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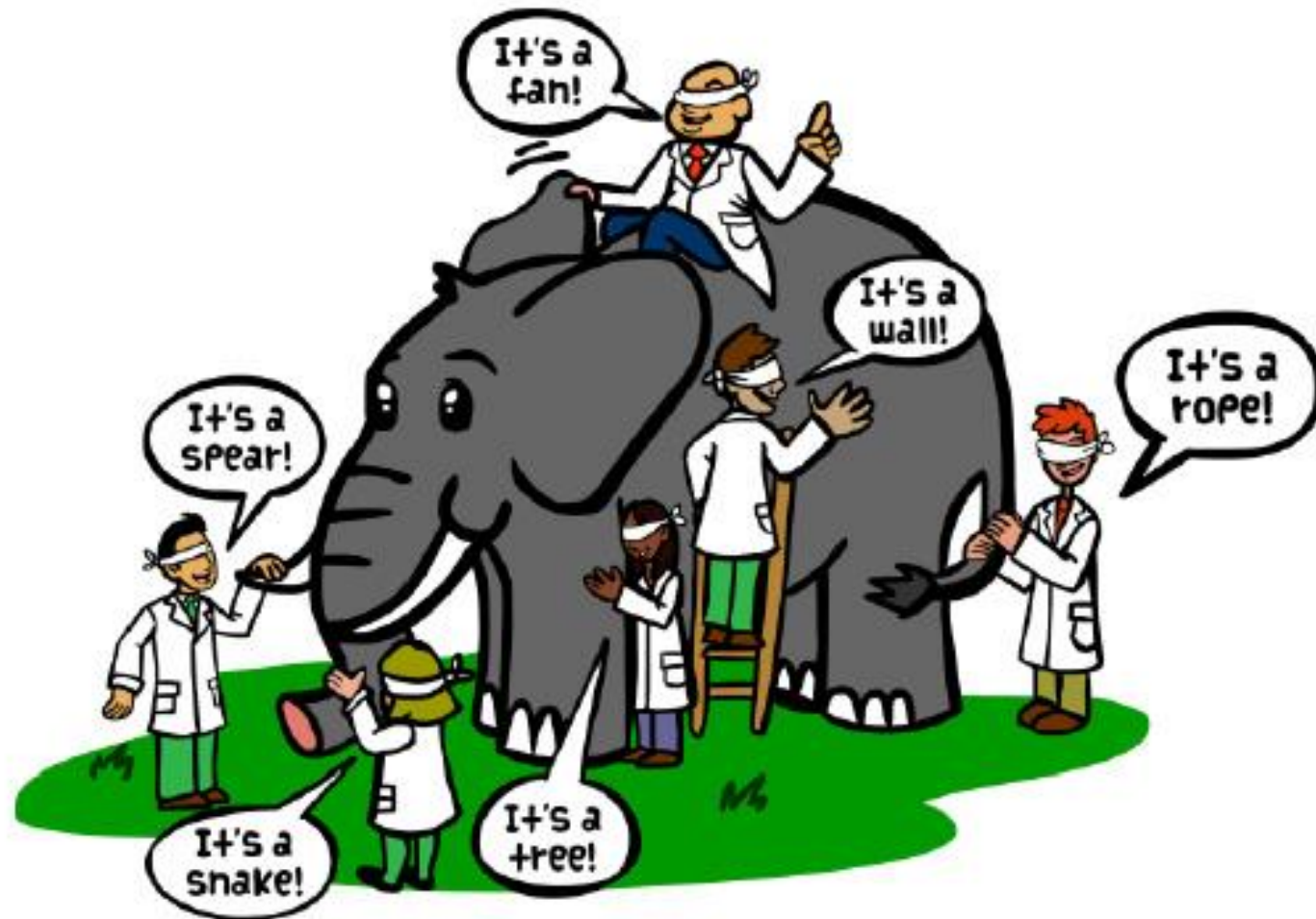
# Implementation of Accrual Accounting and Budgeting

Experiences from Austria

# Agenda

- Why accruals?
- Conceptual Guidelines for accrual accounting implementation
- Preconditions and strategic approach
- Project management
- Education and Training
- Challenges faced
- Lessons learnt

# Why accruals



credits: tim irwin; the fiscal elephant

# The Austrian Elephant

- Last Budget Surplus: 1962
- Popular Budget consolidation strategy:
  - Raise taxes
  - Sell assets
  - Cut current spending without reducing tasks (leave the structural problem for the next government)
- „What gets measured gets managed.“

# Benefits of accrual accounting and budgeting

- **Better decision making:**
  - Investments/Depreciation
  - Cash/Attention management (provisions, write offs)
- **Avoidance of fiscal illusions**
  - Buy now, pay later
  - Sell of assets (cash inflow only)
  - Awareness on fiscal burdens of the future

