

International Governmental Accounting

- A Comparative Analysis -

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Agenda

- European Diversity in Accounting and Budgeting
- Issues
 - Accountability vs. Efficiency and Effectiveness
 - Cost Accounting in the Public Sector
 - Should Governmental Accrual Accounting Imitate Business Accounting?
 - Performance Budgeting
- Reform Approaches
 - The French Approach
 - The German Approach
- Concluding Remarks

Traditions

Traditional governmental budgeting and accounting in all European countries is characterised by

- Law-based governmental accounting and budgeting
- Input-orientation of budgets
- Detailed line-item budgets
- The single budget principle (principle of budget unity)
- Cash and commitment based budgetary accounts
- More or less complete accounts of assets and liabilities

In spite of these common features of budgets and accounts, they nevertheless differ in technical details such as the chart of accounts, the method of bookkeeping, the definition of surplus/deficit and the manner of financial reporting

Features of Government Structure

	Centralised Admin. at Nat. Level	Decentralised Admin. at Nat. Level
Unitary	F, FIN, I	NL, S
Unitary/Federal	E	
Federal	CH, D	

Responsibilities for the Legal Framework of Budgeting and Accounting

National MoF for all levels of Gvt.	E, F, FIN, S
Nat. MoF for National Gvt./National Mol for Local Gvts.	NL, I
Nat. MoF for National Gvt./State MoFs for State and Local Gvts.	CH
Nat. MoF for National Gvt./State MoFs for State Gvts./State Mols for Local Gvts.	D

Accrual Systems in Place

Accrual →	Budgeting	Accounting	FR (CG)	FR (WoG)	FR (PS)
CH	2006	2006		2007	_____
E	_____	1986/95 2011	1986/95 2011		_____
F	_____	2010	1999/2006		_____
FIN	_____	1998	1998		_____
S	_____	1994		1984/1994	
UK	2001/02 2009/10	2001/02 2009/10		2004/05 2009/10	2010/11 ?
EC	_____	2005		2005	N. A.

Findings I

- There is a trend in European central governments to implement **some kind of accrual accounting** (and performance budgeting). These reforms include cost accounting
- Among European central governments are **early** and **late** as well as **fast and slow reformers**. Start and velocity of reform depend on
 - the number and the power position of external reform drivers, internal reform promoters and stakeholders in the reform process
 - the complexity of institutional arrangements
 - the size of government and
 - the availability of staff and technical resources

Findings I (continued)

- In countries **where the responsibility for government accounting is split** between different ministries of a government or between autonomous government levels or between both, we often observe a **diverging development of accounting systems** for a longer period of time
- The **introduction of accrual systems increased the diversity of accounting** and budgeting among (European) nations and thus hampers the cross-national comparability of accounts and budgets
- **Cost accounting** uses to be an **element of accounting reform**. However, approaches are **similar different** as those of **accrual based financial accounting**

Accountability vs. Efficiency and Effectiveness

Governmental accounting reforms in Europe are mainly driven by the need for improving efficiency and effectiveness. Improving a government's accountability to the general public played a minor role.

This means among other things:

- Managerial accounting reform is more relevant than (accrual) financial accounting reform
- Departmental and agency accrual accounting reform is more relevant than governmental accrual accounting reform
- Financial reporting reform for the whole of government - particularly publishing consolidated financial statements - is of minor relevance

Cost Accounting in the Public Sector I

- Features -

In the public sector, the situation is different from the private sector and more complicated since

- the general accounting may not be accrual-based so that cost accounting is not just a mere extension of financial accounting
- the definition of products (outputs) as costing units is not as straightforward as in the private sector
- cost information may not be required exclusively for managerial purposes but also for budget decision-making and control by parliaments

Cost Accounting in the Public Sector II

- How to Minimize its Particular Problems -

Minimizing the problems of cost accounting in the public sector requires

- a decision on the (main) purpose of cost accounting
- the focus on costs per organisational units (cost centers) if cost accounting is primarily for management purposes
- the focus on relatively broad budget categories such as strategies, missions, programs if cost accounting is primarily for parliamentary purposes and

not least an accrual-based financial accounting with cost accounting as an integral element of the accounting system if both purposes are being pursued.

Cost Accounting in the Public Sector III

- Features of Approaches Dependent on Purpose -

- Cost accounting as an (instrumental) prerequisite for efficiency-oriented administrative behaviour
 - Introduction in agencies and similar sub-entities
 - Cost accounting for managers
 - Preferably introduced in sub-units with business-type activities

- Cost accounting as prerequisite for output- (performance-) oriented budgeting
 - Government-wide introduction
 - Cost accounting for parliament
 - Requires government-wide standardisation

Should Governmental Accrual Accounting Imitate Business Accounting? I

Pros

- Identical purposes of accounting and financial reporting
- Availability of longstanding, practically tested standards and rules mean
 - immediate availability
 - avoidance of considerable development costs
 - high degree of confidence in the results.

