IS THE MOVE TO ACCRUAL BASED ACCOUNTING A REAL PRIORITY FOR PUBLIC SECTOR ACCOUNTING?

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INTRODUCTION

Over the last 20 years, there have been increasing calls for governments and public sector organisations to move to accrual based accounting and adopt private-sector-style financial statements. Thus, for example, the IFAC Public Sector Committee has set itself the task of developing a full set of international public sector accounting standards and ensuring that these are adopted as widely as possible.

Despite this, there are increasing doubts over whether such reforms are worth the costs and the additional risks involved. ACCA, for example, has called for a different set of principles for public sector financial reporting from those developed for the private sector. In July 2003 FEE (the European Federation of Accountants) issued a paper outlining the risks to European governments of moving to the accrual basis for their accounts (www.fee.be/publications/main.htm under Public Sector). In a recent working paper (Performance Budgeting – is Accrual Accounting Required? http://www.imf.org/external/pubs/cat/longres.cfm?sk=16197.0) the IMF has said that often “emerging economies have too eagerly accepted this reorientation [to accrual based accounting], and have overlooked a number of important issues” and that “while agreeing that accrual accounting systems are more comprehensive and provide a wealth of financial information, it is important at the same time not to overstate the case”.

This paper aims to provide a view on the move to accrual based accounting which accepts that there may be some advantages, but ensures that the risks, costs and disadvantages are not overlooked.

Government financial accounting has traditionally consisted of providing an out-turn report comparing the actual payments and receipts with those which were authorised in the budget by Parliament. This approach still forms the basis for the practice of almost all governments across the world. It is a simple and robust approach which provides assurance, through the audit of such accounts,
that government spending has been in line with the agreed budget and that fraud and other irregularities have been minimised.

In contrast, the move to accrual based accounting is part of the process of adopting private-sector-style financial statements for the public sector. This includes the production of the equivalent of a profit and loss account, a balance sheet and a cash flow statement. In the process, all major capital assets are valued and the costs of these assets are charged to the expenditure account over their useful lives through the application of some form of depreciation.

A wide range of benefits are often claimed to arise from making this fundamental change to financial accounting in the public sector. These include improved accountability, management of assets and generally increased efficiency. These advantages have yet to be clearly demonstrated in practice, but the costs of such reforms are clear and significant.

Unless the issues involved in moving to accrual accounting are carefully considered and all the associated risks are adequately managed it is possible that the past mistakes of some countries adopting, for example, zero-based budgeting may be repeated. In this case, a radically new approach was adopted by some countries before it was adequately assessed anywhere. The approach was subsequently dropped almost everywhere and retained on only a very limited scale after being significant refined.
THE MOVE TO ACCRUAL ACCOUNTING

The use of accrual accounting is still unusual for most governments. Very few governments have yet to adopt it, certainly at the national level. This first occurred in Chile in the mid-1970s under the Pinochet regime. New Zealand followed suit in 1990 and the US federal government moved to accrual based accounting in 1997, but US state and local governments are only now making the change. By the year 2000, only three other central governments had adopted the accrual basis for their annual financial accounts. Also by 2000, eight of the 30 most developed countries –members of the OECD – had not adopted accrual based accounting for any aspect of their public sectors. The UK government moved to accrual based accounting in 2001–2002 as did Canada in the following year. By the middle of 2003 only half the OECD countries had adopted accrual based accounting for their central government accounts. In 2000, Malaysia and Tanzania were the only non-OECD countries that were planning to adopt the accrual basis for their central government accounts (according to an IFAC Public Sector Committee publication, *Study 11: Government Financial Reporting, Accounting Issues and Practices*, 2000). This is not now considered a priority for Tanzania and the change is unlikely to take place there in the near future. South Africa is actively following a programme to change the basis of its public sector accounting to the accruals over the next few years and this basis has already been adopted in Mongolia.

