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Task Force EPSAS

EPSAS WG 18/05

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EPSAS Working Group meeting

To be held in Luxembourg
on 7-8 May 2018

Item 4 of the Agenda

**Cell on principles related to EPSAS standards:
Draft Final Report**

Paper by Eurostat

- for discussion

Introduction

At the September 2015 EPSAS Working Group meeting, it was proposed to establish a Cell on principles related to EPSAS standards in order to take forward the discussion and focus the work on a more technical level for the preparation of the planned future EPSAS framework.

The objective of the Cell on principles related to EPSAS standards is initially to support the Commission (Eurostat) in the preparation of technical level working documents based on the experience and expertise of a smaller group of experts.

The principles should serve as a basis for guiding the formulation of EPSAS standards as well as their interpretation, thus providing a set of concepts, fundamental for the "EPSAS framework". The principles needed to be high-level enough in order to form the basis for all standards which needed to be developed and also be specific enough to ensure the consistent application of the resulting accounting requirements.

Experts from Belgium, Finland, France, Italy, Germany (federal level and Hessen Court of Auditors), International Public Sector Accounting Standards Board (IPSASB) and the Federation of European Accountants (FEE) participate in the Cell. The Cell has so far met five times in Luxembourg, on 18 March 2016, 30 September 2016, 29 March 2017 (common meeting of the Cell on Standards and Cell on Governance principles), 27-28 September 2017 and more recently on 18 January 2018 in Luxembourg.

Since the work was still at an early stage, a short progress report has been produced to update the Working Group at the July 2016 meeting. The first interim report of the Cell was presented at the November 2016 meeting of the Working Group followed by an oral progress report at the April 2017 meeting and an updated interim report at the November 2017 meeting.

Following the EFC sub-committee on statistics meeting, 27 March 2017, TF.EPSAS intensified its work on impact assessment considerations and the elaboration of the technical proposal on EPSAS. The exchange on the definition of elements, recognition and measurement bases had initially been planned to be taken up in the FTI Cell but in order to achieve quicker progress and since the issue was also in the scope of the EPSAS framework Eurostat proposed to handle it in this Cell.

Working Group participants are invited to discuss this draft final report with a view to finalising the work on a set of principles related to the future EPSAS standards.

The context

The work of the Cell takes into account the results of the public consultation from November 2013 on future EPSAS governance principles and structures, as well as the discussions which took place in subsequent meetings of the former Task Force EPSAS Governance.

The key principles for EPSAS governance from the Public Consultation paper had distinguished two set of principles: principles related to the EPSAS governance structure and process, and principles related to the EPSAS standards, as elaborated by a small group of national experts from within the former task force EPSAS governance.

The EPSAS Cell on governance principles had identified among those, on one hand, the principles relevant for its work on the governance principles and referred, on the other hand, a set of principles for discussion at the Cell on principles related to EPSAS standards.

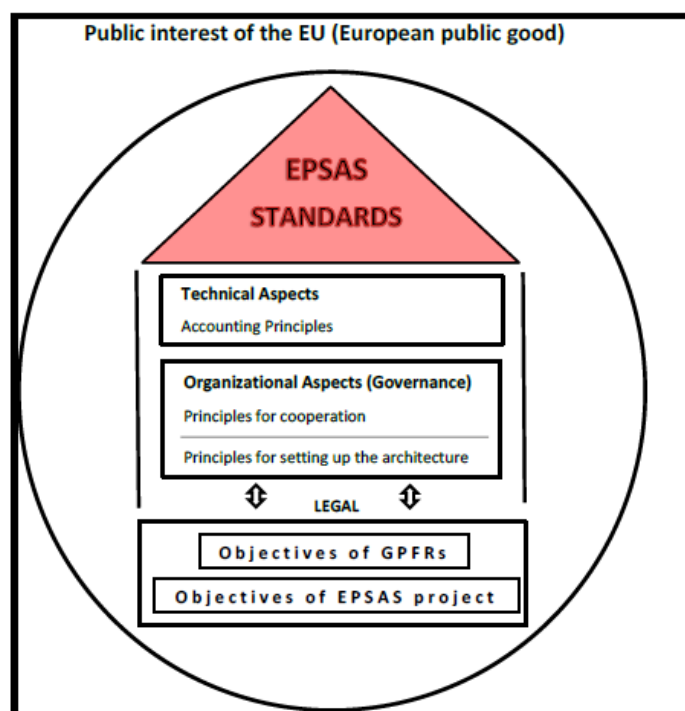
Three types of principles were identified:

- Principles for setting up the standard setting architecture (principles for the structural organisation);
- Principles for the cooperation of the bodies involved in standard setting (principles for the process organisation);
- Accounting principles.

