



MINISTERO DELL'ECONOMIA E DELLE FINANZE

International Conference

**Accrual and Standards:
the future of the EU Member States public accounting**

Rome, 21 November 2016

EPSAS – European Public Sector Accounting Standards

Alexandre Makaronidis

Head of Task Force EPSAS – European Commission, Eurostat

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 on the basis of strong EU governance
- 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)
- Budget does not fall within the scope of EPSAS

Accounting Maturity per MS by level of Government

Proximity to IPSAS

Source: PwC Study on
behalf of Eurostat,
2013/14

	Central	State	Local	Social Fund
Austria	73%	12%	12%	61%
Belgium	67%	67%	73%	60%
Bulgaria	56%	-	56%	63%
Croatia	34%	-	34%	55%
Cyprus	14%	-	75%	17%
Czech Republic	75%	-	75%	77%
Denmark	72%	-	65%	58%
Estonia	92%	-	92%	86%
Finland	72%	-	90%	92%
France	89%	-	84%	92%
Germany	22%	29%	58%	42%
Greece	12%	-	12%	12%
Hungary	66%	-	66%	55%
Ireland	54%	-	71%	57%
Italy	31%	-	30%	14%
Latvia	73%	-	73%	55%
Lithuania	88%	-	88%	72%
Luxembourg	19%	-	31%	15%
Malta	22%	-	94%	-
Netherlands	31%	-	58%	78%
Poland	66%	-	66%	68%
Portugal	55%	-	80%	70%
Romania	63%	-	63%	38%
Slovakia	75%	-	75%	34%
Slovenia	62%	-	62%	19%
Spain	70%	61%	68%	58%
Sweden	81%	-	81%	71%
UK	96%	-	95%	-



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%



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%

Why accruals? – Why harmonised accruals?

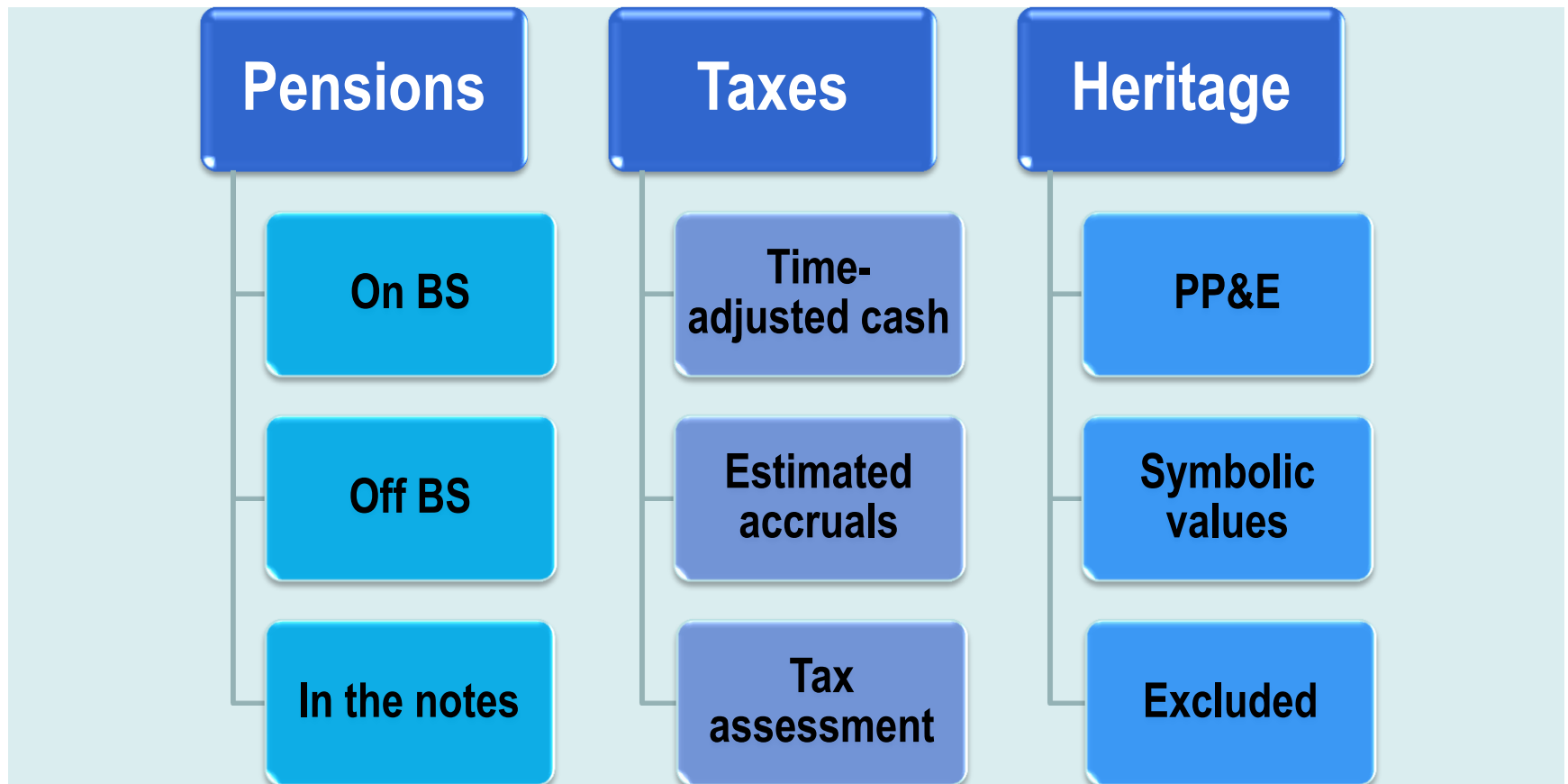
No common reference standards exist in the Union defining how the relevant individual transactions and economic events should be:

- **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?

Why accruals/ IPSAS is not enough?



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

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:

- improvements to the **efficiency, effectiveness** of public-sector management
- Increasing the **accountability** of policy-makers and managers of public money
- More **stable and sustainable** public finances – inter-generation fairness
- Supporting access to **financial markets**
- Facilitating the work of **official statisticians** and **public auditors**

Net-benefits outweigh the costs

EPSAS way forward

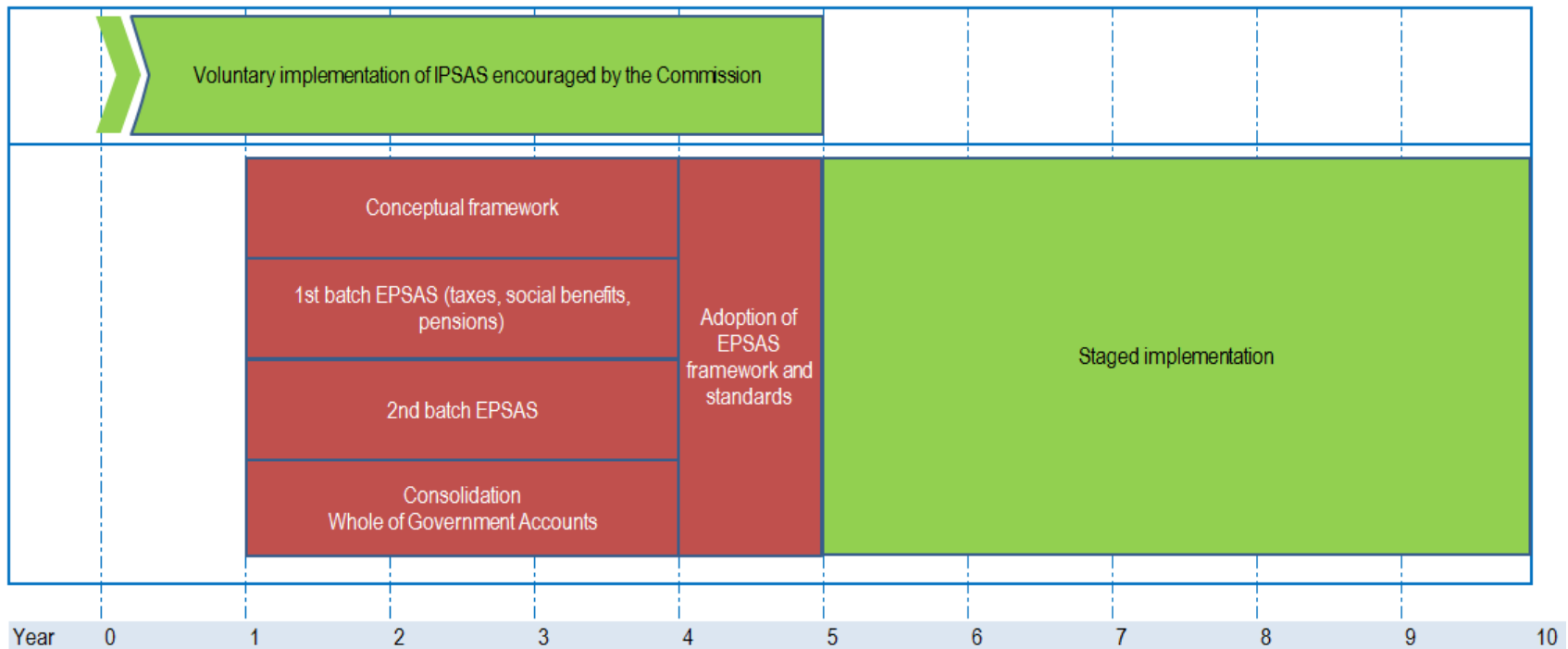
A more voluntary and progressive approach:


- Increasing **fiscal transparency** in the short to medium term
- Delivering **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, in the period from 2016 to 2020, and in parallel developing the EPSAS framework (i.e. EPSAS governance, accounting principles and standards).

Phase 2: Addressing comparability within and between the Member States in the medium to longer term, implementing EPSAS by 2025.

Increasing fiscal transparency first, comparability later



 Development and legal endorsement

 Implementation

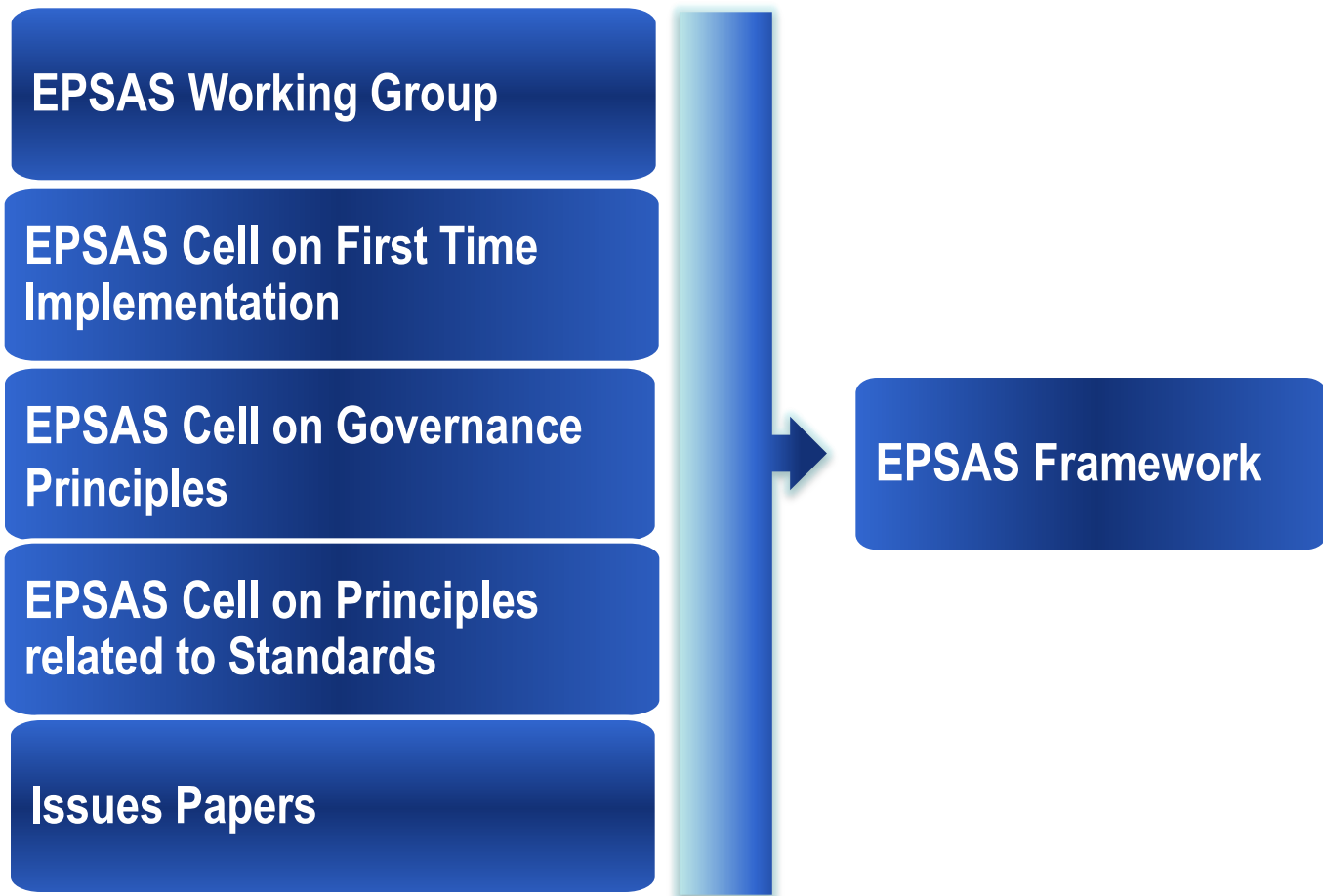
Towards EPSAS implementation

EPSAS will have to:

- 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

Chart of accounts is key for achieving consistency between financial accounting, budget accounting and national accounting.

Development of EPSAS framework



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>