



## S U M M A R Y

### Joint FEE and CNDCEC Public Sector Seminar January 2011

#### 'Challenges of Accrual Accounting in the Public Sector'

11 January 2011, 08:30 - 17:30

Sala Mappamondo, Italian Parliament - Rome, Italy

By Caroline Mawhood, Chair of FEE Public Sector Committee

We had a full and successful day. I was delighted that we had over 200 people wishing to attend but unfortunately, due to security requirements, we had to restrict it to 130 participants including 25 speakers. We had representatives from the Italian Parliament, Civil Service, Academia and the profession as well as speakers from across Europe. Stefano Pozzoli chaired the conference with me and he stressed the importance of implementing accrual accounting information in the public sector.

Our welcome and key note speeches from our Italian colleagues stressed the importance of the recent laws aimed at enhancing effectiveness and efficiency of public finance operations. These should contribute to enhanced accountability of the system and establishing a single accounting system for all levels of government. Different views were expressed about the need for just cash based system or cash based system with accruals alongside for information basis. In order to implement accruals a decision would be needed on the accounting standards to be adopted. Giosuè Boldrini, Council Member in charge of public entities at CNDCEC, supported the introduction of these laws and in particular the introduction of accrual accounting in the public sector.

The President of FEE, Philip Johnson, stressed the importance of transparency and accountability of public finances especially in the light of the economic crisis and the importance of accrual accounting. He raised questions about whether the IPSASs can meet the challenge of converging to IFRS and will IPSAS bring sufficient transparency on government measures in relation to the crisis. John Stanford, Deputy Technical Director of IPSASB, covered the conceptual framework, governance of the Board and the importance of outreach and adoption. He highlighted the key questions arising from the conceptual framework for example who are primary users of public sector financial statements and what objectives of financial reporting in the public sector are. Thomas Müller-Marqués Berger, a member of the Board, then explained very clearly the implications of the 4 IPSASs and an ED: Impairment of Non-Cash Generating Assets; Disclosure of financial Information about the General Government Sector; Revenues from Non-exchange Transactions and the Presentation of Budget Information in Financial Statements and the ED on Service Concession Arrangements. The outlook is increasing awareness and importance of IPSAS as well as governmental financial management all over the world.



After a well earned coffee break Caroline Mawhood, the Chair of the FEE Public Sector Committee, explained the benefits of accrual accounting in the UK and how they had successfully implemented accrual accounting in the early 2000s. She explained that it was a big project which required significant investment in resources for staff and IT; political support and carefully selling to those involved both politicians and civil servants. The main benefits were better accountability and control; opportunities for efficiency gains; better information for economic planning and valuation of assets and liabilities.

The afternoon was devoted to hearing from 10 Member States and the European Commission about the progress of implementing accrual accounting in their country or in the Commission. Each presenter covered the current developments in accounting in the public sector; the major challenges for accounting and auditing and the practical problems in implementing accrual accounting.

The sessions showed that countries are at different stages of implementing accrual accounting and, in the case of the Netherlands, the Government has decided against implementing accrual accounting because they believe the costs outweigh the benefits. But, at whatever stage they were at, it was necessary to have clear planning and processes for implementation. Adequate IT systems, information to produce opening balances, uniform standards were all needed.

The main general points arising from the afternoon session were:

- It is essential that there is accountability and transparency in the use of income and expenditure in the public sector;
- It is important because the public sector makes up more than a third of GDP and even more now because of the measures taken in some countries to address the economic crisis;
- Public sector accounts should be meaningful to users but the question is who are the users and are the accounts meaningful;
- The general view was that accrued public sector accounts are good (although not everyone was convinced);
- There was less consensus on the need for accrued budgets;
- But there need to be standards on which to base such accounts and they should be relevant to the public sector;
- And some asked are IPSASs sufficient and few were fully complying with IPSASs;
- There was a consensus that introducing accrual accounting required cultural change in an organisation and commitment from "the top" e.g. politicians and civil servants; time; necessary resources and excellent planning.

Overall key questions raised by the day's seminar:

- What is the public sector: Central, Local, Public Corporations and Agencies?
- Should accounts only be on accrual basis?
- Or should budgets be on an accruals basis or on a cash basis?
- Who are the users of the public sector accounts?

A general conclusion from the seminar is that accounting is an art not a science!

I would like to thank everyone for their contribution to the seminar.