



PERSPECTIVES FOR  
THE FUTURE

**GOOD PRACTICE TEMPLATE  
TO PUBLIC SECTOR ACCOUNTING REFORM  
ROADMAP**

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## ACRONYMS AND ABBREVIATIONS

<b>FINCOP</b>	Financial Reporting Frameworks Community of Practice
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>ICT</b>	Information and Communications Technology
<b>IFMIS</b>	Integrated Financial Management Information System
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>PULSAR</b>	Public Sector Accounting and Reporting Program
<b>REPF</b>	Report on the Enhancement of Public Sector Financial Reporting
<b>SOE</b>	State Owned Enterprise
<b>ZHAW</b>	Zurich University of Applied Sciences



## PREFACE

The Public Sector Accounting and Reporting (PULSAR) Program, launched in 2017, is a regional and country level program in 13 beneficiary countries in Europe and Central Asia. Its objective is to support the enhancement of public sector accounting and financial reporting frameworks, in line with international standards and in accordance with good practices, in order to improve government accountability, transparency, and performance.

The objectives and scope of the PULSAR Program are jointly determined by the PULSAR Partners - Austria, Switzerland, and the World Bank – who also provide institutional support for its implementation and mobilize the resources needed for its activities. Beneficiary countries help shape the Program through regional cooperation platforms and input to two Communities of Practice focused on financial reporting frameworks and on education.

The Financial Reporting Frameworks Community of Practice (FINCOP) supports government officials in developing reform strategies & roadmaps, and helps to define and implement improved legislation, standards, IT systems, and tools.

# INTRODUCTION

PULSAR beneficiary countries are moving towards the adoption of accrual-based accounting in the public sector. Implementing and sustaining reforms to achieve this transition is a complex and challenging task. It involves consideration of legislation, business processes, prevailing accounting principles, practices, capacity, and professionalization of the accounting function in government. One of the challenges for implementing countries is also to manage discrepancies between budget and financial reporting and decide on the extent to which government accounting will align with budget execution. More fundamentally it requires educating politicians, senior management, and other key stakeholders of the costs and benefits of undertaking far reaching reforms over a number of political cycles.

Effective and efficient reform implementation is entirely dependent on the specific country context. The transition to accrual accounting will vary from country to country based on their objectives, strategic concerns, capacity, and administrative traditions. The UK, for example, had a tradition of accruals accounting in local government but not in central government, where institutions were slower to implement reforms. The length of time for transition will vary too; New Zealand achieved it in three years, whereas the UK's transition to whole of government accounting took more than 10 years. It is important that changes to public sector accounting are carefully tailored to each country's needs, objectives, and institutional capacities.

Many countries have found that developing a reform roadmap at the initial phase of public sector accounting reform is helpful in conceptualizing the approach and

sequencing of action. At the first FINCOP meeting, in Vienna in December 2017, delegates identified the development of a good practice template on the design of a reform roadmap as a priority for the Community of Practice. Key areas the roadmap should cover were discussed further by delegates at the second FINCOP meeting together with internationally recognized experts on public sector accounting reform.

The resulting roadmap template is presented in this document. It aims to inform and support governments in preparing and implementing reforms by highlighting key issues. It does not use a generic best practice example as this would not be fully tailored and could fail to comprehensively meet country specifics. This good practice template instead aims to summarize the main considerations to be made in the development of a national reform concept and implementation roadmap. It outlines an overarching framework covering existing practice and thoughts on reform governance. The lessons of other countries, while useful, are no substitute for a careful, well thought through implementation strategy based on the elements outlined in this document (to be considered as a kind of checklist).

FINCOP recommends that roadmaps are developed at a high-level with broad stakeholder involvement and agreement. International experience suggests that they must also remain flexible to change during the implementation as not all challenges can be predicted from the outset and it will be necessary to revisit and adjust or revise many roadmap details during implementation.

## Box 1: An example of reform through three parallel dimensions of fiscal reporting

### **BALANCE SHEET REPORTING (STATEMENT OF FINANCIAL POSITION)**

starting with financial assets and liabilities moving to full reporting and disclosure of all financial and non-financial assets and liabilities

### **OPERATING STATEMENT (STATEMENT OF FINANCIAL PERFORMANCE)**

moving from reporting of cash receipts and expenditures to reporting and disclosure of transfers at the time economic value is transferred as well as other changes in government net worth

### **CONSOLIDATION OF INSTITUTIONAL FINANCIAL INFORMATION**

moving to reporting on the government unit based on effective government control rather than on constitutional status or legal status

Cavanagh (2016)

# DEVELOPING AN ACCOUNTING REFORM CONCEPT

This roadmap template addresses the fundamental questions to be answered in undertaking public sector accounting reforms. It recognizes that reforms are complex and require a multi-layered approach, which can be summarized in eight broad elements (see below). The roadmap process should be repeated as reform progresses to take account of reform implementation and changing circumstances.

## A. STARTING POINT/CURRENT CAPACITY

**WHAT** is the current situation measured against internationally accepted good practices? (This is a prerequisite to roadmap development and is advised to be implemented before developing the public sector accounting reform roadmap.)

## B. OBJECTIVES

**WHY** reform and what are the anticipated outcomes and potential costs?

## C. APPROACH

**HOW** will the reform objectives be achieved?

## D. ORGANIZATIONAL CAPACITY

**WHAT** are the pre-existing capacity levels (both IT and human resources) and **HOW** do these need to develop to implement the reforms?

## E. IMPLEMENTATION PROCESSES

**WHAT** is the implementation process and sequencing of activities to build on reform objectives, strategies and structures?

## F. MONITORING & EVALUATION

**WHAT** are the arrangements to monitor and evaluate; **HOW** do they ensure that the results are fed back into the reform implementation process?

