

## International Scenario in Accrual Accounting - Progress and Challenges

**Ian Ball**

Chairman, CIPFA International  
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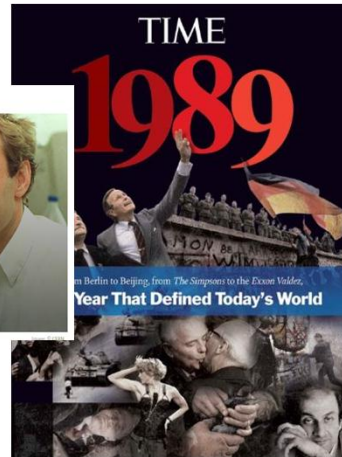


New Delhi, December 2017

## The NZ Economy – mid 1980s

- Two decades of deficits
- Highly regulated economy
- Slow growth
- Increasing unemployment

# 1989 was a big year!



# And in addition...



## Public Finance Act 1989

Public Act 1989 No 44  
Date of assent 26 July 1989  
Commencement see section 1(2), (4)

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4	<i>Requirements for appropriations</i>		<b>Part 2</b>
	Expenses or capital expenditure must not be incurred unless in accordance with appropriation or statutory authority	18	<b>Banking and investment</b>
5	Public money must not be spent unless in accordance with statutory authority		( <i>Repealed</i> )
6	Authority to spend public money		Minister must consult on proposal to change format or content of information presented with Appropriation Bills
