Public Governance Directorate

Financial Reporting in Ireland

BETTER POLICIES FOR BETTER LIVES

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by

Delphine Moretti, Scherie Nicol, Emeline Denis, Tim Youngberry

The OECD Review of Financial Reporting in Ireland assesses opportunities and challenges associated with adopting accruals in Ireland for government accounting. Due to issues with the comprehensiveness and legibility of the current financial reports, the Review recommends that going forward, the Irish Government establish accrual financial statements compliant with international standards for its departments and offices and harmonise accounting standards used by entities within the general government sector. The report notes that accrual data would be a "building block" for richer, more reliable fiscal information, which would, in turn, help formulate improved assumptions for fiscal forecasts and be better equipped to identify fiscal risks. Beyond the adoption of accrual accounting, this report proposes that the Irish Government considers modernising its financial reporting framework by preparing integrated reports for departments and offices and consolidated financial statements. Integrated accounts for departments and offices would provide an overview of each department's resources and spending alongside information on their strategy and performance. This would enhance and improve scrutiny and examination of departmental performance by the Committee of Public Accounts and by the Oireachtas Sectoral Committees.

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Foreword

The OECD *Review of Financial Reporting in Ireland* builds on the experience and knowledge acquired by the Budgeting and Public Expenditures Division of the OECD Directorate for Public Governance over past decades through the meetings and workings of its Network of Financial Management and Reporting Officials.

The Review also draws upon the close collaboration between the OECD and the Irish Government, including the participation of Ireland in the OECD Working Party of Senior Budget Officials. This collaboration enriches the assessment and results of the Review of Financial Reporting in Ireland.

The aim of the Review is to assist the Irish Government in assessing opportunities and challenges associated with adopting accruals, the accounting basis used by a large majority of OECD countries, and more generally to provide recommendations for the modernisation of its financial reporting system.

This mission was organised in the broader context of the work underway in the European Union for developing a single set of harmonised accrual-based accounting standards.[1] This mission was organised with funding from the Structural Reform Support Programme (SRSP) and co-ordinated by Mr. Guilhem Blondy of the European Commission's Structural Reform Support Service (SRSS).

To write this report, two missions were conducted in Dublin in September 2018 and January 2019. During the first mission, interviews were held with key stakeholders of the Irish fiscal reporting ecosystem: representatives from the Government, Houses of the *Oireachtas*, Comptroller and Auditor General, Irish Fiscal Advisory Council, and the Central Statistics Office as well as think tanks and representatives of the accounting profession. During the second mission, the preliminary findings of the Review were discussed with representatives from the same institutions. The authors would like to thank the Irish stakeholders for their availability and openness to recommendations.

The missions benefited from the presence of two examiners from the United Kingdom (Mr. Ian Bulmer) and Portugal (Mr. Luis Viana). The authors would like to express their gratitude to them as well as to Mr. Guilhem Blondy for their invaluable inputs during discussions with Irish stakeholders and comments on the draft report.

This report was written by Ms Delphine Moretti, Scherie Nicol, Emeline Denis, all at the Budgeting and Public Expenditures division of the OECD Directorate for Public Governance, and Mr Tim Youngberry, OECD consultant. It reflects comments provided by delegates who attended the 19th Annual OECD Senior Financial Management and Reporting Officials Symposium.

Box 1. Accruals, accrual accounting and accrual budgeting

What does "accruals" mean?

The term "accrual" is associated with two related concepts.

Firstly, the recognition of economic events at the time at which they occur, regardless of when the related cash receipts and payments change hands. Economic events can include the delivery of a taxable service by a private company (for which the government accrues tax revenue), performance of a public service by a government employee (for which the

government accrues a salary and perhaps a pension expense), or the loss or theft of a government asset such as a vehicle or equipment (for which a reduction in the asset stock will be recognised). These economic events may generate a corresponding or simultaneous cash flow, but in many cases – such as depreciation, revaluations, or impairment – they do not. This is an important difference between cash and accrual bases.

Secondly, the recognition of all stocks of assets and liabilities in balance sheets. Under accrual accounting, governments recognise all assets and liabilities including financial assets (such as equities), non-financial assets (such as land and buildings), and liabilities other than debt securities and bonds (such as payment arrears and pension obligations). These stocks are usually recorded at their current market value, or some approximation, and regularly revalued to ensure the balance sheet reflects the government's true financial position at a given point in time. Governments that follow pure cash accounting typically account only for their cash holdings on the assets side and, possibly, debt on the liability side of their balance sheets. These are often valued at or the value at which they were initially acquired or issued.

What is accrual accounting?

"Accruals" concepts are used for producing government accounting and statistics - that is the reporting of past activities of government – in a growing number of countries. Accrual accounting and accrual-based statistics are governed by standards, including those set by international standards setters (e.g. International Monetary Fund, or IMF, and Eurostat for statistical standards; International Accounting Standards Board, or IASB, and International Public Sector Accounting Standards Board, or IPSASB, for accounting standards).

What is accrual budgeting?

"Accruals" concepts are also increasingly applied to budgeting - that is firstly the forecasting of the future resources and costs of government activities and secondly the granting of the authorisation for spending of public funds. The principle of accrual budgeting is simple: it consists of forecasting economic events that will be generated by the government policies on an accrual basis and/or controlling the utilisation of those resources against the authorisation granted by Parliament on the same basis.

Accrual budgeting is developing and is not governed by international standards. Governments have therefore adopted different approaches for their accrual budgeting regimes. Some countries forecast assets, liabilities, expenses and revenue on accrual basis in their budget; while others do so only for revenues and expenses forecasted. Some countries using accrual budgeting continue granting authorisations for spending public funds on cash basis.

Source: Moretti and Youngberry (2018)

Executive Summary

The budget process in Ireland has undergone profound reforms during the last quarter of a century, particularly since the 2008 global financial crisis. Together these changes have facilitated fiscal consolidation, introduced medium-term planning, increased transparency, and allowed greater parliamentary and public participation in the budget process. However, by contrast, progress in the area of financial reporting has been limited.

The main purpose of the Irish Government's financial reports is to allow control and scrutiny of the regularity of government cash operations. In keeping with this objective, their format and content is fully aligned with those of the budget documents that they report against, in the sense that they use the same accounting basis (cash), nomenclature (Votes) and accountability boundary (the Exchequer).

Despite having recognised strengths, the Irish financial reporting framework is not fully aligned with the OECD Recommendation on Budgetary Governance, which advises that countries present a comprehensive account of public finances. Compared to other OECD countries, in Ireland, information on government assets and liabilities is very limited; time lags for publishing reports are among the longest in the OECD; and institutional coverage of the accounts is particularly narrow.

Interviews conducted for this review with a variety of stakeholders confirm that improvements to the financial reporting framework are considered necessary. Most stakeholders identify issues regarding the completeness, timeliness and comparability of the accounts prepared by the government that are mostly "technical" in nature. They also express more general concerns regarding the clarity and legibility of the accounts currently prepared at central government level.

Preparing accrual accounting information compliant with international standards; harmonising accounting standards used by entities within the general government sector; and implementing a "faster closing" initiative for Government departments and offices, funds and State bodies are possible solutions to address these concerns, while being cognisant of the need to maintain the core elements of the existing cash basis framework.

The report notes that accrual data would be a "building block" for richer, more reliable fiscal information. Having reliable information on liabilities, provisions and contingent liabilities would help formulate improved assumptions for fiscal forecasts. Implementing accrual accounting enables governments to be more conscious of fiscal risks and better equipped to mitigate them. This in turn can help better planning and risk management for any future fiscal shock.

Further, the quality of fiscal statistics required for reporting under the EU's economic governance framework is linked to the quality of underlying accounting data. To reliably assess how Ireland performs against these fiscal targets defined on an European System of Accounts 2010 (ESA2010) basis, it is crucial to maintain both government accounts and fiscal statistics on an accrual basis.

Beyond the adoption of accrual accounting, this report proposes that the Irish Government considers modernising its financial reporting framework by preparing integrated reports for departments and offices and consolidated financial statements. Integrated accounts for departments and offices would provide an overview of each department's resources and spending alongside information on their strategy and performance. This would enhance and improve scrutiny and examination of departmental performance by the Committee of Public Accounts and by the *Oireachtas* Sectoral Committees.

Consolidated financial statements would provide a complete picture of Ireland's underlying fiscal position, regardless of whether activities are carried out through a Vote, fund or State body. The report also notes that, within consolidated financial statements, certain government activities (e.g. health) could also be presented as "segments", allowing readers of financial statements (or stakeholders) to gain an understanding of spending, and the accumulation of government assets and liabilities by function in totality.

Finally, the report underlines that the ongoing Financial Management Shared Services (FMSS) project and Civil Service Renewal Initiative offer timely opportunities for moving forward the financial reporting framework's modernisation agenda. In particular, the new IT system could readily support the introduction of accrual accounting and delaying decisions on the reform could generate significant opportunity costs. Whilst the FMSS can provide a platform for the introduction of accruals, the management of that project to scope and schedule, including dealing with any project delays, will be critical in the implementation phase of accrual accounting.

To start the financial reporting modernisation, the report advises that the Government agrees on a blueprint for the reform and gets necessary approval from the Houses of the *Oireachtas*. This blueprint should include a roadmap and define milestones. The report proposes a six-year roadmap to be considered by the Government. The roadmap's first phase would aim to bring the information already disclosed in the Appropriation Accounts up to international standards. The second phase would aim at introducing consolidated financial statements and other accrual information required by international standards, across all relevant areas.

Concerning consolidation, the report recommends a sequenced approach – that is the preparation of consolidated financial statements covering all government departments and offices, to be extended to funds and State bodies as soon as the degree of harmonisation and integration of accounting systems across government allows it.

For a successful reform, it will be crucial that the Department of Public Expenditure and Reform fully exercises its oversight and governance mandate on accounting and financial reporting. This should be done by setting up a Government Accounting Directorate within the Department of Public Expenditure and Reform, which would become the permanent unit in the Irish administration responsible for maintaining a uniform set of accounting rules and procedures and overseeing the quality of the finance function.

At all stages of the transition to accruals, the Department of Public Expenditure and Reform should work in close co-operation with all key stakeholders, in particular the Comptroller and Auditor General. To this aim, the new Government Accounting Directorate could be tasked with leading working groups in charge of identifying necessary changes to legislation, setting accounting policies, ensuring these standards and polices meet all user requirements, improving financial controls and delivering training.

Finally, to ensure that accounting standards are developed with the expected level of quality and integrity, this report recommends that the Government Accounting Directorate seeks inputs from all relevant stakeholders (i.e. users, preparers, auditors) for establishing accrual standards that will be applied by general government entities and that an Independent Advisory Body be established to oversee outputs of the working group.

1. Introduction

1.1. An evolving budget framework

Ireland's budget system is based on legislation inherited from the United Kingdom at independence in 1922, itself dating back to the Magna Carta. Indeed, although the Constitution of Ireland ("*Bunreacht na hÉireann*"), adopted in 1937 (replacing the Constitution adopted on independence in 1922), comprised a number of provisions relevant to public financial management and laid out a number of foundational budgetary principles (Box 2), neither it, nor the constitution it replaced, instituted a full set of new budgetary rules and procedures, as is the case in some other OECD countries. Therefore, the Irish system of accountability for public moneys remained, until recently, largely grounded in legislation dating back to the 1860s, in particular the Exchequer and Audit Departments Act, 1866.

Box 2. Ireland: Legal basis for the "System of Accountability for Public Moneys"

There are a number of provisions relevant to the "System of Accountability for Public Moneys" in the Constitution of Ireland, whose essential elements are as follows:

- All State revenues accrue to a single fund (the "Central Fund") subject to such exception provided by law and all allocations from this fund must be governed by law;
- Each year, the government brings forward estimates of expenditures and receipts, and presents these estimates to *Dáil Éireann*, the chamber directly elected by the people) for consideration;
- The government alone has the authority to move forward legislative proposals which affect the public purse, such as budget-related proposals;
- The Houses of the *Oireachtas* (*Dáil Éireann* and *Seanad*) alone may implement these proposals in law; and in budget-related matters, the *Dáil* has pre-eminence over the *Seanad*;
- "Financial Resolutions" (whereby the *Dáil* adopts budgetary measures for the year on an interim, provisional basis in advance of legislation) must in general be effected in legislation within the same year;
- The Comptroller and Auditor General (supreme audit institution) audits public accounts (except for the accounts of local authorities, regional assemblies and 4 other bodies) and reports to the *Dáil*.

The Constitution also includes a reference to "Financial Resolutions", which are not defined or described in the constitution itself but refer to the corpus of rules and procedures laid out, at the time, in pre-existing legislation (mainly the Exchequer and Audit Departments Act, 1866) and, nowadays, in the Public Financial Procedures guide maintained by the Department of Public Expenditure and Reform.

Source: Authors based on Downes and Nicol (2016)

Recent decades, however, have seen many changes to the traditional budget system, with European economic integration, the 2008 global financial crisis, and reforms to parliamentary budget oversight acting as catalysts for change.

Following the onset of the crisis in 2008, regulations were being developed at the EU level for member states to put in place stronger fiscal frameworks, including an effective medium-term planning horizon, numerical fiscal rules and clear and credible budget forecasts. The establishment of an independent fiscal institution to assess economic forecasts was also required. These EU reforms, together with the EU/IMF programme in Ireland, accelerated Ireland's budget framework reforms and the Fiscal Responsibility Act was enacted in 2011. This established a Medium-Term Budgetary Framework (MTBF), national budget rules – consistent with EU rules – and the Irish Fiscal Advisory Council (IFAC). These changes were aimed at strengthening Ireland's fiscal framework and improving budget management.

Further, in 2013, the IMF conducted a fiscal transparency assessment for Ireland. Its objective was to evaluate Ireland's fiscal reporting, forecasting and budgeting, and fiscal risks analysis and management practices against the standards set by the IMF's Fiscal Transparency Code. The IMF Report contained 35 recommendations for change, with a view to full implementation by 2017. To implement the recommendations, the Irish Government set up a Steering Group comprised of the Department of Finance, the Department of Public Expenditure and Reform, the Central Statistics Office, and others. The Irish Comptroller and Auditor General assessed progress in a 2016 report on fiscal transparency. It found that most progress was made in implementing recommendations related to the budgetary process, progress was more mixed in recognising a wider range of assets and liabilities, while least progress was made in implementing recommendations related to financial reporting.

The OECD "Review of Budgetary Oversight by Parliament in Ireland" published in 2016 identified shortcomings in Ireland and proposed enhanced parliamentary engagement through procedural changes, the provision of enhanced budget information and the establishment of an Estimates Committee and Parliamentary Budget Office. In response, a Budget Oversight Committee was set up in 2016 and a Parliamentary Budget Office was established in 2017. These reforms aim to considerably reinforce the role of the Houses of the *Oireachtas* in budget oversight, particularly through the addition of *ex ante* interactions on policy priorities.

In 2015, the Irish Government instituted a new process called the "National Economic Dialogue" (NED), involving consultation and debate with societal interests to enhance the whole-of-year budget development process. By launching the NED, the government has indicated its willingness to strengthen transparent stakeholder participation in the *ex-ante* budget phase, an objective which is very much in keeping with the international principles of "open government" advocated by the OECD. The government publishes a Summer Economic Statement, and this provides the macroeconomic and fiscal context for the discussions at the NED conducted in June/July.

In the area of reporting, notable reforms include improvements to the completeness of budget documentation. For example, there is now regular reporting of the government's financial sector interventions in the form of capital injections, guarantees, and other exposure in fiscal reports, and more recently, information on public private partnerships (PPPs) has been included in the budget documents.

Membership of the European Union requires extensive reporting on government finances as defined under the European System of Accounts (ESA2), which is done on an accruals basis. The European integration process also imposed significant additions to statistical reporting: to assess Ireland's compliance with fiscal rules as set out under the Maastricht Treaty and subsequently the Stability and Growth Pact, the Excessive Deficit Procedure and other EU fiscal monitoring arrangements. All of these economic indicators use ESA2, an accruals-based system, as the basis for assessment.

Overall, most observers consider these reforms have helped modernise the budget system and increased fiscal responsibility and transparency. However, there is consensus that improvements in the area of financial reporting have been limited, or at least slower. In terms of progress made as a result of the IMF Fiscal Transparency Assessment (2013), the Public Accounts Committee (PAC) at the Houses of the *Oireachtas* produced a Periodic Report where it took a view on the timeliness of accounts published by public institutions, with recommendations for shortening it.[3] This has resulted in some improvement.

It should be noted that, in parallel to these budgetary governance reforms, there has been an ongoing programme to increase public sector efficiency in Ireland. An initial vision of a performance-oriented public service was first introduced in the mid-1990s (Strategic Management Initiative) and these efforts have been given new momentum in the wake of the financial crisis, with increased public sector efficiency being an important plank of the fiscal consolidation programme. Further, in 2016, a rolling three-year spending review was announced with the aim of maximising the impact of government spending. This is to be achieved through reprioritising spending from programmes with poorer outcomes to those with better outcomes, thus creating a clear link between the programme evaluations carried out across the public sector and budget decision-making.

The Public Service Reform Plan 2020, which was launched in December 2017, is the new framework for development and innovation in the public service with a significant focus on people and organisations. The framework was developed with input from citizens and the public service, and was informed by lessons identified in the OECD Assessment of the Public Service Reform Plan 2014-16[4]. Key achievements of the reform programme to date as noted by the OECD include the Civil Service Renewal Plan; the establishment of the Office of Government Procurement and the National Shared Services Office; and one-stop-shops such as Intreo for jobseekers and Local Enterprise Offices for businesses.

1.2. Financial reporting in the wider budget cycle

Financial reporting is a component of the wider budget cycle, sequenced by a series of events and documents presented to the Houses of the *Oireachtas* over the course of the year. It comprises three distinct parts, the medium-term planning process, the annual budget process and the annual estimates process. As in other countries with a Westminster tradition, the Irish parliament separately approves the annual fiscal forecasts and appropriations. Annual budget forecasts are included, together with a discussion of fiscal policy and government priorities, in a Budget statement debated in parliament in the form of a vote of confidence towards the government; and annual authority to spend is granted through separate legislation, the Appropriation Bill.

Following recent reforms mentioned above, the Irish budget cycle starts on 1 January with the presentation of economic and fiscal forecasts as well as medium-term plans for high-level fiscal aggregates from April to June. It progresses with the presentation of the detailed policy proposals and resource allocations in the autumn, culminating on *Budget Day*. It

concludes with the preparation of financial reports showing actual spending, and the resulting financial position after the end of the budget year.[5]

All budget documents and financial reports prepared through the budget cycle can therefore be said to fall within one of the three parts of the budget cycle (medium-term planning, the budget process and the estimates process) and one of its three phases (*ex-ante* budget planning; in-year monitoring; and *ex post* reporting), as illustrated in Figure 1. Specifically:

- ***Ex ante* budget planning**: The medium term fiscal policy programme for the government is set out in the **Stability Programme Update** published in the spring. Planning then begins for the first year of that programme as part of the annual budget cycle. This involves the publication of a **Summer Economic Statement** to provide the macroeconomic and fiscal context for budget priority discussions with members of the public at the National Economic Dialogue, held in June/July (see Section 1.1). The Budget Oversight Committee at the Houses of the *Oireachtas* also publishes a **Pre-Budget Report** that sets out budget priorities from a parliamentary perspective, based on a series of parliamentary hearings. The Government's budget proposals are then set out in the **Budget day document**s presented to the Houses of the *Oireachtas* in October, shortly followed by the **Finance Bill** and the **Social Welfare Bill**, which must both be enacted before the start of the fiscal year. More detailed spending proposals are outlined in the **Revised Estimates Volume**, published in December. Once approved by Houses of the Oireachtas, resource allocations in the Revised Estimates Volume are published. The annual Appropriation Act gives statutory effect to the individual Estimates voted by the Oireachtas for the year just ending. It is passed by the Oireachtas when consideration of all the Departmental Estimates (including any Supplementary or Additional Estimates) have been approved by the Dáil. The Irish Fiscal Advisory Council also publishes two **Fiscal Assessment Reports** a year, following the Stability Programme Update and the Budget. These reports assess the Government's macroeconomic and budgetary forecasts, the appropriateness of the fiscal stance, compliance with the budgetary rule, as well as detailing the Council's endorsement function.

