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EPSAS: Investment Into the Future

European Public Sector Accounting: Present and Future

SUMMARY: At present, IPSAS – the International Public Sector Accounting Standards developed by IPSASB (the International Public Sector Accounting Standard Board) – comprises the only internationally recognised system of public sector accounting standards. Although its application is not mandatory for Member States, IPSAS plays an important role in the development and practice of public sector accounting across the European Union. Council Directive 2011/85/EU acknowledges that IPSAS – i.e. the availability of a complete and reliable set of fiscal data that is comparable across Member States – is key to the budgetary surveillance framework of the Union. The European Commission has passed a decision to establish a set of European Public Sector Accounting Standards (EPSAS) applicable across all EU Member States, and the use of IPSAS standards may provide a sound basis for this endeavour. The most significant contribution of this paper is its attempt to summarise the current status of European public sector accounting, i.e. to present the practice of public sector accounting in the European Union and to outline expected changes in the European regulation of public sector accounting in light of the harmonisation efforts in progress.

KEYWORDS: public sector accounting, European public sector accounting, IPSAS, EPSAS, European Union
JEL CODES: H83, M41, M48

At present, public sector accounting practices are extremely heterogeneous across EU Member States. As pointed out by E&Y (2012), the accounting practices followed by European countries can be very different from one state to another, including accrual-based accounting, modified cash-based accounting through the combination of the cash-based and the accrual-based approach, pure accrual-based accounting and various other solutions. Moreover, there is a great diversity of bookkeeping systems across EU Member States, and few Member States have expressed a preference for introducing a uniform European public sector accounting system.

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Council Directive 2011/85/EU acknowledges that the availability of a complete and reliable set of fiscal data that is comparable across Member States is key to the budgetary surveillance framework of the Union. The budgetary surveillance framework of the EU is based on the European System of Accounts (hereinafter: ESA 95) methodology: Member States apply pre-defined adjustments to core data computed on the basis of the cash accounting or accrual-based accounting approach in order to generate uniform, accrual-based information.

At the same time, the accrual-based accounting system is the only generally accepted accounting framework that provides a complete, true and fair view of the financial and economic status of individual governments, as well as the assets and liabilities, revenues and expenditures of companies.

Consequently, Eurostat needed to develop a system that is not only consistent with the accrual accounting method, but also capable of serving data supplied to ESA95 to ensure, based on the standardised dataset of institutions operating from budgetary funds, the transparent, comparable, true and fair data provision that is indispensable for the budgetary surveillance framework of the EU, fiscal monitoring and sound decision-making.

RESEARCH METHODOLOGY

For the purposes of our study, priority was given to the secondary research methodology. During our research, we relied on international papers, the empirical survey results of international accounting firms (PwC, E&Y and Deloitte) and the official documents, decisions and EU-wide recommendations of the European Commission. We have also conducted an empirical study regarding the research topic. We have interviewed relevant experts of the Hungarian legislative and executive sides. Our findings are summarised below in a SWOT analysis. Both the results of the questionnaire and our own professional experiences are presented among the final results of this paper.

EUROPEAN PUBLIC SECTOR ACCOUNTING: THE PRESENT – HARMONISATION EFFORTS

Public sector accounting shows heterogeneous features across Member States, in terms of both regulation and methodology. There are two significant approaches to public sector accounting: the cash approach and the accrual accounting method. The two approaches are rarely applied in their pure form; accordingly, we can distinguish between a number of different development levels.[1]

At present, IPSAS (International Public Sector Accounting Standards)[2] is the only internationally recognised system of public sector accounting standards. IPSAS is developed by the IPSASB (the International Public Sector Accounting Standard Board), an independent standard-setting organisation operating under the auspices of IFAC (the International Federation of Accountants). Although its uniform application is not mandatory for Member States, IPSAS plays an important role in the development of the public sector's accounting system.

IPSAS currently comprises 38 accrual-based standards and one cash-based standard, with all standards based on the International Financial Reporting Standards (IFRS) widely used in the private sector. Under the title "Recommended Practice Guidelines" (RPG), three practical guidelines have been issued with a view to easing the practical application of the standards. Although the conceptual framework of most IPSAS standards is identical with that of the IAS (International Accounting Standards) or IFRS (International Financial Reporting Standards) framework, it should be remembered that the IAS/IFRS standards were primarily developed with the key characteristics of the private sector in mind, while IPSAS standards are designed to serve the public sector (Deloitte, 2015).

The different phases of the IPSASB work programme aimed at the development of IPSAS is discussed in detail in *Müller* (2013). It is clear that the first phase of the work programme aimed at the development of the IPSAS standards lasted from 1997 to 2002 and focused on crafting the first set of accounting standards ("core set": IPSAS 1 – IPSAS 20) with the financial support of international institutions. Marking the second phase of the work programme, the period of 2003–2010 saw the issuance of the first standards relevant to specific rules of the public sector (IPSAS 21 – IPSAS 24); in other words, close convergence was achieved between public sector accounting and the IAS/IFRS framework. The third phase is still in progress today. It focuses on the development of a well-structured conceptual framework for the public sector. In addition, through the transitioning of IPSAS to the EPSAS standards it is specifically aimed at the integration of EU-wide national public accounting rules and hence, the convergence of existing standards to IFRS.

Irrespective of not being a statutory requirement, the application of IPSAS plays a significant role in the development of European public sector accounting. Some Member States have already adopted IPSAS or similar standards; others have expressed their intention to introduce them. At the same time, numerous supranational organisations, including the European Commission, NATO and OECD, already use – or will use in future – financial accounting arrangements founded on IPSAS standards (European Commission, 2013; Aggestam et al., 2014).

RESULTS OF THE INTERNATIONAL SURVEYS ON IPSAS ADOPTION

Various studies and impact assessments have been prepared in recent years on the adoption of IPSAS standards and its expected impact, the most important of which are the publications of Deloitte (2013), E&Y (2012) and PwC (2013).

PwC relied on data collected from 100 countries in its study published in May 2013. The most important findings of the transition process among European Union Member States are the following.