The first two types of principles, referring to “organisational aspects”, concern the setup of the necessary governance elements (“principles for setting up the architecture”) or the interactions between those (“principles for cooperation”), while a third set of principles addresses the “technical aspects” - the accounting principles underpinning the actual standard setting. Principles under the technical aspect needed to be reviewed from an accounting/ conceptual framework perspective.

These principles together are meant to constitute the basis of EPSAS and drive the work on standard-setting and interpretation. The whole structure operates under the overarching governance principle of European public good.

Chart: EPSAS Governance supports the development of EPSAS standards



Work of the Cell - Background

The Cell first compiled an overview table (Annex 2) matching the approaches and definitions of principles/ qualitative characteristics in

- use in the countries of the Cell participants,
- IPSAS, and
- the Commission's own accounting rules.

The aim was to show, where the principles from different sources overlap and where different terminology may refer to the same (or similar) principle, structured alongside "high-level" principles, qualitative characteristics and constraints.

Based on this comparison and also taking into consideration comments by Working Group participants, a possible approach for an EPSAS structure was outlined showing a possible approach for EPSAS structure and the definitions, based on IPSAS CF, IPSAS 1 and the Cell on governance principles.

Three levels of components were outlined:

- High-level objectives of EPSAS, purpose of GPFs under EPSAS, and main users of GPFs, including high-level principles such as 'true and fair view' and the 'accrual concept' – elaborated within the scope of the work of Cell on Governance principles.

- Qualitative Characteristics and Constraints – based on the IPSAS CF with two exceptions:
 - principles comprised in 'faithful representation' (such as reliability, substance over form, neutrality, prudence, and completeness) were taken up as self-standing QCs alongside 'faithful representation', and
 - 'presentational sensitivity' was added to the constraints.
- Application principles – considerations of IPSAS1.

It was also noted that QCs were addressing the standard-setters and preparers, while the application principles were addressing mainly preparers.

Taking into account the comments from the participants and diverging views concerning the hierarchy of QCs and the role and definition of the prudence principle, Eurostat concluded that:

- the approach outlined for EPSAS seemed complete, even if terminology used was not consistent among Cell participants in most cases, the meaning was very similar in practice;
- no hierarchy among QCs/ principles was necessary, as they were all self-standing and mutually limiting each other, also taking into consideration that a hierarchy might impact adversely on the ability of the standard-setter to cope with cases in the future;
- the on-going international developments at IASB and IPSASB level (e.g. on the principle of 'prudence') should be taken into consideration.

EPSAS outline

The first outline presented to the Working Group in November 2016 included only indicative definitions for each item, which were then discussed in detail at the subsequent Cell and WG meetings.

As a result of the discussions even if the overall presentation of the outline did not change some of the individual items were impacted as follows:

- Among the QCs "reliability" was merged with "faithful" representation as they were seen as one notion
- Among the Application principles "offsetting" was combined with "aggregation" as they were seen strongly related from the presentational perspective
- "Presentational sensitivity" was moved from the Constraints to the Application principles

On the wording of the concrete formulations Eurostat considered the proposals of the Cell participants and suggested a first set of changes at the November 2017 Working Group as presented in Annex 3 compared to the above referred first version of the outline.

Most of the changes aimed at simplifying and removing unnecessary texts from the formulations and also improving the consistency e.g. using the reference to GPFs and to EPSAS throughout.

In the following cases additional text is proposed in order to fine tune the meaning of the formulations:

- "Faithful representation": the notion of reliability and prudence are added.
- "Completeness": reference to the fulfilment of the recognition criteria is added.
- "Neutrality": the text is extended with a further sentence explaining that the application of the "prudence" principle did not contradict "neutrality"
- "Understandability": reference to both expert and non-expert users is added.
- "Verifiability": there was a need for a clear reference to supporting evidence.
- "Presentational sensitivity": it was clarified that it has no impact on recognition and measurement requirements.
- "Consistency": reference to the consistent choice of the recognition and measurement basis in the accounting policies are also included as well as a requirement for disclosing justification and information on changes of accounting policies.
- "Going concern": The concept of 'going concern' was discussed more in detail as it played a particularly important role in the French public accounting framework. As a result reference to public sector specificities were added.

Concerning the Application principles of "Compliance" and "Reporting period" it was discussed that in the end these principles might not be necessary as there would be probably concrete legal requirements defining these aspects. Eurostat decided to keep them in the outline for the time being even if it could be deleted from the final proposal.

Following the November 2017 Working Group meeting the Cell reviewed again at its recent meeting the QCs and constraints. As a consequence Eurostat introduced some additional changes compared to the previous version which are presented in Annex 4 and summarised hereunder:

- "Neutrality": the last sentence was deleted in order to avoid the impression that "prudence" is only a supporting principle under "neutrality".
- "Verifiability": this was moved into "Faithful representation/ Reliability" as it was seen as providing further support for that.
- "Timeliness": last sentence was deleted as it did not contain further arguments.
- "Materiality": end of the last sentence referring to "particular circumstances of the entity" was removed as entities were already covered in the first sentence.
- Furthermore Eurostat agreed that an explicit statement could be added to the framework that constraints do not override QCs and application principles.

Definition of elements, recognition and measurement bases

Eurostat was of the view that these topics should be treated at a high level in the future EPSAS framework and provide the basis for the future standard setting. In this context it was seen necessary to discuss the completeness and the suitability of the elements, recognition and measurement bases as defined in the IPSAS literature which had served as a first reference base, also taking into consideration the glossary of terms in use of the FTI guidance, which in their turn were based on the Commission's IPSAS-based definitions.

Elements

The list of elements under consideration included:

- Assets
- Liabilities
- Expenses
- Revenue
- Ownership contributions
- Ownership distributions
- Furthermore, Net worth (net assets/ liabilities) and Net expenses/ revenue (surplus/ deficit) to be mentioned as the balancing items.

It was noted that other economic phenomena (such as deferred inflows and outflows) were not defined in the IPSAS CF. Eurostat agreed that the list of elements could be widened for the framework to incorporate these additional elements however it would be premature to define these items as elements on their own right.

Eurostat emphasised that the elements in the IPSAS CF were well defined and broadly in line with other accounting frameworks such as IASB's CF or the French CF. Therefore departing from those would require justification.

Recognition/ derecognition

The general recognition and derecognition criteria applied in IPSAS were discussed.

One participant suggested also mentioning that, in exceptional circumstances, a standard may also specify that, in order to deliver true and fair view under EPSAS, a resource or obligation (such as deferred inflows/ outflows) that did not meet the definition of an element or satisfy the recognition criteria, might nevertheless need to be recognized in the financial statements.

Measurement

The measurement bases listed in the IPSAS CF against the background of measurement bases listed in the Eurostat SWD (2013) 57 accompanying the Commission report on the suitability of IPSAS was discussed.

One participant suggested narrowing down the possible choices of measurement bases to historic cost variants and observable market values as only these measurement methods provided reliable information. Other participants disagreed with this position and emphasised that there were many cases which required the consideration of other measurement bases in order to better reflect the substance of the economic transaction for decision-making but also for accountability purposes

Eurostat emphasised that the objective of the framework in this context was to provide a kind of toolbox for the standard-setter by describing the widest possible range of measurement bases that could be meaningfully applied in various contexts. Therefore a stock-taking approach was necessary.

However taking into account the ongoing developments on the IPSASB public sector measurement project, Eurostat considered defining in its draft CF only the two key measurement concepts, i.e.: historical cost and current value and the concrete measurement bases at standards level.

Other Comprehensive type financial statements

With the help of the Cell members Eurostat tried to explore whether such statements could be used to provide any meaningful information in the public sector similarly to the OCI concept applied in the IFRS context.

The discussion raised issues concerning the definition of performance for the public sector, issues of management responsibility, the difficulty for the stakeholders to understand the concept, the lack of a clear conceptual basis for OC type statements including recycling. In the view of one participant the use of such statement, if at all, should be restricted only to changes of market values and interest rates in order to avoid that operational performance be presented in the OCI. Moreover the OCI should be presented within a single financial statement for sake of transparency.

