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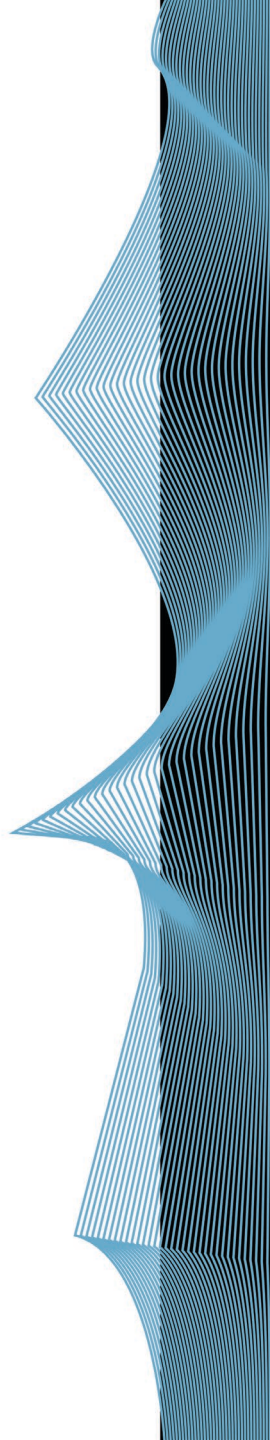
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PULSAR Community of Practice

# Consolidation in the public sector: European practice diversity

Giuseppe Grossi

*Vienna, December 1, 2022*

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1. The European Union's Accounting Reforms and the global consolidation
  2. EPSAS approach
  3. Selected country experiences (Estonia, Slovakia and UK)



# **The EU's Accounting Reforms and the global consolidation**

# The EU's Accounting Reforms



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**The European Commission adopted an ambitious plan to implement full accrual accounting by 2005** (Brussels, December 17, 2002)

“Today's action plan is the latest step in this long term strategy of modernisation: it maps the Commission's progress towards the wholesale implementation of the most up-to-date public sector accounting standards by 2005, taking into account all the constraints and necessary detailed changes. With these measures the Commission will be far ahead of most administrations in the world”, Commissioner Michael Schreyer

**Basis: Financial Regulation of June 2002, art. 124 (Council Regulation 1605/2002)**

“The Financial statements shall be drawn up in accordance with the generally accepted accounting principles”

# The EU's Accounting Reforms



The EU has two types of accounts



**Priority: To develop a reference framework for general accounting that is in line with the private company accounting and that is internationally accepted**

**Choice: The adoption of IPSAS**

**Consequence: Accrual accounting**

# The EU's Accounting Reforms



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- **IPSAS used as basis (IAS/IFRS if necessary)**
- **Harmonised chart of accounts for all EU Institutions and agencies**
- **19 EC accounting rules**
- **Set up of an Accounting Advisory Committee**
- **Detailed accounting manual**
- **1 January 2005 rules in force**



# Consolidated annual accounts of the European Union

#EUBUDGET

## Annual accounts

Every year the Commission's Accounting Officer must produce the EU consolidated annual accounts, which consist of

- the consolidated financial statements (and its notes)
- the aggregated reports on the implementation of the budget.

The **consolidated EU accounts** include the accounts of the European institutions and agencies.

# The consolidation process



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## 1) FIRST PHASE (until 2004)

The area of consolidation included only the EU institutions and the bodies set up by the EU having legal personality which receive grants charged to the budget EC followed the criterion of a **single budget** to define the area of consolidation:

“The criterion used to define the scope of consolidation is basically that of the single budget, that of the European Union. The current definition of the scope of consolidation does not comply with international standards” (CE, 2003)

## 2) SECOND PHASE (since 2005):

It was **globally consolidated** to include also entities under exclusive control (IPSAS 35), significant influence (IPSAS 36) and Joint control (IPSAS 8). The **main limits of the IPSAS** approach to consolidation:

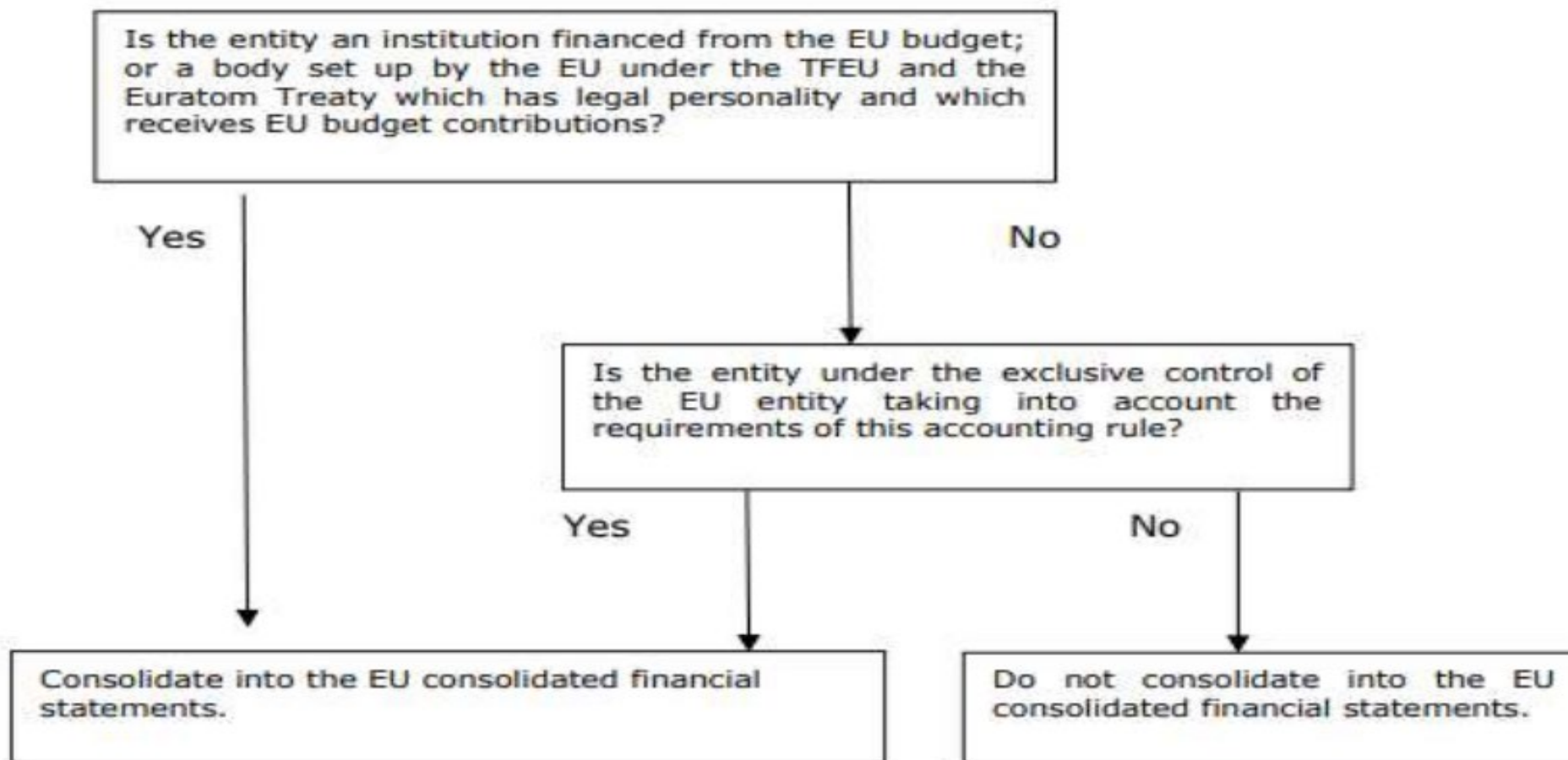
“The main limit is that the criteria for consolidation are more or less the same as in IFRS and they do not fit to the EU environment. Control criteria in our context are not always shares held or seats on boards but are for example: discharge given by the European Parliament/Council, financing through the EU general budget and audit by the ECA”.



# The consolidation scope (EU R2)



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## 9. SCOPE OF CONSOLIDATION

### A. CONTROLLED ENTITIES (55)

#### 1. Institutions and consultative bodies (11)

European Parliament	European Data Protection Supervisor
European Council	European Economic and Social Committee
European Commission	European Ombudsman
European Court of Auditors	European Committee of the Regions
Court of Justice of the European Union	Council of the European Union
European External Action Service	

#### 2. EU Agencies (42)

##### 2.1. Executive Agencies (7)

European Education and Culture Executive Agency (EACEA)	European Innovation Council and SMEs Executive Agency (EISMEA)
Consumers, Health, Agriculture and Food Executive Agency (CHAFAEA) (up until 31 March 2021)	European Research Council Executive Agency (ERCEA)
European Health and Digital Executive Agency (HaDEA) (as from 1 April 2021)	European Climate, Infrastructure and Environment Executive Agency (CINEA)
European Research Executive Agency (REA)	

##### 2.2. Decentralised Agencies (35)

European Maritime Safety Agency (EMSA)	European Food Safety Authority (EFSA)
European Medicines Agency (EMA)	European Union Agency for Railways (ERA)
European Chemicals Agency (ECHA)	Community Plant Variety Office (CPVO)
European Institute for Gender Equality (EIGE)	European Fisheries Control Agency (EFCA)
European Environment Agency (EEA)	European Union Intellectual Property Office (EUIPO)
European Banking Authority (EBA)	European Union Aviation Safety Agency (EASA)
European Asylum Support Office (EASO)	European Securities and Markets Authority (ESMA)
European Union Agency for Cybersecurity (ENISA)	European Training Foundation (ETF)
European Union Agency for Law Enforcement Training (CEPOL)	European Foundation for the Improvement of Living and Working Conditions (Eurofound)
European Union Agency for the Space Programme (EUSPA)	European Monitoring Centre for Drugs and Drug Addiction (EMCDDA)
European Union Agency for Criminal Justice Cooperation (Eurojust)	European Union Agency for Law Enforcement Cooperation (EUROPOL)
European Agency for Safety and Health at Work (EU-OSHA)	European Union Agency for Fundamental Rights (FRA)
European Centre for Disease Prevention and Control (ECDC)	European Insurance and Occupational Pensions Authority (EIOPA)
European Centre for the Development of Vocational Training (CEDEFOP)	Translation Centre for the Bodies of the European Union (CdT)
European Union Agency for the Cooperation of Energy Regulators (ACER)	European Joint Undertaking for ITER and the Development of Fusion Energy (Fusion for Energy)
Agency for Support for the Body of European Regulators for Electronic Communications (BEREC Office)	European Union Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice (eu-LISA)
European Border and Coast Guard Agency (FRONTEX)	European Public Prosecutor's Office (EPPO) (as from 24 June 2021)
European Labour Authority (ELA) (as from 26 May 2021)	