- **In-year monitoring**: During the budget year the government publishes a **Monthly Exchequer Statement (Fiscal Monitor)** which measures the cumulative net current and capital Government Departmental expenditure against profile along with the year-on-year variance. The government has also published a **Monthly General Government Account** since 2014, providing information on all general government sectors revenue and expenditure one month after the month end. Information contained in both of these publications is also available in the online **Databank of the Government Department of Finance**.

- ***Ex post* reporting**: After the end of the financial year, the government publishes **Finance Accounts** containing detailed analysis and classification of the payments into and out of the Central Fund as well as details of the National Debt. The Comptroller and Auditor General also publishes a Report on the Accounts of the Public Services. This gives the audit of the Appropriation Accounts for the preceding financial year. It is presented together with the **Appropriation Accounts** for the various Votes. This compares the Supply Estimate voted by parliament for each government department under the Appropriation Act with the actual payments made and receipts brought to account, and explains any substantial differences.

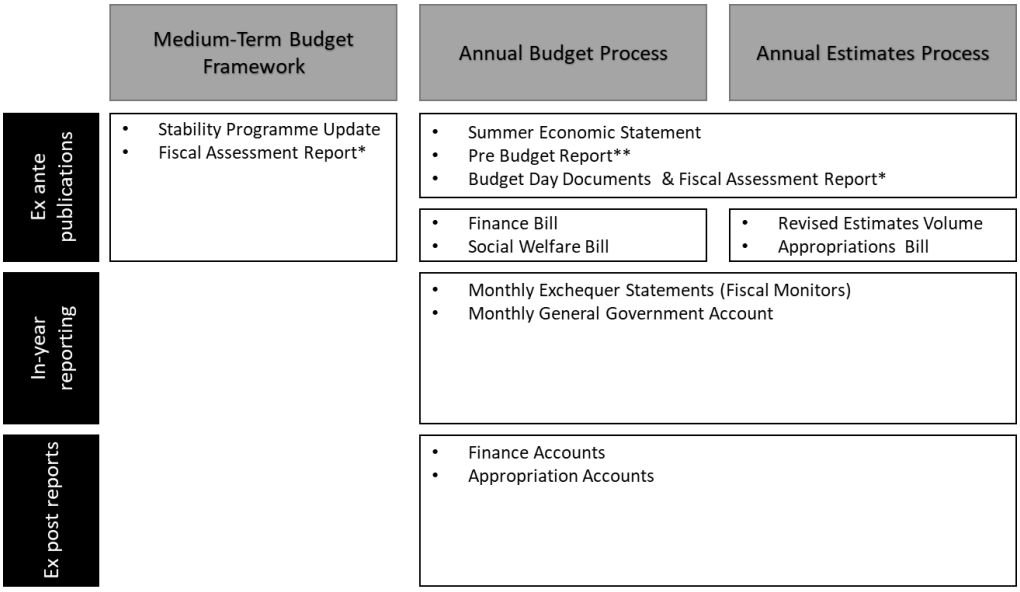
The Revised Estimates Volume presents high-level policy goals and targets and results for outputs that are linked to specific programmes, though not to specific subheads. The targets set out in the Revised Estimates Volume are reported against in the recently introduced **Public Service Performance Report**.

Within government, the key stakeholders in the formulation of the budget are the Department of Finance and Department of Public Expenditure and Reform (DPER):

- The Department of Finance has a central role in implementing Government policy, in particular the Programme for Government, advising and supporting the Minister for Finance and the Government on the economic and financial management of the State and the overall management and development of the public sector;
- The Department of Public Expenditure and Reform (DPER) has a dual function; to control public expenditure and bring budgets back to a sustainable path, and to ensure the necessary reforms in how Government and the public sector works.

Within the frame of these responsibilities, the Department of Finance, under the authority of the Minister for Finance, assumes, among other tasks, principal responsibility for seeking the approval of the Houses of the Oireachtas for the government's economic and fiscal strategy, preparing the Annual Budget including the overall taxation and expenditure levels, setting the annual Government Expenditure ceiling and for preparing Finance Accounts. The Department of Public Expenditure and Reform assumes the principal responsibility for seeking the approval of the Houses of the Oireachtas for the distribution of the overall expenditure among the Votes, and for co-ordinating government departments and offices' preparation of the related Appropriation Accounts, under the authority of the Minister for Public Expenditure and Reform.

Figure 1. Ireland: Fiscal reports through the budget cycle



Source: Authors.

Budget documents and financial reports prepared as part of the Annual Estimates process share a number of characteristics, which can be summarised as follows: they use the cash

accounting basis, they follow the Vote structure and their institutional coverage is mainly limited to central Government. These characteristics are briefly explained below.

As in the majority of OECD countries, Ireland's Appropriation Bill is mainly prepared on a traditional cash basis, which allows strong control over resources spent by ministries and government departments (as opposed to the perceived volatility and discretion in accruals valuations for budgeting).

Annual resource allocation for the Exchequer is done under so-called *Votes*. Each Vote is a coherent area of government expenditure, which is the responsibility of a single government department or office, with one or more Votes covering the functions of each government department or office within central Government. There are 42 individual Votes in total, which make up the *Estimates*.[6]

As shown in Table 1, budget documents and financial reports presented to the Houses of the Oireachtas focus in most cases on central government – that is the 40 government departments, offices and constitutionally independent entities (such as the Houses of the *Oireachtas* and judicial salaries) that have their expenditure managed through the government's treasury single account, the *Central Fund*.[7] Their expenditures are authorised by the Houses of the *Oireachtas* through the annual Estimates/Appropriations process, or funded through standing charges on the Central Fund.

Table 1. Ireland: Institutional coverage of budget documents and financial reports

Financial report	Coverage
Stability Programme Update	Exchequer Account & General Government
Summer Economic Statement	Exchequer Account & General Government
Budget Day Statements	Exchequer Account
Budget Day Economic and Fiscal Outlook	Exchequer Account & General Government
Revised Estimates Volume	Exchequer Account
Monthly Exchequer Statements	Exchequer Account
Monthly General Government Account	General Government
Mid-Year Expenditure Report	Exchequer Account
Fiscal statistics	General Government
Finance Accounts	Exchequer Account
Appropriation Accounts	Exchequer Account

Note: Where information is produced on an "Exchequer Account & General Government" basis, information is usually produced for the Exchequer Account with a reconciliation from the Exchequer Account to the General Government balance also being provided.
Source: Authors.

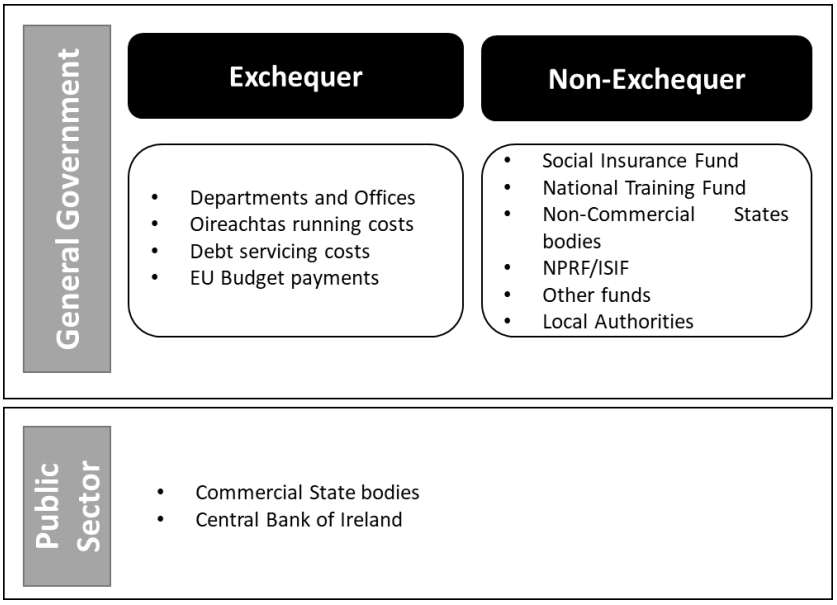
Budget documents directly or indirectly associated with reporting requirements of the EU Stability and Growth Pact have wider institutional coverage. These reports cover the general government, as defined in fiscal statistics. As shown in Figure 2, Irish Government departments and offices, as well as the funds and non-commercial State bodies (called "State bodies" in the remainder of this report) under their purview, together compose the central government sector. The social security funds and other smaller public bodies providing health and social care together are included in the central government. Finally, regional and local governments, and various entities under their purview, form the local government sector.[8]

For most part, the public bodies classified under the general government sector in fiscal statistics share the characteristics of being funded mainly by direct grants from the

Exchequer, although they can also raise their own revenue through taxes, investment income or other sources.[9] They fall under three main legal groupings, as follows:

- Ireland's 40 public funds (also called extra-budgetary funds) serve several purposes, such as, for example, managing social security benefits or providing support to businesses, and may take different forms (e.g. fund-of-funds and co-investment funds). As in many countries, amongst the largest funds are those that partly fund social security benefits, but Ireland also has the Strategic Investment Fund, which took over the EUR 7.1 billion discretionary portfolio of the National Pensions Reserve Fund.
- Hundreds of State bodies operate under government departments and offices. Their activities vary, with around 80 State bodies[10] considered to exercise non-market activities and included in the general government sector in fiscal statistics. Their size differs significantly, with the largest State bodies including, for example, Transport Infrastructure Ireland, Irish Rail or Radio Telefis Eireann (RTE).
- Finally, 31 authorities operate at local level in Ireland, namely 26 county councils, 3 city councils, and 2 county and city councils.[11] Local governments also often have subsidiaries, including local public enterprises. Although local authorities deliver a broad range of services, such as roads, housing and economic and community development, their responsibilities are limited by international comparison.[12] In 2018, approximately 40% of local government funding came from taxes, while 30% came from central governments grants, and 30% from the provision of goods and services.[13]

Figure 2. Ireland: Building Blocks of General Government

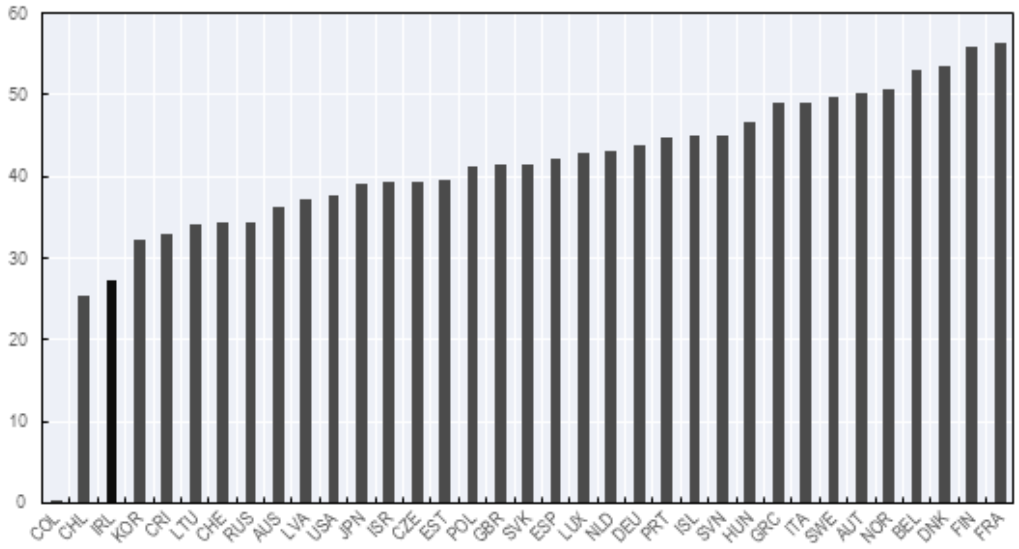


Note: The Central Statistics Office defines and delimits precisely the "General Government sector" biannually as part of the reporting on Excessive Deficit Procedure (*www.cso.ie/en/methods/governmentaccounts/classificationdecisions/registerofpublicsectorbodiesinireland/*). The figure above is an adaptation of the Central Statistics Office definition based on OECD understanding.
Source: Authors, based on IFAC (2016), www.fiscalcouncil.ie/wp-content/uploads/2016/11/Appendix-E-The-General-Government-Sector-2.pdf

Overall, the general government sector in Ireland is relatively small as a percentage of GDP. However, Ireland is a highly globalised economy and the presence of some large multinationals can distort GDP. Modified GNI* removes these distortions and is considered a more appropriate measure of national income for Ireland[14]. General government expenditure as a percentage of modified GNI* is 42.7%, which is closer to the OECD average in Figure 3.

Figure 3. OECD countries: general government expenditure

% of GDP, 2016



Source: OECD (2017a)

2. Understanding the current Financial Reporting Framework

2.1. Legal basis for Exchequer Financial Reports

As noted above, the Irish Government prepares two documents at the end of the budget cycle: the Appropriation Accounts and Finance Accounts. Although their purpose is not specified in primary legislation[15], most stakeholders consider that the Appropriation Accounts and Finance Accounts are primarily for control and scrutiny of the regularity of government financial operations by the *Dáil* but also serve distinct purposes:

- Appropriation Accounts show the amount voted by the Houses of the *Oireachtas* and the corresponding expenditure related to each Vote, serving as an accountability document for spending across different areas; and
- Finance Accounts provide an annual statement of Central Fund transactions, as well as corresponding changes to the National Debt, providing a summary of the executive's overall fiscal position in terms of expenses, revenue, surplus/deficit and debt.

Primary legislation in Ireland – that is the Constitution and Exchequer and Audit Departments Act, 1866 – is also not explicit on the rules applying to the annual accounts, or their purpose. Although the more recent Comptroller and Auditor General (Amendment) Act, 1993 specifies some general principles applying to the accounts, most requirements

for the presentation and content of the accounts are set out in regulations enacted by relevant Ministers.[16] [17]

Specifically, concerning the Appropriation Accounts, Section 22 of the Exchequer and Audit Departments Act, 1866 requires that each Government Department charged with the expenditure of any Vote prepares a corresponding appropriation account for this Vote at the year-end. The Comptroller and Auditor General (Amendment) Act, 1993 further clarifies that Appropriation Accounts shall be prepared in accordance with accounting rules and procedures laid down by the Minister for Public Expenditure and Reform.[18] [19] The Minister's own authority to set the rules and procedures derives from the 1866 Act.

Similarly, requirements to establish the Finance Accounts come from the Constitution and Section 4 of the Comptroller and Auditor General (Amendment) Act, 1993 specifying that Finance Accounts (and the National Debt Statement that is included in the Finance Accounts) are prepared in a form approved by the Minister for Finance.[20]

A focus of the legislation is to assert and detail duties in the overall "System of Accountability for Public Moneys" of the Accounting Officer. [21] Accounting Officers are expected to assure the *Dáil* and the public of high standards of probity in the management of public funds and are required, for this purpose, to sign the accounts that they present to the Comptroller & Auditor General. Accounting Officers may also be called to appear before the Public Accounts Committee of the *Dáil* to give evidence about the account.

Secretaries General of Government Departments and Heads of most Offices that have a Vote are appointed Accounting Officers.[22] [23] The Secretary General of the Department of Finance is the Accounting Officer responsible for preparing the Finance Accounts. The Statements relating to the National Debt are the responsibility of the National Treasury Management Agency.

The Comptroller & Auditor General, as stated in the Constitution, audits the accounts of moneys administered by or under the authority of the *Oireachtas*, namely the Finance Accounts and the accounts of government departments. The institution is constitutionally independent from both government and parliament.

It conducts its audits in accordance with the International Standards on Auditing as promulgated by the International Organisation of Supreme Audit Institutions and fulfils other ethical responsibilities in accordance with the standards. Audit reports of the Comptroller & Auditor General give an opinion covering the accuracy and completeness of the accounts and ensure that the accounts have been prepared in the approved format. The C&AG reports by exception on matters such as the regularity of financial transactions and the adequacy of the accounting records for audit purposes. The annual audit report is then laid before the *Dáil* and considered by the Public Accounts Committee on behalf of the *Dáil*.[24]

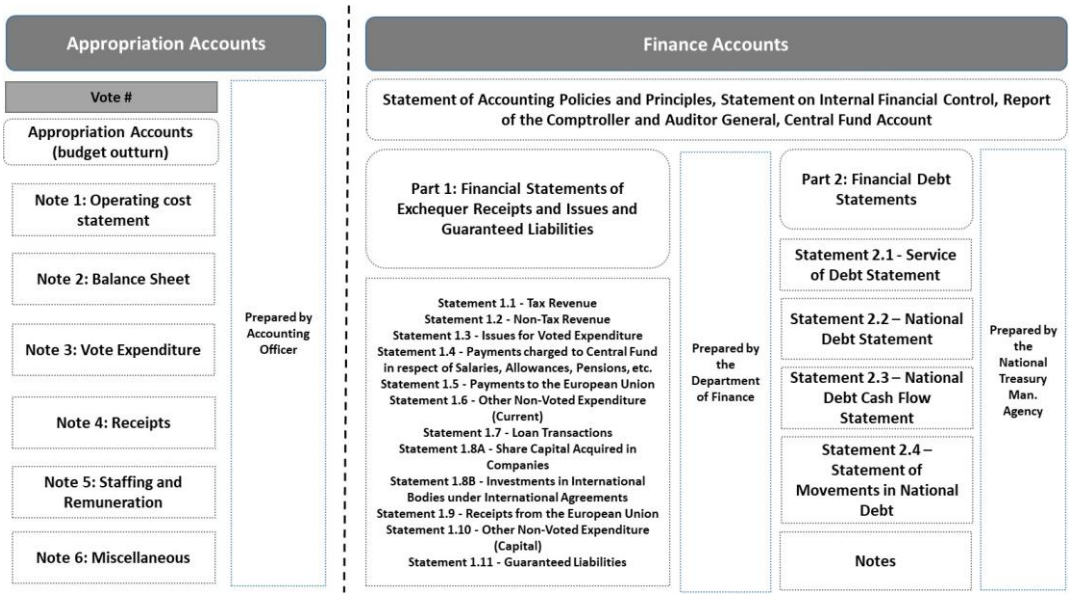
2.2 Characteristics of Exchequer Financial Reports

Against this legislative background, the Appropriation Accounts and Finance Accounts have evolved, with a stable set of core cash-basis information complemented over time with more detailed information on certain significant or sensitive transactions.[25] As shown in Figure 4, in their current format, the two sets of documents disclose a wealth of information on a cash basis, which commands the confidence of many stakeholders interviewed within the frame of this Review.

The Appropriation Accounts show cash basis outturns against appropriations for each Vote. Additional qualitative and quantitative budgetary information has been included over time in the Notes, such as, for example, staff numbers and pay, or the multi-year commitments incurred under each Vote. In addition, since 2011, DPER introduced the requirement for government departments to prepare a balance sheet, with requirements with regards to the elements to disclose and how to measure them specified in the DPER Circular for each corresponding year.

