



Cost Information and Spending Quality of Public Sector Congress

**PERFORMANCE AND COST
REPORTING IN PUBLIC
ADMINISTRATION: NEW TARGETS AND
CHALLENGES FOR A NEW TIME**

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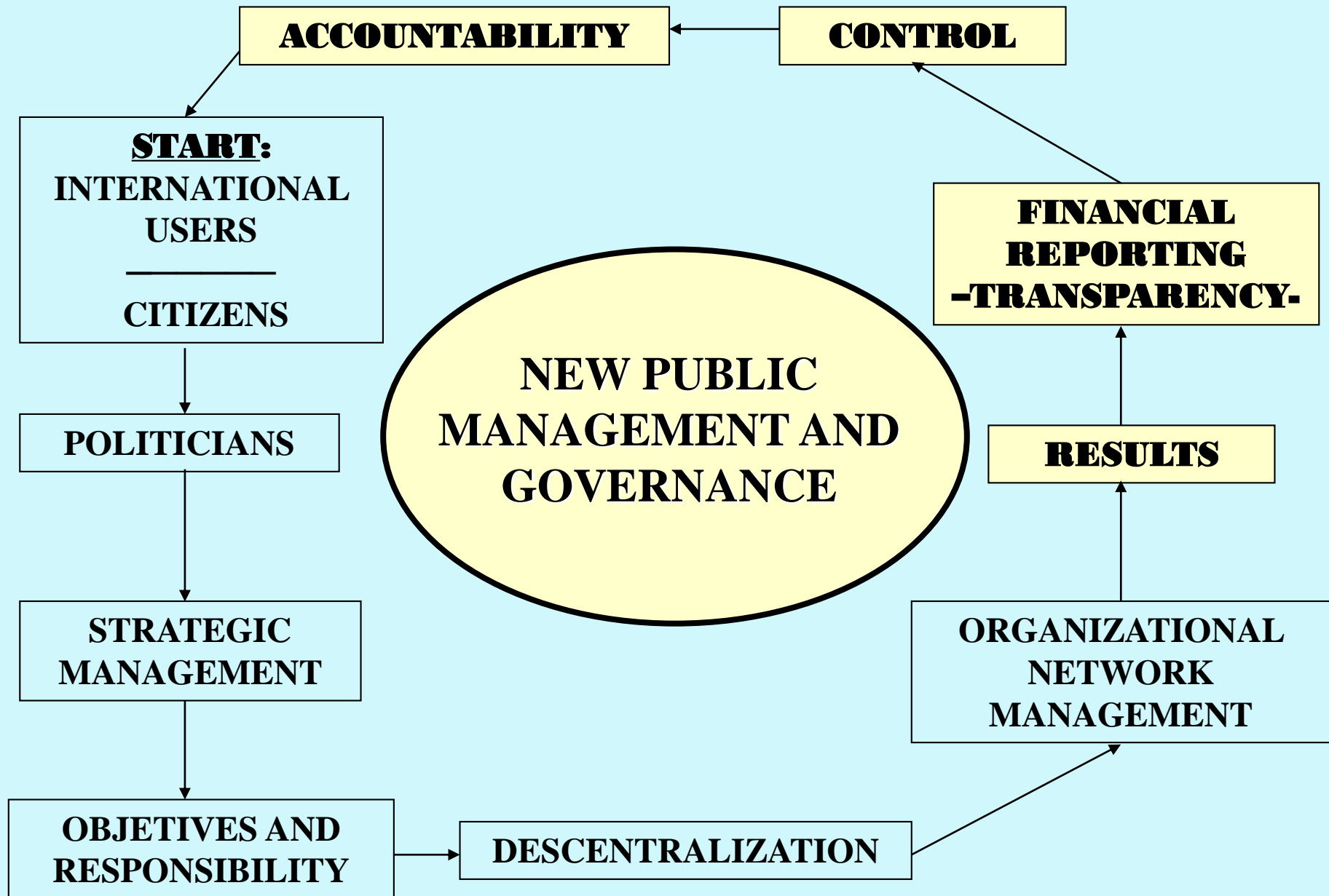
Brasília, August-September 2010

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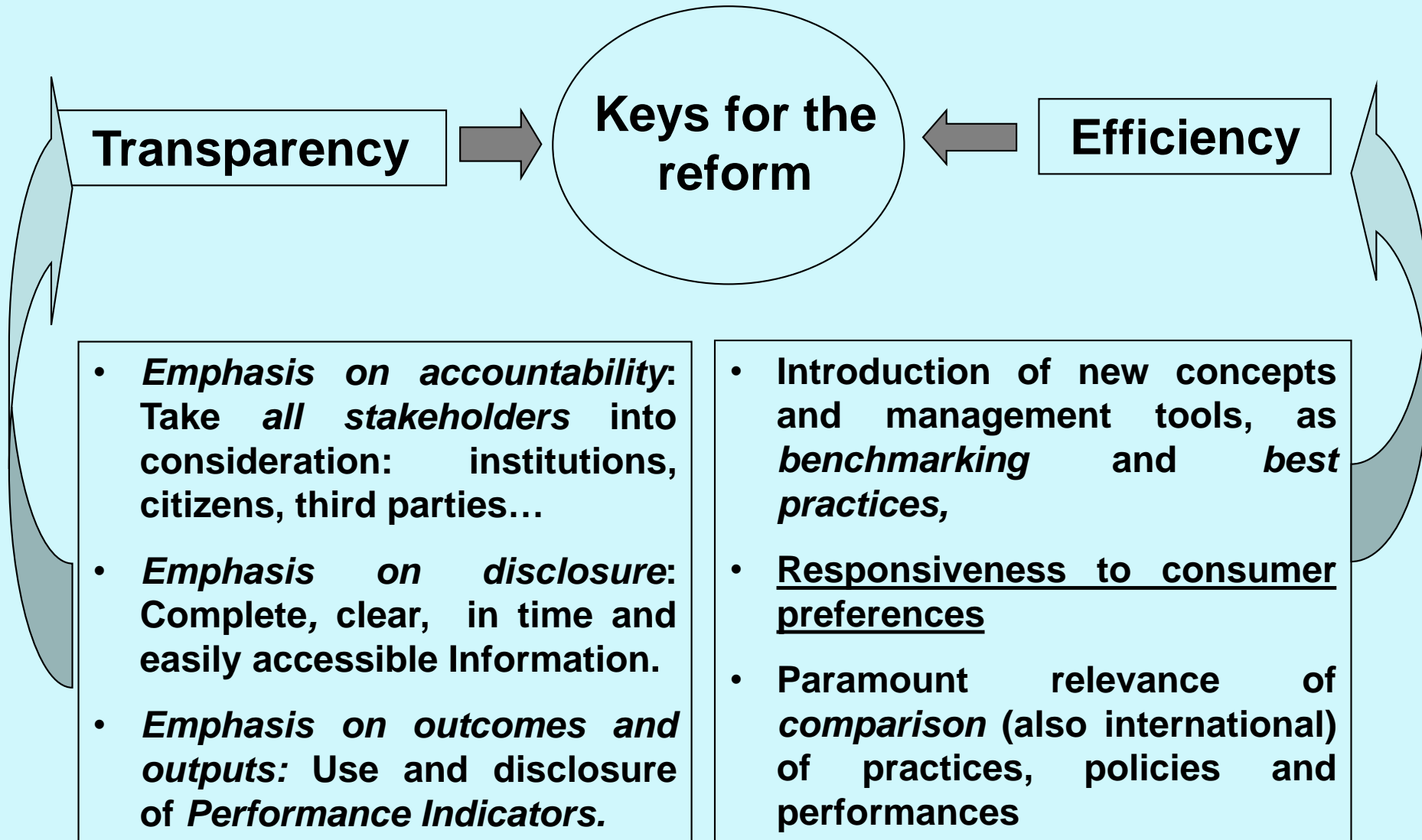
- **The Performance management movement as a driver for public entities reforms**
- **International framework of Governmental Accounting Reforms**
- **Governmental Accounting Reforms and performance reporting: the Spanish experience**
- **Conclusions and lessons to be learned**