- There is great diversity in accounting practices but the trend towards accrual accounting is clear.
- By contrast, budgets remain largely on a cash basis.
- The adoption of IPSAS or similar accrual accounting standards may be useful for government stakeholders.
- It may improve the transparency of processes and facilitate the enforcement of accountability.
- More than three years are required for the transition to accrual-based IPSAS.
- The lack of trained staff and inadequate IT systems constitute the main challenges.

In its 2012 survey covering the existing EU Member States at the time (EU 27), E&Y assessed the extent to which each Member State was prepared to convert to IPSAS. The data collected were evaluated both on a consolidated basis and broken down by each Member State in order to identify the drivers behind the individual state's intention to move to IPSAS. The main findings of the survey were the following. *(See Table 1).*

- 23 per cent of the Members States did not consider the adoption of IPSAS a priority; for them, other accounting issues appeared to be more important to address.
- 21 per cent of the respondents saw cost as a major obstacle to the implementation of IPSAS.
- 16 per cent deemed IPSAS as rudimentary or incomplete, with a number of areas not covered adequately by regulations.
- 11 per cent thought that the system was too complex, requiring too much additional information to disclose.
- 11 per cent of the respondents considered IPSAS too theoretical and hard to apply in practice.
- 18 per cent did not report any practical issue regarding the application of IPSAS.

Table 1

SWOT ANALYSIS ON IPSAS HARMONISATION

Strength	Weakness
• an accounting information system measuring efficiency, effectiveness and performance • independence and assistance of the IPSASB (objective rule-setting)	• IPSAS does not cover all specificities of the public sector • overly complicated rules • time and cost requirement of the transition
Opportunity	**THREAT**
• accrual-based budgeting • comparability • transparency • accountability	• the IPSASB has no mandate for the introduction • adoption of IPSAS is not comprehensive

Source: own editoring

The accrual-based accounting system is the only accounting system that can provide a comprehensive and reliable picture of the economic position and performance of a country. With the appearance of accrual accounting, a complex accounting information system is made available; one that can serve as an information basis for an indicator system measuring the economy, efficiency and effectiveness of the use of public funds and for the operation of public finance statistics.

Public sector accounting standards are crafted by IPSASB, an independent standard-setting organisation. This independence may, on the one hand, ensure the development of an objective set of rules and, on the other hand, facilitate professional assistance and consultancy.

At the same time, it counteracts the strengths offered by the application of IPSAS that most of the accounting standards currently available do not fully cover the specificities stemming from the financial management and financing of the public sector and the special valuation requirements of asset components. So far, empirical studies demonstrate that the transition will require a period of 3–5 years, which increases the costs incurred during the period significantly, imposing a significant burden on central and local budgets. There are two main obstacles to the transition: the transformation and harmonisation of the information system and the lack of trained staff. For a successful transition, there is a need for innovative, proactive and motivated experts who are not only familiar with international accounting standards and practices but are also open to innovations and have the relevant professional experience. At the same time, in their current form, IPSAS rules are far too complicated and complex; they should be simplified and clarified further so they can cater to the needs of the public sector more easily and to ensure that they are better aligned with the knowledge level and experience of the experts working with the standards.

The annual budget of the public sector is the most important financial instrument of governance. Research on the settlement system of the public sector points to a clear trend toward the application of accrual accounting, which may provide an excellent opportunity for working out an accrual budgeting framework through the harmonisation of the accounting system and annual budget planning. The adoption of IPSAS may also allow for data comparability between the countries applying the standards. With the introduction of the standards at the international level, the Board strives to ensure uniformity, accountability and transparency. Transparency is especially important for tracking the use of public funds and for holding main decision-makers accountable.

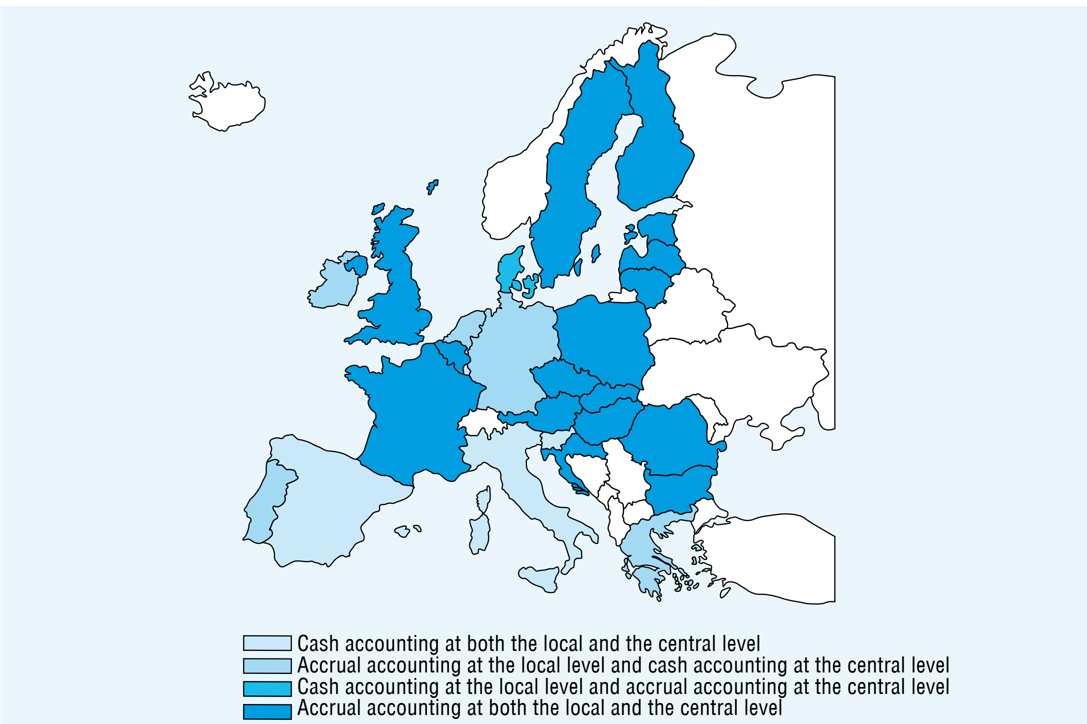
Besides the significant time and cost requirement of the transition, another possible impediment to the propagation of IPSAS is the Board's lack of a mandate with respect to the mandatory adoption of the standards and the definition of a deadline for the introduction. The Board has merely issued a recommendation about the adoption of IPSAS; consequently, several countries apply the standards alongside their existing accounting rules which, at the same time, assumes the application of the IFRS standards already in use in the accounting system of the given country.

THE EUROPEAN UNION AT A GLANCE – A COMPARATIVE ANALYSIS OF MEMBER STATES

At present, there are no two Member States within the European Union where the practice and applied methodology of public sector accounting is identical both at the central and at the local government level. In this chapter of our study, we describe the individual phases of the evolution of public sector accounting in each Member State and the general characteristics of the existing regulations. For the sake of clarity, below we present a number of charts *(Figures 1–3)* illustrating the current

Figure 1

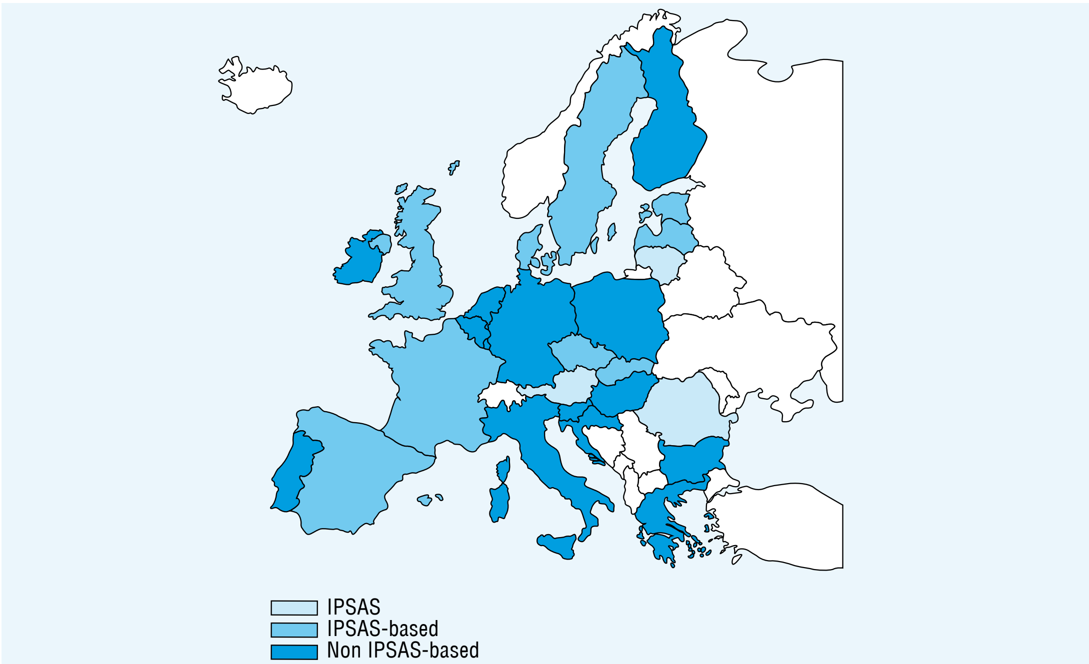
GOVERNMENT ACCOUNTING APPROACHES APPLIED



Source: own editoring

Figure 2

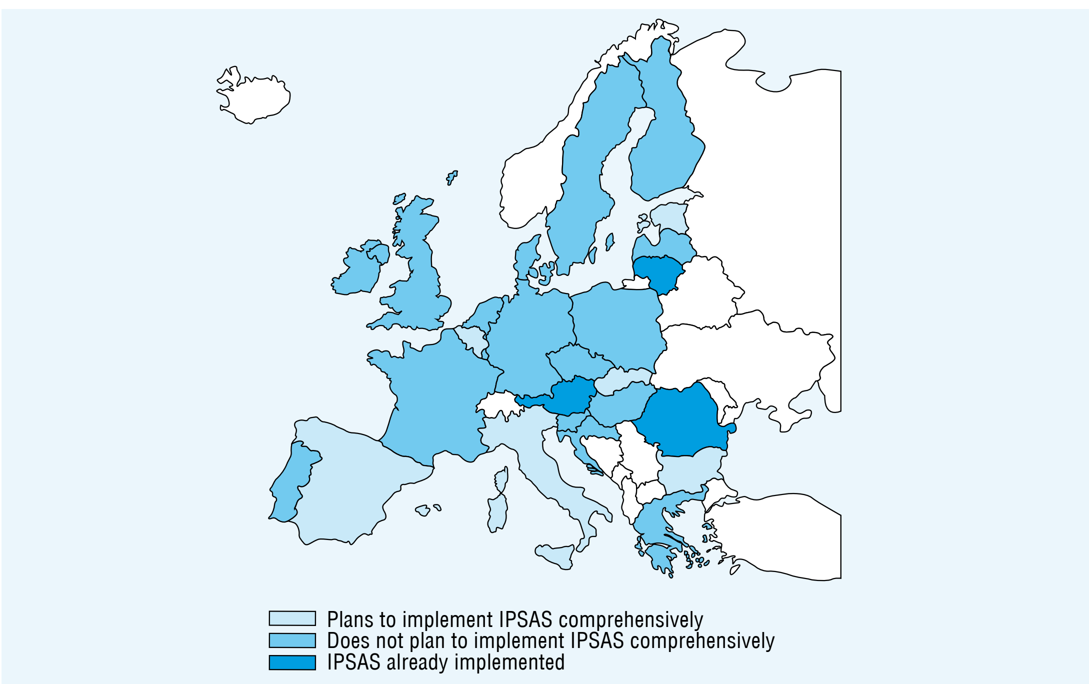
RELATIONSHIP BETWEEN GOVERNMENT ACCOUNTING AND IPSAS



Source: own editoring

Figure 3

PLANS FOR IPSAS IMPLEMENTATION



Source: own editoring

government accounting models of individual Member States and their relationship with IPSAS (these relationships are also presented in a table format in the Appendix of the study).