The Finance Accounts comprise the *Central Fund Account*, prepared on cash basis, and two distinct financial statements. Firstly, the *Financial Statements of Exchequer Receipts and Issues and Guaranteed Liabilities* comprises 12 statements that classify receipts and payments into and out of the Central Fund during the year by their nature. Secondly, the *National Debt Statement* details all transactions relating to the national debt, e.g. debt servicing, and outlines related risks. Both statements are prepared on a cash basis, but the National Debt Statement uses some accrual principles, as debt is measured at historical cost and derivatives are disclosed at both their nominal value and present value.

Figure 4. Ireland: Presentation and content of appropriation accounts and finance accounts



Source: Authors.

Although both the Appropriation Accounts and Finance Accounts are prepared on a modified cash basis, slightly different definitions apply to particular elements in the Appropriation and Finance Accounts, which sometimes makes it difficult to compare or navigate them. In particular, differences relating to the dates in which cash flow is recorded results in different amounts being reported for each Vote in the Appropriation Accounts and the Finance Accounts.[26] In addition, figures reported in the Appropriation Accounts and Finance Accounts with regards to contingent liabilities do not fully align.[27] [28]

Although some accrual information is available in both the Appropriation Accounts and Finance Accounts, a preliminary assessment undertaken as part of the OECD Review shows that balance sheets presented in the Notes of the Appropriation Accounts have been populated only partially and significant gaps exist compared to international standards

requirements. These gaps are very briefly summarised below, for assets, financial liabilities and other liabilities.

Regarding assets, although Ireland has been reporting fixed assets in Notes to the Appropriation Accounts since 2011, compliance with detailed requirements of international standards in relation to the classification, measurement, impairment and disclosures is limited. The same applies for equity investments, for which limited disclosures (opening balance, shares acquired, shares disposed and closing balance at nominal amounts) is provided in the Finance Accounts. Intangible assets and inventories are not reported at all.

Regarding financial liabilities, although the completeness and accuracy of debt instruments appears sound with an unqualified audit report issued in the National Debt Agency financial statements, some gaps exist with international standards, mainly in relation to the measurement basis used for reporting the National Debt and the disclosures required in relation to risks attached to financial instruments (particularly quantitative measures of those risks).[29] Debt in relation to leases and PPPs are not reported in any balance sheets, although the government publishes a table with the budget outlining details of all central government PPP projects in operation.[30]

Finally, regarding other liabilities, some information on employee benefits is available in Notes to the Appropriation Accounts (army pensions are disclosed in Vote 35 of the Appropriation Accounts, and pensions for retired civil servants in Vote 12 Superannuation and Retired Allowances). However, requirements of international standards in relation to disclosures are not met and other benefits are not reported. In addition, other types of liabilities (e.g. debtors and provisions in relation to litigations) are not reported in any of the current financial reports.[31]

This assessment is broadly consistent with recent reports of the Comptroller & Auditor General. Although the Comptroller & Auditor General is not required by legislation to formulate an opinion on whether the accrual information in the Notes to the Appropriation Accounts is complete, accurate and free from material error, recent audit reports mention concerns about the overall completeness and quality of data underpinning the accrual notes, as well as issues associated with the overall framework for reporting accrual information.

The Appropriation Accounts and Finance Accounts both have limited coverage (the Voted Expenditure for the former and the Central Fund for the latter).[32] This means that the relatively large share of public spending done outside of the Exchequer (Table 2) is not captured in the accounts laid out before the *Dáil* at year-end.

Table 2. Ireland: Expenditure relating to central government as a % of GDP (2017)

	Expenditure as a % of GDP
Central government expenditure	**25%**
Composed of:	
Exchequer expenditure	*19%*
Extra budgetary funds	*1%*
Social security funds	*3%*
Non-market semi-state agencies	*2%*

Source: Authors, based on information provided by the Department of Finance.

Funds, State bodies and local governments prepare accounts that are separate from those of the central Government due to their administrative autonomy. Requirements about the

accounts of each fund are laid out in their statutes and are not harmonised. State bodies and local governments are required to use accrual accounting standards based on the Financial Reporting Standard (FRS) 102.[33]

Accounting guidance for State bodies is detailed in the *Code of Practice for the Governance of State Bodies (2016)* and *A Guide to the Implications for the Annual Financial Statements and the Annual Report (2017)* issued by DPER. This Code of Practice provides detailed reporting requirements for the annual report, the financial statements, and the Chairperson's Report to the Minister. For local government, an *Accounting Code of Practice* is issued by the Department of Housing, Planning and Local Government, which identifies a number of authorised departures from the requirements of FRS 102.

Finally, legislation provides for clear requirements with regards to the timeline for the preparation, audit and presentation of the Appropriation Accounts and Finance Accounts to the *Dáil*, as shown in Table 3 below. Although these timelines are aligned, in recent years, Finance Accounts have been published earlier than the Appropriation Accounts.

Table 3. Ireland: Timeframes for preparation, audit and presentation of financial reports

	Appropriation Accounts		Finance Accounts	
Preparation	*End of March*	Accounting Officer submits Appropriation Accounts to C&AG	*End of June*	DoF submits Finance Accounts to the C&AG
Publication	*End of September*	C&AG tables Audit Report	*End of September*	SecGen tables Finance Accounts

Note: Finance Accounts have been tabled in July in 2016, 2017 and 2018.
Source: Authors.

Requirements exist also in relation to State bodies and funds. State bodies and funds are required to present their accounts or financial statements to their sponsoring government department within one month of the audit certificate being issued by the Comptroller & Auditor General, together with any report on their financial statements. In turn, government departments and offices are required to lay the audited financial statements of bodies and funds under their aegis before the Houses of the *Oireachtas* within two to three months of such accounts being received, together with any report of the Comptroller & Auditor General on the accounts. Government departments and Vote holders are also required to present a report on the audited financial statements of bodies and funds under their aegis to the Houses of the *Oireachtas* in an annex to their Appropriation Accounts.

2.3 Responsiveness to users' needs

Overall, government financial reports are fully aligned with the budget documents they report against and therefore allow for comparability of fiscal reports prepared throughout the budget cycle. The main users of budget documents and financial reports (Table 4) expressed satisfaction with this consistency and recognise the usefulness of cash-based information published through the budget cycle. In particular, a number of stakeholders underlined that, in the aftermath of the 2008 financial crisis, the cash basis framework proved particularly useful in setting clear spending limits for government departments and offices and monitoring liquidity.

Table 4. Ireland: Main external users of budget documents and financial reports

Institution	Task	Key reports used
Houses of the *Oireachtas*: Public Accounts Committee	Examine financial operations of Government and report on reports of the C&AG.	Appropriation Accounts, Finance Accounts
Houses of the *Oireachtas*: Budget Oversight Committee	Enhance the role of the Houses of the *Oireachtas* in the budgetary formation process.	Stability Programme Update, Fiscal and Economic Outlook
Houses of the *Oireachtas* Parliamentary Budget Office	Provide independent and impartial budget information, analysis and advice to the Houses of the *Oireachtas*.	Stability Programme Update, Summer Economic Statement, IFAC: Fiscal Assessment Reports, Budget Day Documents, Mid-Year Expenditure Report
Irish Fiscal Advisory Council	Independent assessment of official budgetary forecasts and proposed fiscal policy objectives.	Stability Programme Update, Summer Economic Statement, IFAC: Fiscal Assessment Reports, Budget Day Documents, Mid-Year Expenditure Report
Central Statistics Office	Government Finance Statistics reporting, Excessive Deficit Procedure Reporting.	All
Academics, think tanks, such as the Economic and Social Research council, the media and the general public	Analyse budget information in order to hold the government to account.	All, but in particular the Budget Day Documents and Monthly Fiscal Reports

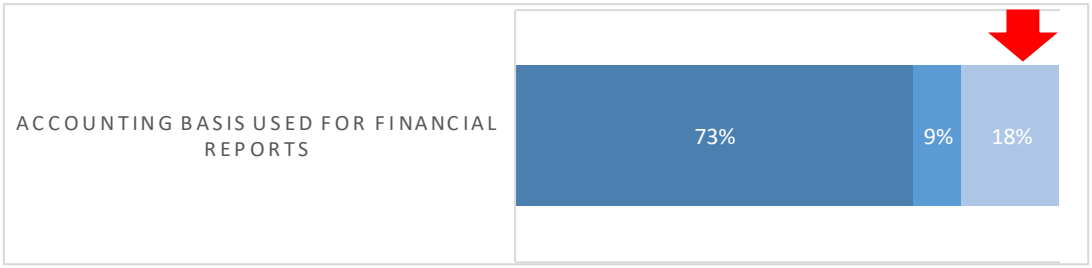
Source: Authors.

Despite these strengths, Ireland's current practices do not fully align with international best practices for financial reporting, including the OECD *Recommendation on Budgetary Governance*, whose budget principle number 6 sets out that governments should *"present a comprehensive, accurate and reliable accounts of public finances" by "accounting comprehensively in the budget document for all expenditures and revenues of the national government"; "presenting a full national view of the public finances; and "accounting in a manner that shows the full financial cost (...) of budget decisions, including the impact upon financial assets and liabilities"*.

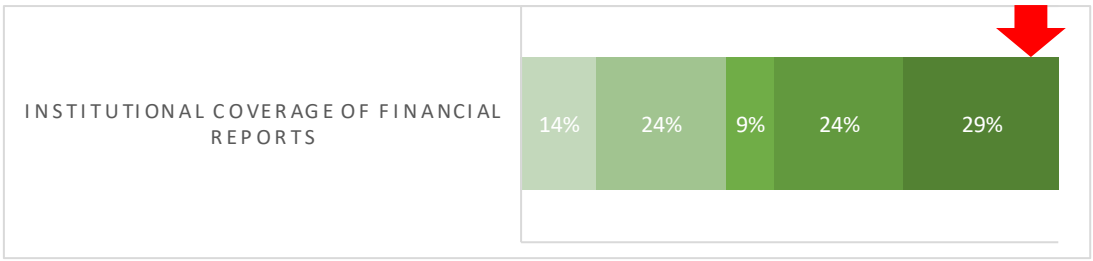
Data collected by the OECD confirms that practices in Ireland lag behind those of other OECD countries in three areas (Figure 5):

- Accrual information is limited, as highlighted by a preliminary accounting gaps assessment done by the OECD. Ireland is therefore part of the small group of countries that use cash or modified cash accounting, while around three quarters of OECD countries have adopted accruals;
- The institutional coverage of the accounts is narrow, which contrasts with the current practices in two-thirds of OECD countries, whose accounts cover at least central government; and
- Time lags for publishing reports are longer than those of other OECD countries, whose average is below six months.

Figure 5. OECD countries: accounting basis, coverage and publication date for year-end accounts



Note: reading from left to right, accrual basis, cash transitioning to accruals and cash. Data above shows practices of all OECD countries. Ireland is positioned with the red arrow.
Source: Moretti (2016).



Note: reading from left to right, public sector; national or federal government; central and local government (general government); central government; and budgetary central government. Data above shows practices of all OECD countries. Ireland is positioned with the red arrow.
Source: Moretti (2016).

Note: reading from left to right, 1-5 months; 5-7 months; and 7-12 months. Data above shows practices of all OECD countries. Ireland is positioned with the red arrow.
Source: OECD Budget Practices and Procedures Survey 2018 (internal document)

Interviews conducted with Irish stakeholders for this Review confirmed that the Irish financial reporting framework is perceived as somehow outdated and that improvements are considered necessary and urgent. Stakeholders identified a number of issues to be addressed that are mostly "technical" in nature, but also expressed more general concerns with regards to the purpose and legibility of the accounts prepared by the government, as summarised below.

The first of the "technical" concerns is in relation to the nomenclature for presenting Appropriation Accounts. Within each Vote, the nomenclature used for presenting expenditure and revenue may differ, which gives rise to variation in the granularity that is available on spending information for each government department. Concerns were expressed during interviews with the level of detail of the budget nomenclature in certain key areas of spending (e.g. health expenditure).

Some observers also underlined that Ireland's cash accounting system has a number of weaknesses. Firstly, the "net cash basis" used in spending authorisations does not capture, in revenue estimates, the so-called *Appropriations in aid* – i.e. revenue that is not paid into the Exchequer Account and is retained by a government department or office to offset its own expenditure.[34] Secondly, as government transactions are recognised only when the associated cash is received or paid, the accounting system creates opportunities for deferring disbursements or bringing forward receipts, a problem that is not unique to Ireland but inherent to the nature of cash accounting.

In the wake of the 2008 financial crisis, there was also increased awareness that cash financial reports, because they did not capture all government assets and liabilities, could not indicate the extent to which public finances would react to economic shocks. The lack of a complete picture of government assets, such as how much land the state owns, and liabilities, such as PPPs, pensions and medical liabilities, is also increasingly considered to limit the depth and breadth of external scrutiny into government fiscal management and the reliability of fiscal forecasts.

The Public Accounts Committee and the Comptroller & Auditor General have both pressed for improved timeliness in the publication of financial statements of funds and State bodies. While the timeliness of monthly income and expenditure on cash terms is recognised by most stakeholders, interviews during the OECD mission highlighted concerns in relation to the nine-month time lag before Appropriation Accounts are laid before the Public Accounts Committee.[35]

The last "technical" challenge is in relation to the fragmentation of the framework. It could be argued that financial information on funds and State bodies is provided in their individual accounts or financial statements. However, policy makers' understanding of the scale and costs of sectoral policy implemented by various public actors is impaired as information is scattered among numerous budgets and financial reports that are difficult to navigate and reconcile.[36]

The fragmentation of the financial reporting framework also generates difficulties for the Central Statistics Office, Ireland's national statistical office, which is tasked with compiling government finance statistics for publication and submission to Eurostat. These statistics are of critical importance, as they form the basis of the assessment of Ireland's compliance with fiscal rules under the EU requirements.

Statistics required by Eurostat are to be prepared on accrual basis (with the exception of tax revenue). Although the Central Statistics Office developed quasi-accrual statistics pre-2014 (and has full data series back to 1995), preparing this data required developing models and estimates of the value of most assets and liabilities held by the government. Indeed, for local authorities and State bodies, which prepare accrual based financial statements, important variations still exist in the interpretation of accounting standards. For central Government, only cash data is available, and broad adjustments are required to move from cash to accrual figures.

Box 3. Ireland: The Central Statistics Office

Mandate and mission

The Central Statistics Office (CSO) was established in 1949 as Ireland's national statistical office. To ensure its independence on statistical matters, it now stands as a separate Office attached to the Department of the *Taoiseach*, the Prime Minister and Head of Government in Ireland. The Statistics Acts, 1926 and 1946 provided the statutory basis for the compilation of statistics up until 1994, after which the Statistics Act 1993 came into force, providing a modernised basis for the compilation and dissemination of official statistics.

The CSO's mandate is built on the Statistics Act 1993 and on EU Regulation 23/2009, and allows for "The collection, compilation, extraction and dissemination for statistical purposes of information relating to economic, social and general activities and conditions in the State" (Section 3, Statistics Act 1993).

As such, the CSO has a formal co-ordination role to play across the public service in relation to official statistics. Under Section 10 of the Statistics Act, the CSO has authority to co-ordinate official statistics compiled by other public authorities and to assess and realise the statistical potential of their administrative records. Under Sections 30 and 31 of the Act, the CSO also has powers of access to the records of public authorities, for statistical purposes, and to obtain the co-operation of public authorities in developing the statistical potential of administrative records.

Work programme at national and international level

The CSO's strategic planning is informed by both national and international developments.

At **national level**, for instance, the Department of Public Expenditure and Reform recognised in November 2011 that good quality data and information was essential to deliver on their actions of improving customer services and public sector efficiency. As part of this plan, the CSO was assigned the task of developing 'a code of practice and standards for the gathering and use of data for statistical purposes in the Public Service'. The CSO developed the Irish Statistical Code of Practice (ISSCoP), which sets out a standard for statistical production and dissemination of Official Statistics by other Public Sector organisations. The ISSCoP was launched in November 2013 and this was a first step in formalisation of the co-ordinating role of the CSO within the ISS.

At **international level**, meeting EU requirements has been the single most important factor shaping the development of the CSO's work since the 1970s. Since accession to the European Community in 1973, the CSO's work programme has been almost completely driven by the mandatory requirements of EU Directives and Regulations.

In 2015, the Regulation (EC) No 223/2009 on European Statistics was revised. This new EU Regulation 2015/759 fundamentally changed the role of the CSO, which became responsible for co-ordinating and overseeing the quality of all European Official Statistics in Ireland. The CSO now ensures that all 15 public sector bodies which produce European statistics are adhering to the quality and methodological standards set out by the EU and detailed in the European Statistics Code of Practice.

Structure and outputs

The CSO comprises six Directorates The Economic Directorate is responsible for the development and compilation of national accounts; financial accounts; government accounts; balance of payments, international investment position, foreign direct investment and international trade in services statistics; and international trade in goods statistics.

The CSO prepares a consolidated Annual Statistical Work Programme covering statistical surveys and other statistical activities. It also prepares three-year Statements of Strategy setting out the key objectives, outputs and related strategies (including the use of resources) for the CSO over the three-year period. Progress in implementing these statements of strategy is outlined by the CSO in Annual Reports prepared for the National Statistics Board.

In the area of government accounts, the CSO's outputs are Government Finance Statistics (GFS) annual and quarterly publications, the Excessive Deficit Procedure (EDP) biannual transmissions and the ESA transmission programme. These reports are used as the baseline for the fiscal analysis of the government in the context of the European Stability and Growth Pact. Since the CSO are downstream beneficiaries of the outputs produced by DPER, the quality of financial reporting is critical in the production of these statistics.

Source: Authors, based on public information.

Beyond these technical issues, stakeholders raised a number of concerns with the overall framework for financial reporting, expressing the desire that the reports be clearer and more informative. This concern is not unique to Ireland, as highlighted by a recent OECD study (Box 4).

Firstly, the Vote structure of the Appropriation Accounts, despite being well known and understood by users, creates challenges. It does not fully align with the responsibilities of government departments and offices. This means that, when a government department is responsible for one, two or three votes, there is no aggregated vision of their total resources and spending. This hinders users from finding what they might think is relatively simple information on spending allocated to certain government programmes.[37]

More generally, users of Appropriation Accounts find Votes of limited relevance for assessing and improving efficiency within each government department, as they do not align with performance data. In some OECD countries, financial and performance information is integrated. That is the case, for example, in France and Austria.

An additional issue raised during OECD interviews in relation to the Appropriation Accounts was their length (for example, the 2017 Accounts are 958 pages long). The large size of the document can make it time consuming and difficult for users to find the information they are looking for. A related concern is that key figures and analysis do not have due prominence, as these are lost among financial information and detailed disclosures that are not relevant to decision-making.

Finally, in terms of the overall reporting framework, a range of stakeholders and observers also advised that any modern approach to financial reporting in Ireland should aim to clarify the purpose for each report prepared at year-end and avoid duplication of information. It is the perception of a number of stakeholders that there is an overlap in the coverage of the Finance Accounts and the Appropriation Accounts, as both focus on accountability for the use of resources and regularity of transactions, with neither focusing on the financial performance or the financial position of the government.

