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COMMISSION STAFF WORKING DOCUMENT

reporting on the progress on European Public Sector Accounting Standards (EPSAS)

1. INTRODUCTION

This progress report summarises how the services of the Commission have taken forward the EPSAS initiative since the last progress report ("2019 EPSAS report", see below), and contains information on the state of play of, and progress in, public sector accounting in the EU Member States.

The European Public Sector Accounting Standards (EPSAS) initiative aims to provide harmonised accruals-based public sector accounting suited for EU needs. The main benefit would be providing a firmer basis for understanding the financial position and performance of public sector entities at all levels. This has the potential to improve evidence-based decision-making and accountability at the EU, national and sub-national levels. In addition, this would further enhance the integration and efficiency of capital markets and the analysis of sustainability of public finances. It would also provide more efficient ways of producing statistics and controlling revisions and risks.

The Budgetary Frameworks Directive (2011/85/EU) requested the European Commission to assess the suitability of International Public Sector Accounting Standards (IPSAS) for the Member States[1]. In response, the Commission published in 2013 the report "Towards implementing harmonised public sector accounting standards in Member States: The suitability of IPSAS for the Member States"[2]. The 2013 IPSAS report proposed to proceed with the EPSAS initiative by concluding that, while IPSAS represented a starting reference for future EPSAS, concerns with respect to its governance, conceptual and technical matters would need to be addressed. In June 2019, the Commission published a Staff Working Document – Report on the progress as regards EPSAS[3] ("2019 EPSAS report"), which summarised how the services of the Commission had taken forward the EPSAS initiative since the 2013 IPSAS report. A box below describes latest IPSAS developments.

More recently, in December 2023, the Council reached an agreement on the amendments to the Budgetary Frameworks Directive in the context of the Economic Governance Review[4], which did not change following the consultation with the European Parliament. Article 16a.1(a) of the Directive, according to the Council Agreement, requests that, by 31 December 2025 and every five years thereafter, the Commission shall report on the state of play of public accounting by the general government in the Union, taking into account the progress made since its 2013 assessment of the suitability of the International Public Sector Accounting Standards for the Member States.

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[1] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (europa.eu).

[2] Report From The Commission To The Council And The European Parliament, Towards implementing harmonised public sector accounting standards in Member States: The suitability of IPSAS for the Member States, COM(2013) 114 of 6.3.2013.

[3] Commission Staff Working Document, Reporting on the progress as regards the European Public Sector Accounting Standards (EPSAS), SWD(2019) 204 final of 5.6.2019.

[4] Proposal for a COUNCIL DIRECTIVE amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States - Agreement in principle with a view to consulting the European Parliament.

Furthermore, in the context of making fiscal data publicly available for all subsectors of general government, Article 3(2) of the Directive, according to the Council Agreement, requires Member States to publish, by general government sub sectors, quarterly debt and, unless they have in place integrated, comprehensive and nationally harmonised accrual financial accounting systems, deficit data separately, before the end of the following quarter or after publication of the relevant data by the Commission (Eurostat).

IPSAS developments

Since 2013 IPSAS, which are the only internationally recognised set of public sector accounting standards, have developed substantially with respect to governance as well as conceptual and technical matters. A new governance structure, including strengthened independent oversight, has been put in place. In 2015, the Public Interest Committee (PIC) was established to provide assurance that the IPSAS Board's standard-setting activities are in the public interest. Furthermore, the Consultative Advisory Group, established in 2016, is another integral part of the IPSASB's formal process of consultation. As for conceptual and technical matters, the IPSAS conceptual framework was completed in 2014. With the issue of 17 standards since 2013, IPSAS now cover all the key issues that should be reflected in financial statements of public entities and are considered by the stakeholders to be 'stable and complete'.

The services of the Commission are following a two-phase approach to EPSAS:

- Phase 1: Increase fiscal transparency in the Member States in the short to medium term by promoting accruals accounting and, in parallel, develop the EPSAS framework (covering governance, accounting principles and standards).

- Phase 2: Address comparability within and between Member States by implementing EPSAS.

2. PROGRESS IN MODERNISING EU PUBLIC SECTOR ACCOUNTING

In the last five years the services of the Commission (Eurostat) have taken forward work on EPSAS through the Expert Group on EPSAS, serving as a forum for Member States to provide advice and expertise in the preparation of EPSAS and comprising public accounting experts representing all levels of government as well as other key EU and global stakeholders.