# Conceptual Guidelines and strategic approach

## **Guidelines:**

- IPSAS 33 First Time Adoption
- IPSAS Study 14 Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities (2011)
- Time to look again at accrual budgeting (No.: 11, Volume: 14, Issue: 3 Ken Warren)
- IMF Paper „Transition to Accrual Accounting“ (Khan, Mayes 2009)
- IMF Paper „Implementation of Accrual Accounting in the Public Sector“ (Cavanagh, Flynn, Moretti 2016)

## **Strategic Approaches:**

- Big Bang vs. Gradual implementation (Institutions and Coverage)

# Austrian Benchmarks and Strategic Approach

- Long and intense study of international examples (New Zealand, Australia, Sweden, Switzerland)
- Decision required, make due date!
- Strategic Approach:
  - Institutions Big Bang, Coverage Gradual
  - Which Standards (IPSAS, IFRS, Local Accounting Rules)
- Don't be afraid of accrual accounting its already here (ESA accounts are accrual accounts)
- **Accrual Accounting and Budgeting is a tool so think about what you want to fix first!**

# Austrian strategic approach in reform development and implementation

- Intensive study of other countries' reform experience: Learning about do's and don't's, intercultural aspect to be considered
- Making the reform process irreversible: Key elements in constitutional amendments, detailed legislation at a later stage
- Reform design and implementation through own staff: Keeping external consultancies to a minimum, building and strengthening internal know-how
- Pragmatic reform design: Reducing complexity, less is more, no 100% perfectionist approach
- Ensuring a pilot phase for sufficient testing
- Take all stakeholders on board



# Phases of Transition

Orientation	Diagnostic	Design	Implement	Sustain
Validate targets	Do gap analysis on accounting	Set up roadmap	Implement IT system	Evaluate system and adopt if necessary
Identify issues	Evaluate impact on work processes	Draft laws and regulations	Register and measure assets and liabilities	Reward and encourage people
Identify key stakeholders	Prioritize observations and next steps	Design new processes	Perform trainings	
Do planning (responsibilities and timetables)		Capacity building strategy (IT and HR)		

# Orientation: Preconditions

- Data availability & Data quality
  - Registers/Inventories: Assets (Land, Buildings), Companies
  - Consistent, Complete, Computable
  - IT systems in place
- Organizational Preconditions
  - Recognition and Measurement Methodology
  - Training programs, skilled staff

**= Determine Implementation (Transition) Period and OBS quality**

# Project management

- Central, small, fulltime project team
  - AT: 3-5 FTEs, directly responsible to budget director
  - Key account to all line ministries and implementation stakeholders (CoA, Parliament, political level)
- Tasks of the OBS unit
  - Quality Management (Data and Methodology)
  - Guidelines and Practical Information
- Ground work and grinding
  - Employees in line ministries/agencies, budget units

# Challenges: Education and Training

- a whole new system (not just IT but workflows as well)
- only a small team involved in designing the training contents
- a large number of employees in all ministries to be trained
- to find appropriate trainers who identify themselves with the reform (train the trainers)
- a tight timetable

# General training objectives

- to train our own people in the budget directorate (the project owner should be the strongest advocate)
- to train all the people in the line ministries who will be needed for implementing the reform, as detailed as necessary according to their position in the administration
- availability of information on the new budget system to all interested employees in the administration
- to establish point of contacts in the line ministries for an ongoing information process

# Austrian training activities

- Double-entry booking and accrual budgeting and accounting systems (asset management, treasury, transaction management, etc.)
- Different types of seminars in different intensity on the new regulations
- E-learning programme comprehending the basics of the reform
- Special seminars on performance budgeting and gender budgeting
- Seminars on the technical implementation

# Challenges: 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, write offs)
  - 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

# 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



# Challenges: Opening Balance Sheet

- **Recognition and Valuation of:**
  - >9.3 bn sqm Land (in Austria and abroad)
  - Mainly forests and rocks/waste land, gardens
  - Roads, railways, port facilities
  - > 6.400 buildings (solid constructions, garages, warehouses, sheds, stables, etc.)
  - Cultural heritage assets (historical buildings)
  - Provisions (Guarantees, Law Cases, etc.)
- **Time and Resource constraints**
- **Consolidation and Pension Obligations**
  - Left for the next step

# Consolidation

- More than 180 entities controlled by federal government
- Some use IFRS, many use National Commercial Code, some use different accounting systems
- Limited implementation period and time – therefore at equity valuation (shows net effect of development of outsourced entities)

# Pension Obligations

- No recognition in balance sheet due to limited time frame and resources at hand
- 22 Pension Agencies, several legislations, 7 different types of contributions
- Annex: 30 year forecast of Pension obligations