There was a wider consensus on that there could be good arguments for introducing OC-type financial statements but it would have to be carefully considered what they could and what they could not be used for in order to prevent their misuse. The choice of measurement bases was highly relevant in that debate. All in all, it was seen as a complex issue and in the specific public sector context a conceptual basis would be necessary for such statements.

Eurostat concluded that indeed an appropriate foundation of OC-type statements in the conceptual framework leaving their specification for a concrete standard could be a way forward. Potential links of such statements with similar presentations in

statistical reporting needed to be further explored. OC-type statements could potentially facilitate the reconciliation between accounting and statistics.

Transferability of pension rights

A short discussion also took place in order to explore the accounting treatment of the transferability of pension rights of EU officials through the example of the French conceptual framework. This was a specific case and regulated by EU law.

Next steps

Taking into account comments from the WG, Eurostat will feed the final text into the EPSAS conceptual framework.

The Cell had in principle accomplished its main task, although the agenda item on OC-type financial statement could be further explored. Depending on the progress made on this topic by a Eurostat contractor, further discussion might be invited.

ANNEX 1

DRAFT REMIT

CELL ON PRINCIPLES RELATED TO EPSAS STANDARDS

1. BACKGROUND

Article 16(3) of Council Directive 2011/85/EU of 8 November 2011 (the Budgetary Frameworks Directive) requested the European Commission to assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States. In this context, Eurostat compiled a Report from the Commission to the Council and the European Parliament, assisted by a Task Force of Member States, a public consultation, and a sub-contracted study. The Report, Towards Implementing Harmonised Public Sector Accounting Standards in Member States, COM (2013) 114, was supported by a staff working document SWD (2013) 57.

In following up the conclusions from the Commission's "IPSAS report", Eurostat worked with the Member States' experts and other stakeholders to look in particular at future EPSAS governance, implementation costs (a sub-contracted study) and practical difficulties encountered in attempting to implement some particular IPSASs (sub-contracted study in conjunction with Member States). In addition, two EPSAS Task Forces were established: one on governance, and one on standards.

A Working Group on EPSAS was launched in September 2015, to build on the work of the Task Forces and to establish a more permanent forum concerned with the development, introduction and operation of EPSAS in the mid-to-longer term.

In order to take forward the discussion and focus the work on a more technical level, at the September 2015 Working Group meeting, it was proposed to establish a Cell on the principles related to EPSAS standards for the preparation of the planned future EPSAS framework.

2. REMIT

The objective of the Cell on principles related to EPSAS standards is initially to support the Commission (Eurostat) in the preparation of technical level working documents based on the experience and expertise of a smaller group of experts.

The Cell is not a decision-making body, it is a reflection group. The Cell discussion will be used to inform the eventual proposal made by the Commission on the future EPSAS framework.

More concretely, in the Public consultation from November 2013 on future EPSAS governance principles and structures, and as well in Task Force meetings, an approach to the principles to be established for EPSAS has already been outlined and discussed.

Furthermore a Cell on first time implementation (including definitions) and a Cell on principles underlying EPSAS governance were established and started working in 2015.

The Cell on Principles related to EPSAS standards will take into account the work and the outputs of the other two Cells referred to above.

On this basis, the Cell will continue the discussion and elaborate on a final set of principles related to EPSAS standards.

The Cell should prepare a draft note on the set of principles related to the future EPSAS standards taking into account:

1. the results of the public consultation on future EPSAS governance principles and structures;
2. the planned principles underlying the EPSAS governance;
3. the legal requirements and boundaries established by the European legislation and consistency with already existing references in the EU legislation in terms of financial accounting and reporting.

It is suggested that the proposed set of principles to be established should be taken as one of the inputs for discussing the future EPSAS standard setting.

3. MEMBERSHIP AND OPERATION

Working Group/Task Force members and observers were invited to express an interest in participating. In order to keep the Cell effective and the discussion focused, the number of Cell participants is limited to approximately four to six experts.

Eurostat provides the Chair and Secretariat of the Cell.

