UDC: 35:657(100)
Review paper

TRANSITIONING TO ACCRUAL ACCOUNTING IN THE PUBLIC SECTOR

Zoran Minovski, PhD[1]
Jesse Hughes, PhD[2]
Aleksandar Kocevski, MsC[3]

Abstract

Public sector entities' aim is to provide services to their citizens. They operate in a specific environment and thus, their accounting system differs from the one used by business enterprises, and its development moves towards greater achievement of the international financial communication, in terms of comparing financial statements between various governments. The purpose of this research paper is to give insight into the current state and the perspectives for further development of the public sector's accounting system over the implementation of the accrual-based accounting in order to reach further harmonization and unification of financial reporting and thus comparability of public sector's results in different countries, a much better understanding of financial statements, and taking further measures and making decisions based on results. Accrual accounting provides a comprehensive view of a government's assets and liabilities, and of its financial performance and cash flows for the period under review. Accrual accounting standards reflect the long-term economic impact of political decisions reflected in financial statements.

Keywords: *public sector, accrual accounting, International Public Sector Accounting Standards, Government Financial Systems Manual, International Financial Reporting Standards, Conceptual Framework.*

JEL Classification: *F53, H11, H83, M41, M48.*

1. Introduction

This paper has been inspired by the palpable trend of transition towards accrual-based accounting in the public sector. Public sector entities exist and work in a specific environment, thence the need to adjust the standard accounting model to reflect their economic reality and better respond to the needs of the users of public sector financial

1 Full professor, Faculty of Economics, Ss. Cyril and Methodius University in Skopje, e-mail: zminovski@eccf.ukim.edu.mk
2 Retired professor, Old Dominion University, USA, e-mail: jhughes@odu.edu
3 Operations officer, World Bank, e-mail: aleksandar.kocevski@yahoo.com

reporting. This paper is based on selected relevant current literature, analysis of empirical data from various sources and the authors' personal observations. With regard to literature, the paper looks into the definition of the public-sector accrual-based accounting model as well as its modifications, the users of public-sector financial statements, the advantages of the accrual basis over the cash-flow basis and the practical implications of adopting the accrual-based accounting.

As to empirical data, for the time being, Australia and New Zealand are indisputably the leading authorities on accrual-based accounting in the public sector. Naturally the USA, the UK and Canada which host the most acclaimed accounting bodies don't fall far behind. Even the developing countries have more or less implemented accrual-based accounting in their public institutions. Nevertheless in some parts of Africa, Asia and Latin America with finally having overcome the teething troubles with cash-based accounting, it is unrealistic to expect an easy adaptation to the latest changes in public-sector accounting, so there is room for further development of accrual-based accounting. In these regions, it will take time and support, technical as well as financial, to further the cause of better and more reliable public-sector reporting.

To assure a healthy economy, each country must establish those financial policies that will provide strong fiscal sustainability. Sustainability can only be achieved with the implementation of accrual accounting. The establishment of International Public Sector Accounting Standards (IPSASs) (IPSASB, 2014) was initiated in the early 1990's based on the International Financial Reporting Standards (IFRS) (IASB, 2014) in existence at that time for application in the private sector. The IFRSs were modified, where necessary, for application in the public sector with additional accounting standards established that applied only to the public sector (i.e. public budgeting). Since most countries were controlling their budgets and reporting on the cash basis, a study (Study 14) (IFAC, 2002) was published in 2002 by the IPSAS Board to identify the actions necessary to transition to the accrual basis. In 2003, a separate Cash Basis IPSAS (IPSASB, 2003) was issued to assist developing countries and countries in transition as they attempted to enforce good fiscal discipline and to establish a foundation prior to implementing the accrual IPSASs. The initial Cash Basis IPSASs were modified to include budgetary reporting (2006) and reporting on external assistance (2007). The primary reason for a country to transition to the accrual basis was to identify the total costs of operation and assure that taxpayers were paying for the services that they receive at the time of receipt rather than pass those costs on to future generations (Commonly referred to as "inter-generational equity"). Any governmental entities that were operating at a profit or near profit basis were classified as a Government Business Enterprise (referred to as "State Owned Enterprises" in some countries) and were required to report on the accrual basis as specified by the IFRS.