# Valuation of Land

- Asset value **29.167.464.278,78 Euro**
- Full documentation of all Land in register
- Valuation according to historic cost, expert opinion or

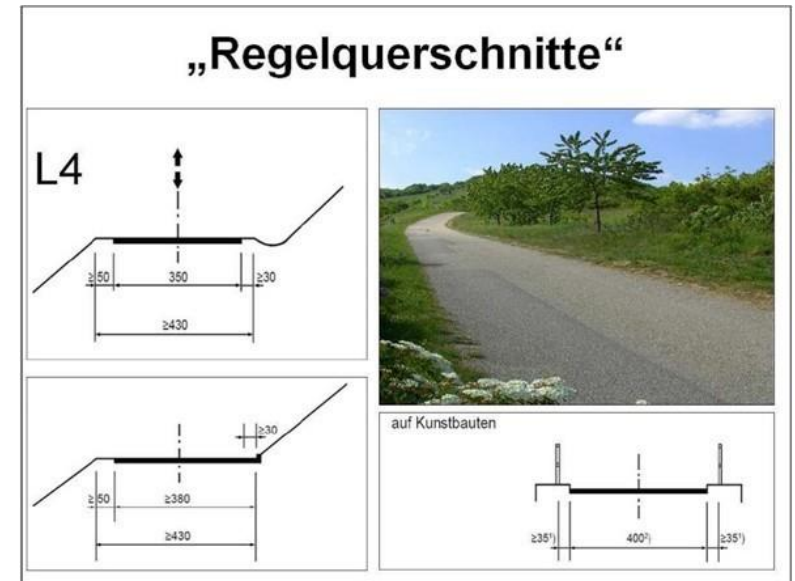


## **Simplified method ("Land raster method")**

- Basis: land register
- Categorisation derived from land register (forest, agricultural use, building area)
- Price of square meter out of tax agency data of land sale
- Average worth of square meter per category last 5 years
- Deductions for limited use (e.g. bodies of water, alpine land, military land)

# Valuation of Roads

- Asset value: **984.443.454,23 Euro**
- Roads, railways, airports and port facilities are the main land improvements.
- These were measured at depreciated cost, or based on specified reference values or average values.
- Linear depreciation is used based on the usable lives specified in a decree by the Austrian Federal Ministry of Finance:
  - Paved: useful life 33 years
  - Unpaved: useful life 10 years



Measurement: Values were calculated as average prices based on a variety of relevant sources.

Classification on condition as good (A), medium (B) or poor (C).

# Valuation of (heritage) buildings

- Asset value **3.250.568.311,67 Euro**
  - Huge piece of information on management of this issues would be missing
- Historic cost and production cost
- If not available – 3 options for OBS
  - Overall refurbishment costs (40 years = life cycle)
  - Average construction costs of comparable buildings
  - Expert opinion if available
- Straight-line depreciation
- **Measurement of Heritage buildings:** no historic cost available, value can not be determined on market price due to the lack of an active market, special measurement method: average costs of comparable buildings, categorization of use as well as condition of building (good, medium, poor) – resulting net book values were calculated based on remaining useful lives.

# Heritage Buildings

- Reported as heritage assets



Burgtheater  
98,10 Mio. EUR



Schönbrunn Palace  
285,7 Mio. EUR



Historical Parliament Building -  
ramp area  
33,89 Mio. EUR



Vienna State Opera  
102,8 Mio. EUR

# Provisions

- Value: **3.895.326.877,75 Euro**
- When event triggering the obligation occurs or will occur **with overwhelming probability (> than 50%)**.
- Categorization according to IPSAS (current – non current)
- Areas: severance payments, anniversary payments, contingent liabilities, accumulated vacation pay, cost of pending legal cases
- Involvement of legal departments highly necessary (new workflow elements);  
AT = attorney general for the public sector reviews annually all open cases and values their probability and provision amount



# Lessons learnt

## Don't's:

- Do not limit the scope to a pure accounting reform
- Do not assume it a desktop/legislative exercise
- Don't aspire all steps in one (e.g. 100% IPSAS convergence)
- Do not be over ambitious in timing
- Do not assume all documentations in place, take time for stock taking
- Do not underestimate communication (especially politicians, parliament and media)

# Lessons learnt

## Do's:

- Develop precise and undisputed methods for recognition and valuation
- Take stakeholders on board (CoA, parliament, Line Ministries, political level)
- Use thresholds and simplified methods (Materiality!)
- Clear timetable (no evergreen activity)
- Create Ownership (use the system for decision making)

# Thank you for your Attention!

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More information on the Austrian Opening Balance sheet:

[https://english.bmf.gv.at/budget-economic-policy/BMF\\_Annual\\_Report\\_E.pdf?5s3rll](https://english.bmf.gv.at/budget-economic-policy/BMF_Annual_Report_E.pdf?5s3rll)