entity's operations;

(b) The size of the entity;

(c) Any materiality requirements outlined in applicable IPSAS;

(d) The type of the transaction classes of the entity;

(e) Any legislative requirements; and

(f) The users of the financial statements.

Generally, transactions and items need to be considered in context, which could be all items in the financial statements, relative items, or classes of items. For example:

(a) Assets and liabilities could be assessed relative to the appropriate asset or liability base;

(b) Cash flow items could be assessed against the net cash flow for operating, investing or financing activities; and

(c) Revenue and expense items could be assessed in relation to net surplus or deficit figures.

An entity will need to determine its own materiality thresholds for classes of items and consider how it will manage materiality for the entity as a whole. Assessments of materiality and the risks of misstatement in the financial statements are often reviewed by audit committees.

IPSAS 33, First-time Adoption of Accrual Basis IPSAS

IPSAS 33 differentiates between the date of adoption of IPSAS and the date when an entity or jurisdiction can claim full compliance with IPSAS.

Some jurisdictions claim to have adopted IPSAS when an announcement is made that the jurisdiction will implement accrual based financial accounting and reporting using IPSAS. However, the date of adoption is actually the start of the reporting period for which the entity or jurisdiction prepares a set of transitional financial statements. These are financial statements where the first time adopter takes advantage of one or more of the transitional reliefs available in IPSAS 33; at this stage, the entity cannot state that it complies fully with all IPSAS.

The announcement is not the start of the transition period of three years permitted in IPSAS 33. Some jurisdictions have been wrongly advised that they have only three years from the announcement to implement the full suite of IPSAS.

Jurisdictions need to prepare properly and carefully in order to achieve a successful migration to an accrual based financial accounting and reporting framework. The preparatory stages to develop an implementation strategy and plan, prepare the detailed plans, and finalize the design are critical and carried out before starting the migration to an accrual-based financial accounting and reporting framework. The three year transition period will start once the preparatory stages have been completed. Although there is no recommended period for the preparatory stages, entities are encouraged to complete the preparations within two years or so.

IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

IPSAS specify the required accounting treatment for certain transactions and events. In the absence of an IPSAS, an entity needs to develop policies using the concepts set out in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* or based on other authoritative guidance in accordance with IPSAS 3.

The objective of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, is to prescribe the criteria for selecting and changing accounting policies, together with the

(a) Accounting treatment and disclosure of changes in accounting policies;

(b) Changes in accounting estimates; and

(c) The corrections of errors.

Content and Presentation of Financial Statements

In determining the structure, jurisdictions and entities should ensure that accrual based information is presented in such a way that it is useful to readers of the financial statements for accountability and decision making purposes.

Relevant standards are:

- IPSAS 1, *Presentation of Financial Statements*
- IPSAS 2, *Cash Flow Statements*
- IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*
- IPSAS 10, *Financial Reporting in Hyperinflationary Economies*
- IPSAS 14, *Events After the Reporting Date*
- IPSAS 18, *Segment Reporting*
- IPSAS 20, *Related Party Disclosures*
- IPSAS 22, *Disclosure of Financial Information about the General Government Sector*
- IPSAS 24, *Presentation of Budget Information in Financial Statements*

This group of standards provides guidance on the content and presentation of general purpose financial statements (GFPS), but individual jurisdictions may want to consider their own presentational structure in terms, for example, of legal or parliamentary requirements. This needs to be considered at an early stage of the planning process because decisions on content and presentation may impact on IT structures and, in particular, the chart of accounts.

This group of standards also includes guidance on how to present information:

- By operating segment;
- About related parties;
- On performance against the budget; and
- Relating to events after the reporting date but before the financial statements are authorized for issue.

Accounting Boundaries

Some jurisdictions require consolidated financial statements to be produced and published, some require only separate financial statements; while others require the publication of both consolidated and separate financial statements.

