

INTERNATIONAL PUBLIC SECTOR FINANCIAL ACCOUNTABILITY INDEX

2018 STATUS REPORT



25% of Governments Report on Accrual

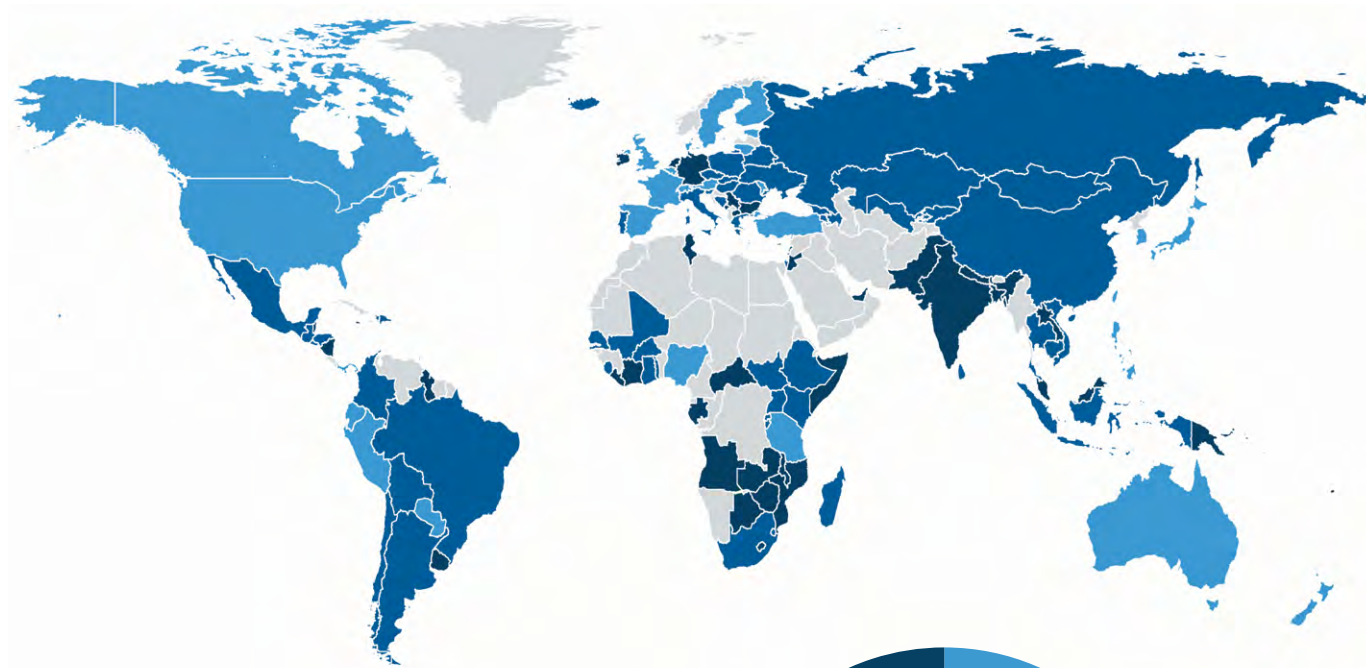
Accrual reporting—recording the economic substance of transactions when they occur rather than when cash settlement occurs—is fundamental to good decision making, transparency and accountability. The International Public Sector Financial Accountability Index collects, verifies, and analyzes current financial reporting and budgeting frameworks used by federal and central governments around the world, and also documents future reform plans.

The Index currently contains data from 150 jurisdictions, with the intention to update and expand its coverage and depth over time.

37 governments (25% of jurisdictions covered by the Index) reported on accrual in their last set of published financial statements, while 45% are transitioning to accrual or already have some element of accrual in their financial reports. 30% of governments still report on a cash basis.

