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GUIDANCE FOR
THE FIRST TIME IMPLEMENTATION OF
ACCRUAL ACCOUNTING

Paper by Eurostat

Introduction

1. The sovereign debt crisis has underlined the need for more rigorous, transparent and comparable reporting of fiscal data. In this context, Art. 3(1) of the Council Directive 2011/85/EU (the Budgetary Frameworks Directive) requires Member States to "have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard. Those public accounting systems shall be subject to internal control and independent audits."

When designing the public accounting system, including the supporting IT environment, this requirement has to be taken into account in order to ensure the maximum coherence between the accounting and the statistical reporting system at the lowest possible cost.

2. In 2013 the Commission delivered an assessment report on the suitability of IPSAS™ (International Public Sector Accounting Standards™) for the Member States, as required by Art. 16(3) of the Budgetary Frameworks Directive. The key conclusion was that there was a strong need for harmonised, accrual-based public sector accounting systems in the MSs and that IPSAS would make a suitable reference framework for developing European Public Sector Accounting Standards (EPSAS).

The main objective of EPSAS is to increase fiscal transparency and comparability of public sector accounting and financial reporting between and within MSs by implementing harmonised public sector accounting and reporting standards on an accrual basis and for all public entities belonging to the different sub-sectors of general government in the EU, subject to materiality considerations.

Taking duly into account EPSAS' benefits, which are relevant also to the deepening of the Economic and Monetary Union (EMU), and the costs and concerns in some Member States, the Commission is convinced that a progressive and voluntary approach seems appropriate to begin with in order to first achieve increased fiscal transparency in the short to medium term and then ensure comparability in the medium to the longer term:

> Phase 1: Increasing fiscal transparency in the Member States in the short to medium term by promoting accrual accounting, e.g. IPSAS, in the period 2016 to 2020, and in parallel developing the EPSAS framework (i.e. EPSAS governance, accounting principles and standards).
>
> Phase 2: Addressing comparability within and between the Member States in the medium to longer term, by implementing EPSAS by 2025.

With a view to improving fiscal transparency, in a first step, by encouraging IPSAS implementation and accrual accounting reforms in Member States, Eurostat decided to develop guidance for first time implementation (FTI) of accrual-based financial statements. The FTI guidance is not meant to implement EPSAS as such but to support improvements to fiscal transparency while preparing the ground for implementing EPSAS at a later point in time.

3. At the meeting of the Task Force EPSAS Governance held in March 2015 Eurostat asked for a small number of volunteers to form a Cell to work on developing FTI guidance. Experts from Austria, France, Portugal, the UK Chartered Institute of Public Finance and Accountancy (CIPFA) and Accountancy Europe (previously the Federation of European Accountants) participated in the Cell to work together with the Commission representatives from Eurostat and DG BUDG.

4. This first final version of the FTI guidance takes into account the comments made by participants at the EPSAS Working Group[1] meetings. It is accompanied by a summary note, attached at Annex 5, explaining how the main comments by participants were used and/or why some comments did not lead to changes in the FTI guidance.

5. The glossary of terms in use is provided in Annex 3 and may be subject to change in due course for the future EPSAS.

6. The guidance is expected to be updated periodically as deemed necessary.

1 Expert Group on European Public Sector Accounting Standards

Guidance for first time implementation (FTI) of accrual accounting

1. Purpose of the guidance

The guidance has the short-term aim of assisting public sector entities starting to work on accrual accounting reforms, as a step towards increasing fiscal transparency and the implementation of the future harmonised European Public Sector Accounting Standards (EPSAS). The compilation of the first EPSAS opening balance sheet will take place at a later point in time.

The guidance is aimed primarily at entities moving to accrual from cash accounting, even if it may also be helpful for those already compiling accrual accounts or modified accrual accounts. In particular this guidance is aimed at entities for which a balance sheet does not exist or its coverage is limited compared to the coverage of this guidance.

In order to determine the extent and the level of details of the FTI guidance, existing approaches in practice, and especially the guidance available in the countries of the Cell participants, were taken into consideration. Three different levels of guidance were identified:

— The first level is the most general and high-level and is often fixed in national law;

— The second level is a more detailed practical guidance, often elaborated in secondary legislation (for example, decrees and orders);

— The third level provides the most detailed technical guidance (an accounting manual), including examples and templates, and is often in the form of non-legal guidelines and instructions.

This FTI guidance outlines a general approach, with the minimum necessary technical details, broadly similar to the scope of the first two levels mentioned above.

2. Scope of the guidance and approach taken

The guidance makes a distinction between:

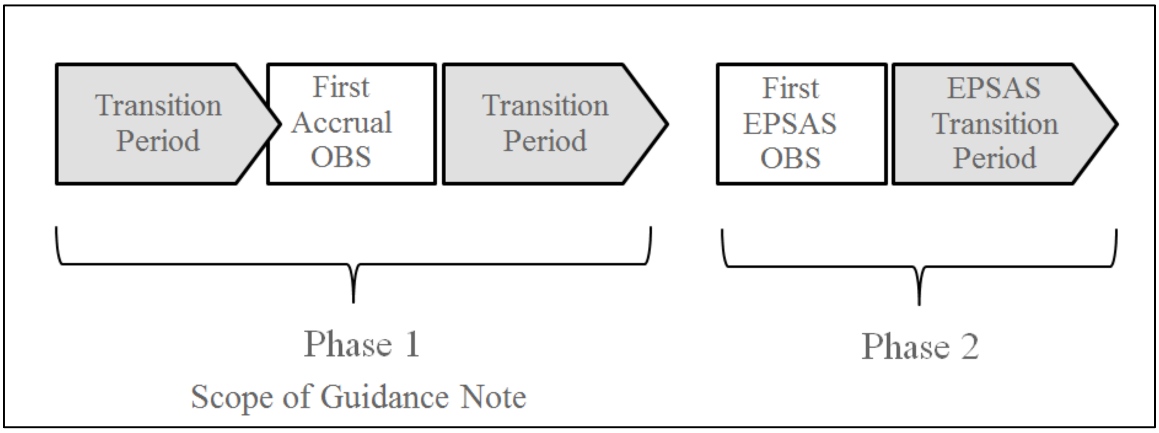
— the first transition period from the current basis of accounting to the first accrual-based opening balance sheet (OBS);

— the first accrual-based OBS that is to be compiled;

— the transition period between the first accrual-based OBS and the first EPSAS-based OBS (to be compiled once EPSAS standards are available), and

— the first EPSAS-based OBS.

Figure 1: Scope of the guidance note



The guidance is focussed on supporting the production of general purpose financial statements of public sector entities, moving towards accrual basis of accounting, and in particular the first accrual-based OBS. It aims at providing a most reliable possible representation of their financial position and performance by increasing their accounting maturity and fiscal transparency.

Reporting entity

To be pragmatic, it is recommended that the decision on what constitutes a reporting entity should be based on the already existing national frameworks for public sector financial reporting.

Nevertheless, those who wish to reconsider their existing national arrangements in the context of implementing this guidance, when defining reporting entities, are invited to take into account what would be most relevant for supporting decision-making and accountability purposes and therefore for identifying reporting entities:

- the ability of the entity to take economic decisions and engage in economic activities for which it is responsible and accountable in law and to service recipients and resource providers;
- the entitlement of the entity to own and transact assets in its own right;
- the ability of the entity to incur liabilities on its own behalf, to take on other obligations or further commitments.

A public sector entity meeting (one or more of) the above criteria, may be considered as a reporting entity for the purposes of applying this guidance note.

Approach taken

With a view to improving fiscal transparency and the maturity of existing systems under Phase 1, the guidance takes a pragmatic and cost effective approach for the preparation of the first OBS, relaxing comparability requirements.

To begin with it focuses on achieving the most comprehensive coverage possible of assets and liabilities and significant events and transactions with due consideration to cost effectiveness and the other criteria for coverage provided below.

The comparability issue would be addressed further later, under Phase 2, when EPSAS standards are defined.

It is however acknowledged that there is a trade-off between the pace of the process and the quality of the reported data. It is also acknowledged that completeness as defined by the FTI criteria for coverage (see section 4 below) will only be reached progressively over the transition period between the first accrual-based and the first EPSAS-based OBS and with due consideration to potential restatement needs.

Therefore, this guidance puts priority on the recognition of assets and liabilities, while not being overly prescriptive on initial and subsequent measurement. The guidance provides advice on the best practical approaches to take for a selection of assets and liabilities, for example property, plant and equipment, where measurement issues and choices arise. It is not a detailed accounting manual.[2]

The guidance also includes a glossary of terms in use, in Annex 3. It is important to note that the glossary has been produced only for the purpose of supporting this FTI guidance with a view to specifying the minimum needed at this point and does not necessarily follow the same definitions as in IPSAS or as in future EPSAS.

Congruence with IPSAS 33

The guidance aims to be pragmatic, in the sense that it aims to prepare the ground for EPSAS without however pre-empting discussions which will take place at the time of EPSAS standard-setting. It is based primarily on the experiences of the countries that participated in the Cell, also taking into account the guidance given in IPSAS 33 (First Time Adoption) where appropriate. Those who prefer to move closer towards IPSAS, are encouraged to use IPSAS 33 and other existing IPSAS standards for guidance.

As compared to IPSAS 33, the present FTI guidance note follows a different approach. IPSAS 33 follows a top-down approach, where relief is provided on the recognition and measurement of certain assets and liabilities from a set of existing requirements. In comparison this guidance note follows a bottom-up approach in that it provides recommendations for recognition, measurement and presentation following a 'minimum standards' approach with respect to the inclusion or exclusion of line items in the first accrual-based financial statements. Its aim is to help to prepare the foundations for a later, more complete, EPSAS-approach to accrual accounting.

The following table summarises the key differences of approach between IPSAS 33 and the present FTI guidance.

[2] For other practical considerations especially with regard to project management issues, such as resources needs, design of transition, development of accounting manuals and charts of accounts please refer to Study 14 – Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities.

	IPSAS 33	FTI guidance
Objective	Detailed guidance to first time adopters during the transition period of adopting IPSAS.	Pragmatic guidance aimed at assisting public sector entities to prepare first time accrual OBSs or improving accruals based financial statements without reference to a concrete, full set of standards.
Approach	Top-down, providing relief from certain IPSAS requirements ("omission approach": define **what not** to report).	Bottom-up, defining reporting information ("inclusion approach": define **what** to report) by recommending inclusion or exclusion of line items based on a set of coverage criteria and pragmatic recommendations for measurement.
Transition period	3 years	Progressive transition towards first EPSAS-based OBS.
Recognition	Relief from individual IPSAS standards for certain assets and liabilities.	Recommendations for minimum first time recognition of assets and liabilities.
Measurement	Relief from individual IPSAS standards for certain assets and liabilities where deemed cost can be applied.	Hierarchy of measurement, including the deemed cost approach, with reference to specific group of assets and liabilities.
Adjustment of the OBS	Retrospective method with exceptions.	Prospective method is recommended.
Disclosures	Focused on the impact of transitional relief from IPSAS on the financial position and performance, including reconciliation with the previous basis of accounting.	Focused on completeness during the transition period taking into account the pragmatic nature of the approaches offered for recognition and measurement
Publication	Financial statements shall be presented at least annually (IPSAS 1).	Publication of annual financial statements is recommended.

3. Non-anticipation

The first accruals based OBS is only a starting point for the transition to a later EPSAS OBS. When determining the scope of this first accruals based OBS, it has to be taken into account that for some issues discussions in the process of the EPSAS standard-setting are expected to be extensive, the outcome concerning recognition and measurement of these issues is therefore not predictable, e.g.: the treatment of social benefits. Given this uncertainty regarding some future accounting requirements under EPSAS, it seems to be inefficient to make recommendation concerning the inclusion of items in the first accrual OBS that are related to those issues. Also, presentation requirements for EPSAS-based financial statements and definitions of terms may be different from and may go beyond the templates and glossary proposed in this note.

4. Criteria for coverage

The guidance provides a view on the inclusion or exclusion of line items in the first OBS, based on pragmatic considerations, by providing a set of coverage criteria that can be used, as a basis for considering whether there is a need for exclusion of line items from coverage.

The list below contains criteria for the coverage of assets and liabilities in the first accrual-based OBS that were considered in the design of this guidance but could also be considered by reporting entities when adapting the guidance to their own needs and circumstances.

Complexity	Some accounting areas, like accounting for certain financial instruments, may show a high complexity. On the other hand, practitioners demand practical accounting rules, as the criticism regarding IPSAS 28 - 30 shows. Simple solutions for first recognition and initial measurement are unlikely to be provided for these areas.
Cost-effectiveness of fair representation	There are areas where it might be a practical problem to get information on either the quantity or the value of an item or both. Examples may be heritage assets or self-created intangible assets. In such areas the balance between the cost of gathering the information and information value (i.e. the benefit of having this information included in the first accrual OBS) will need to be taken into account.

Maturity / time pattern	In the course of the transition period from the current basis of accounting towards the first accrual OBS, it might be reasonable to focus on assets and liabilities with a significant remaining useful life or remaining time to maturity. It is less reasonable to recommend the inclusion of assets and liabilities which will have a carrying amount of zero or near zero in the first accrual OBS.
One-off effects / items in transit	Assets or liabilities which would normally appear in the OBS, but due to either existing terms and conditions connected with these balance sheet items or due to foreseeable transactions would be expected to disappear already in the following year (e.g.: investments in other entities to be sold) are less important for a first accrual-based OBS. Likewise this might be the case for items in transit, such as assets which will be transferred to another entity directly after the first accrual-based OBS date.
Materiality	Minor assets or liabilities should not be required to be shown in the first accrual OBS. This criterion however is entity specific and cannot be centrally applied to certain areas of assets and liabilities. For practical reasons, it is necessary to take into account the application of the materiality concept - while recognising that it might be difficult for preparers to assess whether assets or liabilities are material in their value before doing at least some investigations. In this context, the reporting entity should form a view on whether assets or liabilities should be reported, possibly by taking into consideration the views of their auditors and other key stakeholders.
Existence uncertainty	There may be areas where uncertainty exists regarding existence (e.g. intangible assets) or legal/ economic ownership (e.g. heritage or historical assets). Preparers may wish to use the longer transition period before the first EPSAS-based OBS to clarify these uncertainties.

Presentational Sensitivity	There are areas where there may be some sensitivity when it comes to providing detailed information, e.g.: separate presentations or disclosures about individual military items, guarantees or legal cases.

Ranking or weighting of the criteria against each other is probably not feasible in the abstract and there will be instances where these criteria either reinforce or conflict with each other. Decisions on how to use these criteria therefore need to be made on a case-by-case basis and using professional judgement.

5. Coverage, headings and presentation

The aim should be to achieve the most comprehensive coverage possible of assets and liabilities and significant events and transactions with due consideration to cost effectiveness and the other coverage criteria provided above, progressively over the transition period between the first accrual-based OBS and the first EPSAS-based OBS.

A comprehensive, consistent and systematic presentation of the financial position and performance of the public sector reporting entities is encouraged in order to meet the information needs of the different stakeholders.

For presentational purposes, this guidance provides a template showing recommended minimum headings for the first accrual OBS and associated income statement. Annex 1 shows a first proposal for the minimum presentation of OBS headings and Annex 2 for the income statement. A template for a cash flow statement was not included in the guidance at this stage.

Public sector reporting entities may adapt the presentation of the line items and flexibility is offered for complementary or additional presentations (e.g. budget-like operational/ non-operational, or ESA-like financial/ non-financial) according to the needs of national jurisdictions at central, regional or local levels. When doing so, it should be borne in mind that existing statistical or budgetary reporting requirements[3] already cover presentation of information that goes beyond the minimum line items proposed in these templates.

6. Recognition

Statement of financial position (balance sheet)

The recommended minimum requirements for some specific group types of assets and liabilities are outlined below:

• *Property, Plant and Equipment, in particular real estate and infrastructure assets*

Comprehensive stocktaking and recognition is recommended for assets that would remain within the organization for more than one year, including for assets under

[3] For example the Commission Communication on the "Harmonized framework for draft budgetary plans and debt issuance reports within the euro area (COM(2013) 490 final)"

construction. The use of materiality thresholds or the grouping of assets in clusters is also recommended for recognition purposes.