In 2001, the International Monetary Fund (IMF) issued a Government Financial Statistics Manual (GFSM) (IMF, 2001) that also required accrual accounting in the public sector for their statistical reporting systems. The standards identified in the GFSM have been harmonized with the Systems of National Accounts. (United Nations, World Bank, 1993) One of the major differences between the IPSASs and the GFSM was the fact that GFSM required reporting of fixed assets on a current cost basis while the IPSASs required reporting on a historical cost basis. Action is being taken to harmonize the IPSASs with the GFSM to the maximum extent possible. As specified in the GFSM (IMF, 2011), the Public Sector consists of all general government units and all corporations owned or controlled by government units. The Public Sector consists of two subsectors: General Government and Public Corporations (including the Central Bank). General Government consists of the following subsectors: central, state and local governments. Each of governmental subsectors may consist of budgetary entities, extra-budgetary entities, and social security funds. “The budgetary central government subsector is generally composed of entities covered fully by a country’s general budget, usually approved by the national legislative branch. Typical entities include units of the executive, legislative, and judicial branches of government... Extra-budgetary entities include all nonmarket nonprofit institutions and other institutional units that are controlled by the government but have separate budgets. These units often receive transfers from the budgetary central government, but also generate some of their own revenues, and have a fair degree of autonomy in the management and use of their resources. Typical entities include public universities and research institutions ... and regulatory bodies.”

There is great diversity in government accounting practices worldwide. Cash accounting has been the primary method used in the public sector for many years and remains in place for many governments. However, an increasing number of governments are now using accrual based accounting frameworks, while others still follow hybrid approaches that can be classified as either modified cash accounting or modified accrual accounting.

The momentum for better public accounting is building, with more jurisdictions around the world adopting accrual accounting practices. The trend towards accrual accounting is particularly evident in non-OECD countries. Results from the survey indicate that many developing countries recognize the importance of accrual based accounts.

The typical steps to be used by developing countries to achieve full accrual financial statements are given below. More developed countries will have implemented some of the earlier steps and are in the process of implementing the remaining steps. The time that is takes to implement the steps below will be dependent on the capacity within each country (in many cases, more than 10 years).

2. Literature Overview

The usage of accrual IPSASs and financial reforms in given countries are covered in various relevant sources. For example, Allen R. and Tomassi D, 2001, wrote “Managing Public Expenditure” which presents a comprehensive and in-depth analysis of all aspects of public expenditure management from the preparation of the budget to the execution, control and audit stages, with focus particularly on the needs of countries in transition (Central and Eastern Europe).

Athukorala L. and Reid B. in a study made by the Asian Development Bank examined the relevance of accrual budgeting and accounting in government for Asian Development Bank developing member countries and provided practical suggestions on how they might improve their government accounting arrangements in a gradual, systematic manner, and they also give arguments for and against accrual accounting. Barret, P. also explains the process of setting and implementing the accounting standards in Australia beginning in 1984, and gives insights over the work of Australian government.

In 2015, the book Public Sector Accounting and Auditing in Europe: The Challenge of Harmonization (Governance and Public Management) presented the national accounting practices of fourteen European Union members and Switzerland, which shows the importance of the European Public Sector Accounting Standards (EPSAS) as a project aiming to achieve comparable governmental accounting data and indirectly improve statistical data.

The application of the IPSASs is elaborated in each chapter of the 7th edition of Accounting for Governmental & Nonprofit Entities, especially in Part 1, Chapter 9, where there is explanation of the International Accounting Standards and other applicable standards for accounting in the public sector (particularly on accrual basis), and it also includes an appendix on the particular changes which occur when modified accrual transforms into accrual basis accounting.

The Handbook of Governmental Accounting includes a paper by Dr. Jesse Hughes (Chapter 14), in which he gives individual descriptions of all IPSASs and displays explainable attachments including the financial statements' positions.The paper by Robb and Newberry illustrates the evidence from New Zealand and explains that today's IPSAS developments were initially led by New Zealand, and it urges to consider constitutional and political implications before proceeding with this development.In 2015, the book "Harmonization of budgetary accounting in the Republic of Croatia with the International Public Sector Accounting Standards" was also published with the objective to explain the subject and substance of IPSASs, as well as recent developments regarding international public sector accounting and financial reporting systems' harmonization processes. The authors tend to explain the need for IPSASs in order to foster the financial reporting of public sector organizations in Croatia.