Box 4. OECD: Rationalising Fiscal reporting

The OECD study "Rationalising Fiscal Reporting" notes that government financial reporting has profoundly changed in recent decades to better address the needs of users in terms of both fiscal transparency and accountability, with an increasing use of the accrual basis for government reporting and more sophisticated budget nomenclatures (e.g. programme classification). However, even in the most advanced OECD countries, a number of issues with government fiscal reports, which are mostly "technical" in nature, are still identified by users. New layers of fiscal reporting requirements have sometimes resulted in "reporting strands" that may not be fully connected to each other. In particular, fiscal reports are difficult to navigate when they use different classifications or accounting bases. Delays in the provision of fiscal documents severely affect their relevance. Fiscal reports fail to represent key figures and analysis with due prominence as, all too often, current budgeting or accounting frameworks may require "overloaded" financial information and detailed disclosures that are not relevant to decision-making. In addition, information provided in fiscal reports is sometimes overly technical, hence difficult to understand and make use of for non-technical readers.

Against this background, the OECD identified eleven areas that governments need to pay attention to for making their fiscal reporting transparent, understandable and legible for users, as follows:

- The need for fiscal forecasts, budgets, and accounts to be aligned or include bridging tables to allow for comparability and accountability;
- The need to present fiscal data in a multi-faceted and connected way (consolidated/aggregated format and entity-level format; classification by type, administration or programme);
- The need for budget documents not only to be timely but appropriately sequenced;
- The need to ensure an appropriate mix of timely in-year provisional reports and comprehensive audited year-end reports;
- The need to use IT to allow parliamentarians and citizens to delve into the detail of fiscal reports and structure their own queries rather than have to only read data the way governments want them to;
- The need to bring financial and non-financial performance information into a simple and unified report;
- The need to provide simple and accessible summaries of fiscal reports for citizens and parliamentarians;
- The need to provide analysis and interpretation of complex and technical government financial information;
- The need for forecasts and budgets and performance information to be subject to the same degree of independent scrutiny as accounts to ensure their integrity;
- The need for regular and formal dialogue between governments and parliaments about their reporting requirements;
- The need for more regular and reliable measurements of costs associated with reporting requirement to inform reviews of fiscal reporting frameworks.

Source: Moretti (2018).

3. Modernising the Financial Reporting Framework

3.1 Addressing weaknesses of the current framework

Any reform of government financial reporting in Ireland would have to be cognisant of the need to maintain the core elements of the existing framework, in particular the accountability information on a cash basis for each Vote, while addressing the three main "technical" weaknesses identified by users – i.e. improving the completeness of the financial operations reported in the Appropriation Accounts; shortening timeframes for the preparation, audit and publication/tabling of all public bodies' financial reports; and allowing users to have a more comprehensive view of the financial position of the Irish Government.[38]

Regarding the timeliness of financial reports, the ease with which year-end financial statements can be prepared depends on the degree of automation and integration of government accounting systems. For the Government departments and offices, the development of a new IT system, discussed in the following section of this chapter, could provide an opportunity for streamlining accounting processes and automating the production of the tables in the year-end accounts.

The government should more generally consider a "faster closing" initiative for Government departments and offices, funds and State bodies and aligning requirements for the preparation and publication of their year-end accounts. However, this would have significant operational implications, in particular in terms of potential increase of resources, and the feasibility would need to be assessed with all stakeholders, including auditors.

To allow users to have a clearer view of the financial position of the Irish Government as a whole, at a minimum, the government should seek to harmonise accounting standards used across entities. While this was already done for State bodies and Local Government, accrual information provided for each Vote is incomplete and funds follow different accounting requirements, as set in their individual statutes. Moving fully to the accrual basis of accounting and further aligning accounting practices across government would allow for more clarity and comparability and, consequently, allow users to better navigate year-end accounts. It would also significantly facilitate the preparation of fiscal statistics and increase their reliability.

To improve the completeness of the financial operations reported in the Appropriation Accounts, a first reform to implement would be to enclose comprehensive accrual financial statements in the Notes of the Appropriation Accounts – that is financial statements compliant with international accounting standards.[39] It is to be noted that, in addition to providing a comprehensive view of the government's financial position and the full costs of its operations, accrual financial statements would include cash flows statements that disclose receipts and payments on a gross basis, as opposed to the net basis used in the Vote tables.

Beyond immediate improvements of the completeness and clarity of the government's financial data, adopting accrual accounting in addition to traditional cash accounting would offer a number of benefits from the point of view of accountability and fiscal management in Ireland, which are described in more detail below. It is to be noted that such transitions to accrual accounting have been done in the past for certain public sector entities and are generally considered to have had positive outcomes (Box 5).

Box 5. Ireland: Accrual accounting in higher education

The public higher education system in Ireland derives a very significant share of its funding from the Exchequer, through the Department of Education and Skills, and an intermediary body, the Higher Education Authority. Although that public funding is provided on the basis of the Exchequer appropriation system described elsewhere in this report, within the institutions, accounts are prepared on an accruals basis, using the FRS standards.

The system switched from cash-based reporting to an FRS approach and is well enshrined today. Some of the advantages identified by stakeholders are as follows:

- As institutions with diverse sources of income, many of which can be transient in nature (e.g. funding won through competitive research allocations), it is essential that the institutions are able to use accruals to identify underlying flows of income and costs, which on a cash basis might significantly distort single year financial reports.
- Some higher education institutions have in recent years sought to use borrowing as a means to invest in capital infrastructure developments; the lending institutions – both the European Investment Bank (EIB) and private banks required significant financial detail, on a very robust basis to support such lending, which would not have been possible without the more robust financial reporting through use of FRS.
- The accruals basis of financial reporting has required institutions to look more rigorously at their asset base, to take into account depreciation, and make provision for such depreciation as part of wider financial planning. It has engendered a more rigorous approach to costing investments on a life cycle basis – which in turn provides a more robust basis to cost/benefit analysis to inform investment decisions.
- The use of a robust accruals system has facilitated many institutions to delegate budgets to the level of academic units (such as Faculties of schools). Those units take responsibility of both their costs and income generation. This enshrines greater cost disciplines across the wider institution, but also incentivises the development of revenue generation ideas locally, that can allow further investment in the institutional mission. Such delegation would be impossible under a cash allocation model.

Source: Authors, based on information provided by DPER/Higher Education Instituations.

3.1.1. Management of assets and liabilities

By capturing non-cash transactions in financial statements, accrual-based fiscal reports allow public sector managers to better monitor the acquisition and disposal of the assets they are responsible for, to identify liabilities generated during the course of the year, leading ultimately to better and more cost-effective management.

Importantly, it also allows policymakers to exercise greater monitoring and scrutiny of certain sensitive government assets (e.g. lands and buildings), liabilities (e.g. PPPs), provisions (e.g. medical negligence) and contingent liabilities (e.g. guarantees).

In Ireland, it has been the case in the past that liabilities, provisions and contingent liabilities have accumulated without formal monitoring, giving rise to spending risks. A move to accrual accounting would therefore be useful in improving monitoring mechanisms in targeted areas, as was done for example in the United Kingdom through the analysis and monitoring of the Whole of Government Accounts (Box 6).

More generally, better managing assets can ensure that they are delivering value and lead to significant increases in fiscal revenues.[40] To achieve this, data availability needs to be improved and transparency in the management of public assets needs to be enhanced, as underlined by the European Commission.[41] Overall, as accrual accounting leads to greater transparency on assets, it can therefore also lead to improvements in government resources management.[42]

Box 6. United Kingdom: Assets and liabilities monitoring and management

Building on the information published in the Whole of Government Accounts, assets and liabilities monitoring and management has been strenghtened in several areas in recent years in the United Kingdom.

- **Intangible assets** – The UK has published a report on improving measurement and management of intellectual property and other intangible assets in the public sector in order to increase financial, economic and social returns and unlock cashable benefits. An academic study of EU countries estimated the UK's stock of intangible assets at GBP 150 billion.
- **Private Finance Initiative** – The balance sheet analysis has given a more detailed understanding of the costs and benefits of PFI contracts. The UK has concluded that the PFI model of public/private partnership is inflexible, overly complex and a source of significant fiscal risk to the government. UK announced in Autumn 2018 that it will no longer use the PFI model for new projects and implement a new Centre of Best Practice to manage existing PFI contracts.
- **Reducing inflation exposure** – The UK government is taking action to reduce its inflation exposure by looking to reduce the proportion of index-linked gilt issuance in a measured fashion over the medium term. This was prompted by a detailed review of the risk exposure on balance sheet liabilities.
- **Debt owed to the government** – The UK government is using balance sheet disclosures to better understand and improve its recovery of over GBP 20 billion of overdue debt through new performance management measures. This has already collected an extra GBP 472 million over the last 3 years.
- **Contingent liabilities** – A more detailed understanding of contingent liabilities (both individual and aggregate risk) led the UK government to introduce stricter controls over the issuance of guarantees and other contingent liabilities. The new regime has already been applied to over 60 new contingent liabilities since its introduction in 2017, with a total value of GBP 158 billion, with over GBP 1 billion of new liabilities rejected outright while others were only approved after significant modification to reduce exposure. The UK continues to explore options to improve incentives and secure appropriate compensation for the taxpayer when providing insurance to the private sector. The balance sheet and financial reporting requirements have driven these reforms.

- **Asset sales and loans** – The UK is planning to introduce stricter disclosure requirements for asset sales and revised budgeting treatment for financial transactions (e.g. loans) to improve transparency, incentives and help drive better value for money when considering asset sales.

Source: Authors, based on public information.

3.1.2. Understanding risks to public finances

In adopting accrual accounting, and increasing the coverage of financial reports, government could get a more comprehensive understanding of past spending, which would in turn allow more accurate planning and effective risk management.

In the case of Ireland, there has recently been a persistent pattern of large overruns in health spending.[43] One of the challenges in forecasting health expenditure has been a lack of comprehensive financial information from hospitals, particularly voluntary hospitals (Section 38 institutions). Harmoning accounting practices across all entities would be a prerequisite for addressing some of the existing challenges.[44] Reporting all assets and liabilities would also allow identifying any liabilities that may exist in relation to the health sector (for example medical negligence claims), which would provide an insight into future spending risks in the sector and hence improve the quality of expenditure estimates.

One question regularly raised during interviews with stakeholders is whether accrual accounting would allow better decision making in the event of a future financial crisis.

In many OECD countries, the 2008 financial crisis demonstrated the existence of shortcomings in fiscal disclosure, such as previously unreported fiscal deficits and debts and the provision of substantial government guarantees to the financial sector. These can be argued to have resulted from gaps and inconstencies in fiscal transparency standards, delays and discrepancies in countries' adherence to existing standards, and a lack of effective multilateral monitoring of compliance with those standards.

Other Governments that have implemented accrual accounting consider that they are now more conscious of risks and better equipped to mitigate them. For example, in an increasing number of countries, non-cash financial operations (e.g. issuance of guarantees, PPPs, leases) are now subjected to the same degree of scrutiny and control as ordinary spending.

A recent OECD study (2018) also underlined the importance of the statement of financial position in providing an assessment of the resilience of public finances. For large economic downturns, citizens expect their governments to act as a shock absorber, and the statement of financial position provides a more enhanced view than a single debt measure of the government's ability to perform this function. In preparing its response to shocks, the government can assess the whole structure of the balance sheet, including the reserves and other financial instruments that the government owns, and better identify options it has to react and adapt.

3.1.3. Improving the preparation of statistics

As noted above, the quality of fiscal statistics for reporting under the EU economic governance framework[45] depends on the completeness and reliability of the underlying accounting data. Maintaining government accounts and fiscal statistics on an accrual basis is crucial to assessing how the government performs against these fiscal targets which are defined on an ESA2010 basis. These statistics are aimed at identifying fiscal risks

comprehensively and precisely, assessing the resilience of public finances, and providing vital indicators of the health of the government's finances and the national economy.

A move to accrual accounting would provide a more solid base for the compilation of these statsitics in Ireland, as currently the Central Statistics Office must develop its own estimates on the value of some government assets and liabilities for inclusion in the finance statistics.

3.1.4. Modernising and rationalising the financial reporting framework

Within the frame of these necessary "technical" improvements, more ambitious reform options could be considered by the Irish Government to better suit the wide needs of stakeholders.

Firstly, the government should seek to provide stakeholders with an aggregated vision of budget outturns for the whole of central Government, which is not provided in the Appropriation Accounts (spending and revenues are disclosed by Vote, but not aggregated) and in the Finance Accounts (spending and revenues outside of the Central Fund are not reported).

Secondly, the government should prepare accounts that allow users to have an overview of each department's resources and spending, ideally alongside information on their strategy and performance, which is currently scattered across various documents (three-year strategic plans, annual business plans, the Revised Estimates Volume and Public Service Performance Report). This would facilitate improved sectoral committee scrutiny at the Houses of the *Oireachtas*, an objective that has been pursued recently by a number of advanced OECD countries.

For example, under the Australian Government's new performance framework, reporting entities have been required to include summary performance information in documents presented to parliament to inform the budget discussion, publish an annual corporate plan and include a performance statement in their annual report. Austria also stands out as a good example for performance budgeting, which was introduced as part of major budget law reforms in 2009 and 2013. In Austria, for each of the 32 budget chapters, each ministry now has to define a maximum of five policy outcomes with related performance indicators, which require the approval of parliament. In turn, the Austrian Parliamentary Budget Office makes recommendations to the government on how performance information can be improved, and pushes for better and earlier access to information.

In the United Kingdom, a new format for Government Departmental Annual Reports and Accounts was adopted in 2016, which combines performance, accountability and financial information (see Box 7).

Box 7. The United Kingdom: Departments' Annual Reports and Accounts

In the UK, the 2013 Simplifying and Streamlining Accounts reforms restructured the presentation of statutory annual reports and accounts produced by Government Departments to better meet the needs of users, structure them more logically and remove unnecessary or irrelevant material. The project has led to a restructuring of the traditional presentation of Annual reports and accounts into three sections combining all reporting requirements: performance; accountability; and financial statements.

The first section, "Performance", gives users a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the

achievement of its objectives and how it has performed over the year. This section includes performance reporting against Government Departmental objectives (priorities and responsibilities including qualitative information and contextual information); corporate governance; statement of purpose and risks to meeting objectives; staff composition, sickness absence and staff policies; reporting on better regulation; reporting on sustainable development, climate change adaptation, rural proofing; complaints to the Parliamentary Ombudsman; effectiveness of whistleblowing arrangements; any other information in the public interest; performance in responding to correspondence from the public; recruitment practice; and health and safety reporting.

The second section, "Accountability", aims at meeting key accountability requirements to Parliament. It is the section where Government Departments demonstrate compliance with norms and specific codes of good corporate governance. It includes the Statement of Parliamentary Supply, which is the primary parliamentary accountability statement. It reports the outturn for the Government Departmental group against the final annual spending entitlements authorised by Parliament. Core Tables provide a summary of Government Departmental spending - looking both backwards and forwards - using the same headings as voted within the Estimate.

The final section, "Financial Statements", presents the entity's financial position according to International Financial Reporting Standards as adapted or interpreted for the public sector. The Annual Report and Accounts includes a Certificate and Report of the Comptroller and Auditor General to the House of Commons. The Comptroller and Auditor General certifies that the financial statements including the Statement of Parliamentary Supply have been audited and gives the Comptroller and Auditor General's opinion on the accounts. Where the Comptroller and Auditor General has specific concerns, he/she may qualify the accounts.

Source: Authors, based on HM Treasury (2014).

Thirdly, the government should establish consolidated financial statements that would provide a complete picture of Ireland's underlying fiscal position and allow a more comprehensive understanding of the level and composition of government spending and revenue and the related accumulation of government assets and liabilities, regardless of whether activities are carried out through a Vote, a fund or a State body.

A consolidated balance sheet would provide the most meaningful picture of the government financial position, by bringing together assets and liabilities that the government generates through government departments (such as infrastructure assets reported on the balance sheet of the Office of Public Works) or agencies (such as the National Debt reported on the balance sheet of the National Debt Management Agency or the provisions recorded in the financial statements of the State Claims Agencies).

Another benefit of preparing consolidated accounts is that they could allow disclosing certain government activities or group of activities as "segments", meaning that assets, liabilities, revenue and expenses carried out by different entities (government departments, funds or agencies) can be aggregated if they relate to a similar activity. In the case of Ireland, this would allow a comprehensive vision of the resources allocated to certain public services, such as health, despite the fact that they may be carried out by several entities across government.[46]

It is also in line with recommendations from the Committee of the Public Accounts at the Houses of the *Oireachtas* in its 3rd Periodic Report. The Committee recommended that the Government prioritise the production of a consolidated central government financial statement, stating: *"There is no report that gives a complete picture of the public sector's net worth. This lack of clarity makes it difficult to follow the flow of public funds, and impedes accountability"*.[47]

Finally, the government should clarify its financial framework by avoiding as much as possible the duplication of information, preparing reports that have a clear and distinct purpose, highlighting key figures and providing management commentaries on the financial reports tabled before the *Dáil*. For example, information on the National Debt is diclosed in the Finance Accounts as well as in the audited financial statements of the National Debt Management Agency.[48]

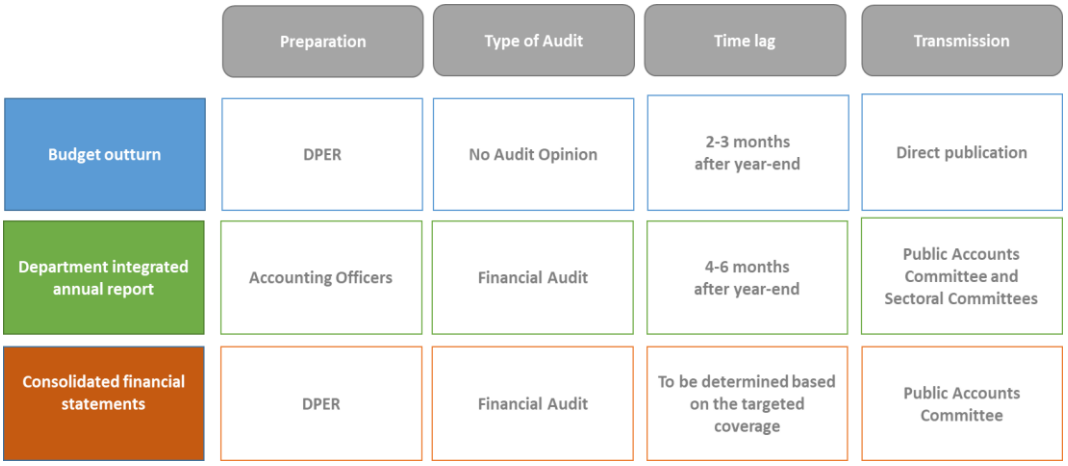
3.2 Rationalising the Financial Reporting Framework

Against this background, it is suggested that the government considers preparing three sets of financial reports at year-end, as follows:

1. A budget outturn could be published just after the end of the fiscal year. The budget outturn would show the aggregate outturn for all Votes, therefore addressing one weakness of the current Appropriation Accounts, which is that there is no overview of the total outturn against the total amount voted. This budget outturn would allow developments in key fiscal aggregates to be tracked in a timely manner, enabling improved monitoring;
2. Departments could be required to prepare "integrated annual reports", which would comprise i) outturns for the Vote(s) that fall within the responsibility of the department, ii) accrual basis financial statements and iii) information on the strategy and performance of the department. These reports, which would be used to hold government departments and offices to account for their spending and performance over the course of the year, could be laid either before the Public Accounts Committee or directly before relevant sectoral committees and;
3. Consolidated financial statements aggregating the individual accrual accounts of each government department and office (and, as soon as possible, those of the funds and State bodies) could be prepared later in the year, but yet still early enough to remain useful for users. These financial statements would be laid out in front of the Public Accounts Committee to enable it to fulfill its oversight responsibility in relation to overall government expenditure.

