



ACCRUAL REFORMS IN OECD COUNTRIES

The French Reform Experience

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INTRODUCTION

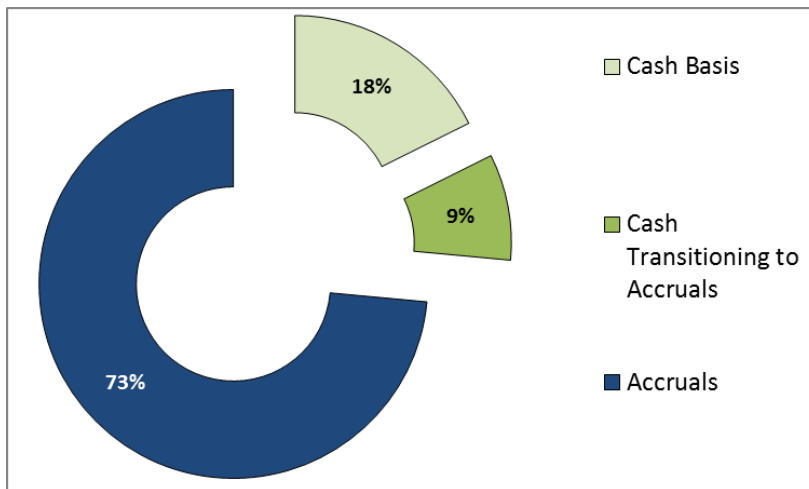
RESULTS OF THE 2016 OECD SURVEY



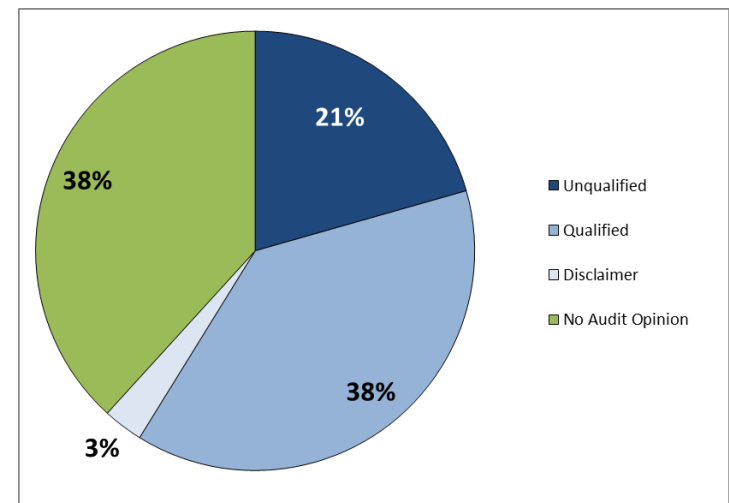
Accrual Accounting and Audit

A large majority of OECD countries have modernised their accounting system and audit practices over the last two decades.