The application of the component approach is not recommended for initial recognition and measurement of those assets in the OBS, where the necessary historic information cannot be retrieved at reasonable cost and with reasonable effort.

• *Heritage assets*

This is a complex matter and there are currently differing views as to the definition of heritage assets as well as to their recognition and measurement. As a general approach, a comprehensive stocktaking of tangible heritage assets is recommended. A systematic and comprehensive recognition of tangible heritage assets may turn into a challenge for the first accrual-based OBS; therefore disclosures may be opted for instead of their recognition on the first OBS.

Nevertheless, in the specific cases of tangible heritage assets which:

— have been bought by government entities, or

— are seen clearly as material obligations to maintenance, or

— are sources of regular income, including assets for lease or sale,

the recognition is recommended, though preparers need to be aware that EPSAS may formulate relevant standards on this subject later on.

• *Military equipment*

This is a material, technically complex and presentationally sensitive issue for some Member States. Nevertheless, comprehensive stocktaking and recognition of assets having as their main purpose to serve military activities, i.e. military assets, in the first OBS is recommended. However with reference to 'presentational sensitivity', military assets may be presented as an aggregate amount. Short term, high turnover military assets may be recognised under inventories.

• *Intangible assets*

It is recommended that acquired intangible assets should be comprehensively recognised as long as they would still have a significant remaining useful life.

At the same time, the recognition of self-created intangible assets is not proposed unless they would be expected to be significant in the future, meaning that the use of materiality thresholds is suggested for recognition purposes.

• *Receivables and payables*

The accounts receivables and payables should be included and fully recognized in the first accrual OBS; both, from exchange and non-exchange transactions and for both current and non-current receivables and payables.

• *Financial instruments*

The comprehensive recognition of financial instruments is strongly recommended. There is a need to distinguish between relatively straight-forward financial assets and liabilities and complex ones. Where putting in place complex valuation models would have been necessary, the recognition of complex financial instruments, such as derivatives, financial guarantees, may be deferred to the preparation of the first EPSAS OBS. In this case explanations of the instruments in the disclosure notes should be considered necessary.

• *Provisions*

The recognition of provisions is also recommended. Nevertheless, as certain types of provisions (such as provisions for pension liabilities) require complex calculations in order to establish reliable measurement (e.g.: on the basis of individual statistical calculations), their recognition may be deferred to the preparation of the first EPSAS OBS. In this case, the disclosure of pension schemes in the disclosure notes should provide both financial and non-financial information, and, where it exists, their estimated amount according to statistical calculations.

• *Social benefits*

This is a material but technically complex issue; there is not at present a common agreed definition and general accounting approach. Nevertheless, the disclosure of information on social benefit programmes, comprising financial and non-financial information, in the notes to the first accrual-based OBS is recommended, with the objective of improving fiscal transparency and facilitating public management. [4]

Statement of financial performance (income statement)

Although this guidance is focused on the first time accrual-based OBS, some instructions concerning subsequent recognition and measurement for the transition period towards an EPSAS-based OBS, are provided. In practice subsequent recording of economic events and transactions calls for the compilation of a statement of financial performance (or income statement) following the accrual principle.

For the first time implementation it is not considered necessary to prescribe a specific structure for the income statement, but recommendations on the line items are presented in accordance with the minimum line items listed for the statement of financial position (balance sheet).

Concerning the minimum line items considered necessary:

— The split between exchange and non-exchange revenue is used.

— Non-exchange revenue is at this stage only recommended to be split into two categories, taxes and transfers.

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4 The ESA classification may be useful here and ESA 2010 requirements in place may be used instead. IPSASB also has a project on Social Benefits.

- Revenue from exchange transactions is recommended to be split into revenue from sales of goods and services (including profit on disposal of assets), investment revenue and other revenue.

- Expenses are recommended to comprise staff costs, goods and services expenses (including loss on disposal of assets), transfers paid (including social benefits), depreciation/ impairment and finance cost.

7. Measurement and measurement hierarchy for initial measurement

The valuation methods to be used at the date of the initial recognition in the first accrual-based OBS i.e. the initial measurement approach for both assets and liabilities should allow for ongoing accrual accounting in subsequent accounting periods, building on the first accrual-based OBS.

The following measurement hierarchy is recommended for the initial measurement **of non-financial** assets[5]:

- Firstly, the use of historic values, like acquisition or construction cost (less accumulated depreciation), is recommended, where information is available at reasonable cost and with reasonable effort.

- Where historic values are not available or could not be established at reasonable cost and effort, it is recommended to use alternative measurement approaches (e.g. current value) as "deemed cost".

- In some specific cases items (e.g. heritage assets) for which no comparable transactions exist, the use of disclosures could be considered instead of their recognition in the first OBS.

> Deemed cost is any reliable valuation that fairly reflects the historical value of the asset or liability at the date of the initial recognition and may therefore be taken as a surrogate for the acquisition or construction cost referring to a certain point in time. E.g.:
>
> - intangible assets: indexed current values (meaning back-dated) to the date of acquisition
> - land: local average costs based on comparable transactions
> - tangible assets (buildings/ infrastructure): indexed current value (meaning back-dated) to the date of acquisition
>
> The use of deemed cost providing a surrogate for the acquisition or construction cost does not initiate for the use of current value measurement in subsequent reporting periods and does not therefore necessitate revaluation.

5 This approach is also followed by IPSAS 33 on first time adoption.

For **financial assets and liabilities,** other than complex financial instruments, such as derivatives or liabilities of similar complexity (e.g. financial guarantees given), it is recommended that the hierarchy for initial measurement is as follows:

— The use of current value plus any transaction costs directly linked to their acquisition or issuance is recommended.

— Where current values are not available at reasonable cost and with reasonable effort, historic values, such as issuance or acquisition cost can be foreseen.

— For assets receivable and liabilities payable in the very short term, in particular current accounts receivable and payable, nominal values may be used.

If the entity does not defer the recognition of complex financial instruments to the first EPSAS OBS then it is encouraged to follow IPSAS 33 for their initial measurement.

Annex 4 contains some illustrative decision trees reflecting the approach for initial measurement of certain group of assets and liabilities.

8. Subsequent reporting periods

Following the establishment of the first accrual-based OBS, in the transition period lasting until the first EPSAS-based OBS, the following cases need to be distinguished:

— Concerning events and transactions initially recognised in the first accrual-based OBS:

(a) for assets the cost model applies, taking into account:

Depreciation: the depreciation method used should reflect economic realities concerning the expected useful life and the method/ pattern of use of the asset.

Impairment: recognition of an impairment loss of long-term assets is only recommended if a known triggering event indicates material loss on the asset's carrying amount.

Contrary to the revaluation model, the use of current values as deemed cost in the specific cases mentioned in chapters 6 and 7 above does not trigger revaluations in subsequent reporting periods.

(b) for financial assets and liabilities measured at current value at their initial recognition subsequent measurement at amortised cost is recommended.

— For the recognition and measurement of (new) events and transactions taking place in subsequent reporting periods, chapters 6 and 7 apply. However for new Property, Plant and Equipment items and for subsequent periods the application of the component approach is recommended.

- De-recognition of assets and liabilities at their disposal: is recommended on an on-going basis. It is recommended that actual gains and/ or losses on both assets and liabilities are recognised via profit and loss at the time of de-recognition.

If a reporting entity, in departure from the guidance provided above, elects to use the revaluation model and current value for subsequent measurement of some specific categories of assets or liabilities it is encouraged to follow IPSAS 33.

9. Adjustment of the OBS during the transition period

As mentioned above, there is a need to distinguish the first accrual-based OBS from the subsequent first EPSAS-based OBS, the latter referring to the time when EPSAS requirements will be available.

