Developing the evidence base for accrual


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Accruals is a bit like ...
Evidence base for accrual

Approaches

Micro

Macro

Evidence Base

Users
Macro: IMF relevancy of transparency

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

a. Fiscal Transparency & Government Debt

b. Fiscal Transparency & CDS Spreads

(Charts showing the relationship between IMF index of fiscal transparency and average debt/GDP ratio, and average CDS spreads for different income levels, with correlation coefficients indicated.)
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)
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
Effects at entity level

- Guthrie, J. (1998): Some is rhetoric only … but crucial concepts such as deficit or liabilities change in meaning
- 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
Evidence for the use of accounting information

- 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
- Payne, W. (2016): Open data system at program level and/or cost accounting (possibly) more useful to users than financial statements (?)
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
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)
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 …
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
  • 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

Macro

Evidence Base

Micro

Users
Way forward

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

- **GFS (GGS)**
  - National Government
    - Ministries
  - Consolidate Financial Statements
    - National Government
      - National SOEs
  - Subnational Government
    - Ministries
  - Consolidated Financial Statements for each subnational entity
    - Subnational SOEs
  - Municipalities
    - Services
  - Consolidated Financial Statements for each subnational entity
    - Municipal SOEs
  - Social Security Systems
Way forward

A possible starting point: Including all functions of PFM

Budgeting  Accounting  Audit  Governmental Financial Statistics
Way forward

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)
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