**Accounting Basis for Financial Report
(34 OECD Countries, 2016)**



**External Audit
(34 OECD Countries, 2016)**

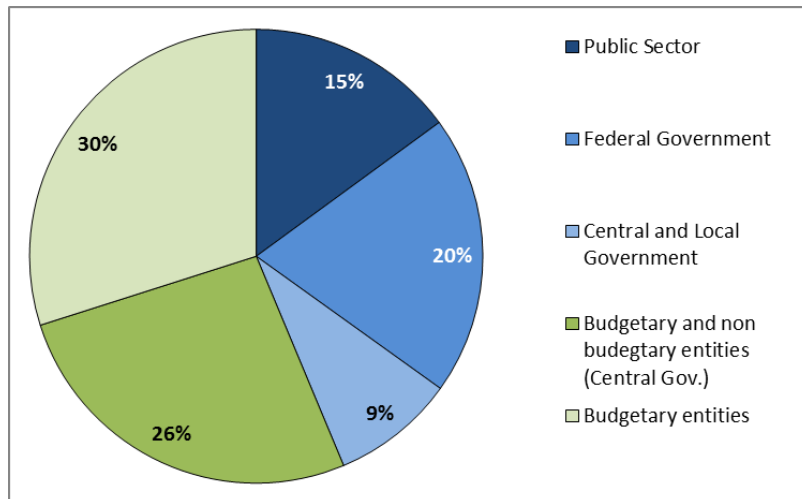




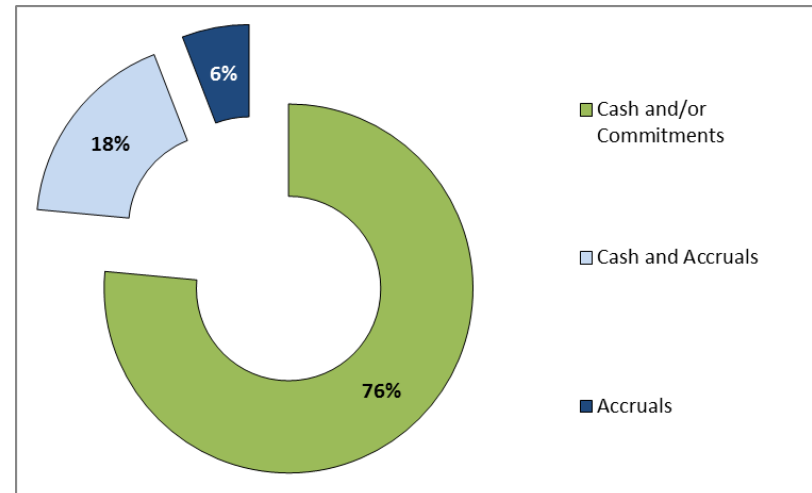
Consolidation and Accrual Budgeting

Less consensus of the way forward with regards to budgeting and consolidation practices.

**Coverage of Annual Financial Statements
(34 OECD Countries, 2016)**



**Appropriations
(34 OECD Countries, 2016)**





DESIGNING THE REFORM



Why is the French reform experience particularly interesting?

- Choices with regards to the reform's scope similar to the ones of a majority of OECD countries.
- Starting point similar in France and Italy in many ways.
- Wide, holistic approach to the accounting reform (incl. IT, internal controls, internal and external audit,...).



The starting point

- Accounting rules and principles set by the Finance Ministry for public and private sectors.
- Different accounting systems in government.
- Government financial management focused on expenditure compliance controls.

Entities	Accounting System
BCG	Commitment and cash (1959)
Public Agencies	Modified Accrual
Local government	Modified Accrual (1982)
Social Security Funds	Accrual (1996)
Government-owned corporations	Accrual (private sector GAAP)



Dissatisfaction with the Old Accounting System...

- Lack of transparency on the government's financial position, despite some accrual information disclosed in the accounts.
- No consolidated view of government operations and financial position despite Parliament's responsibilities over overall public sector finances.
- Insufficient sincerity on budget execution highlighted in the Court of accounts (e.g., differed recording of expenses reports, incomplete inventory of guarantees).



...And Expectations for the New One

- Assessing the full-cost of public policies' implementation (in light of performance objectives and results).
- Empowering and making accountable public managers.
- Keeping up with main international PFM trends (e.g., Sweden and the UK).
- Closing the gap with private sector (accounting, audit).



A Key Actor: the Parliament

- Several actors involved in studies, commissions and inquiries prior to the reform: Finance Ministry, Parliament (Assembly and Senate) and SAI, but also consultants.
- Consensus on need for an accounting reform but resistance (costs, feasibility, usefulness,...).
- Parliament played a key role in moving forward the reform agenda.



Cautious Approach to the Accrual Reform

- Accrual Budgeting (i.e., Parliament authorization on both cash and accrual fiscal balances) excluded after sustained debates.
- No consolidated accounts despite expectations from the Parliament (“need to deal with the accrual transition at budgetary central government first”).
- No long term sustainability assessment, but information on the commitments that will impact the fiscal position in the future.



IMPLEMENTING ACCRUAL ACCOUNTING



What were the Preparation Tasks? (2001-2006)

Oversight
and
Monitoring

Standard
Setting

IT

Capacity
Building

Internal
Control and
Audit

Opening
Balance
Sheet

External
Audit



Oversight and Monitoring

- New directory dedicated to reform implementation created into the Finance Ministry.
- The Department was created by decree, which defined four missions and stipulated it shall coordinate with the Budget and Accounting Directories.
- Dedicated unit in charge of designing and rolling-out the new accounting system (“Accord”).



