



School of
Management and Law

Developing the evidence base for accrual



Building Competence. Crossing Borders.

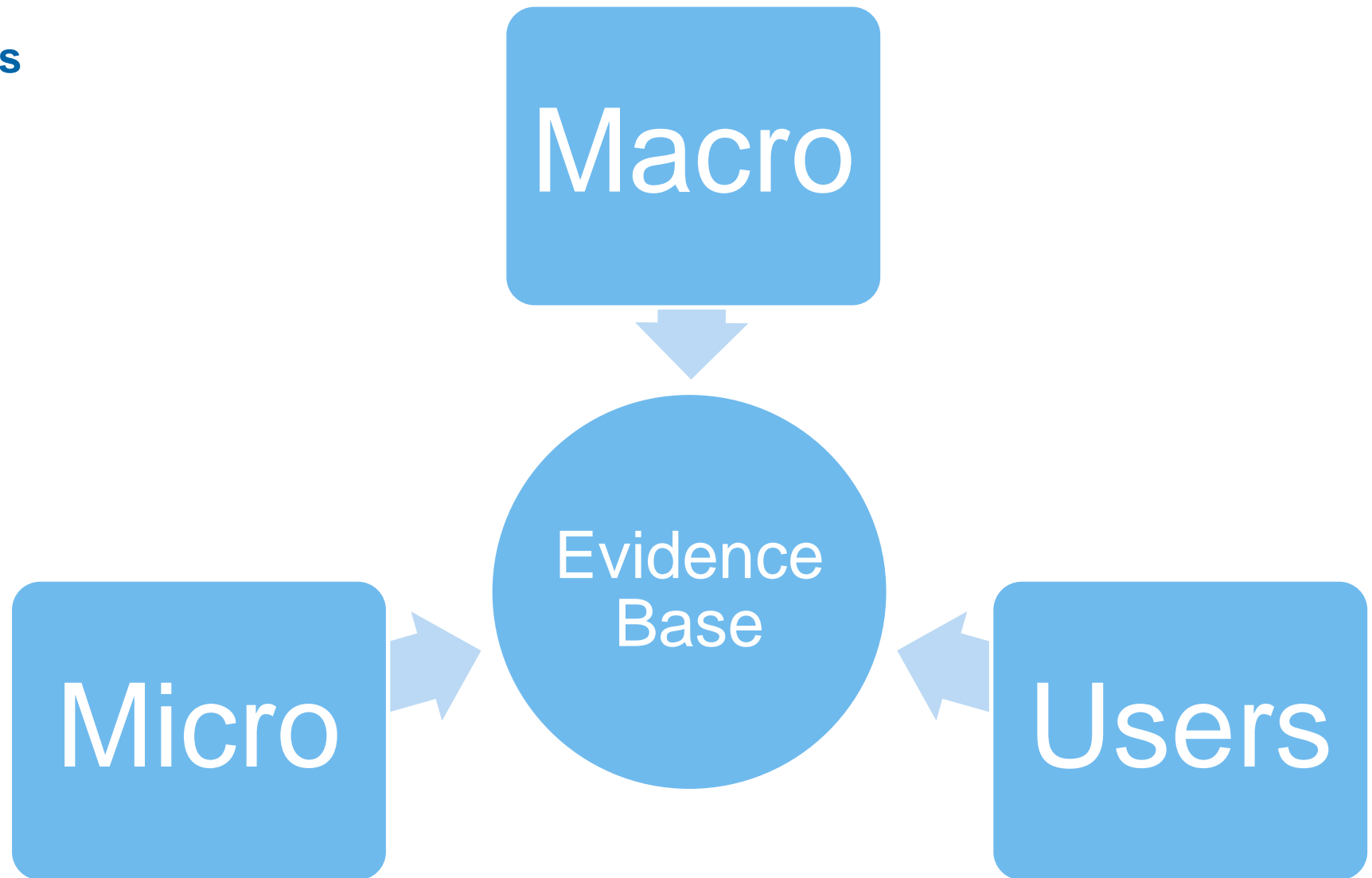
Prof. Dr. Andreas Bergmann, Director Public Sector
andreas.bergmann@zhaw.ch

Accruals is a bit like ...