7	Separate appropriation required for types of expenses and capital expenditure		
8	Appropriation limited by amount		
9	Appropriation limited by scope		
9A	Supplementary Estimates ( <i>Repealed</i> )		
9B	Power of Secretary to obtain information ( <i>Repealed</i> )		

**Note**  
Changes authorised by section 17C of the Acts and Regulations Publication Act 1989 have been made in this reprint.  
A general outline of these changes is set out in the notes at the end of this reprint, together with other explanatory material about this reprint.  
The Public Finance Act 1989 is administered in the Treasury.

## FM System - pre1989

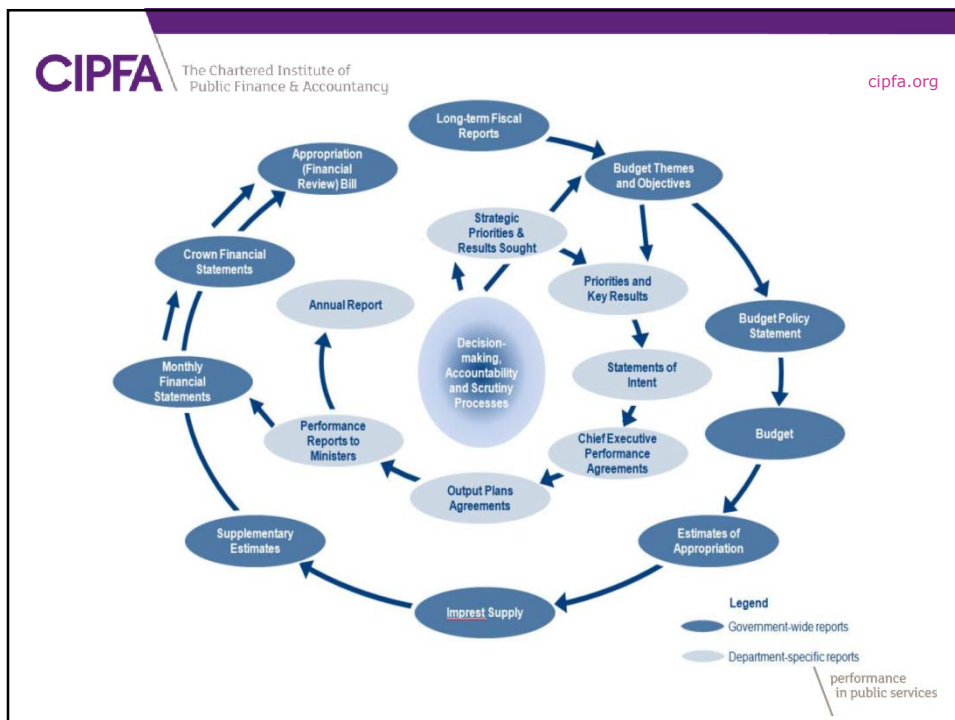
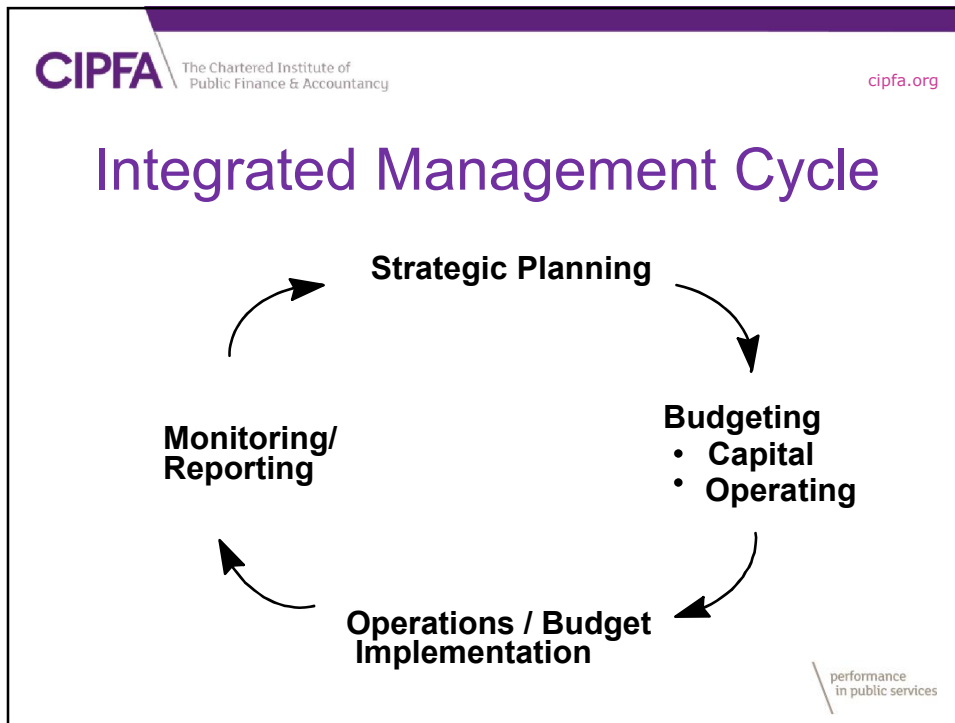
- Cash-based budgeting and accounting
- Centralized, Treasury-run accounting system
- Very few accountants in government
- Program budgeting
- Fund accounting
- Input focus – with detailed rules
- Little managerial discretion