Budget
Modernization

Accounting
Modernization

Accounting
Standards

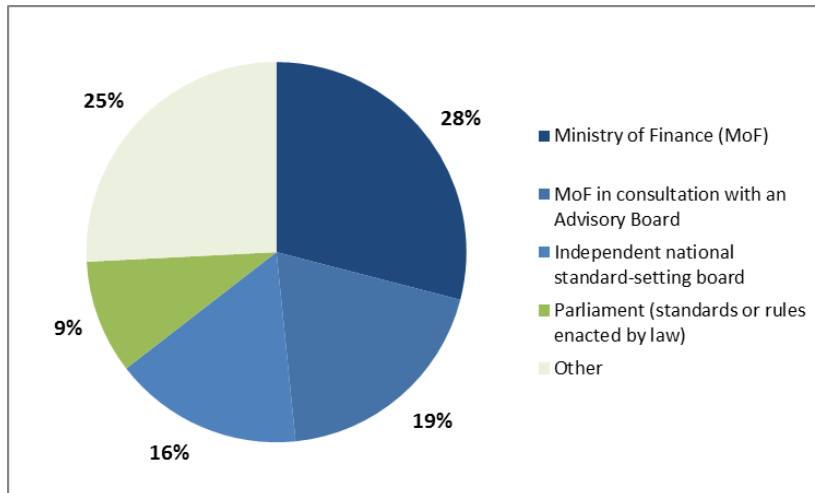
Training
Communication



Standard Setting (1/2)

