



CPA Australia

*Implementation of Accrual
Accounting in the Australian
Public Sector*

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TODAY'S AGENDA

- + Background to Reforms
- + The Reform Process
- + Phased Implementation
- + Achievements by 2001
- + The Difficult areas
- + Lessons and Benefits



Background to Reforms

+ External Influences

- Reforms In UK and New Zealand
- Financial management reforms much broader than simply reforming Financial Management
- Need to revitalise the economy
- Development of Public Sector accounting Standards
- Financial Reporting Council Directive 2002



Background to Reforms (cont)

+ Existing practice in 1980's

- Trading Bodies already using Accrual standards
- Core Government (Budget sector)
 - Cash based



The Reform Process

- + Centrally led by Treasury/Department of Finance – for changes to Law, Regulation and development of Financial Management policy
- + Importance of Auditors being in synch. with the reform process
- + Top down –Government led
- + Ex ante to Ex post Accountability
- + Skilling up



The Reform Process (Cont)

- + Accrual Budget and Appropriations
- + Adoption of AASB standards
- + A-IFRS in 2006
- + Re definition of deliverables
 - Output classes
 - Non financial performance targets (subject to audit)



Phased Implementation

- + Accounting reforms not phased in across New Zealand public sector
- + In Australia, decisions about roll out done state by state and by Commonwealth Government independently – but in concert
- + Included all levels of Government
- + Help Desk – Treasury & Audit



Achievements by 2001

- + Full accrual accounting - applying Australian Accounting standards
- + Sector neutral approach to accounting standard - worked initially
- + Financial reports more timely and comprehensive
- + Balance sheets included all assets and all liabilities



Achievements by 2001 (cont)

- + Comprehensive Whole of Government reports prepared on accrual basis
- + Improved Budgetary processes
- + Better Output specification
- + Greater consistency across state and federal jurisdictions
- + Greater devolution of responsibility to independent agencies



Difficult areas

- + Assets records
- + Asset valuation
- + Liability recognition and valuation
- + Revenue recognition
 - Appropriations and grants
 - Taxation
- + Depreciation rates



Implementation Issues

- + **Financial Instruments**
- + **Intangibles**
- + **Equity Adjustments**
- + **Liability recognition and valuation**
- + **Provisions**
- + **Valuation of Inventory**



Audit Issues

- + Agree common format of Financial statements
 - Whole of Government
 - Agency level
- + Determining boundary of Crown Estate
- + Adjustments in subsequent years for:
 - New assets found
 - Changes to economic life of assets



Audit Issues (cont)

- + Display of Consolidated Accounts of Government
- + Treatment of Off Balance Sheet transactions – eg
 - Concessions
 - BOO and BOOT arrangements
- + Preparation and audit of Non-financial Performance Information



Impact on Audit Office

- + Taking on Leadership role
- + Adjusting to rapid changes
- + Greater skill requirement
- + Broader attest audit mandate
- + New risks
- + Commercial confidentiality
- + Improved Parliamentary Scrutiny



Lessons Learned

- + Need good leadership both from Treasury and Audit
- + Ensure sufficient help provided to agencies
- + Ensure necessary skills in central agencies and operating agencies
- + Provide support and resource to ensure smooth introduction of new processes



Lessons Learned (cont)

- + Support Agencies to align internal management reporting requirements with external and central agency reporting requirements
- + Train elected representatives & agency senior management on what the new financial data means



Costs and Benefits

+ Benefits:

- Improved Transparency
- Common accounting base applied
- More timely completion of Financial statements
- Better balance sheet management
- Better Budget compilation process



Costs and Benefits (cont.)

+ Costs:

- Danger of centrally led reforms is that they make no real difference to agency financial management practices
- Initial start up costs are high
- Skill requirements at all levels
 - Central DoF & Agency,
- Funding for new systems eg IT



Remaining Gaps to be addressed

- + Result is vast improvement on past reporting practices
- + However – adopting IFRS not sufficiently enduring
- + IFRS has limitations - unique public sector issues- Australia and NZ looking more to IPSAS.



Gaps to be addressed (cont)

- + Need conceptual framework that meets unique Public sector needs
- + IPSASB is working on this issue
- + Need for clarity around definition of “For Profit” and “Not for Profit”
- + Accounting for long term Social Policy obligations
- + Budget sector reporting & GFS Reporting



Gaps to be addressed (cont)

- + Accounting for Non Exchange revenues
- + Accounting for capital contributions
- + Accounting for voluntary contributions
- + Accounting for heritage assets
- + Reporting related party relationships
- + Segment Reporting



Concluding comments

- + Improved transparency, comprehensiveness, comparability and timeliness
- + Budget processes well harmonised with reporting practices
- + More informed debate on measurement and disclosure



Concluding comments (cont)

- + A Sound platform laid for future refinements
- + Better understanding of costs of service deliverables by Politicians & Agencies
- + Does the new information meet the needs of policy makers and the electorate?



Thank you for your attention today

I am happy to take questions

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