EUROPEAN COMMISSION
EUROSTAT

Directorate C: Macro-economic statistics
Unit C1: National accounts methodology; Standards and indicators

EPSAS WG 21/06rev

Luxembourg, 30 June 2021

EPSAS Working Group meeting

To be held by videoconference

on 28-29 April 2021, starting at 10:00

<u>Item 5 of the Agenda</u>

Draft EPSAS Screening Report
IPSAS 22 – Disclosure of financial information about the General Government Sector

Paper by PwC in cooperation with Eurostat

- for discussion -

This document was commissioned by Eurostat. It analyses the consistency of the named IPSAS standard with the draft EPSAS framework, with a view to informing future EPSAS standard setting. This version was prepared taking into account comments received from the participants of the Cell on Principles related to EPSAS Standards.

EPSAS screening report

IPSAS 22 - Disclosure of financial information about the General Government Sector

May 2021

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Background

Objectives

Reference is made to the general introduction to the EPSAS screening reports that covers the following elements:

- Key objectives of EPSAS.
- Standard setting process in the public sector.
- Purpose and scope of the screening reports.
- Approach of the screening reports.
- European public good.
- Common elements considered when preparing the reports.

General introduction to IPSAS 22

IPSAS 22 is an IPSAS specifically developed for the public sector. As a result, there is no IFRS equivalent.

In some jurisdictions, financial statements and budgets for the government, or sectors thereof, may also be issued in accordance with statistical bases of financial reporting. These bases reflect requirements consistent with, and derived from, the System of National Accounts 1993 (SNA 93) prepared by the United Nations and other international organisations. These statistical bases of financial reporting focus on the provision of financial information about the General Government Sector (GGS). The GGS comprises those non-profit entities that undertake nonmarket activities and rely primarily on appropriations or allocations from the government budget to fund their service delivery activities. The statistical bases of financial reporting may also provide information about (a) the corporations sector of government that primarily engages in market activities (usually characterised as the public financial corporations (PFC) sector and the public nonfinancial corporations (PNFC) sector), and (b) the public sector as a whole.

A continuing emphasis on the convergence of IPSASs with statistical bases of reporting where appropriate is one of the IPSASB's strategic objectives. The statistical community encouraged the IPSASB to develop an IPSAS addressing the presentation of GGS information as part of a government's consolidated financial statements as a means of facilitating convergence.

IPSAS 22 reinforces awareness of the linkage between statistical reporting guidance and IPSASs. The objective of IPSAS 22 is to prescribe disclosure requirements for governments that elect to present information about the general government sector (GGS) in their consolidated financial statements. IPSAS 22 is specific in that it does not prescribe the reporting requirements at the level of individual reporting entities nor at the level of economic entities as specified in IPSAS 35 'Consolidated financial statements'. Instead, it requires disclosures only at the aggregate level, i.e. at the level of the GGS.

IPSAS 22 encourages disclosure of information about the general government sector, specifies requirements when a government elects to make such disclosures, and requires a government's investment in public corporations to be recognised at the carrying amount of investees' net assets.

Scope of the report

The International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 22 'Disclosure of financial information about the General Government Sector' in December 2006.

In 2011, the IPSASB launched a project that will involve an analysis of the differences between the revised Government Finance Statistics Manual 2008 (GFSM 2008) and pronouncements in the IPSASB Handbook of International Public Sector Accounting Pronouncements and an evaluation of the extent to which further harmonisation between statistical reporting guidance and IPSASs might be feasible. The project also will involve the development of an illustrative Chart of Accounts that could facilitate compilation of reports based on the statistical reporting guidance and IPSASs and an evaluation of whether amendments should be made to IPSAS 22 'Disclosure of financial information about the General Government Sector' in the light of changes to System of National Accounts 2008 (SNA 2008) and updated GFSM and European System of Accounts 1995 (ESA 95). The project has not yet been completed and the illustrative Chart of Accounts has not yet been developed.

Given the lack of uptake of the standard, the IPSASB explored several options for the future of IPSAS 22 in a recent CP, including whether the standard should be revised, withdrawn without replacement or replaced with a new standard. Respondents' views were divided and the IPSASB classified the project as part of the projects considered but not prioritised for the IPSASB work plan 2019-2023. In its proposed strategy and work plan 2019-2023, the IPSASB further says that: 'This project would identify revisions to IPSAS 22 arising from changes to GFS and barriers to implementation and could build on changes in segment reporting requirements arising from the proposed revision of IPSAS 18.'