Publishing the budget outturn, integrated annual reports for government departments and offices and consolidated financial statements separately would provide an opportunity to better sequence the publication of the financial reports after the end of the fiscal year. The budget outturn would be published first to inform the discussion on the Stability Programme Update which needs to be submitted to the EU by end April; integrated annual reports for each department would be submitted on a more timely basis, and directly to sectoral committees; and consolidated financial statements would be published last to accommodate the pace of the slowest entities and to enable the Public Accounts Committee to fulfill its oversight responsibility in relation to overall government expenditure. This would also allow separate and appropriate audit procedures to be defined for each set of accounts, depending on the Comptroller & Auditor General's resources constraints.[49]

Figure 6. Ireland: Summary of proposed changes to financial reporting framework



Source: Authors.

It is important to underline that the proposed framework would not bring about any loss of information compared to the current one, but is focused on rationalisation and modernisation, in line with trends in countries, which, similar to Ireland, follow the Westminster budget tradition (Box 8). As shown in Figure 7, information currently disclosed in the Appropriation Accounts would indeed be presented in government departments and offices' integrated annual reports. Information on National Debt would be provided in the National Treasury Management Agency's financial statements. Information on cash payments and receipts relating to the Central Fund would be reported in the cash flow statement of the consolidated financial statements, albeit in a different format. In deciding the new framework for reporting, the Government should consider whether it would be desirable to continue publishing the Finance Accounts.

Box 8. Selected OECD countries: financial reporting frameworks

In Australia and the United Kingdom, three sets of accounts are prepared at year-end, with some variations in terms of the way the accounts are presented, the time lags for their publications as well as audit requirements:

Firstly, year-end budget outturns show aggregated final outturns against initial and revised spending authorisations and are published within three to six months after the end of the fiscal year. This is the core accountability document about the approved budget and/or spending authorisations.

Secondly, government departments and their dependent bodies publish individual financial reports. They are usually published after the year-end budget outturns, due to longer closing and audit procedures. They are aimed at stakeholders who are interested in monitoring sectoral spend.

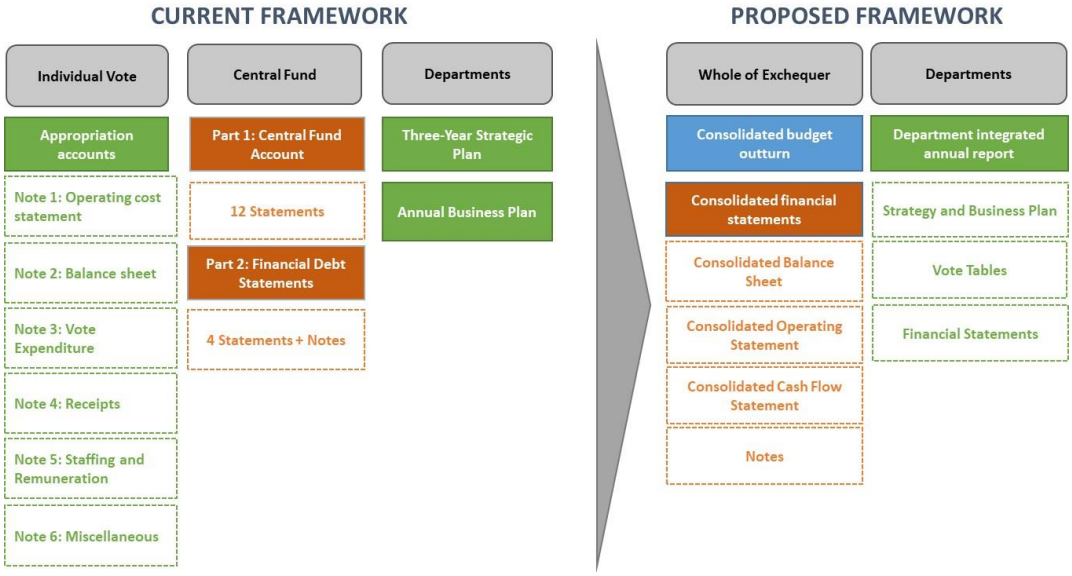
Finally, consolidated financial statements with a wider institutional coverage, are published later in the year. In Australia, consolidated financial statements including government-controlled public corporations are published within 5 months after the end of the financial year. The United Kingdom is the only country that produces consolidated financial statements for the whole of the public sector. They are published within 12 to 14 months

after the end of the fiscal year. These documents are aimed at stakeholders that want to understand the whole of government finances. In addition, the UK also produces a Consolidated Fund report which shows receipts and payments on the Consolidated Fund as well as some accrual information to assist with the whole of government consolidation.

	Financial Reports	Time-lag
Australia	1/ Budget outturn (Final Budget Outcome)	3 months
	2/ Government Department accounts (Annual Reports)	4 months
	3/ Consolidated accounts (Australian Government Consolidated Financial Statements)	5 months
The United Kingdom	1/ Budget Outturn (Public Expenditure Statistical Analysis)	3 months
	2/ Government Departmental accounts (Annual Reports and Accounts)	7 months
	3/ Consolidated accounts (Whole of Government Accounts)	12 months
	Consolidated Fund Account	4 months

Source: Moretti (2018)

Figure 7. Ireland: Rationalisation of the financial reporting framework



Note: Consolidated financial statements would cover the Government departments and offices initially but would be extended to the whole of general government at a later stage.
Source: Authors.

Such changes to financial reporting could also provide an opportunity to assess the usefulness of some of the information currently provided, in co-operation with the main stakeholders, including *Dáil* committees. Consultations could be held on whether all Notes to the Appropriation Accounts are considered useful and should be transferred into the departments integrated annual reports. Consideration could be given as to whether the twelve statements currently presented in the Financial Statements of Exchequer Receipts and Issues and Guaranteed Liabilities provide information that should be transferred into the consolidated financial statements. This would be consistent with the trend observed across OECD countries towards the simplification of fiscal reporting to decrease production costs and increase the clarity of government reports (Box 9).

Box 9. Selected OECD countries: Simplifying fiscal reports

In the Netherlands, the 2012 "Performance Budgeting" reform involved a major overhaul of the performance budgeting structure in order to enable more detailed parliamentary oversight as well as to enhance internal control by the Ministry of Finance and line ministries.

The financial reports of Australian Government entities have been recently simplified and decluttered to 1) assist readers and users by providing simpler, more meaningful information and 2) reduce unproductive workload, which does not add value to the readability of the statements. In addition, budget documents have been reviewed to ensure consistent information and appropriate level of disclosure.

In Canada, the format of the estimates has been revised to simplify their presentation.

In France, the length of budget documents has decreased by around 20% during the last decade following several review exercises.

In the United Kingdom, departments' year-end financial reports were simplified in 2015. The Treasury is also looking at possible reforms to the presentation of the Whole of Government Accounts, including reviewing the content of the accounts to determine whether the disclosures are proportionate and focussed on the material items in the accounts.

Importantly, these government-led simplification exercises have been conducted with great attention paid to not impairing transparency and followed a formal process that involved inputs from key stakeholders prior or post reform implementation.

Source: Moretti (2018).

3.3 Seizing opportunities for change

The Financial Management Shared Services (FMSS) project and Civil Service Renewal Initiative offer timely opportunities for moving forward the financial reporting framework modernisation agenda.

Central government in Ireland is in the midst of a FMSS Project to migrate entities to the National Shared Services Office (NSSO). Entities are being migrated in waves, the plan for the migration of entities to the new service is nearing finalisation, with options for deployment and timelines to be considered and approved imminently. The NSSO scope of activities covers HR Shared Services, Payroll and Finance. When fully implemented, it is expected to support around 52 organisations, process around 625 000 invoices per annum and process payroll for about 124 500 employees.

Importantly, the technology platform that is being rolled out by the Irish Government is a modern accrual-based IT system that could readily support the introduction of accrual accounting. However, this does not mean that the system will be at any point able to do so if decisions on the transition to accrual accounting are delayed. Indeed, as with many technology-enabled projects, clear objectives need to be set out to ensure full and orderly development of the necessary functionalities within the system. It will also be important to ensure that the FMSS is closely managed to ensure that the integration of the schedule for FMSS and the implementation of accrual accounting are not adversely impacted by potential delays in either project.

In the case of Ireland, the NSSO have provided assurance that the new FMSS will be capable of delivery of an accrual accounting system.

If customisations are made to the system, this may limit accrual functionality or otherwise impact on accrual based financial reporting. It is therefore advisable that accrual accounting objectives be set out as soon as possible and communicated to the team in charge of developing and rolling out the new IT system.

However it should also be noted the FMSS does not have complete coverage of central government and may in fact only encompass 20% of total government expenditure. The main omissions from its scope are the Health Service Executive, which accounts for a significant proportion of government expenditure. It is understood that the Department of Health and the HSE are undertaking a project to develop a new financial management reporting system. Ways could therefore be sought to ensure that this system meets the accounting requirements as outlined in this report and should be compatible with the NSSO's FMSS.

It should also be noted that there is a close relationship between the requirements of accrual accounting and statistics. The FMSS project provides an opportunity to develop a chart of accounts that would support the production of both financial reports and fiscal statistics. This would facilitate greater consistency between the two sets of accounts, increasing the reliability of the underlying data for fiscal statistics and considerably streamline their preparation.

This has been achieved, for example, in recent years in Portugal where a single chart of accounts has been developed that is used to record all financial operations and report them according to three different nomenclatures: the cash-basis national budget outturn, the IPSAS based financial statements and the ESA2010 based fiscal statistics.

Ideally the Chart of Accounts underlying the FMSS would be multi-dimensional to provide for a broad range of analyses of the governments accounts both on a statistical basis and on a programme basis to allow for better understanding and interrogation of the accounts.

Box 10. Portugal: Chart of accounts

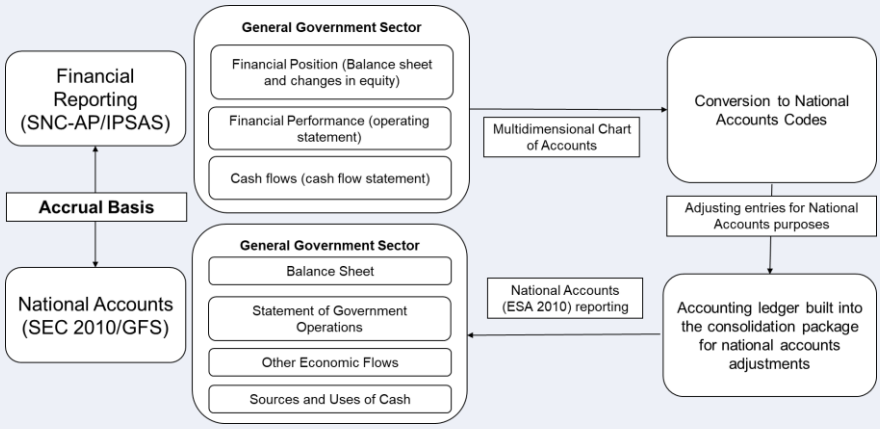
In Portugal, a new Chart of accounts was developed in the context of the transition to accrual accounting for the whole of the public administration, a project running from 2013 to 2019. The Chart of accounts applies to all levels of government (central, regional and local). Local entities can adapt their local Chart of accounts but it should be mapped to the harmonised Chart of accounts.

The Chart of accounts provides a coding structure for the classification and recording of relevant financial information (both flows and stocks) necessary for financial statements on an accrual basis. It is also a multi-dimensional Chart of accounts in the sense that it also includes codes that allow presentation of the data according to other classifications, i.e. budgetary cash accounting and statistics (ESA2010).

The table below shows for example how this functionality works for some high level aggregates between the IPSAS-based Chart of accounts codes and ESA2010 codes.

IPSASs	ESA2010
434 - Machinery and equipment	AN 113 – Machinery and equipment
251 – Loans	AF 4 – Loans
604 – Capital transfers granted	D.9p – Capital transfers, payable
701 – Direct taxes	D 51 – Taxes on income

Ultimately, it is intended that all general government financial operations will be recorded using a single Chart of accounts. Data will be automatically converted into national accounts codes and it will enable the preparation of fiscal statistics fully bridged with the financial statements prepared by the Government.



Source: Authors, based on public information.

The Civil Service Renewal Initiative, launched in 2014 by the *Taoiseach* and the Minister for Public Expenditure and Reform, has a vision and a three-year action plan to renew the Irish Civil Service. Within this plan, Action 14 focuses on strengthening professional expertise within the corporate functions of HR, ICT and Financial Management. In addition, work has commenced on Action 24, including the establishment of a framework for a National Data Infrastructure to improve how data is collected, managed and shared.

Regarding financial management, the plan notes that the creation of the NSSO and implementation of FMSS will, in effect, profoundly change the role and functions of financial management professionals as financial controls and accounting functions will be shared with the Finance Shared Services. Therefore, finance professionals are expected to refocus some of their time on value added and strategic activities.

The implementation of Actions 14 and 24 of the Civil Service Renewal Plan would consequently offer a particularly opportune moment for defining a new set of skills for finance professionals, including accrual accounting capabilities, as was done in a number of OECD countries such as the United Kingdom (Box 11). Accrual accounting capabilities would not be an end in itself, but rather a means for transparent reporting and development of financial analysis within each government department or office. This in turn should foster a more efficient use of resources, and deliver better value for the investments being made.

Box 11. United Kingdom: Managing the Finance Function

The UK Government Finance Function is made up of around 10 000 people working in Government Departments covering a wide range of roles, from strategic business partners to technical accountants. These staff are responsible for managing over GBP 750 billion expenditure a year, over GBP 1 450 billion assets and GBP 3 500 billion of liabilities.

The UK's Financial Management Reform (FMR) programme was launched in 2014 following consultation with accountancy institutes. It was designed as a cross-departmental programme aiming to enhance the skills and capabilities of the whole of the finance workforce, as a means to strengthen financial leadership across government, and overall, support better decision making.

In this context, an agenda for "putting finance at the heart of decision making" was defined comprising six strategic priorities to be implemented in coming years:

1. Getting the basics right: ensuring good forecasting and reporting, robust data and efficient transaction processing.
2. People & capability: building a high performing and diverse function, with people in the right roles with the right skills.
3. Operating model: developing a modern, collaborative finance function that delivers quality services more effectively and efficiently.
4. Finance insight: improving the understanding of, and driving forward, value for money.
5. Trusted advisor: acting as the 'go-to' advisor for colleagues to provide expert advice and informed decision-making.
6. Planning and performance: driving a strong culture of planning and performance with integrated financial and business planning aligned with robust risk and assurance.

Source: Authors, based on public information.

4. Implementing accrual accounting[50]

4.1 Phasing the Financial Reporting Reform

As discussed in the previous chapter, any reform should ideally involve three main changes: improving the completeness of the financial information by adopting accrual accounting; shortening timeframes for the publication of financial reports; and harmonising accounting practices across the Irish Government.

OECD studies show that such changes are seldom, if ever, made in a single step. In particular, in most countries, accruals reforms at central government level were rolled out in three to five years, following detailed transition plans that were often aligned with the constraints around the development of IT systems able to support new accounting processes and produce new financial reports. In considering a roadmap for a transition to accrual accounting in Ireland, the OECD suggests that government departments and offices start populating their balance sheets after they have transitioned to the FMSS. However, should

delays on the project's implementation occur, alternative approaches would have to be considered.

Using IPSAS as the reference framework, the roadmap suggests that accrual accounting standards be adopted in two phases by each entity. The first phase will aim to bring information already disclosed in the Appropriation Accounts – that is amend the format of the financial statement and record fixed assets and some core liabilities according to requirements of international standards. The second phase would aim to bring other accrual information required by international standards (e.g. inventories, intangible assets) into financial statements.

An important decision to be made at the beginning of the project is whether the government will prepare consolidated statements. As noted in the previous chapter, the OECD strongly advises that such consolidated financial statements be prepared – that is, i) a consolidated statement for each department (i.e. for each Department with multiple Votes) and ii) a consolidated statement of all Votes.

International standards also require that governments prepare financial statements that consolidate all entities under their control and define a number of principles to be applied for establishing consolidated accounts. Should the government exclude this option, these standards dealing with consolidation principles would no longer be relevant for Ireland but would hinder the compilation of fiscal statistics which report on government on a consolidated basis.

In any case, the feasibility of preparing consolidated financial statements will depend largely on the degree of harmonisation and integration of accounting systems across government.

For all government departments and offices using similar accounting standards, accounting policies, a chart of accounts and processing their financial transactions through FMSS, it should be relatively straightforward to enable a set of consolidated financial statements to be produced directly from the IT system at year-end.

However, entities outside of central Government use different accounting standards (FRS 102 or other) and operate separate IT systems.[51] Therefore, the consolidation of their individual accounts at year-end may have to be done on a semi-manual basis and will involve more technical and operational challenges. To limit these challenges and facilitate consolidation, a number of elements of the financial reporting frameworks will need to be aligned across government, including the adoption of accrual accounting by all entities, a harmonised - if not similar - charts of accounts, as well as the alignment of financial years (1 January to 31 December) and deadlines for closing the accounts.

Before considering any consolidation beyond the Government departments and offices, the OECD advises that the Irish Government progressively aligns financial reporting practices across government. For example, should local government accounts be consolidated with those of the central government in the future, it would require that all existing departures from the requirements of FRS 102 be examined and addressed. During this alignment process, funds and State bodies would have to be reported in at the equity value in the accounts of the government departments and offices, as required by international standards. Consolidated financial statements would start being prepared as part of the last phase of the proposed roadmap.

Against this background, a roadmap comprising five phases could be considered by the Irish Government, as described below. For each phase, a number of tasks are identified, some of which are further detailed in the following sections of this chapter.

It is assumed that most of these tasks will be led by DPER. However, when considering this roadmap, it is important to acknowledge that in the case of Ireland, the implementation of each phase, and related timelines, will depend on coordination with the Department of Finance and other key stakeholders such as the Comptroller and Auditor General and the Central Statistics Office on one hand, and the FMSS project and its capacity to support the requirements of accrual accounting on the other hand. It is also important to recognise that much of the work will need to be undertaken in departments in terms of implementing specific actions to record financial transactions and balances on an accrual basis.

Finally, in implementing this roadmap, it is advised that as each standard or group of standards are developed, the requirements should be piloted in a small number of affected departments and offices to identify potential issues with the interpretation or application of the standard. These pilot exercises can also assist in identifying workload issues with the implementation of specific standards.

Phase 1: Project inception and setup (2019)

1. Document reform objectives, outcomes and estimated costs (the "new framework") in a concept document (or blueprint) as well as legislative changes required (if any) and seek government/parliament approval.
2. Define governance arrangements for the project.
3. Refine the gaps assessment (if needed) and finalise the project organisation and roadmap.

Phase 2: Defining the New Framework (From 2019)

1. Establish institutional arrangements for setting accrual accounting standards, accounting policies and the multi-dimensional chart of accounts, in co-operation with NSSO and stakeholders. Possible approaches are discussed in detail in Section 4.2.
2. Identify necessary changes to financial internal controls and develop instructions.
3. Determine with Comptroller & Auditor General transitional and mature audit arrangements under the new framework.
4. Pilot in 2020/2021 at the latest the first stage of the implementation of the New Framework in one or two departments (early adopters of FMSS). As part of the pilot process, subjecting the resulting items to a review or audit process can also help highlight any issues in the preparation of accrual based information for those items.
5. Deliver training on accounting standards and policies and financial controls to finance professionals and staff of the Comptroller and Auditor General in two phases: the first in 2021 as the first implementation wave commences; the second in 2024 as the second implementation wave commences.
6. Identify possible changes to legislation, as needed. Amendments to legislation should happen only when the vision and overarching principles of the new

framework have been established, and are therefore not yet positioned in the roadmap.

