

**ACCOUNTANCY  
EUROPE.**

# WELCOME





# **ACCOUNTANCY EUROPE**

## **PUBLIC SECTOR REFORM: REPORTING AND AUDITING ACCRUAL BASED ACCOUNTS**

**Thomas Müller-Marqués Berger**



# OPENING REMARKS

**Edelfried Schneider**

Accountancy Europe, President



# **LATEST TRENDS IN PUBLIC SECTOR REPORTING**

**Alexandre Makaronidis**

European Public Sector Accounting  
Standards, Head of Unit

# **Accountancy Europe Public Sector Roundtable**

## **Public sector reform: Reporting and auditing accrual based accounts**

### **Luxembourg, 30 June 2017**

## **EPSAS update**

**Alexandre Makaronidis**

**Head of Task Force EPSAS, European Commission - Eurostat**

# Context

General Purpose Financial Statements should provide a true and fair view of the financial position and performance of reporting entities for accountability and decision making purposes, whether they are private or public sector.

But, no common financial accounting standards for the public sector - contrast to the private sector.

No common underlying set of public sector accounting standards - risks for the transparency and comparability of entity-level financial accounting data.

## IPSAS/ EPSAS and GFS/ EDP

- IPSAS and ESA are **two sets of standards which are independent** from one another, serving two separate sets of reporting frameworks.
- **No automatic link** and no conceptual or methodological reason for IPSAS or EPSAS to impact on Maastricht debt or deficit figures.
- **No evidence** that previous national accruals reforms provoked uncontrolled or dramatic consequences on EDP indicators.
- **No reason** to expect a revised picture of the past through substantial or systematic changes to any given individual MS's set of macroeconomic indicators.
- EPSAS is a **forward** looking reform.



## IPSAS/ EPSAS and GFS/ EDP (. . .)

*N.B.: Terminology – potential source of confusion*

- Surplus/ Deficit in EPSAS = increase/ decrease in net-worth
- Surplus/ Deficit in GFS/ EDP = net lending/ net borrowing
- Surplus/ Deficit in EPSAS  $\neq$  surplus/ deficit in GFS/ EDP

# Flexible, stepwise approach in two phases

## Phase 1

- Increasing fiscal transparency in the short to medium term by promoting accruals accounting, e.g. IPSAS, in the period from 2016 to 2020:
  - Financial support to investments in the modernisation of public sector accounting systems
  - Technical guidance on first time implementation of accruals
  - ...

# First Time Implementation Guidance: Main directions

- Pragmatic and cost effective approach for the preparation of the first OBS in order to increase accounting maturity.
- Focus first on the most comprehensive coverage possible of assets and liabilities and significant events and transactions.
- Relax comparability – this issue would be addressed further later on, when EPSAS standards are defined.
- Initial measurement should allow for ongoing accrual accounting on the basis of the first OBS.

# Flexible, stepwise approach in two phases

## Phase 1 ( . . . )

- Developing a conceptual framework and standards:
  - Governance principles and due process
  - Accounting principles and standards
  - Technical work on standards with focus on public sector specificities
  - . . .

# Focus on public sector specificities

Eurostat commissioned **10 issues papers** on key public sector accounting topics in 2016:

|   |                         |
|---|-------------------------|
| • Small and less risky entities         | • Social benefits       |
| • Options in IPSAS                      | • Infrastructure assets |
| • Taxes                                 | • Segment reporting     |
| • Heritage                              | • Military assets       |
| • Employee benefits ( <i>pensions</i> ) | • Social contributions  |

# Focus on public sector specificities

**10 more issues** papers are being commissioned in 2017

The first seven currently under preparation:

|  |                              |
|--|------------------------------|
| • Member States' reforms harmonising national Charts of accounts                 | • Loans and borrowings       |
| • Intangible assets  | • Grants and other transfers |
| • Principled approach to disclosures   | • Discount rates             |
| • Provisions, contingent assets, contingent liabilities and financial guarantees | • ...                        |

# Flexible, stepwise approach in two phases

## Phase 1 ( . . . )

- . . .
- Review and Impact Assessment
  - EPSAS costs and benefits
  - Impact of EPSAS on EU policies:
    - ✓ CMU
    - ✓ investment, jobs and growth
    - ✓ democratic accountability and scrutiny

## Phase 2

- Stepwise implementation of EPSAS e.g. by 2025



European  
Commission

MS with  
comprehensive  
accruals in  
2013/  
continuing  
modernising

MS  
implementing  
accruals/  
IPSAS

MS planning/  
considering  
implementation  
of accruals/  
IPSAS

MS which  
do not plan  
change



# Why do we need EPSAS after Phase 1?

- Unilateral modernisation efforts of MSs have not led to fiscal transparency and comparability within and between MSs.
- High level accounting principles alone cannot deliver EU-wide comparability either.
- Reforms in MSs are assumed to continue in the general direction of IPSAS, which would improve financial transparency but not comparability.

## What does EPSAS bring to public sector audit?

- EPSAS will provide the missing common set of accounting standards (the common benchmark) against which auditors will audit entity level GPFS.
- A common set of accounting standards is a necessary condition for receiving audit assurance about the quality of entity level data on a comparable basis.
- The availability of a complete and audited set of accruals-based financial statements and underlying accounts is a necessary condition for fiscal transparency and comparability.
- By reducing complexity, EPSAS will facilitate the work of internal control and independent audit and also address the risks faced by statisticians.

## What does EPSAS bring to politicians and policy makers?

- The view that financial management is not only about expenditure
- High quality information on income and expenses, assets and liabilities of public sector entities for better management of public finances
- Increased credibility of governments and public entities and support their oversight and access to capital markets
- Supports fiscal stability and sustainability (e.g. inter-generational fairness)
- A view of the economic value that policies render to citizens

# European Commission (Eurostat) Task Force EPSAS:

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

# LATEST TRENDS IN PUBLIC SECTOR REPORTING

**Peter C. Lorson**

University of Rostock, Dean of the  
Faculty of Economic and Social  
Sciences

# DiEPSAm:

An ERASMUS+ funded Project on University Modules for  
Public Sector Accounting in Europe

Luxembourg, 30 June 2017

The Project in a Nutshell

Prof. Dr. Peter C. Lorson

# ACRONYM

DiEPSAm means

*Disclaimer:*  
**BUT: State of the Art and Recent Developments**  
**PSA in Europe ≠ EPSAS**

|   |                            |
|---|----------------------------|
| D eveloping and<br>i mplementing        | Todo's                     |
| E uropean                               | Regional reference         |
| P ublic<br>S ector<br>A ccounting       | Object                     |
| m odules [and a complementary textbook] | Intellectual outputs<br>In |

# Outline

1

- Key facts

2

- Details on the modules

3

- Timeline & Dissemination

4

- Contact



# 1 Key facts: Funding

- Funding body: EU Erasmus +
- Project duration: 35 months (ending in August 2019)
- Maximum grant: 375,430 EUR
- Project coordination: University of Rostock / Germany
- Consortium of Five European universities