CURRENT FINANCIAL REPORTING BASIS

■ Accrual (37) ■ Cash transitioning to accrual (67) ■ Cash (46) ■ No data (106)

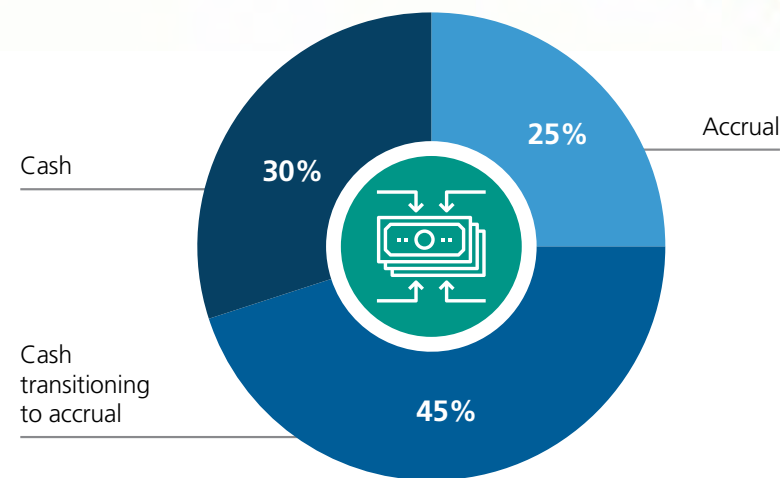


REPORTING BASIS DEFINITIONS

Cash: transactions recognized when cash received or paid

Accrual: transactions recognized when underlying economic event occurs; assets and liabilities reported in balance sheet

Transitioning to accrual: some transactions recognized on cash, some on accrual



Percentage of countries captured in the Index that currently use each reporting basis

51% of Governments Reporting on Accrual Make Use of IPSAS

Accrual reporting frameworks are developed in various ways, many making use of international standards. Specifically, governments make use of International Public Sector Accounting Standards (IPSAS) in three main ways:

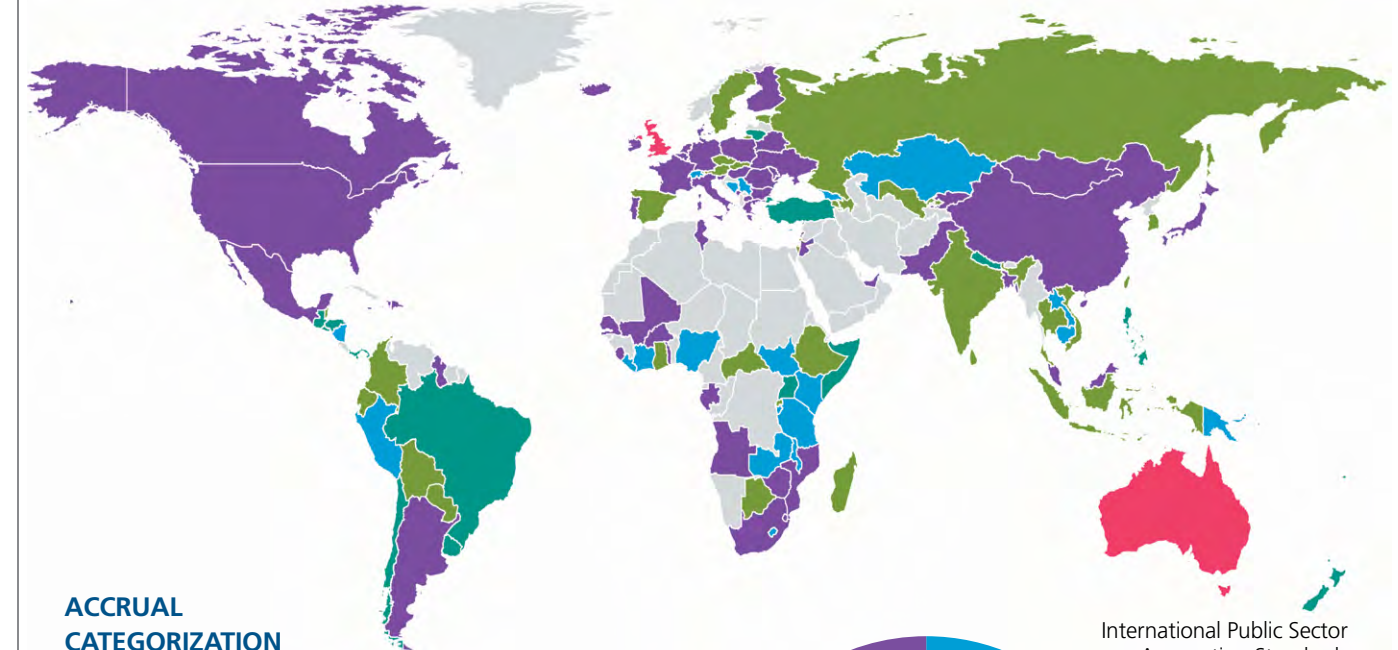
- **Directly:** implementing IPSAS without altering any of their requirements
- **Indirectly:** implementing IPSAS through a national endorsement process, adjusting for any specific jurisdictional features

