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Linking GFS, Budget, and Auditing Data and Information

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Linking GFS, Budget, and Auditing Data and Information

Accrual Accounting and Budgeting –
the Case of Austria

Introduction

- Austria applies accrual accounting and budgeting as of 2013
- on the central government level.
- Regional and local governments are expected to switch to accruals within the next years.
- Topics covered in this presentation:
 - Why accruals?
 - Applied system and standards.
 - How did Austria proceed towards accruals and communicate the reform to stakeholders.

Why Accruals?

- Cash provides important fiscal information (liquidity),
- But other important components of financial status are not disclosed (see next slides).
- Full financial transparency requires:
 - cash flow statement: shows liquidity
 - operating statement: shows use of resources
 - balance sheet: compares assets and liabilities
- GFS methodology: similar approach to full financial transparency (statement of sources and uses of cash; statement of operations; balance sheet)
- Merits: Financial risks disclosed, harder for decision-makers and other stakeholders to ignore fiscal reality and upcoming challenges

Benefits of Accruals: Practical Examples 1

- Provisions for contingent liabilities: Probability of event triggering the obligation >50 %.
- Austrian central government balance sheet: Provisions: 4,1 bn € (e.g. guarantees; cost of pending litigation; staff: vacation entitlements; severance payments).
- Special case: Pension liabilities provided in notes to annual financial statement (30-year projection of pension liability: 305 bn € as of 31.12.2013).
- Doubtful receivables: Not shown in a cash perspective – ignores financial risk. Accruals reflect risk: Write downs (1,2 bn € per year) and adjustments of value (4,5 bn € as of 31.12.2013)
- Benefit: Accruals disclose financial risks which are not identified in cash flow statement. Helps decision-makers to counteract in time.

Benefits of Accruals: Practical Examples 2

- Order now, pay later: Considerable part of Austrian current railway infrastructure investment is paid over the next 30-50 years.
- Complete budget burden not shown in cash, but flagged in accrual: Annual financial statement 2013 for railway infrastructure:
 - cash flow statement: 1,6 bn €
 - operating statement: 2,9 bn €
- Benefit: Full budget burden disclosed transparently.

Benefits of Accruals: Practical Examples 3

- Investment: Cash allocates budget burden to one single year instead of useful economic life.
- Accruals allocate costs realistically (depreciation); Austrian budget comprises both perspectives: Liquidity and use of resources:
 - investment: disclosed in cash flow statement
 - depreciation: accounted for in operating statement

Benefits of Accruals: Practical Examples 4

- Sale of assets: Cash shows revenue but not loss of assets – creates fiscal illusion.
- Accruals disclose loss of assets.
- Benefit: Fiscal illusions avoided.

- Is a country poorer or richer than a year ago? Cash does not provide an answer. Accruals do.

System and Standards as of 2013

- Ex ante: Parliament votes on cash flow statement and operating statement
- Ex post: Parliament votes on financial statement (including balance sheet), audited by Austrian Supreme Audit Institution
- Pragmatic approach: Safeguard quality of information, restrict administrative burden, focus on important requirements for steering public finances
- Standards: IPSAS as orientation
- External costs: ~ 30 million €

Benefits of Accruals: Communication Challenges

- Which key insights derive from operating statement and balance sheet?
- Particularly concerning risks, financial sustainability.
- Key communication task most notably for budget authorities, audit institutions, statistics offices, media
- Requires permanent support and training for stakeholders

Standard Setting in Austria

- 32 IPSAS- standards
- 20 fully applied (page 24: blue)
- 7 not relevant in Austria (page 24: grey)
- 5 applied with deviations (page 24: red)

Pragmatic standard setting approach

- Necessary to compile Austrian opening balance sheet as of 1 January 2013
- Full disclosure of federal assets and liabilities while minimizing necessary time, effort and expenses
- „Austrian opening balance sheet regulation“ provides a number of exceptions and simplifications to reduce administrative burden without considerably affecting quality of information
 - flate-rate and comparative parameters used
 - measurement alternatives permitted
 - subsidiaries: valued at equity
- Building up accrual expertise within administration

Practical Experience: Observations 1

Accomplished:

- We did it and it works.
- Much more fiscal transparency on central government level
- Qualification of public staff enhanced considerably
- Subnational governments join the reform → objective: comparable financial data on accrual basis on all levels of government

Practical Experience: Observations 2

Problems:

- Accruals compatible software introduced a number of years before decision to implement accruals; technical adaptations of software back and forth;
IT-potential of new software not used sufficiently from the beginning
- Austrian SAI disclosed some shortcomings in technical implementation of accruals; has to be improved in the near future
- Implementation of additional IPSAS-Standards?
- Use of new tools has to be intensified considerably

Process of Implementing Accruals - Timeline

- Since 2004: informal budget reform committee in Parliament: regular meetings of administration (led by Ministry of Finance), Austrian SAI, all political parties represented in Parliament to agree on the design of reform
- 2007: Unanimous decision in Parliament on reform principles (amendment of the constitution), legal validity 2013 → budget principle of true and fair view → reform made irreversible
- 2008-2012: Preparation of reform; detailed legislation, IT-applications, training of staff, communication to other stakeholders
- End of 2012: First annual budget on accrual basis approved in Parliament
- 2014: First annual financial statement (for 2013) on accrual basis approved in Parliament

Process of Implementing Accruals – How to Reach Consensus

Austrian approach:

- Reform driver: Ministry of Finance in close cooperation with SAI
- Reform driver forms reform alliances
 - with center of government (chancellery)
 - Parliament (informal budget reform committee)
 - media, social partners and civil society: create public awareness
 - foreign stakeholders which might be helpful
- to persuade potential critics (particularly in line ministries)
- Constitutional expiration date for traditional accounting and budgeting system proved to be particularly helpful („we have to proceed in time in order to avoid chaos“)

Process of Implementing Accruals – Technical Aspects

- Austria carefully studied foreign accrual experiences and took lessons learned
- Permanent and structured cooperation between staff for accounting, budgeting and IT to harmonize expected results; IT-applications should deliver according to needs for accounting/budgeting
- Intense training for staff to apply accruals: e-learning, courses, workshops; thousands of people trained; requirement for training is permanent even after implementation of accruals
- Austria decided to implement accruals with a minimum of consultants (predominantly IT); public staff played dominant role in designing and implementing accruals
- Special events for stakeholders outside the administration (members of Parliament, journalists,...) provided to communicate purpose and key elements of accruals

Conclusions 1

- Accruals is not just a technical exercise, it's a change of perspective and culture
- Communicate the merits of accruals and the deficiencies of „cash only“ to different stakeholders
- Form powerful alliances to support accruals
- Apply international standards
- Implement them pragmatically without hampering comparability
- Build capacity to deal with accruals inside your administration
- Learn from reform experiences of other countries

Conclusions 2

Success in public finances requires clarity about financial consequences of decisions.

Pure cash can't provide that.

Accruals can.

Question to Discuss

Austria has worked hard to introduce accrual based accounting and budgeting.

But many other countries continue to rely on cash based fiscal data.

How can the international community encourage and support the shift to accrual for these countries?