# 1 Key facts: 5 Partners

Lasse **OULASVIRTA** / Pasi **LEPPÄNEN**  
/ Eija **VINNARI**  
UNIVERSITY  
OF TAMPERE  
University of Tampere

Ellen **HAUSTEIN** / Peter **LORSON**  
University of Rostock

Universität  
Rostock



Traditio et Innovatio

Universität  
Rostock



Traditio et Innovatio

**FEUC**

UNIVERSITY OF  
LEICESTER

**JYU**

JOHANNES KEPLER  
UNIVERSITÄT LINZ

UNIVERSITY  
OF TAMPERE

Andy **WYNNE**  
University of Leicester



UNIVERSITY OF  
LEICESTER

Susana **JORGE**  
University of Coimbra

**FEUC**

Faculdade  
de Economia  
Universidade  
de Coimbra

**JYU**

JOHANNES KEPLER  
UNIVERSITÄT LINZ

Dennis **HILGERS** / Lisa **SCHMIDTHUBER**  
University of Linz

# 1 Key facts: Major Providers of Support Letters

Funded by the  
Erasmus+ Programme  
of the European Union

Universität  
Rostock



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EUROPEAN COMMISSION  
EUROSTAT

Directorate C: National accounts, prices  
and key indicators

Task Force EPSAS

**EGPA/IIAS**  
European Group  
for Public Administration



**GEAP/IISA**  
Groupe Européen  
pour l'Administration Publique



Universität  
Rostock



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**FEUC**

UNIVERSITY OF  
LEICESTER

**JKU**  
JOHANNES KEPLER  
UNIVERSITÄT LINZ

UNIVERSITY  
OF TAMPERE

STÄDTE- UND GEMEINDETAG  
MECKLENBURG-VORPOMMERN e.V.  
KOMMUNALER SPITZENVERBAND ALLER STÄDTE UND GEMEINDEN

Mecklenburg-West Pomerania  
League of Towns and Cities -  
Municipal Head Organisation



# 1 Keyfacts: Advisory Board

| EU Improvement Goals  | Advisory Board Members   |
|---|--|
| Foreign language competences  | Jürgen HANDKE<br>Philipps University Marburg, Germany<br>e.g. Anglistics & Digital Learning                                  |
| Digital competences   | Rui LOURENÇO<br>University Coimbra, Portugal<br>e.g. E-Government  |
| Understanding and responsiveness to social, political, cultural diversity within the EU | Eugenio CAPERCHIONE<br>University of Modena, Italy; CIGAR<br>e.g. Comparative International Governmental Accounting Research |
| Positive attitude towards the EU and its values   | Hanna SILVOLA<br>Aalto University, Finland; EAA<br>e.g. European Accounting Association                                      |
| Opportunities for professional development  | Thomas MÜLLER MARQUES-BERGER<br>E&Y, Germany; ACE<br>e.g. Accountancy Europe   |
|   | Alison SCOTT<br>CIPFA, UK<br>e.g. Chartered Institute of Public Finance and Accountancy                                      |

# 1 Keyfacts: Project outputs

## Intellectual Outputs

|        |  |  |
|--------|--|--|
| No. 1: | University modules   |  |
|        | <p>Scalable:</p> <ul style="list-style-type: none"> <li>• Intermediate (Bachelor's) and advanced (Master's) level</li> <li>• Ranging from 75 min. up to 6 ECTS (= 3 hours per week)</li> </ul> | <p>Comprehensive materials</p> <p>- Ready to use:</p> <ul style="list-style-type: none"> <li>• Lesson plan</li> <li>• Slides, videos/podcasts,</li> <li>• Instructions, case study, exercises, essay subjects</li> </ul> |
| No. 2: | Textbook „European Public Sector Accounting“   |  |
|        | Comparative views of the partners' diverse national PSA traditions   |  |

## 2 Details on the modules: Structure

| Topic Public Sector        | No. | Preliminary module structure   |
|----------------------------|-----|--|
| Accounting                 |     |  |
| Motivation                 | 1   | Introduction & glossary / outline  |
| Development of PSA         | 2   | History of PSA & alternatives  |
|                            | 3   | Reasons for differences to the private sector  |
| Accounting theory          | 4   | Theoretical approaches to accounting purposes (incl.   |
|                            | 5   | budget (1)   |
| Harmonisation challenges   | 6   | Harmonisation of public sector standards & (11) Motivation   |
|                            |     | statutory requirements (14) Accounting Cycle   |
| Conceptual frameworks      | 7   | Public accounting objectives / conceptual frameworks in partner countries Harmonization perspectives |
|                            | 8   | History, spread & use  |
| IPSAS                      | 9   | Standards introduction /   |
|                            | 10  | original IPSAS Case study  |
| Accounting cycle           | 11  | Process of PSA, reporting & auditing   |
| Consolidated accounts      | 12  | Consolidated financial statements  |
|                            | 13  | Consolidation methods & reporting 8  |
| Harmonisation perspectives | 14  | Closing lecture / EPSAS progress   |

30 June 2017

Prof. Dr. Peter C. Lorson

DiEPSAS Project | ACE Roundtable "Public sector reform: Reporting and auditing accrual based accounts"

## 2. Details on the modules: Level

BACHELOR □ video-based

MASTER □ inverted  
classroom

PILOTs WINTER TERM 2017 (6 ECTS): University of Rostock: Learning and Qualification Objectives (Competences) –

### PROFESSIONAL COMPETENCES

- Characteristics of Public Sector and PSA
- Understanding of different regimes (Cash vs. Accrual; MSs vs. EPSAS; ...)
- Understanding of application, Pros/Cons
- Reasons/need for PSA harmonisation
- Knowledge on EPSAS (resp. Status quo)

→ Video Lectures with Students  
→ Knowledge

- Need for specific PSA regimes
- Basics:

→ Inverted Classroom  
→ Critical Reflections / Discourse

- Critical reflections on
  - Selected regimes
  - EPSAS project from different perspectives (EC, MS, etc.)

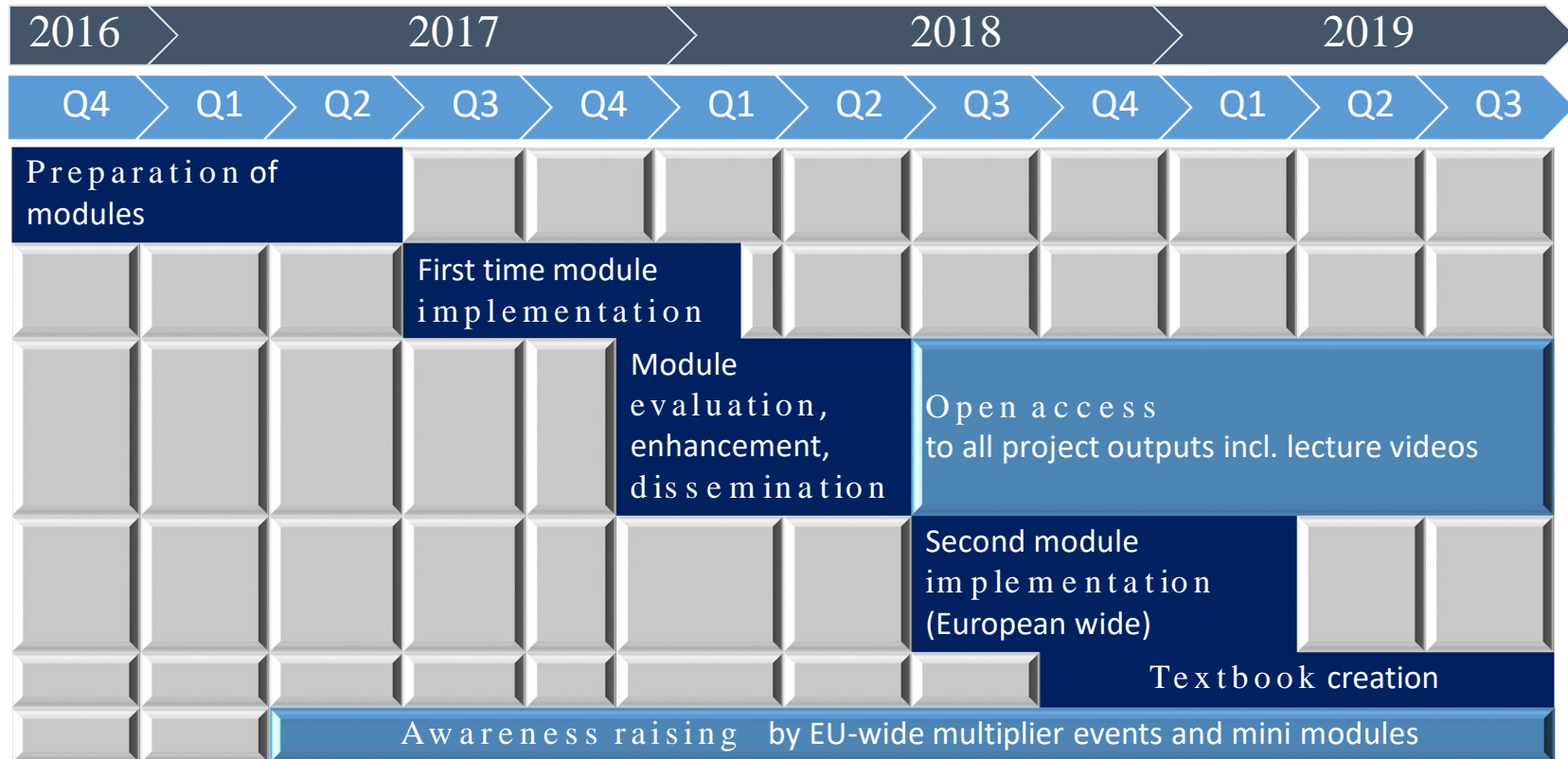
### SOFT SKILLS

- Digital, media, language
- Presentation

- Digital, media, language
- Presentation, moderation

- Scientific discourse

# 3 Timeline & Dissemination





# 4 Contact



Prof. Dr. Peter Christoph Lorson

Chair of Accounting, Management Control and Auditing  
Center for Accounting and Auditing (CAA) – Executive Director  
Affiliated Institute for Bank Law and Bank Economics – Executive Director

Faculty of Economic and Social Sciences – DEAN

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[peter.lorson@uni-rostock.de](mailto:peter.lorson@uni-rostock.de) | [www.uni-rostock.de/bwl/rewe/](http://www.uni-rostock.de/bwl/rewe/)

<https://www.wiwi.uni-rostock.de/en/diepsam/home/>



Thank you very much

- for the opportunity to present the DiEPSAm project and
- for your attention



# LATEST TRENDS IN PUBLIC SECTOR REPORTING

**Neil Stevenson**

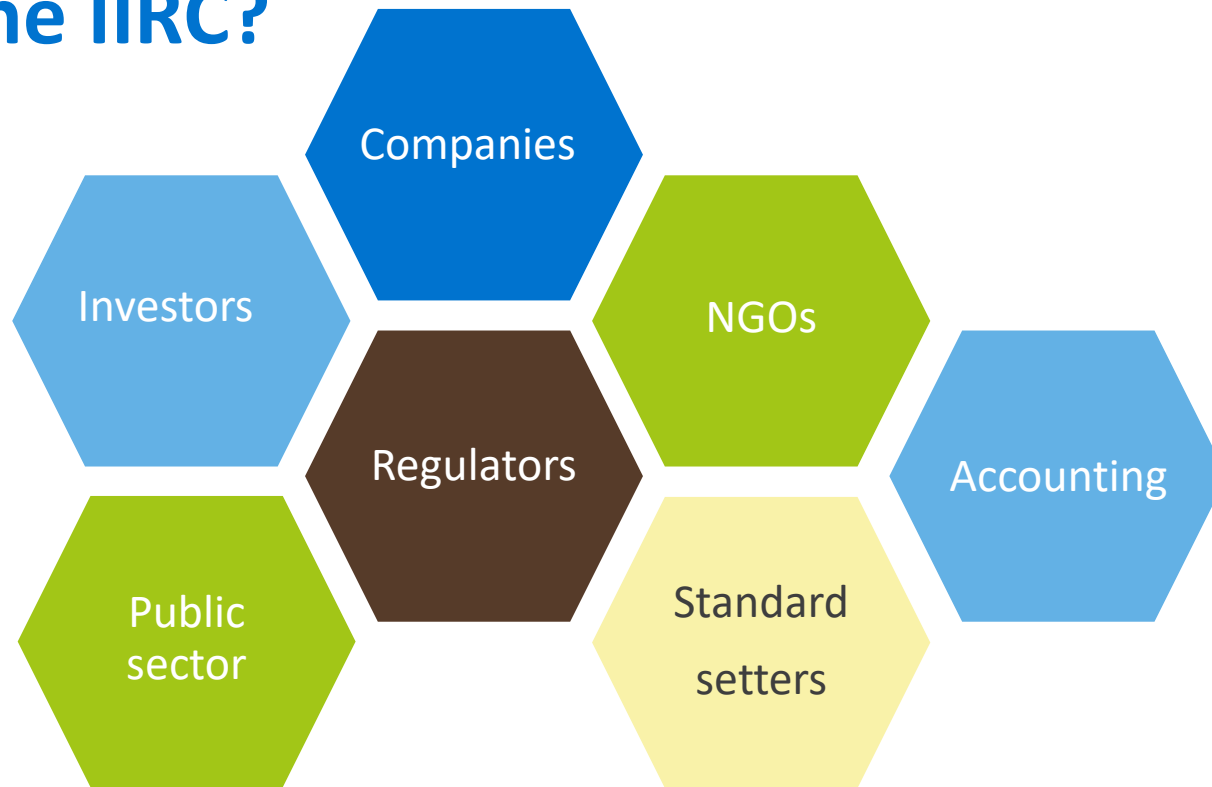
IIRC, Managing Director Global  
Implementation

**INTEGRATED REPORTING <IR>**

# **Creating value through reporting in the public sector**

International Integrated Reporting Council

# Who is the IIRC?



# IIRC Mission

The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors

**Creating value is in  
the DNA of the  
public sector**

## Public sector viewpoint on value creation

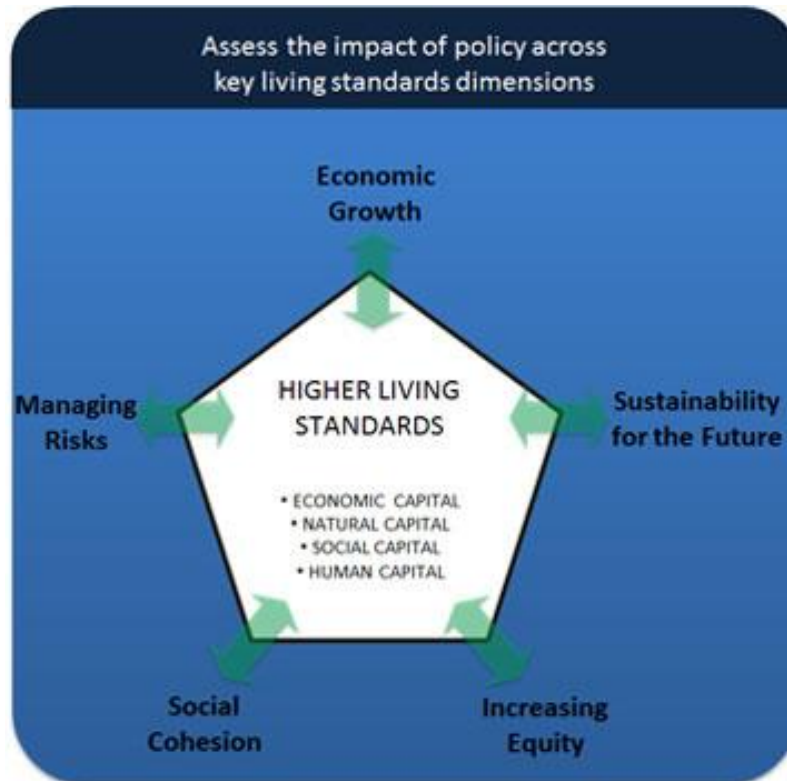
- Financial capital as a ‘means to an end’
- Users of public services are also ‘co-producers’ and source of financial capital
- Value creation should increase public value
- Public sector leadership on sustainable development
- Integrated thinking can cultivate strong institutions
- Opportunity to rationalise often complex reporting strands



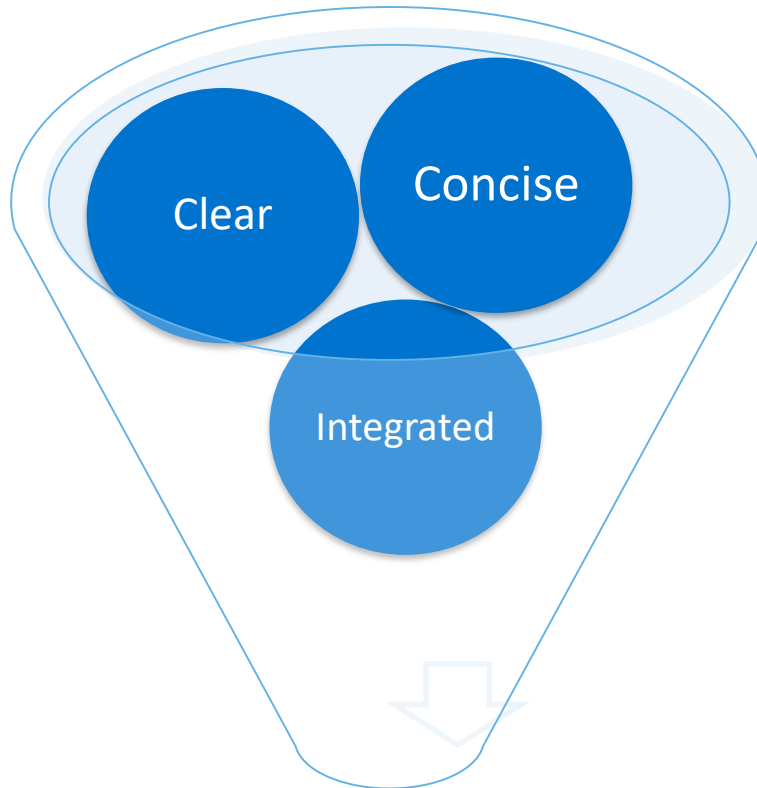
**‘We wish to pursue policies that promote equitable and sustainable economic growth – what we refer to as “good-growth” policies.’**