#### 3. Other controlled entities (2)

European Coal and Steel Community in Liquidation (ECSC i.L.)	European Institute of Innovation and Technology (EIT)
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### B. ASSOCIATES (1)

European Investment Fund (EIF)
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# EPSAS approach to consolidation



EUROPEAN COMMISSION  
EUROSTAT  
Directorate C: Macro-economic statistics  
Task Force EPSAS

**EPSAS WG 18/14**  
**Luxembourg, 24 October 2018**

**EPSAS Working Group**  
To be held in Luxembourg  
on 19-20 November 2018, starting at 09:30

## Item 5 of the Agenda

**EPSAS issue paper on consolidation of financial statements**

*Paper by PwC on behalf of Eurostat  
- for discussion*

# EPSAS screening report

IPSAS 35 - Consolidated financial  
statements

May 2021

# EPSAS Issue paper on CFS (2018)

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**Three main types of issues** seem to be linked to the preparation of consolidated financial statements:

- 1) Determination of **the level** at which CFS should be prepared (central and local levels). In addition, **whole-of-government accounts (WGA)** comprising the accounts of all tiers of government within one country may also be prepared to serve accountability and decision-making objectives
- 2) Determination of the **scope of consolidation** (notion of **control**)
- 3) The **cost and complexity** linked to the preparation of CFS, which is more of an organisational nature

# EPSAS screening report on IPSAS 35 (2021)

## Summary of the report.

The information resulting from the application of IPSAS 35:

- would provide **relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information** needed for making economic decisions and achieving the necessary level of financial transparency and comparability of financial reporting in the European Union;
- would not be contrary to the **true and fair view principle**; and
- would be conducive to **European public good**
- To better address the **comparability objective** of EPSAS financial statements, **additional guidance and improvements in certain areas** might be desirable.

# Selected country experiences

# Government consolidation practices

Figure 4: Government consolidation practices compared (Estonia, Slovakia and the UK)

	<i>Estonia</i>	<i>Slovakia</i>	<i>UK</i>
<i>Level of consolidation</i>	<ul style="list-style-type: none"> <li>-WGA covering the whole public sector.</li> <li>-WGA covering the GGS.</li> <li>-Central government.</li> <li>-Local governments.</li> </ul>	<ul style="list-style-type: none"> <li>-WGA covering the whole public sector.</li> <li>-Central government.</li> <li>-Local governments.</li> </ul>	<ul style="list-style-type: none"> <li>-WGA covering the general government sector.</li> <li>-Central government.</li> <li>-Local governments.</li> </ul>
<i>Legal basis for consolidation requirements</i>	-National law.	-National law.	-National law.
<i>Scope of consolidation</i>	<ul style="list-style-type: none"> <li>-Based on control.</li> <li>Disaggregated information about GGS and public corporations is given as per IPSAS 22.</li> <li>-No scope exclusion for SLREs.</li> </ul>	<ul style="list-style-type: none"> <li>-Based on control.</li> <li>-No scope exclusion for SLREs.</li> <li>-An entity is excluded only if no longer a going concern or expected to be sold within one year.</li> </ul>	<ul style="list-style-type: none"> <li>-Based on control, except for the exclusion of public banks.</li> <li>-Small entities below a certain threshold are not consolidated at central government and WGA level.</li> </ul>
<i>Consolidation rules</i>	-IPSAS	-IPSAS	-IFRS (as adapted for the public sector)
<i>Use of consolidated financial statements</i>	<ul style="list-style-type: none"> <li>-State financial statements (i.e. WGA) closely looked at and compared to budget fulfilment reports.</li> <li>-Used in long-term fiscal decisions, in PFM reforms, to derive ESA 2010 reporting.</li> </ul>	<ul style="list-style-type: none"> <li>-Analysis of government net worth, complementary to budget analysis.</li> <li>-Improvements to accounting policies and procedures thanks to audit.</li> </ul>	<ul style="list-style-type: none"> <li>-WGA and central government accounts reviewed by Parliament and complement review of fiscal risks.</li> <li>-Possible public scrutiny at the local and central level.</li> </ul>