Participants are invited to contribute to the discussion of the future EPSAS, by presenting their experience and expertise, introducing ideas, and contributing to the debate.

The Cell should develop a more detailed work plan at its first meeting.

The work is expected to be carried out both independently by electronic means and collectively in the Cell meetings.

The Cell would report on the results of its activities on a regular basis to the Working Group.

The working language of the Cell is English.

4. TIMETABLE

The first meeting of the Cell is scheduled for the first quarter of 2016. It is likely that one or more further meetings of the Cell may be needed. The Cell is expected to:

- a. Draft the main lines for discussion by June 2016.
- b. Conclude and draft the full note by December 2016.

IPSAS / IPSAS1	European Commission	Belgium	France	Finland	German Federal MoF	3rd Senate of the Hessian Court of Auditors
Objectives of standard setter	Objectives of standard setter	Objectives of the standard setter	Objectives of the standard setter	Objectives of the standard setter	Objectives of standard setter	Objectives of standard setter
Objectives of financial reporting/GPFRs	Objectives of financial reporting/GPFRs	Objectives of financial reporting/GPFRs	Objectives of financial reporting/GPFRs	Objectives for EPSAS CF	Objectives of financial reporting/GPFRs	Objectives of financial reporting/GPFRs
Users of financial reports	Users of financial reports	Users of financial reports/GPFRs	Users of financial reports/GPFRs	Objectives of financial reporting/GPFRs	Users of financial reports	Users of financial reports
Reporting entity			Going concern	Users of financial reports/GPFRs	FUNDAMENTAL PURPOSES (Basic objectives)	Objectives of financial reporting
			GENERAL PRINCIPLE		Transparency and information	Intergenerational fairness
			Faithful representation		Stability and intergenerational fairness	Financial stability and sustainability
			Compliance		Comparability	Accountability
			True and fair view			Comparability
QUALITATIVE CHARACTERISTICS	QUALITATIVE CHARACTERISTICS	QUALITATIVE CHARACTERISTICS	QUALITATIVE CHARACTERISTICS	QUALITATIVE CHARACTERISTICS	QUALITATIVE CHARACTERISTICS	QUALITATIVE CHARACTERISTICS
Relevance	Relevance	Relevance	Neutrality	Relevance	Relevance	Reliability
Faithful Representation	-materiality	Reliability	Relevance	Reliability	Faithful representation	-verifiability
-reliability	Reliability	-faithful representation	Reliability	Prudence	Understandability	-substance over form
-substance over form	-faithful representation	-substance over form	Completeness	Faithful representation	Timeliness	-prudence (conservatism)
-neutrality	-substance over form	-neutrality	Understandability	Understandability	Comparability	-faithful representation
-prudence	-neutrality	-prudence	Prudence	Timeliness	Verifiability	Objectivity
-completeness	-prudence	-completeness	(Timeliness)*	Comparability	Constrains	Relevance
Understandability	-completeness	Understandability	Comparability	Verifiability	-materiality	Understandability
Timeliness	Understandability	Timeliness	Substance over form		-(cost-benefit)*	Timeliness
Comparability	Comparability	Comparability	Offsetting		-(balance between the QCs)*	Comparability
Verifiability		Verifiability = Justification	Verifiability			Verifiability (subprinciple of reliability)
Constraints	Constraints	Constraints	Constraints	Constraints	PRIMARY PRINCIPLES	MATERIAL ACCOUNTING PRINCIPLES
-materiality	-timeliness	-materiality	-materiality	-materiality	Prudence (Conservative Accounting)	Prudence
-cost-benefit	-cost-benefit	-cost-benefit	-cost-benefit	-cost-benefit	Reliability	-realisation principle
-balance between the qualitative characteristics	-balance between the qualitative characteristics	-(balance between the qualitative characteristics)*	-(balance between the qualitative characteristics)*	-balance between the qualitative characteristics	Objectivity	-imparity principle
		-confidentiality	-confidentiality			-valuation at cost principle
PRINCIPLES	OVERAL CONSIDERATIONS	ACCOUNTING PRINCIPLES			OTHER PRINCIPLES	Single asset / liability reporting
Fair presentation	Fair presentation	True and fair view			Accrual concept	CONSTRAINTS
Compliance	Compliance (required by Fin.Reg.)	Entity concept			Individual valuation	Accruals concept
Going concern	Accrual basis	Going concern			Correspondence of opening and closing balance sheet	Going concern
Consistency	Going concern	Money measurement principle			Consistency	Correspondence
Aggregation	Consistency	Individual recognition and measurement			Neutrality	Consistency
Offsetting	Aggregation	Off-setting			Completeness	Cost-Benefit
Reporting period	Offsetting	Periodicity			Freedom from material error	Balance between the Qualitative Characteristics
	Reporting period (required by Fin.Reg.)	Matching principle			Clarity	