**The Performance
management movement as
a driver for public entities
reforms**

Management and governance of public entities



What mechanisms could work for improve non-market entities performance instead of market?

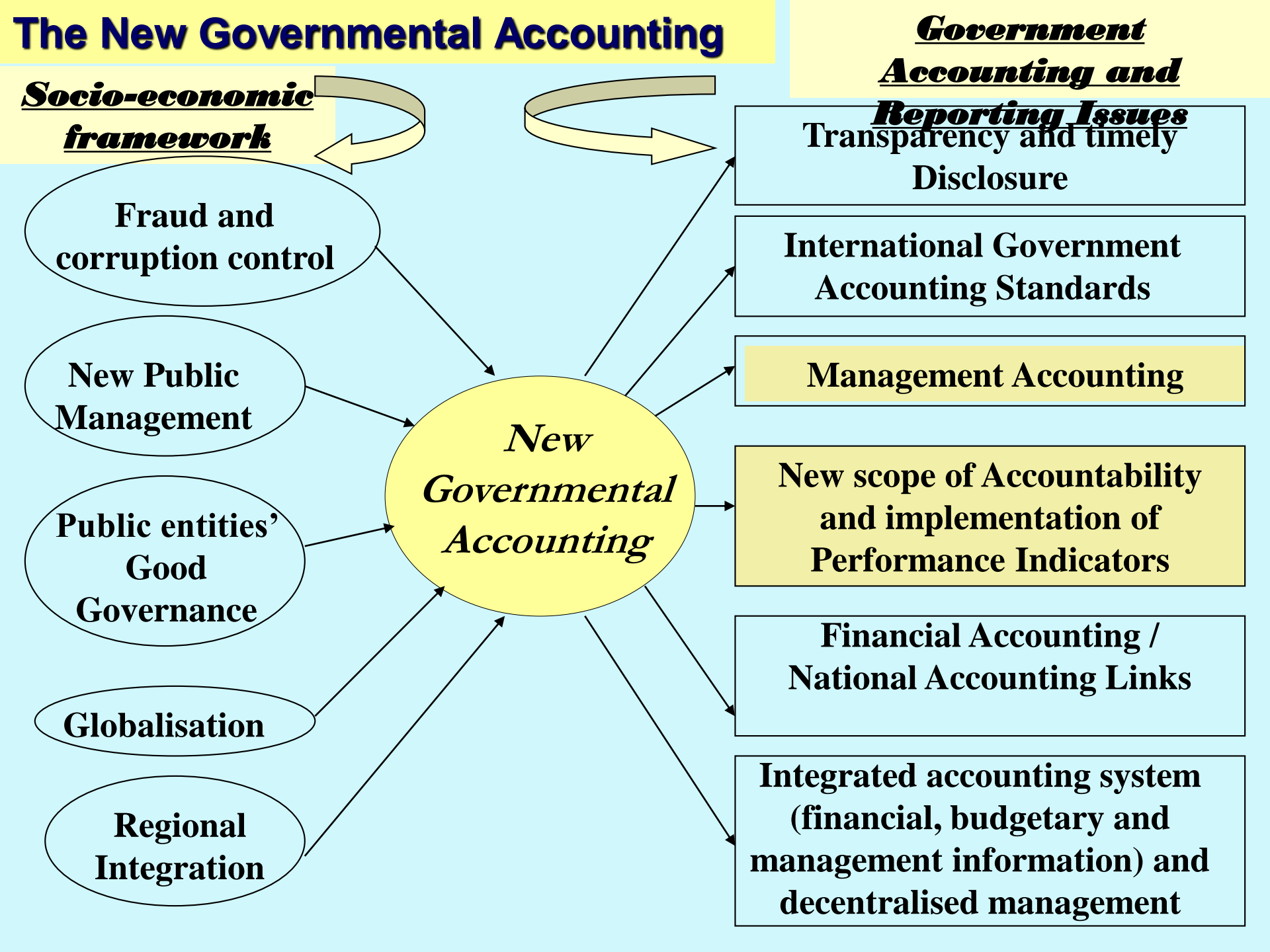


New challenges in Governmental Accounting

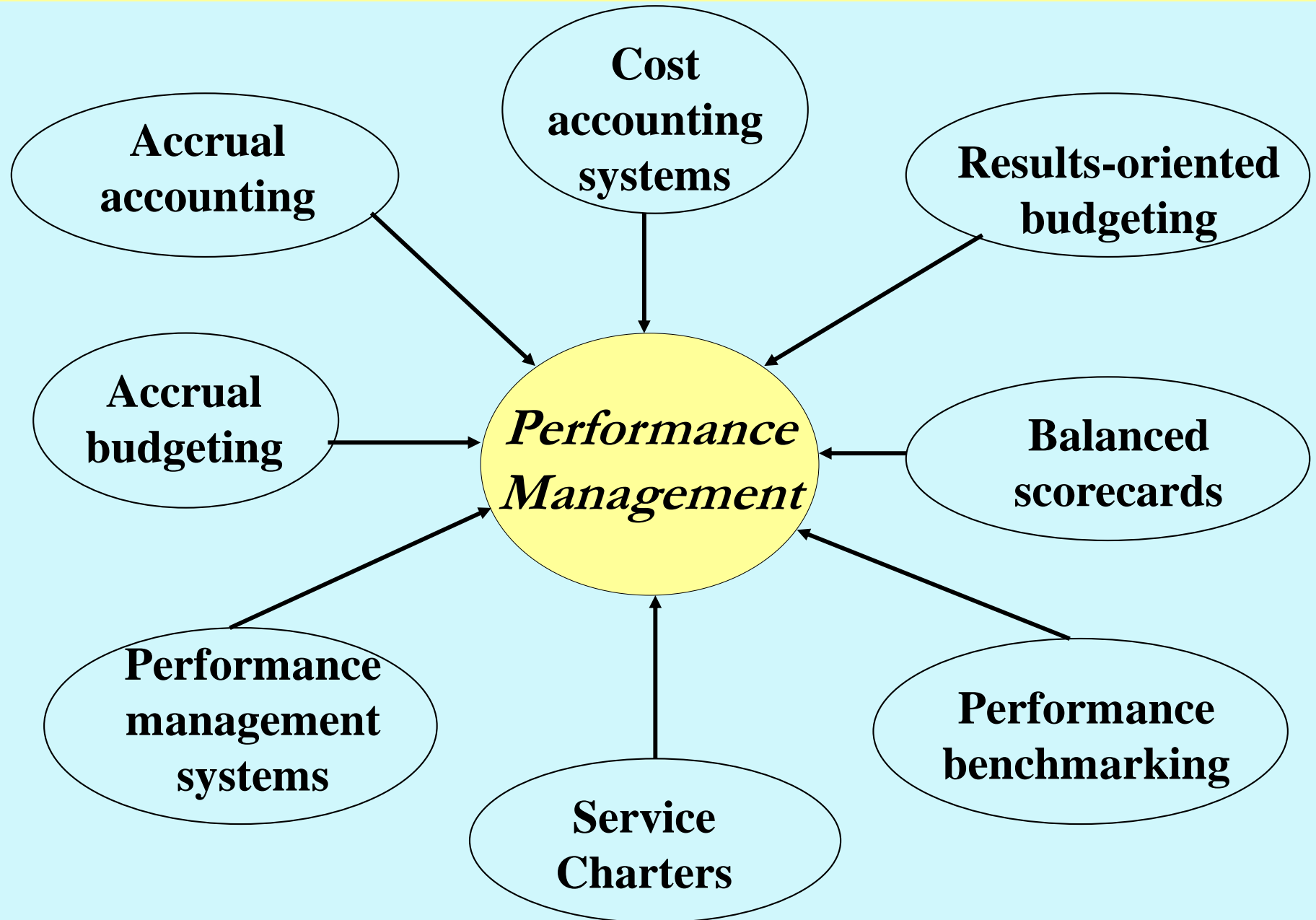
- The tradition: Input-oriented stewardship and control of fraud
- The New horizons: Output and outcome-oriented Management and control
- Accounting information : from traditional “exactness” to “true and fair view”
- The next steps: Accounting for Good Governance of organisations
- Accounting for a New Public Accountability

Is traditional governmental accounting old fashioned?

- **Annual budget single-entry recording as the only government Accounting in Public entities tradition**
- **The duality in modern government Accounting: Budgetary & Financial Reporting**
- **Cash Vs. Accruals**
- **Is the duality of basis “cash” in budgets Vs. “accrual” in financial statements a sound practice according to GAAP?**
- **More then financial: managerial, social and ecological accountability**



Performance Management Reforms and main Tools

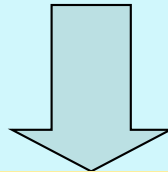


Cost Accounting as tool for internal control and external reporting