Phase 3: Implementing the New Framework (From 2021)

1. For each government department or office migrating to the FMSS, prepare an opening balance sheet bringing information already disclosed in the Appropriation Accounts at the level of requirements of international standards. This would mean implementing the following international standards, adapted as needed to the European and Irish context:

    - **in relation to the format of the financial statements**: presentation of financial statements (IPSAS 1), cash flow statement (IPSAS 2), accounting policies (IPSAS 3) and separate financial statements (IPSAS 34);
    - **in relation to assets**: property, plant and equipment (IPSAS 17), impairment of non-cash generating assets (IPSAS 21);
    - **in relation to liabilities**: provisions, contingent liabilities and contingent assets (IPSAS 19), employee benefits (IPSAS 39);
    - **in relation to specific financial operations:** leases (IPSAS 13), service concession arrangements (IPSAS 32).

Operational implications are discussed in detail in Section 4.2.

Phase 4: Project Assessment and Next Steps (From 2023)

1. Realise a formal post implementation review.
2. Adjust roadmap for extending the scope of particular items recorded in the accounts and widening the institutional coverage of the standards to central government entities outside central Government.

Phase 5: Finalising Implementation of the New Framework (From 2024)

1. For all central government entities using the New Framework, prepare an opening balance sheet in compliance with all relevant international standards. This would mean implementing the following international standards, adapted as needed to the European and Irish context:

    - in relation to assets: inventories (IPSAS 12), investment property (IPSAS 16), agriculture (IPSAS 27), intangible assets (IPSAS 31), impairment of cash-generating assets (IPSAS 26);
    - in relation to revenue: revenue from exchange transactions (IPSAS 9), revenue from non-exchange transactions (taxes and transfers) (IPSAS 23), construction contracts (IPSAS 11);
    - in relation to specific financial operations: the effects of changes in foreign exchanges rates (IPSAS 4), borrowing costs (IPSAS 5);
    - in relation to disclosures: events after the reporting date (IPSAS 14), presentation of budget information (IPSAS 24);
    - in relation to financial instruments: financial instruments (IPSAS 28, 29, 30 and 41).

- in relation to consolidation: consolidated financial statements (IPSAS 35); public sector combinations (IPSAS 40), segment reporting (IPSAS 18), related party disclosures (IPSAS 20), investments in associates and joint ventures (IPSAS 36, 37, 38).

2. Establish whole of central government consolidated financial statements, coverage to be assessed depending on progress with the alignment of financial reporting practices across government.

Figure 8. Ireland: Proposed reform roadmap

Activities	2019	2020	2021	2022	2023	2024	2025
1. Project Implementation and Set-Up							
Prepare blueprint and obtain approval							
Establish Government Accounting Directorate and define project's governance arrangements							
Realise a survey and finalise project organisation							
2. Defining the New Framework							
Establish accounting standards, policies and the chart of accounts	1st phase			2nd phase			
Define internal financial controls	1st phase			2nd phase			
Establish intermediary and mature audit arrangements							
Pilot exercises							
Deliver trainings on new accounting standards and policies and financial controls							
3. Implementing the New Framework							
Prepare accounts using new format for financial statements (IPSAS 1, 2, 3)							
Prepare opening balance sheet for property plant and equipement (IPSAS 17 and 21)							
Prepare opening balance sheet for employee benefits (IPSAS 19 and 39)							
Prepare opening balance sheet for leases and PPPs (IPSAS 13 and 32)							
Prepare opening balance sheet for shareholdings (IPSAS 34)							
4. Projects Assessment and Next Steps							
Post implementation review and report published							
Adjust roadmap							
5. Finalisation of Implementation of New Framework							
Prepare opening balance sheet for financial instruments (IPSAS 28, 29, 30 and 41)							
Develop disclosures (IPSAS 14 and 24)							
Prepare opening balance sheet for inventories and intangible and other assets (IPSAS 31, 12, 16, 27 and 26)							
Record revenue on accrual basis (IPSAS 9, 23 and 11)							
Prepare opening balance sheet for other relevant standards (IPSAS 4 and 5).							
Prepare consolidated financial statements (IPSAS 18, 20, 35, 40, 36, 37 and 38)							

Note: the roadmap is based on on (i) the necessary progress being made in the delivery of the FMSS system, and (ii) the assumption that the period needed for implementing tasks to comply with the requirements of each standard will be of two years at maximum, with the opening balance sheet available at the end of that two-year period.
Source: Authors.

4.2 Project implementation and set up

4.2.1. Political support and leadership

International experience shows that it is critical for any budgetary reform to be well understood and supported at the highest level. Political support and leadership will be amongst the most important prerequisites for any successful reform of financial reporting in Ireland. Therefore, the objectives and expected outcomes of the transition to accrual accounting, proposed new formats for the accounts (for example, in the form of a template) should be detailed in a blueprint. In the first instance, the blueprint will need to be approved at government level. Parliamentary approval at a later stage is likely to be necessary, and would ensure cross-party support for the reforms.

Estimating the cost of the reform will be crucial for policy makers to determine whether the prospective benefits outweigh the costs, and to ensure that there are sufficient budgetary resources to implement the reform. OECD studies show that financial and non-financial costs of reforms can vary significantly depending on several factors, including the nature of the IT systems developed, resources and capacities already available in accounting departments and degree of ambition of the reform (e.g. production or not of consolidated financial statements).

In estimating the cost of the reform in Ireland, a very favourable aspect is that some of the activities required to implement accrual accounting are already being undertaken - meaning that in these areas there should be limited additional cost. In particular, IT system redevelopment, which is one of the main sources of costs for a transition to accrual accounting, is already under way. As shown in Box 12, in Denmark, which like Ireland, had already rolled out an IT system able to support accrual accounting, reform costs were relatively limited.

In addition, some of the skills required for implementing international standards are already available in the public service. For example, an actuarial review of the superannuation liability of public servants is already completed on a three-yearly basis. Moreover, in terms of staff costs, it is expected that most activities to be rolled out as part of the transition would be carried out by staff that are already otherwise involved in financial management, although some additional resources are likely to be necessary.

Therefore, reform cost estimates should focus on new activities, which will include setting up a Government Accounting Directorate; recruiting additional project staff or experts in government departments and offices; and developing and delivering a comprehensive training and communication programme.

In each of these areas, reliable costs estimates would have to be done based on assumptions done by DPER but also information collected in each government department and office. Specifically, the following tasks should be undertaken to inform the cost estimates:

- DPER to identify main activities to be implemented at its level and in each department, with an indicative timeframe;
- DPER to ask each government department and office to identify, for each activity, potential service, IT and staff needs;
- DPER to request each department to undertake a financial maturity assessment, potentially using the model published by the Comptroller and Auditor General's office to help inform the degree of education and training that may be required;

- DPER to establish and document assumptions for costs for each activity and evaluate the overall envelope for implementing the reform;
- For training activities, DPER to estimate the number of training days and number of participants and associated costs based on most recent training costs in public service (e.g. training done as part of the FMSS project).

Box 12. Estimating the costs of central government accruals reforms in Austria, Denmark and Switzerland

Cost data for accrual reforms in central government (in EUR million)

	Austria	Denmark	Switzerland
Policies, processes & people			
External cost	2.89	N/A	18.00
Internal cost	10.48	N/A	20.73
Non-IT cost	**13.37**	**21.85**	**38.73**
Systems			
External cost	26.08	N/A	15.00
Internal cost	7.07	N/A	17.27
IT cost	**33.15**	**0.87**	**32.27**
Total Cost	**46.52**	**22.72**	**71.00**

Note: An accrual accounting reform project can be structured along different streams: Policies, Processes, People and Systems. The categories Policies, Processes and People have been aggregated into one single non-IT category, in order to ensure cross-country comparability.
Source: PwC (2014).

The blueprint should also include the preliminary identification of any legislative changes that would be required. These will vary depending on the depth of the reform envisioned by the government. A very preliminary analysis shows that although the Constitution establishes broad principles for the System of Accountability for Public Moneys, it does not address the question of the preparation, format and content of financial reports.

Regarding secondary legislation, if the current format of the Appropriation Accounts were maintained, with the only change being the inclusion of accrual financial statements compliant with international standards in the Notes, no major amendments would be needed.[52] However, should a more ambitious reform be favoured (i.e. government departmental integrated annual report and consolidated accounts), a number of changes would be necessary.[53]

4.2.2. Governance

Implementation of accrual accounting will be a major exercise due to a multiplicity of factors, including implementation at multiple entities; reliance on the gathering, analysis and verification of large volumes of data from a variety of sources (e.g. fixed assets, debtors, investments and liabilities); dependence on the successful transition to the NSSO of entities in scope to implement accrual accounting; capability development to ensure staff and other stakeholders are equipped with the knowledge they need to operate under an accrual accounting framework; co-ordination and co-operation from a wide range of stakeholders (including finance staff, internal and external auditors, etc.).

Maintaining good project discipline and establishing appropriate governance arrangements will be critical to actively managing the implementation, dealing with technical issues as they arise and not unduly disrupting the delivery of government services or activities of officials, whilst progress will depend on timely resolution of issues.

To achieve this objective, as advised in previous assessments of the government fiscal reporting (IMF, 2013), the preliminary and key requirement would be to establish a Government Accounting Directorate.

As an accounting policy co-ordination body, the new Government Accounting Directorate should not only be adequately equipped in terms of human capital and financial resources, but it should also be able to count on political support and a clear and strong mandate for defining accounting policy across Government.

After the transition to accrual accounting, the Government Accounting Directorate would be the permanent unit in the Irish administration responsible for maintaining a uniform set of accounting rules and procedures applying to all relevant entities, overseeing the quality of finance function, and preparing the consolidated financial statements of the Government, if any.

During the transition to accrual accounting, the Government Accounting Directorate would have to set up small teams in charge of five key areas: 1) changes to the legislation; 2) setting of accounting standards and policies, as well as development of the chart of accounts; 3) identification of improvements needed to accounting processes and internal control; 4) co-ordination with the Comptroller and Auditor General regarding requirements to enable controls and audits; 5) definition of the strategy and delivery plans for training and communication.

These teams would be in charge of leading working groups involving all core stakeholders depending on the area considered. Their main functions would include decision-making on technical issues and production of relevant outputs, as well as identification of risks that need escalation to the Steering Committee in charge of the oversight of the transition to accrual accounting.

Responsibilities for the Steering Committee could encompass: providing strategic direction for the project; approving project artefacts (such as project planning and management documents); monitoring progress against project milestones and deliverables; resolving significant issues and making decisions to ensure successful and timely implementation; providing periodic progress reports to government; and considering any impacts or links with other projects and/or activities.

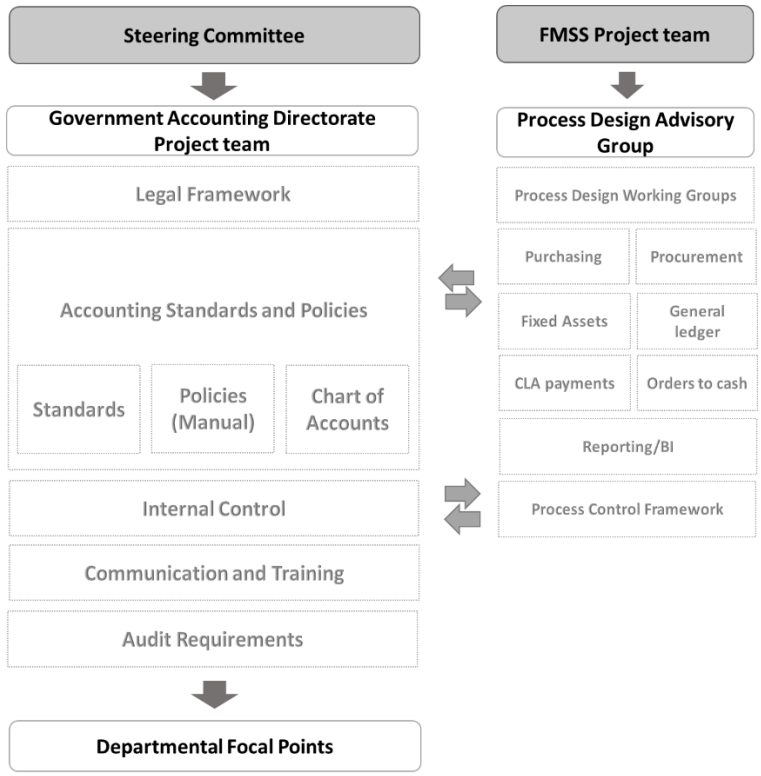
The Steering Committee should be chaired by DPER. It will also be necessary to include representation from the Department of Finance and other affected entities, i.e. government departments and offices, the National Shared Services, the Comptroller & Auditor General and the Central Statistics Office. Including the Department of Finance and other entities, the Steering Committee will assist in maintaining focus on the overall objectives of the reform as well as providing insights on the interaction between the accrual accounting reforms, the budgeting framework and workload impacts on individual departments. The level of representation will be an important factor in dealing with issues and having the authority to be able to address matters in a timely manner.

Finally, focal points should be set within each government department and offices for liaising with the Government Accounting Directorate throughout the implementation phase. Ideally, focal points should be qualified accountants with a good understanding of

accrual accounting, who should be able to promote best practices, ensure legitimacy during the initial phases of the transition and monitor implementation at the technical level.

An important element of the governance framework will be the co-ordination with the NSSO project. The IT system should be developed to serve the needs of financial accountability and reporting. Functional specifications and the Chart of accounts governance process would therefore ideally have to be led by the Government Accounting Directorate, which will have legal responsibility for accounting policies, with NSSO acting as the agent to implement any changes to the Chart of accounts. The new IT system and Chart of accounts will have to support the implementation of the new standards and accounting policies and it will be critical that any issue with system capabilities be identified timely and be resolved between the Government Accounting Directorate and FMSS.

Figure 9. Ireland: Proposed governance for financial reporting reform



Source: Authors

4.2.3. Entities survey and project organisation

In the absence of a Government Accounting Directorate, so far strategic focus for financial reporting across Government has been lacking, resulting in a fragmented framework. Many Irish stakeholders have limited understanding and knowledge of financial reporting practices at each level of Government in specific entities.

In designing the transition to accrual accounting, this report therefore advises that the newly created Government Accounting Directorate realises a comprehensive survey of government departments and offices, funds and State bodies to take stock of accounting practices and capabilities within government and, in particular, clarify:[54]

- existing accounting practices;
- financial reports' publication dates;
- existing findings or qualifications on the accounts; and
- the number and qualifications/experience of finance staff.

Such information will be crucial for the Government Accounting Directorate to refine its reform roadmap; exert in an informed fashion its project co-ordination role; and to identify where risks may exist because resources and capacities are lacking.

4.3 Defining the new framework

The following sections discuss main tasks for the working groups operating under the lead of the Government Accounting Directorate.

4.3.1. Legal framework

As noted above, legislative implication of reforms should be identified very early in the project and discussed in the government blueprint. Once parliament approval is obtained, a working group led by the Government Accounting Directorate should start working on identifying detailed provisions to be changed or removed in the current legislation, with all issues discussed with both the Houses of the *Oireachtas* and the Comptroller & Auditor General.

In particular, as noted earlier in this report, an important element of any financial reporting reform in Ireland would be to harmonise the accounting standards-setting process within general government irrespective of whether consolidated statements will be prepared or not by the government.

It is recommended therefore that legislation strengthens DPER responsibilities' for developing policy for accounting, financial reporting, financial management, risk management and internal audit for the general government area. Specifically, DPER should be clearly tasked with setting accounting standards and policies for entities defined as being part of general government including funds, State bodies (incl. health sector agencies, whose accounting practices are currently regulated by the Minister for Health) and local government, while specifying that this does not change their status and relationship with the government department or office under the aegis of which they operate.

This would not necessarily mean that rules applying to State bodies and local governments, which already use accrual accounting standards, would be changed in coming years, but would pave the way for greater co-ordination and alignment of accounting practices going forward.

Finally, any change to the legislation would give an opportunity to reconsider other elements of the framework that have created challenges in past years. For example, it would be useful to shorten and align requirements concerning time lags for the transmission of year-end financial reports to the Comptroller & Auditor General and to the *Dáil*.[55]

4.3.2. Accounting standards

The governance and leadership for defining rules and principles applying to financial reporting across government will be among the most important challenges to advance the accrual accounting transition agenda.

When considering potential institutional models for standards setting, Ireland will have several options available, including the option of establishing an independent standard setter. However, in the context of the transition to accrual accounting, being able to deliver quickly a consistent and comprehensive set of standards will be crucial for the success of the project. The OECD mission therefore advises that the Government Accounting Directorate be tasked with leading a working group in charge of developing standards with inputs from all relevant stakeholders (i.e. users, preparers, auditors). This working group should be established as soon as possible.

To ensure that standards are developed with the expected level of integrity, it is recommended that the government consult an independent advisory body. In setting such bodies, OECD countries such as France, Portugal and the United Kingdom (Box 13) have adopted different models – i.e. accounting standards and policies are established by the government and reviewed by the advisory body (United Kingdom) or the advisory body establishes standards and submits them to government for endorsement (France and Portugal) - that could be considered in Ireland.

Irrespective of the model chosen, a number of elements would need to be considered for safeguarding the advisory body's independence, which include: a clear legal mandate; appropriate composition of members (e.g. cross section of people comprising academics and representatives of the accounting profession and potentially the user community, such as Parliament and the Central Statistics Office); and transparency on activities (e.g., clear due process, open meetings, publication of advices, activity report).

Box 13. Selected OECD Countries: Advisory body role and responsibilities

France

Accrual accounting standards are enacted by the Ministry of Finance, after receiving advice from an independent advisory council ("*Conseil de Normalisation des Comptes Publics*", or CnoCP).

The CNoCP is tasked with proposing standards to the Ministry of Finance for three separate sectors: the State and its agencies, the Social security and the Local Governments.

The CNoCP has a Standing Committee ("*College*") comprising a Chair and 18 members, including 9 ex officio members and 9 technical experts, who are appointed by the Minister of Finance for a three-year fixed term period, with the possibility of renewal.

For each sector, a Sectoral Committee, working under the leadership of a Chair, composed of qualified professionals is in charge of establishing sectoral standards. Each sectoral committee comprises members with sectoral knowledge, with some members taking part in all committees.

Portugal

In Portugal, the accounting standard-setter role was redesigned following a major reform of the organisational structure of the Ministry of Finance in 2012.

The accounting standard-setting commission (*Comissão de Normalização Contabilística* – CNC) was created by Law-decree 134/2012. It is an independent body under the Ministry of Finance comprising stakeholders from both the private and the public sector. CNC

comprises two committees: one for business accounting, and another for public sector accounting (*Comité de Normalização Contabilística Pública* – CNCP).

According to article 18, the main task of CNCP is to issue public sector accounting standards and interpretations taking IPSASs as reference, as well as to contribute to its development, implementation and improvement.

CNCP comprises 9 members, including representatives of the accountants and auditors institutes, the Budget General Department, Local Government General Department, Finance Inspection Directorate, National Institute of Statistics; Universities teaching accounting, and an independent member acknowledged as expert (article 16).

