

Strengthening Fiscal Reporting for Enhanced Decision Making

*PEMPAL – Treasury Community of Practice
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What is the goal in relation to fiscal reporting?

- * To comply with IPSAS (ESA 95)?
- * To comply with GFSM 2001?

Or is it

- * To improve the quality and timeliness of financial information for decision makers?

Institutional Challenges

The seven Cs for adopting full Accrual Accounting

- * Consistency
- * Compliance
- * Coverage
- * Consolidation
- * Complexity
- * Cost
- * Capacity



Consistency with IPSAS

- * Most countries already undertake a form of accrual reporting in ministries (True/False)
- * To what degree is the current accounting practice consistent with IPSAS?
 - Revenues – do you write off bad debts?
 - Low value non-financial assets – depreciated or expensed on acquisition?
 - High value non-financial assets – up-to-date stock of assets and market/fair value valuations?
 - What is the value of a school or public building in a remote part of the country?

Compliance by MDAs

- * Recording – do ministries keep up-to-date records and record all transactions at the time they occur? Ideally a country has an IFMIS to allow the “real time” recording of transactions
- * Commitment control – a common issue is that MDAs do not record commitments correctly particularly where “cash rationing” is occurring centrally
- * Defining a commitment – Commitment means an obligation to effect a future payment subject to the fulfillment of certain conditions (contractual or otherwise). The process of commitment usually requires that the funds committed are set aside from the budget appropriation and “protected” for the contract. This is best done within an IFMIS by issuing a purchase order.
- * Accounting policies and instructions – these are critical

Coverage of the budget and reporting framework

- * Having different CoAs or reporting requirements for different funds or entities makes for inconsistency in budgeting and reporting
- * Non-integration also requires additional reconciliation
- * Extra budgetary funds – are they really separate reporting entities?
- * What is the process for reporting for sub-national governments?
- * What is the process of reporting for bodies that have been created under separate laws and have a degree of independence? Sometimes independence is confused with reduced accountability and reporting

Consolidation

The secret to a uniform system

- * Consolidated budget approval and presentation
- * Consolidated cash management (TSA) – get this right first
- * Any required separation of funds can be achieved within the CoA
- * IFMIS and consolidation
- * Consolidated reporting – a note on recent experience in the UK

Cost/Benefit

- * Will compliance with the next step in meeting the requirements of (accrual) IPSAS realise significant benefits for decision making?
- * Does every budget entity need to meet the full requirements for reporting? (materiality)
- * What is the cost of full compliance with IPSAS – Government of the Netherlands

Complexity

Some elements of the accrual standards can be challenging and require a detailed understanding of accounting along with quality information for decision making (infrastructure assets, social insurance programs, military assets heritage assets)

- Commence with the fundamental components of accrual – improve cash first and focus on commitment reporting
- Develop an implementation schedule that has a medium-term (3-5 year) goal at least
- Ensure the standards are underpinned with detailed, clear instructions and policies. Do we need standards or policies? – absolutely.
- Do not devolve complex accounting requirements until the tools and capacity are in place – otherwise certain failure will result
- Ensure decision-makers understand the new reports and information

Capacity

- * Do we have sufficient skilled officials in place?
- * Is this part of a broader reform agenda and what are the implications of implementing other reforms at the same time as accounting reforms?
- * Do we have clear policies and procedures?
- * Do we have an IFMIS in place? – either a central system with devolved access or devolved systems with centralized reporting
- * Have we maximised the use of technology?

Developing capacity in accounting and PFM in the public sector

- * Establish a competency-based learning framework
- * Assess the current situation and the gaps both at the broad level for each category of employee, and at the level of each official involved in the process
- * Develop a curriculum – linked to the tertiary sector and internationally reputable institutions if possible
- * Deliver a range of educational interventions – this should range from broad sensitization training to specific formal tertiary qualifications
- * Develop skills in understanding and using reports – this is also essential if accrual is to be successfully implemented

What is needed to implement IPSAS?

Cash, accrual or modified accrual (IFAC)

- * a clear mandate
- * political commitment
- * the commitment of central entities and key officials
- * adequate resources (human and financial)
- * an effective project management and coordination structure
- * adequate technological capacity and information systems
- * the use of legislation to provide formal authority and signal commitment to the changes

Institutional requirements for improving government accounting

- * Reviewing existing systems, arrangements and capacity
- * Developing an implementation strategy and project plan
- * Developing a communication/education strategy
- * Developing a training/capacity enhancement strategy and plan
- * Establishing project teams and assign leadership responsibility in government (if possible also involving country accounting bodies)
- * Agreeing to accounting policies and reporting formats
- * Identifying accounting information system requirements
- * Clarifying external and internal audit roles
- * Designing quality assurance processes

10 steps towards adopting full accrual

1. Develop a detailed action plan
2. Implement the cash-based IPSAS
3. Upgrade CoA to support cash and accrual
4. Strengthen SOE accounting
5. Report Accounts receivables and payables
6. Commence reporting non-financial assets – start with new acquisitions
7. Identify contingencies
8. Identify major assets and liabilities
9. Identify other assets
10. Report on non financial assets

11. Accrual Budgeting ???