

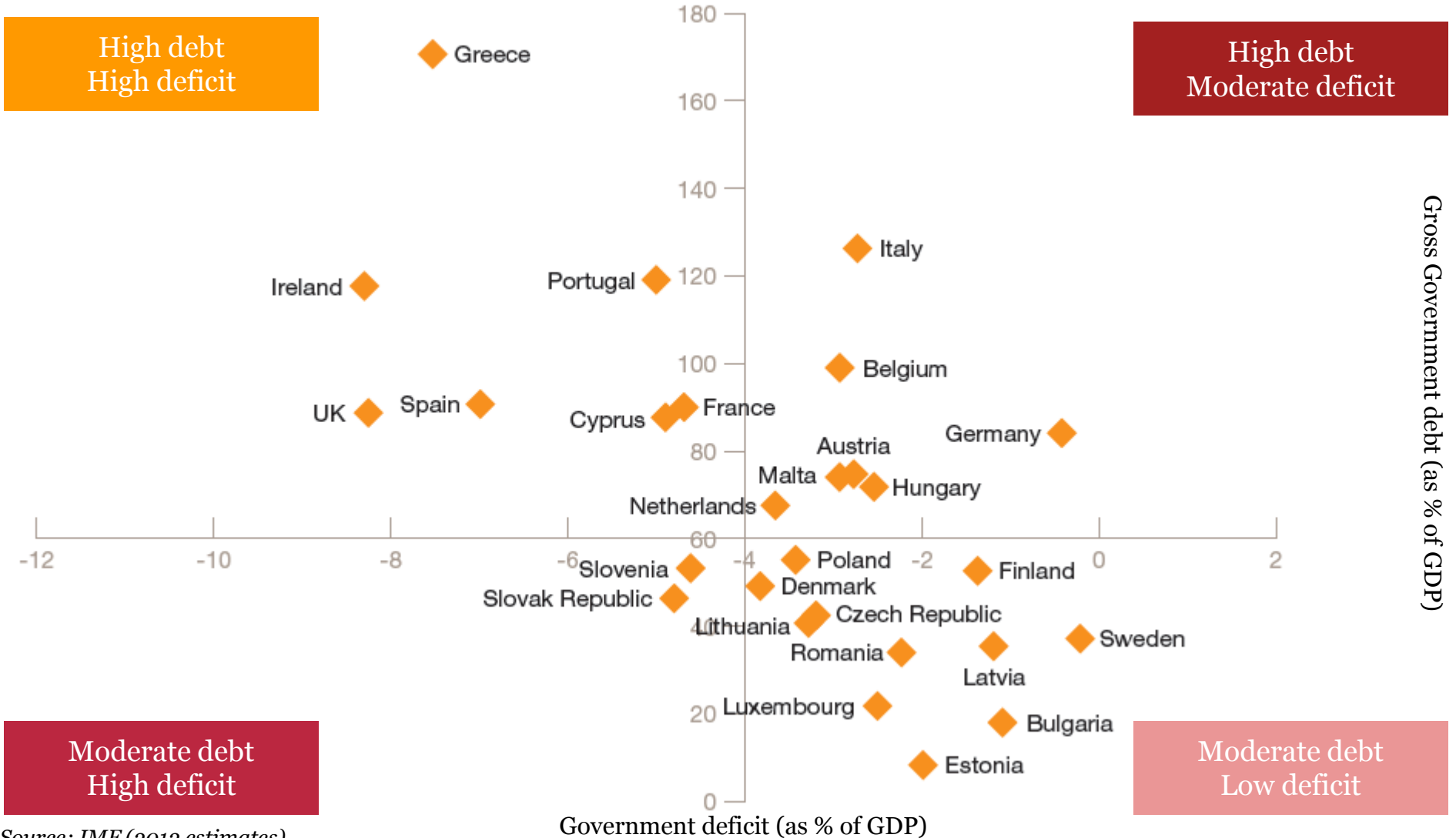
Advisory

# *Government accounting and reporting*

8 November 2013



# The new normal: delivering affordable services in the context of deficit-reducing budget cuts



## ***The trend towards harmonized international accounting standards can be explained by the need for transparency and efficiency***

