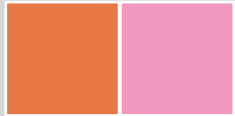




Contribution of the Financial Control to the budget system reform in Austria, especially in Upper Austria

- Different **competencies** of the Audit Courts in Austria **with regard to accounting**
 - **Austrian Court of Audit**
 - **Prepares** the closing of accounts for the state of Austria
 - **9 Regional Courts of Audit**
 - **Audit** the closing of accounts of the federal states
 - Make statements about the accounting of **municipalities**



Upper Austria – Basic Data

- Population: 1.4 million
- Area: 12 000 km²
- Total budget: 5 billion Euro



- **Balanced budget** has only been possible in recent years because of one-time revenues from asset sales and appropriating of financial reserves
- **Annual budget deficit** is mainly caused by spending dynamic in the health and social sector as well as by high investments and subsidies
- Important **areas** (e.g. hospitals, properties) were **outsourced** and therefore their **debts** were **outsourced**

So far these developments were **not constrained by the budget law**

Regional Court of Audit of Upper Austria

- Supports **reform processes** → the **reform of the budget law** is also **important** for the Regional Court of Audit of Upper Austria
- Supports **transparency**
- Main focus on **cost effectiveness, thrift, efficiency as well as effectiveness**
Accordance with regulations is of less importance

Expectations of the Regional Court of Audit of Upper Austria with regard to an **appropriate budgeting and accounting system**:

- Good **basis for political decisions**
- Adequate **basis for efficient managing**
- **Transparent** information for **accountability**
- Fulfil all requirements of **New Public Management**



- **No overall overview** about **assets and liabilities**
- **Lack of transparency** in the closing of accounts of Upper Austria
- The delay of redemption payments **for liabilities of outsourced investments** of Upper Austria is not transparent in the closing of accounts
- **Inadequate information** about the **intrinsic value of receivables and loans granted**





- **Little information** about the **economic situation of companies** which are owned by Upper Austria
- The **state of Austria** and the **federal countries of Austria** have **different budget laws**





Selected recommendations concerning the closing of accounts of Upper Austria

- **Aggregation of data** in order to make the closing of accounts more understandable
- Preparation and publication of reports by the administration to **inform** about the **achievement of their targets and their abidance by the budget**
- **Presentation** of the liabilities **in a more complete and comprehensive way**
- Presentation of a **medium-term finance and investment plan**, including **transparent** presentation of the **financial requirements of all outsourced companies**
- **Maastricht-compliant booking of government grants** to outsourced companies
- **Depreciation of receivables** of Upper Austria to debtors, who can not pay their debts without receiving subsidies from Upper Austria



Reforms started by the Federal State of Austria / 1

- Extensive **budget reforms** were decided by law for the Federal **State of Austria** in 2007

- **Objectives** were:
 - Stronger budget discipline
 - Improving the ability to plan
 - Higher flexibility
 - Effectiveness
 - Transparency
 - Efficiency
 - True presentation of the financial situation

- Implementation in **2 stages**:
 - **1. stage** beginning 2009:
 - Middle-term obligatory budget limit, 4 years in advance at a time
 - Possibility of allocation to reserves
 - New structure (furthermore cash-based accounting)
 - **2. stage** beginning 2013:
 - Effectiveness
 - Global budget
 - Double-entry bookkeeping

- Whether the reforms will be fully implemented can not be foretold

Legal system of the federal states of Austria

- Budgeting and accounting system is in the **autonomous scope of the Federal States** of Austria
- **“Statutory order for budgeting and closing of the accounts”**
 - Regulates **form, structure** and **content** of budgets and closing of accounts
 - Applicable to **federal states and municipalities**
 - **Originates** from **1974, hardly no development**
 - **Not very detailed** → **interpretation** by each **federal state itself**
- **Budget code** of the Federal States of Austria
 - Regulates the process from generating the budget to finalizing the accounting

Cameralistics (cash-based accounting) in Upper Austria and in most of the other Federal States of Austria

- Focus on **carrying out the budget**, periodical correctness is neglected
- Presentation is in principle **cash-oriented** (cash receipts/cash disbursements)
- Principle of annuality, however there is the possibility to **transfer funds to the next year** (allocation to reserves)
- Some **information** concerning **assets and liabilities** can be seen in the attachments to the closing of the accounts
- IT-application: **SAP**
- **Bookkeeping technique**: double-entry bookkeeping

- In the praxis sometimes **definitions** are **not clearly used**
- Discussion on the level **double-entry bookkeeping** versus **cameralistics** is **not enough**
- **Differentiated consideration is necessary:**
 - Bookkeeping technique
 - Rules for structuring and reporting
 - Valuation rules
 - Which focus should be emphasized:
 - Cash flows
 - Consumption of resources
 - Assets and their development



Discussions concerning reforms in Upper Austria

- Continuous dealing and **active participation in the reform debate** of public authorities
- **Observant position**
- Internal **preparation of additional information**
 - Refining the information concerning assets and liabilities
 - Middle-term financial plan (agreed for summer 2011)
- Partly **“voluntary” information** in the attachments to the closing of accounts
- **Municipalities** also positioned themselves, presently they will keep their system of extended cameralistics





