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# **Accruals and Performance: Two Key Tools to Steer Public Finances – Austrian Experience since 2013**

Gerhard Steger, SAI Austria

25 January 2016

# Accrual Accounting and Budgeting in Austria - Overview



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- **Central government: as of 2013; sub national governments: as of 2019/2020; objective: ONE accounting and budgeting system based on accruals for all levels of government**
- **Cash flow statement: Provides perspective on liquidity**
- **Operating statement: Provides perspective on use of resources**
- **Cash flow statement and operating statement are part of the annual budget bill**
- **Balance sheet: Compares assets and liabilities; part of annual financial statement**
- **International Public Sector Accounting Standards (IPSAS) applied as appropriate**
- **External costs of reform for central government: ~ 30 million €**

# Benefit of Accruals: Disclosure of Risks



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- **Provisions for contingent liabilities:  
Probability >50 %**
- **Adjustments of value and write offs**
- **Order now, pay later**
- **Net assets: substantially negative**
- **These risks are NOT DISCLOSED in a „cash only“  
accounting and budgeting system**
- **See detailed figures in annex**

**Sustainability of public finances requires clarity about financial consequences of decisions.**

**Pure cash can't provide that.**

**Accruals can.**

# Performance Budgeting – Why?



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- **Traditional budgeting is a decision on: Who gets how much?**
- **No decision on intended results in context of budget approval**
- **Traditional budget decision lacks decision on: Who has to deliver which results?**
- **Performance budgeting links**
  - decisions on allocation of resources
  - decisions on intended results for citizens
- **Performance budgeting aims at steering resources and results consistently and**
- **Provides transparency to citizens: Value for tax-payers money**

# Tools of Performance Budgeting in Austria



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- **Medium-term perspective (strategy report related to 4 years expenditure framework) includes intended impact of each budget chapter**
- **Intended outcomes and outputs are integral part of annual budget decisions**
- **Standardized impact assessment for draft legal acts and major spending programs (ex ante)**
- **Evaluation of legal acts and major spending programs (ex post)**

# Austrian Performance Budgeting Pyramid

## Budget Chapter ~ Ministry



# Practical Example: Labour Market (Summary)

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## **Outcome: Improving ability to work for elderly persons (50+)**

- **Why? Know how; contributes to growth and productivity; securing affordability of social system**
- **How? Fostering re-integration into the labour market; support programs**
- **Success? Employment rate for elderly persons; number of persons supported by allowances;**



# Performance budgeting: Conclusion



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**Performance budgeting can trigger a focus on results and substantially improve value for money if:**

- **Design is robust and limits complexity**
- **Reform is well prepared (technically and concerning awareness)**
- **Involved stakeholders make sufficient use of it**
- **Watchdogs assure relevance and quality**
- **Decision makers are committed to back performance budgeting**
- **Stakeholders are aware: Cultural change takes time and is never finished**

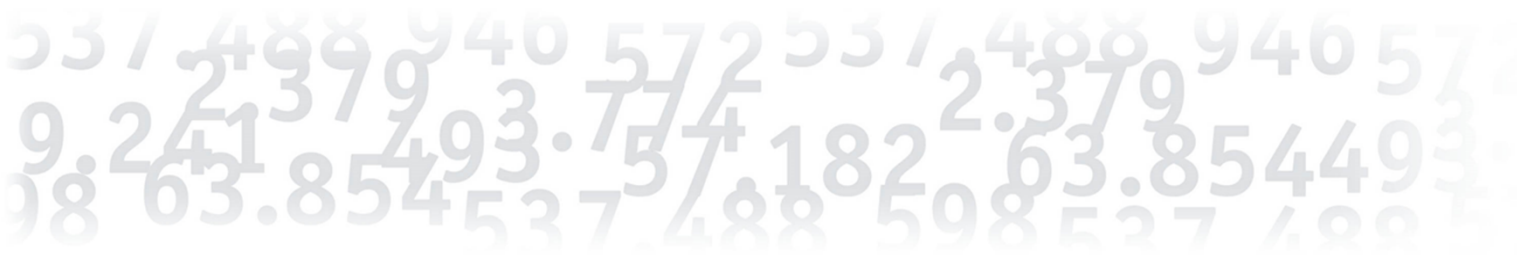
# Accruals and Performance: Role of Austrian SAI



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- **Strong supporter of reform**
- **Task enrichment for SAI**
- **„Watchdog“-role for SAI**
  - **SAI audits financial statement**
  - **SAI audits application of performance budgeting**



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**Thank you for  
your attention!**

Gerhard Steger  
Austrian Court of Audit  
Tel: +43 1 711 71-8625  
[steger@rechnungshof.gv.at](mailto:steger@rechnungshof.gv.at)  
[www.rechnungshof.gv.at](http://www.rechnungshof.gv.at)

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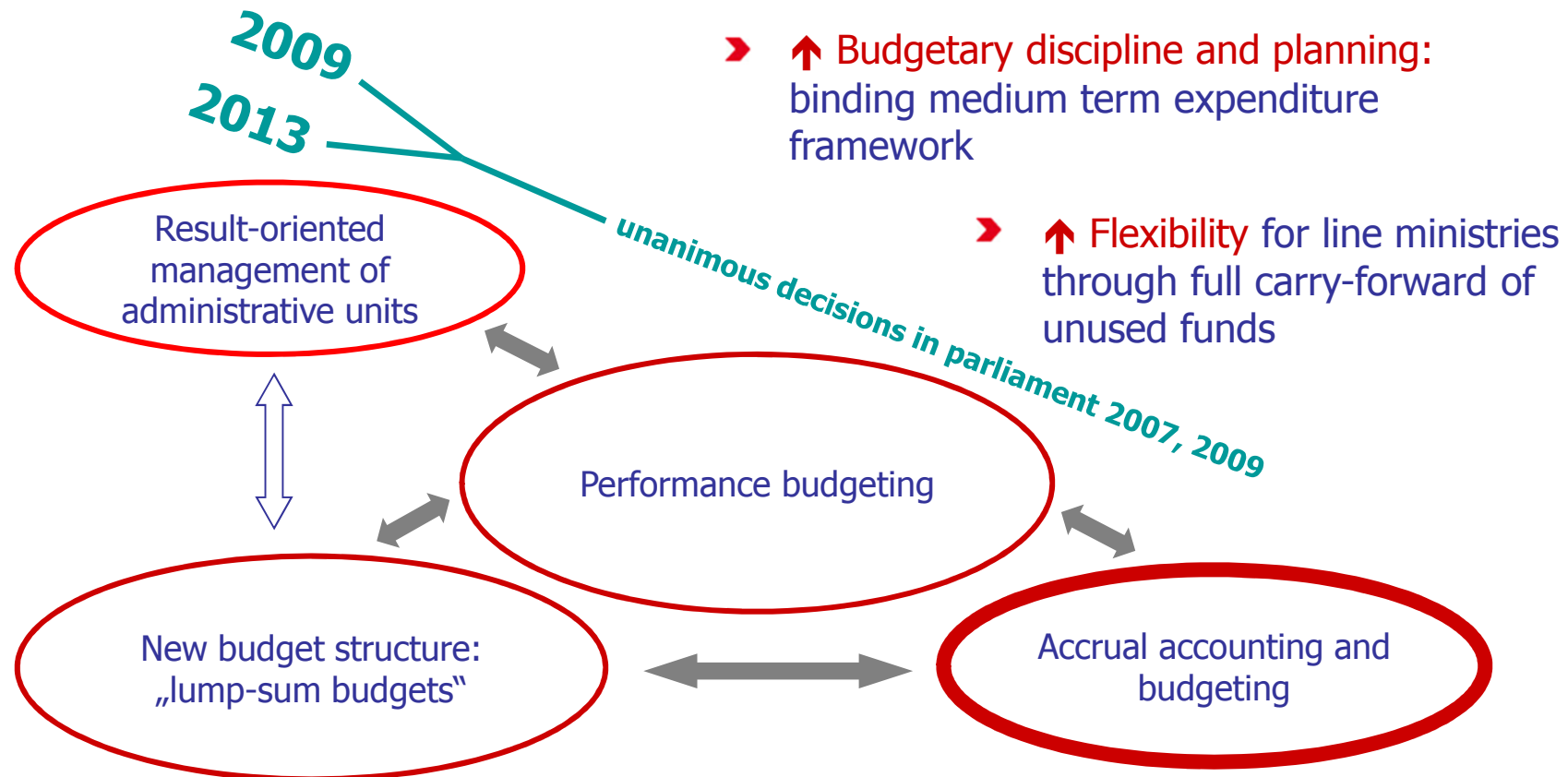


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# ANNEX

# Austrian Budget Reform



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

# Role of Austrian SAI in Budget Reform



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- **Strong supporter of reform:**
  - **accruals provide true and fair view**
  - **performance budgeting enhances accountability for results**
- **Task enrichment for SAI**
- **Implementing the reform: close cooperation with MoF while strictly observing the independence of SAI**
- **„Watchdog“-role for SAI**
  - **correct application of accruals**
  - **consistent execution of performance budgeting**

# Benefit of Accruals: Disclosure of Risks 1



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- **Provisions for contingent liabilities: Probability > 50 %**
- **Financial statement 2014 (central government):**
  - **provisions for guarantees: ~2,8 bn €**
  - **provisions for cost of pending litigation: ~0,6 bn €**
  - **provisions for diverse entitlements for the benefit of staff (severance; jubilee; unused holiday): ~2 bn €**
  - **annex: pension liabilities: ~307,5 bn €**
- **These risks are NOT disclosed in a „cash only“ accounting and budgeting system.**

## Benefit of Accruals: Disclosure of Risks 2



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- **Adjustments of value and write offs**
  
- **Financial statement 2014 (central government):**
  - write offs of shares: ~ 1,25 bn €
  - write offs of receivables: ~ 1,2 bn €
  - adjustments of value of tax receivables: ~ 4,45 bn €
  