The United Kingdom

The accounts of central government departments and agencies are prepared in accordance with the Government Resources and Accounts Act 2000 (GRAA) and the Government Financial Reporting Manual (FReM) which applies International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector by HM Treasury, and sets out the framework by which Government Departments should prepare their resource accounts. To prepare the FReM, HMT is advised by an independent advisory board (Financial Reporting Advisory Board - FRAB).

The FRAB is composed of representatives from the accountancy profession in the private and public sectors, academia and government bodies.

Source: Authors, based on public information.

It will also be important that any legal mandate for standard setting-activity refers to relevant international standards. In doing so, Ireland will have to choose between the two main sources of reference - that is International Financial Reporting Standards (IFRS), produced by the International Accounting Standards Board (IASB) and developed specifically for use by private sector organisations; or International Public Sector Accounting Standards (IPSAS), produced by the International Public Sector Accounting Standards Board (IPSASB) for use in the public sector.

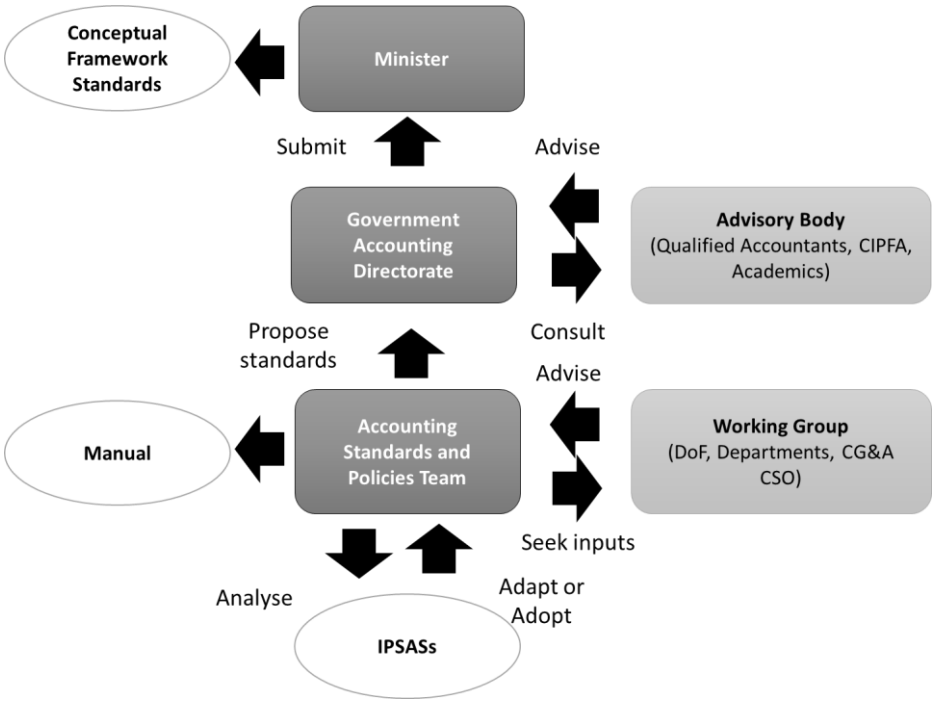
When considering which international standards to use as reference, Ireland will need to give consideration to results of most recent OECD survey (OECD/IFAC, 2017), which shows that only two OECD countries (Australia and the UK) use IFRS as a basis for the development of their public sector accounting standards[56], while an increasing number of countries are using IPSAS. Ireland should also consider the European Union's project to develop its own set of accounting standards for the public sector, the EPSAS, which will use IPSAS as a "reference source".[57]

It will be important for the Government Accounting Directorate to closely monitor the development of the EPSAS project and any potential modifications that may be proposed to IPSAS standards. The European Commission's report on the Suitability of IPSAS (European Commission, 2013) identified that some IPSAS standards would not be adopted without modification. The main areas of concern were outlined in that report and principally covered Financial Instruments standards and Consolidation standards. Specifically, Eurostat (2013) noted that IPSASs 7, 8, 13, 15, 17, 18, 20, 21, 22, 23, 24, 25, 26, and 31 will need adaptation before implementation, and that IPSASs 28, 29, 30 will need to be amended prior to implementation.

Last, in setting a legal or informal requirement to use IPSAS or other international standards as a reference, governments often give themselves a number of options. The first one is to "adopt" an international standard when it covers financial operations that are relevant to the country. The second one is to "adapt" the standard when specific national circumstances or constraints need to be accommodated.[58] [59] The last one is to "develop" a new standard for financial transactions that are not yet covered by existing IPSAS standards.

In the case of Ireland, options to "adopt", "adapt" or "develop" standards would usefully be authorised. However, where such options are used, it is recommended that they are identified and justified, and potentially revised at later stages – for example, areas in which it could be useful to develop standards are social benefits or tax expenditures, but international standards are likely to be issued in coming years in these areas.[60] In addition, in deciding whether to "adapt" a standard, the Government Accounting Directorate will have to consider the range of concessions to facilitate the introduction of IPSAS standards authorised by IPSAS 33.[61] Where concessions are available that may help address temporary operational difficulties, a permanent adaptation of a standard may indeed not be necessary.

Figure 10. Ireland: Proposed governance for accounting standards setting



Source: Authors.

4.3.3. Accounting policies

Accounting standards however only reflect part of the rule set for financial reporting. It is common for accounting standards to allow options for the treatment of particular items, and there are practical issues that will need to be dealt with in terms of guidance available to entities. This will require a process for developing and issuing guidance on the application of specific standards to make clear the accounting policy choice and to promote consistency in methodologies for reporting or measuring for similar items between entities.

In many ways, the accounting manual will therefore be more important than standards in ensuring that information provided at year-end is reliable and consistent across government departments and offices.

In parallel to establishing standards, the Government Accounting Directorate will therefore have to prepare an accounting manual providing guidance on the application of the standards, as adapted and interpreted for the Irish government context – that is which policies to apply when the international standard gives options, templates for financial statements and information to be provided in notes, methodologies for measuring assets and liabilities, etc. (Table 5) The development of accounting policies should be undertaken in a collaborative manner with those that will be applying them. Consultations on proposed accounting policies is a useful quality and feasibility check and assists with communication and implementation of those policies in individual entities/departments.

The accounting manual should seek to primarily address gaps already identified by the Comptroller and Auditor General, including that the operating cost statement does not show accrued retirement benefits of current staff; the balance sheet does not report asset impairment or frequency of revaluations; not all current assets are recognised in that only bank accounts related to the vote or Exchequer are included on the balance sheet – accounts controlled by a Department are only disclosed in notes; debtors such as overpayments are not reported and obligations arising from pensions earned by employers are not recognised.

Table 5. Ireland: Key areas for accounting policies

IPSAS	Areas to be covered in Accounting Policies
Format	Policy on reporting entities' boundaries.
	Template for accrual-based financial statements, including note disclosures (e.g. accounting policies).
	Template for Cash Flow Statement and policy on determining when cash flows are managed in an agent capacity and conversion of foreign currency cash flows and balances.
	Criteria for a material item to be included in the financial statements.
Assets	Policy on definition and classification of property, plant and equipment assets.
	Policy for each asset class on asset recognition thresholds, initial measurement (cost or fair value), identification of components of complex assets, useful life and depreciation methods.
	Policy on the treatment of subsequent expenditure, i.e. to expense in the period or capitalise to the value of the asset.
	Where valuation of assets is required, develop a standard form "instruction for valuers" for entities to use to ensure consistent approach to valuation and frequency of revaluations.
	Policy for the identification and measurement of heritage assets.[62]
Liabilities	Policy on debtors (incl. overpayments to third parties).
	Policy on the nature and type of provisions that may be recorded (e.g. obligations for medical negligence cases; decontamination or remediation costs; restructuring costs; onerous contracts, etc.)
	Policy on recognition and measurement for each type of employee benefit provided, based on background to the entitlement, authority, whether it is vesting or non-vesting and payment/settlement arrangements.

IPSAS	Areas to be covered in Accounting Policies
	Policy for measuring each type of provision (e.g. for long-term liabilities, a methodology for determining the present value of the obligation will be required). Criteria for disclosing contingent liabilities and contingent assets. Methodology for measuring long-term employee benefits to enable calculation of the present value of the liability at the reporting date.
Leases	Methodology for enabling classification of leases as finance or operating. Methodology to calculate lease interest expense and reduction in liability for finance leases.
PPPs	Criteria/methodology for classifying existing concessions and PPPs according to models defined in the international standards. Methodology for recognition and measurement of SCA assets and liabilities and revenue under Grant of Rights model and to allocate payments between financing charge and reduction of liability and service charge for the financial liability model. Template for qualitative disclosures for PPPs, including identifying any contingent liabilities or assets related to the arrangement.
Financial instruments	Policy for each class of financial assets and liabilities, including recognition point, measurement basis and derecognition. Methodology to identify any hedging and derivative arrangements; to measure risk exposures related to financial instruments; assess fair value for each class of financial instrument; and to measure concessionary loans and the unwinding of the discount at each reporting date. Template for disclosures.

Source: Authors.

4.3.4. Chart of accounts (CoA)

The chart of accounts currently developed under the FMSS project will provide a common framework for use by entities moving to the NSSO. As each wave of entities is migrated to the FMSS, the common chart of accounts is expanded to incorporate accounts that may be specific to that entity. This is achieved through a detailed mapping exercise between the entity's existing own chart of accounts and the FMSS common chart of accounts.

Although the detailed content of the Nominal and Sub-nominal segments was not complete at the time of the OECD mission, the general structure used for the FMSS common chart of accounts appears to be capable of supporting the move to accrual accounting.[63] Accounts have been established to separately capture the "stock" value of balance sheet items (such as property, plant and equipment), as well as "flow" transactions (such as asset acquisitions).

NSSO have also confirmed that the design of the chart of accounts has taken into account the future requirements of IPSAS international standards. In particular, disclosure requirements in international accounting standards can be substantial and one way to reduce the amount of work needed in preparing accrual-based financial statements is to ensure that the chart of accounts has specific accounts to address the particular disclosure needs.[64]

It is therefore fundamental that the Government Accounting Directorate, through a dedicated working group, starts identifying specifications for the chart of accounts required under the new set of accounting standards and policies. It is to be noted that the Central Statistics Office has already been consulted on specifications for the development of a

multi-dimensional chart of accounts, and should continue being consulted as appropriate. This will allow providing clear directions to the NSSO project team about which accounts need to be included in the common chart of accounts.

4.3.5. Internal Control

Concerning the internal control framework, guidance currently issued by DPER includes a requirement that the Accounting Officers for each Vote make a Statement on Internal Financial Control and include that statement in the Appropriation Accounts.[65] While the Statement of Internal Financial Control is a very positive element of the control framework, under an accrual accounting framework, it would also have to include an explicit and unreserved statement that the accounts comply with the applicable standards, resulting in a true and fair view of the entity's financial performance and position.

This implies that existing financial internal control be reviewed and strengthened in the context of the transition to accrual accounting and capacity be built in this area for all finance and non-finance professionals. Indeed, under accrual accounting, the range of information to be collected and controlled for producing the year-end accounts will be expanded beyond what was done under cash accounting, with quantity of information to be obtained from outside the accounting services – that is from operational teams.

For example, DPER will have to specify responsibilities, within each government department, for keeping accurate and complete records of debtors and preparing an annual review of bad debts and other indicators of impairment; performing inventories of each class of assets and identify potential write-offs to be done; establishing and updating annually a list of PPPs arrangements, and valuing the assets, liabilities and contingent liabilities that are owned or controlled by the government; and controlling the application of accounting policies (for example, by reviewing whether the costs associated with the construction of assets have been appropriately capitalised or expensed).

Therefore, ideally, as part of the transition to accrual accounting, an Internal Financial Control Manual should be established in co-operation with the FMSS. The Manual should define accounting procedures insuring that all financial operations are reported in the IT system and properly documented outside of the IT system, to allow for verifications by the external auditor. The Internal Financial Control Manual will be an important input to the training plan and implementation phase. It should therefore be a priority area of work and be made available (hard copy and online) for all users as early as possible.

It will also be important to fully utilise the functionality inherent in an accrual based financial system such as the FMSS. For example, the integration of asset purchases from the Procurement module, through the Asset Module and ultimately recording against the relevant asset control account in the General Ledger will provide a higher degree of efficiency and confidence in the reliability of the data. In addition, the calculation and recording of depreciation in accordance with standard system parameters can reduce the amount of effort required in recording those types of transactions. The Government Accounting Directorate should therefore try defining accounting policies that will allow the automation of the majority of the accounting processes.

Whilst the transition to accrual accounting will necessitate changes to the internal control framework, the concurrent implementation of the FMSS will also see an evolution in the roles undertaken by departmental finance officers and accounting officers compared to officers in the FMSS. The dual context of these changes means that changes to the internal control framework should address changes resulting from accrual accounting and FMSS to

ensure that accountabilities for departmental officers in the respective organisations are clear and understood.

4.3.6. Training and communication

The introduction of accrual accounting usually requires significant training in Government, where the cash accounting culture is very strong. As part of assessing the training need, it would be useful to undertake a maturity assessment of financial management in affected departments. The Comptroller and Auditor General has published a model that could be used by departments in assessing their financial management maturity. Having affected departments self assess their maturity and then aggregating the results would provide a view of the overall training need and help inform the development of the training strategy.

In defining a training strategy, the Government Accounting Directorate should analyse the results of its survey of government departments and offices and consult other stakeholders on their capability building needs. This would allow defining a set of modules, with all or only some of them delivered to trainees depending on their specific needs. Training modules could be segmented as follows: presentation of the new financial reporting framework, overview of accrual accounting concepts, detailed presentation of new accounting standards and accounting policies, functioning of the new chart of accounts, and detailed presentation of the new internal financial controls.

Training on accounting standards and policies and financial controls would likely be delivered to finance professionals and staff of the Comptroller and Auditor General; training on new accounting concepts and information requirements for non-finance staff, and general awareness training for senior managers and key stakeholders outside of Government (Houses of the *Oireachtas*, IFAC and the PBO).

In the case of Ireland, it will be important to ensure that the recently established Irish Fiscal Advisory Council and Parliamentary Budget Office will also be offered guidance regarding the changes, as the outcomes of the reform will largely rely on these stakeholders using accrual information to exercise their mandates.

Modalities for delivering training should be adjusted to accommodate operational constraints and give maximum flexibility to trainees in choosing the way they want to receive their training. For example, in addition to "traditional" trainings, online tutorials could be developed, as has been done recently in France and Portugal.

Finally, in the specific context of Ireland, it will be important to try co-ordinating training on accrual accounting with any training that is being delivered by the NSSO as part of the migration of entities to the FMSS. This should allow for both reducing costs and providing more holistic understanding of upcoming changes to staff.

Beyond technical aspects of adopting accrual accounting, any substantial reform of the financial reporting framework in Ireland requires fostering a cultural shift in the mindset of people at all levels of the Government, and resistance to change is likely to be encountered at various stages of the project.

Therefore, a communication plan addressing the broad range of stakeholders, should be developed to provide information on the technical changes being made, progress of the project, as well as the benefits of the accrual accounting project. Specifically, in Ireland, key objectives for the communications plan could include:

- Ensuring a consistent message on the changes, implementation timeframes and reform implications. In the case of Ireland, it will be important to demonstrate to stakeholders that in adopting accrual accounting, the Government will continue delivering traditional high-quality cash information, but will also be more transparent on the nature of its financial operations and improve the quality and completeness of the data that informs fiscal forecasts and fiscal policy decisions;
- Creating an understanding of the practicalities of implementing the changes in each entity;
- Raising awareness on the existence of a training plan, on-line modules, etc. so that staff do not feel left "behind" as part of the reform;
- Providing regular updates on progress with implementation of the project.

4.3.7. Audit requirements

As underlined in recent OECD studies, the achievement of independent audits in accordance with international standards should be incorporated explicitly as a target in the planning of accrual reforms: "where a phased implementation approach is adopted, the audit aspect could also be phased in. For example, audits with specific scope limitations could be allowed in the earlier phases, while a full-scope audit could be included in a later or the final phase." (OECD/IFAC (2017)

In Ireland, consideration should therefore be given as early as possible by all stakeholders in the project to options for meeting audit requirements during and after the transition period. These options will depend on the depth of the changes to the current financial reporting framework, but also on the Comptroller and Auditor General available resources.

Schematically, two options can be envisioned:

1. If Accounting Officers continue to prepare Appropriation Accounts for each Vote, with the only new requirements being that, after their migration to the FMSS, they include in the Notes financial statements and disclosures that are consistent with all new accounting standards and policies, then no change would be required to current audit procedures on Appropriation Accounts. However the Comptroller and Auditor General may consider certifying compliance with the stated basis of accounting for the Notes to the Appropriation Accounts;
2. If Accounting Officers are required to prepare integrated annual reports, comprising i) the Government Department business plan; ii) Appropriation Accounts and other budgetary information (pay, commitments, etc.); iii) accrual basis financial statements, then the Comptroller and Auditor General may consider providing to Parliament both a report on the Appropriation Accounts and an audit opinion of the financial statements, based on relevant auditing standards.

In both cases, it will be necessary for the Comptroller & Auditor General to consider any changes to the audit methodology and approach to ensure that the broader range of financial information is able to be audited to a satisfactory standard within the available timeframe. Possible changes could include undertaking audit work earlier in the financial reporting cycle, working closely with departments on interim close procedures to provide financial information earlier or undertaking a controls-based audit to improve the efficiency and timeliness of the audit process.

Financial statements could also be subject to a period of trial audits to identify and address issues before full-scope audits are instituted. Australia adopted such an approach with the audit of the government's consolidated financial statements. In the case of Ireland, it would be advisable at least that one to two government departments that will transition early to the FMSS be asked to prepare financial statements based on new accounting standards and policies as a trial run in 2020 at the latest, to identify any issue with quality and traceability of information provided to the Comptroller & Auditor General.

Experience of OECD countries shows that initial qualifications on the financial statements should be expected.[66] However, the number of qualifications usually decreases after the first years of implementation and more than one-third of OECD countries had achieved an unqualified opinion of their financial statements in 2016.

4.4 Implementing the new framework

The objective of the third phase of the roadmap will be that each government department or office migrating to the FMSS prepares an opening balance sheet bringing information already disclosed in the Notes to the Appropriation Accounts at the level of requirements of new accounting standards.

To achieve this, a successful migration of historical data in the FMSS will be an important first step. The remediation of any data quality issues before migration into the new system and completion of reconciliations after migration will be necessary to insure that data in the new system is reliable. Although the FMSS project team will lead this process, the involvement of the Government Accounting Directorate in designing quality controls would be advisable.

After the migration of historical data, the preparation of the opening balance sheets compliant with new accounting standards and policies will require populating the chart of accounts with information that was not previously reported by government departments and Offices in their IT systems and prepare financial statements in an entirely new format. This section discusses some of the key tasks to be carried out as part of the preparation of the opening balance sheets.

Regarding changes to the format of the financial statements (including classifying cash flows as operating investing or financing), government departments and offices will have to use new templates and the capability of FMSS will need to be assessed to determine which tables and contents will be automatically generated and which will not. One particular area of attention should be whether the direct or indirect method of preparing the cash flow statement should be used, depending on the IT system capability.

Regarding assets, although Ireland has been reporting non-financial assets in a Note to the Appropriation Accounts for some time, complying with all requirements of new accounting standards is likely to be resource intensive as data problems have been regularly identified by the Comptroller & Auditor General in relation to the classification, completeness and accuracy of asset data.