Arrangements

**Standards Setting Arrangements
(34 OECD Countries, 2016)**

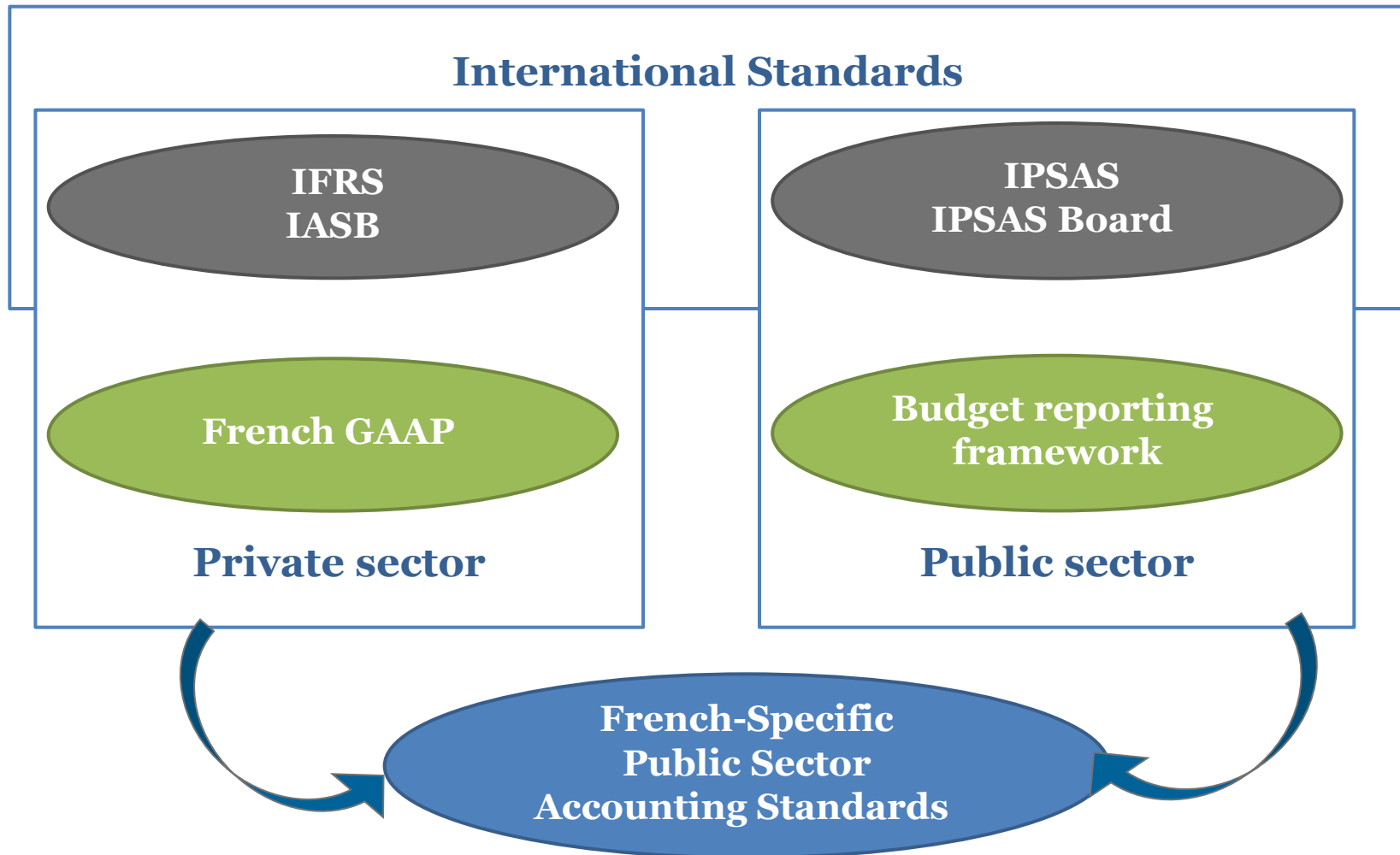


- In France, standard-setting body created within the Finance Ministry.
- Composed of representatives of accounting and budget offices, court of audit, certified accountants, etc.
- 13 standards initially; 18 standards in use as of today (e.g., heritage assets).



Standard Setting (2/2)

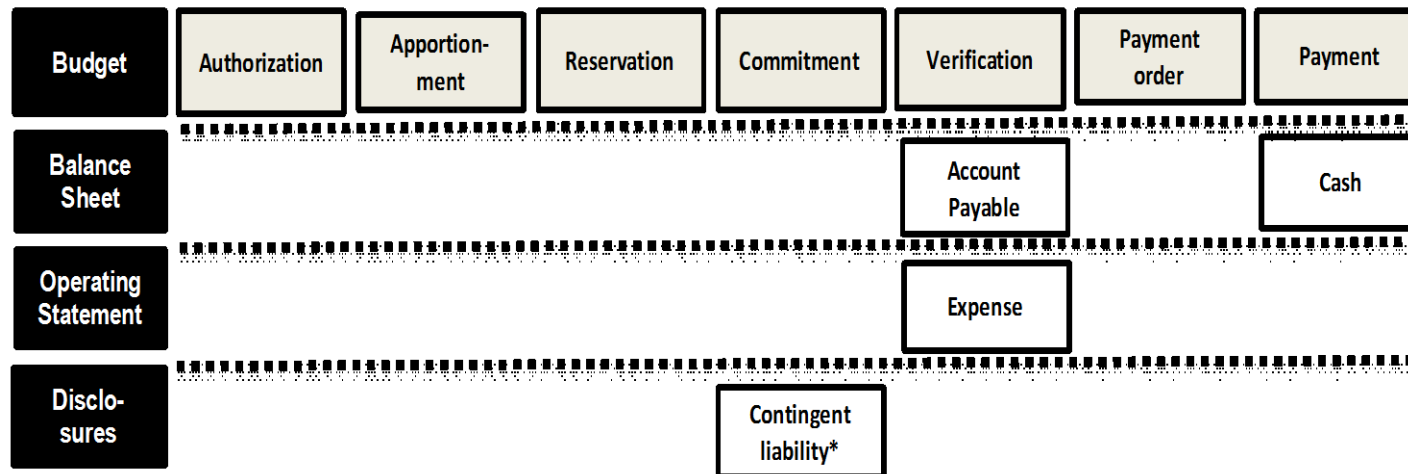
Type of Standards





Ex. 1: Recording Expenditure on Accrual Basis in France

Linking expenditure chain's controls and accrual basis accounting standards.





Ex. 2: Heritage Assets

- Initial value set a 1€ and subsequent expenditure (maintenance) at historical cost.
- Merits: heritage assets are inventoried and they are not assigned a market value.
- Limits: no selling price or other value (future cash flows), hence no impact on fiscal decision-making.

- Initial decision to design and roll-out a new, shared IT system (ACCORD), but serious difficulties for operating two accounting frameworks (i.e., several accounting entries) in the same IT system.
- Hence, use of existing IT systems and manual year-end accounting entries at first.
- CHORUS rolled-out years after the 1st publication of the accrual financial statements.