Relevant standards are:

- IPSAS 34, *Separate Financial Statements*
- IPSAS 35, *Consolidated Financial Statements*
- IPSAS 36, *Investments in Associates and Joint Ventures*

- IPSAS 37, *Joint Arrangements*
- IPSAS 38, *Disclosure of Interests in Other Entities*
- IPSAS 40, *Public Sector Combinations*

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements in IPSAS 34, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 41 *Financial Instruments* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures*.

This group of standards also includes guidance on accounting for joint arrangements (two or more entities have control over the activities of an operation) (IPSAS 37), and on accounting for public sector combinations (IPSAS 40).

Non-Financial Assets

Delivery of public sector services depends on the availability of effectively managed public sector assets, including non-current tangible and intangible assets, and inventories.

Relevant standards are:

- IPSAS 5, *Borrowing Costs*
- IPSAS 12, *Inventories*
- IPSAS 16, *Investment Property*
- IPSAS 17, *Property, Plant, and Equipment*
- IPSAS 21, *Impairment of Non-Cash-Generating Assets*
- IPSAS 26, *Impairment of Cash-Generating Assets*
- IPSAS 27, *Agriculture*
- IPSAS 31, *Intangible Assets*

Practical implementation of non-current tangible assets is covered in a structured way in the PULSAR publication, *Strengthening Fixed Asset Management*.

Financial Assets

Financial assets are assets that arise from arrangements (usually binding) relating to future cash flows or from owning financial instruments. Financial assets include cash and debtors. Because of the links with revenue, guidance on debtors can be found under the ***Debtors and Revenue*** section.

Relevant standards are:

- IPSAS 28, *Financial Instruments: Presentation*
- IPSAS 30, *Financial Instruments: Disclosures*

- IPSAS 41, *Financial Instruments*

This group of standards provides guidance on the accounting treatment of financial instruments.

Financial instruments refer to a contract that generates a financial asset to one of the parties involved, and an equity instrument or financial liability to the other entity.

Liabilities in general arise from arrangements relating to future cash flows and so include trade creditors and accrued expenditure, and provisions and contingent liabilities. Guidance on these can be found under the ***Liabilities and Expenses*** section.

Debtors and Revenue

It has been estimated that jurisdictions obtain between 75 per cent and 95 percent of their revenue from non-exchange transactions. Of that, the majority of the revenue is raised from taxes and duties. Implementing IPSAS 23 in respect of tax revenues is, therefore, important from an accountability perspective. It is a complex area and work needs to start early in the planning phase.

Relevant standards are:

- IPSAS 9, *Revenue from Exchange Transactions*
- IPSAS 11, *Construction Contracts*
- IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

This group of standards provides guidance on the accounting treatment of revenue.

Entities need to be able to present financial information about revenue and debtors that is complete (that is, all due revenue has been accounted for) and can be reliably measured.

Debtors relating to other revenue streams will need to be identified. This might be achieved by:

- Considering the types of services provided to public officials (for example, housing or vehicles) and citizens (for example, rentals of market stalls or retail premises) that should give rise to revenue;
- Using revenue received records to determine what has been received from whom in relation to what service;
- Cross-referencing to other records (a property register, for example) to determine what revenue should be expected from whom and when in relation to what service; and
- Matching the sets of records to determine what the complete position should be.

Processes and procedures may need to be updated to ensure future completeness of other revenue and debtors.

Liabilities and Expenses

The document *Stepping Stones to Accrual Accounting* focuses on liabilities as examples to set out how an entity might transition to accrual accounting. The liabilities featured include: short, medium and long term creditors; short and long term loans; leases; advance receipts; accrued expenses; and provisions. Where appropriate, references to other guidance are made which will provide greater depth on the more complex issues surrounding transition.

