

## Augmenting Public Finance through Accrual Accounting



*Ian Carruthers has been reappointed Chair of the International Public Sector Accounting Standards Board (IPSASB) for a second three-year term commencing 1<sup>st</sup> January 2019. He has led the Board in establishing the high-quality accounting standards for the use of public-sector entities, promoting the adoption and implementation of International Public Sector Accounting Standards (IPSAS), and issuing guidance on public-sector financial reporting. His reappointment confirms his effective leadership in the global adoption of IPSAS and this will help ensure its continuity. In this article, the IPSASB Chair Mr. Ian Carruthers voices the concerns with regard to accrual-based accounting standards and their adoption and related challenges. Read on to understand the perspective of IPSASB and the way forward and the role that professional accountants can play in the adoption of IPSAS...*



**Ian Carruthers**

(The author is the Chairman of the International Public Sector Accounting Standard Board (IPSASB), who may be reached at [lancarruthers@ipsasb.org](mailto:lancarruthers@ipsasb.org).)

### Introduction-Locating Accrual Reporting in Public Financial Management

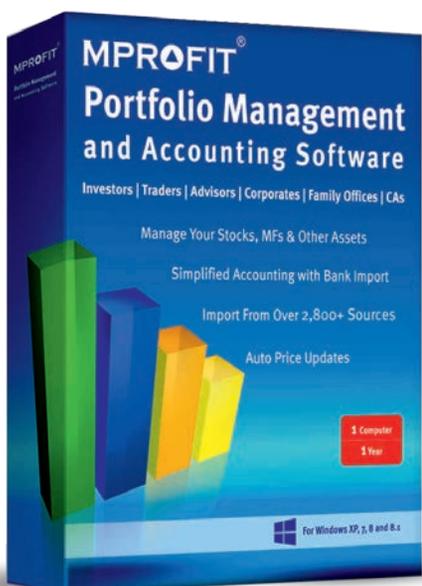
Based on the World Bank data, government spending in India accounts for just under 12% of gross domestic product (GDP). Government debt is around 50% of GDP. Many countries with less dynamic economies

# M $\Delta$ PROFIT

Portfolio Management  
and Accounting Software

## Capital Gains with Grandfathering Simplified

Featured in  
**Outlook**  
**MONEY**



Featured on



Over 150,000+  
Downloads

- Manage Stocks, MFs, Bonds, FDs, Insurance, ULIPs, F&O and Other Assets
- Import contract notes, mutual fund and bank statements from over 3,000+ sources
- Capital gains reports for Stocks, Bonds, Equity & Debt MFs (with or without indexation)
- Detailed long-term capital gains reports for stocks & equity mutual funds with PP, FMV and CA as per grandfathering clause
- Simplified Accounting with Bank Import and auto generated vouchers from Portfolio Management
- Other reports such as Annualised Returns (XIRR), Income Reports, Trial Balance, P&L and Balance Sheet
- Auto price updates and historical prices

Available  
Online @

**paytm**

**amazon.in**

**flipkart.com**

MProfit Software Pvt. Ltd. | Nariman Point, Mumbai  
022-4002-4149 | [www.mprofit.in](http://www.mprofit.in)

# Special Write-Up

and more challenging demographic profiles have much higher levels of government spending and indebtedness. Government borrowing can have major economic impacts in areas like infrastructure development and bringing the benefits of the internet to rural areas that the market would not reach. However, it should also be recognised that governmental spending and borrowing gives rise to issues of intergenerational equity—globally, many governments are incurring deficits and borrowing that will have to be settled by future generations. Government efficiency and effectiveness is therefore crucial for both current and future generations of citizens.

Recently the term *public financial management* (PFM) has become a watchword for the sound governmental approaches to public finances. The World Bank describes PFM as “*the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilise revenue, allocate public funds, undertake public spending, account for funds and audit results.*”

Strong PFM systems are essential for effective and sustainable economic management and public service delivery. States are effective and accountable when they are underpinned by good PFM institutions and systems. Citizens are demanding stronger government PFM and hold their government officials to account more assiduously than ever.

PFM requires better public sector financial information. Accrual-based financial reporting provides transparent, accountable financial reporting, which is the cornerstone of strong PFM. Accrual-based IPSAS provides much richer information than the cash-based financial statements that until recent years have been the norm for most governments globally.

High quality global accrual-based accounting standards enable governments to produce high-quality financial information that leads to better decision making and builds accountability and trust with citizens. High-quality financial reporting can also have a beneficial impact on borrowing costs.

— ██████████ —

**Strong PFM systems are essential for effective and sustainable economic management and public service delivery. States are effective and accountable when they are underpinned by good PFM institutions and systems.**

— ██████████ —



Comprehensive and high-quality fiscal reports, including financial statements that summarise the government's financial position and performance, are necessary for governments, legislators, citizens, and markets to have a complete, up-to-date, and accurate understanding of a country's fiscal position—the resources controlled by a government and the claims against those resources. Establishing a full balance sheet requires capacity to adopt accrual accounting standards, including the valuation of assets and liabilities.

## IPSASB's Role in PFM

The IPSASB works to strengthen PFM globally and to serve the public interest by developing high-quality accrual-based accounting standards and other publications for use by governments and other public sector entities around the world in the preparation of general purpose financial reports (GPFs). The use of the term GPFs rather than just general purpose financial statements is intentional. The IPSASB recognises that the characteristics of the public sector mean that user needs may not always be satisfied by the financial statements alone and IPSASB's scope therefore embraces broader financial reporting, including areas such as the financial sustainability of government and reporting service performance. However, financial statements are, and will remain, at the core of broader financial reporting. As a result of relative priorities and resource constraints, all the IPSASB's current projects are focused on the financial statements, but it is proposed that the Board will start to engage more actively in the debates around various initiatives to improve broader financial reporting.



## A robust software solution

Financial consolidation

Statements as per IND-AS, IFRS and other GAAPs

Financial performance analysis and graphs

Budget vs Actual reports

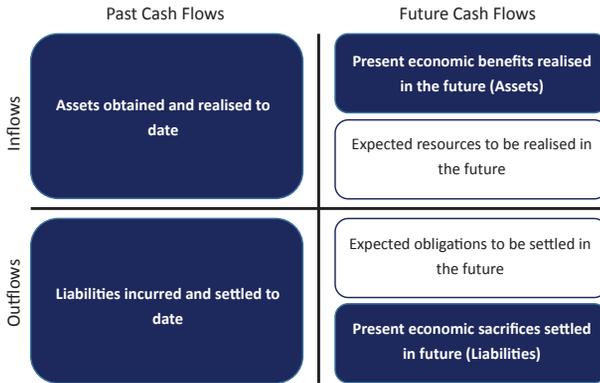
Quick implementation



For more features and case studies, please visit [www.emergeconsol.com](http://www.emergeconsol.com)  
To set up a demo, call Prakash +91 99604 77889 or  
send email to [sales@emergeconsol.com](mailto:sales@emergeconsol.com)

# Special Write-Up

Financial Statements are at the core of Governmental Financial Reporting....the information in Financial Statements can be even more useful if enhanced by forward-looking information.



As shown above financial statements provide information on past cash flows and cash flows related to assets and liabilities recognised in the financial statements. They do not provide information on expected resources to be realised in the future (notably future taxation) and future obligations to be incurred in years to come, such as future social spending. IPSASB has therefore emphasised that the financial statements need to be complemented by information on future spending and revenues. In 2014 IPSASB published guidance on reporting on financial sustainability in the form of Recommended Practice Guideline 1, *Reporting on the Long-Term Sustainability of An Entity's Finances*.

IPSAS are key to sound public financial management by providing a specific public sector accounting language, requirements and practices that can be broadly used in all public sector financial reporting. Overall, IPSAS adoption reinforces confidence in an economy, which creates benefits in terms of growth, jobs and stability.

## Challenges of Migrating to Accrual and Cash-Basis IPSAS and How the Profession Can Respond

The main difficulties that countries face in migrating from the cash-basis to full accrual accounting are related to capacity—both human resource and financial. IPSAS adoption requires the active involvement of the accounting profession and there needs to be investment in both IT infrastructure, as well as collection of data on both assets and liabilities.



IPSASB recognises the challenges of accrual adoption and that accrual adoption does require detailed planning over a number of years. IPSASB therefore maintains a single IPSAS providing requirements and guidance on the cash basis of accounting.

