A Rising Tide: The Benefits of IPSAS to Government Accounting in Malta

Malta, 17 September 2015

EPSAS
EUROPEAN PUBLIC SECTOR ACCOUNTING STANDARDS

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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 95 standard
- subject to internal control and independent audits.

The Commission shall assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States.
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
  • not in full and not directly
• There are technical, conceptual and in particular governance issues to be resolved (NB: there has been significant progress since then)
• 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
EY Study (2012) public sector accounting in the EU

A – Central government

B – State government

C – Local government

D – Social funds

Legend:
- Cash
- Combination of accrual and cash accounting
- Modified accrual accounting
- Accrual accounting
- No information collected
Accounting Maturity per MS by level of Government

Proximity to IPSAS

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

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<thead>
<tr>
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<th>Local Government</th>
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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?

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
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 **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
Reworking EPSAS approach to staged implementation

- Preparation and adoption of Framework Regulation
- Preparatory EPSAS work: Opening first Balance Sheets/raising accounting maturity in MSs
  - 1st batch EPSAS (taxes, social benefits, pensions)
  - 2nd batch EPSAS
  - Consolidation Whole of Government Accounts
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  - Consolidation Whole of Government Accounts

Year
0  1  2  3  4  5  6  7  8

- Development and legal endorsement
- Implementation
Reworking EPSAS approach to staged implementation

Voluntary implementation of IPSAS encouraged by the Commission

- Conceptual framework
- 1st batch EPSAS (taxes, social benefits, pensions)
- 2nd batch EPSAS
- Consolidation Whole of Government Accounts

Adoption of EPSAS framework and standards

Staged implementation

Year 0 1 2 3 4 5 6 7 8 9 10

Development and legal endorsement

Implementation
The way forward: mid-2015 –

- EPSAS Working Group
- EPSAS Cell on First Time Implementation
- EPSAS Cell on Definitions
- EPSAS Cell on Principles
- EPSAS Cell on….

EPSAS Framework
Work programme autumn 2015/2016

• First meeting of EPSAS Working Group
• Further support of accruals implementation
• Widening the range of stakeholders
• Drafting the concrete proposal on the EPSAS framework
• Drafting issues papers
• Continuing communication with stakeholders
EPSAS is a major EU initiative
It is an investment in the future
European Commission (Eurostat) Task Force EPSAS: