European Commission

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

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EPSAS

European Public Sector Accounting Standards

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Contents

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.

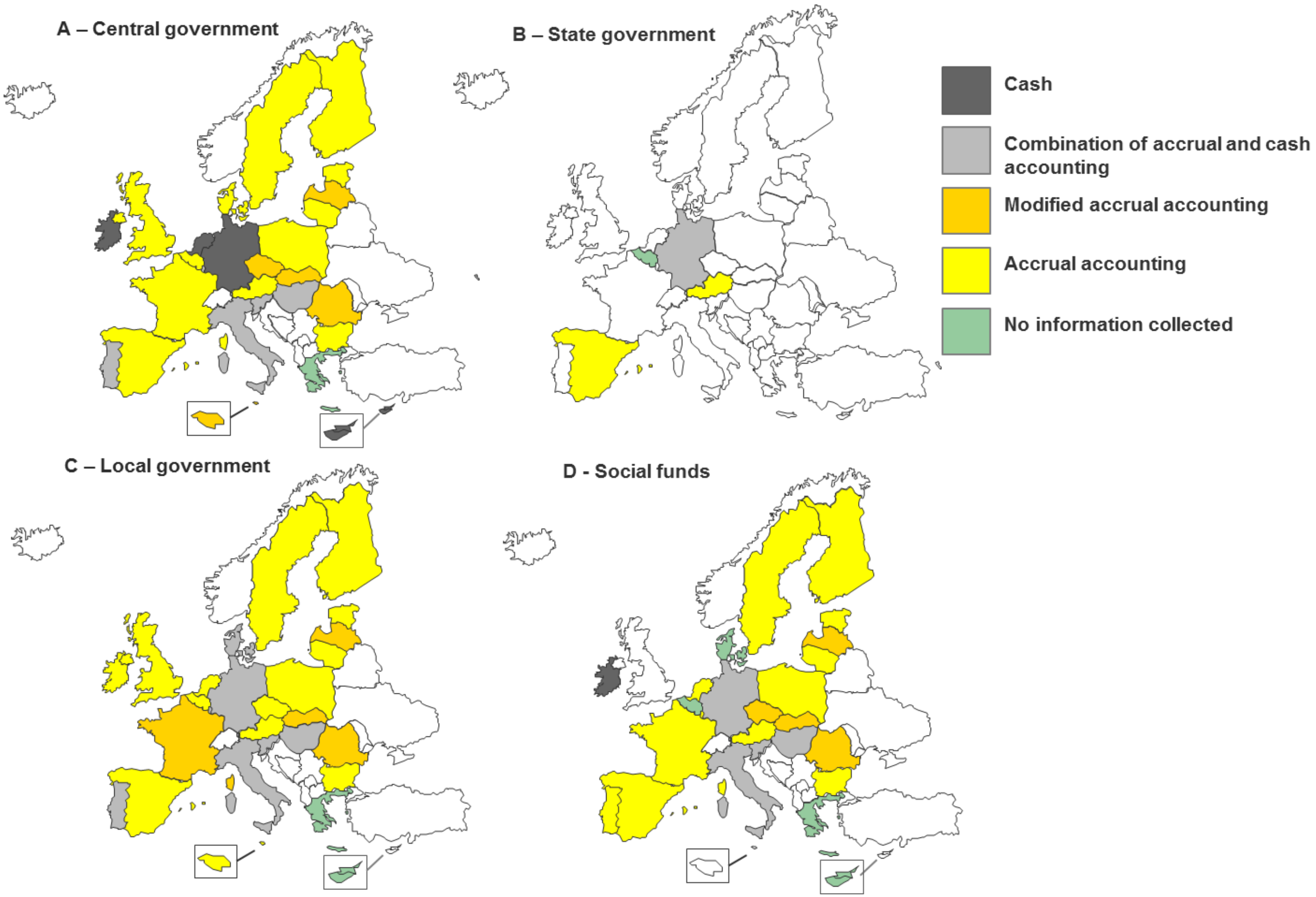
The Commission shall assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States.