The benefits of implementing IPSAS (or similar accounting standards):

- √ The shift from cash based to accrual based accounting brings the long term perspective to governments
- √ Fair presentation of the financial performance and financial position of the government
- √ Increased transparency and accountability for governments
- √ Improved decision making process by directing the attention of policy maker to problem areas
- √ Better financial management of debt, assets, etc
- √ Benchmarks between governments available if using harmonized international accounting standards

# Key messages of PwC’s survey on government accounting & reporting



## The top 10 key messages

## PwC insights

### Government accounting and financial reporting, today and tomorrow ... The dynamic for accrual accounting

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|---|--|
| <p><b>1</b> There is great diversity in accounting practices but the trend towards accrual accounting is clear</p> <p><b>2</b> A major shift to accrual accounting is expected in developing countries, with IPSAS serving as a common reference point</p> <p><b>3</b> Budgets remain largely on a cash basis</p> | <p>There is an urgent need for sound and transparent accounting by all governments. Governments financial statements should reflect the full economic impact of political decisions</p> <p>Harmonisation of high-quality public sector accounting standards on the international level enhance the credibility of government financial statements and facilitates comparison within the global public sector</p> <p>Accrual budgeting provides better insight for decision-making, considering the long-term impact of political decisions</p> |
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### Making the transition to accrual accounting (IPSAS or equivalent), benefits and challenges

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|--|--|
| <p><b>4</b> Conversion to IPSAS or similar accrual accounting standards is useful for government stakeholders</p> <p><b>5</b> Greater transparency and accountability, comprehensive inventory of assets and liabilities, and performance assessment are the main benefits</p> <p><b>6</b> Accounting for fixed assets, application of accruals concepts and disclosure requirements are the major areas of impact</p> <p><b>7</b> More than three years is required on average to transition to accrual-based IPSAS (or similar)</p> <p><b>8</b> The lack of trained staff and IT system requirements are the main challenges</p> | <p>The full benefits of accrual accounting implementation based on IPSAS or equivalent can only be captured as part of a wider finance reform</p> <p>Better accounting leads to better reporting, which provides information for better decision-making, and in turn should lead to better use of public resources</p> <p>The change in accounting rules will impact the numbers, require the production of new data and a cultural shift in the mindset of those involved. The impact will be even greater if consolidation and employee benefits are included</p> <p>The change to accruals-based IPSAS is much more than an accounting exercise, it is a transformation of the government finance function which impacts the whole organisation</p> <p>A well-designed project and effective change management strategy, which considers people and systems requirements, are crucial for successful implementation</p> |
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### The future of the government finance function

