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Experiences Concerning Transition to Accrual Accounting in the Public Sector from the Perspective of Supreme Audit Institutions

Summary: Nowadays the quality of budget management and the availability of reliable budget information are becoming increasingly important. A key area of these changes is the continuous development of public accounting, including the application of accrual accounting. The characteristics of development in public accounting vary by country since EU member states have different public finance systems. The process is constantly monitored by the supreme audit institutions, including the State Audit Office of Hungary. The article presents the most important areas of change in public accounting, especially the role of standards. In addition, the purpose of the article is to give a detailed description of how the public accounting system in two countries developed, highlighting the aspects of supreme audit institutions. The experiences and the perspective of supreme audit institutions regarding the issue are presented through the examples of the countries. Finally, the aim of the article is to give an overview of the main changes in the Hungarian public accounting system, also from the point of view of the supreme audit institution.

Keywords: accrual accounting, public sector accounting, public sector audits, IPSAS, audit office,
JEL-codes: H83, M41, M42, M48

In recent years, many attempts have been made to reform public finance accounting systems and harmonize them in the EU member states. In this process, the implementation of accrual-based accounting in the public sector has become a top priority among EU member states. This is due to the fact that the accrual accounting system can provide a complete and realistic picture of the financial and economic situation of the government sector and, in this respect, of the changes of assets and liabilities, revenues and expenditures. In recent years, the supreme audit institutions (hereinafter referred to as SAIs) in many countries, including the State Audit Office of Hungary, has continuously monitored the development of accrual accounting, the related benefits and risks.

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INTRODUCTION – ACCRUAL ACCOUNTING: AN INTERNATIONAL APPROACH

The comparability of the economic data about individual member states is particular importance on an EU level. Therefore, the EU continues to support the harmonization of various statistical and accounting methods. All of this was, at first, manifested mainly in the context of the uniform statistical methodology as result of the introduction and application of the European System of Accounts 95. In recent years, similar efforts have also been made in the area of state accounting.

The harmonisation efforts are facing difficulties due to the fact that the accounting systems and methods used by the member states are different in many respects. The most significant difference is that all kinds of solutions have been used in the practice of European countries from the cash flow approach, through the combination of the cash-flow and accrual-based system, to the modified cash flow approach and the full accrual accounting. There is also a significant difference in the extent to which member states support the implementation of a single public accounting system for the sub-systems and governmental tasks. (Simon, 2012)

In addition, there are fundamental differences in the ways of producing accounting information. This can be also interpreted as to how much the country is relying on applying accounting standards. In this respect, the practices followed by member states show variances, from evading using standards, through developing own standards to the application of the international standard system.

The public accounting systems of the EU member states have undergone a continuous process of development in the past few years. These changes were strongly supported by the expansion of international accounting standards. In addition, the European Public Sector Accounting Standards (hereinafter referred to as EPSAS) project launched by the European Commission involves many tasks and challenges.

Accountancy changes, in particular, the spread of accrual-based approach is an important area for the SAIs of member states, which has to be given special attention considering the importance of this topic. According to the discussions within the EPSAS Working Group of the Contact Committee of EU SAIs, the overwhelming majority of the SAIs support the introduction of accrual-based accounting in public finances, recognizing its benefits.

BASIS OF ACCOUNTING DEVELOPMENTS

Harmonization between EU member states is proceeding slowly due to the significantly different accounting systems and different development plans for each country. (Harsányi et al., 2016) The governments and the SAIs of the member states are also constantly monitoring the development of public sector accounting.

Countries can be divided into two main categories in terms of the basis of the public sector accounting developments. The first category includes countries which develop their public sector accounting systems on accrual basis as well as on standard basis. These counties are for example Austria, Bulgaria, the Czech Republic, Denmark, Estonia, Finland, France, Latvia, Ireland, Poland and Malta.

The International Public Sector Accounting Standards (hereinafter IPSAS) are currently the only internationally recognized and applied public sector accounting standards. IPSAS have been developed by the International Public Sector Accounting Standard Board, an independent standard-setting body, supported by the International Federation of

Accountants. An important feature of IPSAS is that the number of standards is constantly increasing and they are regularly reviewed.

