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Public Sector Accounting Reform: Benefits, Challenges and Lesson Learning

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KESS Policy Briefing

...is a forum that encourages debate on a wide range of research findings, with the overall aim of promoting evidence-informed policy and law-making within Northern Ireland

Key points:

- Public sector accounting reform involves shifting from traditional cash-based accounting to accrual-based accounting, adopting international public sector accounting standards (IPSAS), aligning budget reports with accounts and producing different forms of consolidated accounts.
- It is a key component of New Public Management, aimed at improving efficiency, transparency, accountability, and decision-making in government.
- Policy priorities are becoming more dynamic due to fiscal constraints, rising service demands, demographic changes, and climate pressures.
- Northern Ireland (NI) faces acute pressures such as tighter budgets, end of stabilisation funding, and persistent overspending.
- Accounting reforms have been ongoing in countries over the world for 50 years. Key benefits include greater transparency and accountability, better decision making and improved fiscal sustainability.
- Professional and academic literature on the experiences of countries note challenges such as high implementation and ongoing costs, cultural resistance and technical complexities compounded by a lack of skilled professionals in the area.
- The Republic of Ireland is currently transitioning to a form of accruals accounting which complements its cash-based appropriation accounts.
- Progress has included a phased rollout of central government accounting standards based on IPSAS and training of staff through Chartered Accountants Ireland on the IPSASs.
- Feedback from the training has suggested improved knowledge, a greater awareness of assets and liabilities and more confidence in decision-making among civil servants / finance and accounting professionals.
- Despite operating within the existing UK accrual accounting framework, NI could benefit from a rejuvenation of its principals, reflecting on what it shows and helps departments to understand, along with an assessment of how it could help assist departments in weathering future liabilities / shocks.

1. Definition

Public sector accounting reform refers to the deliberate and systematic modernisation of financial reporting systems and accounting practices within government and other public sector entities. It has primarily involved:

- A transition from cash-based accounting (recording income and expenditure when physical cash is paid or received) to accrual-based accounting (recording income and expenditure when they are incurred regardless of physical cash transactions);

- Adopting International Public Sector Accounting Standards (IPSAS) for public sector financial reporting;

- Alignment of budget reports with accounts; and

- Consolidated accounting (also known as Whole of Government Accounts).

Reforms like these are a central element of the broader New Public Management (NPM) agenda, which seeks to introduce private-sector management principles such as efficiency, effectiveness, performance measurement, and enhanced accountability into public administration (National Audit Office, 2021). As such, public sector accounting reform is not merely a technical adjustment, but a strategic governance intervention aimed at improving the quality and usefulness of financial information.

2. Nature and Key Characteristics

At its core, public sector accounting reform represents a significant shift in the recognition and reporting of financial transactions. Traditional cash accounting records transactions only when cash is received or paid, limiting insight to short-term budgetary flows. In contrast, accrual accounting recognises economic events when they occur, irrespective of cash movements. This approach provides a more comprehensive view of assets, liabilities, revenues, expenses, and the long-term financial position of public entities (Wynne, 2004; Christiaens et al., 2014).

The International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board (IPSASB), serve as the primary international benchmark for these reforms. Many countries either adopt IPSAS directly or develop national standards closely aligned with them (IFAC, 2025; Schmidthuber et al., 2022). In the UK context, this has also involved the production of Whole of Government Accounts (WGA), which consolidate the financial position of central government departments, agencies, and public bodies.

3. A Changing Landscape

Priorities in policy setting are increasingly dynamic and shaped by intense fiscal constraint, rising service demands, and the need for measurable delivery rather than expansive new spending programmes (Pollitt & Bouckaert, 2017; OECD, 2025). Recent public opinion data reinforces this shift. According to the Office for National Statistics (ONS, 2026), the cost of living remains the dominant public concern (90%), followed closely by the NHS (80%), the economy (74%), and international conflict (63%). These findings highlight growing public anxiety about both immediate economic pressures and the sustainability of key public services. The fiscal landscape across many countries is marked by chronic underfunding, persistent overspending, high economic inactivity, skills gaps, and infrastructure deficits. These pressures are compounded by demographic shifts (ageing populations), increased demands on health and social care, and climate-related costs (OECD, 2025; The King's Fund, 2025).

In Northern Ireland, these challenges are particularly acute (Northern Ireland Affairs Committee, 2024). The NI Executive's current policy priorities include reducing health waiting lists, advancing skills development and economic growth, increasing housing investment, driving public service transformation, and addressing key environmental challenges such as Lough Neagh (Northern Ireland Assembly, 2026). These priorities are being pursued against a difficult fiscal backdrop, including the end of £520 million annual UK stabilisation funding, persistent departmental overspends, higher per capita spending needs (around 24% above England), and a large structural fiscal deficit (NI Fiscal Council, 2026). The NI landscape is not unique. Debt to GDP ratios in many advanced countries have continued to rise (Bank of England, 2025) with governments globally face spending pressures given the context of changing demographics and geopolitical risk, potentially constraining their capacity to respond to future shocks. In the UK, spend is expected to exceed income, with an estimated deficit of £133bn (Office for Budget Responsibility, 2026) and future liabilities of £5 Trillian have been estimated in the latest Whole of Government Accounts (HM Treasury, 2025).

This evolving landscape is characterised by a shift from traditional input-focused management toward outcome-based, preventive, and citizen-centred approaches. High levels of public debt, elevated debt interest costs, and digital transformation pressures have exposed limitations in legacy financial management systems, making modern accounting practices more critical than ever for supporting strategic decision-making and long-term sustainability (Deloitte, 2026; HM Treasury, 2025).

