

**AIST THEMATIC SEMINAR  
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**Application of accounting standards: definition and issues of  
modern public accounting**

**Terms of reference**

**1. The importance of accounting standards in a period of financial globalisation**

**1.1. Respond to the imperatives of financial globalisation and integration into the world-system of accounting standards**

In an international context increasingly open to the process of globalisation, the need to adopt national accounting systems backed by international standards, mainly IPSAS (International Public Sector Accounting Standards), is becoming a strong integration issue into the world-system.

Whether they are international, financial, commercial, international investors (etc.) or investment funds, the importance of getting reliable, quality financial and accounting information serves as the foundation of strategic decision on investment, hence the importance for the States to undertake this new generation of reforms.

**1.2. The strategic objectives of the accounting reforms**

The State accounting reform enables the achievement of several strategic objectives at once, including the control and management of public finances. Indeed, a modern State accounting helps strengthen and upgrade strategic management tools, particularly through a better knowledge of the State's assets (identification and valuation of fixed assets, taking into account inventories, potential risks accounting, assessment of future expenses, etc.), a better risk management method through the implementation of an accounting quality control (internal control, audit trails ...) and a better view on the State finances (inventory of off-balance sheet commitments, etc.).

**1.3. Overview of State Accounting Systems**

Depending on its needs, a State may choose one of the following accounting system:

- The management accounting system or cash accounting system (revenues are recorded at the time of collection and expenditure once acknowledged);

- The accrual accounting system which recognises financial transactions when they occur (without considering cash in- or outflow);
- The modified cash register accounting system, which combines both cash and accrual accounting elements (revenues are recorded once collected and expenditure once incurred).

## **2. Challenges related to the accounting reform of the State**

### **2.1. Multiple challenges in terms of modernisation of the State and the administration**

Beyond its purely technical aim - a better public accounts keeping, the reform of state accounting is a key challenge to improve the quality of financial and accounting information.

To achieve this quality goal of accounting information, the accounting system must include features to ensure the information such as fairness, comparability, understandability and reliability.

Furthermore, the accounting reform must specify increased requirements for internal and external control in order to produce a new quality state accounting system.

A certification system ensures the accounts quality of the financial and accounting information; the Courts of Auditors carries out the said certification by performing audit assets.

The accounting quality, thus framed by the principle of fairness, contributes to the improvement of the accountability before the Parliament, and allows it to fulfill its mission of control with more political relevance and more quality. In the same time, it enables decision-makers and public managers to manage public affairs and their actions in a better way.

### **2.2. The organisational overview of public administrations**

The reform of the State's accounting system necessarily involves a change in the logic of action compared to the previous system. The new accounting logic based on a performance-oriented culture implies the setting up of control devices in the public sector. This involves, on the one hand, the introduction of management control, which aims to improve the relationship between the committed resources and the results achieved, and on the other hand, the construction of an internal control and internal audit system. As a matter of fact, the new conception is based on an easing of prior controls, which implies the overhaul of the ministries by strengthening their ability for internal control and external audit.

### **2.3. Improvement of the administrative management**

One of the objectives pursued by accounting reforms is to strengthen the managerial capacity of public decision-makers and managers, by introducing them to performance management. This new management model is based on three essential elements: commitment about results, freedom of management and accountability reporting.

In order to improve public management, it is important to provide information and useful indicators to manage activities and to adapt them to the needs of managers and partners, including citizens.

### **3. The changes brought about by the reform**

The reform of State accounting offers several opportunities. Indeed, this is an opportunity to evolve the law correlated with the new economic requirements of the state accounting. It is also an opportunity to review information systems and modernise them.

#### **3.1. The opportunity to develop the law**

Among what can be considered as inherent opportunities to the introduction of a new state accounting system, which looks like the private companies system, we can feel the evolution effect of the law towards the economic subject. It invests a field of future for the States because of the financialisation of the economies and the global evolution observed at the planetary level, granting the primacy to the economy, the finances and the digital technology.

#### **3.2. The chance to reconceptualise the information systems**

Because of its integrative nature, the new system of general accounting adopted by States can not be deployed if it is not based on a robust, agile, transversal and integrated information system. It is therefore known, related to the various international experiences, that in this particular regard, the accounting reform allows the reconceptualisation of the present information system within the meaning of modernisation and completeness.

### **4. The conditions for successful implementation of the accounting reform**

#### **4.1. Success factors**

The Reform management is an essential aspect of state accounting reforms. It conditions very strongly the chances of success of these. In this context, the emphasis is placed, in particular, on the need for political leadership, the involvement of all stakeholders in the public administration, the existence of a standards-producing body and the designation of a structure dedicated to the management of the project.

#### **4.2. Risks and contingencies to avoid**

The achievement of the objectives assigned to the reform's established goals of the State's accounting system is subject to several risks. These risks include the inconsistency between the provisions of the new public accounting and the other current budgetary and accounting provisions.

The lack of stakeholder support for the reform process might have a significant or even decisive impact. It is therefore recommended to involve the standards producer, the certifier and any other stakeholder throughout the reform process.

Essential elements for the success of the reform are the respect of the deadlines of the reform and the good management of the transition from one accounting system to another.

## **5. Accompanying processes**

### **5.1. Transition management**

It may be necessary to agree that the most important moment in a major structural reform - as the state accounting reform - is that of the conversion that marks the transition to a budgetary accounting, mainly based on counting of flows, to an accrual accounting system, based on an inventory approach.

The diametrically contrasting vision of the one to the other implies the consideration of the cultural element in the implementation of the reform. In this context, the most important moment is that of preparing mentalities at the level of different actors to assimilate, adhere and appropriate this new way of doing things, taking into account the management of the transfer of a system to another.

### **5.1. The implementation process**

As the implementation process is a significant step in the implementation of the reform, it is important to give it the greatest attention. Regarding a reform that drastically disrupts the operational modes of registration and accounting that have framed the field of public finances for decades, it is recommended to adopt a prudential and progressive approach of implementation, in order to allow the various stakeholders of the reform to assimilate it and to be able to understand it intellectually and absorb it technically. Just as one should beware of excessive staggering over time which would lose sight of the reform itself.