European Commission

EGPA – spring workshop 2016
Innovations in public sector accounting standards: Are EPSAS the best way to European harmonization?

Modena, 5–6 April 2016

Public sector accounting standard-setting in Europe – state of the art –
Fostering harmonization of public sector accounting systems in the EU

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Budgetary Frameworks Directive (2011/85/EU)

- MSs shall have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government,
- containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard
- subject to internal control and independent audits.

The Commission shall assess the suitability of IPSAS.

Commission report on suitability of IPSAS (2013)

Key conclusions:

- Strong need for harmonised, accruals based PSA systems
- IPSASs cannot be implemented as they currently are
- Technical, conceptual and governance issues to be resolved
- IPSAS would be a suitable reference framework for the development of European Public Sector Accounting Standards (EPSAS)
- Harmonisation on the basis of strong EU governance

Commission report on suitability of IPSAS (2013)

The Commission report classified IPSAS in three groups:

- Standards that might be implemented with minor or **no adaptation**
- Standards that need **adaptation**, or for which a selective approach would be needed:
- Standards that need **reconsideration** before implementation:
    - **IPSAS 6, 28, 29, 30**

Accounting Maturity per MS by level of Government

Proximity to IPSAS

Source: PwC Study on behalf of Eurostat, 2013/14

	Central Government
UK	96%
Estonia	92%
France	89%
Lithuania	88%
Sweden	81%
Czech Republic	75%
Slovakia	75%
Austria	73%
Latvia	73%
Denmark	72%
Finland	72%
Spain	70%
Belgium	67%
Hungary	66%
Poland	66%
Romania	63%
Slovenia	62%
Bulgaria	56%
Portugal	55%
Ireland	54%
Croatia	34%
Italy	31%
Netherlands	31%
Germany	22%
Malta	22%
Luxembourg	19%
Cyprus	14%
Greece	12%

Accounting Maturity per MS by level of Government

Proximity to IPSAS

Source: PwC Study on behalf of Eurostat, 2013/14

	Local Government
UK	95%
Malta	94%
Estonia	92%
Finland	90%
Lithuania	88%
France	84%
Sweden	81%
Portugal	80%
Cyprus	75%
Czech Republic	75%
Slovakia	75%
Belgium	73%
Latvia	73%
Ireland	71%
Spain	68%
Hungary	66%
Poland	66%
Denmark	65%
Romania	63%
Slovenia	62%
Germany	58%
Netherlands	58%
Bulgaria	56%
Croatia	34%
Luxembourg	31%
Italy	30%
Austria	12%
Greece	12%

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Why accruals? – Why harmonised accruals?

From an EU perspective the wide range of public sector accounting standards result in a lack of:

- **Fiscal transparency (= need for accruals), and**
- **Comparability (= need for harmonised accruals)**

due to **non-comparable**, **incomplete** and **inconsistent** primary accounting data

This impacts on both General Purpose Financial Statements and Government Finance Statistics

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Why accruals? – Why harmonised accruals?

CONSEQUENCES

At EU level:

- Economic governance
- Internal market
- Statistics

At national / entity level:

- Efficiency and effectiveness hampered
- Accountability is limited
- Reduced access to financial markets
- Challenges for public auditors

PROBLEM

NON-COMPARABLE

NON-TRANSPARENT

Key objectives

The primary objectives of the proposed initiative are to

- increase **fiscal transparency** and
- achieve **comparability** within and across Member States . . .
- **minimise incoherence** between the micro-level and the ESA macro-level accounting and reporting frameworks

The European Union has a strong interest in both

- sound **financial** reporting and
- sound **statistical** reporting

and both sets of rules should be complied with.

Benefits vs Costs

Costs: significant, mostly one-off and for the short term

Benefits: sustainable and for the medium to long term, but difficult to quantify:

- more fiscal **transparency** on a comparable basis
- more efficient **public administration**
- More effective **budgetary control**
- more **accountability** of public money managers
- more **stable and sustainable public finances** – inter-generation fairness
- better **access to capital markets**