## Performance was the Objective

- “Owner” vs. “purchaser”
    - Financial statements report **ownership performance**
    - Service performance statements report **purchase performance**
  - Inputs / outputs / outcomes
  - “Crown” vs. department
- Need accrual accounting to measure both**









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## IPSAS Development – 1995 on

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### IPSAS at 20: Origins and Challenges or A Walk Down Memory Lane...

**Ian Ball**  
Chair, Audit Committee for Financial Statements of the NZ Government  
Chair, CIPFA International

Winterthur, 3 July, 2017



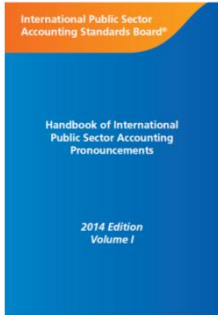
performance in public services

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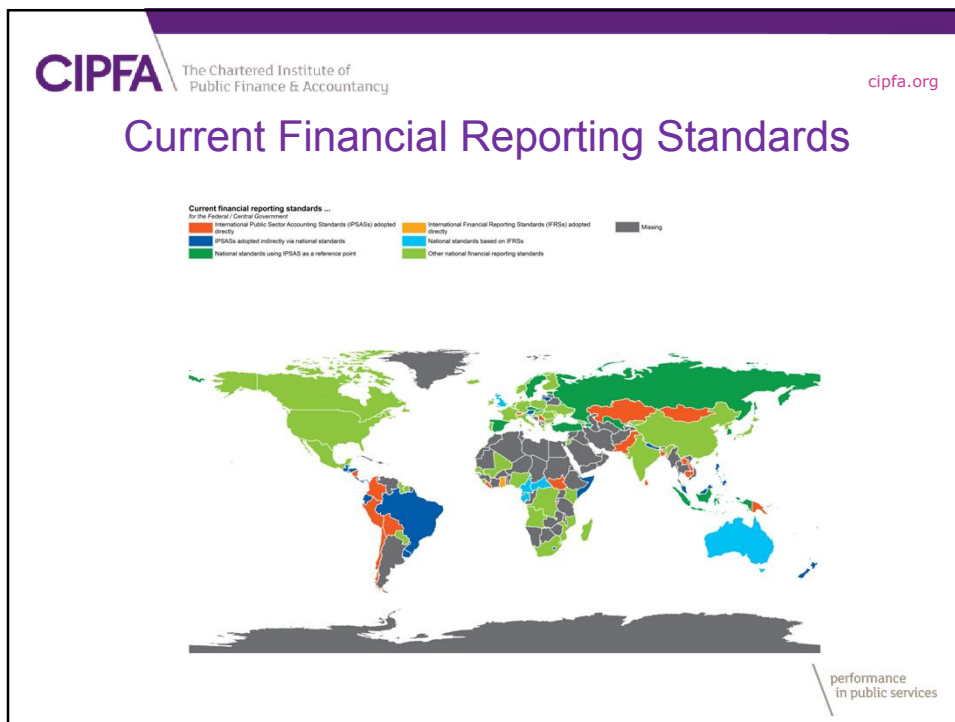
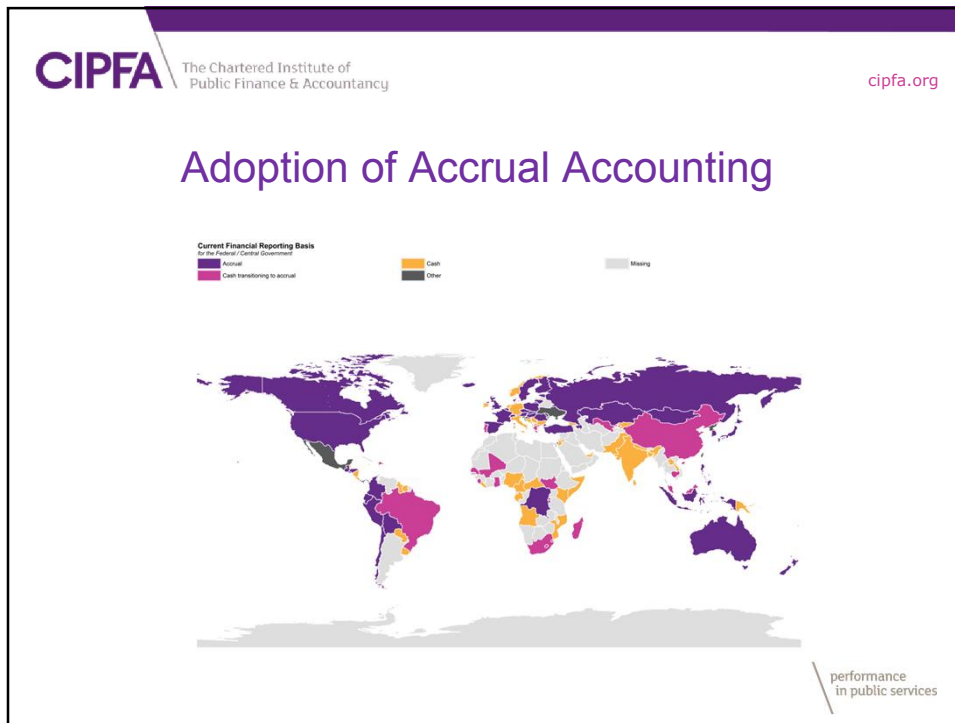
## IPSAS – the benchmark

<b>IMF</b>	<i>IPSAS are <b>the only</b> international accounting standards designed for the public sector (2014)</i>
<b>EC</b>	<i>IPSAS is currently <b>the only</b> internationally recognized set of public sector accounting standards (2013)</i>
<b>World Bank</b>	<i>As <b>the only</b> available international financial reporting standards for governments that are based on generally accepted accounting principles, IPSAS can contribute to greater quality, consistency, and comparability of government financial information within and between jurisdictions. (2004)</i>
<b>FEE</b>	<i>International standards (IPSAS) already exist. They are <b>the only</b> recognized set of international standards. (2014)</i>
<b>IFAC</b>	<i>High-quality and timely accrual-based financial reporting in the public sector can be achieved through the adoption of globally-accepted, high quality reporting standards developed specifically for the public sector, i.e., IPSASs. (2014)</i>
<b>IIF</b>	<i>The IIF supports the implementation of international public sector accounting standards (IPSAS) for governments due to their importance for global growth and stability. (2013)</i>



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## Good accounting is good economics...

