Implementation of Accrual Accounting and Budgeting
Experiences from Austria

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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 dont’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

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

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

- Schönbrunn Palace: 285.7 Mio. EUR
- Vienna State Opera: 102.8 Mio. EUR
- Historical Parliament Building - ramp area: 33.89 Mio. EUR
- Burgtheater: 98.10 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: