

Impact of scandals on the accounting profession in the public sector

Evidence from Austria

Agenda

- Public sector accounting scandals that paved the way for accounting reforms on state and municipality level in Austria
- Challenges for the public sector to react to accounting scandals



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Public sector accounting scandals (I)

- State government guaranteed for local bank up to 150% of RDP
- In the modified cash accounting system only the cash inflow of guarantee fees of about 6-8 mn. per year were reported.
- During the financial crisis the local bank struggled and was eventually nationalized by the federation leading to an increase in debt of 6% of GDP

- Role of the basis of accounting:
 - Contingent liabilities were not part of reporting
 - Provisions for risks were not part of reporting
 - Cashinflow from guarantee fees were reported as revenues

- Result:
 - Risk blind, revenue focused reporting

Public sector accounting scandals (II)

- State government used funds for high risk activities on financial markets
- Led to a peak portfolio of about 2 bn. Euros or about 100% of the annual budget of the state government
- Revenues from those activities were used to balance the cash budget (pressure on front loaded deals)
- Payments were only entry point into the accounting system (buying, fees, etc.)
- But: compliance rules were not followed !

- Result:
 - Risk blind, revenue focused reporting

Challenges for the public sector to react to accounting scandals

- Would the use of accrual accounting standards have prevented those scandals?
- **No, but**: circumventing accounting requirements would have been more onerous and if accounting regulations would have been followed risks and cost would have shown earlier.
- How could/should the public sector react to scandals like that?
 - Independent, high quality regulation (e.g. IPSAS accounting standards, ISSAI audit standards)
 - High skilled, independent and courageous audit institutions (in the case of doubt voice an opinion)
 - Increase professionalism among accounting professionals in the public sector (common institutions, common education and certification)
 - Increase parliamentarian discussion of financial reporting (questions to ask, responsibility committees)
- Question of acceptable accounting frameworks in public auditing/financial reporting?

Thank you for the attention!
Lets discuss!

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