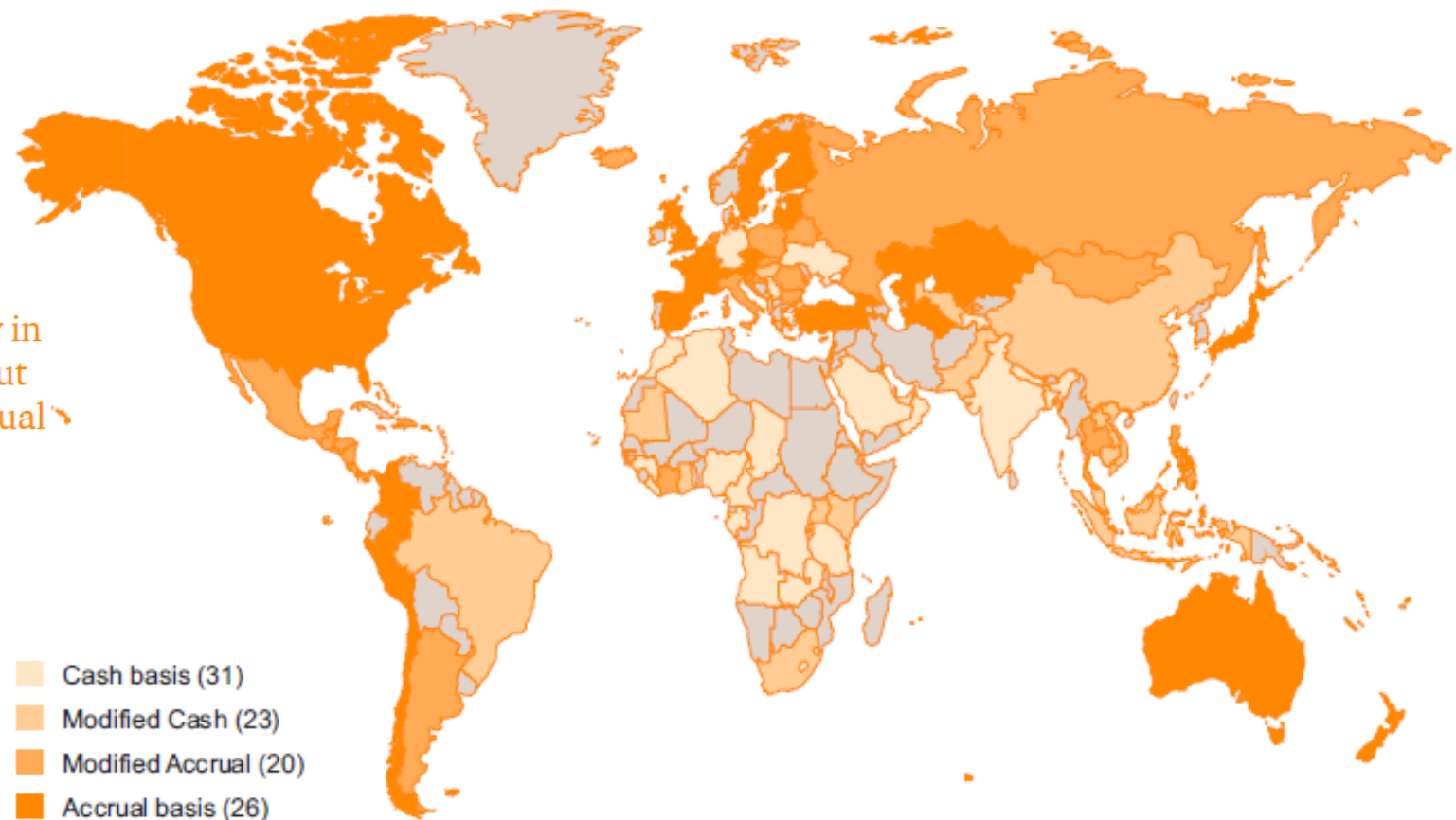
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| <p><b>9</b> Governments indicate a desire to improve their finance function</p> <p><b>10</b> Cost accounting, performance management, fixed assets management and long-term planning and forecasting are the key areas for improvement</p> | <p>By transitioning from scorekeeper to business partner, government finance functions will realise significant improvements</p> <p>Improving these key areas will contribute to the overall objective of enhanced service performance and long-term sustainability of public finances</p> |
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# A great diversity is observed in central government reporting practices but ...



## The government accounting landscape worldwide today

There is great diversity in accounting practices but the trend towards accrual accounting is clear.

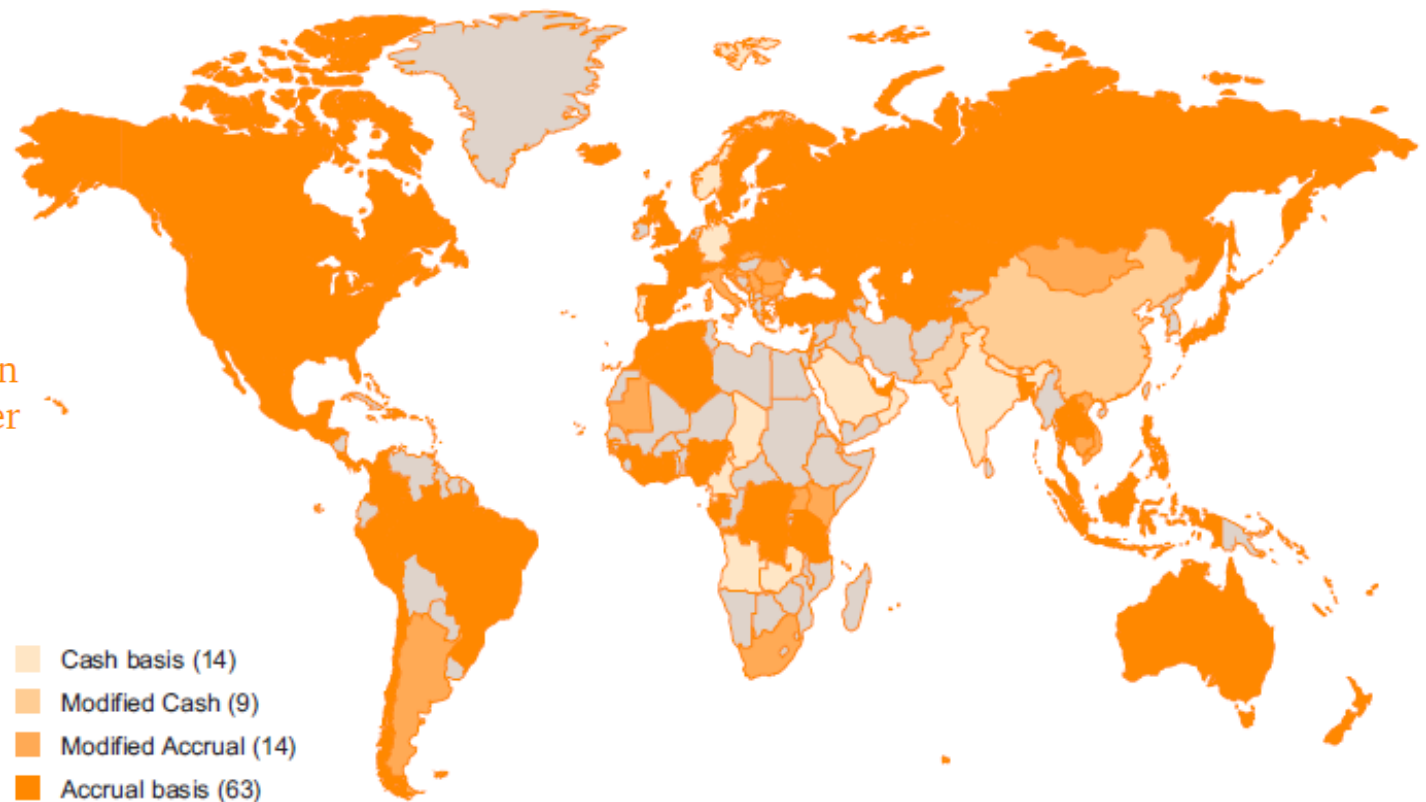


## ... the trend toward accrual accounting is clear

### Government accounting around the world in five years

**142%**

increase in the application of accrual accounting over the next five years.



