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**Introduction and Overview to
EPSAS Screening Reports**

- for information -

This document is a revised version of the document EPSAS WG 19/09 presented at the EPSAS Working Group meeting in November 2019.

This document was prepared by EUROSTAT with the aim to serve as a cover note for the screening reports assessing the consistency of individual IPSAS standards against the draft EPSAS framework, with a view to informing future EPSAS standard setting.

1. Introduction

The key objective of European Public Sector Accounting Standards (EPSAS) is to achieve the necessary minimum level of financial transparency and comparability of financial reporting, between and within EU Member States. This should be achieved by developing and implementing a common set of European financial accounting and financial reporting standards. Together with the conceptual framework, they lay down the necessary concepts and operational measures derived thereof for the financial statements to provide a true and fair view of the financial position, financial performance and the cash-flows of public sector reporting entities under the accruals basis of accounting – and subject to taking into account proportionality and subsidiarity requirements.

The EPSAS conceptual framework and the resulting standards should serve the overarching principle of public interest and therefore be conducive to the European public good.

2. Role of screening reports in the future EPSAS standard setting

Eurostat, together with the representatives of the Member States, has prepared a draft conceptual framework (CF) for financial accounting and reporting under future EPSAS. The draft EPSAS CF provides a set of concepts and definitions for the development, adoption, and publication of EPSAS and provides guidance for the preparation and the presentation of financial accounting information by public sector entities under the EPSAS basis of accounting.

A future EPSAS standard setter will have to inform their work by drawing on different sources of information in order to form its conclusions. One of the potential main sources, beyond others such as cost-benefit considerations and inputs from stakeholder consultation exercises, would be the screening reports under preparation, which will provide technical input on the suitability of existing IPSAS standards.

3. Purpose and scope of the screening reports

The purpose of the screening reports is to assess the consistency of individual IPSAS standards taking into account the draft EPSAS CF and the principle of European Public Good, with a view to informing future EPSAS standard setting.

The scope of the reports is limited to the screening of the existing IPSAS standards against the criteria of the draft EPSAS framework and does not reflect other considerations relating to the EPSAS standard-setting process as a whole. The analysis reflects whether the criteria of the draft EPSAS framework are met by taking into account the IPSAS authoritative text, together with non-authoritative guidance where this is necessary. The screening takes into consideration the currently available information in IPSAS and does not take into account information to be developed in the future.

4. Approach of the screening reports

The screening reports assess individual IPSAS standards against the criteria listed in the draft EPSAS framework, in particular:

- conducive to the European public good,
- conducive to objectives of GPFs, and
- conform to the:
 - qualitative characteristics (QC): relevance, faithful representation/reliability, completeness, prudence, neutrality, verifiability, substance over form, understandability, timeliness, comparability; and the
 - application principles (AP): going concern, consistency, offsetting/aggregation, presentational sensitivity, reporting period, compliance; taking into consideration the constraints: materiality, cost-benefit, balance between the individual QCs and AP.
 - other concepts defined in the draft EPSAS CF: such as elements, recognition/derecognition, measurement.

The screening exercise also takes into consideration the EFRAG (European Financial Reporting Advisory Group) standardised endorsement reports on IFRS, where there is an equivalent IFRS to the IPSAS under analysis.

Further, the papers include a high-level comparison between the requirements of IPSASs 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.

It is important to note that the main findings of the screening exercise are summarised in the EPSAS screening reports with the most significant ones reiterated in the conclusions. Issues assessed as being of lower importance (which are expected to be considered in a future standard-setting process) may not be covered in order that the reports may remain concise and focussed on the key points.

5. European Public Good

As mentioned above, the outcome of the IFRS endorsement process is considered in the screening reports. In accordance with EU Regulation No 1606/2002 on the application of IFRS, the EFRAG assesses whether international financial reporting standards (IFRSs) meet the basic requirements for the application in the EU. The application of IFRSs should result in a true and fair view of the financial position and performance of an enterprise, be conducive to the European public good and lastly meet basic criteria as to the quality of information required for financial statements to be useful to users.

In order to assess whether an IPSAS standard would be conducive to the European public good, the EPSAS screening reports use as a starting point the assessment criteria defined by EFRAG, which may be adapted where necessary to the public sector environment:

- a) whether the IPSAS standard would improve financial reporting;
- b) the costs and benefits associated with implementation of the standard in the Member

States; and

c) whether the standard could have an adverse effect to the European economy, including financial stability and economic growth.

Given the relationship between the IPSASs - serving as the first reference for EPSAS - and IFRSs, and the IPSASB's IFRS convergence strategy, developments in the IASB Framework and accounting standards are closely monitored by the IPSASB and EFRAG.

There is the following "chain" of milestones:

- Publication of an IFRS by the IASB;
- EU IFRS endorsement process;
- Development of IPSAS by the IPSASB, following the ongoing IFRS/IPSAS convergence strategy;
- EPSAS standard-setting process (to be put in place by the EU).

The screening is performed under the assumption reflected in the draft EPSAS framework that financial reporting under the accrual basis of accounting provides stakeholders with a complete and reliable picture of the financial position, of the financial performance and the cash flows of the reporting entity in the referenced period.

6. Common elements considered when preparing the reports

Prudence

In cases where material options are available in IPSAS standards - notably for measurement - the screening reports analyse the compliance with the prudence principle taking into consideration the general purposes of financial accounting and reporting for accountability and decision making. The screening reports also seek to bring to the attention of the future EPSAS standard setter the differing perspectives on prudence and their consequences for the various options available in IPSAS.

Understandability

Understandability may be understood from different perspectives. For example - in the case of measurement - it can be argued that both the historic cost and the current market value of an asset are fully understandable in some circumstances, but less so in others, depending on the circumstances and the perspective of the user.

Timeliness

Financial reporting dates are generally fixed in legislation at national level and the accounting procedures could, at least in theory, always be designed as such to deliver in time the necessary information (albeit at greater cost in some cases). For that reason, the QC of "timeliness" is likely to be met in the case of most or all IPSAS standards. Therefore, timeliness may not necessarily be analysed in the individual screening reports.

Comparability

Comparability is one of the main objectives of EPSAS and therefore financial reporting and accounting data should be prepared on the basis of and audited against a common set of

financial accounting and reporting requirements. In the screening context, comparability can be analysed at two levels. First, whether choosing a specific option in IPSAS makes a material difference in terms of comparability at all. Second, which option chosen leads to better comparability. An EPSAS issues paper has already analysed the “notable” options existing in the individual IPSAS standards. Beside options, the use of judgment is also often argued to impair comparability, however some degree of flexibility is needed to allow for a faithful representation of the economic reality, hence better comparability. The use of judgment is necessary when transactions take forms that are not exactly depicted in the standards. In those rare situations, the accounting treatments of the transactions should result from judgmental application of the principles set out in the standard. Comparability is then provided through clear explanations in the notes of judgments and estimates applied.

Reporting entity

The definition of the EPSAS reporting entity will be taken into account by standard setters when preparing future EPSAS standards.