Internal Control and Audit

- A reform that is not only about changing standards but about increasing quality.
- Quality progressively defined as the outcome of:
 - Sound business processes and IT systems;
 - Regular internal controls (in-year and at year-end);
 - Internal audit;
 - Constructive collaboration with the external auditor.

Accounting and
Internal Control
Manuals

Accounting and
Internal Control
Manuals

Internal Audit
Qualifications



Capacity Building

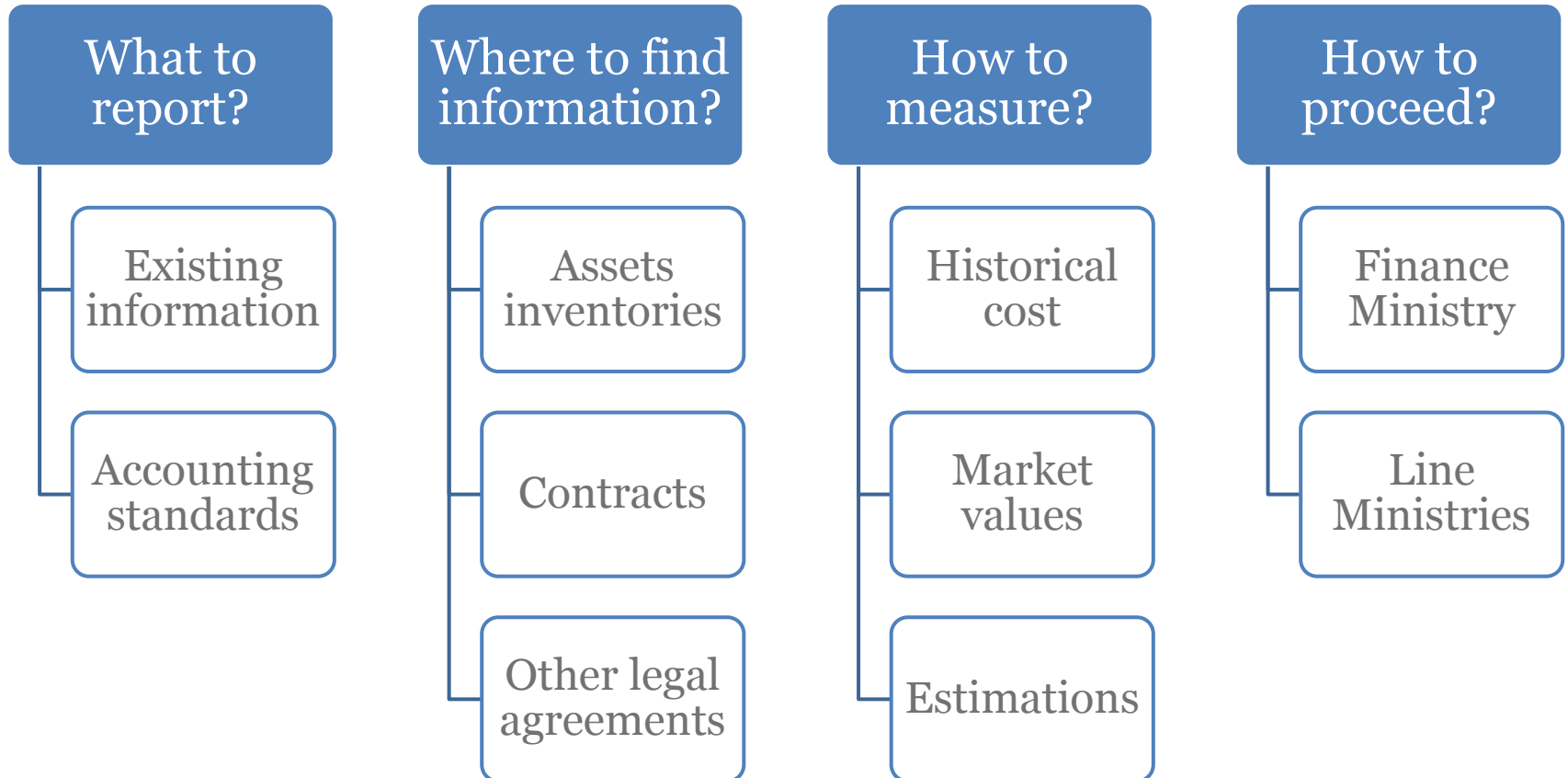
- High-quality public accounting staff, but with limited knowledge of accrual principles and rules.
- Choice to build capacities of existing staff (vs. recruiting massively certified accountants).
- Length/intensity of training programme recently questioned by the Court of Accounts.