Relevant standards are:

- IPSAS 13, *Leases*
- IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*
- IPSAS 28, *Financial Instruments: Presentation*
- IPSAS 30, *Financial Instruments: Disclosures*
- IPSAS 32, *Service Concession Arrangements: Grantor*
- IPSAS 39, *Employee Benefits*
- IPSAS 41, *Financial Instruments*
- IPSAS 42, *Social Benefits*

All jurisdictions provide benefits to their employees. One of those benefits is often a guaranteed income in retirement (a pension). In contrast to the private sector, a public sector pension scheme can cover more than one employer (a multi-employer scheme). This brings accounting challenges in implementing IPSAS 39, *Employee Benefits*.

ENTITY-LEVEL ISSUES

The national implementation strategy and plan (ISP),and sectoral plans where applicable, will consider generic issues appropriate to that ISP. In preparing its own ISP, an entity will need to consider not only the issues raised in the higher level ISPs but also specific issues that might impact on the way the entity is able to implement the reform program.

Factors such as IT Infrastructure and IT systems might have wider applicability in the general sense but, where there are issues to resolve, individual entities will need to address them taking account of their own context.

Some accounting policies may have been established by a central entity (for example the Ministry of Finance or another standard setter) and these will need to be considered by entities when reviewing IT requirements.

Many of the processes and procedures associated with accrual based financial accounting and reporting will differ from those in place for a cash based accounting framework. Entities will need to assess them in the context of agreed accounting policies and IT system requirements. There may be existing weaknesses that need to be addressed in order for the migration to be based on a firm foundation.

Internal audit is an important feature of control systems. Its role in a migration to an accrual based financial accounting and reporting system will largely depend on the extent of changes required in the internal control system.

IT Infrastructure and Architecture

Before considering detailed IT systems requirements, a jurisdiction needs to consider infrastructure and architecture issues.

Questions that a jurisdiction may need to consider include:

- Existing architecture: is the IT system centralized (for example, in the Ministry of Finance or equivalent)? If it is centralized, what entities use it (for example, is it only central government ministries; all of central government entities; or wider)?
- Connectivity: is there sufficient connectivity across the country to enable local and regional offices to access IT and transfer data? Are there either regular or periodic power failures or shortages that will have a negative impact on data capture, processing, and transfer?
- IT systems policy: if there is no centralized system, should this be considered as an option? What impact might that have on processes and procedures?
- Interfaces: where different systems are used (for example, by local authorities or central government agencies), can data be transferred between the systems to facilitate fiscal and financial reporting?
- Hardware: does the jurisdiction have sufficient and appropriate hardware?
- Funding: does the jurisdiction have the funding to ensure there is an adequate IT infrastructure?

IT Systems

Financial and management information systems can improve governance by providing real-time financial information that the entity's financial and other managers can use to formulate budgets, plan services, and manage the entity's resources and activities effectively.

Sound integrated financial management information systems (IFMIS) not only help governments and individual public sector entities control their finances effectively, but also enhance transparency and accountability, reducing political discretion, and acting as a deterrent to corruption and fraud.

As part of the planning for a migration to an accrual-based financial accounting and reporting framework, a jurisdiction and its public sector entities will need to review the existing financial management information systems and carry out an analysis to determine whether the existing system will continue to meet their needs, or whether a new financial management system is required. A jurisdiction will need to carry out this assessment in the light of the review of the IT infrastructure and architecture

Entities may need to consider redesigning their existing processes and procedures in order to make sure that they support the financial management systems.

Ensuring that the chart of accounts is ready for accrual accounting and reporting is important. A well-planned chart of accounts can assist in the efficient generation of financial information for a variety of purposes.

Where finance staff are not sufficiently familiar with how the financial management system works, entities will need to consider how best to meet IT training needs.