## G. REFORM GOVERNANCE

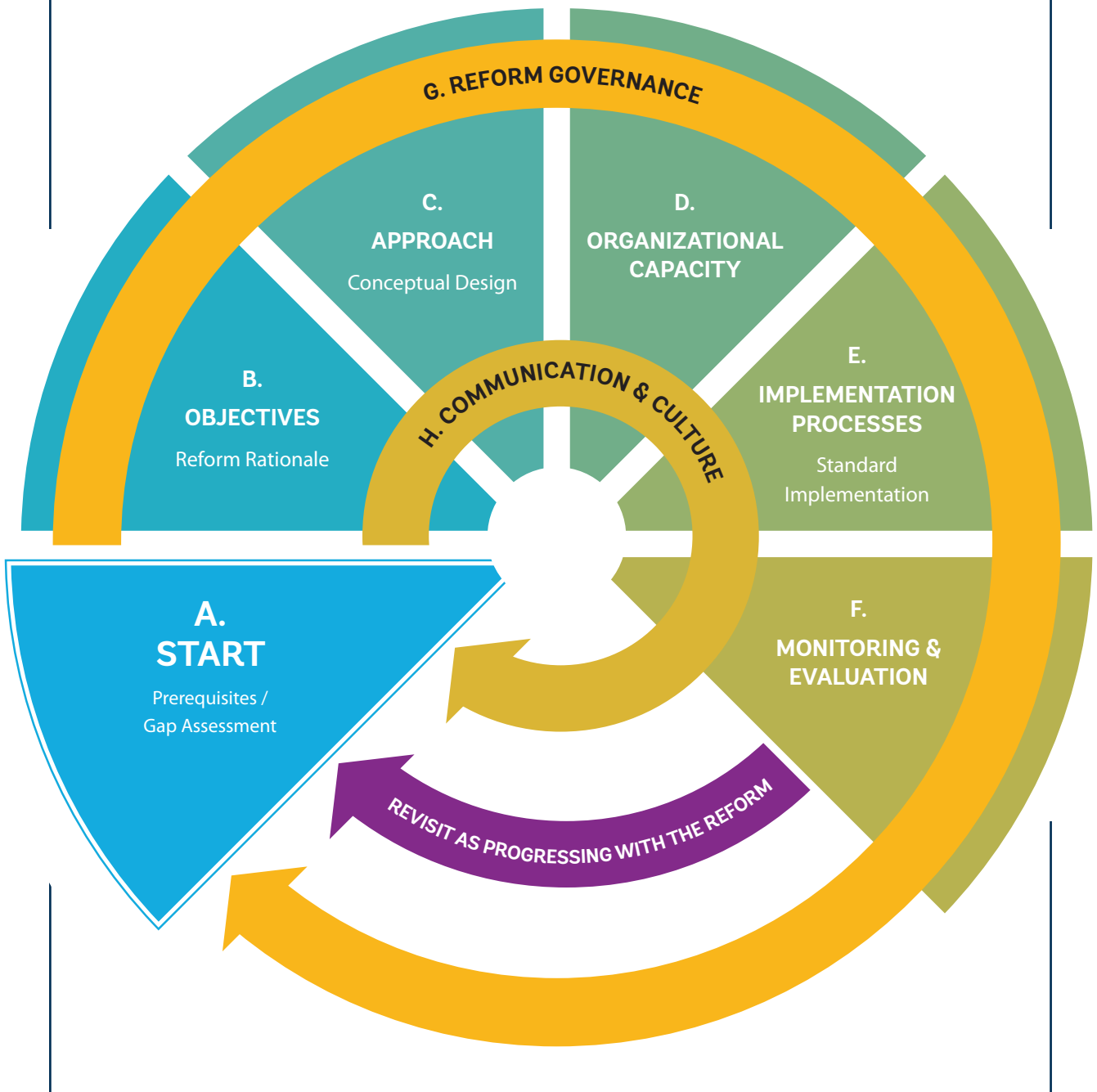
**WHAT** are the institutional arrangements for the reforms and risk management?

## H. COMMUNICATION & CULTURE

**WHAT** is the approach to change management and outreach; **HOW** to ensure that reforms are understood and supported by a broad range of stakeholders?

Figure 1 depicts an overview of these eight reform-critical elements forming the reform architecture.

Figure 1: Reform Architecture





An essential first stage, before taking any steps towards reform, is to assess and understand institutional realities. This will guide the setting of adequate targets and measures for implementation. A gap assessment following a standardized methodology (see Box 2 below) should be used to identify current institutional public sector accounting capacities and prerequisites.

#### Key task

### Assess the legislative framework and public finance management environment

Assessment will include:

- Composition of the public sector;
- Statutory framework;
- Staff levels and structures (numbers, qualifications);
- Academic education, professional education, training;
- Accounting standard/legislative setting;
- Budget system;
- Government financial statistics;
- Auditing monitoring and enforcement;
- Quality and availability of financial reports;
- Business systems and software solutions.

#### Key task

### Compare national public sector accounting standards and IPSAS

Standard by standard comparison of national and IPSAS to identify those compliant and those divergent or not applicable to national standards.

#### Key task

### Review compliance with national standards

Examination of available evidence (audit reports and primary data collection) to assess compliance with national standards by public sector entities.

#### Key task

### Review ongoing reforms to public finance management and public sector accounting

Review of any measures already initiated and their progress, this might include:

- Public finance management strategy;
- Public sector accounting strategy and linkages to public finance management and public internal financial control;
- Civil Service regulations and planned reforms;
- Identified public finance management and accounting reform priorities.

#### Box 2: Assessment Methodology

The World Bank has developed a standardized diagnostic toolkit to assess current public financial management practices. The Report on the Enhancement of Public Sector Financial Reporting (REPF) assesses the institutional framework for public sector accounting as well as the gap between national public sector generally accepted accounting principles (GAAP) and International Public Sector Accounting Standards (IPSAS), and makes recommendations to sequence the strengthening of both the framework and the GAAP.