Evidence base for accrual

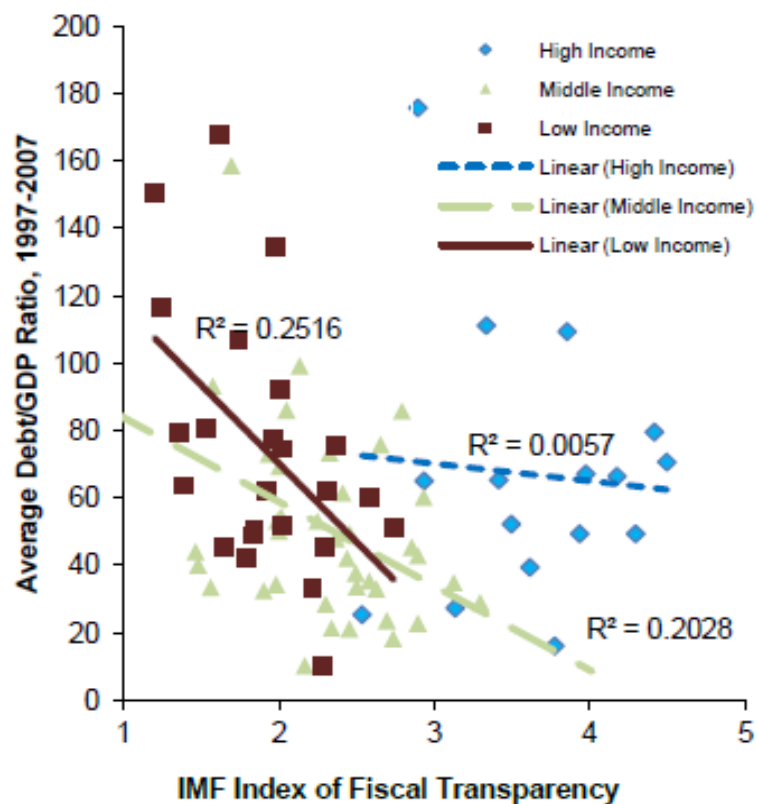
Approaches



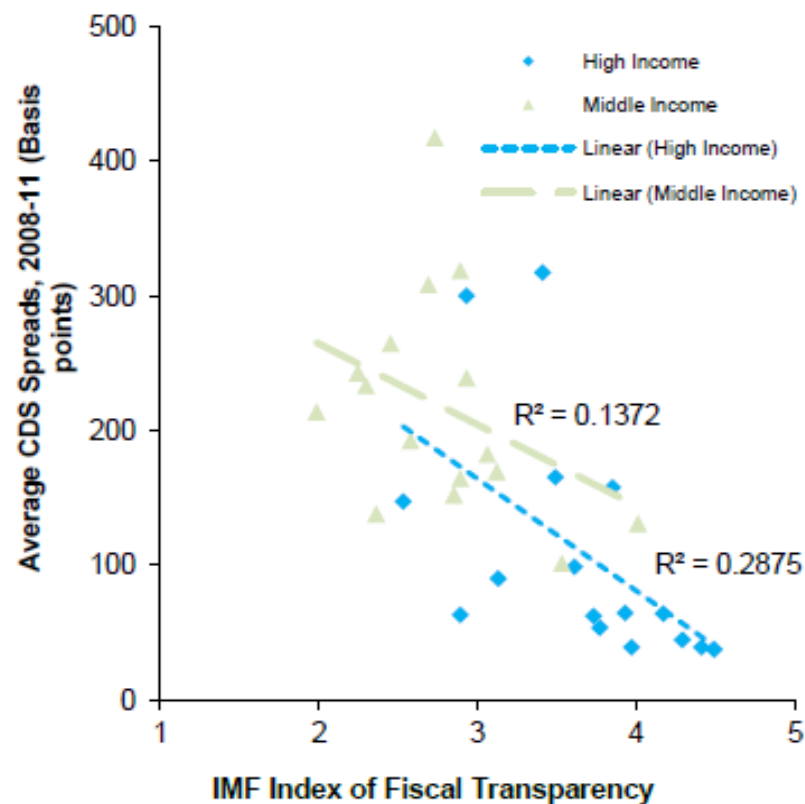
Macro: IMF relevancy of transparency

Correlation of Debt (-) and Interest Rates (-) with Transparency (+)

a. Fiscal Transparency & Government Debt



b. Fiscal Transparency & CDS Spreads



Macro: IMF relevancy of transparency

Fiscal Risk

- Government financial reporting responsible for increase of government debt during financial crisis
 - 23% of increase in debt due to incomplete information
 - 37% of increase in debt due to underestimating likelihood and impact of economic shocks
- Critical are off-balance sheet items, such as
 - State owned enterprises (if there is no consolidation ...)
 - PPP (if there's no accounting for them)
- Critical are also financial statements without impairment testing and/or current value measurement
- Adherence to IPSAS/GFSM2014 critically important
 - Alignment of IPSAS/GFS
- Similar findings by Bergmann (2014)

Macro: World Bank: Benefits from accounting in other areas of PFM

Positive spillover

- Significant correlation between PEFA indicator (PI25) and overall PEFA performance (Vani, 2010)
- Main benefits from accounting in ...
 - ... Financial planning
 - ... Financial control, debt, investment and liquidity management
 - ... Reliable base for audit

Micro: Individual Case Studies

Effects at entity level

- Guthrie, J. (1998): Some is rethoric only ... but crucial concepts such as deficit or liabilities change in meaning
- Hiler, D. (2012): Positive effects of IPSAS Implementation on the State of Geneva. (Conference Presentation)
- Fuchs, S./Bergmann, A./Brusca, I. (2017): Quantitative effects of fair presentation are significant at Swiss state level; they are a trigger point towards strategic public financial management
- Trinkler, G./Bergmann, A./Fuchs, S. (2017): Cost of implementing fair presentation at local level can be kept small, which helps for positive returns
- Van Helden, J./Ouda, H. (2016): Successful reforms follow the same values as the institution itself.
- Cordery, C./Simpkins, K. (2016): New Zealand's 21st century experience: Cost, issues with sector neutrality, finally abandoning sector neutrality.

Users: Studies on the use of accruals by user groups

Evidence for the use of accounting information

- Brusca, I./Montesinos, V. (2006): Are Citizens Significant Users of Government Financial Information? → based on correlation of election results with accrual financials in Spanish municipalities, yes
- Paulsson, G. (2006): Use of accrual information by civil servants → qualitative interviews, showing some use but really not that strong ...
- Bergmann, A. (2012): Evidence from Swiss media shows that accrual information is amongst to most often used in media coverage of public finances
- Dabbicco, G./D'Amore, M. (2016): Use of accounting information for Financial Statistics – and hence the EU fiscal decision making and surveillance framework
- Payne, W. (2016): Open data system at program level and/or cost accounting (possibly) more useful to users than financial statements (?)

Users: Studies on the use of accruals by user groups

Evidence for the use of accounting information (2)

- Van Helden, J./Argento, D./Caperchione, E./Caruna, J. (2016): Editorial – Politicians and Accounting Information (based on 15th CIGAR Conference, summarizing various papers) → Politicians do not systematically use accounting information, but they are increasingly part of the context in which political decisions are made
 - Political situation (e.g. new governments)
 - Individual background of politicians and/or information brokers and/or training
 - Usability of accounting information (e.g. simple forms of presenting)
- Hyndman, N. (2016): To be useful, accrual accounting needs to be kept simple
- Moynihan, D. (2016): Responsiveness of users is greater for negative information
- Reichard, C. (2016): Training of politicians is critically lacking

Users: Studies on the use of accruals by user groups

Evidence for the use of accounting information (3)

- Giacomini, D./Sicilia, M./Steccolini, I. (2016): Use of accounting information by politicians increases with increasing levels of political conflict (Italian local govt)
- Guarini, E. (2016): Evidence of misuse of accounting information during elections – audit should be a barrier (Italian subnational govt)

Theoretical Basis

Important for empirical research

- Jacobs, K. (2016): Mainly, the following theoretical basis were used (in this order)
 - Accountability Theory
 - New Public Management
 - Critical Theory (based on Habermas, Foucault and others)
 - New Institutional Theory
- Accountability Theory: *Arguably feasible, but given the broad user group of general purpose public sector financial reporting (IPSASB, 2014) not very concise. Also: How does it fit in «post-democracies»? (Steccolini, 2016)*
- New Public Management: *Varied concepts and currently separate debate whether it's still alive ... or a «Golden Cage» (Steccolini, 2016) i.e. not very strong theoretical basis*
- Critical/New Institutional Theories: *Sociological approaches, often used to explain failures or resistance ...*

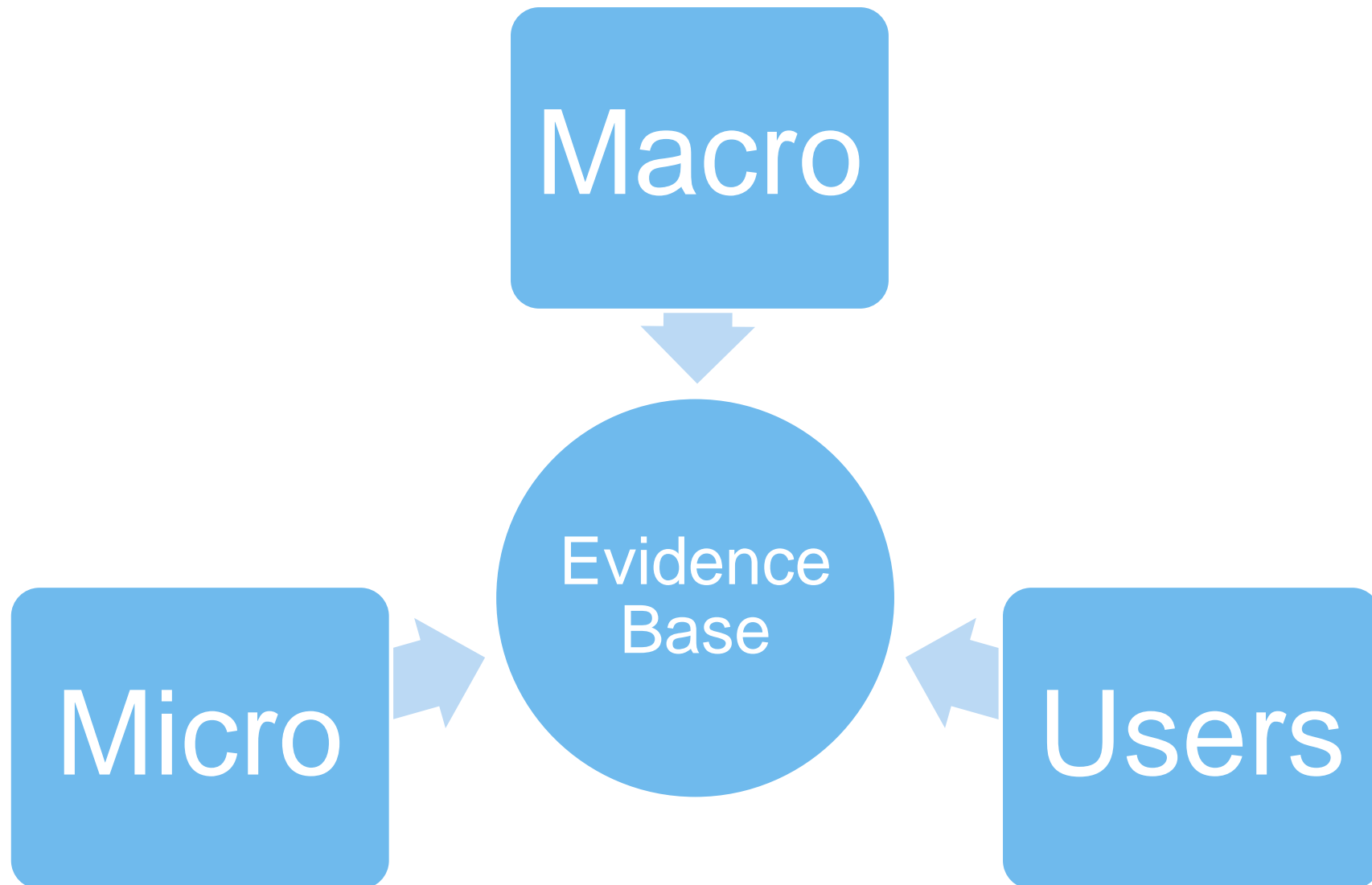
Theoretical Basis

Important for empirical research

- Very different from Private Sector Accounting research, which is mainly using Principal Agent Theory and analyzing financial market data in this context
- IPSASB (2014): Use for accountability and decision making
 - Theoretical basis could arguably also be Principal Agent Theory
 - New Public Management has adopted some elements of Principal Agent Theory
 - Economic theory? Moore (1995/2014): Public Value (based on Welfare Economics Theory)
 - Positive theories? Should be the future focus (Steccolini, 2016)
 - Why is there hardly any research based on such theories?

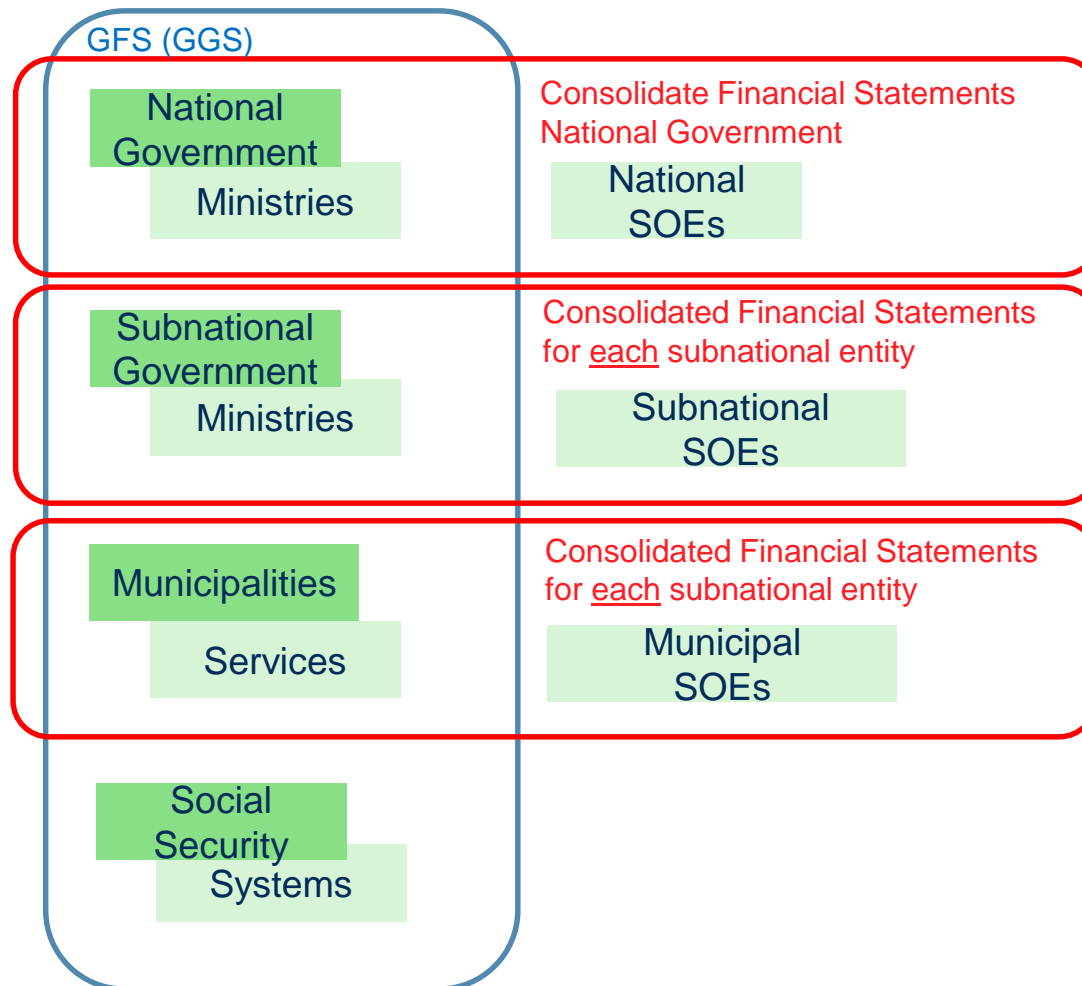
Way forward

A possible starting point: Include various approaches



Way forward

A possible starting point: Entity and consolidated level (Micro & Macro)



Way forward

A possible starting point: Including all functions of PFM

Budgeting

Accounting

Audit

Governmental
Financial
Statistics

A possible starting point: Formulating the theoretical basis

- The theoretical basis needs to be developed towards a theoretical model «how it works» (and not «how it fails»)
 - Include various approaches (Macro, Micro, Users)
 - Acknowledge and include cultural and institutional factors
 - Acknowledge that accounting information is not the only information affecting political decision making («no black or white»)
 - Consider different intensities and formats (e.g.simple formats; accounting information in topical proposals)
 - Consider interaction with Budget, Audit and GFS
- Such a model needs to be tested in different jurisdictions and levels of government
 - Considering that innovation works different in public sector (Bugge/Bloch, 2016)
 - Benefits of national vs. international standards (Manes Rossi/Cohen/Caperchione/Brusca, 2016)

Conclusion

Build on what we have – but move ahead

- There is some empirical evidence, much of it fairly recent and reasonably positive!
- There are various approaches, which are complementary
- Context factors are highly relevant and often tip the balance towards positive (or negative) outcomes of accruals
- A positive theoretical basis for empirical testing is needed
- This theoretical basis should then be tested in various different contexts

Conclusion: Accruals is indeed a bit like ...



References

- Bergmann, A. (2012). The influence of the nature of government accounting and reporting in decision-making: Evidence from Switzerland. *Public Money & Management*, Vol. 32, No. 1. 15.
- Bergmann, A. (2014). The Global Financial Crisis Reveals Consolidation and Guarantees to Be Key Issues for Financial Sustainability. *Journal of Public Budgeting, Accounting & Financial Management*, 26, 1. 165-180.
- Brusca, I./Montesinos, V. (2006): Are Citizens Significant Users of Government Financial Information? *Public Money & Management*, Sept 2006. 205-209.
- Bugge, M./Block, C. (2016). Between bricolage and breakthroughs. *Public Money & Management*, Vol. 36, No 4. 281-289.
- Cordery, C./Simpkins, K. (2016). Financial reporting standards for the public sector: New Zealand's 21st century experience. *Public Money & Management*, Vol. 36, No. 3, 209-216.
- Dabbicco, G./D'Amore, M. (2016). Accounting for Macroeconomic Surveillance in Europe. *Public Money & Management*, Vol. 36, No. 3. 162-165.
- Fuchs, Sandro; Bergmann, Andreas; Brusca, Isabel (2017). Using Financial Reporting for Decision Making as a Measure Towards Resilient Government Finances: The Case of Switzerland. *Lex Localis*, 15, 1. 133-153.
- Giacomini, D./Sicilia, M./Steccolini, I. (2016). Contextualization politicians' use. *Public Money & Management*, Vol. 36, No. 7, 483-491.
- Guarini, E. (2016): The day after: newly elected politicians and the use of accounting information. *Public Money & Management*, Vol. 36, No. 7, 499-507.

References

- Guthrie, J. (1998). Application of Accrual Accounting in the Australian Public Sector – Rhetoric or Reality. *Financial Accountability & Management*, 14(1), 1-19.
- Hiler, D. (2012). Experiences d'implémentation des normes IPSAS de la République et Canton de Genève. Presentation at the University of Geneva, 29 November 2012.
- Hyndman, N. (2016). Accrual accounting, politicians and the UK. *Public Money & Management*, Vol. 36, No. 7, 477-479.
- IMF (2012). Fiscal Transparency, Accountability, and Risk.
- IPSASB (2014). The conceptual framework for General Purpose Financial Reporting by Public Sector Entities.
- Jacobs, K. (2016). Theorising Interdisciplinary Public Sector Accounting Research. *Financial Accountability & Management*. 32(4), November 2016, 469-481.
- Manes Rossi, F./Cohen, S./Caperchione, E./Brusca, I. (2016). Harmonizing public sector accounting in Europe: thinking out of the box. *Public Money & Management*, Vol. 36, No. 3, 189-196.
- Moynihan, D. (2016). Political use of performance data. *Public Money & Management*, Vol. 36, No. 7, 479-480.
- Paulsson, G. (2006). Accrual accounting in the public sector. *Financial Accountability & Management*, 22(1), February 2006, 47-62.

References

Payne, W. (2016). Putting a 25-year experiment to the test. *Public Money & Management*, Vol. 36, No. 3, 197-200.

Reichard, C. (2016). Can training help to make politicians more active users of performance information? *Public Money & Management*, Vol. 36, No. 7, 480-483.

Steccolini, I. (2016). Public Sector Accounting: From “old” New Public Management To a Paradigmatic Gap. Where to from here? Keynote at APIRA conference, July 2016, Melbourne.

Trinkler, G.; Bergmann, A.; Fuchs, S. (2017). Kosten der HRM2-Einführung: Eine Regulierungskostenanalyse auf Zürcher Gemeindeebene. *Swiss Yearbook of Administrative Sciences*, 2016, 1. 122-146.

Van Helden, J./Ouda, H. (2016). Public Sector Accounting in Emerging Economies. *Critical Perspectives on Accounting*, Vol. 40, 1-7.

Vani, S. (2010). Prioritizing PFM reforms. World Bank blog (26 May).