

24 February, 2021

Project Nos. 3-20 and 3-25

Dear Director of Research and Technical Activities,

Thank you for the opportunity to comment on Project Nos. 3-20 and 3-25.

I am writing to comment on these two projects from the perspective of someone who has had a deep involvement in public sector accounting standard setting at both national and international levels and who has been personally involved in the process of moving a national government (the New Zealand Government) from a cash-based to an accrual-based public financial management system, in which budgeting, appropriations and reporting are all on a full accrual basis. I do not currently live in the United States, but have done so for over a decade in the relatively recent past, and retain a deep interest in financial management developments at federal, state and local government levels in the US.

In making the comments below I would note that much of the writing at both theoretical and practical levels that informed the transition to accrual-based financial management in the NZ Government was produced by US authors – the US has deep expertise and an established reputation in this field. I would also note that the change to an accrual-based system in New Zealand, now over 30 years ago, has led to extremely positive outcomes, not only in the level of trust engendered in the voting public, but also in the fiscal track record of the Government.

The trust engendered by a system fully based on accrual concepts is in part the result of the very high levels of transparency built into the system. (The NZ Government ranks first equal in the International Budget Partnership's Open Budget Index.)

In relation to its fiscal track record, since the accrual-based system was introduced the NZ Government has increased its net worth in virtually every year other than for four years following the global financial crisis to a point where, ahead of the COVID-19 pandemic, its net worth was equivalent to fractionally under 50% of GDP and enabled the Government to mount an early and effective campaign to eliminate the virus.

My reason for making these points is to emphasize two things. First, the US has been seen globally to be a leader in matters of accounting and financial management, and developments in the US can be influential beyond its shores. Unfortunately, in this instance, the proposed changes will erode that reputation and may result in other governments being tempted to adopt a similar approach. In no other set of accounting

standards, in either the public or private sectors, is there a concept of accruals which differentiates between a long-term and a short-term focus in the manner proposed in Project Nos. 3-20 and 3-25. Nor have other governments, including those operating on a fund basis, identified the need for or value of such an approach, whether in relation to the government as a whole or for an individual fund.

Second, financial management systems that are fully based on accrual concepts produce higher quality information, higher quality decisions, and better fiscal outcomes. Again, unfortunately, the proposed changes will be a retrograde step and will serve to reinforce and legitimize practices that demonstrably lead to poorer financial decisions and outcomes.

For these reasons I do not support the proposed changes in Project Nos. 3-20 and 3-25.

Real improvements would be made by requiring the full accrual basis to be applied across all the financial activities of state and local government, including governmental funds statements. This would remove the confusion associated with having, effectively, two different reporting models, and it would enhance comparability across different governments. Equally importantly, this would provide superior and more consistent signals and incentives to decision-makers, as it would require the reporting of both the long-term and short-term impacts of all financial decisions. In doing this it would enhance the trust and confidence of citizens in the financial reporting of their governments.

Yours sincerely,

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