A clear reform rationale is a key success factor for any reform activity. Public sector accounting generates information that helps a government to improve both fiscal management and public service delivery for the benefit of its citizens. Having a common understanding of what the move to accrual accounting is expected to achieve and at what cost is important. Reform rationales may include, but are not limited to: providing a more comprehensive view of the government's financial performance and the full cost of government activities; helping policy makers and other stakeholders focus greater attention on the acquisition, disposal, and management of government assets, liabilities, and contingent liabilities; providing a more complete picture of the financial position of the public sector as a whole (as consolidated); improving the comparability, reliability and integrity of government financial data; enhancing decision making processes and underpinning the transformation of public sector management practices. Defining clear reform rationales and having a good understanding about expected reform outcomes helps ensure the implementation of adequate measures and encourages political and organizational commitment. The constant promotion of reform outcomes and benefits is essential to build reform momentum and to ensure consistent support.

#### Key task

### Define reform rationale and key objectives

Country specific and politically supported reform rationales tend to be more powerful in guiding and leading overall reform activities.

Specific objectives might include:

- Prepare for EU accession;
- Reduce the level of expenditure arrears;
- Improve the management and efficient use of assets;
- Improve information about implicit government debt and social obligations;
- Calculate the full costs of service provision.

Generic objectives may include:

- Increase transparency and accountability;
- Improve basis for decision-making;
- Enhance financial and fiscal governance;
- Increase key stakeholders' (including investors) understanding of financial information.

#### Key task

### Define expected reform outcome

Expected reform outcomes with reform objectives should be explicitly stated.

Outcome measures should be clearly defined in order to track reform progress against these targets.

#### Key task

### Secure funding

Costs and sources of funding (government, bilateral donors, and/or international agencies) should be identified and agreed.

The approach describes how reform objectives shall be achieved. Fundamental structural questions need to be addressed first, before rollout activities are planned and implemented. This includes the following tasks and considerations:

#### Key task

### Define the normative framework

The method of adoption of accrual accounting should be decided. Two main options exist: (a) direct application of the international standards through national accounting law, or (b) indirect application of international standards through a set of national standards.

Defining the normative framework requires a consideration of how standards are to be implemented over time i.e. phasing and sequencing based on priorities and capabilities. It is advisable to initially produce consolidated reports for various subsectors, or different tiers of government (central, local etc.) then progress to complete whole of government reports at a final stage. This facilitates the development of core skills in a small number of operational units, that then help with implementation at the remaining units (see Box 3).

The normative framework frequently needs to be translated into practical guidelines for practitioners (through for example an accounting manual).

#### Key task

### Define scope of the reform

The scope of the reform should be defined with reference to both application and consolidation. Application boundaries (e.g., entities applying IPSAS) will not usually match the consolidation boundaries. For example, State Owned Enterprise (SOEs) will normally apply corporate GAAP (e.g., International Financial Reporting Standards). Nevertheless, for consolidation purposes, it will be essential to align reporting requirements to reduce major recognition, measurement, or disclosure requirements. It is usual that reporting/consolidation boundaries are expanded over time which should be reflected in the reform planning activities.

**Application scope:** Which entities shall apply the newly

developed standards (e.g., central government/local government and which government organizations)?

**Consolidation scope:** Which entities shall be consolidated (e.g., central government/local government, SOEs)?

#### Key task

### Define the standard-setting mechanism

Options include:

- Independent local standard-setter;
- Ministry of Finance;
- Semi-autonomous standard-setting commission;
- Independent international standard-setter;
- Hybrid (from options above).

#### Key task

### Define organization of the accounting functions and business processes

This may be centralized or decentralized (see Box 4), or some combination of both.

**Centralized:** Main accounting functions such as day-to-day accounting and financial reporting operations performed through central bodies such as Ministry of Finance, state property agencies, and/or shared service centers.