*New Zealand Treasury*

# Multi-capitalism and public services



Source: New Zealand Treasury



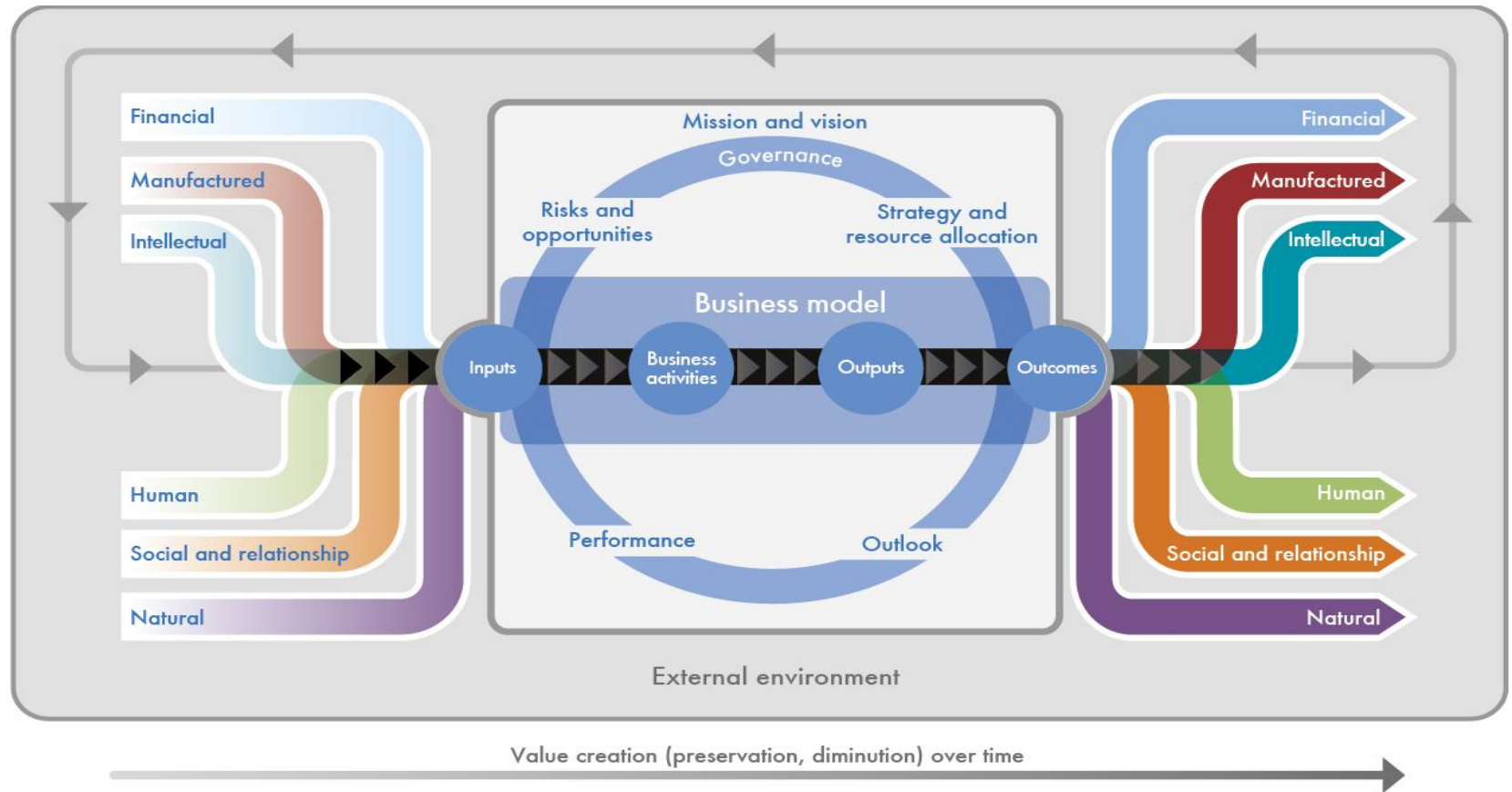
**Organizations are using <IR> to communicate a**

**story that explains how all of their resources are creating value**

**It is helping businesses to think holistically about**



**to build stakeholder confidence and improve future performance**

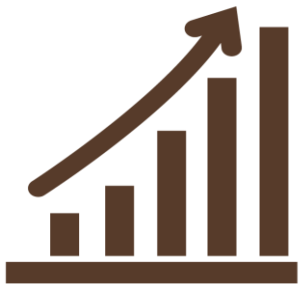


## Organizations on the <IR> journey

Association of Chartered Certified Accountants, Bangor University, Center for Corporate Reporting, Chartered Institute of Management Accountants, Confederation of Indian Industry, Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili, Corporate Governance Association of Turkey, CPA Australia, Eskom Holdings SOC Limited, Fasset, Institute of Chartered Accountants of Sri Lanka, Malaysian Institute of Accountants, Maritime and Port Authority of Singapore, Nederlandse Beroepsorganisatie van Accountants, Newcastle University, NHS Greenwich Clinical Commissioning Group, NZ Post Group, Rosatom, Singapore Accountancy Commission, South Asian Federation of Accountants, The Crown Estate, The University of Edinburgh, The World Bank, University of Winchester



Of SA Non-Executive Directors believe **integrated thinking increases the quality of organisations' dialogue with shareholders** other stakeholders



**92%**  
Of participants see increased understanding of value creation



**‘Organisations... are reminded  
that Integrated Reporting is  
strongly encouraged.’**

*UK Treasury, annual report guidance, 2015-16*



Over **1,500**  
organizations do <IR>

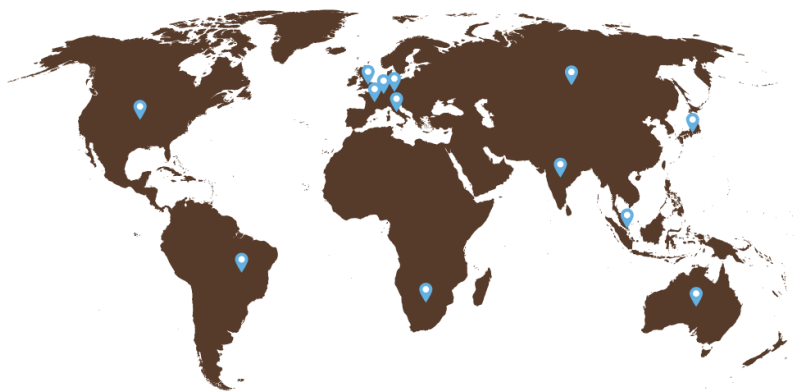


Over **50%** of CEOs, CFOs and COOs  
are moving towards <IR>

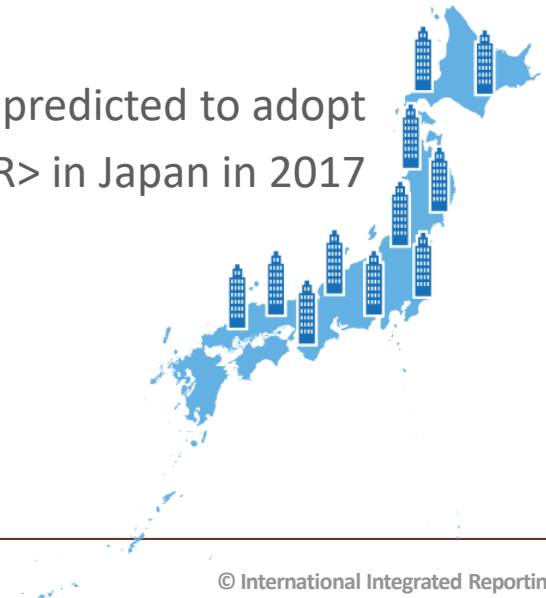


And over **35%** say they will

**2,000** participating in <IR> Networks worldwide



**320** predicted to adopt  
<IR> in Japan in 2017



# Resources

HOME THE IIRC NEWS NETWORKS RESOURCES CORPORATE REPORTING DIALOGUE

Search

Go

## INTEGRATED REPORTING <IR>

Welcome to the IIRC's new website, the home of Integrated Reporting.

<IR> is enhancing the way organizations think, plan and report the story of their business.

Organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of their resources are creating value. <IR> is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance. It is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting.

Be part of the <IR> movement.

Why? The need for change

What? The tool for better reporting

How? Practical advice and tools

When? Advocate for global adoption

[www.integratedreporting.org](http://www.integratedreporting.org)

## Integrated Reporting Examples Database

Sharing real examples of leading practice in Integrated Reporting to help organisations on the <IR> journey

### <IR> Training

Developing skills needed for effective adoption of <IR>

### <IR> Network

Bringing together organisations worldwide to enhance the way they think, plan and report.

[examples.integratedreporting.org](http://examples.integratedreporting.org)

PROGRESS THROUGH REPORTING <IR>

**INTEGRATED REPORTING <IR>**



# LATEST TRENDS IN PUBLIC SECTOR REPORTING

**Thomas Müller-Marqués Berger**

Accountancy Europe, Chair of the  
Public Sector Group

## **2019-2023 Strategy & Work Plan Development – Introduction**

**Thomas Müller-Marqués Berger**  
IPSASB CAG Chair

# 2023: The Vision

## Majority of central / federal governments on accrual

- IPSASB as key advocate and facilitator
- Strong global and regional adoption coordination

## Accrual information seen as essential for strong PFM

- International organisations promoting IPSAS – guidance on usage
- Ratings agencies increasingly demanding IPSAS-based information

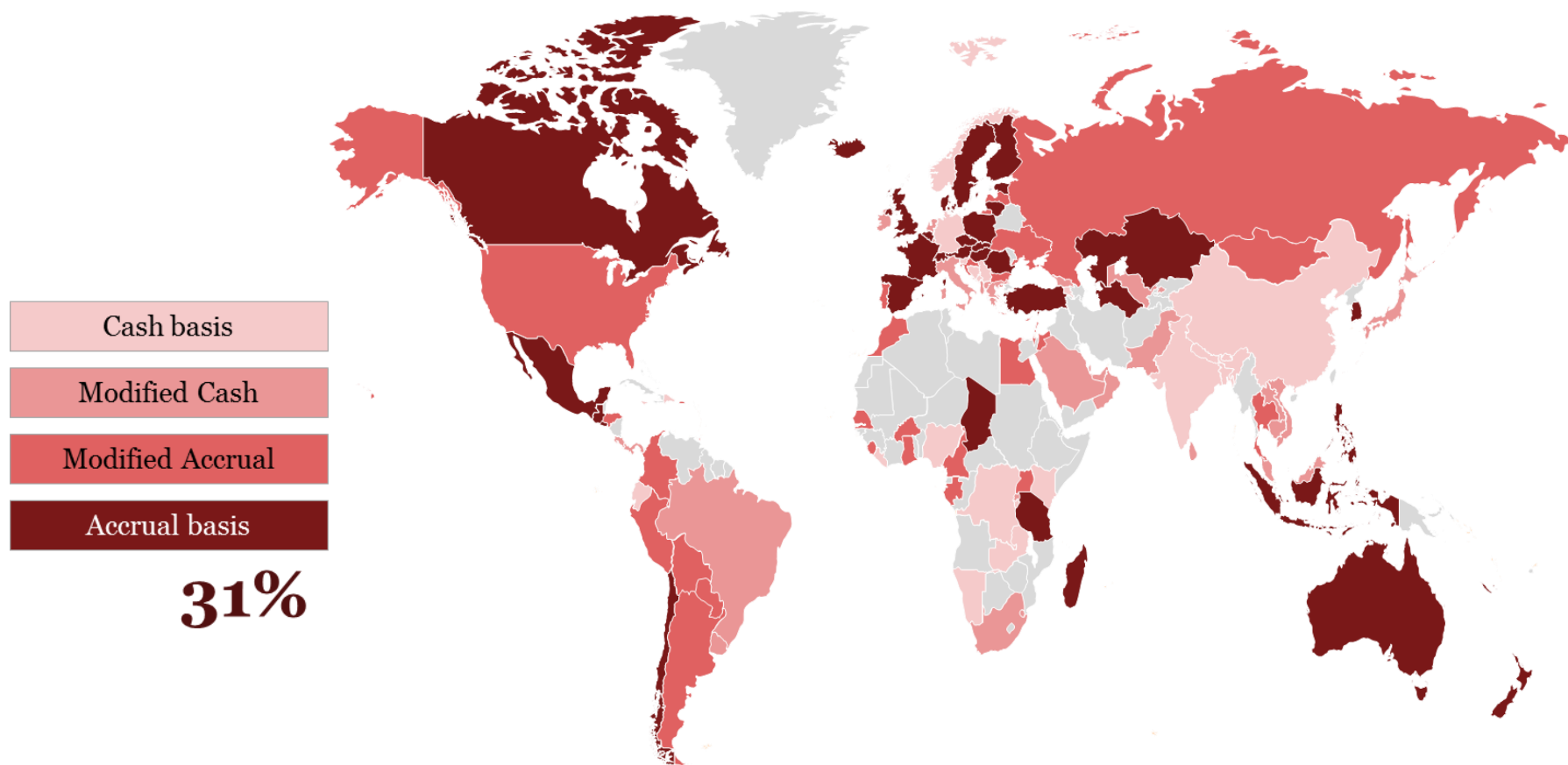
## ‘Complete’, up-to-date and relevant IPSASs suite

- Major public sector gaps filled
  - Fully converged with latest relevant IFRSs
  - Effective stakeholder communication tool



