



FEE PUBLIC SECTOR ROUNDTABLE

Paving the way to accruals accounting in Europe: challenges and potential solutions for transition

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Latest from the EPSAS project

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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 the International Public Sector Accounting Standards (IPSAS) for the Member States.

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
 - **not in full and not directly**
- There are technical, conceptual and in particular 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

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

Why accruals? – Why harmonised accruals?

No common reference standards exist in the Union defining how the relevant individual transactions and economic events should be:

- Recorded
- Recognised
- Measured
- Consolidated, and
- Reported . . . at the source.

Unilateral modernisation efforts of MSs have not been effective enablers of fiscal transparency and comparability

EPSAS

European Public Sector Accounting Standards

- **EPSAS is a major EU initiative**
 - aimed at financial transparency and comparability between and within MS
 - by harmonising financial accounting and reporting on an accrual basis for all types of public sector entities, at all levels of government in the EU.

PwC study on behalf of Eurostat (2014)

"Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards"

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/EPSAS-study-final-PwC-report.pdf

- **Task 1:** Assess the costs and benefits of implementing EPSAS
- **Task 2:** Critical analysis of IPSAS as a basis for developing EPSAS (assess state of play of government accounting in the EU + suitability of IPSAS considering Member States concerns)
- **Task 3:** Summary and proposals for implementation

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 **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

PwC Study (2014): extrapolated costs at EU level 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.

The EPSAS framework

The EPSAS framework should comprise:

- **Principles** underlying governance
- Governance **mechanism**
- **Due process**
- Standard-setting **capacity**
- **IPSAS** as first reference base

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

EPSAS Meetings

TF EPSAS Governance

- 2 Oct 2013
- 13 Feb 2014
- 27 Mar 2014
- 20/21 Nov 2014
- 17/18 Mar 2015

TF EPSAS Standards

- 12 Feb 2014
- 13 Jun 2014

EPSAS Cell First Time Implementation

- 12 June 2015

WG EPSAS

- *15-16 September 2015 (p)*

CIRCABC: <https://circabc.europa.eu/w/browse/8b9f731d-4826-4708-9069-5f65a9edc9bf>

Current work

- EPSAS is a major EU initiative (investment in the future)
- Communication and exchange with stakeholders
- Preparation of EPSAS framework (incl. legislative proposal)
- Supportive measures for raising the accounting maturity and to prepare the move to accruals in the MS (incl. Call for Proposals)
- First Time Implementation Guidance for OBSs



European Commission (Eurostat) Task Force EPSAS:

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