L'ARMONIZZAZIONE DEI BILANCI DELLE PUBBLICHE AMMINISTRAZIONI NELL'UNIONE EUROPEA

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EPSAS

European Public Sector Accounting Standards

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Context

In most EU Member States and the Eurozone in particular the governments are the largest single issuers in the capital markets.

The recent financial crisis in Europe manifested itself essentially as a sovereign debt crisis, in the course of which it became apparent that sovereign debt was not as nearly risk-free as it seemed.

Necessary information was lacking to fairly assess the risks associated to sovereign debt.

This lack of comparability and transparency in public finance created risks for both sound policy and decision making as well as for accountability and democratic scrutiny.

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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 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

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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%

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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%

Public sector accounting is of public interest

- The accounts of the public sector are of public interest as public finance is ultimately concerned with the use of sovereign power for raising and spending citizen's money.
- Full disclosure of the financial position and performance of public sector entities, on a comparable basis, is in the public interest.
- Public sector specificities require public sector specific accounting approaches.

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Public sector accounting is of public interest

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.

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
- . . .

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 *(pensions)*	• Social contributions

Focus on public sector specificities

10 more issues papers are being commissioned in 2017:

• Intangible assets	• Discount rates
• Chart of Accounts	• Grants and other transfers
• Disclosures	• Notion of control
• Provisions, contingent assets and liabilities, financial guarantees	• Consolidation of financial statements
• Loans and borrowings	• Concession arrangements

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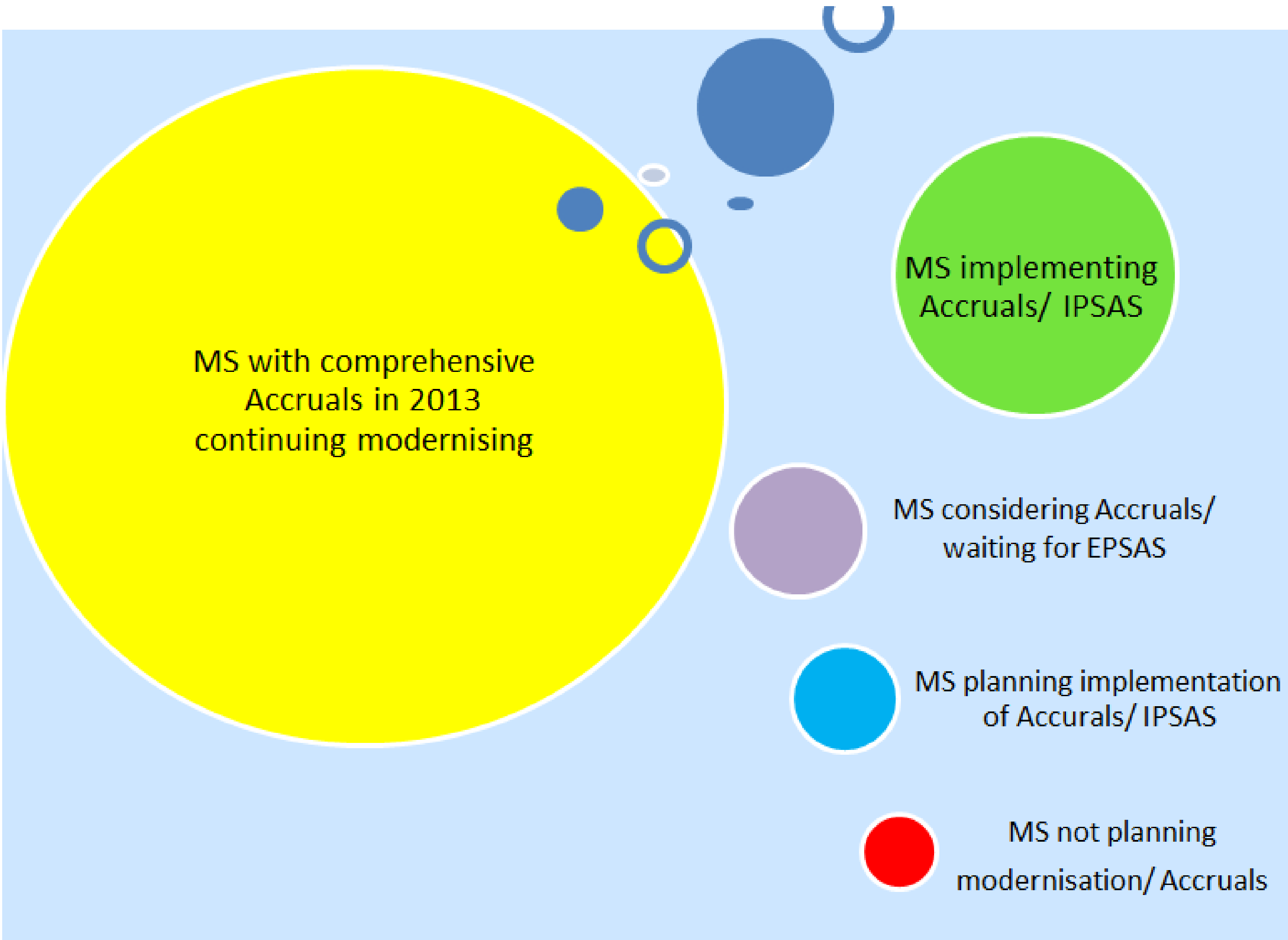
Flexible, stepwise approach in two phases

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


MS with comprehensive Accruals in 2013 continuing modernising
MS implementing Accruals/ IPSAS
MS considering Accruals/ waiting for EPSAS
MS planning implementation of Accurals/ IPSAS
MS not planning modernisation/ Accruals

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 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

A view of the accruals reform in Italy - benefits

- The view that financial management it is not just about expenditure, debt and deficit, but also about
  - ✓ revenue, cost and expense
  - ✓ amortisation and depreciation
  - ✓ generation of income
  - ✓ the creation of value and assets
  - ✓ and net worth
- The view of better financial management of assets and liabilities through recognition and measurement on the basis of financial accounting standards

A view of the accruals reform in Italy - benefits

- Genuine, fully accruals-based standards for all the levels of government
- Integrated/ chart of accounts on a harmonised basis
- 'Cash' will not be abolished but put into the right context
- Enabling alignment between budget, financial and statistical reporting
- Making financial accounting the primary source for national accounts and government finance statistics

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IPSAS/ EPSAS and ESA

- 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 ESA *(. . .)*

- Financial accounting and government finance statistics are:
    - two different, independent, complementary reporting frameworks,
    - with different recognition and measurement criteria,
    - providing two different sets of reports / numbers,
    - serving different needs and purposes.
- The European Union has a strong interest in both:
    - sound financial reporting and
    - sound statistical reporting
- Both sets of rules would need to be complied with.

Lessons from other accruals reforms

- Political commitment, i.e. the conviction that
  - ✓ it is worth to assume the cost of the reform (resources)
  - ✓ in order to earn its benefits
- Determination and perseverance, and
- A fully dedicated, empowered and knowledgeable reform team

. . . are **key** to the success.

European Commission

European Commission (Eurostat) Task Force EPSAS:

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