The Commission's work on EPSAS includes systematic communication with stakeholders, technical work contributing to preparation of potential future EPSAS standards, work on cost-benefit considerations, and providing technical and financial support for accrual-based public sector accounting in the Member States.

Systematic communication on EPSAS has taken place with key stakeholders such as policymakers, governments, auditors, accountancy experts and academia. Beyond the Expert Group on EPSAS, the Commission services contributed to public accounting projects and meetings of the OECD, IPSAS Board, World Bank and IMF. Particular attention was devoted to communication with all government levels of Member States, including state and local government representatives.

Significant progress has been made in the technical work contributing to preparation of potential future EPSAS standards and guidance. The services of the Commission (Eurostat), together with the Expert Group on EPSAS, updated the draft EPSAS conceptual framework, published in February 2024[5]. The conceptual framework provides a set of concepts and definitions for the development, the adoption, and the publication of EPSAS and guidance for the preparation and the presentation of financial accounting information by public sector entities under the EPSAS basis of accounting. Several updates, reflecting European conditions and priorities, were made in order to take into account the technical accounting work done in the last five years and international developments. The update includes development of the EPSAS reporting boundary, which is part of the EPSAS reporting entity definition. The proposed EPSAS reporting boundary follows an internationally agreed statistical public sector boundary[6], with the exclusion of corporate entities as they already use accrual accounting according to EU requirements[7].

The screening of IPSAS standards has been completed. A possible future EPSAS standard setter (with EU governance) would draw on different sources of information for developing the EPSAS Framework (conceptual framework, set of accounting standards and guidance). Among the main sources are the EPSAS screening reports assessing IPSAS standards against the draft EPSAS conceptual framework. Most of the screened 37 IPSAS standards raised no major conceptual issues and were assessed as being compatible with the draft EPSAS conceptual framework. However, the screening revealed that, in order to achieve European objectives, in some cases options could be narrowed in EPSAS and guidance on specific topics could be provided in the future EPSAS standards.

The potential future structure of EPSAS standards has been developed. It includes the structure of the set of standards and the structure within future individual standards. The set covers eight accounting areas that could be provisionally divided into 13 potential EPSAS standards. Each EPSAS standard corresponds to a cluster of IPSAS standards that are naturally related in terms of the type of transactions they cover. The structure within future individual EPSAS standards includes five components: Objective and Scope, Definitions, Body of the standard, Disclosures and Guidance.

As regards cost-benefit considerations, at EU level long-term benefits and savings would be achieved through harmonised accrual-based accounting systems, whereas the costs of such

[5] EPSAS conceptual framework (revised). February 2024.

[6] The ESA 2010 regulation (No 549/2013) § 20.303 includes the public sector definition.

[7] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013, as amended, often called "The Accounting Directive", established accrual accounting obligation for corporate entities.

structural reforms are only temporary. Regular modernisation efforts, which are likely to happen in Member States anyway on related systems, such as asset registers and IT systems, represent the bulk of potential reform costs and would render the costs related specifically to the accrual accounting implementation only incremental. Eurostat commissioned two studies relating to cost-benefits considerations. One study provided an update to the accounting maturity scores of governments within the EU and associated estimations of EPSAS implementation costs which had been initially compiled in a study and published in 2014. In relation to benefits of accrual accounting in crisis situations, such as the COVID-19, Eurostat commissioned a paper that examined the link between public accounting and the wide range of important response measures put in place by many EU members.

Smart, sustainable and socially responsible reforms help to strengthen the resilience of economies and societies of the EU. The Commission has provided technical and financial support for Member States' government accounting reforms. As part of its technical support, Eurostat facilitated sharing of best practices and initiated discussions on innovative approaches for public accounting. Eurostat discussed with government accounting experts the benefits and challenges of accrual accounting reforms and has encouraged the sharing of experience and expertise between Member States. Member States have expressed particular interest in innovation related to accounting systems and the implementation of international standards.