- **These risks are NOT disclosed in a „cash only“ accounting and budgeting system.**



## Benefit of Accruals: Disclosure of Risks 3



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- **Order now, pay later**
  - **Financial statement 2014: railway infrastructure**
  - **cash flow statement: ~ 2,2 bn €**
  - **operating statement: ~ 3,6 bn €**
  - **~ 1,4 bn € not covered by cash flow statement**
  
- **Deficit of central government 2014: cash flow does not reflect the entire financial truth**
  - **~ 3,2 bn € according to cash flow statement**
  - **~ 9,1 bn € according to operating statement**

# Benefit of Accruals: Fiscal Illusions averted



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- **Selling of assets: „Cash only“ shows revenue, not reduced assets  
→ fiscal illusion**
- **Purchasing of assets: „Cash only“ depicts purchasing price, not new assets**
- **Is a country richer or poorer compared to last year(s)? „Cash only“ cannot answer this crucial question, accruals can.**
- **Depreciation of public investments: allocates use of resources according to useful life (operating statement), while cash flow statement allocates entire investment to year of pay**

# Austrian Balance Sheet 31.12.2014 : 1.1.2013 (Central Government)



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ASSETS	31.12.2014 in Mio EUR	31.12.2013 in Mio EUR	1.1.2013 in Mio EUR	Difference 1.1.2013 - 31.12.2014
<b>A Non-current assets</b>	<b>72.071</b>	<b>73.667</b>	<b>76.102</b>	<b>-4.031</b>
A.I Intangible assets	455	452	368	87
A.II Property, plant and equipment	39.298	39.469	39.589	-291
A.III Securities and other investments	300	2.400	3.824	-3.524
A.IV Equity investments	25.436	24.544	25.189	247
A.V Long-term receivables	6.582	6.802	7.132	-550
<b>B Current assets</b>	<b>15.344</b>	<b>16.515</b>	<b>13.407</b>	<b>1.937</b>
B.I Short-term financial assets	0	0	0	0
B.II Short-term receivables	11.578	11.654	8.500	3.078
B.III Inventories	418	701	699	-281
B.IV Cash and cash equivalents	3.348	4.160	4.209	-861
<b>Total assets</b>	<b>87.415</b>	<b>90.182</b>	<b>89.509</b>	<b>-2.094</b>
<b>NET ASSETS AND LIABILITIES</b>				
<b>C Net assets (balancing item)</b>	<b>-148.327</b>	<b>-140.591</b>	<b>-134.167</b>	<b>14.160</b>
<b>D Non-current liabilities</b>	<b>198.770</b>	<b>188.051</b>	<b>187.220</b>	<b>11.550</b>
D.I Long-term financial liabilities, net	177.604	169.905	169.702	7.902
D.II Long-term payables	16.215	14.666	14.005	2.210
D.III Long-term provisions	4.950	3.480	3.513	1.437
<b>E Current liabilities</b>	<b>36.972</b>	<b>42.722</b>	<b>36.457</b>	<b>515</b>
E.I Short-term financial liabilities, net	18.607	24.037	19.849	-1.242
E.II Short-term payables	17.318	17.995	16.156	1.162
E.III Short-term provisions	1.048	690	452	596
<b>Total net assets and liabilities</b>	<b>87.415</b>	<b>90.182</b>	<b>89.509</b>	<b>-2.094</b>



**Austrian SAI disclosed some shortcomings in technical application of accruals → quick adjustment necessary Examples:**

- **IT-interfaces and different IT-applications resulted in some accounting errors**
- **accounting errors concerning leases**
- **need for enhancement of valuations (land owned by central government; present value concerning long-term receivables)**
- **inventories not always reviewed annually**
- **deficiencies in recognizing provisions (pending litigation)**

# Performance Budgeting in Austria – Institutional Roles



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- **Ministries: Propose outcomes, outputs, indicators to Parliament for decision; relation to chancellery: comply or explain; practice impact assessment and evaluation**
- **Chancellery: Supports and monitors ministries; not authorized to issue directives to ministries; reports to Parliament on results of monitoring**
- **Parliament: Takes decisions; may amend performance proposals of ministries**
- **SAI: Audits application of performance budgeting principles: relevance, consistency, understandability, confirmability, comparability, verifiability**



- **Key tool of performance budgeting**
- **Applies for legal acts and major spending programs**
- **Several dimensions (see next page)**
- **Forces administration to ex-ante clearly asses**
  - **financial consequences of the respective issue?**
  - **consequences for the diverse dimensions?**
- **Supported by a standardized IT-tool**

# Dimensions of Impact Assessment



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## Impact on

- **budget**
- **economy**
- **environment**
- **social issues**
- **gender**
- **consumers**
- **children and youth**
- **administrative costs for citizens and enterprises**



## ➤ Evaluation

- legal acts and major spending programs
- in charge: respective line ministry
- time interval: 5 years

## ➤ Impact controlling

- intended outcomes and outputs defined in the budget  
+ results of evaluations in line ministries
- in charge: chancellery in cooperation with line ministries
- twice a year: report to parliament