In Austria, budget formulation was cash-based and highly legalistic up until the 1990s. At the proposal of a parliamentary reform committee established in 2004, in 2007 and 2009 the Parliament adopted reform packages aimed at the modernisation of public sector accounting (Steger, 2013). Transition to accrual accounting began in 2009 (E&Y, 2012). Although Austria greatly relied on the Swiss system in developing its new regulations, IPSAS standards also played an important role in the implementation process. Conversion to the new system took place as of 1 January 2013 (Steger, 2013). At present, Austria applies accrual accounting at the central level and modified accrual accounting at the regional and local level (Bellanca et al., 2015). In 2013, 19 of the currently existing 32 IPSAS standards were fully applied, 6 standards were only partially adopted, while 7 standards were rejected altogether (Steger, 2013). The full adoption of IPSAS standards commenced in 2014 (Deloitte, 2013).

The situation in Belgium is more complex than anywhere else in EU Member States. The reform process that led to the introduction of accrual accounting in the public sector lasted from 1991 to 2003 (E&Y, 2012). This notwithstanding, various models and regulations co-exist in Belgium even today; most typically, the modified accrual accounting model and the full accrual accounting approach. The general public accounting system consists of two components: a cash-based budget accounting and an accrual-based general accounting model, which is inspired by the accounting system applied by private companies. The full accrual accounting model is used, in general, at the central level; however, modified accrual accounting prevails in the Walloon Region, the Brussels-Capital Region, in German and French speaking communities and at the local level (Bellanca et al., 2015). IPSAS standards are applied and considered to be the dominating regulation at all levels only in the case of the Flemish government (Aggestam et al., 2014). Belgium does not fully accept IPSAS standards, but it envisages 90 per cent compliance with the standards as a result of the implementation of the 2011–2014 reform (E&Y, 2012).

Bulgaria applies accrual accounting both at the local and at the central level in the area of public finance accounting (Deloitte, 2013). Public corporations report according to the IFRS standards, but IPSAS standards have not been adopted at the budgetary level (E&Y, 2012). Monthly, quarterly and annual budget reports are prepared on a cash-basis, but quarterly and annual budget statements are prepared in line with the accrual accounting model to ensure compliance with the requirements of the macroeconomic accounting framework of ESA (Bellanca et al., 2015). Although there have been initiatives regarding the adoption of IPSAS, specific plans are yet to be formalised (E&Y, 2012).

In Cyprus, central government typically applies modified cash accounting, while local governments tend to use accrual accounting procedures (Rainero et al., 2013). The country has adopted the cash-basis IPSAS (Deloitte, 2013). Moving to accrual accounting is in the planning phase; the full adoption of IPSAS standards has been defined as an objective (E&Y, 2012; Rainero et al., 2013).

The Czech Republic commenced a public finance accounting reform in 2010, which lasted for two or three years. At present, the country applies an accrual-based public sector accounting model, which is largely consistent with IPSAS. (Bellanca et al., 2015). Full conversion to IPSAS standards is not a viable option as it is in conflict with Czech legislation and principles; in addition, it would be extremely costly and, based on the research findings of E&Y (2012), it would not be efficient (E&Y, 2012).

Denmark applies the accrual accounting model both at the central and at the regional level and cash accounting at the local level. Denmark has its own public sector accounting standards, developed in consideration with IPSAS. The full adoption of IPSAS standards has been debated for years, but the biggest problem is that IPSAS principles are often in conflict with the Danish national standards (E&Y, 2012; Rainero et al., 2013).

It was in 1995 that the United Kingdom implemented its public finance accounting reform that put an end to the application of cash accounting and established an accrual-based public sector accounting system both at the central and at the local level (Bellanca et al., 2015). As it applies an IFRS-based accounting system in public finance (Aggestam et al., 2014; Bellanca et al., 2015), the UK is more than 95 per cent compliant with IPSAS principles (E&Y, 2012). IFRS standards comprise the first level of the regulation, and while IPSAS standards form the second level of the hierarchy in areas where the provisions of IFRS are not applicable, the UK has no plans to convert to IPSAS (Deloitte, 2013).

Estonia launched its government accounting reforms as early as 1991 after having gained independence following the collapse of the Soviet Union. Since 2004, a system of accrual accounting has been used in public finance, and although Estonia has its own rules, it developed its internal procedures in conformity with IPSAS guidelines (Bellanca et al., 2015), thus the country is more than 90 per cent compliant with IPSAS (E&Y, 2012). Full conversion to the IPSAS standards is currently in progress (Deloitte, 2013).

In Finland, the idea of applying accrual-based accounting in the public sector was first raised in 1988. Since then, Finland has used a combination of the cash-based model and accrual accounting in preparing its budget statements. As a result of the 1997 reforms, however, accrual accounting gained ground. At present, Finland applies modified accrual accounting at the local level, and modified cash accounting at the central level. Public sector accounting is currently governed by national rules with no plans for the adoption of IPSAS, although the Ministry of Finance has already opened a debate about the issue (E&Y, 2012; Bellanca et al., 2015).

France applied a cash-based, single-entry bookkeeping system in government accounting up until 1957. The reform process launched in 1957 was completed in 1960 with the introduction of a double-entry bookkeeping system. (Bellanca et al., 2015). The intention to migrate to an accrual accounting system was first expressed in 1999; a reform process started in 2004 and was completed in 2006 (Bellanca – Vandernoot, 2014). Since 2006, France has applied accrual accounting in the public sector both at the central and at the local level (Deloitte, 2013). In 2008, France set up a council to be in charge of setting the accounting standards for the public sector (E&Y, 2012). It has its own public finance accounting standards, which are based on the French GAAP, IFRS and IPSAS (Deloitte, 2013). It has no plans to implement the IPSAS standards. The French Court of Auditors and the ministries acknowledge the need for a European-level harmonisation of public accounting standards; however, IPSAS is not perceived as appropriate to reference public sector accounting, as IPSAS principles do not provide sufficient – if any – guidance on a number of issues concerning the public sector (E&Y, 2012).