3. Methodology

The base for the methodology used on the topics, given the complex and holistic nature, is restricted to a broad review of recent policy papers of the EU and IPSASB and other International organizations.The paper is prepared implementing many scientific methods, like: deduction, analysis and synthesis, comparative analysis, etc.This paper's aim is to inspect the influence of the accrual-based accounting and to influence the developing countries to use it because of the benefits it provides for the country and the people living there.

4. Conceptual Framework

The Conceptual Framework recently published by the IPSASB explained “The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of General Purpose Financial Reports (GPFRs) for accountability purposes and decision-making purposes.” (IPSASB, 2014) The Framework further identifies the importance of budget and liquidity information (along with asset and liability information) as significant components necessary in the GPFR to achieve those objectives if fiscal sustainability is to be achieved.

Although fiscal discipline was not mentioned in the Framework, it is a critical objective that was implied throughout the Framework. This objective is met by preparation of a Budget to Actual Comparative Statement and the Cash Flow Statement while the Statement of Financial Resources and the Statement of Financial Performance primarily meet the fiscal sustainability objective. In a project review of the Cash Basis IPSAS currently underway, the scope of the review may be limited to the fiscal discipline objective.

Most developing countries and countries in transition around the world are initially concerned with establishing fiscal discipline over their available resources in the short term. Once they get control of these resources, they are then in a position to move toward preparing those GPFRs necessary to achieve fiscal sustainability as identified in the Conceptual Framework.

The mandatory portion (Part 1) of the Cash Basis IPSAS does a good job of establishing fiscal discipline over a country’s resources. However, it could be simplified by adopting the following:

- Move the requirement for a consolidated whole-of-government financial statement to the optional Part 2. In Part 1, harmonize the categories of government entities with those identified by the IMF in their GFSM as follows: budgetary entities, extra-budgetary entities, and public corporations (specifically exclude central banks). Then require a consolidated financial statement for each of those categories.
- Only include those payments by third parties in the Cash Receipts and Cash Payments Statement if they have not been included in the accounting system for the Budget to Actual Comparative Statement. Assure that the requirement to present “Payments by Third Parties” in the Cash Basis IPSAS is consistent with IPSAS 2 (Cash Flow Statement) and IPSAS 24 (Budgetary Reporting). The whole concept of payments by third parties is confusing in the context of sovereign governments. The only examples would be those payments made directly by donors - but this requires some definitions of the parameters, which is completely missing from the standard. But this only partly addresses the problem. One example of the definitional problem is deciding when a bank account for a project is government money, or when it is used for third party payments on behalf of the government.

There is a need for a conceptual linkage between the Cash Basis IPSAS and the

Accrual IPSASs. This linkage can be simply achieved since Part 2 of the Cash Basis IPSAS defines an extended Cash Flow Statement (as under IPSAS 2) with such additional statements as are feasible under a cash basis, e.g. comparison with the budget, notes and policies, some limited form of consolidation suggested above. If this conceptual basis is accepted, it follows that the Cash Basis IPSAS requirements should be consistent with, and certainly not exceed, those of the accrual IPSAS. Part 2 of the Cash Basis IPSAS becomes the link between cash and accrual, allowing governments to implement some form of modified cash or accrual in addition to the Cash Basis implemented under Part 1. This also makes it logical that the IPSAS Cash Flow Statement should be the recommended format for the Receipts and Payments statement (since the IPSAS 2 format contains more useful analysis than a traditional receipts and payments format). It would be helpful if the IPSAS 2 format was consistent with the GFS format.

5. Cash Basis Ipsas

The title “Cash Basis IPSAS” has been misleading to some countries since it implies that you have to be on the cash basis to be in compliance with the standard. Since some countries had moved from the pure cash basis to a modified cash or modified accrual basis of accounting, they thought the standard might not apply to them. However, the Cash Basis IPSAS only deals with the reporting of cash and budgetary information and it does not dictate the accounting basis to be used. The Cash Basis IPSAS is comprised of two parts: Part 1 requires preparation of a Budget to Actual Comparative Statement, a Cash Receipts and Cash Payments Statement with a separate column for Payments by Third Parties, and Footnote Disclosures to clarify information presented in the published statements. Part 2 identifies optional actions that can be taken as each entity builds on their accounting system in their transition to accrual accounting.

Prior to the issuance of IPSASs, many countries were preparing and externally reporting a Budget to Actual Comparative Statement. For transparency purposes, the IPSASs required that the published statement include a column on the initial budget approved by the legislative body in addition to the final budget approved. These approved budgets could then be compared to the actual revenue and expenditures reported on the budgetary basis to identify the degree of variance between the initial and final budget.