In terms of preparing the opening balance sheet for property, plant and equipment, verifying the completeness of the asset register for each class of asset will therefore be an essential task. It will require not only formal initial stocktaking of existing assets, but also developing rolling of year-end inventory processes to identify any loss or damage, in order to ensure that the amount reported for assets in the balance sheet is materially correct.

One significant measurement issue in relation to assets that will need to be addressed is the valuation of land and buildings held by the Department of Defence. Although these properties are included in a Note to the Appropriation Accounts, there is no value recorded for any of them. This is a significant gap in the measurement of non-financial assets and one that will need to be addressed as part of the transition.[67] In addition, strict policies need to be established regarding frequency of revaluations of those assets that will not be measured at amortised cost. For example, the Office of Public Works follows accepted industry standard in Ireland for valuation of infrastructure, but these valuations are subject to a number of significant audit qualifications and cannot be regarded as a current estimate of realisable value.

Regarding equity investments, policies that are more consistent need to be defined and applied. Based on information already available, a list of equity investments needs to be established by each government department or office.[68] These investments also need to be evaluated using the equity method, subject to authorised exceptions.

Regarding financial instruments, one of the main tasks to be realised during the preparation of any opening balance sheet would therefore be in relation to the measurement basis used for reporting the National Debt and the completeness of disclosures.

Regarding employee benefits, stocks of annual or long service leave are likely to be recorded in human resource systems, but the corresponding liability is not reported as a liability in the financial statements. As part of the preparation of the opening balance sheet, an assessment of the data held in the human resource systems will be required to determine whether sufficient data on employee benefits is held. The data requirements will then need to be considered in how the liability is measured and reported in the financial statements.

The gap in relation to the recognition and measurement of other liabilities is significant now with only very limited information reported in financial reports. Detailed analysis therefore needs to be undertaken to identify the different types of obligations that may exist, developing accounting policies for them, including the measurement of the liability.

Concerning contingent liabilities, only guarantees issued under specific legislation are disclosed in the Finance Accounts, although a requirement is included in the Appropriation Accounts to report contingent liabilities with a level of disclosure that is below that required under new accounting standards. Government departments and offices will therefore have to identify in a more systematic basis any contingent liabilities and contingent assets that may exist and quantify them using a consistent methodology.

Regarding PPPs and concessions, an authoritative list is disclosed in the Annual Report of the National Development Finance Agency, which is a positive aspect in implementing new accounting standards. However, classification of PPPs against criteria set in new accounting standards is not done. During the preparation of the opening balance sheet, each of these arrangements will therefore have to be reviewed to determine their nature and whether assets and liabilities should be reported in the balance sheets of government departments and offices or of the National Development Finance Agency.

An inventory of leases should also be organised as part of the preparation of the opening balance sheet, to identify assets and liabilities to be reported in the balance sheet in accordance with new accounting standards.

Finally, producing consolidated financial reports will be a significant exercise. Defining the reporting entity for each level of consolidation is essential and ensuring that accounting policies are aligned for the entities to be consolidated will be an essential component before

a consolidation should be attempted. Taking intermediate steps to implement consolidated financial reports will enable experience to be gained and enable the identification of issues that arise and how they should be addressed as part of the consolidation process. In the first instance, preparing consolidated financial statements for the Exchequer would provide an overall view of the financial performance and position of the Exchequer. This could then be expanded to cover all entities in central government before considering the consolidation for the whole of general government.

Notes

1. Article 16 Paragraph 3 of Council Directive 2011/85/EU on 8 November 2011 on requirements for budgetary frameworks of the Member States tasked the European Commission to assess the suitability of IPSAS for the Member States of the European Union by 31 December 2012. One of the main recommendations of the European Commission's Report was the implementation of a single set of harmonised accrual-based accounting standards, consistent with the ESA, at all levels of government throughout the EU. However, the European Commission did not support the direct implementation of IPSAS by Member States. Nevertheless, the Report considered IPSAS to be an "indisputable reference for potential EU harmonised accounts". While no decisions have been taken at EU level regarding harmonised accounting standards, to maintain alignment in anticipation of an EU-wide accounting framework being implemented, the establishment of a mechanism to set standards in Ireland is essential. The EU has provided an indicative timeframe as follows: Phase 1: Increasing fiscal transparency in the Member States in the short to medium term by promoting accrual accounting, e.g. IPSAS, in the period from 2016 to 2020, and in parallel developing the EPSAS framework (i.e. EPSAS governance, accounting principles and standards); and Phase 2: Addressing comparability within and between the Member States in the medium to longer term, by implementing EPSAS by 2025.
2. Current ESA 2010 is the standard under which Government Finance Statistics are reported: https://ec.europa.eu/eurostat/web/esa-2010.
3. PAC Periodic Report No. 4, May-July 2018 –

   https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_of_public_accounts/reports/2018/2018-12-05_periodic-report-no-4-may-july-2018_en.pdf
4. https://reformplan.per.gov.ie/2014/downloads/files/Ireland%20PSR%20Plan.pdf
5. Budget day is the most prominent event over the course of the budget cycle in Ireland. It is the day that the Government lays down its economic and fiscal plan in Parliament to obtain a vote of confidence. Typical budget day documents include a Financial Statement from the Minister for Finance; an Expenditure Statement from the Minister for Public Expenditure and Reform; an Expenditure Report containing detailed spending plans; a Summary of Budget Measures; and the Economic and Fiscal Outlook. The Finance Bill is published within seven to ten working days of Budget day. The Social Welfare Bill is usually published later than this. These Bills have to be passed before the end of December.

6. It is to be noted that, although most budgetary information is presented according to the Vote structure, government departments establish three-year strategic plans and annual business plans. However, these documents are not prepared as part of the budget cycle and are not linked to spending information.

7. The maintenance of the Central Fund derives from the Constitutional requirement that "All revenues of the State from whatever source arising shall, subject to such exception as may be provided by law, form one fund, and shall be appropriated for the purposes and in the manner and subject to the charges and liabilities determined and imposed by law" (Article 11).

8. It is to be noted that the Irish Government provides significant funding annually to almost 3 000 agencies for the delivery of a range of services, which includes institutions such as universities, churches and so-called Section 38 and 39 agencies to which the bulk of this funding goes (around EUR 3.8 billion). Section 38 and 39 primarily operates in the acute hospital and disability sector. Questions have regularly been raised about whether these entities shall be included in the General Government sector.

9. In the case of the social security funds, their income is mainly made up of the Pay Related Social Insurance (PRSI) contributions of employees and employers.

10. IMF (2013) and questionnaire.

11. Apart from the local authorities in the boroughs of Dun Laoghaire, Fingal and South Dublin and the cities of Dublin, Cork and Galway, all counties, cities and boroughs have been further divided into 95 municipal districts. In addition, three regional assemblies are responsible for co-ordinating, promoting and supporting strategic planning and sustainable development and promoting effectiveness in local government and public services.

12. Local authorities in other OECD countries often have responsibility for a broader range of social services, such as education, health, social services, public transport, and policing.

13. www.housing.gov.ie/sites/default/files/publications/files/local_authority_budget_2018.pdf

14. www.cso.ie/en/releasesandpublications/ep/p-nie/nie2017/mgni/

15. Section 4(5) of the Comptroller and Auditor General Act specifies what is to be reported in the Finance Accounts while sections 4(2) and 4(3) provide for the audit of the Accounts and their laying before the Dáil (Lower house).

16. For the Appropriation Accounts, accounting rules and procedures are laid down by the Minister for Public Expenditure and Reform. Indeed, accounting policies for central government are largely determined through circulars issued by DPER. In particular, Circular 24/2018 set out the requirements for the Appropriation Accounts for 2018, including accounting practices to be adopted, the format of the Appropriation Accounts, Note disclosures and requirements for authorising the Appropriation Accounts.

17. For the Finance Accounts, Section 4.1 of the C&AG Act 1993 stipulates that the Minister for Finance specifies the form of the Finance Accounts and is responsible for ensuring that they are kept in the specified form, and are transmitted to the C&AG for audit on specific dates. However, Section 4.4 states that the Minister for Finance may by order vary one or more of those dates.

18. Section 22 requires that "accounts of the appropriation of the several supply grants comprised in the Appropriation Act of each year shall be prepared by the several Government Departments" and that "the Treasury shall direct that the Government Department charged with the expenditure of any vote under the authority of the Treasury shall prepare the appropriation account thereof: Provided also, that the term "Government Department," when used in this Act in connexion with the duty of preparing the said appropriation accounts, shall be construed as including any public officer or officers to whom that duty may be assigned by the Treasury."

19. For example, accounting requirements for the 2018 Appropriation Accounts were set out in DPER Circular 24/2018 Requirements for Appropriation Accounts 2018 and consolidated into the Guidance Manual for the Appropriation Accounts.

20. For example, the form of the financial statements for the National Debt has been approved by the Minister for Finance under Section 12 of the National Treasury Management Agency Act 1990.

21. Details on Statutory duties of Accounting Officers are set out in Section 19 of the Comptroller and Auditor General (Amendment) Act, 1993.

22. Section 22 of the Exchequer and Audit Departments Act, 1866 empowers the Minister for Public Expenditure and Reform to appoint an Accounting Officer in respect of any body for which a Vote is included in the Annual Appropriation Act.

23. Heads of Offices that have a Vote are appointed to the position of Accounting Officer based on primary legislation, i.e. the legislation which established the Office specifies to whom the role of Accounting Officer is assigned, for the Vote of that Office.

24. The Comptroller & Auditor General's independence as well as its institutional relationship with the executive and legislative branches has been protected by the Constitution, which states inter alia that "there shall be a Comptroller and Auditor General to control on behalf of the State all disbursements and to audit all accounts of moneys administered by or under the authority of the *Oireachtas*" and that the C&AG "shall report to *Dáil Éireann* at stated periods as determined by law."

25. For Appropriation Accounts, the Public Financial Procedures Manual and relevant Government Accounting Circulars issued by the Department of Public Expenditure and Reform (DPER) set out the form of the accounts.

26. For example, the Appropriation Accounts provide a cash receipts and payments view of a Vote, measured at the time the payment is received or made into the relevant bank account, however, Statement 1.3 Issues for Voted Expenditure in the Finance Accounts shows each Vote but with the amount being measured at the time of issuance from the Central Fund to the relevant bank account of the entity.

27. The contingent liabilities shown in the notes to each Appropriation account refers to amounts that may become payable from that particular Vote. The figures that are shown in the Finance Accounts are amounts payable not from the Votes but would ordinarily arise on the Exchequer should they actually materialise.

28. For example, the Department of Finance has EUR 967 259 000 of outstanding guarantees issued under specific legislation; the Appropriation Accounts for Government Department of Finance only list two categories of contingent liabilities (with no amounts reported) – those items are Litigation in respect of Irish Bank Resolution Corporation and third party protections in connection with the sale of Irish Life Ltd.

29. Currently, the National Debt is measured at redeemable par value whereas the financial instruments standards use amortised cost or fair value.

30. Key information on PPPs is now publically available through: (a) value of unitary payments paid thus far, (b) an estimate of future liabilities, (c) project classification, (d) date the project becomes operational, (e) year the final unitary payment will be made.

31. In addition, although a requirement is included in the Appropriation Accounts to report contingent liabilities, the level of disclosure provided is below that required under international standards and only guarantees issued under specific legislation are disclosed in the Finance Accounts.

32. The Finance Accounts cover transactions on the Central Fund which encompass both Voted and Non Voted expenditure. The Appropriation Accounts cover Voted Expenditure – as provided by

the Appropriation Act – but now also include a note on Central Fund expenditures arising within the relevant Department's activities.

33. This standard is issued by the UK Financial Reporting Council, which is the standard setter for both the UK and Ireland, with the main financial reporting frameworks in use being International Financial Reporting Standards (IFRS).

34. Examples include: tobacco excise, social insurance contributions, rates, the broadcasting licence fee as well as other taxes and fees. Some non-tax revenues are also not included. This includes charges, fees, and fines levied by government departments that do no flow through the Exchequer account.

35. The situation is exacerbated for sectoral committees at the Houses of the *Oireachtas* who also have to wait until the Public Accounts Committee has gone through the Appropriation Accounts before they can formally look at them, which can be 18 months after the end of the fiscal year.

36. In its Periodic Report No. 3 published in July 2018 the Public Accounts Committee recommended greater harmonisation of accounting across government.

37. For example, in the recent Public Accounts Committee Examination of Financial Statements in the Third-Level Education Sector, members reported that they struggled to obtain a total figure for government spending in this area.

38. This report does not discuss potential improvements to the budget nomenclature, which should be analysed as part of a wider analysis of the budget processes.

39. The operational implications of such a reform are detailed and discussed in detail in Section 4 of this report.

40. IMF (2018)

41. European Commission (2018)

42. Moretti and Youngberry (2018)

43. Budget forecasts have underestimated spending needs with year on year spending overruns in this sector averaging €0.5 billion over 2014–2017.

44. A recent report by the Irish Fiscal Advisory Council recommended that "the Government should seek to develop and publish more data on health expenditure than is currently provided. This would be helped by a move to a timelier, audited, and consolidated general government accounting system for all departments. IFAC (2018) www.fiscalcouncil.ie/wp-content/uploads/2018/11/Fiscal-Assessment-Report-November-2018-Final.pdf

45. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/eus-economic-governance-explained_en

46. IPSAS 18 establishes principles for reporting financial information by segments in consolidated financial statement. Public sector entities will identify as separate segments each distinguishable activity/group of activities that they carry out. In most cases, segments will reflect major classifications of activities identified in budget documentation.

47. https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/committee_of_public_accounts/reports/2018/2018-07-11_periodic-report-no-3-january-may-2018_en.pdf

48. Of note, as it currently stands, General Government Gross and Net Debt as published by the CSO is distinct from National Debt as per the National Treasury Management Agency. It is advised that the objective of a "whole of government" balance sheet be close to the concept of General Government as per ESA2010 – if not identical to it – which would thus allow for the National Debt to be part of the balance sheet. Indeed, although National Debt is a net measure, it is critical to have gross reporting of assets and liabilities.

49. For example, in Canada, the supreme audit institution does not provide an audit opinion on individual financial statements of government departments.

50. This chapter aims at providing the Irish government with operational guidance in case it would decide a move towards accrual accounting and improve its closing procedures.

51. As per Circular 21/2015 issued by DPER, FRS 102 is used for local authorities and non-commercial State bodies.

52. Although the existing basis for presentation of the Appropriation Accounts is embedded within section 22 of the Exchequer and Audit Departments Act, 1866 (as amended by the Comptroller and Auditor General (Amendment) Act, 1993), detailed accounting rules and procedures are laid down by the Minister for Public Expenditure and Reform and therefore relatively easy to amend.

53. Indeed, under the proposed format for a government departmental integrated annual report, Appropriation Accounts would continue to be prepared, meaning that would comply with requirements laid out in the Exchequer and Audit Departments Act, 1866 (as amended by the Comptroller and Auditor General (Amendment) Act, 1993). However, under the proposed new framework, information previously provided in the Finance Accounts would be integrated into the consolidated financial statements for central government. This would require at least a change to Section 4 of the Comptroller and Auditor General (Amendment) Act 1993, which provides for the transmission of the Finance Accounts to the Comptroller and Auditor General by the Minister of Finance.

54. Of note, the Central Statistics Office maintains a comprehensive list of public sector bodies for statistical purposes in the compilation of Government Finance Statistics. Although this list should not be used as the final register for administrative purposes, it could be used by DPER as the base for determining the scope of the survey.

55. For Finance Accounts and the Appropriation Accounts, the legally binding time constraints for preparing, auditing, and laying accounts before Parliament are respectively set in Section 4 of the Comptroller and Auditor General (Amendment) Act, 1993 and Section 22 of the Exchequer and Audit Departments Act, 1866 (as amended by the C&AG Amendment Act, 1993).

56. In both those countries, a domestic standard setter reviews the relevant IFRS and amends as appropriate, after its own due diligence process to accommodate jurisdictional requirements for the standard.

57. While no decisions have been taken at EU level regarding harmonised accounting standards, an EU-wide accounting framework could be implemented according to the following indicative timeframe: Phase 1: Increasing fiscal transparency in the Member States in the short to medium term by promoting accruals accounting, e.g. IPSAS, in the period from 2016 to 2020, and in parallel developing the EPSAS framework (i.e. EPSAS governance, accounting principles and standards); Phase 2: Addressing comparability within and between the Member States in the medium to longer term, by implementing EPSAS by 2025.

58. In practice, such adaptations of international standards seem to have focused on a limited number of areas, such as limiting the quantity of disclosures (for example, Sweden), defining boundaries for the financial statements that are aligned with the ones used in the budget and the fiscal statistics (United Kingdom, Australia, or New Zealand), or reflecting the specificities of the national legal frameworks and public policies (France, for example, with regard to the accounting treatment for the public service pension system).

59. Of note, the IPSASB has recently issued IPSAS 41 Financial Instruments, which simplifies the classification and measurement of financial instruments. That new standard has an effective date of 1 January 2022 but may be adopted early. When reviewing the existing standards on financial instruments, it may be worthwhile considering early adoption of IPSAS41 rather than implementing the existing IPSAS standards on financial instruments. The gap analysis has assessed the extant IPSAS standards on financial instruments and also included a summary of the main requirements arising from IPSAS41. Key gaps relate to the measurement basis used

and the disclosures required in relation to risks attaching to financial instruments (particularly quantitative measures of those risks).

60. These two topics are also included in the IPSAS work programme.

61. Under IPSAS 33, the date of first adoption needs to be specified. This is the date that the accrual basis IPSAS first applies. An opening statement of financial position needs to be prepared at the date of adoption. This is the starting point for the use of accrual basis IPSAS. The accounting policies used for the opening statement of finance position need to be the same as the policies that will be applied under accrual basis IPSAS.

62. The Asset Register of the Office of Public Works includes all buildings but does not include all National Historic Properties, National Monuments or infrastructure assets such as roads. For the remainder of the portfolio, estimates are based on current building cost norms and notional site values (545 buildings, EUR 0.546 billion).

63. In particular, the following segments will play a pivotal role in producing accrual financial statements: the Entity component will enable the production of entity level financial statements, as this segment enables transactions and events to be recorded specific to an entity; the Nominal and Sub-nominal and Subhead segments will enable the accrual classification of the revenue, expenses, assets, liabilities and Net assets/Equity of the entity; and the Affiliate segment will enable identifying related party transactions and providing information on transactions between entities to enable consolidated financial statements to be prepared.

64. For example, IPSAS 2 requires that the CoA categorises cash flows according to type – operating, investing or financing; IPSAS 21 requires that the CoA includes accounts to record impairments and reversals; IPSAS 17 require certain accounts to be created in the CoA to facilitate the production of disclosures; IPSAS 13 requires that the CoA record separately lease asset/liabilities, operating lease payments, commitments for leases in different maturity categories; etc.

65. The Statement on Internal Financial Control covers the following elements: i) the description of the overall risks and control framework; ii) if the government department uses the NSSO, a statement that they have fulfilled their responsibilities under the service level agreement and that they have relied on assurances from the Accounting Officer of the Shared Services Centre; and iii) the assurance that the government department has complied with relevant procurement guidelines.

66. OECD (2017), Accrual Practices and Reform Experiences in OECD Countries.

67. IPSAS 33 First time adoption of accrual basis IPSAS however provides some relief in determining the initial value for such assets.

68. Information on funds is provided in the Notes to the Appropriation Accounts and schedules are provided in the Finance Accounts showing details of shareholdings in State bodies and other companies.

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