Accrual Accounting for Government – What are the benefits?

Principal benefits:

- *For better financial control* - shows full cost of government spending decisions
- *For more transparency and accountability* –greater detail of government transactions
- *For improved balance sheet management* – shows asset investment and liabilities

Reasons to stick with Cash Accounting

- Simplicity – needs fewer rules, lower skills
- Speed – faster to compile reports
- Cost –less expensive to run
- Control – cash controls are easy to apply
- Relevance – cash flow is primary concern
- Flexibility – can modify for accrual features

Reasons to change to accruals

Financial Control:

- Sustainability – reveals underlying government surplus or deficit
- Manipulation – cuts year-end ‘spend up’
- Liquidity – reveals working capital position
- Costs – recognises non cash costs such as depreciation or unfunded pensions

Reasons to change to accruals (2)

Transparency and Accountability

- Global – accrual presentation is used and understood worldwide by users
- Disaggregation – distinguishes operating activities from investment and financing
- Matching – records economic activities in period when they occur

Reasons to change to accruals (3)

Balance Sheet Management

- Capital maintenance – distinguishes operating revenue from asset disposals
- Valuation – reveals level of investment
- Indebtedness – reveals borrowing and non-financial liabilities

The Decision to Change

Key factors to consider:

- Financial management objectives
- Characteristics of jurisdiction
- Systems capability
- Skills availability
- Cost
- Speed of reporting

Budget Transparency – *revealing the full story*

- ‘Hidden’ costs and Revenues
- Expenditure versus Investment
- Revenue versus Disposals
- Operation versus Valuation
- Controlled versus Administered
- Input versus Output

Better Accounting for long term assets and future liabilities (1)

Limitations of Cash Accounting for assets

- Purchase and disposal
- Donated assets
- Self Constructed Assets
- Useful life of assets
- Depreciation
- Revaluation

Better Accounting for long term assets and future liabilities (2)

Limitations of cash accounting for liabilities:

- Incurrence versus Payment
- Current versus future cost
- Debt funding versus Tax Revenue

Better Accounting for long term assets and future liabilities (3)

Long-term assets under accruals:

- Cost versus Investment
- Self-constructed assets
- Revaluation
- Inventory
- Assets under construction

Better Accounting for long term assets and future liabilities (4)

Future liabilities under accruals

- Future cost of current decisions
- Budget comparability
- Evidence of government responsiveness

Enhancing Government Efficiency

Performance Based Management

- CEO contracts
- Bonuses
- Output specification
- Input control
- Incentives
- Outsourcing and competitive tendering

Consistency in treatment of future assets and liabilities

- Depreciation methodology
- Actuarial valuation
- Market revaluation

Stringent methods of valuation

- Historic Cost
- Market Value
- Fair Value
- Depreciated replacement cost
- Going concern or surrender value

Development and maintenance of uniform standards

- GAAP
- IPSAS
- IFRS
- GFS
- Financial Regulations