The uniform application of IPSAS is not mandatory for member states, yet they play an important role in the development of the public sector accounting systems. At present, the IPSAS include 38 accrual-based and one cash-flow standards, which constitute the basis of the International Financial Reporting Standards (IFRS) widely used in the private sector. (Christiaens-Ortmann, 2015)

The development of the conceptual accounting framework of the public sector as well as the focus on specific problems affecting the public sector and the further development of standards are the issues that current processes are still characterised by.

The implementation of IPSAS in 2004 resulted in a significant increase of the aggregate assets and liabilities in the balance sheets of government sector entities. This is a consequence of the fair valuation, and also the changes and development of measurement methods.

The IPSAS are being renewed according to a comprehensive concept, and the special features of the public sector are becoming more and more integrated into the standards. The development program has parallel features in some areas with the development of the IFRS, while specific valuation methods have been developed for social benefits, infrastructure tools and old-age benefits. New standards were also issued for the accounting of non-reciprocal state services (for example, scholarships granted to higher education students or other health care allowances). The mid-term development program of IPSAS has also been developed, which defines the central topics for the period 2019–2023.

The key problem with the application of IPSAS is that they are typically less capable of taking the financial specialities associated with the public sector's annual budgets into account. (Bellanca-Vandernoot, 2014) The fact that the IPSAS are based on the IFRS and that they are therefore too much market-oriented, too much freedom is given for the selection of valuation procedures, is mentioned in many places as one of the downsides related to the implementation of the IPSAS.

The European Commission adopted its report on the applicability of IPSAS in March 2013. It stated that a uniform accrual-based approach in the EU is desirable, but it has been suggested that new standards be developed instead of the IPSAS, recognizing the limitations and problems of the applicability of the same. The purpose of the EPSAS project is therefore to develop a European version of international public accounting standards that would be applicable to all EU member states. The objective of developing the EPSAS is that the European Commission intends to develop specific public sector accounting standards for EU member states.

In the second category of countries, classified on the basis of public sector accounting developments, are those that develop their public sector accounting systems based on one of the approaches of accrual-based accounting, but do not plan to introduce the IPSAS or develop their own standards. Apart from Hungary, this category includes Belgium, the Netherlands and Germany.

METHODOLOGICAL BACKGROUND OF THE STUDY

Below you will find a detailed description of the process the development of the public sector accounting system of two countries followed, highlighting the issue of the SAI's evaluations. One of these countries is Austria and the other is Bulgaria. In addition, we will also give a summary of the changes in the

Hungarian public sector accounting system and the related evaluation and experience of the Hungarian SAI.

The present study intends to outline in more detail the concept according to which and the extent to which the transition to accrual accounting was carried out in the member states in question. Additionally, the paper also presents the specific experiences and other development concepts related to the application of accrual accounting, typically from the perspective of the SAIs in the given countries.

The study is empirically based, on the one hand, on the partial studies of the participating SAIs. It focuses on the transition to accrual-based accounting primarily from the point of view of the SAIs, taking into account the different characteristics of each country.

On the other hand, several studies have been prepared in the past few years concerning the evaluation of accrual accounting. Most of the literature on this subject deals with the comparison of the state accounting system of individual member states. First, they examine where the member states are in the process of transition between cash flow and accrual accounting based on the accounting techniques they use. The European Commission's harmonization effort in the area of accounting is the driving force behind the development of comparative studies. An essential element of this is the knowledge of the accounting situation in the member states. (Deloitte, 2015), (PWC, 2013), (E & Y, 2012)

An additional significant part of the comparative studies deals with the general characteristics of state accounting based on professional interest. (Bellanca et al., 2015), (Aggestam et al., 2014), (Irwin, 2014), (Christians et al., 2010) The common feature of these approaches is that they also analyse the practical application of cash flow and accrual accounting techniques in the EU Member countries. Furthermore, the state accounting system of the member states in general is evaluated comprehensively, with less emphasis on more detailed comparative analyses of certain accounting solutions.

In the countries examined in this study, similarly to other EU Member States, state accounting changes have been studied in the framework of fiscal reforms in recent years. (Schatz, 2017), (OECD, 2017), (Steger, 2013), (Steger, 2010), (Hawkesworth et al., 2009) In the context of budgetary reforms, the state accounting reform was of central importance. The issue of how to provide data on performance as widely as possible has been generally gaining ground in the development of budget management. This is one of the reasons why it is important to analyse the development process of the state accounting system of the examined countries in more detail.