A number of Member States' financial accounting reform projects have received EU financial support under the Technical Support Instrument (TSI)[8] and the Recovery and Resilience Facility (RRF). The Commission's TSI, managed by the Directorate-General for Structural Reform Support (DG REFORM), offers Member States a unique service by supporting them in designing and implementing growth-enhancing and inclusive reforms. The support can take the form of, for example, the provision of expertise related to policy advice, formulation of reform roadmaps, as well as studies, training and expert visits on the ground, whereas it can cover any phase of the reform. The RRF, as a temporary instrument, enables Member States to be stronger and more resilient by preparing their economies for the green and digital transitions and by addressing the challenges identified in country-specific recommendations under the European Semester framework. EU governments have submitted national recovery and resilience plans to benefit from the RRF.

The EPSAS initiative contributes to the wider Commission objective of reinforcing the capacity of public administrations across the EU. The recent Commission communication "Enhancing the European Administrative Space"[9] promotes accrual accounting. Its common set of overarching principles for the quality of public administration includes "sound and sustainable public finances, underpinned by integrated and comprehensive accruals-based public accounting systems".

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8 Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument (TSI).

9 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Enhancing the European Administrative Space (ComPAct), COM(2023) 667 final of 25.10.2023.

3. ACHIEVEMENTS OF MEMBER STATES IN IMPLEMENTING ACCRUAL-BASED ACCOUNTING IN THE PUBLIC SECTOR

The Commission's measures encouraging reforms in public sector accounting contributed to significant achievements of Member States since the 2019 EPSAS report. In 2019, ten Member States were well on accrual-based public accounting path, six countries relied mostly on cash and 11 Member States were between the two groups, see Table 1.

Table 1. Accounting maturity for general government sector in 2019

High: X ≥ 70%	Average: 70% > X ≥ 40%	Low: X < 40%
Bulgaria, Czechia, Denmark, Estonia, Spain, France, Latvia, Lithuania, Finland and Sweden	Belgium, Ireland, Croatia, Hungary, Netherlands, Austria, Poland, Portugal, Romania, Slovenia and Slovakia	Germany, Greece, Italy, Cyprus, Luxembourg and Malta

Source: PwC 2020 Study[10].

However, accounting maturity differed significantly between general government sub sectors in many countries. In particular, local governments were more often on accruals, whereas for example social security funds rather relied on cash. In 2019, EU averages for sub sectors were as follows:

- Central government: 65%
- State government: 54%
- Local government: 73%
- Social security funds: 57%

Since 2019, by acknowledging the benefits of accrual-based accounting, several Member States have continued with or launched their public sector accounting reforms. Greece, Italy and Portugal included their reforms in the national recovery and resilience plans under the RRF and several Member States have benefited from support provided by the EU under the TSI. The national plans included, for example, designing a chart of accounts for EPSAS/IPSAS based accrual accounting, establishing the State Accounting Entity, automation of accounting processes, adoption of accrual accounting policies, training of the relevant personnel and the design and introduction of the Government Enterprise Resource Planning (ERP). In 2023, under the TSI, DG REFORM managed support for public accounting reforms in Italy, Cyprus, Luxembourg, Poland and Portugal[11]. These support measures included advice on accounting policies, development of the conceptual framework, development of a chart of accounts, introduction of ERP system to facilitate production of consolidated accounts, roadmaps for

[10] Updated accounting maturities and EPSAS implementation cost, see Table 3. The study, which presents the situation for 2019, was published in 2020.

[11] Since 2017, the Structural Reform Support Programme (SRSP), followed by TSI, has supported public accounting reforms in eight Member States through 16 projects and facilitated nine study visits to other Member States. Support was provided to Cyprus, Greece, Italy, Ireland, Luxembourg, Malta, Poland and Portugal.

implementing accrual accounting, and capacity building for public officials. By also benefiting from the TSI, Ireland embarked on public accounting reform focusing on central government, whereas Austria completed its reform by implementing accrual-based accounting at state and local government levels. The following box summarises the reforms in Greece and Italy.