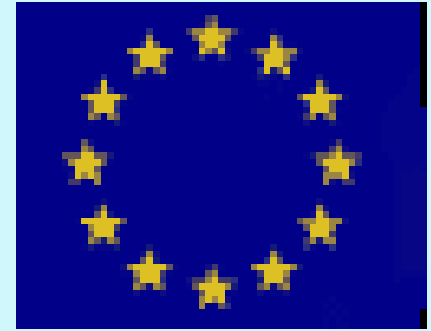
- ❖ A ***Cost Accounting System*** is a previous requirement for an effective internal control system, in order to evaluate economy and efficiency of organizations, to fix fees and public prices and set objectives and targets
- ❖ *Cost information of public services* is an important issue to be disclosed in external reports, as an essential aspect of public entities performance
- ❖ On the other hand, a cost accounting system does not make sense if a broader performance management system does not work
- ❖ Finally, cost accounting is an unavoidable tool in order to implement a cost-benefit analysis for evaluation of the performance reporting system results

Advantages and usefulness of performance measures & reporting

- They can help in setting goals and objectives, in planning and acting for their accomplishment, and in the control and evaluation of the results
- They allow the improvement of the quality of services provided and the increase of efficiency and effectiveness
- They allow the comparison of the same type of service between different local governments and comparisons over time
- They can provide more complete information about an entity's performance than traditional budgets or financial statements.