**Thank you for
your attention!**

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Annex

Austria: Introduction

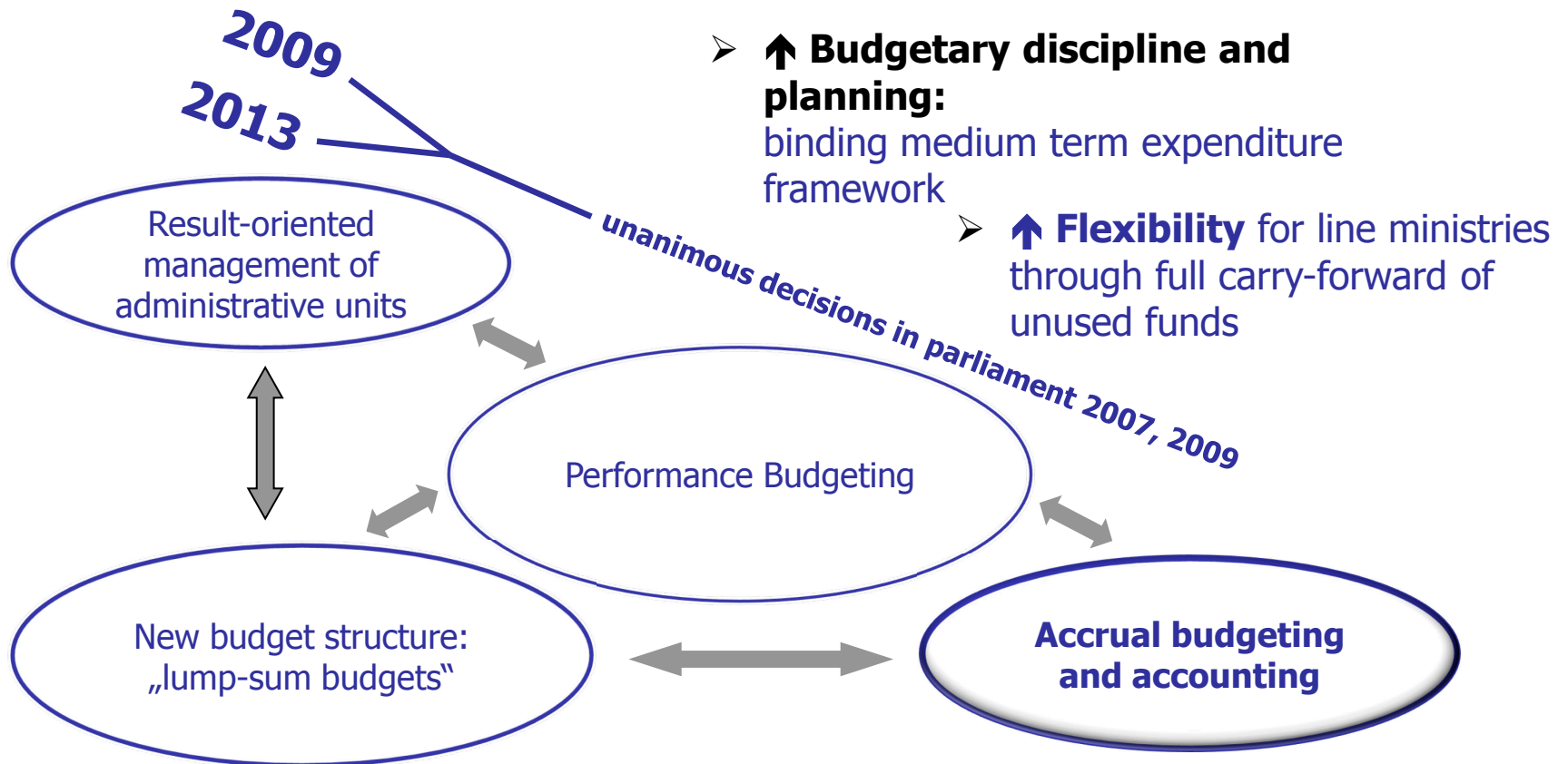
Facts & figures

- 8,5 million inhabitants
- 83.879 km²
- GDP 323 bn € = 38.000 € per capita
- GDP per capita: No. 2 of EU 28 (129 % of EU 28-average)

Federation: 3 levels of government

- Federal government
- 9 state governments (Länder)
- > 2.000 local gov. = municipalities
- Additional: social security authorities

Austrian Federal Budget Reform - Overview



new budget principles: outcome-orientation; efficiency; transparency; true and fair view

Austrian Balance Sheet 31.12.2013 : 1.1.2013 (Central Government)

ASSETS	31.12.2013 In Mio EUR	1.1.2013 In Mio EUR	Difference
A Non-current assets	73.667	76.102	-2.435
A.I Intangible assets	452	368	84
A.II Property, plant and equipment	39.469	39.589	-120
A.III Securities and other investments	2.400	3.824	-1.424
A.IV Equity investments	24.544	25.189	-645
A.V Long-term receivables	6.802	7.132	-330
B Current assets	16.521	13.407	3.114
B.I Short-term financial assets	0	0	0
B.II Short-term receivables	11.654	8.500	3.154
B.III Inventories	701	699	2
B.IV Cash and cash equivalents	4.166	4.209	-43
Total assets	90.188	89.509	679

NET ASSETS AND LIABILITIES	in EUR	in EUR	in EUR
C Net assets (balancing item)	-140.585	-134.167	-6.418
D Non-current liabilities	188.051	187.220	831
D.I Long-term financial liabilities, net	169.905	169.702	203
D.II Long-term payables	14.666	14.005	661
D.III Long-term provisions	3.480	3.513	-33
E Current liabilities	42.722	36.457	6.265
E.I Short-term financial liabilities, net	24.037	19.849	4.188
E.II Short-term payables	17.995	16.156	1.839
E.III Short-term provisions	690	452	238
Total net assets and liabilities	90.188	89.509	679

List of IPSAS Standards and their application in Austria

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