PULSAR – FINCOP & EDUCOP

FIRST TIME IPSAS ADOPTION: LESSONS LEARNED

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Content

- EPSAS approach
- EPSAS Guidance for the First Time Implementation of Accrual Accounting
- Lessons learned from Accrual Accounting Reforms in EU Member States (PwC 2014, 2018)
- Accounting maturity update in EU MSs

European Commission

EPSAS approach

A more voluntary and progressive approach:

- Increased fiscal transparency in the short to medium term
- Comparability in the medium to the longer term

Phase 1: Increasing fiscal transparency in the Member States in the short to medium term by promoting **accruals accounting**, e.g. IPSAS, and in parallel developing the EPSAS framework

Phase 2: Addressing comparability within and between the Member States in the medium to longer term.

EPSAS Guidance for the First Time Implementation of Accrual Accounting (2017)

The guidance:

- aims to assist public sector entities with accrual accounting reforms, as a step towards increasing fiscal transparency and the implementation of the future harmonised European Public Sector Accounting Standards (EPSAS),
- puts priority on the recognition of assets and liabilities, while not being prescriptive on initial and subsequent measurement,
- advises on the best practical approaches for selection of assets and liabilities (e.g. PPE - measurement and choices) or advise on disclosures, which should be limited as far as possible in order not to overload user.

	IPSAS 33	FTI guidance
Objective	Detailed guidance to first time adopters during the transition period of adopting IPSAS.	Pragmatic guidance aimed at assisting public sector entities to prepare first time accrual OBSs or improving accruals based FSs without reference to a concrete, full set of standards.
Approach	Top-down, providing relief from certain IPSAS requirements ("omission approach": define <u>what not</u> to report).	Bottom-up, defining reporting information ("inclusion approach": define <u>what</u> to report) by recommending inclusion or exclusion of line items based on a set of coverage criteria and pragmatic recommendations for measurement.
Transition period	3 years	Progressive transition towards first EPSAS-based OBS.
Recognition	Relief from individual IPSAS standards for certain assets and liabilities.	Recommendations for minimum first time recognition of assets and liabilities.
Measurement	Relief from individual IPSAS standards for certain assets and liabilities where deemed cost can be applied.	Hierarchy of measurement, including the deemed cost approach, with reference to specific group of assets and liabilities.
Adjustment of the OBS	Retrospective method with exceptions.	Prospective method is recommended.
Disclosures	Focused on the impact of transitional relief from IPSAS on the financial position and performance, including reconciliation with the previous basis of accounting.	Focused on completeness during the transition period taking into account the pragmatic nature of the approaches offered for recognition and measurement.
Publication	Financial statements shall be presented at least annually (IPSAS 1).	Publication of financial statements is recommended.

Suitability of IPSAS in EU and possible impacts of implementing accrual accounting in public sector

Evaluation of IPSAS and analysis of their application in EU Member States (PwC, 2014)

- ✓ Application of IPSAS by EU MSs
  - Transposition of IPSAS into national legislation
  - Accounting maturity per government level, accounting area
- ✓ Analysis of IPSAS standards
  - Needs of MSs and other stakeholders

Lessons learned from Accrual Accounting Reforms in EU Member States (PwC, 2018)

- ✓ Objectives, scope and stakeholders
- ✓ Implementation timelines and approaches
- ✓ Expected and achieved benefits
- ✓ Encountered common difficulties
- ✓ Recommendations for the implementation

Common difficulties (PwC, 2018)

- Project management related difficulties
  - Constrained timelines
  - Complexity and costs of IT systems implementation
  - Training needed
- Functional and technical difficulties
  - Adaptation of the policies, processes and systems
  - Registration and valuation of assets and liabilities
  - Use of accrual data for information and decision making

Good practices/Recommendations (PwC, 2018) I.

Good implementation practices	Key factors of success
• Roadmaps aligned with the reform objective • Unified governance/strong project management • Binding legal provision • Guidance and effective assistance throughout the implementation • Formalised training plans	• Involvement and support of necessary stakeholders • Appropriate timeline • IT integration

Good practices/Recommendations (PwC, 2018) II.

