



School of
Management and Law

Developing the evidence base for accrual



Building Competence. Crossing Borders.

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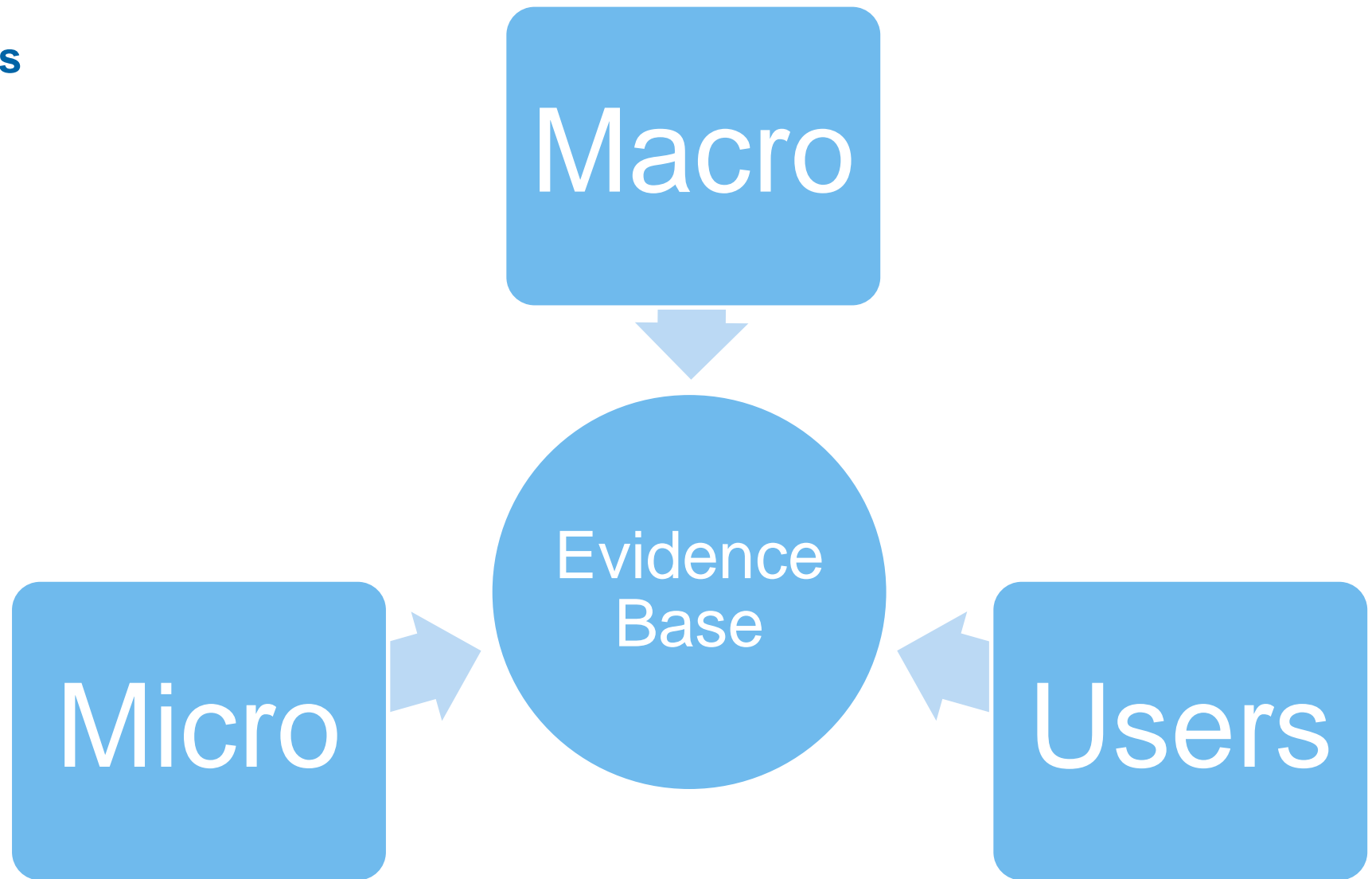
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Accruals is a bit like ...