# Accrual implementation – Position in 2015

Still great diversity in current central government accounting landscape

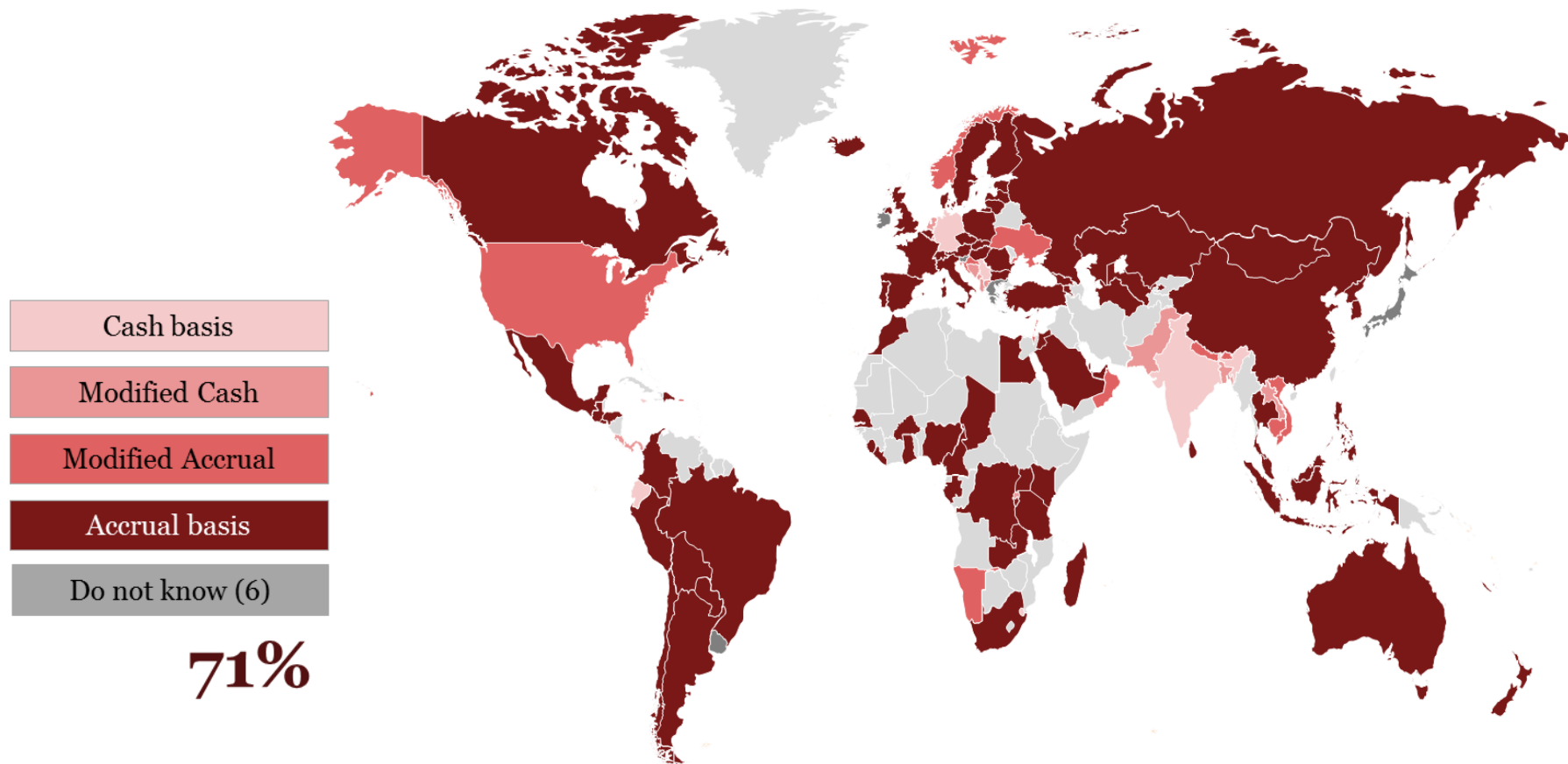


Source: PWC Global Survey on Accounting and Reporting by Central Governments (2<sup>nd</sup> edition)



# Accrual implementation - Future plans

But the 5-year trend toward accrual accounting is clear.....



Source: PWC Global Survey on Accounting and Reporting by Central Governments (2<sup>nd</sup> edition)

# IPSASB's Current Strategic Objective

Strengthening Public Financial Management and knowledge globally through increasing adoption of accrual-based IPSASs by:

- Developing high-quality financial reporting standards
- Developing other publications for the public sector
- Raising awareness of the IPSASs and the benefits of their adoption

# Delivery challenges (1): Range and complexity of projects

| Project   | Public sector specific | IFRS convergence |
|---|------------------------|------------------|
| Social Benefits                                 | ✓                      |                  |
| Revenue & Non-Exchange Expenditure              | ✓                      | ✓                |
| Financial Instruments                           | ✓                      | ✓                |
| Leases  | ✓                      | ✓                |
| Public Sector Measurement                       | ✓                      |                  |
| Heritage  | ✓                      |                  |
| Infrastructure Assets (starting September 2017) | ✓                      |                  |
| Cash Basis IPSAS (limited-scope update)         | ✓                      |                  |

## Delivery challenges (2): Planned outputs by end 2018 and beyond.....

| Project                                 | By end 2018 | IPSAS post 2018 |
|---|-------------|-----------------|
| Social Benefits                         | IPSAS       |                 |
| Non-Exchange Expenditure                | ED          | 2020 H1         |
| Exchange Revenue (IFRS15-based)         | ED          | 2020 H1         |
| Non-Exchange revenue (IPSAS 23-based)   | ED          | 2020 H1         |
| Financial Instruments (IPSAS 29 update) | IPSAS       |                 |
| Public Sector Financial Instruments     | ED          | 2020 H1         |
| Leases                                  | IPSAS       |                 |
| Public Sector Measurement               | CP          | 2020 H2         |
| Heritage                                | ED          | 2020 H2         |
| Infrastructure Assets                   | CP          | 2020 H2         |
| Cash Basis IPSAS                        | IPSAS       |                 |

# 2019-23 Strategic challenges

Complexity of PFM landscape

Coordination with other stakeholders?

Relative balance between:

- Addressing public sector-specific issues
- Maintaining IFRS convergence
- Improving financial reporting communication
- Promoting accrual-based information usage

Board's role in relation to adoption and implementation?

How do these demands fit with available resources?

## 5 strategic themes

Setting standards on public specific issues

Maintaining IFRS convergence

Improving financial reporting communication

Promoting accrual-based information usage

Supporting IPSASs adoption and implementation

# Delivering the Vision: New Strategy and Work Plan for 2019 onwards....



# Questions, discussion & further information



- Visit our webpage <http://www.ipsasb.org/>
- Or contact us by e-mail :  
IPSASB Chair: [iancarruthers@ipsasb.org](mailto:iancarruthers@ipsasb.org)  
Technical Director: [johnstanford@ipsasb.org](mailto:johnstanford@ipsasb.org)
- IPSASB CAG Chair: [cagchair@ipsasb.org](mailto:cagchair@ipsasb.org)