Summary - generally

- The closing of accounts has to inform, to **document** as well as to **support decisions**
- The system of budgeting and closing of accounts has to **meet the requirements of an effective administration**
- The discussion whether to use **cameralistics or double-entry bookkeeping** should **not** be reduced to a **mere discussion of terms**
- There is **no right or wrong system**
- **Clearer and more precise rules** in order to limit the possibilities of interpretation and the requests of politicians
- Expansion of the current system by **implementing elements of commercial accounting**





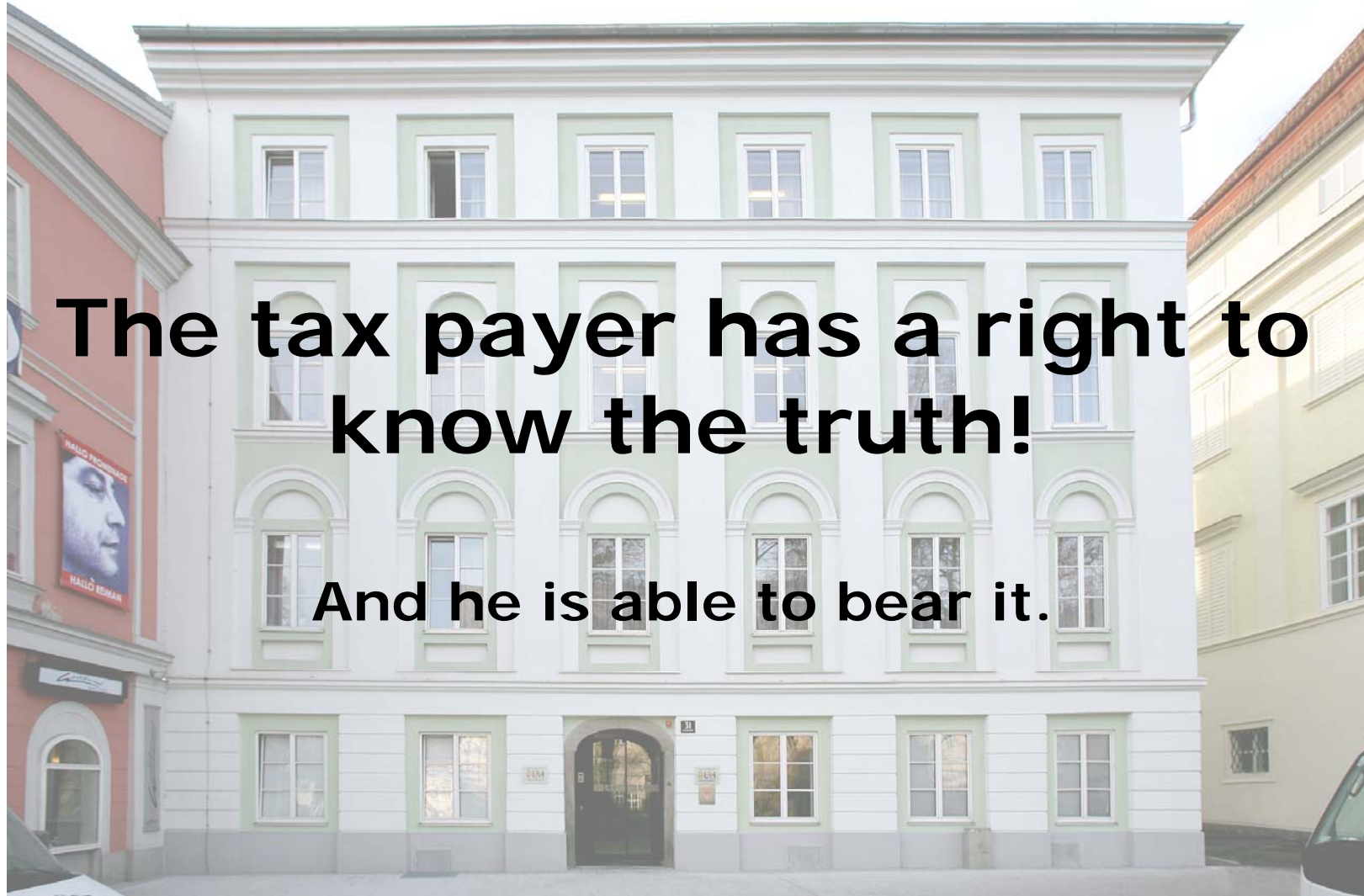
Crucial requirements of the Financial Control

- **Uniformity** of accounting to a large extent and therefore achieve comparability **across all public authorities**
- **Comprehensive presentation** (including adequate information on outsourced companies) about the financial situation of every public authority
- **Compatibility** with the **National Accounts**
- **Transparency** (“there is no way to hide anything”) and easy understanding
- Improvement of the reports by **verbal explanations**



Crucial requirements of the Financial Control

- Clear, transparent and complete information about **future obligations**
- Clear information about the **intrinsic value of reported receivables**
- Clear presentation of all **changes concerning assets and long-term debts**
 - In order to strengthen the awareness with regard to the consumption of resources
 - Before the background of an inter-generation fairness
 - Attention with regard to asset accounting: threat of manipulation
- Consideration of the **experiences of the Federal State of Austria**



The tax payer has a right to know the truth!

And he is able to bear it.





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