



HM TREASURY

# *Accrual Accounting in the UK*

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## *The development of accounting in the UK central government*

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- Government departments account on cash basis from 1866;
- Accounts independently audited (initially every transaction reviewed!);
- Decision to move from cash to accrual - 1996;
- Resource Accounting and Budgeting (RAB) commenced 2000-01 based on UK GAAP;
- IFRS-based reporting (adapted as necessary for public sector) implemented 2009-10
- IPSAS as reference point
- Whole of Government Account (WGA) published 2011

## *Gradual accrual adoption across public sector*

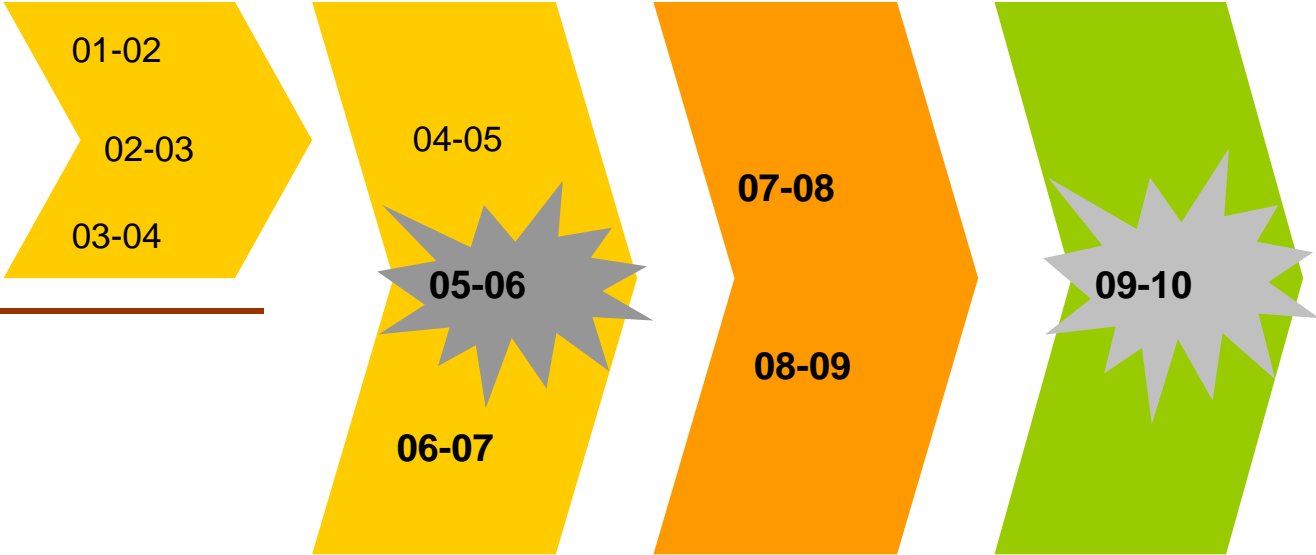
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- Public corporations – commercial accounts
- Local government – partial then full accrual
- NHS providers – accrual from creation
- Central government – departments last to implement accrual at organisational level
- Public sector consolidation –WGA last step

# Building WGA coverage – project timeline

**Central  
Government  
Departments;  
NDPBs; and  
Devolved  
Administrations**

**Local Authorities;  
NHS Trusts;  
Public corporations**



## *Building accrual coverage: Transactions / account areas*

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- Accrual for individual entities covers:
  - Income (local taxation & charges for services)
  - Expenditure
  - Debtors and creditors
  - Property plant & equipment
- Extension to WGA required accrual accounts for:
  - Taxation (Income and Corporation Taxes, VAT etc)
  - Debt and currency /gold reserves
  - Employee pension schemes

## *Lessons learned*

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- Clear mandate, political backing and statutory mandate
- Clear accountabilities and responsibilities between the centre, reporting entities and the National Audit Office
- Clear timetable and project plan with buy in
- Phased approach – demonstrates achievement and builds confidence
- Use of ‘dry runs’ to resolve issues
- Sufficient capability and capacity to implement change
- Training critical
- Need to change culture as well as systems