Should Governmental Accrual Accounting Imitate Business Accounting? II

Cons

- Different purposes require different standards and rules
- Inconsistencies between purposes, principles and rules in private sector standards
- Private sector standards have at least to be amended by accounting rules for government-type transactions
- The existence of national and international public sector standard setting (advisory) bodies indicates a need for special public sector standards

Performance Budgeting

- The situation in European governments is not much different from the one in other parts of the world
- **Most governments** pretending to practice performance budgeting **maintain input controls** of the budget and just add more or less significant output information
- **Not much happened in regard to performance budgeting** over the last decade: according to OECD reports of 1999 and 2007, 75% and “over two thirds” of the member countries include non-financial information in their budget
- The **well known practical problems of performance budgeting still persist:**
 - Information overload
 - Insufficient link between performance information and financial information
 - Aggregation of outputs and measurement of performance

Findings II

- Cost accounting is an **integral component of an accrual based accounting** system. The appropriate cost concept depends not least on the (perceived) users of cost information: Managers or/and legislators
- Even though **accrual financial accounting** is not a necessary condition for cost accounting it **makes cost accounting technically easier** to implement **and** cost information **more reliable**
- Even though accrual budgeting is not a necessary condition for accrual (financial) accounting, consistency requires them to be on the same basis. Moreover, **there is no relevant and convincing justification for different budgeting and accounting bases.**
- **Performance budgeting** and accounting beyond a collection of non-financial information neither used for decision-making nor for evaluation is the **most difficult component of a reformed** accounting and **budgeting system**. It should be the last and extremely carefully implemented element of the system.

Features of the French Accounting and Budgeting Reform: Components

■ Budgeting

- New budget structure: Missions, programs, actions, outputs
- No. of outputs 2008: > 1200
- Budget consists of the salaries budget and the non-salaries budget
- Authorisations by program with information on actions and type of expenditure
- Additional non-financial indicators

■ Cost Accounting

- Cost targets and actual costs per program
- Costs derived from accrual based financial accounting
- Absorption costing

■ Financial Accounting and Reporting

- Cash based budgetary accounting
- Accrual based financial accounting
- Full set of financial statements: Balance sheet, operating statement, cash flow statement
- Reconciliation of budgetary and financial accounting results

Features of the French Accounting and Budgeting Reform: Implementation Schedule

- 2001: Law of 1 August calling for a budgeting and accounting reform (*Constitutional Bylaw 2001-692*)
- 2001 – 2003: Building the foundations
- 2003 – 2004: Prefiguration
- From 2005: Implementation
- 2006: New budget structure in place
Accrual based financial statements published
Accounting on a preliminary IT basis
- 2010: Integrated IT based accounting system in place ?

The German Federal Government Accounting and Budgeting Reform Project: Components

■ Budgeting

- New budget structure: Departments, chapters, products (outputs)
- Maximum no. of products: approx. 1000
- Budget authorisations by expenditures per product, additional information on costs per product
- Additional binding and non-binding non-financial indicators
- Reconciliation between expenditures and costs

■ Cost accounting

- Basic and extended form of cost accounting
- Basic form mandatory for all government entities
- Extended form voluntary due to the special requirements of an entity
- Absorption costing for basic form
- Separate but interlinked budgetary (expenditure) accounts and cost accounts

■ Financial accounting and reporting

- Statement of assets and liabilities but no bottom-line
- No operating statement
- Data derived from asset and liability accounts, cost accounts as well as from revenue and expenditure accounts

The German Federal Government Accounting and Budgeting Reform: Original Implementation Schedule

- 2006 - 2009: Elaboration of the reform concept
 - 2009: Creation of the legal basis for the new accounting and budgeting system
- 2009 – 2010: Preparation of pilot projects in three ministries
 - 2011 – 2013: Implementation and evaluation of pilot projects
 - 2013: Final parliamentary approval of the project
 - 2013 - 2018: Government-wide implementation in three overlapping stages (2013/2015; 2015/2017; 2016/2018)

French and German Reform Approaches Compared

Communalities	Differences
Output-orientation of budget	Legislative vs. executive initiated
Cash based budget	Budget Structure
Budgetary accounting, cost accounting, financial accounting	Cost accounting approach
	Financial accounting approach
	Bookkeeping technique

Concluding Remarks

- **Performance information** – different from the official rhetoric – has **not yet changed decision-making** behaviour
- The **same applies to cost information** that is not linked to budget decisions
- Even though **accrual accounting** is still gaining ground, the implemented **concepts differ considerably** not least in regard of the “distance” to business accounting
- **Achieving** the degree of **international budgeting and accounting harmonisation** that existed before the public financial management reform movement **seems difficult** given international public sector accounting standardisation did and does not play a significant role in shaping governmental accounting at least in Europe