The Cash Basis IPSAS has recently been revised in order to make implementation more straightforward. It is a stepping stone towards adoption of full accrual accounting, rather than an end in itself. Therefore, for those jurisdictions on this journey, adoption of the Cash Basis IPSAS should certainly improve financial management and reporting. However, even the best cash accounting information cannot provide the richness of accrual-based information. IPSASB is therefore encouraged that, as indicated below, many jurisdictions are in the process of implementing accrual accounting.

## IPSAS Adoption

The number of governments around the world adopting accrual accounting is increasing dramatically.

According to a 2015 PwC Global Survey on accounting, it is estimated to increase from 31% in 2015 to 71% in 2020, and 59% of governments that have already implemented accrual accounting have used IPSAS on their accounting frameworks. The influence of IPSAS in the growing trend towards accrual-based financial reporting is therefore evident.

**IPSAS are key to sound public financial management by providing a specific public sector accounting language, requirements and practices that can be broadly used in all public sector financial reporting.**

The Association of Chartered Certified Accountants (ACCA) has recently published a study that indicates most South Asian countries have adopted standards aligned to the Cash-Basis IPSAS. ACCA's report characterised India as "using a cash basis of accounting with certain accrual disclosures" and noted the role of the Government Accounting Standards Board of India, including the issuance of accrual-based standard based on IPSAS, but with a need for governmental approval.

## IPSASB Going Forward

2017 marked the twentieth anniversary of the IPSAS development program. During that period, the Board IPSASB and its predecessor—the IFAC Public Sector Committee—developed 40 International Public Sector Accounting Standards (IPSASs), as well as three Recommended Practice Guidelines (RPGs), the IPSAS on reporting under the cash basis of accounting and, the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework). These, together with introduction of a governance framework and an immense amount of outreach work by members, and others associated with its activities, have progressively allowed the IPSASB to mature into the global standard setter for public sector financial reporting.

The IPSASB is at a critical time. As the pace and scale of IPSAS adoption has increased sign in recent years its standards and guidance will therefore increasingly need to meet the practical requirements of a significantly expanding potential user group.

IPSASB has recently concluded consultation on its proposed Strategy and Work Plan 2019-2023<sup>1</sup>. That consultation has included four regional roundtables, including one in Manila in late May, hosted by the Asian Development Bank. The level

**The proposed Strategy and Work Plan indicates the IPSASB's intention to focus on developing public sector specific issues whilst also giving adequate attention to continuing alignment with IFRS Standards where appropriate. The Board also believes that we should sharpen the focus of our activities in the area of promoting awareness of IPSAS and the benefits of their adoption and implementation.**

of engagement with IPSAS was demonstrated by the participation of 154 representatives of 130 organisations from 48 countries.

The proposed *Strategy and Work Plan* indicates the IPSASB's intention to focus on developing public sector specific issues whilst also giving adequate attention to continuing alignment with IFRS Standards where appropriate. The Board also believes that we should sharpen the focus of our activities in the area of promoting awareness of IPSAS and the benefits of their adoption and implementation. This means working more closely with global and regional bodies and raising the profile of IPSAS with financial regulators and markets, all of whom we believe should be key advocates and more consistent supporters of IPSAS adoption. The IPSASB will also work with international organisations to advocate the benefits of accrual accounting, and, moving forward, how the power of accrual-based information can be harnessed to further improve PFM by, for example moving to accrual-based budgeting and infusing statistical accounting information with information drawn from the accrual-based financial statements.

## Role of Professional Accountants

Professional accountants have a key role to play both in the implementation of IPSAS as well as in the strengthening of PFM more broadly. The increasing adoption of global accounting standards together with recent technological changes provide challenges for the accounting profession. Professional accountants in India can be a beacon in these times of change by showing to politicians and opinion leaders their commitment to thrive and explore exciting opportunities. IPSASB really needs your support in championing the pervasive benefits of accrual-based financial reporting in the public sector and specifically the advantages of choosing IPSAS to guide the migration to accrual! ■



<sup>1</sup> Published by IPSASB in 2<sup>nd</sup> February 2018 and exposed for public comments till 15<sup>th</sup> June 2018.