**Decentralized:** Day-to-day accounting and financial reporting operations maintained within line ministries and agencies through auxiliary ledgers. Consolidation activities performed by central authority.

#### Key task

### Integrate the chart-of-accounts

Decide and develop a strategy to revise and adjust the chart-of-accounts in order to facilitate the accounting reform.

The chart-of-accounts should facilitate different reporting requirements such as financial, budget execution, statistical and performance.

#### Key task

### Build Organizational Capacity

Discussed in section D below.

**Box 3: An example of a phased transition from cash to accrual accounting**

Phase	Balance Sheet		Operating Statement			Institutions
	Assets	Liabilities	Revenues	Expenses	Other Flows	
<b>0: Cash Accounting</b>	Cash balances	Bank overdrafts Debt	Cash receipts	Cash payments	None	Budgetary Central Government
<b>1: Elementary Accrual Accounting</b>	Trade receivables Prepayments	Trade payables	Accrued trade revenue	Accrued expenses <i>excluding depreciation</i>	None	Central Government
<b>2: Advanced Accrual Accounting</b>	Equity Investments	Other financial liabilities Long-term liabilities (e.g., pensions)	Accrued non-tax receivables	None	Valuation changes in financial assets and liabilities Provisions	General Government
<b>3: Full Accrual Accounting</b>	Fixed and intangible assets Inventories Tax receivables	Monetary financial instruments	Accrued receivables	Depreciation	Valuation changes in non-financial assets	Public Sector

Source: Cavanagh, J.; Flynn, S.; and Moretti, D. *Implementing Accrual Accounting in the Public Sector IMF Fiscal Affairs Department* (2016).

**Box 4: Organization of the Accounting Function**

The allocation of accounting and reporting tasks, processes, and responsibilities within a jurisdiction is a fundamental conceptual decision. The decision involves consideration of a range of factors such as history and experience, existing capacities, administrative and organizational culture, the legislative environment, and the maturity of information and communications technology (ICT) infrastructure and systems.

The choice is often between the following two options, however a hybrid of both is also possible:

**A centralized accounting function concentrates the responsibility of accounting and reporting processes within a single entity, usually the Ministry of Finance.** In such a model the accounting function might be performed by the Treasury, or another accounting department within the Ministry of Finance, and by subnational governments. Key responsibilities are the maintenance of the general ledger, year-end financial reporting, and consolidation tasks. Other (national or subnational) governmental entities entrusted with budget execution, such as line ministries, directly process their accounting information to the Ministry of Finance or a designated service center (usually using client/cloud IT access and services). France and Canada broadly followed the centralized model in their reform process.

**Maintenance of a decentralized accounting function divides tasks and responsibilities across budget executing entities at all government levels.** Recognition, measurement, and reporting of items remains within the administrative and managerial responsibility of budget executing entities. Each budget executing entity produces Entity Financial Statements, which are then consolidated into Government Financial Statements (which may, in a second step, be further consolidated into Consolidated Financial Statements). Broadly the decentralized model has been followed by Chile, USA, and UK in their reform process).

The move towards accrual accounting and application of IPSAS compliant recognition, measurement, and disclosure practices gives rise to new processes and demands structural changes. Adapting to the functional needs of accrual accounting impacts ICT and human resources. Organizational capacity may need to be strengthened to ensure the necessary preconditions are in place. Given the technical and conceptual difficulties in the adoption of an accrual-based system, the following tasks and considerations are critical to the success of an envisaged transition to accrual accounting:

#### Key task

### Perform functional requirement specifications for ICT systems

ICT systems and structures - such as an Integrated Financial Management System (IFMIS) - must support reform rationales, standards, envisaged organization of the accounting functions, data automatization, and consolidation activities. Only after decisions are reached on these issues can appropriate ICT systems be determined. ICT issues can be particularly challenging; systems are expensive and time-consuming to design and implement (see Box 5 below for some IFMIS pitfalls to avoid) and invariably need to be coordinated with public sector accounting and wider PFM reforms. Key issues include:

- How can a newly developed IFMIS support envisaged accounting standards/principles, functions, and processes?
- What is the functional coverage of ICT systems / IFMIS?