# There is an urgent need for sound and transparent accounting by all governments

# 50%

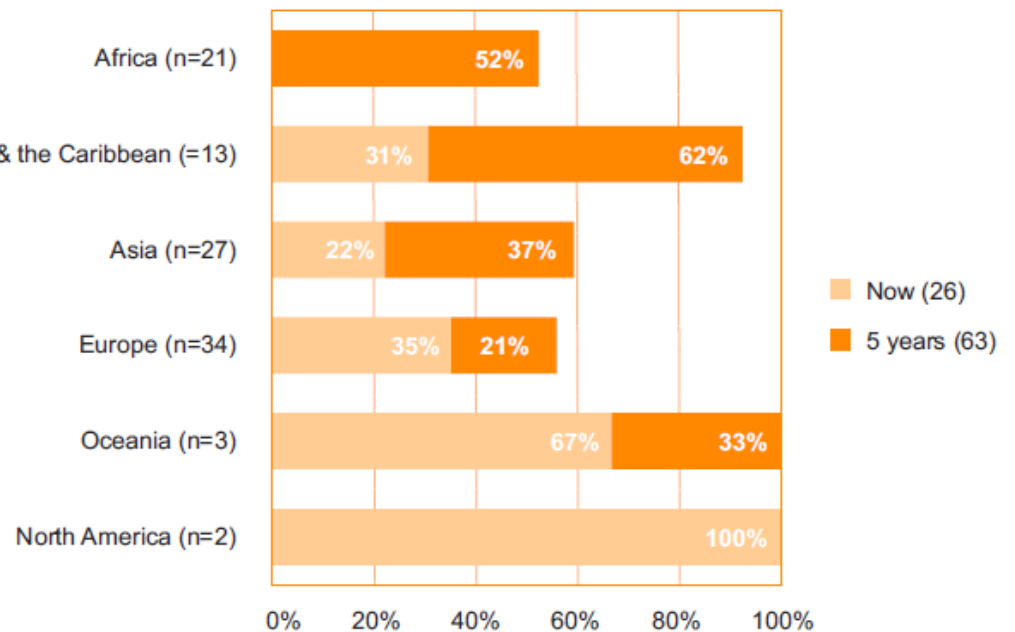
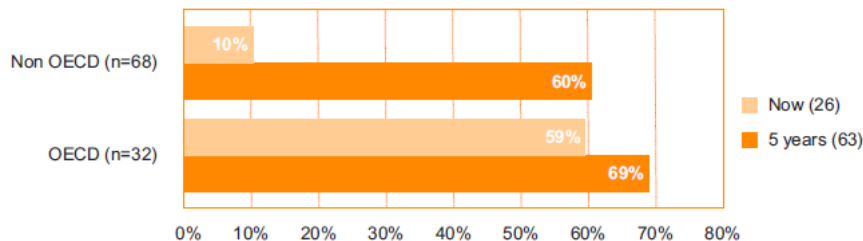
of non-OECD countries plan to transition to accrual accounting over the next five years.



A major shift to accrual accounting is expected in developing countries, with IPSAS serving as a common reference point.

Expected trend toward accrual accounting by continent

Expected trend toward accrual accounting among OECD and non-OECD countries

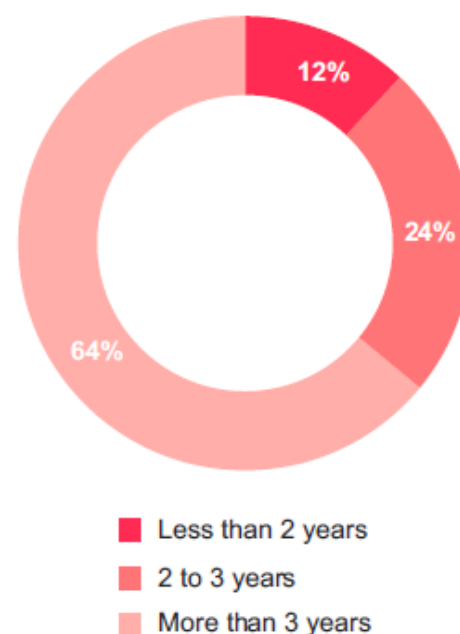


## ***Most conversion projects take more than three years of intensive work extended beyond the accounting department to operational staff and business owners***



More than three years is required on average to transition to accrual-based IPSAS (or similar).