The origins of Greece's public sector accounting go back to ancient Greece and these strong historical ties are still perceivable to this day. Greece was relatively slow to follow the reforms seen in its Western European counterparts. Zero-based budgeting was introduced on a trial basis in the 1980s (Maggina, 2011). At present, at the central level cash-based accounting prevails in the execution of the budget, while the modified accrual-based accounting model is used for the preparation of financial statements. At the local level, accrual accounting is applied with six different systems in place (separately for hospitals, public institutions, local governments, etc.). At this time, Greece's most important goal is to harmonise its convoluted accounting system and introduce uniform procedures in all areas (Bellanca et al., 2015). Information is currently not available regarding Greece's intention to apply IPSAS (E&Y, 2012).

The Netherlands have seen several public sector accounting reforms in recent years. The need for the introduction of accrual accounting arose in 1979 for the provinces and in 1982 for municipalities, and the reforms were implemented in 1985. Commenced in 1994, the next series of reforms represented the first step toward the introduction of accrual accounting at the central level, and another attempt was made in 2000. At present, accrual accounting is applied at the local and at the regional level, while the modified cash-based approach prevails at the central level, where two systems are in use, given that commitments are recognised separately. At the central level, the accrual accounting model is only used in a few priority areas (Bellanca et al., 2015). The Netherlands have attempted to implement accrual-based IPSAS standards on numerous occasions, with the last parliamentary debate taking place in 2008 (Deloitte, 2013) Surveys and analyses demonstrated that the adoption of IPSAS would not offer more accurate information than the existing system, and the conversion process would be costly and time consuming. The model is considered to be overly theoretical, with too much room for free interpretation (E&Y, 2012). Although the applied accounting methodology is 70 per cent compliant with IPSAS, it is not an IPSAS-based model and the adoption of IPSAS is not anticipated (Bellanca – Vandernoot, 2014).

In Croatia, thanks to the reforms implemented in 2002, accrual accounting was introduced to complement the previous, modified cash-based model. At present, a modified accrual-based public finance accounting framework is in place. Croatia has no plans to adopt IPSAS and it has no national standards of its own (Deloitte, 2013; Jovanović, 2013).

In Ireland, the central government typically applies modified cash accounting, while local governments tend to use accrual accounting procedures. Accounting reforms are in progress, geared toward the accrual-based model. As at 2011, it was unclear whether Ireland seeks to adopt IPSAS or formulate its own standards (E&Y, 2012; Rainero et al., 2013).

Poland applies the accrual-based approach in government accounting. At present, the existing legislative hierarchy does not support the application of IPSAS (E&Y, 2012).

In Latvia, the modified accrual-based model prevails both at the central and at the local level and the procedures are IPSAS-compatible (Bellanca et al., 2015). Since Latvia relies on accrual accounting with respect to the execution of the budget and taxation (Deloitte, 2013), its accounting methodology should really be labelled as a modified accrual-based model. Although Latvia's procedures are consistent with IPSAS standards, it has no plans to adopt IPSAS, partly because of the formidable costs associated with the transition. Moreover, IPSAS is perceived to be unsuitable for regulating the accounting procedures of budgetary units because in terms of valuation principles, they use the methods applied in the private sector. Latvia expects that the development and introduction of its own national standards will require a period of 3 to 5 years (E&Y, 2012).

Lithuania commenced a major government accounting reform in 2005, with debates over a potential transition to accrual accounting (Bellanca et al., 2015). By 2007, the Public Sector Accounting Law was enacted, with 26 national public sector accounting standards introduced (NPSAS and subsequently, LPSAS) based on IPSAS. By 2008, Lithuania put in place a unified chart of accounts, issued the relevant accounting manuals and prepared a feasibility study for training and IT systems. The help-desk service of the central accounting IT system started its operation in 2009 and additional trainings commenced. As a result of the Big Bang approach chosen by the government, on 1 January 2010 the new accrual-based accounting framework was implemented throughout the public sector as a whole, affecting 4,500 institutions (Muckutė, 2013). Currently, budgetary institutions are required to prepare quarterly and annual financial statements. It is only with regard to the execution of the budget that the cash-based approach is still applied (Bellanca et al., 2015).

In Luxembourg, cash accounting is used both at the central and at the local level, except for state-owned institutions, where the accrual-based model prevails. Luxembourg has no plans to introduce the IPSAS standards; indeed, its own regulations do not comply with the application of IPSAS whatsoever (E&Y, 2012; Rainero et al., 2013).

In Hungary, as of 1 January 2014, the new public sector accounting system replaced the previously used modified cash accounting system with a modified accrual-based model. The accounting system consists of two double-entry bookkeeping subsystems, a cash-based public sector accounting system and an accrual-based financial accounting system. The adoption of IPSAS is not on the agenda.

Originally, Malta inherited its traditional public sector accounting system from British colonial times (Mason, 2014). In 1990, it embarked on a reform process, and in 1999 a working group was set up tasked with the replacement of Malta's cash-based accounting system with an accrual-based model. In 2004, however, the implementation of the accrual accounting system came to a halt; the IPSAS standards were rejected and Malta was left without any specific regulations for a while (Jones – Caruana, 2014). In 2011, however, Malta decided to adopt IPSAS after all. Transition to IPSAS began in 2013 and is expected to be completed in 2019. Some IPSAS standards are already in use. The goal is to introduce full accrual accounting (Mason, 2014).

Germany's public finance accounting applies a modified cash-based system at the central level (Rainero et al., 2013), which consists of two components: budget accounting and a rudimentary system of financial accounting, mainly used for the recording of commitments (Bellanca et al., 2015). Transition to accrual accounting was completed in the 1990s at the level of local governments. Subsequently, the financial officers of local governments found that the benefits of the implementation outweighed the costs in the medium to long term despite the high costs associated with the transition. At present, as Germany is composed of federal states, individual states apply different valuation principles and statements (such as the direct vs. indirect method for compiling the cash-flow statement) (Adam, 2013). At this time, the goal is to modernise and standardise the country's modified cash-based system (Bellanca et al., 2015). Neither German federal state is willing to accept the IPSAS standards; the states are reluctant to adopt these international rules. That notwithstanding, the government has launched a pilot project to implement IPSAS in medium-sized local authorities. Within the framework of the project, analyses are prepared along the lines of the cost–benefit principle. According to the respondents, the greatest disadvantage of IPSAS is that it is based on the IFRS standards, and Germany does not approve of the valuation procedures applied in IFRS with respect to the public sector (Adam, 2013).

