Realising the benefits of accrual–
UK and international experience

Ian Carruthers
IPSASB Member
CIPFA - Executive Director, Policy & Technical
Realising the benefits of accrual

- UK experience of accrual transition
  - Benefits
  - Phasing the transition
  - Managing the programme
- PFM – CIPFA’s Whole System Approach
  - Keystones in Public Financial Management
- PFM Learning & Growing
  - Capacity challenges
  - CIPFA qualifications
UK experience of accrual transition: Why publish WGA? – The benefits

• **more complete** - provides a more complete picture of UK’s finances - as includes provisions (e.g. nuclear), pensions, contingent liabilities, future contracts (PFI)

• **decision making** - can support longer-term fiscal decision making – better quality information for ONS

• **improve efficiency** - drives convergence of accounting practices and aligning processes. Highlights discrepancies in interpretations of accounting standards

• **transparency** – ‘making public data public’

• **accountability** - improves accountability to Parliament - as the only audited set of data across the public sector
UK experience of accrual transition: Benefits of accrual budgeting

- Alignment of performance and accountability frameworks – what gets measured gets managed!
- Improved risk management and stronger value for money incentives
- Focus on asset management
- Management of working capital
- Transparent system with a single set of rules and numbers
- Less complexity if budgets and accounts are fully aligned......
Phasing the accrual transition – Entities (1):
Gradual adoption across public sector

- Public corporations – commercial accounts
- Local government – partial then full accrual
- NHS providers – accrual from creation
- Central government – departments last to implement accrual at organisational level
- Public sector consolidation – Whole of Government Accounts (WGA)
Phasing the accrual transition – Entities (2): Building WGA coverage – project timeline

Central Government Departments; NDPBs; and Devolved Administrations

Local Authorities; NHS Trusts; Public corporations

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Entity Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-02</td>
<td>Central Government Departments; NDPBs; and Devolved Administrations</td>
</tr>
<tr>
<td>02-03</td>
<td>Local Authorities; NHS Trusts; Public corporations</td>
</tr>
<tr>
<td>03-04</td>
<td></td>
</tr>
<tr>
<td>04-05</td>
<td></td>
</tr>
<tr>
<td>05-06</td>
<td></td>
</tr>
<tr>
<td>06-07</td>
<td></td>
</tr>
<tr>
<td>07-08</td>
<td></td>
</tr>
<tr>
<td>08-09</td>
<td></td>
</tr>
<tr>
<td>09-10</td>
<td></td>
</tr>
</tbody>
</table>
Phasing the accrual transition: Transactions / account areas

- Accrual for individual entities covers:
  - Income (local taxation & charges for services)
  - Expenditure
  - Debtors and creditors
  - Property plant & equipment

- Extension to WGA required accrual accounts for:
  - Taxation (Income and Corporation Taxes, VAT etc)
  - Debt and currency /gold reserves
  - Employee pension schemes
Managing the accrual programme: WGA data problems

- Development of 1500 body consolidation from scratch
- Data submission rates built gradually
- Poor timeliness
- Poor data quality
- Identification and agreement of intra-government balances and transactions – large discrepancies
- Integration with other Treasury systems
PFM as part of Good Governance: CIPFA’s Whole System Approach

Outcomes
Sustainable social benefit

Delivery of services and products

Institutional Framework
Public Financial Management
Enablers

Governance

Demand for services and projects

Stakeholder consultation

www.cipfa.org/policy-and-guidance/articles/pfm-a-whole-system-approach
Embedding PFM: WSA - Key elements

- Legislation
- Standards & Codes
- Strategy & planning
- Operations
- Monitoring & Control
- Assurance
- Scrutiny
- Learning & Growing
CIPFA ‘Keystones in PFM’ series

• **Explaining WSA key elements:**
  – Stepping Stones to Accrual
  – FM Model
  – Role of CFO in public service organisations
  – Code of Practice on Managing the Risk of Fraud
  – Role of the Head of Internal Audit
  – Emerging Stronger

• **Available via CIPFA website**
  www.cipfa.org

• **Complementary guidance:**
  – CIPFA/IFAC International Framework: Good Governance in the Public Sector
  – Public Sector Internal Audit Standards

• **Embedded in CIPFA International PFM Professional Qualification**

• **CPFA = chartered public finance accountant**

PFM Learning & Growing (1): Cash-based financial management

- Cash-based appropriations
- Principal Finance Officers
  - No professional training requirement
  - Often ‘generalists’
- Finance seen as ‘backroom’ function
- Score-keeping role
- Few qualified accountants
- Not critical part of decision-making process
PFM Learning & Growing (2): Appropriate Qualification type for each level and organisational need

- AAT Foundation
- AAT Intermediate level, general business degree

We encourage and support intermediate development

- AAT Technicians and Diploma
- CIPFA Certificate and Diploma Levels,
- CIPFA CertIPSAS

We encourage and support PQ training

- Full CIFPA professional qualification
PFM Learning & Growing (3): A new Professional Qualification...

- Our new PQ will be fully operational in 2016, though students at certificate level in 2015 will benefit.
- We are innovating to ensure the PQ meets the needs of fast changing and increasingly diverse public services.
- The PQ will better reflect the needs of public finance practitioners, based around four competency levels: Steward, Enabler & Innovator, Business Partner and Leader.
Delivering a fit for purpose PQ...

- Increase the focus on commercial skills such as commissioning, contract negotiation, financial modelling, financial instruments, and partnership working.
- Provide greater portability
- Have more entry routes
- Enhance the Practical Experience Portfolio (PEP) by placing greater emphasis on the role of the employer.
- Enable greater flexibility around blended and online learning options.
- This includes a partnership with Calibrand to deliver e-learning and assessment.
PFM Learning & Growing (4): Introduction of CFOs

- Not part of original UK cash to accrual reforms
- Qualified CFOs as part of departmental boards by 2007
- CFO recruitment sources:
  - Internal promotions
  - CIPFA conversion course for experienced non-qualified PFOs
  - External recruitment – private and rest of public sector
- Challenges faced
  - Acceptance by ‘generalists’
  - Establishing role of finance / financial information
  - Saying truth unto power
PFM Learning & Growing (5): Building professional capacity globally

- Collaborative approach with local professional accountancy bodies to provide dual CIPFA membership
- ‘Faculty’ approach so that relationships maintained with local PAOs working with CIPFA
- CertIPSAS and translations
- Our role as capacity building individuals, public service organisations and accountancy bodies to ensure strong PFM in the public interest
Professional development for senior non-finance staff

- Training for senior non-finance staff who need a strong grounding in financial concepts but may not need or be willing to commit to a full qualification
- One year finance diploma
- Content aligned with current CIPFA syllabus to maximise stepping stone to PQ – useful step for policy staff / economists
Questions and discussion

Ian Carruthers
CIPFA - Executive Director, Policy & Technical
IPSASB Member
E: ian.carruthers@cipfa.org