
**Intergovernmental Working Group of Experts on International
Standards of Accounting and Reporting
(ISAR)**

**39th SESSION
1 – 3 November 2022**

Thursday, 3 November 2022

**Agenda item 4. Review of practical implementation of
international standards of accounting and reporting in the
private and public sectors**

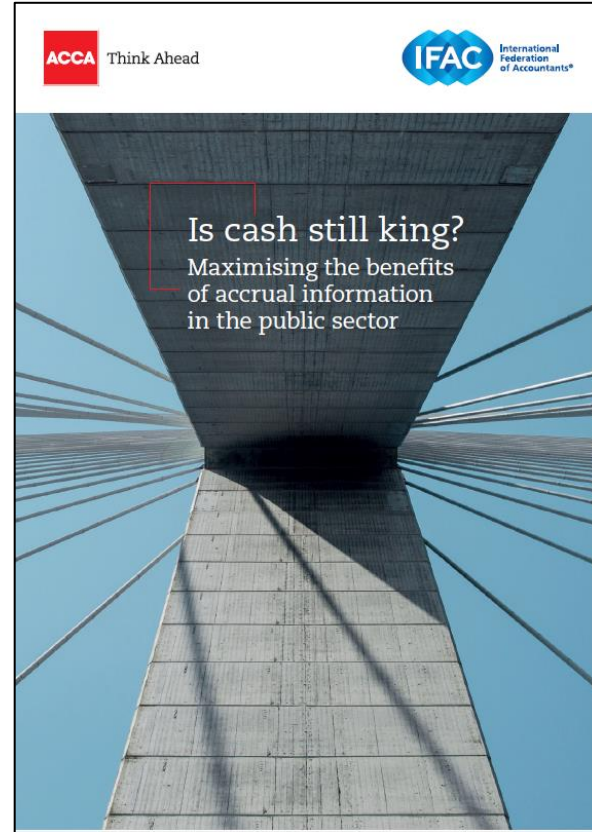
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Is cash still king?

- The benefits of accruals in the public sector
 - Accrual accounting, cash budgeting
 - Accrual accounting and budgeting
- Creating decision-useful information



The benefits of accruals in the public sector

	(A) CASH ACCOUNTING AND CASH BUDGETING	(B) ACCRUAL ACCOUNTING AND CASH BUDGETING	(C) ACCRUAL ACCOUNTING AND ACCRUAL BUDGETING
BENEFITS	<ul style="list-style-type: none"> Provides basic fiscal discipline Simpler / intuitive for non-financial staff and the public 	<p>Facilitates public scrutiny</p> <ul style="list-style-type: none"> Improved accountability Provides fiscal credibility <p>Achieving value for money and financially sustainable decision-making</p> <ul style="list-style-type: none"> Managing assets well and accounting for the maintenance backlog Managing liabilities and identifying fiscal risks Reducing fiscal illusions and improving incentives Supporting long-term thinking 	<p>The benefits in Column B PLUS</p> <p>Puts finance at the heart of decision-making</p> <ul style="list-style-type: none"> Embeds performance management Improves medium-term forecasting and planning <ul style="list-style-type: none"> Further enhances fiscal credibility Effective project management across government Embeds the finance function in day-to-day decision-making
LEVEL OF COMPLEXITY	LOW	HIGH	MEDIUM

Column B: Accrual accounting, budgeting on a cash basis

- Transparency and facilitating public scrutiny
- Fiscal credibility
- Achieving value for money
 - Managing assets & accounting for the maintenance backlog
 - Managing liabilities & identifying fiscal risks
 - Reducing fiscal illusions & perverse incentives
 - Supporting long-term thinking



Reducing fiscal illusions

Identifying fiscal illusions

- Accounting boundary
- Timing of payments
- Classification and recognition
- Reducing net worth (eg, sale of assets)

Recommendation 11: plan to produce a fully consolidated balance sheet

Figure: UK WGA 2017–18 PSND to total WGA net liabilities

	2017-18 £bn	2016-17 £bn	2015-16 £bn
Public Sector Net Debt (National Accounts)	1,779	1,727	1,603
Add liabilities not recognised in National Accounts:			
Net public sector pensions liability	1,865	1,835	1,425
Provisions	422	322	306
PFI contracts	33	33	33
Adjust assets measured differently in national accounts:			
Asset Purchase Facility	(200)	(127)	(50)
Unamortised premia on gilts	54	51	38
UK Asset Resolution (UKAR) net impact on net debt	(10)	(24)	(30)
Add assets & liabilities excluded from measure of PSND:			
Property, plant and equipment	(1,208)	(1,168)	(1,120)
Investment property	(20)	(18)	(16)
Intangible assets	(36)	(35)	(33)
Trade and other receivables	(42)	(49)	(37)
Prepayments and accrued income	(103)	(91)	(87)
Inventories	(10)	(9)	(10)
Investments	(52)	(51)	(50)
Trade and other payables	53	51	51
Accruals and deferred income	62	59	55
Deduct liabilities not yet recognised in WGA			
Housing associations	-	(70)	(67)
Other adjustments including eliminations	(22)	(15)	(25)
Net liabilities (WGA)	2,565	2,421	1,986

Source: HM Treasury 2019: 237

Column C: Accrual accounting and budgeting

The benefits of Column B and,

- Putting finance at the heart of decision-making
 - Embeds performance management
 - Improves medium-term forecasting and planning
 - Supports effective project management across government

“Managing the budget strengthens the hand of finance. If you want the finance function to be drivers of decisions, then accrual budgeting is critical to making sure that the function is a key element of decision making”

Vicky Rock, Director Public Spending, UK Treasury



Creating decision-useful information

Figure: Key enablers of decision-useful information