### Accounting



*Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses. (IPSAS 1)*

### National Income Statistics



**1.101** *Flows shall be recorded on an accrual basis; that is, when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled. ...*

**20.171** *Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred or extinguished. It is different from cash recording ...*

**1.85** *Stocks are the holdings of assets and liabilities at a point in time. ...*


**1.86** *... Stocks are recorded for all assets within the system's boundaries; that is, for financial assets and liabilities and for non-financial assets ...*

**1.114** *... Balance sheets present stocks of assets and liabilities and net worth. (ESA 2010)*

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## Net worth and GFS...



However, governments have become less liquidity constrained in carrying out fiscal policy and have become increasingly concerned about the resource implications of fiscal actions as well as their financing. **Cash transactions do not adequately capture either the timing of the policy action or its impact on the economy.** In consequence, there has been increasing dissatisfaction with cash transactions as the sole basis for assessing fiscal policy.

The new framework facilitates a more comprehensive assessment of the **economic impact of government activity and the sustainability of fiscal policy.**



For example, a government's **policies will not be sustainable if they significantly reduce its net worth.**

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## Developments since 2001...

- A significant number of governments (including approx. 80% of OECD countries) have moved to adopt accrual reporting;
- Relatively few countries **budget** on an accrual basis;
- Very, very few have base their full PFM systems on accrual information;
- Fiscal policy and fiscal management have maintained their focus almost exclusively on cash and debt;
- Many countries struggle to find a use in their fiscal decision-making for accrual information.

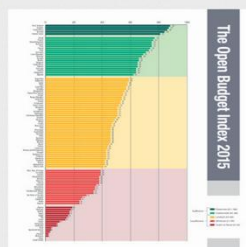
## So How Is It Going Then?

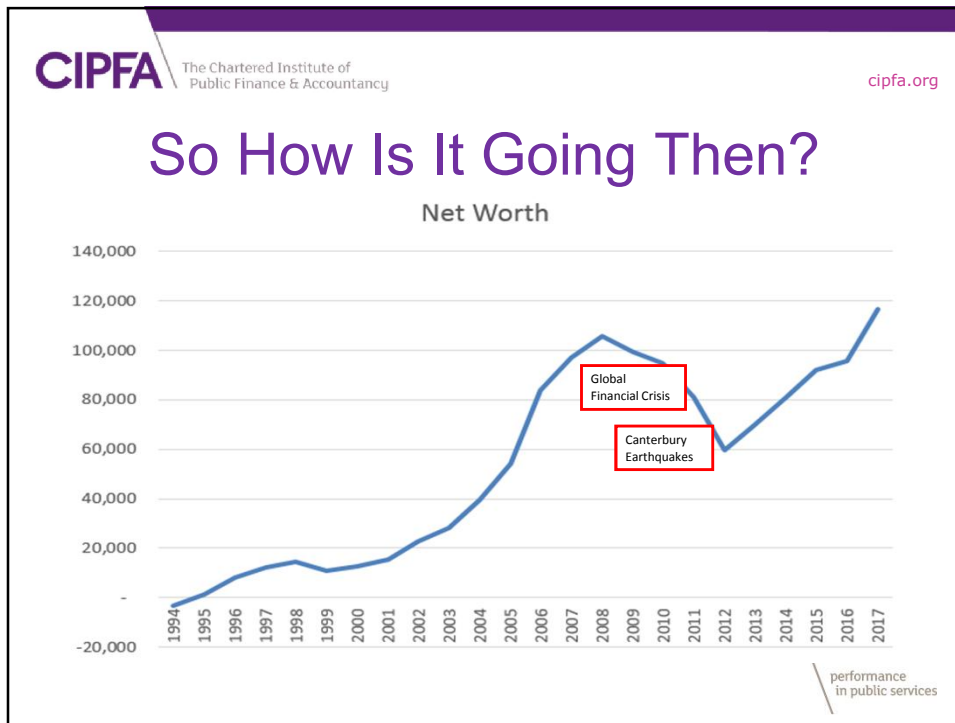
### OPEN BUDGET INDEX RANKINGS

The Open Budget Index (OBI) is the world's only independent, comparative measure of central government budget transparency. The OBI assigns countries covered by the Open Budget Survey a transparency score on a 100-point scale using 109 of the 140 questions on the Survey. These questions focus specifically on whether the government provides the public with timely access to comprehensive information contained in eight key budget documents in accordance with international good practice standards.

