Accrual reporting—recording the economic substance of transactions when they occur rather than when cash settlement happens—is fundamental to good decision making, transparency and accountability. The Index collects, verifies, and analyzes current financial reporting bases and frameworks used by federal and central governments around the world. It also provides an overview of public sector reporting trends.

This second International Public Sector Financial Accountability Index status report, provides an update on the progress made since 2018 in implementing accrual-based reporting. It gives a snapshot of the position in 2020, as well as looking ahead by using currently available data to forecast the position in 2025 and provide indicative projections of the position in 2030.

The 2020 Index contains data from 165 jurisdictions, compared to 150 in the 2018 Index. The 2018 Index data has therefore been restated to provide comparability with the 2020 Index.

49 jurisdictions (30% of the jurisdictions included in the 2020 Index) reported on accrual in their 2020 published financial statements, compared with 39 (24%) for 2018. 40% already had some element of accrual in their financial reports – categorized in the 2020 Index as ‘Partial Accrual’ – compared with 45% in 2018. 30% of governments still reported on a cash basis compared with 31% in 2018.

**REPORTING BASES: DEFINITIONS AND COMPARISON WITH 2018**

**CASH**: transactions recognized when cash received or paid

**PARTIAL ACCRUAL**: some transactions recognized on cash, some on accrual

**ACCRUAL**: transactions recognized when underlying economic event occurs; assets and liabilities reported in balance sheet

The 2018 data (Restated) and the 2020 data are compared in the following chart:

**2020 INDEX: FINANCIAL REPORTING BASES**

- **Cash**: 30%
- **Partial Accrual**: 40%
- **Accrual**: 30%
Accrual reporting frameworks are developed in various ways, many making use of international standards. Specifically, governments make use of International Public Sector Accounting Standards (IPSAS) in three main ways:

- Directly: implementing IPSAS with no modifications to any of their requirements, while selecting from the permitted options
- Indirectly: implementing IPSAS through a national endorsement process, modifying them for any specific jurisdictional features
- Reference point: developing national standards that use IPSAS as a guidance source

Use of IPSAS has increased since 2018. Of the 49 jurisdictions that reported on accrual in 2020, 28 (57%) are using IPSAS in one of these three ways: 4 jurisdictions adopted IPSAS with no modifications; 8 modified IPSAS for the local context; and 16 referred to IPSAS to develop their own national standards. Some jurisdictions not categorized as reporting on accrual still make use of accrual IPSAS or the cash basis IPSAS in their financial reporting frameworks. The map below shows the type of financial reporting framework used, and aggregates the data for all jurisdictions using that type of framework in 2020, regardless of whether they are on the cash, partial accrual or accrual basis.

The IPSAS on first time accrual adoption (IPSAS 33) defines the date of IPSAS adoption as “the start of the reporting period in which the first-time adopter adopts accrual basis IPSAS and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.” Accrual categorization in the Index is based on an entity’s most recent, publicly available, financial statements.
The 2018 Index reported that 98 governments anticipated reporting on accrual by 2023, noting that, due to the number of complex change processes, delays can occur, making it challenging to project the exact number of governments that will report on accrual in the future.

The 2025 Forecast is based on reviews of the data supplied for the 2020 Index, as well as other available corroborative information to support predictions of where reform processes will have reached by 2025. Our view does not in all cases coincide with the current publicly announced plans.

The impact of the pandemic on accrual reform programs is a big uncertainty that we have been unable to factor into our 2025 forecasts. In a number of cases this will inevitably have diverted both financial and staff resources away from accrual reform programs. The precise impacts will vary between jurisdictions, and will only emerge in the coming years. These will be reflected in future index updates.

As reported in the 2018 Status Report, there is significant accrual adoption activity underway across all regions of the world. The regions expected to see the greatest increases in accrual adoption between 2020 and 2025 include:

- Africa: 9 jurisdictions (2 in 2020)
- Asia: 17 jurisdictions (7 in 2020)
- Latin American and the Caribbean: 15 jurisdictions (9 in 2020)

As a result of current reforms programs, 15 (75%) of the G20 members (13 in 2020) are forecast to be reporting on accrual by 2025, with several further members projected to move to accrual by 2030.