This report does not anticipate the conclusions of the discussions that might take place in the context of disclosures about the general government sector (GGS) in IPSAS financial statements in the future and that might have an impact on the requirements of this standard. Any IPSASB development in that area will need to be monitored as part of the EPSAS standard setting. Similarly, practical guidelines upon first-time implementation of EPSAS are outside the scope of the present EPSAS screening report too.

Reference to EFRAG assessment

Given the public sector specific subject matter of this screening paper, there is no IFRS equivalent.

No specific individual technical assessment was carried out by the EFRAG on any related IFRS standard, and therefore no specific individual endorsement report was produced.

Reference to EPSAS issue papers[1]

The PwC study of 2014[2] analysed the suitability of the IPSAS standards as a basis for developing EPSAS.

This included the analysis of IPSAS 22 'Disclosure of financial information about the General Government Sector', and comments have been expressed specifically in relation to this standard that it is not considered to be useful. According to the analysis, only one country was known to be applying IPSAS 22, and the IPSASB is currently considering whether the standard should be withdrawn, replaced with guidance that might be more useful or whether it should be revised. The standard only applies to those governments that elect to present information about the GGS in their consolidated financial statements. IPSAS 22 was classified under category 2 'Standards that (may) need (some) amendments or for which implementation guidance is (maybe) needed', as general concerns have been raised on the usefulness of the detailed IPSAS disclosure requirements and the workload associated with its preparation.

Generally speaking, reconciliation of EPSAS figures with the ESA reporting increases the level of transparency and accountability, especially in respect of the net assets, debt and surplus/deficit, considering that a major objective of the EPSAS project is to build reliable accrual accounting data at entity level that can be used for the ESA reporting. Discussions during the EPSAS standard-setting process should help identify what information is useful in the European context.

In the course of developing the technical proposal on EPSAS, Eurostat commissioned a series of twenty technical issues papers (IPs), which analyse in particular key public sector specific accounting issues. The papers were discussed at the EPSAS Working Group meetings during 2016-2018. The papers are all publicly available on Eurostat's website. Each of the IPs seek to identify conclusions and key issues for further discussion. Taking into consideration the analyses provided in the IPs and the initial views exchanged with Member States' public sector accounting experts during the Working Group meetings, Eurostat drew tentative conclusions that

[1] EPSAS Issues papers are available on https://ec.europa.eu/eurostat/web/epsas/key-documents/technical-developments

[2] Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards (Ref. 2013/S 107-182395)

may serve, together with the IPs themselves, as considerations for future standard setting.

No EPSAS IP addresses specifically the area of disclosure of financial information about the general government sector, however one EPSAS IP covers the consolidation of financial statements with a view to financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS) and another EPSAS IP addresses the area of disclosures.

The IP on the consolidation of financial statements was produced in October 2018 and identified three main types of issues:

- Determination of the level at which consolidated financial statements should be prepared.
- Determination of the consolidation scope.
- Cost and complexity linked to the preparation of consolidated financial statements.

The IP on a principled approach to disclosures was produced in April 2018. It covered the most important disclosure requirements under the existing international financial reporting frameworks with a view to devising a principled approach to optimising the need for disclosures, against the background of the IPSAS conceptual framework or national public sector GAAPs, given that some disclosure requirements are seen as burdensome by the preparers.

The main types of issues linked to the principled approach to disclosures discussed in the EPSAS IP are:

- Cost and complexity of preparation versus benefits.
- Assessment of materiality and relevance.
- Providing clarity to users.
- Ensuring comparability of government financial statements.

Eurostat tentatively concluded the following:

- There was a need to reconcile the financial accounting and the ESA 2010 reporting frameworks. IPSAS 22, or modified versions thereof, could be highly helpful in achieving this objective, in particular for reconciliation between the whole of government accounts and the ESA 2010 aggregates. Examples from several countries showed the feasibility of reconciling between whole of government accounts and ESA 2010 aggregates.

- Working towards consistency between EPSAS and ESA, and reconciling figures between them, did not mean that one framework would substitute the other. The objective was rather to eliminate unnecessary differences and to be in the position to explain the remaining differences to the users.

Screening of IPSAS 22 ‘Disclosure of financial information about the General Government Sector’ against criteria set in the draft EPSAS framework

Introduction

The EPSAS criteria listed in the draft EPSAS framework have been used to perform an assessment of IPSAS 22 ‘Disclosure of financial information about the General Government Sector’, published in 2002 by the IPSASB.

In order to develop recommendations, one should first consider whether IPSAS 22 would meet the qualitative characteristics of the draft EPSAS CF, i.e. whether it would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information and would not be contrary to the true and fair view principle.

This report considers the disclosure requirements applicable to disclosure of financial information about the general government sector for each of the qualitative characteristics of the draft EPSAS CF.

Further, this paper includes a high-level comparison between the requirements of IPSAS 22 and other international accounting and financial reporting frameworks applied by the public sector entities in various jurisdictions, such as IFRS, ESA 2010 and EU Accounting Rules, bearing in mind the objective of alignment, reduction of cost of implementation and compliance cost.

Finally, it is assessed whether IPSAS 22 would be conducive to the European public good.

The findings are presented below, and the conclusion is included in the next section of this report.

Conformity with Qualitative Characteristics

Relevance

Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of GPFRs. Financial and non-financial information can make a difference when it has confirmatory value, predictive value, or both.

The objectives of financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting differ in some respects:

- IPSASs financial statements are to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it and which it controls;
- Statistical bases of reporting are to provide information suitable for analysing and evaluating fiscal policy, especially the performance of the GGS and the broader public sector of a country.

The objective of IPSAS 22 is to disclose, in the IPSAS financial statements, information that relates to the general government sector. The disclosure of GGS information can provide useful information to users of financial statements, particularly in those jurisdictions in which national or other governments publish both (a) financial statements in accordance with IPSASs, and (b) financial information in accordance with statistical bases of financial reporting and those are widely published. (IPSAS 22 BC5) IPSAS 22 disclosures provide a bridge between the IPSAS financial statements and the financial information prepared under statistical bases of reporting and assist users in reconciling information presented in each framework.

Accordingly, the disclosure of appropriate information about the GGS in financial statements can support and enhance the decision making of, and accountability to, users of those statements. Therefore it is relevant and consistent with enhanced transparency of financial reporting, and assists users of the financial statements to better understand the resources allocated to support the service delivery activities by the GGS, the government's financial performance in delivering those services as well as the relationship between the GGS and the corporations sectors, and the impact each has on overall financial performance.

If a government elects to apply IPSAS 22, the standard requires that financial information about the GGS be disclosed in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the government. (IPSAS 22 para 23) IPSAS 22 requires that the same definitions and the same recognition, measurement, and presentation requirements that are applied when preparing the consolidated financial statements are also applied to the GGS disclosures, with one exception, that is the requirements of IPSAS 35 are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors .(IPSAS 22 para 24)

According to IPSAS 35, entities in the PFC and PNFC sectors, as defined in statistical bases of financial reporting, that are controlled entities of the government should be consolidated in the government's financial statements. However, financial statements prepared consistent with statistical bases of financial reporting portray the impact of the GGS on the public sector as a whole and require the GGS financial statements to present public sector entities outside that sector as investments in other sectors.

When GGS disclosures are made in financial statements, the requirements of IPSAS 35 should not be applied in respect of PFCs and PNFCs sectors as it would result in the re-presentation of a government's consolidated financial statements rather than the GGS financial statements. It would defeat the purpose of the disclosure of GGS information as a bridge between financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting (IPSAS 22 BC9). The GGS should recognise its investment in the PFC and public NFCS sectors as an asset and account for that asset at the carrying amount of the net assets of its investees (IPSAS 22 para 25). It ensures that the GGS disclosures reflect a disaggregation of financial information presented in the consolidated financial statements of the government of which it is a part of. Consistent with the GGS being a disaggregation of the consolidated financial statements of a government, changes in the carrying amount of the net assets of those entities are recognised in the same manner as they are recognised in the consolidated financial statements of a government.

In addition, under statistical bases of financial reporting, transactions of the GGS with entities in other sectors are not eliminated from the statement of government operations or a similar statement, therefore in disclosing financial information about the GGS, only balances and transactions between entities within the GGS are eliminated in accordance with IPSAS 35. However, balances and transactions between entities in the GGS and entities in other sectors are not eliminated.

IPSAS 22 requires disclosure of the major classes of assets, liabilities, revenues, expenses and cashflows reflected in the financial statements. It does not specify a mandatory presentation format, but some minimal GGS disclosure requirements. Reporting entities must also disclose a list of the significant controlled entities included in the GGS. The GGS disclosure must exclude any financial information related to any entity in the GGS that is not included in the consolidated financial statements. All IPSAS should be applied in the GGS disclosure, except IPSAS 35 'Consolidated financial statements' in respect of investments in public corporation sectors.

To the extent that the disclosure of IPSAS 22 information strengthens the link between IPSASs and statistical bases of financial reporting, and in doing this contributes to the accountability and decision-making objectives of financial statements, the standard can be considered as bringing useful and relevant information to users of financial statements. This is even more important in the EU where ESA 2010 is used for fiscal monitoring and budgetary surveillance of Member States. Therefore, the disclosures of IPSAS 22 would satisfy the criteria of relevance included in the EPSAS CF.

Given the importance of the topic in the EU, further tailoring of the requirements to the EU context, including through the definition of those key financial indicators (e.g. net assets, debt, surplus or deficit) that should be reconciled, might even reinforce the QC of relevance.

Faithful representation / Reliability

To be reliable, financial and non-financial information must provide a faithful representation of the substance of economic and other phenomena that it purports to represent. The notion of faithful representation and reliability in the draft EPSAS CF is linked to the qualitative characteristics of completeness, prudence, neutrality, verifiability, substance over form and being free from material error. These characteristics are separately discussed below.

IPSAS 22 requires that when disclosures about the GGS are made in financial statements, those disclosures must be made in accordance with the requirements prescribed in this standard. This ensures that an appropriate representation of the GGS is made in the financial statements, and that disclosures about the GGS satisfy the qualitative characteristics of financial information. (IPSAS 22 para 13)

Statistical bases of financial reporting and IPSASs have many similarities in their treatment of transactions and events. However, there are also differences. For example, statistical bases of financial reporting:

(a) Require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements and require or permit cost and current values for certain classes of assets and liabilities, but do not require all assets and liabilities to be revalued to market value.

(b) Treat dividends as expenses, while IPSASs treat them as distributions.

(c) Make a distinction between transactions and other economic flows for presentation of financial information. IPSASs do not currently make a similar distinction.

(d) Focus on the presentation of financial information about the GGS and the other sectors of the public sector as separate components and, in this context, adopt the same rules for recognition and measurement as are adopted for presentation of the rest of the economy, to ensure consistency of the macro-economic totals. Under statistical bases of financial reporting, financial reporting prepared for the GGS do not include consolidation of PNFCs, being government-controlled entities that trade in goods and services, and PFCs such as banks. IPSAS standards focus on consolidated financial statements which present financial information about all the assets, liabilities, revenues, expenses, and cash flows controlled by the entity. (IPSAS 22 BC7)

As a result of the above, the measurement of assets and liabilities in the IPSAS financial statements may differ from the measurement basis adopted in statistical bases of reporting.

The purpose of IPSAS 22 disclosures is to help users of financial statements better understand and make more informed judgments about the entity as a whole. The bases on which information is disclosed are clear. Based on an overall assessment, IPSAS 22 satisfies the reliability criterion.

Completeness

The information which fulfils the recognition criteria should be complete within the bounds of materiality and cost-benefit considerations.

<u>Scope</u>

IPSASs generally apply to all public sector entities. However, it is only possible to disclose a meaningful and relevant representation of the GGS for a government as a whole, not its individual controlled entities. The GGS comprises all organisational entities of the general government as defined in statistical bases of financial reporting. Therefore, IPSAS 22 does not apply to international organisations, or similar public sector entities applying IPSAS.

IPSAS 22 is only applicable to a government's consolidated financial statements. In accordance with IPSAS, financial statements consolidate only controlled entities. Such a limitation is not made in statistical bases of financial reporting, as the GGS of all levels of government are combined, so in some jurisdictions the GGS will include units that financial statements do not consolidate. IPSAS 22 disaggregates the consolidated financial statements of a government; therefore, it prohibits the presentation, as part of the GGS, of any entity not consolidated within a government's financial statements (IPSAS 22 para 6). This requirement reflects a consistent and reliable basis for consolidation, and it is in line with IPSASs principles, therefore it does not raise any significant issues concerning completeness.

Application of IPSAS 22 is not mandatory, it applies only to those governments that elect to present information about the GGS in their consolidated financial statements. IPSAS 22 allows, but does not require, the disclosure of information about the GGS. Whether or not disclosure of information about the GGS is made in financial statements is determined by the government or other appropriate authority in each jurisdiction (IPSAS 22 para 12).

Disclosures

In order to provide a useful bridge between the IPSAS financial statements and the financial information prepared under statistical bases of reporting, IPSAS 22 requires disaggregation of the IPSAS consolidated financial statements according to the GGS boundaries.

If financial statements consolidate different levels of government, further disaggregation of the consolidated financial statements may occur in accordance with IPSAS 22 to separately disclose information about the GGS at each level of government consolidated in the financial statements (IPSAS 22 para 33). This further disaggregation is not required, as in some jurisdictions such disclosures may impose additional pressure on the accounting system and those responsible for data collection and aggregation, and it is not clear that the benefits of such disclosure for users of the financial statements will exceed their cost. However, such disclosures are not precluded.

Reconciliation to the consolidated financial statements

The GGS disclosures must be reconciled to the consolidated financial statements of the government, showing separately the amount of the adjustment to each equivalent item in those financial statements (i.e. the adjustment to the amount of the asset investment in PFC and PNFC sectors, and adjustments to each of the items disclosed separately in accordance with minimum disclosures). (IPSAS 22 para 43) In addition, entities may, but are not required to, disclose separately the amount of the adjustment to each item attributable to the PFC and the PNFC sectors. (IPSAS 22 para 44)

This reconciliation enables the government to better discharge its accountability obligations by demonstrating the relationship between the amounts of each item for the GGS with the total amount of that item for the government and provides users with a complete overview of GGS that enhances the QC of completeness.

Reconciliation to the statistical bases of financial reporting

IPSAS 22 does not require a reconciliation of the GGS disclosures in the consolidated financial statements with the GGS disclosures under statistical bases of financial reporting (IPSAS 22 para 46). This is because of concerns about the practicability, and the costs and benefits of such a requirement in all jurisdictions that would then discourage governments that might otherwise elect to make disclosures about GGS. However, the inclusion of such a reconciliation by way of a disclosure note is not precluded.

Overall, this provision does not conflict with the QC of completeness of EPSAS CF.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated while liabilities or expenses are not understated.

IPSAS 22 is a disclosure standard and does deal with the measurement of assets and liabilities as such. The screening analysis has not identified any issue that could be linked to the QC 'Prudence'.

Neutrality

Information is neutral if it is free from bias. GPFSs are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

The application of IPSAS 22 is voluntary, and the standard is not widely used in the public sector. IPSAS 22 applies a principles-based model, where the use of judgement is an inherent factor. The level of judgment required by IPSAS 22 does however not seem so exceptional in nature that it would be impracticable to apply the standard in a consistent manner and achieve a neutral presentation of the reporting entity.

Verifiability

Verifiability is the quality of information that helps assure users that GPFSs is based on supporting evidence in a way that it faithfully represents the substance of economic and other phenomena that it purports to represent.

IPSAS 22 requires reconciliation of disclosures in respect of GGS to the equivalent amounts in the consolidated financial statements of the government. It also requires a cohesiveness between various disclosure notes. These requirements provide evidence of verifiable and reliable information. The standard however does not require reconciliation of IPSAS financial statements with information included in GFS reporting, but it also does not preclude it.

This screening analysis has not identified any issue that could be linked to the QC 'Verifiability'.

Substance over form

The QC 'Substance over form' is achieved when the underlying transactions, other events, activities or circumstances are accounted for and presented in accordance with their economic reality, and not merely their legal form.

IPSAS 22 is a disclosure standard that aims at bridging information included in IPSAS financial statements and the statistical reporting respectively.

The screening analysis has not identified any issue that could be linked to the QC ‘Substance over form’.

Understandability

The QC of ‘Understandability’ is achieved when information is presented in a manner that facilitates expert and non-expert users to comprehend its meaning. Understandability is one of the qualitative characteristics of financial information as per IPSASB conceptual framework, which stipulates that information should be presented in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented.

The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence. Although there are several aspects to the notion of ‘understandability’, most of the aspects are covered by the discussion above about relevance, reliability and comparability.

For statistical reporting purposes, the public sector is divided into entities carrying out nonmarket activities, the general government sector (GGS), and market activities. By disaggregating the consolidated financial statements according to the GGS boundaries specified in statistical accounts, these disclosures enhance the transparency of financial reports and provide for a better understanding of the relationship between financial statements and statistical reports and between market (i.e. public corporations sector) and non-market (i.e. general government sector) activities of the government.

In some jurisdictions, national governments may control provincial and/or local governments and, consequently, the national government’s financial statements would consolidate different levels of government. If financial statements consolidate different levels of government, further disaggregation of the consolidated financial statements may occur in accordance with IPSAS 22 to separately disclose information about the GGS at each level of government (IPSAS 22 para 33). This further disaggregation is not required, however, it may be presented to further assist users to better understand the relationship between the GGS activities of each level of government consolidated in the financial statements, and the relationship between financial statements and the statistical bases of financial reporting in those jurisdictions.

Disclosure of which of the entities consolidated in the financial statements in accordance with IPSAS 35 are included in the GGS assist users in developing an understanding of the relationship between information about the government and its GGS, and in better understanding the GGS information itself (IPSAS 22 para 41).

IPSAS 22 aims at enhancing the understanding of the users of financial statements about the relationships between the information included in IPSAS financial statements and the statistical reporting. The implementation of IPSAS 22 therefore contributes to the overall understandability of financial statements and consequently does not raise concerns and introduce complexities that may impair the understandability QC under the EPSAS CF.

Comparability

Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena in different reporting entities or in one reporting entity at different points in time. A key objective of EPSAS is to achieve the necessary level of financial transparency and comparability of financial reporting, between and within EU Member States.

Governments electing to make GGS disclosures in accordance with IPSAS 22 may make such disclosures by way of (a) note disclosure, (b) separate columns in the financial statements, or (c) otherwise, as considered appropriate in their jurisdiction. However, the manner of presentation of the GGS disclosures should be no more prominent than the consolidated financial statements prepared in accordance with IPSASs (IPSAS 22 para 37).

To assist users to understand the relationship of financial information presented for the GGS to a government's operations, statistical bases of financial reporting require total government expenses to be disaggregated and disclosed by class, based on either the economic nature of the expenses or by the Classification of Functions of Government (COFOG). IPSAS 22 does not require or prohibit entities disclosing GGS information from presenting disaggregated GGS information classified by economic nature or consistent with the COFOG classification basis (IPSAS 22 para 38). The choice available in presenting GGS disclosures might create a potential lack of direct comparability of information presented by different entities. Specific guidance in this area might further enhance consistent application of the standard across the EU member states.

Entities preparing GGS disclosures should disclose the significant controlled entities that are included in the GGS, and any changes in those entities from the prior period, together with an explanation of the reasons why any such entity that was previously included in the GGS is no longer included (IPSAS 22 para 40). Disclosure of changes in the controlled entities included in the GGS enables users to monitor the relationship between the consolidated financial statements and the GGS information over time that strengthens the QC 'Comparability' of EPSAS CF.

The guidance in IPSAS 22 helps with consistent interpretation and application of the additional disclosures. Specific additional guidance might be envisaged, given the importance of the topic in the EU, to further enhance the relationships between GPFS and GFS reporting. That guidance would be best useful if adapted to the EU context. The last two paragraphs under the QC 'Relevance' further elaborate on this aspect.

Based on the assessment, and considering the above observations, application of the requirements of IPSAS 22 helps in presenting information that makes a bridge between IPSAS financial statements and statistical reporting in a comparable way.

Alignment with other frameworks

ESA 2010

The ESA 2010 framework defines various institutional sectors. One of them is the General Government Sector (GGS). The GGS (S.13) consists of institutional units which are non-market producers whose output is intended for individual and collective consumption, and which are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth (ESA 2010 2.111). Applicable rules for the government sector are explained in detail in chapter 20 'The government accounts' of the ESA 2010 manual.

ESA 2010 allows for all sectors to be presented as either consolidated or unconsolidated even if the general principle is not to consolidate (ESA 2010 paragraphs 1.107 and 1.108). The usual approach for general government is to present consolidated data. Statistical reporting serves an important role and provides information that is comparable across countries. While financial statements are issued for accountability and decision making at an entity level, ESA 2010 statistics on the general government sector (GGS) are produced by governments for the purpose of macroeconomic analysis and decision making. For example, paragraph 20.153 of the ESA 2010 manual stipulates that 'to relate government aggregates to the economy as a whole as in revenue or expenditure to GDP ratios, it is better to eliminate the internal churning of funds and include only those transactions that cross the boundaries with other domestic sectors and with the rest of the world sector'.

ESA 2010 rules do not include any reconciliation requirements to the financial reporting of governments under the accrual basis of accounting.

IFRS[3]

IFRS are designed for entities that carry out profit-oriented activities, and therefore not for governments. Therefore, there is logically no specific IFRS standard dealing with disclosure of financial information about GGS.

[3] Refer to the IPSAS-IFRS Alignment Dashboard regularly updated by the IPSASB available on https://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard_June%202019.pdf

EU accounting rules

There is no specific EU accounting rule that deals with disclosure of financial information about GGS.

European Public Good

Assessing whether IPSAS 22 is conducive to the European public good

The assessment of whether IPSAS 22 would be conducive to the European public good addresses the following items:

a) Whether the standard will improve financial reporting;
b) The costs and benefits associated with the standard; and
c) Whether the standard could have an adverse effect to the European economy, including financial stability and economic growth.

These assessments will allow the EU authorities to draw a conclusion as to whether the standard is likely to be conducive to the European public good.

The analysis revealed no reasons why IPSAS 22 would not be conducive to the European public good:

- The disclosure requirements of IPSAS 22 will provide useful information to the users of the GPFSs and will improve the overall quality of financial reporting in the public sector. Implementation of the standard should result in a moderate one-off transitional cost and should be relatively cost-neutral on an ongoing basis for preparers.

- Considering its conceptual merits, the standard will bring improved financial reporting as it would help reconcile financial information included in GPFS and information included in the ESA 2010 reporting, which is an important component of the budget surveillance mechanism in the EU. Further tailoring of these requirements to the EU context may also be useful.

- As such, its endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship. The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

Conclusion

Assessing IPSAS 22 against the criteria formulated in the draft EPSAS framework

The analysis has not revealed major conceptual issues with IPSAS 22 'Disclosure of financial information about the General Government Sector' and has not identified any inconsistency between IPSAS 22 and the draft EPSAS framework.

Following the screening analysis summarised in the present report, the future standard setter could consider the following conclusions. The information resulting from the application of IPSAS 22:

- would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information needed for making economic decisions and achieving the necessary level of financial transparency and comparability of financial reporting in the European Union;
- would not be contrary to the true and fair view principle; and
- would be conducive to European public good.

However, in order to provide fully relevant information adapted to the EU context and achieve consistent application of the new rules within that EU context, additional guidance and improvements in certain areas might be desirable.

- *Relevance and understandability.* Making the bridge between information included in the GPFS and statistical reporting is useful as it facilitates the understanding of the two types of reporting by users. The disclosures included in IPSAS 22 should help in achieving this objective. Given the importance of ESA 2010 reporting in the EU, where the burden of such bridging usually lies with statisticians, the standard setter might consider tailoring the disclosure requirements of IPSAS 22 and adapt them to the EU context. This might include specific guidance on the reconciliation between EPSAS financial statements and ESA 2010 reporting, including in respect of key financial indicators (e.g. net assets, debt, surplus or deficit) that are more important in an EU context. Reconciliation between EPSAS and ESA 2010 numbers might be envisaged in a standard or a recommendation.

- *Judgment and comparability.* The need for a consistent presentation of the GGS disclosures may be discussed in order to enhance comparability of the reporting between EU Member States. This may include a discussion about the application of general disaggregation principles.

- *Update of terminology/cross references*. IPSAS 22 was issued in December 2006. Since issuance, IPSAS 22 has not been revised for changes to IPSASs and changes to statistical reporting guidance. Although, there have been significant developments, including revisions to the GFS related pronouncements (i.e. 93 SNA, GFSM 2001, and ESA 95) referred to in IPSAS 22. As there were changes in these reporting guidelines, as a result the cross references in IPSAS 22 need to be updated accordingly.

The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

The future standard setter could consider the conclusions of this assessment and likely benefit of using the requirements of IPSAS 22 as a starting point in developing an equivalent EPSAS standard or recommendation, considering the need for additional guidance in certain areas and resolution of the matters identified in the present EPSAS screening report.