## *Embedding accrual – Culture*

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- Limited accounting expertise initially
- Training decentralised
- Some centrally-written guides
- Gradual management and external financial reporting improvements:
  - Quality and timeliness.
- Mainstream role for Finance
- Increased number of qualified accountants
- Qualified Finance Directors on Department Boards (by 2007)



## *Embedding accrual – accrual budgeting*

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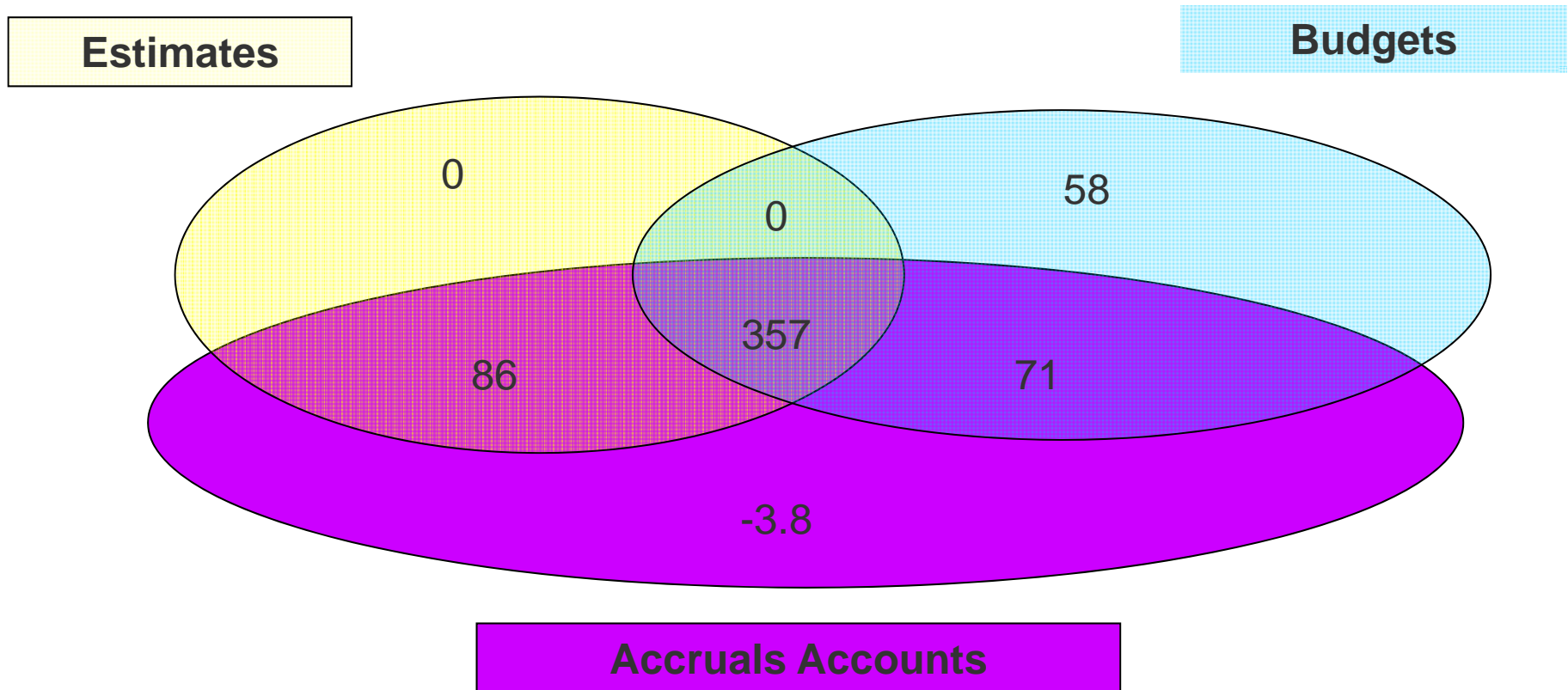
- Alignment of performance and accountability frameworks – what gets measured gets managed!
- Phased implementation – address accounts problems, build confidence in data
- Improved risk management and stronger value for money incentives
- Focus on asset management
- Transparent system with a single set of rules and numbers
- Less complexity if budgets and accounts are fully aligned.....





# Embedding accrual – PFM framework alignment

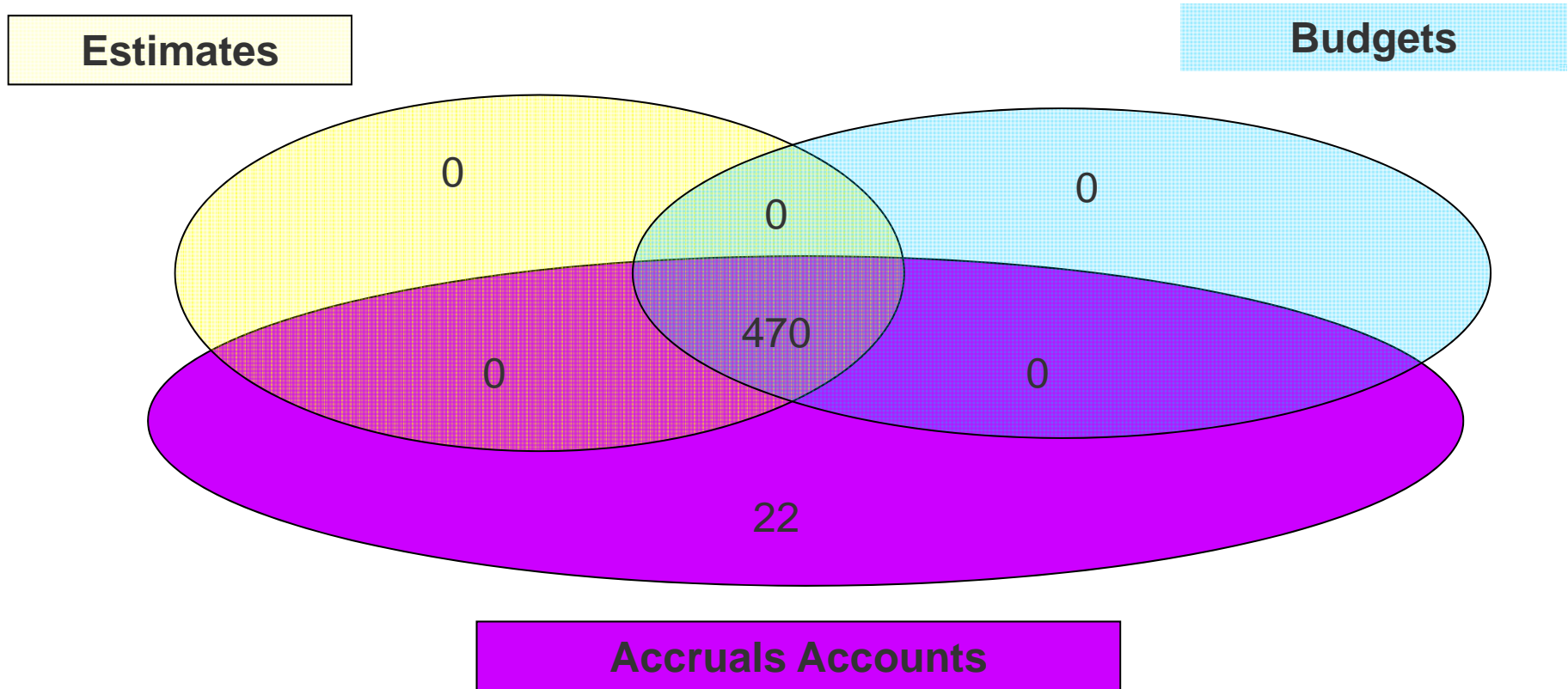
Then ...



Amounts included under each framework (£bn) for departments' 2008-09 resource plans. Excludes devolved administrations.

# Embedding accrual – PFM framework alignment

*... and Now*



Amounts included under each framework (£bn) for departments' 2008-09 resource plans. Excludes devolved administrations.

## *Embedding accrual - Fiscal Transparency*

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- Set up OBR
  - Economic forecasts
  - Long term fiscal sustainability report
- Help achieve good governance
  - Transparency
  - Open government up to public scrutiny
  - Trust
- Vital for a strong economy
  - Credibility through shared and accurate assessment of the public finances
  - Credibility through providing information to make efficient decisions
  - Make tough choices