Several of the governments of the largest economies in the world have yet to introduce such changes. The French National Assembly has agreed definite plans to make the change by 2005, but in Germany and Italy there are no such plans. Late in 2003 the Dutch government dropped its plans to move the accounts of its national ministries to the accrual basis because of the costs involved. Japan has decided not to introduce this reform in the near future.
THE INTRODUCTION OF ACCRUAL BASED ACCOUNTING IN THE UK PUBLIC SECTOR

The use of accrual accounting in the public sector is not a new idea and the arguments for and against its use have been finely balanced for at least 150 years. It was being used by some public sector organisations as soon as it was developed in its current form in the private sector. Thus accrual based accounting was introduced for UK local authority accounts from the mid-nineteenth century. Birmingham City Council (the sixth largest economic entity in the UK at the time), for example, adopted accrual based accounting from 1850. Accrual accounting was not generally accepted in the public sector, however, and the cash basis of reporting was established by the Treasury (UK equivalent of the ministry of finance) as part of the major reforms introduced in 1866. Thus it was the cash basis which was used in the British colonies across the world over the next 100 years or so.

By the end of the nineteenth century it had been adopted by most of the larger, municipal councils, although in the early years of the 20th century there was a vigorous debate on its suitability. Eventually all but the smallest local councils were required to adopt the accrual basis of accounting after the re-organisation of local government in 1974.

With the major reforms of the UK National Health Service in the early 1990s the internal market was adopted and hospitals were established as quasi-independent businesses accounting on the accrual basis. At about the same time the move from the cash to the accruals basis was agreed for central government.
NO COST BENEFIT STUDY HAS BEEN UNDERTAKEN ON THE MOVE TO ACCRUAL BASED ACCOUNTING

Sir Andrew Likierman, who led the UK move to accrual accounting in central government, said (in 2000) that a “full analysis will only be possible once the new systems have been working for a number of years”. An IFAC Public Sector Committee report on the reforms in France concluded that the transition to accrual accounting is a long-term project. National and international experience indicate that a time period of about 8 to 10 years is needed to change the accounting system and fully implement the necessary reforms.

The UK experience suggests that realisation of the benefits may take even longer. In a report, published in December 2003, the UK National Audit Office concluded on the move to accrual accounting (first announced in 1993):

In most cases it is too soon to identify any discernible benefits from better resource management in terms of contributing to improved public services from for example, enhanced efficiency (Page 31).

The UK Treasury does not know how much the move to accrual accounting will cost and feels that many of the advantages have yet to be achieved. ACCA has funded some research on this issue. Preliminary results from this research, undertaken in one region of the UK (Northern Ireland), are that although the costs of the reforms were perceived as being substantial, significant benefits have yet to be realised and there is little evidence that the additional information is, at present at least, being extensively used in decision making, perhaps because it is rarely understood.
The advantages of accrual based accounting have been summarised as follows:

- Accrual based financial accounts have more information than cash based accounts and have a greater focus on outputs rather than just inputs.
- The information available from accrual based accounts facilitates a better quality of management and decision making, including in the case of the allocation of resources.
- It enables comparisons of the full cost of services with the costs of the provision of those services by the private and voluntary sectors.
- It provides greater comparability of management performance results which are not affected by the timing of cash payments and receipts and which include information about fixed and current assets and liabilities.
- The costs of capital assets are spread over the useful life of these assets and the management of capital assets is encouraged as the accounts include asset values.

And

- It provides a more effective and reliable assessment of the financial health of the organisation and the sustainability of government policy.
The IFAC Public Sector Committee in 2003 (Study 14 Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities) summarised the advantages of reporting on an accrual basis in the public sector as follows:

- it shows how a government has financed its activities and met its cash requirements
- it allows users to evaluate a government’s ongoing ability to finance its activities and to meet its liabilities and commitments
- it shows the financial position of a government and changes in its financial position
- it provides a government with the opportunity to demonstrate successful management of its resources

and

- it is useful in evaluating a government’s performance in terms of its service costs, efficiency and accomplishments.
THE DISADVANTAGES OF ACCRUAL BASED ACCOUNTING

The major disadvantages of the move to accrual based accounting are the costs involved and the increased complexity of the financial statements produced. IFAC Public Sector Committee has summarised the costs of introducing accrual based accounting in the following categories:

- identifying and valuing existing assets
- developing accounting policies
- establishing accounting systems, including the purchase of computer systems and pilot testing these systems
- developing the necessary skills and providing training for both the preparers and users of financial information.