Evidence base for accrual

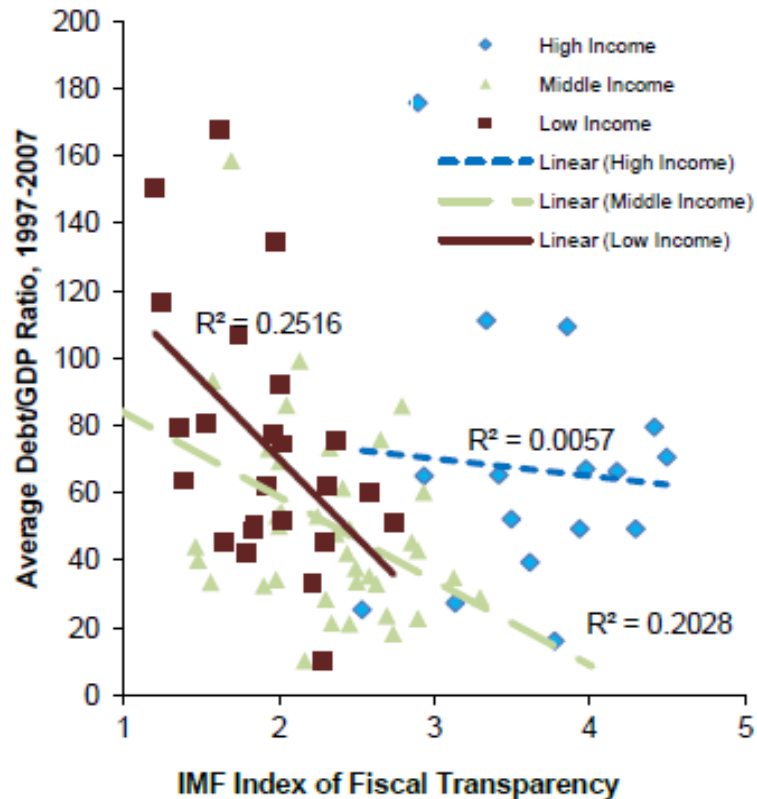
Approaches



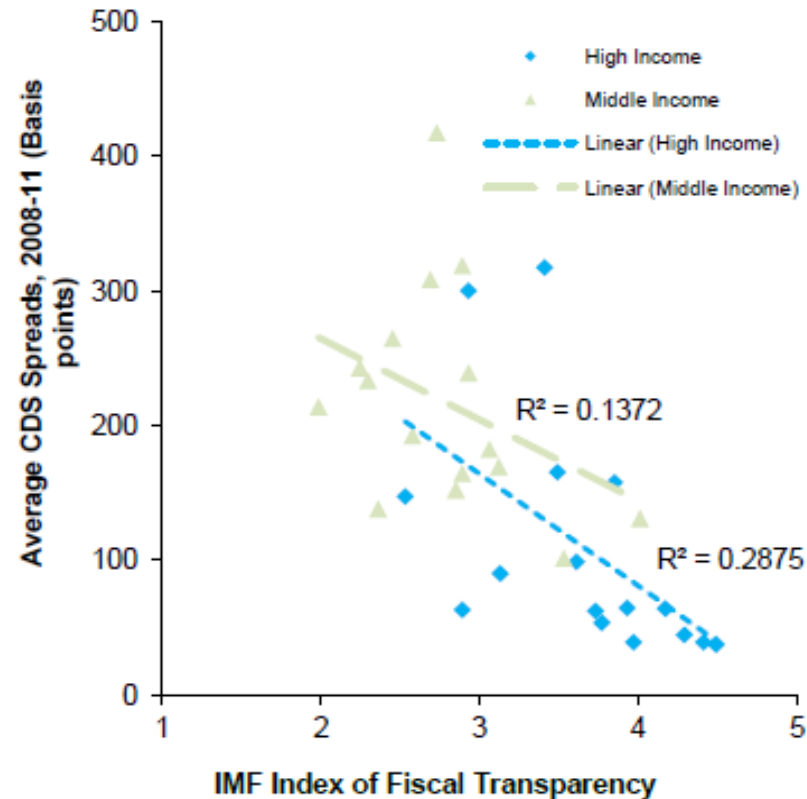
Macro: IMF relevancy of transparency