Italy has been looking to reform the government accounting system for an extremely long time. The first reform took place in the period between 1992 and 2003 (Rossi – Trequattrini, 2011). Traditionally Italy applies cash accounting, but the need has arisen for the adoption of the accrual-based model. The most intensive reforms took place in 1997, but they did not succeed (Bellanca et al., 2015). Accrual-based statements can only be prepared in cases covered by specific legislation (e.g. commitments). 2009–2010 marked the beginning of a new public finance and public accounting reform aimed at the transition to accrual accounting (Rossi – Trequattrini, 2011), and the implementation of the process was estimated to take six years (Rainero et al., 2013). At this stage, the Italian system is primarily a modified cash-based system, but as a secondary method, the modified accrual-based approach also plays a role. Since government accounting is not uniform at all levels of public finance, the primary purpose of the reforms is harmonisation (Rossi – Trequattrini, 2011). Italy essentially acknowledges the usefulness of IPSAS standards, but it does not approve of the fact that it essentially transposed the IAS/IFRS standards for the purposes of budgetary institutions. The biggest problem with this is that the rules became far too lenient. Italy does not foresee the application of IPSAS in the near future; at this time, harmonisation at the local level takes priority. The adoption of the international standards may only begin after the Italy's major accounting reform has been completed(E&Y, 2012).

In Portugal, accrual accounting was introduced in 1997, but it was only applicable to certain parts of public finance. Portugal currently applies the modified cash accounting method; accrual accounting is used, for the most part, at the local level. An accounting reform is currently in progress, aimed at full conversion to accrual accounting at all levels. Portugal does not rule out the possibility of adopting the IPSAS standards at some point (E&Y, 2012; Bellanca et al., 2015).

Romania had relied on a single-entry cash-based bookkeeping system for a long period of time, but as negotiations on its accession to the European Union began in 1999, the country embarked on a series of accounting reforms. In 2002, in the spirit of IPSAS harmonisation, the Ministry of Finance approved the new methodological rules (Măciucă, 2013). In 2005, IPSAS was translated into Romanian. Romania has applied an accrual-based, double-entry bookkeeping system in public finance since 1 January 2006 (Tudor – Mutiu, 2006). The adoption of IPSAS standards is an ongoing process in Romania; the standards that have been implemented so far are IPSAS 1, IPSAS 2, IPSAS 4, IPSAS 5, IPSAS 12, IPSAS 17, IPSAS 19, and IPSAS 24 (E&Y, 2012). Romania also expressed an intention to adopt IPSAS 6 and to transform – and integrate into its own standards – the previously adopted standards (Deloitte, 2013).

Spain launched its accounting reforms in the period between 1986 and 1990. The reforms were aimed at the convergence of public finance accounting to the accounting methodology applied in the corporate sector. Spain uses an accrual accounting system composed of two parts: budget accounting and financial accounting (Bellanca et al., 2015). To facilitate the transition to accrual accounting, the IPSAS Manual has been translated into Spanish and the standards were expected to be implemented by 2011 (Deloitte, 2013). The implementation, however, has not been fully completed to date.

Sweden has relied on an accrual-based accounting system for more than 20 years, both at the central and at the local level of public finance. The Swedish accounting system was strongly inspired by IPSAS and similar other standards; consequently, a high level of compliance is already in place. Despite this conformity, however, Sweden does not envisage the full adoption of IPSAS in consideration of the costliness of the implementation (E&Y, 2012; Bellanca et al., 2015).

Slovakia has put in place an accrual-based accounting model both at the central and at the local level, but further reforms are underway to achieve full transition to an accrual-based public finance accounting system. Full conversion to IPSAS is reported to be among Slovakia's goals (Bellanca et al., 2015).

Although Slovenia applies a modified cash accounting approach in the public sector, on occasion it enforces accrual-based solutions in compiling the sector's financial statements (Bellanca et al., 2015). Its existing system is being reviewed and transition to full accrual accounting is being considered. Slovenia is considering two approaches to the implementation of accrual accounting: an immediate adoption at all levels, or a gradual transition (Jovanović, 2013). At this time, there are no plans to adopt IPSAS (Deloitte, 2013).

The figures presented above and the detailed description of Member States as well as *Table 2* show two distinct clusters in relation to Member States acceding to the European Union before and after 2004, and they largely coincide with the cultural and economic arrangements of individual Member States, revealing important correlations regarding the attitude of EU Member States to government accounting.

Among the founders and Member States joining the EU before 2004 – i.e. the EU15 (i) – only six countries reported their willingness to fully convert to accrual accounting. These six countries, however, comprise nearly a third of the total population of the EU (32.6 per cent) and account for 41 per cent of the EU's total GDP. Of the 15 EU Member States, the adoption of IPSAS, for the most part, is not envisaged in countries where conversion has already started but, for the time being, has not been fully achieved at the local and at the central level. Such countries include mainly those located in the central part of the EU: Germany, the Netherlands, Austria, Denmark.

Recently joined Member States (acceding after 2004) comprise a separate group. Essentially, they have already converted their total government accounting systems to an accrual-based model, with the only true exception of Slovenia (given that Cyprus does not apply the uniform approach for the sake of consistency with Greece). Thus, post-socialist countries may have had fascinating motivations as they sought to meet expectations.

It should be also added, however, that this "pressure to conform" resulted in a far more transparent, clearer and more reliable accounting information system. We should only think of how strong readers' confidence can be in the public finance data released by Greece, Spain, Portugal or Italy when they are told every day that these countries and their expected national economy crises may drag down the economy of the entire European Union.

We found, overall, that some version of the cash approach still perseveres in numerous countries, but an increasing number of Member States have made the decision to shift to accrual accounting. Although IPSAS standards have not been utilised comprehensively in any of the Member States as yet, it is clear that in most Member States, the standards will play a decisive role in legislation in the long run.