- What is the level of organizational integration of ICT systems / IFMIS?
- Coordination with other elements of IFMIS (for example budget, treasury, asset management, statistics, procurement, human resources).
- What funding is available for ICT reforms?
- Should the system be developed inhouse or procured externally (customized off-the-shelf)?
- What do different options cost and what are respective implementation timeframes?

#### Key task

### Develop a sustainable capacity-building program

Considerations include:

- Recognition of finance professionals and accountants by national public administration authorities.
- Who needs to be trained and to what extent? By numbers/region/grade.
- Development of training curriculum based on IPSAS and/or evolving national standards.
- How training will be delivered – institutions, programs, Ministry of Finance, outsourced, involvement of international expertise/programs?
- How sustainability will be ensured – skilled local training providers/trainers, train the trainers and cascading programs, development of in-country materials in local language?
- Availability of funding for capacity building program.

#### Box 5: Pitfalls to avoid in the development of IFMIS projects

The introduction of a government IFMIS, adapted to functional needs stemming from accrual accounting, can be a great benefit. However, careful assessment and development of a conceptual design and functional requirement specifications are essential before any inhouse development or procurement of accounting modules. The rollout and lifecycle costs of software, including running and maintenance are often ignored, leaving organizations with relatively high annual expenses for licensing. In addition, attention should be given to the negotiation of contract terms for the further development of software after implementation, since the cost of being locked in to a vendor can be prohibitive in the long run.

Decisions on whether to buy a new system; or adhere to a legacy system also require careful consideration. Adherence to current systems, with the integration of additional modules necessary to capture accrual accounting transactions, can prove as costly as the introduction of a completely new FMIS.

An effective and efficient implementation process builds on previously considered reform objectives, approaches, and structures. According to national objectives and capacities, governments may choose different sequencing options to implementation based on factors such as sector, entities, government priorities, materiality, etc. It is possible to design different paths for different types of entities. Sequencing of reforms depends on:

- The starting point for reforms – existing systems and capabilities as well as the present approach to public sector accounting (cash, modified accruals, accruals) – see Section A above.
- Objectives of the reform process – as defined in Section B above.
- The approach that will be taken to organize the accounting function (whether centralized, decentralized, or hybrid) – see Section C above.
- Capacity – commitment to reform, resources available, ICT, and accounting and finance capabilities across the public sector - see Section D above.

### Key task

#### Agree an overarching implementation roadmap

An overarching roadmap should outline the implementation process, encompassing the elements previously outlined.

### Key task

#### Define the sequence of standards implementation

The sequence for the implementation of standards is an important element of a comprehensive reform plan. It should be appropriately sequenced, realistic, and reflect:

- The priorities set out in the reform approach and objectives;
- The relevance and importance of a particular standard;

- The complexity of the standards;
- Organizational structures and capacities;
- The costs and benefits of implementation;
- The information needs;
- Long term resource availability (including the required expertise).

### Key task

#### Decide on an implementation pathway

It is possible to design different implementation pathways by the size or materiality of the entities.

Possible approaches include:

- Piloting (pilot project in selected entities/sectors for example in the context of testing the reliability and feasibility of IT systems, however there is a risk of losing reform momentum if the pilot is unsuccessful. Where capacity is low, piloting can build up expertise and develop essential experience that can be used for wider implementation);
- Top-down (central government act as first-movers with implementation in other entities following at a later stage).
- Capacity adequacy (implementation according to institutional capacity, e.g., human resources and IT, and priorities).

### Key task

#### Agree on the implementation timeframe

Establish the implementation timeframe considering the choice of pathway, resource availability, and priorities.