Prior to the issuance of IPSASs, very few countries were preparing or externally reporting their cash receipts and cash payments. The Cash Basis IPSAS required that a Statement of Cash Receipts and Cash Payments be externally reported with a separate column for “Payments by Third Parties”. There has been confusion relative to the information to be reported as “Payments by Third Parties”. The consensus has been to only report those “Payments by Third Parties” if they have not been processed through the governmental entity’s accounting system and not been included in the Budget to Actual Comparative Statement.

Prior to the issuance of IPSASs, very few countries were preparing any Footnote Disclosures to clarify the information presented in the published statements. This was especially important relative to arrears and outstanding debt. As governmental entities implemented the optional items in Part 2 of the Cash Basis IPSAS, information relative to these items was added to the Footnote Disclosures.

The Cash Basis IPSAS required that the governmental entities report on a consolidated whole-of-government basis. However, to simplify the reporting requirements, many countries have found it more beneficial to use the classification system (budgetary entities, extra-budgetary entities, public corporations, and central bank) prescribed by the IMF in their GFSM. This is especially true for extra-budgetary entities, since their revenue from own sources is not always readily available in the Central Government's accounting system.

6. Accrual Ipsass

When a governmental entity has implemented the optional items in Part 2 of the Cash Basis IPSAS, it is well on its way to implementing the accrual IPSAS. The accrual IPSASs specify the financial statements to be prepared, as well as clarify the recognition and measurement of governmental assets and liabilities. The accrual IPSASs build on the financial statements (Budget to Actual Comparative Statement, as well as the Cash Receipts and Cash Payments Statement) required to be published as specified in the Cash Basis IPSAS. As recommended in Part 2 of the Cash Basis IPSAS and required by IPSAS 2 (as well as the GFSM), the Cash Receipts and Cash Payments Statement was to be reformatted as the Cash Flow Statement without requiring a separate column for "Payments by Third Parties". Further, the accrual IPSAS (IPSAS 1) required preparation of a Statement of Financial Position, a Statement of Financial Performance, and a Statement of Net Changes in Net Assets/Equity. The main advantage of the accrual IPSASs is the requirement to recognize revenue when earned (not when cash is received) and recognize expenses when the liability is incurred (not when cash is paid).

There is no attempt to change the budgetary system when the accrual IPSASs are implemented other than to assure that the coding structure will benefit both the budgetary system and the accounting system. This can be a time-consuming process, since the budgetary system is necessary to maintain fiscal discipline and the accounting system is critical to attain fiscal sustainability. The coding structure can also be used to electronically prepare the financial statements required by the GFSM through the use of look-up tables. The GFSM financial statements required are as follows: Balance Sheet (similar to the Statement of Financial Position in IPSAS 1), Statement of Government Operations (similar to the Statement of Financial Performance in IPSAS 1), Statement of Sources and Uses of Cash (same as Statement of Cash Flows in IPSAS 2), and Statement of Other Economic Flows (similar to Statement of Changes in Net Assets/Equity in IPSAS 1).

7. Transitional Steps

The typical steps to be used by developing countries to achieve full accrual financial statements are specified below. More developed countries will have implemented some of the earlier steps and are in the process of implementing the remaining steps. The time that is takes to implement the steps below will be dependent on the capacity within each country (in many cases, more than 10 years).

1. Classify all public sector entities into one of the following GFSM subsectors: budgetary entities, extra-budgetary entities, public corporations, central bank, and social security schemes.
2. Prepare financial statements for public corporations as specified by the IFRSs. Prepare consolidated financial statements for public corporations to eliminate any inter-government transfers.
3. Prepare financial statements for the central bank as specified by the IFRSs.
4. Prepare financial statements for social security schemes on a pay-as-you-go basis until the accounting basis has been identified by IFRS or IPSAS.
5. Prepare a unified chart of accounts that can be used to prepare financial statements required by the IPSAS and the GFSM for their budgetary and extra-budgetary entities.
6. Implement the requirements in Part 1 of the Cash Basis IPSAS.
   - Implement requirements for budgetary entities first.
   - Implement requirements for extra-budgetary entities as information comes available.
7. As capacity builds within the budgetary and extra-budgetary entities, implement the optional items in Part 2 of the Cash Basis IPSAS to the maximum extent possible.
   - Concentrate first on establishing a commitment accounting system to reserve funds to pay future liabilities when due. Assure that all liabilities are captured in the accounting system and reported in the financial statements.
   - Reformat the Cash Receipts and Cash Payments Statement into the format prescribed for the Cash Flow Statement specified by IPSAS 2 and the GFSM.
   - Establish Stock Record Cards for inventory items and an Asset Register for all fixed assets. Assure that all assets are captured in the accounting system and reported in the financial statements.
   - Prepare separate consolidated financial statements for budgetary and extra-budgetary entities.
8. When the majority of the items in Part 2 of the Cash Basis IPSAS have been implemented for the budgetary and extra-budgetary entities, implement the accrual IPSAS. For simplicity purposes, maintain separate columns for budgetary entities, extra-budgetary entities, and public corporations rather than attempt to prepare whole-of-government consolidated financial statements.