Many of these costs will be ongoing rather than being ‘one off’. This will include the increased costs of employing significantly more professionally qualified accountants. Governments have traditionally had few qualified accountants in their civil service because of the simplicity of their cash accounting systems; for example, in 2002 Norway had only one professionally qualified accountant on the staff of its Ministry of Finance.

The UK National Audit Office did not start training accountants until the late 1970s. The number of professionally qualified accountants working across the UK central government increased nearly fourfold from almost 600 in 1989 to 2200 in 2003 (the period over which accrual based accounting was introduced). In late 2003 further efforts were announced to improve the quality of financial expertise available on the senior management boards of central government ministries. It was announced that only 20% of ministries had a director of finance who was a professionally qualified accountant and not all these were members of the ministry’s management board. In future, it was announced, each ministry would have a professionally qualified accountant who was responsible for its financial management and was a member of its highest
management body. This will lead to a further increase in the number of professionally qualified accountants in the UK civil service.

There are other disadvantages of the introduction of accrual based accounting in the public sector.

- It designed to measure profit, a concept which is largely meaningless in the public sector, where surpluses can arise from the failure to provide agreed services.

- Maintenance of public assets is more important than providing information on their value; for instance, the backlog of maintenance in the UK health service was nearly 10% of its budget in 2000, but this had not been clearly identified in its accrual based accounts.

- It takes budgetary control away from finance staff, as they decide when cash is paid, but non-financial managers and suppliers decide when invoices are issued.

- It does not appear to have ensured adequate costing systems in the UK health service as, 10 years after the introduction of accrual based accounting, the Department of Health admitted that, “there remains an unexplainable variation in the reported costs for many clinical procedures. Costing and activity recording must be improved”.

- It is not a tried and tested approach for central government accounting – it has not been widely used and has only been introduced in a handful of countries in the last five years.

- Cash-based accounting is comparatively simple and objective.

- The complexity of accrual accounting may mean that there is less surveillance by Parliament and so the government is less accountable.
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- It requires greater professional judgement by both the preparers and the auditors of government accounts.

- It may lead to loss of control; in the UK, for example, the number of financial accounts for central government ministries which were qualified by the auditor or submitted after the due date rose to nearly 60% and then fell again to 10–15% over the period when accrual based accounting was introduced, as shown in table 1.1.

Table 1.1 Changes in proportion of late and qualified government accounts during the introduction of accrual based accounting

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<td>Late accounts</td>
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<td>55%</td>
<td>36%</td>
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<td>Qualified a/c</td>
<td>60%</td>
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<td>23%</td>
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THE RISKS OF MOVING TO ACCRUAL BASED ACCOUNTING

Internationally, the limited experience of governments moving to the accrual basis of accounting means that there are still a significant number of risks involved in adopting this approach. These may include:

• loss of financial control with the introduction of a more complex system
• reduction in budgetary control – in the UK, expenditure in excess of budget occurred in nearly one in five ministries, and Parliament has retained cash reporting in addition to accrual information to monitor governmental expenditure
• diversion of resources from more productive reforms
• the possibility of government accounting being brought into disrepute if accrual accounting fails
• the possibility that international accounting standards could be applied with no real understanding of the issues involved, especially as they are principles-based standards
• the ‘gaps’ in the standards not being properly addressed
• the standards not being continually made up to date and relevant
• decisions on accounting treatment being made on political grounds
• the external auditor being unable to prevent politically-based amendments to the accounts
• an adequate timescale and budget not being allowed for the change
• the IT systems not being adequate
• the process of financial management and expenditure control being made more difficult for members of Parliament and