* items not covered

ANNEX 3 – EPSAS outline as of November 2017 (with changes compared to the first outline)

EPSAS Outline	Definitions
EUROPEAN PUBLIC GOOD	The whole structure operates under the overarching governance principle of the public interest of the EU - European public good.
OBJECTIVES OF THE EPSAS INITIATIVE Constraints - Subsidiarity, Proportionality	<p>The key objectives of the EPSAS project is to increase financial transparency and comparability between and within Member States by developing and implementing a common set of European financial accounting and financial reporting standards in order to provide a true and fair view of the financial position and performance of public sector reporting entities under the <u>accruals basis of accounting</u>, ...</p> <p>... subject to taking into account proportionality and subsidiarity constraints<u>principles</u>.</p>
OBJECTIVES OF GPFRs UNDER EPSAS True and fair view Accruals basis of accounting Users of GPFRs under EPSAS	<p>GPFRs under EPSAS should provide a true and fair view of the financial position and performance of public sector reporting entities - governments or other public sector entities – <u>under the accruals basis of accounting</u> for accountability and decision making purposes, including in the context of sustainability and inter-generational fairness. GPFRs support the management of public finances.</p> <p>Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.</p> <p>GPFRs comprise GPFSS, such as the statement of financial position or balance sheet, the statement of financial performance or income statement, the statement of cash-flows, the statement of comprehensive income and the disclosure notes to those statements, alongside other financial and non-financial information. <u>Non-financial information may be needed in order that the GPFSS provide a true and fair view.</u></p> <p>The main users of GPFRs are resource providers and their representatives as well as service recipients and their representatives - ultimately the citizens as the key stakeholders of governments and other public sector entities. The legislature and members of parliament, and equivalent actors at sovereign or sub-sovereign levels, are among the main users of GPFRs, and may make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers.</p> <p>GPFRs provide a standardised set of reports meeting the information needs of users who are not empowered to require the disclosure of financial information tailored to their specific information needs. GPFRs represent the minimum level of necessary information to be provided to all users.</p>

QUALITATIVE CHARACTERISTICS	
Relevance	Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting-GPFRs . Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
Faithful representation/ Reliability	To be reliable <u>useful in</u> , financial reporting, and non-financial information must be provide a faithful representation of the <u>substance of</u> economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete ¹ , <u>prudent</u> ² , neutral ³ , and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance <u>over the form</u> ⁴ of the underlying transaction, other event, activity or circumstance. —which is not necessarily always the same as its legal form.
Reliability *	Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.
Completeness ¹	The information in financial statements <u>which fulfils the recognition criteria</u> should be complete within the bounds of materiality and cost- <u>benefit considerations</u> .
Prudence ²	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 and liabilities or expenses are not understated.
Neutrality ³	Information is neutral if it is free from bias. Financial statementsGPFRs 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. <u>The application of prudence under conditions of uncertainty does not constitute bias and does not affect neutrality. Neutrality is supported by the exercise of prudence.</u>
Substance over form ⁴	Substance over the form remains a key quality <u>requires</u> that information included in GPFRs must possess. If information is to represent faithfully the underlying transactions and, other events that it purports to represent, it is necessary that they be, <u>activities or circumstances are</u> accounted for and presented in accordance with their substance and economic reality, and not merely their legal form.
Understandability	Understandability is the quality of <u>presenting</u> information <u>in a manner</u> that enables <u>facilitates expert and non-expert</u> users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that