- **Reference point:** developing national standards that use IPSAS as a guidance source

Of the 37 governments that currently report on accrual, 19 (51%) are using IPSAS in one of these three ways: five governments have adopted IPSAS directly; five apply IPSAS indirectly; and nine use IPSAS to develop their own national standards. Some countries not categorized as reporting on accrual still make use of accrual IPSAS or the cash basis IPSAS in their financial reporting framework.

CURRENT FINANCIAL REPORTING FRAMEWORK

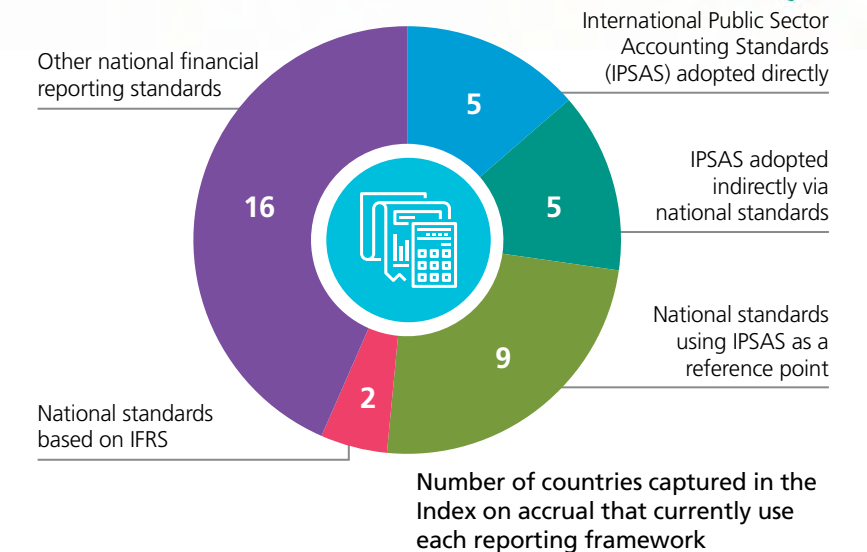
■ International Public Sector Accounting Standards (IPSAS) adopted directly (31) ■ National standards based on IFRS (2) ■ Other national financial reporting standards (70)
 ■ IPSAS adopted indirectly via national standards (14) ■ National standards using IPSAS as a reference point (33) ■ No data (106)



ACCRUAL CATEGORIZATION

The IPSAS on first time accrual adoption (IPSAS 33) defines the date of IPSAS adoption as “the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.”

Accrual categorization in the Index is based on an entity’s most recent financial statements. Several countries will publish their first IPSAS-based financial statements for 2018—these countries have been categorized as transitioning to accrual.