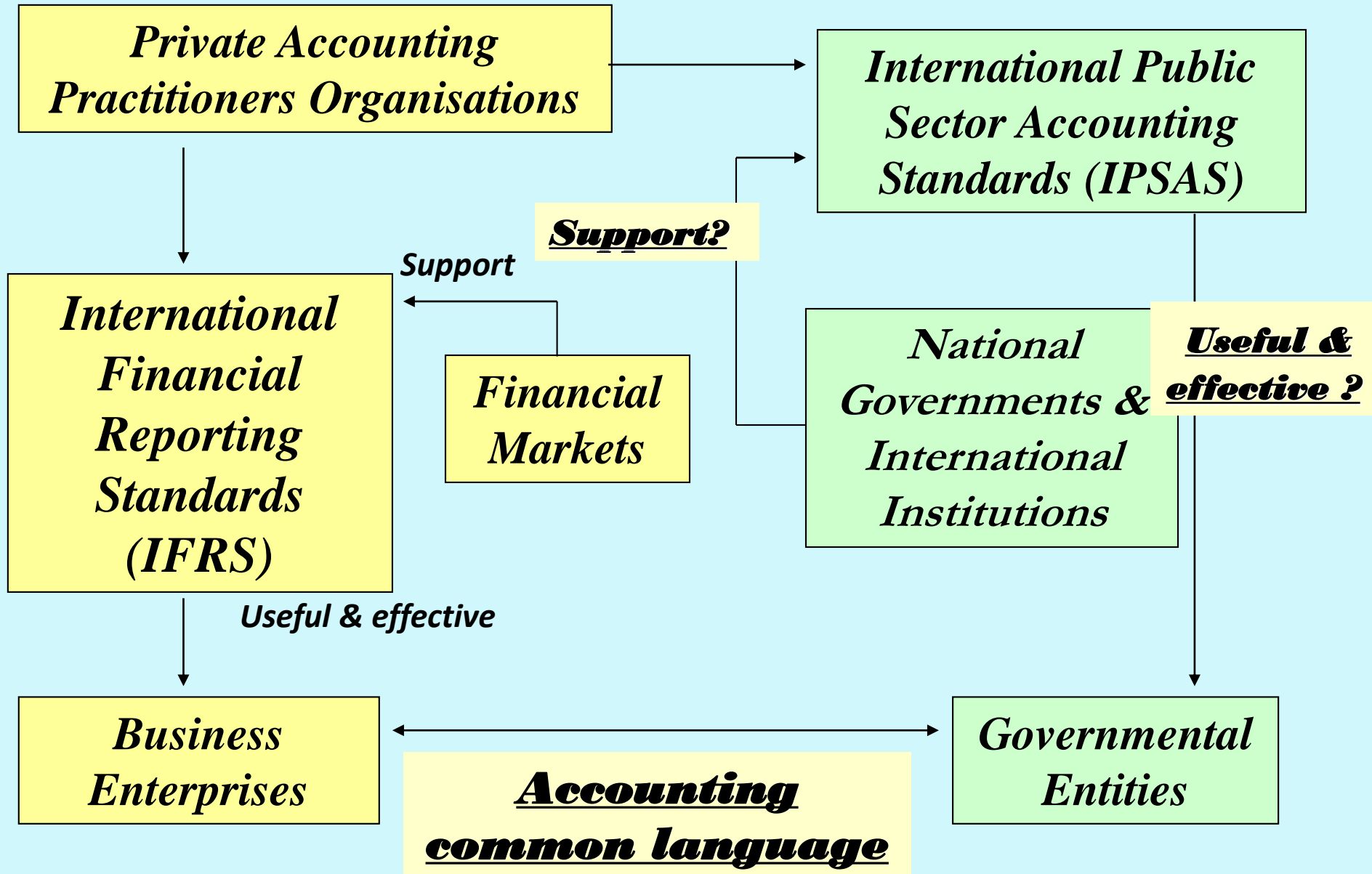


Performance reporting can be useful not only for policy makers and public managers, but also for external users, especially citizens



International framework of Governmental Accounting Reforms

The IFRS and IPSAS approaches



The adoption of IPSAS by countries and international bodies

Reporting has been adapted to IPSAS by:

- **UNITED NATIONS (28 bodies)**
- **OECD**
- **NATO (21 bodies)**
- **EUROPEAN COMMISSION**
- **INTERPOL**

... and more than 70 countries have open precesses for adopting or approaching IPSAS

IPSAS are for PUBLIC ENTITIES, similar to IFRS/IAS for BUSINESS ENTERPRISES

Government Reporting Harmonisation in Europe

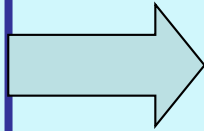


IFAC NEW
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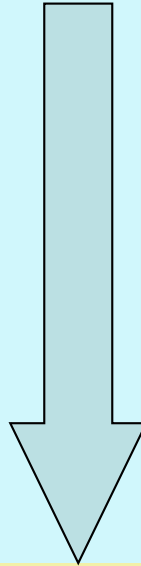
Website:

<http://www.ifac.org>

IPSASB



IPSAS



**... NON-
COMPULSORY
STANDARDS...**



**ACCOUNTING
RULES FOR THE
COMMISSION**



EC -
BRUSSELS

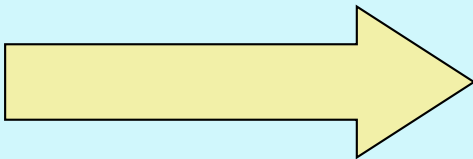
The reforms in the European Institutions: main features and decisive steps (I)

- Two connected basic sub-systems of Information System: Budgetary and Financial Accounting
- Reconciliation between financial Accounting and budgetary information
- Full Accrual... even for budgets?
- Information in terms of National Accounts is not a relevant deal for European Institutions

The reforms in the European Institutions: main features and decisive steps (II)



- The search for comparability among Institutions and consolidation policy
- Introduction of International Standards by European Institutions may have a relevant impact on the national governments Accounting harmonisation in the EU



- **Next steps: The development of management accounting and SEA indicators?**

Consolidated financial statements of the European Communities

- **Balance sheet**
- **Economic outturn account**
- **Cash flow table**
- **Statement of changes in net assets**
- **Notes to the financial statements**

**(Cost information and performance indicators
do not exist)**

Governmental Accounting Reforms and performance reporting: the Spanish experience



Member States – The case of Spain

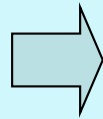


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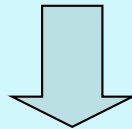
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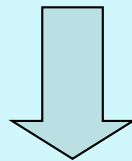
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IPSAS



**... NON-
COMPULSORY
STANDARDS...**



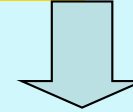
IPSAS are not mandatory. However it has been considered desirable to *adapt the New Governmental Accounting Plan to these standards*, in order to improve the quality of accounting information



SECRETARÍA DE ESTADO
DE HACIENDA Y PRESUPUESTOS

IGAE
INTERVENCIÓN GENERAL DE LA
ADMINISTRACIÓN DEL ESTADO

SGPG
SECRETARÍA GENERAL DE
PRESUPUESTOS Y GASTOS



**NATIONAL LAW – A NEW
GENERAL GOVERNMENTAL
ACCOUNTING PLAN
ADOPTED IN 2010, IN
FORCE FOR CENTRAL
GOVERNMENT IN 2011**




Government Accounting Reporting in Spain:

Four sources for public entities' financial figures

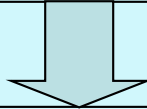
- **Budgetary**.- Traditional cash based information according to specific regulation
- **Financial**.- Businesslike accounting information, according to Governmental Accounting Chart
- **National Accounts**
 - Macro-economic **aggregated** information
 - **Micro-economic figures measured according to EAS95 criteria** (for each public entity) as basic indicator of EU deficit and debt objectives fulfillment
- **Performance indicators and management accounting** (budget objectives execution, public services costs and public prices...)

Adapting Government Accounting Standards to International Framework in Spain

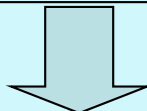
- **Commercial Law and Business Accounting Standards have been adapted to European Regulations in 2007. A new General Accounting Plan has been passed, in force since 1-1-2008**
 - **Governmental Accounting Standards has been adapted to Spanish Business Accounting Plan and IPSAS in 2010. To be applied to central government in 2011**
 - **Main issues in the reform of in Government Accounting Standards :**
 - ***New Conceptual Framework***
 - ***Recognition and measurement rules***
- Mandatory Standards!***
- 
- ***New Annual Financial Statements for public entities including cost information and performance indicators***

The development of cost accounting and performance information systems (I)

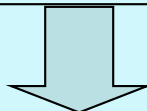
1976: Cost Accounting Handbook for Local Governments, published by the Ministry of Public Administration



1983: Adoption of a Management Accounting Standard as a specific development of General Governmental Accounting Plan (Group 9). This pronouncement was passed to respond to legal requirements on public resources management.



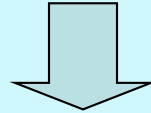
1984-1986: Implementation of Management Accounting Standard Groupe 9 did not meet expectations and the project of an overall cost accounting model for public administration was given up.



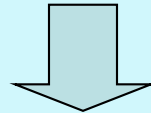
1987-1993: A new strategy was designed, looking for supporting the agencies in order to improve its management. More specific applications and models were developed according to specific features of any agency, irrespective of general rules of Groupe 9

The development of cost accounting and performance information systems (II)

1994-2004: Publication of the CANOA PROJECT (Contabilidad Analítica Normalizada para Organismos Autónomos, *Standardized Management Accounting for Agencies*). Weak implementation, but greater awareness



2004: Pronouncement of Ministry of Finance on *General Principles on Analytical Accounting for Public Administration*

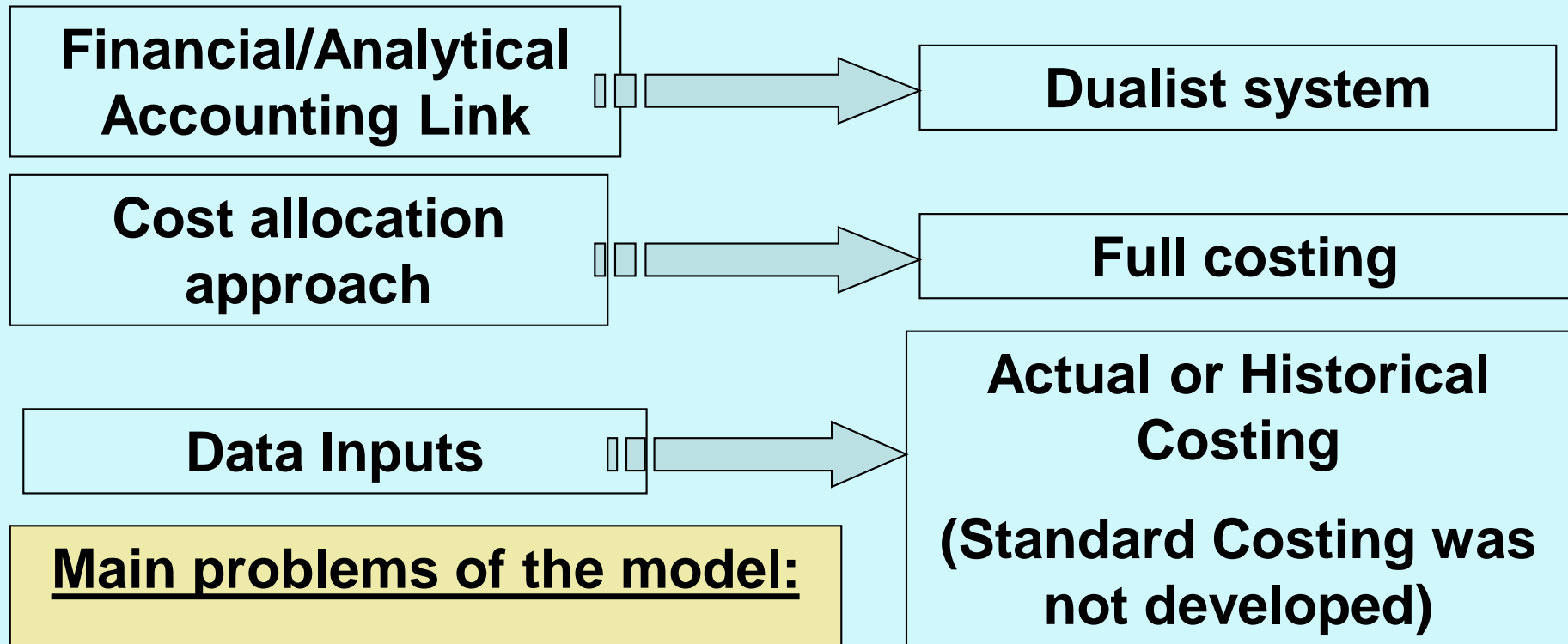


2007: Pronouncement of Ministry of Finance on *Performance indicators in Public Sector*

