Meeting of the IMF Government Finance Statistics Advisory Committee
Washington, D.C.

Linking GFS, Budget, and Auditing Data and Information

Prepared by Gerhard Steger

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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
  - flat-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 adaptions 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“)
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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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

- Result-oriented management of administrative units
- New budget structure: "lump-sum budgets"
- Performance Budgeting
- Accrual budgeting and accounting

- **Budgetary discipline and planning:** binding medium term expenditure framework
- Flexibility for line ministries through full carry-forward of unused funds

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

Gerhard Steger  Washington, D.C.,  March 9, 2015
(Central Government)

#### ASSETS

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<tr>
<th></th>
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<td><strong>A Non-current assets</strong></td>
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<tr>
<td>A.I Intangible assets</td>
<td>452</td>
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<td>A.II Property, plant and equipment</td>
<td>39.469</td>
<td>39.589</td>
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<td>A.III Securities and other investments</td>
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<td>A.IV Equity investments</td>
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<td>A.V Long-term receivables</td>
<td>6.802</td>
<td>7.132</td>
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<td><strong>B Current assets</strong></td>
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<td>B.IV Cash and cash equivalents</td>
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<td><strong>Total assets</strong></td>
<td>90.188</td>
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#### NET ASSETS AND LIABILITIES

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<th>in EUR</th>
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<td><strong>C Net assets (balancing item)</strong></td>
<td>-140.585</td>
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<td><strong>D Non-current liabilities</strong></td>
<td>188.051</td>
<td>187.220</td>
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<td>D.I Long-term financial liabilities, net</td>
<td>169.905</td>
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<td>D.II Long-term payables</td>
<td>14.666</td>
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<td>D.III Long-term provisions</td>
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<td><strong>E Current liabilities</strong></td>
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<td>E.III Short-term provisions</td>
<td>690</td>
<td>452</td>
<td>238</td>
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List of IPSAS Standards and their application in Austria

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<th>Name</th>
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<td>Presentation of Financial Statements</td>
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<td>Cash Flow - Statements</td>
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<td>Accounting Policies, Changes in Accounting Estimates and Errors</td>
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<td>IPSAS 4</td>
<td>The Effects of Changes in Foreign Exchange Rates</td>
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<td>IPSAS 6</td>
<td>Consolidated Financial Statements and Accounting for Controlled Entities</td>
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<td>Accounting for Investments in Associates</td>
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<td>IPSAS 10</td>
<td>Financial Reporting in Hyperinflationary Economies</td>
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<td>Construction Contracts</td>
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<td>Investment Property</td>
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<td>Property, Plant and Equipment</td>
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<td>Segment Reporting</td>
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<td>Provisions, Contingent Liabilities, Contingent Assets</td>
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<td>Related Party Disclosures</td>
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<td>Impairment of Non-cash-generating Assets</td>
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<td>Disclosure of Financial Information About the General Government Sector</td>
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<td>Impairment of Cash-Generating Assets</td>
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<td>Financial Instruments: Recognition and Measurement</td>
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<td>Intangible Assets</td>
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<td>IPSAS 32</td>
<td>Service Concession Arrangements: Grantor</td>
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