4. Benefits of Accounting Reform

This changing policy and fiscal landscape strongly reinforces the need for public sector accounting reform. The transition from cash-based to accrual-based accounting and the adoption of IPSAS offers substantial benefits for governments and public entities. Academic and professional literature consistently highlights that these reforms can significantly enhance the quality of financial information and support better governance (Christiaens et al., 2014; Salato, 2024).

A summary of the main benefits and challenges is presented in Table 1 below:

Table 1: Benefits and Challenges of Accounting Reform

Aspect	Benefits	Challenges
Transparency & Accountability	Provides a more complete and reliable view of government finances, reducing hidden liabilities (Brito & Jorge, 2021; IFAC, 2025).	Requires significant cultural and organisational change (Pollitt & Bouckaert, 2017).
Decision-Making	Enables better understanding of the full cost of services and long-term implications of policies (Adhikari & Gårseth-Nesbakk, 2016; PULSAR, 2022).	Improved data does not automatically lead to better decisions without complementary reforms (Wynne, 2004; Stewart and Connolly, 2025).
Fiscal Sustainability	Supports more accurate assessment of long-term liabilities and fiscal risks (Tawiah & Soobaroyen, 2024; Schmidthuber et al., 2022).	High upfront costs can worsen short-term fiscal pressures (IFAC, 2025).
Asset & Liability Management	Encourages proper valuation, maintenance, and reporting of public assets (Stewart and Connolly, 2025).	Technical difficulties in valuing complex public assets (Christiaens et al., 2014).
Governance & Anti-Corruption	Associated with improvements in governance indicators and reduced corruption risk (Cuadrado-Ballesteros and Bisogno, 2021; Tawiah & Soobaroyen, 2024).	Risk of reform fatigue and resistance from politicians and officials (Camargo, 2025).
Overall Reform Impact	Enhances international comparability and credibility with investors and donors (OECD, 2025; Schmidthuber et al., 2022).	Benefits are often slower to materialise than expected and depend heavily on strong political commitment (Wynne, 2004; Camargo, 2025).

Key benefits include improved transparency and accountability (Stewart & Connolly, 2025), better decision-making and resource allocation, stronger fiscal sustainability, and enhanced asset and liability management.

5. Challenges of Accounting Reform

Notwithstanding these benefits, the literature cautions that they are not guaranteed. Successful reform depends on effective implementation, adequate institutional capacity, and the willingness of decision-makers to use the improved information (Wynne, 2004; Camargo, 2025).

Major challenges (see Table 1) include high implementation and ongoing costs, limited technical and institutional capacity, organisational and cultural resistance, and technical complexities in asset valuation and liability estimation (Adhikari & Gårseth-Nesbakk, 2016; Salato, 2024; IFAC, 2025). There is also often a significant gap between technical adoption and actual improvements in decision-making or governance outcomes. Strong political commitment and a long-term implementation strategy are therefore essential (OECD, 2025).

6. Lesson Learning - The Case of the Republic of Ireland

The Republic of Ireland's ongoing transition to accrual accounting provides particularly relevant lessons for Northern Ireland. While the UK and Northern Ireland have used accrual accounting for over 25 years, Ireland is at a relatively early stage of its reform journey.

Following an OECD review in 2018, Ireland began moving towards accrual-based financial statements to complement its traditional cash-based appropriation accounts. These statements are prepared using Central Government Accounting Standards (CGAS) based on IPSAS principles. A position paper commissioned by Chartered Accountants Ireland (Connolly & Stewart, 2021) highlighted both the potential benefits and implementation challenges of the reforms.

Ireland has since introduced 23 CGAS on a phased basis, with further standards expected. A Certificate in Public Sector Accounting has been developed to build capacity, with over 100 civil servants having completed the programme to date. Early feedback indicates improved technical knowledge, greater awareness of assets and liabilities, and increased confidence in financial decision-making (Chartered Accountants Ireland, 2026; Comptroller and Auditor General, 2025).

7. Relevance for Northern Ireland Policy and Practice

The experience of the Republic of Ireland, alongside the UK's longer accrual accounting journey, offers important lessons for Northern Ireland. Although NI operates within the UK accrual framework, there remains scope to deepen the application of accrual principles at departmental and agency level, particularly in support of multi-year budgeting and public service transformation.

In Northern Ireland's current constrained fiscal environment, enhanced accrual-based reporting would deliver better quality information to support the Executive's key priorities, most notably health transformation, housing, skills, and infrastructure investment. It would enable more accurate assessment of long-term costs and liabilities, facilitate "invest-to-save" initiatives, and strengthen transparency and accountability to the Assembly and the public.

Recommendations for Northern Ireland include:

- Developing a clear, phased roadmap for further accrual accounting improvements.

- Investing in professional development and capacity building for civil servants. This could include refresher courses on specific standards (for example financial instruments)

- placing a stronger emphasis on improving alignment between budgetary control and accrual-based financial reporting.

- Establishing stronger governance arrangements to ensure improved financial information actively informs strategic decision-making.

In conclusion, public sector accounting reform should not be regarded as a purely technical exercise. In Northern Ireland's challenging fiscal and policy environment, it represents a strategic opportunity to enhance decision-making, strengthen governance, improve value for money, and build more sustainable public finances for the future. Strong political leadership and sustained commitment from the accounting profession will be essential to realising these benefits.

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