Existing Financial Management Information Systems

The adoption of accrual financial reporting in conjunction with other public sector reforms often involves changes to a wide range of information systems. Entities contemplating a transition to accrual accounting need to carry out detailed systems planning. Some jurisdictions may have IT systems that are accrual ready with only minor changes needed, such as activating existing but unused modules. Other jurisdictions might have more work to do. Planning might encompass identifying:

(a) The structure/ownership of proposed systems

(b) System requirements (existing and new systems)

(c) Control requirements

(d) The interfaces required within the system itself, as well as between the financial reporting system and other systems

(e) Changes needed to the chart of accounts

An assessment of potential interfaces might consider whether changes may be required to the following systems:

(a) Revenue;

(b) Purchase acquisition;

(c) Travel;

(d) Grants and benefits;

(e) Human resources and payroll;

(f) Fixed assets;

(g) Property management;

(h) Inventory;

(i) Debt;

(j) Budget;

(k) Non-financial; and

(l) Internal controls and risk management.

The assessment of existing systems could include the following considerations:

(a) The information currently held within the systems;

(b) The additional information required in order to comply with accrual basis IPSAS;

(c) To what extent centralized systems should be decentralized (this will be dependent upon the policy framework underlying any wider reforms);

(d) The current degree of integration of financial and other systems compared to the degree of integration desired; and

(e) Whether existing systems should be replaced or adapted, including whether any replacement should be an “off the shelf” system or a custom design system.

Chart of Accounts

Introduction

A chart of accounts (COA) is a systematic coding system for the classification and coding of transactions and events within the accounting system. It defines the organization of ledgers used within the accounting system. The types of classifications provided for by a COA may include economic, functional, administrative, and regional classifications as well as more detailed classifications for cost centers, programs, projects, outputs, and outcomes.

The COA is not used solely in the preparation of external financial statements. It may also be used to support the preparation of internal management reports, the preparation of regulatory information ,the tracking of expenditure against budgets, and the preparation of fiscal reports (for example, Government Finance Statistics Manual (GFSM) 2014, the European System of Accounts (ESA) 2010, and System of National Accounts (SNA), 2008). To eliminate the unnecessary reclassification of financial data or duplicating the entry of data, it is helpful if the chart of accounts can support a range of governmental reporting requirements.

Once established, the COA becomes a fundamental component of the processing of financial information from simple tasks like paying bills to complex activities such as financial reporting. Because it is embedded in the processing activities of the entity, it becomes costly to change. It is therefore essential that the COA is carefully designed to allow for change and growth and to meet the various reporting needs of the entity. Accordingly, in developing a chart of accounts, at a minimum, entities need to consider:

(a) The requirements of IPSAS regarding disclosure of assets, liabilities, revenues, expenses and cash flows;

(b) The need for definitions to be sufficiently clear that transactions are classified appropriately;

(c) Whether, either now or in the future, the COA is also intended to support

(i) The monitoring of spending against budgets (even if the budget remains on the cash basis)

(ii) A government's fiscal reporting

(d) The process by which the COA will be updated to take account of new developments in financial reporting;

(e) The extent to which individual entities should be able to modify or add to the COA; and

(f) Any relevant legislative requirements.

Budget Classification

In a well-designed system, the COA should incorporate the budget classification. In the same way that the COA is a systematic coding system for the classification and coding of transactions and events within the accounting system, a budget classification is a systematic coding system for the classification and coding of transactions and events within the budget system. If the COA incorporates the budget system it will include all the accounts specified in the budget classification, together with other accounts required for accounting and reporting purposes (for example, assets, liabilities and revenues).

Central Chart of Accounts

Where a number of individual entities are required to provide information to a central entity for the preparation of consolidated financial statements or for other reporting purposes, it is usual to have a central COA. However, even in a federal setting, where there is no such reporting requirement, a unified COA can prove helpful, given the costs of developing a COA and the desirability of being able to generate GFS data in a cost-efficient manner. This central COA needs to:

(a) Meet the needs of both individual and central entities;

(b) Provide a uniform structure for coding financial transactions; and

(c) Permit sufficient flexibility for individual entities to adapt it to their particular requirements.

