Financial Information: Catalyst for Growth

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Economic Growth
Where do EPSAS Fit into the Picture?

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Contents

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:

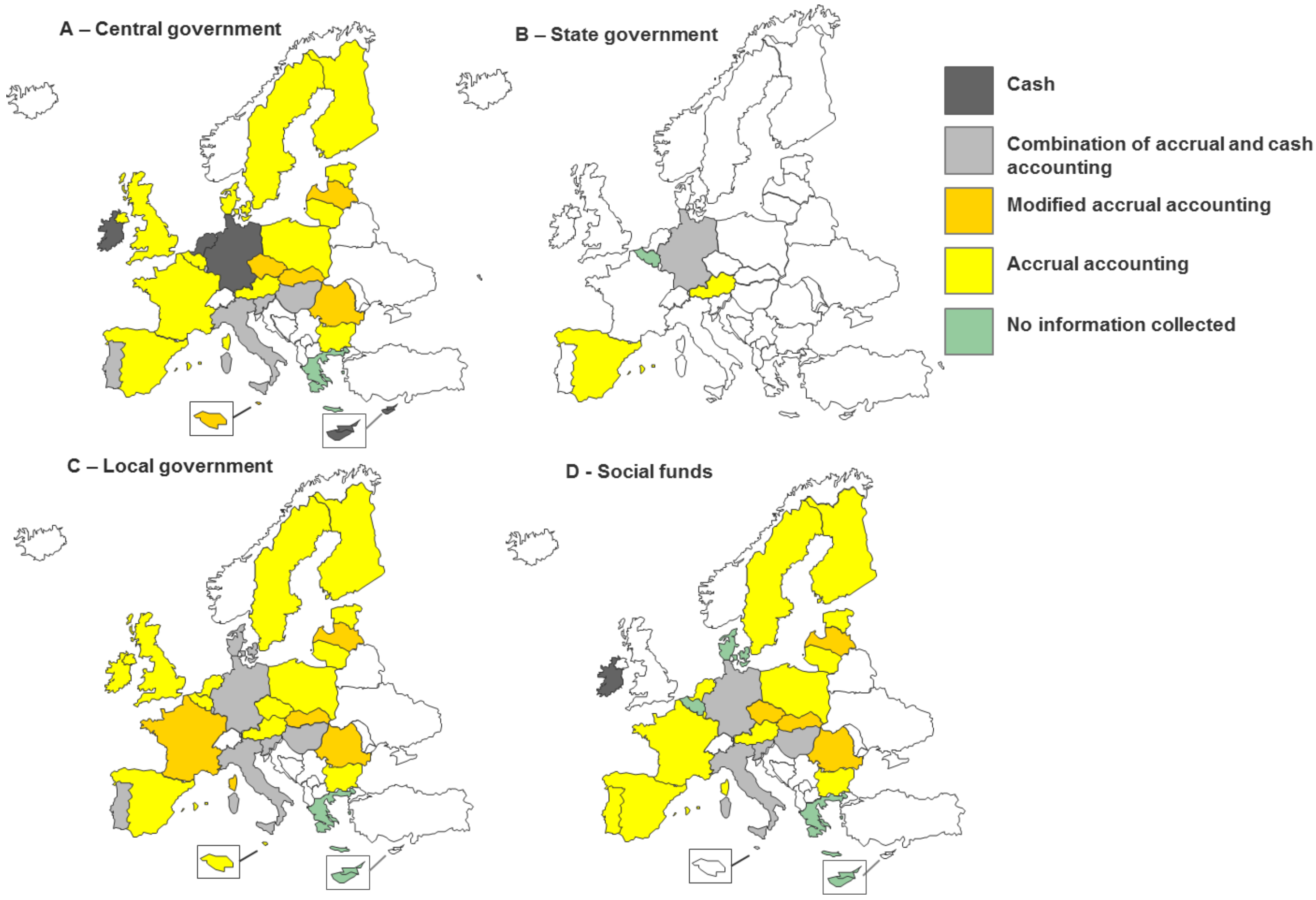
- Strong need for harmonised, accruals based PSA systems
- IPSASs cannot be implemented as they currently are
- Technical, conceptual and governance issues to be resolved
- IPSAS would be a suitable reference framework for the development of European Public Sector Accounting Standards (EPSAS)
- Harmonisation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

EY Study (2012) public sector accounting in the EU



European Commission

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%

European Commission

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%

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, and**
- **Consolidated at the source, and**
- **Reported . . . to the users.**

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

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?

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**

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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.