Table 2

GOVERNMENT ACCOUNTING APPROACH OF MEMBER STATES JOINING THE EUROPEAN UNION BEFORE AND AFTER 2004

Country	Entry	Population	GDP (USD millions)	Currency	Accrual-based methodology at all levels of government accounting	Partial accrual-based methodology at all levels of government accounting
Belgium	1958	11.258.434	534.230	euro	x	
France	1958	66.352.469	2.833.687	euro	x	
Italy	1958	61.438.480	2.147.744	euro		x
Luxembourg	1958	562.958	65.683	euro		x
Netherlands	1958	17.155.169	880.716	euro		x
Germany	1958	81.089.331	3.874.437	euro		x
Denmark	1973	5.653.357	342.362	own currency		x
Ireland	1973	4.625.885	250.814	euro		x
United Kingdom	1973	64.767.115	2.950.039	own currency	x	
Greece	1981	10.846.979	237.970	euro		x
Portugal	1986	10.374.822	229.948	euro		x
Spain	1986	46.439.864	1.406.538	euro		x
Austria	1995	8.581.500	437.582	euro	x	
Finland	1995	5.471.753	272.649	euro	x	
Sweden	1995	9.790.000	570.591	own currency	x	
Cyprus	2004	847.008	23.263	euro		x
Czech Republic	2004	10.419.743	205.270	own currency	x	
Estonia	2004	1.313.271	26.506	euro	x	
Hungary	2004	9.855.571	136.989	own currency	x	
Latvia	2004	1.986.096	31.972	euro	x	
Lithuania	2004	2.921.262	48.288	euro	x	
Malta	2004	429.344	10.514	euro	x	
Poland	2004	38.005.614	547.894	own currency	x	
Slovakia	2004	5.403.134	99.869	euro	x	
Slovenia	2004	2.062.874	49.570	euro		x
Bulgaria	2007	7.202.198	55.824	own currency	x	
Romania	2007	19.861.408	199.093	own currency	x	
Croatia	2013	4.225.316	57.073	own currency	x	

Source: own editoring

THE PRESENT OF EUROPEAN PUBLIC SECTOR ACCOUNTING (EPSAS) – THE 'EUROPEANISATION' OF PUBLIC SECTOR ACCOUNTING

On 8 November 2011, the Council of the European Union adopted Council Directive 85/2011/EU on requirements for budgetary frameworks of the Member States (hereinafter: Directive). The Directive states that the availability of public finance data that are comparable across Member States has a key role in the EU budget. The Directive stresses the need for uniform, accrual-based public sector accounting standards and points out that fiscal statistics reflect, first and foremost, cash flows. This practice fails to provide sufficient information to ESA95, which relies on information provided on an accrual basis. For this reason, Eurostat recommends that all sub-sectors of the general government generate accrual data with a view to preparing data based on the ESA95 standard. Current public sector accounting and auditing practices vary widely across EU Member States; therefore, there is a need to implement uniform public sector accounting systems in Member States in order to achieve harmonisation (European Commission, 2013; Aggestam et al., 2014). Accordingly, a deadline is set in paragraph (3) of Article 16 of the Directive for the Commission to assess the suitability of the International Public Sector Accounting Standards for the Member States.

The accounting procedures applied in the general government sector and its sub-sectors are extremely heterogeneous across EU Member States, which renders the comparison of data within and between Member States extremely difficult. At the same time, the sovereign debt crisis demonstrated the need for governments to disclose data on financial stability and public finance in a clear and uniform manner and enforce stricter and more transparent rules in their reporting practices. Council Directive 2011/85/EU acknowledges that the availability of a complete and reliable set of fiscal data that is comparable across Member States is key to the budgetary surveillance framework of the Union.

27 EU Member States participated in the survey of E&Y (2012), and based on their responses it appears likely that IPSAS cannot be implemented in all EU Member States in its current form. The standards do not prescribe any mandatory accounting practice and leave room for numerous options to choose from, and this hampers harmonisation efforts. IPSAS does not provide comprehensive guidance for each individual budgetary process, which also calls into question comparability and applicability. However, even with these limitations, a set of IPSAS-based, European Public Sector Accounting Standards may offer a solution to the challenges posed by the expectations on European public sector accounting.

Through a questionnaire-based survey conducted by E&Y, in 2012 Eurostat collected regulatory and practical information on Member States' current bookkeeping, reporting and audit systems. The empirical study made it clear that IPSAS standards cannot be implemented in a uniform manner in all Member States, and demonstrated the need for the development of new, different, "more European" standards that nevertheless are rooted in the IPSAS standards (EPSAS). Commissioned by Eurostat, Pricewaterhouse-Coopers (PwC) conducted another survey in 2013 on the bookkeeping, reporting and audit systems of Member States in order to determine what would it take, in each individual Member State, to implement the envisaged EPSAS standards.

In May 2013, PwC published the results of the 12-month survey ending in March. Originally, 140 countries were targeted to participate in the survey, but the final results reflect responses from 100 countries. Preliminary highlights of the global survey were presented at a conference held in Brussels on 17 and 18 December 2012, attended by 200 delegates from 43 countries. The research was focused on 10 key messages that convey the most important findings of the survey. The findings most relevant to the subject of this paper are the following.

- There is great diversity in accounting practices but the trend towards accrual accounting is clear.
- A major shift to accrual accounting is expected in developing countries, with IPSAS serving as a common reference point.
- Budgets remain largely on a cash basis.
- Conversion to IPSAS or similar accrual accounting standards may be useful for government stakeholders.
- Greater transparency and accountability, comprehensive inventory of assets and liabilities, and performance assessment are the main benefits.
- More than three years are required on average to transition to accrual-based IPSAS.
- The lack of trained staff and IT system requirements are the main challenges.

In consideration of these findings, the European Commission has passed a decision to establish a set of European Public Sector Accounting Standards (EPSAS) applicable across all EU Member States, and IPSAS standards may provide a sound basis for the development of these European standards.

MAIN PHASES OF THE EPSAS STANDARD-SETTING PROCESS

- In the autumn of 2010, the European Commission put forward a legislative proposal package on the European economic governance framework, in the context of which Directive 2011/85/EU was adopted in November 2011.
- The Commission's report on the suitability of IPSAS for the Member States was adopted in March 2013. The report acknowledged the benefits of a uniform accrual-based public sector accounting system throughout the EU, but it found that IPSAS standards were not the most suitable solution. A set of EPSAS standards needed to be developed for which IPSAS would be a suitable reference framework.
- In May 2013, a conference was held in Brussels, where EPSAS received an increasing amount of political support.
- Eurostat set up two working groups tasked with the preparatory work required for the development of EPSAS. The first working group was established for the purpose of formulating the principles and future governance system of EPSAS, while the second group will be more involved in technical and professional discussions regarding the proposed accounting standards (Fejszák, 2014).