• members of Parliament, the government, staff of the ministry of finance and other ministries and the external auditors not being given enough training.
ACCOUNTING ISSUES TO BE AGREED BEFORE ACCRUAL BASED ACCOUNTING CAN BE INTRODUCED

One of the major problems is that there is no agreed comprehensive suite of accounting standards for the introduction of accrual-based financial accounting in the public sector. A principles-based set of such international standards is being developed by IFAC, but this has yet to cover such vital issues as the accounting for taxation or social policy obligations such as education, health and state pensions. The standards are also not generally accepted, as only one country, South Africa, has actually formally agreed to adopt them.

A series of accounting issues need to be agreed before accrual based accounting can be introduced. These have been identified by, for example, the European Federation of Accountants. The most important of these may be considered to be the following.

- **Taxation revenues**: when should tax revenues be recognised?
  - When the profits are made?
  - When the profits are reported?
  - When the tax is paid?

- **Depreciation**: how should decisions be made about asset lives?
  - Should these be a matter for the asset user or for the Ministry of Finance?
  - Should adjustments be made to depreciation that is caused by lack of maintenance or investment to prolong the asset life?
• **Approaches to the recognition and measurement of property, plant and equipment:** there can be disagreement about:

  - which assets to value
  - the valuation methodology
  - current, historic or replacement cost and
  - how often to revalue.

• **Military assets:** should military assets be

  - capitalised and depreciated (what life?) or
  - treated as revenue?

• **Infrastructure assets:** should infrastructure assets be capitalised and if so how should they be valued?

  - Should land and the structures on it be treated differently?
  - How should they be valued and re-valued?

• **Natural resources such as mineral reserves and forests:** are these to be included in the accounts and if so on what basis are they to be valued?

In addition, the role of the public sector external auditor changes fundamentally with the introduction of accrual based accounts. The nature of the external auditor's opinion changes from a judgement on budgetary and legal compliance to one on whether the accounts show a true and fair view of the financial position of the organisation. This is a move from an objective view on whether the budget has been complied with to a subjective professional opinion on the validity of the accounts.
THE ESSENTIAL PRE-CONDITIONS FOR THE INTRODUCTION OF ACCRUAL BASED ACCOUNTING BY GOVERNMENT

The European Federation of Accountants (The Adoption of Accrual Accounting and Budgeting by Governments, 2003, www.fee.be/publications/main.htm under Public Sector) has identified what it calls “the essential conditions for success in the introduction of accrual accounting” as follows.

1. Consultation and acceptance

To be successful, the organisation needs to be prepared culturally for its introduction and be willing to recognise and accept the benefits that the changes will bring about and the costs of implementation in their widest sense. The pre-consultation exercise within government departments and the public consultation exercise are important preconditions for success. Another prerequisite is a willingness by the civil service to accept that the reforms would change the role of those responsible for financial management in government, significantly changing their influence and responsibilities.

2. Participation of the accountancy and other professions

The accountancy profession must be prepared to be interested in and involved with the public sector because not only is the accountancy profession the expert in accounting standards but, traditionally, it has also trained financial managers for the private sector. To be successfully implemented and operated, the reform requires not only an increase in the number of financial managers (who may or may not be qualified members of a professional body) employed by government but also an acceptance of their contribution to the efficient and effective management of the public services. There also needs to be a willingness to meet the financial management education and training requirements of the public sector either directly by the accountancy profession or through other institutions. In addition, as the application of accounting standards may require the use of valuation and actuarial skills, those professions also need to be involved in the process.
3. Joint development of accounting standards

The accountancy profession must co-operate in the development of accounting standards for the public sector and become involved in the application of those standards and the monitoring of their implementation. Without that independent involvement the government could be seen as setting its own accounting standards and applying them in a manner that suited the political circumstances of the moment. That would damage not only the credibility of the process but in the end would also mean that the disciplines that accrual based accounting and budgeting are meant to achieve could not be established. Independence of the standards adopted, together with a critical appraisal process, although potentially uncomfortable for government, are essential. This also means that the accountancy profession must have a capacity both to understand the nature of the public sector and to recognise that circumstances are different from those of the private sector, so that any comments have to be made, and made clearly, from a politically disinterested perspective.


Successful implementation of accrual accounting depends heavily upon the understanding of, and willingness to support, the system by the government external auditor. As accrual based accounting requires not only more complex systems but also a range of new judgements (e.g. about asset values and lives, matching issues, prudence, materiality and going concern), the responsibilities and expectations of the auditor will increase and change considerably. Therefore, the external auditor should be involved in the process from the outset. This may require that the organisation, career structure and training of auditing staff should be significantly enhanced. Auditors will need a thorough understanding of accounting principles and how those principles can be maintained under the pressure of day-to-day administrative decisions. This may require the appointment of qualified accountants (ideally members of a professional body) to the staff of the government auditor, rather than relying upon the more traditional internal training of auditors.
5. Comprehensive management training.

There is the need for comprehensive training of departmental managers in the information available from an accrual based accounting system as there are considerable differences from a cash accounting system. Such a training programme should cover the following points.

(a) An appreciation of the basic financial concepts underlying accrual based accounting: managers will need to understand how and why an accrual based accounting system is different from a cash accounting system. They will therefore need to know about the basic financial concepts that underlie accrual based accounting.

(b) How accrual based accounting allows for the introduction of improved (i.e. accrual based) budgeting and financial control systems: managers will need also to appreciate how control will change from a control of budgetary inputs. With an accrual based system managers will need to focus on resources used and the price paid for those resources. The management emphasis should therefore shift to efficiency and effectiveness and line managers will need training not only to appreciate this, but also to understand how they can make full use of the accrual based information which becomes available.

(c) An understanding of the accounting information systems that are needed including the general ledger system. Other systems needed are a purchase order system, an accounts payable system, and an asset register.

6. An appropriate cultural approach.

A public sector cultural ethic is required which has internalised the requirements for a neutral (i.e. non-political) civil service with a strong, well regarded central agency (the Ministry of Finance), responsible for the management of the government finances. There must be well understood and accepted systems of control over departments.
7. A robust audit process.

A comprehensive annual independent audit of the accounts of each department must be made at the end of each financial year, with reports to Parliament and detailed scrutiny where appropriate.

8. No corruption.

There must be no systemic corruption and certainly no problem at all with corruption of whatever sort. Therefore, no informal parallel processes will have evolved or be allowed to complement the formal processes and, consequently, rules specified about the introduction of accrual based accounting and budgeting will be obeyed.

9. A recognition of the elapsed time needed.

From the outset there must be a willingness to recognise that the introduction of accrual based accounting and budgeting will take time, usually stretching beyond the lifetime of one Parliament and possibly, therefore, stretching beyond the period of control by one political party. The reform therefore needs widespread support across the political spectrum.

10. An IT capacity.

IT capacity must be able to respond to the new and additional requirements that the introduction of accrual based accounting, budgeting and performance measurement will introduce. The process of transition from a cash-based system to an accrual-based system can impose significant additional resource costs not only in terms of money but also in terms of demand for specialist IT skills. The scale of the change could raise questions about the overall capacity of suppliers, as well as government experts, to be able to manage the change process.
11. A willingness to use incentives and penalties.

Financial incentives and penalties must be developed and applied to encourage a practical day-to-day management approach that looks for more efficient ways of using resources and delivering services.

An example of this is a charge for the use of capital resources.