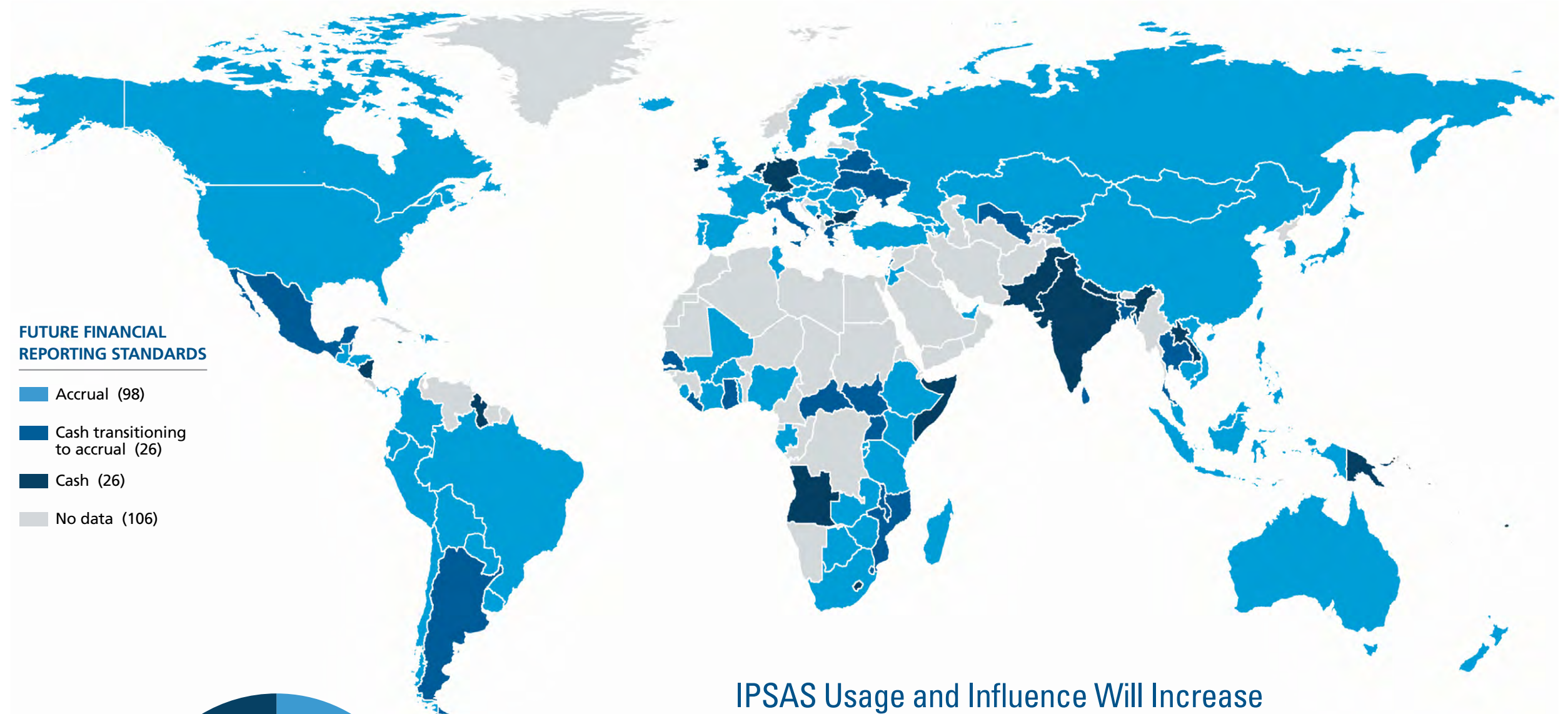


Number of countries captured in the Index on accrual that currently use each reporting framework

Within Five Years, 65% of Governments Will Report on Accrual

Successful transition to accrual involves the coordination of a number of complex change processes, and delays can occur as a result. This makes it challenging to project the exact number of governments that will report on accrual in the future.

However, based on Index findings, it is clear that the number of governments reporting on accrual will more than double in the next five years. The current projection is that, by the end of 2023, 98 governments (65% of the Index population) will report fully on accrual.



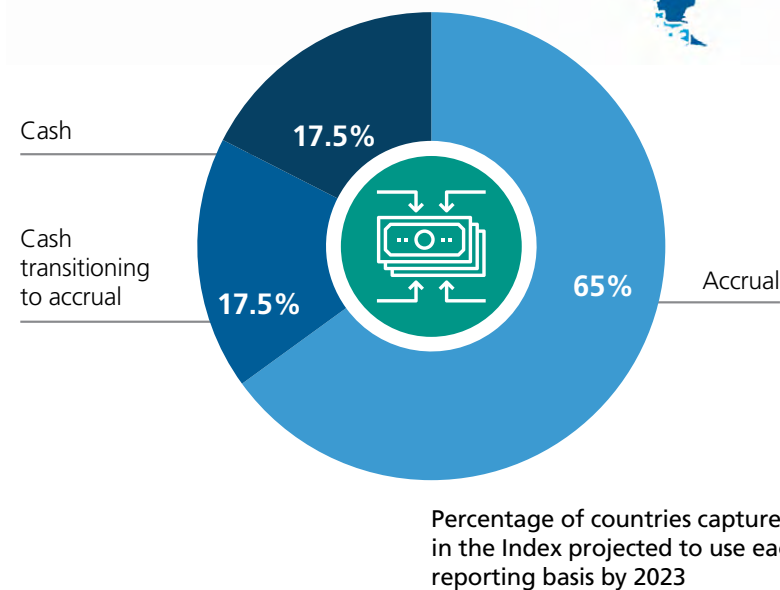
REGIONAL TRENDS

There is significant accrual adoption activity underway across all regions of the world. The regions expected to see the greatest increases in accrual adoption by 2023 include:

- **Africa:** 19 total countries (two currently)
- **Latin American and the Caribbean:** 21 total countries (five currently)
- **Asia:** 21 total countries (six currently)

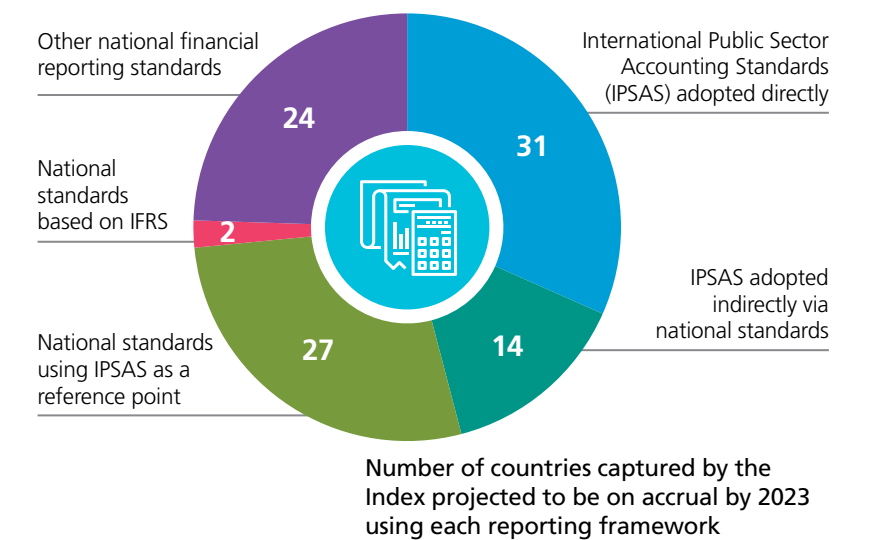
Sustained support from international and regional organizations is likely to prove critical to successful implementation in all these regions.

In Europe, accrual adoption predictions are made more complicated by uncertainties surrounding the development of European Public Sector Accounting Standards (EPSAS). Based on the information available, we estimate that the number of governments on accrual will double to 24 total over the next five years.



IPSAS Usage and Influence Will Increase

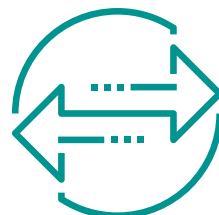
Of the 98 governments projected to be reporting on accrual by 2023, 72 (73%) will be making use of IPSAS: 31 governments will adopt IPSAS directly; 14 indirectly; and 27 will use IPSAS in developing their national standards. This means not only that the number of governments making use of IPSAS will increase, but also that there will be an overall greater percentage of direct and indirect IPSAS implementation globally.