Net-benefits outweigh the costs

Benefits vs Costs

Extrapolated costs at EU level spread over the reform period

- Scenario 1 – Adaptation of all existing IT systems

  between 1.2 billion and 2.1 billion EUR

- Scenario 2 – New IT systems for all entities with low IT maturity

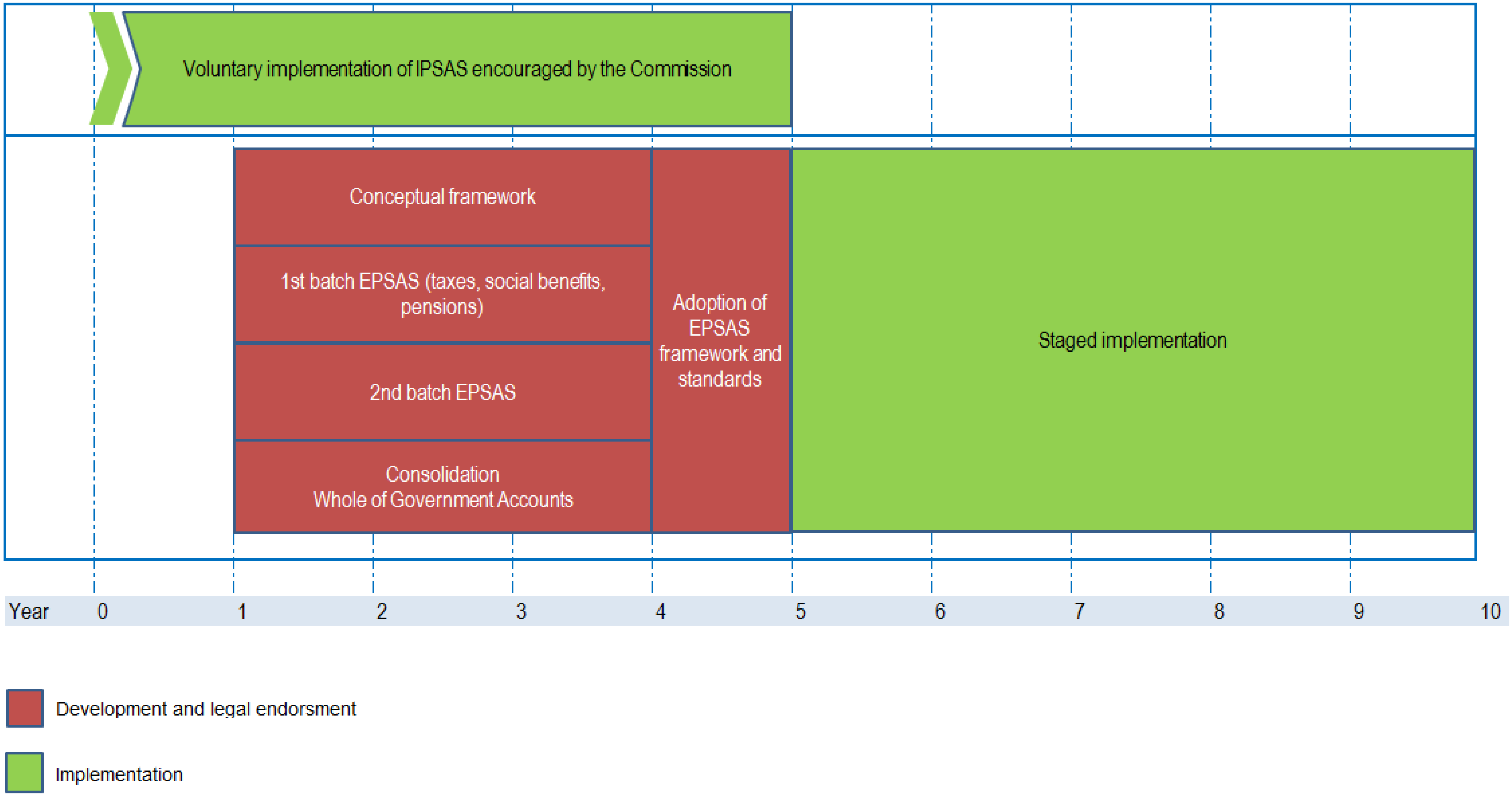
  between 1.8 billion and 6.9 billion EUR

IPSAS report (2013): costs of 0.02-0.1% of GDP

PwC Study (2014): costs of 0.01-0.05% of GDP

NB: To interpret with due care, taking into account the inherent limitations of such extrapolations.

Increasing fiscal transparency first, comparability later



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Towards EPSAS implementation

EPSAS will have to:

- be implemented over a **medium-term** perspective
- be a **gradual, stepwise process** – taking into account the existing accounting maturity, of those entities booking on a cash basis only
- have an initial focus on **public-sector-accounting-specific** issues
- represent **no step back** for the most advanced accounting systems
- take into account **materiality** considerations – relief for small and less risky entities, e.g. at local government level

Our priorities – Autumn 2015 to 2016

- EPSAS Working Group
- Further support of accruals implementation and IPSAS
- EPSAS Cells – First Time Implementation and Definitions, Governance Principles, Principles related to EPSAS standards, EPSAS due process …
- Issues papers (Options in IPSAS, relief for SLREs, Taxes, …)
- Preparing the concrete proposal on the EPSAS framework
- Widening the range of stakeholder activities

Development of EPSAS framework

- EPSAS Working Group
- EPSAS Cell on First Time Implementation
- EPSAS Cell on Definitions *(combined with Cell on FTI)*
- EPSAS Cell on Governance Principles
- EPSAS Cell on Principles related to Standards

EPSAS Framework

EPSAS is a major EU initiative

It is an investment in the future

European Commission (Eurostat) Task Force EPSAS:

http://ec.europa.eu/eurostat/web/government-finance-statistics/government-accounting