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 ...*

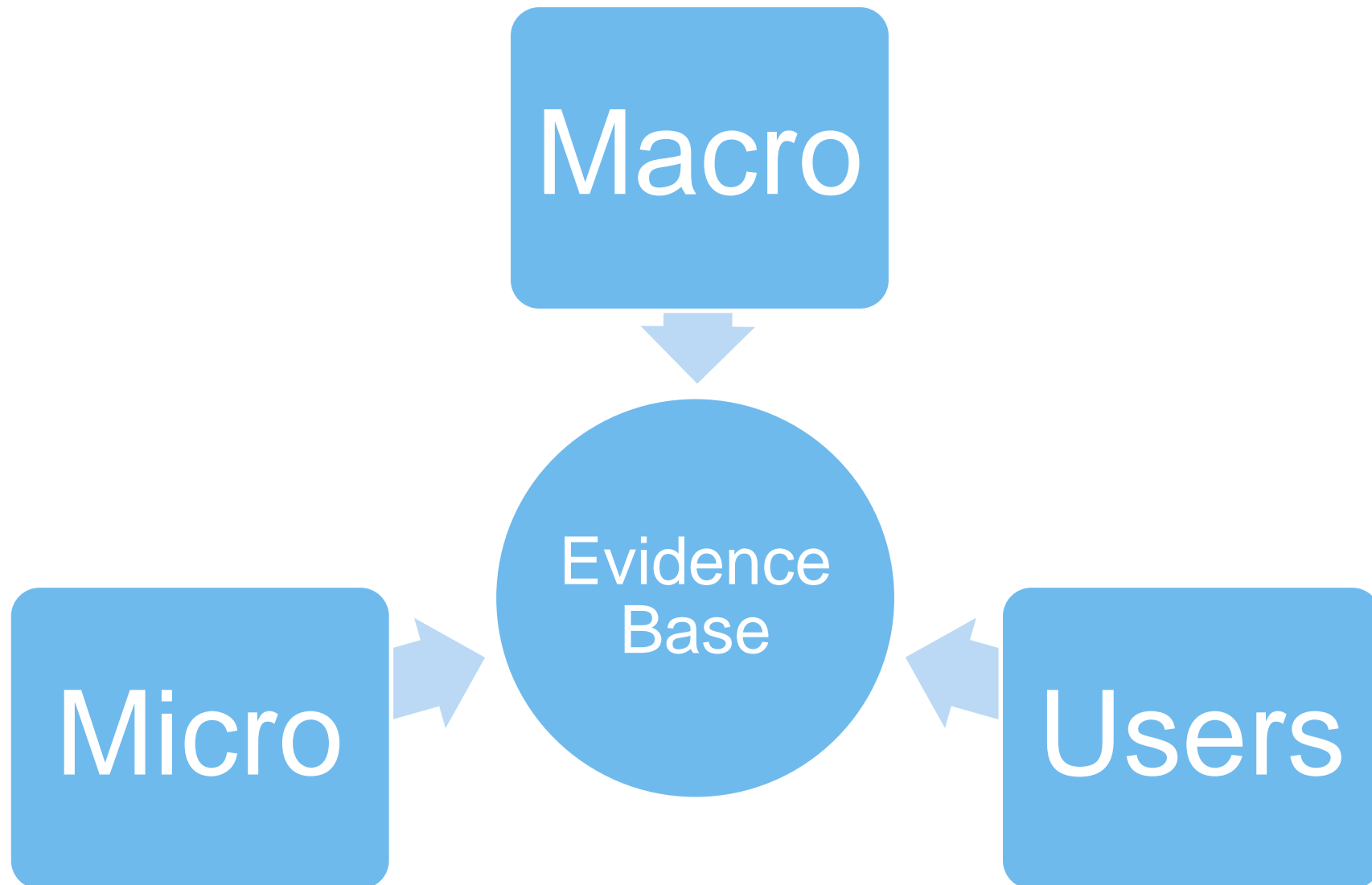
Theoretical Basis

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?