	<p>responds to the needs and knowledge base of users, and to the nature of the information presented. Understandability is enhanced when information is classified, characterised and presented clearly and concisely. Comparability can also enhance understandability.</p>
Timeliness	<p>Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.</p>
Comparability	<p>Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information. Comparability differs from consistency. in different reporting entities or in one reporting entity at different points in time. refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal.</p>
Verifiability	<p>Verifiability is the quality of information that helps assure users that information <u>GPFrs is based on supporting evidence</u> in GPFrs a way that it faithfully represents the <u>substance of</u> economic and other phenomena that it purports to represent.</p>
CONSTRAINTS	
Materiality	<p>Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFrs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged <u>in the particular circumstances of the entity.</u> Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.</p>
Cost-benefit	<p>Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFrs.</p>
Balance between the qualitative characteristics	<p>The qualitative characteristics work together to contribute to the usefulness of information. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is</p>

<p>Presentational sensitivity **</p>	<p>to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.</p> <p>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.</p>
<p>APPLICATION PRINCIPLES</p>	
<p>Going concern</p>	<p>When preparing financial statements an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.</p> <p><u>Unlike in the case of business entities for which the amounts due on liquidation are limited, for example to the existing net assets or the property of the owners, †The rights and obligations specific to public action entrusted in public entities may only cease to exist, in full or in part, by law or decision of the government, even where public sector entities are merged, split or dissolved.</u></p>
<p>Consistency</p>	<p>The <u>accounting policies and the basis of preparation as well as the presentation and classification of items in the financial statements shall be retained from one period to the next unless, following a significant change in the nature of the entity's operations or a review of its financial statements, another accounting policy, basis of preparation, presentation or classification is more appropriate. In this case the resulting changes shall be justified and disclosed, having regard to the criteria for the selection and application of accounting policies in IPSAS3; or an IPSAS requires a change in presentation.</u></p> <p>The accounting policies and the basis of preparation as well as the presentation and classification of items in the financial statements shall be retained from one period to the next, unless it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another accounting policy, basis of preparation, presentation or classification is more appropriate, in which case the resulting changes shall be disclosed.</p> <p><u>Consistency is a means of delivering comparability by making use of the same accounting principles or policies and basis of preparation, either from period to period within a reporting entity or in a single period across more than one reporting entity.</u></p>

<u>Offsetting/</u> Aggregation	Assets and liabilities, and revenue and expenses shall not be offset unless so required or permitted by an <u>IPSAS/IPSASs</u> . It is important that assets and liabilities, and revenue and expenses are <u>be</u> reported separately. Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.
<u>Presentational sensitivity</u>	There are areas where there may be some sensitivity when it comes to providing detailed information to the level of detail at which information is presented in financial statements , e.g.: separate presentations or disclosures about individual military items, guarantees or legal cases. <u>Presentational sensitivity however shall not have an impact on the recognition and measurement requirements related to the specific items in question.</u>
<u>Reporting period</u>	Financial statements shall be <u>prepared and</u> presented at least annually. Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS. It is important that assets and liabilities, and revenue and expenses, are reported separately. When an entity's reporting date changes <u>or</u> the annual financial statements are presented for a period longer or shorter than one year, a <u>reporting</u> entity shall disclose, in addition to the period covered by the financial statements, the reason for using a longer or shorter period and the <u>resulting</u> limitation on comparability.
<u>Compliance</u>	A <u>reporting</u> entity whose financial statements comply with EPSASs <u>IPSASs</u> shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with EPSASs <u>IPSAs</u> unless they comply with all the requirements of EPSASs <u>IPSASs</u> .

ANNEX 4 – EPSAS outline as of May 2018 (with changes compared to November 2017 version)

