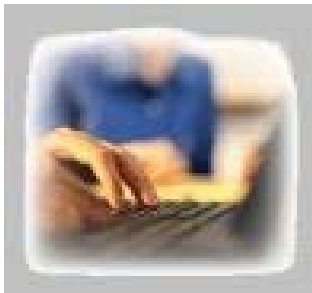


## Accrual Accounting In the Public Sector

In 1997 the Government of Barbados, as part of its Public Sector Reform initiative, embarked on a journey to modernize its accounting systems. The Public Expenditure Management Programme was created to facilitate this process. The first task at hand was the computerization of the manual activities at that time; these included the Vote Book, the Budget system and the General Ledger. These have been completed and have been operating successfully for the past six years.



The next step in the reform of Government's financial systems is the transition from the cash system.

***We are going Accrual.***

The Prime Minister and Minister of Finance of Barbados has directed that, in keeping with developments in the international public sector arena, the Government of Barbados will move from a cash based accounting system to the introduction of full accrual accounting. In making this transition Barbados will become one of the first governments in the Caribbean to do its business using accrual accounting

Persons may ask the question. "Is accrual accounting appropriate for the Public Sector?" The question is a valid one and based on experiences in some countries, the answer can be very complex and controversial.



***What is Accrual Accounting?*** Accrual Accounting recognizes activities and transactions when they occur, even if payment has not been received from a customer or bills have not been paid by the business. This method provides a more accurate picture of what the organization owns and owes in economic terms.

Accrual accounting in the Public Sector is a subject for the critics to have a feeding frenzy. The practice of cash accounting, where the simple method of recording revenue, when cash is received, and expenditure when payment is paid, can justify the criticism.

The shift to accrual accounting, based on the experiences in countries like Canada and New Zealand, would confirm that it is a major undertaking for the Government of Barbados. However, through the initiatives taken by the Public Expenditure Management Programme we have been able to make significant strides towards achieving our goal. Achievements to date include:

- Ministries and Departments goals and performance requirements are specified.
- Purchasing Departments were equipped with the necessary tools where the purchasing officers got the necessary information on suppliers' goods and services, which allows them to negotiate better prices.
- Accounting officers through the introduction of the computerized funds control module, have the capacity to effectively manage funds, allocated through the Annual Estimates. The module provides information, which allows management to monitor the movement of funds and make cost effective decisions.
- Through extensive training managers are using the system very effectively and over the past years there has been a significant reduction in the accustomed yearend spending.
- A new government-wide Chart of Accounts was introduced and is being used across the public service.
- All systems have been computerized and integrated and information is available on a real time basis to ministries and departments.

Although we recognize these achievements and have a foundation to build on, we are very aware of the bigger challenges.

- The redesigning of the Chart of Accounts.
- Collecting accurate information on Capital Assets and their value.
- Establishing long-term liabilities.
- Recognising and accounting for Government's receivables
- Drafting new legislation and standards for the accrual budgeting system.
- Reporting debt and debt management.
- Intensive training for users of the system at all levels of Government; that is, political, legislative and the Public Sector.
- The acceptance of the new system by users.

These are common challenges experienced in the transition period; the successful implementation of accrual accounting in the Public Sector of other

jurisdictions however gives us the assurance that we can overcome these challenges.

We are also aware that implementing accruals cannot be seen as a technical accounting exercise, it needs to be a “culture change” and be linked with other management reforms; programmes will therefore also be developed to deal with areas such as change management and managing in the new environment.

The benefits of accrual accounting are as important to the Public Sector as they are to the Private Sector. The bottom line is that managers and policy makers in the Public Sector need a system that can provide an accurate financial position, which is relevant to the management of public resources, if decisions are to be made on efficiency and effectiveness in the use of government resources.

The change over from cash based accounting to accrual accounting will be a major undertaking that will have far-reaching implications across government. It will provide the Government with significantly improved data on which to undertake its economic planning and decision making and will greatly strengthen budget development and management particularly through its recognition and control of government’s liabilities and assets (cash based accounting ignores these). It will also enhance the transparency of financial management and assist the Auditor General and the Parliament in their business.



We are fully committed to ensuring the successful implementation of the new accrual system and the improved accountability and transparency which this new system will bring to Government’s activities.