

Public sector accounting and its role in economic development

Andrew Burns

President, CIPFA

Director of Finance and Resources, Staffordshire County Council, UK

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Today's talk

- About CIPFA
- The challenges of this generation
- The importance of public financial management (PFM)
- The role of government accounting and financial reporting
- The case for accruals based accounts
- The case for IPSAS
- Successful features of implementing an accruals programme
- Conclusion

About CIPFA

- *The* global professional accountancy body for people in public finance
- *Only* professional accountancy body focused on public services
- Partner with government bodies and professional accountancy organisations to improve PFM and Governance

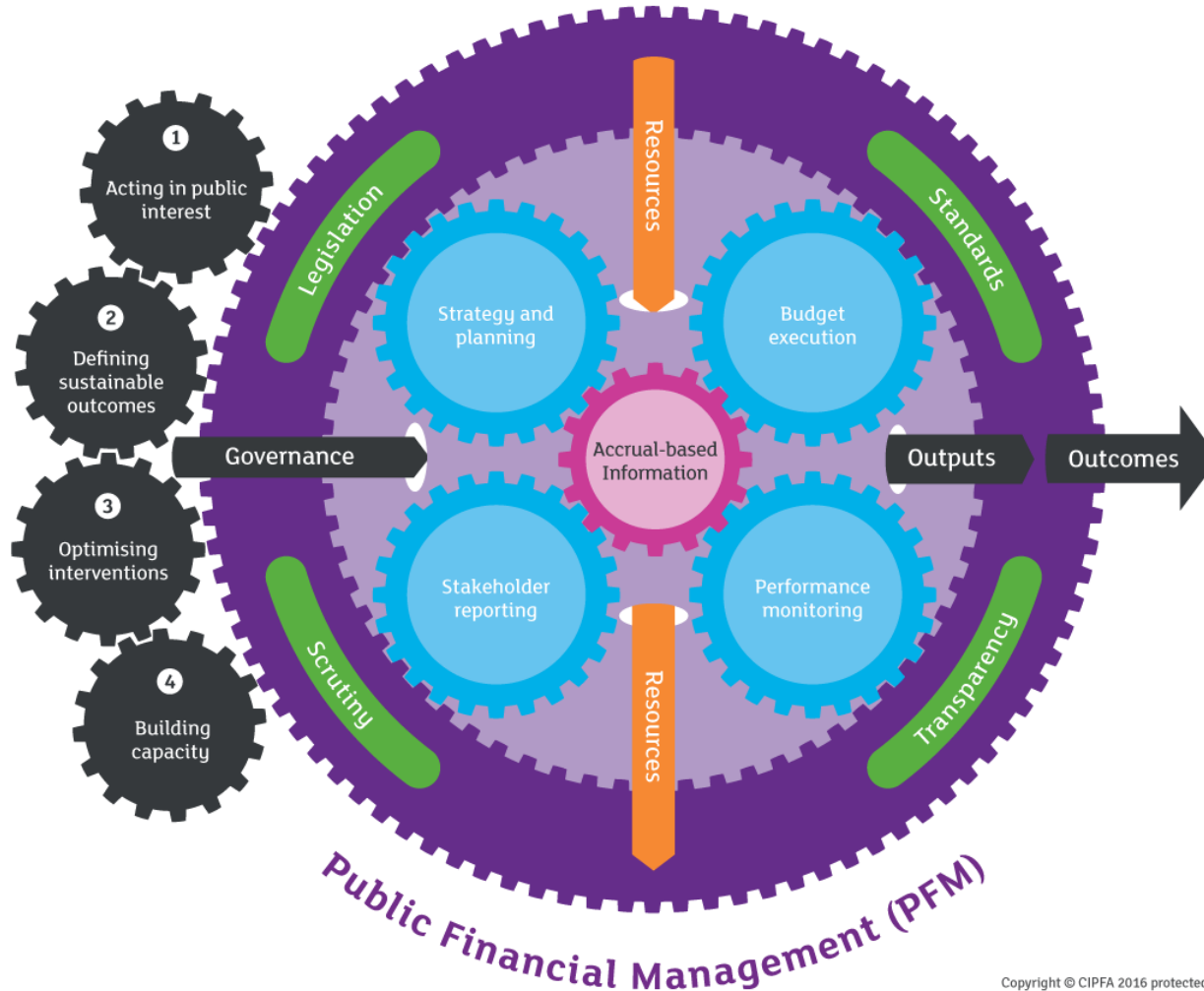
The challenges of this generation

- Energy and environmental security
- Conflict and poverty
- Globalisation
- Wealth imbalances
- International health crises

The importance of PFM

- Citizens' expectation for public services increasing
- Increasing focus on improving the performance, transparency and accountability of public services
- Widespread pressures on national budgets
- Understanding the interrelationships of public services leads to greater efficiencies
- Global need to tackle fraud and corruption

External and internal elements of PFM



The case for accruals based accounts

- The economic significance of governments – big business!
- Public accountability
- Participation of governments in the capital markets
- Efficiency and effectiveness in the allocation of resources
- Restoring public trust and confidence
- Financial resilience

Benefits of accruals based financial reports

- Improved policy decision-making
- Provides valuable information on assets and liabilities
- Allows identification of the cost of capital
- Highlights critical policy areas that cash accounting would not reveal – e.g. private finance initiatives, long-term pensions liabilities
- Provides better quality information on debtors, creditors and assets
- Reduces scope of selective accounting practices
- Shines a light on long-term financial sustainability

Benefits of accruals based financial reports continued

At the whole of government level:

- Overall government financial position
 - Public sector employee liabilities
 - Government debt
- Accountability for past decisions
- Resulting future funding commitments

Successful features of implementing an accruals programme

- Development of a strategic roadmap for implementing accruals
- A clear focus on building professional accountancy capacity and capability at all levels across the public sector
- Introducing a governance structure with oversight of the implementation programme and a body oversight of the accounting standards
- Introducing mainstream roles for finance teams
- Training and assistance from the auditors
- Development of accounting manuals

The case for International Public Sector Accounting Standards

Enhanced financial credibility

- Only internationally recognised financial reporting standard for public sector
- Set by independent international board of public sector finance experts
- Based on private sector IFRS (where appropriate)
- Specifically addressing key public sector issues

Transparency and trust

- Legislative and electorate
- Financial markets

Realising the potential of IPSAS

Improved public expenditure control requires accrual budgeting too:

- Better asset management
- Improved liability and risk management
- Full economic impact of decisions - fewer surprises

At a whole of government level, accrual budgeting and reporting:

- Creates space for fiscal choices
- Earlier warning of longer term fiscal trends
- Enhanced financial credibility – lower borrowing costs

Conclusion

- At the heart of public financial management is accruals based accounts
- The accruals basis provides:
 - Complete financial overview of an entity – full accountability
 - Reliable basis for decision making
- IPSASs as public sector standards set by independent global standard setter – credibility and comparability
- Full benefits of accrual IPSASs delivered through accrual budgeting as well as reporting
- Strong IPSAS-based PFM has real economic benefits – Government and economy as a whole.

Questions and discussion



Andrew Burns
President, CIPFA
President@cipfa.org