8. The Status Of Public Sector Accounting In Given Countries

Public sector entities operate within a different economic, political, legal and social context than the private sector. Thus, differences exist in the type of financial information they need and the financial statements they produce. Their objective is to provide services for the citizens in a given economy, while the value of such services very frequently cannot be quantified in terms of monetary indicators. If the Government organizations are purely profit oriented, the needed services would not be furnished to the citizens or the taxpayers would have to be burdened with very high taxes to be able to afford them. Therefore, these organizations must develop other measurements to estimate their efficiency and economy. The public sector entities have different goals and, for their achievement, it is necessary to understand the important relationship between the users of these services and the procedures to make them available.

Due to these and many other factors, the accounting of the public sector entities focuses on the control and exercise of their legal mandate. The accounting is rather conservative and emphasis is put on determining the volume of resources (budget) spent to generate the given level of services. Therefore, the measures of organizational performance and abilities to provide certain quantity and quality of resources become critical, despite numerous legal limitations.

To be able to continually achieve their objectives and function within the legal mandate, the public sector entities require the presence of an accounting information system in support of their management and decision-making processes. Considering the differences between the profit and non-for-profit organizations, it does not mean that the accounting system which is adequate for profit entities - is applicable in the context of the non-for-profit entities. Hence, different measurements and criteria are being developed to measure the success and financial position of the non-for-profit entities, applicable within their operating circumstances. When defining public sector accounting, it is important to take into consideration all specificities of the nature of business for these organizations in order to ensure the generation of accounting information that will serve as a basis for decision-making, and not just for the purposes of external reporting.

Accounting is a set of knowledge and skills in recording business transactions which should, in a fair and true manner, reflect the nature of the transaction in the context of overall operations of the reporting entity. The methodology and technics in recording these transactions within the scope of work of the reporting entity becomes a necessity, if the financial reporting is to produce exit information which is clear, important and comparable. Hence, the information becomes useful for the wider circle of users and decision makers.

In such manner, financial statements satisfy the general needs for information of most users. This segment is used to determine the major users of governmental financial statements and the type of information they require. However, such financial statements contain a major weakness. These statements do not furnish all information

which various categories of users need to support their decision-making process with, since most of these statements reflect on past transactions and rarely incorporate non-financial data.
Continual changes and additions to the international standards are made in order to meet the requirement for financial reporting on the non-financial information. Notes to the financial statements provide additional explanations about the balance sheet and income statement items, which are relevant for the readers and users of financial statements. Even more important are those notes that include information on risks and uncertainties that may impact the reporting entities, as well as the resources and liabilities that are not recognized in the balance sheet.

The importance and the role of the public sector accounting can be observed from various perspectives: the financial reporting point of view, the use of the accounting base, the way of using the accounting information in the management of fiscal and monetary policy, the link between the public and private sector accounting, the relationship with the accounting systems of other jurisdictions, and the role of science and the accounting profession. Accounting is a critical service function which produces information requested by users. Thus, regular control is applied over particular reported assets and liabilities with the most important administrative ones applicable to the public sector accounting: (i) control in the use of funds and (ii) the role of the budget.

When discussing the relationship between the accounting systems of different countries/jurisdictions and the possibility of the use of the International Public Sector Accounting Standards (IPSAS), it is important to emphasize the fact that most countries produce not only general purpose financial statements, but also financial information based on the system of government statistics and the system of national accounts. There have been significant changes in the frameworks of these two systems, mostly characterized by the accrual basis of accounting. This makes it possible to compare similar financial information produced by different countries.

In some developed countries, the public sector accounting has noted significant progress with changes in the accounting base and shift from a cash to accrual basis. This example is being followed by many other developed and developing countries when introducing reform processes in their public sector accounting systems.

When considering the transition towards IPSAS, individual standards should be analyzed from the following perspectives:
- The possibility for their application before introducing changes in the legal framework and regulations;
- Similarities of the individual standards currently in use with the IPSAS; and
- The contribution of the use of IPSAS to the improvement of the quality of financial reporting, in case of full transition.

By 2015, a total of 32 countries have implemented the accrual IPSASs. In addition, one cash-based IPSAS has been implemented and it is mostly used for the preparation of the Cash Flow Statement or Statement of Cash Receipts and Payments. (van Greuning, et al., 2011)

To date, numerous countries have adopted and implemented the IPSAS and this number continues to grow. Many jurisdictions have implemented this system considering the fact that these standards lead towards improved operating practices. However, the number of countries which have fully adopted and practically implemented these standards is rather small. The major problem is in the key requirement to produce consolidated financial statements of all controlled entities.

The status of the accounting system in given countries can be analyzed and considered through the type of an accounting base used by the reporting entities, considering that many countries are already using the accrual basis of accounting in the public sector reporting. Therefore, understanding the differences in the public sector accounting in different countries becomes very important. (www.ifac.org)

For instance, Australia has been preparing governmental financial statements on an accrual basis while fully complying with all public sector accounting requirements. The Australian Accounting Standards Board (AASB) has issued national financial reporting standards – Australian International Financial Reporting Standards (A-IFRS) limited for use by the national reporting entities. Therefore, their national public sector accounting standards highly resemble the accrual IPSASs, while emphasizing the fact that the public sector entities are often reporting on non-cash transactions while using their assets to offer various services to the public. England has issued a separate guideline for the application of accrual IPSASs for public sector reporting purposes, as well as a separate guideline for standard's development. These guidelines clarify the areas where these standards need to be adapted and integrated for the public sector purposes, while the local governments are using this already developed framework for their reporting purposes. In the Netherlands, the government has, on a trial basis, approved the use of accrual IPSAS.

The Dutch Minister of Finance has agreed to this pilot-method stressing that the accrual basis of accounting is much more useful for the public sector entities than the cash basis previously in use. Therefore, he decided to improve the previous cash-based accounting system and the non-financial information in the budget and annual reports, by allowing the various public sector agencies and other entities to use them for their reporting purposes. Argentina, on the other hand, focuses on the process of developing its own accrual based public sector accounting standards which will be fully harmonized with the accrual IPSAS. The government of Bangladesh has mobilized all public sector committees to do the necessary preparation for the cash based IPSAS during the transition period, while the ultimate goal is the adoption of the accrual IPSAS for public sector accounting. However, none of these sets of standards has been adopted and implemented to date, which demonstrates the low level of development of their public sector accountancy system.

China is still adapting the IPSAS to its own needs and requirements, and the formal declaration of implementation is yet to follow. Cyprus has been using the cash-based IPSAS, while Slovenia is using the same set of standards but undergoing significant efforts to implement the accrual IPSAS for the public sector reporting purposes. Croatia is at a stage of almost complete implementation of the accrual IPSAS, which demonstrates a high level of motivation and development of the accounting system in the public sector – this is not the case with the other Balkan countries, though. Macedonia is still relying heavily on the cash-based IPSASs, but efforts are underway to introduce the accrual ones.

The International Consortium on Governmental Financial Management (ICGFM) has drafted (www.icgfm.org) a series of documents that can help provide assistance in a country's efforts to implement the accrual IPSASs. These documents are as follows: Compilation Guide for Developing Countries and a Roadmap to Implement Compilation Guide for Developing Countries. A Self-Assessment Field Test is provided on the ICGFM website for those countries that want to determine their degree of compliance with the Cash Basis IPSAS or the accrual IPSASs. For those countries that believe their budgetary entities, extra-budgetary entities, or public corporations have complied with the international standards, the ICGFM will issue a Certificate of Conformance that can be attached to their subsequent year's financial statements.

As each country progresses toward the implementation of the accrual IPSASs, the world economy will be strengthened since the full costs of operations in the public sector will be identified in the period in which the costs are incurred. As such, the taxpayers will pay for the services they receive in the period in which these services are received rather than deferred for payment by future generations.