The idea behind this guidance is to support the process of compiling a first accrual-based OBS by providing guidance on recognition and measurement in this first OBS as well as providing recommendations regarding the accounting treatments in the first transition period up to the first EPSAS OBS. During this transition period entities will have the time and the opportunity to prepare the structures needed to build up the capacity to compile the data that will eventually be needed once EPSAS requirements are defined. The first accrual-based OBS, followed by the first transition period, is just the first step of the process towards the compilation of a future EPSAS-based OBS and should be seen in this context.

There are items which might be omitted from the first accrual-based OBS. Those items may need to be treated in the subsequent reporting periods within the first transition period or their inclusion could be deferred even to the first EPSAS-based OBS.

In general two approaches may be considered for adjusting the OBS:

- Retrospective method – with adjustments and additions being reflected by restating the OBS;
- Prospective method - allow adjustments and additions to be made only in the Financial Statements of the respective year.

Concerning the accounting in reporting periods subsequent to the time of the first accrual-based OBS, adjustment of the OBSs within the transition period towards to, but before the move to the EPSAS-based OBS, may be undertaken. Thereby, the use of the prospective method is recommended without requiring comparatives for respective prior reporting periods.

10. Disclosures

Notwithstanding already existing national requirements, the list of disclosures should be limited as far as possible in order not to overload users. However, information disclosed with the first accrual-based OBS (e.g.: in the form of a narrative note) is essential for the understanding of underlying details, assumptions and limitations.

Especially in the context of the first accrual-based OBS, the minimum disclosed information should therefore focus on:

- the transition approach from the previous basis of accounting to accrual accounting, including key problems and gaps/ omissions;

- recognition and measurement principles applied for the items, especially with regards to chapter 6 and 7 of this guidance;

- additional information that is not presented on the face of the financial statements but that is relevant for understanding them;

- materiality considerations;

- areas where estimates were used;

- the level of quality assurance that was applied.

However it is noted that there are stakeholders – e.g. parliamentarians, (Courts of) auditors or statisticians (National Statistical Institutes) – who are empowered to ask additional information that they consider necessary for their own needs.

11. Publication

Publication of the first OBS and also subsequent financial statements for reporting periods within the first transition period up to an EPSAS-based OBS is recommended. Publication of that financial statement, with its limitations properly explained, should already be seen as a first step towards increased fiscal transparency.

As a part of a wider communication campaign on the benefits of accrual-based financial statements, it is recommended that publication should be well prepared, and be accompanied by the necessary explanations, disclaimers and by information on the expected next steps. The publication of the OBS and the subsequent annual financial statements has clear advantages for preparers since they could receive useful feedback from stakeholders with a view to developing and improving the quality and consistency of the accounts.

Published balance sheets would also serve as a reference for comparison with other financial reporting frameworks (e.g.: national accounts) that would also help to spot and overcome weaknesses or inconsistencies in the accounts. Financial statements, following a preliminary agreement between major stakeholders, need to be published as soon as possible after the end of the reporting period with a view to safeguarding the usefulness of the statements.

12. Role of auditors

In the case of the public sector, the group of public sector auditors in general consists of national audit offices, courts of auditors at national, sub-national and European levels, as well as private audit companies which in some cases are also charged with auditing of accounts of certain public sector entities.[6]

Taking into account the experience acquired in the countries of the Cell participants, auditors can have an important role to play in the process of moving to accrual accounting. On one hand they may already monitor the process of compiling the first OBS and on the other hand they may assess to what extent the financial statements are prepared according to recommendations given in this document and other national requirements that may be in place.

It is evident that the involvement and support of auditors is key for the success of the accrual reform and auditors can play an important role in the process from the very beginning while ensuring their independence. It is recommended that public sector auditors, in particular Supreme Audit Offices in each Member State, should be invited to actively contribute to monitoring and auditing the first accrual-based OBS, including the compilation process, rather than looking forward to audit compliance[7] with obligations to be laid down in the future EPSAS framework.

13. Issues to be treated at a later stage

• Consolidation

The transition to accrual accounting should, in the first stage, be considered at entity level. Consolidation is mainly an issue for later, even if it is useful to take note during the process of compiling the first accrual OBS of what information would be needed for consolidation at a later point in time. Issues for the presentation and preparation of consolidated financial statements such as the scope of consolidation and the notion of control are to be dealt with in the future EPSAS standard-setting process.

• Social benefits

A decision on recognition of social benefits should be reached upon the future development of EPSAS requirements, and for the first EPSAS-based OBS[8].

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[6] Consideration no (3) to the Budgetary Frameworks Directive 2011/85/EU clarifies that independent audits may be conducted by public institutions or by private auditing bodies but should encourage best international practices.

[7] Article 3 (1) of the Budgetary Frameworks Directive 2011/85/EU requires that "public accounting systems shall be subject to internal control and independent audits".

[8] From the point of view of prioritising public sector specific issues, in particular non-exchange transactions, the analytical work on social benefits for EPSAS is planned to begin relatively early. Nevertheless, it is noted that ESA 2010 has devised an approach to the treatment of social benefits.

Annex 1

Statement of financial position (balance sheet) template with minimum recommendations

Non-current assets	**Non-current liabilities**
• Property, plant and equipment	• Payables from non-exchange transactions
○ Infrastructure assets	• Payables from exchange transactions
○ Buildings	• Borrowings
○ Dwellings	• Provisions for liabilities and charges
○ Land	• Other financial liabilities
○ Assets under construction	• Accrued expense/ deferred revenue
○ Military equipment	***Total non-current liabilities***
○ Other	
• Investment property	**Current liabilities**
• Intangible assets	• Payables from non-exchange transactions
• Receivables from non-exchange transactions	• Payables from exchange transactions
• Receivables from exchange transactions	• Borrowings
• Equity investment	• Provisions for liabilities and charges
• Loans	• Other financial liabilities
• Other financial assets	• Accrued expense/ deferred revenue
• Accrued revenue/ deferred expense	***Total current liabilities***
Total non-current assets	
Current assets	**Total liabilities**
• Inventories	
• Assets held for sale	**Net worth (= net assets/ liabilities)**
• Receivables from non-exchange transactions	• Accumulated surplus/ deficit
• Receivables from exchange transactions	• Surplus/ deficit for the year
• Loans	• Other reserves
• Cash and cash equivalents	***Total net worth***
• Other financial assets	***(attributable to tax payers/ owners of the entity)***
• Accrued revenue/ deferred expense	
Total current assets	
Total assets	**Total net worth and liabilities**

Annex 2

Statement of financial performance (income statement) template with minimum recommendations

Revenue from non-exchange transactions

- Taxes
- Transfers received

Revenue from exchange transactions

- Revenue from sales of goods and services (including profits on disposal)
- Investment revenue
- Other revenue from exchange transactions

Total revenue

Expenses

- Staff costs
- Goods and services expenses (including losses on disposal)
- Transfers paid (including social benefits)
- Depreciation and impairment charges
- Finance costs

Total expenses

Net expenses/ revenue (= surplus/ deficit for the year)

Annex 3

Glossary of terms in use

Assets – resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Assets held for sale – non-current assets which carrying amount will be recovered principally through a sale transaction rather through continuing use.

Accrued expense – a liability to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with a supplier.

Accrued revenue – an asset related to the revenue to be received by an entity in relation to the service rendered or supplies delivered in the reporting period, for which an invoice has not yet been issued.

Amortised cost – the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Borrowings – financial liabilities relating to money borrowed from other entities under a condition that the money will be repaid, including debt evidenced by bonds and other certificates issued by an entity and loans received from financial institutions.

Cash equivalents – for an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

Current / non-current assets – an asset should be classified as a current asset when it:

a) is expected to be realised in, or is held for sale or consumption in, the normal course of the entity's operating cycle; or

b) is held primarily for trading purposes or for the short-term and expected to be realised within twelve months of the reporting date; or

c) is cash or a cash equivalent.

All other assets should be classified as non-current.

Current / non-current liabilities – a liability should be classified as a current liability when it:

a) is expected to be settled in the normal course of the entity's operating cycle; or

b) is due to be settled within twelve months of the reporting date;

c) it is held primarily for the purpose of being traded;

d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities should be classified as non-current liabilities.