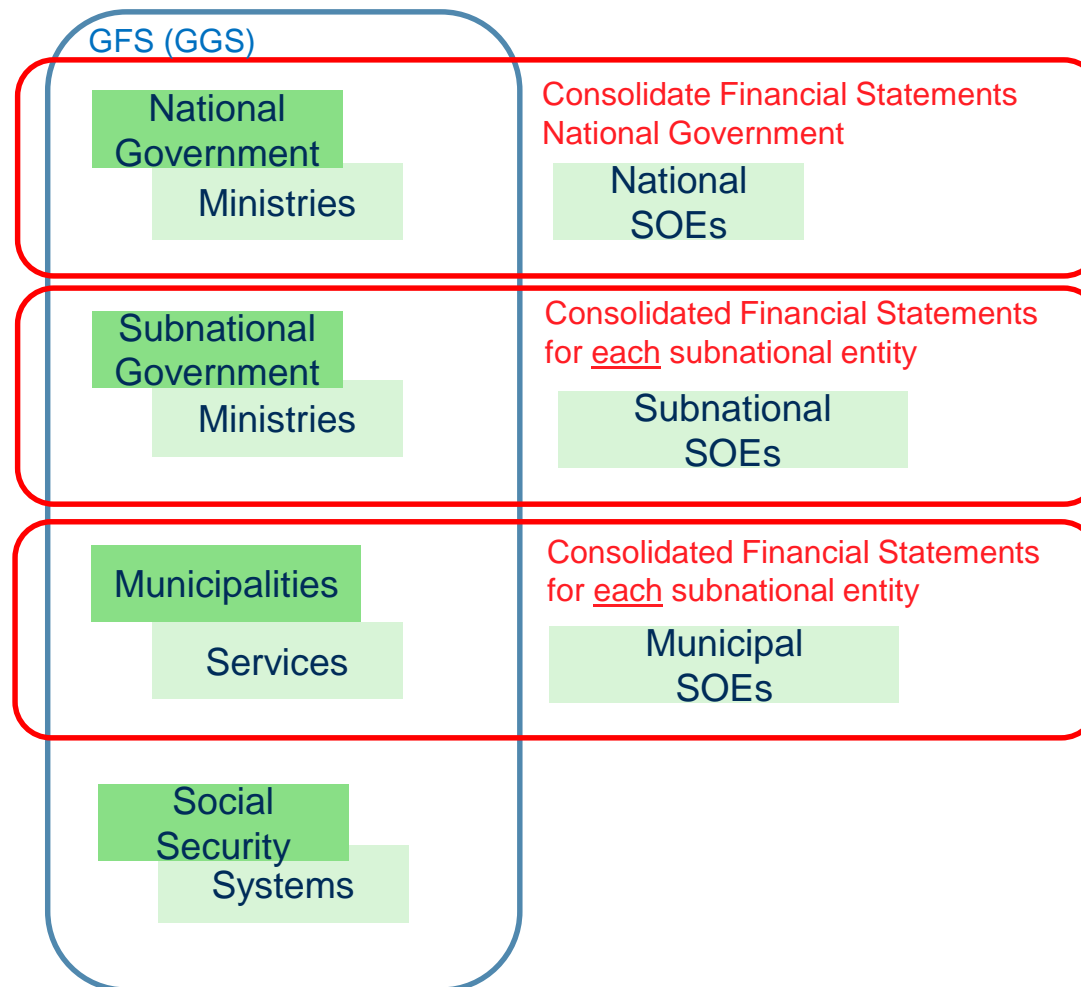
Way forward

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

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)

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 ...



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