12. That the accrual based approach is part of a process of reform.

Another essential ingredient is that the introduction of accrual based accounting and budgeting is seen as part of a process of reform and it has not been ‘parachuted’ into a stable, unchanging management process.
NATIONAL AUDIT OFFICE (NAO) REVIEW OF THE IMPLEMENTATION OF ACCRUAL ACCOUNTING IN THE UK

As mentioned above, Managing resources to deliver better public services was published by the UK National Audit Office in December 2003. (http://www.nao.gov.uk/publications/nao_reports/03-04/030461.pdf)

Over all the report concludes as follows:

Since 1995 a number of important changes, led by the Treasury, have been introduced to improve how departments manage resources… This report assesses the progress which departments have made in improving their resource management.

Public Service Agreements are ensuring that resources are better allocated to key priorities and aligned to targets to improve public services. Just over a quarter of departments and agencies we examined have made good progress in implementing accruals-based accounting… The complexity of the changes particularly the introduction of accruals accounting means that the full benefits of the new approaches… will take some time to be realised.

Thus, at least by implication, nearly three-quarters of the departments and agencies were not using accrual based accounting information within their organisations to improve resource management. In only two departments and agencies (4%) is information on their activity "reliable, regularly produced and underpins decision making and future investment strategy".

Despite the fact that the move to accrual-based accounting was first announced more than 10 years earlier the NAO found that:
In most cases it is too soon to identify any discernible benefits from better resource management in terms of contributing to improved public services from for example, enhanced efficiency. (Page 31)

In addition, the NAO found that:

Around half of the departments and agencies examined consider that for smaller organisations the arrangements under resource accounting and budgeting for requesting resources has created a level of administrative effort disproportionate to their size and the focus of their work (page 6).

Around 16 departments and agencies (35 per cent) still rely mainly on cash based management information and the preparation of accruals financial statements was a separate one-off exercise at the year end to meet external reporting requirements (page 6).

Progress in improving resource management is constrained in some departments by insufficient IT system capability and not enough financial expertise (page 12)

Greater use should be made of resource based information to improve efficiency to release resources for front line service delivery. Accruals based information in providing more comprehensive and complete cost and performance information is a powerful tool to identify scope to improve efficiency and make better use of resources. As yet it is not widely used in this way by departments (page 13).
Accruals accounting is, however, complex and requires more resources both financial and people to operate and many of the necessary skills are still being developed in departments (page 28).

At a general level accruals accounting is methodologically more complicated than cash accounting and some departments have encountered difficulties through their failure to implement full accruals accounting (page 29).

Departments identified a number of barriers which they considered explained why progress has not been more uniform or achieved more quickly. These were:

- **Insufficient financial expertise.** Some 63 per cent (29 departments) considered that this was a barrier though many are making good progress in addressing this.

- **Understanding and awareness.** Some 39 per cent (18 departments) consider that the main barrier to changing the focus of control from cash to accruals was raising awareness and understanding among operational managers who often lacked the necessary financial expertise.

- **IT systems’ capability.** Some 11 per cent (5 departments) consider that their existing IT systems were not capable or not sophisticated enough to produce integrated financial and output performance information (page 29).

The Highways Agency’s existing financial systems for example, were not designed for the production of resource accounts. Its
first set of resource accounts in 1990 [sic] - 2000, were produced by consultants and temporary staff. This was an expensive process, costing more than £2.5 million or around three per cent of its total administrative budget (page 30).
THE CONTINUED VALIDITY OF CASH ACCOUNTING

Cash-based accounting has the virtues of simplicity and objectivity. SIGMA has argued recently that, "a cash-based financial reporting system has the advantage of being simple and comparable to monetary data" (OECD/SIGMA 2001, Managing Public Expenditure – A Reference Book for Transition Countries, edited by Richard Allen and Daniel Tommasi, p. 291). These virtues should not be underestimated, particularly where, as in many government organisations, there are few, if any, skilled accountants employed and where financial management is seen as of lesser importance than legal compliance. It should be recognised that the cash basis of accounting has served many countries well over at least the last two hundred years. The standards for accounting on the cash basis may not have been independently and formally agreed, but they do provide a number of well tried and tested approaches to public sector financial accounting. In many cases these approaches have been developed and refined by professional accountants and their use was almost universally accepted until relatively recently. So, for example, Sir Andrew Likierman (the person who was later responsible for the transition to accrual based accounting in UK central government) was able to say, in a book published as late as 1992 that:

"Those who believe that private sector accounts are superior need to bear two factors in mind. First, that there are no immutable accounting or other financial reporting rules which apply irrespective of the nature and purposes of the organisation whose activities and results are being displayed or the objectives of presentation. Second, that cash accounts, despite their crudeness, have a degree of transparency that accrual accounts cannot give and that many private sector financial reports do not seek to offer."

Perrin observed the UK situation in the 1970s and explained the view then held by HM Treasury on accounting for central government departments:
The Treasury view was that accruals accounting involving allocating costs between years on the basis of resource use rather than cash funding was incompatible with Parliamentary sovereignty and therefore unacceptable. Parliament voted cash funding year-on-year, so therefore the main control accounts, reports and accountability must be on an annual cash basis.

Cash accounting is simple, relatively cheap to operate, and objective. It also has close links to fiscal control and the monitoring of public finance. Cash accounting, as Guthrie explains:

- reflects the fundamental principle that no public monies should be spent in ways and in amounts not specified in annual parliamentary appropriations. Cash accounting records the cash receipts, payments and balances at the time cash is exchanged, hence cash accounting financial statements have traditionally shown sources of cash receipts, the allocation of cash expenditure and provided a comparison of actual against budgeted expenditures.

With the IFAC Public Sector Committee issuing its International Public Sector Accounting Standard on the cash basis of accounting early in 2003, the benefits of clear international credibility and standardisation should be added to the advantages the cash basis of accounting already has. This standard, and the cash basis of accounting it supports, should be accorded its appropriate status as a valid, modern approach to public sector financial accounting.
CONCLUSIONS

Noel Hepworth, until recently Chair of the Federation of European Accountants Public Sector Committee, concluded recently from his experience of the introduction of accrual based accounting in Eastern Europe that:

To introduce accrual accounting is costly, time consuming and requires a diversion of resources from other activities. It requires a great deal of co-operation from key actors and will need significant changes of substance to the organisation, procedures and responsibilities of managers. As Parliament is also affected because of the changes that will be needed to the cash allocation and budgetary control processes it too will need to be consulted. What is more, accrual accounting provides wide scope for the exercise of judgement and this requires technical knowledge, a disciplined approach and an audit system capable of monitoring how judgement is exercised. Unless the budget is also switched to an accruals basis a further problem will be how to ensure that accrual accounting information available on a monthly or quarterly basis (and it ought to be monthly at the least) is reconciled to the equivalent cash budget figures. For these reasons the introduction of accrual accounting also carries considerable risk. A premature decision to migrate from cash to accrual accounting also risks increasing the timescale for its eventual adoption and could bring the process into disrepute.

The cash basis of accounting is a simple, robust and well-tried and tested approach to accounting for public sector organisations. In contrast, the accrual basis fails, even in its own terms, to account adequately for government debt, and many other unique aspects of public sector accounting have yet to be adequately resolved. For many countries, the adoption of the accrual basis of accounting for their public sector organisations may not be appropriate and certainly should not be considered to be a high priority.
Reform of public sector financial accounting can bring many benefits in terms of the quantity and the quality of services that are provided to the citizens of many countries across the world. However, these reforms should be considered carefully. Aspects such as the basis of accounting to be adopted should be decided in the context of the overall priorities of the reform process and not just of the basis of the perceived superiority of one basis of accounting over another. Accrual based accounting may facilitate New Public Management reforms but it is not an end in itself.

The transition to the accrual basis of accounting may bring certain advantages in the appropriate context. In contrast, the cash basis of accounting has served almost all governments well over at least the last two hundred years.