EPSAS Outline	Definitions
EUROPEAN PUBLIC GOOD	The whole structure operates under the overarching governance principle of the public interest of the EU - European public good.
OBJECTIVES OF THE EPSAS INITIATIVE Constraints - Subsidiarity, Proportionality	<p>The key objectives of the EPSAS project is to increase financial transparency and comparability between and within Member States by developing and implementing a common set of European financial accounting and financial reporting standards in order to provide a true and fair view of the financial position and performance of public sector reporting entities under the <u>accruals basis of accounting</u>. . . .</p> <p>. . . subject to taking into account proportionality and subsidiarity principles.</p>
OBJECTIVES OF GPFRs UNDER EPSAS True and fair view Accruals basis of accounting Users of GPFRs under EPSAS	<p>GPFRs under EPSAS should provide a true and fair view of the financial position and performance of public sector reporting entities - governments or other public sector entities – under the accrual basis of accounting for accountability and decision making purposes, including in the context of sustainability and inter-generational fairness. GPFRs support the management of public finances.</p> <p>Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.</p> <p>GPFRs comprise GPFs, such as the statement of financial position or balance sheet, the statement of financial performance or income statement, the statement of cash-flows, the statement of comprehensive income and the disclosure notes to those statements, alongside other financial and non-financial information. Non-financial information may be needed in order that the GPFs provide a true and fair view.</p> <p>The main users of GPFRs are resource providers and their representatives as well as service recipients and their representatives - ultimately the citizens as the key stakeholders of governments and other public sector entities. The legislature and members of parliament, and equivalent actors at sovereign or sub-sovereign levels, are among the main users of GPFRs, and may make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers.</p>

	GPFs provide a standardised set of reports meeting the information needs of users who are not empowered to require the disclosure of financial information tailored to their specific information needs. GPFs represent the minimum level of necessary information to be provided to all users.
QUALITATIVE CHARACTERISTICS	
Relevance	Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of GPFs. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both.
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. Faithful representation is attained when the depiction of the phenomenon is complete ¹ , prudent ² , neutral ³ , <u>verifiable</u> ⁴ and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance over the form ⁵ of the underlying transaction, other event, activity or circumstance.
Completeness ¹	The information which fulfils the recognition criteria should be complete within the bounds of materiality and cost-benefit considerations.
Prudence ²	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 and liabilities or expenses are not understated.
Neutrality ³	Information is neutral if it is free from bias. GPFs 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 prudence under conditions of uncertainty does not constitute bias and does not affect neutrality. Neutrality is supported by the exercise of prudence.
Verifiability ⁴	Verifiability is the quality of information that helps assure users that GPFs is based on supporting evidence in a way that it faithfully represents the substance of economic and other phenomena that it purports to represent.
Substance over form ⁵	Substance over the form requires that the underlying transactions, other events, activities or circumstances are accounted for and presented in accordance with their substance and economic reality, and not merely their legal form.

Understandability	Understandability is the quality of presenting information in a manner that facilitates expert and non-expert users to comprehend its meaning. Understandability is enhanced when information is classified, characterised and presented clearly and concisely.
Timeliness	Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
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.
CONSTRAINTS	
Materiality	Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of the entity.
Cost-benefit	Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GFRs.
Balance between the qualitative characteristics	The qualitative characteristics work together to contribute to the usefulness of information. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.
APPLICATION PRINCIPLES	
Going concern	<p>Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so.</p> <p>The rights and obligations specific to public action entrusted in public entities may only cease to exist, in full or in part, by law or decision of the government, even where public sector entities are merged, split or dissolved.</p>

Consistency	<p>The accounting policies and the basis of preparation as well as the presentation and classification of items in the financial statements shall be retained from one period to the next unless, following a significant change in the nature of the entity's operations or a review of its financial statements, another accounting policy, basis of preparation, presentation or classification is more appropriate. In this case the resulting changes shall be justified and disclosed.</p> <p>Consistency is a means of delivering comparability by making use of the same accounting principles or policies and basis of preparation, either from period to period within a reporting entity or in a single period across more than one reporting entity.</p>
Offsetting/ Aggregation	<p>Assets and liabilities, and revenue and expenses shall not be offset unless so required or permitted by an EPSAS. It is important that assets and liabilities, and revenue and expenses be reported separately. Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.</p>
Presentational sensitivity	<p>There are areas where there may be some sensitivity when it comes to the level of detail at which information is presented in financial statements, e.g.: separate presentations or disclosures about individual military items, guarantees or legal cases. Presentational sensitivity however shall not have an impact on the recognition and measurement requirements related to the specific items in question.</p>
Reporting period	<p>Financial statements shall be prepared and presented at least annually. When an entity's reporting date changes or the financial statements are presented for a period longer or shorter than one year, a reporting entity shall disclose, in addition to the period covered by the financial statements, the reason for using a longer or shorter period and the resulting limitation on comparability.</p>
Compliance	<p>A reporting entity whose financial statements comply with EPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with EPSASs unless they comply with all the requirements of EPSASs.</p>