# LATEST TRENDS IN PUBLIC SECTOR REPORTING

**Petra Weymüller**

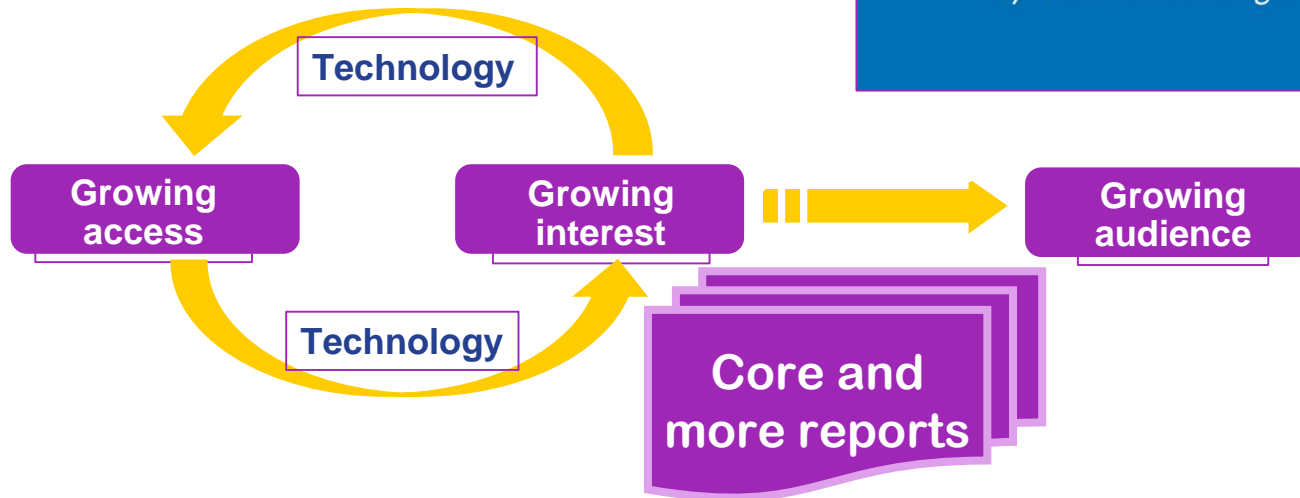
Accountancy Europe, Director

**Ben Renier**

Accountancy Europe, Project Manager

# The Core & More concept

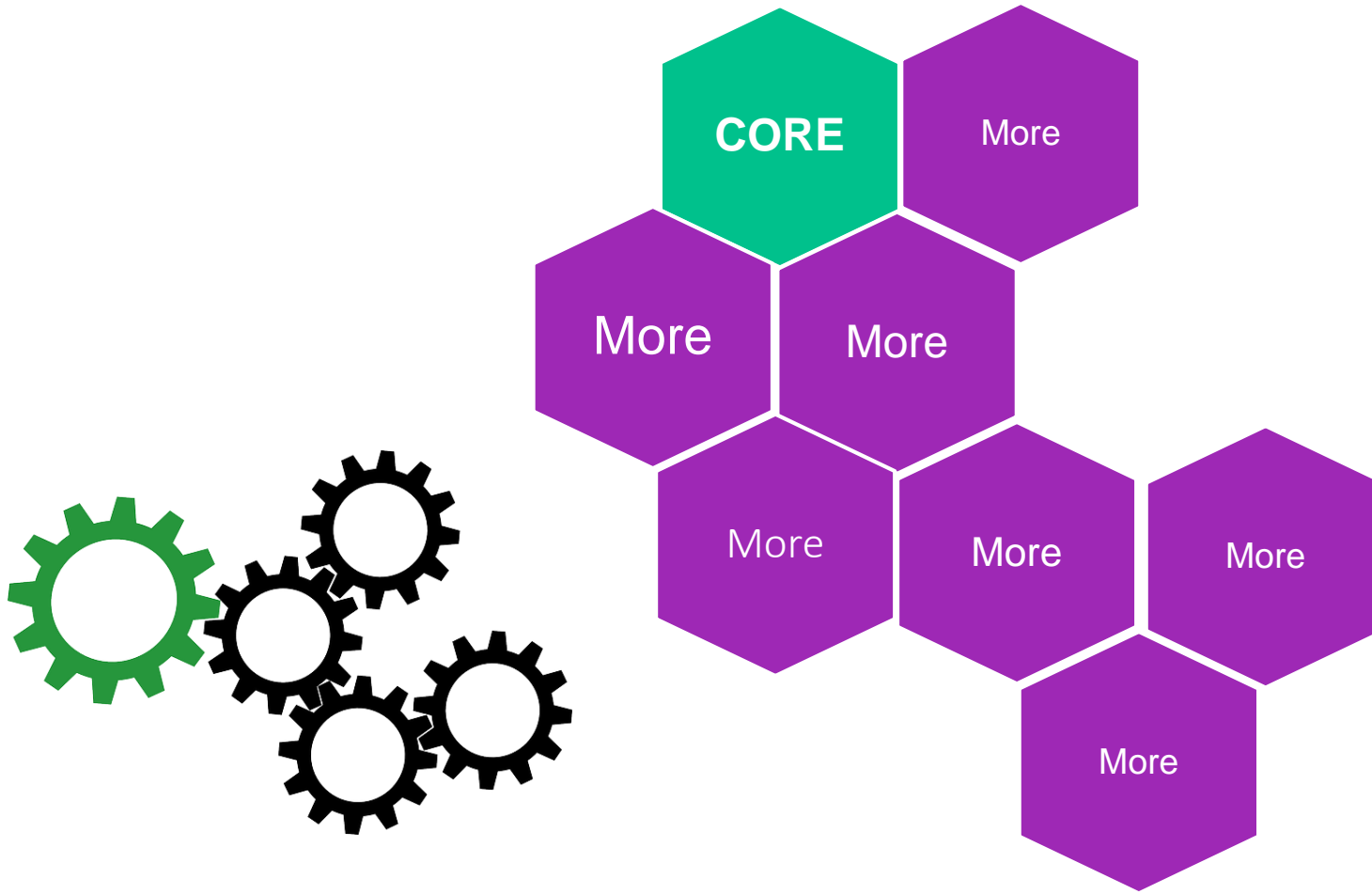
# Innovating in reporting



# Core & More: Why?

- Current model
  - A 'patchwork' of standalone reports
  - Should adapt to widening stakeholder audience and their needs
- Technology enables
  - Smarter presentation
  - Interconnection of financial and non-financial information
  - More effective communication

# Core & More: What?

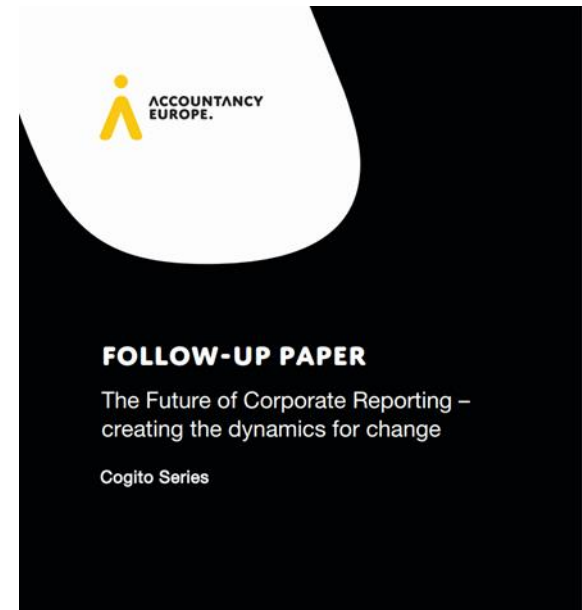


# Core & More: Key topics for the ongoing debate

- The Core debate
- Opportunities of technology to support the Core & More concept
- Inspire the other stakeholders (legislators, regulators, preparers, investors, etc.)
- Stimulate experimentation with the Core & More principles

# Core & More in the Public Sector

- Why not?
- Join the debate
  - Our publications
  - Event 18 September 2017, Brussels



# Stay connected!



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**BECAUSE  
QUESTIONS  
COUNT.**



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# ACCRUAL ACCOUNTING AND THE ROLE OF THE AUDITORS

**Moderated by Alan Edwards**

Accountancy Europe, Deputy Chair of  
the Public Sector Group



# ACCRUAL ACCOUNTING AND THE ROLE OF THE AUDITORS

**Manfred Kraff**

European Commission, Internal Audit  
Service, Director-General



# ACCRUAL ACCOUNTING AND THE ROLE OF THE AUDITORS

**Peter Welch**

European Court of Auditors, Director



# ACCRUAL ACCOUNTING AND THE ROLE OF THE AUDITORS

**Alexandra Popovic**

Swedish National Audit Office, Audit  
Director



# ACCRUAL ACCOUNTING AND THE ROLE OF THE AUDITORS

**Isabelle Tracq-Sengeissen**

EY, Audit partner and CNCC auditing  
standard board, Deputy Chair

# LUNCH

13.00 – 14.00



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FOR YOUR  
PARTICIPATION!**



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