The EPSAS framework

The EPSAS framework should comprise:

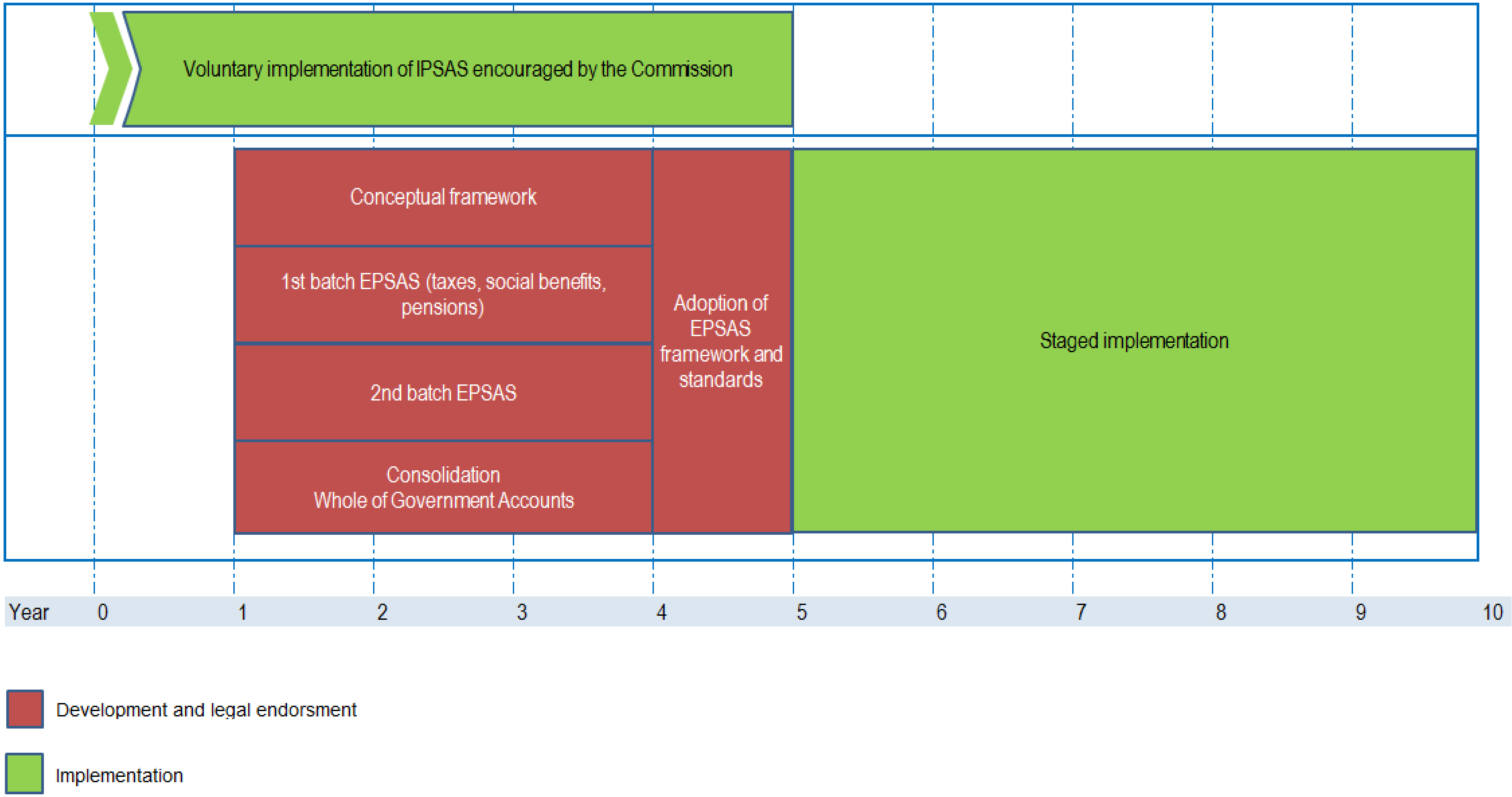
- **Principles** underlying governance
- Governance **mechanism**
- **Due process**
- Standard-setting **capacity**
- **IPSAS** as first reference base

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

Increasing fiscal transparency first, comparability later



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
- Preparing the concrete proposal on the EPSAS framework
- Widening the range of stakeholder activities

EPSAS Working Group

First meeting took place on 15-16 September 2015 in Malta

The first EU network of public sector accounting standard-setters at the core of EPSAS development and implementation

Representatives invited from all Member States covering all sub-sectors of general government

Observers from IPSASB, WB, OECD, ECB, ECA, FEE etc.

Next meeting on 7-8 July 2016 in Paris

Further support of accruals implementation

The support of voluntary accruals implementation includes:

- Financial support for preparatory work for the modernisation of public sector accounting systems on accrual basis (7 grant agreements signed)
- Finalisation and release of First Time Implementation (FTI) guidance

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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

Widening the range of stakeholders

The objective is to involve stakeholders such as:

- sub-national authorities
- auditors, or
- academia

systematically in the EPSAS work.

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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