Current values – measurement bases of assets and liabilities that reflect the economic environment prevailing at the reporting date.

Depreciation (amortisation) – the systematic allocation of the depreciable amount of an asset over its useful life.

Equity investment (or instrument) – any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Exchange transactions – transactions in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primary in the form of cash, goods, services, or use of assets) to the other party in exchange.

Expenses – decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

A **financial asset** – any asset that is:

a) cash;

b) an equity instrument of another entity;

c) a contractual right:

   i) to receive cash or another financial asset from another entity; or

   ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

d) a contract that will or may be settled in the entity's own equity instruments and is:

   i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

   ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

A **financial liability** – any liability that is:

a) a contractual obligation:

   i) to deliver cash or another financial asset to another entity; or

   ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

b) a contract that will or may be settled in the entity's own equity instruments and is:

i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or

ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments.

Historic value – the amount of cash or cash equivalents paid or the value of the other consideration given to acquire or develop an asset at the time of its acquisition or development.

Deferred expenses – assets related to payments made during the reporting year (or payable accounted for) in relation to services or supplies to be received only to the following reporting period(s).

Deferred revenue – liability related to revenue received in the current period for which the services or the supplies will only be provided by the entity in the following reporting period(s).

Finance costs – interests and other expenses incurred by an entity in connection with financial assets and liabilities (e.g. interests on borrowed funds, impairment charges of the financial assets).

Impairment – a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Intangible assets – identifiable non-monetary assets without physical substance.

Inventories – assets:

a) in the form of materials or supplies to be consumed in the production process;

b) in the form of materials or supplies to be consumed or distributed in the rendering of services;

c) held for sale or distribution in the ordinary course of operations; or

d) in the process of production for sale or distribution.

Investment property – property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for:

a) use in the production or supply of goods or services, or for administrative purposes; or

b) sale in the ordinary course of operations.

Liabilities – present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Loans – financial assets, with fixed and determinable payments, that are not quoted in an active market, that are arising by providing money directly to another entity, which have to be repaid.

Net worth (net assets/liabilities) – the residual interest in the assets of the entity after deducting all its liabilities.

Non-exchange transactions – transactions that are not exchange transactions. In a non-exchange transaction an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Payables – liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist).

Property, plant and equipment – (tangible) items that:

a) are held for use in the production or supply of goods or services, for rental or others, or for administrative purposes; and

b) are expected to be used during more than one reporting period.

Provision – a liability of uncertain timing or amount.

Receivables – rights or revenue entitlements arising from past events that the entity expects to receive from third parties.

Revenue – the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Staff costs – administrative expenses that include includes wages, allowances…

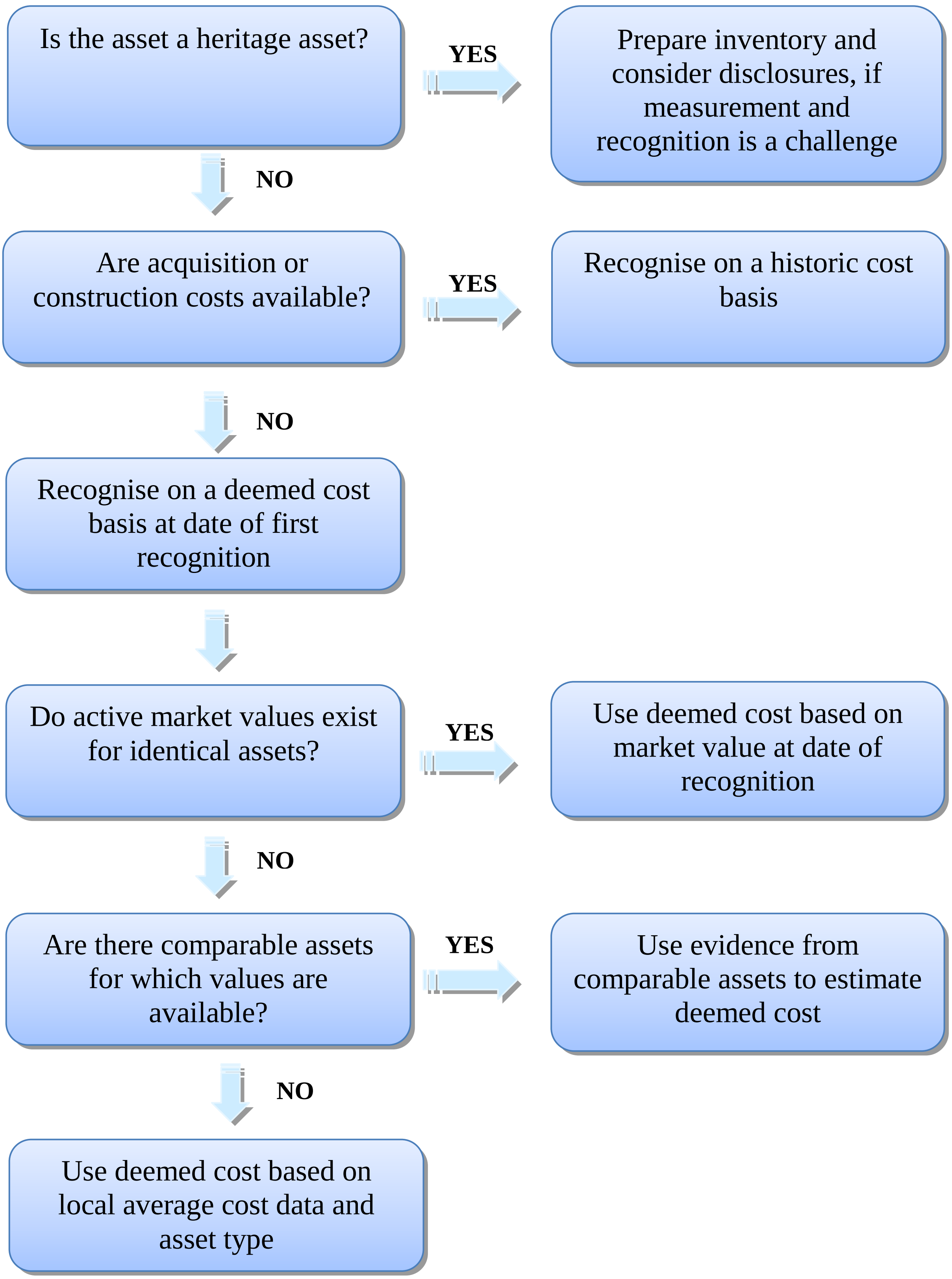
Taxes – economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers – inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

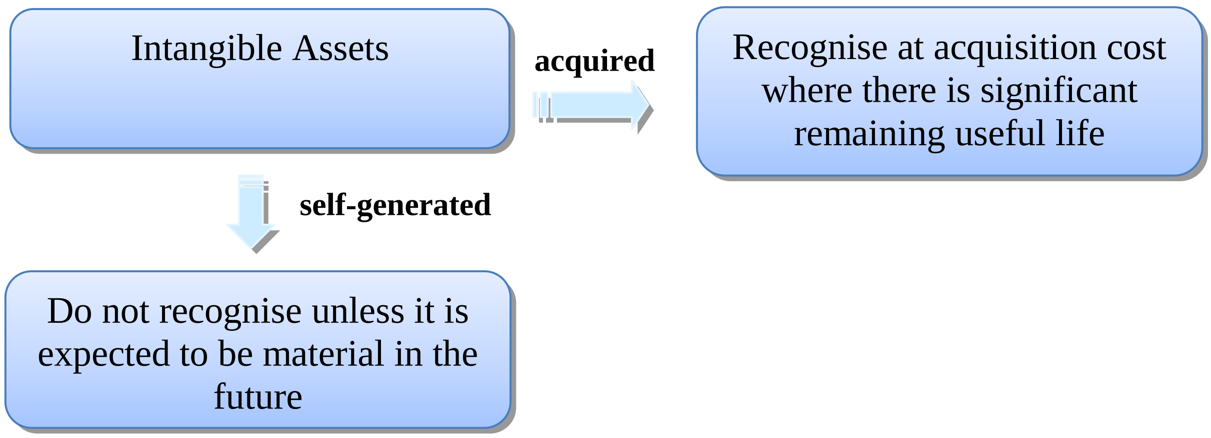
Annex 4

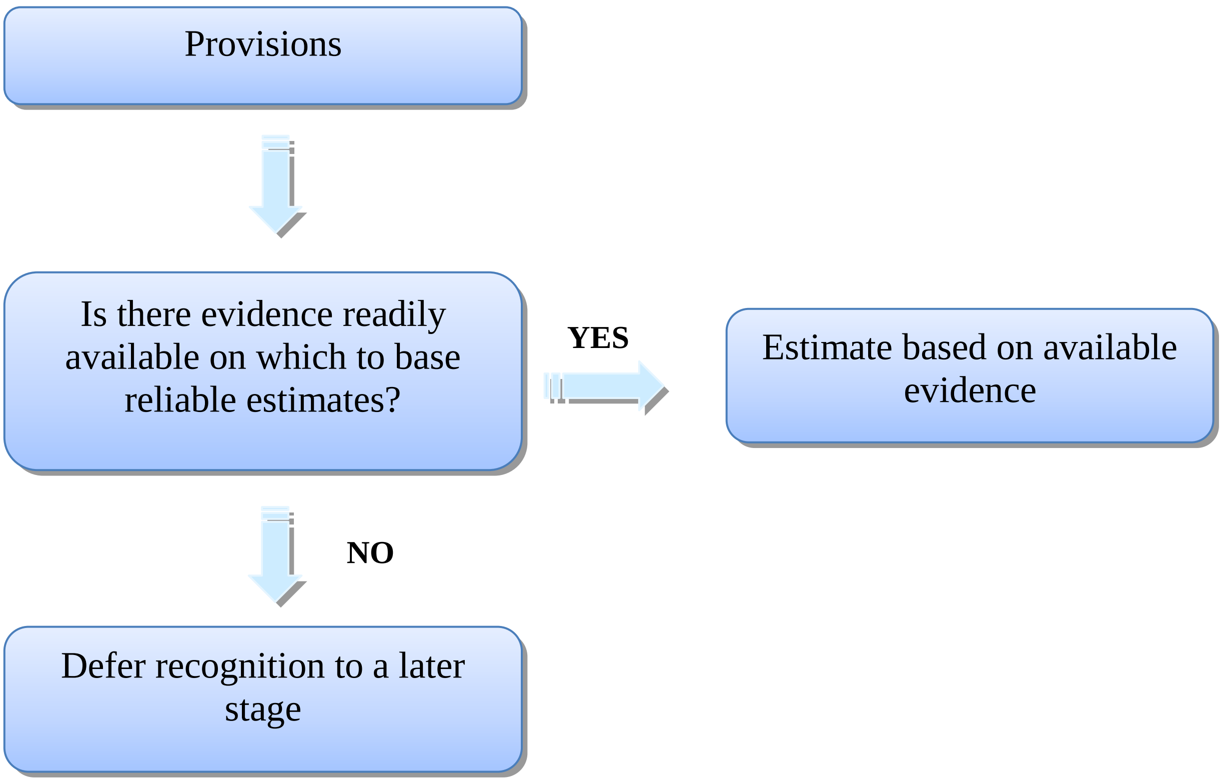
Illustrative decision trees for initial measurement

Property, Plant and Equipment

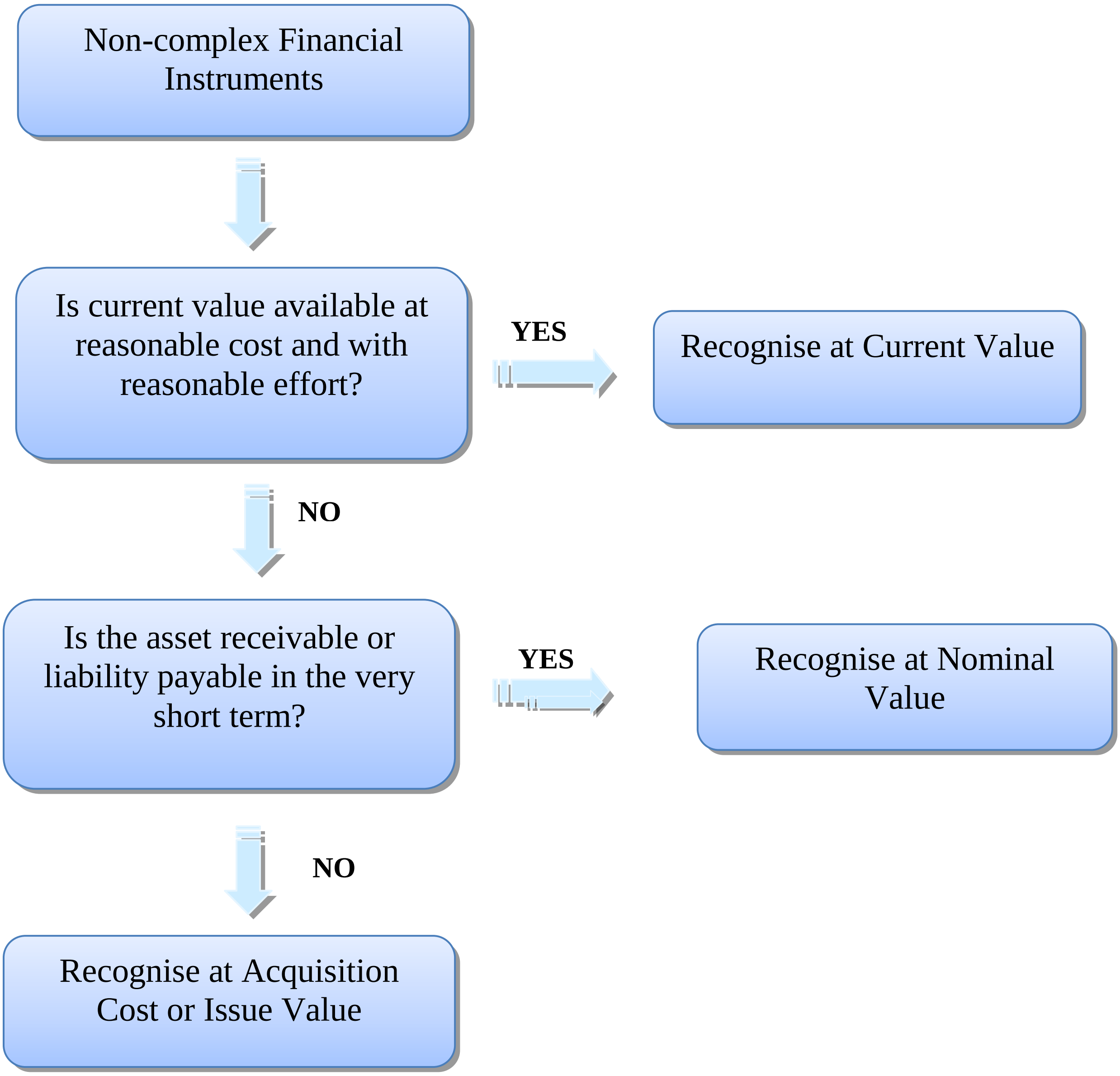


Other Assets and Liabilities





Financial Assets and Liabilities



Annex 5

Feedback from the EPSAS Working Group - main discussion points/ conclusions

Participants at the EPSAS Working Group meetings held on 15-16 September 2015, on 7-8 July 2016 and on 22-23 November 2016, and following those meetings, made comments first on the interim report and then on the draft final report. This summary note explains how the main comments by participants were taken into account.

Publication rules

1. In the comments from the Working Group (WG) participants, the lack of discussion on the publication of the OBS had been raised. The view had been expressed that preparers may not wish to publish incorrect or incomplete statements: Should the guidance propose the publication of an OBS only at the time that the EPSAS OBS would be available?

2. The Cell agreed that a recommendation for the publication of the first OBS and the subsequent BSs should be included in the final version of the First Time Implementation (FTI) Guidance. Publication of that financial statement, with its limitations properly explained, would already be acknowledged as a first step towards increased fiscal transparency. The Cell participants expressed the view that, based on their experience, the publication of the OBS had clear advantages because preparers could receive useful feedback from stakeholders (such as users or auditors) on the accounts in order to improve their quality and consistency. The question of the involvement of auditors as well as its timing is also critical to the publication of the first OBS. Gaps in the reporting related to recognition or measurement of certain types of assets or liabilities should be disclosed. It was suggested that a narrative note should accompany the OBS, describing its main weaknesses and limitations. Published balance sheets could also serve as a reference for comparison with other financial reporting frameworks (e.g. national accounts) that would also help to spot weaknesses or inconsistencies.

Disclosures

3. Some WG participants had expressed a concern related to a possible requirement for extensive disclosures, similar to IPSAS 33.

4. In most of the Cell countries, disclosures were specified in the accounting regulation, where a list with the mandatory information to disclose was provided. Information requests by the Courts of Auditors were important to take into account when defining the list of mandatory disclosures to the OBS. Nevertheless, the list of disclosures should be limited as far as possible in order not to overload users. The Cell agreed that guidance on disclosures should be included in the final version of the FTI Guidance. Information disclosed with the OBS was essential for the understanding of underlying details, assumptions and limitations. Especially in the context of the first OBS, the disclosed information should focus on:

- the passage from the previous basis of accounting to accrual accounting
- recognition and measurement principles applied for the items

- key problems and gaps
- materiality considerations
- quality and audit assurance that could be provided

5. Audit assurance: Clarification was asked by a WG participant on how disclosures on "quality and audit assurance" should be interpreted in practice, as well as on the possible role of private-sector auditors. The Cell agreed that it was indispensable to inform users about the completeness and reliability of the financial statements presented under the FTI guidance. The disclosures should contain information with regards the quality and audit arrangements in place also with reference to the requirements of Article 3 (1) of the Budgetary Frameworks Directive 2011/85/EU according to which "public accounting systems shall be subject to internal control and independent audits". The same acknowledges (third consideration) that independent audits may be conducted by public institutions or by private auditing bodies but should encourage best international practices. In some Member States private audit bodies/ companies may be entrusted with public sector audits, instead, in parallel or in addition to audits conducted by public institutions, and therefore need to be considered as legitimate stakeholders in respect to independent public sector audit.

Reference to IPSAS 33

6. IPSAS was viewed a reference framework for the future EPSAS. IPSAS was also applied and referred to in many Member States' government accounting standards. Therefore there was a need to clarify the position of the FTI Guidance with reference to IPSAS 33 (First-time Adoption of Accrual Basis IPSASs).

7. The FTI Cell took the view that the FTI guidance was less comprehensive than IPSAS 33 and would offer a pragmatic way forward for those who were willing to start working on their transition to accrual accounting in order to improve the accounting maturity and the fiscal transparency in their public sector, but also with a view to preparing for the future EPSAS implementation. Those who wished to go further towards IPSAS, or move faster, could be encouraged to use IPSAS 33 and the existing IPSAS standards for guidance. At the same time, the FTI guidance should also assist those governments transitioning to accrual accounting but which were not aiming at implementing IPSAS. In order to be cost-effective, on the one hand synergies and coherence between the FTI guidance and IPSAS 33 should be made to the extent possible, and, on the other hand, differences should be properly identified. It was agreed that the FTI guidance, without pre-empting future decisions on EPSAS, should include a short general text on the congruence with IPSAS 33, followed by a section referring to key differences between the two.

Income statement

8. The inclusion of a Profit and Loss account (surplus/ deficit or income statement) into the FTI guidance had been proposed by several WG participants.

9. The Cell agreed that it was not necessary that a specific structure for the profit and loss account should be provided, but some minimum proposal for line items should be included in the final version of the FTI Guidance. From a project management point of

view, it was important to have some relief on the requests for information, however it was also useful to have already the overall view and identify what problems might arise in the future. In principle the guidance was supposed to focus on the first time OBS however it was also agreed that some instructions concerning subsequent recognition and measurement would also be included. Indeed, in practice subsequent recording of economic events called for the existence of an income statement. The minimum line items recommended had to be in line with the minimum line items listed for the OBS. Some participants underlined the consequences of detailed primary FSs onto the IT systems and the related costs.

10. A first list of line items and a provisional template was also discussed. The split between exchange and non-exchange revenue was maintained for the time being and at least as long as the IPSAS Board (IPSASB) was reviewing IPSAS 9 and IPSAS 23. However flexibility could be offered for complementary presentations (e.g. budget-like operational/ non-operational, or ESA-like financial/ non-financial) according to the needs of national jurisdictions at central, regional or local level. The usefulness of the income statement for statistical purposes was also highlighted, as was a possible need for separate guidance about links between first time implementation and ESA 2010.

Concerning the concrete line items:

- taxation, at this stage presented in single line rather than split;
- revenue from exchange transactions, acceptable to have the current split;
- expenses should contain staff costs, goods and services, transfers paid (includes social benefits), depreciation/impairment and finance cost;
- from net expenses, the net profit/loss on disposal of assets moves above the line and is included in goods and services expenses;
- references to pensions would be removed on the basis that the minimum requirement guidance was not dealing with pensions.

Further discussion on certain a type of assets

11. Gold holdings: Based on the comments from WG, it was agreed to remove this item from the minimum requirements for the OBS. Gold holdings were usually kept within the Central Banks which were, in some Member States, considered as part of the public sector rather than part of the General Government and therefore fell outside the perimeter of the minimum requirements. It was noted that gold was under discussion at the IPSASB and also from the GFS side.

12. Heritage assets: The Cell did not agree to disregard heritage assets because of their low importance and maintained its view that heritage assets in the cases referred to in the guidance text should be recognised in the BS with the exception of those that were difficult to measure, and so should instead be in the disclosures. The participants' view was that using symbolic values in the BS was not useful, and it was preferable just to report the assets in the disclosures. The Cell also concluded that it would be premature to provide further guidance on heritage assets at this stage, due to the complexity of the issue and also taking into account the on-going work at IPSASB in this area.

13. Investment property: The view had been expressed by a WG participant that investment property lacked relevance for many governmental entities and its recognition might be complicated and costly. Based on the experience of the Cell members it was evident that this was not always the case and in some government entities investment property comprised the main portfolio of assets. Classifying an asset as investment property was depicting the purpose of holding the asset. Therefore, the Cell maintained its current approach keeping in mind that in case of non-relevance or non-materiality this item did not need to be identified in a separate line.

14. Military assets: A WG participant proposed concrete criteria to distinguish military equipment from other equipment. The Cell took the view that in principle assets having as their main purpose to serve military activities should be reported under this line item. However, short-term, high turnover military assets could be recorded under inventories.

15. Receivables and payables: The point was made by a WG participant that proposing full recognition of payables and receivables could be viewed as contradicting the recognition criteria of materiality and one-off effects/ items in transit. The Cell took the view that full information on receivables and payables was a basic requirement for day-to-day management of financial activities which anyway already existed in the national context regardless the basis of accounting.

16. Component approach: one participant at the WG asked that the application of the so-called "component approach" concerning Property, Plant and Equipment should be clarified. The Cell agreed that the component approach should not be recommended for initial recognition of existing assets, with reference to possible difficulties to retrieve historical information, but only for new events and transactions and for subsequent periods, taking into account the constraints of materiality and cost-effectiveness.

Review of the BS template with minimum requirements

17. Disaggregation of items into financial/ non-financial instead of current/ non-current: It had been suggested by a WG participant that an alternative template of the BS should be provided with a different classification. The Cell took the view that, both from a transparency and from a financial management point of view, the distinction between current and non-current assets and liabilities was an important one and should be maintained. However, as proposed for the income statement items, flexibility could be offered for complementary presentations according to local needs and circumstances.

18. As regards to the question of whether the proposed template was intended to define the form of the statements, the Cell expressed the view that the FTI guidance had the objective of listing and describing the minimum line items for an OBS. The attached template and the suggested classification were rather examples than a requirement and therefore government entities might adapt the presentation of the line items to their local needs and circumstances.