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



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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%

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%

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?

CONSEQUENCES

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

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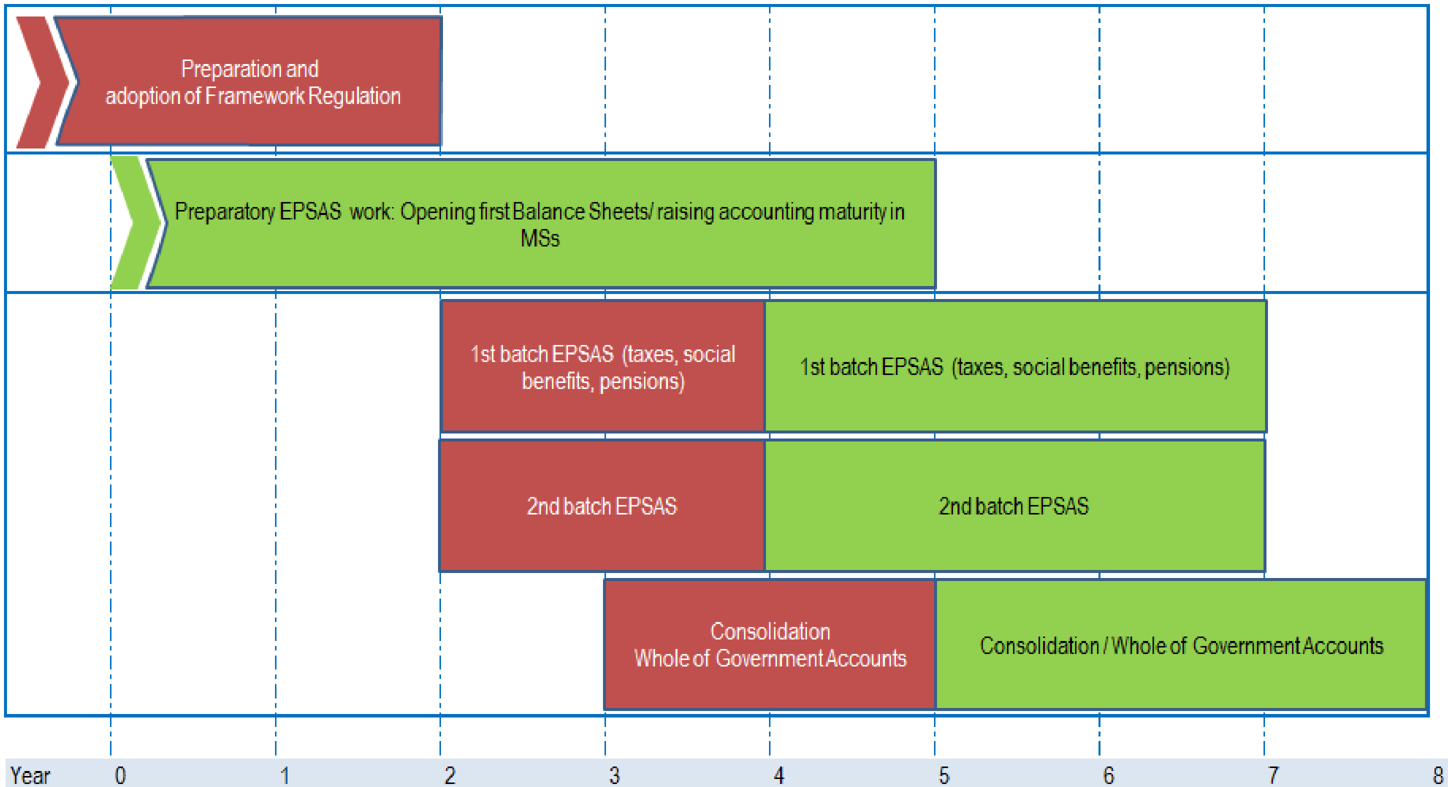
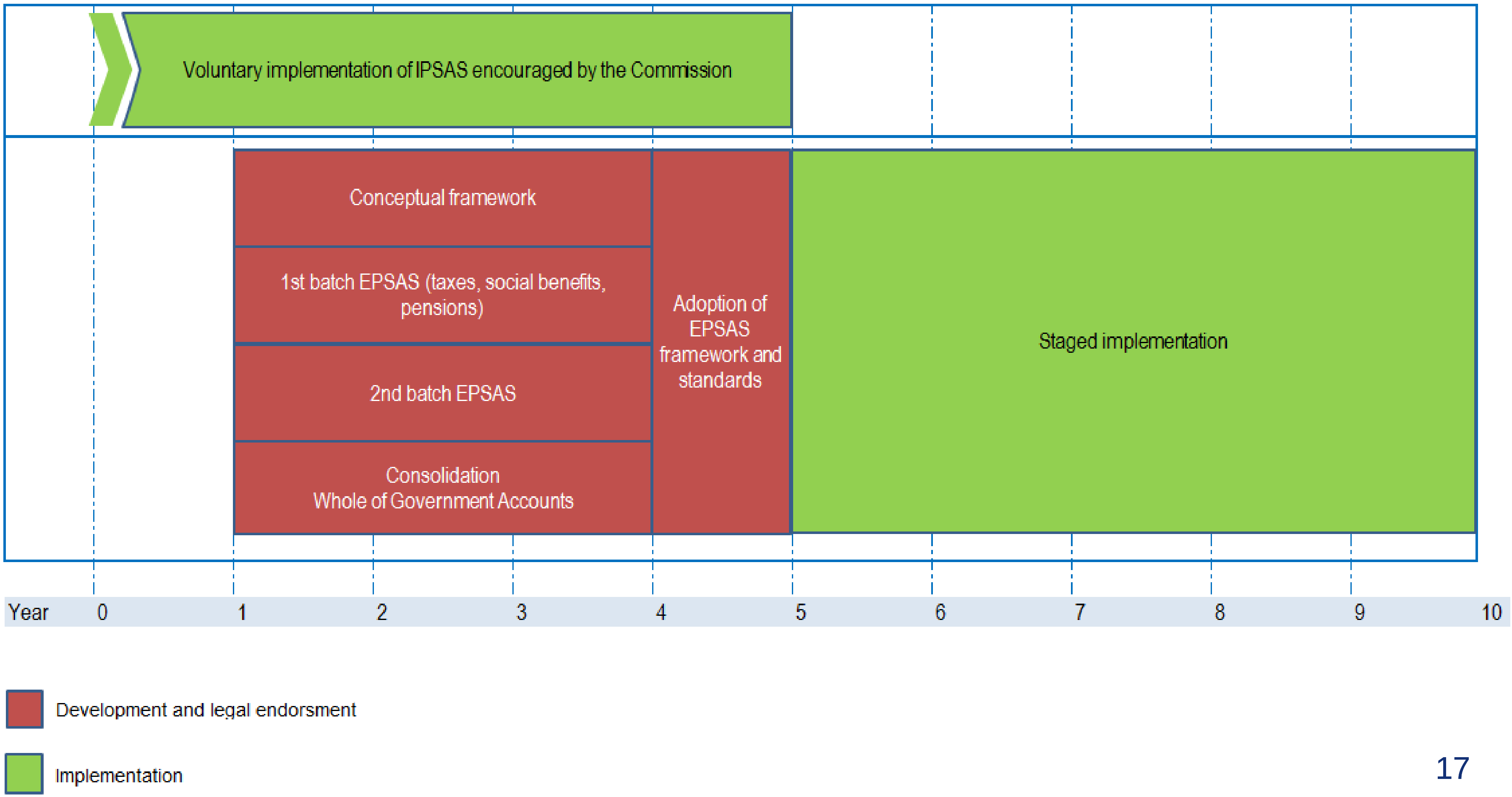
Reworking EPSAS approach to staged implementation



Development and legal endorsment

Implementation

Reworking EPSAS approach to staged 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

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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

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EPSAS is a major EU initiative

It is an investment in the future

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European Commission (Eurostat) Task Force EPSAS:

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