Some international points of reference:

- *Audit Commission* experience
- *Perspectives on Cost Accounting for Governments*. IFAC (2000)

Group 9 of the Accounting Plan



Main problems of the model:

- A single closed model
- Rigid design
- Lack of motivation
- Voluntary and experimental model

Main features of CANOA Project

Financial/Analytical Accounting Link.- A Dualist system

Model of costing:

- 1. Full costing**
- 2. Actual or historical costs (lack of experience was considered an important limitation for estimated costs)**
- 3. Recommendation to use centers**

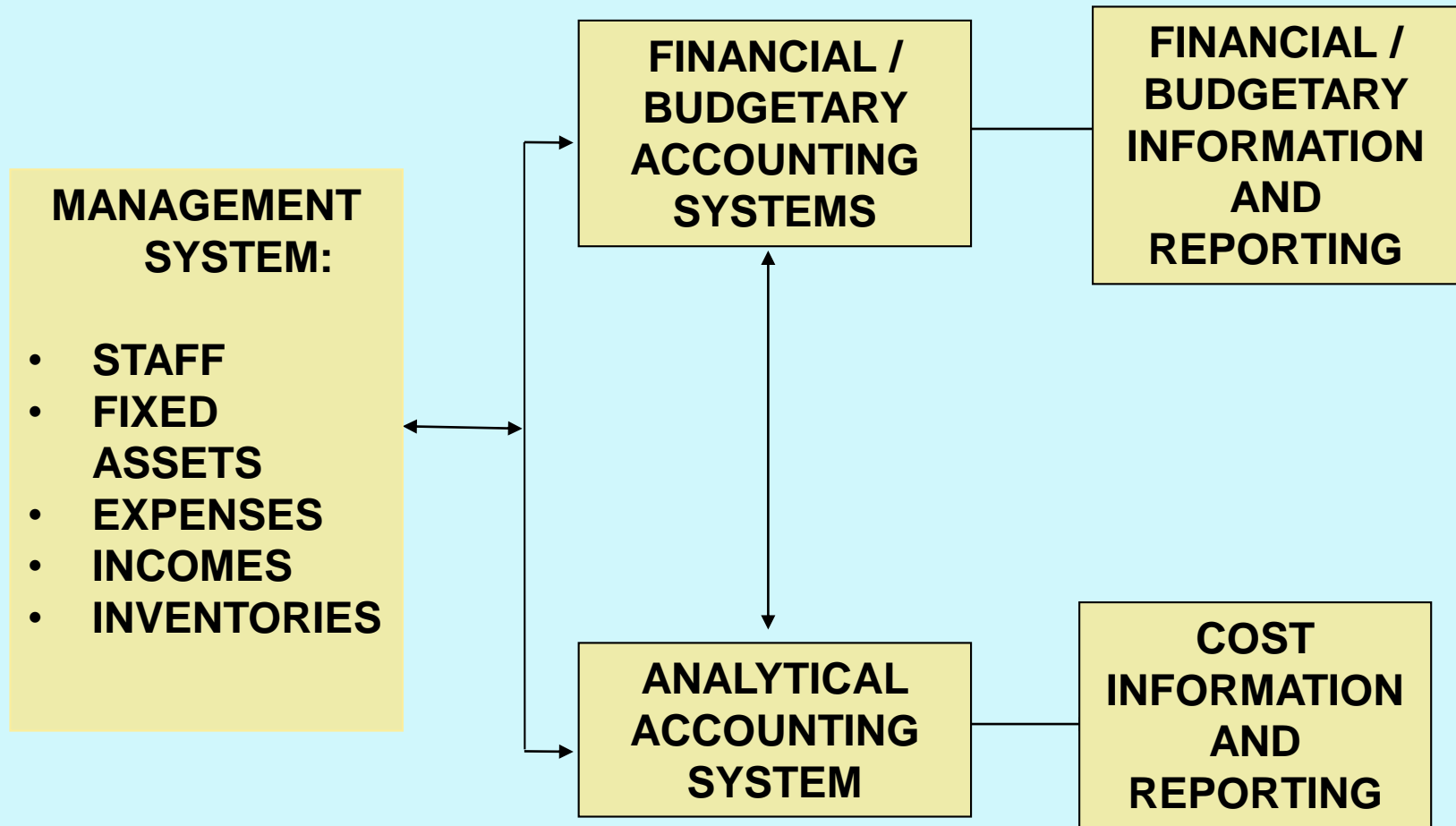
CANOA basic objective

Specific objective: To make possible an analysis of costs of activities, supplemented with the analysis of costs of centers

The main results of achieving this objective should be:

- 1. To implement an effective management control**
- 2. To clarify the use of public resources**
- 3. To determine fees and public prices**
- 4. To support the preparation and monitoring of the budget**
- 5. To facilitate the presentation of data to supranational bodies.**

Integrated Information System in a Public Agency



Main requirements for implementing CANOA Project

- **Adaptability to different types of organizations**
- **Flexibility to fit with users' information needs**
- **Customized structures, criteria and classifications, which can be tailored to the users' needs**



However..... Reality vs. rhetoric

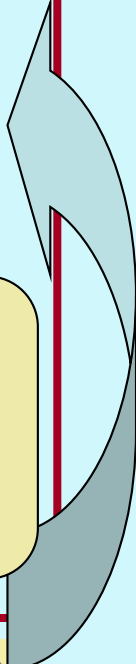
In spite of flexibility and Ministry's technical support, the project had a weak implementation. Some reflexions on this fact:

- **Implementation was again voluntary**
- **Lack of managers' motivation: only a few number of agencies developed cost systems adapted to the project**
- **Lack of political and social consciousness**

Public Administration Financial Statements

The financial statements comprise (New General Governmental Accounting Plan, 2010):

- ❖ Balance sheet
- ❖ Economic outturn account
- ❖ Cash flow statement
- ❖ Statement of changes in net assets
- ❖ Statement of budget execution
- ❖ *Notes to the financial statements*



Information on
Costs and
performance
management

These documents form a unit and must be clearly written and present fairly the assets, liabilities, financial position, the economic result and budget execution, in accordance with the General Plan of Governmental Accounting

Notes to the financial statements

24. Financial, economic and budgetary indicators

25. Information on the cost of activities



For the preparation of this information will apply the principles developed in the document *General Principles on Analytical Accounting for Public Administration* (Ministry of Finance, 2004)

26. Performance indicators



For the preparation of these indicators will be taken into account the criteria set out in the document *Performance indicators in Public Sector* (Ministry of Finance, 2007)

General Principles on Analytical Accounting for Public Administration (2004)

General Objective:

To set a broad and general frame useful for designing and implementing analytical accounting systems in public administration.

Specific Objectives:

- a. To serve as a basis for *further specific developments* adapted to any particular organization**
- b. To determine accounting aggregates which show the cost of the variables representative of the administrative processes, from two perspectives: *organic and functional***
- c. To allow public organizations to know *how do they consume? Who consumes? and for what purpose* the resources has been consumed?**
- d. To propose criteria for the *distribution of cost objects*, suggesting various models for linking structures and systems**
- e. To *design models of standard documents* that make up the minimum information obtained at any cost analysis system, as well as other possibilities of reporting, as required by management's needs.**

Information on the cost of activities in government financial statements

General Summary of Costs of the entity (25.1)

Summary of Costs by activities involving the collection of fees and public prices (25.2 and 25.3)

Summary costs and revenues of activities with finalist income (25.4)

Standard Documents: General and by activity (25.1)

ITEMS	AMOUNT	%
STAFF EXPENSES		
ADQUISITION OF GOODS AND SERVICES		
EXTERNAL SERVICES		
TAXES		
ESTIMATED COSTS		
FINANCIAL COSTS		
TRANSFERS COSTS		
OTHER COSTS		
TOTAL		

Standard Documents: Summary of Costs by activities involving the collection of fees and public prices (25.2)

ITEMS	Direct Cost	Indirect Cost	TOTAL	%
STAFF EXPENSES				
ADQUISITION OF GOODS AND SERVICES				
EXTERNAL SERVICES				
TAXES				
ESTIMATED COSTS				
FINANCIAL COSTS				
TRANSFERS COSTS				
OTHER COSTS				
STAFF EXPENSES				

Standard Documents: Summary costs and revenues of activities with finalist income (25.4)

ACTIVITIES	Total Activity Cost	Income	Margin	% Coverage
ACTIVITY 1				
ACTIVITY 2				
ACTIVITY 3				
ACTIVITY 4				

ACTIVITY N				
TOTAL				

Performance indicators in Public Sector (2007)

- The purpose of this pronouncement is to provide a *methodological reference* in the design and implementation of *performance indicators*, as well as guidance on the usefulness of the information provided by these indicators.
- This whole process has been completed with the inclusion of *examples* relating to the government.
- Publication of this document looks for properly identify the information needs of public entities, locate information and develop a *set of indicators* that will feed into the corresponding control panel that will be support for the management and evaluation of public action.

External reporting of performance indicators in governmental financial statements

Concept

Performance indicators are measuring instruments chosen as relevant variables that are intended to inform global or specific aspects of the organization, attending especially to the evaluation of the effectiveness, efficiency and economy in the provision of, at least, the services or activities financed by fees or public prices

Types

- ***Effectiveness Indicators***
- ***Efficiency Indicators***
- ***Indicators of economy***
- ***Indicators of production resources***

Effectiveness indicators

a) **Number of actions carried out**

Number of planned actions

Example: Number of audits conducted on the number of planned audits

b) **Average waiting time for a public service**

Example: Wait time for a surgical procedure

c) **Percentage of population covered by a particular public service**

d) **Number of actions carried out in the year X**

Number of actions planned for the year X

Average Lumber of actions carried out in previous years

Average Lumber of actions planned for previous years

Example: Number of audits conducted on the number of audits planned in 2009 compared with the average number of audits carried out in a number of previous years

Efficiency indicators

$$\text{a) } \frac{\text{Actual cost of the activity}}{\text{Estimated cost of the activity}}$$

If “a priori” systems of costs were not developed at the time of preparing these indicators, it will be considered as estimated cost of the activity the average cost of the same activity in the previous five years (suitably updated).

If no cost data from previous years are available, it will be considered as estimated cost the budgetary amount assigned to the activity or service, after adjustments (that will be developed, where appropriate, in documents or notes published by the Ministry of Finance)

$$\text{b) } \frac{\text{Cost of the activity}}{\text{Number of equivalent units produced}}$$

Equivalent Unit Production: Parameter that makes homogeneous the production of a certain period

Other performance indicators

➤ Indicator of economy

Purchase price or cost of production factor x

Average price of factor x on the market

➤ Indicators of production resources

Staff costs

Number of equivalent persons

Actual use of the factor of production x

Potential of use of factor x

The reporting system in local entities

- Financial statements are accrual-based since 1992
- According to new local accounting standards (adopted in 2004, effective application in 2006), local entities with population more than 50.000 should include performance, financial and economic indicators in their financial reports for external purposes.

With this initiative, the Spanish Accounting Regulator not only followed international tendencies (GASB or AASB), but went beyond these by making performance reporting compulsory

Indicators to be reported

- The financial indicators to be included are: liquidity, immediate liquidity and debt per inhabitant.
- There is a long list of budgetary indicators to be included, such as expenditure execution, payments index, total expenditure per inhabitant and capital expenditure.
- With respect to performance indicators, it is stated that these should allow the evaluation of the economy, efficiency and effectiveness of, at least, the services financed with public taxes or prices.