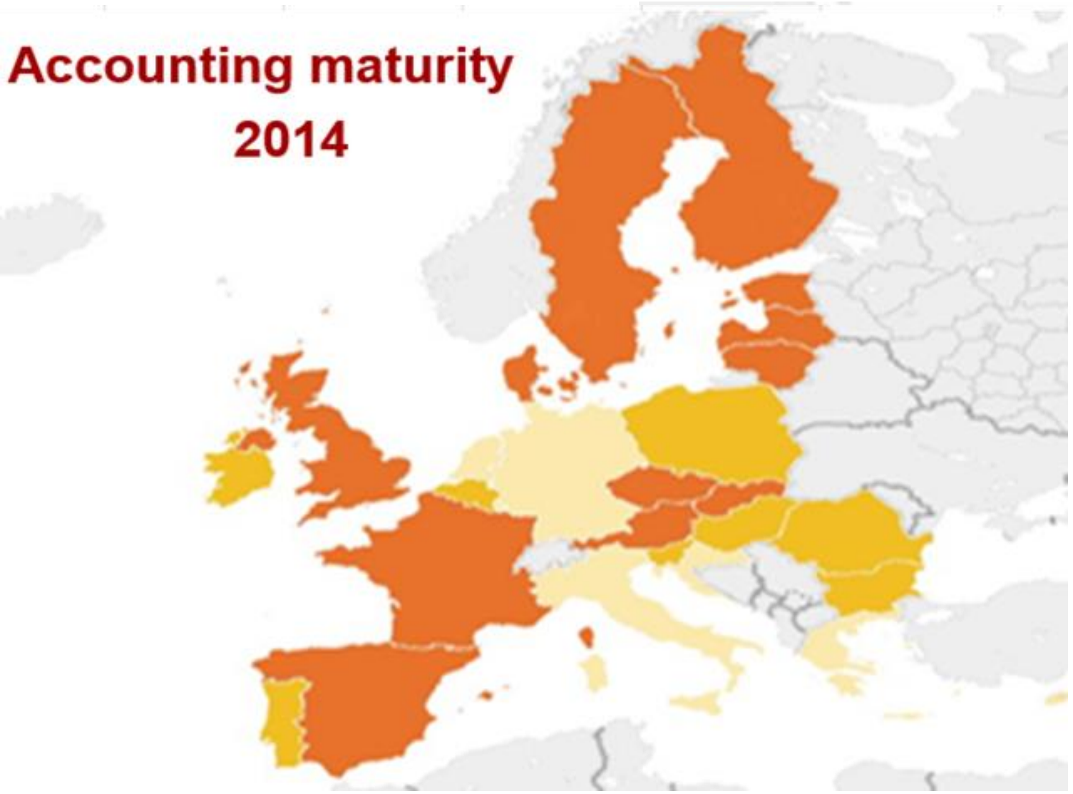
Cost management

- Relevant cost drivers
- Approaches of cost control
- Monitoring costs during implementation
- Benefits outweigh costs in the long term

Promotion of the use of accrual data

- Facilitating the use of accrual accounting – internal users
- External stakeholders – understand and use accrual based financial reports
- Bridging gap between accrual and cash based financial reporting

Accounting maturity update - central governments



Average accounting maturity (unweighted) has increased from 51% to 65%.

- AM ≥ 70%
- 40% ≤ AM ≤ 70%
- AM ≤ 40%

Source: PwC Survey 2019

Communication

European Commission – Eurostat – EPSAS:

https://ec.europa.eu/eurostat/web/epsas/

- EPSAS Guidance for the First Time Implementation of Accrual Accounting
- Potential costs and benefits, taking IPSAS as a proxy for future EPSAS, of implementing harmonized accrual accounting in the EU Member States; analyses of IPSAS standards and their application in the EU Member States (2014)
- Further and updated information related to the potential impact of implementing accrual accounting in the public sector (2018)

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Thank you