



IPSASS ADOPTION IN SWITZERLAND

Introduction

The International Public Sector Accounting Standards Board® (IPSASB®) is dedicated to promoting the acceptance of and the international convergence to International Public Sector Accounting Standards™ (IPSASs™). As part of that effort, it is detailing the challenges and benefits of adopting IPSASs and accrual accounting.

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—**Marc Wermuth**

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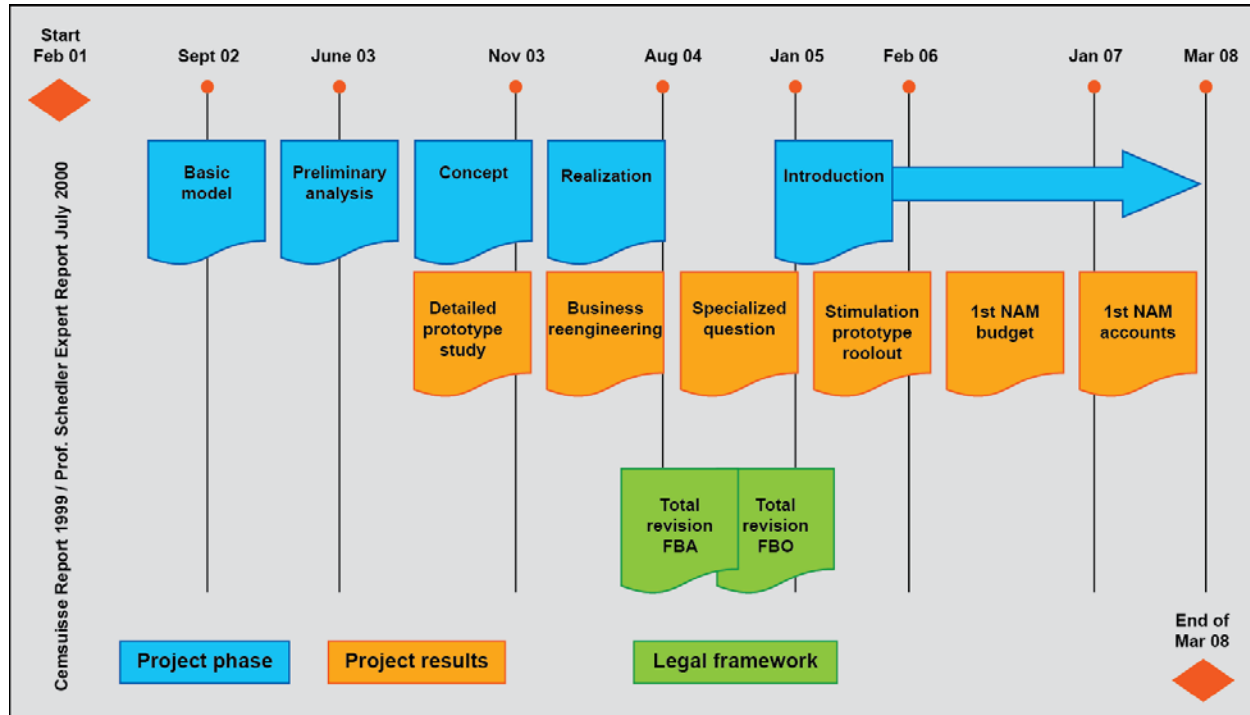
Background:

In light of the growing demands by the parliament and the public for more comprehensive information regarding the financial situation of the Federal Government and, in an attempt to harmonize the accounting framework with lower levels of government to increase comparability, the Swiss Federal Finance Administration (FFA) decided in 2001 to initiate a project in order to overhaul the Swiss Confederation's accounting system with the first financial statement on the basis of IPSASs to be issued from fiscal year 2007. The main goal was to increase cost transparency at the level of ministries and administrative units and to provide them with an adequate accounting framework when using performance budgeting. Another driving force was the need for restructuring and developing the existing IT landscape within the federal administration.

Steps to Implementing IPSASs

In 2002, the FFA established a preliminary analysis and the basic model of the New Accounting Model (NAM). It contained a commitment to the transition to full accrual accounting and budgeting. The Parliament subsequently appropriated the funds needed to move along with the project. The Members of Parliament were involved already at this early stage of the project.

The concept phase in 2003 resulted in a detailed prototype study. In 2004, the FFA was engaged mainly in the definition and development of an integrated accounting system across all levels of the federal administration as well as defining the general accounting treatment of various line items according to IPSAS. At the same time, the necessary amendment of the Federal Budget Act and Ordinance was prepared.



The introduction of NAM started two years prior to the effective date of the new requirements, as the first activities to prepare the budget for the fiscal year 2007 had to be initiated already in early 2006. The introduction phase encompassed the elaboration of detailed solutions in the various fields of accounting (treasury, fixed assets, inventories) and the rollout of the new IT-infrastructure. In 2006, the parliament and the federal council finally approved the Federal Budget Act and Ordinance as the legal basis for the new budget 2007.

During the fiscal year 2007, the activities of the FFA mainly concentrated on advising the responsible administrative units on accounting and technical issues and on improving the processes for the budget 2008 based on the experiences in the prior year. The first NAM-financial statement for the fiscal year 2007 was issued in March 2008 and approved by the parliament in June 2008.

The projected timeline could be met, resulting in a timely introduction of accrual accounting and budgeting in 2007. However, the preparation period was rather insufficient and not all questions concerning the accounting treatment could be satisfactorily answered. Therefore, the process of steadily improving the quality of accounting data was an important process in the subsequent years.

Challenges Faced during the Project

The move to full accrual accounting and budgeting was a huge step for the administrative units, which were facing higher requirements and a need to achieve more accounting proficiency. Moreover, organizational adjustments were necessary (roles, tasks, responsibilities, competencies) together with reallocations of jobs. The training of specialists could be covered with educational courses and a comprehensive accounting manual provided by the FFA. To create the opening balance sheet based on

IPSAS, around 35,550 items in the areas of real estate, loans and participations/stake holdings had to be revaluated and new provisions had to be made.

In addition to the new accounting system, a new IT environment based on SAP was also implemented. Before the move to accrual accounting, there was an IT interface between the centralized accounts and the accounts of the administrative units. The centralized accounts were based on the figures provided by the administrative units but adjusted by the FFA based on separate accounting provisions.

To reduce the risks arising from these challenges, the FFA received assistance from consultancy firms during the preparation and implementation process. However, substantial effort was put into the creation of internal know-how already from the beginning to mitigate the risks of being overly dependent on external advice.

Benefits Derived from Accrual Accounting and Budgeting

To determine what benefits had been derived from the adoption and implementation of IPSASs, it's necessary to draw an assessment from the various stakeholders. One of the main recipients of financial information is the Parliament. The Members of Parliament (MPs) have been involved in the project from the beginning and the parliamentary committees intensively discussed the new budgets and financial statements based on accrual.

The assessment from the Parliament can be summarized as follows:

- MPs faced increased complexity, but at the same time appreciated more comprehensive information available. However, more information and greater transparency require a more active debate and increased hands-on involvement with the new instrument (transparency versus ease of use).
- MPs also needed training on accrual accounting, especially given the high complexity in terms of recognition and measurement issues (e.g., service potential, recoverability). An understanding of internal service charges (between administrative units) had to be present.
- Fears ahead of the project of a loss of parliamentary control/sovereignty proved unfounded. There was no shift in power or authority towards the executive (government and administration).
- On the other hand, the perception by some groups in the Parliament that the introduction of NAM was largely *just* a new book-keeping system did not do much to encourage active interest in the issue. Therefore, limited value is still placed on financial accounting in terms of financial policy.
- Explicit recognition that budget management should take into account both accrual and cash views. Even with the introduction of NAM, the debt brake, which is based on cash accounting, remained one of the most important instruments of fiscal policy management in Switzerland.
- The new accounting model supports a shift towards a more long-term perspective, yet there is no guarantee that it will ensure a departure from short term view which all too often dominates the political landscape. One crucial question remains: Will the parliament take advantage of the additional options?
- Political opinion leaders will continue to shape financial policy decisions in future.

The federal administration naturally has a different perspective on accounting and budgeting issues. Nevertheless, the introduction of NAM was mainly assessed in a positive way as well. The following benefits have been mentioned:

- Heightened cost awareness: accrual accounting serves as a basis in the search for potentials for savings;
- Enhanced medium and long term planning capability;
- Improved quality through uniform standard processes and IT infrastructure;
- However, the material and technical complexity is not to be underestimated;
- System-immanent contradictions (financing versus profit and loss perspective) are sometimes difficult to handle; and
- Greater transparency means more resources (see also “challenges”).

Conclusion

The way to the implementation of full accrual accounting and budgeting based on IPSASs proved to be challenging. There was a considerable risk of failure due to the simultaneous introduction of IPSASs and an entirely new IT landscape. However, the project could be completed successfully. From the point of view of the stakeholders, the introduction of NAM was mainly well-received and is overall seen worth the efforts and costs. Consequently, the FFA has started a new project to further improve the accounting model and to close most of the remaining derivations from IPSASs.