

# Executive Summary

**A** general public sector reform trend has seen the governments of most developed countries—including all G7 members—adopt some aspects of accrual accounting as the basis for their budgeting and reporting. There is no evidence that this trend is reversing.

At the same time, the international systems for compiling government finance statistics and national accounts have adopted the accrual basis. Consequently, all major economic statistical systems are now on the accrual basis (for instance, balance of payments).

Moreover, recent studies of developing member countries (DMCs) of the Asian Development Bank reveal that many of their governments are also either moving, or are considering moving, from cash accounting towards accrual accounting.

Supporters of accrual accounting argue that (i) at the aggregate level, accrual-based fiscal indicators provide better information about the sustainability of fiscal policies, provide a stronger basis for government accountability, and provide a better measure of the effects of government policies on aggregate economic demand; and (ii) at the organization level, accrual-based financial statements provide better measures of organizational efficiency and effectiveness, and reduce opportunities for fraud and corruption.

Opponents contend, among other things, that (i) few countries have implemented accrual accounting; (ii) implementation and operation is difficult and expensive; (iii) the emphasis should be on getting the basics right first; and (iv) accrual accounts are more difficult to understand.

Whatever the case, lessons about implementing accrual accounting have been identified from the experiences of developed countries—for instance, the importance of communication, quality assurance, and the use of commercially-available accounting software.

But, DMCs confront obstacles that developed countries do not face: (i) capacity constraints can be overwhelming; (ii) there may be more urgent priorities than improving accounting; (iii) corruption and vested interests can undermine efforts; (iv) donor activities may reduce coherence; (v) reform fatigue may impede efforts; (vi) limited technological infrastructure may reduce options and raise costs; and (vii) supreme audit

institutions (SAIs) may have limited capacity. Furthermore, circumstances vary between DMCs, for instance, the Marshall Islands has no professionally-qualified Marshallese accountants in either the public or private sector, whereas the Philippines and Sri Lanka have many private sector accountants.

This study considers these lessons and constraints, and recognizes that for the successful implementation of accrual accounting in a DMC government: (i) implementation strategies and timing should be carefully considered; (ii) political commitment is essential; (iii) intentions and objectives must be clearly communicated; (iv) suitably qualified accounting personnel are necessary; (v) financial management information systems should be appropriate; (vi) SAIs must be suitably staffed and resourced; and (vii) to maximize benefits, the exercise should be part of wider public sector management reforms.

This study concludes that DMCs adopting accrual budgeting and accounting should do so in a realistic and practical manner, as resources and capacity allow. It recommends a gradual step-by-step approach, beginning with implementation of the recently-promulgated cash accounting standard. By doing so, DMC governments will be able to improve their accounting arrangements in a manner consistent with the eventual successful adoption of accrual accounting.