In Europe, the forecast positions for European Union Member States reflect current reform programs, independent of a decision on the European Public Sector Accounting Standards (EPSAS) project. This follows a two-phase approach of supporting voluntary implementation of accrual accounting while in parallel preparing EPSAS. Across the broader European region the number of jurisdictions reporting on accrual is forecast to be 29 in 2025, compared with 19 currently. Sustained support from international and regional organizations is likely to prove critical to successful implementation in all these regions.
The increase in jurisdictions reporting on accrual forecast for 2025 will continue. Looking ahead over 10 years means that the 2030 projections are inevitably subject to greater uncertainty than the 2025 forecasts. By 2030, a total of 120 jurisdictions (73%) anticipate that they will be reporting on accrual.

The longer the planned reform period, the greater (and more significant) the uncertainties impacting the progress, and eventual success, of accrual implementation reforms. There are a number of examples of reform programs slowing down, or even stalling, as a result of a variety of factors, including lack of political and organizational support, technical challenges, insufficient funding and reform fatigue. Despite these inherently unpredictable factors, the most important overall conclusion remains that there is strong upward trend in accrual adoption globally. The degree to which the 2030 position projected in this report is realized will be strongly correlated with sustained support from international and regional organizations, and from the accountancy profession in terms of capacity development.

CONTINUING SHIFT FROM CASH TO ACCRUAL

In 2025, 61 (73%) of jurisdictions forecast to report on accrual will make use of IPSAS: 16 will adopt IPSAS with no modifications; 16 will use IPSAS modified for the local context; and 29 will refer to IPSAS in developing their national standards. This means not only that the number of governments making use of IPSAS will have increased since 2018, but also that there will be an overall greater percentage of direct and indirect IPSAS implementation globally.

This trend is projected to continue, so that by 2030, 97 (81%) of the jurisdictions reporting on accrual are projected to be making use of IPSAS.

INCREASING USAGE AND INFLUENCE OF IPSAS

In 2025, 61 (73%) of jurisdictions forecast to report on accrual will make use of IPSAS: 16 will adopt IPSAS with no modifications; 16 will use IPSAS modified for the local context; and 29 will refer to IPSAS in developing their national standards. This means not only that the number of governments making use of IPSAS will have increased since 2018, but also that there will be an overall greater percentage of direct and indirect IPSAS implementation globally.

This trend is projected to continue, so that by 2030, 97 (81%) of the jurisdictions reporting on accrual are projected to be making use of IPSAS.
The drivers for instituting an accrual reform program will differ between jurisdictions. However there are certain factors that will always be crucial to ensuring success of the program. Most importantly, the migration to accrual accounting and reporting has to be set in the context of public financial management reform—without that context there is a strong possibility that the migration will be seen as a purely technical accounting exercise. The way in which a jurisdiction migrates to an accrual reporting framework will depend on local circumstances—typical considerations include government structure; centralization of accounting functions; geographical issues; IT infrastructure; and entity reporting or consolidated jurisdiction reporting.

As more jurisdictions contemplate, or start planning, a migration to accrual, there has been an increase in requests for more practical guidance on how to plan the migration, how to transition, and what constitutes compliance with IPSAS. The International Public Sector Accounting Standards Board (IPSASB)’s publication Study 14, Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities has been an important reference point for governments in that situation. The current edition was published in 2011. Stakeholders report that the material, while still being theoretically sound, does not meet the detailed needs of practitioners as they start their migration from a cash accounting framework to an accrual-basis framework.

IFAC is working with CIPFA to develop a new product, to be called ‘Pathways to Accrual’. Due to be released in the second half of 2021, Pathways to Accrual will update Study 14 and develop it into a new interactive tool that will help jurisdictions to:

- Promote the benefits of accrual accounting and reporting in the context of public financial management;
- Decide whether IPSAS should be adopted directly or indirectly, and how to implement that decision in practice;
- Give guidance on the interpretation of accrual-basis financial statements—users’ needs vary depending on their roles; and
- Benefit from practical examples and case studies, with links to relevant documents and to the Implementation Guidance and Implementation Examples in IPSAS.

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