Specific Training

*Institut de la
Performance
Publique*



Opening Balance Sheet





External Audit

- As part of the reform, Court of Audit tasked with certifying the accrual-basis financial statements.
- New mission; new tasks; need for resources and expertise.
- Choice to recruit a limited number of private sector auditors.
- Sustained cooperation between the Court of Audit and Finance Ministry.



What happened since the 1st publication? (2006-2016)

- Improvements to IT systems.
- Refinement of accounting standards.
- Resources focused on addressing auditor's qualifications (from 13 to 5 qualifications).
- Reconciliation/linkage of budget outturns and accrual financial statements one of the key concerns.

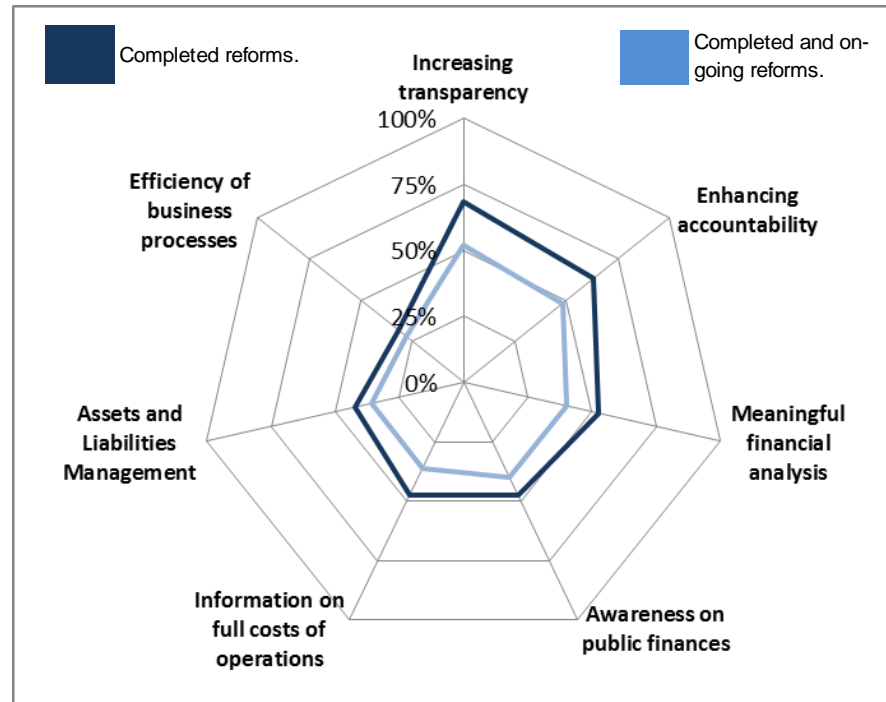


ASSESSING REFORMS OUTCOMES



Outcomes of Accruals Reforms in OECD Countries

**Satisfaction with Achievement of Objective
(25 OECD Countries, 2016)**



Expected benefits of accrual accounting with regards to **transparency** and **accountability** fully met in **around 75%** of OECD countries.

- Assessments vary according to stakeholders.
- Overall satisfaction with:
 - Quality of financial reports (certification, IT,...);
 - Completeness of information (assets, provisions, off balance-sheet commitments,...).
- But expectations not fully met with regards to:
 - Informing fiscal policy and budget discussion with balance sheet information;
 - Managers' performance monitoring and evaluation;
 - Making financial reports accessible and understandable by non-technician users.



Next steps

- Harmonization of agencies' and Budgetary Central Government's accounting standards on-going (but full consolidation is not envisioned).
- Accounting data available at management unit's levels.
- Streamlining further accounting processes?
- Integrating financial reporting?



CONCLUSION



Take Aways

- Reform implemented in 5 year, but sequencing of most tasks in practice.
- Implementing accrual accounting is not only about adopting new accounting standards; it's about designing new processes, gathering new data, operating new IT systems, etc.
- Accounting and budgeting cannot function in silos in the public sector; budget specialists must be involved in the reform design and implementation.