19. Pros and cons of the distinction between exchange and non-exchange transactions for receivables and payables: the question was already discussed under Point 12 above about the income statement. The Cell was aware that IPSASB was to reopen the discussion on this classification. Nevertheless the Cell thought that this approach expressed well public sector specificities and was in line with the proposed template for the income statement, and therefore should be maintained. It was proposed that the issue

would be discussed again within the Cell, taking into account the work of the IPSASB on the subject.

20. Equity section of the BS: Some comments from WG participants had been received concerning the ease of understanding of terms used in this section. The Cell agreed that indeed some explanation should be provided on each item. The term “General reserve” should be renamed and split into two items: "Accumulated surplus/deficit" and the "Surplus/deficit for the year" in order to better reflect its content. It was also agreed that these details would be kept on the face of the BS instead of disclosing them, ensuring more visibility for the equity items. It should be borne in mind that the more aggregated was the OBS template, the more disclosures would be necessary.

21. Accrued and deferred income / expenditure: it was suggested that line items on the BS template should be added to present accrued and deferred income and expenditure. The Cell agreed to add such line items on the face of the BS but, also with reference to point 18, subject to materiality considerations.

22. Criteria to distinguish between current and non-current assets/liabilities, PPE and investment property, and between inventories (including or excluding assets held for sale) and non-current assets were invited by a WG participant. The Cell concluded that the description of these terms in the glossary of terms in use would provide the necessary clarifications and guidance.

Cash-flow statement

23. The addition of a template for cash-flow statements was suggested by a number of WG participants. The Cell members also agreed that indeed this would also be beneficial and it would furthermore highlight that cash figures also had an important role in the accrual based financial statements being both relevant and important. Nevertheless it was agreed that before further elaborating the content of a cash flow statement, the opinion of the WG should first be sought on the different approaches to cash-flows statements (direct, indirect).

Initial and subsequent measurement

24. De-recognition: It had been suggested by a WG participant that the guidance should also address possible de-recognition of assets/ liabilities. The Cell concluded that the approach (bottom-up and only minimum items) was such that it was very unlikely that de-recognition of any already recognised items should be needed as a result of implementing the requirements of the guidance.

25. Depreciation/ Impairment: The possible inclusion of depreciation/ impairment in the guidance had also been suggested in the WG comments. The Cell agreed that indeed if the guidance covered subsequent periods it would be necessary to outline requirements relating to these issues.

26. Symbolic value or disclosures: This point had already been partly discussed under the “Heritage assets”. More concretely the Cell’s view was that a full disclosure of items which were difficult to measure was already satisfactory and the recording of a symbolic value was not necessary.

27. Measurement bases/ valuation methods: A WG participant suggested providing definitions and examples of the different measurement bases used for the different groups of assets and liabilities. The Cell agreed that the current focus of the guidance was on recognition rather than on measurement, nevertheless further information on measurement methods could be developed in the glossary of terms in use.

28. Guidance for assets acquired through non-exchange transactions: The inclusion of specific measurement guidance was suggested by a WG participant on this particular asset type. The Cell concluded that the measurement hierarchy provided in the guidance equally applied to these assets and further guidance was necessary, also taking into consideration that the emphasis was on recognition rather than on measurement.

29. A WG participant objected to the FTI recommendation that the measurement of assets and liabilities should be based on IPSAS 33 on the grounds that it was in breach of national requirements stating that "derivatives, i.e. complex financial instruments acquired to optimise the opportunity/ risk profile of debt were to be accounted for in a unit together with the hedged item". The Cell clarified that complex financial instruments were not within the scope of the guidance and therefore there was no a-priori conflict with national requirements. Furthermore, the Cell clarified that the application of IPSAS 33 was simply encouraged to preparers who wished to go further or depart from FTI recommendations with a view to providing a true and fair view of their financial position and financial performance at an early stage in the process. The Cell concluded that further advice was not necessary in this respect.

30. Financial liabilities: The recommended use of current value was questioned by one of the WG participants as being in conflict with the ESA 2010/ EDP requirement for nominal/ face value measurement. The Cell clarified that the choice of the measurement basis depended largely on the intended purpose of the statements and users' needs. The main purpose of this guidance was to encourage public sector reporting entities to provide the fullest possible picture of their financial position and performance.

Review of coverage criteria

31. Materiality: More guidance on materiality was requested by a WG participant as well as the extension of the definition in due consideration of other users' perspectives (e.g. that of statisticians). The Cell noted that this was indeed a very complex area where it was not possible to centrally define a common approach. The Cell however thought that although this guidance was primarily aimed at preparers, the views of auditors and other stakeholders, such as those of statisticians, did matter and could provide useful advice for public sector entities in their jurisdictions.

32. Complexity: It was suggested by a WG participant that the degrees of complexity could be outlined for individual accounting areas. The Cell's view was that deciding on complexity required safe professional judgement and should, in the first instance, be left to the discretion of the preparer.

33. Maturity: The definition of "mid-term and longer-term assets and liabilities" was suggested by a WG participant. The Cell reviewed the formulation and decided to remove the reference to "mid-term and longer-term" from the definition.

34. Hierarchy of coverage criteria: The Cell further reflected on whether it would be practical or even possible to establish any sort of weighting of the criteria against each other. The conclusion was that this was probably not possible and there would be many instances where these criteria either reinforced or limited each other. The decision had to be made on a case-by-case basis and using professional judgement.

35. Professional judgement: A WG participant suggested that a definition and further clarification should be provided on how professional judgment could be used. The Cell took the view that the use of professional judgment was unavoidable and it was not possible to give a uniform definition. As national circumstances might differ significantly when one weights these criteria against each other, and in order to devise the most reliable and faithful solution in each case, the application of professional judgement was necessary.

Other remarks

36. A WG delegate expressed the concern that the FTI guidance recommended primary legislation for the introduction of EPSAS in combination with corresponding secondary legislation. Under this scenario, where Member State legislatures lacked the will to enact the necessary primary legislation to support, any such reform would risk to fail, contrary to the intentions of the FTI guidance. The Cell took the view that no action was needed. The text of the FTI guidance was clear in its intention to do no more than to provide guidance by recommending good practices and devising pragmatic solutions to complex and challenging issues. The FTI guidance did not impose requirements.

37. Restatement: In the view of a WG delegate, who rejected the application of the retrospective method because of the effort and cost involved but the formulations used in the FTI guidance suggested that an application of the retrospective method might be contemplated for a later stage in the process It should be taken into consideration that both the transition to EPSAS following the FTI guidance and the implementation of the EPSAS were, by their nature and design, forward-looking processes. The two approaches were described on the grounds of clarity and for the better understanding of the FTI process and the Cell agreed to amend their presentation in the guidance.

38. Study 14 – Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities: A WG participant suggested adding a reference to Study 14 which also contained some practical considerations especially with regards to project management issues, such as resources needs, design of transition, development of accounting manuals and charts of accounts. The Cell agreed that Study 14 indeed contained useful complementary information compared to the FTI guidance and therefore a reference was added in Chapter 2.

39. IT and cost implications: The view was expressed by a WG participant that the rules for measurement should be known from the outset in order that they would be taken already into account in the design of the IT system to avoid later costs. According to the experience of the Cell countries, modern IT systems usually had separate asset registers as sub-systems of the main accounting module. For recognition purposes it was necessary to devise a measurement basis, however it would not be needed solely for physical registration (stock taking) of assets. Moreover, the accounting module of modern IT systems also provided flexibility with respect to changes in the accounting

policies (e.g. change of measurement basis). Finally, it was also taken into consideration that in practice it was easier to change from the historic cost basis to current value measurement rather than the opposite.

40. Reporting entity: It was suggested by a WG participant that guidance concerning the definition of the reporting entity should be given. The Cell reviewed the current definitions of reporting entities under IPSAS as well as the definition of institutional units according to ESA 2010. The conclusion was that Member States had already in place national public sector financial reporting arrangements. Therefore the most cost-effective and pragmatic solution in the short-term was to recommend using the national approaches already in place. In addition the guidance should provide some criteria for those wishing to reconsider their current national arrangements in the context of implementing this guidance. A section on reporting entities was added to Chapter 2.