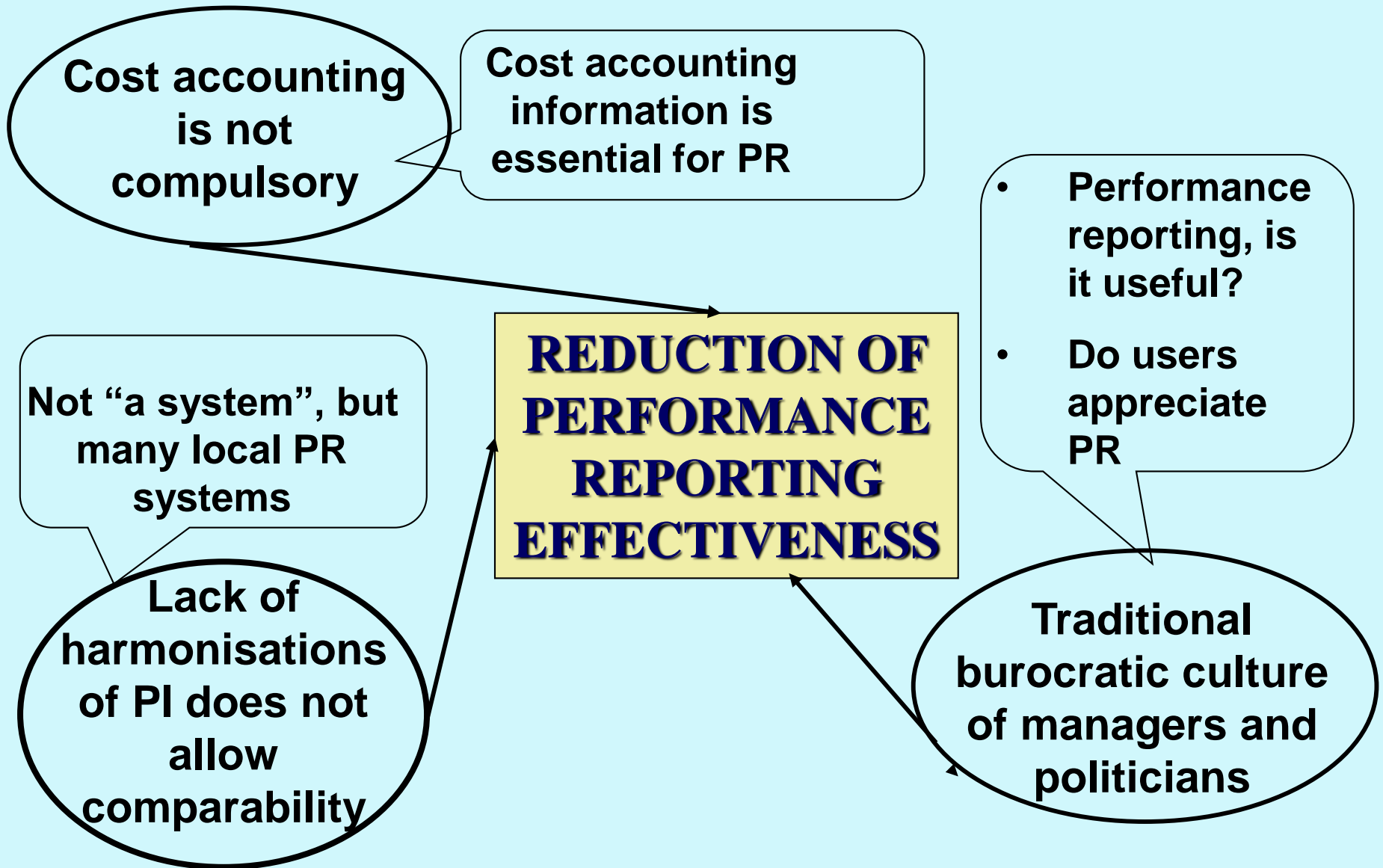
Diversity of local *performance indicators* and the search for comparability

- Some performance indicators are included as examples, such as:
 - The cost per inhabitant, Efficiency of the service,
 - Cost per unit of service delivery,
 - Employees of the service per inhabitant,
 - Actual / forecast delivery services or
 - The number of services delivered per inhabitant.
- However, the standard does not fix what indicators should be included in the report, giving flexibility to entities.

This can increase the difficulties of implementing performance reporting, or can be interpreted as a possibility to report only what is easy to obtain and show good face.

Furthermore, as each entity must define its indicators, it is not possible to compare different entities.

Main problems and limitations of local performance reporting system



Conclusions and lessons to be learned

Some previous reflexions on the real scope of the reforms: Time for scepticism?

- **Do entities really elaborate performance measures?**
- **Are these tools really useful?**
- **Do practical difficulties exist for using performance measurement and reporting?**
- **Is there a gap between intended and real changes driven by performance measurement systems?**
- **Has NPM failed in terms of outcomes?**

Public Management Reforms (I)

- I. Public Management Modernisation should pay attention to citizens aims and democratic rights. More transparency and higher efficiency are main priorities in this process**
- II. Public entities benchmarking, even international, is becoming a paramount methodology for implementing reforms and new experiences in public entities**
- III. Comparable government financial reporting is a paramount tool for final effectiveness of public management reforms**

Public Management Reforms (II)

- IV. The introduction of performance measurement systems is a tool that can help in the rationalization of decision making processes as well as in accountability and transparency in the use of public resources.**
- V. A Cost Accounting System is a requirement for an effective internal control system, and cost information of public services is an important issue to be disclosed in external reports.**
- VI. On the other hand, a cost accounting system does not make sense if a broader performance management system does not work.**

International framework of Governmental Accounting Reforms

VII. IFRS are a keystone for international accounting harmonisation

VIII. IFRS are the basic reference for IPSAS, now becoming the most relevant tool for international government harmonisation

But how to determine the effectiveness and adequacy of the rules? What and where are real links with stakeholders' interests?

Governmental Accounting Reforms and Experiences on cost accounting and performance reporting

- IX. Accrual Accounting is a “prerequisite” for a performance reporting. “Adaptation” to IPSAS may be a useful tool, but stakeholders’ interests in the proces should be clarify**
- X. Comparison of experiences is a very useful tool for improving implementation of new projects. Comparison may done with similar... or even dissimilar experiences, if lessons can be learned**
- XI. International bodies are adapting financial reporting to IPSAS... but it is not yet the time of cost information and performance reporting**
- XII. National experiences are now in progress, both at central and local governments, implementing different performance reporting policies, such as performance indicators, cost figures and services charts**

Some lessons to be learned from Spanish experience

- XIII. Implementation of cost accounting and performance reporting systems in public entities requires a real social and political will and managers should be motivated for changes.**
- XIV. Experiences based on single closed and rigid models do hardly work.**
- XV. Adaptability to different types of organizations, Flexibility to fit with users' information needs and Customized structures, criteria and classifications, which can be tailored to the users' needs are the keys for a successful implementation of cost and performances reporting systems**
- XVI. Voluntary approaches hardly work, implementation is very weak. How to fit the interests of politicians and managers?**
- XVII. Compulsory requirements for performance and cost information and external reporting can be a useful policy. Personal involvement and motivation would be in any case an unavoidable precondition.**