EXPERIENCES OF THE IMPLEMENTATION OF ACCRUAL ACCOUNTING IN AUSTRIA

Austria decided to apply an implementation period from about 2007–2013 which is quite a short time span if you compare it with international examples. The reasons for that were that the Austrian Federal Administration had a quite sophisticated IT system in place together with complete and quite regularly updated registers on all types of assets and liabilities. Such favourable point of departure allowed for a short reform period so reform fatigue could be avoided.

The Austrian Court of Audit (ACA) served, on the one hand, as a sparring partner for the Ministry of Finance when it came to design the implementation of the accrual accounting reform, but on the other hand it was also a very strong advocate on moving to accruals given the enhanced transparency, especially for parliament.

Table 1

OVERVIEW OF THE ACCOUNTING REFORM IN AUSTRIA

	Design Phase	Delivery Phase	Sustain Phase
Strategy/Approach	Embodiment of Accrual Reform Overall Objectives for Public Financial Management	Pragmatism, 80% percent of the solutions focusing on Opening Balance Sheet Reduce uncertainty by cooperating with SAI	Gradual improvement Lower expectation should not be a standard Improve areas addressed in audit
Challenges	Reaching consensus Integration of new elements in workflows and decision making Drafting Legislation and Regulations	Stay within budget and time Accept imperfection Prioritize	Be patient and relentless Improvement is an ongoing activity, not a new reform Political support fades
Role of the SAI	Awareness of the weaknesses of the current financial management system to be addressed Identifying international Best Practices and Standards used as reference	Ensure that resources at hand are spent on the most important and significant issues Provide a basis for decision making at crossroads	Ensure a gradual improvement and use of the new system to generate value for money

Source: Austrian Court of Audit

The process of the accounting reform in Austria is outlined in the following table, the elements of which are elaborated below the table.

Design phase and time frame

At the very beginning of the process there is a time where the reform necessities have to be assessed. This is accomplished by a gap analysis between the current accounting system and the intended new system. Gap analyses cover gaps between accounting standards, IT systems needed and organizational procedures.

Regarding the benefits and use of the new accounting environment, it is helpful to assess the broader context of the reform. What are the key areas of accountability and decision making to be addressed by the enhanced financial information generated? In Austria the main purpose was to provide decision makers with not only cash-flow information, but also with accrual information and be transparent about the nature and worth of the states assets and liabilities and their respective changes.

The current accounting and IT maturity has to be taken into account to ensure that the necessary changes in the workflow procedures and IT systems of the future reporting entities are identified. This involves the collection of data (e.g. property, plant and equipment register, associated entities register, financial instruments register, staff register, etc.), their transformation to accounting information (main ledger, side ledgers, etc.) as well as reports created based on such information (e.g. the financial statement). Necessary interfaces, which can be reduced in complexity if all administrative units use the same IT system, should be given special consideration. The disadvantage of this solution is the higher costs to the IT system, an alternative would be to allow several IT systems, but then their interoperability with the main IT system should be ensured.

Another important decision to be made in the design stage is the scope of consolidation. This decision can be made vertically (layers of government) and horizontally (ministries, agencies, associates). Regarding the horizontal scope of consolidation there is often the question whether to follow the "concept of control" as it is set out in accrual accounting standards or the "concept of market/non-market" as it is set out in the accrual system of national accounts. While the first one allows to all operations of entities controlled by the public administration to be as one operating entity, the second option yields advantages when it comes to translating accrual accounts information into national accounts information.

After all these considerations there is still one left: the implementation period. Here are two main possible approaches: a sunset deadline, which means all entities have to apply all relevant standards by a certain date, and the other one being a gradual implementation allowing a staged introduction of sets of standards or for certain groups of entities.

The main motivation in Austria was to address traditional weaknesses of cash based accounting and budgeting called "fiscal illusions" in Austria. Such illusions included "buy now pay later models", meaning that entities would enter into long term financing agreements to reduce their annual cash spending and to increase the scope of activities they could afford on their given cash budget. "Sale of assets" was another one, which in a cash based system basically just recognized the cash inflow without showing the loss of the asset. In general, in a cash based environment in terms of the core accounting and budgeting you are "blind for liabilities in the future" meaning that for example employee benefits that get paid in the future, but earned during the current year will not show in the accounting system until the point of payment.

In Austria the gap analysis showed that there were significant differences between the current cash based accounting system and the desired IPSAS based accrual accounting system. Fortunately, an SAP based IT system was implemented and rolled out for all federal government entities for accounting purposes about a decade before the reform so the system in place was conceptually capable of performing accrual accounting as well which allowed for a short implementation period and required limited costs of implementation.

One of the challenges regarding IT also was the integration of all the existing side ledgers (subsidy registers, personal IT system, asset management IT system, etc.), and making sure that they translate into accrual figures according to the recognition and measurement criteria set out in the reform.

Given the implementation period of 6 years and the resources allocated to the reform, it became obvious very soon that a full consolidation including state owned entities was not feasible. So Austria decided to leave full consolidation for a later stage and used an equity consolidation (meaning that associates get valued annually with the share of their equity) as a result of which the net effect of operations of these entities became visible within the accounts of the government with reasonable administrative effort. 2013 served as a sunset deadline, meaning that all the federal government entities had to apply the full set of accrual accounting and budgeting laid out in the standardised budget law by 1 January 2013.

Delivery phase and implementation period

The main task to be performed in the next phase of implementing was the implementation of the systems collecting the data and compiling an opening balance sheet.

After information is collected, the measurement base has to be applied in accordance with the chosen accounting standards. It is quite common in such circumstances that e.g. historic cost information is unavailable, and therefore the concept of deemed cost has to be applied. With this method a reference for the historic cost is generated, by assuming an acquisition of the respective asset at the opening balance date and deducting the already consumed useful life period.

Recording long-term assets and liabilities is primary because usually the value of such assets and liabilities doesn't fluctuate, and it is safe to assume that those items will be still on the opening balance sheet. The other current assets and liabilities should be assessed later because they might be gone by the opening balance sheet date or their value would change during the implementation period which may generate futile efforts if they need to be valued on several occasions.

In parallel with the development of the IT system and the collection of information for the opening balance sheet training has to be provided to all relevant stakeholders (accountants, managers, politicians, etc.) to ensure the effective operation and use of the new system once it is finalised. This usually poses a big challenge as several issues may occur at the same time and trainings do not seem to be either detailed or practical enough.

In Austria, the recognition and measurement of long-term assets like property, buildings, bridges, roads, etc. proved to be challenging since there were no historic costs available. So the deemed cost approach was applied using data from the managing entities of e.g. the real estate management entity, or for property an average transaction cost of that type of land in a particular area was taken as reference, etc. Given this pragmatic approach, the role of the SAI was extremely important to assess the conceptual soundness and practical feasibility of these models and at the same time allowing the Ministry of Finance to go ahead with the reform without being afraid that the implementation practices would not find acceptance with the Court of Auditors.

Sustain Phase and feedback cycle of auditing

When transitioning from the implementation phase to the sustain phase the reform project ends and the ongoing improvement activities start. This is usually the time when the project staff is integrated into line units with now enhanced responsibilities related to accounting or even into newly established units responsible for accounting. The advantage of this is obviously that you will keep the implementation knowledge while having the disadvantage that you might have to increase overall staff in administrative units.

Another very important issue is to keep finding weaknesses and flaws in implementation, and try to fix them in an effective and efficient way as much as possible. This sometimes means living with the "weak spot" for a while before getting an opportunity to fix it for reasonable cost.

Areas of improvement will be addressed during the audit of the accrual financial statement, although this will probably be a new area for public auditors, and also it is natural that not all areas are discovered/addressed in the first audit of the accrual financial statement, but will be covered in time.

EXPERIENCES OF THE INTRODUCTION OF ACCRUAL ACCOUNTING IN BULGARIA

The historical development of the public sector accounting in Bulgaria after the democratic changes passed through three distinguishable periods: introduction of the new accounting legislation; modernisation of the public sector accounting framework; and subsequent improvements and adjustments. There are several milestones (in the form of different acts and decrees) in the evolution of public sector accounting in Bulgaria.

Introduction of new accounting legislation in Bulgaria

The first Accountancy Act after the democratic changes in Bulgaria was adopted in 1991. This law abrogated all regulations that were in conflict with it and replaced all accounting regulations that were in force till then. The Accountancy Act and the National Chart of Accounts were mainly based on the continental legal system, especially on the French and the German experience. The legislative system of accounting was given a new structure: a sole specific law (the Accountancy Act) and sub-legislative regulations were drafted under the custody of the Ministry of Finance. The process of harmonization and convergence of legislation with the European legislation was launched during this period. As a result, the Accountancy Act from 1991 was conformity with the Fourth Council Directive 78/660/EEC of 25 July 1978, the Seventh Council Directive 83/349/EEC of 13 June 1983, the Eighth Council Directive 84/253/EEC of 10 April 1984 and the International Accounting Standards.

In 1993 the Government published the National Accounting Standards which were frequently improved to ensure they resemble the International Accounting Standards. The National Accounting Standard No 16 – Presentation of the Accounting Reports of Budget Entities was implemented with Government Decree No 65/1998. The scope of this Standard was to summarise the specific accounting rules of the public sector as well as the requirements to the content of financial statements drafted by budget entities. There were four essential issues that the Standard covered. First, it gave the definition of basic terms such as budget entity, budget revenue and expense, etc. Second, it describes the special features of accrual accounting in a budget entity. The requirement of recording the expenses first by their economic nature and then dissociate them into budget and non-budget expenses was of major importance. Third, the Standard defines the content of annual accounting reports submitted by budget entities. The annual accounting report of a budget entity consists of two parts – the Balance Sheet and an Appendix. If it performs any economic activity too, it has to file a Report of Revenues and Expenses for such activity. And fourth, in order to reflect the features of accrual accounting the budget entities have to compile an Individual Chart of Accounts in conformity with the National Chart of Accounts.

At the end of 2001 a new Accountancy Act was drawn up. It came into effect on 1 January 2002 abrogating the Accountancy Act in effect from 1991. With the new law, the conditions precedent for the adoption of the International Accounting Standards (International Financial Reporting Standards) were set up, and as a result they were implemented on 1 January 2003. Currently, the IAS/IFRS are compulsory with some exceptions such as SMEs and budget entities. For SMEs the Government adopted the National Standards for Financial Reports of Small and Medium Enterprises (Decree No 46/21.03.2005).

The Accountancy Act of 2001 stipulated the basic requirements and rules organising the accounting systems of public sector entities. According to the Accountancy Act the Minister of Finance has to approve the accounting standards and a chart of accounts that comply with the requirements of the EU, the IFAC and the Bulgarian law concerning budgeting, reporting.

The standards and the chart of accounts, and also the methodological guidelines for the implementation of the same have to be developed and updated by the Ministry of Finance. In fact, no National Public Sector Accounting Standards have been adopted so far at all.

Modernisation of the public sector accounting in Bulgaria

A deeper reform in the area of public sector accounting was undertaken in 2005 with the introduction of the Decree No 20/2004 on the Application of the National Accounting Standards by Public Sector Entities. The Decree provides detailed instructions for public sector entities and covers a lot of different issues related to bookkeeping, budget reporting and the preparation of financial statements. Such instructions constitute a sub-legislative normative act which introduces the implementation of National Accounting Standards in the public sector. In fact, the instructions adapt the National Accounting Standards of 2002 to the specific features of the public sector and make specify regulations to be used or the way they are to be changed.

The annual financial statement included the Balance Sheet; the Report on the Cash Performance of the Budget and Non-Budget Accounts and Funds and the Appendix.

During that period, the Ministry of Finance issued various instruction letters on important public sector accounting topics such as expenditure commitments and obligations, arrangements of the accounts for the funds of the European Union.

Recent improvements and adjustments

In 2014, the Public Finance Act came into effect. The objective of the act is to regulate the budgetary framework, the general scheme and the structure of public finances, including public sector accounting. It defines the obligations of the Minister of Finance in regard to the public sector accounting framework, and reflects the requirements of national accounting standards applicable in public sector that comply with the IPSAS and other international documents.

As consequence of the adoption of the Public Finance Act, the Ministry of Finance issued a new Chart of Accounts for public sector entities together with the instructions related to its application. One of the most significant changes was that lands, heritage assets, military assets and infrastructure should be recognised as non-current assets in the Statement of Financial Position. Before that reform, these assets were written off at the moment of their acquisition and the cost of acquisition was recognised in the change of net assets for the period.

An important innovation in public sector accounting was the introduction of the Income Statement in 2016. This key financial statement enhances the transparency of public sector activities as it provides users with information about accrual revenues and expenses.

Another important step towards the adoption of the full accrual basis of accounting was the implementation of depreciation and amortisation. With Decree No 05/2016, the Ministry of Finance gave instructions to depreciation and amortisation being applied in the public sector. The Ministry of Finance expects depreciation and amortisation to improve the quality of financial reporting and statistics of public finance as significant expenses will be recorded in the accounting systems of public sector entities.

Current situation

At present, public sector accounting in Bulgaria is organised on the modified accrual basis. In other words, some asset, liabilities, revenues and expenses are still not recognised in the financial statements. A typical example for such assets are tax receivables and tax revenue. According to the instructions of the Ministry of Finance, tax revenues are recognised when they are collected, i.e. on cash basis. Pension liabilities are also recognised on cash basis.

The full set of annual financial statements consists of a balance sheet (statement of financial position), an income statement (statement of financial performance), a statement on the budget execution and notes. In comparison, IPSAS 1 – The submission of financial statements requires two more additional financial statements: a cash flow statement and a statement of changes in equity.

The auditor's view of the public sector accounting framework in Bulgaria

The public sector accounting framework in Bulgaria is subject to constant adjustments and changes. The approach of the Ministry of Finance is to communicate such changes and to issue new or amending instructions each time without abolishing any previous documents. This mode of enforcing new rules is a serious challenge to public sector auditors as additional efforts are needed to identify the actual requirements of the public sector accounting framework. The Bulgarian National Audit Office (BNAO) encourages the Ministry of Finance to reconsider this approach.

The Bulgarian National Audit Office considers the applicable public sector accounting system in Bulgaria to be a general-purpose fair presentation framework. Thus, financial statements in the public sector are expected to meet the information needs of a wide range of users. In order to achieve that objective and to be useful for the users, financial information should possesses the following qualitative characteristics: relevance, faithful representation, clarity, timeliness, comparability and verifiability. The information in financial statements prepared under the IPSAS possesses these characteristics. The Bulgarian National Audit Office believes that compliance with such qualitative characteristics in Bulgaria is under risk because of the level of integrity of Public Sector Accounting Framework (see Clause 3.2) and the elaboration of Public Sector Accounting Framework on the basis of the National Accounting Standards applicable to the private sector. By contrast, the Ministry of Finance is of the view that the IPSAS are not acceptable because they are not aiming at measuring the budgetary balance and they also differ from ESA 2010 in certain aspects, e.g. in the recognition of impairment, scope of consolidation, etc.

The public sector accounting framework in Bulgaria consists of two main laws, the Accountancy Act and the Public Finance Act, which define the general requirements and rules. Additionally, over 100 decrees and instructions, including individual instructions addressed to specific public sector entities, have been issued by the Ministry of Finance since 2004. These documents also form part of the public sector accounting framework. However, they do not abrogate entirely the previously issued ones, they only amend them partially. This approach results in a situation where the requirements of the framework are scattered over numerous documents, and it is practically impossible to gather them into one place. The Ministry of Finance considers the lack of an integrated framework to be a technical matter.

The requirement of national public sector accounting standards being adopted based on the IPSAS has been present in the accounting legislation since 2001. Notwithstanding this fact, the Ministry of Finance has not endorsed and published any national public sector accounting standards.

Future challenges

The Bulgarian National Audit Office, considering the latest developments of EPSAS project and potential benefits from its implementation, has adopted a Position paper. In the document, the BNAO expresses its support for the full implementation of the accrual-based accounting in the public sector, which will be a basis for accurate measurement and planning of the public sector activities. In addition, the BNAO promotes the initiative for the adoption and implementation of the EPSAS which will improve the quality and transparency of financial reporting in the public sector and will improve the financial management of public resources and public debt.

The Ministry of Finance in response to the Position paper, addressed a Letter to the SAI. The Ministry of Finance supports the approach according to which the public sector accounting should be accrual-based accounting and in accordance with the European System of Accounts. However, instead of implementing the EPSAS, general principle rules should be adopted and laid down, based on which each member state would develop its own national accounting system. The Ministry of Finance shares the position of Germany and France according to which the legal basis for introducing the EPSAS is problematic and Council Directive 2011/85/EU does not provide a legal base for mandatory introduction of the EPSAS. The Ministry of Finance believes that a thorough cost-benefit analysis regarding the implementation of the EPSAS is needed. There is still no convincing analysis about the benefits of the EPSAS that would support the intentions of the EU to enhance the transparency and quality of the public sector accounting. The analysis should:

- include a realistic assessment of the alternative options, including convergence vs. harmonisation;
- consider the remaining functions of the fiscal framework with which the public accounting interacts – budget planning, execution and reporting, statistical reporting and fiscal analysis;
- consider potential users of information included in financial statements drafted in public sector accounting based on the EPSAS;
- consider the extent to which such information would be used for macro analysis, preparation, content and execution of the budget, control, comparison between countries. The Ministry of Finance believes that actual users (Parliament, National Statistical Institute, Bulgarian National Bank, Credit rating agencies, analysts, NGOs) require historic, budgetary or prognostic information that is already prepared with the application of the ESA 2010 and the GFSM 2014.

The Ministry of Finance expects cash-basis accounting to set in permanently and to operate alongside the accrual-based accounting. At the moment, the Ministry of Finance has no plans to change the national legislation and intends to observe Council Directive 2011/85/EU, namely to maintain the accounting system which generates information in accordance with the ESA. The Ministry of Finance does not plan to implement the Statement on Changes in Net Assets/Equity.

The BNAO stipulated in the Position paper that it will continue to monitor the developments of the EPSAS project and it will assess the challenges related to changes of Bulgarian financial reporting framework.

Considering the shortcomings described in Section 3, the Bulgarian SAI encourages the adoption of a consolidated accounting framework in the public sector that will replace the existing framework consisting of a set of common and individual guidelines for reporting. The Ministry of Finance plans to develop national requirements (Decrees and Orders, especially Decree No. 20/2004) in mid-term so that they become more consolidated and consistent.

CHANGES IN THE HUNGARIAN PUBLIC SECTOR ACCOUNTING AND THEIR EVALUATION BY THE SAI

In Hungary, the modified cash-flow approach had been applied to the accounting of the public sector until 2013, where in addition to the cash-based accounts of revenues and expenditures, the assets and liabilities had been accounted for and presented in the balance sheet. From 2014, fundamental changes have been made in the public sector accounting: the accrual approach was introduced with Government Decree 4/2013. (I.11.) on the accounting of public finances. In the new system, the accounting of public finances consists of fiscal accounting and financial accounting. Fiscal accounting ensures the reliable, continuous, clear recording of revenue and expenditure appropriations, cash flow of receipts and expenditures, receivables and liabilities in a closed system, as well as their corresponding reporting thus providing a true and fair view. Financial accounting ensures the reliable, continuous, clear recording of the assets, liabilities and equities and their composition, the result of the performance in a closed system, as well as their corresponding reporting thus providing a true and fair view.

The State Audit Office of Hungary (SAO) has continuously monitored the process of public sector accounting changes. Already before the promulgation of Government Decree 4/2013. (I.11.), the SAO has repeatedly emphasized the need to introduce accrual accounting, highlighting its benefits. Following the promulgation of the Government Decree, but before its entry into force, the SAO prepared an analysis of the risks and challenges related to the introduction of the new system, to which special attention was to be paid. These included:

- the need for change of accountants' approach due to the new accounting valuation approach,
- compilation of an opening balance sheet, transition balance sheet,
- a new consolidation methodology. (SAO analysis, 2013)

In 2014, the SAO launched a series of articles to facilitate smooth transition. In the articles published on the Public Finance Quarterly Online, the SAO employees presented various aspects of the introduction of accrual-based accounting and the initial experiences of the transition. Based on the audit experience, the shortcomings of the IT systems have been identified as the primary difficulty during the transition (Pongrácz É. – Kuszinger A., 2014).

The SAO conducted a questionnaire survey in 2014 among local governments that are most affected by the risks of transition to the new accounting system, to collect the experiences. According to the survey, the vast majority of local governments claimed that the transition to the new accounting system was not without problems. In addition to the lack and deficiencies of adequate IT programs, the shortness of the time available for the transition, and to a lesser extent the lack of resources were mentioned among the difficulties experienced by local governments. Based on the answers given by local governments, the new accounting system can provide better quality information, but its practical benefits have not yet been perceived because of the short time elapsed since its introduction (Dr. Benedek M. – Szenténé T.K. – Farkas M.R., 2014)

In its report on the audit of the final accounts of the central budget of 2013, the SAO assessed the performance of the preparatory tasks related to the introduction of accrual-based accounting within the deadline in 2014. In the report on the audit of the final accounts of the central budget of 2014, the implementation process of accrual-based accounting was presented. In the audits of the final accounts of the central budget of the subsequent years the SAO also evaluated the accrual based accounts and the corresponding parts of the financial reports. Based on the findings of the audits, the auditees ensured overall the preparation of the financial reports in compliance with the legal requirements.

CONCLUSIONS

The governments and the SAIs of the EU member states are largely in agreement that the application of accrual approach is indispensable in the area of public sector accounting. However, its implementation resulted in different solutions.

The development process of the public sector accounting systems of Bulgaria and Austria, presented from the SAI's point of view, confirms the finding that EU member states have different views on the extent the accrual accounting system should be implemented, its applicable methods and the practical implementation of the necessary regulatory background. The evolution of the public sector accounting systems of the three examined countries provides a good example of the differences in the issues that arose in the process and of the proposals developed to resolve them. All of this is a necessary consequence of the different constitutional, political frameworks of each member state and of the different structures and management rules of the public sector.

Multi-faceted concepts and diverse reform programs for the development of public sector accounting make the harmonization of public sector accounting methods at EU level considerably more difficult.

Comparative analysis also reveals that reforms of the state accountancy system of member states show similar characteristics. There is a growing aspiration among the member states to align the budget execution reports with the expectations set for accounting. This enables the various decision-makers and members of society to obtain relevant and realistic information about the fiscal processes.

Furthermore, it is also an important driving force for state accounting developments that, in order to eliminate the "money illusion", the recording of long-term budgetary decisions is becoming more and more important. From this point of view also, it is critical that policy-makers should also be aware of the importance of this information and they create a demand to present such data.

Better presentation of information and its increased reliability add to the fact that the operation of an existing state accounting system is becoming more expensive. This is one of the reasons why the support of policy-makers is essential. The recovery of public funds spent on state accounting developments is typically possible over a longer period of time. The justification of the return is made more difficult by the fact that in the first period of the reform process, typically additional costs are incurred and the available accrual-based data are less efficiently utilized.

The availability of IT systems and tools is essential for the operation of the new state accountancy system. In addition, it is very important that the transformed IT system be able to meet multiple needs in a secure way. Austria is a good example of the conscious development of the IT system, where the IT system supporting the production of new accounting data was built based on the existing experience of the SAP system.

An overview of the state accounting system in each member state also indicates that the development of state accountancy is not a general project with a well-defined endpoint. Due to the changing state and international accounting environment, adaptation of new methods is constantly needed, adapting them to the own environments and needs.

Among the changes in the international environment, the development of the EPSAS managed by the European Commission as well as the spread of the IPSAS standards combining Anglo-Saxon accounting solutions have been very significant. Therefore, Member States have to face an international challenge that significantly affects the national accounting techniques and methods used so far.

For Hungary, it is also interesting to review the experiences of these countries and SAIs because in the deeper evaluation of the introduction of accrual approach into the domestic accounting system considering also the longer term effects, in the further developments of the domestic system or in the later harmonization process, these can provide important comparative information.

It should also be emphasized that the SAIs are key actors in every country in the evaluation and development process of the public sector accounting systems. There are many experiences available to the SAIs, including the SAO through their implemented audits and analyses. Among the opportunities available to SAIs, the methodological development of the audit of annual budget execution reports can be highlighted. The accounting methods used in the compilation of the reports and in the recording of the underlying data affect the audit methods. Due to the numerous national and international changes, in our view, the SAIs of the member states will also play a decisive role in the development process of the state accountancy systems in the future.

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