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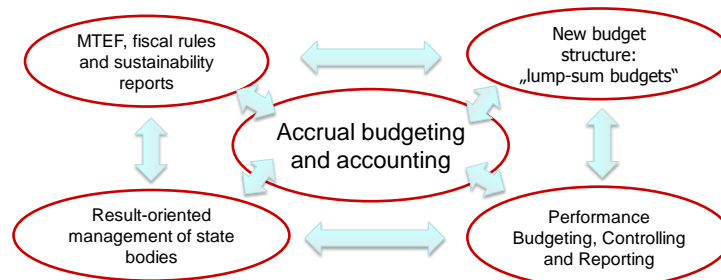
Costs and Benefits of Accrual Accounting and Budgeting

Vienna, 28th of January PEMPAL TCOP/World Bank

Accrual Accounting one element of Budget Reform

Amendment of the constitution:

- New budgetary principles:
impact orientation, efficiency, transparency, true and fair view
- **Integration of accruals in a general framework of financial management**
- New Balance of Managerial Flexibility and Accountability
- Improved Management of finances and performance by integrated approach



Important Preconditions

- **Sound cash management system**
- **Mature IT system**
- **Some accrual practices around**
- **Time**
- **Resources (Money & HR)**

- **Political support**

Why accrual accounting and budgeting?

- **Avoidance of fiscal illusions**
 - Order now, pay later
 - Sales of assets
 - Financial risks (e.g. doubtful receivables)
- **Enhances transparency of public finances**
- **Reduces the scope for fiscal illusions**
- **Helps to steer public finances according to fiscal reality**
- **Makes it harder for stakeholders to ignore future budget challenges**
- **Can enhance accountability of decision-makers**

Decision criteria concerning accruals

- **Pros¹:**
 - Accruals are basis for ESA (European System of Accounts)/also GFS
 - Accruals provide additional, better data (identifying payments for future events or past events, show resources spent/earned)
 - Cash management is integral part of accrual system
 - Accrual budgeting makes accruals relevant
 - Accruals are compatible with cost accounting
- **Common Skepticism we faced:**
 - Too complicated (especially for members of parliament)
 - High implementation costs
 - Problems in transition
 - Information not needed

¹ See Ken Warrens "Time to look again at accrual budgeting." (Paper Prepared for 14th Annual OECD Accruals Symposium OECD Conference Centre, Paris, 3-4 March 2014)

Why IPSAS?

IPSAS (=International Public Sector Accounting Standards)

- IPSAS are based on accruals
- IPSAS have wide dissemination
- Accounting standards for the public sector
- Potential for harmonization
- Reference for accounting questions
- IPSAS can increase transparency, improve consistency and accountability
- National standards base on prudence principle, not in alignment with IFRS, changes in future expected

IPSAS are standards not cookbooks. Decisions have to be made by state administrations and governments.

List of IPSAS Standards

Number	Name
IPSAS 1	Presentation of Financial Statements
IPSAS 2	Cash Flow - Statements
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors
IPSAS 4	The Effects of Changes in Foreign Exchange Rates
IPSAS 5	Borrowing Costs
IPSAS 6	Consolidated Financial Statements and Accounting for Controlled Entities
IPSAS 7	Accounting for Investments in Associates
IPSAS 8	Financial reporting of Interests in Joint Ventures
IPSAS 9	Revenue from Exchange Transactions
IPSAS 10	Financial Reporting in Hyperinflationary Economies
IPSAS 11	Construction Contracts
IPSAS 12	Inventories
IPSAS 13	Leases
IPSAS 14	Events after the Reporting Date
IPSAS 15	Financial Instruments: Disclosure and Presentation
IPSAS 16	Investment Property
IPSAS 17	Property, Plant and Equipment
IPSAS 18	Segment Reporting
IPSAS 19	Provisions, Contingent Liabilities, Contingent Assets
IPSAS 20	Related Party Disclosures
IPSAS 21	Impairment of Non-cash-generating Assets
IPSAS 22	Disclosure of Financial Information About the General Government Sector
IPSAS 23	Revenue from non-exchange transactions (Taxes and Transfers)
IPSAS 24	Presentation of Budget Information in Financial Statements
IPSAS 25	Employee Benefits
IPSAS 26	Impairment of Cash-Generating Assets
IPSAS 27	Agriculture
IPSAS 28	Financial Instruments: Presentation
IPSAS 29	Financial Instruments: Recognition and Measurement
IPSAS 30	Financial Instruments: Disclosure
IPSAS 31	Intangible Assets
IPSAS 32	Service Concession Arrangements: Grantor

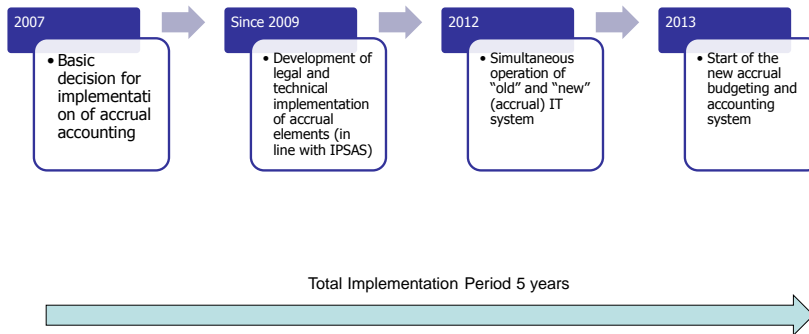
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Summary IPSAS Standards

- **Very comprehensive**
- **Not all of them are necessarily applicable**
- **IPSAS standards have a certain range of useable methods and procedures**

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IPSAS Implementation Timeline



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Detailed Cost Profile

Category	Costs in €
Budget Management	9.804.023
Accountingsystem (incl. Asset Management) ¹⁾	7.924.917
Personal Management	4.757.243
Cost Accounting and Business Warehouse	2.095.426
Opening Balance Sheet	855.059
Annual Financial Statement	1.500.000
Program Management and Controlling	2.002.497
Total²⁾	28.939.165

- 1) The Asset Management Modul costed 1.128.108 € included in the Position "Accounting System"
 2) The total Costs are as of 31.12.2013, so there is still some budget for necessary adjustments

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Deviation from IPSAS Standards in Austria

Deviating Standard	Explanation
IPSAS 6 Consolidated Financial Statements and Accounting for controlled Entities	Non full consolidation, controlled entities are recognized at equity.
IPSAS 7 Accounting for Investments in Associates	Not possible within time frame because lack of know how and workforce.
IPSAS 8 Financial reporting of Interests in joint ventures	
IPSAS 25 Employee Benefit	No provisions for pension obligations to federal employees, total obligations for pensions for federal employees in annex
IPSAS 29 Financial Instruments: Recognition and Measurement	No division of commissions, expenses for public debt. 3 instead of 4 categories

Lessons learned so far

- **Early start of adoption process (target- as well as conceptual level) is crucial**
- **Training of employees and stake holders is crucial**
- **IT Implementation is crucial**
- **Having better information about the asset and liability side results in a new awareness of the own financial capability**
- **New awareness for the limited perspective of a (cash) budget deficit/surplus**

Challenges of Accrual Budgeting

- **Commitment of political and senior administrative level is key**
- **Skills of stakeholders need to be enhanced** (civil servants; politicians; media; interested public)
 - Extensive training required
- **Complexity threatens transparency**
 - Relevance and accurateness need to be balanced
 - Less can be more
- **Standardization**
 - Which standards?
 - Consideration of public specifics
 - Who is legitimized to set standards?
- **IT-support:** crucial to very closely link technical and IT-issues in order to assure that the new system works adequately

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Challenges of project management and implementation

- **Standard setting:**
 - by Ministry of Finance, Court of Audit and Federal Chancellery
 - Information of Parliament
- **Budget transition:**
 - Cash-related budget elements are based on previous budget model
 - Completed by non-cash elements (depreciation, provisions)
 - Technical process of adjustment between MOF and line ministries
- **Opening balance sheet:**
 - Use of information of „old accounting system“
 - Data gathering for new elements started 2010, „old“ data updated
- **New accounting system:**
 - IT-system is crucial
 - Tests and concurrent operation in 2011 and 2012

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Challenges ahead

- **Academic support in standard setting**
- **Accounting standards for special public sector cases (social benefits, etc.)**
- **Administrative capacity (know how and workforce) for consolidated accounts**

Thank you for your Attention!

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