Although upon their implementation, EPSAS standards should be undoubtedly harmonised with the IFRS-based IPSAS, in our opinion, IFRS and IPSAS standards should be treated with caution during the development of EPSAS, as they are not always suitable for supporting the specificities of the public sector.

THE CURRENT STATUS OF EPSAS

In 2015, major steps were taken toward the formulation of EPSAS standards. The EPSAS Governance Task Force, the EPSAS Standards Task Force and the EPSAS Working Group were set up in March. The EPSAS Working Group is composed of experts who are responsible, among other things, for discussing key issues, formulating EPSAS structures and requirements, developing the standards and, as an expected future task, they will act in an advisory capacity in relation to the implementation of EPSAS (European Commission, 2015a; 2015b; 2015c).

SUMMARY REMARKS

In consideration of the expectations laid down in Directive 2011/85/EU, in 2012 the European Commission launched a public consultation on the suitability of IPSAS. This public consultation paper is currently the only position approved with respect to international public sector accounting standards. The consultation pointed out that the public sector accounting framework of a number of Member States was based, either in terms of its approach or in terms of its data supply, on IPSAS principles. According to the consultation paper, IPSAS standards are not easy to adapt to the regulatory systems of individual Member States, but the need for setting up a potentially harmonised EU public sector accounting framework (EPSAS) exist nevertheless.

Harmonisation is important to ensure the transparency of the management of public funds, the comparability of data and the development of uniform, EU-wide public finance statistics. The professional community needs to accept that the EU-wide harmonisation is unavoidable, and make the necessary preparations.

In the Commission's opinion, EPSAS should initially be based on the adaptation of the IPSAS principles and practices approved by Member States. Moreover, the Commission underlined the need for establishing the conditions required for the implementation of EPSAS – such as strong political support and a common project surveillance framework – even in Member States that currently apply cash-based public sector accounting models. It is clear, therefore, that EPSAS cannot be successfully developed and adapted without strong EU governance.

For EU Member States, EPSAS is undoubtedly the first accounting harmonisation process that will have a profound impact on their financial and accounting information systems and that is capable of driving global uniformity across Europe. Significant developments are expected to take place in the next five years of harmonisation, which will also have a robust impact on Hungarian public sector accounting.

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Notes

[1] The four accounting levels are the following: Cash-based approach, modified cash-based approach, modified accrual-based approach and full accrual-based approach. For more details about the various bookkeeping techniques, see, for example: Báger 2011; Simon 2012; Ormos – Veress 2012; Sisa 2014.

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Appendix

Name	Government accounting approach applied	Relationship with IPSAS standards
Austria	Accrual accounting at the central level, modified accrual accounting at the local and regional level	Applies IPSAS, full-scale adoption is in progress
Belgium	Modified accrual accounting and full accrual accounting	Pending approval, IPSAS adoption is planned. IPSAS is applied as a primary rule only by the Flemish Government
Bulgaria	Accrual accounting at central and local level	Initiatives have been made for adoption
Cyprus	Modified cash accounting at the central level, modified accrual accounting at the local level	Cash-based IPSAS adopted, adoption of accrual-based standards is targeted
Czech Republic	Accrual accounting at both levels	IPSAS has not been adopted but high-level compliance is in place
Denmark	Accrual accounting at the central and regional level, cash accounting at the local level	IPSAS-based national standards, full-scale adoption is not planned
United Kingdom	Accrual accounting at both levels	IFRS-based domestic standards; no plans for IPSAS adoption but high-level conformity is in place
Estonia	Accrual accounting at both levels	IPSAS-based national standards, full-scale adoption is in progress
Finland	Modified cash accounting at the central level and modified accrual accounting at the local level	No IPSAS adoption is planned, but professional debate has been initiated
France	Accrual accounting at the central level, modified accrual accounting at the local level	IFRS and IPSAS-based national standards, full-scale adoption is not planned
Greece	Modified cash accounting at the central level, accrual accounting at the local level	Non IPSAS-based, adoption is not planned
Netherlands	Modified cash accounting at the central level, modified accrual accounting at the local and regional level	Despite several previous adoption attempts, adoption is currently not planned
Croatia	Modified accrual accounting at both levels	Non IPSAS-based, adoption is not planned
Ireland	Modified cash accounting at the central level, accrual accounting at the local level	Decision on adoption is pending
Poland	Accrual accounting at both levels	Non IPSAS-based, adoption is not planned
Latvia	Modified accrual accounting at both levels	High-level compliance with IPSAS but adoption is not planned
Lithuania	Accrual accounting at both levels	IPSAS-based national standards
Luxembourg	Modified cash accounting at both levels	Non IPSAS-based, adoption is not planned
Hungary	Accrual accounting at both levels	Non IPSAS-based, adoption is not planned
Malta	Modified accrual accounting at the central level, modified accrual accounting at the local level	IPSAS-based standards, adoption is in progress

Name	Government accounting approach applied	Relationship with IPSAS standards
Germany	Modified cash accounting at the central level, accrual accounting at the local level	Non IPSAS-based, adoption is currently not planned
Italy	Modified cash accounting at both levels	Adoption is planned only after transition to accrual accounting at the local and central level
Portugal	Modified cash accounting at the central level, accrual accounting at the local level	Non IPSAS-based, decision on adoption is pending
Romania	Accrual accounting at both levels	Full-scale IPSAS adoption is in progress
Spain	Accrual accounting at both levels	Adoption in progress, current system is already IPSAS-based
Sweden	Accrual accounting at both levels	High-level compliance but adoption is not planned
Slovakia	Modified accrual accounting at both levels	Adoption in progress, current system is already IPSAS-based
Slovenia	Modified cash accounting at both levels	Non IPSAS-based, adoption is not planned