Length of the conversion process



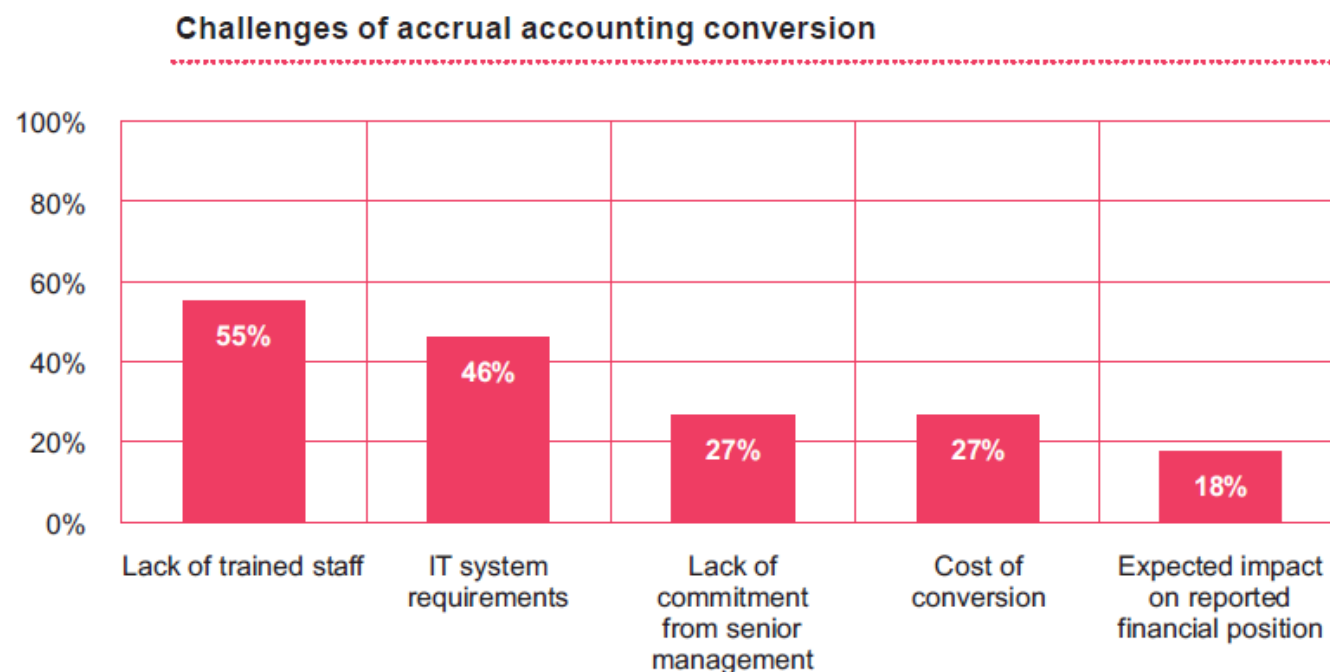
*The change to accruals-based IPSAS is much more than an accounting exercise, it is a transformation of the government finance function which impacts the whole organisation*



## ***Greater accounting expertise and the right IT systems have to be in place for successful government reporting***



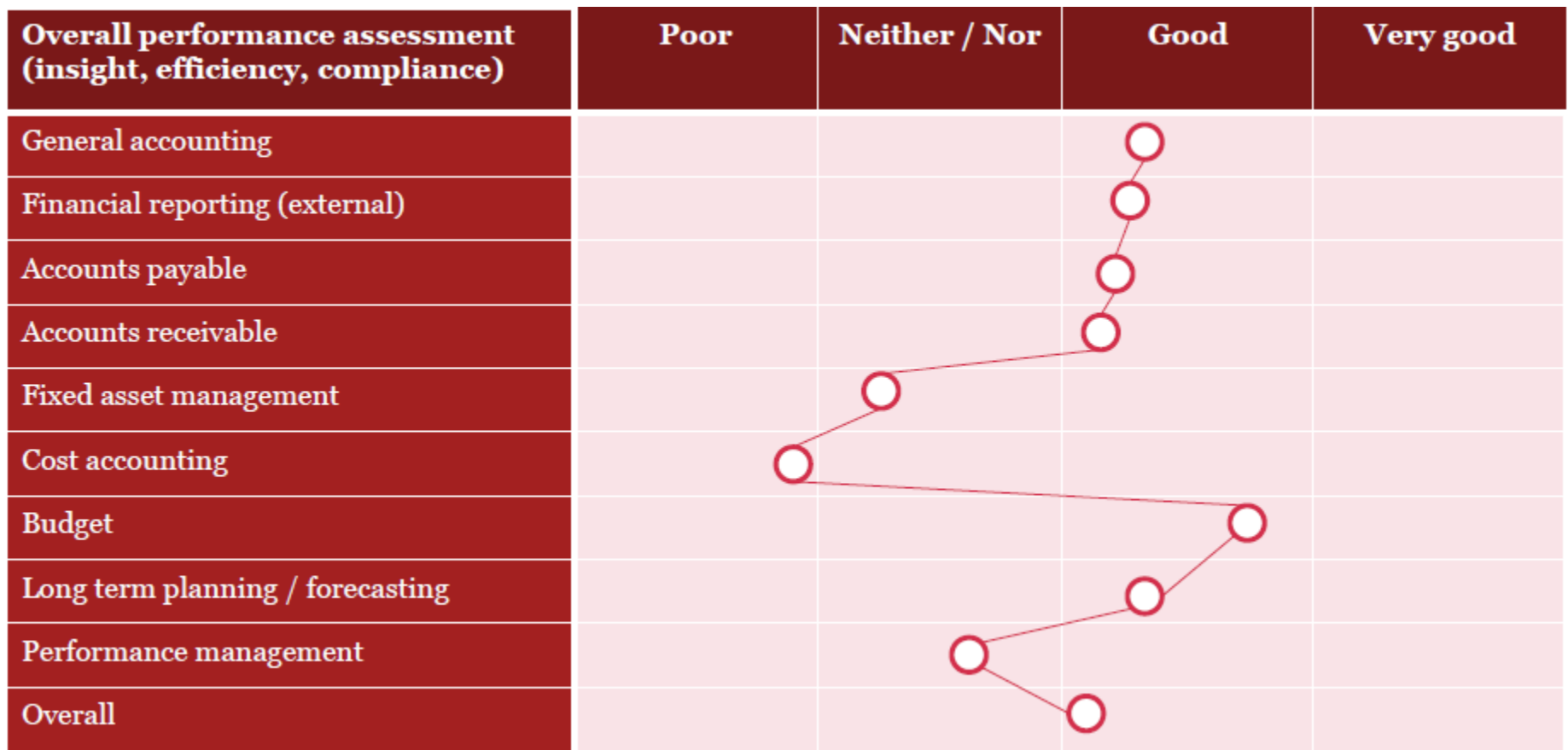
The lack of trained staff and IT system requirements are the main challenges.



