Moving to International Accounting Standards: Why? Experiences?
The Austrian Case

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BENEFITS of International Accounting for GREECE

Building trust and confidence starts with good government accounting

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Four Key Metrics to Improve Decision-Making and Assess Performance

1ST **Change in Net Debt**

2ND Change in Net Worth

3. Operating Balance

4. Cash Flow

General Context of the Austrian Reform

- Austria (central government) introduced accrual accounting and budgeting as of 2013; sub-national governments start to join the reform.

- Based on new budget principles in constitution: True and fair view, transparency, impact-orientation, efficiency.

- Purpose: Fiscal transparency, risk-awareness, better steering of public finances.

- Broad political support: Unanimous decisions in Parliament (2007, 2009).

- Additional reforms: new budget structure; medium-term expenditure framework; performance budgeting.

BENEFITS: **B**etter Information

- Accounting standards crucial for fiscal transparency, accountability and comparability; fosters trust!

- International Public Sector Accounting Standards (IPSAS) offer such norms for public sector.

- Austria applies IPSAS in large part.

- European Sector Accounting Standards (EPSAS) reflect need for accounting standards; IPSAS considered strongly.

BENEFITS: **N**et Debt Reduction

- To quantify net debt: Assets and liabilities need to be valued.
- Cash can't provide that, accruals can (balance sheet).
- <u>Change of net debt (reduction!) more important than nominal value of net debt</u>.
- Austrian central government: 134 bn € negative equity (opening balance sheet 1.1. 2013).
- IPSAS offers standards to compile a balance sheet.
- Is a country poorer or richer than a year ago? Cash does not provide an answer, accruals do.

Austrian Opening Balance Sheet 1.1.2013

ASSETS	in EUR
A Non-current assets	**76,102,292,902.39**
A.I Intangible assets	368,174,458.38
A.II Property, plant and equipment	39,588,678,261.93
A.III Securities and other investments	3,824,000,000.00
A.IV Equity investments	25,189,128,452.17
A.V Long-term receivables	7,132,311,729.91
B Current assets	**13,406,897,790.94**
B.I Short-term financial assets	0.00
B.II Short-term receivables	8,499,492,321.12
B.III Inventories	698,836,278.74
B.IV Cash and cash equivalents	4,208,569,191.08
Total assets	**89,509,190,693.33**

NET ASSETS AND LIABILITIES	in EUR
C Net assets (balancing item)	**-133,873,299,331.09**
D Non-current liabilities	**187,219,596,890.75**
D.I Long-term financial liabilities, net	169,702,071,074.72
D.II Long-term payables	14,004,805,522.87
D.III Long-term provisions	3,512,720,293.16
E Current liabilities	**36,162,893,133.67**
E.I Short-term financial liabilities, net	19,848,526,578.95
E.II Short-term payables	15,931,759,970.13
E.III Short-term provisions	382,606,584.59
Total net assets and liabilities	**89,509,190,693.33**

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BENEFITS: **E**ducation

- Accruals upgrade level of information related to public finances.

- Thus, accruals contribute to financial education of relevant stakeholders.

- Particularly: Accruals reduce scope for fiscal illusions.

- See examples on next slides:

BENEFITS: Practical Examples 1

- 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.

- Draw appropriate conclusions from deficiencies of traditional accounting: The case of Salzburg.

BENEFITS: Practical Examples 2

- Provisions for contingent liabilities: Probability of event triggering the obligation >50%.
- Austrian opening balance sheet: Provisions 3,9 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: 342,1 bn € as of 1.1. 2013).
- Doubtful receivables: Not shown in a cash perspective – ignores financial risk. Accruals reflect risk: Write down. Austrian budget (operating statement): 1,2 bn € per year.
- Benefit: Accruals disclose financial risks which are not identified in cash flow statement. Helps decision-makers to counteract in time.

BENEFITS: **E**conomic Efficiency

- 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

- Sale of assets: Cash shows revenue but not loss of assets – creates fiscal illusion.

- Accruals disclose loss of assets.

- Benefit: Fiscal illusions are avoided.

Merits of Accrual Budgeting

- Enhances transparency of public finances.
- Reduces scope for fiscal illusions: Makes it harder to ignore future risks and budget challenges.
- Helps to steer public finances according to fiscal reality.
- Thus, accruals can foster accountability of decision makers.
- Accruals have the potential to significantly improve the management of public finances.

Implemented Accruals: First Experiences

- Much clearer picture of public finances, e.g. risks.
- Picture is not beautiful, but important to know in order to foster fiscal sustainability.
- Acceptance is still an important issue (perceived administrative overload).
- Stakeholders start to recognize merits of accruals (for instance: financial risks).
- Move to accruals is much more than merely a change of legal acts. It's about change of perspective and culture.
- Leadership and communication remain crucial even after implementation.

Conclusion 1: Substance

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

Pure cash can 't provide that.

Accruals can.

Conclusion 2: Process

Identify good reasons for different stakeholders to actively support accruals.

Don't wait for others to engage.

Start yourself.