

May 26, 2016

Dr. Henry Midgley  
Committee Specialist  
Public Administration and Constitutional Affairs Select Committee  
House of Commons  
United Kingdom

By e-mail: [pacac@parliament.uk](mailto:pacac@parliament.uk)

Dear Dr. Midgley

Thank you for the invitation to provide comments on the inquiry into government accounts by the Public Administration and Constitutional Affairs Committee (PACAC) of the House of Commons in the United Kingdom (UK).

IFAC is the global organization for the accountancy profession, and as such, aims to provide the perspective of the global accountancy profession. Through its current membership of more than 175 professional accountancy organizations in 130 countries and jurisdictions, IFAC represents nearly three million accountants in public practice, industry and commerce, government, and education.

While IFAC is not in a position to answer the list of questions outlined in the consultation, it is aware that several of its member organizations in the UK are preparing detailed submissions. Two organizations—the Institute of Chartered Accountants of England and Wales (ICAEW) and the Chartered Institute of Public Financial Accountants (CIPFA)—have forwarded copies of their draft submissions to IFAC. IFAC supports the tenor of their responses and the views outlined on the more detailed aspects of the consultation.

### **General Comments**

For many years IFAC has been a strong and outspoken proponent of the need for and importance of enhanced public sector financial management, transparency and accountability. These views are detailed in IFAC's Policy Position Paper 4, [\*Public Sector Financial Management Transparency and Accountability: The Use of International Public Sector Accounting Standards\*](#).

IFAC's commitment to promoting and advancing enhanced public sector financial management in the public interest is evidenced by the [\*Accountability. Now\*](#) campaign it launched three years ago. The campaign is supported by a coalition comprising the accountancy profession, major international bodies, and civil society organizations,<sup>1</sup> and calls for higher standards of public sector information around the world. In aiming to provide a catalyst for change, the campaign challenges governments to recognize the importance of working toward financial reporting that meets international standards.

Central to IFAC's message is that robust accrual-based financial reporting and budgeting is essential for good decision-making and efficient resource allocation by the public sector. Institutional arrangements,

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<sup>1</sup> Including IFAC, six large global Accounting Firms, the Organisation for Economic Co-operation and Development (OECD), and the Global Initiative for Fiscal Transparency (GIFT).



including timely periodic reporting, reporting of analysis of performance against budget, and the provision of information that is able to be audited or assured, are essential. IFAC also believes that such reporting should be undertaken across all levels of government and the public sector to form a complete picture of the financial position and performance of the whole government within a jurisdiction.

By preparing accrual-based financial statements, governments are required to properly identify, measure, and report their financial position and performance. Assets are recorded, liabilities reported, contingencies disclosed, and performance measured. Additionally, strong financial accounting and reporting controls need to be established, tested, and assessed; these can be used as a key foundation in the fight against fraud and corruption.

Therefore, rather than being used by Ministers to promote the Government's own achievements, when properly utilized, accrual-based financial reporting and budgeting—alongside appropriate, robust institutional arrangements and effective internal controls—provides increased insight for better decision making and greater levels of transparency and accountability to, and hence scrutiny by, the public.

Simple examples help to demonstrate the benefits of such reporting, including the enhanced transparency and accountability that is provided; these are two things that are increasingly valued and demanded by the public at large.

- Politicians and others in government are often faced with pressure to reduce a budget deficit. Where these deficits are measured simply in cash terms, decisions can be made to defer expenditures, thus burdening future generations. For example, in the past, the UK Governments may have increased employees' future pensions instead of offering a pay raise. This potentially solved an immediate cash flow (and cash budget) concern; but created a present obligation that had to be settled in the future (a liability). By recording all liabilities on a balance sheet, transparency is enhanced and decision making informed. Nowadays, with the preparation of whole of government accounts (WGA), the UK government has much better information on public sector pension obligations; and it is vitally important that this critical decision-making information is maintained and enhanced.
- Similarly, proper valuation and recording of government assets on balance sheets allows for more effective resource decisions to be made. A government may be able to maximize return and extract greater value on a currently-unused—and apparently unwanted—asset by retaining and using it, rather than selling it. A recent study by Citi, [\*The Public Wealth of Nations: Unlocking the Value of Global Public Assets\*](#),<sup>2</sup> provides a good insight into this issue.
- Private-Public-Partnerships (PPPs), which were very popular in many countries—including in particular the UK—and in many instances became quite controversial, often involved governments being left with increased levels of debt and obligations for which they had not accounted, as well as assets that they were not prepared to manage. The conventional wisdom—being motivated by governments trying to reduce cash-based deficits—that the private sector is able to raise funds and manage projects at a much lower cost than the public sector might be challenged if the public sector assessed and recorded all assets and liabilities, and fully disclosed all contingent items.

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<sup>2</sup> June 2015, by Dag Detter, Stefan Fölster, and Willem Buiter.



## Reporting in the United Kingdom

Based on its understanding of the public sector reporting framework and arrangements in the UK, IFAC believes that it is a model to which other countries might well aspire. Alongside other countries that have strong public sector financial reporting arrangements (like New Zealand and Australia), the UK should see itself as a leader in this field.

As a global leader in this area, the UK should be looking at how it can further enhance its reporting arrangements, utilize its full potential, and encourage other jurisdictions to follow suit. With respect to the former, the UK needs to focus on further improving the timeliness and quality of reporting, which is aided by continuing to enhance strong auditing arrangements and furnishing periodic performance assessments against forecasts. Another important aspect is to examine ways to improve the presentation of published financial information to enhance understandability and usefulness.

An important aspect of promoting international awareness and acceptance of better public sector reporting is having a set of high-quality, internationally accepted financial reporting standards. IFAC believes that there is only one set of standards, specifically established for the public sector, that meet these criteria: the International Public Sector Accounting Standards (IPSAS). While IFAC would ideally like to see the UK use IPSAS, it is conscious that IPSAS and the reporting standards used in the UK (i.e., a financial reporting framework based on International Financial Reporting Standards (IFRS), adapted as necessary for the public sector) are substantially aligned. The benefits of consistency and comparability of financial position and performance are immediately apparent where more countries use the same high-quality standards and reporting arrangements.

Finally, IFAC is of the view that the full benefits of enhanced public sector financial reporting and budgeting can only be achieved when all levels of government and public sector activity are incorporated into a jurisdiction's reporting arrangements. Timely reporting across all levels of the public sector in the UK and the regular publication of consolidated WGA (showing the position of the public sector as a whole) remain essential. The UK Government should focus on continuing to enhance these arrangements; including considering the need for other complementary enhanced reporting, such as integrated reporting.

IFAC strongly encourages the UK government **not** to abandon the excellent work it has done over many years to develop a robust financial reporting framework. In fact, it should be examining ways to further develop and enhance its arrangements, not ways of dismantling it.

Please do not hesitate to contact me if you have any questions about the contents of this letter, or if you require further clarification.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Fayezul Choudhury', written over a light blue horizontal line.

Fayezul Choudhury  
Chief Executive Officer