*A well-designed project and effective change management strategy, which considers people and systems requirements, are crucial for successful implementation*

# Fixed asset accounting, cost accounting, and performance management are key areas for improvement

PwC insight  
**10**



○ Current status

# Romania has already made important steps towards a government reporting package on the ForExeBug project



Main topics covered	Challenges	Potential benefits
<i>Defining a standard Chart of Accounts for all public entities</i>	Identifying the different types of analytical accounts needed	<ul style="list-style-type: none"> <li>Improved efficiency as a result of standardisation</li> </ul>
<i>Defining a standard Trial Balance for all public entities</i>	Identifying optimal format to be submitted by entities	<ul style="list-style-type: none"> <li>Improved efficiency as a result of standardisation</li> </ul>
<i>Defining standard templates for Financial Statements</i>	Identifying the right balance between the data needed and the cost of obtaining the data	<ul style="list-style-type: none"> <li>Simplified financial statements in line with standards</li> </ul>
<i>Defining a consolidation methodology</i>	Identifying the right balance between compliance with standards and cost of implementation	<ul style="list-style-type: none"> <li>Reduced working time as a result of the automated consolidation of government accounts</li> </ul>
<i>Defining the reconciliation methodology for the cash to accrual deficit</i>	Identifying the exceptions from the standards to be included in the reconciliation	<ul style="list-style-type: none"> <li>Automated reconciliation between the cash and accrual deficit</li> </ul>

## ***Challenges for Romania in implementing the government reporting package***

### **Challenges for implementing the government reporting**

#### **Roll-out of the project from central to entity level**

- Roll-out of the reporting system to all public entities is a complex project as it requires participation at all levels and across territory

#### **Providing quality input into the reporting system**

- The quality of inputs at entity level is critical to obtaining sound financial reports
- The new reporting system will require additional information to be captured by the accounting systems of the entities
- All public sector entities should have a good understanding of changes in the new reporting system in order to obtain accurate government financial statements

#### **Budget to actual comparison**

- A comparison between actual amounts and budget amounts should be included in the financial statements; this is difficult to be performed at government level as budgets are cashed based and financial statement are prepared on an accrual basis

### **Solutions**

- Implementation of **robust IT systems** that can accommodate large volumes of data and can be rolled-out at entity level
- **Ongoing and focused training for accounting professionals at all levels and across territory** so that booking of transactions is standardised and input is accurate and reliable

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***Thank you!***