### Key task

#### Define roll-out activities at an entity level

The roll-out of standards also needs to be aligned with other reform elements such as organizational and human capacity building activities.

It is important that the entire process of reform is regularly monitored and transparently evaluated, with action taken on the findings as necessary. The path of reform is rarely smooth; strategic and tactical changes are to be expected throughout the process.

#### Key task

### Measurement of project progress

There should be clearly defined measures in place to monitor progress.

- Follow the conceptual architecture of the reform;
- Use traditional project management tools, including Gantt charts, milestones, deadlines, visualizations and/or diagrams;
- Monitor the costs and sources of funding (government and/or international agencies);
- Identify mutual dependencies and time-critical elements;
- Define reporting mechanisms;
- Allow for modifications of plans and activities based on findings.

#### Key task

### Conduct periodic project evaluations and roadmap updates

- Mid-term review, external peer review;
- Update regularly the strategy.

#### Key task

### Public oversight and monitoring

Results from public sector audits, parliamentary committees etc. should be fed back into the reform process.



Good institutional arrangements ensure the effectiveness of decisions made on the direction of public sector accounting reforms and the process by which decisions are implemented. Ensuring the success of public sector accounting reforms requires top-level commitment from politicians and senior government officials and the support of all key stakeholders in government. The development of tiered committees to steer the reforms and technical implementation is essential.

### Key task

#### **Define and establish reform governance structure**

##### **Governance structure**

- Establish key committees, set clear terms of reference and composition, and differentiate between the high-level steering committee and technical task forces.

##### **Key stakeholders**

- Include key stakeholders such as Ministry of Finance, line ministries, statisticians, Parliament, the supreme audit institution, accounting standard-setters and local governments;
- Consider the involvement of bodies outside government (e.g., academics, national accounting bodies).

### Key task

#### **Identify reform risks and mitigation measures**

- Identify the key risks which are associated with the reform;
- Define how the key risks can be mitigated;
- Ensure that these risks are re-assessed over time.

### Key task

#### **Ensure political support and ownership before commencing the reform**

- Identify and engage key stakeholders and political counterparts;
- Clarify who leads the reform and that they have sufficient resources;
- Ensure political representation in the steering committee;
- Develop an information and communication strategy with monitorable indicators to ensure effectiveness over time.

### Key task

#### **Ensure sustainability of the reform**

Elaborate on the mechanisms to be established to ensure sustainability of the reform and consistency in implementation after the reform is “formally delivered”.



Transparent and clear communication of the reform vision, an open reform discourse, as well as inclusion and engagement of key stakeholders in the process will strengthen understandings and help increase acceptance of change. This is particularly important, as the reform will require substantial investment of public funds and needs to be understood by the key stakeholders. It is an ongoing process to be commenced in parallel with the establishment of the reform objectives and rationale.

#### Key task

### Develop a change management strategy

Considerations include:

- How to encourage reform supporters?
- How to engage reform opponents?

#### Key task

### Define outreach activities and foster an open reform discourse

Considerations include:

- Scope and degree of involvement of different stakeholders;
- Development of a transparent communication strategy;
- Regular highlighting of reform progress and success;
- Multiple forms of communication (web, meetings, social media, and press);
- Monitor activities through simple quantifiable indicators and report these back to a governance mechanism.

#### Key task

### Ensure reform momentum and continuous political support

Develop a plan to identify, engage, and keep key political counterparts regularly updated.

#### Key task

### Create incentives for public sector accountants and finance professionals

Considerations include:

- Changes to grading and status within the public sector based on professional skill sets;
- Certification of accountants;
- Secondments;
- Knowledge exchange trips (at least within the country);
- Remuneration linked to performance and skill enhancement.



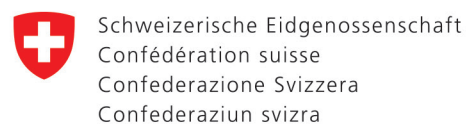


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