Twenty years ago most countries around the world used a cash-based accounting and budgeting system to maintain fiscal discipline. Since then, many of these countries have implemented the Cash Basis IPSAS to lay the foundation for good cash reporting prior to implementing the accrual IPSASs. These countries are now progressing toward the full implementation of the accrual IPSASs in order to establish a higher degree of fiscal sustainability. As soon as this objective is achieved, taxpayers will be able to pay for the services they receive in the year of receiving them rather than pass these costs on to future generations.

9. Conclusion

It is quite clear that the process of transformation from cash to accrual basis takes a lot of time and efforts, but it assures a better operation of the government. The benefits from application of the accrual basis are numerous, including better communication with the public and better performance of the governmental institutions. Better service for everyone, greater control of the governmental expenditures, and control over the usage of resources by the country.The IPSASB tends to improve the standards with changes where appropriate according to the current problems in their implementation and the future challenges of accounting overall. In the foreseeable future, more countries are expected to make efforts to adopt the public-sector accrual-based accounting model due to the advantages it provides in a way of high-quality financial reporting and better international public-sector communication and cooperation.

References

- Allen, R., Tomassi, D., (2001). Managing Public Expenditure – A reference Book for Transition Countries. OECD, Paris.

- Athukorala, L. & Reid, B., (2006). Accrual Budgeting and Accounting in Government and its Relevance for Developing Member Countries. Asian Development Bank

- Barret, P. (2004). Financial management in the public sector – how accrual accounting and budgeting enhances governance and accountability. CPA Forum *Challenge of chance: Driving governance and accountability*, Singapore.

- Bogui, F. B., (2009). *Handbook of Governmental Accounting*. CRC Press.

- Brusca, I., Caperchione, E., Cohen, S., Manes Rossi, F., (2015). Public Sector Accounting and Auditing in Europe: The Challenge of Harmonization (Governance and Public Management). Palgrave Macmillan

- Cash Basis IPSAS (IPSASB, 2003).

- Commission of European Communities, IMF, Organization for Economic Co-operation and Development, United Nations, World Bank (Brussels/ Luxembourg, New York, Paris, Washington, 1993).

- Freeman R. & Shoulders C., (2000). Governmental and Nonprofit Accounting, Theory and Practice. Prentice Hall, New Jersey.

- Government Finance Statistics Manual (IMF, 2001).

- Government Finance Statistics: Compilation Guide for Developing Countries (IMF, September 2011).

- Granof H. M., (2001). Governmental and Not-for-Profit Accounting, Concepts and Practices. John Wiley & Sons Inc., New York

- Handbook of International Public Sector Accounting Pronouncements (IPSASB, 2014).

- Hughes J. & Minovski Z., (2004). A Plan for Implementation of International Public Sector Accounting Standards in Developing Countries and Economies in Transition. The International Consortium on Governmental Financial Management, Public Fund Digest, Vol. 4, No. 1, Washington D.C.

- IFAC, Study 11 – Government Financial Reporting: Accounting Issues and Practices. Public Sector Committee, New York, 2000

- IFAC, Study 14: Transition to the Accrual Basis of Accounting Guidance for Government and Government Entities. Second Edition, Public Sector Committee, New York, 2003
- International Financial Reporting Standards (IASB, 2014)
- Reck L. J., Lowensohn L. S., (2016). Accounting for Governmental & Nonprofit Entities. McGraw Hill, New York
- Robb, A. & Newberry, S., (2007). Globalization: governmental accounting and International Financial Reporting Standards. Socio-Economic Review 5.
- The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (IPSASB, October 2014).
- Towards a new era in government accounting and reporting. PWC Global survey on accounting and reporting by central governments, April 2013.
- Transition to the Accrual Basis of Accounting (IFAC, 2002).
- Van Greuning, H., Scott, D. & Terblanche, S., (2011). International *Financial Reporting Standards: A Practical Guide*. The World Bank, Washington D.C.
- Vašiček, V., Vašiček, D., Letica, M., Ćorić, J., Šnjegota, D., Poljašević, J., Čegar, B., Jovanović, T., Josipović Rodić, B. & Roje, G., (2015). *Računovodstvo, revizija i kontrola javnog sektora u odabranim državama Jugoistočne Europe*. TIM4PIN d.o.o. za savjetovanje, Zagreb.