The central COA needs to be developed early in the process of adopting accrual accounting to allow individual entities time to tailor it to their own needs. Individual entities need to incorporate the requirements of their COA when specifying the deliverables required from accounting software. Where the entity plans to purchase accounting software, it is important to ensure that the COA in the software provides sufficient flexibility for the entity's needs. The level of flexibility granted to individual agencies will vary among jurisdictions.

Maintaining the Chart of Accounts

Following the development of a new COA, it is necessary to assign responsibilities for the day-to-day management of the COA and prevent unauthorized changes. Day-to-day management includes

establishing, deleting, or modifying accounts or codes and publishing updates to the COA. Supporting guidance and monitoring may also be required to ensure consistent use of codes.

Processes and Procedures

Implementing accrual-based accounting and reporting needs to be based on a firm foundation of strong financial and other controls, well-understood financial processes, and accurate and timely reporting.

Public sector entities in some jurisdictions often have a history of audit qualifications, and external assessments carried out by international organizations have raised concerns – often significant – in a variety of areas.

If not addressed, these existing issues pose significant challenges to achieving a successful migration to accrual-based accounts.

While addressing existing issues, it may be appropriate to consider redesigning existing processes and procedures not only to ensure that they support accrual-based accounting and reporting, but also to check that they are efficient and make use of the latest technology.

Internal control systems are established by a public sector entity's leadership team to help ensure that the entity achieves its policy and service objectives in a manner that promotes economy, efficiency and effectiveness in the use of resources. They form an integral part of an entity's processes and procedures.

Internal control systems help safeguard the entity's assets by managing risk and reducing the likelihood of fraud or error. In establishing such systems, an entity needs to take account of the risks to good PFM.

Review and Update Existing Processes and Procedures

Introduction

All entities will have a set of processes and procedures to follow in managing their operations. Some jurisdictions may have established a set of financial processes and procedures that applies across a number of entities—for example, where a jurisdiction has a centralized accounting function and/or IT system for central government and all central government entities.

Existing processes and procedures will be significantly impacted by the conversion from a cash basis of accounting to an accrual basis of accounting.

Jurisdictions and entities will need to review their existing processes and procedures to see whether or how they are appropriate in an accrual-based financial accounting and reporting environment.

There is no doubt that changes to processes and procedures will be required, although the extent of the changes will depend on the existing accounting and reporting framework and the management controls that are already in place in an individual entity.

Understand the audience

Financial processes and procedures tell people how the day-to-day operations of the entity should be undertaken. Those processes and procedures will often be carried out by people who are not technical accountants—they will be, for example, payroll clerks or accounts payable clerks, or supporting engineers working on infrastructure projects. While they need to have an understanding of the role they play in the financial functions of the entity, the procedures they need to follow must be set out in a way that makes sense to them.

In designing an updated set of processes and procedures, jurisdictions and entities might consider how to present the material, which could be:

(a) A list of IPSAS and the associated processes and procedures;

(b) Processes and procedures set out in a way that mirrors a clerk's role; or

(c) A mixture of the two to reflect different parts of the financial function

For example, the procedure for authorizing invoices, the processes and procedure for recording invoices; the process for paying the invoices; and the process and procedure for reporting expenditure might relate to the requirements of a single IPSAS but, in terms of responsibility for carrying out those processes and procedures, are likely to relate to more than one person.

Entity-specific Processes and Procedures Guidelines

Each entity will need processes and procedures guidelines, based around and supplementing the accounting policies manual, to help them apply the financial reporting requirements. Some of these guidelines might be generic and therefore standardized across all government entities; others would be specific at an entity level and include only those accounting policies applicable to that entity's activities. The guidelines would provide all necessary detail to enable those policies to be applied.

Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an entity's operations. It aims to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. It helps an entity deliver its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes – all of which are an essential to strong PFM.

The Institute of Internal Auditors' (IIA) Global Directors established the International Professional Practices Framework (IPPF) Oversight Committee to oversee the development of standards and other guidance on the practice of internal auditing. Many jurisdictions have membership of IIA Global and adopt the internal audit standards.

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