Executive summary

The 2016 OECD Accruals Survey ("the Survey"), realised in partnership with the International Federation of Accountants and the *Accountability. Now.* initiative, takes a broad look at accrual reforms, by analysing not only accounting practices but also budgeting, consolidation, accounting standard setting, and external audit practices. In the wake of two decades of accrual reforms in OECD countries, this Survey is the first to gather feedback from all member countries' finance ministries on the rationale for deciding to move, or not, to accruals, implementation challenges, and perceived reform outcomes.

The results of the Survey show that around three-quarters of OECD countries have adopted accrual accounting for their year-end financial reports, although they have not necessarily implemented all aspects of what may be regarded as a full accrual accounting framework.

In particular, countries have progressed differently in populating their balance sheets. Most countries that have implemented accrual accounting reforms report a large range of assets, including land and buildings, defence equipment, and infrastructure, but certain liabilities, such as debt related to public-private partnerships (PPPs) and civil service pensions, are not reported by a significant number of countries. Surprisingly, natural resources are reported and measured by a minority of countries. The rationale for this situation varies depending on the country: some countries mention technical difficulties for inventorying assets and evaluating liabilities, while others indicate that these items are not reported because of the lack of international consensus on the appropriate accounting treatment.

More than a quarter of OECD countries prepare their annual budgets on an accrual basis. The survey does not, however, provide evidence of shared understanding and practices about the definition and meaning of accrual budgeting in terms of content and presentation of budgets and the nature of appropriations. In some countries, accrual budgets do not comprise a balance sheet and accrual-basis appropriations are used for current expenditures while capital expenditures remain accounted for on a cash basis.

The use of cash appropriations in a large majority of countries, including some of those that are using accrual budgeting to measure the impact of current and new public policies, suggests that governments are wary of the volatility and discretion in accrual valuations when it comes to control over resources spent by ministries and departments.

Looking at the accounting and budgeting framework as a whole, there are therefore two dominant practices: a vast majority of countries prepare accrual financial statements but use cash appropriations in their budgets.

Despite a majority of countries having adopted accrual accounting, the direct adoption of international accounting standards such as International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS) by national governments remains very low. Countries seem to favour national standards for accommodating a number of specific deviations. However, more than one-third of standard setters (in most cases, the finance ministry or an independent standard-setting board) use IPSAS or IFRS as primary or explicit references for developing their national standards.

Only 15% of OECD countries provide an overview of the public sector as a whole in their financial statements, and another 20% do so at the federal level. Few countries report that they plan to expand the coverage of their financial statements across levels of government. This may be due to constitutional provisions on the independence of local governments, the technical and practical challenges of consolidation, and a lack of appreciation of the need to use the full view of public finances in financial statements.

Financial statements are subject to independent external control or audit in all OECD countries, but only 62% of respondents indicated that their supreme audit institution provides an opinion on the year-end financial report according to international auditing standards. Among this group of countries, a high proportion of the audit opinions are qualified.

A majority of OECD countries have completed their public sector accounting reform programmes. Despite variations in the timescale, duration, and cost of reforms, countries encountered many similar challenges for preparing and implementing accrual accounting, including capacity building, establishing an inventory and valuation of assets and liabilities, the design and roll-out of new IT systems, and preparation of consolidated fiscal reports.

A majority of countries have expressed satisfaction that the reforms' transparency and accountability objectives have been fully achieved. Other objectives are not yet fully met by a majority of respondents. In particular, the use of full accrual costs for evaluating the management and performance of government entities is not widespread.

A number of countries, including early adopters of accrual accounting and/or budgeting, note that policy-makers and the general public have limited interest in accrual financial information. One obvious explanation for this situation is that, in many countries, the cash budget balance and net lending remain the key fiscal figures or targets and, consequently, the focus of most of the political debate.

As these issues undermine otherwise successful accruals reforms, several initiatives are ongoing to address them. For example, to make financial statements more user-friendly, governments have started publishing management commentaries and simplifying the notes and disclosures in the financial statements.

From:

Accrual Practices and Reform Experiences in OECD Countries

Access the complete publication at:
https://doi.org/10.1787/9789264270572-en

Please cite this chapter as:

OECD/International Federation of Accountants (2017), “Executive summary”, in *Accrual Practices and Reform Experiences in OECD Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264270572-2-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d’exploitation du droit de copie (CFC) at contact@cfcopies.com.