--Sort by year--

2015





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## Latest Annual Results (June 2017) ...

Financial Statements of the Government of New Zealand  
for the year ended 30 June 2017

### At a Glance

**Table 1 – Financial results**

**Year ended 30 June**

\$ million	Actual	Actual	Actual	Actual	Actual	Forecast 30 June 2017	
	2013	2014	2015	2016	2017	Budget 2016	Budget 2017
Core Crown tax revenue	58,651	61,563	66,636	70,445	75,644	71,971	74,598
Core Crown expenses	69,982	71,174	72,383	73,929	76,339	77,388	77,464
OBEGAL (excluding minority interests)	(4,414)	(2,802)	414	1,831	4,069	719	1,621
Operating balance (excluding minority interests)	6,825	2,939	5,771	(5,388)	12,317	3,058	9,438
Residual cash	(5,742)	(4,108)	(1,827)	(1,322)	2,574	(4,162)	71
Gross debt <sup>1</sup>	77,984	81,956	86,125	86,928	87,141	93,880	88,645
as a percentage of GDP	35.7%	34.7%	35.4%	34.3%	32.5%	36.2%	33.0%
Net debt <sup>2</sup>	55,835	59,931	60,631	61,860	59,480	66,334	62,277
as a percentage of GDP	25.5%	25.4%	24.9%	24.4%	22.2%	25.6%	23.2%
Total assets	244,416	256,824	278,214	292,679	313,608	281,588	301,282
Total liabilities	(174,405)	(178,127)	(186,978)	(197,158)	(197,137)	(199,163)	(195,359)
Net worth attributable to the Crown	68,071	76,486	86,454	89,366	110,532	86,641	100,044
as a percentage of GDP	31.1%	32.0%	35.6%	35.3%	41.2%	33.4%	37.2%

<sup>1</sup> Gross sovereign-issued debt excluding Reserve Bank settlement cash and Reserve Bank bills.  
<sup>2</sup> Net core Crown debt excluding the New Zealand Superannuation Fund (NZS Fund) and advances.

# And comparatively?

## Governments Have A Net Worth

	Australia, Commonwealth of	Canada, Government of	France, Republic of	Israel, Government of the State of
Total Assets	\$532	\$411	€ 982	₪ 503
Total Debts	\$841	\$1,024	€ 3,820	₪ 2,229
		-\$612	€ 2,838	₪ 1,727
	<b>Net Worth</b>	<b>Accumulated Deficit</b>	<b>Net Worth</b>	<b>Equity</b>
GDP	\$1,637	\$1,975	€ 2,184	₪ 1,094
Net Worth / GDP	-19%	-31%	-130%	-158%
	New Zealand, Government of	Swiss Confederation	United Kingdom (Whole of Government)	United States Government
Total Assets	\$279	CHF 106	£1,699	\$3,230
Total Debts	\$187	CHF 144	£3,559	\$21,452
	\$92	-CHF 38	-£1,859	-\$18,222
	<b>Net Worth</b>	<b>Equity</b>	<b>Taxpayers' Equity</b>	<b>Net Position</b>
GDP	\$241	CHF 640	£1,817	\$17,968
Net Worth / GDP	38%	-6%	-102%	-101%

Opportunities for Knowledge and Management of Government Balance Sheets to Improve Financial Performance and Risk

Balance Sheet Task Force  
Improving Fiscal Performance: Assessment & Transparency  
How Better Managing Government Balance Sheets  
Can Enhance Productivity and Growth  
Centre for European Policy Studies  
July 2016  
Brussels

**THE LEGATUM PROSPERITY INDEX™ 2016**  
Bringing Prosperity to Life



AT A GLANCE COMMENTARY DATA SPECIAL ANALYSIS

# Ranks 1<sup>st</sup> on the Legatum Prosperity Index™



**SUB-INDEX RANKINGS**  
In the Prosperity Sub-Index rankings, New Zealand performs best on Economic Quality and Social Capital and scores lowest on the Safety & Security sub-index.  
Visit our Rankings table to see how New Zealand compares to other countries.

## The Progress...

- Accrual reporting the norm
- IPSAS the benchmark
- Economics is there in principle, but not in practice

## The Challenges...

- Public Financial Management requires a systems approach
- Fiscal Management must use accrual information
- Obtaining sufficient political commitment
- Conveying the value of accrual information

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New Delhi, December 2017

performance  
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