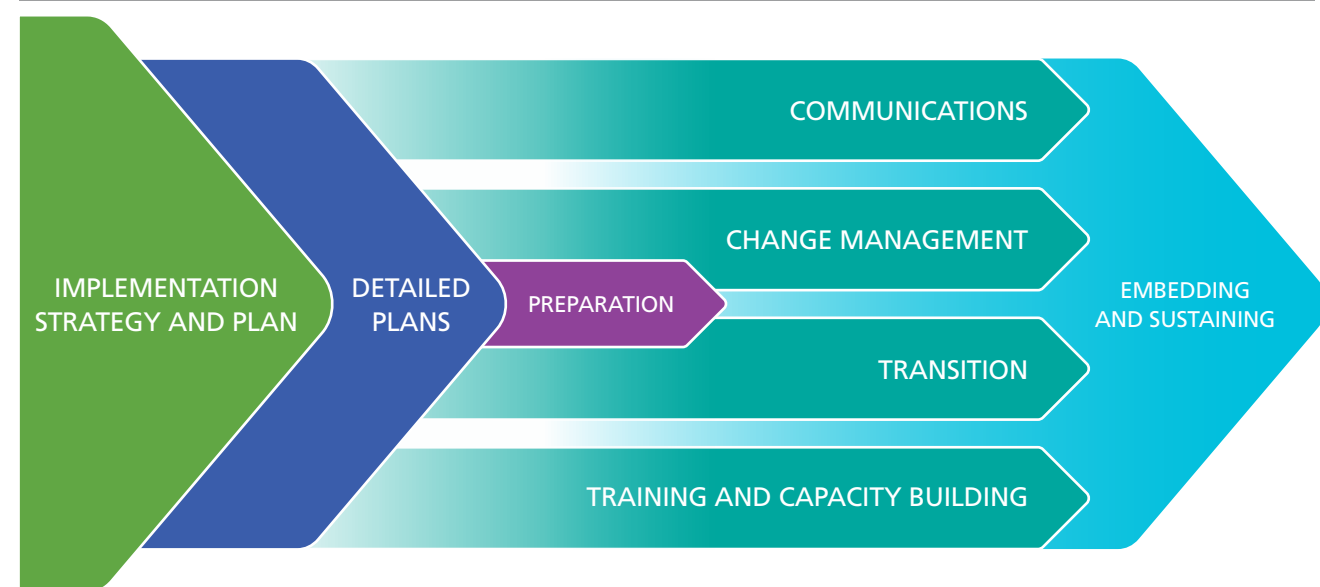
Accrual Reforms Require Coordinated Planning and Sustained Support

Few governments will have exactly the same drivers for instituting an accrual reform program. Political commitment to public financial management reform, including the adoption of an accrual reporting framework, will always be crucial, but the Index responses reveal a number of other key sponsors. These include:

- International and regional organizations
- Financial reporting standard setters
- Professional accountancy organizations



The way in which a government migrates to an accrual reporting framework will depend on local circumstances—typical considerations include government structure; centralization of accounting functions; geographical issues; IT infrastructure; and entity reporting or consolidated government reporting.



Implementation of an accrual reporting framework must be based on a firm foundation of strong financial and other controls, well-understood financial processes, and accurate and timely reporting.

Frequent and clear communications, a change management program, and coordinated training and capacity building are needed. This will need to encompass not only accountants, but also decision makers and users of financial information who may not be accountants. They will need to understand the financial management

environment, how to read the financial reports, and how to use reporting information for decision-making and accountability purposes.

IPSAS 33 envisages two key phases in the migration to an accrual reporting framework: preparation and transition.

The preparation phase must include detailed planning based on a gap analysis to identify the resource implications of changes to operational processes, IT systems, and accounting policies. The gap analysis should also identify training and capacity-building needs.

Investing sufficient time and resources in planning and design will increase the likelihood of successfully delivering the project to budget, scope, quality, and timetable. The Index responses indicate that legislative changes at an appropriate point in the transition process will generally be required.

Strong program management, including regular feedback, will be critical to the success of the transition phase. This will enable issues to be addressed at an early stage, contributing to the success of the overall program.

Accrual Accounting Doesn't Necessarily Lead to Accrual Budgeting

The high-quality accrual information produced in an accrual reporting framework is a necessary precursor to accrual budgeting. However, the Index responses show that this transition is not inevitable: the majority of governments that have already implemented or plan to implement an accrual reporting framework over the next five years do not currently have plans to introduce accrual budgeting.

Although accrual reporting demonstrates how governments manage resources and is an essential part of sound public financial management, only 15 jurisdictions reported that they currently prepare budgets on accrual. As this was not the main focus for the Index, it is difficult to draw firm conclusions as to how this situation might change through 2023—although the Index responses show that it will. Accrual budgeting will, therefore, be a subject that needs further research in the future.



NEXT STEPS

This is the first of what we anticipate to be periodic status reports drawn from the Index, showcasing progress throughout this crucial uptake period for accrual financial reporting globally.

To ensure that the Index is an authoritative source of information about public financial reporting, IFAC and CIPFA have verified and checked the consistency of information wherever possible. Appropriate amendments have been made where available evidence did not support responses to the questions, or the responses were inconsistent.

CIPFA and IFAC will continue to refine the Index questions to reduce the potential for inconsistencies and the need to seek clarification. The intention is to expand the Index progressively in terms of both coverage and information depth, with regular updates of the key indices on the status of accrual adoption and use of IPSAS.



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