



## Financial Reporting Advisory Board Paper

### EPSAS Working Group update

Issue:	To give an update on the May 2019 EPSAS Working Group
Impact on guidance:	N/A
IAS/IFRS adaptation or interpretations?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts (ESA10)?	N/A
Impact on Estimates?	N/A
Recommendation:	The Board is asked to note the updates in this paper for information.
Timing:	This is for presentation and discussion at the 13 <sup>th</sup> June Board meeting

#### DETAIL

### *Background*

1. Eurostat set up a Working Group to assist in its goal to implement European Public Sector Accounting Standards (EPSAS) across EU Member States.
2. Meetings are held twice a year and the meeting in May 2019 in Rome was the eighth Working Group meeting.
3. This paper provides the Board with an overview of the presentations and discussions that took place during at this event.

### *Support for moving to accrual accounting*

4. An overview was given by the Structural Reform Support Service, setting out the support already given to Member states in moving to accrual accounting and the ongoing budget for doing so.

5. The total budget allocation in 2019 is €79.3 million rising to €84.8 million in 2020, although this includes support across different sectors of government and not just finance. Around 18% of support in 2017-2019 supports financial reforms.
6. Ireland and Malta both gave presentations on their respective accounting reform projects which have been supported by Eurostat.
7. Malta gave an overview of its reform projects on capitalisation thresholds and asset recognition and measurement.
8. Ireland still uses cash accounting in central government and the OECD produced a report (to be published imminently) that recommends a move to accrual accounting. HM Treasury provided peer support for the OECD review into accounting in Ireland in 2018 which was followed by a study visit to the UK in February this year to learn more about how our accrual accounting works in practice and the benefits of it. Ireland noted that it sees one of their biggest challenges will be communicating the benefits of changing to non-financial stakeholders.
9. Ireland accepted the OECD recommendation that an independent advisory body should be set up, akin to FRAB, which would offer advice and support to the implementation of accrual accounting.

### ***EPSAS Framework***

10. Eurostat gave an overview of an EPSAS progress report it is currently drafting which will include a summary of activities undertaken within the last five years and the state of play of EPSAS.
11. Member states previously submitted responses to Eurostat in 2014 in respect of an EPSAS questionnaire regarding the maturity of individual states' accounting. A new questionnaire has now been commissioned so as to provide a better understanding of current accounting maturity scores across Member states following reform projects and new IPSAS issued. The findings of the review will affect future impact assessments.
12. The majority of Member states who have moved to accrual accounting use IPSAS. Eurostat are therefore undertaking a comparison between the EPSAS Conceptual Framework and IPSAS to identify possible material divergences and any other substantive issues.
13. An EPSAS cell meeting took place in April 2019 which continued the discussion on the benefits and drawbacks of OC-type statements and theoretical and practical issues in agreeing how to measure an asset, the summary of which was presented to the Working Group.
14. Ian Carruthers, Chair of IPSASB, gave an update on the Board's project on measurement, with the aim to better align the measurement requirements in IPSAS with the Conceptual Framework's Measurement concepts. IPSASB set out three main objectives for this project:
  - a. Provide more detailed guidance on the implementation of commonly used measure bases, and the circumstances under which these measurement bases will be used
  - b. Address transaction costs and borrowing costs

- c. Where necessary, issue amended IPSAS with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosures.
15. Ian updated the Working Group on the scope of the project and what it would cover. This includes a consultation paper IPSASB has issued which is open until the 30<sup>th</sup> September 2019 and Ian invited all Member states to respond to the [consultation](#) as IPSASB is very keen to hear their views.
16. Ian also provided the Working Group with an outline of some of the issues facing IPSASB in the discussions on measurement requirements, and also presented example flow charts setting out the measurement basis decision for both assets and liabilities.
17. There was much discussion between Member states, and other invitees around this topic, including the differences in the advantages and disadvantages of different measurement options when looking from a theoretical view or a practical view.
18. Eurostat outlined their objective was to bridge the way between the conceptual papers on measurement categories to develop practical considerations for future EPSAS standard setters.

### *Follow-up on EPSAS issues papers*

19. There were a number of presentations from Member states and Eurostat on issues that had been discussed in previous EPSAS working group meetings.
20. Italy gave two presentations, one on its treatment of heritage assets, and another on its accounting reforms which has been supported by Eurostat. It was noted that the discussion over the treatment of heritage assets showed similarities to some of the questions raised in the previous presentation on measurement categories and the practicalities of finding a consistent measurement category.
21. Italy set out some of its accounting reform journey including different working visits, the outcome of its gap analysis, and the action plan going forward currently in progress.
22. Sweden gave an overview of its annual reports and accounts process, including setting out what is and is not included in its income statements and cash flows and how the accounts relate to budgeting. Sweden gave a further discussion on the concept of control, and on the consolidation of accounts.
23. Eurostat gave an overview of the continuing work underway on Chart of Accounts which stems from an issue paper in November 2017 looking at how to harmonise Chart of Accounts within Member states. The focus is on providing support for countries who are reforming accounting processes and is not about an EU-level harmonised Chart of Accounts. The Working Group then discussed three ways forward with this theme and agreed the work so far had been useful.
24. The European Commission's service on budget matters presented on the accounting for grants and transfers. This included a discussion over the performance obligation that can exist in grants and transfers, especially those that go across multiple years, and the

implication of performance obligations to potentially lead to a deferral in the recognition of a grant.

### ***Reports on stakeholder activities***

25. IPSASB gave an update on the current [work plan](#) for 2019-2023, including upcoming exposure drafts and confirmation of two recently approved IPSAS – IPSAS 41 (financial instruments) and IPSAS 42 (social benefits). IPSASB highlighted some of its key challenges and decisions including determining the best treatment for lessor accounting, where it is currently considering three broad options (proceed with the option in ED64, revert to IFRS 16, develop another approach).
26. The OECD gave an overview of the work it is undertaking to identify approaches and success factors that could help countries maximise the outcomes from their financial reforms. The OECD is also conducting a study of local government accounting.
27. The World Bank gave an update on the Public Sector Accounting and Reporting (PULSAR) Programme on financial accounting and reporting. This included an overview of its project on a unified Chart of Accounts which includes guidance on the development of Chart of Accounts structures.
28. City Economics & Financial Governance gave a brief overview of its 2018 meetings including summarising the take-home messages from each meeting. Every meeting has a different theme with the 2018 meetings being the theme of 'The Role of CEOs and CFOs' and the theme of 'Good Financial Management Principles and Guidelines' respectively.

### ***Current developments in Member States***

29. Updates were received from Romania on its Public Accounting Reforms which came into effect in 2006 and some changes since then, for example to IT systems.
30. Norway (although not technically a Member State) gave an overview of the public sector practices for both central and local government. Local government follows a modified accrual accounting methodology, using Norwegian private sector accounting standards (or IPSAS in situations where private sector standards are not applicable), whereas the majority of central government still uses cash accounting.

### ***Recommendation***

31. The Board is asked to note the update outlined in this paper for information.

HM Treasury  
13<sup>th</sup> June 2019