Public accounting reforms in Greece and Italy supported under the RRF and TSI

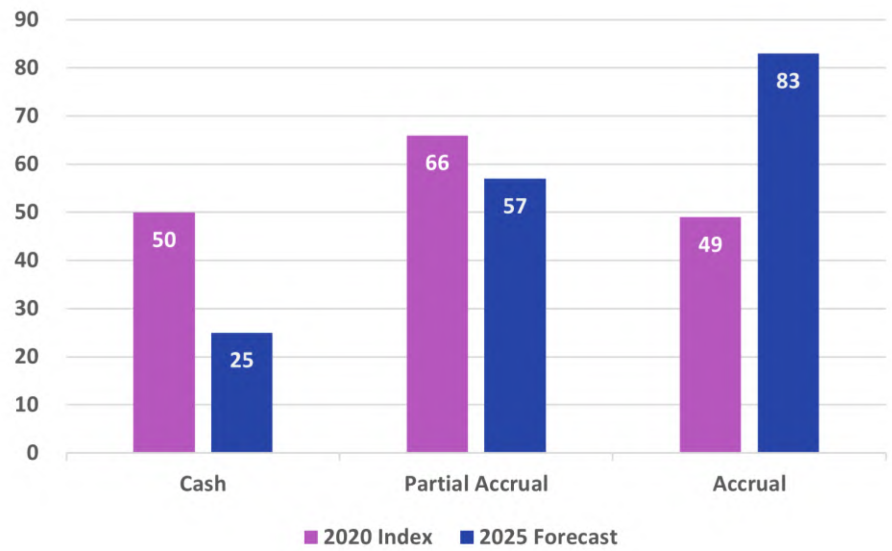
The Accounting Reform in **Greece** refers to the first-time implementation of full accrual accounting for the whole of General Government. The main aim of the accounting reform is proper recording of General Government accounting events in line with the IPSAS-based General Government Accounting Framework (GGAF). The GGAF is being implemented gradually in the Central Administration since 2019, to be expanded to remaining General Government entities from 2026. In addition, the reform aims to strengthen transparency and accountability, as well as provide better quality and more direct information to its users for decision-making purposes. To support these aims, a new Integrated Financial Management Information System for the Central Administration (gov-ERP) is being developed, which is funded by the RRF and expected to be completed by end-2025. Since 2019, DG REFORM has been supporting the Greek accounting reform under the SRSP and its successor, the TSI. In 2024, the support will contribute to the smooth introduction of consolidation across the public sector, the development of accounting policies, as well as capacity building and awareness raising actions.

In 2020, **Italy** launched an accrual accounting reform for the whole public sector, both to transpose the Directive 85/11/EU and to improve the quality of the accounting data. In 2021, the reform has been included in the National Recovery and Resilience Plan with the aim to implement a new accrual accounting system, based on IPSAS/EPSAS-inspired standards, starting from January 2025. In this regard, a governance structure has been established within the Ministry of Economy and Finance to approve a conceptual framework, a set of accounting standards (ITAS), a multidimensional chart of accounts, guidelines and training courses, and to provide IT support to relevant public entities. The new accounting system will be adopted by about 10,000 public entities and will ensure an easier consolidation process, a greater awareness in terms of sustainability of political decisions, as well as more accountability of public management. Since 2017, DG REFORM has managed support for the Italian accounting reform under the SRSP and TSI. Ongoing work under TSI focuses on measuring fixed assets, particularly heritage assets.

Some countries with already high accounting maturity, such as Lithuania and Poland, have further refined alignment of their public accounting with IPSAS. In the absence of EPSAS, all reforming countries plan to either use IPSAS as a basis for developing their own standards or implement it directly. Germany and the Netherlands have no plans to move towards accruals across their public sectors. In Germany, there is no nationwide commitment towards an accrual-based reform, whereas it is implementing individual improvements of the accounting system at the federal level (e.g., digitalisation of accounting processes and completion of an asset register). Two German states, Hesse and the Free and Hanseatic City of Hamburg, have in place advanced accrual-based public accounting systems. Furthermore, accrual-based accounting is mandatory for local governments in 14 out of 16 states of Germany. Implementation of accrual accounting is also uneven in the Netherlands, which continues with cash accounting for the majority of its central government entities, whereas its social security funds and most local governments are using accrual accounting.

The EU developments in recent years were in line with the global trend. Half of the jurisdictions (83 out of 165) included in an IFAC/CIPFA survey declared that their public accounting will be on accruals by 2025, see Figure 1.

Figure 1. Financial reporting basis in World's jurisdictions



Source: IFAC/CIPFA 2021 Status Report[12].

[12] IFAC and CIPFA's International Public Sector Financial Accountability Index. 2021 Status Report.